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Global Economics & Market Strategy

Malaysia: Key Findings from BNM Sasana Symposium 2024

- **We attended the Bank Negara Malaysia's (BNM) Sasana Symposium 2024 on 12-13 June 2024.**
- **We inferred three key findings from the conference, specifically (1) a robust outlook on Malaysia's GDP growth and MYR for 2024, (2) the structural reforms would focus few key areas such as fiscal sustainability, social protection enhancement and quality investment promotion, and (3) inflation rate will remain aligned with the official inflation target between 2% and 3.5% for 2024.**
- **Based on current development and available information, we maintain our in-house GDP and inflation forecast for 2024 at 4.6% YoY and 3.3% YoY, respectively. The discussions and remarks by the officials have further reinforced our in-house view of a more optimistic view of Malaysia's economic outlook.**

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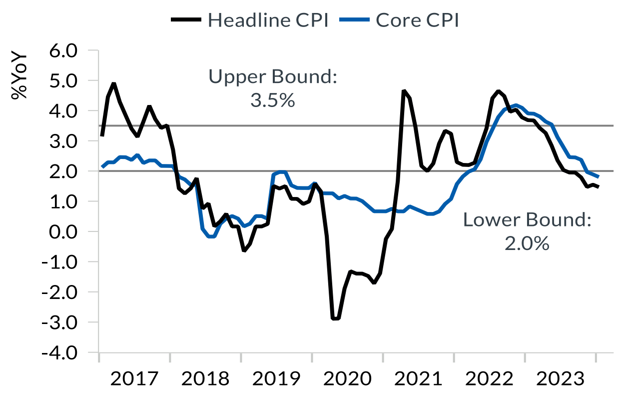
Figure 1: Malaysia's economy to expand by 4.0-5.0% in 2024, underpinned by rebound in exports and resilient consumption

	Actual	BNM	MOF	RHB
(%YoY)	**2023**	**2024F**		
Consumption				
Private	4,7	5.7	5.7	5.8
Public	3.9	3.2	2.6	3.3
Investment	5.5	6.2	6.1	6.0
Export	-7.9	4.0	4.1	4.7
Import	-7.6	4.1	3.9	4.9
GDP	**3.7**	**4.0-5.0**	**4.0-5.0**	**4.6**

Source: BNM, MOF, RHB Economics & Market Strategy.

Figure 2: BNM is likely to stay pat at 3.0% if the headline inflation fall within the projected range



Source: BNM, Macrobond, RHB Economics & Market Strategy.

Structural Reforms would Focus on Fiscal, Social and Economic Resilience

We attended the Bank Negara Malaysia's (BNM) Sasana Symposium 2024 on 12-13 June 2024. In essence, we inferred three key findings from the conference, specifically (1) a robust outlook on Malaysia's GDP growth and MYR for 2024, (2) the structural reforms would focus few key areas such as fiscal sustainability, social protection enhancement and quality investment promotion, and (3) inflation rate will remain aligned with the official inflation target of between 2% and 3.5% for 2024. Based on current developments and available information, we maintain our in-house GDP and inflation forecast for 2024 at 4.6% YoY and 3.3% YoY, respectively. The discussions and remarks by the officials have further reinforced our in-house view of a more optimistic view of Malaysia's economic outlook.

In the panel session on Ringgit, Bonds and the Equity Market, it was highlighted that MYR is expected to strengthen, as the prospects for the Federal Reserve (Fed) to reduce the Federal Funds Rate (FFR) is there by end-2024. In the meantime, the central bank is actively engaging with the corporates to repatriate foreign currency funds and attract fund flows into the market to stabilise the MYR. Robust economic prospect is anticipated for 2024 as Malaysia's GDP is projected to expand by 4%-5% this year. The export recovery is expected to gather momentum, supported by the global technology upcycle and continued strength in non-electrical and electronics goods. Tourist arrivals and spending are also poised to rise further. On the domestic front, continued employment and wage growth support household spending. The ongoing progress of multi-year private and public projects, catalytic initiatives under the national master plans, and the higher realisation of approved investments would support investment activity. Meanwhile, the Employees Provident Fund's (EPF) domestic investments, which account for 62% of its total assets (mainly invested in Fixed Income instruments), would continue to provide long-term income stability through interests and profits.

In the panel session of Weathering Global Challenges: Buffers Against External Vulnerabilities, it was mentioned that macroeconomic factors such as (1) floating exchange rate regime, (2) trade diversification, (3) well-capitalised financial sector and (4) manageable external debt level have sheltered Malaysia's economy from global uncertainties amid geopolitical tensions and tightening monetary policy environment. A flexible exchange rate regime has benefitted the Malaysian economy in several would act as a shock absorber when Malaysia faces external shocks, where the MYR would adjust in response to global economic changes, helping to cushion the economy. In addition, the flexible exchange rate regime supports structural reforms aimed at enhancing productivity, competitiveness, and the transition towards a high-value economy. Malaysia's external debt level has also contributed to its external resilience, where less than 3% of government debt is in foreign currency, which reduces exposure to foreign currency fluctuations. This manageable external debt lessens the impact of foreign currency fluctuations on the economy. In terms of trade, efforts to diversify trade have paid off, with exports showing positive growth. The non-E&E sector is thriving, benefiting from regional demand, while the E&E sector is capitalising on the global technological upcycle.

We have gathered some insights from the Navigating Economic Cycles: Interactions between Monetary and Fiscal Policies panel session. Firstly, prolonged use of fiscal tools with subsidised prices might lead to distortions and misallocated resources, where there is a need for more precise implementation of fiscal policies to achieve targeted growth. Secondly, Malaysia has experienced relatively stable interest rate volatility compared to other countries, likely due to relatively stable inflation amid subsidy implementation. However, inflation has been muted because of these subsidies. Thirdly, subsidy rationalisation might lead to higher inflation as fuel prices adjust and sellers react to removing subsidies. Fourthly, monitoring inflation closely and calibrating the policies to maintain it at manageable levels to support the economy is essential. Lastly, understanding the financial markets' reactions to these changes is crucial as the monetary policy would operate through the transmission mechanism that impacts financial markets.

In his keynote address, the Minister of Finance II YB Senator Datuk Seri Amir Hamzah Azizan emphasised the government's commitment to advancing structural reforms, enhancing Malaysia's global competitiveness, addressing fiscal deficits and improving resource efficiencies. The structural reforms would focus on critical areas such as fiscal sustainability, labour market strengthening, social protection enhancement, quality investment promotion, climate resilience and good governance. Key legislative measures such as the Public Finance and Fiscal Responsibility Act (FRA) and the Medium-Term Fiscal Framework (MTFF) are crucial to improve the fiscal position and diversify Malaysia's revenue base. Given the current macroeconomic environment with solid growth and moderating inflation, the government implemented the targeted diesel subsidy rationalisation. The savings from the targeted diesel subsidies are estimated at around MYR4 bn and would be reinvested in upgrading the infrastructures and improving education and health systems.

On labour market reforms, the Progressive Wage Model was highlighted as a crucial policy in promoting equal and inclusive opportunities for all Malaysians, aimed at uplifting income and improving productivity. A low share of labour income is an issue to be addressed. Note that the government seeks to uplift the labour share of revenue to 45% within ten years from 32.4% as of 2022. To enhance the country's competitiveness and create high-value jobs, the government would prioritise policies to attract high-quality investments and continue accelerating the implementation of the Industrial Masterplan. It was highlighted that Malaysia had recorded an encouraging approved investment at about RM 329.5 bn in 2023, 23% higher than in 2022, indicating the effectiveness of investment and business- friendly policies. Increasing investor confidence was evidenced through investments like Google, Amazon, Infineon and Nividia. In promoting green growth, the Energy Efficiency and Conservation Bill has been approved, coupled with other measures such as the introduction of a National Energy Transition facility, increase in renewable energy generation capacity, development of a renewable energy base and installation of solar panels in government buildings. Lastly, strong governance drives sustainable growth through these focused areas.

In the panel session of Micro, Small, and Medium Enterprises (MSME) Growth: Supporting the Backbone of Malaysia's Economy, MSME is referred to as the backbone of economic growth as the segment makes up 97% of total businesses in Malaysia, contributes to 50% of the employment, 11% of exports and 38% of total GDP. The present challenges faced by the MSME were highlighted in the session, which inclusive of (1) the digitalisation gap, (2) the talent gap as well and (3) the lack of access to financing. Only a tiny percentage of small and medium enterprises (SMEs) invest in research and development (R&D) and digitalisation, where most of the investment in digitalisation is spent on front-end activities such as marketing. There is still a lack of computerisation investment in backend activities such as human resources and inventory management. In addition, acquiring and retaining R&D talent is a major challenge for SMEs, and they might encounter difficulties obtaining skilled professionals capable of driving innovation within their organisation.

The panel session of Subsidy Rationalisation: Charting the Course Towards Economic Transformation highlights that the inflation rate will remain aligned with the official inflation target of between 2% and 3.5% for 2024, despite the diesel subsidy rationalisation. The impact on inflation is partly contained via a continuation of subsidies for East Malaysia, fishermen and selected public transportation and goods vehicles. Under the Budi Madani cash assistance scheme, a monthly aid of RM200 will be given to eligible individuals, small farmers and smallholders with non-luxury diesel-powered vehicles. The Budi Madani is projected to benefit 700,000 diesel vehicle owners (including 400,000 commercial vehicles and 300,000 private vehicles), covering about half of active diesel vehicles in Peninsular Malaysia. As per the Department of Statistics Malaysia data, the RM200 cash handout is expected to cover 80% of diesel vehicle owners, based on consumption patterns. On the other hand, Bursa Malaysia chairman Tan Sri Abdul Wahid Omar predicted that the removal of diesel subsidy might cause inflation for 2024 to hit 2.5% YoY, which is still within the official projected range. It was emphasised that the diesel subsidy rationalisation aims to address the issue of internal and cross-border smuggling. In addition, the importance of effectiveness in communication to the public is being stressed to facilitate the implementation of subsidy reforms.

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