CHAPTER 2

Macroeconomic Outlook

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Overview

Persistent external uncertainties testing the resiliency of Malaysia's economy

Global growth is projected to moderate in 2023 and 2024 following slow growth in advanced economies; volatile financial market due to tightening monetary policy; prolonged geopolitical tensions; and increasing climatic changes. Nevertheless, inflation continues to soften as markets head towards supply chain stabilisation. In addition, world trade is projected to moderate in 2023 in line with weaker global demand. However, global trade is expected to increase in 2024 in tandem with improved trade activity in advanced economies, and emerging market and developing economies (EMDEs).

In the case of Malaysia, the economy continued to expand amid these persistent challenges in the external environment. During the first half of 2023, GDP posted a growth of 4.2% supported by resilient domestic demand, in particular private expenditure. The services sector, the largest contributor to the economy, continued to lead growth following higher tourist arrivals and improved consumer spending. The construction sector continued to expand in tandem with the acceleration of infrastructure projects and realisation of investment in non-residential and residential developments. These developments helped to cushion the negative impact from the external sector following slow external demand, particularly from Malaysia's major trading partners.

The increased external uncertainties will pose risks to the economic growth. Notwithstanding these challenges, the economy continues reaping the benefit from policies and initiatives undertaken over the years to enhance resilience and competitiveness. Overall, the economy is projected to expand moderately in the second half of the year as external demand is expected to remain low and high base effect from the previous year. Nevertheless, domestic demand will continue to drive growth. Hence, the GDP is anticipated to register a growth of approximately 4% in 2023.

For 2024, the economy is projected to grow within the range of 4% to 5%. The growth is envisaged to be broad-based, led by the services sector as intermediate and final services groups are anticipated to rise further driven by sustained domestic consumption and improved export activities. The retail trade, accommodation and restaurants as well as communication segments are expected to increase in line with consumption trend, while the wholesale trade segment and transport and storage subsector will benefit from higher trade-related activities.

The manufacturing sector is expected to accelerate, accounted by improved export-oriented industries particularly the E&E products as external demand recovers, while the domestic-oriented industries are anticipated to remain favourable in line with robust domestic consumption and investment. The construction sector is expected to grow supported by an expansion across all subsectors. Prospects for the agriculture sector remain positive supported by higher production of crude palm oil (CPO), other agriculture and livestock. The mining sector is estimated to turn around owing to the recovery in production of natural gas, and crude oil and condensates.

On the demand side, growth will be buoyed by strong private sector expenditure and improving global demand. The encouraging performance of private sector is partly due to the Government's deliberate efforts to accelerate a more vibrant and dynamic private sector by providing a conducive business and investment environment, underpinned by the implementation of comprehensive Ekonomi MADANI framework as well as policies and blueprints such as the National Energy Transition Roadmap (NETR) and New Industrial

Master Plan 2030 (NIMP 2030). Meanwhile, consumer spending is envisaged to be robust supported by improved labour market conditions.

Furthermore, recovery in external demand is anticipated to boost exports performance, leading to a larger trade surplus. This surplus is attributed to higher export receipts from the goods account, which will cushion the net outflows from transport and other services accounts. Thus, the current account is projected to post a surplus of RM62.2 billion or 3.2% of gross national income (GNI).

On the income front, an encouraging economic growth projected in 2024 will stimulate higher income for the workforce. Strengthening existing initiatives by adopting advanced technology in production activities and enhancing productivity through continuous improvement in retraining and upskilling may also contribute in higher income for workers. Hence, the labour income share is expected to improve further in moving towards Ekonomi MADANI aspiration to achieve 45% share of GDP in long-term period.

Economy in 2023

Global Economy

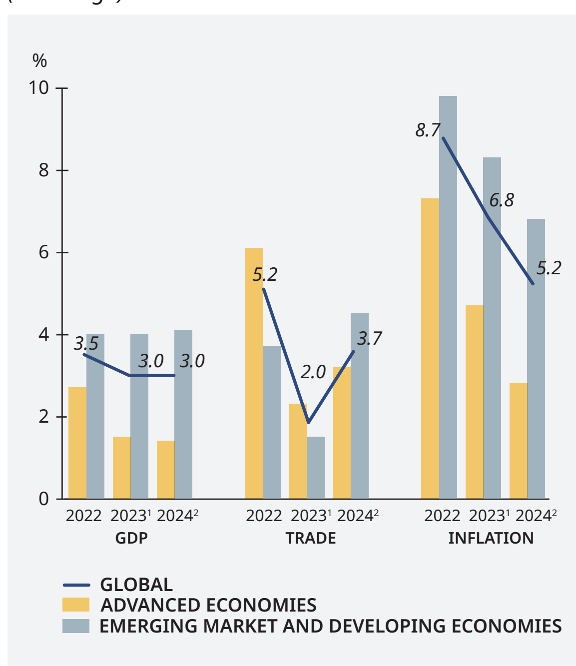
Lacklustre global recovery

Global growth is projected to expand at 3% due to the slow post-pandemic global recovery, prolonged geopolitical tension and the increase in interest rates by various economies to manage inflation. The GDP growth in advanced economies is expected to moderate at 1.5% due to subdued manufacturing activities in advanced economies despite strong services sector. In this respect, the US's economy is anticipated to record 1.8%, underpinned by lower domestic consumption as well as further Fed rate hikes. The euro area is expected to grow marginally at 0.9%, following the effect of monetary policy tightening despite improvements in the services and tourism activities.

The EMDEs' economic growth is expected to register 4%, which is stronger than advanced economies. However, the growth rate among EMDEs varies across regions. Despite subdued investment in the real estate sector, China's economy is anticipated to expand at 5.2%, contributed by higher net exports following relaxation of lockdown policies. Meanwhile, India's economy is projected to grow 6.1% buoyed by stronger domestic investment. Similarly, the GDP growth of ASEAN-5 is envisaged to expand at 4.6%.

World trade is expected to moderate further to 2%, reflecting the weaker path of global demand and the shift towards domestic services. Trade in advanced economies and EMDEs are expected to register a slower growth of 2.3% and 1.5%, respectively. Among others, the strengthening of the US dollar is projected to eventually slow trade activities, affecting EMDEs more adversely compared to advanced economies. Meanwhile, **global inflation** is anticipated to record 6.8%, attributed to easing food and energy prices as well as weakening of global economic activities.

FIGURE 2.1. *Global Gross Domestic Product, Trade and Inflation Growth 2022 – 2024 (% change)*



[1] Estimate
[2] Forecast
Note: Trade for Advanced Economies and Emerging Market and Developing Economies refers to the average volume of exports and imports of goods and services
This document was finalised before the publication of the World Economic Outlook, October 2023
Source: International Monetary Fund, World Economic Outlook Update (July 2023)

INFORMATION BOX 2.1

ASEAN Taxonomy for Sustainable Finance: Building a Sustainable ASEAN

Introduction to ASEAN Taxonomy

ASEAN recognises the importance of sustainable finance in the region and the necessity to create a credible and inclusive regional sustainable finance taxonomy. The taxonomy would serve as a standardised classification framework, providing clear guidelines and definitions for sustainable economic activities and financial instruments within the ASEAN region. The ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy) aims to guide investors, issuers, regulators and other stakeholders in the ASEAN region to align their investment and activities with the region's sustainability goals taking into account the diversity of the region. This taxonomy is designed to be interoperable with existing regional and international sustainable finance taxonomies, promoting cross-border investments and global collaboration in addressing environmental and social challenges.

Development of the ASEAN Taxonomy for Sustainable Finance

Recognising the imperative need to establish a robust framework for sustainable finance, an ASEAN Taxonomy Board (ATB) was established in March 2021 with a mandate to develop, maintain, and promote an ASEAN Taxonomy. The ATB then developed ASEAN Taxonomy Version 1 in November 2021 followed by Version 2 in March 2023 to harmonise ASEAN financial system with sustainability principles. The ASEAN Taxonomy consists of two main elements:

i. The Foundation Framework which is applicable to all ASEAN Member States (AMS) and allows a qualitative assessment of activities; and

ii. The Plus Standard with metrics and thresholds to further qualify and benchmark eligible green activities and investments.

The environmental objectives of the ASEAN Taxonomy are universal and applicable to all AMS, in alignment with national environmental laws. These objectives include climate change and adaptation, protection of healthy ecosystems and biodiversity; promotion of resource resilience; and transition to circular economy. Meanwhile, the Plus Standard provides details on how to determine if an economic activity is in accordance with the ASEAN Taxonomy.

The ASEAN Taxonomy Board

ATB membership comprises representatives from the four ASEAN finance sectoral bodies i.e., the ASEAN Capital Markets Forum (ACMF), the ASEAN Senior Level Committee on Financial Integration (SLC), the Working Committee on Capital Market Development (WC-CMD) and the ASEAN Insurance Regulators Meeting (AIRM). Members of the Board comprise organisations from all 10 AMS, selected by their respective sectoral bodies. This ensures that every ASEAN country has a voice in developing the ASEAN Taxonomy. Malaysia is represented on the ATB by the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM). In addition, SC chairs the ATB's Working Group on Market Financing and Resourcing while BNM, chairs the ATB's Working Group on Conceptual Framework and Principles.

ASEAN Taxonomy Version 1

The ASEAN Taxonomy Version 1 covers six economic focus sectors, which were identified based on their environmental and economic importance to ASEAN, aligned to the International Standard Industrial Classification (ISIC). These focus sectors are:

i. Agriculture, forestry and fishing;
ii. Electricity, gas, steam, and air conditioning supply (Energy);
iii. Manufacturing;
iv. Transportation and storage;
v. Water supply, sewerage, water management and remediation activities; and
vi. Construction and real estate activities.

In addition to these six focus sectors, the ATB also identified three enabling sectors, which play a crucial role in enhancing the performance of sectors and activities, and are essential for decarbonising the economy. Importantly they do not compromise the environmental objectives of the Taxonomy. These enabling sectors are:

i. Information and Communication Technology (ICT);
ii. Professional, scientific, and technical activities; and
iii. Carbon Capture, Utilisation, and Storage (CCUS).

In Version 1, it was established that the four environmental objectives and two essential criteria of the ASEAN Taxonomy would apply to all AMS, players in the financial sector, as well as business enterprises. These environmental objectives were of equal importance and were designed to be interoperable with the six environmental objectives of the European Union (EU) Taxonomy. The ASEAN Taxonomy's environmental objectives and essential criteria consist of:

Environmental Objective

- Environmental Objective 1: Climate change mitigation;
- Environmental Objective 2: Climate change adaptation;
- Environmental Objective 3: Protection of healthy ecosystems and biodiversity; and
- Environmental Objective 4: Promote resource resilience and transition to a circular economy.

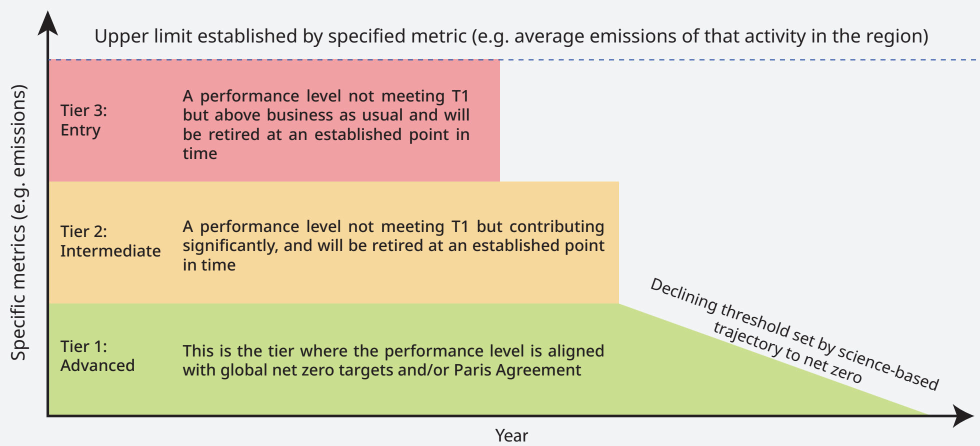
Essential Criteria

- Essential Criteria 1: Do no significant harm (DNSH); and
- Essential Criteria 2: Remedial measures to transition.

The ASEAN Taxonomy aims for maximum inclusivity, taking into account the different stages of economic development, financial sector maturity and infrastructure readiness among AMS. The Foundation Framework is applicable to all AMS, financial sector stakeholders and business enterprises. It employs a qualitative, sector-agnostic criteria and decision flow in order to assess activities. Under the Foundation Framework, economic activities must fulfil at least one of the Taxonomy's environmental objectives and both essential criteria. Consequently, these activities can be classified as either Green, Amber or Red within the Foundation Framework.

The Plus Standard consists of Technical Screening Criteria (TSC) for activities within each focus sector. It serves as an additional guidance and scope for AMS to further qualify eligible activities and investments, aligning them with goals in-line with the Paris Agreement. This standard also sets activity-level criteria to assess an activity's contribution to the Taxonomy's environmental objectives. The Plus Standard takes a 'stacked approach' in developing activity-level thresholds. It incorporates different thresholds for multiple decarbonisation pathways for each activity, resulting in more than one threshold referenced at a single point in time, as shown in Figure 2.1.1. Under the Plus Standard, activities can be classified as either Green, Amber or Red based on their compliance.

FIGURE 2.1.1. *Plus Standard 'stacked approach' in developing activity-level thresholds*



Source: Securities Commission Malaysia

ASEAN Taxonomy Version 2

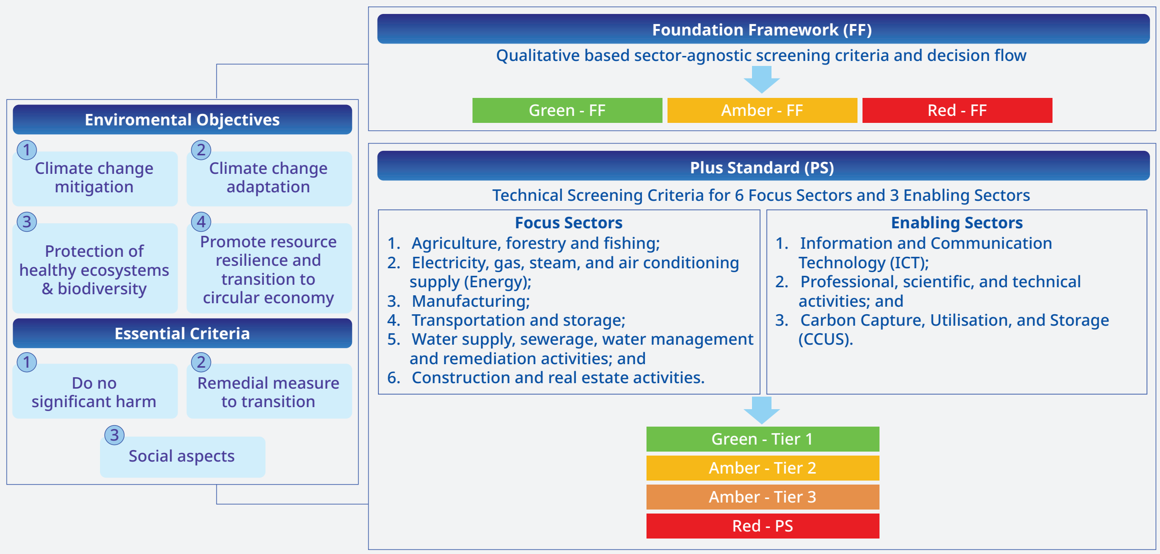
Following a series of consultation with targeted stakeholders, Version 2 of the ASEAN Taxonomy was released in March 27, 2023. This version expands upon the conceptual thinking of the multi-tiered framework set out in Version 1. The ASEAN Taxonomy is meant to be interoperable with the EU Taxonomy and other national Taxonomies of AMS. In Version 2, Essential Criteria 3 was introduced to promote social aspects as illustrated in Figure 2.1.2. Social aspects focus on the following:

i. Promotion and protection of human rights;

ii. Prevention of forced labour and protection of children's rights; and

iii. Impact on people living close to investments.

FIGURE 2.1.2. *The Design of the ASEAN Taxonomy Version 2*



Source: Securities Commission Malaysia

A unique feature introduced in Version 2 is the criteria governing the early retirement of coal-fired power plants, also known as coal phase-out. This feature emphasises a just transition to address the needs of affected communities and industries. By addressing the developmental needs of AMS, the ASEAN Taxonomy aims to mitigate potential social and economic disruptions that might arise during this transformative period. By classifying coal phase-out as a green activity and maintaining strict evaluation standards, the ASEAN Taxonomy incentivises and promotes a shift towards cleaner and more sustainable energy alternatives within the region. This approach serves as a progressive and proactive measure to combat climate change and enhance environmental protection in ASEAN.

Impact on ASEAN and Malaysia

The ASEAN Taxonomy has generated significant global interest, not only as the first regional transition taxonomy published globally, but also for its specific treatment of important aspects of transition such as coal phase-out. It also provides an important signal of the region's collective commitment towards a sustainable ASEAN and models an example of an inclusive yet credible classification system for sustainable activities that will help equalise climate outcomes across the AMS. Subsequently, ASEAN Taxonomy will be a key to attracting international investments and financial flows into sustainable projects in the region.

For Malaysia, the BNM and SC have been working closely to ensure the ASEAN Taxonomy is aligned with the Climate Change and Principle-based Taxonomy (CCPT) issued by BNM, and the Sustainable and Responsible Investment (SRI) Taxonomy issued by the SC. The implementation of CCPT and SRI in the Malaysian financial system as well as the adoption of the ASEAN Taxonomy will boost more investment flow and foreign funds into the country.

Moving Forward

Version 2 of the ASEAN Taxonomy is undergoing a stakeholder consultation process, following which the TSC for the Energy sector is expected to be finalised in early 2024. The ASEAN Taxonomy is a living document subject to frequent revisions to incorporate latest technological, scientific, and economic developments. In line with this approach, TSCs for the remaining five focus sectors and two enabling sectors are currently in development and will be introduced in phases.

Conclusion

The ASEAN Taxonomy represents the collective commitment and dedication of AMS in transitioning towards a sustainable region. It is designed to be an inclusive and credible classification system for sustainable activities and will be one of the game changers for attracting investments and financial flows into sustainable projects in the region.

The framework is designed to be credible and science-based, while being inclusive and catering to the different development stages of its member states. A regional green taxonomy that is aligned with international benchmarks would be useful for policymakers, financial market stakeholders and international investors in sustainable financing decisions. It underscores ASEAN's commitment to sustainability, ensuring that its journey towards a greener and more resilient future is supported by a robust framework accessible to all member states.

Domestic Economy

Sectoral

Services Sector

Tourism industry recovery, rejuvenates the sector

The **services** sector increased by 6% in the first half of 2023, mainly attributed to the wholesale and retail trade; transportation and storage; and food & beverages and accommodation subsectors. However, finance and insurance contracted during the period. The performance of the sector in the second half of the year is anticipated to rise by 5.1% driven by tourism- and travel-related subsectors following higher tourist arrivals and improved consumer spending. Overall, the sector is projected to grow by 5.5% in 2023, with nearly all subsectors recording positive growth, except for the finance and insurance subsector.

TABLE 2.1. *Gross Domestic Product by Sector, 2022 – 2024 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2023[1]	2022	2023[1]	2024[2]
Services	59.3	10.9	5.5	5.6
Manufacturing	23.5	8.1	1.4	4.2
Agriculture	6.3	0.1	0.6	1.2
Mining	6.1	2.6	-0.8	2.7
Construction	3.6	5.0	6.3	6.8
GDP	**100.0**	**8.7**	**~4.0[3]**	**4.0 – 5.0**

[1] Estimate
[2] Forecast
[3] Approximate
Note: Total may not add up due to rounding and exclusion of import duties component
Source: Department of Statistics and Ministry of Finance, Malaysia

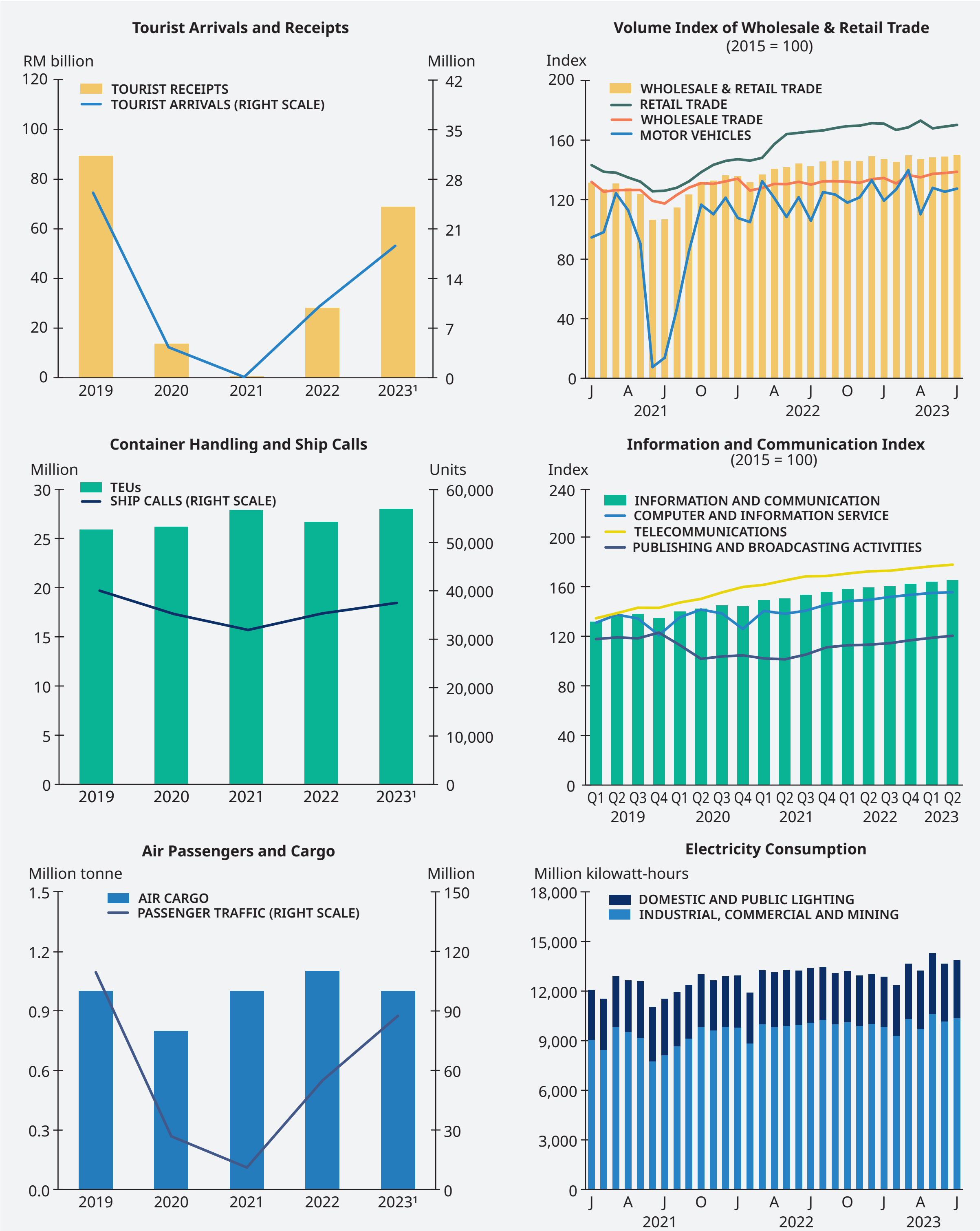
The wholesale and retail trade subsector grew by 7% in the first half of 2023, with robust performance observed, especially in retail trade and motor vehicle segments. The growth of the subsector was driven by the retail trade segment, propelled by higher consumer spending in non-specialised stores. Meanwhile, the motor vehicles segment benefitted from an upward momentum in total industry volume (TIV) subsequent to the fulfilment of backlog bookings made during the sales tax exemption period in 2022 and new model launches.
The wholesale trade segment experienced moderate growth, in tandem with the gradual recovery in the global supply chain. The subsector is expected to expand by 4.8% in the second half of the year, following improvement in all segments, especially the retail trade, attributed to higher tourist expenditure, special appreciation in terms of aids for civil servants and pensioners as well as e-wallet credit incentives for targeted groups. The motor vehicles segment is also anticipated to grow supported by continuation of high order books for the whole year in line with the upward revision of TIV for vehicle sales in 2023 from 650,000 to 725,000 units. Subsequently, the subsector is projected to record a significant growth of 5.8% in 2023.

TABLE 2.2. *Services Sector Performance, 2022 – 2024 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2023[1]	2022	2023[1]	2024[2]
Wholesale and retail trade	30.1	13.5	5.8	5.6
Finance and insurance	11.3	0.8	-1.3	4.3
Information and communication	11.2	5.2	5.0	6.5
Real estate and business services	7.5	22.7	7.3	5.4
Transportation and storage	6.9	30.8	14.5	7.4
Food & beverages and accommodation	5.2	33.0	10.4	7.9
Utilities	4.5	3.4	3.3	5.3
Other services	7.7	9.3	6.4	5.0
Government services	15.6	5.0	4.9	4.7
Services	**100.0**	**10.9**	**5.5**	**5.6**

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 2.2. *Selected Indicators for the Services Sector*



¹ Estimate

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching, Pulau Pinang and Tanjung Pelepas)

The transportation and storage subsector expanded by 15.2% in the first half of 2023, attributed to the increase in passenger traffic, particularly in land and air transport segments as well as supporting activities related to airports and highway operations. The land and air transport segments' growth were mainly driven by robust tourism-related activities following higher traffic volume in toll highways and airports, which increased by 7% to 456 million vehicles and 90.7% to 40.4 million passengers, respectively. In the second half of 2023, the subsector is expected to increase by 13.7% supported by the land transport segment, particularly road and rail transports on the back of state elections, festivities and school holidays. The performance of air cargo is anticipated to moderate due to softer performance in global trade, which is offset by the notable performance of air passenger traffic, in tandem with the additional number of flights to several main and new routes such as Istanbul, Okinawa and Tashkent. The water transport segment is forecast to grow at a slower rate, however it remains as a significant contributor to the growth of the subsector. Overall, the subsector is projected to rise by 14.5% in 2023.

The food & beverages and accommodation subsector is projected to record a significant growth of 10.4% in 2023 following the expansion in all segments. The subsector grew by 10.7% in the first half of 2023 supported by high hotel occupancy rates and patronage at eateries, mainly attributed to the increase of tourist arrivals to 9.2 million. The subsector is expected to increase by 10.1% in the second half of the year, on the back of vibrant tourism related activities. The favourable outlook is in line with the revised projection of 18.6 million tourist arrivals in 2023 by the Ministry of Tourism, Arts and Culture. The upsurge revision is echoed in the Global Muslim Travel Index 2023, of which Malaysia continues to maintain the top position as a Muslim travel destination for five consecutive years.

The real estate and business services subsector rose by 9.8% in the first half of 2023 supported by higher demand for professional services, particularly in engineering-, accounting- and architectural-related activities, as well as the increase in real estate agents and brokers activities. The subsector is expected to grow by 5% in the second half of the year driven by the higher demand for professional services following the vigorous construction-related activities and consulting services by diverse industries. Likewise, the real estate segment is also anticipated to boost the subsector with various Government's initiatives primarily for the households in the B40 and M40 income groups. These initiatives include the introduction of affordable housing ownership and renting under the MADANI Neighbourhood scheme, continuation of 100% stamp duty exemption for first-time homeowners on the purchase of properties valued at up to RM500,000 as well as enhancement of the loan scheme under the Syarikat Jaminan Kredit Perumahan Berhad by increasing financing guarantees up to 120% of the house price up to RM300,000. For the year, the subsector is expected to grow by 7.3%.

The information and communication subsector rose by 3.7% in the first half of 2023 and expected to grow by 6.2% in the second half of the year following attractive and affordable internet packages with devices, for high-speed connectivity such as 5G RAHMAH Package and RAHMAH Public Servant Postpaid Incentive. These packages, which are offered by major telecommunication companies are expected to further increase the internet subscription rate. Therefore, the subsector is projected to rise by 5% in 2023. Meanwhile, the utilities subsector rose by 2.3% in the first half of 2023 and is estimated to increase further by 4.3% in the second half of the year. For the year, the subsector is expected to expand by 3.3% supported by higher electricity consumption by commercial and residential segments in tandem with the hot weather from the El Niño phenomenon.

During the first half of 2023, the finance and insurance subsector contracted by 1.3% due to slow credit growth within the banking segment and a notable increase in claims, particularly from life insurance policyholders. In the second half of the year, the subsector is projected to continue a negative trajectory at 1.2% due to a surge in payouts for medical claims in the insurance segment. This, in turn, will weigh down the overall subsector's performance with a contraction of 1.3% in 2023.

The other services subsector grew by 6.8% in the first half of 2023 contributed by entertainment and recreational activities, in line with increasing momentum in domestic tourism. The subsector is expected to expand by 6% in the second half of the year, driven by sustained demand for private education as well as healthcare services following continuous effort to promote health tourism. Overall, the subsector is anticipated to grow by 6.4% in 2023. Meanwhile, the government services subsector recorded a growth of 5.3% in the first half of 2023 owing to additional salary increment of RM100 for public servants. The subsector is expected to expand by 4.5% in the second half and 4.9% for the whole year.

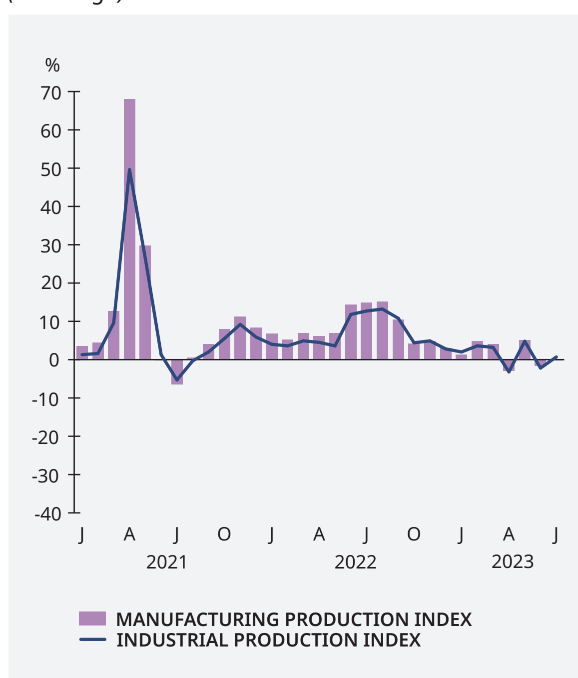
Manufacturing Sector

Growth driven by domestic-oriented industries

The **manufacturing** sector grew by 1.7% during the first half of 2023 underpinned by resilient domestic-oriented industries amid sluggish external demand. The domestic-oriented industries' steady growth of 4.4% was backed by increasing demand for consumer goods and construction-related segments. Meanwhile, export-oriented industries expanded marginally by 0.5% weighed down by the lower production of E&E due to cyclical downturn in global semiconductor industry.

The sector is forecast to grow by 1.2% in the second half of the year with domestic-oriented industries remain as the mainstay of growth. All segments are projected to expand particularly food and beverages, as well as transport equipment. These segments will benefit from the strengthening of tourism activities and increasing demand for passenger cars and related motor parts and accessories. In addition, anticipated acceleration and realisation of projects in the construction sector will increase the demand for metal-related segments. Meanwhile, within the export-oriented industries, the E&E segment is expected to pivot away from the downcycle trend, in line with gradual improvements in global demand especially for computing devices, electronics and semiconductors as well as growing domestic demand for industrial electronics, electric vehicles (EV) and medical technology devices. Furthermore, the demand for chemicals segment is expected to increase in line with the bottom out of E&E downcycle. Hence, the manufacturing sector is anticipated to register a modest growth of 1.4% in 2023.

FIGURE 2.3. *Output of Manufacturing Sector (% change)*



Source: Department of Statistics, Malaysia

TABLE 2.3. *Manufacturing Indices by Export- and Domestic-Oriented Industries, January – July 2022 and 2023*
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2022	2023	2022	2023	2022	2023
Export-oriented industries	**137.9**	**137.9**	***7.0***	***0.0***	***68.9***	***67.9***
Manufacture of vegetable and animal oils and fats	88.6	93.4	*-4.5*	*5.5*	*3.6*	*3.7*
Manufacture of textiles	118.2	113.7	*6.0*	*-3.8*	*0.7*	*0.7*
Manufacture of wearing apparel	116.4	123.2	*5.7*	*5.8*	*0.8*	*0.8*
Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	122.5	114.6	*13.7*	*-6.5*	*1.9*	*1.8*
Manufacture of coke and refined petroleum products	116.8	118.1	*4.6*	*1.1*	*11.9*	*11.9*
Manufacture of chemicals and chemical products	122.4	127.7	*5.1*	*4.3*	*8.5*	*8.7*
Manufacture of rubber products	196.1	177.2	*-21.3*	*-9.6*	*4.7*	*4.2*
Manufacture of plastics products	131.5	124.3	*5.2*	*-5.5*	*3.2*	*3.0*
Manufacture of computer, electronics and optical products	164.7	165.7	*17.7*	*0.6*	*24.9*	*24.7*
Manufacture of electrical equipment	147.0	147.3	*12.6*	*0.2*	*3.5*	*3.5*
Manufacture of machinery and equipment n.e.c.	146.2	147.4	*5.9*	*0.8*	*3.4*	*3.4*
Manufacture of furniture	136.9	125.0	*14.5*	*-8.7*	*1.6*	*1.4*
Domestic-oriented industries	**127.4**	**133.3**	***12.9***	***4.6***	***31.1***	***32.1***
Manufacture of food processing products	156.7	163.2	*9.8*	*4.1*	*6.3*	*6.4*
Manufacture of beverages	131.6	132.3	*19.0*	*0.5*	*0.9*	*0.9*
Manufacture of tobacco products	109.0	128.2	*31.9*	*17.6*	*0.6*	*0.7*
Manufacture of leather and related products	145.9	158.2	*18.7*	*8.5*	*0.2*	*0.3*
Manufacture of paper and paper products	137.6	142.1	*9.4*	*3.3*	*1.7*	*1.8*
Printing and reproduction of recorded media	119.0	125.6	*7.0*	*5.5*	*1.2*	*1.3*
Manufacture of basic pharmaceuticals, medicinal chemical and botanical products	162.5	165.6	*7.6*	*1.9*	*0.7*	*0.7*
Manufacture of other non-metalic mineral products	109.0	112.5	*11.9*	*3.2*	*3.5*	*3.6*
Manufacture of basic metals	118.5	122.1	*10.5*	*3.1*	*3.0*	*3.1*
Manufacture of fabricated metal products, except machinery and equipment	111.5	118.3	*8.0*	*6.2*	*4.6*	*4.8*
Manufacture of motor vehicles, trailers and semi-trailers	145.1	153.5	*27.2*	*5.8*	*5.0*	*5.2*
Manufacture of other transport equipment	97.8	101.3	*7.8*	*3.6*	*1.3*	*1.3*
Other manufacturing	116.7	119.8	*13.4*	*2.6*	*0.9*	*1.0*
Repair and installation of machinery and equipment	129.8	136.8	*11.5*	*5.4*	*1.1*	*1.1*
Manufacturing	**134.4**	**136.3**	***8.8***	***1.4***	***100.0***	***100.0***

Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

Agriculture Sector

Anticipated to grow marginally

The **agriculture** sector declined by 0.1% in the first half of 2023 as all subsectors recorded lacklustre performance, except for other agriculture. The oil palm subsector, the major contributor in the agriculture sector, shrank during the period on the back of lower production of CPO from Peninsular Malaysia. This production was affected by slow manuring activities in the previous year, shorter working period following a series of festivities as well as hot weather condition. Likewise, the decrease in natural rubber output has led to a contraction in the rubber subsector. The rubber production from the smallholdings segment, which accounted about 86% of total production, waned by 9%, while output from the estates segment decreased by 2.7%. In addition, other subsectors recorded negative growth during the period, partly due to unfavourable weather condition.

For the second half of the year, the sector is forecast to expand by 1.1% mainly supported by the oil palm, other agriculture and livestock subsectors. The oil palm subsector is projected to increase on account of higher fresh fruit bunches production, following peak harvest season and further improvement in labour supply. Other agriculture and livestock subsectors are forecast to record positive growth, underpinned by better production on the back of growing demand from domestic market. Overall, agriculture sector is estimated to grow marginally by 0.6% in 2023.

TABLE 2.4. *Value-added in the Agriculture Sector, 2022 – 2024*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2023[2]	2022	2023[2]	2024[3]
Oil palm	*36.4*	*3.8*	*0.4*	*1.1*
Other agriculture[1]	*29.1*	*-3.2*	*3.4*	*3.5*
Livestock	*16.7*	*0.1*	*0.7*	*1.2*
Fishing	*11.4*	*2.5*	*-1.9*	*-1.2*
Forestry and logging	*4.8*	*-3.6*	*-5.5*	*-6.8*
Rubber	*1.6*	*-19.7*	*-10.1*	*0.6*
Agriculture	***100.0***	***0.1***	***0.6***	***1.2***

[1] Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple
[2] Estimate
[3] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

Mining Sector

Subdued growth outlook

The **mining** sector turned around to record 0.1% growth in the first half of 2023. This was supported by improved performance of crude oil and condensate as well as other mining & quarrying and supporting services subsectors. Meanwhile, natural gas subsector was subdued following interruption of operations in Peninsular Malaysia and plant shutdown in Sarawak. The mining sector's performance is anticipated to contract by 1.7% in the second half of the year, owing to lower production of crude oil and condensate as well as natural gas. The decline in production is due to plant maintenance shutdown at several oil and gas fields as well as lower external demand for liquefied natural gas (LNG) amid challenging global environment. Against this backdrop, growth in the mining sector is projected to contract by 0.8% in 2023.

With regard to oil prices, the Brent crude oil is anticipated to average around USD80 per barrel in 2023, partly due to dampening demand following weaker-than-expected recovery in China's economy and moderate global growth. However, proactive oil market management by OPEC+, as well as continued investments in the oil sector are envisaged to provide some support to prices.

Construction Sector

Steady growth across the sector

The **construction** sector improved steadily by 6.8% in the first half of 2023 mainly driven by the civil engineering and special construction activities subsectors. The civil engineering subsector rebounded, supported by the acceleration of ongoing infrastructure and utilities projects, which include East Coast Rail Link (ECRL) and Large Scale Solar 4 projects. The non-residential buildings and residential buildings subsectors also registered positive growth in line with vibrant economic activities.

The sector is forecast to expand by 5.9% in the second half of the year supported by growth in all subsectors. The residential buildings subsector is anticipated to remain encouraging on the back of Government's initiatives such as i-MILIKI and Housing Credit Guarantee Scheme in assisting first-time home buyers, spurring demand for home ownership. Similarly, the non-residential buildings subsector is envisaged to increase, particularly with the realisation of approved private investments. The continuous implementation of strategic infrastructure and utilities projects will further support the civil engineering subsector. For the year, performance of the sector is expected to remain steady and grow by 6.3%.

Domestic Demand

Domestic activity remains the main driver of growth

Domestic demand continues to drive growth in an environment of increasing external uncertainties. In the first half of 2023, domestic demand registered a growth of 4.5% contributed by strong private and public expenditures. Domestic demand is expected to expand by 4.9% for the whole year, contributing 4.5 percentage point to GDP growth. Propelled by both consumption and investment spending, private and public sector expenditures are expected to expand by 5.3% and 2.8%, respectively, in 2023.

Private consumption, which recorded a growth of 5.1% in the first half of 2023, is expected to grow by 5.6% for the whole year. The lower growth as compared to 2022 is attributable to the lagged effect from the increased Overnight Policy Rate (OPR), dissipating effect from the Employees Provident Fund special withdrawal and lower corporate earnings of the export-oriented industries. Nonetheless, private spending is expected to remain resilient supported by continued improvement in the labour market, easing of inflationary pressures, and provision of cash assistance by the Government such as the special appreciation aid for civil servants and retirees as well as e-wallet credit for youths, students and Malaysians earning annual wages of RM100,000 and below. The growing trend of digital lifestyle which corresponded with a higher e-commerce income and the implementation of Payung Rahmah initiative are also expected to provide additional boost in consumer spending.

TABLE 2.5. *Gross Domestic Product by Aggregate Demand, 2022 – 2024 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2023[2]	2022	2023[2]	2024[3]
Domestic demand	***94.0***	***9.2***	***4.9***	***5.3***
Private expenditure	***76.6***	***10.3***	***5.3***	***5.6***
Consumption	*61.2*	*11.2*	*5.6*	*5.7*
Investment	*15.4*	*7.2*	*4.3*	*5.4*
Public expenditure	***17.4***	***4.7***	***2.8***	***4.1***
Consumption	*12.9*	*4.5*	*1.0*	*2.6*
Investment	*4.6*	*5.3*	*8.2*	*8.3*
External sector[1]	***5.3***	***-1.0***	***1.1***	***5.5***
Exports	*67.3*	*14.5*	*-6.2*	*4.1*
Imports	*62.0*	*15.9*	*-6.8*	*3.9*
GDP	***100.0***	***8.7***	***~4.0[4]***	***4.0 – 5.0***

[1] Goods and non-factor services
[2] Estimate
[3] Forecast
[4] Approximate
Note: Total may not add up due to rounding and excluding change in stocks component
Source: Department of Statistics and Ministry of Finance, Malaysia

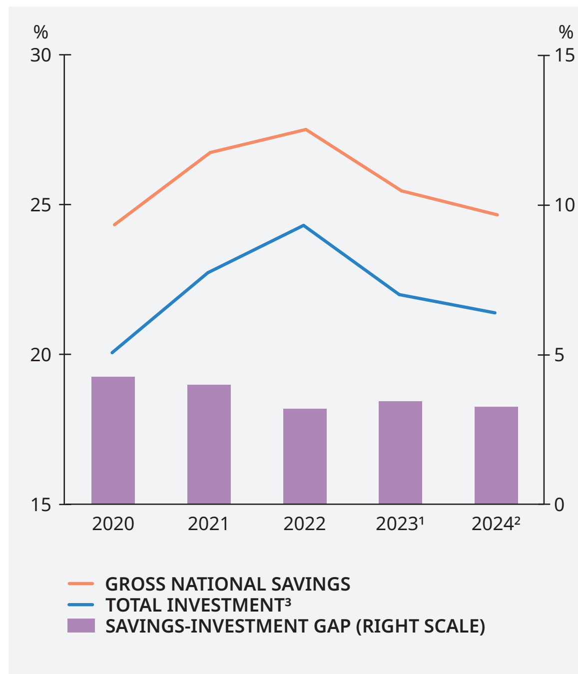
Private investment, which expanded by 4.9% in the first half of the year, is projected to grow by 4.3% in 2023 mainly supported by new and ongoing projects such as the construction of data centre facilities, as well as commercial and industrial buildings. This is also backed by continuous implementations of measures under the Budget 2023. In addition, new policies guided by the Ekonomi MADANI framework, which include NETR and NIMP 2030, are expected to accelerate investment activity in uplifting Malaysia as a preferred investment destination. Furthermore, the realisation of approved investments by the Malaysian Investment Development Authority (MIDA) is expected to have a positive spill over impact on private investment in the near term.

Public consumption registered a marginal growth of 0.8% in the first half of 2023 and is anticipated to record 1% for the whole year, supported by continued spending on emoluments. This is aligned with the continuous efforts by the Government to rationalise and optimise expenditure while upholding the quality of public service delivery. Furthermore, the Government continues to enhance value for money in the procurement of supplies and services, reflecting prudent spending.

Public investment registered 6.7% growth in the first half of 2023, mainly driven by public corporations' higher capital outlays. Overall, public investment is expected to expand by 8.2% in 2023, supported by capital expenditure by public corporations and acceleration of the Federal Government development expenditure (DE). Capital spending in the transport segment is projected to continuously expand the segment's operational capacity and improve service quality. This includes spending on the ongoing Pan Borneo Highway and ECRL.

The growth of GNI at current prices is estimated at 4.1% in 2023, in line with the moderating economic performance. Meanwhile, the gross national savings (GNS) and total investment are anticipated to record 25.4% and 22% of GNI, respectively. The **savings-investment gap** is expected to register a surplus of RM62 billion or 3.4% of GNI, providing sufficient liquidity to finance domestic economic activities.

FIGURE 2.4. *Savings – Investment Gap (% of GNI)*



[1] Estimate
[2] Forecast
[3] Including change in stocks
Source: Department of Statistics and Ministry of Finance, Malaysia

FEATURE ARTICLE 2.1

Towards an Investment-Driven Economy for a Sustainable Growth in Malaysia

Introduction

Gross fixed capital formation[1] (GFCF), commonly referred to as investment, is one of the factors that contributes to Malaysia's economic growth. Historically, the average real GDP growth was recorded at 9.2%, while the share of GFCF to GDP was around 40% during the period of 1991 – 1997. However, after the Asian Financial Crisis (AFC) in 1997 – 1998, Malaysia experienced a lower growth trajectory. The average real GDP growth registered 4.3% in 1998 – 2022 with a lower share of GFCF to GDP of around 23%. To revitalise the economy, the Government introduced the Ekonomi MADANI framework in July 2023, which outlines among others, efforts to attract quality investment, with the aim to accelerate economic growth and improve the quality of life of the rakyat. In this regard, it is imperative to highlight the economic and investment trends in Malaysia and the driving policies aimed at attracting more high-value investments that will propel the nation's sustainable growth.

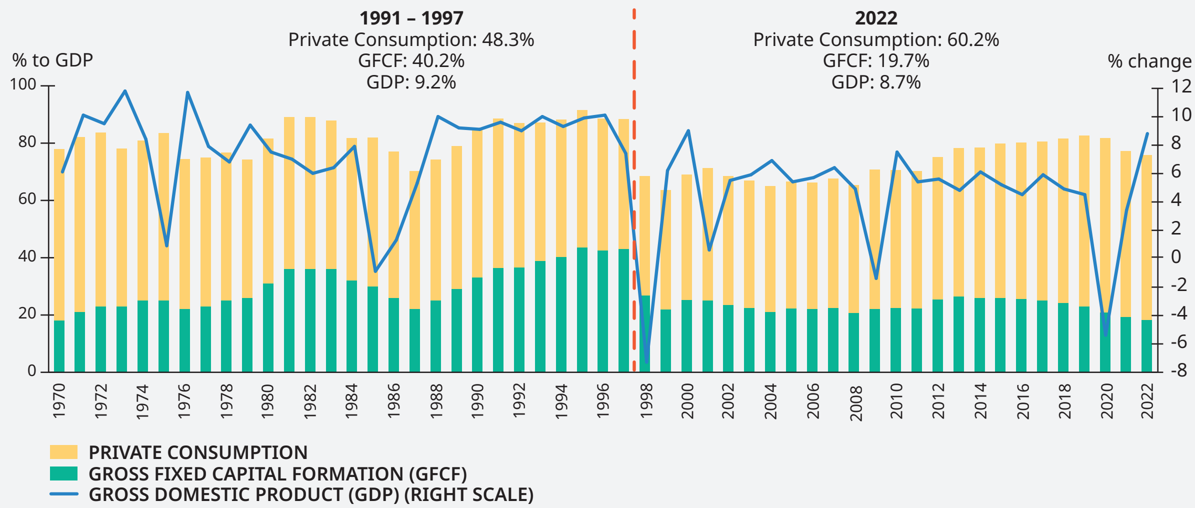
Malaysia's Economic and Investment Trends

The nation has successfully undergone a structural transformation, transitioning from an agriculture- and commodity-based economy to one that is driven by the services and manufacturing sectors. The development of the economy was mainly guided by long-term development policies namely the New Economic Policy (1971 – 1990) and the Vision 2020 (1991 – 2020). However, Malaysia was not spared from global economic crises. The AFC caused the economy to contract by 7.4% in 1998. In 2020, the global economy was hit by the unprecedented COVID-19 pandemic. The imposition of lockdowns worldwide including Malaysia to contain the pandemic has resulted in slower global economic and trade activities. Consequently, Malaysia's economy contracted by 5.5% in 2020.

Post-pandemic, the Government continues to prioritise on measures to protect lives, restore livelihoods and rebuild businesses. The nation had gradually recovered where real GDP grew by 3.3% in 2021 and expanded further to 8.7% in 2022. The growth was the fastest since 2000, mainly attributed to the robust private consumption which recorded a double-digit growth of 11.2%, more than the average of 7.5% during the period of 1991 – 1997. Similarly, the share of private consumption to GDP also increased to 60.2% in 2022 as compared with an average of 48.3% during the same period as shown in Figure 2.1.1. This indicates the economy is currently dependent on private consumption-driven growth. On the contrary, the GFCF growth moderated to 6.8% in 2022 as compared with an average of 15.4% in the 1991 – 1997 period. The share of GFCF to GDP was also lower at around 20% in 2022 as compared with an average of 40.2% during the same period.

[1] Gross fixed capital formation (GFCF) is also known as investment in fixed assets that used repeatedly in the process of production for more than one year (Department of Statistics, Malaysia, 2023).

FIGURE 2.1.1. *Gross Domestic Product, Gross Fixed Capital Formation and Private Consumption in Malaysia at Constant Prices*



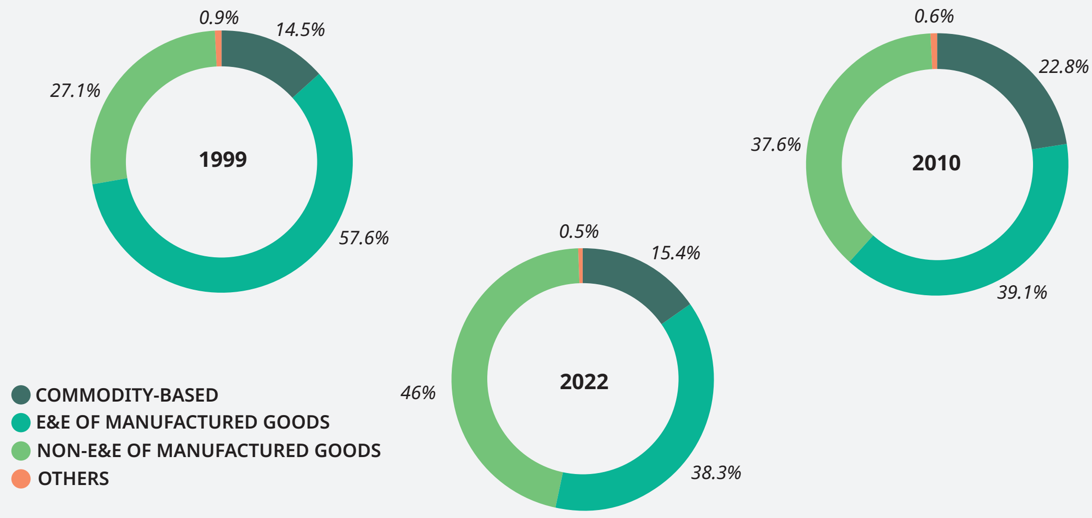
Source: Department of Statistics, Malaysia and World Development Indicators

Prior to the AFC, the significant increase in the share of investment to GDP coupled with higher exports performance, particularly E&E products, had contributed to the country's robust economic growth. The increase was in line with supportive Government policies that primarily revolved around substantial infrastructures and incentives to attract foreign direct investment (FDI) and accelerate industrialisation (Yusuf and Nabeshima, 2009). Various measures were introduced to incentivise domestic manufacturers to participate in the export market. Additionally, free trade zones were established to attract foreign investment and export-intensive industries (Khalafalla and Webb, 2001).

The E&E exports accounted for 57.6% of the total gross exports in 1999 as shown in Figure 2.1.2. However, since 2000, the downturn of the global electronic industry and the rise of China's economy have triggered changes in Malaysia's manufactured exports components (Abidin and Loke, 2008). Furthermore, the country also faced challenges in attracting FDI due to increased competition from neighbouring countries offering lower labour costs. Consequently, Malaysia's exports of E&E products recorded a lower share of 38.3% in 2022.

The exports of non-E&E products showed an increasing trend and recorded a share of 46% in 2022 as compared with 27.1% in 1999. This trend is in line with higher value-added downstream manufacturing activities, particularly in petroleum products; and chemicals and chemical products. However, as an open economy, a decrease in external demand affected Malaysia's economy to record a moderate growth of 2.9% in the second quarter of 2023 as compared with 5.6% in the first quarter of 2023, mainly due to lower non-E&E exports. Moving forward, the nation needs to accelerate investments in higher value-added manufacturing activities, and diversify the nation's export products supported by greater international trade facilitations to expand market access.

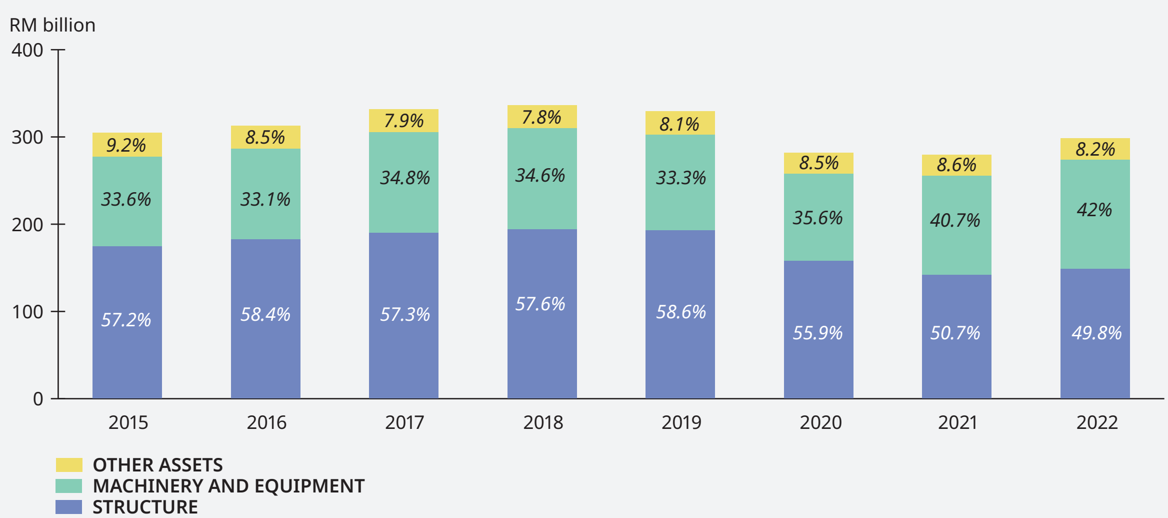
FIGURE 2.1.2. *Malaysia's Gross Exports (% share)*



Note: Total may not add up due to rounding
Source: Malaysia External Trade Development Corporation

In terms of GFCF by type of assets, investment in structure[2] continued to record a significant share, albeit at a declining trend since 2015 while investment in machinery and equipment[3] (M&E) showed a growing trend as reflected in Figure 2.1.3. The increasing composition of M&E investment signifies greater adoption of new technology and digitalisation along the production process. This is in tandem with the provision of Government grants and incentives to promote the adoption of automation, Industry 4.0 technologies and digitalisation among businesses.

FIGURE 2.1.3. *Gross Fixed Capital Formation by Type of Assets in Malaysia at Constant Prices*



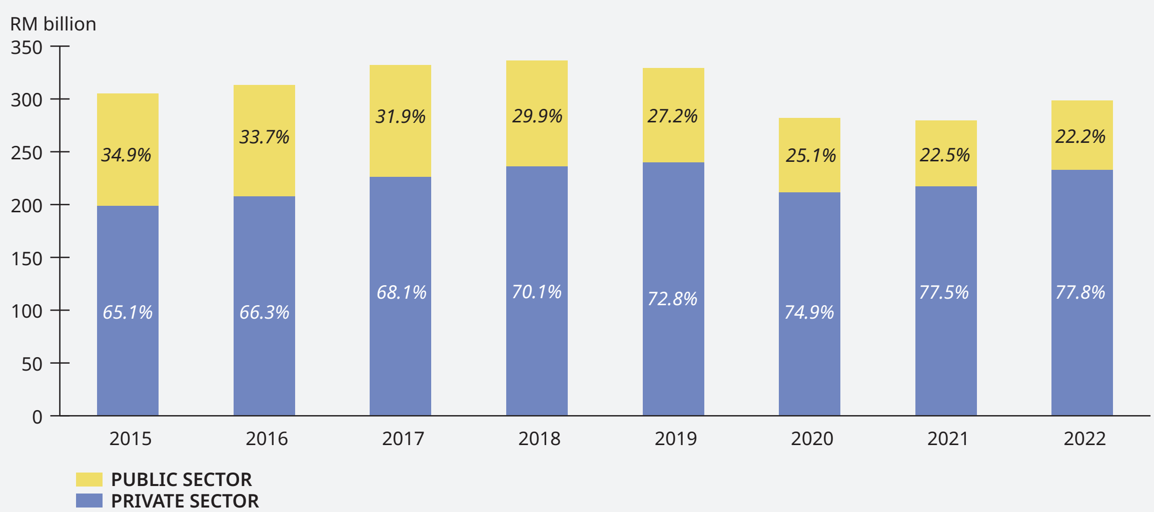
Source: Department of Statistics, Malaysia

[2] Investment in structure comprises of residential buildings; non-residential buildings; other construction; and floating structure for oil and gas activities.
[3] Investment in machinery and equipment comprises of transport equipment; other machinery & equipment; ICT equipment; and computer software & database.

The COVID-19 pandemic had an adverse impact on the GFCF in Malaysia, resulting in a decline for two consecutive years in 2020 and 2021. Although investment has rebounded in 2022, it has yet to reach its pre-pandemic level. The pandemic has heightened the need for digitalisation to ensure the continuity of economic activities. In recognising this, the Government launched the Malaysia Digital Economy Blueprint in 2021 outlining strategies to transform the country into a digitally-driven economy by 2030. According to the report on Usage of ICT and E-Commerce by Establishment, 93.8% of establishments used computers and electronic devices in 2021 as compared with 86.2% in 2019. Meanwhile, internet usage increased to 90.6% as compared with 85.2% in 2019. Furthermore, income via e-commerce transactions in Malaysia also grew by 23.9% to RM1,037.2 billion as compared with RM675.4 billion in 2019, mainly contributed by the manufacturing and services sectors at RM553.8 billion and RM473 billion, respectively.

Private investment, primarily concentrated in the services and manufacturing sectors, plays a catalytic role in generating economic growth in Malaysia. In 2022, private investment share to GFCF increased to around 78% as compared with 65.1% in 2015 as depicted in Figure 2.1.4, reflecting a private sector-led investment in Malaysia. The Government has taken several initiatives to further boost private investment, which include the announcement of the National Investment Aspirations (NIA) in April 2021 as a foundation for comprehensive reforms in investment policies. Three main objectives of the NIA are to catalyse investments to boost Malaysia's economic recovery post-pandemic; to secure Malaysia's global position in a post-COVID era; and to deliver on the promise of inclusive development. Furthermore, the New Investment Policy (NIP), which was launched in October 2022, aims at strengthening Malaysia's foundations for developing new and existing high-value growth ecosystems, and ensuring Malaysia remains as a competitive destination for high-value investments.

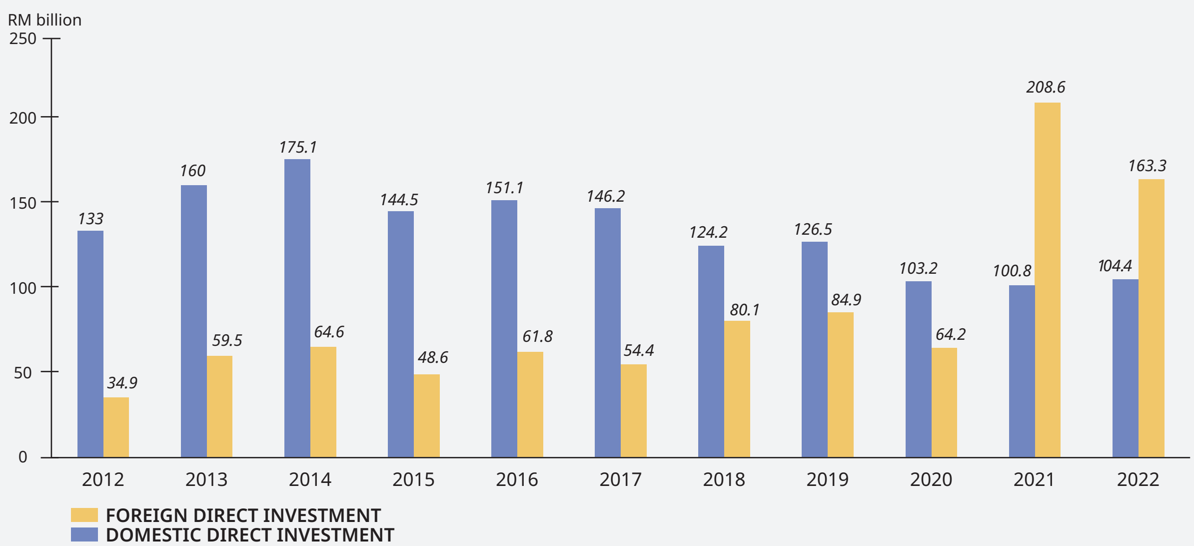
FIGURE 2.1.4. *Gross Fixed Capital Formation by Sectors in Malaysia at Constant Prices*



Source: Department of Statistics, Malaysia

During the period 2012 – 2020, domestic direct investment (DDI) contributed significantly to the total approved investment, accounting for 69.6% or RM1,263.8 billion as shown in Figure 2.1.5. However, post-pandemic, FDI has become the primary driver of the total approved investment. Nevertheless, the Government remains committed to promote DDI by fostering a robust domestic industrial ecosystem and integrating local companies into the supply chain alongside multinational corporations. The Government also continues to provide funding to assist small and medium enterprises (SMEs) in adopting Industry 4.0 technologies. The Government has also issued a guideline requiring federal statutory bodies and subsidiary companies to prioritise domestic investments to further boost the local equity market and strengthen the value of the ringgit. Furthermore, the Ekonomi MADANI framework emphasises on cooperation and strategic engagement by government-linked investment companies and government-linked companies to accelerate domestic investment and support the development of local vendors.

FIGURE 2.1.5. *Approved Investment in Malaysia*



Source: Malaysian Investment Development Authority

Notwithstanding the ongoing economic recovery post-pandemic, several challenges persist in balancing between the private consumption and investment that necessitate a renewed focus on investment-related policies. Relying excessively on private consumption to drive economic growth is not sustainable, particularly when it is driven by fiscal injection and household savings. An empirical analysis involving 40 countries by Fukuda and Watanabe (2012) found that consumption is the main driver of economic growth in developing economies. Meanwhile, advanced economies rely on investment to fuel growth. Therefore, Malaysia needs to prioritise investment in innovative and advanced technology to achieve higher productivity and sustainable economic growth.

Therefore, the revival of private investment and FDI is crucial in driving towards higher productivity, hence allowing the country to break out of the middle-income trap (Menon, 2012). This is in line with the finding by Lean and Tan (2011) that FDI and economic growth are positively related. Inflows of FDI can encourage technological adoption and increase the production capacity of economic sectors by forming supply chain linkages with local firms, including micro, small, and medium enterprises (MSMEs). This, in turn, can lead to higher domestic investment and economic growth.

Based on an internal estimation by the Ministry of Finance, Malaysia using a Structural Vector Error Correction Model, private investment is an important factor in stimulating economic growth in the short run. Therefore, the Government has implemented a responsive fiscal and accommodative monetary policy to boost private investment. Meanwhile, in the long term, the Government is focusing on structural reform strategies to strengthen economic growth, which include fostering industries with high-growth value; enhancing technological advancement through innovation; expediting digitalisation; and developing a future-ready workforce. These strategies will further promote sustainable private investment for the future.

Government Policies to Attract Higher Investment for Sustainable Growth

Moving forward, the Ekonomi MADANI framework will serve as a foundation in revitalising the economy to ensure the accumulated wealth is benefitted equitably among the rakyat. In order to become a globally competitive investment destination, efforts will be intensified to strengthen investment promotion, enhance incentive measures to attract high-quality investments, upgrade existing infrastructure and develop human capital to meet investor needs. To date, several Government policies have been introduced to complement the framework such as the National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030) and Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan).

National Energy Transition Roadmap

The NETR will guide investments in six energy transition levers which include energy efficiency, renewable energy, hydrogen, bioenergy, green mobility as well as carbon capture, utilisation and storage (CCUS). Therefore, the whole-of-nation approach is needed to ensure the successful implementation of this initiative.

New Industrial Master Plan 2030

The NIMP 2030 encompasses six goals, namely increasing economic complexity; creating high-value job opportunities; extending domestic linkages; developing new and existing clusters; improving inclusivity; and enhancing ESG practices. The NIMP 2030 also identified several enablers which include mobilising the financing ecosystem; fostering talent development and attracting talents; developing a world-class investor ecosystem to facilitate ease of doing business; and introducing a whole-of-nation governance framework. To achieve the six goals, the NIMP 2030 will require an estimated total investment of RM95 billion during the seven-year implementation period led by the private sector. At the same time, the Government will also provide allocations to fund the NIMP 2030 action plans through the NIMP Industrial Development Fund and the NIMP Strategic Co-Investment Fund.

Mid-Term Review of the Twelfth Malaysia Plan

The MTR of the Twelfth Plan highlights 17 Big Bold catalytic strategies to reform the socioeconomic development towards achieving the aspiration of the Ekonomi MADANI framework. In this regard, focus will be given on accelerating the development of high growth high value (HGHV) industries, attracting quality investment in technology-based industries, as well as enhancing technological adoption and digitalisation. The private sector will also be encouraged to intensify green investment in business operations and premises. Measures will also be undertaken to remove the barriers which hinder the expansion of MSMEs by facilitating their integration into domestic and global supply chains. The labour market reforms will be expedited through upskilling and reskilling programmes to produce industry-ready talent and retaining existing workforce.

Conclusion

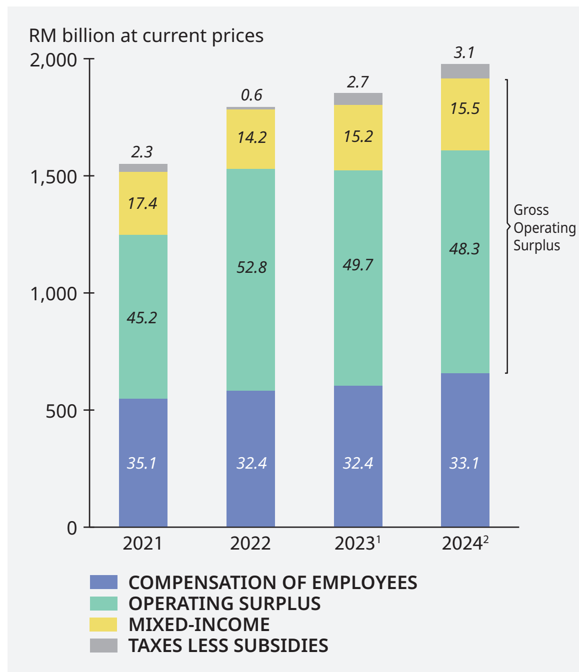
The rapid expansion of investment in Malaysia has extensively contributed to the changing structure of the economy from an agriculture- and commodity-based to an economy that is driven by the services and manufacturing sectors. Post-AFC, the nation experienced lower growth trajectory and lower investment. Without swift and effective reforms in investment-related policies, Malaysia is far from achieving its aspiration to be the top 30 largest economies. Therefore, strategies and measures under the NETR, NIMP 2030 and MTR of the Twelfth Plan as guided by the Ekonomi MADANI framework will propel quality investments in high-value-added industries, especially in the energy transition, digital and high-technology industries, ultimately creating more high-income employment opportunities for the rakyat towards sustainable economic growth.

Income

Attaining balanced income sharing remains challenging

Vibrant business and economic activities have contributed to a substantial creation of new jobs and income opportunities in the economy. As a result, the labour income improved by 6.5% to RM579.7 billion in 2022. Nevertheless, the share of **compensation of employees (CE)** to GDP continued to exhibit a downward trend to 32.4% as the nominal GDP recorded a faster growth of 15.7%. Though a similar trend was also observed in other countries, the decreasing trend implies that workers were still not benefitting sufficiently from the economic advancement through higher wages. This may continue to post a challenge in attaining the target of 40% by 2025. The share of CE is expected to sustain at 32.4% in 2023, an increase by 3.5% to RM599.9 billion in line with the expectation of continuous encouraging growth prospects. The share will be attributed mainly to income from the services (61.7%) and manufacturing (24.4%) sectors, particularly in electrical, electronic and optical products and tourism-related industries.

FIGURE 2.5. *Gross Domestic Product by Income Components, 2021 – 2024*



[1] Estimate
[2] Forecast
Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 2.6. *Gross Domestic Product by Income in Selected Countries, 2020 – 2022*

	COMPENSATION OF EMPLOYEES			GROSS OPERATING SURPLUS			TAXES LESS SUBSIDIES		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
	SHARE OF GDP (%)								
Malaysia	***37.4***	***35.1***	***32.4***	***59.9***	***62.6***	***67.0***	***2.7***	***2.3***	***0.6***
Philippines	*34.8*	*36.7*	*36.4*	*58.6*	*55.7*	*55.8*	*6.6*	*7.6*	*7.8*
Singapore	*42.8*	*37.9*	*36.6*	*56.6*	*57.5*	*57.7*	*0.6*	*4.6*	*5.8*
Republic of Korea	*48.2*	*47.2*	*47.6*	*41.9*	*42.4*	*42.2*	*9.9*	*10.3*	*10.2*
Australia	*48.3*	*47.8*	*45.6*	*44.5*	*46.2*	*45.7*	*7.1*	*6.0*	*8.8*
Netherlands	*50.6*	*49.1*	*48.0*	*41.2*	*42.0*	*42.1*	*8.2*	*8.9*	*9.9*
United Kingdom	*55.9*	*54.7*	*52.9*	*37.3*	*35.5*	*35.1*	*6.8*	*9.9*	*12.0*
Germany	*54.4*	*53.2*	*52.3*	*37.6*	*38.9*	*38.5*	*8.0*	*7.9*	*9.2*
United States	*54.5*	*53.5*	*53.0*	*41.4*	*41.4*	*40.6*	*4.1*	*5.0*	*6.4*

Source: Department of Statistics, Malaysia

Meanwhile, **gross operating surplus (GOS)** continued to be the major income component with its share to GDP amounting to 67%, following a significant increase of 23.9% in 2022. Capital owners, particularly in the mining and quarrying sector, continued to reap a 35.1% double-digit profit growth from business enhancement attributed to higher commodity prices. On the other hand, the mixed-income for the self-employed group persisted in a contraction trend at 5.3% as this group is still facing challenges to secure adequate income amid the transition phase towards endemicity. Nonetheless, mixed-income is expected to expand by 10.4% in 2023 as vigorous economic activities and increasing domestic demand will provide more employment and income prospects for the self-employed group. Overall, the share of GOS to GDP is projected to record 64.9% in 2023 with most of the profit will be owned by capital owners.

Net taxes on production and imports continued to decrease and contributed only 0.6% to GDP in 2022, the lowest share ever recorded in almost two decades, due to a large contraction of 69.2% recorded for net taxes. The contraction was attributed to a surge of 134.4% in expenditure for subsidies and incentives in relation to income from taxes which merely increased by 23.8%. Most of the expenditure was allocated for fuel subsidy to mitigate the rising cost of products and services. Nevertheless, income from taxes on production and imports is expected to improve in 2023, following a lower expenditure on subsidies and incentives. Hence, the overall share of net taxes on production and imports is expected to improve to 2.7% of GDP.

External Sector

Lacklustre performance dampened the outlook

Trade Performance

Total trade is expected to decline by 7.3% to RM2,634.9 billion in 2023 attributed to slower external demand from major trading partners as a result of moderating global trade. Similarly, **trade surplus** is estimated to decrease by 12.5% to RM224.2 billion.

Gross exports are projected to contract by 7.8% in 2023 due to sluggish external demand from major trading partners owing to slower-than-expected economic recovery, particularly in China as well as moderate commodity prices. Exports of manufactured goods are estimated to decline by 5.3% dragged by a 10.4% decrease in non-E&E products, which more than offset the marginal increase in exports of E&E products. Exports of non-E&E products, particularly petroleum products and palm oil-based manufactured products are expected to shrink following weakening external demand and moderate commodity prices. Meanwhile, the marginal growth of 0.8% in E&E products is attributed to softening external demand for global electronics manufacturing components due to weakening economic conditions in China, the EU and the US. The E&E components with highest share include semiconductor, telecommunication equipment parts, and automatic data processing equipment.

Likewise, exports of agriculture goods are estimated to contract by 24.8%, weighed down by weak demand for palm oil and palm oil based agriculture products as well as natural rubber. Reduction in export earnings of palm oil is anticipated at 30.4% resulting from lower demand by major trading countries, particularly from China, India, the Netherlands, the Philippines and Turkiye. Furthermore, exports of mining goods are projected to contract by 18.5%, attributed to lower global demand for LNG and crude petroleum by 21.8% and 16.2%, respectively.

TABLE 2.7. *External Trade, 2022 – 2024*

	RM MILLION			CHANGE (%)		
	2022	2023[1]	2024[2]	2022	2023[1]	2024[2]
Total trade	**2,843,821**	**2,634,886**	**2,766,393**	***27.6***	***-7.3***	***5.0***
Gross exports	**1,550,009**	**1,429,547**	**1,501,859**	***24.9***	***-7.8***	***5.1***
of which:						
Manufactured	1,304,668	1,235,167	1,303,202	*22.1*	*-5.3*	*5.5*
Agriculture	120,903	90,876	92,405	*23.3*	*-24.8*	*1.7*
Mining	117,346	95,609	98,343	*68.2*	*-18.5*	*2.9*
Gross imports	**1,293,811**	**1,205,339**	**1,264,533**	***31.0***	***-6.8***	***4.9***
of which:						
Capital goods	120,231	113,335	119,079	*15.8*	*-5.7*	*5.1*
Intermediate goods	706,551	636,558	669,696	*29.5*	*-9.9*	*5.2*
Consumption goods	104,017	96,462	100,388	*24.0*	*-7.3*	*4.1*
Trade balance	**256,198**	**224,208**	**237,326**	***1.0***	***-12.5***	***5.9***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

TABLE 2.8. *Gross Exports, January – August 2022 and 2023*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2022	2023	2022	2022	2022	2023
Manufactured	850,880	800,624	*26.4*	*-5.9*	*84.0*	*85.6*
Agriculture	81,941	60,810	*41.0*	*-25.8*	*8.1*	*6.5*
Mining	75,147	68,272	*70.7*	*-9.1*	*7.4*	*7.3*
Others[1]	4,514	5,510	*49.0*	*22.1*	*0.4*	*0.6*
Gross exports	**1,012,482**	**935,217**	***30.0***	***-7.6***	***100.0***	***100.0***

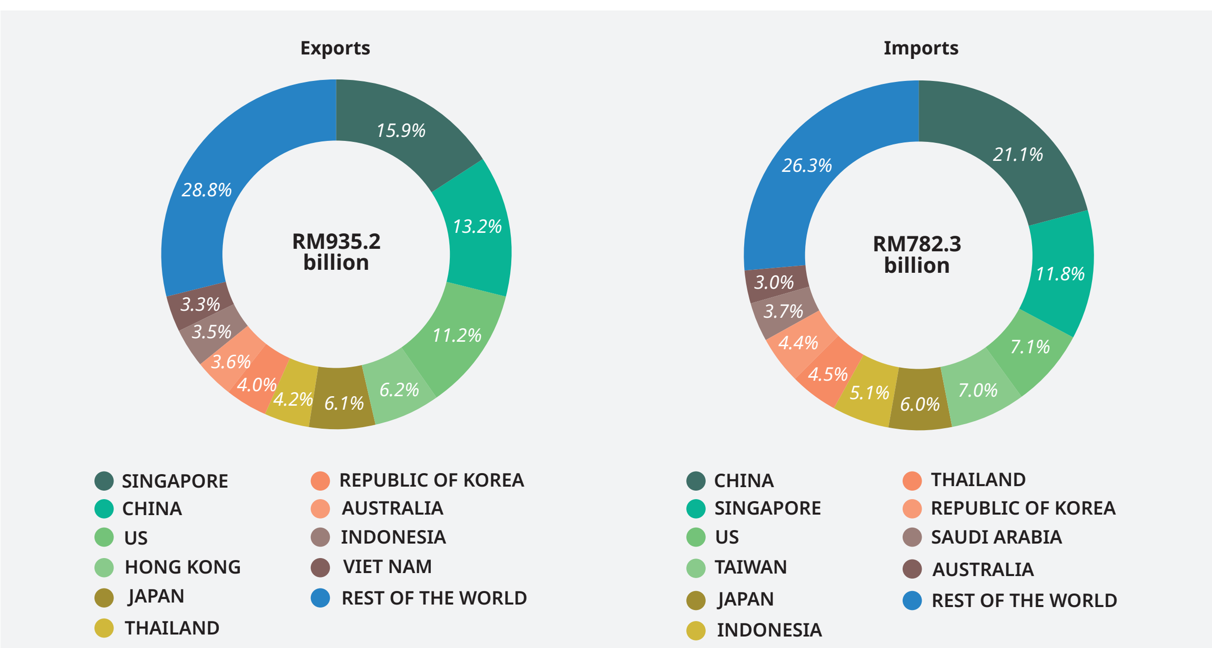
[1] Including gold scrap and waste; worn clothing; and special transaction not classified
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

TABLE 2.9. *Exports of Manufactured Goods, January – August 2022 and 2023*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2022	2023	2022	2023	2022	2023
E&E	**380,126**	**380,685**	***34.4***	***0.1***	***44.7***	***47.5***
Non-E&E	**470,754**	**419,939**	***20.5***	***-10.8***	***55.3***	***52.5***
Petroleum products	101,772	96,500	*69.7*	*-5.2*	*12.0*	*12.1*
Chemicals & chemical products	53,071	46,965	*18.7*	*-11.5*	*6.2*	*5.9*
Manufactures of metal	44,803	37,579	*24.9*	*-16.1*	*5.3*	*4.7*
Machinery, equipment & parts	40,009	36,461	*27.6*	*-8.9*	*4.7*	*4.6*
Optical & scientific equipment	36,196	35,564	*22.1*	*-1.7*	*4.3*	*4.4*
Palm oil-based manufactured products	28,941	20,849	*45.0*	*-28.0*	*3.4*	*2.6*
Rubber products	21,075	13,983	*-58.3*	*-33.6*	*2.5*	*1.7*
Processed food	18,341	19,067	*18.3*	*4.0*	*2.2*	*2.4*
Iron & steel products	23,227	20,127	*34.0*	*-13.3*	*2.7*	*2.5*
Transport equipment	11,068	11,172	*9.7*	*0.9*	*1.3*	*1.4*
Textiles, apparels & footwear	11,775	10,548	*16.3*	*-10.4*	*1.4*	*1.3*
Manufactures of plastics	11,631	10,458	*12.5*	*-10.1*	*1.4*	*1.3*
Wood products	12,689	9,455	*22.9*	*-25.5*	*1.5*	*1.2*
Non-metallic mineral products	7,850	8,097	*15.7*	*3.1*	*0.9*	*1.0*
Jewellery	4,682	4,988	*34.1*	*6.5*	*0.6*	*0.6*
Paper & pulp products	6,327	7,238	*16.7*	*14.4*	*0.7*	*0.9*
Beverages & tobacco	1,710	2,038	*8.6*	*19.2*	*0.2*	*0.3*
Other manufactures	35,588	28,849	*29.3*	*-18.9*	*4.2*	*3.6*
Exports of manufactured goods	**850,880**	**800,624**	***26.4***	***-5.9***	***100.0***	***100.0***

Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

FIGURE 2.6. *Top 10 Trading Partners, January – August 2023 (% share)*



Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Gross imports are projected to slip by 6.8% in 2023 dragged down by major categories, namely intermediate, capital and consumption goods, partly due to the depreciation of ringgit. Imports of intermediate goods, which constitute the largest share of 52.8%, are expected to decrease by 9.9% as a result of a slowdown in manufactured exports. Similarly, capital goods and consumption goods are estimated to contract by 5.7% and 7.3%, respectively. Of the total imports, capital goods form a share of 9.4% while consumption goods constitute 8%.

TABLE 2.10. *Gross Imports by End Use, January – August 2022 and 2023*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2022	2023	2022	2023	2022	2023
Capital goods	**77,275**	**78,169**	***15.7***	***1.2***	***9.0***	***10.0***
Capital good (except transport equipment)	68,861	70,586	*9.2*	*2.5*	*8.0*	*9.0*
Transport equipment (industrial)	8,414	7,583	*125.7*	*-9.9*	*-1.0*	*1.0*
Intermediate goods	**473,467**	**399,416**	***35.9***	***-15.6***	***55.3***	***51.1***
Food and beverages, primary and processed, mainly for industries	23,529	20,142	*33.4*	*-14.4*	*2.7*	*2.6*
Fuel and lubricants, primary, processed and others	72,698	68,452	*129.9*	*-5.8*	*8.5*	*8.8*
Industrial supplies, primary, processed and n.e.s.[1]	213,359	183,184	*20.9*	*-14.1*	*24.9*	*23.4*
Parts and accessories of capital goods and transport equipment	163,881	127,638	*33.5*	*-22.1*	*19.1*	*16.3*
Consumption goods	**67,897**	**67,021**	***25.0***	***-1.3***	***7.9***	***8.6***
Food and beverages, primary and processed, mainly for household	29,778	31,031	*24.8*	*4.2*	*3.5*	*4.0*
Transport equipment (non-industrial)	1,160	999	*5.8*	*-13.9*	*0.1*	*0.1*
Other consumer goods	36,959	34,991	*25.8*	*-5.3*	*4.3*	*4.5*
Durables	9,203	8,881	*16.5*	*-3.5*	*1.1*	*1.1*
Semi-durables	11,443	11,255	*36.6*	*-1.6*	*1.3*	*1.4*
Non-durables	16,313	14,854	*24.5*	*-8.9*	*1.9*	*1.9*
Others	**26,763**	**27,037**	***70.8***	***1.0***	***3.1***	***3.5***
Re-exports	**210,964**	**210,650**	***47.3***	***-0.1***	***24.6***	***26.9***
Gross imports	**856,366**	**782,293**	***36.3***	***-8.6***	***100.0***	***100.0***

[1] Not elsewhere stated
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

Balance of Payments

The current account surplus of the **balance of payments** widened to RM13.4 billion or 1.6% of GNI in the first half of 2023. This is attributed to a smaller deficit in the services and income accounts while the goods account continuing to register a surplus albeit narrowing. The performance is expected to continue in the second half of the year with the current account surplus is forecast to expand to RM48.6 billion or 5.2% of GNI following smaller deficit in the services and income accounts albeit narrowing surplus in the goods account. Overall, a wider current account surplus of RM62 billion or 3.4% of GNI is expected to be recorded in 2023.

The goods account is forecast to register a lower surplus of RM170.2 billion in 2023, weighed down by decreasing exports of manufactured, agriculture and mining goods. Meanwhile, the services account is expected to record a smaller deficit of RM41.5 billion, following a turnaround in the travel account and narrowing deficit in the transport account albeit wider deficit in other services accounts. The gradual return to normalcy in many nations post COVID-19 pandemic, including the reopening of China's borders, is projected to have a positive impact on tourism in Malaysia. Consequently, the travel account is expected to register a surplus of RM14.5 billion. The positive impact in the air travel industry will be mainly contributed by the increase in flight frequencies and resumption of direct flight operations. These, in turn, will contribute to domestic companies' higher earnings following competitive air fares and freight charges as well as fees generated from airport and port activities. In addition, the surge in tourist arrivals is anticipated to contribute to a smaller deficit of RM28.7 billion in the transport account. On the other hand, other services account is expected to register a wider deficit of RM27.3 billion following increasing payments for construction, maintenance and repair services as well as financial services.

The primary income account is projected to register a narrower deficit of RM47.1 billion in 2023 owing to a smaller deficit in investment income account albeit higher deficit in compensation of employees. The narrowing deficit in investment income account to RM37.8 billion is attributed to higher investment income earnings, mainly other investment account albeit lower investment income payments, particularly in the direct investment account. Correspondingly, compensation of employees is anticipated to record a wider deficit of RM9.3 billion attributed to a gradual increase in wages. This is also partly due to an increase in the number of foreign professionals in Malaysia following ongoing infrastructure and utilities projects.

Earnings in the secondary income account for the whole year are anticipated to increase to RM35.3 billion following higher remittances by Malaysians working abroad. Nonetheless, payments in the secondary income account are expected to increase to RM54.9 billion, leading to a higher deficit of RM19.6 billion. The increase in payments is due to larger remittances by foreign workers from Bangladesh, India, Indonesia, Nepal and the Philippines following continuous expansion in economic activities and the upward revision of minimum wage.

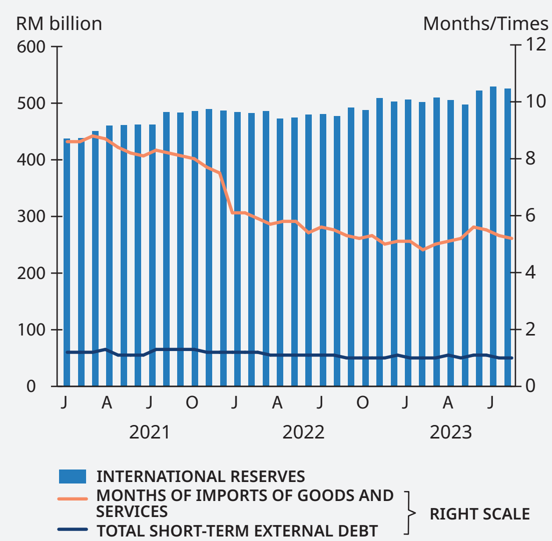
TABLE 2.11. *Current Account of the Balance of Payments, 2022 – 2024 (RM million)*

	2022			2023[1]			2024[2]		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	**1,378,452**	**1,248,820**	**129,632**	**1,272,424**	**1,143,757**	**128,667**	**1,345,773**	**1,206,785**	**138,988**
Goods	1,238,180	1,052,151	186,029	1,078,138	907,968	170,171	1,134,967	960,092	174,876
Services	140,272	196,670	-56,397	194,285	235,789	-41,504	210,806	246,693	-35,888
Transport	25,604	59,649	-34,045	32,298	60,983	-28,685	34,220	62,129	-27,908
Travel	28,370	29,526	-1,156	63,989	49,539	14,450	76,550	53,815	22,735
Other services	86,299	107,495	-21,196	97,998	125,268	-27,269	100,035	130,750	-30,715
Primary income	**88,704**	**148,118**	**-59,414**	**93,005**	**140,124**	**-47,119**	**97,067**	**155,557**	**-58,490**
Compensation of employees	7,124	14,359	-7,235	8,306	17,642	-9,336	8,736	18,968	-10,232
Investment income	81,580	133,759	-52,179	84,699	122,482	-37,783	88,331	136,589	-48,258
Secondary income	**22,765**	**37,885**	**-15,120**	**35,334**	**54,909**	**-19,575**	**37,546**	**55,804**	**-18,258**
Balance on current account	**1,489,921**	**1,434,823**	**55,098**	**1,400,763**	**1,338,791**	**61,972**	**1,480,386**	**1,418,146**	**62,240**
% of GNI			***3.2***			***3.4***			***3.2***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

In the first half of 2023, the financial account registered a net outflow of RM13.9 billion, resulting from a significant drop of net inflows in direct investment and other investment accounts, coupled with wider net outflows in the portfolio investment and financial derivatives accounts. FDI registered a net inflow of RM15.1 billion, channelled mainly to the financial and insurance/takaful activities; information and communication sector; as well as professional, scientific and technical activities. Net outflows of direct investment abroad by Malaysian companies narrowed to RM9.1 billion. The outflows were mainly directed into financial and insurance/takaful activities; electricity, gas, steam and air conditioning supply; as well as transportation and storage sectors.

FIGURE 2.7. *International Reserves*



As at 30 August 2023, Malaysia's international reserves amounted to RM525.5 billion or USD112.2 billion adequate to finance 5.2 months of imports of goods and services and 1.0 times of the total short-term external debt (end-December 2022: RM503.3 billion; USD114.6 billion; 5.2 months; 1.0 times)

Source: Bank Negara Malaysia

FEATURE ARTICLE 2.2

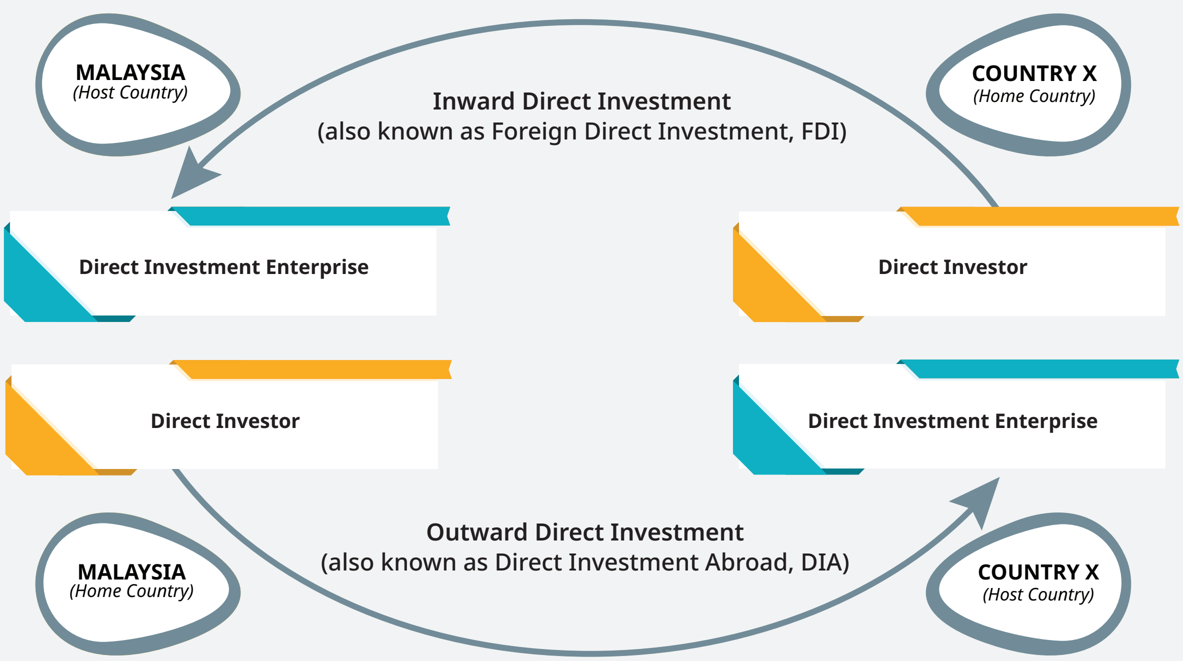
Navigating High-Impact Economic Growth through Direct Investment

Introduction

Direct investment has a pivotal role in facilitating economic growth as it boosts job creation and productivity as well as improves competitiveness. It provides both direct and indirect contributions to economic activity in terms of GDP. The objective of direct investment is to establish a lasting interest that implies a long-term relationship between the direct investor[1] and the direct investment enterprise[2] in another economy. Direct investment is a key element in international economic integration and an important channel for the transfer of technology.

According to directional principle basis, direct investment is shown as either inward or outward in the host economies that refer to the countries in which they are resident, as depicted in Figure 2.2.1. Inward direct investment (hereafter known as FDI) encompasses all liabilities and assets between resident enterprises and the foreign investors. FDI is commonly used to describe investment flows into a specific country and highlighting the inflow of capital and expertise from foreign investors.

FIGURE 2.2.1. *Inward and Outward Direct Investment*

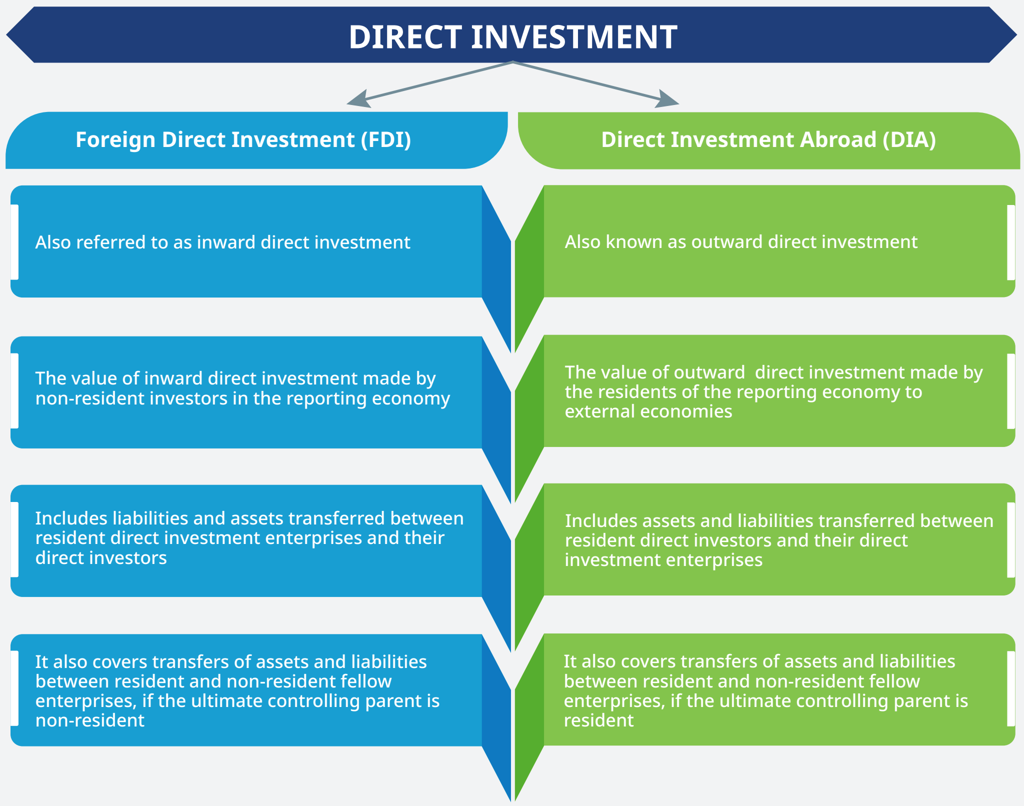


Source: OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition, 2008, Balance of Payments and International Investment Position Manual Sixth Edition (BPM6), 2009 and Ministry of Finance, Malaysia

[1] A direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy.
[2] A direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.

Otherwise, outward direct investment, also known as direct investment abroad (DIA), covers assets and liabilities between resident direct investors and direct investment enterprises. DIA emphasises the outward investment by residents or entities of a country and highlighting their engagement in foreign markets and assets. The summarised characteristics of FDI and DIA are shown in Figure 2.2.2. Both FDI and DIA involve cross-border investment activities with different focus and perspective.

FIGURE 2.2.2. *Characteristics of Foreign Direct Investment and Direct Investment Abroad*



Source: OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition, 2008, Balance of Payments and International Investment Position Manual Sixth Edition (BPM6), 2009 and Ministry of Finance, Malaysia

Malaysia's Investment at a Glance

In accordance with the guidelines provided in the Balance of Payments and International Position Manual by International Monetary Fund (IMF), the transactions for direct investment are recorded in the financial account of the balance of payments. These entries are then translated into a calculation of the GDP and gross national income (GNI). The performance of Malaysia's direct investment recorded net outflows from 2008 to 2015, while from 2016 to 2022, it registered net inflows contributed by higher FDI inflows.

Located in the central region of the ASEAN and on the Asia Pacific Rim, Malaysia remains an attractive destination for investors due to its favourable investment climate, well-developed infrastructure and telecommunications, robust financial and banking services, strong legal framework, skilled labour force as well as diversified market opportunities supported by the

16 ratified free trade agreements (FTAs). Malaysia maintained its strong position globally, ranking the second-highest in Southeast Asia and 14th out of 171 countries in the DHL Global Connectedness Index (GCI) report in 2023 and 27th in the IMD World Competitiveness 2023. Regardless of global headwinds following the COVID-19 pandemic, the rankings by various agencies further reinforced Malaysia's position as a competitive and attractive investment destination.

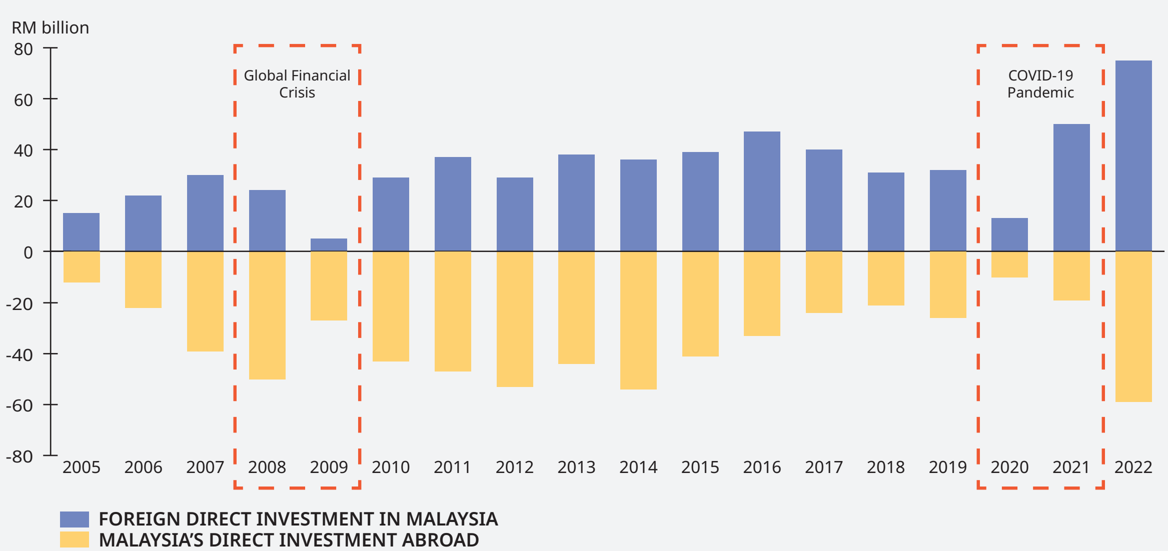
Notwithstanding, the uncertainty in global outlook, financial sector turmoil, high inflation and lingering geopolitical tensions pose as potential challenges to Malaysia. The IMF has forecast the global growth to moderate from 3.5% in 2022 to 3% in 2023 and 2024, while the World Bank projected the global growth to decelerate from 3.1% in 2022 to 2.1% in 2023. The slower-than-expected global growth is affecting the investment landscape holistically as investors become more selective and cautious in business decisions.

Foreign Direct Investment in Malaysia

Many developing countries favour FDI over other forms of capital flows attributed to its resilience towards economic uncertainties. Being a highly open economy, Malaysia is not spared from the impact of challenges arising from various crises. Nevertheless, FDI in Malaysia has proven to be resilient and continued to record net inflows even during the Global Financial Crisis of 2008 – 2009 and the recent COVID-19 pandemic.

Despite recording negative growth during these crises, Malaysia is still able to record net inflows of RM5.1 billion in 2009 and RM13.3 billion in 2020, as depicted in Figure 2.2.3. The net inflows of FDI surged more than threefold in 2021 to RM50.4 billion and registered a historic peak of RM74.6 billion in 2022. The increment was driven by effective policies in placing greater emphasis in promoting FDIs, strong economic recovery and spillover benefit arising from trade diversion. This is attributed to the relocation of MNCs to circumvent the high tariffs as well as a steady growth of high-quality investment, particularly in the manufacturing sector.

FIGURE 2.2.3. *Performance of Foreign Direct Investment in Malaysia and Malaysia's Direct Investment Abroad*

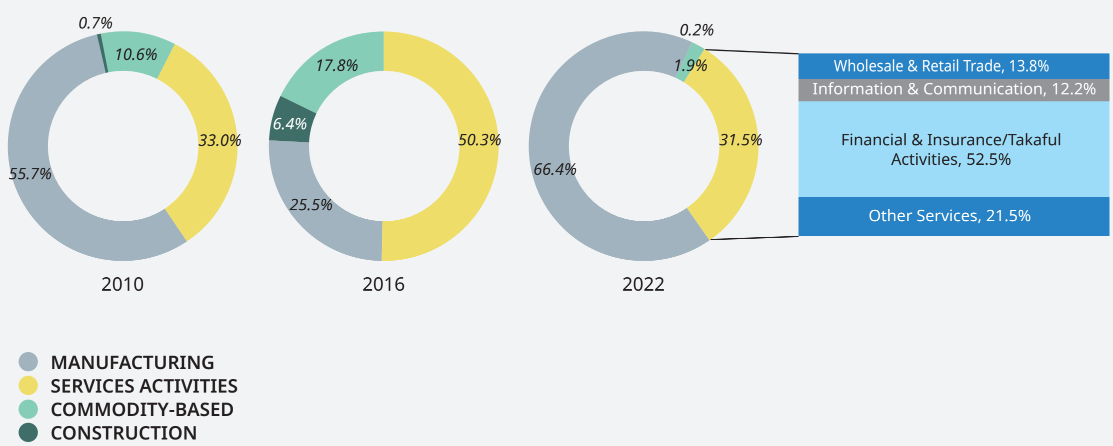


Source: Bank Negara Malaysia and Department of Statistics, Malaysia

FDI can bring many advantages to the host country, particularly in the transfer of advanced technologies, managerial expertise, and best practices from foreign investors. In addition, FDI provides employment opportunities for the local workforce. More than 700,000 employment opportunities or 44.7% of total employment in 2000 to 2022, generated through investment projects under MIDA, were sourced from foreign-owned projects. Of these job creations, about 82% were for locals, mostly in the manufacturing sector (MIDA, 2023). The transfer of knowledge can elevate local industries' technological capabilities, thus increasing local companies' competitiveness on a global scale. Employees' skill development will also be enhanced through on-the-job training, professional development opportunities, and exposure to international work practices, provided by foreign companies. The FDI could also offer access to global distribution networks and contribute to export expansion by utilising local contents and resources as well as producing goods locally to fulfil international demand.

Malaysia has diversified the economy to move up the value chain and reduce dependency on commodities. On a sectoral basis, the focus of FDI has shifted from commodity-based to manufacturing- and services-based sectors, as depicted in Figure 2.2.4. In 2010, the bulk of the FDIs were channelled to the manufacturing sector with 56.7%, followed by the services (33.6%) and commodity-based (11%) sectors. Contribution of the manufacturing and services sectors became more significant in 2022, totalling more than 97% of total FDIs resulting from the strategic change in policy direction towards higher value-added activities and quality investment in these sectors. The evolution in the manufacturing sector from a conventional industrial production process to an inclusive concept also helped in the expansion. Greater emphasis is also given to the development of the services sector as the main engine of growth to propel and sustain the economy.

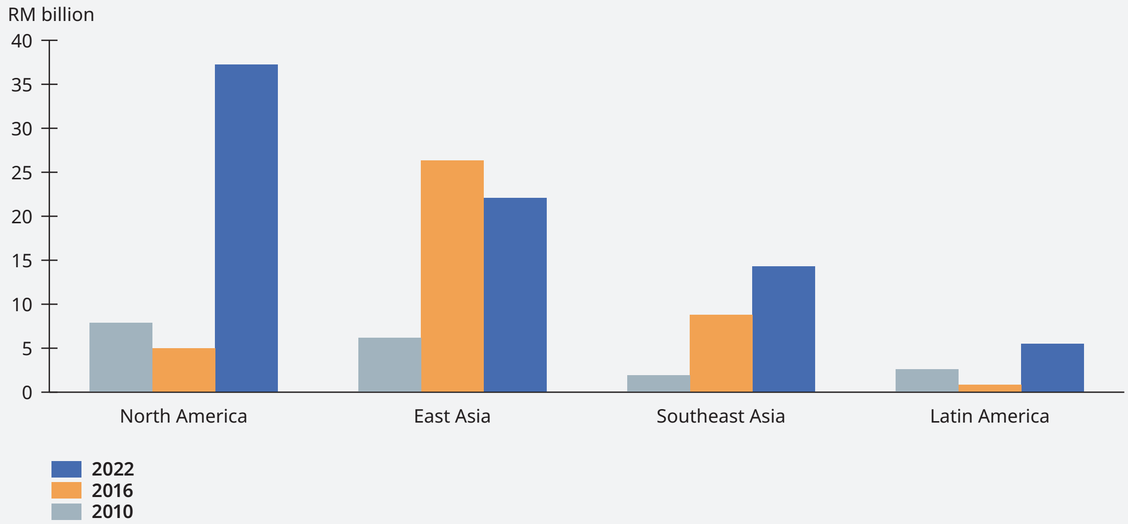
FIGURE 2.2.4. *Performance of Foreign Direct Investment in Malaysia by Sectors (% share)*



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

In terms of the flow of FDI in Malaysia by continent, East Asian countries, particularly Japan and Hong Kong, have invested the most, constituting about 35% of total net FDI from 2010 to 2022 amounting to RM497 billion. In 2022, North America contributed the most FDI with a share of 49.8%, followed by East Asia (29.5%) and Southeast Asia (19%), as shown in Figure 2.2.5. Among the ASEAN peers, Singapore received the highest FDIs of USD1,016 billion for the period of 2010 to 2022, followed by Indonesia (USD239.7 billion), Viet Nam (USD161.5 billion) and Malaysia (USD132.2 billion).

FIGURE 2.2.5. *Foreign Direct Investment in Malaysia by Major Block of Countries*



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Although FDIs offer various advantages to the nation, there are still potential risks that requires Malaysia to exercise caution. These include, among others, overreliance on foreign companies could reduce the sovereign control over strategic sectors. Moreover, profits generated by foreign companies could be repatriated to home countries, thus reducing the economic benefit retained in Malaysia. Another major concern is the uneven playing field between foreign and local businesses that could threaten the development and survival of domestic enterprises.

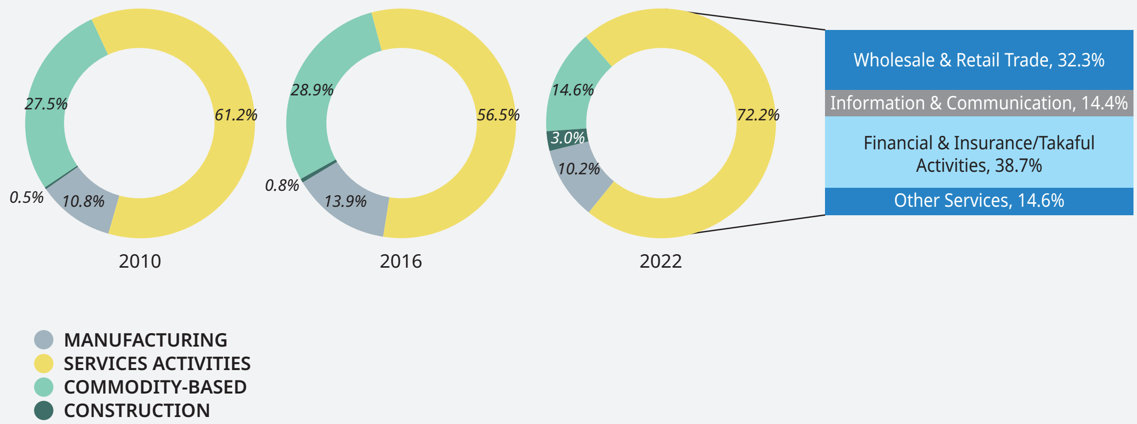
Malaysia's Direct Investment Abroad

Outward direct investment or DIA offers several benefits to investors, including diversification to reduce dependency on a single market and minimise risks associated with economic downturns in the home economy. In addition, companies gain potential benefits from abundant foreign resources such as raw materials, industry experts, advanced technologies as well as market access in the respective region. Investing abroad also exposes companies to international business practices, fostering innovation and increasing global competitiveness.

A notable amount of DIA registered during the pre-pandemic period proved that Malaysian companies are globally competitive with an annual average of RM35.7 billion recorded from 2005 to 2019. However, the depreciation of ringgit posed a challenge to Malaysian companies investing abroad. The unfavourable global economic environment and geopolitical tensions have also impacted the investment landscape globally. These challenges have affected the performance of DIA which trended downward from 2015 to 2018 and dropped sharply in 2020 due to COVID-19 pandemic. Nevertheless, the trend rebounded in 2021 and 2022 following the resumption of economic activities post-pandemic.

From the sectoral perspective, DIA are primarily focused on the services sector, particularly financial and insurance/takaful activities. Investment contribution in the services sector expanded from 61% in 2010 to 72% in 2022, partly attributed to a surge in wholesale and retail trade sector. Meanwhile, the contribution of the commodity-based sector dropped from 27.5% in 2010 to 14.6% in 2022, in tandem with reduced dependency on low value-added activities as well as the evolution in global megatrends, as shown in Figure 2.2.6.

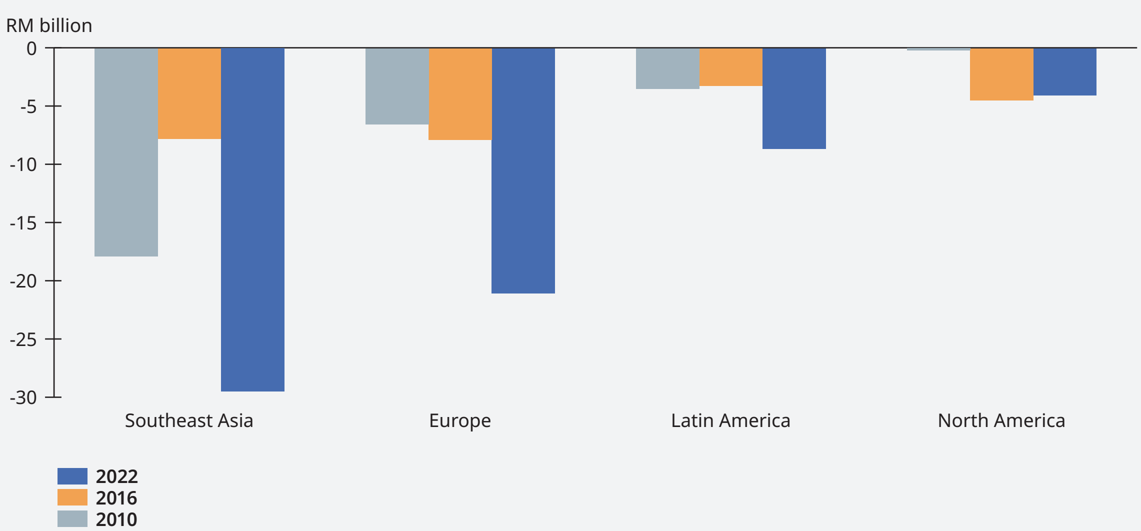
FIGURE 2.2.6. *Malaysia's Direct Investment Abroad by Sectors (% share)*



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Southeast Asia remains the preferred investment destination for Malaysian companies, which accounted for 44% of total DIA in 2010 and expanded to 50% in 2022, as depicted in Figure 2.2.7. Meanwhile, Malaysian companies' investment in Europe has gained traction with a significant increase in share of DIA from 16% in 2010 to 36% in 2022. Similarly, there was an increase in the North American market contribution from 0.5% in 2010 to 6.9% in 2022. Both markets attraction can be attributed to their attractive investment returns.

FIGURE 2.2.7. *Malaysia's Direct Investment Abroad by Major Block of Countries*



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

However, it is important to note the challenges of DIA to Malaysian companies, such as regulatory differences, which could lead to complexities and potential legal issues for companies operating in multiple jurisdictions. In addition, investment abroad is at risk of currency volatility, thus impacting profits and cash flows. The companies are also vulnerable to geopolitical risks, including changes in government policies, trade tensions and political instability.

Moving Forward

As envisaged under the Ekonomi MADANI framework, Malaysia aims to be a leader at the global front, hence efforts shall be focused on increasing its competitiveness and promoting the nation as a prime investment destination. In this regard, a comprehensive investment policy with concerted efforts between government agencies and private sectors will be intensified. At the same time, Malaysian companies should also actively explore new emerging markets and venture into greenfield investments such as ESG-related investment.

Recognising the significant contribution of investment to the economic development, the National Investment Aspirations (NIA) was introduced in 2022 as a key guiding principle for the Malaysia's New Investment Policy (NIP), 2022 – 2027. The New Industrial Master Plan 2030 (NIMP 2030) was recently launched to further boost high quality FDI and DIA. Five key pillars have been outlined in these policy documents to reinvigorate the investment ecosystem, underpinned by the need to enhance the ESG practices across the economy. The key pillars are to increase economic complexity; create high-value job opportunities; extend domestic linkages; develop new and existing clusters; and improve inclusivity.

Conclusion

FDI and DIA play a significant role in shaping Malaysia's economic landscape. FDI has been a driving force behind Malaysia's economic growth and industrialisation. DIA, on the other hand, reflects the expansion of Malaysian businesses globally. Thus, it is crucial for Malaysia to adopt balanced and strategic approaches to FDI and DIA that encourage high-quality and high-value investments, while simultaneously, transfer valuable knowledge and resources to further accelerate economic growth and expedite the transition into an advanced economy.

Prices

Headline inflation continues to moderate

The **Consumer Price Index (CPI)** grew by 2.8% from January to August 2023, attributed to moderating trend in global commodity prices; easing supply-related disruptions; existing price controls and provision of subsidies for selected items; as well as the lagged impact from the normalisation of OPR. Inflation is expected to moderate in the remaining months, while core inflation is expected to remain elevated relative to the long-term average. For the year, inflation is estimated to range between 2.5% to 3%.

The **Producer Price Index (PPI)** by local production decreased by 2.4% during the first eight months of 2023, attributed to moderate global commodity prices, particularly crude oil. Within specific sectors, the contraction in PPI was predominantly driven by a significant decrease in agriculture, forestry and fishing (19.4%) as well as mining (8.4%) sectors. The PPI is expected to contract between -2.5% to -0.5% in 2023, given lower global input cost.

TABLE 2.12. *Consumer Price Index, January – August 2022 and 2023 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2022	2023	2022	2023
CPI	**100.0**	***3.1***	***2.8***	***3.10***	***2.80***
Food and non-alcoholic beverages	29.5	*5.1*	*5.7*	*1.50*	*1.69*
Alcoholic beverages and tobacco	2.4	*0.5*	*0.6*	*0.01*	*0.02*
Clothing and footwear	3.2	*0.0*	*0.3*	*0.00*	*0.01*
Housing, water, electricity, gas and other fuels	23.8	*1.7*	*1.7*	*0.40*	*0.41*
Furnishings, household equipment and routine household maintenance	4.1	*3.3*	*2.7*	*0.14*	*0.11*
Health	1.9	*0.5*	*2.0*	*0.01*	*0.04*
Transport	14.6	*4.5*	*1.6*	*0.66*	*0.23*
Communication	4.8	*0.0*	*-2.6*	*0.00*	*-0.12*
Recreation services and culture	4.8	*1.8*	*1.7*	*0.09*	*0.08*
Education	1.3	*1.0*	*1.8*	*0.01*	*0.02*
Restaurants and hotels	2.9	*4.0*	*6.2*	*0.12*	*0.18*
Miscellaneous goods and services	6.7	*1.8*	*2.4*	*0.12*	*0.16*

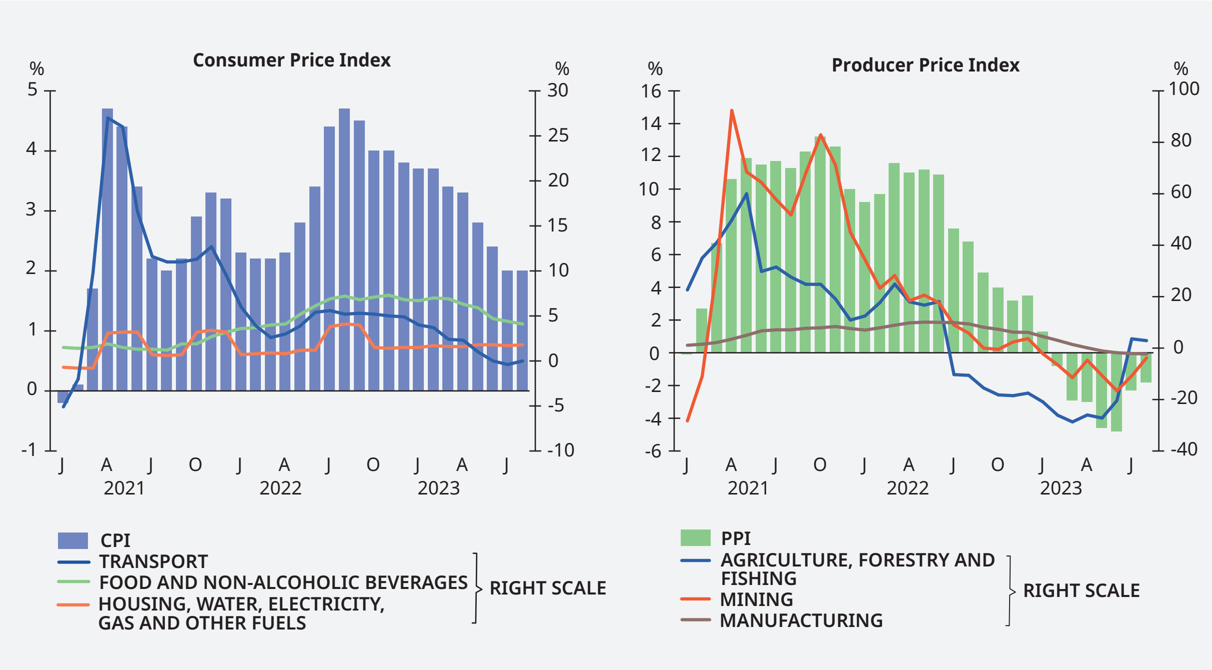
[1] Based on Household Income and Expenditure Survey 2016
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

TABLE 2.13. *Producer Price Index, January – August 2022 and 2023 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2022	2023	2022	2023
PPI	**100.000**	***9.7***	***-2.4***	***9.700***	***-2.400***
Agriculture, forestry and fishing	6.730	*11.0*	*-19.4*	*0.740*	*-1.306*
Mining	7.927	*18.8*	*-8.4*	*1.490*	*-0.666*
Manufacturing	81.571	*9.2*	*0.2*	*7.505*	*0.163*
Electricity and gas supply	3.442	*0.4*	*0.8*	*0.014*	*0.028*
Water supply	0.330	*1.8*	*3.2*	*0.006*	*0.011*
Producer Price Index by stage of processing	**100.000**	***9.7***	***-2.4***	***9.700***	***-2.400***
Crude materials for further processing	16.410	*13.7*	*-14.8*	*2.248*	*-2.429*
Intermediate materials, supplies and components	56.119	*12.2*	*-0.2*	*6.847*	*-0.112*
Finished goods	27.471	*1.1*	*3.6*	*0.302*	*0.989*

[1] Based on Economic Census 2016
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

FIGURE 2.8. *Consumer Price Index and Producer Price Index Trends (% change)*



Source: Department of Statistics, Malaysia

Labour Market

Strong improvement in labour market

Recovery in the labour market remained strong in the first half of 2023 in tandem with stable economic growth driven by the encouraging domestic demand. Thus, aggregate demand for labour increased, creating more job opportunities in the market. The labour force increased by 2.7% to record 16.3 million persons, resulting in a significant rise in the labour force participation rate to 69.9%. Similarly, total **employment** also registered a higher growth of 3.4% to record 15.7 million employed persons. These improvements have led to a substantial reduction in the unemployed persons to 569,400, with the **unemployment rate** of 3.5%, indicating the trend of the labour market is returning to the pre-pandemic level. The services (65.3%) and manufacturing (16.8%) sectors remained as the main source of employment opportunities in the economy.

Other labour market indicators also continued to progress positively during the same period. **Job placements** increased by 58% to over 72,000 signifying more job seekers managed to secure new jobs while the number of **retrenchments** remained low at 21,371 persons as businesses are retaining adequate talents to support encouraging business operations. Meanwhile, the number of **vacancies** registered as at end-June 2023 were over 164,000 positions, mostly in semi- and low-skilled occupations. However, the number of **job seekers** declined by 18% to record around 52,000 persons. This may indicate that more people are more interested in self-employment as the main source of income as opposed to standard paid employment.

The labour market is expected to sustain the improving growth momentum in the second half of 2023, backed by continuous enhancements in the domestic economy. Thus, the overall unemployment rate in 2023 is expected to record around 3.5% while employment increasing by 2.6% to register 15.8 million persons. The services sector remains as the major source of employment with a share of 65.1%, mainly in the wholesale retail and trade, as well as accommodation and food and beverages subsectors. The manufacturing sector is expected to provide 16.7% of total employment, particularly in the E&E as well as food and beverages industries, while the agriculture sector accounting for 10%, especially in the oil palm industry.

TABLE 2.14. *Labour Market Indicators*

	('000)			CHANGE (%)		
	H1[1]	2023[2]	2024[3]	H1[1]	2023[2]	2024[3]
Labour force	16,312.3	16,358.6	16,669.4	*2.7*	*2.1*	*1.9*
Employment	15,743.0	15,784.2	16,099.9	*3.4*	*2.6*	*2.0*
Unemployment	569.4	574.4	569.5	*(3.5)*	*(3.5)*	*(3.4)*

[1] January to June 2023
[2] Estimate
[3] Forecast
Note: Figures in parentheses refer to unemployment rate
Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 2.15. *Employed Persons by Sector*

	('000)			SHARE (%)		
	H1[2]	2023[3]	2024[4]	H1[2]	2023[3]	2024[4]
Agriculture, forestry and fishing	1,555.8	1,574.7	1,603.0	*9.9*	*10.0*	*10.0*
Mining and quarrying	84.9	84.9	85.5	*0.5*	*0.5*	*0.5*
Manufacturing	2,644.1	2,642.5	2,690.9	*16.8*	*16.7*	*16.7*
Construction	1,185.3	1,196.8	1,212.4	*7.5*	*7.6*	*7.5*
Services	10,272.8	10,283.3	10,506.4	*65.3*	*65.1*	*65.3*
Total[1]	**15,743.0**	**15,784.2**	**16,099.9**	***100.0***	***100.0***	***100.0***

[1] Total includes 'Activities of extraterritorial organisations and bodies'
[2] January to June 2023
[3] Estimate
[4] Forecast
Source: Department of Statistics and Ministry of Finance, Malaysia

As at end-August 2023, the number of registered low-skilled **foreign workers** increased by 43.1% to 1.8 million persons compared to 1.2 million persons in the same period last year partly attributed to the temporary implementation of a relaxation programme during the first quarter of the year. The programme aimed to expedite the approval process of low-skilled foreign workers recruitment into Malaysia in meeting the labour requirement from all economic sectors, particularly in plantation and construction sectors. The total foreign workers were sourced mainly from Bangladesh (32.1%), Indonesia (24.7%) and Nepal (19.6%). The manufacturing sector employed the highest number of foreign workers with a share of 35.1%, followed by construction (22.3%) and services (16.4%) sectors. Nevertheless, the hiring of low-skilled foreign workers was kept within the threshold of below 15% from the total employment in line with current policy to reduce economic reliance on migrant workers. Likewise, the number of **expatriates** increased by 20.7% to register 106,788 persons, which is partly due to the relaxation of migrant workers mobility. Majority of expatriates were from China (22%), India (19.8%) and Japan (7.5%). Expatriates were mainly employed in the services (51.3%), information technology (37.1%) and construction (7.6%) sectors.

Labour productivity improved by 1.2% to RM47,124 in the first half of 2023, cushioned by productivity improvements in the construction and services sectors, particularly in transportation and storage as well as real estate and business services subsectors, despite marginal contractions in agriculture, manufacturing and mining sectors. Overall, labour productivity is expected to improve by 1.4% to RM97,200 in 2023, following continuous productivity gains expected in construction (6.3%) and services (2.2%) sectors.

In 2022, the average monthly **salaries and wages** received by paid employees[1] increased by 5.8% to RM3,212 per employee. The increment was partly due to the revision of the monthly minimum wage from RM1,200 to RM1,500, which came into effect on 1 May 2022. All industries recorded a positive wage growth, particularly in tourism-related industries as well as other service activities. Further improvement in productivity and employment opportunities is expected to increase the overall salaries and wages by 4.4% to RM3,355 in 2023.

Outlook For 2024

Global Outlook

Modest growth prospect

The **global economy** is projected to grow by 3% as a result of moderate growth in both advanced economies and EMDEs. Advanced economies' growth is expected to moderate further to 1.4%, which will continue to weigh down the global growth. The US's GDP is anticipated to grow at a slower pace by 1% amid continuous monetary policy tightening. Meanwhile, growth in the euro area is expected to expand slightly to 1.5% supported by stronger services and tourism activities. The EMDEs' growth is projected to expand by 4.1% with China's economy is forecast to moderate to 4.5%, underpinned by continuous lower investment and bearish labour market. Meanwhile, the economy of India is expected to grow by 6.3%, mainly contributed by continuous domestic investment. The ASEAN-5's growth is forecast to moderate to 4.5%.

Global trade is projected to improve to 3.7% following uptrend trade activities in advanced economies and EMDEs, which are expected to grow by 3.2% and 4.5%, respectively. Both exports and imports in advanced economies are expected to grow by 3.1% and 2.7%, respectively. Likewise, exports grow by 4.3% and imports by 5.1% for EMDEs.

Underpinned by the expected further tightening of monetary policies, **global inflation** is forecast at 5.2%, with advanced economies projected at 2.8% and EMDEs at 6.8%. These are also supported by improvements in global supply chain as well as easing of energy and food prices.

Domestic Outlook

Sectoral

Services Sector

Spearheading growth for resilient economy

The **services** sector is forecast to increase by 5.6% in 2024 driven by expansion in all subsectors. In addition, vibrant tourism-related activities as well as continuous consumer spending are expected to further spur the growth of the sector.

The wholesale and retail trade subsector will remain as the key contributor to the services sector with the expected growth of 5.6%. The growth will be driven by the expansion in retail segment through wider automation, e-commerce and omnichannel shopping experience, which enable seamless physical and online interactions. The motor vehicles segment is also anticipated to expand with the introduction of environmentally-friendly models

[1] Refer to Malaysian citizens.

featuring advanced technology, particularly EV and hybrid vehicles within the lower price range.

The real estate and business services subsector is poised to grow by 5.4% attributed to sustained demand for professional services, particularly in the field of engineering following vigorous construction activities. In addition, the real estate segment is projected to improve owing to the increase in non-residential and residential property transactions. Meanwhile, the information and communication subsector is expected to expand by 6.5%, primarily underpinned by telecommunication segment following fast rollout of 5G coverage and the adoption of a dual network model. The performance of the subsector will also benefit from the increasing demand for high-speed connectivity, particularly through the adoption of satellite internet technology in rural and remote areas. Likewise, the digital-based services are anticipated to spur the subsector's growth following streaming coverage of major events such as the 2024 UEFA European Football Championship (UEFA Euro 2024) and the 2024 Olympic Games; adoption of cloud solutions and services; and the uptick in social commerce activities.

The transportation and storage subsector is forecast to grow by 7.4%, supported by all segments following the expansion in rail, highway, port and airport activities as well as buoyant external demand. The land transport segment is anticipated to increase propelled by improvement in frequencies of rail services as well as higher traffic volume at all main highways. Likewise, the air transport segment is projected to rise following higher passenger traffic induced by competitive airfares as airlines increasing their capacity and flight frequencies. Meanwhile, the water transport segment is expected to remain steady backed by the expansion in cargo and container handling capacity. Furthermore, the commencement of Malaysia Maritime Single Window, a unified digital platform by the end of 2023 is expected to enhance port's competitiveness and further facilitate shipping services. The platform serves as a one-stop portal for single submission of documents related to maritime regulatory and port services.

The food & beverages and accommodation subsector is poised to grow by 7.9%, attributed to the steady rise in tourist arrivals that will drive the hospitality industry, surpassing the pre-pandemic level. The tourism industry will benefit from the provision and upgrading of tourism facilities as well as the adoption of digital platforms for promotional activities. In addition, 2024 visit state year programmes in Melaka, Perak and Perlis are expected to contribute to the subsector's growth.

The finance and insurance subsector is projected to rebound by 4.3%, driven by resilient economic and investment activities and greater clarity in economic policy and direction, following the implementation of NETR, NIMP 2030 and Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan). These endeavours, as well as the increasing digitalisation of financial services, will induce the demand for financing, mortgages and loan facilities. The insurance segment is projected to rebound, supported by strong capital and adequate liquidity. Nonetheless, net claims are expected to remain elevated due to rising medical costs and sustained demand for medical treatment services.

The utilities subsector is forecast to rise by 5.3%, driven by the increasing demand for electricity usage, particularly industrial, commercial and domestic segments. Energy consumption in the industrial segment is expected to moderate as compared to commercial and domestic segments due to energy efficiency initiatives and the increase in self-generating energy sources in the industrial segment, including rooftop solar. Nevertheless, the increasing demand for vehicle charging infrastructure, targeted at 10,000 EV charging bays by 2025 supported by the expectation of high EV sales, will boost electricity consumption.

The other services subsector is projected to rise by 5%, driven by private health and education segments. The Malaysia Healthcare Travel Council (MHTC) will engage in reinvigorating the Malaysian healthcare industry in an effort to establish a larger market base, especially in targeted markets such as China, India and Indonesia. In 2024, MHTC estimates that the healthcare tourism industry's revenue trajectory will be restored to its pre-pandemic level at RM1.7 billion. Meanwhile, Malaysia will continue to draw in students from abroad through continuous promotional efforts by the Education Malaysia offices and the Education Malaysia Global Services, along with local universities. These include implementing high-impact programmes to promote the Education Malaysia brand overseas, namely Edutourism; Meet and Greet with International Students in Malaysia; and the International Higher Education Seminar. Correspondingly, the government services subsector is forecast to record a growth of 4.7% in 2024.

Manufacturing Sector

Export-oriented industries gain traction

The **manufacturing** sector is forecast to expand by 4.2% in 2024 driven by better performance in both export- and domestic-oriented industries. The export-oriented industries are expected to benefit from the recovery of external demand with E&E segment projected to surge, primarily driven by memory products. This is in line with the rebound in demand for technologically advanced products. Similarly, domestic-oriented industries are anticipated to grow steadily backed by higher output in transport- and construction-related segments, in tandem with better consumer spending and business activities. In addition, the implementation of initiatives under the Chemical Industry Roadmap 2030, NETR and NIMP 2030 will further strengthen the sector's growth.

Agriculture Sector

Expansionary trend continues

The **agriculture** sector is expected to grow by 1.2% in 2024 driven by expansion in most subsectors, particularly oil palm, other agriculture and livestock. With the anticipation of minimal impact from the El Niño phenomenon and labour conditions returning to pre-pandemic level, the oil palm production is projected to increase, contributing to the subsector's growth. Furthermore, increased matured area especially in Peninsular Malaysia and higher oil extraction rate arising from more frequent harvesting rounds are also expected to support the subsector's growth. The CPO price is forecast to average within the range of RM4,000 and RM4,500 per tonne in 2024 (2023: RM3,500 – RM4,000 per tonne), partly attributed to anticipation of low output from other vegetable oils and higher demand for CPO from major importing countries. The other agriculture and livestock subsectors are anticipated to expand further, driven by concerted efforts to strengthen food security and modernise the agriculture sector. In addition, the rubber subsector is expected to gain traction on account of better labour supply as well as more tapping activities by smallholders following Government's initiatives to increase income.

Mining Sector

Poised for expansion

The **mining** sector is forecast to rebound by 2.7% in 2024 driven by remarkable performance in natural gas as well as crude oil and condensate subsectors. Anticipation of first natural gas production from new gas field development projects such as Gansar, Jerun and Kasawari as well as higher production from the existing gas fields are estimated to boost the growth of the natural gas subsector. In addition, the mining sector is also expected to benefit from higher production of crude oil and condensate, especially in Peninsular

Malaysia and Sarawak. In terms of prices, the Brent crude oil is projected to average at USD85 per barrel on anticipation of higher demand given the positive global outlook for the year. However, changes in world production and consumption could significantly alter the oil prices forecast.

Construction Sector

Growth remains robust

The **construction** sector is forecast to increase by 6.8% in 2024 following better performance in all subsectors. Civil engineering subsector continues to be bolstered by strategic infrastructure and utilities projects which include ongoing projects such as the Central Spine Road (CSR), the Pan Borneo Sabah Highway and acceleration of projects under the Twelfth Malaysia Plan, 2021 – 2025 (Twelfth Plan). Furthermore, a new solar power plant project under the Corporate Green Power Programme will support the subsector's growth. The implementation of NIMP 2030 is expected to further strengthen the performance of non-residential buildings subsector as the Plan will provide a platform to attract more investments into the country. In addition, the residential buildings subsector is projected to improve further in line with the Government's effort to increase more affordable houses as outlined under the MTR of the Twelfth Plan and the MADANI Neighbourhood scheme, as well as new launching by the private sector.

Domestic Demand

Continuous expansion in private sector expenditure

Domestic demand is forecast to expand by 5.3% in 2024. Private sector expenditure continues to lead economic activities with a growth of 5.6%, contributing 4.3 percentage points to GDP growth. Meanwhile, public sector expenditure is estimated to increase by 4.1% with a contribution of 0.7 percentage points to GDP growth.

Private consumption is expected to increase by 5.7% owing to continued improvement in the labour market as well as stronger domestic economic and social activities. In addition, Government initiatives, including cash transfers to targeted groups are envisaged to support household spending. Major events such as the UEFA Euro 2024 and the 2024 Olympic Games; as well as the growing social commerce trend are also expected to boost private consumption in 2024.

Private investment is likely to register a growth of 5.4%, in tandem with more favourable business sentiments and improved external environment. As such, the private sector is expected to intensify its efforts to inject additional capital outlays in the economy. In addition, private investment will continue to benefit from the realisation of approved investments by MIDA, mainly in the E&E, transport equipment, as well as information and communications subsectors. It is also envisaged that investors will respond positively to the Government's strategies and measures in attracting high-tech and high-value investments such as those outlined under the NETR and NIMP 2030.

Public investment is projected to increase by 8.3% in 2024, supported by higher Federal Government's DE and non-financial public corporations expenditure. In addition, DE allocation will be channelled mainly to social and economic sectors in tandem with objectives outlined in the MTR of the Twelfth Plan. The continuation of transport-related projects such as CSR, ECRL and Rapid Transit System Link as well as acceleration of refurbishments of dilapidated schools and clinics in rural areas will also generate the momentum for the public investment growth trajectory. Strategic projects that are expected to commence in 2024 include the flood mitigation projects as well as expansion of Samajaya High-Tech Park in Sarawak and Tok Bali Industrial Park in Kelantan. Meanwhile, **public consumption** is expected to grow by 2.6%, driven by higher spending in supplies and services to improve the public service delivery, coupled with the effort to spend more effectively and efficiently.

In line with the expansion in domestic economic activities, the GNI at current prices is expected to increase by 6.2% in 2024. Similarly, the GNS is anticipated to expand by 2.9% to RM471.8 billion, with total investment envisaged to increase by 3.3% to RM409.6 billion. The share of GNS is projected to remain significant at 24.6% of GNI. The **savings-investment gap** is expected to remain in surplus at RM62.2 billion or 3.2% of GNI. This provides sufficient liquidity in the financial system, which can be mobilised to finance long-term investments in the country.

Income

The need for structural reform to support higher income

An encouraging economic growth anticipated in 2024 will stimulate higher income prospects for the workforce. Existing initiatives will be intensified by adopting advanced technology in production activities, improving productivity through retraining and upskilling as well as reducing reliance on low-skilled foreign workers. Hence, the share of CE of GDP is projected to improve to 33.1% in 2024. Nevertheless, the share is still relatively low compared to other advanced economies and the CE target of 40% in 2025. Thus, transformation from a low-wage labour market structure to a decent wage standard is vital in achieving a more equitable distribution of economic growth between employees and capital owners. Employers must also consider paying higher wages as a source of growth, which would not only alleviate the prolonged structural issues in the labour market, but could also contribute to a higher business growth.

The share of GOS of GDP is forecast to decline to 63.8% in 2024, with capital owners continue to receive a sizable share of GOS. Meanwhile, mixed-income for the self-employed or independent entrepreneurs is expected to improve by 8.9% as the rising demand for gig works will create more earning prospects for this group. Efforts to enhance social protection among all self-employed workers, including those in the informal sector may also attract more participation from youth to choose self-employment as the main source of income. As a result, the share of mixed-income to GDP is projected to rise to 15.5%.

The indirect tax and non-tax revenue on production and imports is projected to expand further at 4.5% in 2024 in tandem with the continued efforts to increase revenue collection and strategies to implement a wider tax base. Meanwhile, expenditure for subsidies and incentives is expected to decrease by 24.8% in line with the Government's move to rationalise subsidies and implement a more targeted assistance. Thus, income from net taxes on production and imports is projected to contribute 3.1% to GDP.

External Sector

Recovery in external demand to invigorate trade

In 2024, **gross exports** are anticipated to grow by 5.1% across all sectors, supported by better performance in global trade and improved prospects in commodity sector. Furthermore, the growth is partly attributed to the ratification of trade agreements, namely the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), that will enable Malaysian products to further penetrate into wider markets.

Exports of manufactured goods are projected to rebound by 5.5% resulting from rising demand for both E&E and non-E&E products, constituting 48.1% and 51.9%, respectively. The E&E products are forecast to grow by 4.9% bolstered by the steady demand for semiconductor, following the upcycle trend in E&E. The projected growth is also in tandem with the implementation of the NIMP 2030 that will propel high-impact sectors such as E&E and aerospace. Similarly, exports of non-E&E are estimated to expand by 6.1% following increasing demand, particularly for petroleum products, chemicals and chemical products as well as manufactures of metal.

Exports of agriculture goods are forecast to expand by 1.7%, supported by a higher demand for palm oil and palm oil based agriculture products amid anticipated minimal impact from the El Niño phenomenon. Furthermore, export earnings from mining goods are estimated to increase by 2.9% contributed by stronger demand from major markets, particularly for LNG (3.2%) and crude petroleum (2.8%), as well as favourable global energy prices.

Gross imports are expected to increase by 4.9% in 2024 buoyed by higher demand for intermediate, capital and consumption goods. Imports of intermediate goods are anticipated to grow by 5.2%, mainly attributed to the expansion in construction sector fuelled by strategic infrastructure and utilities projects as well as acceleration in the implementation of projects under the Twelfth Plan. Furthermore, imports of capital goods are projected to expand by 5.1% in tandem with favourable investment activities. In addition, imports of consumption goods are anticipated to rise by 4.1%, driven by food and beverages.

The **current account balance** is expected to register a surplus of RM62.2 billion or 3.2% of GNI in 2024, on the back of continuous improvement in economic activities. The goods account is projected to record a surplus of RM174.9 billion following better growth prospect in major trading partners. Higher earnings in the transport, travel and other services accounts are anticipated to narrow the deficit in services account to RM35.9 billion. Receipts from transport account are projected to rise to RM34.2 billion, bolstered by higher earnings from air travel and cargo handling services provided by domestic companies. However, the continued reliance on foreign transport services is anticipated to result in an increase in payments for transport account, reaching RM62.1 billion, amid robust trade activities.

Earnings in the travel account is expected to improve to RM76.6 billion attributed to thriving tourism activities in 2024 following higher tourist arrivals and per capita spending. Similarly, payments in travel account are anticipated to increase to RM53.8 billion due to residents' spending abroad for business, education and pilgrimage travelling activities. Meanwhile, with the ongoing implementation of strategic projects and stronger economic activities following expansion in the services, manufacturing and construction sectors, the other services account is expected to register a wider deficit of RM30.7 billion due to higher payments.

The primary income account is projected to record a wider deficit of RM58.5 billion owing to higher payments by foreign investors in tandem with the ongoing investment activities. Additionally, the continuous adoption of advanced technology, including artificial intelligence, cloud computing, digitalisation and automation is expected to increase the compensation for foreign professionals, thus contributing to the higher deficit. Similarly, the secondary income account is anticipated to register net outflows of RM18.3 billion mainly due to higher remittances by foreign workers.

Prices

Projected to remain manageable

The inflation rate is forecast to range between 2.1% to 3.6% in 2024, partly attributed to a gradual shift towards targeted subsidy mechanism in ensuring a more equitable distribution of resources. Additionally, potential risks to the inflation outlook remain subject to the fluctuations in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties and climatic conditions. Meanwhile, the PPI is expected to be higher in 2024 between 0.1% to 2.1% in tandem with diminishing base effect and better production activities.

Labour Market

A more promising employment prospect

Anticipation of better economic growth prospects in 2024, attributed to a stable domestic and external economy, will stimulate stronger labour demand and spur a more solid growth in employment opportunities. Efforts to uplift the wellbeing of the workforce and attract higher participation into the labour market, as outlined in the Ekonomi MADANI framework, will be carried out. These include strengthening skills training programmes to be more demand-driven, providing a more conducive working environment for women and expanding the social protection coverage for all workers. As a result, the unemployment rate in 2024 is anticipated to return to the pre-pandemic level at 3.4%. The total employment is projected to expand by 2% to reach 16.1 million persons with more than 80% of employment opportunities continue to be provided by the services and manufacturing sectors.

The number of low-skilled foreign workers and expatriates is expected to increase in 2024 as a result of strategies to facilitate the supply of sufficient workers in meeting industries' requirement. Nevertheless, the Government will continue to encourage productivity improvements through automation and digitalisation, mainly in labour-intensive industries. Efforts will also be taken to expedite the implementation of a multi-tiered levy system as well as encourage employers to give more employment opportunities for locals to reduce the reliance on migrant workers.

Labour productivity is projected to expand further by 2.9% to RM99,900 in 2024, mainly contributed by the services sector, following robust activities in tourism-related industries. Strengthening the implementation of talent skills enhancement programmes and strategies to shift industrial structure towards technology-driven will also contribute to the improvement in labour productivity.

Similarly, average monthly salaries and wages are anticipated to grow by 4.7% to RM3,514 in 2024, in line with the progression in labour productivity and favourable economic growth. Initiatives to transform the wage ecosystem and foster employers to perceive higher wages as a source of growth will also contribute to higher salaries and wages. Strategies outlined in the MTR of the Twelfth Plan and NIMP 2030 to create high-value job opportunities and accelerate industries' technology adoption will contribute to higher CE in 2024, thus positioning the economy on track to realising the target of CE at 45% of GDP in the long-term.

Conclusion

The global economy is anticipated to moderate in 2023 and 2024 due to various downside risks, including weaker-than-expected global demand; tighter global financial conditions; worsening trade tensions between major economies; mounting geopolitical uncertainty; and a further rise in protectionist measures. World trade is projected to moderate in 2023 in line with weaker global demand. However, world trade is expected to strengthen in 2024 in tandem with improved trade activities. As an open economy, Malaysia is not spared from external developments. Thus, the GDP is expected to moderate in 2023. Nonetheless, the economy is expected to strengthen in 2024 supported by expansion in all sectors and better prospect in global trade.

Efforts will be intensified to strengthen Malaysia's agility in keeping pace with the fast-changing environment, which requires a paradigm shift and innovation culture to enhance economic growth. The continuation of strategic projects, digitalisation, improved productivity and advanced manufacturing will further stimulate the growth of the economy in the medium term. All economic sectors are expected to benefit from the recent policies such as NETR, NIMP 2030 and MTR of the Twelfth Plan, which are in tandem with the Ekonomi MADANI framework. Looking ahead, effective implementation of these policies will further enhance economic growth and resilience as Malaysia navigates through the challenging global landscape.

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