

Malaysia Watch

Below expectations 4Q23 raises growth risks**4Q23 & 2023 GDP below expectations**

Advance estimates point to GDP growth at 3.4% in 4Q23 vs. [3.3% in 3Q23](#) (see report). This was below Consensus (4.1%) but closer to ours (3.8%). In qoq SA terms, we estimate GDP pulling back by 1.6%, following a strong expansion by 2.6% in 3Q. Full year 2023 GDP at 3.8% also fell slightly short of the official estimate of 3.9% from [Budget 2024](#) last October (see report).

2024: Greater focus on growth risks...

Today's GDP points to possibly slower growth momentum, and we see downside risk to our 2024 GDP growth forecast of 4.6% & the official estimates of 4.8%. We await final GDP release (16th Feb) before reviewing our forecasts. If final GDP is not too far off, the official point GDP growth forecast for 2024 could also be lowered at the upcoming BNM Annual Report (20th Mar), even as the 4-5% forecast range is likely to be retained.

...with inflation seemingly less of a concern

Headline inflation is likely to remain subdued around 1.5% yoy in Dec '23 and is tracking below 3% in 2024. Tail-risk to inflation from subsidy reforms seem capped for now. The inflation impact from recently announced measures is insignificant. (1) Impact from higher electricity tariffs in 1H24 (15% of households could see price increases of 4.2-6%) is almost negligible; and (2) Impact from higher water tariffs from Feb '24 (87% of households to see water bills higher by around 20%) is likely to be <0.1ppt, after rebates for lower income groups (announced at state levels) are factored in. Meanwhile, we expect impact of future subsidy reforms to remain modest and gradual. The implementation of RON95 subsidy reforms also seem more likely in the later (rather than earlier) part of 2H24, especially if it is subject to the enactment of an Omnibus Bill to allow data sharing across agencies (tabling is planned for later this year).

Extended pause most likely, but risk of rate cut higher

Our base case remains for BNM to stay on an extended pause for the following reasons. First, BNM still views the policy at 3% as "slightly accommodative", based on the Governor's comments in a Bloomberg interview on 1st Dec 2023. We earlier thought BNM saw policy as neutral, after the language was dropped in the Sep '23 MPS. Second, 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). That said, risk seems even more skewed toward a rate cut than what we earlier thought (see [Year Ahead](#)), with today's GDP raising risk of 2024 GDP growth falling below 4%.

Fiscal disbursement to be front-loaded from Jan

Prime Minister Anwar said that funds have been disbursed to ministries in Jan (probably earliest in history) to facilitate earlier implementation of projects (rather than starting after 1Q24). This raises the possibility of expenditure & fiscal deficit tracking above past years' trends from the start of the year, but we caution against interpreting this as an indication of potential overshooting of the 2024 overall fiscal deficit target.

19 January 2024

GEM Economics
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Glossary

BNM: Bank Negara Malaysia

MPS: Monetary Policy Statement

SST: Sales & Services Tax

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Timestamp: 19 January 2024 02:43AM EST

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