

Malaysia Watch

Looking past weaker than expected 4Q23 GDP print

4Q23 & 2023 GDP revised down...

GDP growth for 4Q23 was revised down to 3% yoy from [3.4% in the advance estimates](#) (see report). The print was closer to our forecast (3.2%), relative to Consensus (3.4%) In qoq SA terms, GDP pull-backed by 2.1% in 4Q23, after expanding strongly by 2.6% in 3Q23. Full year 2023 GDP was revised down by 0.1ppt to 3.7%, in line with our forecast, and falling short of the official estimate of 3.9% from [Budget 2024](#) last Oct (see report).

... but BNM seemingly comfortable on growth outlook

BNM sounded more comfortable on the growth outlook for 2024 vs. the MPS in Jan '24, particular on the external front. BNM expects exports to “improve” (vs. recover” previously), in tandem stronger external demand and tech upcycle. We suspect that BNM’s view on the latter may be derived from their channel checks, given that the upcycle is not apparent in the data as yet (exports of electrical products fell by -13% yoy in Nov-Dec '23). Small tweak in BNM’s language also hints at the balance of risks being seen less so to the downside as before, with BNM emphasizing a little more on upside risks by characterizing it as “nonetheless” (vs. “meanwhile” previously).

Other key highlights from BNM quarterly bulletin

#1: Inflation outlook appears broadly similar to Jan '24, with BNM still expecting inflation to remain “modest” in 2024 and highlighting that the outlook is subject to subsidy reforms, global commodity prices and financial market developments.

#2: Current account surplus narrowed sharply to RM0.3bn (0.1% of GDP) in 4Q vs. RM9bn (2% of GDP) in 3Q, with narrower goods surplus (-RM2bn vs. 3Q) and wider primary income deficit (-RM10bn, due to higher investment income accrued to foreign investors in Malaysia) more than offsetting narrower services deficit (+RM3bn).

#3: Fiscal deficit for 2023 matched earlier Budget’s guidance (5% of GDP), with lower deficit in absolute terms (RM91.4bn was below Budget’s revised estimate of RM93.2bn) offsetting the effects from lower-than-expected nominal GDP base.

BofA: Revising down 2024 GDP f/c by 0.2ppt to 4.4%

Our downward revision mainly reflects the lower starting point in GDP terms vs. our forecasts few months back. Our forecast now assumes a technical rebound by 2.3% qoq SA in 1Q24 and a marginally above trend-pace growth rate of 1.3% qoq SA in 2Q-4Q24.

Extended BNM pause still most likely

We are not penciling rate cuts in our base case as (1) BNM is likely to look past the weaker than expected 2023 GDP prints & focus more on the possible improvement in growth outlook in 2024, including tech, and (2) BNM is likely mindful of potential cost-push imported inflation from higher MYR volatility & second round effects from Budget measures (e.g. SST hike later this year). Accordingly, we think that risk of a rate cut would rise only if 2024 GDP growth is seen falling decisively below 4%. The next key event will be BNM Annual Report release on 20th Mar, when BNM updates their growth & inflation forecasts and output gap estimates for 2024.

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Glossary

BNM: Bank Negara Malaysia

MPS: Monetary Policy Statement

SST: Sales & Services Tax

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