BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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2Q

Second Quarter 2024

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes BNM's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by BNM in pursuit of its mandates.

Contents

Key Highlights for 2Q 2024

Stronger GDP growth of 5.9% (1Q 2024: 4.2%)

What are the factors supporting growth?

Higher household spending
Private Consumption: 6% (1Q 2024: 4.7%)

Improving exports
Exports of Goods and Services: 8.4% (1Q 2024: 5.2%)

Stronger expansion in investment activities
Private Investment: 12% (1Q 2024: 9.2%)

Headline inflation edged higher to 1.9% (1Q 2024: 1.7%)

What are the key factors affecting inflation?

Higher utilities inflation amid water tariff adjustment and service tax on high electricity consumption
Housing and utilities: 3.1%
(1Q 2024: 2.6%)

Information and communication services inflation increased amid higher streaming services fees
Information and communication: -0.6%
(1Q 2024: -2.4%)

Positive labour market conditions

Unemployment Rate
3.3%
(1Q 2024: 3.3%)

Nominal Wages
2.7%
(1Q 2024: 2.6%)

The ringgit appreciated against the US Dollar

MYR/USD
0.2%
(1Q 2024: -2.9%)

US Dollar Index
1.3%
(1Q 2024: 3.1%)

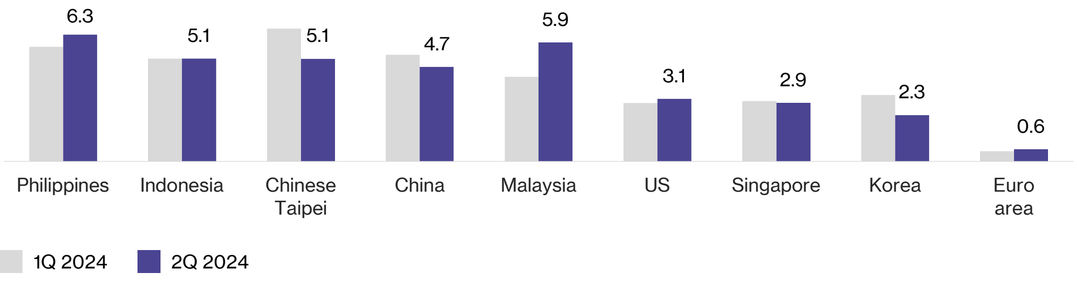
Box Article: **Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability**

Majority of large firms surveyed have started their environmental sustainability journey to lower carbon footprint. However, most are still at the nascent stages in adopting green practices

Global Economic Performance

Moderate global growth in 2Q 2024

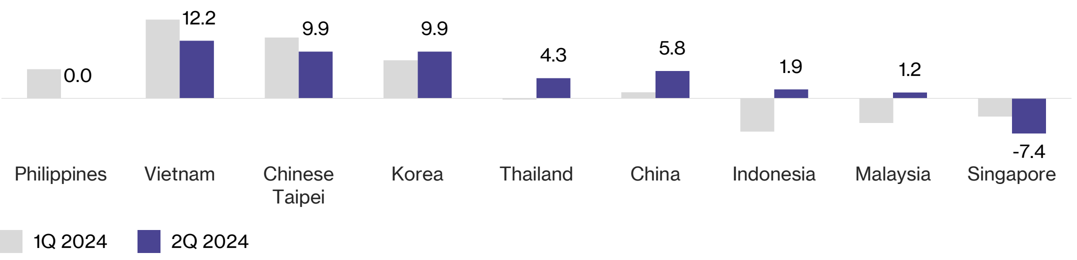
GDP of selected economies,
Annual change, %



Source: National authorities

Trade growth continued to improve in most regional countries

Exports of selected economies,
Annual change, % (in USD terms)



Source: National authorities

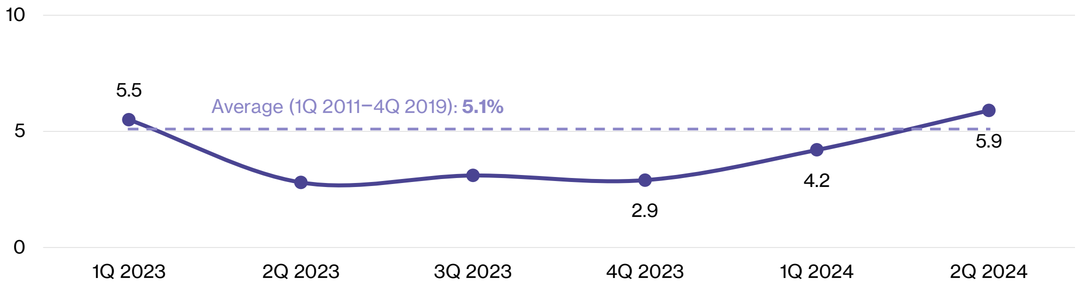
Highlights

- **Moderate global growth,** weighed by high interest rates. However, growth remained supported by resilient labour market.
- **Further improvement in global trade,** driven by broad-based strength in both electrical and electronics (E&E) and non-E&E goods. This more than offset headwinds from the ongoing shift in spending from goods to services and rising trade restrictions.
- **Inflation continued to moderate in the advanced economies.** In contrast, it remained below long-term average in emerging economies.
- **Brent crude oil price trended higher** to USD85 per barrel in 2Q 2024 (1Q 2024: USD82 per barrel) amid extension of voluntary production cuts by OPEC+ countries.

Gross Domestic Product

Stronger GDP growth of 5.9% in 2Q 2024

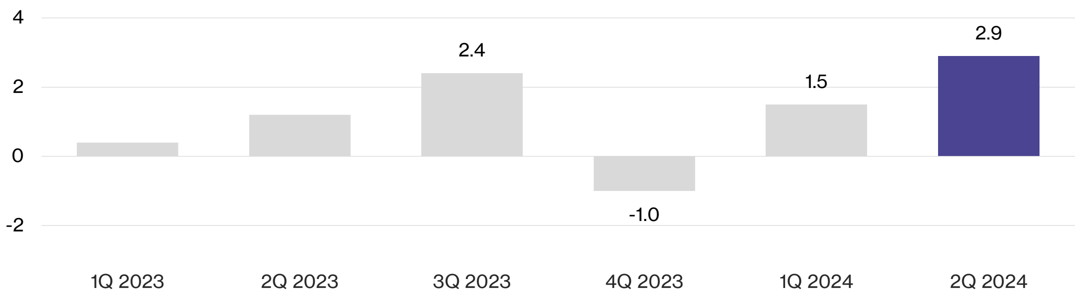
Gross domestic product,
Annual change, %



Source: Department of Statistics, Malaysia

The economy expanded by 2.9%, on a QoQ seasonally-adjusted basis

Gross domestic product,
Quarterly change, % (seasonally adjusted)



Source: Department of Statistics, Malaysia

What are the factors supporting growth in 2Q 2024?

- Stronger private consumption amid positive labour market conditions and larger policy support
- Further recovery in goods exports and higher tourist arrivals
- Robust expansion in investment activities

What are the factors weighing on growth in 2Q 2024?

- Disruption in oil and gas production affecting mining output

Malaysia's Economic Performance

Stronger private sector expenditure amid improvement in net exports

Annual change, %

Private Consumption

6%
(1Q 2024: 4.7%)

Stronger spending amid positive labour market conditions and larger policy support

Private Investment

12%
(1Q 2024: 9.2%)

Robust capacity expansion by businesses, especially in the manufacturing and services sectors

Public Consumption

3.6%
(1Q 2024: 7.3%)

Continued support from Government spending on emolument and supplies & services

Public Investment

9.1%
(1Q 2024: 11.5%)

Further expansion in fixed assets spending by the Government and public corporations

Net Exports

3.4%
(1Q 2024: -24.5%)

Improving exports amid higher external demand and global tech upcycle

Source: Department of Statistics, Malaysia

Higher growth across most sectors

Annual change, %

Services

5.9%
(1Q 2024: 4.8%)

Broad-based improvement across consumer- and business-related services

Manufacturing

4.7%
(1Q 2024: 1.9%)

Higher growth across export- and domestic-oriented industries

Agriculture

7.2%
(1Q 2024: 1.7%)

Stronger production in oil palm and fisheries subsectors

Mining

2.7%
(1Q 2024: 5.7%)

Lower growth in oil and gas subsector following production disruption in May

Construction

17.3%
(1Q 2024: 11.9%)

Higher activities particularly in the civil engineering and special trade subsectors

Source: Department of Statistics, Malaysia

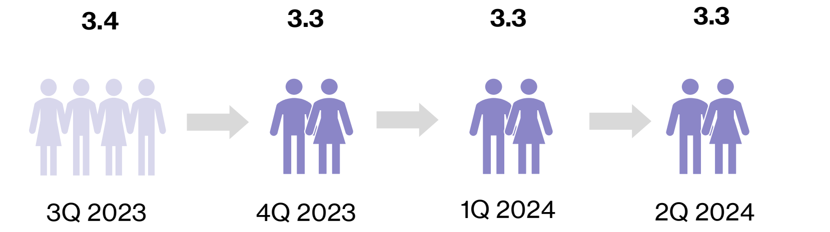
Labour Market Conditions

Positive labour market conditions

- The unemployment rate remained low at its pre-pandemic rate of 3.3% in 2Q 2024 (1Q 2024: 3.3%).
- Employment increased to 16.6 million persons in 2Q 2024 (1Q 2024: 16.4 million persons) amid continued demand for labour.
- Labour supply continued to be forthcoming as the labour force participation rate increased further to 70.5% in 2Q 2024 (1Q 2024: 70.2% of working age population).

Low unemployment rate

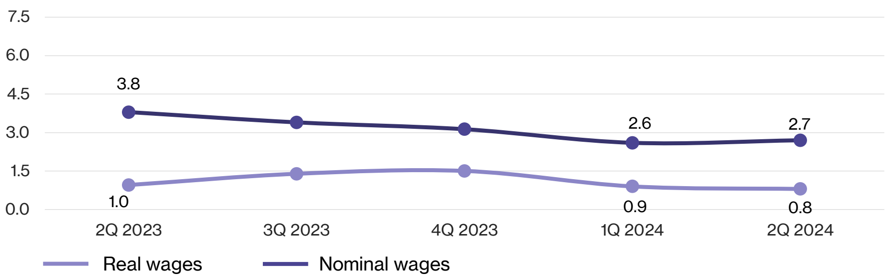
Unemployment rate,
% of labour force



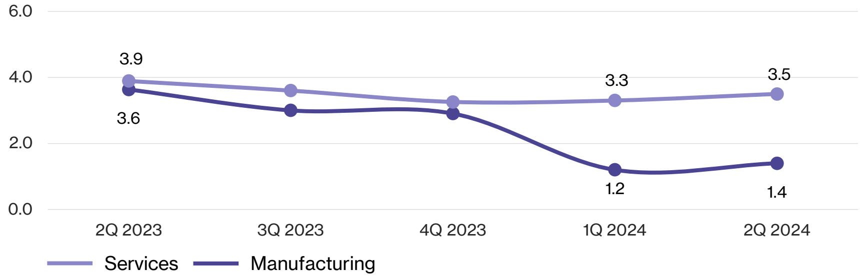
Source: Department of Statistics, Malaysia

Moderate private sector wage growth

Private sector nominal and real wages,
Annual change, %



Sectoral nominal wage,
Annual change, %



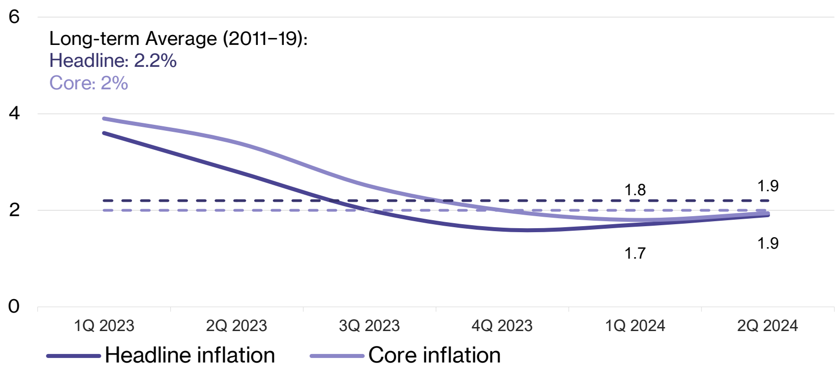
Note: Private sector wages refers to wages of workers in the manufacturing and services sectors.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia Estimates

Inflation trend

Both headline and core inflation edged slightly higher during the quarter

- Both headline and core inflation increased slightly to 1.9%, driven mainly by higher housing utilities and information and communication services inflation.

Headline and core inflation,
Annual change, %



Selected Consumer Price Index (CPI) Items

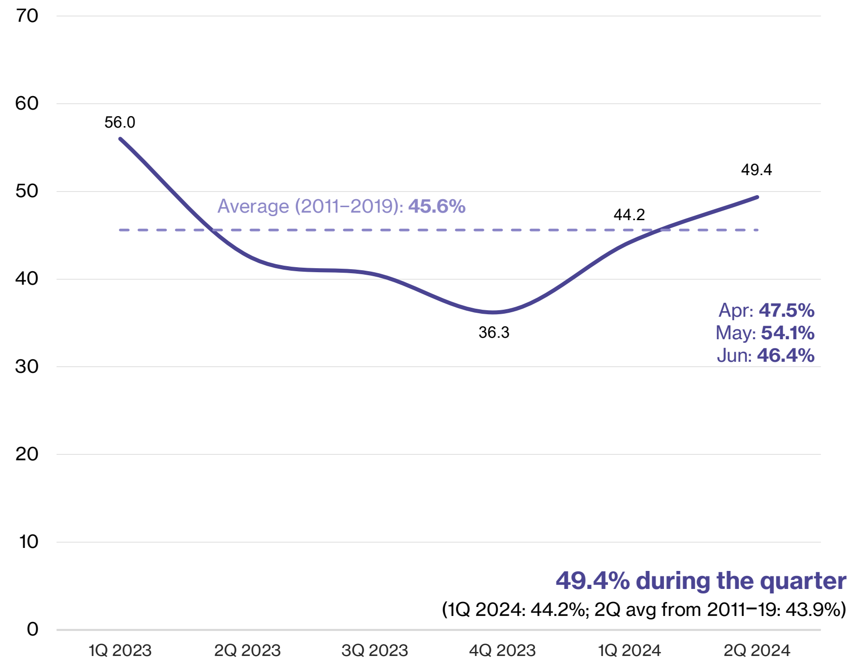
Electricity *(Weight: 2.7%)*	Water supply *(Weight: 0.9%)*	Information and Communication *(Weight: 6.6%)*
▲ 2%	▲ 31.8%	▲ -0.6%
1Q 2024: 0.7%	1Q 2024: 20.8%	1Q 2024: -2.4%

Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia Estimates

Uptick in inflation pervasiveness in the second quarter

- More items recorded price increases in the second quarter, hovering above its long-term average.
- This partly reflected price adjustments by firms during the festive season, several policy measures by the Government, as well as idiosyncratic price movements.

CPI items recording month-on-month price increase,
Share, %



Source: Department of Statistics, Malaysia and Bank Negara Malaysia Estimates

External Sector Development

Improving exports while imports remained strong

Gross Exports **5.8%** 1Q 2024: 2%
Turnaround in E&E and commodity exports amid strong non-E&E exports.

Gross Imports **15%** 1Q 2024: 12.5%
Stronger intermediate imports and continued domestic demand for capital & consumption goods.

Source: Department of Statistics, Malaysia

Continued current account surplus and inflows in financial account

Current Account
RM3 billion; 0.6% of GDP
(1Q 2024: RM16.2 bil; 3.5%)

Key driving factors
- Continued goods surplus amid improving exports.
- Narrower services deficit, driven by higher travel , transportation and other business services receipts.

Which is offset by
- Wider primary income deficit.

Financial Account
Net inflows RM17.1 billion
(1Q 2024: Net outflows RM18.7 bil)

Key driving factors
- Net inflows in other investment on account of interbank borrowings and maturity of deposits placed abroad.
- Net inflows in direct investment due to higher foreign direct investment inflows amid moderating direct investment abroad outflows.

Which offset
- Net outflows in portfolio investment, driven mainly by residents' investments in debt and equity securities abroad.

Source: Department of Statistics, Malaysia, and Bank Negara Malaysia

Higher external debt

RM1.33 trillion or 70.8% of GDP
(1Q 2024: RM1.27 trillion or 68.9% of GDP)
- Higher interbank borrowing primarily for liquidity and balance sheet funding purposes.
- Larger other debt liabilities driven by trade credits mainly for import purposes.

External debt remained manageable
% of total external debt

Currency
Ringgit-denominated: 31.5%
Unaffected by ringgit exchange rate fluctuations
FCY-denominated: 68.5%
of which 63% is subject to BNM prudential & regulatory requirements and 17.3% are due to intragroup loans

Maturity
Medium- and long-term: 57.5%
Limited rollover risks

Net International Investment Position **RM81 billion** (1Q 2024: RM157 billion)

International Reserves[1] **USD114.7 billion** (1Q 2024: USD113.8 billion)
- **5.3 months[2]** of imports of goods and services
- **1.0 times** short-term external debt

[1] As at 31 July 2024.
[2] Coverage may differ from the press statement on international reserves published on 7 August 2024, as it reflects the latest 2Q 2024 data on imports of goods and services.

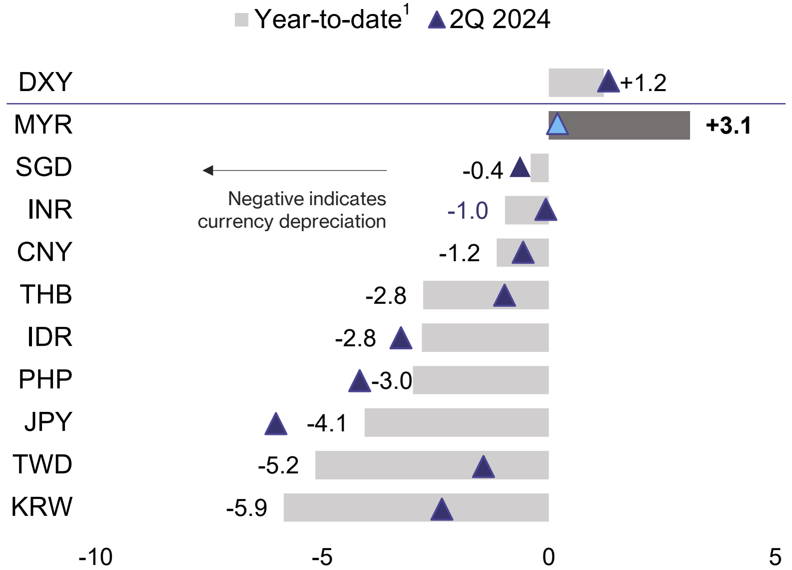
Source: Ministry of Finance, Malaysia, Department of Statistics, Malaysia and Bank Negara Malaysia

Financial Markets and Exchange Rate

Ringgit appreciated during the quarter despite US dollar strength

Pressure on the ringgit was cushioned in part due to coordinated actions taken by the Government and BNM to encourage more consistent and timely inflows into the foreign exchange market

Performance of the US Dollar Index and regional currencies against the US Dollar,
% year-to-date and quarter-on-quarter



Ringgit appreciated against major trading partners

NEER 2Q 2024: +1.6%
1Q 2024: -0.4%

[1] YTD as of 13 August 2024. Numbers in the bar chart are the YTD figures.
Note: NEER refers to the nominal effective exchange rate.

Source: Bank Negara Malaysia and Bloomberg

Domestic financial markets benefitted from positive economic prospects

Bond yields were relatively stable

reflecting investor confidence on the Government's commitment to fiscal reforms

MGS 10Y Yield
+1 bps
(1Q 2024: +11 bps)

Equity markets rose

from improved earnings prospects as economic master plans continue to take shape

KLCI
+3.5% QoQ
(1Q 2024: +5.6%)

Key factors

Expectations for the Federal Funds Rate to stay high for longer and ongoing geopolitical tensions continued to drive US dollar strength during the quarter, leading to depreciation pressure on regional currencies

Nevertheless, steady improvement in the economy and positive impacts from the implementation of domestic structural reforms continue to be supportive of domestic financial markets

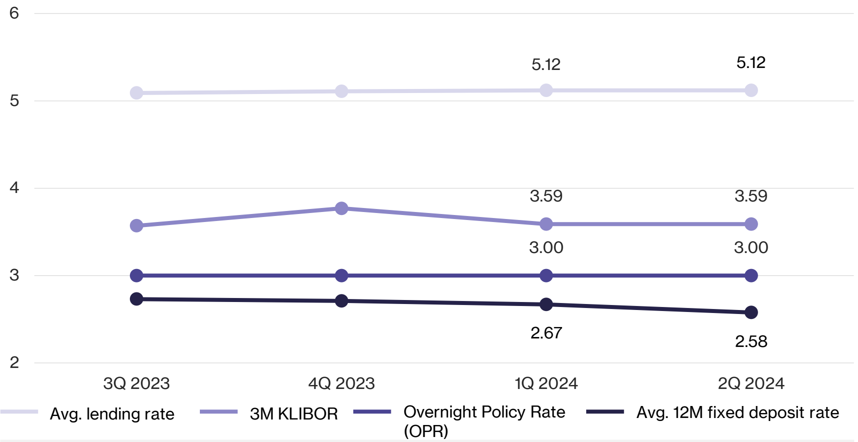
Coordinated actions that are being undertaken by the Government and BNM to encourage timely repatriation and conversion of foreign investment income by GLCs and GLICs have helped to cushion the pressure on the foreign exchange market

Source: Bank Negara Malaysia, ETP, Bursa Malaysia and Bloomberg

Interest Rates and Liquidity

Interbank rates and fixed deposit rates declined during the quarter

Interest rates,
End-period, %

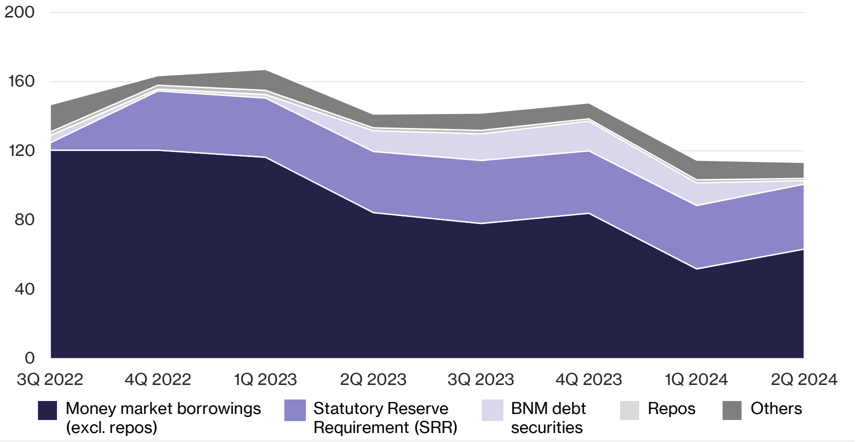


- **The 3M KLIBOR was unchanged** at 3.59%, while interbank rates across maturities remained broadly stable during the quarter.
- **Fixed deposit (FD) rates declined** by 4 to 10 basis points across tenures of 1 to 12 months as banks continued to adjust their funding strategy to manage cost of funds.
- **Average lending rate (ALR) on outstanding loans was stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

Total banking system liquidity remains supportive of financial intermediation

Outstanding ringgit liquidity placed with BNM,
End-period, RM billion



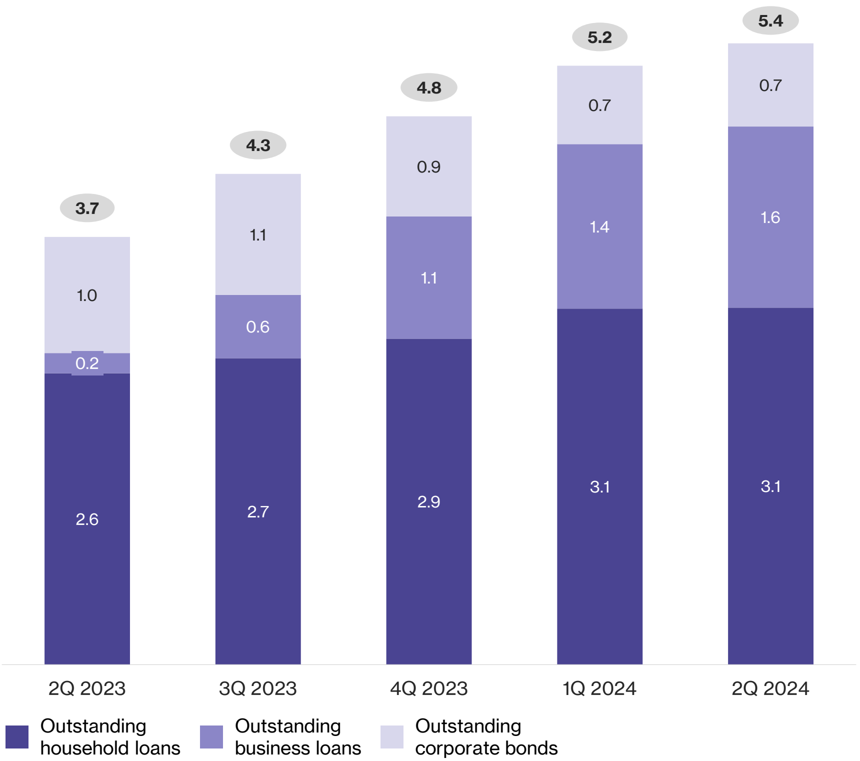
- **Total banking system liquidity at the end of the quarter declined** slightly amid net outflows.
- Banking system liquidity remained sufficient to support financial intermediation. At the institutional level, most banks continued to maintain surplus overnight placement with BNM as at end-June 2024.

Source: Bank Negara Malaysia

Credit Conditions

Higher credit growth following an increase in the growth of outstanding loans

Credit to the Private Non-Financial Sector[1],
Contribution to growth, ppt



[1] Consists of outstanding corporate bonds and outstanding loans to businesses and households.

Source: Bank Negara Malaysia

Key developments

Credit to the Private Non-Financial Sector[2]

5.4%
1Q 2024: 5.2%

- Outstanding loans[3] expanded by 6% as at end-2Q 2024 (1Q 2024: 5.8%), following a higher loan growth for businesses.
- Growth in outstanding corporate bonds was also higher at 3.4% (1Q 2024: 3.2%).

Business Loans

5.6%
1Q 2024: 5.1%

- Outstanding business loan growth increased amid higher growth in both investment-related[4] and working capital loans.
- By sector, the stronger growth was recorded in the construction and manufacturing sectors.

Household Loans

6.2%
1Q 2024: 6.2%

- Growth in household loans was sustained across most loan purposes.
- Demand for credit continued to be forthcoming amid higher loan applications, particularly for the purchase of housing.

[2] All numbers quoted are in terms of annual change.
[3] Refers to loans from the banking system and development financial institutions (DFIs).
[4] Comprises loans for the purchase of non-residential properties, residential properties for business use and fixed assets, as well as for construction purposes.

Source: Bank Negara Malaysia

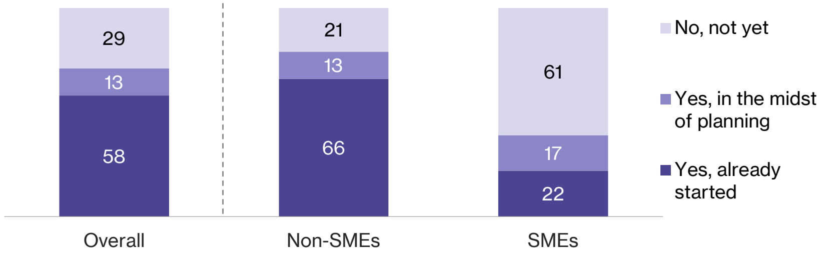
Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Executive Summary

- Majority of large firms have begun their environmental sustainability journey.
- Most are still at the nascent stages of going green, focusing only on implementing sustainability practices in select activities or functions within their business operations.
- Transition practices are mainly motivated by compliance with regulations and medium- to long-term cost optimisation.
- The main barrier to large firms adopting greener practices is not cost, but rather the perceived lack of future benefits.

71% of firms surveyed have already started or are planning on environmental sustainability initiatives

Chart 1: Does your company have plans to lower carbon footprint?
Percentage share of total respondents



Note: Majority of engagements involved large firms as non-SMEs form a higher share of GDP (61%) and tend to spearhead sustainability efforts compared to SMEs.
Source: Bank Negara Malaysia

Introduction

Transition risk has been on the rise for Malaysian firms amidst tightening regulations both at the global and domestic stages. Internationally, the European Union has introduced the Europe's Carbon Border Adjustment Mechanism (CBAM) to be implemented in phases starting with cement, iron and steel, aluminium, fertilisers, electricity and hydrogen industries from 2026. In Malaysia, the Climate Change and Principle-Based Taxonomy[1] (CCPT) has been implemented since April 2021 and is progressively being integrated into credit-related processes and decisions of financial institutions, while the Energy Efficient and Conservation Act (EECA) 2023 will soon be enforced. These regulatory changes both globally and domestically will impact Malaysian firms through increased compliance costs, rising demand for sustainable products, and significant changes in global supply chains.

In light of the regulatory changes, most large firms in Malaysia, in particular listed companies, have begun efforts to lower their carbon footprint (Chart 1). Nonetheless, there remains a gap in sizing up these initiatives across various sectors of the economy, as well as the key motivations and challenges driving firms' actions. This study, which involves interviews[2] with 97 firms (81% of which are non-SMEs) across Malaysia in the first half of 2024, aims to shed some light in this important area.

[1] For more information, please refer to the box article titled "Implementation of the Climate Change and Principle-Based Taxonomy in the Financial Sector" in BNM's Financial Stability Review Second Half 2021.

[2] Under the Bank's Regional Economic Surveillance programme, industrial engagements are carried out with the business community to gauge real-time business conditions and outlook. For more information, please refer to Bank Negara Malaysia Annual Report 2021 Feature Article on "Taking the Pulse of the Economy during the Pandemic."

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Almost two-thirds (64%) of firms that are going green are still at the nascent stages

Chart 2: To what extent are your environmental sustainability practices implemented?
Percentage share of respondents

Source: Bank Negara Malaysia

[3] The survey found that 68% and 51% of respondents are focusing on energy efficiency and climate-friendly innovations respectively, while about 20% are not engaging in broader climate actions. For more information, please refer to PwC's 27th Annual Global CEO Survey – Asia Pacific (2024).

Most firms focus on specific activities or functions rather than embracing a holistic approach

Nearly two-thirds of firms (64%) embarking on their environmental sustainability journey are in the early stages, either starting small or just focusing on transitioning key functions of their operations (Chart 2). This is quite similar to the experience of other countries in Asia Pacific, according to a survey conducted by PwC on CEOs in Asia Pacific[3].

Firms that **start small** mainly cite efforts to comply with the Government's regulations, such as installing water treatment plants mandated by the Department of Environment (DOE) or adhering to Bursa Malaysia's sustainability reporting requirements for listed entities. Additionally, some firms engage solely in ad hoc activities like recycling or tree replanting. These firms typically perceive limited opportunities for transition within their industries (e.g., agriculture and construction) or feel less urgency to transition as there is little demand from clients, especially within the Southeast Asian region.

As firms progress, they usually focus on incorporating small-scale clean energy source, energy conservation or waste reduction into at least one key **function** of the company. These include installing rooftop solar panels, retrofitting with LED lighting, commissioning waste-to-energy plants or reducing the use of plastic within their operations. These firms span diverse sectors, encompassing wholesale and retail services, F&B and accommodation services, oil palm plantation and manufacturing industries.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Meanwhile, more than one-third of firms (36%) have progressed to relatively more advanced stages of their environmental sustainability journey.

20% of firms have embarked on clear **green strategies**, by setting internal sustainability targets and key performance indicators (KPIs) under the oversight of their top management or dedicated sustainability teams. These firms, which are typically market leaders in their respective industries, are paving the way with roadmaps toward carbon neutrality, reduced carbon footprints and innovative solutions.

A smaller yet proactive 9% of firms have gone beyond strategic goal setting by integrating sustainability deep into their **corporate culture**. They empower employees across all levels with relevant sustainability knowledge and skills and foster accountability. For example, they encourage employees to reduce their carbon footprint via better commuting practices, waste segregation and efficient energy usage. This practice is more prevalent among major energy players and sustainability-focused companies, including environmental consulting firms.

Only 7% of firms actively collaborate with sustainable partners and vendors to foster a greener **ecosystem**. These firms have introduced capacity building programs and supported their vendors to implement green projects and report their carbon footprint.

Compliance to regulations is the key driving force that speeds up firms' transition

Adherence to regulations, both locally and internationally, is the foremost motivator for firms to adopt greener practices (Chart 3). For instance, shipping firms that provide services to major international counterparts are subject to International Maritime Organisation (IMO)'s strategy to reduce greenhouse gas (GHG) emissions by ships. This obligation necessitates their transition towards more sustainable practices and technologies.

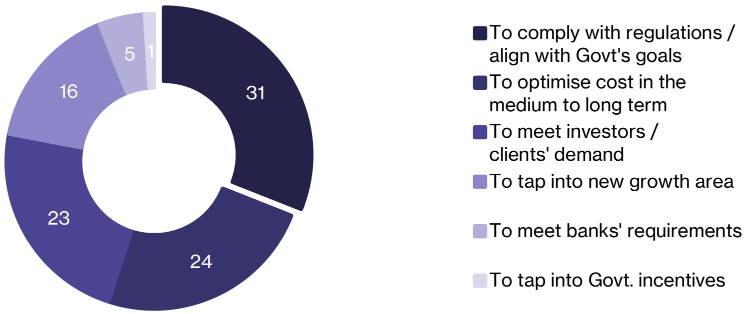
Additionally, export-oriented industries affected by Europe's CBAM policy are fast-tracking their strategies to comply with stringent environmental standards. This effort aims to avoid penalties and potential loss of market share in the future. Some firms are advocating for Malaysia to accelerate the implementation of carbon pricing mechanisms. Development of key ecosystem domestically minimises the need for local firms to pay taxes to foreign jurisdictions.

On the domestic front, firms are also transitioning to adhere to environmental standards and requirements set by the Government. A few Government-linked companies and private sector firms are seen actively realigning their operations with the Government's sustainability objectives. This trend is particularly noticeable in Sarawak, where sustainability initiatives have gained considerable momentum.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

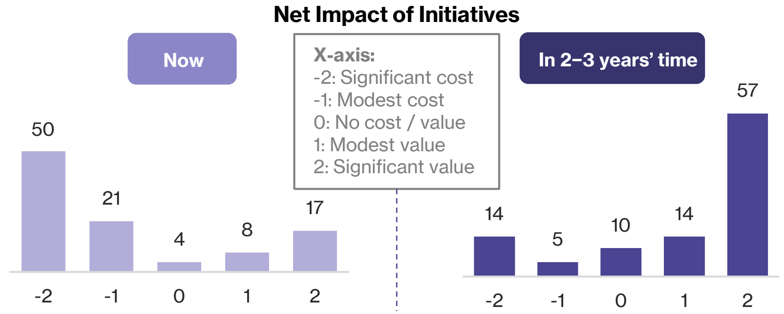
The primary drivers for transitioning are regulatory compliance and cost optimisation

Chart 3: Why do you invest in environmental sustainability initiatives?
Percentage share of respondents with sustainability initiatives



Firms with sustainability initiatives generally perceive net impact of initiatives to be of significant value in the future despite current high costs

Chart 4: What is the perceived net impact of sustainability initiatives now vs in 2–3 years' time?
Percentage share of respondents with sustainability initiatives



Source: Bank Negara Malaysia

Significant cost is not a major barrier for large firms, but can slow down progress

Cost optimisation in the medium to long term ranks as the second most important factor driving firms' actions towards sustainable practices (Chart 3). While significant costs are often seen as a potential impediment for firms when considering the transition towards environmental sustainability, these costs are typically weighed against the anticipated long-term benefits (Chart 4). Firms have cited expected future benefits such as reduced operational expenses through improved energy efficiency and minimised waste generation. Large firms, equipped with ample financial resources and strategic foresight, generally recognise that their investments now can lead to substantial savings or even competitive advantages in the longer term.

However, despite acknowledging the potential cost efficiencies, some large firms experience a slowdown in the pace of their sustainability transitions. Factors such as fluctuations in green energy tariffs or unexpected operational costs related to sustainable practices have deterred firms from accelerating their transition efforts. In some cases, these financial considerations may even prompt firms to reassess or delay their sustainability plans until more favourable conditions align with their strategic goals. Nonetheless, the overarching trend indicates that while significant costs are not a key hindrance, they can influence the speed at which large firms implement environmental sustainability measures.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Perceived lack of future benefits leads to deprioritisation of green initiatives

Half of firms that are not transitioning to greener practices cite environmental sustainability as a non-priority (Chart 5). These firms believe that the benefits of transitioning to greener practices in the future are not significant enough to justify immediate action now (Chart 6).

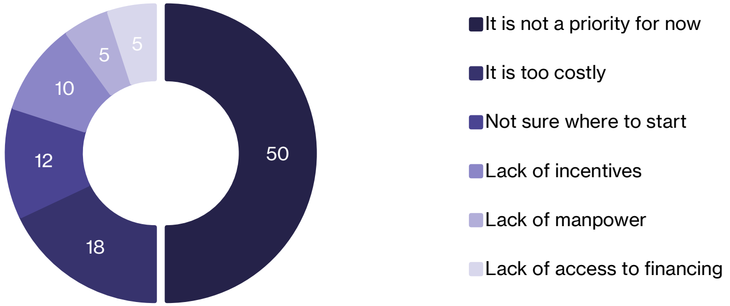
This perception typically leads firms to adopt a cautious approach, waiting for external factors like regulatory mandates to impact their industry before committing to sustainability initiatives. Additionally, some firms believe there is minimal immediate advantage in being early adopters of green practices. They prefer to observe their competitors' experiences and outcomes with sustainability initiatives before making their own commitments given the potential risks or costs involved. Several firms also perceive their industries, such as scrap metal smelters, to have limited scope to adopt sustainable practices in their business, thereby justifying their decision to not transition yet until more favourable conditions or clearer benefits emerge.

Organisational dynamics also influence decisions, with some firms citing a lack of clear direction from overseas headquarters as a reason for not prioritising environmental sustainability. This lack of internal guidance hinders proactive steps towards greener practices, as firms hesitate to invest in initiatives that may not align with broader corporate strategies.

Firms that do not transition mainly cite environmental sustainability as a non-priority

Chart 5: Why do you NOT invest in environmental sustainability initiatives?

Percentage share of respondents that have no plans to transition

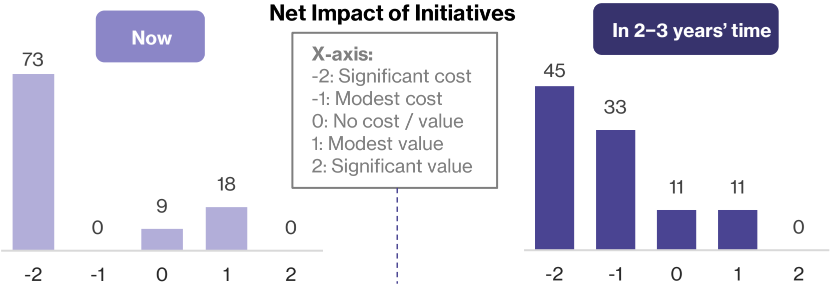


Note: Factors such as lack of incentives, manpower or access to financing are less of a concern for larger firms, as they typically do not face significant financial or operational constraints.

Firms without sustainability initiatives generally perceive any efforts to be costly with little benefit, both now and in the future

Chart 6: What is the perceived net impact of sustainability initiatives now vs in 2–3 years' time?

Percentage share of respondents that have no plans to transition



Source: Bank Negara Malaysia

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Policy implications

Despite growing awareness and mounting pressure for firms to transition, progress remains slow, especially among the SMEs. To accelerate this transition, a multifaceted approach is needed. This should include addressing transition costs, emphasising the long-term benefits of sustainability, and strengthening regulatory support.

Alleviating transition costs

There are positive externalities to the broader economy from adopting sustainability standards, including environmental improvement and economic growth in green sectors. Nonetheless, these positive externalities take time to materialise, while the costs, especially to the firms, are immediate. These initial costs often include investments in new technologies, infrastructure upgrades, and process modifications to meet sustainability standards. To mitigate these costs for both non-SMEs and SMEs, the Government and BNM have rolled out various initiatives. For example, Budget 2024 allocates nearly RM4 bn for net zero carbon efforts. Additionally, the Green Investment Tax Allowance and Green Investment Tax Exemption have also been extended until end-2024. SMEs can also leverage on BNM's funds[4] such as the Low Carbon Transition or the High Tech and Green Facilities for financing, including for the acquisition of energy-efficient products.

Going forward, as regulatory pressures such as CBAM increase, the Government may consider providing targeted guidance and resources to help firms with life cycle assessments (LCA) and carbon accounting. Given that this process is typically expensive and often requires engagement with technical consultants, such support would be essential to make it more accessible and manageable for businesses, particularly SMEs. This support can come in the form of workshops, detailed guidelines, and tools that streamline the reporting process, ensuring firms are better equipped to meet regulatory demands and advance their sustainability goals.

Promoting long-term benefits

To effectively encourage more firms to transition, it is also crucial to reshape their perception of the long-term benefits. This involves a whole-of-nation approach to raise awareness about the potential medium- to long-term cost savings through efficient resource use, reduced regulatory compliance risks and opportunities to access new markets and capital. In this regard, the Joint Committee on Climate Change (JC3)[5] offers the ESG Jumpstart portal on its website with essential resources for SMEs to kickstart their sustainability journey. This portal features information on capacity-building programs, certification schemes, financial incentives, and more.

[4] For more information on available BNM Funds for SMEs, please refer to BNM's website.
[5] JC3 was established in September 2019 as a regulator-industry platform to pursue collaborative actions for building climate resilience within the Malaysian financial sector. It is co-chaired by BNM and Securities Commission, with members comprising senior officials from Bursa Malaysia and 21 financial industry players.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

To further support firms' transition, the Government could enhance these efforts by actively promoting success stories and case studies of firms that have successfully transitioned to serve as a motivator for others. The Government could also consider developing sector-specific sustainability roadmaps that outline clear pathways and best practices for different industries. Such initiatives can enhance firms' understanding of the tangible benefits of sustainability, thereby encouraging more widespread adoption.

It is equally important for the Government to lead by example. By implementing low carbon procurement practices and adopting sustainable development strategies for both urban and rural areas, the Government can set a standard that inspires others to follow suit. This approach not only demonstrates a commitment to sustainability but also drives broader adoption of green practices across the public and private sectors.

Providing regulatory support

The accelerated adoption of green practices by firms affected by the EU's CBAM underscores the critical role of regulation in shaping firms' behaviour. In this regard, a supportive regulatory environment that ensures consistent, predictable and pragmatic frameworks is important to facilitate an orderly and just transition by firms. In the financial sector, support is given to aid sustainability disclosures by firms. For instance, following the implementation of the CCPT, JC3 has issued guidance to ensure consistency among financial institutions and for firms to prepare in disclosing their GHG emission to financial institutions. Similar guidance has also been issued for SMEs. Additionally, Bursa Malaysia has introduced the ESG Reporting Platform in December 2023. This platform, which acts as a repository for disclosures by listed companies, will also benefit firms by providing disclosure formats that complies to Bursa's reporting requirements.

Moving forward, the Government should continue to expedite the formulation of clear and well-defined policies. Such policies include the National Climate Change bill, long-term sectoral pathways (LT-LEDS)[6] and the establishment of a carbon accounting framework that prepares the private sector towards the adoption of carbon pricing. Clarity on these fronts is essential because it provides businesses with the certainty needed to plan ahead and invest in sustainable practices, ensuring a more effective and coordinated transition to a low-carbon economy.

[6] LT-LEDS is a long-term national strategy that identifies opportunities or pathways for low-emission development that also consider broader socio-economic goals.

Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability

Conclusion

While a majority of large firms have embarked on environmental sustainability initiatives, many remain in the early stages, concentrating primarily on limited aspects of their operations. These efforts are largely driven by regulatory compliance, especially for listed companies, and medium- to long-term cost reduction objectives. The primary hurdle for larger firms in embracing broader green practices is not immediate financial outlay, but rather perceived lack of future benefits and returns on investment. Addressing these motivations and perceptions could accelerate the adoption of more advanced green strategies across industries.

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Policy Considerations

Highlights of the July MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the May and July 2024 MPC meetings.
- The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories.

Monetary policy remains supportive of the economy

The MPC maintained the OPR at 3.00% over the second quarter in its May and July 2024 MPC meetings.

At the latest meeting in July, the MPC assessed that the global economy continues to expand amid resilient labour markets and continued recovery in global trade. Looking ahead, global growth is expected to be sustained, as headwinds from tight monetary policy and reduced fiscal support will be cushioned by positive labour market conditions and moderating inflation. Global trade continues to strengthen as the global tech upcycle gains momentum. Global headline and core inflation continued to edge downwards in recent months with some central banks commencing monetary policy easing. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.

For the Malaysian economy, the latest indicators as at the July MPC meeting pointed towards sustained strength in economic activity in the second quarter of 2024, driven by resilient domestic expenditure and better export performance. Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-electrical and electronics goods. Tourist arrivals and spending are also poised to rise further. Continued employment and wage growth, as well as policy measures, will continue to support household spending. Investment activity would be supported by the ongoing progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. The growth outlook is subject to downside risks from weaker-than-expected external demand and larger declines in commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of existing and new projects.

Both headline and core inflation averaged 1.8% in the first five months of the year. As expected, inflation will trend higher in the second half of 2024, amid the recent rationalisation of diesel subsidies. Nevertheless, the

Policy Considerations

increase in inflation will remain manageable given the mitigation measures to minimise the cost impact on businesses. Going forward, the upside risk to inflation would be dependent on the extent of spillover effects of further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments. For the year as a whole, headline and core inflation are expected to average within the earlier projected ranges of 2.0% – 3.5% and 2.0% – 3.0% respectively.

The ringgit continues to be primarily driven by external factors, namely expectations of major economies' monetary policy paths and ongoing geopolitical tensions. The positive impact of the coordinated initiatives by the Government and Bank Negara Malaysia (BNM) with the Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs), and corporate engagements have continued to cushion the pressure on the ringgit. BNM will continue to manage risks arising from heightened financial market volatility. Over the medium term, domestic structural reforms will provide more enduring support to the ringgit.

At the current OPR level, the MPC deemed that the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

Macroeconomic Outlook

Global growth to be sustained amid resilient domestic demand

Global trade recovery is also expected to continue in 2H 2024

The global economy is expected to be sustained in the second half of this year. This is supported by positive labour market conditions and moderating inflation. The monetary policy easing by the advanced economies will further support growth in the short-to-medium term. China's growth is expected to expand albeit at a slower pace, as fiscal support will be offset by weak property market and consumer sentiments. Global trade growth is expected to recover further, as global technology upcycle gains momentum.

The growth outlook remains subject to downside risks mainly from escalation of geopolitical tensions, higher-than-expected inflation, and a sharp tightening in financial market conditions. However, upside risk to global growth can arise from stronger-than-expected domestic demand, particularly in advanced economies.

Malaysian economy to expand further

Sustained expansion in domestic demand and improvement in external demand to support growth

Growth of the Malaysian economy in the second half of the year is expected to be driven mainly by firm expansions in investment activity and resilient household spending, with larger support from exports recovery. Investment activities will be supported by continued implementation of multi-year projects in both the private and public sectors and augmented by the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. Private consumption will be supported by sustained growth in income along with larger policy measures. Higher spillover from global tech upcycle will lift exports while tourist arrivals and spending are expected to improve further.

The growth outlook faces downside risks from weaker-than-expected external demand, further escalation of geopolitical conflicts and lower-than-expected commodity production. Nevertheless, greater spillover from the tech upcycle, more robust tourism activities, and faster implementation of new and existing investment projects provide upside to Malaysia's economic outlook.

Macroeconomic Outlook

Inflation to trend higher in 2H 2024

Inflation will increase following the rationalisation of diesel subsidies, though mitigation measures would minimise cost pressure to firms

After trending below long-term average levels for the first half of the year, inflation is expected to be higher in 2H 2024 amid the recent rationalisation of diesel subsidies. In particular, inflationary pressures would largely stem from the pass-through of higher operating costs by firms, though this would be manageable given measures to minimise the extent of cost increases. Going forward, upside risks to the outlook would be dependent on the extent of spillover effects of further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments. For the year as a whole, headline and core inflation are projected to remain within the earlier projected ranges of 2.0% to 3.5% and 2.0% to 3.0% respectively.

Table 1: **GDP by Expenditure Components (at constant 2015 prices)**

	Share in 2023 (%)	2023 1Q	2023 2Q	2023 3Q	2023 4Q	2023 Year	2024 1Q	2024 2Q
		Annual change, %						
Aggregate Domestic Demand (excluding stocks)	93.9	4.8	4.4	4.5	4.9	4.6	6.1	6.9
Private sector	76.2	5.8	4.4	4.2	4.1	4.6	5.7	7.3
Consumption	60.7	6.1	4.2	4.1	4.2	4.7	4.7	6.0
Investment	15.5	4.7	5.1	4.5	4.0	4.6	9.2	12.0
Public sector	17.8	-0.2	4.3	5.9	7.4	4.6	8.4	4.9
Consumption	13.2	-2.0	3.3	5.3	5.8	3.3	7.3	3.6
Investment	4.6	5.7	7.9	7.5	11.3	8.6	11.5	9.1
Net Exports	4.4	71.3	-11.9	-19.9	-52.9	-16.2	-24.5	3.4
Exports of Goods and Services	66.1	-2.9	-9.0	-12.0	-7.9	-8.1	5.2	8.4
Imports of Goods and Services	61.7	-6.7	-8.8	-11.3	-2.6	-7.4	8.0	8.7
Real GDP, annual change %	**100.0**	**5.5**	**2.8**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**
GDP, seasonally adjusted, QoQ change %	-	0.4	1.2	2.4	-1.0	-	1.5	2.9

Note: Figures may not add up due to rounding and exclusion of stocks.
Source: Department of Statistics, Malaysia

Table 2: **GDP by Economic Activity (at constant 2015 prices)**

	Share in 2023 (%)	2023 1Q	2023 2Q	2023 3Q	2023 4Q	2023 Year	2024 1Q	2024 2Q
		Annual change, %						
Services	59.2	7.1	4.5	4.9	4.1	5.1	4.8	5.9
Manufacturing	23.4	3.2	0.1	-0.1	-0.3	0.7	1.9	4.7
Agriculture	6.4	1.4	-0.7	0.3	1.9	0.7	1.7	7.2
Mining	6.2	1.6	-2.1	-1.1	3.5	0.5	5.7	2.7
Construction	3.6	7.4	6.2	7.2	3.6	6.1	11.9	17.3
Real GDP, annual change %	**100.0**	**5.5**	**2.8**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**

Note: Figures may not add up due to rounding and exclusion of import duties component.
Source: Department of Statistics, Malaysia

Table 3: **Balance of Payments**[1]

	2023					2024	
	1Q	2Q	3Q	4Q	Year	1Q	2Q
	RM billion						
Current account	**10.8**	**8.3**	**8.2**	**0.9**	**28.2**	**16.2**	**3.0**
% of GDP	*2.4*	*1.9*	*1.8*	*0.2*	*1.5*	*3.5*	*0.6*
Goods	42.5	29.2	33.6	30.8	136.2	32.0	24.6
Services	-13.5	-11.8	-10.5	-7.4	-43.2	-7.3	-4.9
Primary income	-12.8	-6.9	-12.9	-20.3	-52.9	-8.8	-15.5
Secondary income	-5.5	-2.2	-2.0	-2.2	-11.8	0.3	-1.1
Financial account	**-5.2**	**-8.0**	**17.8**	**-20.1**	**-15.5**	**-18.7**	**17.1**
Direct investment	2.9	-5.2	-3.1	5.2	-0.2	-6.0	3.8
Asset	-8.1	-9.9	-12.8	-5.5	-36.3	-26.0	-6.0
Liabilities	11.0	4.7	9.7	10.7	36.1	20.0	9.7
Portfolio investment	-29.8	12.9	-13.4	-6.0	-36.4	-23.7	-21.7
Asset	-16.3	-4.9	-15.4	-10.0	-46.6	-21.2	-28.8
Liabilities	-13.5	17.8	2.0	4.0	10.3	-2.5	7.2
Financial derivatives	-0.9	0.3	0.5	-3.8	-3.9	1.2	-0.6
Other investment	22.6	-16.1	33.9	-15.5	25.0	9.8	35.6
Net errors & omissions[2]	**-11.2**	**-12.7**	**-18.3**	**9.3**	**-33.0**	**11.3**	**-21.5**
Overall balance	**-5.7**	**-12.4**	**7.7**	**-10.1**	**-20.5**	**8.7**	**-1.3**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).
[2] As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.
Note: Figures may not add up due to rounding.

Source: Department of Statistics, Malaysia

Table 4: **Outstanding External Debt**

	2023	2024	
	end-Jun	end-Mar	end-Jun
		RM billion	
Total External Debt	**1,217.5**	**1,271.7**	**1,328.2**
USD billion equivalent	*259.8*	*268.4*	*281.4*
By instrument			
Bonds and notes	175.8	175.0	172.9
Interbank borrowings	216.4	214.3	234.7
Intragroup loans	174.4	203.0	210.1
Loans	80.9	90.4	94.2
Non-resident holdings of domestic debt securities	267.9	263.8	269.7
Non-resident deposits	134.3	145.0	146.3
IMF allocation of Special Drawing Rights (SDRs)	30.2	30.3	30.0
Others	137.6	150.0	170.3
Maturity profile			
Medium- and long-term	707.8	740.6	764.2
Short-term	509.6	531.2	564.0
Currency denomination			
Ringgit	407.6	410.2	419.0
Foreign	809.8	861.6	909.2
Total debt / GDP, %	**67.3**	**68.9**	**70.8**
Short-term debt / Total debt, %	**41.9**	**41.8**	**42.5**
Reserves / Short-term external debt, time(s)	**1.0**	**1.0**	**1.0**

Note: Figures may not add up due to rounding.
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table 5: **Credit to the Private Non-Financial Sector**

	2023	2024		2023	2024	
	2Q	1Q	2Q	2Q	1Q	2Q
	End-period, RM billion			Annual change, %		
Total Credit to the Private Non-Financial Sector[1]	**2,647.9**	**2,762.7**	**2,792.1**	**3.7**	**5.2**	**5.4**
Outstanding corporate bonds[2]	561.5	572.8	580.9	4.9	3.2	3.4
Outstanding loans[3,4]	2,086.3	2,189.9	2,211.2	3.5	5.8	6.0
Businesses	748.4	786.2	790.4	0.6	5.1	5.6
SMEs	367.7	393.5	401.7	6.6	8.8	9.3
Non-SMEs	377.0	388.6	384.5	-4.3	1.7	2.0
Households	1,337.9	1,403.6	1,420.7	5.1	6.2	6.2
Credit to Businesses[5]	1,310.0	1,359.0	1,371.3	2.4	4.3	4.7

[1] Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector was introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.
[2] Includes conventional and Islamic short-term papers in addition to longer-term bonds and sukuk; excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.
[3] Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[4] Excludes loans sold to Cagamas without recourse.
[5] Comprises outstanding loans to businesses and outstanding corporate bonds.
Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Table 6: **Loan Indicators**[1]

	2023		2024			2024		
	2Q	1H	1Q	2Q	1H	1Q	2Q	1H
	During the period, RM billion					Annual change, %		
Total Private Non-Financial Sector[2]								
Loan applications	370.9	726.4	358.0	386.6	744.6	0.7	4.2	2.5
Loan approvals	189.4	361.7	174.9	200.7	375.5	1.5	6.0	3.8
Loan disbursements	525.3	1053.9	538.6	533.1	1071.7	1.9	1.5	1.7
Loan repayments	531.3	1069.4	531.9	529.2	1061.1	-1.1	-0.4	-0.8
Of which:								
Businesses[3]								
Loan applications	139.3	273.7	135.9	148.7	284.6	1.1	6.8	4.0
Loan approvals	85.1	160.7	78.4	92.7	171.1	3.8	8.9	6.5
Loan disbursements	401.3	804.6	399.9	399.9	799.8	-0.9	-0.3	-0.6
Loan repayments	409.2	817.3	395.6	397.4	793.0	-3.1	-2.9	-3.0
SMEs[4]								
Loan applications	82.0	157.3	80.6	87.0	167.6	7.0	6.1	6.6
Loan approvals	46.0	80.8	40.0	47.0	87.0	14.8	2.2	7.6
Loan disbursements	128.8	254.1	137.4	143.7	281.1	9.6	11.6	10.6
Loan repayments	125.0	247.4	133.0	138.7	271.7	8.7	11.0	9.8
Non-SMEs[4]								
Loan applications	57.3	114.3	55.2	61.7	117.0	-3.1	7.7	2.3
Loan approvals	39.1	78.8	38.4	45.6	84.1	-3.2	16.7	6.7
Loan disbursements	271.3	548.4	260.3	254.3	514.7	-6.0	-6.3	-6.1
Loan repayments	282.3	567.2	261.3	257.2	518.6	-8.3	-8.9	-8.6
Households								
Loan applications	231.6	452.7	222.0	237.9	460.0	0.4	2.7	1.6
Loan approvals	104.3	201.0	96.4	108.0	204.4	-0.3	3.6	1.7
Loan disbursements	124.0	249.3	138.7	133.2	271.9	10.7	7.4	9.0
Loan repayments	122.1	252.1	136.3	131.8	268.2	4.9	8.0	6.4

[1] Loans for all segments include data from the banking system and development financial institutions (DFIs).
[2] Refers to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[3] Numbers for SMEs and non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.
[4] The data series were revised following a data rectification by financial institutions, mainly involving the reclassification of SME loans to non-SME loans.
Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Table 7: **Banking System Profitability Indicators**

	2023	2024		2023	2024	
	2Q	1Q	2Q[p]	2Q	1Q	2Q[p]
	%			Annual change, percentage points		
Return on equity[1]	11.5	10.9	12.0	-0.3	-0.4	0.5
Return on assets[1]	1.3	1.2	1.3	-0.04	-0.04	0.06
	RM million			Annual change, %		
Net interest income	14,566	15,161	15,488	-5.9	2.0	6.3
Add: Fee-based income	3,009	3,304	3,392	6.2	11.2	12.7
Less: Operating cost[2]	10,770	11,041	11,191	16.7	7.0	3.9
Gross operating profit	6,806	7,425	7,689	-25.1	-1.3	13.0
Less: Impairment[3] and other provisions	836	980	379	-8.1	109.1	-54.7
Gross operating profit after provision	5,969	6,445	7,310	-27.0	-8.6	22.5
Add: Other income[1]	5,040	4,304	5,709	63.2	22.9	13.3
Pre-tax profit[1]	**11,009**	**10,749**	**13,019**	**-2.2**	**1.8**	**18.3**

[p] Preliminary
[1] Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.
[2] Refers to staff costs and overheads.
[3] Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

Source: Bank Negara Malaysia

Table 8: **Insurance and Takaful Sector Profitability Indicators**

	2023	2024		2023	2024	
	2Q	1Q	2Q[p]	2Q	1Q	2Q[p]
	RM million			Annual change, %[2]		
Life Insurance & Family Takaful						
Excess income over outgo[1]	1,034	5,423	2,949	123.5	9.5	185.2
General Insurance & General Takaful						
Operating profit	887	859	867	17.7	105.2	-2.2
Claims ratio (%)	58	57	60	-7.2	-7.0	2.3

[p] Preliminary
[1] Excess income over outgo excludes investment-linked unit funds to reflect the core performance of insurers' and takaful operators' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.
[2] Refers to percentage points for the annual change of claims ratio.

Source: Bank Negara Malaysia

Table 9: **Federal Government Finance**[1]

	2023		2024[p]		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	72.2	148.4	70.0	69.1	139.1
Annual change (%)	*17.3*	*19.4*	*-8.2*	*-4.3*	*-6.3*
Operating expenditure	77.2	143.8	77.7	79.4	157.1
Annual change (%)	*18.4*	*10.8*	*16.6*	*2.9*	*9.2*
Current balance	**-5.0**	**4.6**	**-7.7**	**-10.3**	**-18.0**
Net development expenditure	17.9	44.4	18.7	14.9	33.5
Annual change (%)	*33.6*	*47.8*	*-29.3*	*-17.1*	*-24.4*
COVID-19 fund[2]	0.0	0.0	0.0	0.0	0.0
Overall balance	**-22.9**	**-39.8**	**-26.4**	**-25.2**	**-51.6**
Memo:					
Total net expenditure	95.1	188.2	96.4	94.3	190.6
Annual change (%)	*15.0*	*11.2*	*3.5*	*-0.9*	*1.3*
Total Federal Government debt (as at end-period)	1145.0	1145.0	1209.2	1227.5	1227.5
Domestic debt	863.5	863.5	933.8	946.2	946.2
External debt	281.5	281.5	275.4	281.3	281.3
Non-resident holdings of RM-denominated debt	*255.9*	*255.9*	*250.2*	*256.8*	*256.8*
Offshore borrowing	*25.6*	*25.6*	*25.2*	*24.5*	*24.5*

p Preliminary
1 Figures may not add up due to rounding.
2 A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia