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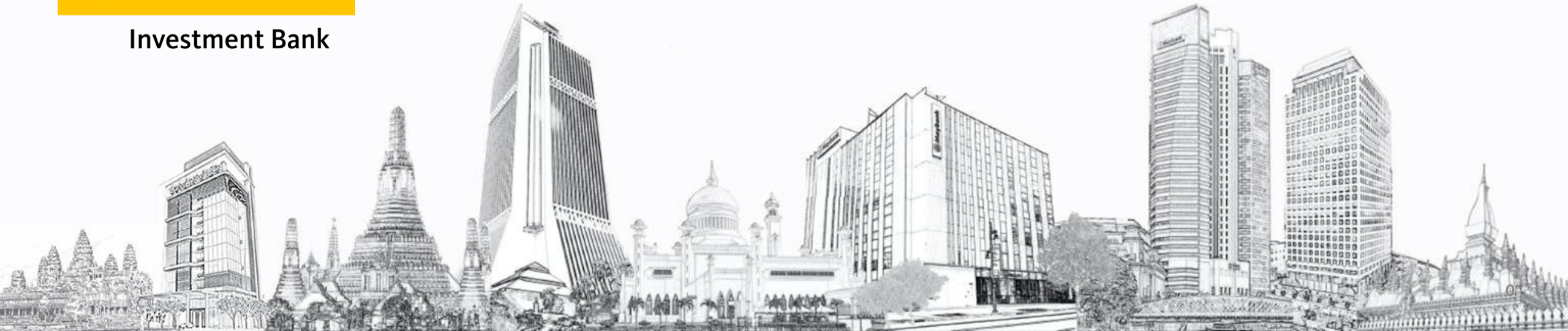
# Economic Outlook & Lookout

15 Aug 2022

## ***“Withdrawal Syndrome” after “Sugar Rush”***



Investment Bank



# Malaysia: Real GDP Growth



	% Share of GDP	2020	2021	ACTUAL			Maybank IBG		Official
	(2021)	(5.5)	3.1	1Q 2022	2Q 2022	1H 2022	2022E	2023E	2022E
Real GDP		(5.5)	3.1	5.0	8.9	6.9	6.0	4.0	5.3-6.3
Services	57.0	(5.4)	1.9	6.5	12.0	9.2	6.8	5.0	6.9
Manufacturing	24.3	(2.7)	9.5	6.6	9.2	7.9	6.3	4.1	5.2
Agriculture	7.2	(2.4)	(0.2)	0.1	(2.4)	(1.2)	1.3	1.5	1.5
Mining	6.7	(9.7)	0.3	(1.1)	(0.5)	(0.8)	1.8	1.3	2.5
Construction	3.7	(19.3)	(5.2)	(6.2)	2.4	(2.1)	3.3	2.5	6.1
Domestic Demand	92.7	(5.5)	1.7	4.4	13.0	8.6	6.2	4.4	7.2
Private Consumption	58.8	(4.2)	1.9	5.5	18.3	11.5	7.5	5.0	9.0
Public Consumption	13.8	5.0	5.3	6.7	2.6	4.7	4.1	2.3	1.2
Gross Fixed Capital Formation	20.1	(14.4)	(0.9)	0.1	5.8	2.9	4.2	4.3	6.3
Private Investment	15.6	(11.9)	2.6	0.4	6.3	3.3	4.0	4.0	5.3
Public Investment	4.5	(21.2)	(11.3)	(0.9)	3.2	1.0	5.0	5.5	9.6
Net External Demand	6.0	(13.7)	(4.1)	(26.5)	(28.7)	(27.6)	2.7	(1.8)	2.6
Exports of Goods & Services	69.2	(8.6)	15.4	8.0	10.4	9.2	10.1	5.0	4.8
Imports of Goods & Services	63.2	(7.9)	17.7	11.1	14.0	12.6	10.8	5.5	5.1

Sources: Dept. of Statistics, BNM (Economic & Monetary Review 2021, Mar 2022), Maybank IBG Research

# Malaysia: Other Key Economic Indicators, 2020-2023E



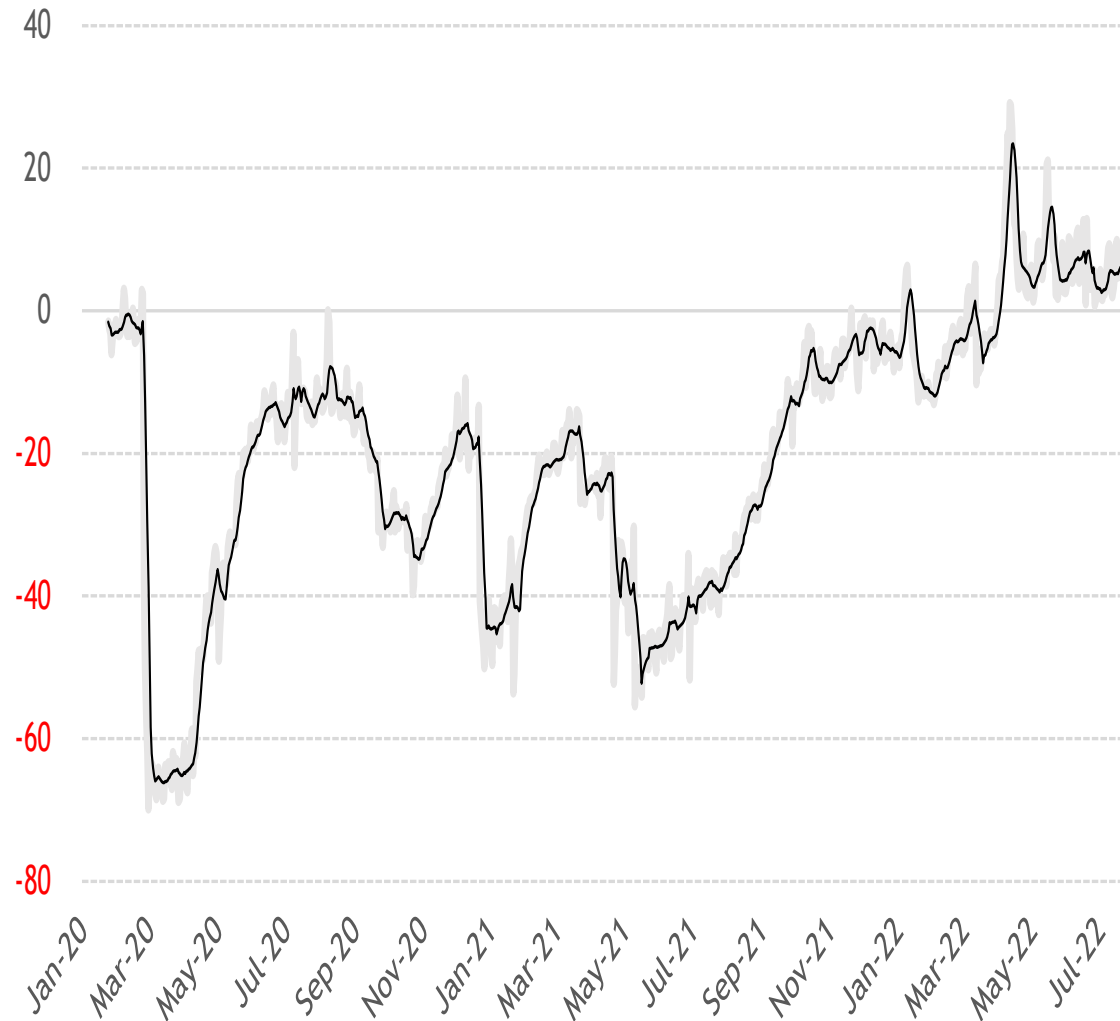
	ACTUAL			Maybank IBG		Official
	2020	2021	2022 YTD	2022E	2023E	2022E
Gross Exports (% chg)	(1.1)	26.0	26.1 (6M)	18.0	7.5	10.9
Gross Imports (% chg)	(5.8)	23.3	30.9 (6M)	22.5	10.0	8.1
Trade Balance (MYRb)	183.3	252.6	123.1 (6M)	255	245	307.5
Current Account Balance (MYRb)	59.1	58.7	7.4 (6M)	23	25	56.7
Current Account Balance (% of GDP)	4.2	3.8	0.9 (6M)	1.3	1.3	4.2-4.7
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.2) (6M)	(6.0)	(5.0)	(6.0)
Inflation Rate (CPI, %)	(1.2)	2.5	2.5 (6M)	3.4	4.1	2.2-3.2
Overnight Policy Rate (% p.a., end-period)	1.75	1.75	2.25	2.75	3.00	-
Exchange Rate (MYR/USD, end-period)	4.02	4.17	4.45 (July)	4.40	4.20	-
Exchange Rate (MYR/USD, average)	4.20	4.14	4.21 (7M)	4.27	4.30	-
Unemployment Rate (%)	4.5	4.6	4.0 (5M)	3.8	3.5	4.0
Crude Oil (USD/bbl, Brent average)	42.3	70.5	105 (7M)	100	100	100-120
Crude Palm Oil (MYR/tonne, average)	2,781	4,426	6,005 (7M)	5,000	3,400	6,200-6,600

Sources: Bloomberg, CEIC, Dept. of Statistics, BNM (Economic & Monetary Review 2021, Mar 2022), Maybank IBG

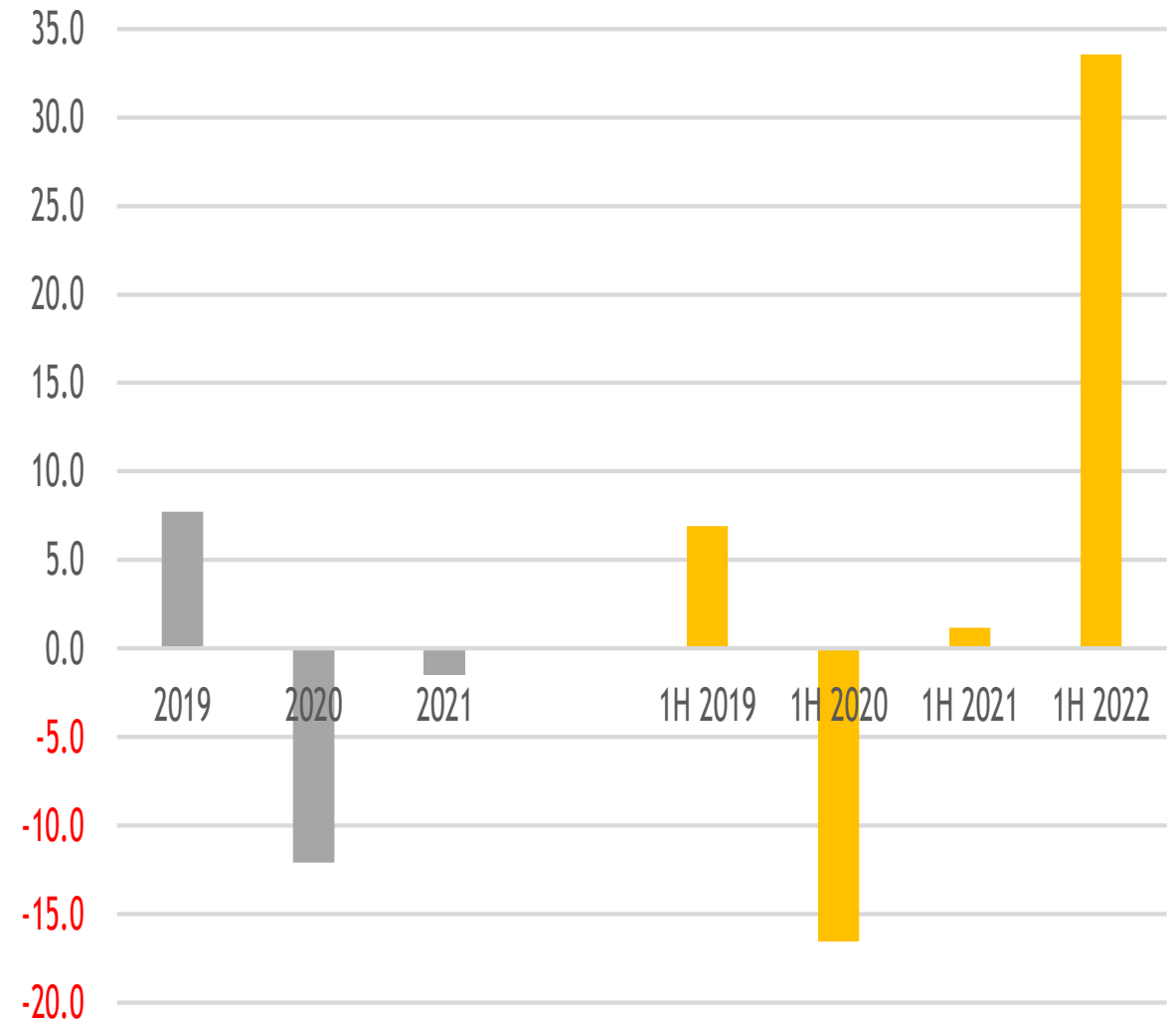
# “Sugar Rush” from full economic opening



## Malaysia: Google Mobility Index



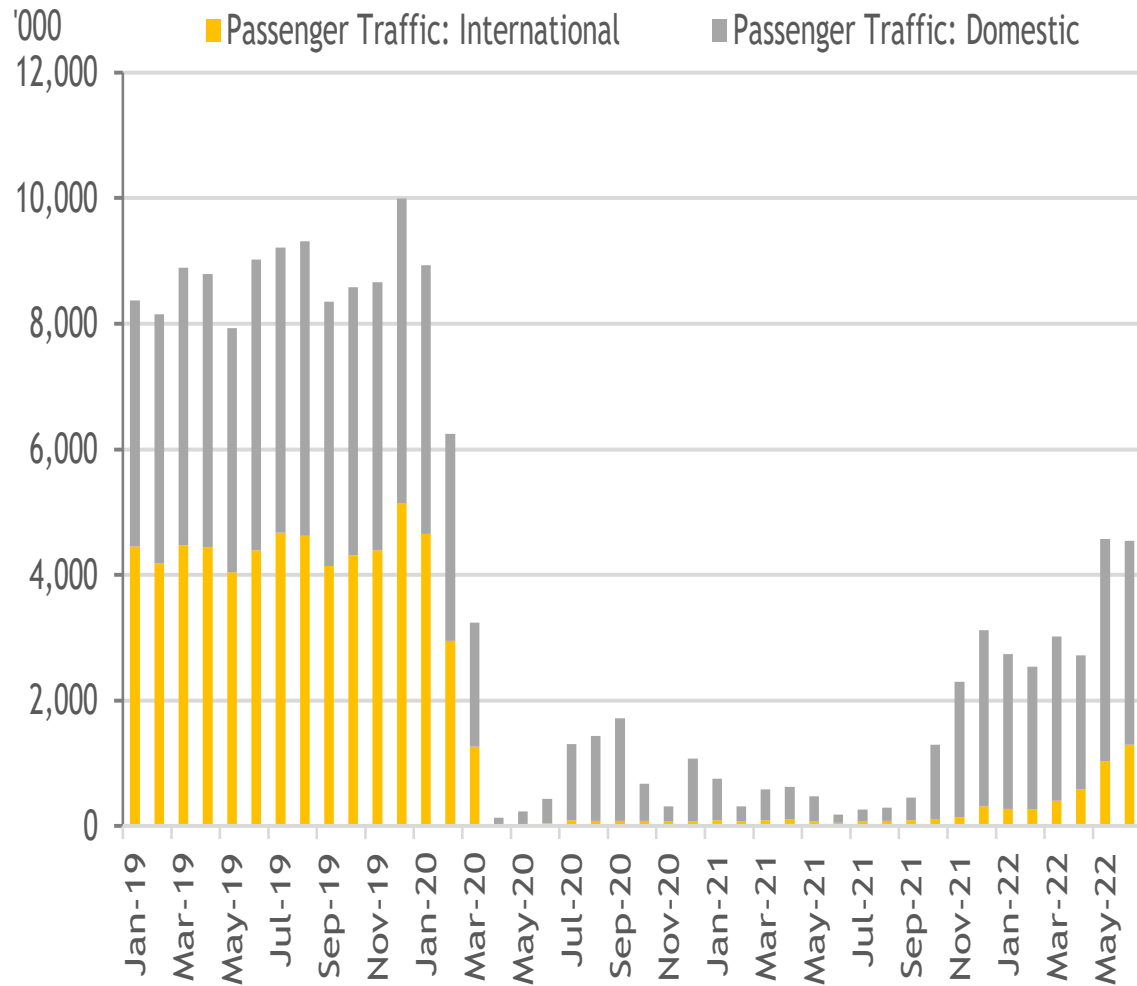
## Malaysia: Automotive Fuel Sales Volume (% YoY)



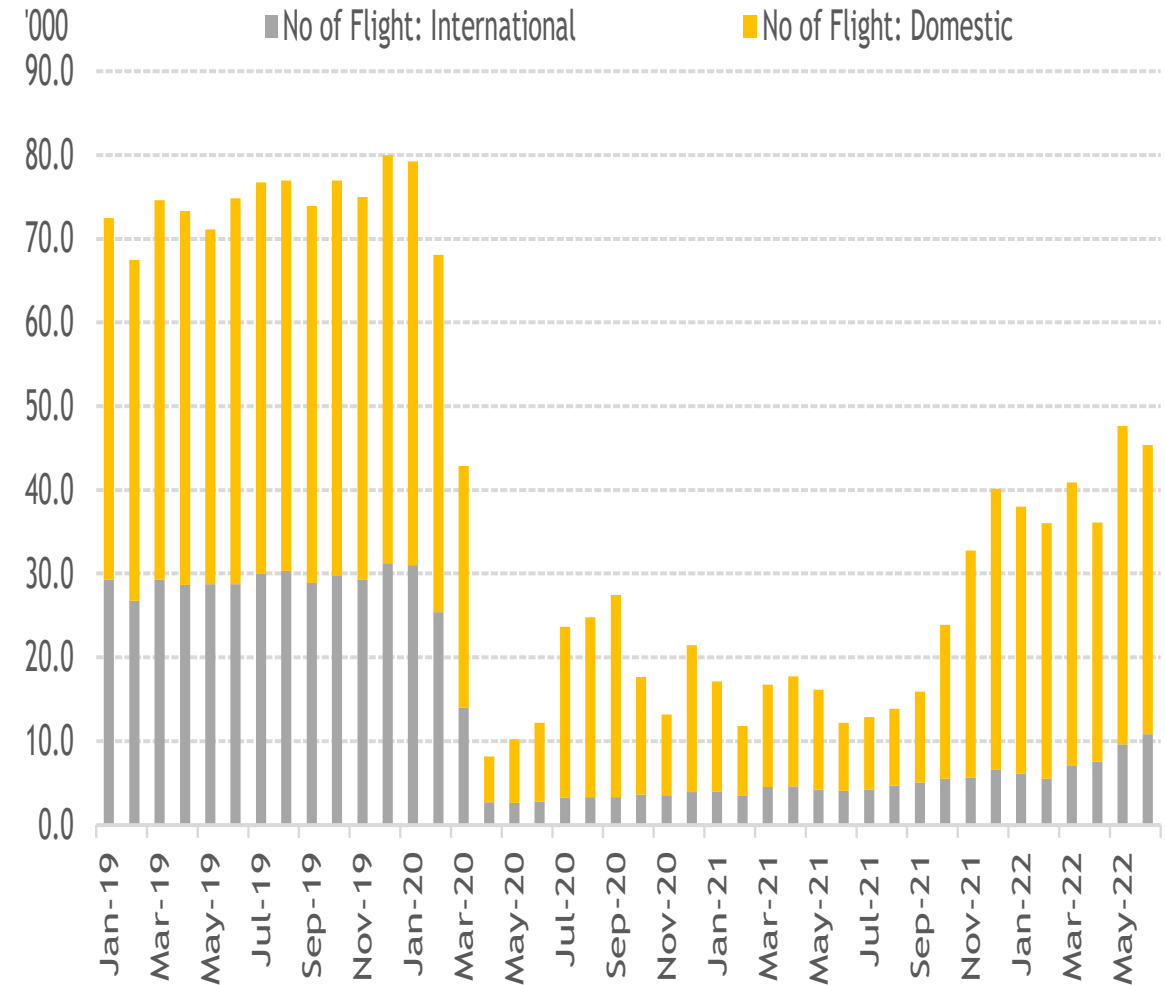
# “Sugar Rush” from full economic opening



## Malaysia: Air Passengers Traffic



## Malaysia: Number of Flights



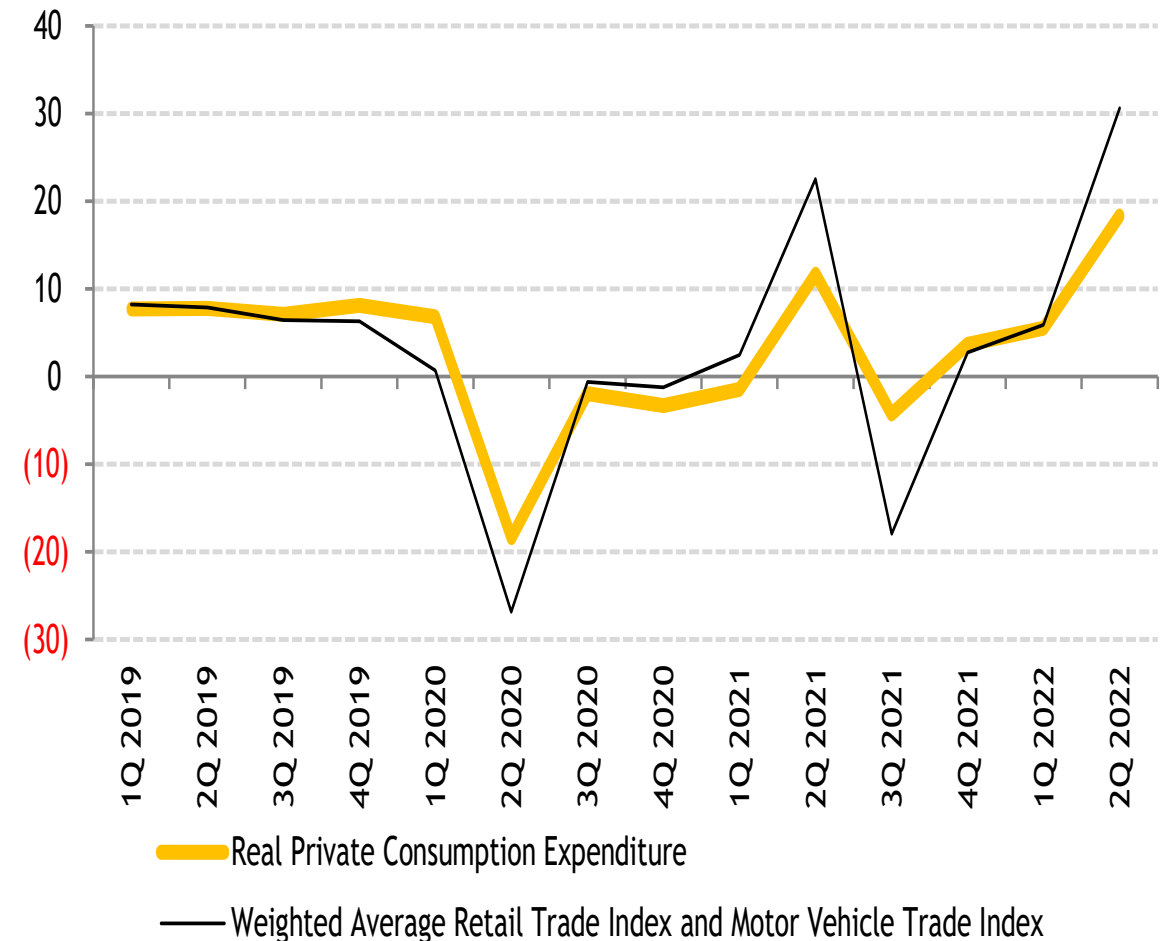
# “Sugar Rush” from economic re-opening... plus “EPF stimulus”



Malaysia: EPF’s Withdrawal Schemes & Lower Workers’ Contribution Rate, 2020-2022

Withdrawal Schemes	Period	MYRb
i-Lestari	Apr 2020 - Mar 2021	20.8
i-Sinar	Jan-June 2021	58.8
i-Citra	Aug-Dec 2021	21.5
Pengeluaran Khas (Special Withdrawal)	Apr-May 2022	40.1
Options for Lower Workers’ Contribution Rate vs Mandatory 11%	Period	MYRb (Est)
7%	Apr-Dec 2020	c.20
9%	Jan-Dec 2021; extended to Jan-June 2022	

Malaysia: Weighted Average of Retail & Motor Vehicle Sales Volume vs Real Private Consumption (% YoY)



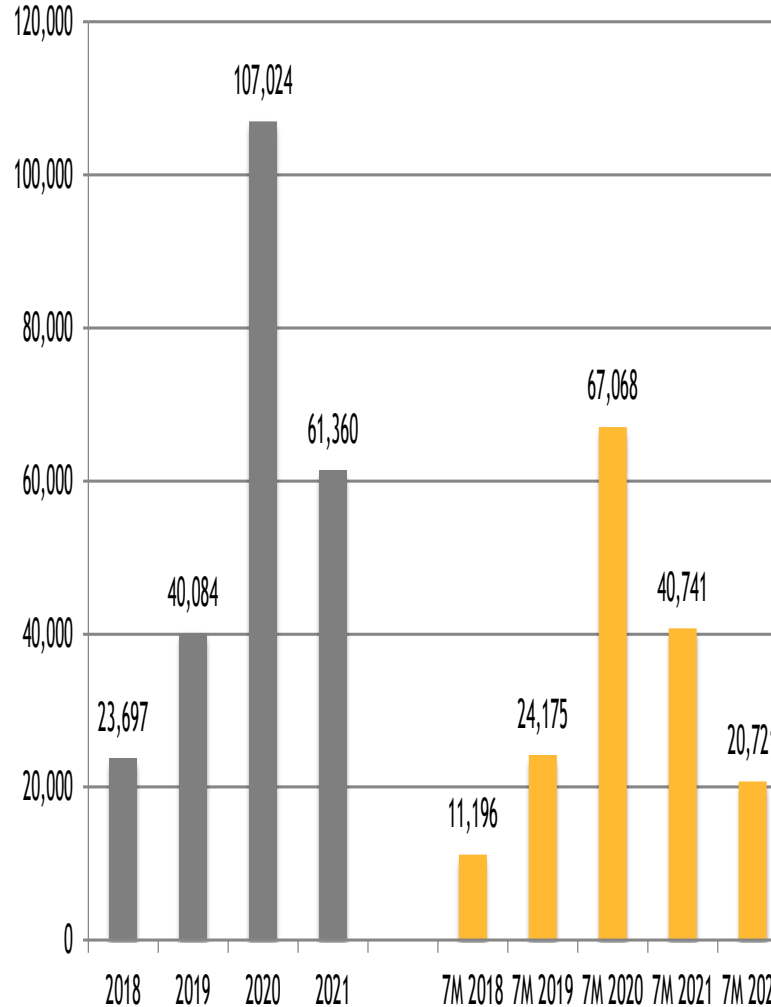
# Improving labour market conditions



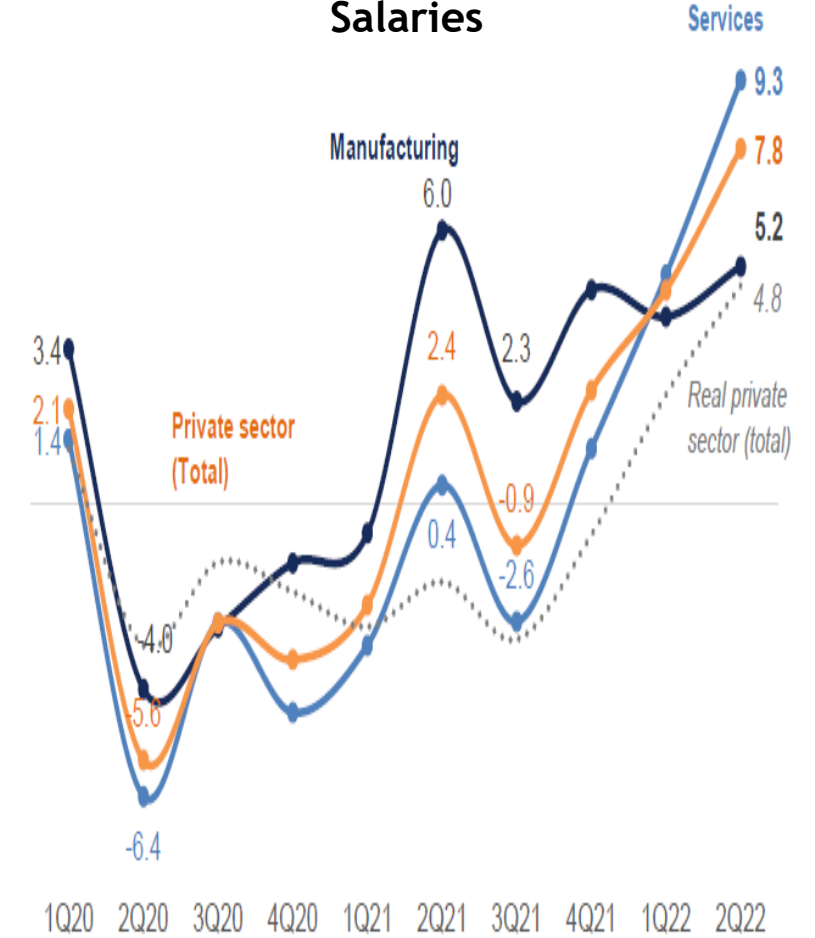
Malaysia: Unemployment Rate (%)



Malaysia: Retrenchments (Numbers)



Malaysia: Private Sector Wages & Salaries



Note: Private sector wages refer to wages of workers in the manufacturing and services sectors.

# “Withdrawal Syndrome” after “Sugar Rush” i.e. unwinding/end of domestic policy stimulus



- Unwinding of BNM’s accommodative monetary policy
- 25bps hikes in OPR in May 2022 to 2.00% and in July 2022 to 2.25%
- Another 75bps hikes in OPR in 3Q 2022 - 1Q 2023 to 3.00%
- “Neutral” OPR around 3.00%-3.25%
- Every 25bps OPR hike cut real GDP growth by 0.20ppt over 12 months & raise mortgage repayment by 3%



- End of EPF “goodies”
- Restore workers’ EPF contribution rate to 11% w.e.f. July 2022
- No more EPF withdrawal schemes; focus on rebuilding retirement savings



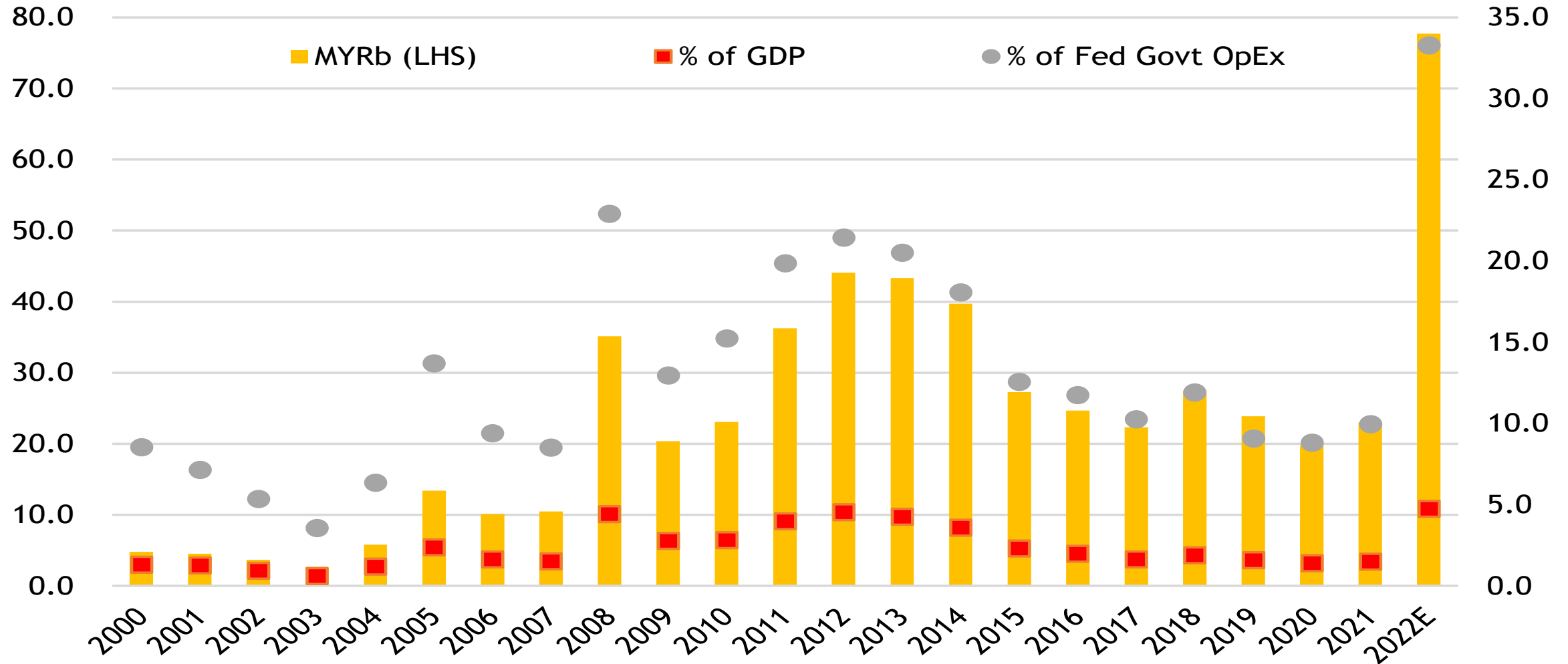
- End of Sales Tax exemption on passenger cars after 30 June 2022 (introduced 15 June 2020)
- 868,422 vehicles sold with estimated 264,000 units committed bookings
- MYR4.7b savings to buyers (and revenue foregone by the Government)



# “Withdrawal Syndrome” after “Sugar Rush” i.e. subsidy reviews



## Malaysia: Subsidies (include Cash/Social Assistances)

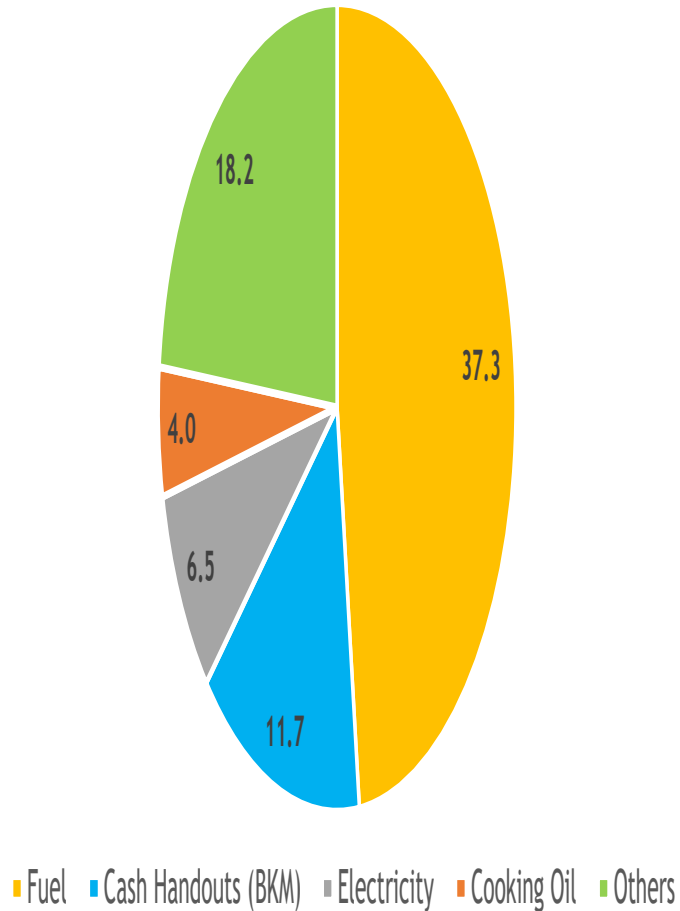


Source: Ministry of Finance, BNM, Department of Statistics, Maybank IBG Research

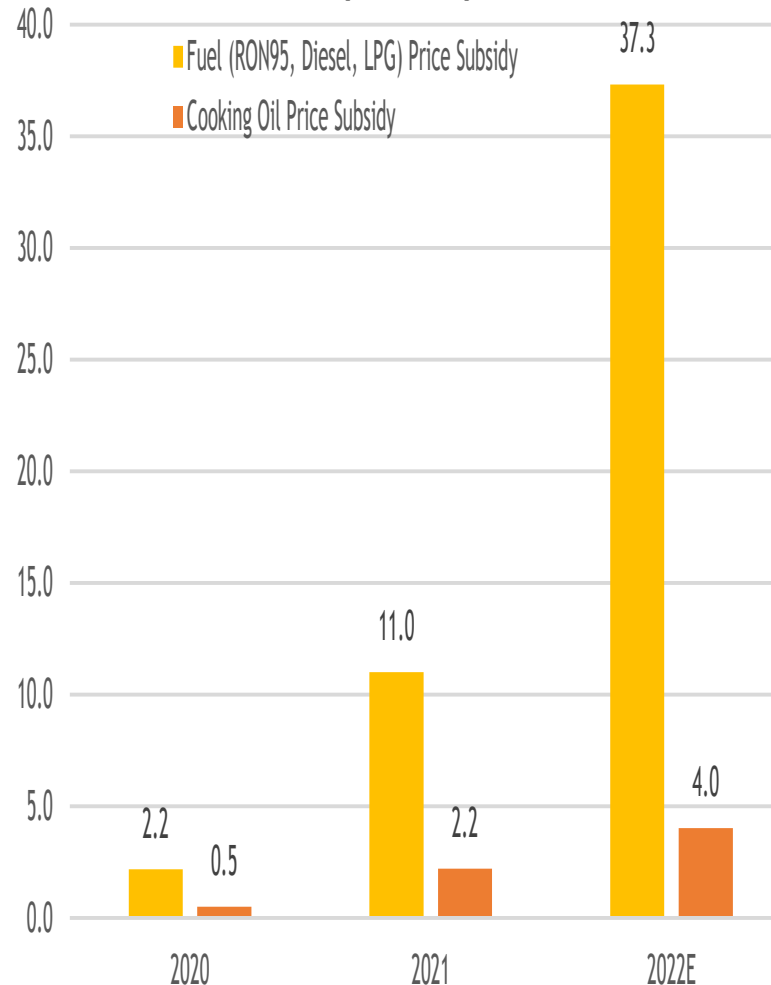
# “Withdrawal Syndrome” after “Sugar Rush” i.e. subsidy reviews (“blanket” to “targeted”, esp. fuel, electricity)



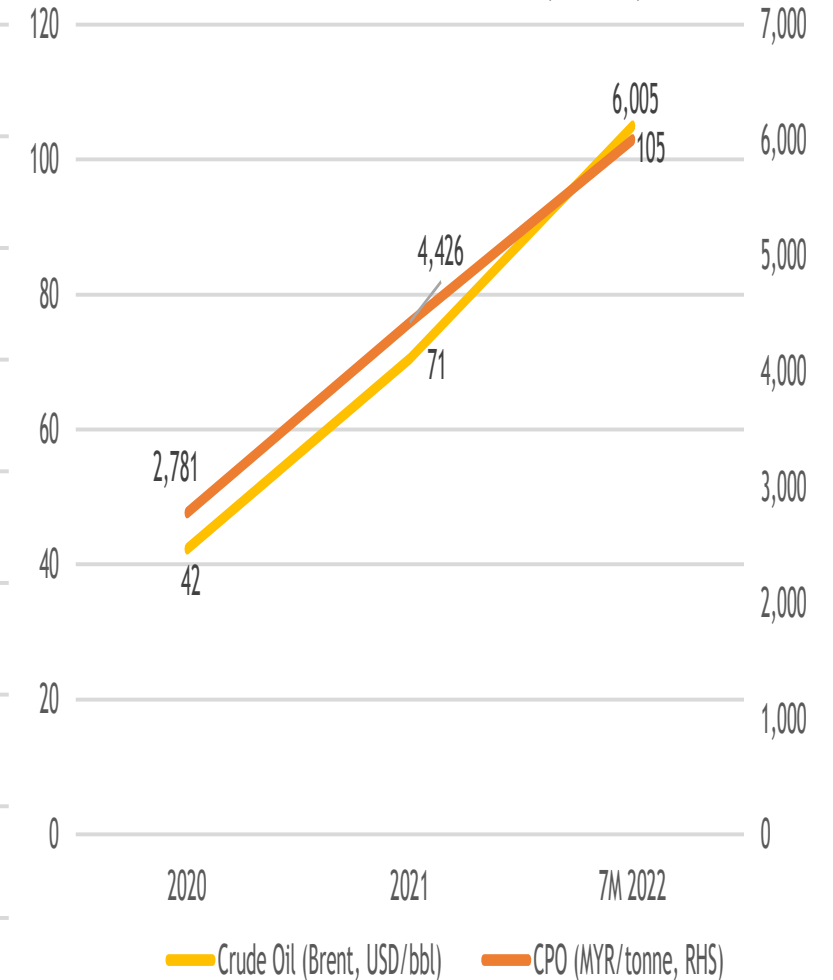
Total Subsidies, 2022 (MYRb)



Fuel & Cooking Oil Price Subsidies (MYRb)



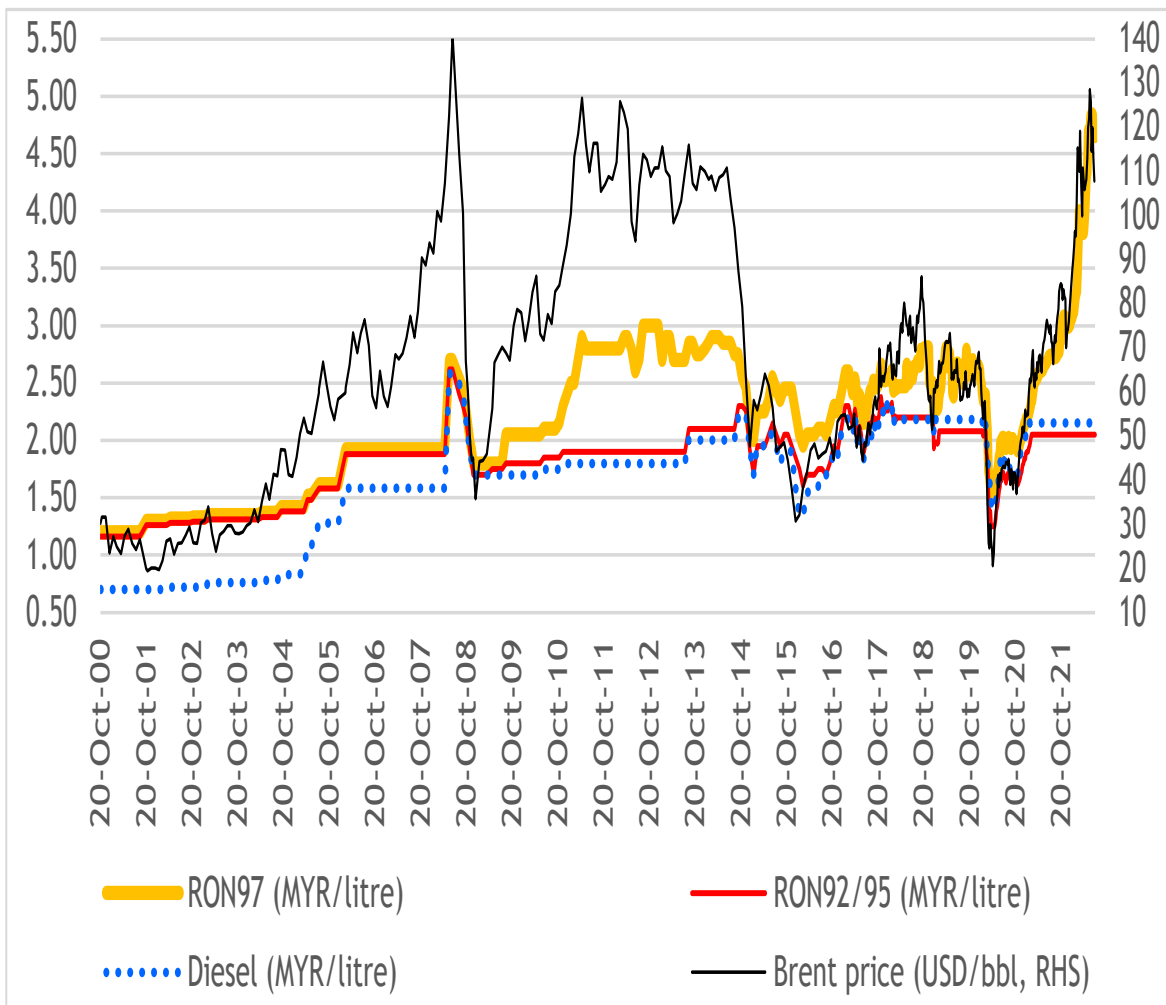
Average Prices of Crude Oil (Brent) & Crude Palm Oil (CPO)



# “Withdrawal Syndrome” after “Sugar Rush” i.e. subsidy reviews (“blanket” to “targeted”, esp. fuel, electricity)



### Domestic Fuel Prices vs Global Crude Oil Price (Brent)



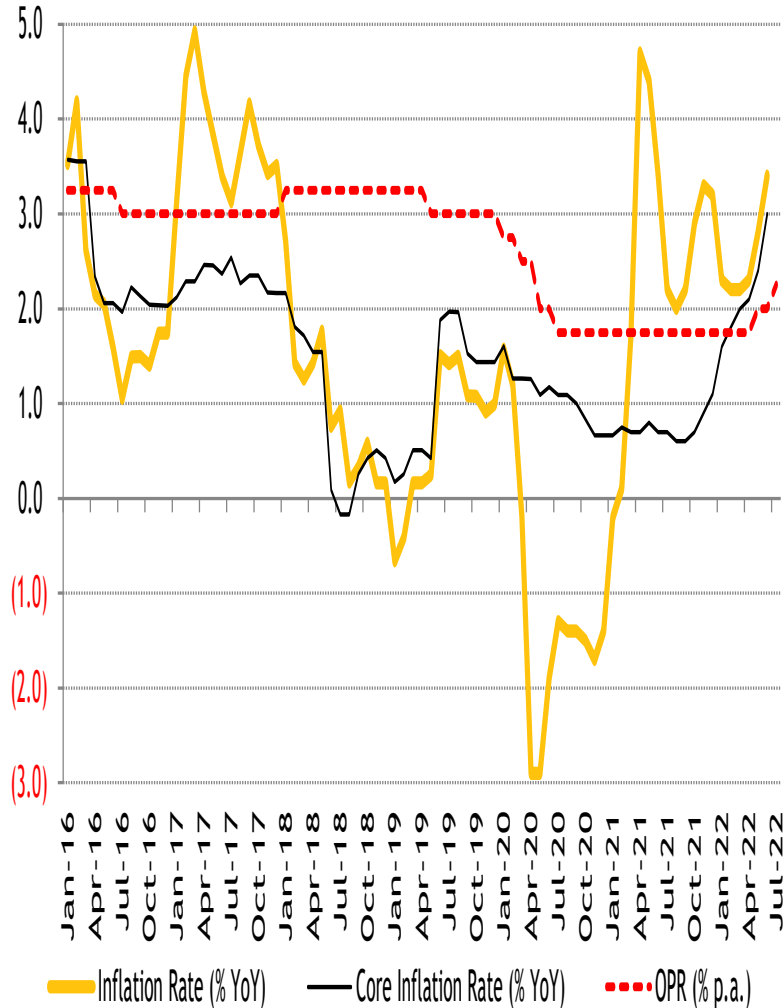
### Malaysia: Fiscal Impact of Crude Oil Price Increase

Every USD10/bbl increase in annual average crude oil price	MYRb
Oil-Related Revenue	7.5
% of 2021 GDP	0.5
Oil-Related Taxes	4.0
% of 2021 GDP	0.3
Petronas Dividend	3.5
% of 2021 GDP	0.2
Fuel Subsidy Cost Increase (RON95 & Diesel)	6.1
% of 2021 GDP	0.4
Net Fiscal Effect (Oil-Related Revenue Gain less Fuel Subsidy Cost Increase)	1.4
% of 2021 GDP	0.1

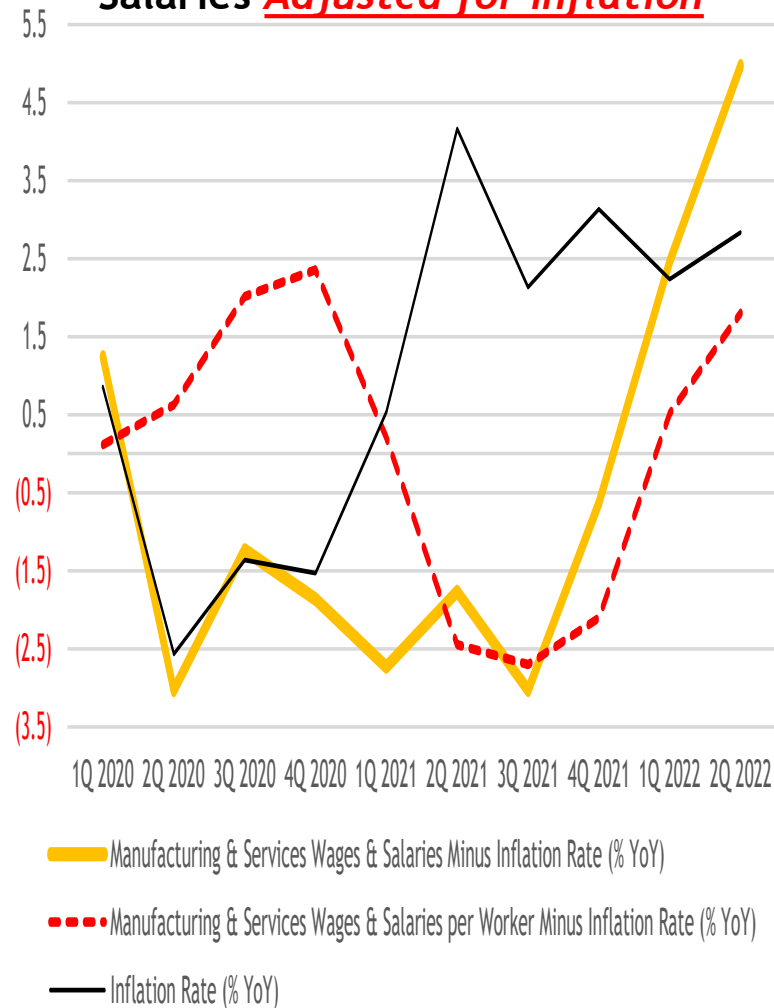
# “Withdrawal Syndrome” after “Sugar Rush” i.e. downsides of rising inflation, interest rates & cost of living



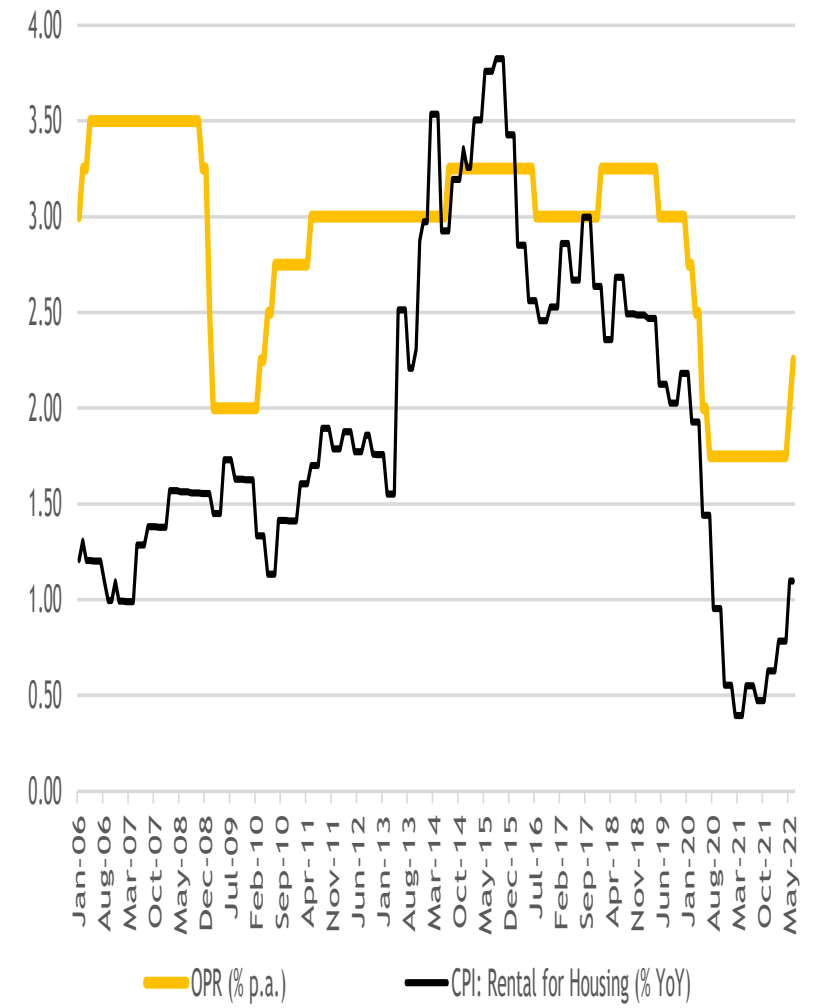
Malaysia: Inflation Rate and OPR (%)



Malaysia: Private Sector Wages & Salaries Adjusted for Inflation



Malaysia: OPR vs Housing Rent (%)



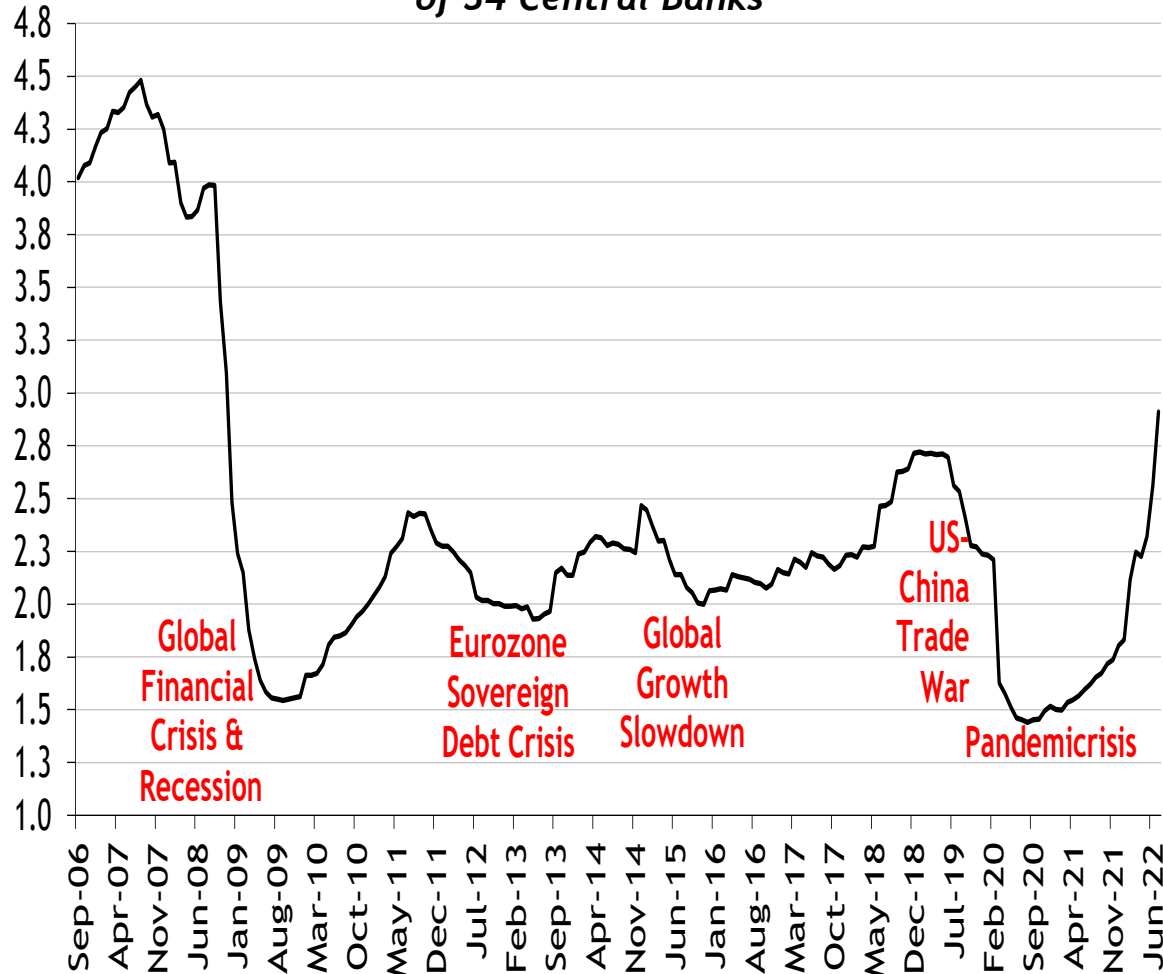
# Plus external headwinds

## US Fed-led global monetary policy tightening



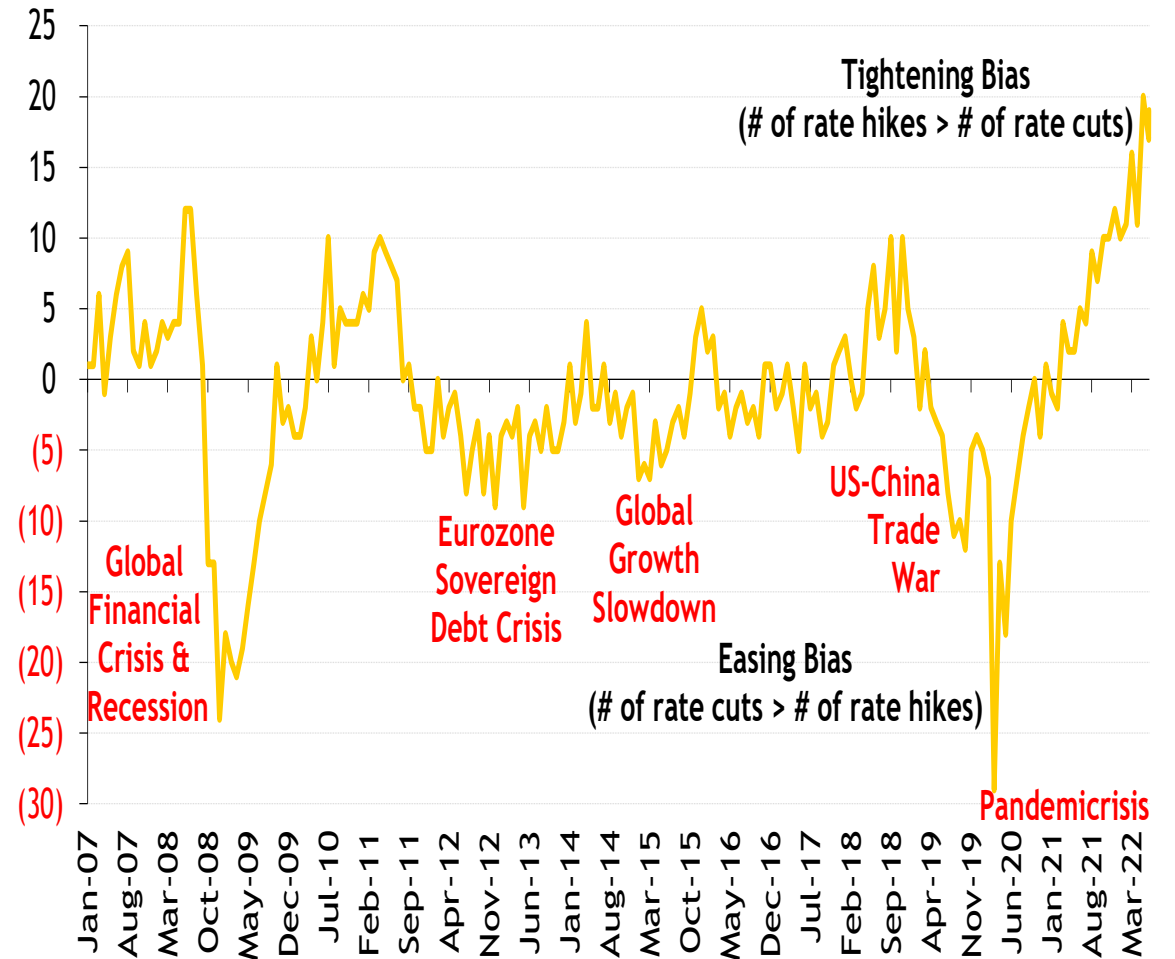
Global Weighted Average Benchmark Interest Rate (% p.a.)

Note: GDP-Weighted Benchmark Interest Rates of 34 Central Banks



Global Benchmark Interest Rate Actions Diffusion Index

Note: Difference Between Numbers of Central Banks Raising and Cutting Interest Rates from a Panel of 45 Central Banks



# Plus external headwinds

## *US Fed-led global monetary policy tightening*



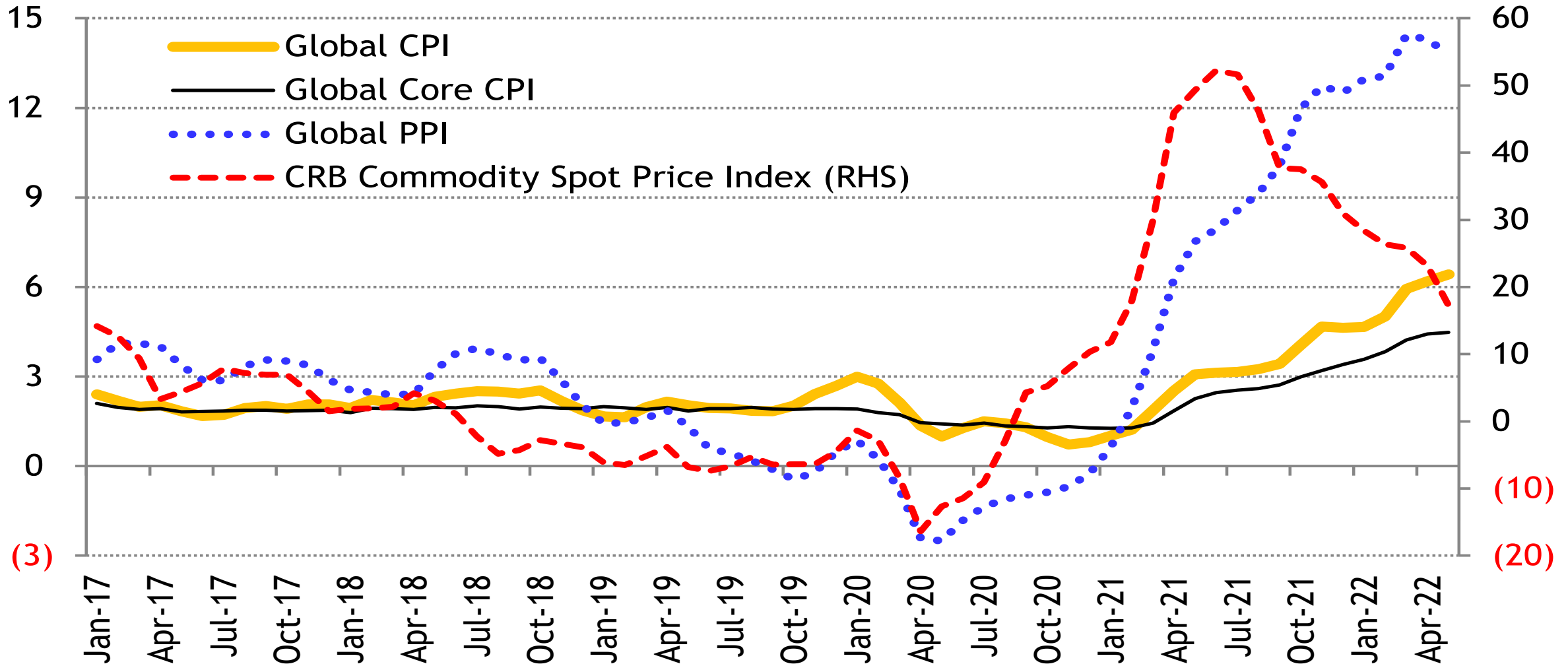
Major Econs & ASEAN-6	Benchmark Interest Rates, % p.a.					
	2019	2020	2021	Current	2022F	2023F
US	1.50-1.75	0.00-0.25	0.00-0.25	2.25-2.50	3.25-3.50	3.50-3.75
Eurozone	(0.50)	(0.50)	(0.50)	0.00	1.00	1.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.75	0.10	0.25	1.75	2.25	2.25
Malaysia	3.00	1.75	1.75	2.25	2.50	3.00
Singapore	1.77	0.40	0.44	1.91	3.00	3.20
Indonesia	5.00	3.75	3.50	3.50	4.25	4.75
Thailand	1.25	0.50	0.50	0.50	1.25	1.50
Philippines	4.00	2.00	2.00	3.25	4.00	4.00
Vietnam	6.00	4.00	4.00	4.00	4.25	4.50

# Plus external headwinds

## Global inflation - persisting or peaking...? e.g. prices

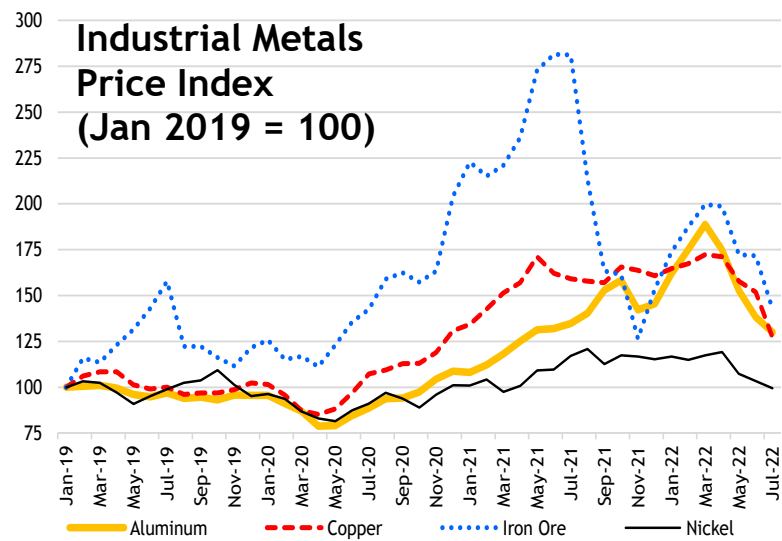
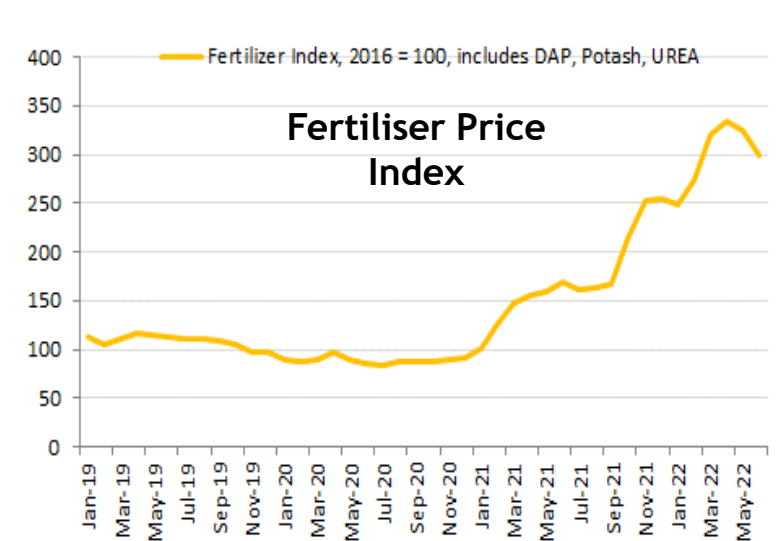
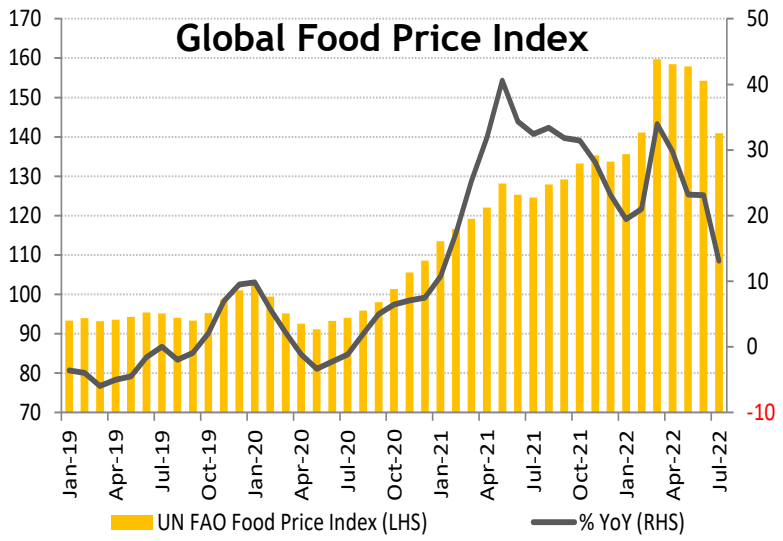
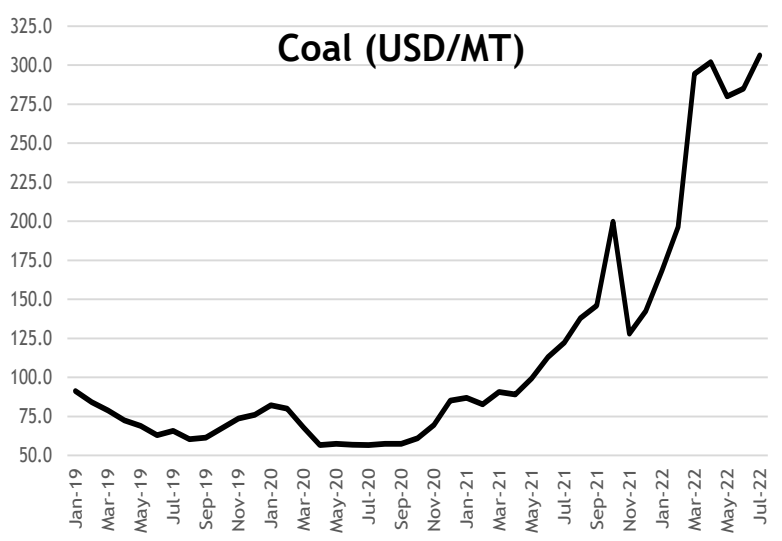
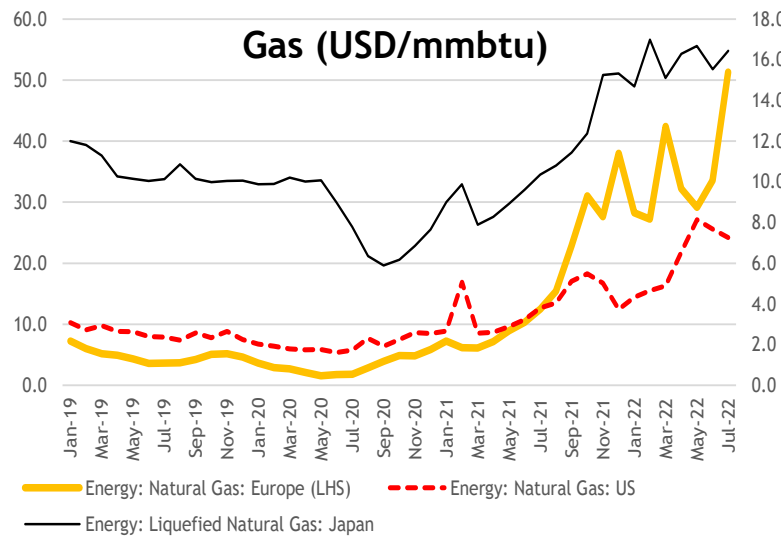
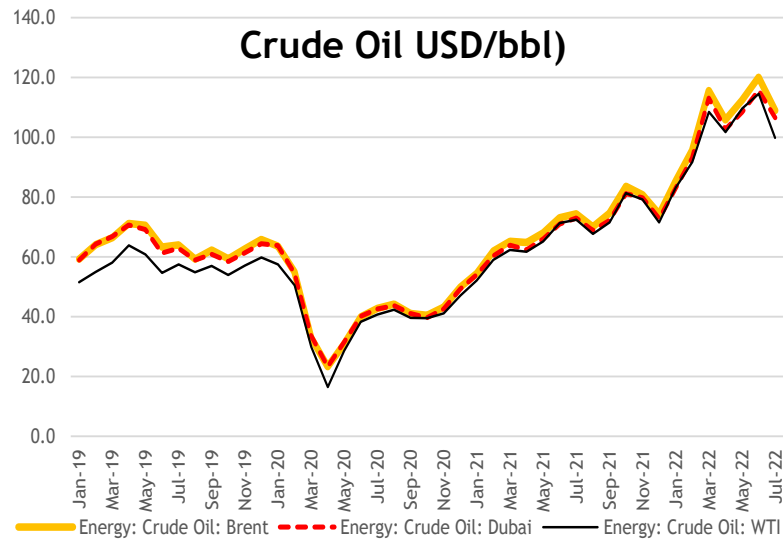


### Global Consumer, Producer & Commodity Prices



# Plus external headwinds

## Global inflation - persisting or peaking...? e.g. prices





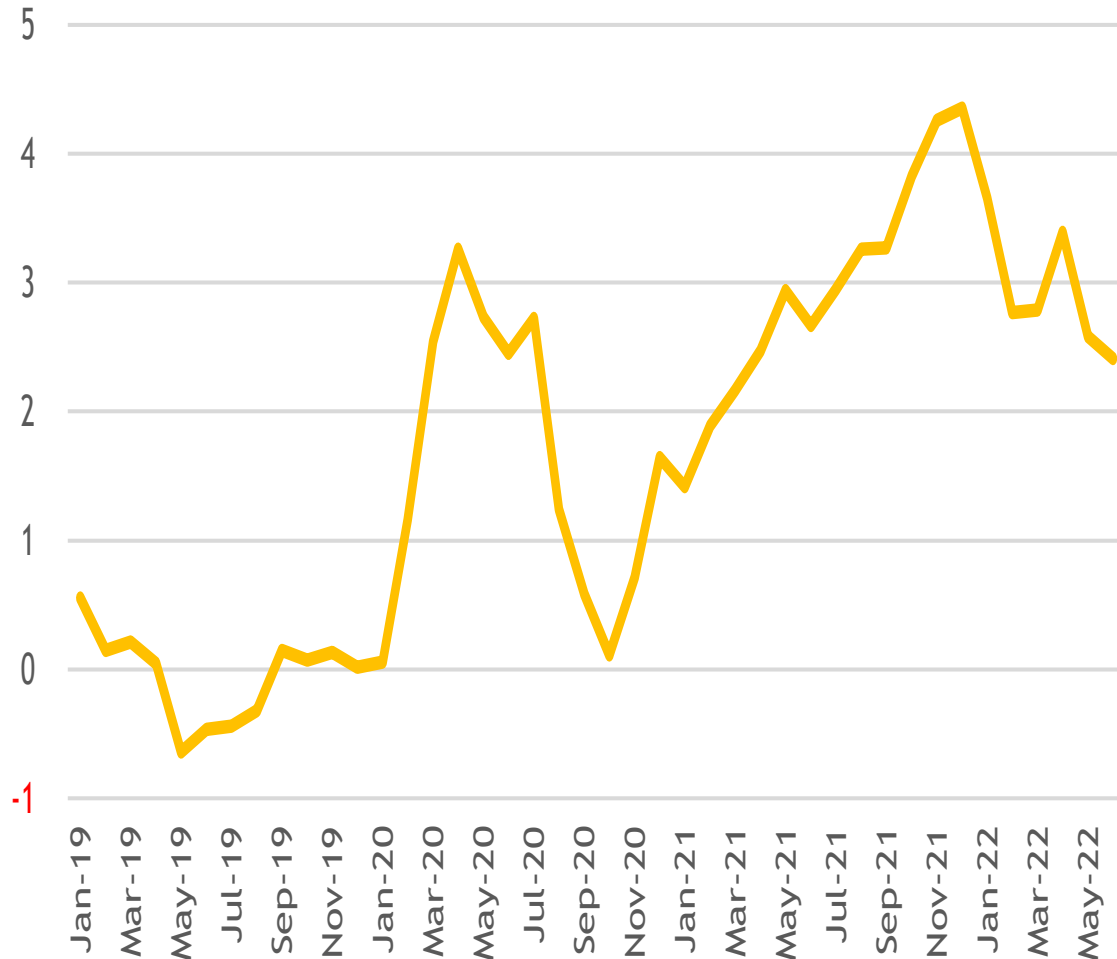
# Plus external headwinds

## Global inflation - persisting or peaking...? e.g. supply chain

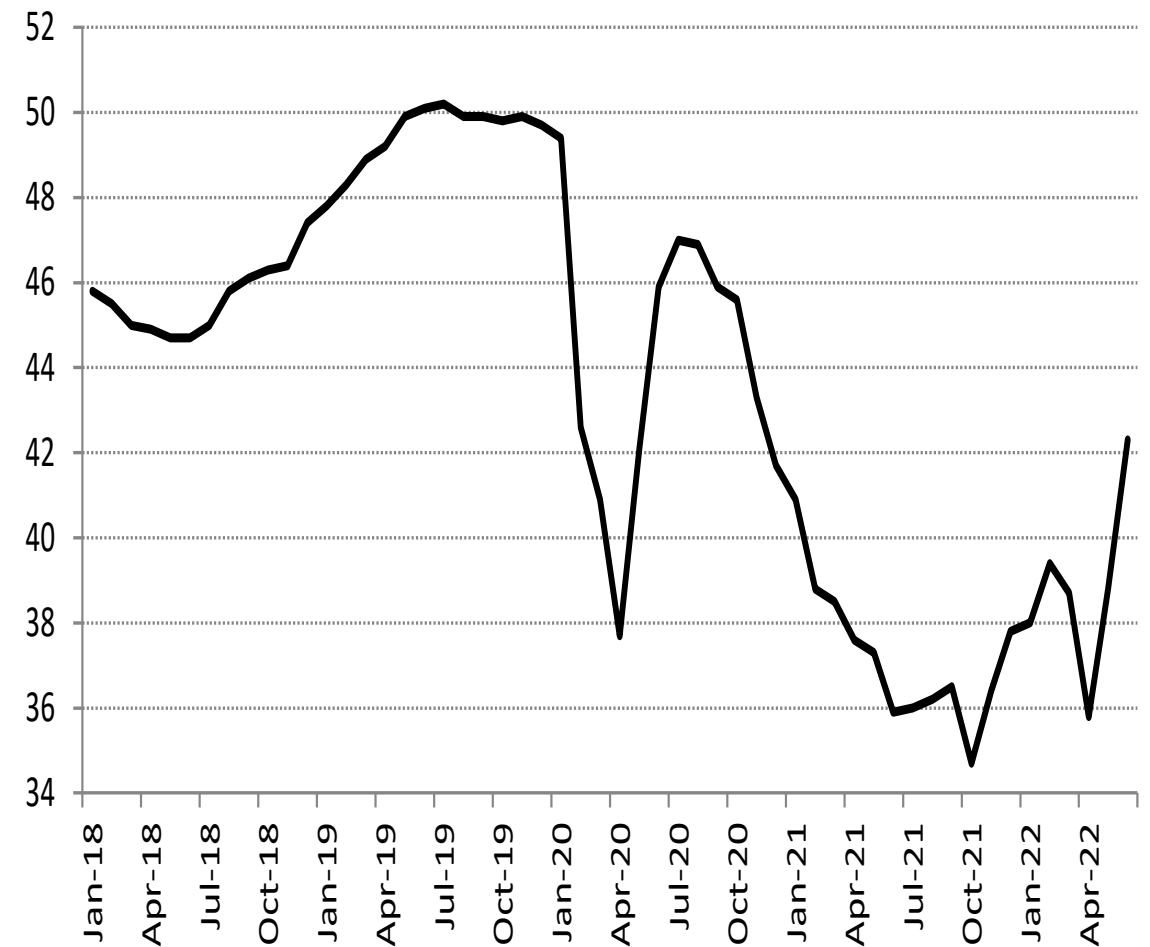


New York Fed's Global Supply Chain Pressure Index (GSCPI)

(Note: Index refers to Standard Deviation from Mean;  
Rise/Fall in Index = Rise/Fall in Supply Chain Pressure)



Global Manufacturing PMI: Suppliers Delivery Time  
(Note: Higher/Lower Index = Shorter/Longer Delivery Time)

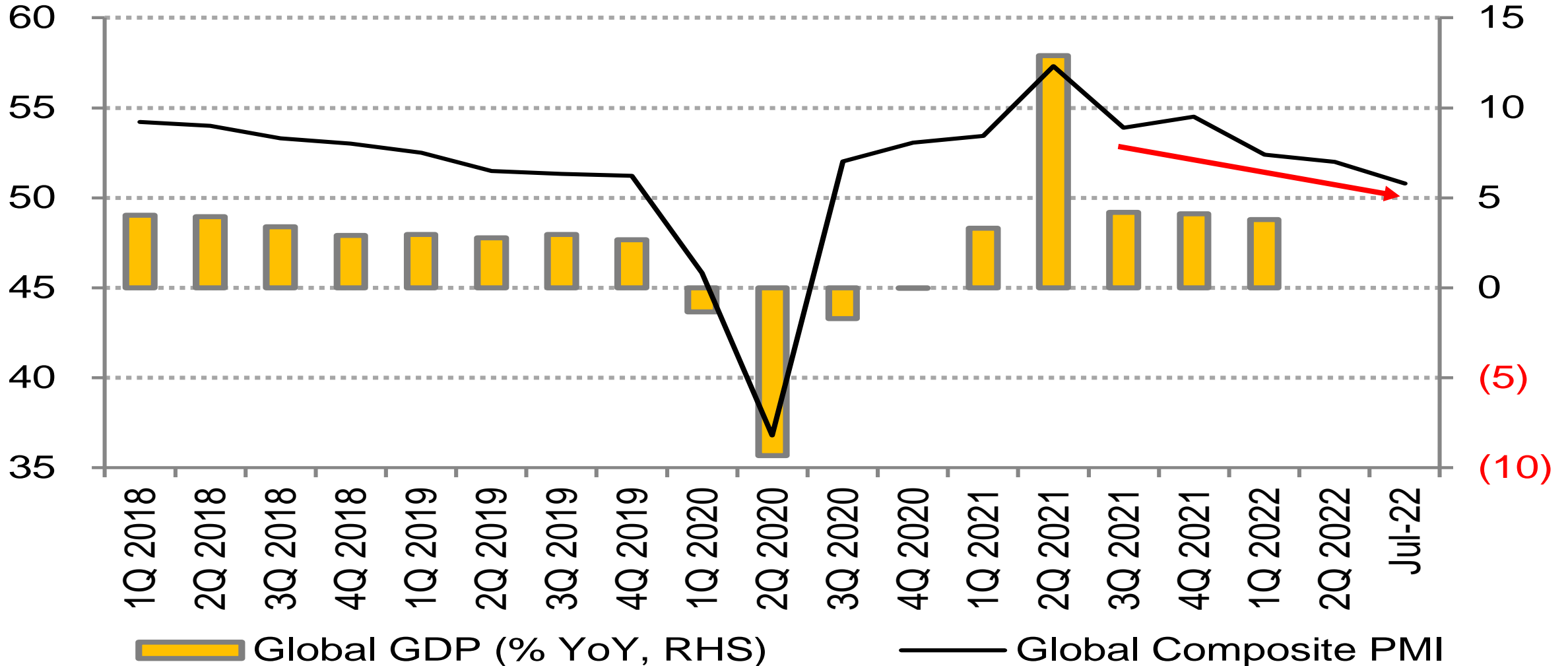


Plus external headwinds

*Rising global inflation & interest rates → slowing global economy*



Global Composite Purchasing Managers Index (PMI) vs Global Real GDP (% YoY)

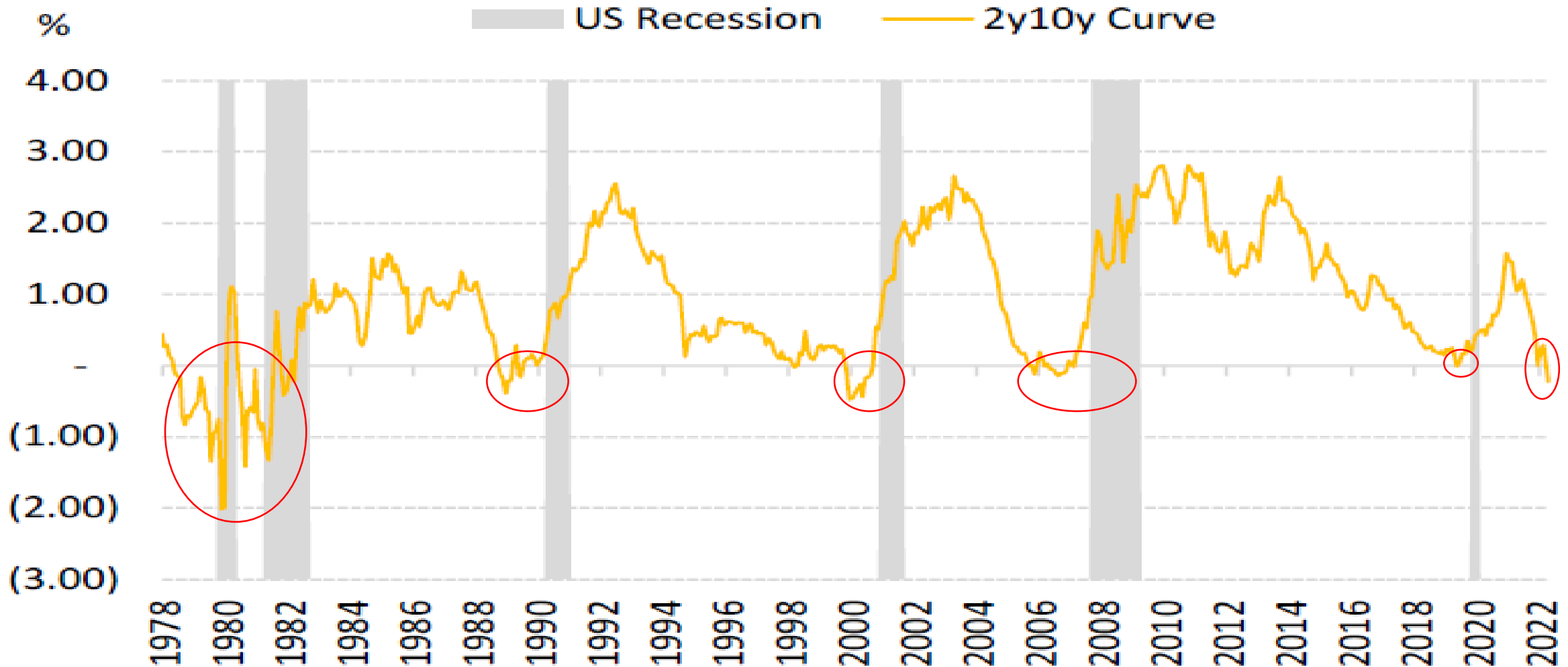


# Plus external headwinds

## *Slowing global economy... with rising risk of recession*



### US Treasury 2 Year - 10 Year Spread (% p.a.)



# Downside risk to growth forecasts



## Real GDP

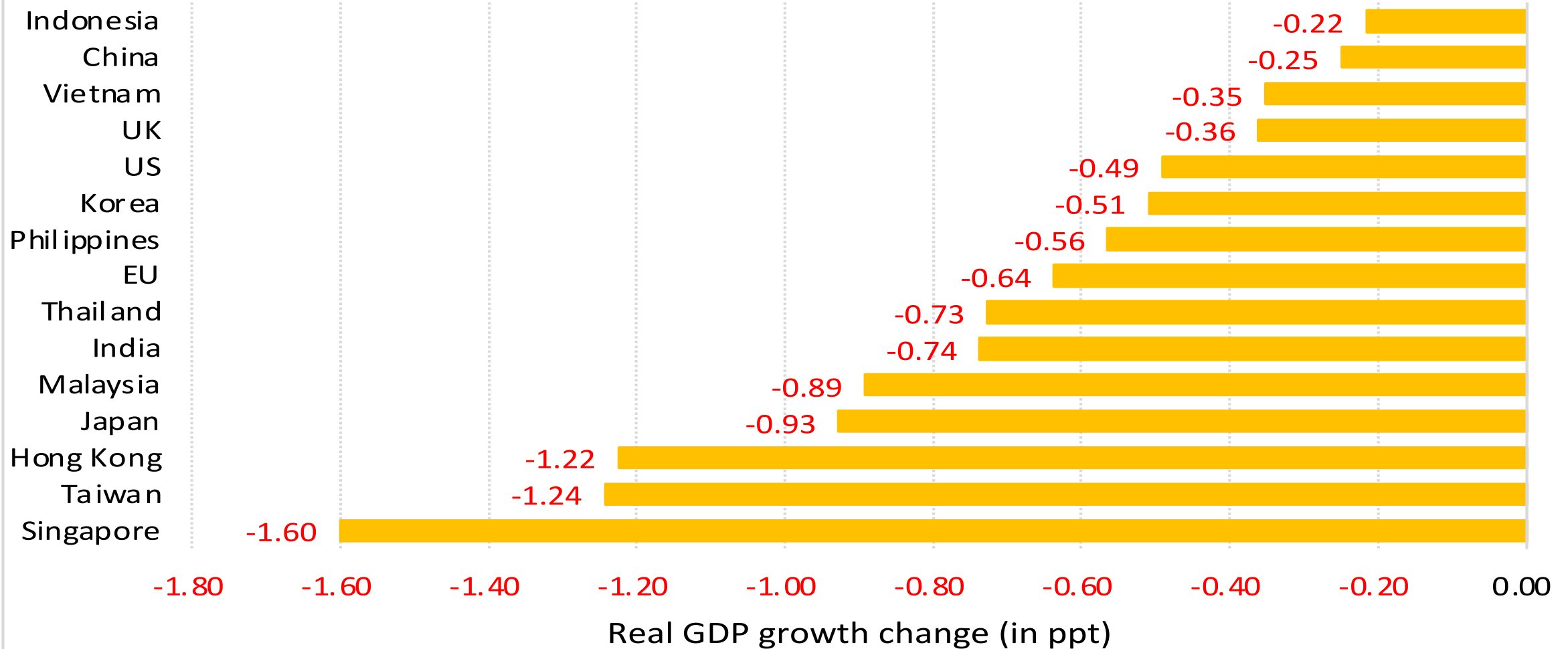
% YoY	1Q 2021	2Q 2021	3Q 2021	4Q 2021	1Q 2022	2Q 2022	2020	2021	2022E	2023E
<b>WORLD</b>	<b>3.3</b>	<b>12.9</b>	<b>4.2</b>	<b>4.1</b>	<b>3.9</b>		<b>(3.1)</b>	<b>6.1</b>	<b>3.0</b>	<b>2.4</b>
US	0.3	12.6	4.7	5.4	4.2	2.3	(3.4)	5.7	2.3	1.3
Eurozone	(1.1)	14.7	3.9	4.8	5.4	4.0	(6.3)	5.4	2.6	1.4
Japan	(1.7)	7.3	1.2	0.4	0.4		(4.5)	1.7	1.7	1.7
UK	(5.0)	24.6	6.8	6.6	8.7	2.9	(9.3)	7.4	3.3	0.6
China	18.3	7.9	4.9	4.0	4.8	0.4	2.2	8.1	3.3	4.3
South Korea	2.2	6.2	4.0	4.2	3.0	2.9	(0.9)	3.9	2.5	2.2
Taiwan	9.2	7.8	4.4	5.3	3.1	3.1	3.4	6.3	3.4	2.8
<b>ASEAN-6</b>	<b>(0.4)</b>	<b>9.8</b>	<b>1.7</b>	<b>4.8</b>	<b>4.8</b>		<b>(3.7)</b>	<b>3.8</b>	<b>5.0</b>	<b>4.5</b>
Singapore	2.0	15.8	7.5	6.1	3.8	4.4	(4.1)	7.6	2.8	1.5
Indonesia	(0.7)	7.1	3.5	5.0	5.0	5.4	(2.0)	3.7	5.1	5.2
Thailand	(2.4)	7.7	(0.2)	1.8	2.2		(6.2)	1.6	3.2	3.8
Malaysia	(0.5)	15.9	(4.5)	3.6	5.0	8.9	(5.6)	3.1	6.0	4.0
Philippines	(3.8)	12.1	7.0	7.8	8.2	7.4	(9.6)	5.6	6.5	5.2
Vietnam	4.7	6.7	(6.0)	5.2	5.1	7.7	2.9	2.6	6.9	6.4

Source: Bloomberg & CEIC (1Q 2021-2Q 2022, 2020-2021); Maybank IBG Research (World, China and ASEAN-6 quarterly & 2022-2023); Consensus (2022-2023 for others)

# Downside risk to growth forecasts



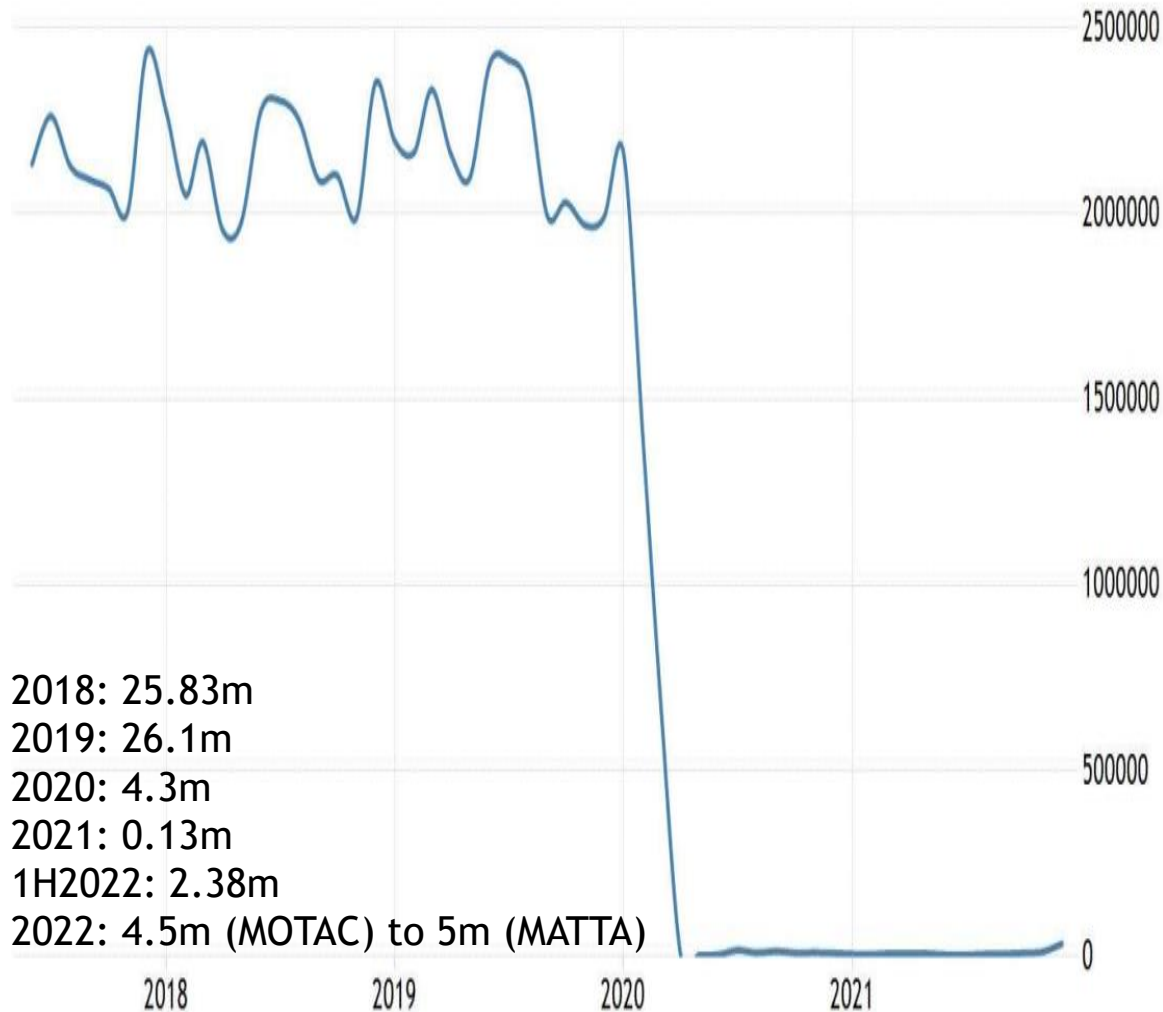
Impact of 1ppt drop in Global real GDP growth



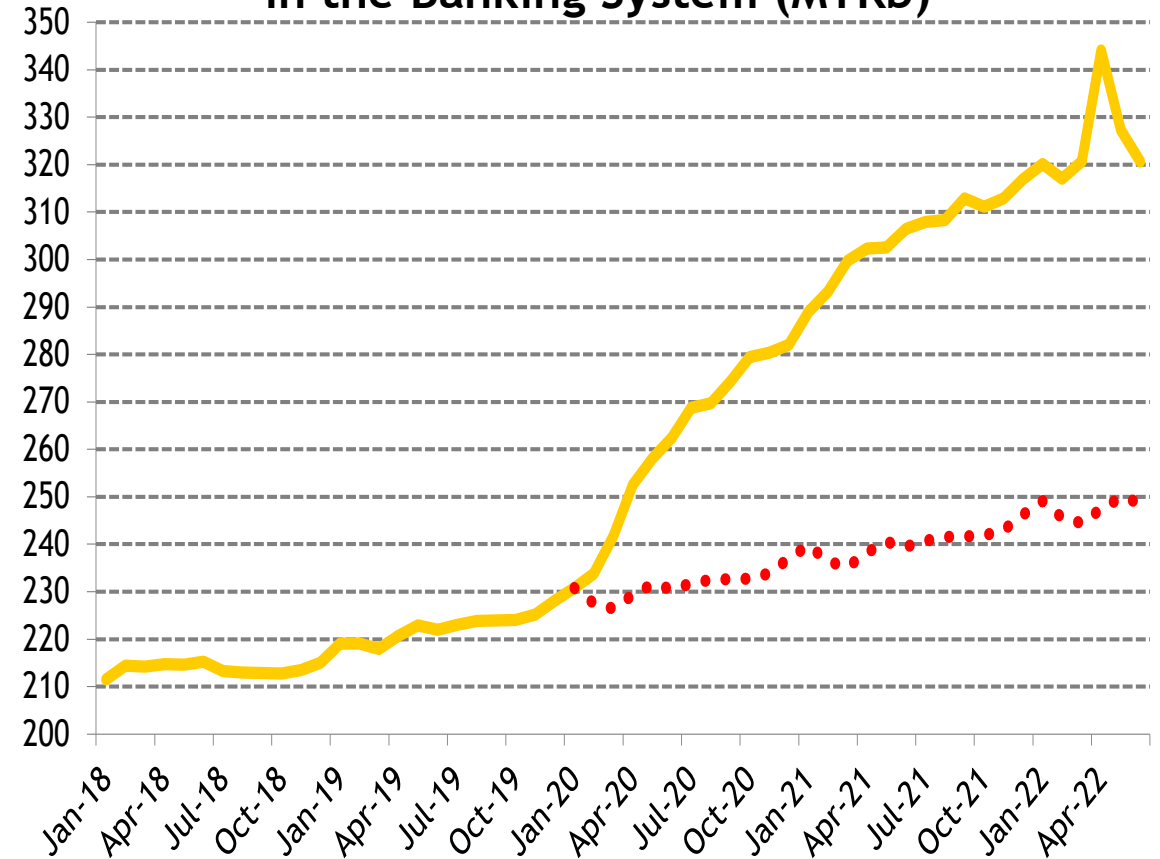
# Malaysia: Mitigating factors on private consumption growth outlook e.g. tourism recovery; drawdown on “excess savings”



### Monthly International Tourist Arrivals



### Individual Savings & Demand Deposits in the Banking System (MYRb)

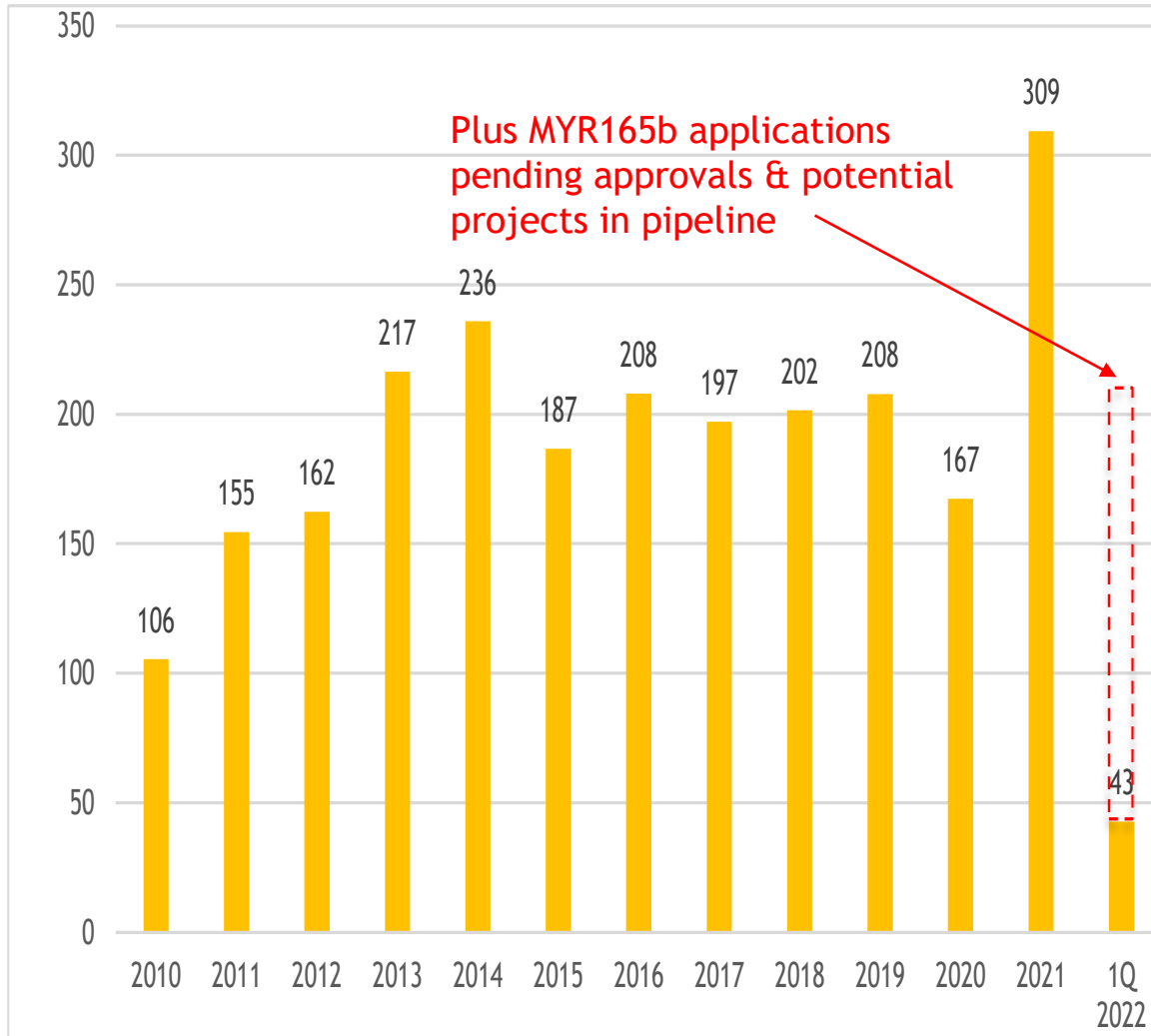


Red dotted red line refers to Maybank IBG's estimated "No COVID-10" trend in individuals' savings & demand deposits assuming 3.9% YoY monthly growth (i.e. 2017-2019 average) for Jan 2020 - June 2022

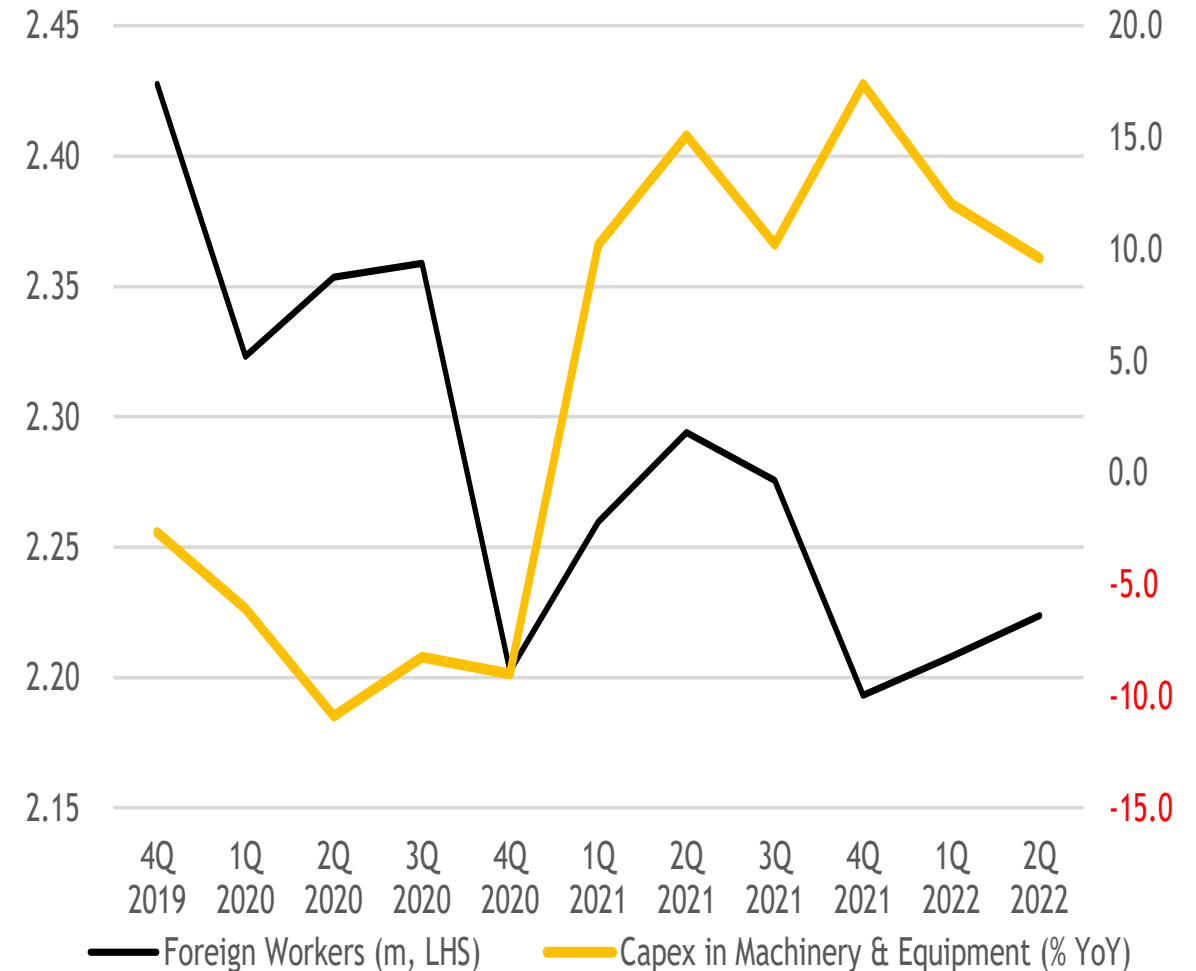
# Malaysia: Mitigating factors on private investment growth outlook e.g. realisation of approved investment; capex on technology (automation, digitalisation)



## Total Approved Private Sector Investment (MYRb)



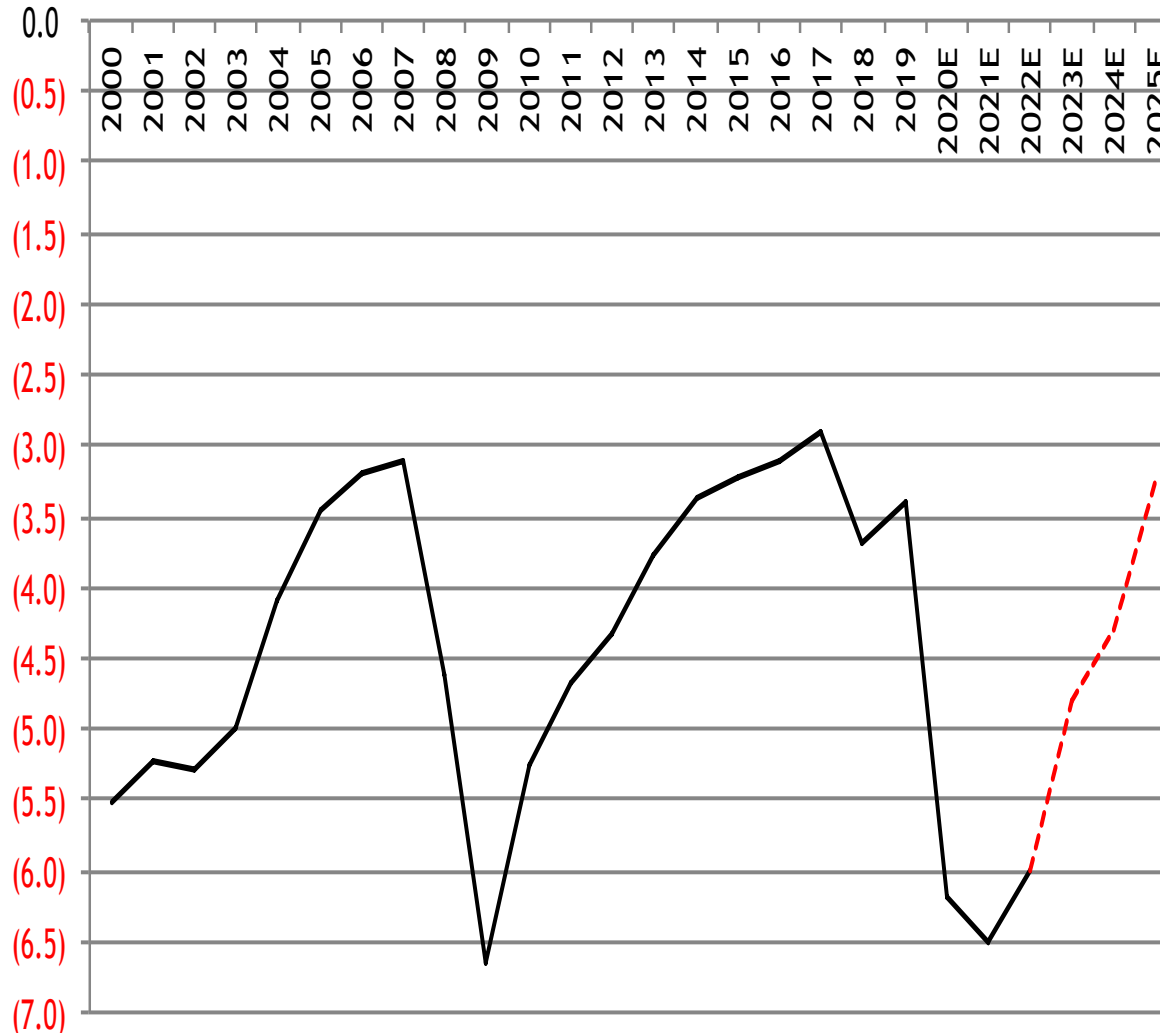
## Capex in Machinery & Equipment vs Numbers of Foreign Workers



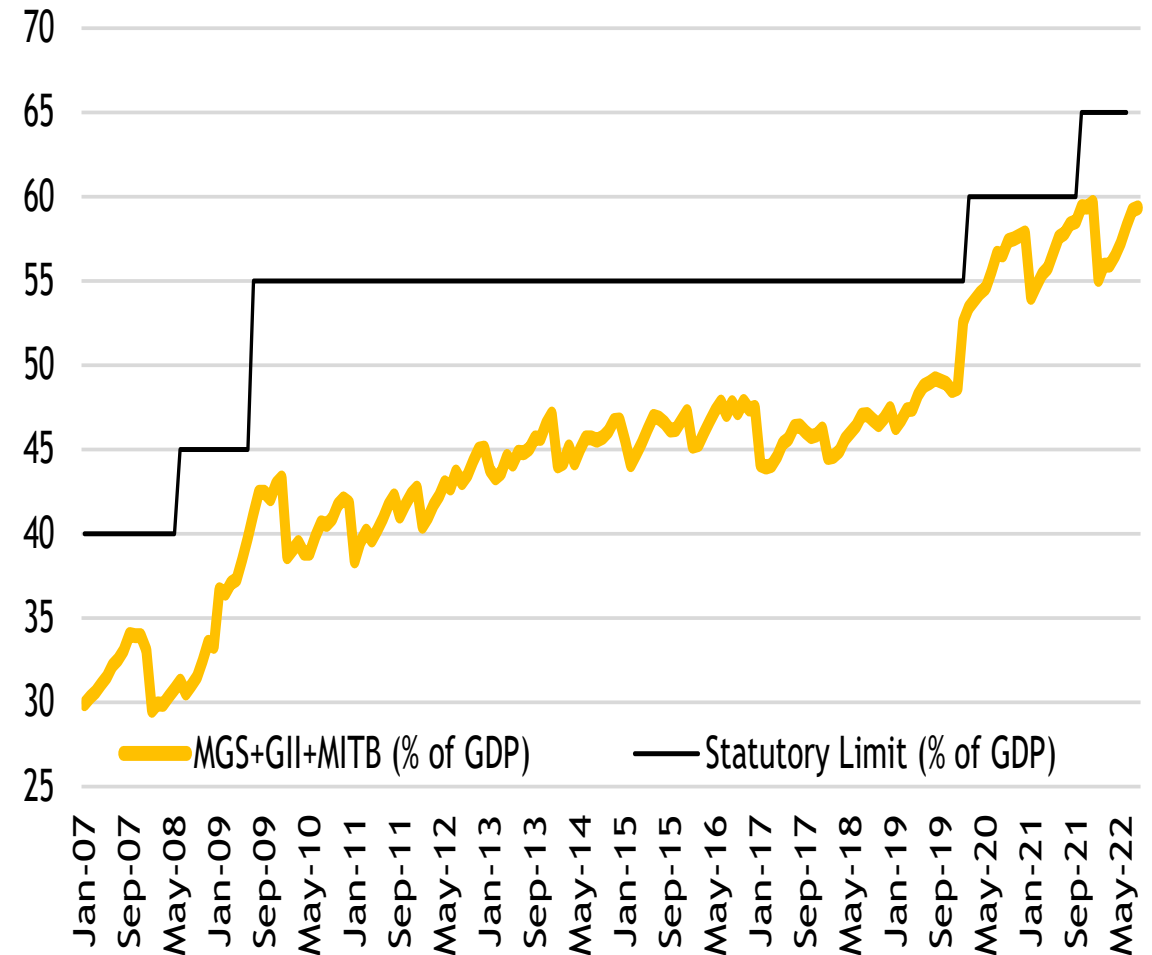
# Malaysia: Limited fiscal policy space; Budget 2023 is expected to kickstart medium-term fiscal consolidation



Malaysia: Budget Deficit, 2000-2025 (% of GDP)



Malaysia: Government Domestic Debt vs Ceiling (% of GDP)





# Thank You



Investment Bank

