



AmBank Group

Can the Unity Government Steer Favourable Growth in 2023?

Dr Anthony Dass, Chief Economist/Head AmBank Research

Our Fortunes Maybe Turning Around

- **DSAI's record of effective & corruption-free leadership offers:**
 - ❑ Good reason Malaysia can return to a stable development path
 - ❑ Greater prosperity for more people
 - ❑ DSAI's record stands in stark contrast to that of Najib Razak, another Finance Minister
 - ❑ A significant contrast to PM8 & PM9
- The question now is **can DSAI can bring to bear the policy savvy he has previously shown** as DPM/MoF in addressing the challenges Malaysia faces today



Concerning Issues (Unity Government)

External Issues

- **Year 2023** started on the **assumption of multiple shocks**
 - ❑ Synchronous policy tightening
 - ❑ Worsening financial conditions
 - ❑ Disruptions from Russia's invasion of Ukraine
 - ❑ Geopolitical tension
 - ❑ China's policy opacity, regulatory uncertainty, unfair protectionism
 - ❑ Policymakers are likely to face difficult trade-offs between too much tightening & too little
 - ❑ Risk of global recession & slower global trade
- Malaysia has a **strong integration** with the global economy & financial markets
- We are a **highly open economy** (124% in 2015 to 189% in 2022)
- Drag on **global trade & investment will weigh on Malaysia's export volume**

Domestic Challenges

- **Cost of Living** – rose around 11.0% to 15.5% in 2022 – supply, pent up demand & natural demand
- **Cost of Doing Business** – up around 20% in 2022
 - ❑ Raw materials (+22%); Energy (+19%), Interest costs (+19%) & Tax bills (+17%)
- **Labour** – opportunity revenue loss across economic sectors & risk sideline from global supply chain
 - ❑ Palm Oil (RM20bn); Manufacturing (operating below capacity); Penalties being imposed; loss of orders
- **Debt levels** (government + off budget liabilities) is around RM1.5trn or 80% of GDP
- **Political Polarization** – Race/Religion; & State Election (Selangor, Penang, NS, Kedah, Kelantan & Terengganu)
- **Governance & Corruption** – currently tainted



Unity Government Could Benefit

1. A switch from the recession narrative that depends on where you are to a slower growth:

➤ Recession risk in the US is now unlikely

- Corporate & Household balance sheet are in the best shape in the downturn
- More of a mild slowdown

➤ Euro is no longer on the recession plate

- Reduce their energy dependence & so energy prices went down fast& inflation peaked in 2022
- Labour market is still strong & business activity holding up
- But must remain vigilant**

➤ China's reopening of the border

- Rebound in foreign investment
- Growth opportunities from middle class households – healthcare, finance services & clean technology
- Retain a cautious outlook –policy opacity, regulatory uncertainty, unfair protectionism**

2. Diversifying away from China benefits

- India, Bangladesh & ASEAN including Malaysia

3. Potential bright spots

- Easing of inflation
- Improving consumer sentiments

4. Narrative of global slowdown & moderate global trade from recession will support our exports

- Global trade volume should grow between 2.5% - 3.5% in 2023 (3.0% - 3.5% in 2022)
- Focus on trade volume as value will be influenced by prices
- Trade growth numbers in 2023 would be influenced the high base of 2022

5. Addressing Malaysia's foreign labour issues

- Expected to be resolved by 3 – 4 months
- If resolved would bode well for the economic activities across the board – expected in 2H23

6. Greater commitments from our trading partners

- DSAI's foreign visits has been positive
- Can expect greater levels of cooperation and coordination

7. Business confidence

- Expansion in employment (setting a base to expand output when future demand picks up)
- Delivery times eased as material shortages, port congestion & delivery issues continued to normalise
- Better availability of materials contributed to the softer rise in input prices
- Supply chains improve as our producers delivery times shortened for the first time since Nov'19
- Growing optimism on 2023 outlook amid hopes of a better domestic & external demand conditions

8. Private sector capital expenditure

- ❑ Ongoing & and new multi-year investments in the technology intensive manufacturing & services sectors
- ❑ A “no recession” global outlook would support investment intentions among export-oriented firms

9. Public sector capital expenditure

- ❑ Upgrading of public infrastructure and amenities

10. Public corporation capital expenditure

- ❑ Implementation of existing & new transportation infrastructure projects like ECRL, LRT3, MRT3, RTS Link, Sarawak-Sabah Link Road Phase 2 & Trans Borneo Highway.

12. Benefit from global supply chain relocation

- It is caused by several factors like the Covid-19 pandemic & the Ukraine-Russia war
- Moderate Malaysia's GDP in 2023 of 4% -5% is still considered robust

13. MIDA's contribution on FDI & DDI

- Will continue to be the catalyst for Malaysia's burgeoning economic development
- Strategic programmes to create opportunities for domestic companies & mitigate gaps in the supply chain
- Environmental, Social & Governance (ESG) principles will take precedence in investment discussions

14. Consumer confidence

- Remain favourable supported by the job market, income prospects & household income support
- Prices would stabilize from ceiling on retail fuel prices & price control measures on selected food items
- Core inflation should ease in 2H23 and will soften the degree of a strong transfer pricing

15. Budget 2023 is not like the previous Budget 2023 which is "Election" driven

- Digital Advancement, SMEs and the Green Economy
- Spending & Prudence
- PETRONAS dividend is likely to be around RM35bn (RM52bn in 2022)

16. Consumer & Retailing – sustained domestic demand, tourism, automation, online, improve jobs & income

- Wholesale & Retail Trade
- Food & Beverages, Accommodation
- Transport & Storage
- ICT
- Retailers from cashless society

17. Manufacturing will benefit from investment inflows (FDIs & DDIs) & trade

- New areas like medical devices, chemicals & aerospace
- E&E from the global semiconductor market demand
- Transport Equipment, Petroleum Products, Machinery Equipment, Non-Metallic Mineral Products
- Rubber-based products would benefit from better global demand for motor vehicles & health activities
- Food-related would benefit from private consumption, tourism industry & construction sector

18. Logistics – benefit from GDP growth of 4%- 5% & global trade volume of 3%- 4% in 2023

- Halal Logistics & Warehousing
- E-commerce, Automation & Digitalisation

19. Automotive – improving jobs and income & EVs

- EV infrastructure – charging stations; incentivising & facilitating the installation of home chargers & buildings
- Prioritise on EV of two/three wheelers & urban buses –they are most cost competitive

20. Others

- ❑ **Agriculture** – food security
- ❑ **E-commerce/Online** – Digital consumer population (25mil digital consumers = 99% of 15-year-olds & above)
- ❑ **Oil & Gas** – come back with increasing capital expenditure due to firm prices
- ❑ **Real Estate** – improving jobs, income & GDP (industrial properties, affordable, rental)
- ❑ **Trading** – steady trade performance
- ❑ **Business Services** –favourable domestic economic activities supporting business services
- ❑ **Construction/Infrastructure** – Ongoing & New Projects

Sustainability

70% of our exports go to countries committed to net-zero emissions

Sectors	Risk Level	Contribution to GDP
Oil	Very High Risk	10%
Metals & Mining		
Power Generation (with coal)		
Chemicals	High Risk	17%
Gas		
Refining & Marketing		
Agribusiness		
Automobiles	Medium Risk	33%
Technology Hardware		
Environmental Services		
Forestry		
Transportation		
Building Materials		
Aerospace & Defence		
Containers & Packaging		
Home Builders & Developers		
Midstream		
Retail & Consumer Products		



Macro Data Highlights

	2021	2022	2023f
GDP %	3.1	8.7	4.5
Private Consumption %	1.9	11.3	6.0
Private Investment %	2.6	3.5	3.7
Exports %	26.0	24.0-25.0	9.0
Loans %	4.5	6.0	4.0–5.0
Inflation %	2.5	3.3	2.8
OPR %	1.75	2.75	3.00
Brent (US\$/barrel)	71	100.8	80 - 85
CPO (RM/tonne)	4537	5,130	3,250–3,750
USD/MYR	4.17	4.40	4.20/30

THANK YOU

