ECONOMIC REVIEW AND OUTLOOK

2023 REVIEW

Global and Domestic Economic Environment

At the onset of 2023, the global economy remained resilient, attributed to the efforts by central banks worldwide to control inflation and China's decision to ease pandemic restrictions. Despite the expansion, tight monetary policies, restrictive financial conditions, weakening global trade and lingering uncertainties caused by geopolitical instability continued to weighed on global growth. As a result, the International Monetary Fund (IMF) estimated global Gross Domestic Product (GDP) growth in 2023 to moderate to 3.1% (2022: 3.5%).

Malaysia's GDP growth softened to 3.7% in 2023, from 8.7% in 2022 underpinned by slower recovery in economic activities despite favourable labour market conditions. Investment activities flourished due to the successful execution of multi-year projects and implementation of catalytic initiatives under the various national masterplans. Although external demand is weak, recovery in inbound tourism partially offsets this challenge while key sectors such as services, construction, and agriculture continue to drive growth. In addition, headline inflation has declined to 2.5% (2022: 3.3%) and core inflation remains at 3% (2022: 3%), mainly due to easing cost pressures while persistently strong United States (US) dollar due to the US Federal Reserve's (the Fed) tighter-for-longer policy, China's slower-than-expected growth and escalation of geopolitical tensions impacted ringgit during the year.

Interest Rate and Liquidity Environment

Overnight Policy Rate (OPR) remained stable throughout 2023 with one rate hike of 25 basis points in May to reach its pre-pandemic level of 3.00%, signalling economic normalisation and the withdrawal of monetary stimulus implemented during the COVID-19 crisis. Bank Negara Malaysia's (BNM) monetary policy stance remains conducive to sustainable economic growth amid price stability.

Malaysia's banking system remained resilient and poised to weather potential economic shocks while providing robust credit support for economic activities. Banks consistently maintained a commendable Liquidity Coverage Ratio, underscoring their financial strength, and compliance with the minimum requirement of 100% for the Net Stable Funding Ratio. This reflects the stability and proactive measures within the banking industry, ensuring a solid foundation for continued economic growth.

Property Market

In 2023, the property market showed consistent improvement, especially in the second half indicating a recovery from the COVID-19 crisis and resilience in the face of elevated interest rates, consumer preference to rent, rising material costs and higher cost of living. The National Property Information Centre (NAPIC) reported number of residential housing transactions as of Q4 2023 increased by 3.0% in volume and 7.1% in value year-on-year while Malaysian House Price Index (MHPI) experienced moderate annual growth of 3.2% to 216.5 points. As for overhang units, NAPIC recorded a 7.0% fall in volume and a 4.0% drop in value compared to the previous year as Government and developers are taking proactive steps to address the overhang issues.

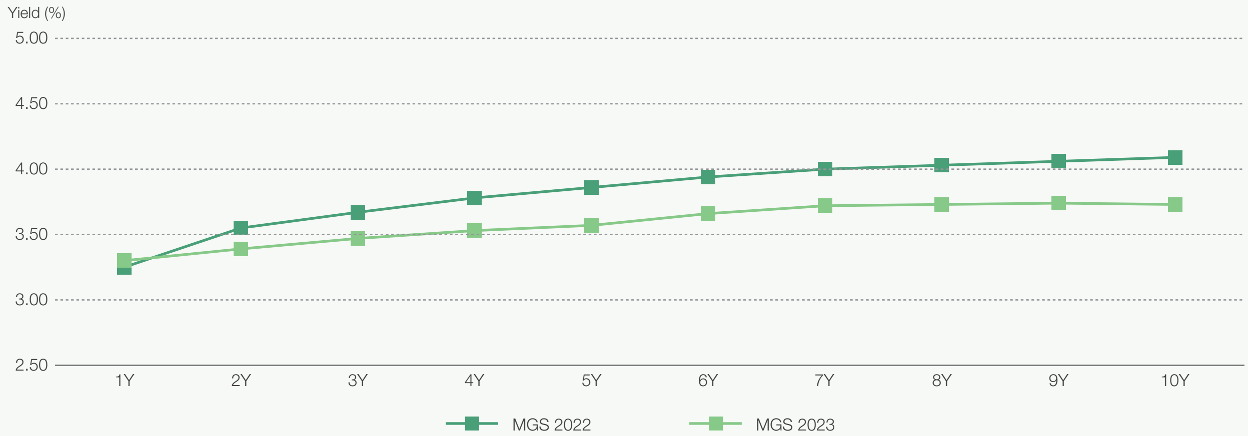
Bond Market

The Fed continued its aggressive rate hikes at its meetings in February, March, May and July 2023, amid inflationary pressure and in efforts to avoid a predicted recession. The Fed raised its key benchmark lending rate 4 times in 2023 to end the year at 5.25-5.50%, the highest level in more than 20 years and in total, 11 times since March 2022, the fastest pace in more than 50 years. The benchmark 10-year US Treasury (UST) yield hit a high of 5.02% in October 2023, the highest since the global financial crisis, after the drop to 3.25% in April 2023 amid the US regional banking crisis, before finally closing the year at 3.87%; while the 2-year UST ended the year at 4.25%, resulting in a still inverted curve in the UST market.

On the local front, local bond yields generally fell, moving in tandem with global bond yields, where the benchmark 10-year Malaysian Government Securities (MGS) yield dropped by 36 basis points (bps) from 4.09% at the start of the year to end the year at 3.73%.

In 2023, total issuances of bonds and sukuk including Government papers amounted to RM547.5 billion comprising RM233.4 billion and RM314.1 billion for Government papers and corporate bonds and sukuk respectively. Although global market volatility loomed over the bond market during the year, the healthy growth of domestic corporate bonds and sukuk were backed by expectation for stabilisation of interest rates and driven by financial services and energy and utilities sectors.

Chart 1: MGS Yield Comparison between 31 December 2022 and 31 December 2023



2024 OUTLOOK

- The IMF projects global growth to sustain at 3.1% in 2024 driven by rebound in international trade, resilient labour market and falling inflation. Global inflation is anticipated to decrease to 5.8% in 2024 and looser fiscal policy and stronger structural reform momentum are expected to lower the risk of a severe economic downturn. On the downside, new commodity price spikes from geopolitical shocks and supply disruptions could prolong tight monetary conditions while deepening property sector woes in China could also cause growth disappointments.
- The Ministry of Finance expects Malaysia's economy to grow from 4% to 5% in 2024, driven by resilient domestic demand, supported by steady employment and wage growth, and recovery in exports. Additionally, continued progress of multi-year infrastructure projects and Government initiatives under National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030), and the Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan) is expected to provide further support to growth. On the supply side, services and manufacturing will drive growth, driven by tourism and consumer spending while the construction sector will perform well. The growth outlook is subject to downside risks from weaker-than-expected external demand, and larger and protracted declines in commodity production.
- The monetary policy in Malaysia aims to support economic growth, considering both inflation and growth prospects. Headline and core inflation in 2024 are projected to remain modest however highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. The country's financial sector is expected to remain strong, thanks to a resilient banking system, positive growth forecasts, and an improving job market. The OPR is likely to be maintained for most of 2024, leading to a positive outlook for the local bond market. However, MGS movements could be volatile in the short term due to influences from UST movements and global and regional risk sentiment changes.
- Malaysia's property market is expected to grow in 2024, driven by recovering consumer spending and Government initiatives to attract foreign direct investment through various national projects across the country as well as other fiscal policies to encourage home ownership. In addition, greater awareness on energy efficient homes is driving supply and demand as developers are introducing sustainable elements such as green living and renewable energy in their new developments to gain a competitive advantage.