SERC SDN BHD
Socio-Economic Research Centre

QUARTERLY ECONOMY TRACKER

The Reforms We Need in 2024 Budget

2 October 2023

Jul-Sep 2023

World Economic Outlook Update

THE GLOBAL ECONOMY STILL CHUGGING ALONG

- **Global economy on track but not yet of the woods.** We expect the global economy to remain on track to end the year between 2.7% and 2.9% in 2023 (3.5% in 2022) amid still resilient labour markets in advanced economies to support consumer spending.

  The lag impact of interest rate increases in major advanced economies will continue to be felt. Higher interest rates, tighter financial conditions and growing costs of climate change would expose weaknesses in the economy, housing sector, and banking sector, which could mean more financial turmoil on the horizon. Though headline inflation continues to pace lower, we see inflation risks continue, especially food and services inflation, given the worsening climate change impact, export restrictions and tariff increases, as well as the development in global energy and commodity prices.

- **Tracking of key global economic indicators.** We continue to see a mixed bag of economic indicators, suggesting that global growth remains weak. Global manufacturing sector saw a continued downturn in August 2023 for the 12^{th} consecutive month, although there were signs of easing. The PMI for the services sector also eased, albeit still staying above the 50-point expansion mark.

  The global semiconductor market has experienced a modest 2.3% m-o-m in July but still declined by 11.8% y-o-y. With sales increasing for the fifth consecutive month and the smallest drop YTD in July, providing a glimmer of hope that the sector is gradually recovering.

- **Performance of advanced economies:** We expect **the US economy** to have a soft landing in 2023 amid lingering risks that the restrictive monetary policy stance and tighter credit conditions will gradually drag down economic growth in 2024. While the GDP rose 2.1% q-o-q annualised in Q2 (2.2% in Q1 2023) on a rebound in fixed investment, consumer spending slowed, and exports contracted. Available data for Q3 suggests continued resilient economic activities. Both retail sales and industrial production have exceeded market expectations while job gains slowed but are still at healthy levels.

- **The euro area economy** expanded by 0.1% q-o-q in Q2 (0.1% in Q1), thanks to easing supply chain pressures and lower energy prices amid still high inflation. The combination of higher interest rates and renewed restraint in government spending are threatening to temper expansion and raise the risk of an economic downturn.

  A slew of economic indicators shows decelerating momentum in Q3: The Composite PMI fell in both July and August, with the manufacturing sector in deep contraction and the services sector reversing to contraction in August.

- **Japan's economy** grew by an annualised 4.8% q-o-q in Q2 (3.2% in Q1), which was lower than preliminary estimates of 6.0% due to a fall in capital expenditure and private consumption on falling wages.

  With weakening exports and still moderate growth in private spending, real GDP growth is expected to cool in Q3. Both the Composite PMI for the manufacturing and services sectors continued to increase in August. The release of treated radioactive water in Fukushima is expected to dampen consumer sentiment.

- **China's economy** has been registering data disappointments since April due to cautious consumer spending, contractions in fixed asset investment, falling exports, and a deepening stress in the real estate sector.

  High-frequency data for the month of August have shown some incipient signs of recovery. While the recovery in industrial production and retail sales was stronger than expected, the property market remained weak, with new home prices falling for the third straight month and a deeper contraction in real estate investments.

  The Beijing authorities have rolled out small-scale stimulus measures to stem further deterioration in economic conditions. Among these include the injection of liquidity, a cut in lending rates and a 25 basis points reduction in the financial institutions' reserve requirement ratio (RRR).

- **Price pressures level off, but divergence between countries**. Slower economic growth, tighter monetary policies and supply chain improvements have contributed to price stabilisation as measured by the easing of headline inflation readings in some advanced and emerging economies. However, there are divergent inflation trends in advanced economies due to differences in the economic performance, labour and energy markets.

  We see volatility in the commodities markets, and strong labour market conditions would add to the inflationary pressures. Higher prices of food, energy and agricultural commodities could add to inflation in Q4 2023 and in 2024, while strong labour markets and wage growth would continue to result in persistence in services inflation.

- **Global interest rates to stay high for longer.** Global interest rates are expected to remain high for longer, given the risk of frequent adverse supply shocks.

  While the Federal Reserve signalling its pausing of the interest rates tightening cycle, which saw the Fed fund rate now holding between 5.25% and 5.50% as of September 2023, it will not pivot at any time soon amid still resilient US economy and strong labour market conditions.

  The European Central Bank (ECB) has raised interest rates paid on commercial bank deposits, from 3.75% to 4.00% in September, the highest since the euro was launched in 1999. Its main refinancing operations, which provide the bulk of liquidity to the banking system, were increased from 4.25% to 4.50%. The ECB warned inflation remained too high even as the impact of previous increases in interest rates and a weakening outlook for global trade weigh on the eurozone economy.

Global Economic and Monetary Conditions

Real GDP growth (%, Y-o-Y)

	2021	2022	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023F (IMF)	2023F (WB)
World	6.3	3.5	N/A	N/A	N/A	N/A	3.0	2.1
United States	5.8	1.9	1.7	0.7	1.7	2.4	1.8	1.1
Euro Area	5.6	3.3	2.3	1.7	1.1	0.5	0.9	0.4
China	8.1	3.0	3.9	2.9	4.5	6.3	5.2	5.6
Japan	2.2	1.0	1.5	0.4	2.0	1.6	1.4	0.8
India	9.1	7.2	6.2	4.5	6.1	7.8	6.1	6.3
Malaysia	3.1	8.7	14.1	7.1	5.6	2.9	4.5	4.3
Singapore	8.9	3.6	4.0	2.1	0.4	0.5	1.5	N/A
Indonesia	3.7	5.3	5.7	5.0	5.0	5.2	5.0	4.9
Thailand	1.5	2.6	4.6	1.4	2.6	1.8	3.4	3.9
Philippines	5.7	7.6	7.7	7.1	6.4	4.3	6.2	6.0
Vietnam	2.6	8.0	13.7	5.9	3.3	4.1	5.8	6.0

Note: World GDP growth for 2021-2022 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Article IV); World Bank (Global Economic Prospects)

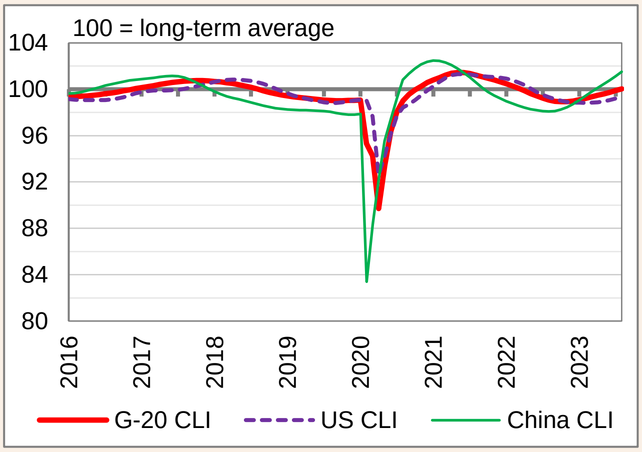
Policy rate (%)

End-period of	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (Sep)	2023*f*
US, Fed Federal Funds Rate	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	5.50-5.75
Euro Area, ECB Deposit Facility	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	4.00
Japan, BOJ Short-term Policy I/R	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
China, PBC 1-Year Loan Prime Rate	5.60	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.45	3.45
India, RBI Policy Repo Rate (LAF)	8.00	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50
Korea, BOK Base Rate	2.00	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.50
Malaysia, BNM Overnight Policy Rate	3.25	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00
Indonesia, BI 7-Day RR Rate	7.75	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	5.75	5.75
Thailand, BOT 1-Day Repurchase Rate	2.00	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.50	2.50
Philippines, BSP Overnight RR Facility	4.00	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.25	6.50

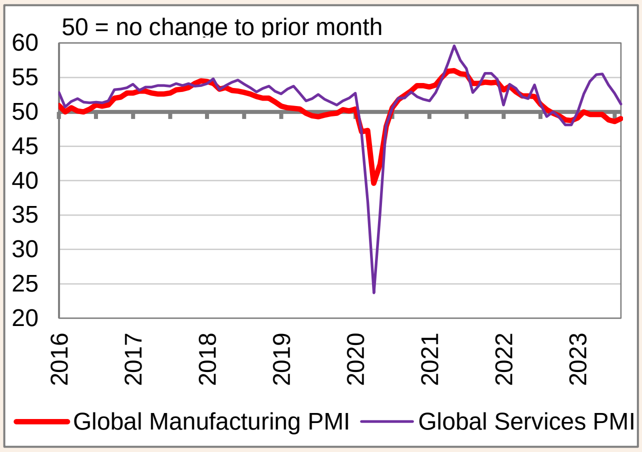
Source: Officials; SERC

Global Current and Forward Indicators

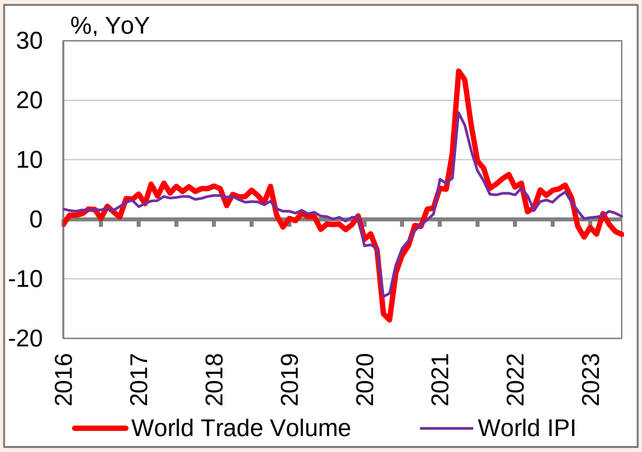
OECD composite leading indicators have returned to long-term average in G20



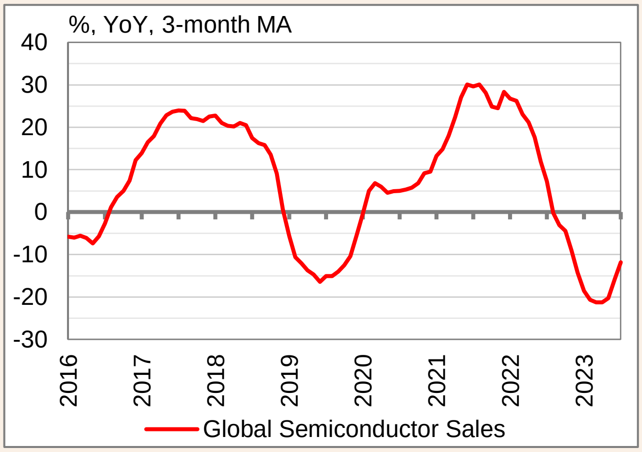
Global manufacturing PMI stayed below the threshold for the sixth consecutive month in Aug



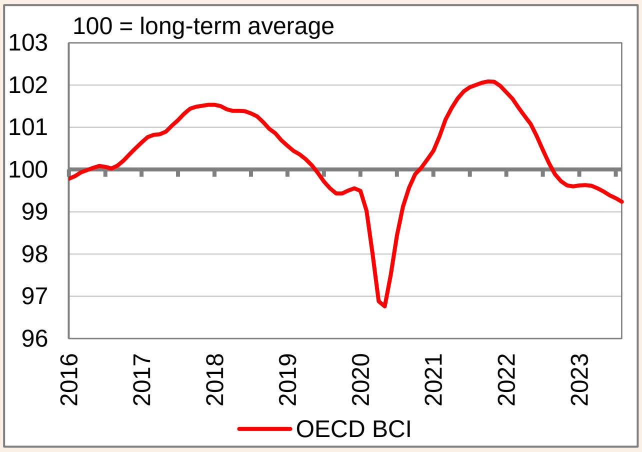
Global trade volume continued its contraction due to slower global demand



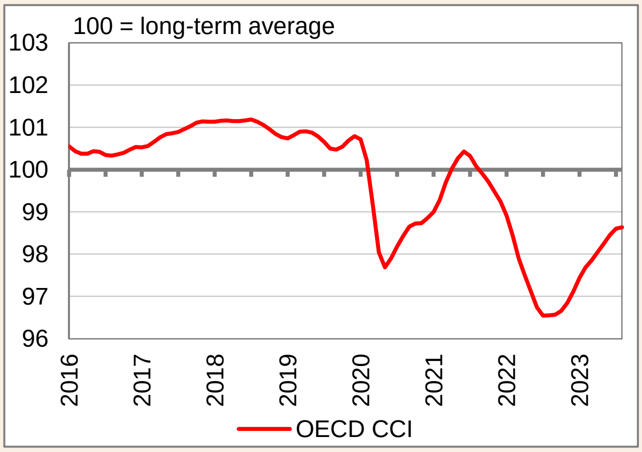
Global semiconductor sales is regaining its ground



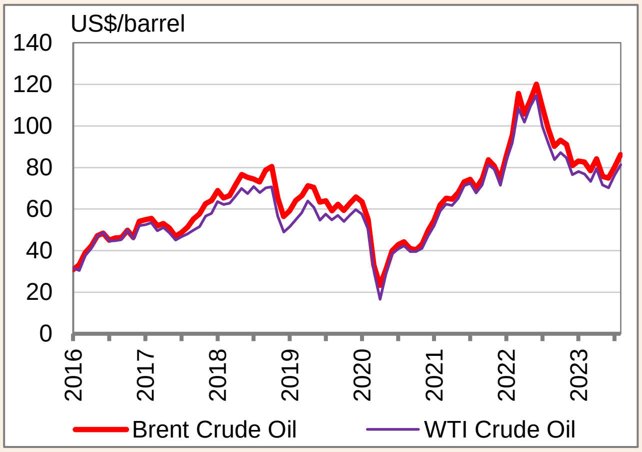
OECD Business Confidence Index



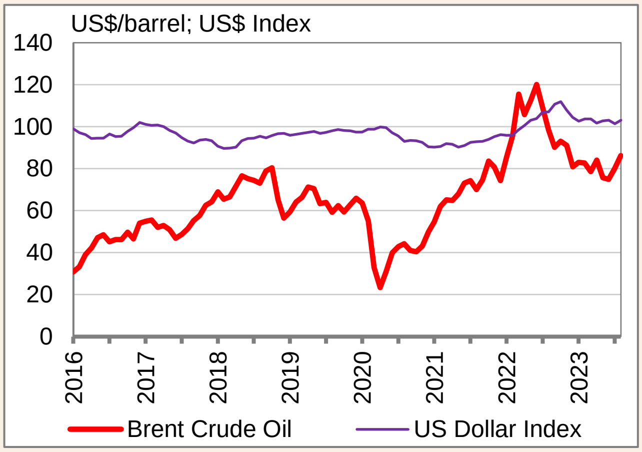
OECD Consumer Confidence Index



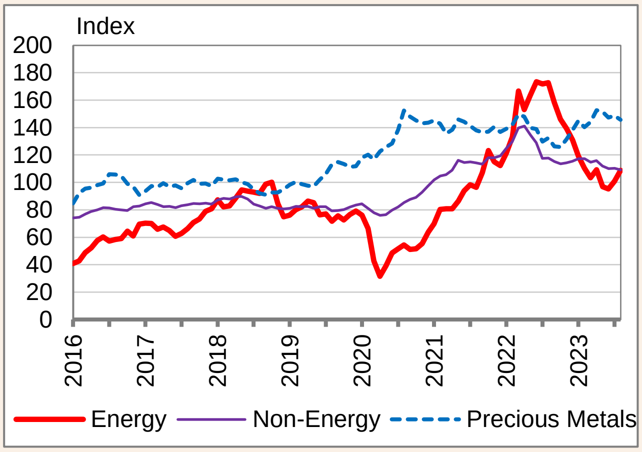
Crude oil was traded above US$90/bbl in Sep, fuelling concerns about global inflationary risk



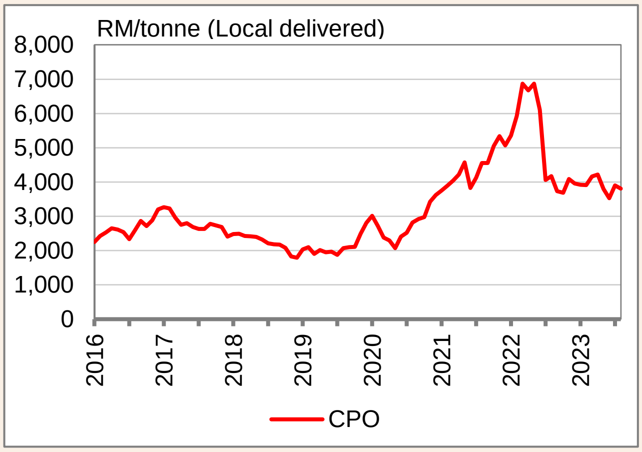
Brent crude oil price vs. the US dollar index



Energy prices have rebounded, although other prices are gradually declining



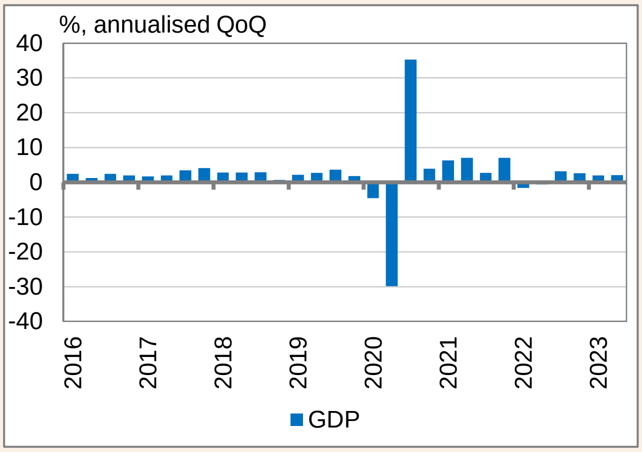
Crude palm oil prices have remained well below RM4,000/tonne level since early-May



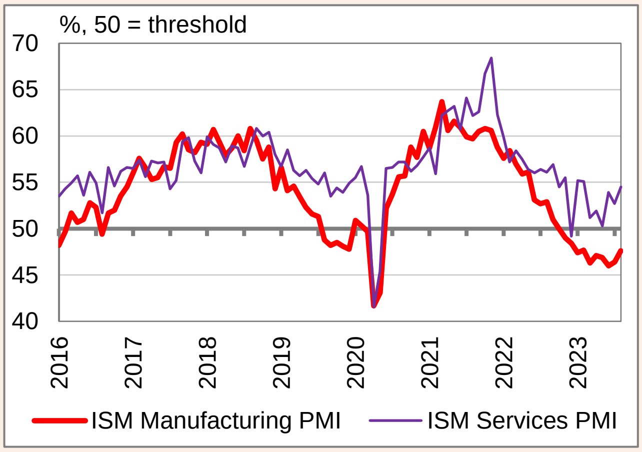
Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

The US – Still resilient amid lingering risks

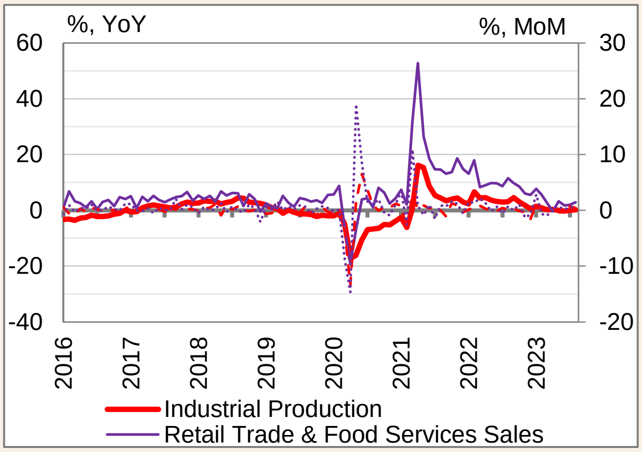
The US economy expanded firmly in Q1 and Q2 on resilient consumption



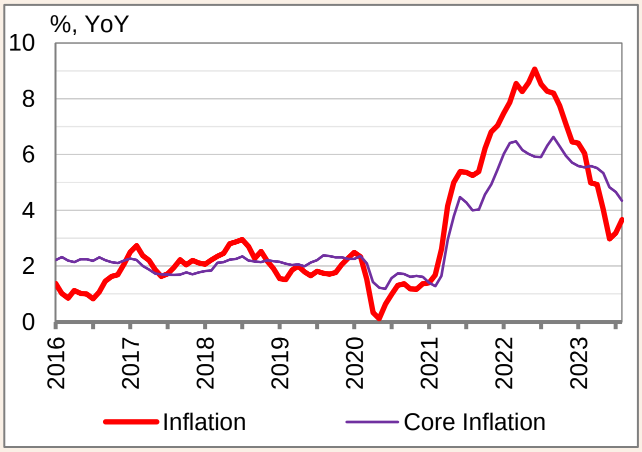
Manufacturing PMI rebounded in Aug from its bottom



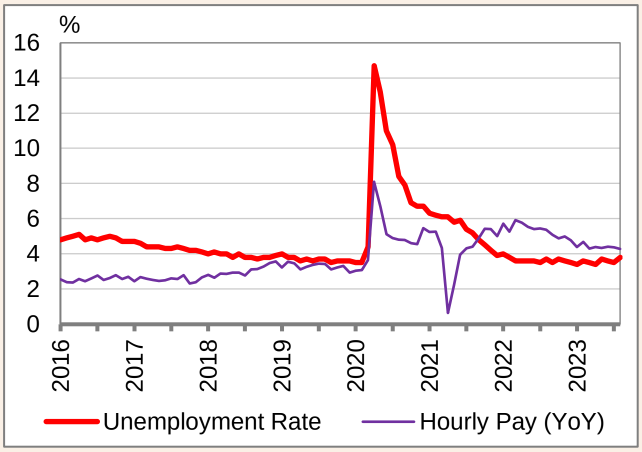
Both industrial production and retail sales growth have returned



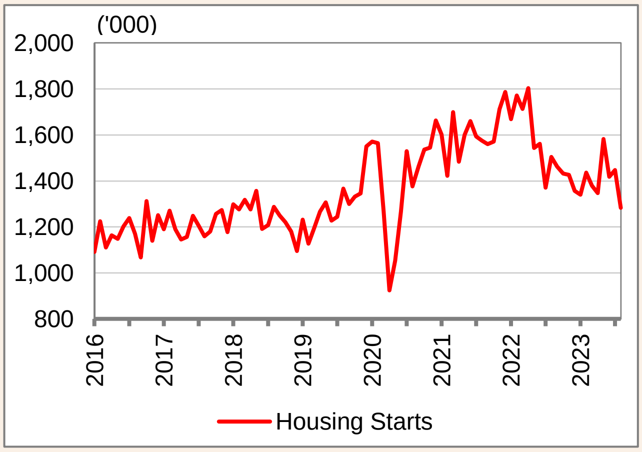
Inflation still way above the desired level



Jobless rate ticked up in Aug but still remained healthy



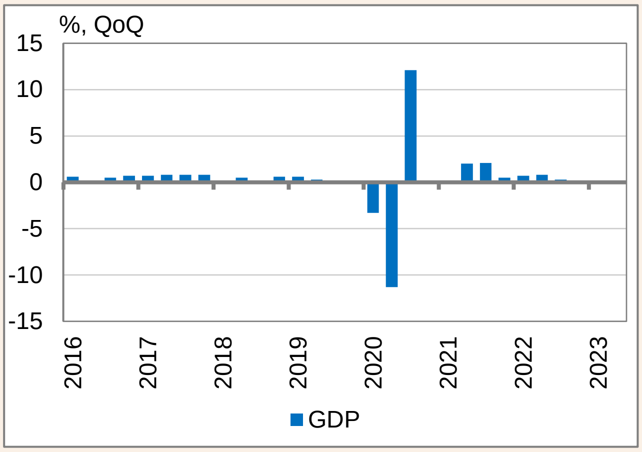
Housing starts hit three-year low in Aug



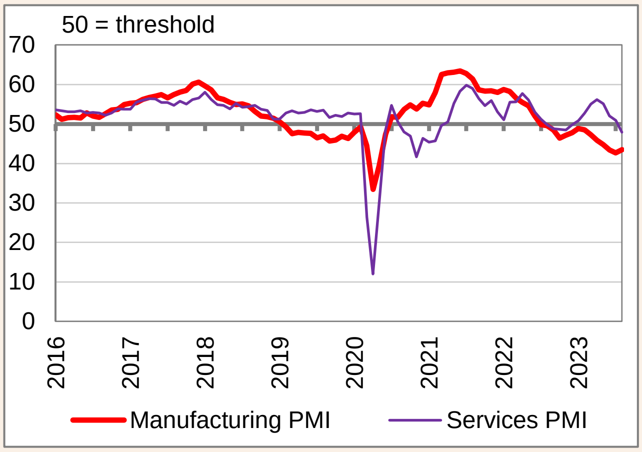
Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

Euro Area – Decelerating momentum

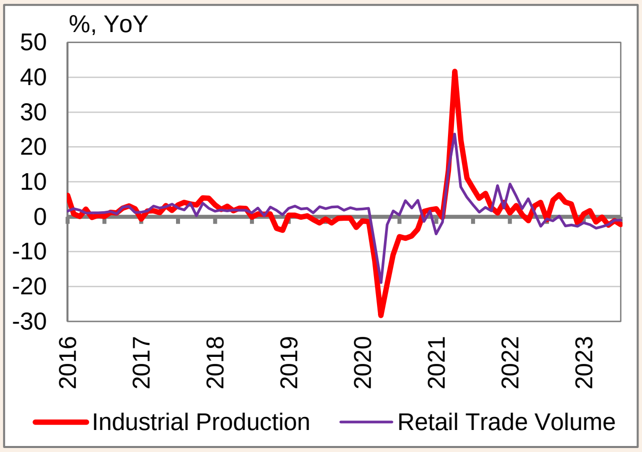
A mild economic growth in Q2



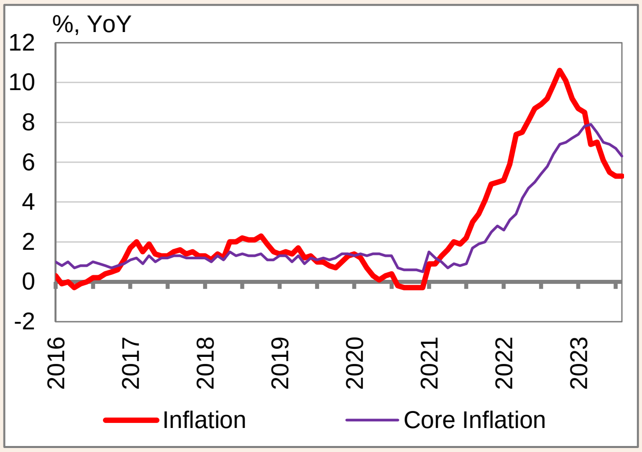
Manufacturing PMI remained below the threshold for fourteen straight months



Both industrial production and retail activities contracted since Mar 2023

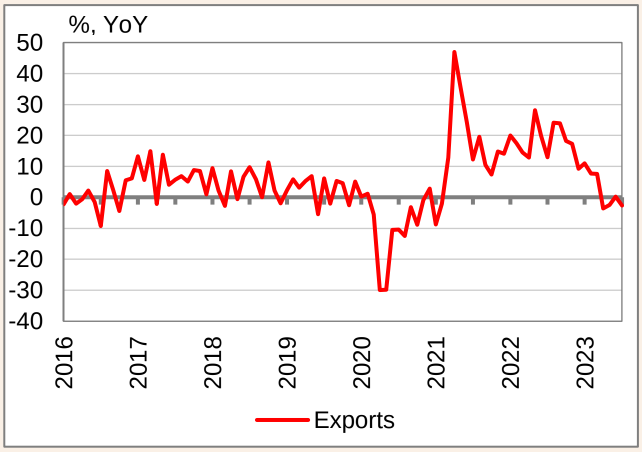


Both headline and core inflation remained at high levels



Job market conditions continued to improve

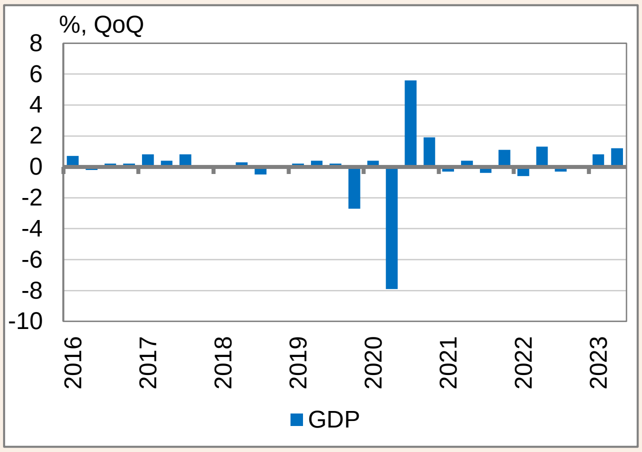
Exports trended lower on slower global demand



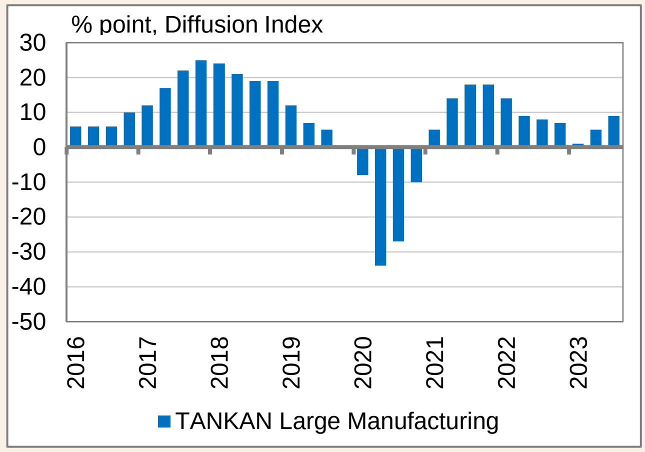
Source: Eurostat; S&P Global

Japan – Recovery still weak

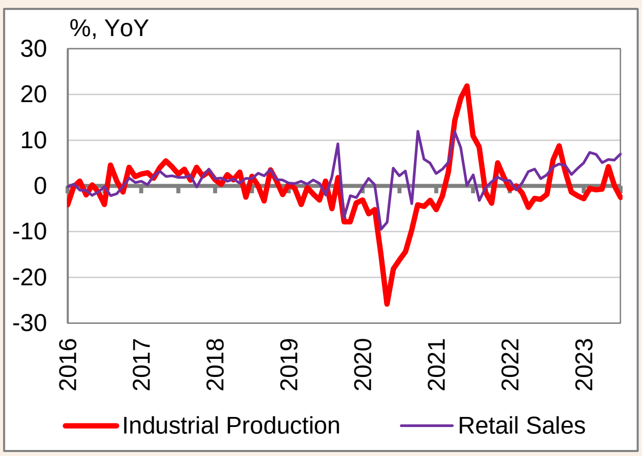
Economic growth expanded considerably in Q1 2023



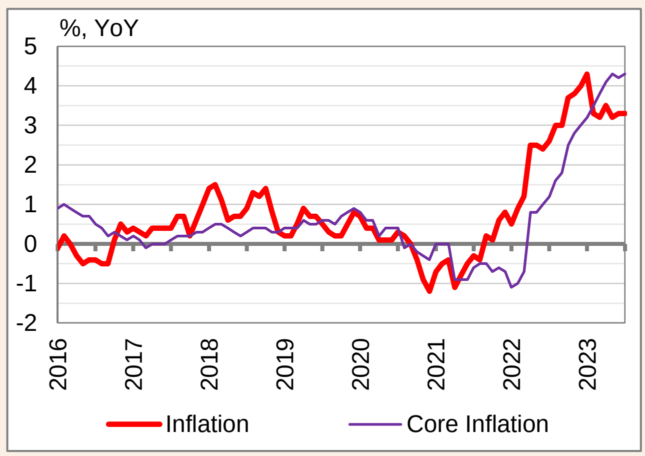
TANKAN survey signals brighter prospect for the manufacturing sector



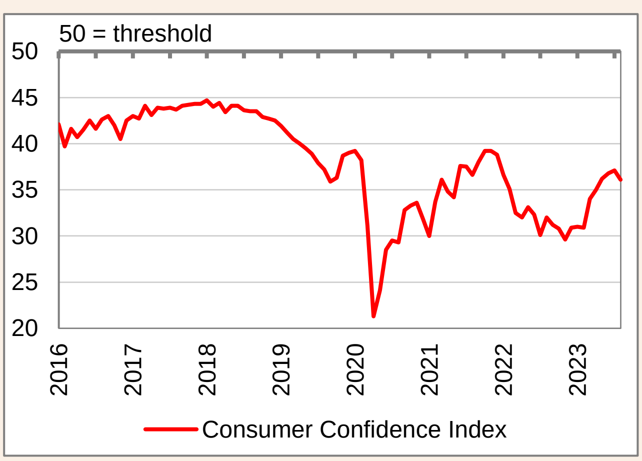
Industrial production growth reverted to negative territory in Jul



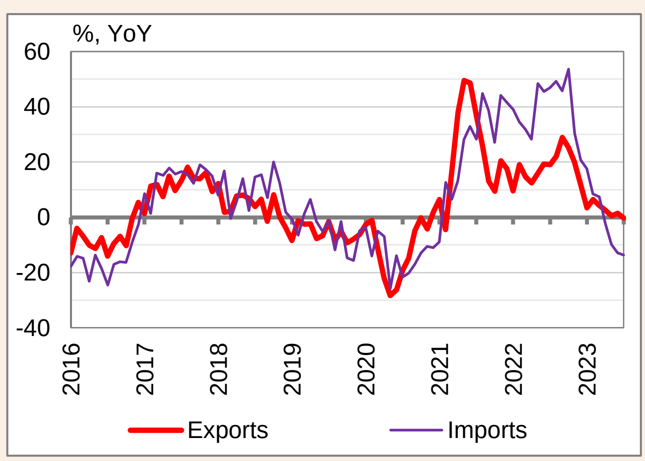
Core inflation continues to increase persistently



Consumer confidence to be impacted by the treatment of radioactive water



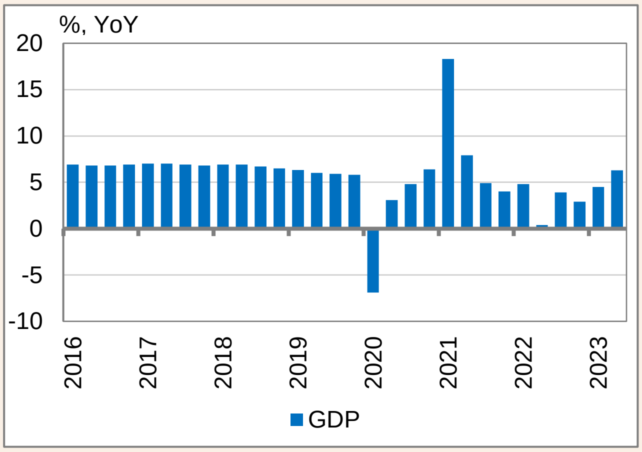
Export growth registered the first contraction in Jul since Feb 2021



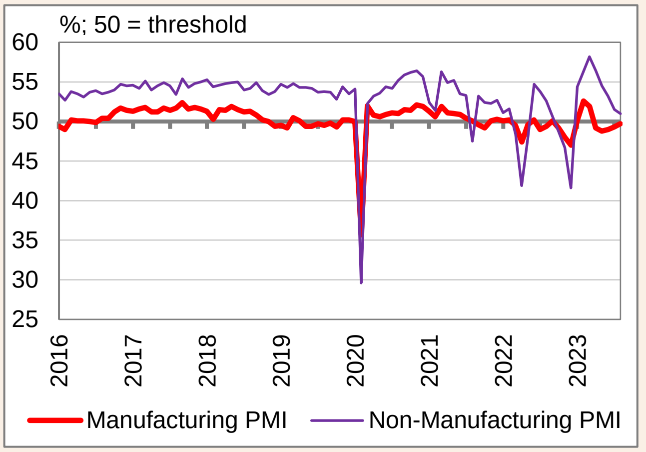
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Japan Customs; Statistics Bureau, Japan

China – A cautious recovery

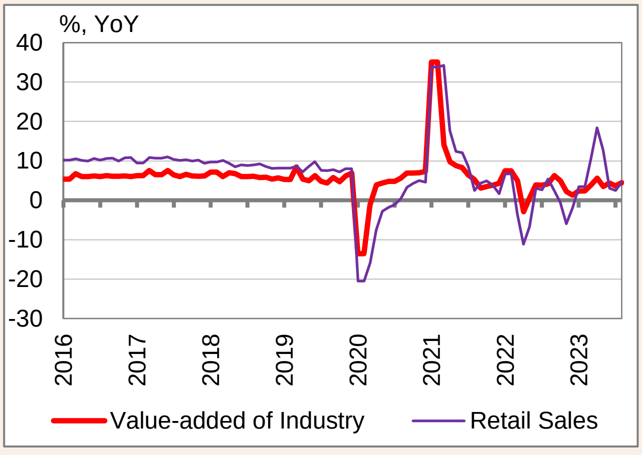
Stronger growth in Q2 but below market expectations



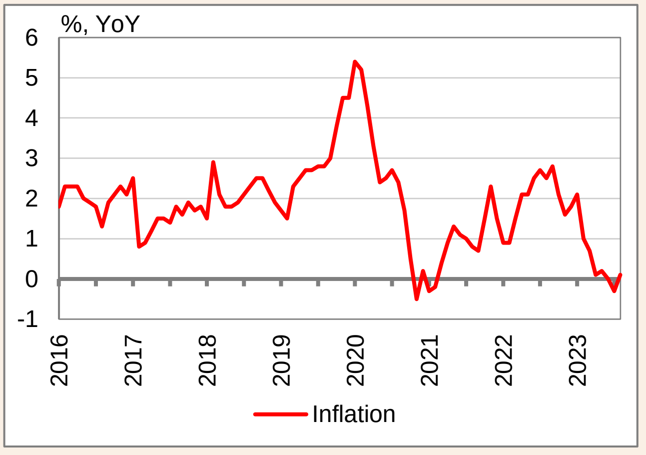
Manufacturing PMI stayed below the threshold for five months in a row



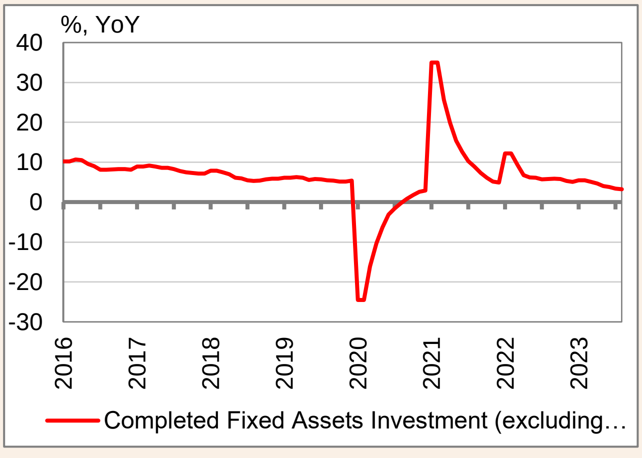
Retail sales growth moderated sharply



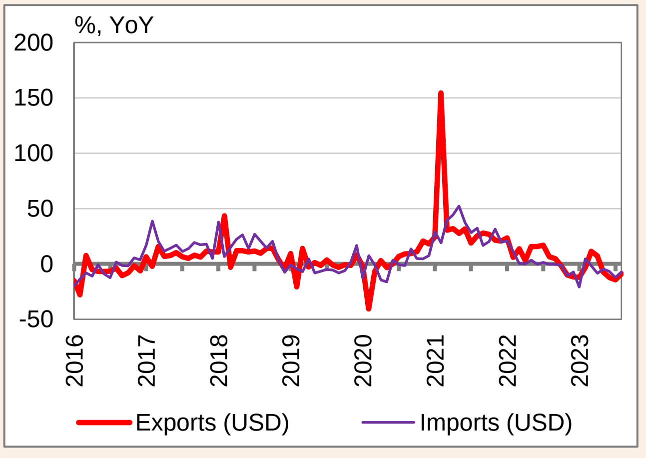
Overall price level remained broadly stable



Fixed investment growth continued to moderate



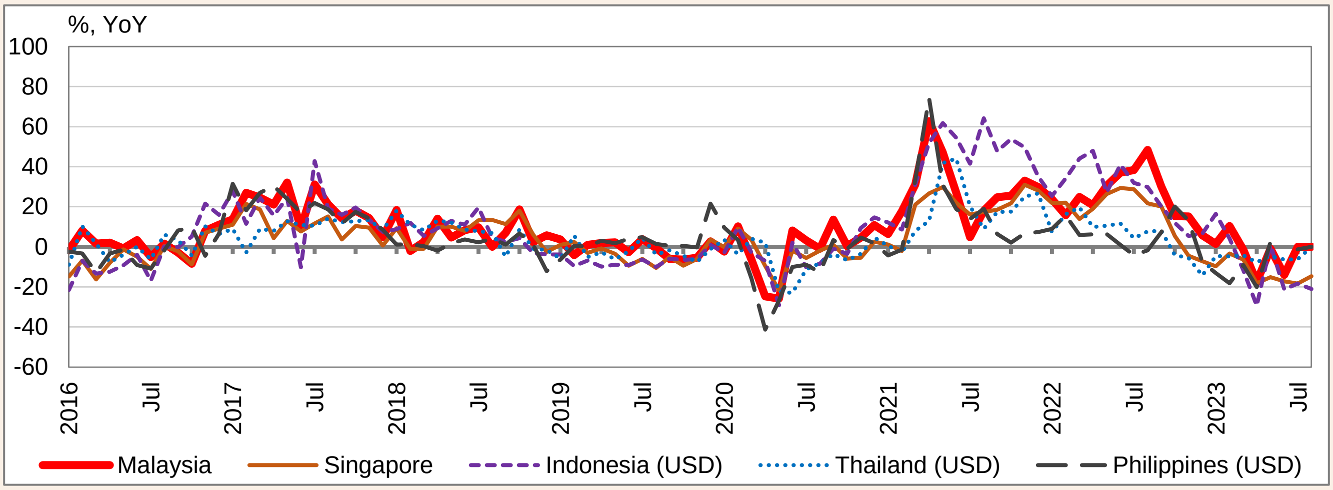
Exports contracted for four consecutive months in Aug



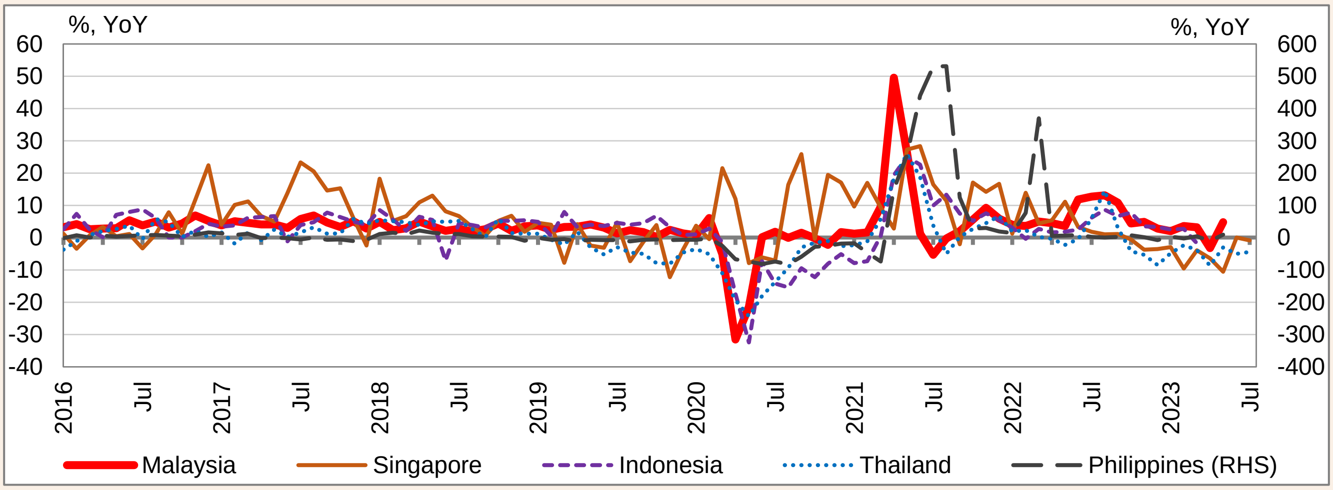
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Key Economic Indicators

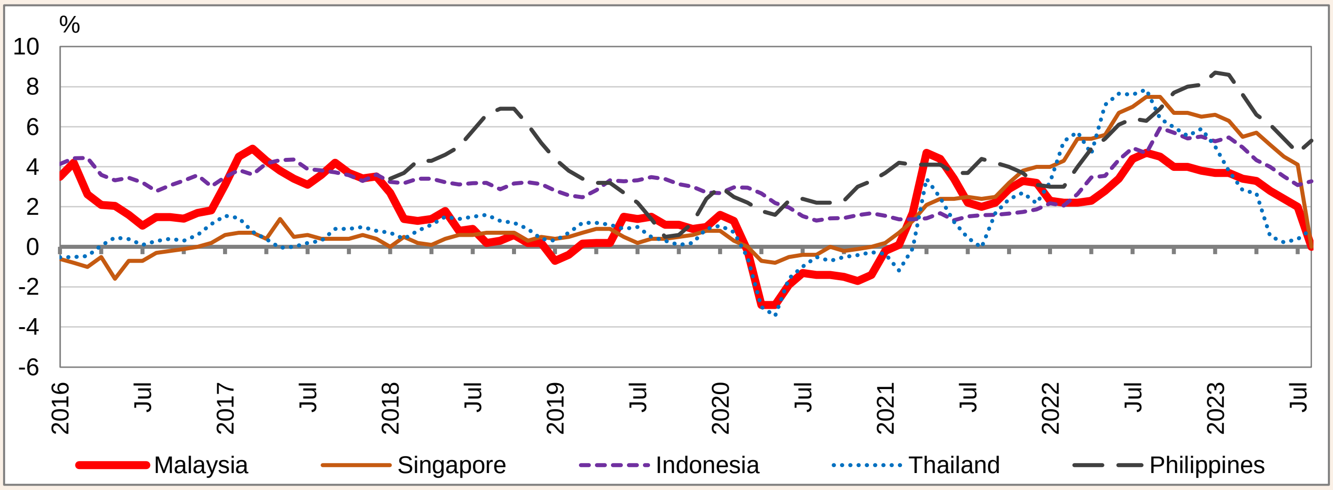
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

IS THE WORST REALLY BEHIND US?

- **Can Q3 GDP be better than Q2?** Malaysia's economic growth slowed further to 2.9% y-o-y in Q2 2023 from 5.6% in Q1 2023 (7.1% in Q4 2022), marking the third consecutive quarter of moderation and the slowest growth since Q3 2021. Real GDP growth expanded slower by 4.2% in 1H 2023 (6.8% in 1H 2022 and 10.4% in 2H 2022).

- **We continue to see mixed signals in the months of July and August.** Some channel checks indicate continued moderate economic and business activities.

  a) **Leading index** growth declined for the fifth consecutive month in July 2023, with a contraction of 0.9% y-o-y. This trend highlights persistent near-term economic challenges in four to six months ahead.

  b) **Industrial Production Index (IPI)** growth remained uneven in recent months. It rebounded slightly in July 2023, growing by 0.7% y-o-y from -0.3% in Q2 2023,. This modest growth was driven by the mining sector (July: 4.2%; June: -6.4%) and electricity output (July: 1.5%; June: 2.8%). However, the manufacturing production continued to decline due to weak global demand, particularly in export-oriented industries.

  c) **Manufacturing sales** mirrored weaknesses in global demand, which has declined for a second consecutive month in July 2023, with a negative growth rate of 3.0% y-o-y (-4.0% in June). The decline was influenced by various products, notably the petroleum, chemical, rubber, and plastic sub-sector as well as wood products.

  d) **Distributive trade** continued its growth, expanding by 7.2% y-o-y in July 2023 across all sub-sectors, including motor vehicles (20.5%), wholesale trade (5.7%), and retail trade (5.5%). Increases in prices of imported rice, triggered by events in rice exporting nations could fuel food inflation.

  e) **Exports** recorded six consecutive months of contraction, with a significant decline of 18.6% y-o-y in August 2023, dragged by negative growths across all the sectors (manufacturing, agriculture, and mining sectors). Notable declines among manufacturing products were seen in petroleum products (-38.6%), palm oil-based products (-24.6%), rubber products (-22.7%), and electrical and electronic products (-15.3%).

  f) **Banking sector's outstanding loan** growth softened to 4.2% y-o-y in Jul-Aug, down from 4.4% in June. Household loan growth remained stable, supported by higher growth across most loan purposes, particularly for the purchase of houses and cars.

  g) **Unemployment rate** remained steady at 3.4% in July, with a gradual decline in the number of unemployed persons, now at 579,200, though still higher than the pre-pandemic level of approximately 520,000. The labour force participation rate reached a new high of 70.1% in July, indicating a strong labour supply that can support the labour needs in the market.

h) **Headline inflation** remained stable at 2.0% y-o-y in Jul-Aug, with core inflation eased to 2.5% in August (2.8% in Jul). Food and non-alcoholic beverages inflation remains higher than before the trajectory at 4.1%, surpassing pre-pandemic levels of around 2.8%; of which, food away from home recorded 5.9% increase in prices.

   We expect Bank Negara Malaysia to keep the domestic interest rate (as benchmarked by the overnight policy rate) at 3.00% for the rest of the year as concerns about economic and business conditions take precedence over inflation for now.

- The Q2 GDP growth might not be the weakest quarter; growth in the third quarter could be even more challenging given the high base effect in Q3 2022, whereby GDP growth was at the strongest of 14.1%. We anticipate improved economic growth to around 4.0% in Q4 2023, mainly due to better recovery in services on higher tourist arrivals, and construction output as well as a modest pick-up in the manufacturing sector on year-end seasonal holiday spending. **Overall, we tweak our full-year 2023 GDP growth estimate to 3.8% from 4.5% previously to reflect the weaker-than-expected Q2 2023 GDP growth**.

- While we reckon that downside risks to the global economy and domestic economic conditions continued to persist, this current domestic economic slowdown feels more like a business-cycle slowdown than a typical recession, followed by a firmer recovery in 2024.

- **Three key risks stand out regarding the domestic economic outlook in 2H 2023 and 2024.** The first relates to the continued slowing of the US economy on the lag effects of higher interest rates and downside risks to China's economy, due to the property sector woes and deflation risk. Second risk is inflation and cost of living pressure. Food inflation and services (transportation) inflation might return given the anticipated domestic subsidies rationalisation. The third risk is continued high business costs due to the weakening ringgit; employment costs, climate change as well as ESG compliance costs.

THE REFORMS NEEDED IN THE BUDGET 2024

- **The 2024 Budget, to be tabled on 13 October 2023**, is an important one as it has to initiate some unpopular yet necessary reform measures to rebuild the fiscal buffer for securing a sustainable economy. Revenue limitations and rising costs, as well as subsidy pressure, have long taken a heavy toll on the budget, and are not enough to meet increasing financing (allocation) needs.

- **The 2024 Budget will still be restrictive yet responsible spending as the Government reaffirmed its commitment towards a continued fiscal reduction path, probably to between 4.0% and 4.5% of GDP in 2024** from an estimated 5.0% in 2023 (-5.6% of GDP in 2022).

- Amid still high allocation of development expenditure estimated at RM90.0 billion in 2024 (RM97.0 billion in 2023 Budget), Ministries and agencies must have the implementation capacity as well as good execution of the development projects and programmes to ensure efficiency of public spending in addition to cost savings.

- The Budget will have measures to ease the burden of vulnerable groups and lower-income households; unleashing the potential of green growth; accelerating smart technology and digitalisation, job creation and income enhancement, as well as caring for the elderly and aging community. Various fund allocations, programs and incentives will be given to adopt technology, automation, ESG, the SMEs sector, food security and tourism.

- The 2024 Budget must strike the right balance between dealing with immediate challenges and setting Malaysia up for the next leg by:

  a) **Strengthening fiscal and spending priorities.** Limited fiscal space remains a key challenge (tax revenue at 11.7% of total GDP in 2022). The Government should include a detailed plan on measures to broaden its revenue base on a sustainable basis as well as responsible spending with better outcomes. Targeted social spending should remain a short-term priority, and the phasing out of blanket subsidies that are costly and unsustainable.

     Attempting to address revenue shortfalls through the Luxury Tax and Capital Gains Tax (CGT) on the disposal of non-listed private companies' shares, which will be ready for implementation in January 2024, could have adverse effects on the domestic luxury goods market, entrepreneurial and starts-up development. There are lingering Investors' concerns that the CGT will cover other asset classes down the road.

     The Government should lay down a fiscal consolidation roadmap, outlining a timeline to broaden revenue and control expenditure. Some painful and unpopular measures are necessary.

     The burden of fiscal correction must be shared, fairly and equitably, by different classes of stakeholders. The bottom line is that we cannot have a tax system if a small group of the people at the top end pay more taxes all the time, while the rest get to piggyback on their contributions to enjoy more benefits.

     We must come to political sense and economic sanity to avoid a fiscal cliff in the future. The 2024 Budget offers a window of opportunity to push the measured pace of reforms as it allows ample time to manage the people's discontentment over unpopular measures before the 16th General Election in 2027.

     Firstly, pre-announce a 12-month timeline for preparation to reintroduce GST 2.0, starting with a lower introductory rate (3%-4%) in 2025. It is a fairer and effective tax. Concerns about the GST's regressive impact on lower-income households can be mitigated by exempting certain essential items and GST vouchers. GST mitigates pyramiding tax, tax erosion, transfer pricing, and value shifting, as well as covers the tax net on the "shadow economy" (estimated turnover of almost RM275 billion or 18.2% of GDP in 2019).

     Secondly, roll out the targeted subsidy rationalisation on fuel in stages and sequence it at a measured pace based on the principle of needs and income, to be companied by giving cash assistance for the affected households. Prices of subsidised goods and services will be gradually raised to allow a manageable impact on inflation and cost of living pressure.

     Resource allocation of the Budget must also address the fundamental issues of effective governance of spending and implementation. The medium-term budgetary stability framework must be governed and regulated by fiscal rules. Hence, the Government has to expedite the enactment of the Fiscal Responsibility Act (FRA) and Government Procurement Act (GPA) in 2023-2024 without delays. These Acts have been postponed several times since mooted in 2018.

A credible civil service reform is needed to improve the quality and value of public services-based performance and productivity-linked salary systems. Rightsizing the civil servants, accelerating digital government and introducing defined contribution schemes for pension.

The Government should only decide on the new salary structure for civil servants until a comprehensive study of the salary and retirement scheme is completed in 2024.

b) **Responsible and targeted cost of living relief and cash assistance for those that need it most.** While the People's Cash Aid will continue to target households and individuals, design a mechanism for making cash handouts conditionally for the optimisation of financial resources.

c) **Funds allocation, grants and incentives for key sectors drivers of sustainable growth.** Initial funds, grants and incentives will be allocated for the flagship projects of the energy transition, and also the NIMP Strategic Co-Investment Fund (CoSIF) and NIMP Industrial Development Fund (NIDF) will be given allocation to support the mission-based projects.

Reinvestment Allowance (RA) should be extended for businesses that have exhausted their 15-year term, and the additional RA will end by end-December 2024. The RA's extension is necessary to encourage existing companies to plan ahead to modernise and invest in automation and machinery equipment. In addition, increase the claimable amount of the qualifying capital expenditure to 70%-80% from 60%. The first chargeable income enjoying the preferential tax of 15% for SMEs to be raised to RM600,000 from RM150,000 currently.

d) **ESG and net zero carbon emissions agenda.** The Budget can consider to establish an ESG Facilitation Fund (RM1.0 and RM2.0 billion) for SMEs to incorporate green and sustainable processes, including a soft loan and a matching grant for the adoption of ESG and green investment.

Appoint a lead ministry to oversee the national ESG agenda, together with the participation of all other ministries and agencies. For SMEs' ESG facilitation, MITI can launch an ESG Assessment toolkit to guide SMEs embarking on their ESG journey, by identifying gaps in their ESG level of readiness, and providing the guidance.

Low-hanging measures to encourage the installation of solar for households and businesses. These include (a) a 3,000 MW NEM quota be allocated from now until 2025, with the NOVA programme being given priority; and (b) Individuals' residential houses installing solar PV systems be given a personal income tax relief of RM10,000 per year, and up to a maximum amount of RM30,00 for three years.

The government should coordinate with private players for the optimal planning of charging infrastructure (location, timing, type, and number of charging points (CPs)). The Government should incentivise the construction of CPs in public places until the private sector is ready to step in, especially along highways or in more sparsely populated areas and locations that are less profitable, but essential. The Government can consider extending the road tax exemption for EVs, which will expire in end-December 2025, for another three years, and introduce a different road tax structure for EVs, which will be lower than internal combustion engine vehicles.

e) **Increasing the compensation of employees.** The Budget will shed light on the structure of the Progressive Wage System (PWS), which aims to uplift the wage of employees linked to productivity improvement and upskilling, which will be implemented on a voluntary basis and incentive-based approach through a wage-support growth fund to encourage the participation of companies in PWS.

The multi-tiered levy model, which pegs the levy to the percentage of foreign workers of total employees (the higher the ratio of foreign workers to total employees, the higher the levy rate paid), will likely be implemented sometime in 2024, pending the finalisation of the tiered levy structure.

The employers have raised concerns that a steep increase in the levy rate would be burdensome on the employment and operating costs of companies, especially SMEs, at a time of high costs environment. The levy collected must be rechannelled to an Industrial Adjustment Fund to support businesses' automation and reskilling of employees.

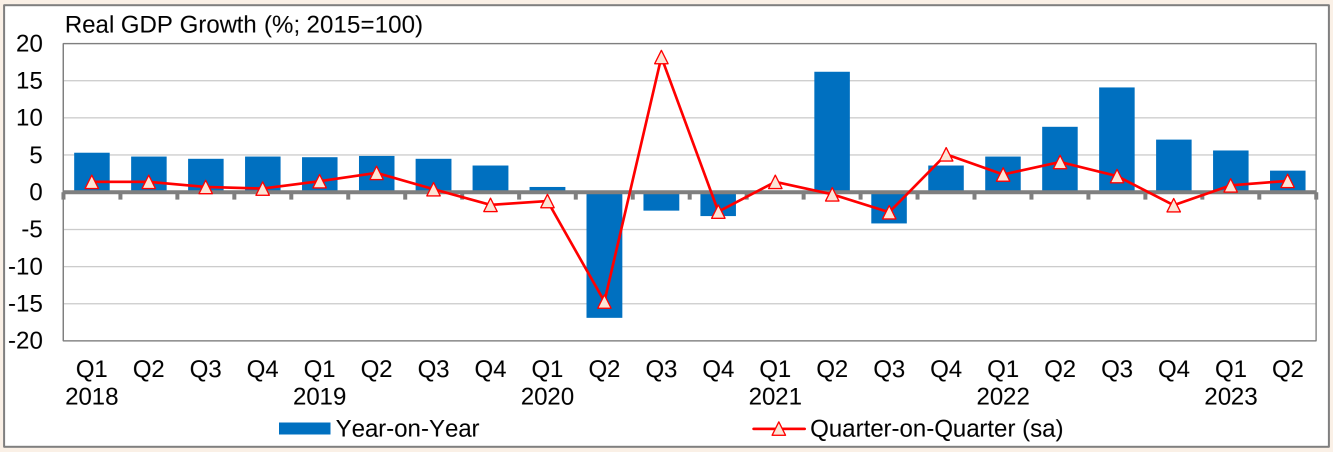
Real GDP growth (%, Y-o-Y)

Economic Sector [% share to GDP in 2022]	**2021**	**2022**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023F (BNM)**	**2023F (SERC)**
By kind of economic activity								
Agriculture [6.6%]	-0.1	0.1	1.2	1.1	1.0	-1.1	0.7	0.2
Mining & Quarrying [6.4%]	0.9	2.6	9.1	6.3	2.4	-2.3	2.0	1.1
Manufacturing [24.1%]	9.5	8.1	13.1	3.9	3.2	0.1	4.0	1.3
Construction [3.5%]	-5.1	5.0	15.3	10.1	7.4	6.2	6.3	6.9
Services [58.3%]	2.2	10.9	16.7	9.1	7.3	4.7	5.0	5.3
By type of expenditure								
Private Consumption [60.2%]	1.9	11.2	14.8	7.3	5.9	4.3	6.1	4.9
Public Consumption [13.2%]	6.4	4.5	6.5	3.0	-2.2	3.8	1.3	1.3
Private Investment [15.3%]	2.7	7.2	13.2	10.3	4.7	5.1	5.8	4.6
Public Investment [4.4%]	-11.1	5.3	13.1	6.0	5.7	7.9	7.0	6.2
Exports of Goods and Services [74.6%]	18.5	14.5	21.5	8.6	-3.3	-9.4	2.7	-7.0
Imports of Goods and Services [69.1%]	21.2	15.9	21.1	7.2	-6.5	-9.7	2.1	-7.3
Overall GDP	**3.3**	**8.7**	**14.1**	**7.1**	**5.6**	**2.9**	**4.0-5.0**	**3.8**

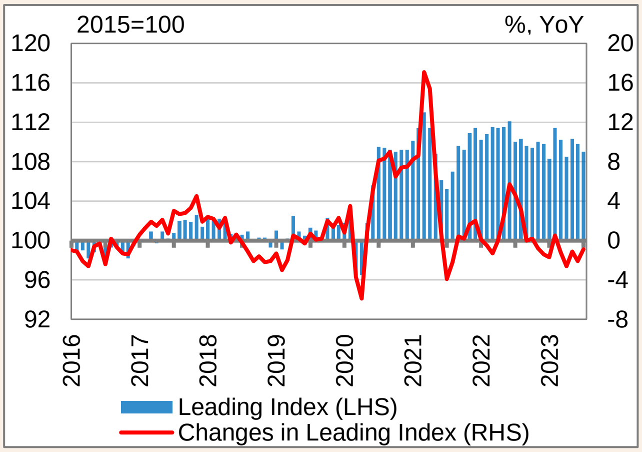
Source: Department of Statistics, Malaysia (DOSM); SERC estimates and forecast

Spotlight on the Malaysian Economy

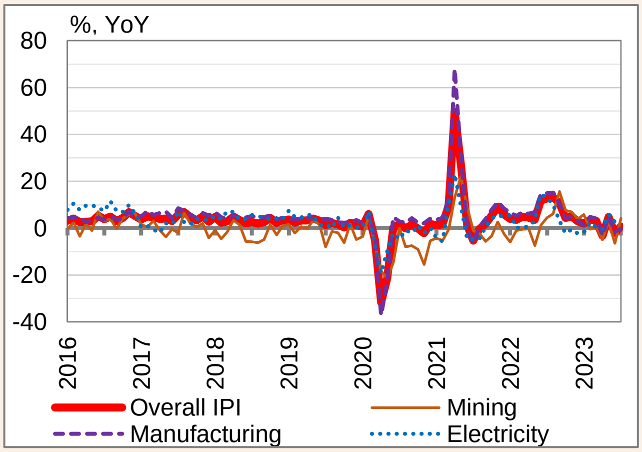
Malaysia's GDP registered lower positive growth of 2.9% y-o-y in Q2 on falling exports and slowing consumer spending



Leading Index (LI) anticipates a modest economic performance ahead

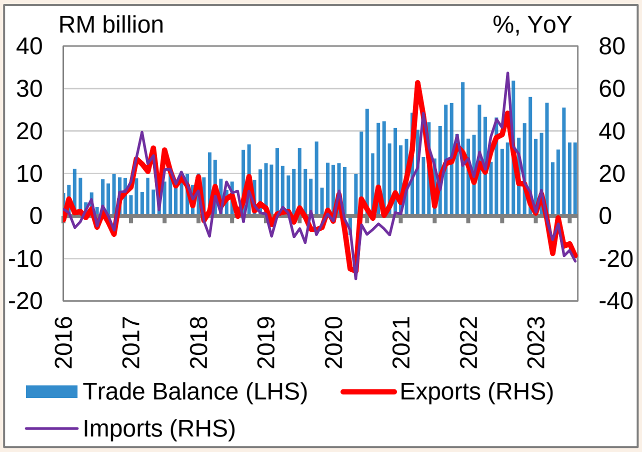


Industrial production growth remained uneven

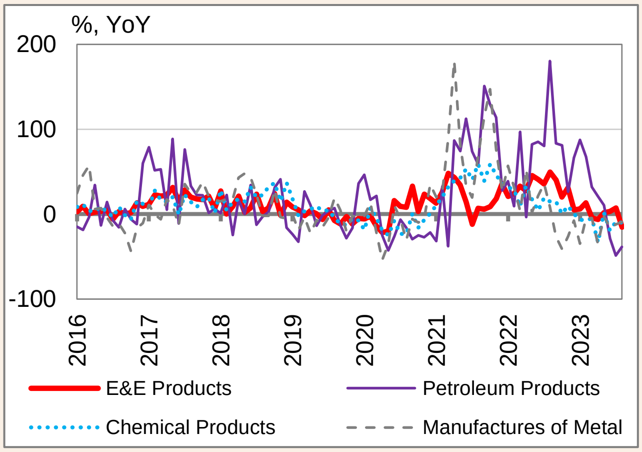


External Sector

Exports recorded double-digit decline in Q2 and in Jul-Aug due to slowing global demand

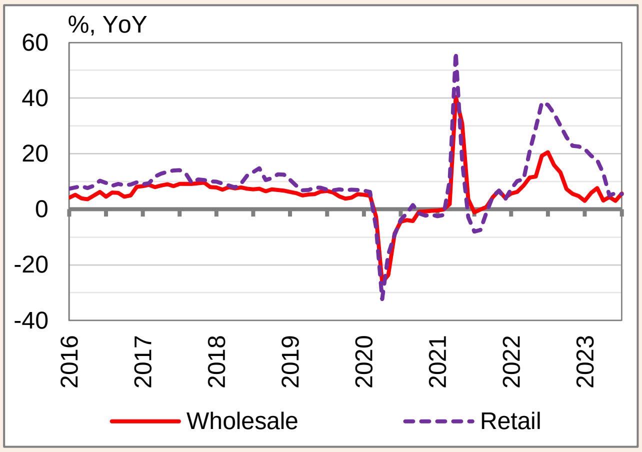


Exports by major products

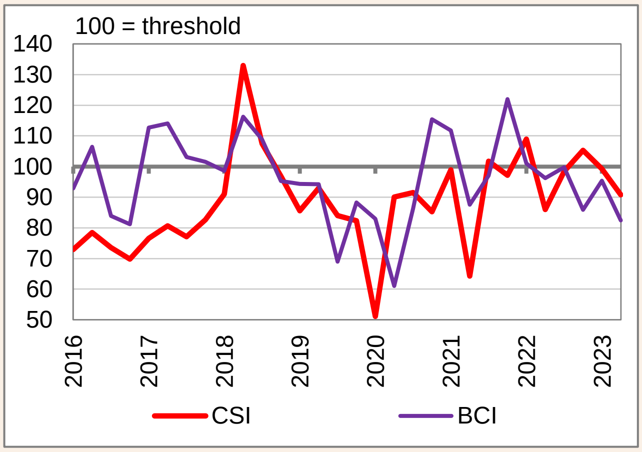


Domestic Demand

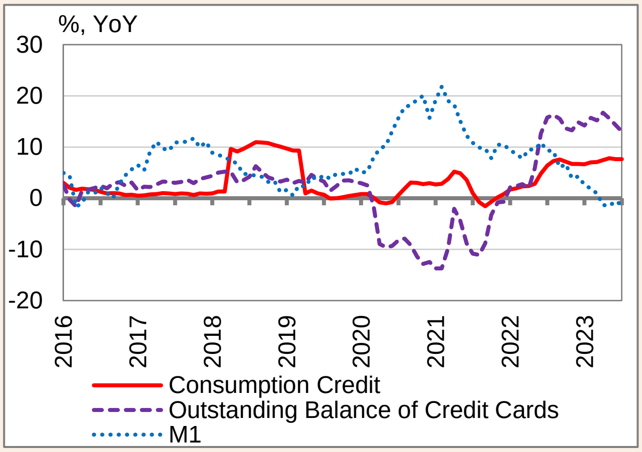
Retail sales growth has moderated sharply in recent months



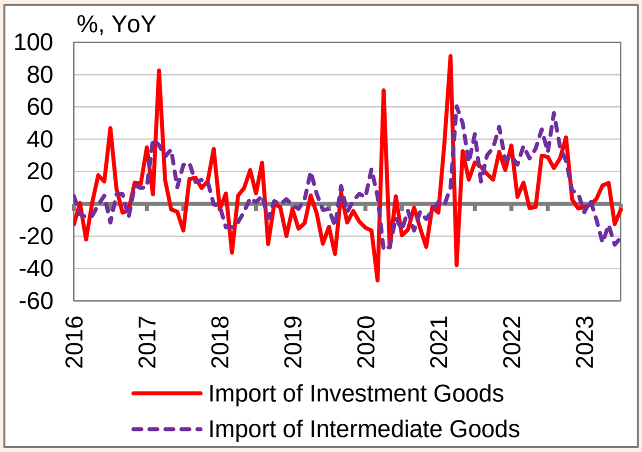
Both consumer and business sentiments fell below the optimism threshold



Selected private consumption indicators

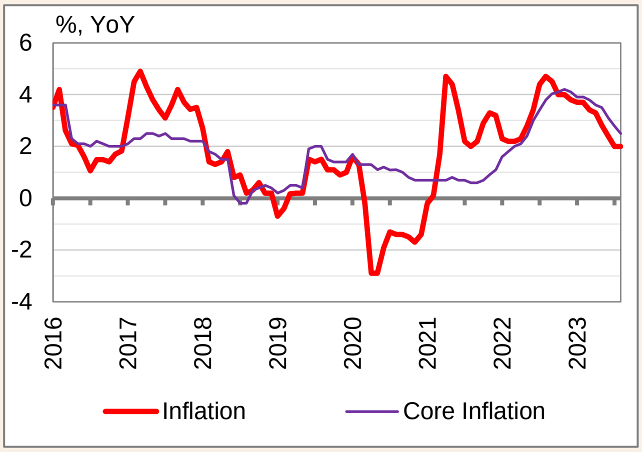


Selected private investment indicators

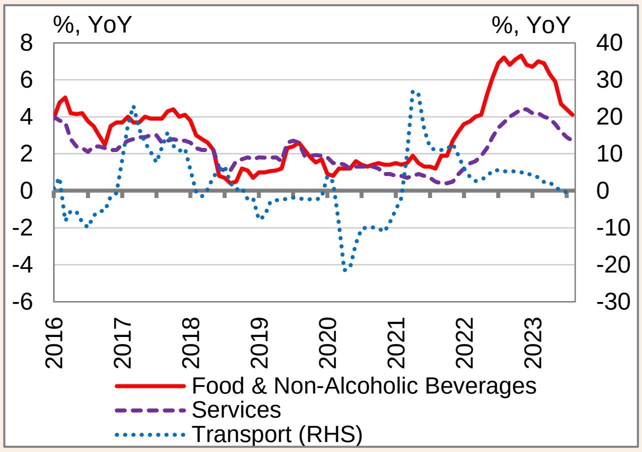


Price Indicators and Labour Market

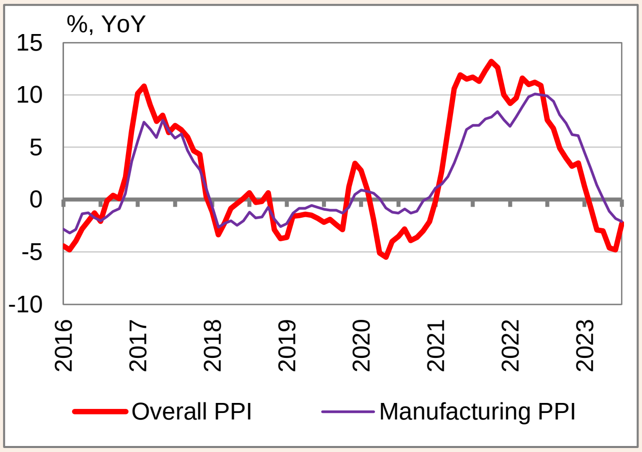
Despite headline inflation has normalised …



… food inflation still-high, albeit somewhat moderated



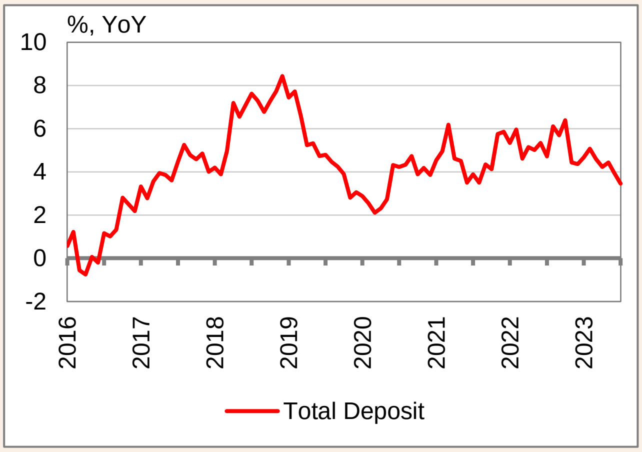
Producer prices started to pick up



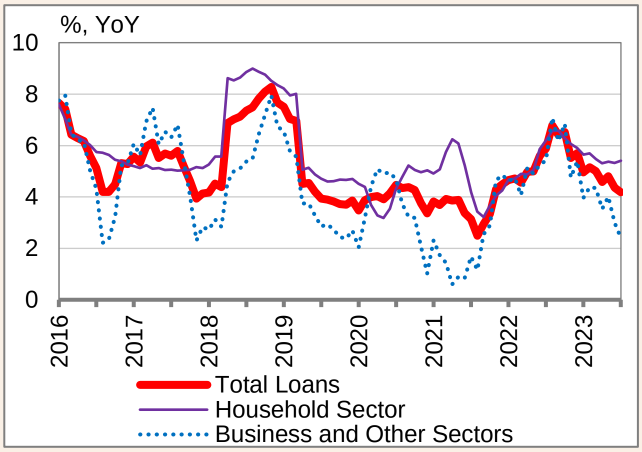
Unemployment rate held steadily at 3.4% in Jul, with a record-high labour force participation rate

Banking and Financial Indicators

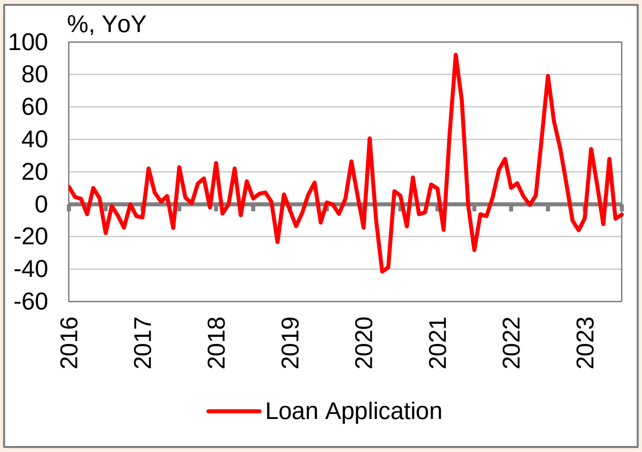
Banking deposit growth continued its moderation trend



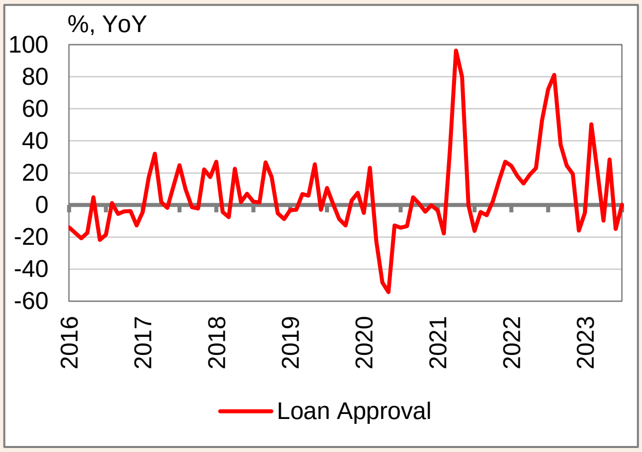
Overall loan growth softened in Jul-Aug



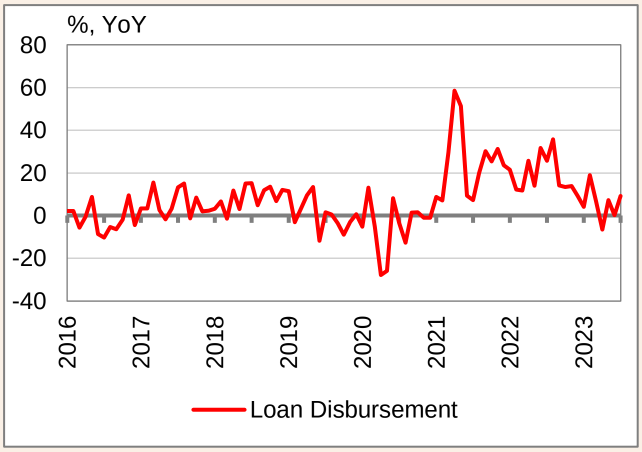
Loan applications growth



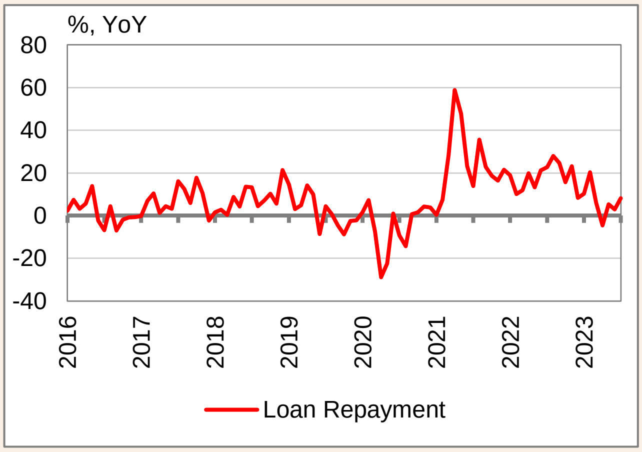
Loan approvals growth



Loan disbursements growth

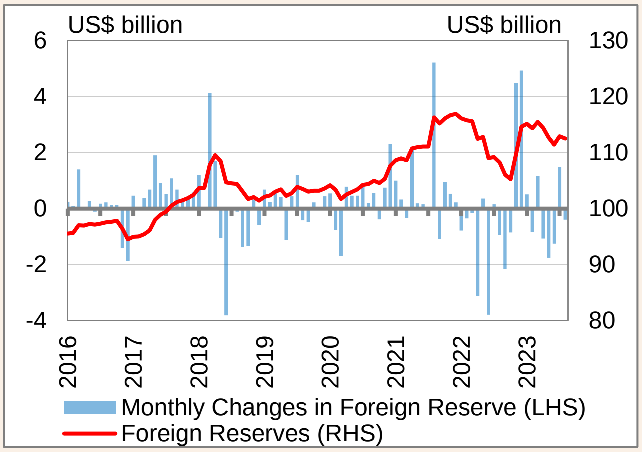


Loan repayments growth

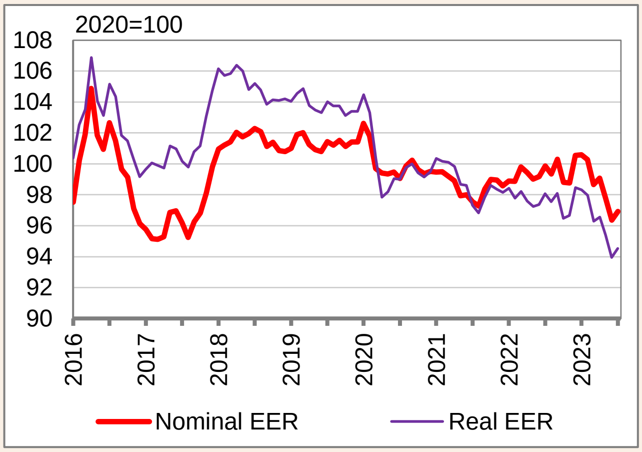


Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

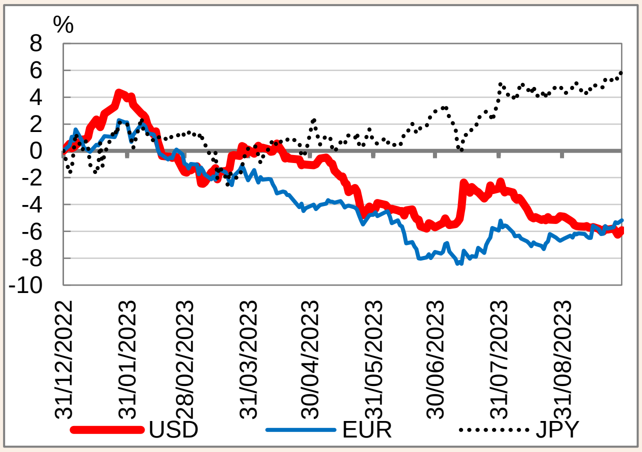
Foreign reserves reduced to US$111.5 billion as at 15 Sep 2023



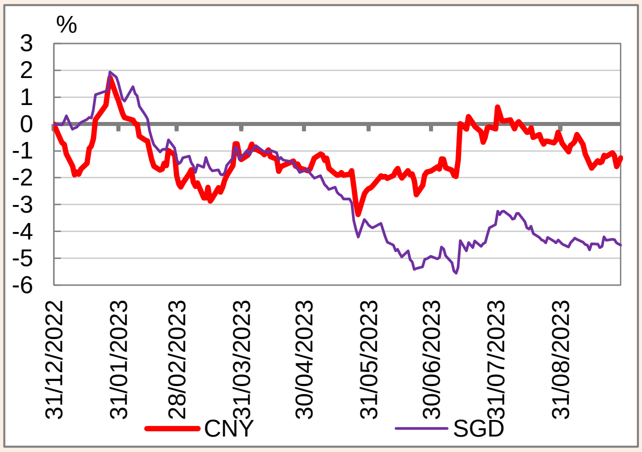
Ringgit's Effective Exchange Rate (EER)



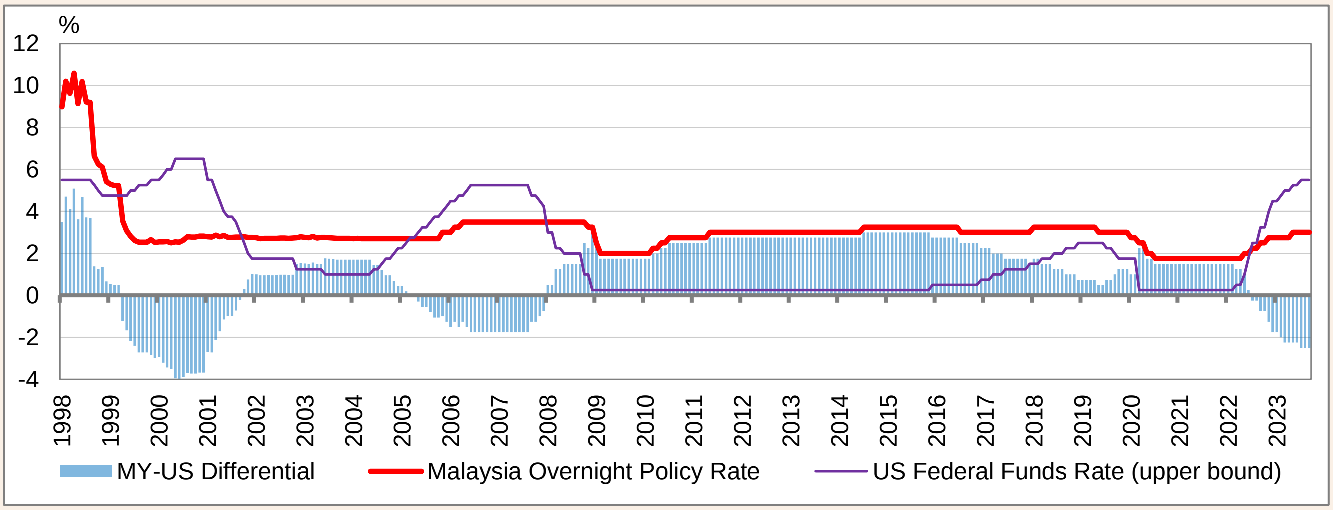
The Ringgit against the US dollar, euro and Japanese yen



The Ringgit against the Chinese renminbi and Singapore dollar



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve

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The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

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The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.