SECTION 1

Economic Performance and Outlook

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Economic Performance and Outlook

Overview

Sustained economic activities underpinned resilient growth

The global gross domestic product (GDP) growth in 2022 moderated to 3.4% reflecting the economic slowdown in advanced economies as well as emerging market and developing economies (EMDEs). Despite the softened global growth, Malaysia's economy recorded a strong growth of 8.7% in 2022, exceeding the initial projection of 6.5% – 7%, whereby real output value reached above the pre-pandemic level. The commendable performance was driven by domestic demand and improved labour market in line with the transition to the endemic phase. These resulted from an increase in economic activities which include household spending, investment and tourism. Subsequently, encouraging expansion in all economic sectors primarily the services and manufacturing have also provided continuous impetus to the significant economic growth in 2022. Furthermore, the growth was attributed to robust external demand, especially among Malaysia's major trading partners.

Notwithstanding the growth, the economy in 2022 experienced several challenges with escalating inflationary pressures due to high commodity and food prices as well as softened global economic growth and trade. Therefore, the Government has taken various holistic and comprehensive measures to help the rakyat and businesses in dealing with inflationary pressures and higher cost of living.

In 2023, global growth is expected to further soften at 2.9% on the back of persistent pressures such as inflation, tightening global financial conditions and economic deceleration among major economies. Meanwhile, Malaysia's economic growth is projected to moderate amid the signs of weakness in the global growth momentum. The growth will be mainly supported by steady domestic demand primarily private expenditure as well as initiatives under the Budget 2023 and development expenditure under the Twelfth Malaysia Plan, 2021 – 2025 (12MP). However, a slowdown in external demand is expected to moderate exports growth, particularly in the electrical and electronic (E&E) products and major commodities.

On the supply side, all economic sectors are expected to remain in the positive growth trajectory in 2023, driven by the services and manufacturing sectors. Other sectors, namely agriculture, mining and construction are also expected to grow further in line with the improvement in economic activities. However, downside risks such as prolonged geopolitical conflict, climate-related disasters and persistently high inflation are expected to further hampering the global economic growth, hence, affecting Malaysia's performance. Overall, the nation's GDP is forecast to grow approximately 4.5% in 2023.

Global Economic Performance in 2022

Moderate growth amid global challenges

The International Monetary Fund's World Economic Outlook, January 2023 reports the global growth expanded by 3.4% in 2022 as economic recovery momentum from 2021 was disrupted by high inflation and supply chain constrain. The GDP growth in advanced economies moderated at 2.7% as high inflation eroded household purchasing power and dented confidence, while rapid monetary policy tightening weighed on demand. The EMDE's economy registered a slower growth of 3.9% resulting from dissipating pent-up demand and declining goods export growth outweighing recovery in the tourism industry.

World trade grew moderately by 5.4% reflecting the slower overall economic activity. Trade growth in advanced economies recorded 4.2% and 6% in exports and imports, respectively, lower than the growth recorded in the previous year. Similarly, trade in the EMDEs moderated with exports and imports grew at a slower rate of 3.3% and 2.4%, respectively.

Global inflation was registered at 8.8% in 2022 mainly reflecting the increase in food and energy prices. The inflation rate recorded 7.3% in advanced economies and 9.9% in the EMDEs.

Malaysia's Economic Performance 2022

Sectoral

Services Sector

Anchored the growth

The services sector grew by 10.9% in 2022, mainly supported by the wholesale and retail trade; transportation and storage; as well as real estate and business services subsectors. The performance was attributed to the upswing in tourism-related activities following the reopening of international borders, increased consumer spending, higher adoption of digitalisation across all sectors as well as improved demand for professional services.

TABLE 1.1. *Gross Domestic Product by Sector, 2021 – 2023 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2022[1]	2021	2022[1]	2023[2]
Services	*58.2*	*1.9*	*10.9*	*5.3*
Manufacturing	*24.2*	*9.5*	*8.1*	*3.9*
Agriculture	*6.6*	*-0.2*	*0.1*	*1.1*
Mining	*6.4*	*0.3*	*3.4*	*1.2*
Construction	*3.5*	*-5.2*	*5.0*	*6.1*
GDP	***100.0***	***3.1***	***8.7***	***~4.5[3]***

[1] Preliminary
[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 recorded a growth of 13.5% in 2022, supported by strong performance in all segments following an increase in household spending mainly attributed to improvement in the labour market. The retail trade segment recorded a significant growth of 18.3% mainly led by retail sale in non-specialised stores and retail sale of other goods in specialised stores. This corresponded with the encouraging trend in tourism spending activities. In addition, the motor vehicles segment contributed substantially to the subsector's performance as vehicle sales rose by 41.6% to 720,658 units (Malaysia Automotive Association, 2023).

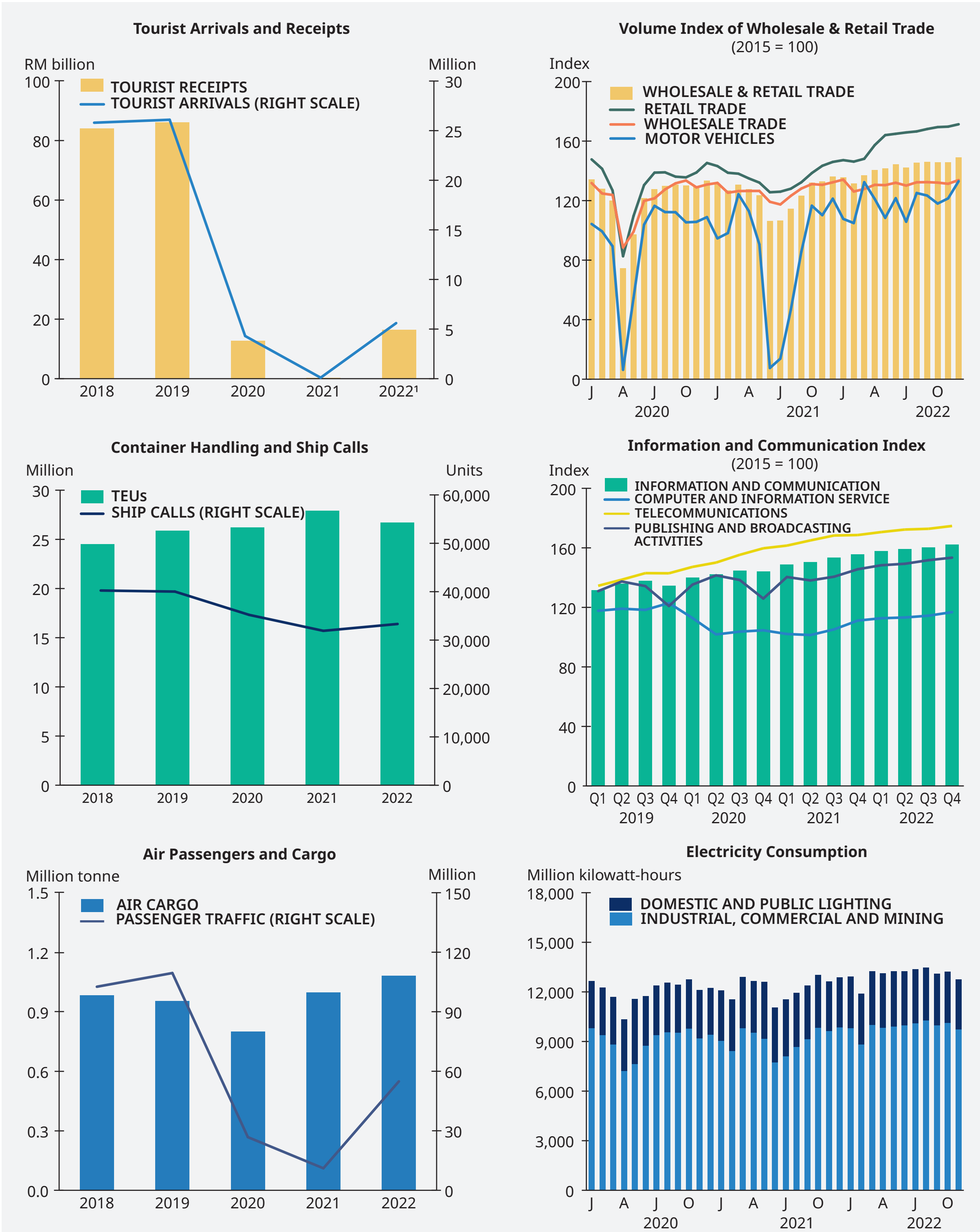
The transportation and storage subsector shot up by 30.8% in 2022, backed by the significant growth of all segments following a more vigorous highway, port and airport activities. The traffic volume of toll highways increased by 56% to 1.7 billion vehicles, mainly due to increasing travel activities especially during festive seasons, school holidays and general election. The increase in total cargo and container handled in ports was supported by strong external demand with total trade grew by 27.8% to RM2.8 trillion. The subsector's notable performance was also attributed to a substantial increase of 395.3% to 54.9 million air passenger traffic at airports during the year due to gradual resumption of international flights. Meanwhile, the performance of food & beverages and accommodation subsector turned around significantly by 33.2% following continuous expansion in tourism-related activities in line with the substantial recovery in hotel occupancy rate and patronage at eateries.

The real estate and business services subsector rebounded by 22.8% in 2022 attributed to the improvement in both segments. The real estate segment improved particularly in leasing and renting of properties as higher interest rate and material costs made property ownership more expensive, thus making the rental alternative a better option. Likewise, the increase of business services segment was driven by improved demand for professional services, particularly legal and accounting activities. Whilst, the information and communication subsector expanded by 5.2% in 2022, backed by telecommunication segment following soaring usage of e-commerce services and subscription to media streaming including entertainment and sport packages. The expansion of the segment was also attributed by the broadband's wider coverage and better internet speed through the National Digital Network (JENDELA) initiative.

Rising demand for manufactured products as well as the reopening of all economic sectors pushed the utilities subsector to grow by 3.8%, following the steady electricity consumption by industrial, commercial and domestic segments. Meanwhile, the finance and insurance subsector registered a marginal increase of 0.9% due to a softer growth in finance segment and contraction in insurance segment. This was following lower loan disbursements amid higher interest rate environment as well as higher insurance claims amid lower premiums and return on investments.

The other services subsector rebounded by 9.2% following improvement in private education and health segments in line with high enrolments in private colleges and universities along with a strong demand for private healthcare services. The rebound was also supported by the recovery in sports and recreational activities as the country transitions into normalcy. Meanwhile, the government services subsector grew by 4.7%.

FIGURE 1.1. *Selected Indicators for the Services Sector*



¹ January to September

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)

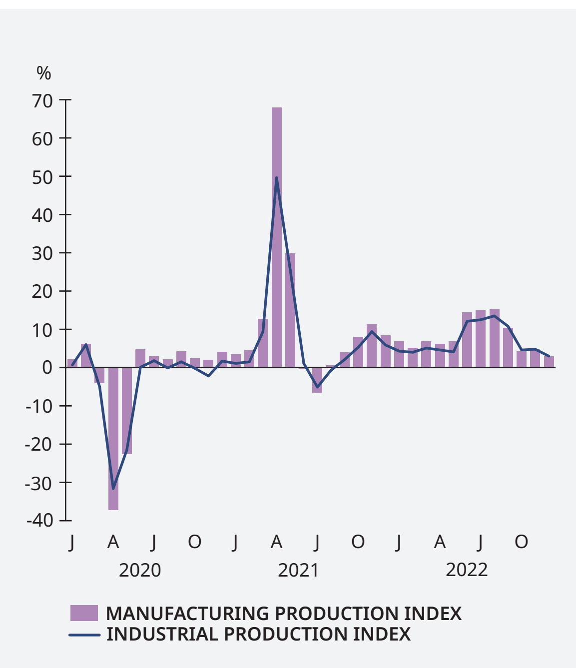
Manufacturing Sector

Steady expansion continued

The manufacturing sector expanded by 8.1% in 2022 as rising global demand and expansion in domestic industries further supported the production activities. The export-oriented industries, which constituted 69.2% of the manufacturing sector, grew by 7.1%, while the domestic-oriented industries increased by 10.3%. Within the export-oriented industries, the E&E segment continued to lead the performance driven by strong demand from the global semiconductor market, especially for chip products. The chemicals segment also improved owing to higher demand for industrial products, notably for digital-related usage following greater adoption of advanced technology.

Within the domestic-oriented industries, all segments expanded, primarily driven by the transport-, food- and metal-related segments. The normalisation of industrial and business activities boosted the demand for transport-related segments. The food-related segment also benefitted from higher private consumption and improvement in tourism industry. In addition, recovery in the construction sector has resulted in improved performance for metal-related segment.

FIGURE 1.2. *Output of Manufacturing Sector (% change)*



Source: Department of Statistics, Malaysia

Agriculture Sector

Oil palm subsector spearheaded growth

The agriculture sector turned around by 0.1% in 2022, mainly driven by the recovery in the oil palm subsector following firmer prices, the gradual return of foreign workers to the plantation industry and improved fresh fruit bunches yield, particularly in the second half of the year. The production of crude palm oil (CPO) increased by 1.9% to 18.5 million tonnes, mainly attributed to higher output from Peninsular Malaysia and Sarawak. In addition, fishing and livestock subsectors also supported the sector’s performance partly buoyed by expansion in aquaculture and poultry segments, which catered the increased demand from households and food-related businesses. Nevertheless, the sector’s growth was weighed down by the decline in the other agriculture, forestry and logging as well as rubber subsectors.

Mining Sector

Stronger natural gas subsector led growth

The mining sector rose by 3.4% in 2022 underpinned by strong performance of natural gas subsector and improvement in crude oil and condensate subsector, particularly in the second half of the year. The natural gas subsector continued to drive the sector’s growth, on account of higher natural gas output from existing and new gas fields in Sarawak and Terengganu. Meanwhile, the resumption of a major oil field operation in Sabah supported the crude oil and condensate subsector.

Construction Sector

Sturdy activities supported growth

The construction sector rebounded by 5% in 2022, mainly attributed to the positive performance of non-residential buildings and specialised construction activities subsectors. The increasing demand for industrial buildings was supported by the improvement in private investment and robust domestic economic activities. In addition, the acceleration of infrastructure projects such as East Coast Rail Link (ECRL) and Rapid Transit System (RTS) Link continues to support the sector’s performance.

The development of residential property remains active which boded well with the implementation of measures under the Budget 2022, including a total government guarantee of up to RM2 billion via Skim Jaminan Kredit Perumahan (SJKP) as well as housing projects for low-income group with an allocation of RM1.5 billion.

Domestic Demand

Private sector spearheaded growth

Domestic demand continued to lead growth and expanded by 9.2% in 2022. The expansion was driven by strong private expenditure, which rose by 10.4%, underpinned by pent-up demand, continuous policy support and vibrant economic activities as the country transitioned into the endemic phase. Meanwhile, the public sector expenditure increased by 4.3% mainly supported by high capital outlay by public corporations.

TABLE 1.2. *Gross Domestic Product by Aggregate Demand, 2021 – 2023 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2022[2]	2021	2022[2]	2023[3]
Domestic demand	***93.1***	***1.7***	***9.2***	***5.4***
Private expenditure	***75.6***	***2.0***	***10.4***	***6.1***
Consumption	*60.2*	*1.9*	*11.3*	*6.1*
Investment	*15.4*	*2.6*	*7.2*	*5.8*
Public expenditure	***17.5***	***0.6***	***4.3***	***2.5***
Consumption	*13.2*	*5.3*	*3.9*	*1.0*
Investment	*4.4*	*-11.3*	*5.3*	*7.0*
External sector[1]	***5.4***	***-4.1***	***-1.8***	***13.0***
Exports	*71.7*	*15.4*	*12.8*	*3.1*
Imports	*66.3*	*17.7*	*14.2*	*2.3*
GDP	***100.0***	***3.1***	***8.7***	***~4.5[4]***

[1] Goods and non-factor services
[2] Preliminary
[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 consumption grew by 11.3% in 2022 mainly buoyed by improved labour market and tourism activities. Better employment was supported by continued policies including the wage subsidy programme, *JaminKerja Keluarga Malaysia* and Malaysia Short-Term Employment Programme (MySTEP). In addition, measures particularly cash assistance for targeted groups and consumption subsidies on selected goods and services had managed to curb the inflationary pressure, hence sustaining consumer spending.

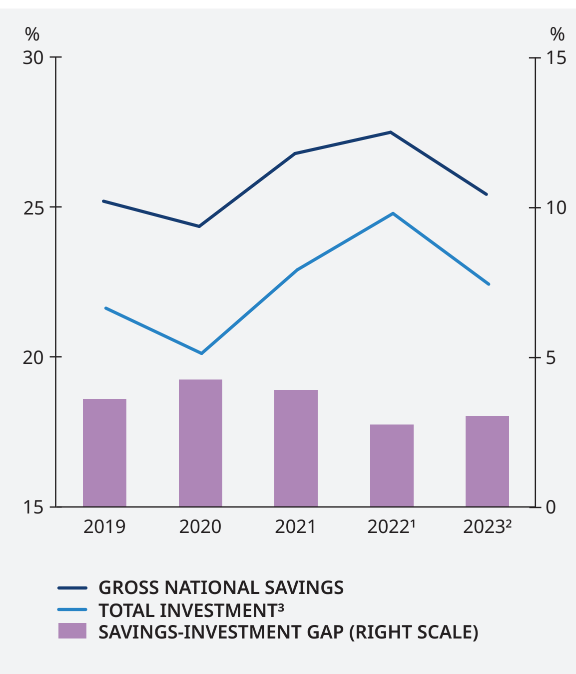
Likewise, improvement in tourism-related activities and tourist expenditure following the reopening of international borders, the special EPF withdrawal in April 2022, the 15th General Election and the FIFA World Cup season contributed to private consumption growth. The strong performance was reflected in several consumption indicators such as sales of passenger cars, consumption credit disbursed and import of consumption goods, which grew by 41.8%, 33.3% and 24.1%, respectively. The robust growth in private consumption also corresponded with the increase in e-commerce income which rose by 6.1% in 2022.

Private investment increased by 7.2% due to higher capital spending mainly in the manufacturing and services sectors. The higher capital outlay corresponded with several investment indicators such as imports of intermediate goods and capital goods which expanded by 29.3% and 15.9%, respectively. In line with the improved domestic economic activities, Malaysia continued to receive encouraging foreign investments. This is reflected by an increase in approved investment by 2.5% totalling RM193.7 billion during the first nine months of 2022 with foreign investment remained as the major contributor valued at RM130.7 billion. The foreign direct investment (FDI) also recorded a higher net inflow of RM73.3 billion in 2022 compared with RM48.1 billion in 2021, mainly in the manufacturing, financial and insurance/takaful activities as well as information and communication sectors. The main countries contributed to the net FDI inflow include the US, Singapore and Japan.

Public investment increased 5.3%, primarily attributed to higher capital expenditures by public corporations. The Federal Government's development expenditure (DE) continues to promote investment with high economic multiplier such as Light Rail Transit Line 3 (LRT3) as well as water and electricity supplies projects in rural areas nationwide. Meanwhile, public consumption increased by 3.9%, owing to increases in supplies and services, particularly in health-related sector.

The nominal national income registered a higher growth of 14.7% in 2022. Meanwhile, the gross national savings (GNS) and total investment remained significant at 27.5% and 24.8% of gross national income (GNI), respectively. Hence, the savings-investment gap recorded a surplus of RM47.2 billion or 2.7% of GNI, providing the nation with ample liquidity to finance domestic economic activities.

FIGURE 1.3. *Savings-Investment Gap (% of GNI)*



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

External Sector

Uptick trade continued

Trade Performance

Total trade rose by 27.8% to RM2,848.4 billion in 2022, attributed to robust external demand and vigorous domestic economic activities, despite Russia-Ukraine conflict and prolonged COVID-19 containment measures in China. Similarly, trade surplus expanded by 0.6% to RM255.1 billion.

Gross exports surged by 25% to RM1,551.7 billion in 2022 attributed to strong external demand from major trading partners following extensive global usage of technology and digitalisation. Exports of manufactured goods expanded by 22.3% to RM1,306.7 billion attributed to higher demand for both E&E and non-E&E products by 30.2% and 16.4%, respectively. The high exports of E&E products were driven by a strong demand for semiconductor; telecommunication equipment parts and automatic data processing equipment. Shipments of E&E products to major markets increased, particularly to the US, Singapore, China and Hong Kong. Similarly, higher exports of non-E&E products were recorded for petroleum products; machinery, equipment and parts; optical and scientific equipment as well as chemicals and chemical products as global economic activities recorded an uptick.

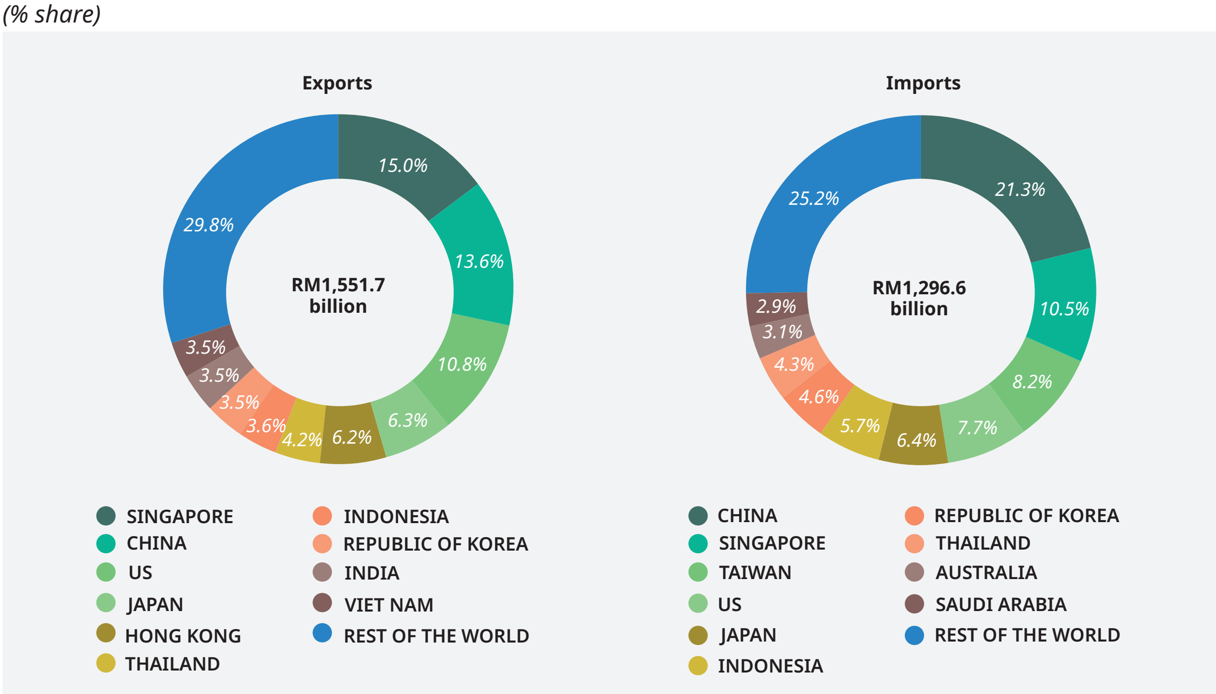
Meanwhile, as a net exporter of commodities, Malaysia benefitted from the increase in commodity prices. Exports of agriculture goods grew by 23.3% to RM120.9 billion, buoyed by demand for palm oil and palm oil-based agriculture products as well as other agricultures. Additionally, exports of mining goods rose by 67.7%, supported by increased exports of crude petroleum (71.7%) and liquefied natural gas (LNG) (78%) following high global demand.

TABLE 1.3. *External Trade, 2021 – 2023*

	RM MILLION			CHANGE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Total trade	**2,228,366**	**2,848,372**	**2,887,393**	***24.9***	***27.8***	***1.4***
Gross exports	**1,241,022**	**1,551,736**	**1,575,859**	***26.1***	***25.0***	***1.6***
of which:						
Manufactured	1,068,431	1,306,665	1,327,302	*25.8*	*22.3*	*1.6*
Agriculture	98,093	120,939	122,536	*36.8*	*23.3*	*1.3*
Mining	69,757	117,014	118,809	*19.4*	*67.7*	*1.5*
Gross imports	**987,344**	**1,296,636**	**1,311,533**	***23.3***	***31.3***	***1.1***
of which:						
Intermediate goods	545,801	705,738	715,352	*27.2*	*29.3*	*1.4*
Capital goods	103,823	120,324	121,779	*14.4*	*15.9*	*1.2*
Consumption goods	83,893	104,133	105,213	*13.2*	*24.1*	*1.0*
Trade balance	**253,678**	**255,100**	**264,326**	***38.4***	***0.6***	***3.6***

[1] Preliminary
[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

FIGURE 1.4. *Top 10 Trading Partners, January – December 2022 (% share)*



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

Gross imports soared by 31.3% to RM1,296.6 billion in 2022, supported by acceleration in intermediate, capital and consumption goods as domestic economy continued to expand when the economy reopened. Intermediate goods increased by 29.3% following higher imports of fuel and lubricants; parts and accessories as well as industrial supplies. Similarly, capital goods grew by 15.9%, particularly contributed by transport equipment for industrial production while consumption goods rose by 24.1% attributed to higher imports of consumer durables as well as food and beverages mainly for household consumption.

Balance of Payments

In 2022, the current account surplus of the balance of payments narrowed to RM47.2 billion or 2.7% of GNI. This was due to higher deficit in the income account albeit continued surplus in the goods account and smaller deficits in the services account.

The goods account continued to record a surplus of RM169.3 billion underpinned by increasing exports of manufactured, agriculture and mining goods. Meanwhile, the services account posted a smaller deficit of RM45.4 billion following surging receipts in the travel account and narrower deficits in transport and other services accounts. An increase in tourist arrivals in 2022 contributed to a narrowing deficit in the travel account to RM1.8 billion following the reopening of international borders. Likewise, the other services account registered a smaller deficit of RM9.8 billion following increased receipts in other business services, manufacturing services on physical inputs owned by others as well as construction. Similarly, the transport account recorded a wider deficit of RM33.9 billion following higher payments owing to continued reliance on foreign transport services amid expansion in trade activities.

A wider deficit of RM63.6 billion in 2022 was registered in the primary income account due to a shortfall in investment income and higher income payments amounting to RM137.8 billion. This was partly due to higher repatriation of profits and dividends by foreign investors in Malaysia. Correspondingly, compensation of employees recorded a higher deficit of RM7.1 billion attributed to an increase in the number of foreign professionals in Malaysia following the resumption of high impact projects.

TABLE 1.4. *Current Account of the Balance of Payments, 2021 – 2023 (RM million)*

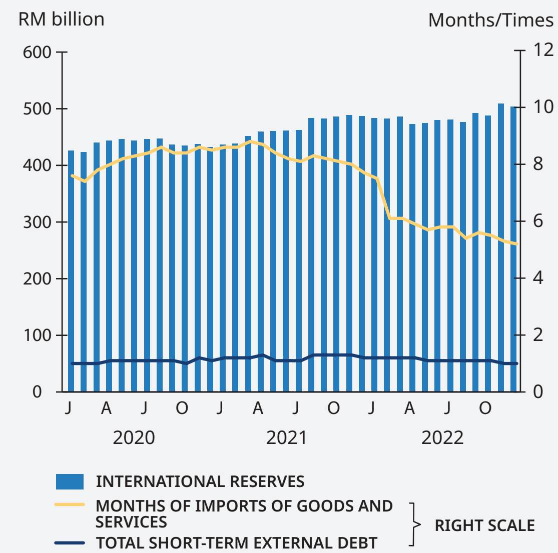
	2021			2022[1]			2023[2]		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	**1,063,817**	**953,972**	**109,845**	**1,320,329**	**1,196,459**	**123,870**	**1,438,458**	**1,294,548**	**143,910**
Goods	977,076	806,503	170,573	1,181,380	1,012,092	169,288	1,274,754	1,099,511	175,243
Services	86,741	147,469	-60,728	138,949	184,367	-45,418	163,704	195,037	-31,333
Transport	15,455	47,907	-32,452	25,672	59,536	-33,864	29,223	62,929	-33,706
Travel	320	14,884	-14,563	27,853	29,632	-1,780	49,350	37,954	11,396
Other services	70,965	84,679	-13,713	85,424	95,198	-9,775	85,131	94,154	-9,023
Primary income	**98,166**	**139,716**	**-41,551**	**88,564**	**152,119**	**-63,555**	**89,386**	**152,284**	**-62,898**
Compensation of employees	6,487	13,090	-6,603	7,214	14,351	-7,137	7,136	15,695	-8,559
Investment income	91,679	126,627	-34,948	81,350	137,768	-56,418	82,250	136,589	-54,339
Secondary income	**20,503**	**30,098**	**-9,594**	**24,263**	**37,374**	**-13,110**	**20,275**	**46,115**	**-25,840**
Balance on current account	**1,182,486**	**1,123,787**	**58,700**	**1,433,157**	**1,385,952**	**47,205**	**1,548,119**	**1,492,948**	**55,172**
% of GNI			***3.9***			***2.7***			***3.0***

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

Earnings in the secondary income account in 2022 grew to RM24.3 billion following a one-off receipt and higher remittances by Malaysians working abroad. Payments in the secondary income account rose to RM37.4 billion, leading to a higher deficit of RM13.1 billion. As economic activities normalised and the minimum wage revised, payments increased owing to larger remittances of foreign workers from Indonesia, Bangladesh, India, Singapore and Nepal.

The financial account recorded a net inflow of RM14.8 billion in 2022 compared with RM13 billion in 2021. This is attributed to significantly higher net inflows in other investment account, which more than offset the net outflows of the portfolio investment and financial derivatives accounts as well as lower net inflow in direct investment account. Similarly, FDI posted a higher net inflow of RM73.3 billion, channelled mainly to the manufacturing, financial and insurance/takaful activities as well as information and communication sectors. Net outflow of direct investment abroad by Malaysian companies rose to RM57.3 billion. The outflows were mainly directed into financial and insurance/takaful activities, wholesale and retail trade as well as mining and quarrying sectors.

FIGURE 1.5. *International Reserves*



As at 30 December 2022, Malaysia's international reserves amounted to RM503.3 billion or USD114.6 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 2021: RM486.8 billion; USD116.9 billion; 7.7 months; 1.2 times)

Source: Bank Negara Malaysia

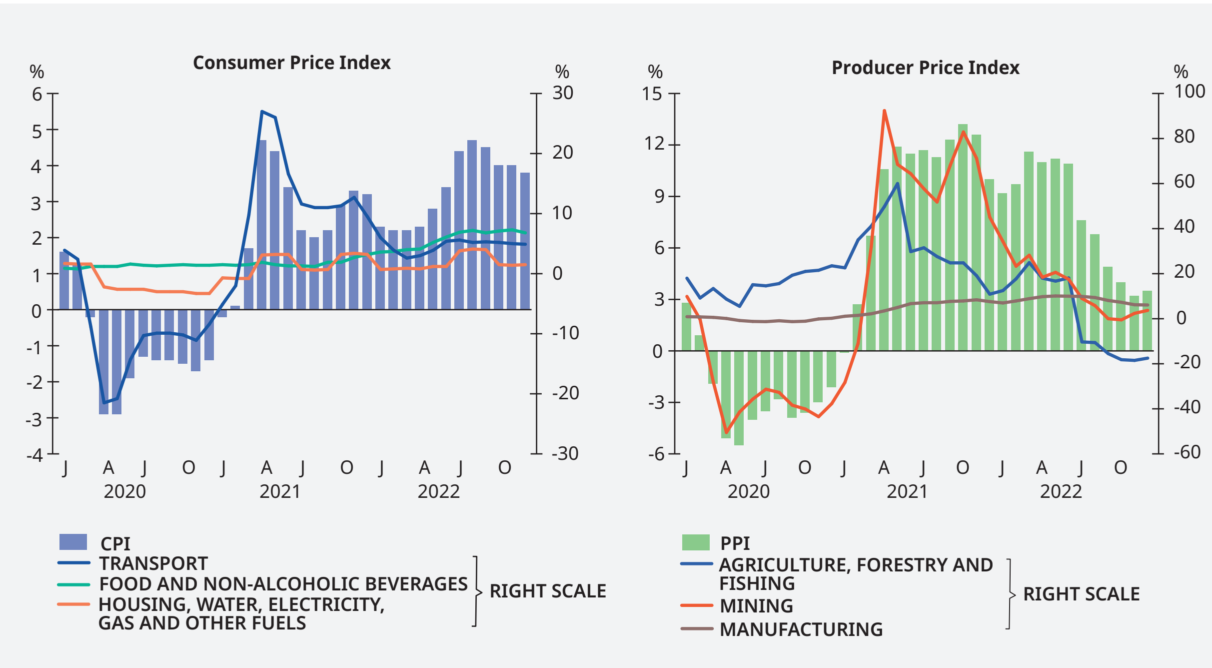
Prices

Persistent food inflation woes

The Consumer Price Index (CPI) rose by 3.3% due to pressures on certain fresh food prices caused by rising non-energy commodity prices as well as improved post-pandemic demand. The food and non-alcoholic beverages inflation remained high throughout the year, recording 5.8% in 2022, compared with 1.7% in 2021. Nonetheless, the increase was contained by existing price controls and allocation of subsidies for some essential goods items.

The Producer Price Index (PPI) by local production grew by 7.8% due to higher global prices for commodity, primarily crude oil and natural gas. The rise in PPI was attributed to gains in mining (12.6%), manufacturing (8.4%) as well as water supply (2.6%).

FIGURE 1.6. *Consumer Price Index and Producer Price Index Trends (% change)*



Source: Department of Statistics, Malaysia

Labour Market

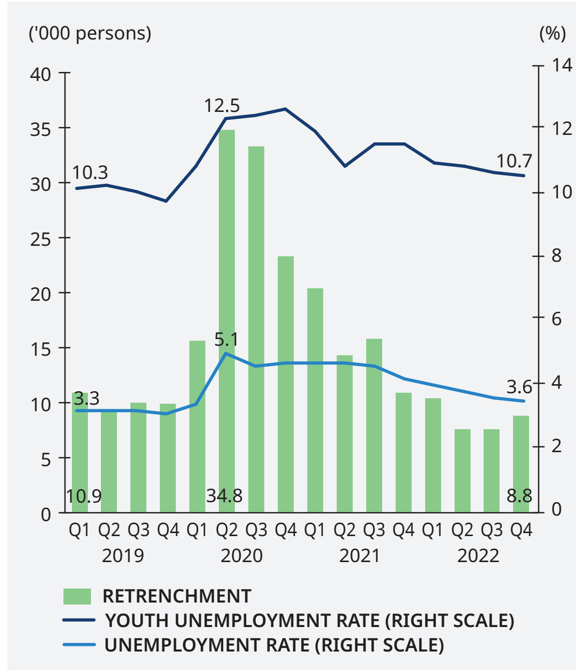
Strong recovery in the labour market

Robust socio-economic activities and effective implementation of various employment stabilisation initiatives have stimulated the labour market recovery from the adverse impact of the pandemic. The economy managed to return to its full employment level starting from the second quarter of 2022. Although unemployment has not returned to the pre-pandemic trajectory, most of the labour market variables such as job creation, vacancies and retrenchment registered significant improvements attributed to strong labour demand in all economic sectors. Despite youth unemployment rate is still in the double-digit, it has shown a downward trend. The overall unemployment rate for the year is expected between 3.8% – 4%.

FIGURE 1.7. *Vacancies and Job Creation*

Source: Department of Statistics, Malaysia

FIGURE 1.8. *Retrenchment and Unemployment*



Source: Department of Statistics and Social Security Organisation, Malaysia

Global Economic Outlook 2023

Modest growth prospect

The IMF projected global economic growth to be slower by 2.9% in 2023 dragged by sharper slowdown in China following its worsening property market crisis and the spillover effects from geopolitical conflict in Eastern Europe. Advanced economies' growth is expected to moderate further to 1.2% while EMDEs' GDP growth is forecast to stabilise at 4%.

Global trade is anticipated to record 2.4%, mainly due to a decline in global output growth. Advanced economies' trade is expected to record a growth of 2.5% and 2% in exports and imports, respectively. Similarly, both exports and imports of the EMDEs are anticipated to grow to 2.9% and 3%, respectively.

In 2023, global inflation is forecast at 6.6% reflecting confidence that inflation will decrease as most central banks in advanced economies are tightening monetary policies. The inflation rate in advanced economies is projected to record 4.6%, while EMDEs at 8.1%.

Malaysia's Economic Outlook 2023

Sectoral

Services Sector

Continues to steer growth

The services sector is projected to expand by 5.3% in 2023, driven by domestic demand amid moderate global activities. The growth will continue to be buoyed by wholesale and retail trade; transportation and storage; information and communication; food & beverages and accommodation; and finance and insurance subsectors.

The wholesale and retail trade subsector is expected to grow and will remain as the key subsector, following greater usage of e-commerce and rapid transition to digitalisation. The expansion of online transaction is in line with the aim towards creating a cashless society ecosystem. The motor vehicles segment is also projected to support the subsector's growth with the introduction of new electric vehicle (EV) models.

The real estate and business services subsector is forecast to expand, led by business services segment following higher demand for professional services particularly engineering, legal and accounting. Meanwhile, the real estate segment is projected to grow, backed by stronger housing market demand and rental activities.

The information and communication subsector is anticipated to further expand, mainly led by the wider digital adoption by businesses and individuals particularly the utilisation of Fixed Wireless Access and other fit-for-purpose technologies. In addition, efforts to attract high-quality investment in digital-related infrastructures such as data centres and cloud computing services along with continued surge of online streaming activities will further boost the subsector.

The transportation and storage subsector is projected to expand with most segments benefitting from the expansion in rail, highway, port and airport activities. The land transport segment is expected to grow following the operation of the Mass Rapid Transit (MRT) Putrajaya Line, Damansara-Shah Alam Elevated Expressway and Sungai Besi-Ulu Kelang Elevated Expressway. In addition, the air transport segment is anticipated to increase in tandem with the higher passenger traffic and aircraft movement, following further improvement in tourism-related activities and more flight frequencies. Meanwhile, the water transport segment is projected to expand moderately following softer trade activities.

The food & beverages and accommodation subsector is forecast to continue its growth momentum attributed to continuous implementation of initiatives under the Tourism Recovery Plan 2022. The recovery plan focuses on strengthening the industry players to remain competitive and resilient. These include collaboration with the industry players to identify and produce tourism and cultural products that cater travellers' preferences as well as diversify business events towards emerging activities. In addition, the expansion of food and beverages franchise outlets is expected to further boost the subsector.

The finance and insurance subsector is anticipated to spur, subsequent to further improvement in all economic activities. The Financial Sector Blueprint, 2022 – 2026 through the implementation of its strategic thrusts among others, advancing digitalisation of the financial sector and elevating the financial well-being of households and businesses. Furthermore, the insurance segment is expected to rebound following the increase in premiums and return on investment amid lower claims.

The utilities subsector is expected to further improve driven by steady demand in electricity and gas segment, in tandem with the continuous economic activities. In addition, extension of grid connection under the rural electrification projects is expected to further stimulate the subsector.

The other services subsector is projected to expand backed by private health and education segments. The extensive efforts by the Malaysia Healthcare Travel Council (MHTC) in international forums to promote quality, accessible and affordable healthcare services as well as the reopening of the borders will spur the private health segment. In this regard, MHTC estimates healthcare tourism revenue to increase by 30% to more than RM1.5 billion in 2023. Likewise, the private education segment is forecast to remain favourable in line with the encouraging number of foreign students following the competitive education fees offered by private education institutions. Meanwhile, the government services subsector is expected to further grow in 2023.

Manufacturing Sector

Continues to expand despite moderate economic activities

The manufacturing sector is projected to increase by 3.9% in 2023, owing to expansion in all subsectors despite moderating economic activities. The export-oriented industries are expected to grow steadily, with the E&E segment continues to drive growth in the sector. Similarly, production in domestic-oriented industries is anticipated to expand driven by higher output in iron and steel as well as other construction-related segments. This is in line with the potential expansion in residential- and non-residential-related construction activities coupled with the continuation of several infrastructure projects.

Agriculture Sector

Growth backed by strengthening labour market

The agriculture sector is projected to expand by 1.1% in 2023 following continuous improvement in oil palm, livestock and fishing subsectors. The oil palm subsector is expected to grow supported by an increase in CPO production, as a result of the improved labour supply. In line with the expectation of better production, the average CPO price is forecast around RM4,000 per tonne. Furthermore, external factors including availability of other edible oils also projected to weigh on CPO price. The livestock and fishing subsectors are expected to increase further and continue to support the sector, backed by concerted efforts to strengthen food security. Nonetheless, the rubber as well as forestry and logging subsectors are projected to post negative growth for the year.

Mining Sector

Expanding albeit at a slower pace

The completion of new pipeline projects in Sarawak is expected to boost the production of natural gas, particularly during the second half of 2023. In addition, rising demand from major trading partners as well as new demand from domestic industrial and petrochemical segment are expected to further support growth of natural gas subsector. Nevertheless, output of crude oil and condensate is projected to moderate due to decline in production rate from the existing fields in Peninsular Malaysia. Thus, the mining sector is estimated to expand by 1.2% in 2023. In terms of price, the Brent crude oil is projected to record an average of USD80 per barrel due to anticipation of lower demand following a moderation in global economy.

Construction Sector

Strengthening activities towards resilience

The construction sector is anticipated to increase by 6.1% in 2023 with all subsectors recording a better performance. The implementation of new projects such as upgrading the Klang Valley Double Track (KVDT) Phase 2 and acceleration of ongoing infrastructure projects which include ECRL, LRT3 and fifth-generation cellular network (5G) rollout will spearhead the civil engineering subsector. In addition, the approved investment for projects in the manufacturing sector is anticipated to come on stream and subsequently create a greater demand for non-residential buildings. Activities in the residential buildings subsector are projected to grow steadily, supported by an increase in the supply of affordable houses in line with the 12MP strategy. In addition, continuous i-MILIKI incentive to encourage home ownership is expected to spur demand for residential buildings.

Domestic Demand

Continues to anchor growth

Domestic demand is projected to expand by 5.4% in 2023 despite the anticipated challenging global environment. The expansion will be mainly driven by private sector expenditure, which is forecast to grow by 6.1%. Meanwhile, public sector expenditure is anticipated to increase by 2.5%.

Continuous labour market improvement as well as sustained economic and social activities, particularly the tourism-related activities following reopening of China's border are expected to support private consumption growth, albeit at a moderate pace of 6.1%. The expected moderation in consumer spending is attributed to diminishing pent-up demand given the dissipating effect from the special EPF withdrawal as well as lag effect from the increase in the Overnight Policy Rate (OPR). Nevertheless, continued measures by the Government to curb inflation, Sumbangan Tunai Rahmah cash aid for the bottom 40% of household income group (B40) as well as the special financial assistance of RM700 to civil servants and RM350 to Government pensioners in January 2023 are expected to support household disposable income and stimulate private spending.

Private investment is anticipated to increase by 5.8% mainly in the services and manufacturing sectors following Government's efforts to enhance good governance, reduce the cost of doing business and facilitate faster investment approvals. Various measures to enhance Malaysia's competitiveness and investment ecosystem are expected to spur more quality investment which will create high income job opportunities. The measures include the setting up of funds and incentives to support wider adoption of digitalisation, advanced technology, automation, green technology as well as environmental, social and governance (ESG) practices among businesses. The Government's renewed focus on improving the capacity of micro, small and medium enterprises (MSMEs) is also expected to provide further impetus in private investment growth.

The public sector's capital expenditures continue to complement private sector's investment. Major project expected to kickstart in 2023 is upgrading the KVDT Phase 2. The continuation of large-scale transportation projects like the LRT3, ECRL and RTS Link will also boost public investment. Overall, public investment is expected to increase by 7% in 2023. Public consumption is also projected to expand by 1% on account of higher spending on emoluments mainly due to Special Additional Annual Salary Increment for civil servants.

The GNI at current prices is expected to grow at 5.8% in 2023 in line with the moderating economic growth. Meanwhile, the GNS and total investment are expected to record 25.4% and 22.4% of GNI, respectively. The savings-investment gap is expected to continue to record a surplus of RM55.2 billion or 3% of GNI, which will allow the country to finance investment primarily from domestic sources.

External Sector

Modest growth as global uncertainties persist

In 2023, gross exports are projected to moderate by 1.6% across all sectors. The anticipated slowdown of the external demand is due to the lacklustre growth in the wake of ongoing geopolitical instability as well as projected ease in the global commodity prices.

Exports of manufactured goods are anticipated to edge up by 1.6% resulting from continuous demand for both E&E and non-E&E products, which form the share of 45.5% and 55.5%, respectively. The E&E products are expected to grow by 1.8% owing to the ongoing demand for semiconductors particularly electronic integrated circuits, processors and controllers, in line with technological innovation worldwide. Similarly, exports of non-E&E are estimated to expand by 1.4% following an increase in demand particularly for petroleum products, chemicals and chemical products as well as manufactures of metal, despite moderating global economic activities.

Exports of agriculture goods are forecast to grow by 1.3% in 2023, supported by a higher demand for palm oil and palm oil-based agriculture products. Furthermore, export earnings from mining goods are estimated to increase by 1.5% contributed by stronger demand from major markets particularly for

LNG (1.5%), albeit moderating demand for crude petroleum (2.2%) among major trading partners.

Gross imports are expected to increase by 1.1% in 2023 on account of high demand for intermediate, capital and consumption goods, indicating improved domestic demand and investment activities. Imports of intermediate goods are projected to grow by 1.4% attributed to the expansion in domestic manufacturing and construction sectors. Furthermore, imports of capital goods are anticipated to increase by 1.2% upon the resumption of infrastructure projects which include the ECRL, LRT3 and 5G rollout. Similarly, as private spending continues to rise in tandem with an increase in consumers' confidence, imports of consumption goods are anticipated to increase by 1%, driven by food and beverages.

The current account balance is expected to continue registering a surplus of RM55.2 billion or 3% of GNI in 2023. Despite slowing demand from major trading partners due to moderating global growth, the goods account is estimated to continue recording a surplus of RM175.2 billion. An increase in earnings in the transport and travel accounts is anticipated to narrow the deficit in services account to RM31.3 billion. Receipts from transport services are projected to rise to RM29.2 billion, boosted by higher earnings from air travel and cargo handling services provided by domestic companies. Similarly, continuous reliance on foreign transport services is anticipated to widen payments for transport to RM62.9 billion, amid expansion in trade activities.

The improvement in tourism activity in 2023 is expected to record a rebound in travel account to register a surplus of RM11.4 billion. Earnings from travel account are anticipated to widen to RM49.4 billion following higher tourist arrivals and per capita spending. Meanwhile, the payments are anticipated to register RM38 billion, attributed to residents' spending abroad as well as business, education and pilgrimage travelling activities. On the other hand, other services account is expected to record a narrower deficit of RM9 billion on account of equally smaller earnings and payments, in tandem with slower global economic activities.

A narrowing deficit of RM62.9 billion is projected in the primary income account attributed to marginal earnings in the investment income, albeit lower payments by foreign investors, in tandem with global economic slowdown. Additionally, the rapid adoption of digitalisation and automation is expected to increase the compensation for foreign professionals, thus contribute to the widening deficit. The secondary income account is anticipated to register larger net outflows of RM25.8 billion due to the increase in one-off payment and remittances by foreign workers.

Prices

Inflation to remain manageable

The inflation rate is anticipated to range between 2.8% – 3.8% in 2023, following slower economic prospects as well as stable commodity prices. However, the inflation outlook will also be affected by fluctuations in foreign exchange rates and prolonged supply disruptions. Empirically, a one percentage point change in the exchange rate and crude oil price will have a 0.337 and 0.112 percentage point impact on inflation[1], respectively. Meanwhile, the PPI growth is expected to moderate with the anticipation of stable global input costs.

Labour Market

Sustained recovery momentum

In tandem with the sustainable trend of an encouraging economic growth anticipated in 2023, the labour market is also expected to sustain the recovery momentum. Expansion in all economic sectors and the need for more workers to support domestic demand upsurge will stimulate higher labour demand. The accommodative policies to facilitate the

[1] Ministry of Finance, Malaysia. (2018). Determinants of inflation in Malaysia. Economic Outlook 2019, 75-77

adequate supply of workers for business activities, particularly in labour-intensive industries will be continued to encourage more employment opportunities, particularly for youths. Thus, the total employment is projected to further expand by 1.7% to 15.6 million persons, with more than 80% of employment opportunities will be available in the services and manufacturing sectors. Therefore, unemployment is forecast to further decrease to the range of 3.5% – 3.7%. Furthermore, continuous efforts to attract quality investments and expedite digitalisation will allow the creation of more high-paying and high-productivity jobs in the economy. These will contribute to better income prospects for the workforce and improvement in the overall compensation of employees.

TABLE 1.5. *Employed Persons by Sector*

	SHARE (%)	
	2022[2]	2023[3]
Agriculture, forestry and fishing	*9.1*	*10.0*
Mining and quarrying	*0.3*	*0.5*
Manufacturing	*17.0*	*16.6*
Construction	*7.5*	*7.6*
Services	*66.0*	*65.3*
Total[1]	***100.0***	***100.0***

[1] Total includes 'Activities of extraterritorial organisations and bodies'
[2] Refers to Q4 2022
[3] Forecast
Source: Department of Statistics and Ministry of Finance, Malaysia

Conclusion

The global economy recorded moderate growth in 2022 and is expected to soften in 2023. This is due to anticipated challenges arising from prolonged supply chain disruptions, monetary policy tightening by major central banks and geopolitical tensions.

Meanwhile, Malaysia's economy registered a stellar performance in 2022 and is poised to achieve moderate growth in 2023. This projection is supported by stable domestic demand, mainly from household spending in line with the labour market recovery. Additionally, the contribution of the tourism-related sector is expected to improve following an increase in tourist arrivals. The acceleration of infrastructure projects with high multiplier effects, robust growth in private investment and continuous external demand particularly among major trading partners will further support the economy.

Looking ahead, efforts will be intensified to position Malaysia as a major investment destination. Various measures will be implemented to uplift and enhance economic potential for Malaysia to become more competitive, sustainable and inclusive. Furthermore, the Government will continue to provide counter-cyclical policy support as well as expedite structural reforms to strengthen the country's growth prospects and resilience.

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