

MALAYSIA

Key conditions and challenges

Recent developments

Table 1	2023
Population, million	34.3
GDP, current US\$ billion	399.6
GDP per capita, current US\$	11648.7
Upper middle-income poverty rate (\$6.85) ^a	2.3
Gini index ^a	40.7
School enrollment, primary (% gross) ^b	97.8
Life expectancy at birth, years ^b	74.9
Total GHG emissions (mtCO ₂ e)	400.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Growth is expected to increase to 4.3 percent in 2024, with domestic demand continuing to be the main driver of growth. Narrow fiscal space remains a key challenge for the economy, and the government has announced several spending efficiency measures, including reviewing existing price controls and subsidies. The incidence of national absolute poverty in 2022 was still higher than the pre-pandemic level and remains a key focus for the government.

Malaysia's economic growth moderated to 3.7 percent in 2023 (2022: 8.7 percent), lower than the government's target of 4-5 percent. In 2024, growth is expected to pick up as the risk of a global recession recedes. The recovery in the tech cycle, which could boost electric and electronics (E&E) exports, could also have positive spillovers to growth. However, growing geopolitical tensions could lead to supply disruptions, further weakening of external demand, and rising commodity prices posing downside risks to the economy.

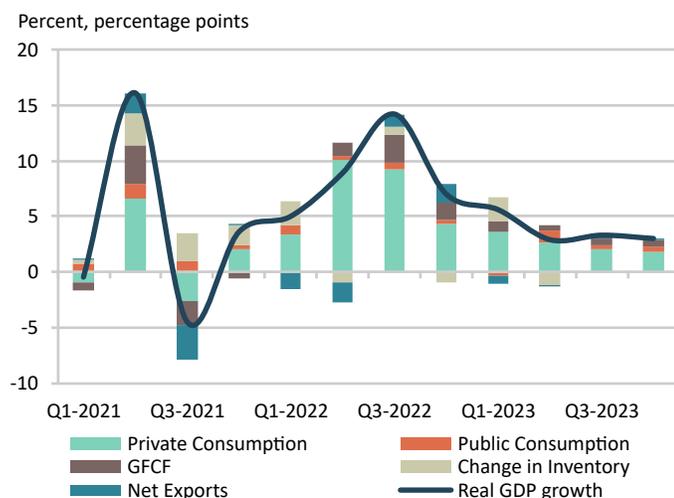
The narrowing of fiscal space remains a key challenge for the government. The government recently announced its plan to discontinue the pension scheme for new civil servants and its intention to review price controls and subsidies in 2024. It has indicated that targeted subsidies to the public will be given through direct cash transfers. PADU, the national household socio-economic database, was launched as a foundation for identifying eligible beneficiaries. The details and timing for the subsidies review, however, have not been communicated. On the revenue front, the government introduced several measures during the tabling of Budget 2024, although the fiscal impact from these measures is expected to be marginal.

Malaysia's economic growth moderated to 3.7 percent in 2023 (2022: 8.7 percent). Domestic demand remained supportive of the economy. Private consumption continued to expand, albeit at a slower pace of 4.7 percent in 2023 (2022: 11.2 percent), supported by continued improvement in labor market conditions. Growth was also supported by the recovery in the tourism sector, as the number of tourist arrivals reached pre-pandemic levels. On the supply side, the construction and services sectors recorded the highest growth, expanding at 6.1 percent and 5.3 percent respectively (2022: 5 percent; 10.9 percent). Growth in the manufacturing sector declined sharply to 0.7 percent (2022: 8.1 percent) dragged down by a contraction in E&E manufacturing, which contracted by 3.0 percent (2022: 16.7 percent).

The external sector was significantly affected by the weaker external environment. After a marked expansion in 2022, gross exports contracted sharply by 7.9 percent in 2023 (2022: 14.5 percent), reflecting the slowdown in external demand, particularly in E&E exports. Consequently, the current account surplus shrank to 1.2 percent of GDP in 2023 (2022: 3.1 percent).

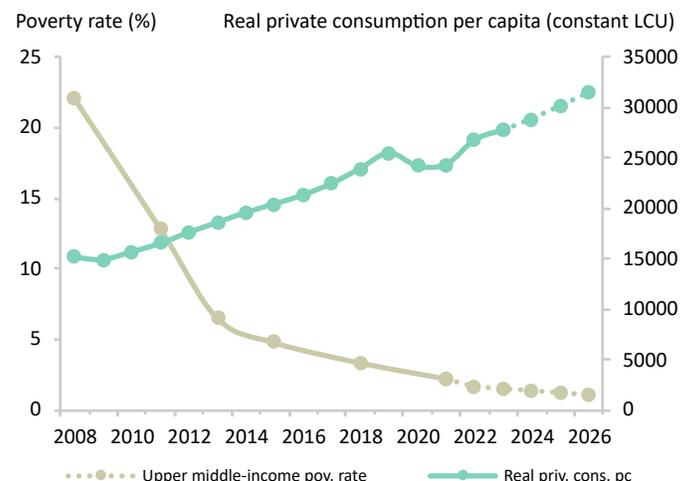
Labor market conditions continued to improve, with the unemployment rate declining further to 3.3 percent in December 2023. The labor force participation rate in Q4 2023 remained stable at 70.1 percent (Q3 2023: 70.1 percent). Private sector nominal wages

FIGURE 1 Malaysia / Real GDP growth and contributions to real GDP growth



Sources: Department of Statistics Malaysia and World Bank staff calculations.

FIGURE 2 Malaysia / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

grew at a slower pace in Q4 2023, at 3.1 percent (Q3 2023: 3.4 percent).

Headline inflation continued to decline as cost pressures eased. In January 2024, inflation stood at 1.5 percent. Core inflation also moderated to 1.8 percent. The central bank kept its overnight policy rate (OPR) at 3.00 percent in March and expects inflation to remain modest as cost and demand conditions stabilize. Monetary policy is deemed supportive of the economy. Despite the moderating inflation, lower-income households have experienced higher inflation. In December 2023, the inflation for the below RM3,000 (US\$630) income group was 1.7 percent, above the headline inflation of 1.5 percent, disproportionately impacting this group given their higher spending on basic necessities.

In February, the ringgit remained on a depreciating trend and was partly driven by Malaysia's declining competitiveness. Similarly, the real effective exchange rate (REER) has been on a downward trend, depreciating by 0.9 percent between July and December 2023.

The latest official estimates show that the incidence of absolute poverty in 2022 remained higher than the pre-pandemic level

(2019: 5.6 percent). Using the international poverty line, at the upper-middle income line of \$6.85 2017 PPP dollars a day, poverty fell to 2.3 percent in 2021 (2018: 3.4 percent). Meanwhile, inequality reduction has stagnated. Income inequality, measured by the Gini index based on household per capita net income was 40.7 in 2021 (2018: 41.2). Different trends were observed across states, with some states experiencing a widening in their income gap.

Outlook

Growth is forecasted to increase to 4.3 percent in 2024 on the expectation of a likely recovery in global growth and the easing of global financial conditions. Domestic demand will continue to anchor growth. Private consumption is expected to grow by 5.2 percent (2023: 4.7 percent), driven by supportive labor market conditions and continuous household income support measures. Gross exports are projected to grow by 4.8 percent (2023: -7.9 percent), in tandem with the expected recovery in global trade.

Growth is subject to several downside risks. Global growth could be weaker than projected in the event of tighter monetary and financial conditions. Rising geopolitical tensions could also weaken external demand. Higher domestic inflation and weaker real income growth could affect the strength of consumption spending, especially for low-income households.

Headline inflation is expected to moderate to around 2.5 percent in 2024, reflecting stable cost and demand conditions. This forecast, however, is subject to potential changes in government subsidies and price control measures. Core inflation will also likely trend lower in 2024.

Poverty is expected to decline further. One of the government's focuses is to improve the people's standard of living through direct cash transfers, apart from ensuring access to education, healthcare, and basic infrastructure. As announced recently, the government's target of zero hardcore poverty has been reached in some states. Nevertheless, a broader view and a more ambitious target of poverty eradication beyond the current 0.2 percent of national hardcore poverty is needed.

TABLE 2 Malaysia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.3	8.7	3.7	4.3	4.4	4.3
Private consumption	1.9	11.2	4.7	5.2	5.4	5.4
Government consumption	6.4	4.5	3.9	2.8	1.5	1.2
Gross fixed capital investment	-0.8	6.8	5.5	5.1	3.9	3.5
Exports, goods and services	18.5	14.5	-7.9	4.8	4.4	4.4
Imports, goods and services	21.2	15.9	-7.6	5.3	4.5	4.4
Real GDP growth, at constant factor prices	3.3	8.7	3.6	4.4	4.4	4.3
Agriculture	-0.1	0.1	0.7	1.6	1.8	1.8
Industry	5.8	6.5	1.4	3.8	3.4	3.4
Services	2.1	11.3	5.4	5.1	5.4	5.2
Inflation (consumer price index)	2.5	3.3	2.6	2.5	2.5	2.1
Current account balance (% of GDP)	3.9	3.1	1.3	2.2	2.4	1.8
Net foreign direct investment inflow (% of GDP)	2.0	0.9	0.3	1.6	1.6	1.5
Fiscal balance (% of GDP)	-6.4	-5.6	-5.0	-4.4	-3.6	-2.7
Revenues (% of GDP)	15.1	16.4	17.3	15.7	15.7	15.6
Debt (% of GDP)	63.3	60.3	64.3	63.9	64.5	64.4
Primary balance (% of GDP)	-3.9	-3.2	-2.5	-1.8	-1.0	-0.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	2.3	1.7	1.5	1.4	1.2	1.0
GHG emissions growth (mtCO₂e)	4.8	4.6	-0.6	1.4	1.8	2.0
Energy related GHG emissions (% of total)	64.4	65.6	65.1	65.4	65.8	66.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on EAPPOV harmonization, using 2022-HIS. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2021) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.