

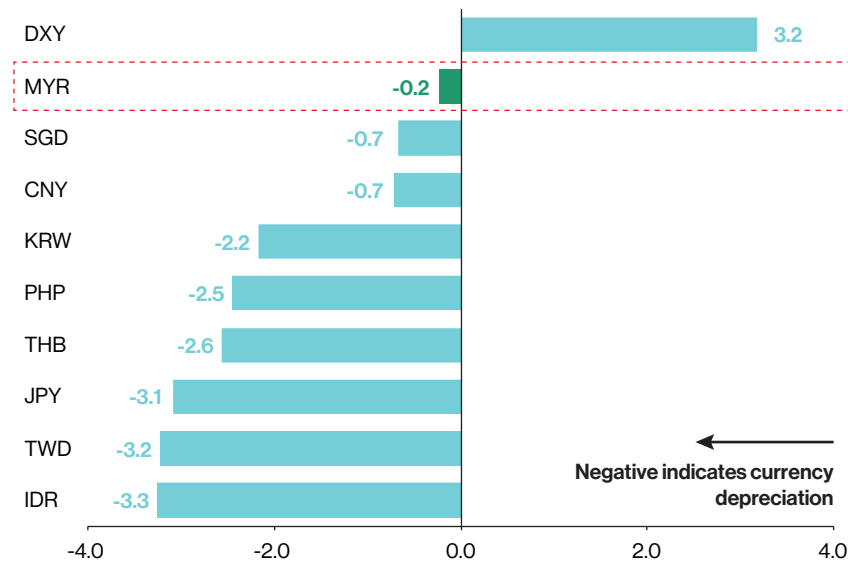
Monetary and Financial Developments

# Financial Markets and Exchange Rate

## Ringgit depreciated against the US dollar, but appreciated on an effective basis

Ringgit's depreciation was in line with major trade partners amid extended US dollar strength

Performance of the US Dollar Index and Regional Currencies Against the US Dollar, %QoQ



Ringgit appreciated against major trading partners

**NEER**  
**+1.4%**  
(2Q 2023: -3.2%)

Note: NEER refers to the nominal effective exchange rate  
Source: Bank Negara Malaysia and Bloomberg

## Domestic financial market developments were driven mainly by the global monetary policy path



### Bond yields increased

in line with regional peers on expectations of tighter US monetary policy

**MGS 10Y Yield**

**+12 bps**  
(2Q 2023: -6 bps)



### Equity markets rose

as the launch of national master plans lifted earnings prospects

**KLCI**  
**+3.4% QoQ**  
(2Q 2023: -3.2%)

## Key factors



**Projections for US monetary policy to remain tight** going into 2024 amid higher economic growth estimates by the US Federal Reserve, which led to higher global bond yields



**Slower-than-expected economic growth in China** led to continued monetary easing from the People's Bank of China and dampened investor sentiments towards the region

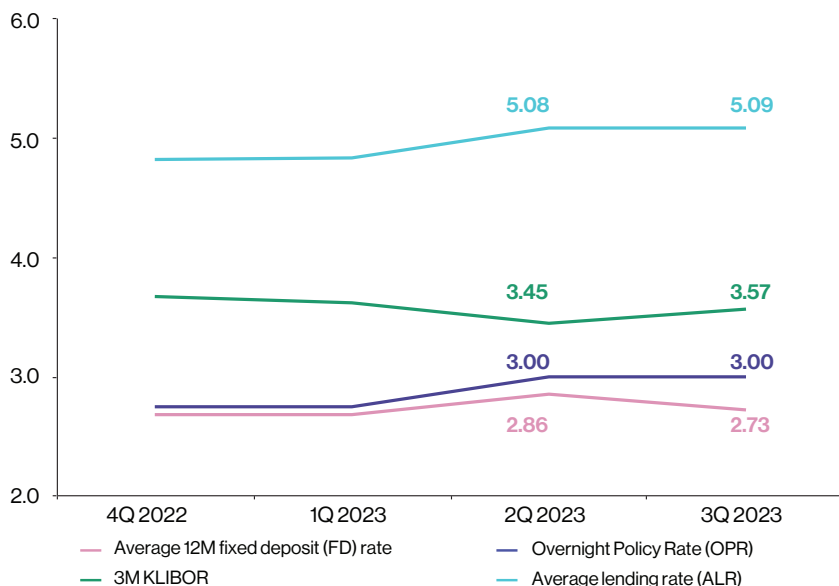
Source: Bank Negara Malaysia, ETP and Bursa Malaysia

## Monetary and Financial Developments

# Interest Rates and Liquidity

### Interbank rates increased while fixed deposit rates declined during the quarter

Interest rates (at end-period), %

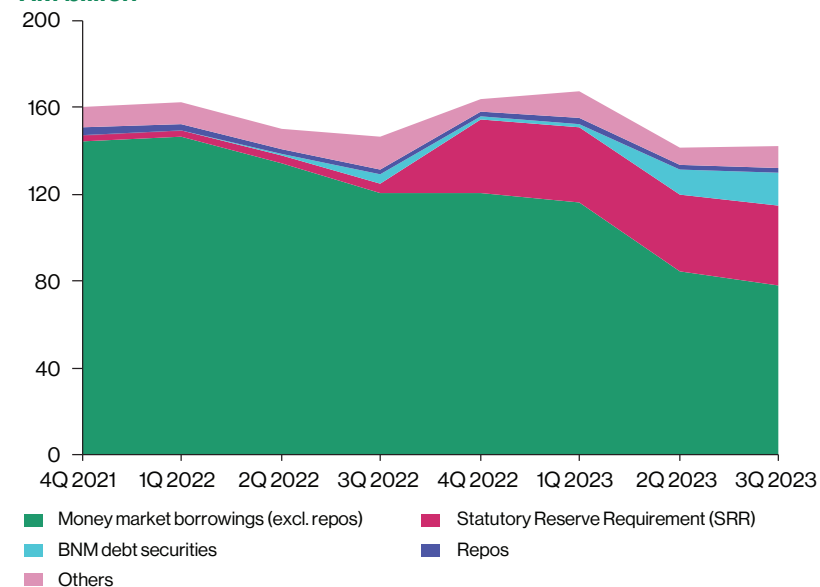


- **Interbank rates, as reflected by the 3M KLIBOR, increased** as banks traded more actively to fund their balance sheets and took pre-emptive measures to improve liquidity positions in anticipation of potential year-end deposit competition. The increase in interbank trading turnover reflected a more effective liquidity intermediation and price discovery in the market.
- **Fixed deposit (FD) rates declined** by between 1 and 14 basis points across tenures of 1 to 12 months, reflecting banks' funding strategy to manage the cost of funds.
- **Average lending rate (ALR) on outstanding loans remained broadly stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

### Sufficient banking system liquidity to support financial intermediation

Outstanding ringgit liquidity placed with BNM (at end-period), RM billion



- **Banking system liquidity remained sufficient** at both the institutional and system-wide levels.
- During the quarter, the Bank issued term Bank Negara Interbank Bills (BNIB)<sup>1</sup> to promote more efficient management of overnight liquidity balances by banks and to encourage greater trading and better price discovery in the interbank market.

<sup>1</sup> BNIB is a monetary instrument issued by BNM to manage liquidity in the interbank money market. More information on BNIB can be found on BNM's Fully Automated System for Issuing / Tendering (FAST) website.

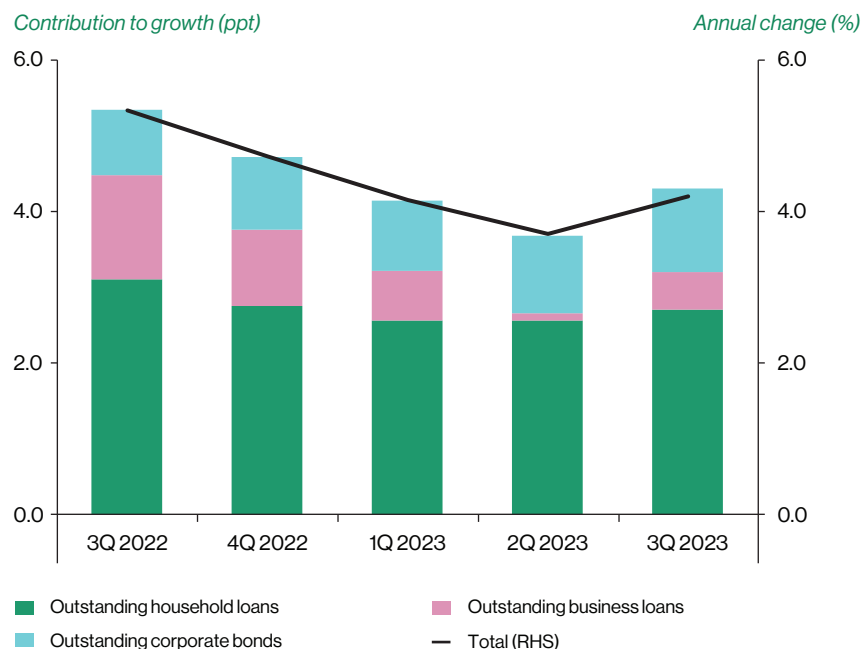
Source: Bank Negara Malaysia

## Monetary and Financial Developments

# Credit Conditions

### Credit growth improved following higher growth in business loans

#### Credit to the Private Non-Financial Sector<sup>1</sup>



<sup>1</sup> Consists of outstanding corporate bonds and outstanding loans to businesses and households.

Source: Bank Negara Malaysia

### Key developments

#### Credit to the Private Non-Financial Sector 4.2%<sup>2</sup> (2Q 2023: 3.7%)

- Outstanding loans<sup>3</sup> grew by 4.0% (2Q 2023: 3.4%), supported by higher growth in business loans.
- Outstanding corporate bond growth remained sustained at 5.0% (2Q 2023: 4.9%).

#### Business Loans 1.6% (2Q 2023: 0.5%)

- The higher growth was driven mainly by working capital loans to non-SMEs.
- Investment-related loan<sup>4</sup> growth was sustained, mainly supported by SMEs.
- Of note, the growth in outstanding SME loans also remained forthcoming (6.7%; 2Q 2023: 6.4%).

#### Household Loans 5.4% (2Q 2023: 5.1%)

- Growth in outstanding loans continued to be sustained across key purposes.
- This reflected some improvement in loan demand during the quarter, as observed in the higher growth in loan applications (4.1%; 2Q 2023: 2.5%).

<sup>2</sup> All numbers quoted are in terms of annual change.

<sup>3</sup> Refers to loans from the banking system and development financial institutions (DFIs).

<sup>4</sup> Comprises loans for the purchase of non-residential properties, residential properties for business use, fixed assets and construction purposes.

Source: Bank Negara Malaysia

Box Article

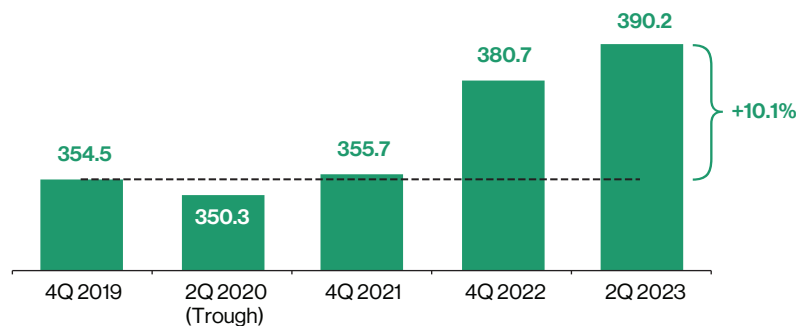
# Malaysia's Economic Resilience: A Post-pandemic Analysis

## Highlights

- Recovery led by manufacturing and services sectors.
- Malaysia's diversified exports and tourism rebound have contributed to the country's trade resilience.
- Improving labour market provided job and income opportunities, especially for the vulnerable segments.
- Robust economic fundamentals have enabled the country to weather the slowdown in external demand.

*As of 2Q 2023, on a seasonally adjusted basis, Malaysia's GDP had exceeded pre-pandemic levels by more than 10%*

**Chart 1: Malaysia's Gross Domestic Product**  
Seasonally adjusted levels, RM billion



Source: Department of Statistics, Malaysia

## INTRODUCTION

The COVID-19 pandemic was the most severe shock faced by the Malaysian economy since the Asian Financial Crisis. Amid a highly challenging global and domestic environment, the country suffered broad-based weaknesses in exports, production and domestic demand in 2020. These factors led to significant income losses and reduced spending by both households and businesses.

Since then, the Malaysian economy has made great strides in rebounding from the COVID-19 pandemic (Chart 1). This article aims to assess Malaysia's economic resilience post the pandemic and to evaluate the progress of key sectors in their recovery. Additionally, it seeks to shed light on the resilience of Malaysia's exports, including the rebound in the tourism sector. It analyses improvements in the labour market and its role in sustaining income and spending. The article then outlines the underlying factors that strengthen Malaysia's economic resilience in weathering ongoing external uncertainties and headwinds.

Box Article

# Malaysia’s Economic Resilience: A Post-pandemic Analysis

## Recovery led by manufacturing and services sectors

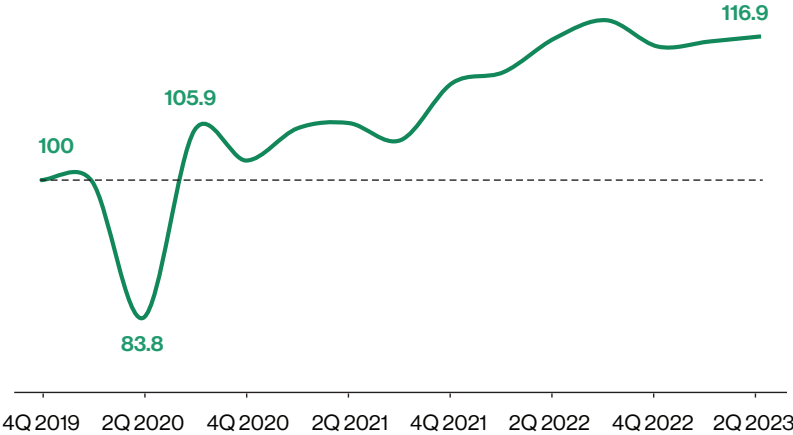
The COVID-19 pandemic restricted economic activities and impacted sectoral production adversely through both supply and demand shocks. As these shocks waned, the economy gradually recovered, driven mainly by the manufacturing sector and several major services sub-sectors.

The manufacturing sector led the economic recovery and rebounded as early as the third quarter of 2020 (Chart 2). Global demand for semiconductor equipment in telecommunication, medical devices, and cloud computing surged during the pandemic. This was a boon to Malaysia’s E&E industry as the country is well-integrated in the global value chain of these segments and has a strong domestic ecosystem to cater to the rising demand. Furthermore, the primary cluster benefitted from pandemic-induced demand for health-related products (e.g., rubber gloves and pharmaceuticals), while the consumer-related cluster gained from the improvement in domestic household spending, such as food & beverages and passenger cars, particularly following the reopening of the economy.

As the global economy slowed down in 2023, manufacturing activities moderated in tandem, particularly in export-oriented industries. Nevertheless, the sector continued to be a key driver of growth, trending above pre-pandemic levels.

## The manufacturing sector led Malaysia’s recovery and remained a key engine of growth in the post-pandemic period

**Chart 2: Malaysia’s Manufacturing Value Added**  
Seasonally adjusted GDP levels (4Q 2019=100)



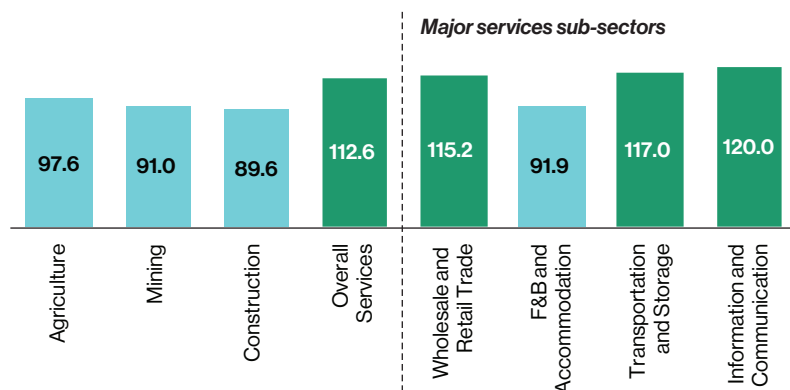
Source: Department of Statistics Malaysia, BNM estimates

Box Article

# Malaysia's Economic Resilience: A Post-pandemic Analysis

*The services sector rebounded, while other sectors faced uneven recovery and idiosyncratic shocks post the pandemic*

**Chart 3: Sectors/Activities with Uneven Recovery (2Q 2023)**  
Seasonally adjusted GDP levels (4Q 2019=100)



Source: Department of Statistics Malaysia, BNM estimates

In the services sector, the recovery gathered pace following the full upliftment of domestic containment measures and reopening of international borders in April 2022. This was also supported by policy measures such as accommodative monetary policy, cash transfers and retirement fund withdrawals. The increase in domestic spending led to the improvement in high-touch services activities (e.g., retail, dining out and recreational activities). Furthermore, the growth in delivery services and e-commerce led to higher online retail trade activity.<sup>1</sup> However, food and beverage

<sup>1</sup> Online retail trade activity grew by 19.8% in 2022 (2019: 13.8%). This was underpinned by more entrenched consumer online preferences, expansion of online market reach and marketing strategies.

and accommodation services remain below pre-pandemic levels (Chart 3), constrained by a more gradual rebound in tourism.

Several sectors experienced uneven recovery and faced idiosyncratic shocks, requiring a longer period to return to pre-pandemic levels. While agriculture sector provided support in the earlier stages of recovery, production in 2023 was impacted by adverse weather conditions. Mining sector activity was forthcoming but remained below pre-pandemic levels due to maintenance activities and production constraints related to maturing oil fields.

Meanwhile, the recovery in the construction sector was slower, especially in the residential and civil engineering subsectors. This owed to elevated building material costs and lingering labour shortage issues. Pre-existing structural issues also remain a drag such as property overhang and housing demand-supply mismatches.

Moving forward, most economic sectors will remain supportive of growth. The manufacturing sector is expected to expand further amid improving external demand and global tech upcycle. The services sector will benefit from continued growth in consumer spending and tourism recovery. Furthermore, the progress of infrastructure projects, including catalytic initiatives under the various national plans, will support the construction sector's ongoing recovery. Nevertheless, full recovery in the commodities sector could be delayed due to sector-specific constraints.<sup>2</sup>

<sup>2</sup> In 2024, the mining sectors' growth would be restrained by production issues related to maturing oil and gas fields while the agriculture sector would be weighed by extreme dry weather associated with El-Nino phenomenon.

Box Article

# Malaysia’s Economic Resilience: A Post-pandemic Analysis

## Malaysia’s diversified exports and tourism rebound have contributed to the country’s trade resilience

As a small and open economy, Malaysia was not spared from the sizeable shock to global trade by the pandemic. In 2Q 2020, the country’s exports recorded its sharpest decline since the Global Financial Crisis.

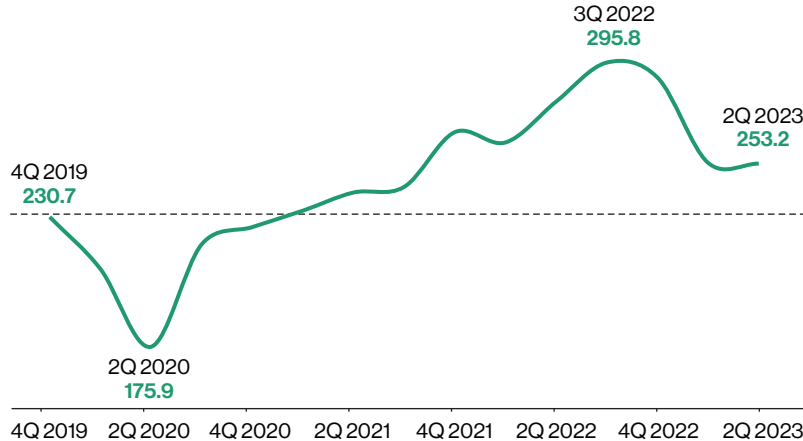
However, as the global economy gradually improved, Malaysia’s exports benefitted significantly, becoming one of the key engines of growth in 2021 and 2022. Some products recorded exceptional growth. For example, E&E products, which account for more than a third of total exports, grew strongly amid the accelerated adoption of technology worldwide. Non-E&E exports also improved, such as petroleum and palm oil products (19% of total exports in 2022).

Following the strong rebound last year, Malaysia’s exports declined in 2023 thus far, weighed by the softening in global trade. This reflects weak demand in key trading partners, a shift in spending from goods to services as well as the global tech cycle downturn. Nevertheless, Malaysia’s real exports in level terms continued to trend above its pre-pandemic level (Chart 4). The resilience in exports reflects the country’s ability to weather external headwinds through its highly diversified exports in terms of products and destinations.

Going forward, Malaysia’s exports are expected to improve gradually in 2024. This will be driven by improving global trade and higher demand for E&E products in line with the expected recovery in global tech cycle. Furthermore, the continued improvement in tourism will further lift overall exports.

## Despite ongoing external headwinds, Malaysia’s real exports in 2023 remained resilient, trending above pre-pandemic levels

Chart 4: Malaysia’s Real Exports Performance  
RM billion



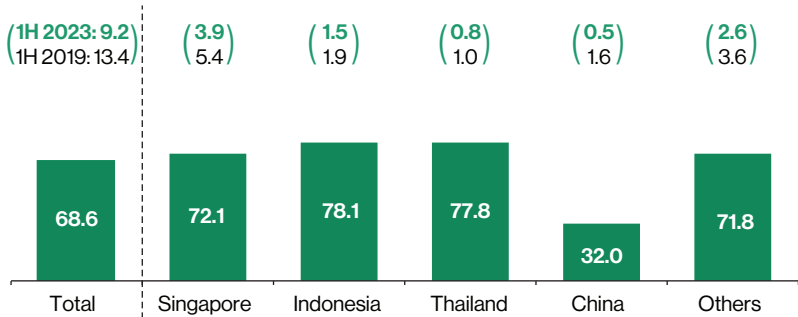
Source: Department of Statistics Malaysia, BNM estimates

Box Article

# Malaysia’s Economic Resilience: A Post-pandemic Analysis

**Tourist arrivals in Malaysia have reached about 70% of the pre-pandemic level as at first half of 2023**

**Chart 5: Tourist Arrivals in Malaysia by Origin Country (1H 2023)**  
% of 1H 2019, Million persons

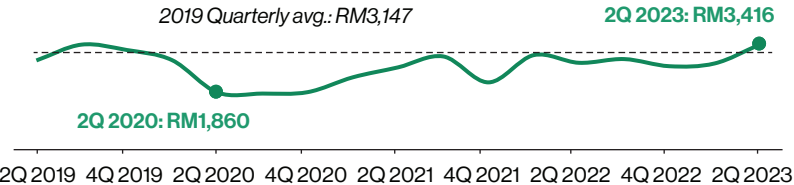


Note: Figures in the bar shows the percentage of recovery vs 1H 2019, while in parentheses refer to actual number of arrivals.

Source: Tourism Malaysia, BNM estimates

**Tourist spending in Malaysia has exceeded its pre-pandemic average level by second quarter of 2023**

**Chart 6: Tourist per Capita Spending in Malaysia**  
RM



Note: Per capita spending is estimated by dividing Malaysia’s travel receipts for the quarter with the number of tourist arrivals.

Source: Department of Statistics Malaysia, BNM estimates

Malaysia’s tourism industry was one of the most affected industries by the pandemic. As international borders reopened and travel abroad resumed, Malaysia’s tourism industries have steadily improved. In 2022, tourism contributed to 14% of GDP (2021: 12.8%; 2019: 15.9%) while travel receipts accounted for 2.1% of nominal exports (2021: 0.03%; 2019: 8.3%).

As at the first half of 2023, tourist arrivals reached about 70% of pre-pandemic level (Chart 5). This is driven mainly by regional tourists from Singapore, Indonesia and Thailand. Malaysia also benefitted from China’s outbound travel, following the lifting of its COVID-19 restrictions.<sup>3</sup> Furthermore, in 2Q 2023, per capita spending by foreign tourists had exceeded its pre-pandemic level (Chart 6). Of note, Chinese visitors are spending more on experiences compared to goods.<sup>4</sup> The recovery in tourist arrivals and spending have supported jobs and income in the industry. However, the impact to overall economy was also partially offset by the rising number of Malaysians travelling abroad.<sup>5</sup>

In the upcoming quarters, tourist arrivals are expected to further improve. This will be supported by higher international travel demand as well as the expansion in flight capacity to cater to the higher demand.

<sup>3</sup> The rebound in China’s outbound tourism has been gradual, due in part to more cautious spending among Chinese travellers amid the country’s slowing economic growth.  
<sup>4</sup> Based on Travel Industry Trend 2023 publication by Mastercard Economic Institute. Data as of Mar 2023 shows that Chinese tourists are spending more than 2019 level (105% of 2019 level) on experience, with less expenditure on things (70% of 2019 level).  
<sup>5</sup> In 1H 2023, Malaysia recorded net travel receipt of RM5.1 billion (2015-19 avg.: RM30.4 billion) as travel receipts from foreign tourists of RM28.6 billion (2015-19 avg.: RM76.8 billion) was partially offset by travel payments by Malaysians travelling abroad of RM23.5 billion (2015-19 avg.: RM46.4 billion).

Box Article

# Malaysia's Economic Resilience: A Post-pandemic Analysis

## The improving labour market provided job and income opportunities, especially for the vulnerable segments

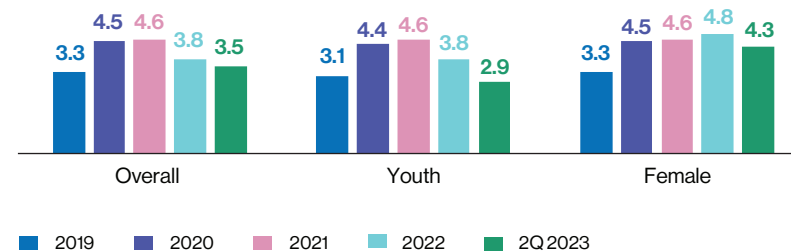
The onset of the pandemic significantly weighed on employment and income levels. Employees in the informal sector were the most affected, including women and youth who experienced a sharper increase in unemployment rate<sup>6</sup> (Chart 7). Meanwhile, the negative impact to workers in formal employment was not as acute as firms were able to operate through flexible work arrangements and technology adoption. The majority of firms<sup>7</sup> also opted to retain headcount as retrenchments could lead to higher sourcing and re-training costs when the economy recovers. Furthermore, firms and workers were also supported by policies such as the Employment Retention Programme and Wage Subsidy Programme.

Following the lifting of restrictions on economic activities in 2022, employment levels recorded a strong growth of 2.8% (2016-2019 average: 1.7%). This was partially driven by a surge in own-account workers<sup>8</sup> (Chart 8) as the gig economy served as a socio-economic safety net for those who experienced loss of employment, contributing to the upturn in income and household balance sheet resilience. Based on national estimates,<sup>9</sup> informal sector employment rose from 1.3 million in 2019 to 2 million in 2021.

<sup>6</sup> This was exacerbated by potential structural issues such as low participation in the labour force and skills mismatch with jobs for these vulnerable segments respectively.  
<sup>7</sup> BNM's Regional Economic Surveillance indicates more than half of surveyed firms would reduce wages or lower working hours, with minority opting for trimmed headcount.  
<sup>8</sup> Own-account workers are defined as persons who operate own farm, business or trade without employing any paid workers in the conduct of the farm, business or trade (Source: DOSM). Gig workers are classified as part of own-account workers.  
<sup>9</sup> DOSM's Informal Sector Workforce Survey Report 2019 and Statistics on Informal Sector and Informal Employment Malaysia, 2021.

## The pandemic had disproportionately affected vulnerable segments in the labour market, notably women and youth

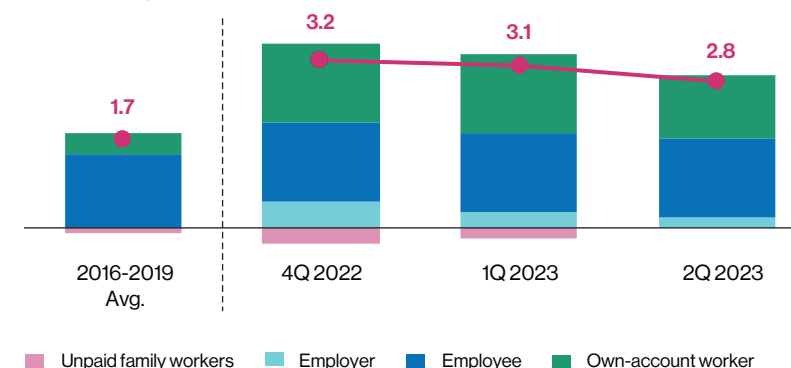
Chart 7: Unemployment Rate for Youth (25-34) and Women %



Source: Department of Statistics, Malaysia

## Employment growth was driven by the expansion in the formal sector and to some extent the surge in own-account workers

Chart 8: Employment Growth by Type Annual change (%)



Source: Department of Statistics, Malaysia

Box Article

# Malaysia's Economic Resilience: A Post-pandemic Analysis

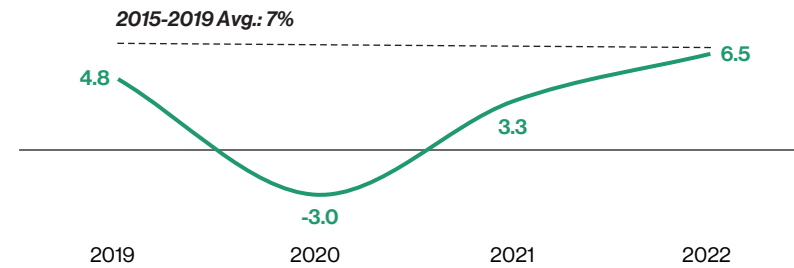
In tandem with the recovery in employment, income, as measured by the compensation of employees (COE), recorded a strong rebound from -3% in 2020 to grow by 6.5% in 2022 (2015-2019 average: 7%) (Chart 9).<sup>10</sup> In addition to COE, own-account workers, which account for 18.4% of total employed persons in 2Q 2023 (4Q 2019: 17%), were also able to generate income through self-employed work and the gig economy.

The labour force participation rate has also improved to above pre-pandemic levels, reaching a historical high of 70% of the working-age population as of 2Q 2023 (Chart 10).

Moving forward, employment and income growth is expected to remain resilient throughout 2024 amid continued expansion in economic activities.

## Income of workers in formal employment rebounded strongly from the pandemic, edging closer to its long-term average

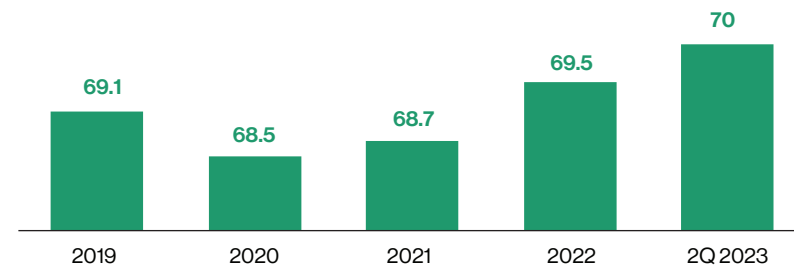
**Chart 9: Compensation of Employees**  
% year-on-year growth



Source: Department of Statistics, Malaysia

## Labour force participation reached a historic high

**Chart 10: Labour Force Participation Rate**  
% of working-age population



Source: Labour Force Survey, Department of Statistics, Malaysia

<sup>10</sup> For wage levels, private sector wages rebounded from -2.5% in 2020 to 6.7% in 2022 (Services - 2020: -3.3%, 2022: 7.5%; Manufacturing - 2020: -1.1%, 2022: 5.2%).

## Box Article

# Malaysia's Economic Resilience: A Post-pandemic Analysis

## Robust economic fundamentals have enabled the country to weather the moderation in external demand

The economic recovery has been a litmus test of our country's fundamentals. Malaysia's economy has exhibited agility in navigating the new post-pandemic landscape. In terms of economic composition, Malaysia continues to benefit from a highly diversified economy, anchored by the services and manufacturing sectors. This can be further strengthened by the pursuit of high-value added industries and greater technology adoption, reducing vulnerability to industry-specific downturns, and utilising the country's comparative advantage.

Amid a more moderate external demand in 2023, Malaysia's exports has slowed down, in line with regional countries. However, exports remained resilient relative to pre-pandemic levels. Furthermore, the labour market remained robust, sustaining the growth in income and employment. This has supported the resilience in domestic demand, alongside the recovery in tourism-related sectors and the realisation of multi-year investment projects.

In all of this, Malaysia's financial sector has played an integral role in supporting businesses and households, including providing repayment and financial assistance. The country's robust financial sector will continue to support the economy in facing future economic shocks.

## CONCLUSION

The COVID-19 pandemic shock and the subsequent recovery have presented valuable policy lessons on the economy's resilience. Diversification of the economy had contributed to the growth recovery. Going forward, the recent national master plans such as the Twelfth Malaysia Plan (RMK-12), National Industrial Master Plan (NIMP), and National Energy Transition Roadmap (NETR) have charted the path ahead for the economy. The timely implementation of the strategies and reforms under these masterplans are expected to set a strong foundation for Malaysia's future prospects.