SME BANK GROUP

INDUSTRY FOCUS:

SECTORAL SCAN

Prepared by:
Lynette Lee
Mazlina Abdul Rahman
Syed Mohamad Bukhari Syed Bakeri

SMEBank-EconomicResearch@smebank.com.my
(603) 2615 2020

An agency under
MINISTRY OF ENTREPRENEUR AND COOPERATIVES DEVELOPMENT

MALAYSIA MADANI

Presentation Outline

1 **Macro Developments & Industry Cost Impact Analysis**

2 Sectoral Scan & Outlook of Key Sectors

3 Appendix

Macro Developments: Impact Analysis on Economic Growth

Rapid recovery in exports

- Rebound in global trade (WTO 2024f: 3.3% YoY; 2023: 0.8%) and tech upcycle (WSTS 2024f: 13.1% YoY; 2023: -8.2%). Beneficiary: **Export-oriented sectors** (e.g. E&E, petroleum products, chemicals, CPO).
- Tourist arrivals in Dec 2023 surpassed 2019's monthly average. Supporting factor: Visa liberalisation, charter flight matching grant. Beneficiary: **accommodation, F&B services, transport**

UPSIDE POTENTIAL

Upbeat investment

- Especially those **in line with national agenda** e.g. digitalization, Industrial Revolution 4.0, National Energy Transformation Roadmap, New Industrial Master Plan 2030
- Rapid progress in existing & new infrastructure projects (ECRL, Pan Borneo, RTS, Penang LRT).
- Notable FDI: Masdar (RM38 bil), Infineon (RM25 bil), INV (RM3.2 bil), GX Bank (RM1.5 bil)
- Beneficiary: **construction, ICT, RE, manufacturing, professional services**

Prolonged geopolitical tension

- **Boycott activities** due to Middle East conflict → Beneficiary: Malaysian **MSMEs** & non-US-Israel business (substitute) mostly in **F&B and retail.** Loser: **US-Israel related franchises**
- US-China trade tension led to **'reshoring'** or **'nearshoring'** to the US and other countries (e.g. Mexico, India, Japan) → far from us to support. Loser: **Semiconductor** (can benefit in the short run)

Further Ringgit depreciation

- Beneficiary: (1) **Export-oriented sectors** to benefit from price competitiveness. (e.g. E&E, CPO, LNG, chemicals, furniture); (2) **Tourism** – attract foreign tourists and limit outbound vacations
- 40% of depreciation is translated to overall import prices. Loser: High **foreign input dependent sectors** (e.g. automotive, metal, food, textile)

Upsurge in cost for businesses & pass-through to consumers

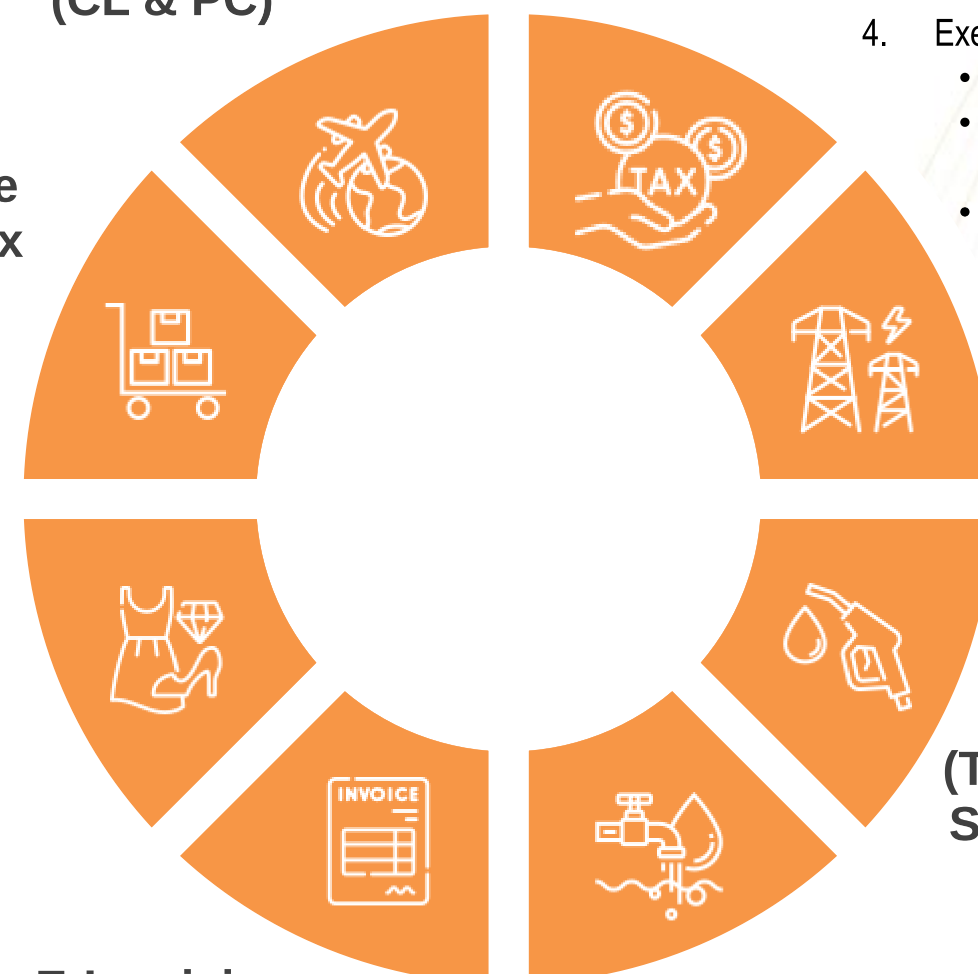
- Increase in **service tax** rate & scope
- **Fuel subsidy rationalisation**
- High value goods tax
- Low value goods tax
- **Water tariff** hike
- **Electricity tariff** hike

DOWNSIDE RISK

- Increase in **airport tax & scope** (to include transfers)
- Consumers usually start to **cut spending on discretionary/leisure items** to prioritise essential / necessary spending

Sources: EMIS, CEIC, DOSM, Bloomberg, The Straits Times and SME Bank Economic Research

Industry Cost Impact Analysis: Rising cost environment may affect businesses



Carbon Levy & Passenger Charges (CL & PC)

Air transport

Sales & Services Tax (SST)

- All taxable services will see an increase in service tax from 6% to 8% except:
  1. Maintain at 6% service tax;
     - F&B services, telecommunication, vehicle parking space
  2. Newly introduced from 0% to 6%
     - Logistic
  3. Newly introduced from 0% to 8%
     - Brokerage and underwriting services, karaoke outlets
  4. Exemption (0%)
     - All maintenance and repair services at residential premises,
     - Selective segment under logistics sector that provide business-to-business delivery, distribution or transporting services
     - Ocean freight charges for all goods delivered by sea mode, limited to domestic routes

Low Value Goods Tax (LVG)

Retail, Wholesale, Motor vehicles, F&B Service Activities, Admin & Support, Other Business Activities, Plastics Products, Textiles, Apparel Products, Transport Equipment, Wood & Furniture, Other Manufacturing

Electricity (Targeted Subsidy)

All sectors required electricity in their production or operation. Some sectors may heavily depend on electricity such as manufacturing, agriculture, ICT (e.g. data centers), Accommodation, F&B Service Activities, etc

High Value Goods Tax (HVG)

Manufacturing Electrical & Electronic, Transport Equipment, Textiles & Apparel Products, Wood & Furniture, High-end Retail, Wholesale, High-end Motor vehicles

Fuel (Targeted Subsidy)

Land Transport, Water Transport, Air transport, Postal & Courier, Retail, Wholesale, Motor Vehicles, F&B Service Activities, Admin & Support, Other Business Activities, Agriculture, Support Activities for Petrol & Natural Gas Extraction, Other Mining & Quarrying, Manufacturing Transport Equipment, Petroleum & Chemical, Wood & Furniture, Other Manufacturing.

E-Invoicing

All sectors

Water tariff

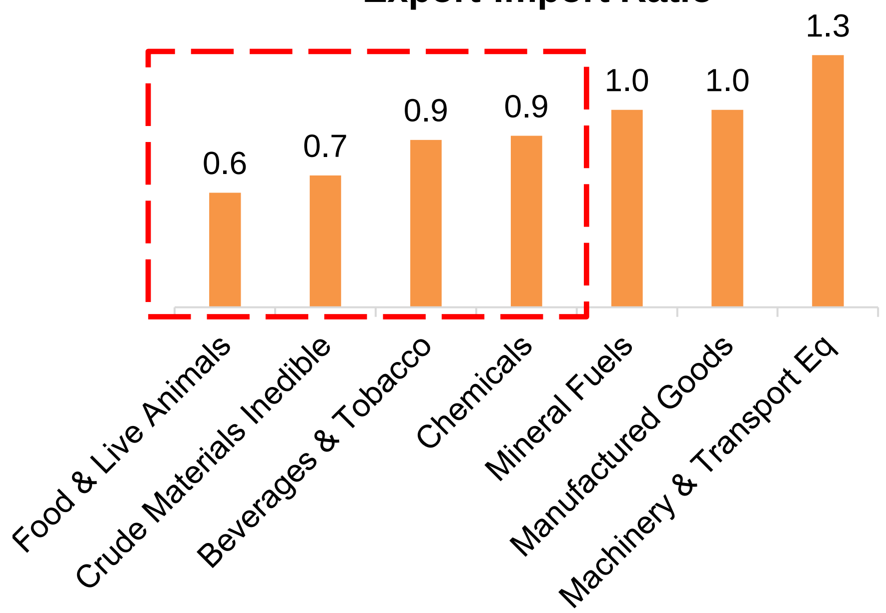
F&B manufacturing, Rubber, Plastics Products, Textiles & Apparel Products, Transport Equipment, Other Manufacturing, Accommodation, F&B Service Activities, Water Supply Activities, Admin & Support, Electricity, Gas, Steam & Air Conditioning Supply, Human Health Activities, Retail, Wholesale, Other Business Activities, Agriculture, Civil Engineering, Construction of Buildings, Specialized Construction Activities

Sources: Bloomberg, CEIC, EMIS, DOSM, MySST, The Edge, and SME Bank Economic Research

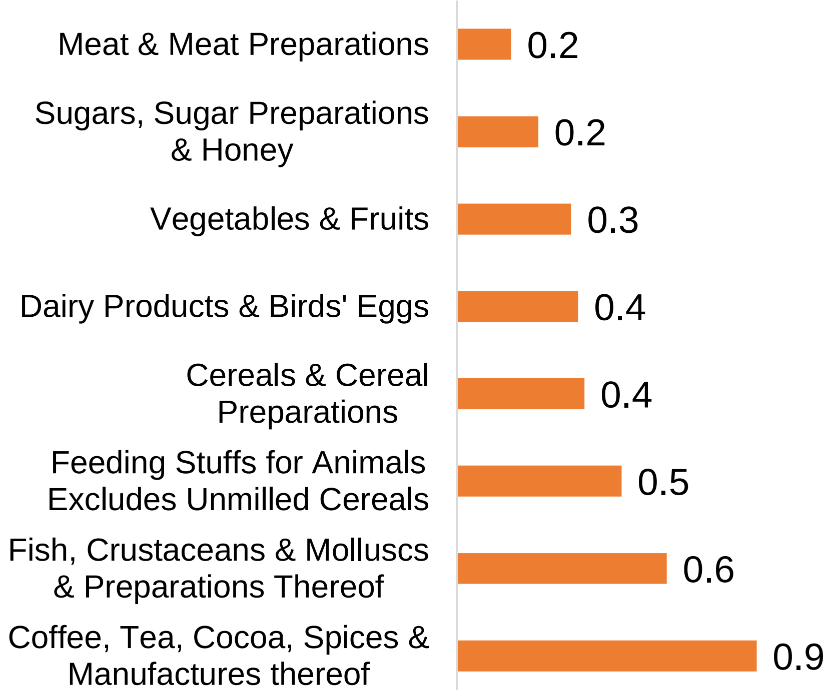
Industry Cost Impact Analysis: Weakening currency adds cost to imported goods and services

Higher prices of imported food items may drive inflation

Export-Import Ratio*



High import content food*

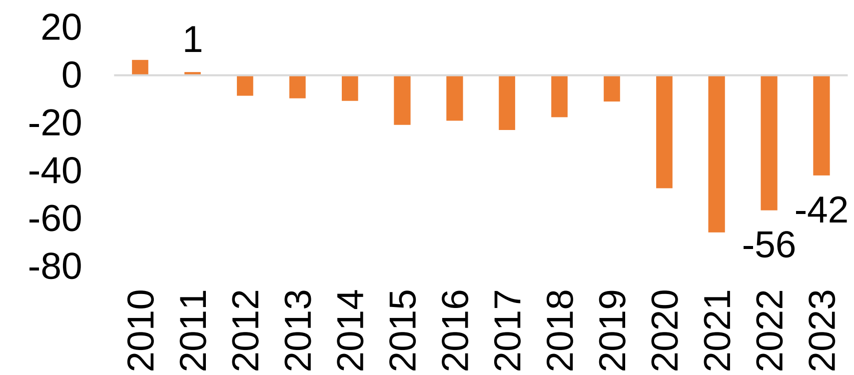


**Export-Import ratio <1 explains that import > export for that product and vice versa*

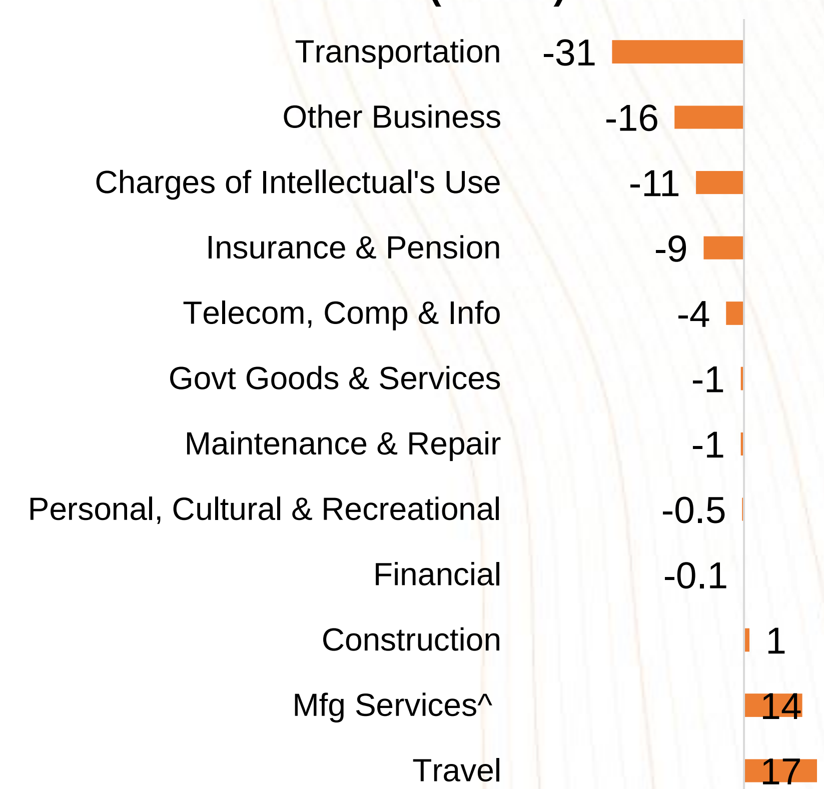
- Export–import ratio showed that 4 out of 9 categories have <1 ratio, explaining that import > export.
- With greater imports, these segments are more vulnerable when RM depreciates.
- The category of food and live animals appears the most vulnerable, with the lowest ratio of 0.6.
- Based on the CPI basket, **food import accounts for ~8% of total CPI** or 1/4 of food CPI.
- Exchange rate pass through to consumer inflation tends to be **higher during depreciation**, especially in **food** and **transportation**.
- Meat, sugar, vegetables, fruits, dairy products and cereals are some of the food with high import content.
- As the share of **import content makes up 26% of domestic consumption**, a **5% depreciation of the RM** will lead to **core CPI rising by 0.2 ppt** over the year.

Majority of services recorded higher import > export

Net current account services (RM bil)



Net current account services by sectors (RM bil)



^Mfg services on physical inputs owned by others is the service fee charged for processing, assembling, labeling, packing (do not own the goods). E.g. Electronic Manufacturing Services

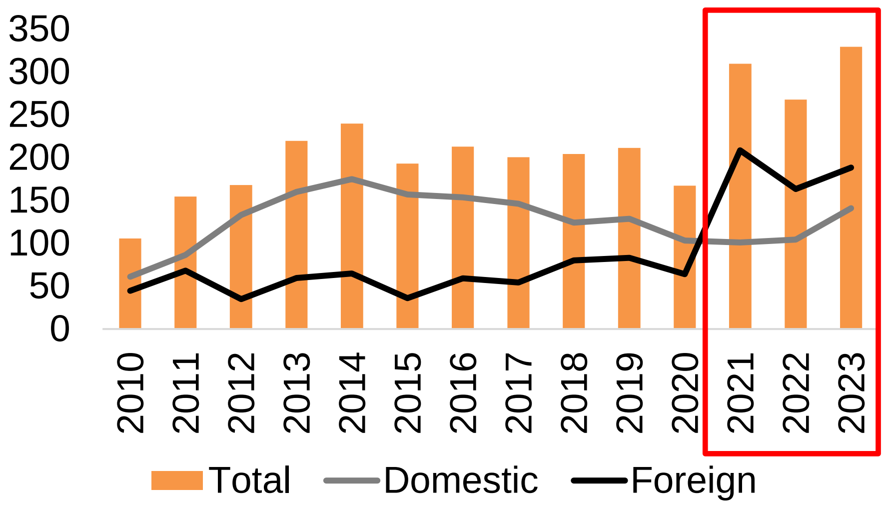
- Since 2012, Malaysia's **current account services** had turned to **net outflow.** Compared to 2017-2019, the net outflow bloated 145% in 2023 (2022: 230%).
- **9 out of 12** services sectors recorded **net outflow** of current account.
- **Transportation sector charted the largest net outflow** of services current account, at RM31 bil in 2023 (2022: -RM34 bil; average 2017-2019: -RM28 bil).
- **Traveling account, however, improved to net inflow** RM17 bil (2022: -RM1.2 bil, average 2017-2019: +RM31.2 bil)
- **Tourist arrival recovery in 2023** was slightly faster compared to regional countries. (Malaysia: 77% of 2019 level; Indonesia: 72%; Singapore: 71%; Thailand: 71%)
- Indonesian to Malaysia had higher share at 15.4% of the total arrival (2022: 14.7%; 2019: 13.9%)
- China and India tourist also improved by 35% MoM (Nov: -13%) and 61% (Nov: -16%) amid free visa entry granted to both citizens starting 1 Dec 2023.

Sources: Bloomberg, CEIC, EMIS, DOSM, BNM, The Edge, and SME Bank Economic Research

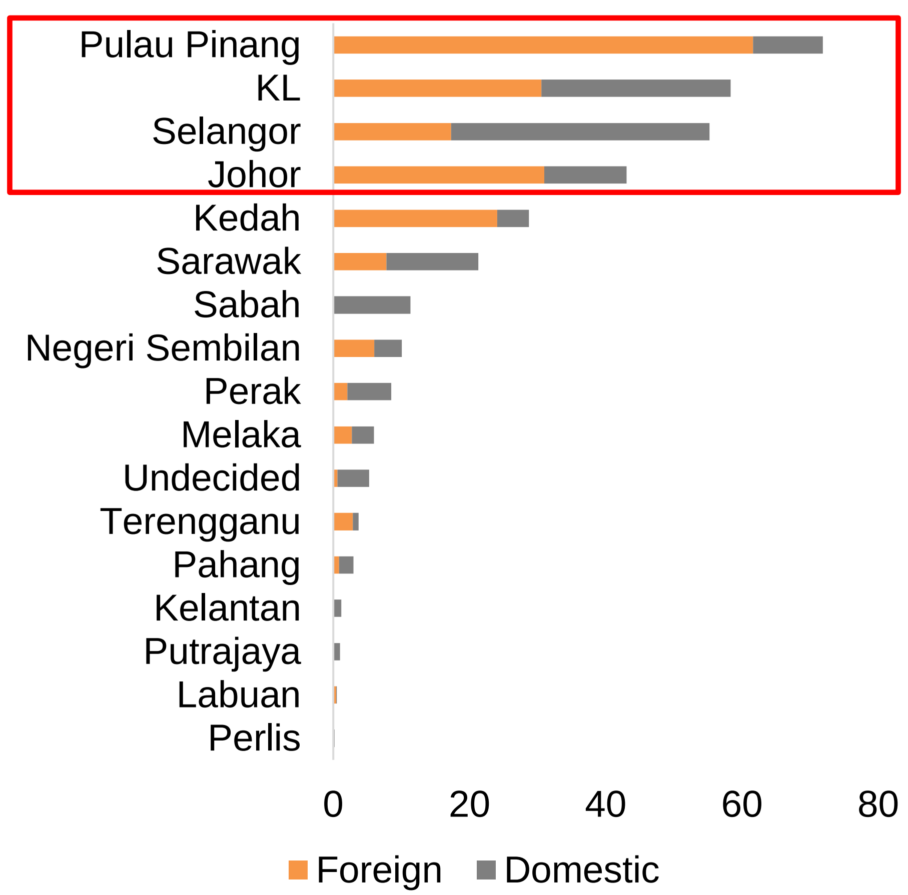
Robust investments, takes 1.5 to 2 years to be realised

Approved foreign investment overtook domestic investment

Approved investment (RM bil)

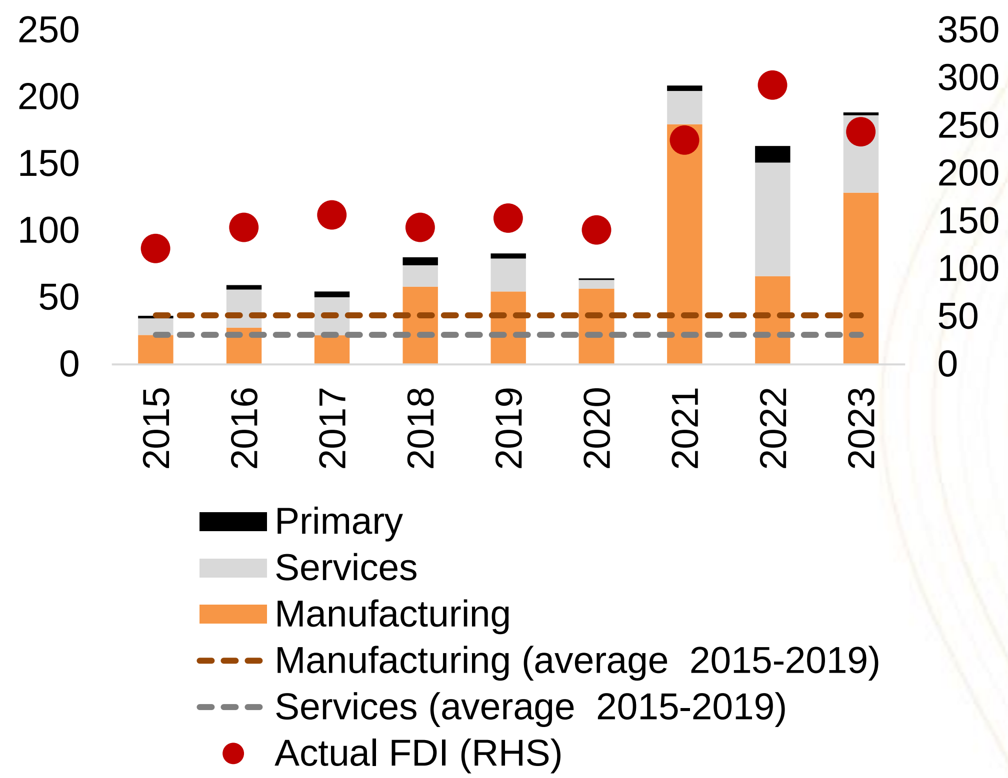


Approved invt by states 2023 (RM bil)



Foreign investment above historical average

Approved foreign investment by sectors (RM bil)



Services Approved Investment (2023)	RM bil		
	Domestic	Foreign	Total
ICT	15.2	48.5	63.7
Real Estate	61.0	0.0	61.0
Utilities	11.1	0.0	11.1
Distributive Trade	7.3	3.8	11.1
Support Services	7.5	3.0	10.5
Financial Services	4.6	1.7	6.3
Transport	1.3	0.0	1.3
Hotel & Tourism	0.8	0.4	1.2
Global Establishments	0.7	0.1	0.9
Health Services	0.3	0.4	0.7
Others	0.6	0.0	0.6
Total	**110.5**	**58.0**	**168.4**

- Overall approved investment spiked **by 23% YoY** in 2023, hitting a **record high** of **RM329.5 bil** (18% of GDP)
- **Foreign invt** contributed **57%** of overall approved invt (average 2015-2019: 30%). While total foreign investment was higher than domestic investment in 2023, its pace of growth of foreign was slower at 15.3% YoY (2022: -21.7%) compared to domestic at 35.1% YoY (2022: 3.6%).
- By sectors, **services had the highest overall approved invt** at RM168 bil in 2023 or **51%** of total share (avg 2015-2019: 60%). **66% of it came from domestic invt** (avg 2015-2019: 82%).
- Meanwhile, **manufacturing** approved invt stood at RM152 bil in 2023 (**46%** of overall approved invt). **85% of it contributed by foreign invt** (avg 2015-2019: 48%).
- By states, total **4 states** accounted **for 70% of approved invt** – P.Pinang (22%), KL (18%), Selangor (17%) and Johor (13%).
- Approved invt takes between **18 and 24 months to be implemented or realised.** Based on period 2018 till Jun 2023, **79% of approved invt was realised.**
- MSMEs could benefit greatly from spillover effect, including the supply chain (e.g construction, suppliers, vendors)

Manufacturing Approved Investment (2023)	RM bil		
	Domestic	Foreign	Total
Electrical & Electronic Products	3.0	82.4	85.4
Machinery Manufacturing	5.6	17.0	22.6
Chemicals & Chemical Products	2.7	6.2	8.9
Non-Metallic Mineral Products	2.5	6.3	8.8
Transport Equipment	2.0	5.1	7.1
Plastic Products	0.9	3.3	4.1
Fabricated Metal Products	1.9	2.2	4.1
Food Manufacturing	1.7	1.4	3.2
Basic Metal Products	0.0	2.3	2.4
Scientific & Measuring Equipment	0.4	1.0	1.3
Others	2.9	1.3	4.2
Total	**23.5**	**128.4**	**152.0**

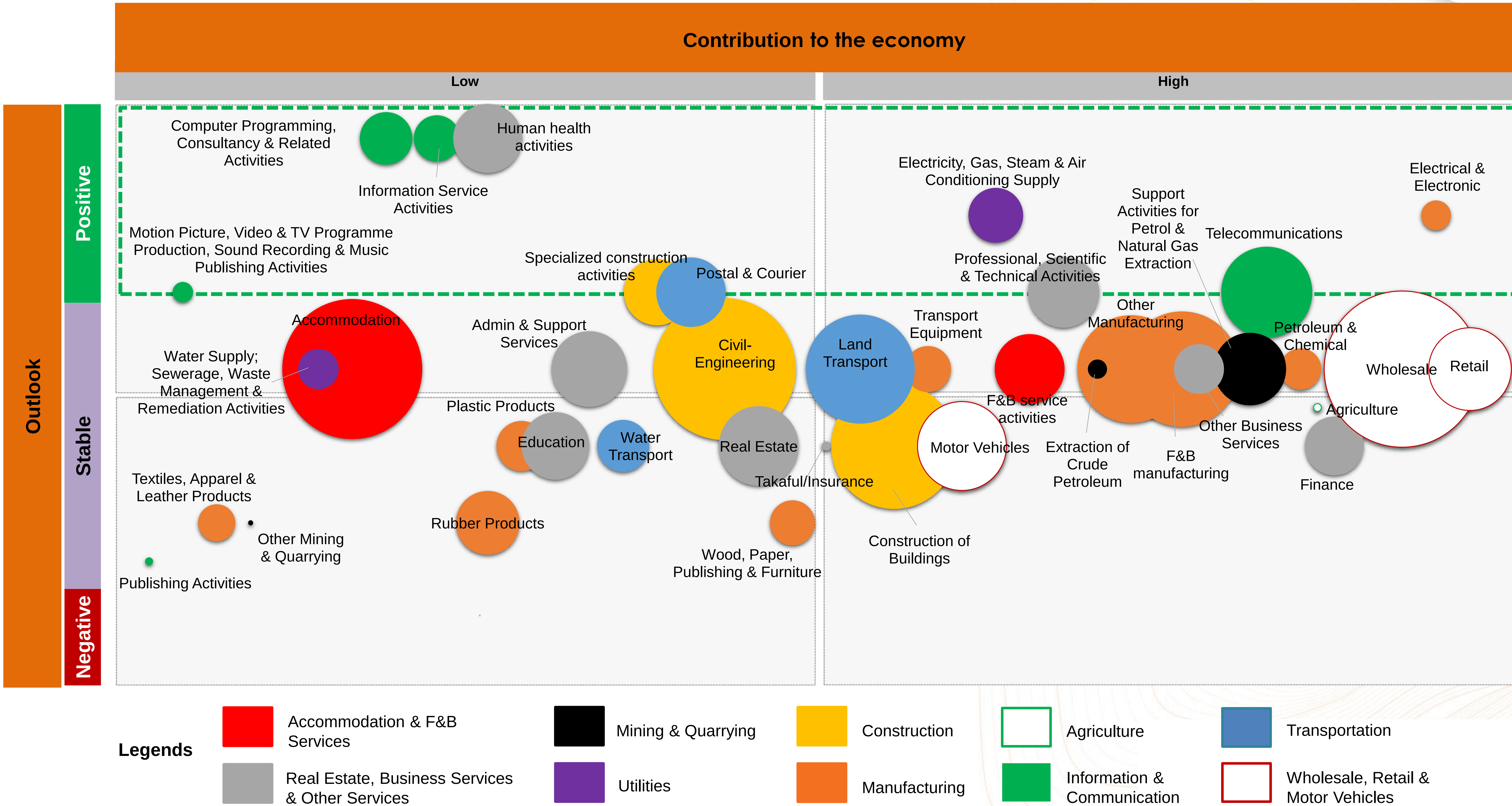
Sources: CEIC, DOSM, MITI, MIDA, and SME Bank Economic Research

1 Macro Developments and Industry Cost Impact Analysis

2 Sectoral Scan & Outlook of Key Sectors

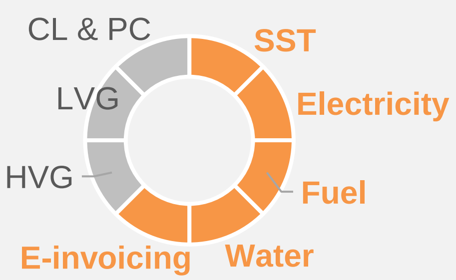
3 Appendix

Sectoral Scan: Outlook of 40 sectors



Sources: EMIS, CEIC, DOSM and SME Bank Economic Research

Brighter Prospects



Specialized construction seems to benefit in all way as they support the main construction sector (i.e civil engineering & buildings)

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2024): 1.0
4Q 2023 : 0.9

Work Done
YoY (%)
Latest (1Q 2024): 11.8
4Q 2023 : 0.3

Sector GDP
YoY (%)
Latest (1Q 2024): 11.4
4Q 2023 : 0.8

Housing : Newly home sales
YoY (%)
Latest (2023) : 69.2
2022: 2.2

Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry	13.2	0.6	-2.9
SMEs Industry*	49.3	12.8	5.9

*Used total construction value due to absence of breakdown by sub-sectors

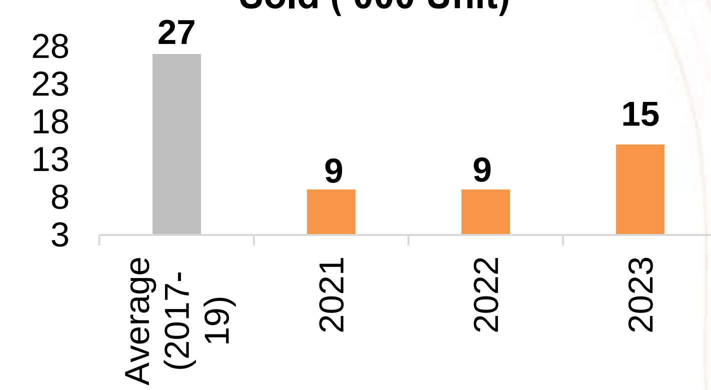
PROS

1. **Increase in solar adoption.**
   - More companies adopt solar (e.g., Mydin, McD, Toyo Tyres) in 2024.
   - Net Energy Metering (NEM) rakyat quota filled by 2023; govt adds another 400 MW until 31 Dec 2024.
   - Govt offers RM1K/kWac cash rebate via Solar Rakyat Incentives Scheme,

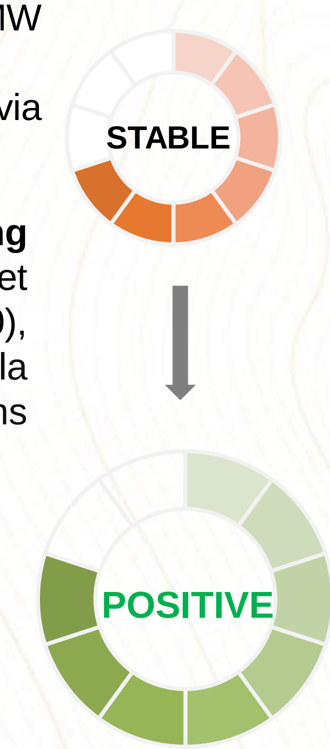
2. **More Electric Vehicle (EV) charging stations** to be build to achieve MITI's target of 10k stations by 2025 (Jan 2024: 2,020), Tenaga Nasional Bhd, Gentari and Tesla Malaysia, to build 180 EV charging stations worth RM170 mil in 2024.

3. **Newly home sales on path to recovery, likely to boost demand for** installation jobs (e.g. doors, windows, air-condition).

Residential Newly Launched: Sold ('000 Unit)



4. **Increase in Govt projects.**
   - School maintenance (2024: RM 1 bil; 2023: RM900 mil).
   - Lift maintenance (2024: RM261 mil; 2023: RM50 mil)
   - Road Maintenance (2024: RM5.4 bil, 2023: RM5.2 bil)



5. **Specialized construction work increased by 9% YoY,** to RM12.87 bil in Jan-Feb 2024, reaching 183% of pre-COVID levels (2017-19: RM 7.04 bil). 1st to recover among others (Residential: 77%, Non-residential: 96%, Civil Engineering: 88%)

6. **Smart Technology Era** to spur demand for specialised construction. Smart classrooms, glow in the dark road (first in Johor) and increasing in indoor theme park (e.g Dino Park, Candy park & Escape room)

CONS

1. **Indirect impact from an increase in service tax to 8%** (e.g legal fee, professional, interior design). This rising cost could affect consumer demand for renovation.

2. **DIY trend among households** could reduce the work of contractors. For instance, household can do DIY house improvement works, and simple electric appliances installation.

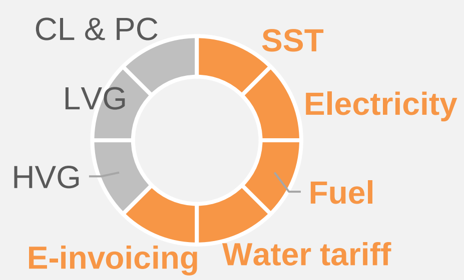
3. **Increase in the price of building materials.** Steel increased by 9% YoY to RM3.5k in Jan-Feb 2024 (Jan-Feb 2023: RM 3.2k)

Sources: Bloomberg, CEIC, EMIS, The Edge, Department of Statistics Malaysia, Malaysia Construction Industry Databook 2023 and SME Bank Economic Research

Construction: Construction of building

Brighter Prospects

SME BANK GROUP



Despite sluggish outlook in the office sector, there are still projects for contractors in the housing and industrial segments.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2024): 1.6
4Q 2023 : 1.6

Work Done YoY (%)
Latest (1Q 2024): 7.0
4Q 2023: -0.1

Sector GDP YoY (%)
Latest (1Q 2024): 4.5
4Q 2024 : -2.3

Housing : Construction Approval YoY (%)
Latest (2023) : 78.0
2022: -0.5

Outstanding loan/financing performance

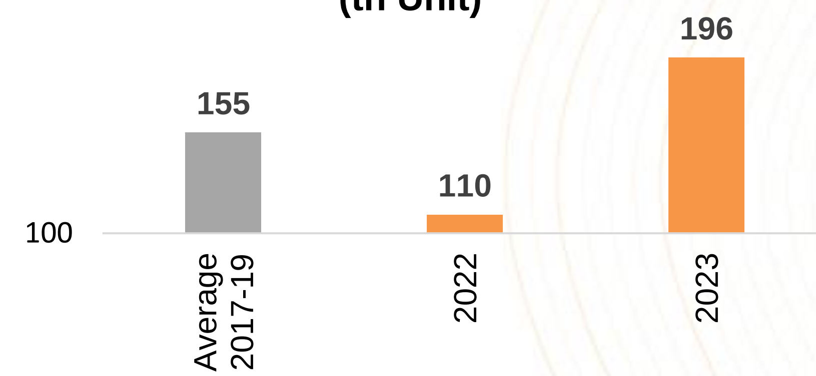
2023	RM bil	% Share	% YoY
Banking Industry	56.9	2.7	-0.9
SMEs Industry*	49.3	12.8	5.9

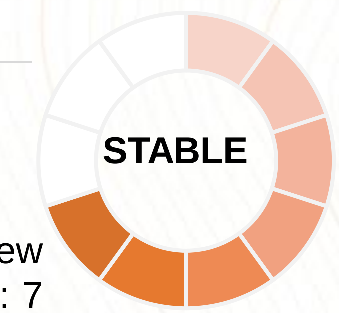
*Used total construction value due to absence of breakdown by sub-sectors

PROS

1 **More private housing** construction jobs moving forward. **Reduction in unsold units also could encourage new supply.** Residential unsold units decreased by 19% from 435k in 2023 to 353k unit in 2024 (Average 2017-19: 468k).

Housing Approval for construction (th Unit)





2 **Increase in Govt Projects.** In 2024, 26 new schools to be built, costing RM2.5 bil (2023: 7 school, RM560 mil). Also, RM2.5 bil is allocated for housing, with RM1 bil for revival of projects (2023: RM1.2 bil).

3 **Malaysia to be regional hub for data centre.**

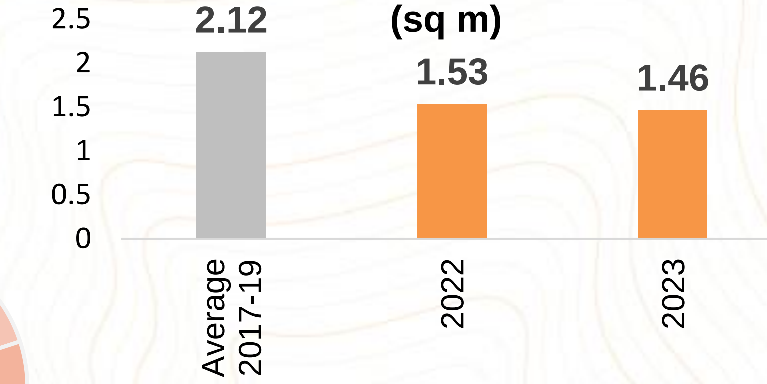
- Upcoming Data centre construction. Malaysia has 3 Data Centres (MY02, KL02 & Telekom Malaysia), while Indonesia has 1 confirmed (CGK3A) and Thailand has 1 (BKK3).
- 79.3% of digital investment approved between 2021-2023 came from data centre. Source: MITI

4 **Shop lot demand rises > supply increase, moving closer to pre-pandemic level.** Shopping complex's occupancy rate increased to 77.4% in 2023, from 75.4% in 2022 (Average 2017-19: 80.15%). This includes the completion of 9 new shopping complexes in 2023.

CONS

1 **Decrease in incoming supply of office space by 5%** from 1.53 mil sq m in 2022 to 1.46 mil sq m in 2023 (Average 2017-19: 2.12 mil sq m)

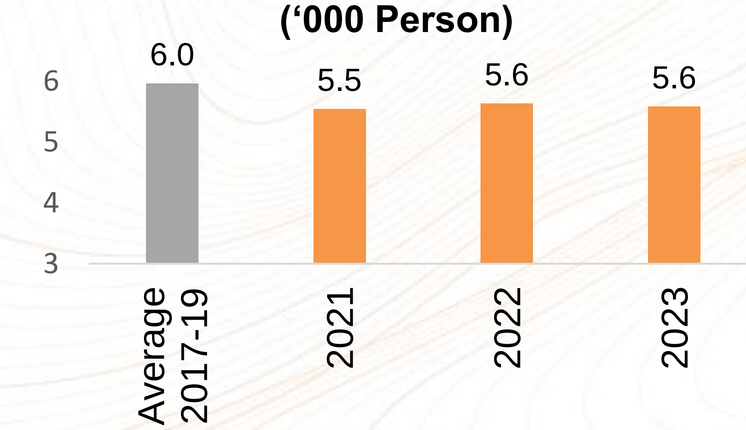
Incoming Supply: Office Space (sq m)



2 **Increase in both Mycon (12mm) and Steel prices,** by 2% YoY and 9% YoY respectively in Jan-Feb 2023. These are the most important materials for construction.

3 Employment **has yet to return to pre-pandemic levels** (2017-2019)

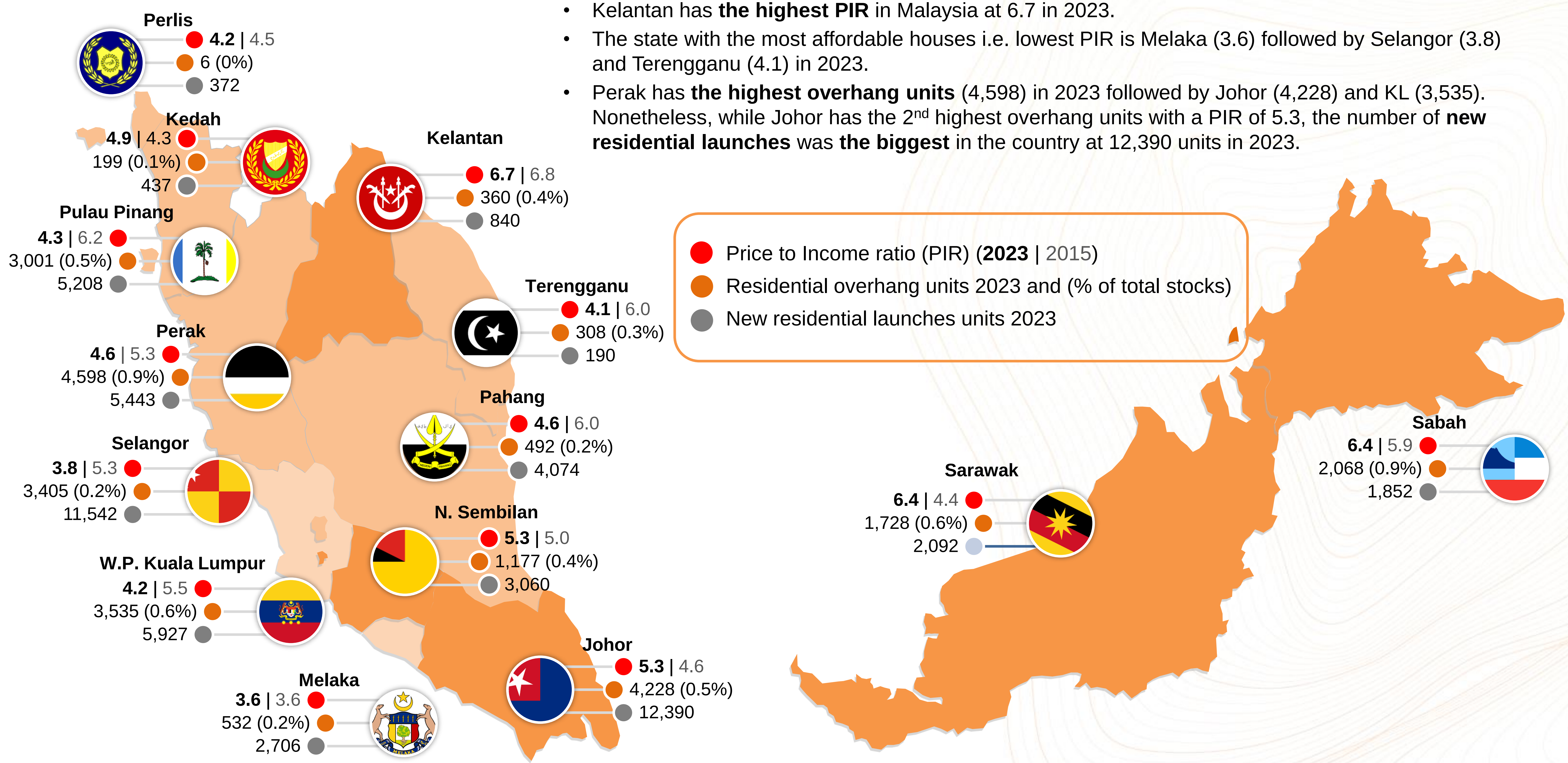
Employment: Construction ('000 Person)



Sources: Bloomberg, CEIC, EMIS, The Edge, Department of Statistics Malaysia, Malaysia Construction Industry Databook 2023 and SME Bank Economic Research

Real Estate: Residential affordability, overhang and new launches

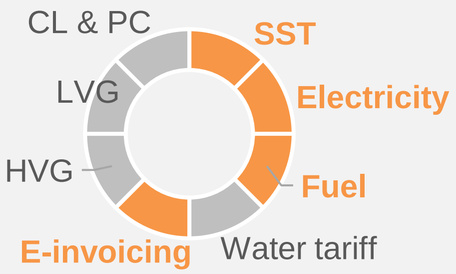
- Housing in Malaysia is relatively **unaffordable** as all price to income ratio (PIR) in 2023 is above 3.0.
- Kelantan has **the highest PIR** in Malaysia at 6.7 in 2023.
- The state with the most affordable houses i.e. lowest PIR is Melaka (3.6) followed by Selangor (3.8) and Terengganu (4.1) in 2023.
- Perak has **the highest overhang units** (4,598) in 2023 followed by Johor (4,228) and KL (3,535). Nonetheless, while Johor has the 2nd highest overhang units with a PIR of 5.3, the number of **new residential launches** was **the biggest** in the country at 12,390 units in 2023.



Sources: CEIC, National Property Information Centre, and SME Bank Economic Research

Transportation and Storage: Land transport

Brighter Prospects



Public transport has shown an exponential growth in recent months in tandem with return to office trend. For private sector, **land cargo is likely to be the benefactor** of export-import recovery and fuel subsidy rationalisation.

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 4.3
4Q 2023 : 4.0

LRT, MRT & Monorail YoY (%)
Latest (Feb 2024): 43.3
Jan : 41.7

Sector GDP* YoY (%)
Latest (1Q 2024): 11.0
4Q 2023: 12.8

Diesel Price liter (RM)
Latest (Apr 2024): 2.15
Mar : 2.15

Outstanding loan/financing performance

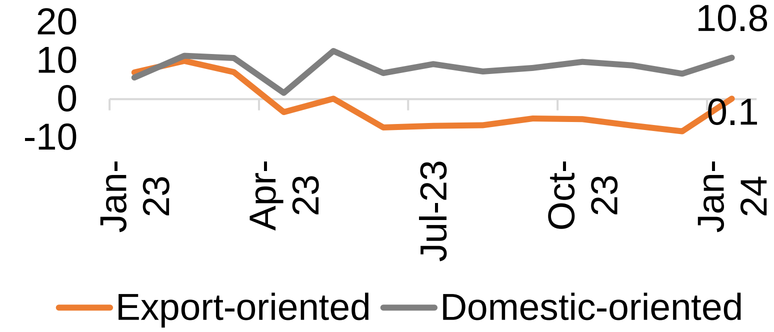
2023	RM bil	% Share	% YoY
Banking Industry*	31.3	1.5	6.9
SMEs Industry*	13.9	3.6	-3.7

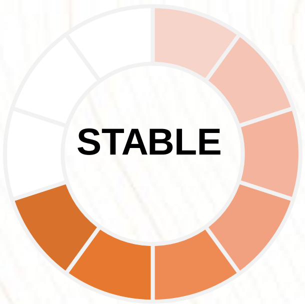
*Used total transportation & storage value due to absence of breakdown by sub-sectors

PROS

1. Improving economic activities especially recovery in export-oriented manufacturing sales, should spur **demand for land cargo.**

Manufacturing sales (% YoY)

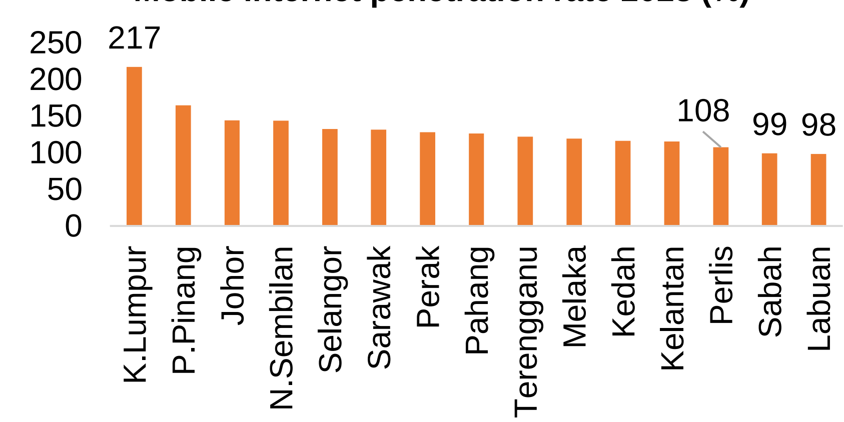




2. **Targeted subsidy to benefit the sector.** Indivlidual/ businesses which pay higher fuel price due to subsidy rationalisation could opt to minimise cost by using land transports (still enjoying fuel subsidy albeit may be slightly less).

3. **Improving connectivity supported by digitalisation**. Penetration of e-hailing in the sub-urbun and rural area makes inter-states travel easier using bus and trains.

Mobile internet penetration rate 2023 (%)



4. **RTS Johor-Singapore will have positive spillover** to short distance public & private transportation (e.g e-hailing, taxis, buses) to disburse the crowd at stations.

5. **Continued growth in e-commerce** to support land cargo. E-commerce's income grew by 4.9% YoY in 2023 (2022: 6.0%). Shipping cost ranges between 5%-15% of total cost of goods.

CONS

1. **Introduction of SST at 6%** (previous: 0%) will increase cost to customers. However, business-to-business for freight (within the industry) gets SST exemption.

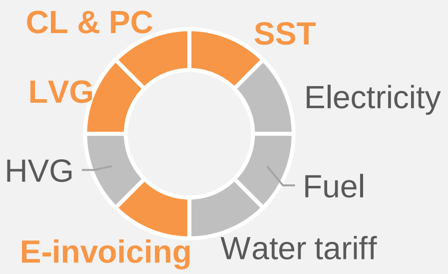
2. **Public transport expands railways beyond Lembah Klang**, (e.g bus, LRT Penang) to increase competition of private segment (i.e taxi, e-hailing, bus). However, private segment may tap into short distance travels (connecting to LRT).

3. **Downside risk to Petrol stations**
   - Less cars travelling due to higher fuel prices
   - Rerouting to new highway/roads may affect existing players operating at old roads (less traffic)

 Sources: Bloomberg, CEIC, EMIS, DOSM, The Edge, and SME Bank Economic Research

Transportation and Storage: Air transport

Brighter Prospects



Recovery in tourist arrivals is likely to underpin this sector's performance. MSMEs can tap into the industry value chain (IVC) as this sector is dominated by large players

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 4.3
4Q 2023 : 4.0

Tourist arrival YoY (%)
Latest (Dec 2023): 26.3
Nov : 28.2

Sector GDP* YoY (%)
Latest (1Q 2024): 11.0
4Q 2023: 12.8

Export by air YoY (%)
Latest (Mar 2024): 3.3
Feb : -0.8

Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry*	31.3	1.5	6.9
SMEs Industry*	13.9	3.6	-3.7

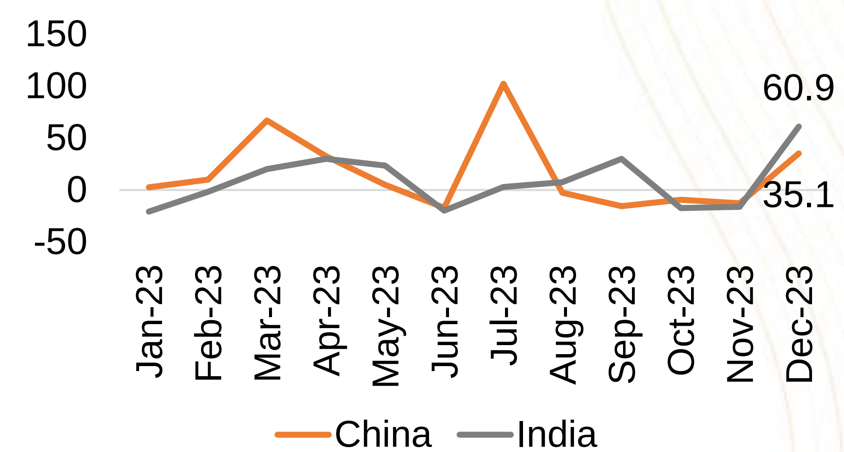
*Used total transportation & storage value due to absence of breakdown by sub-sectors

PROS

1. **Continue recovery in tourist arrivals** especially Singapore (82% of 2019 level) and Indonesia (86%). Both combined contributed 56.7% of total arrival in 2023 (2022: 66.6%; 2019: 52.8%)

2. Malaysia grants **visa-free entry to citizens of China and India** for stays of up to 30 days starting 1 Dec 2023. This spurs tourist arrivals and demand for air transport. Both combined contributed 10.7% of total arrivals in 2023 (2022: 5.3%; 2019: 14.7%).

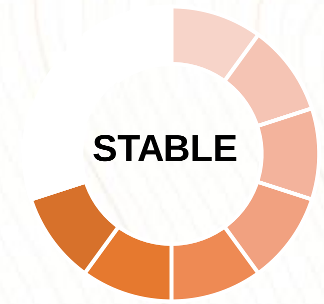
Tourist arrivals in Malaysia (% MoM)



3. **Improving connectivity. Increased flight to Australia, new routes to Maldives, Chiang Mai and Da Nang (Vietnam).** KLIA is a preferred transit hub for umrah pilgrims (attracting Indonesian and other ASEAN). **In 2023,** the number of flights grew to 76.6% of 2019 level (2022: 61.5%).

4. **Reducing price gap between air transport and car.** Travelling using car will be expensive due to higher fuel prices (after subsidy rationalisation) which could prompt people to choose alternative such as flights.

5. **Recovery in air cargo.** MAVCOM projects air cargo growth between 6.0% YoY and 6.6% YoY in 2024 (2023e: -14.1%). Increase in food export-import also could spur demand for air transport.



CONS

1. **High cost of flying** (i.e carbon levy, increase in airport passenger charges). These costs could translate into higher ticket prices to consumer. Demand can switch to other transportation (land and water) or less frequent flying.

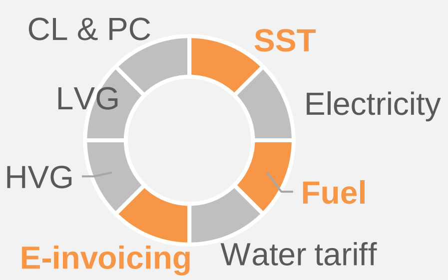
2. **High global oil price** to increase cost. Jet fuel accounts for around 1/4 of airlines' operating expenses.

3. **High barriers to entry.**
   - Newcomer cannot sustain business due to high cost. For instance, closure of MYAirline.
   - Concentrated to large players and MNC. However, MSMEs can still tap its industry value chain (IVC) (e.g. vendors, suppliers, sub-contractors).

 Sources: Bloomberg, CEIC, EMIS, MAVCOM, IATA and SME Bank Economic Research

Transportation and Storage: Water transport

Brighter Prospects



While trade recovery will spur demand in this sector, the industry is **dominated by large players and MNCs**. However, MSMEs can still tap its IVC (e.g. vendors, suppliers, sub-contractors).

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 4.3
4Q 2023 : 4.0

Export by water
YoY (%)
Latest (Mar 2024): -2.6
Feb : 1.9

Sector GDP*
YoY (%)
Latest (1Q 2024): 11.0
4Q 2023: 12.8

Brent oil price
bbl (USD)
Latest (Apr 2024): 89.0
Mar : 84.8

Outstanding loan/financing performance

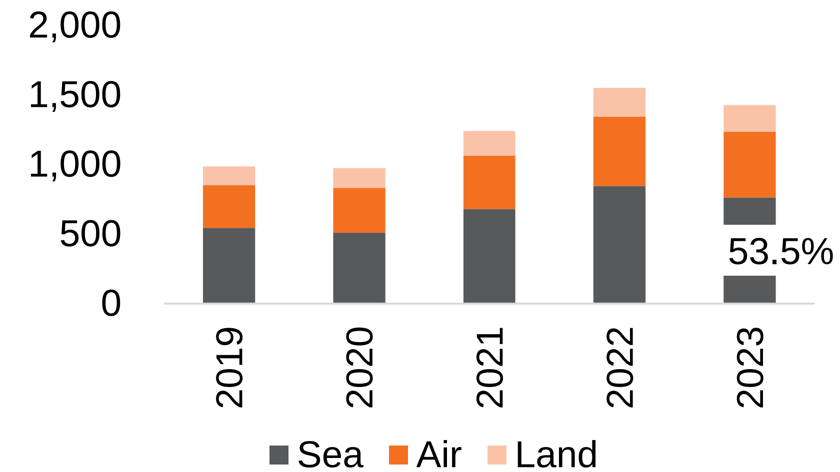
2023	RM bil	% Share	% YoY
Banking Industry*	31.3	1.5	6.9
SMEs Industry*	13.9	3.6	-3.7

*Used total transportation & storage value due to absence of breakdown by sub-sectors

PROS

1. **Recovery in global trade** to support demand for the sector. WTO forecasts world merchandise trade to expand by 3.3% in 2024 (2023e: 0.8%).

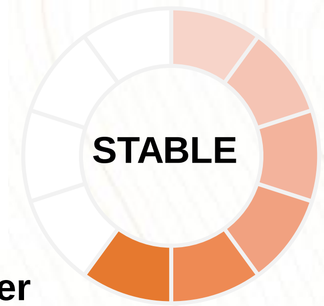
Export by mode transport (RM bil)



2. **Improved tourist arrival and wider attraction for Eco tourism** (e.g Langkawi's Global Geopark, Perak's Royal Belum, islands). According to Euromonitor, 41% of travellers are prepared to pay more than 30% extra for adventure and eco-tourism.

3. **Reinstatement of cabotage policy for Sarawak.** This lowers competition from foreign shipping companies in Sarawak, hence could benefit local players.

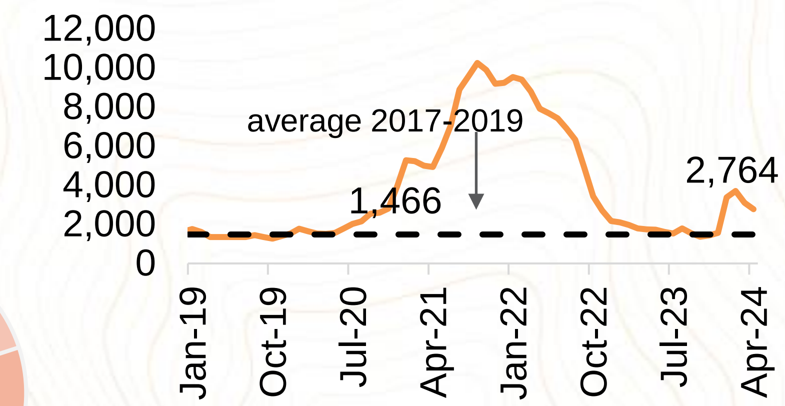
4. Expansion of port Klang's annual capacity to 27 mil twenty-foot equivalent units (2x current capacity) will support demand for transport of freight in harbours and ports.



CONS

1. **Rising uncertainty and prolong supply chain disruptions** amid geopolitical tension (i.e. Middle East conflict, NATO-Russia tension, US-China tension) has resulted in higher freight rates.

Global Freight Rate (USD)



2. **Increase cost** (e.g, high global oil price). Fuel costs represent as much as 50-60% of total shipping's operating cost, depending on the type of ship and its service.

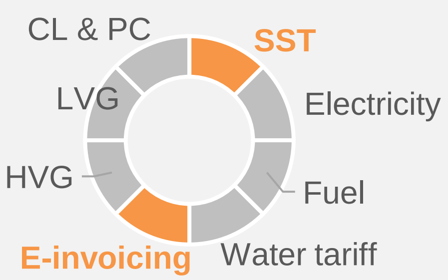
3. **Risk of slowing consumption** in key trading partners could dampen trade. IMF forecasts US to grow slower by 2.1% in 2024 (2023: 2.5%). US is the 3rd largest export destination for Malaysia (2023: 11.3%; 2019: 9.7%)

4. **Outflow of local tourists may reduce demand (e.g ferry, boat to islands, river tourism).** Malaysia was the biggest tourist arrival in Thailand (2023: 16.4% of total arrival; 2019: 10.6%) followed by China (2023: 12.5%; 2019: 27.6%). Besides, Malaysian travelling to Thailand in 2023 stood at 110% of 2019's level.

Sources: Bloomberg, CEIC, EMIS, The Edge, World Trade Organisation (WTO), morethanshipping.com, and SME Bank Economic Research

Brighter Prospects

SME BANK GROUP



Publishing sector is experiencing a major shift. Traditional print faces decline while digital publishing, i.e. cloud software, digital advertising, and gaming offer new growth areas.

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 6.6
4Q 2023: 6.3

Sector GDP*
YoY (%)
Latest (1Q 2024): 2.9
4Q 2023 : 3.3

IPI: Printing and reproduction of recorded media (index)
YoY (%)
Latest (1Q 2024): 5.2
4Q 2023: 5.6

Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry*	22.9	1.1	-0.3
SMEs Industry*	7.8	2.0	58.4

*Used total ICT value due to absence of breakdown by sub-sectors

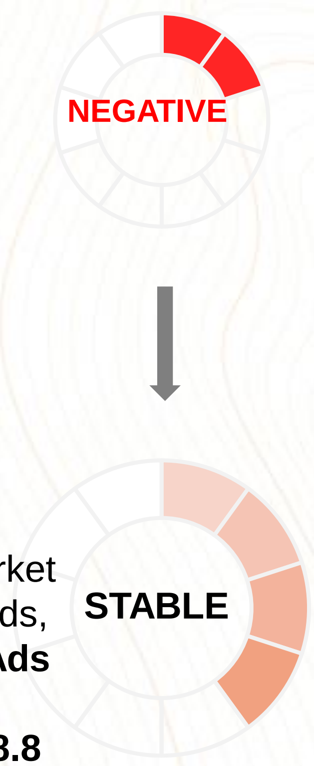
PROS

1. **Transitioning to online platform.** Consumers and businesses are increasingly using digital formats like eBooks, online magazines, and subscriptions. This indicates a clear shift away from traditional print media. E-book is projected to grow at a **CAGR rate of 3.5% (2024-2027)** with market value of **USD11.6 mil.**

2. **Demand of ready-made software.** The shift to cloud-based software like Microsoft 365 and Google Workspace will continue to accelerate. This is supported by to the Hybrid Work Practices and digitalisation. **SMEs can benefit as vendor/supplier.**

3. **Malaysia's Digital Out-of-Home** advertising market is experiencing a significant rise in digital billboards, which offers opportunities for service providers. **Ads spending** is expected to have a **CAGR of 7.7% (2024-2029)** with market value of **USD88.8 mil** in 2024. Digital billboard may incur high cost of screens and setup i.e (**RM50k to RM600k).**

4. **Rising video gaming industry.**
   - A 7.6% CAGR from 2024-2027 with market volume of RM3.4 bil by 2027.
   - The average person in Malaysia spends ~RM100 on online gaming.
   - Trend to produce game based on animation (e.g Upin & Ipin, Ejen Ali)
   - However, **lack of awareness** and **promotion** for home grown online game are among the biggest challenge to this industry.



CONS

1. The Newspapers & Magazines' market in Malaysia is experiencing a decline, with a projected revenue of **USD347.5 mil** in 2024 and a negative **CAGR of -1.08% by 2029**. This shift in consumer preferences to online is causing a decrease in demand for traditional print media.

2. **Shifting Landscape.** Major bookstore chains in Malaysia have declined (MPH, Borders), potentially signaling the sunset of printed books in favor of digital formats.

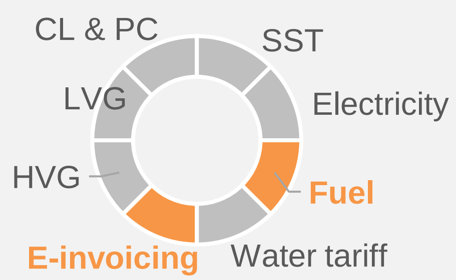
3. **Shorter attention** span for **digital ads** may **reduce the effectiveness of marketing.** Most consumers spend a significant amount of time on phone/laptops on a daily basis, resulting in information overload & attention fatigue. Some opt to skip ads anytime/altogether..

4. **High competition in digital space.** Local publishing authors have to compete with foreign players. Copyright and piracy also are among the key challenges to the publishers.

 Sources: Bloomberg, CEIC, EMIS, The Edge, Department of Statistics Malaysia, and SME Bank Economic Research

Mining & Quarrying: Extraction of crude petroleum

Face Challenges



In the near term, global oil price will remain high due to supply cut and increase in geopolitical uncertainties (i.e Iran-Israel-US, NATO-Russia). However, the decline in the rate of consumption growth and high spare capacity is expected to continue.

Sector Key Indicators

Share to GDP
(%)
Latest (1Q 2024): 6.0
4Q 2023 : 5.8

Brent oil price
bbl (USD)
Latest (Apr 2024): 89.0
Mar : 84.8

Sector GDP
YoY (%)
Latest (1Q 2024): 5.8
4Q 2023 : 3.7

Gas price
Mmbtu (USD)
Latest (Apr 2024): 1.60
Mar : 1.49

Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry	5.1	0.2	15.9
SMEs Industry*	1.6	0.4	5.2

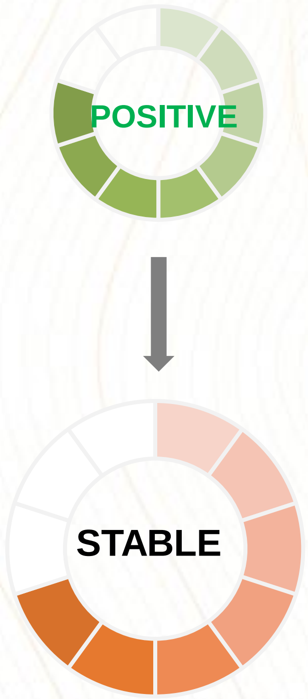
*Used total mining & quarrying value due to absence of breakdown by sub-sectors

PROS

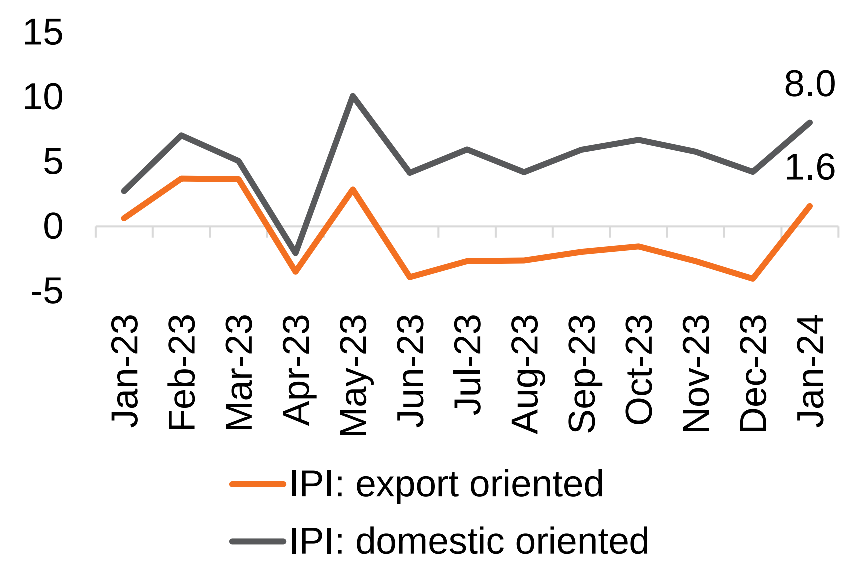
1. **High oil price** above historical 2017-2019 levels is expected to stay with OPEC+ **supply cut and increase in geopolitical uncertainties.** US's EIA forecasts Brent to average USD87 bbl in 2024 (YTD Mar: USD81.8; 2023: USD82.2; average 2017-19: USD63.5)

2. **Petronas's capital spending for oil & gas improved** by 15.2% YoY in 2023 (2022: 60%). However, the spending was below historical levels (2023: RM43.3 bil; 2015-2019: RM49.2 bil).

3. **Recovery in export-oriented activities** should improve gas demand used in manufacturing activities.



Industrial production index (% YoY)



CONS

1. **Declining trend in the rate of growth of oil consumption.** Global oil demand is expected to improve at a slower pace of 1.4% YoY in 2024 (2023: 1.9%; 2025f: 1.3%). This is in line with rising electric cars (less demand for fuel) at 18% of total global new car sales (2022: 14%).

2. **Production cut creates wider spare capacity.** IEA estimates that OPEC's total spare capacity is 5.1 mil bpd (5% of global production). Global spare capacity between 2010–2019 was only 2.7 mil on average.

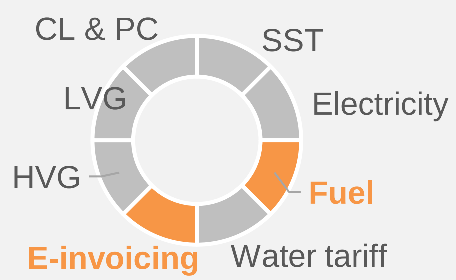
3. **Less incentive for expansion in near term.** Oil production cut by OPEC+ to remain, as the biggest global oil producer (Saudi Arabia) needs a fiscal breakeven oil price ranging between USD80-USD88 bbl.

4. Transitioning to clean energy **may benefit LNG, however, in the longer-term, demand will likely move towards Renewable Energy** (e.g. Solar, Hydrogen, Wind turbines, nuclear, hydropower, bioenergy). Additionally, EU adopted voluntary reduction of natural gas demand by 15%. Price also declined by 24% YoY in 1Q 2024 (4Q: -52%).

 Sources: Bloomberg, CEIC, EMIS, OPEC, Petronas 2024-2026 outlook, US Energy Information Administration (EIA), International Energy Agency (IEA), and SME Bank Economic Research

Mining & Quarrying: Support for petrol & natural gas extraction

Face Challenges



In the medium term, projects offered by Petronas shows a declining trend. Petronas also targets 20% of its Capex for decarbonisation projects.

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 6.6
4Q 2023: 6.4

Crude oil & gas export YoY (%)
Latest (Apr 2024): 27.6
Mar : 2.9

Sector GDP* YoY (%)
Latest (1Q 2024): 5.7
4Q 2023: 3.5

Production crude oil YoY (%)
Latest (Mar 2024): -1.7
Feb: -3.0

Outstanding loan/financing performance

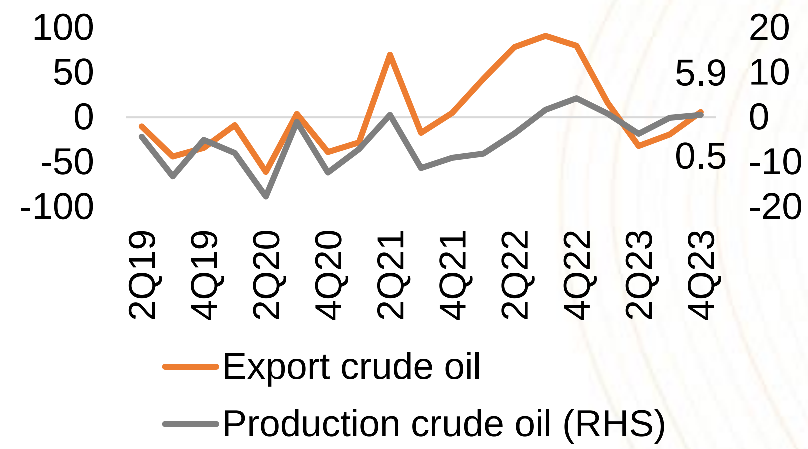
2023	RM bil	% Share	% YoY
Banking Industry	4.7	0.2	2.2
SMEs Industry*	1.6	0.4	5.2

*Used total mining & quarrying value due to absence of breakdown by sub-sectors

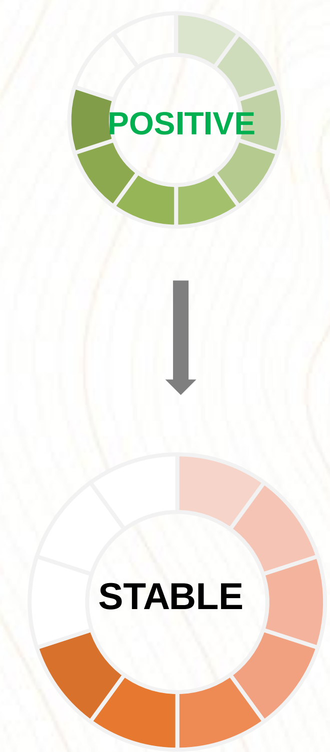
PROS

1. **Weak ringgit, high oil price, improved production as well as exports** to benefit players in this industry in the near term.

Production and export (% YoY)



2. **Exploration, drilling & maintenance of existing infrastructure is expected to remain resilient in near term.**
   - 99 wells are planned to be drilled (2023: 96),
   - 248 projects of pipeline Installation (2023: 229),
   - Offshore maintenance, construction and modification (2024: 13.09 mil man hours; 2023: 12.09)



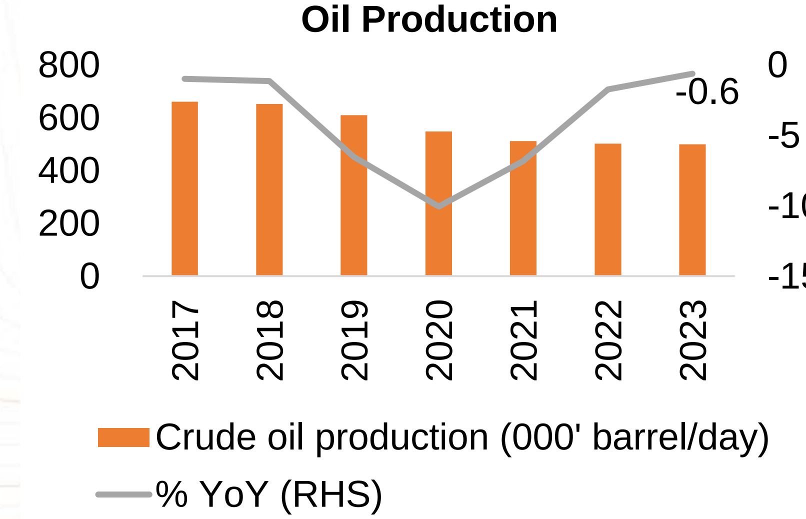
CONS

1. **Less projects from Petronas in the medium term:**
   1) Reducing rigs (2024: 28: 2026: 26),
   2) Floating Structures Fabrication (2024: 2; 2026: 0)
   3) Lifts Using Heavy Lifts Barges (2024: 14; 2025: 9)
   4) Fixed Structures Fabrication (2024: 8; 2025: 5)

2. Petronas has set a target to **reduce 25% of absolute carbon emissions groupwide by 2030**. The measure are likely 1) Increase carbon capture and storage (CCS), 2) reduce emission through limit production

3. **Crude oil production remains below historical level,** aligns with OPEC+'s production cut (2023: 499k barrel per day; 2017-2019: 641k).

Oil Production

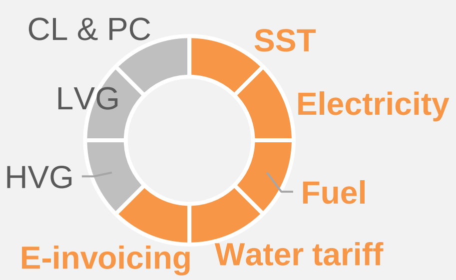


4. **Increase cost to players** (e.g. ESG compliant, digitalisation, & automation). For instance, vendors or suppliers need to implement ESG measures (requirement set by Petronas or MNC).

Sources: Bloomberg, CEIC, EMIS, OPEC, Petronas 2024-2026 outlook, and SME Bank Economic Research

Manufacturing: Petroleum & chemical

Face Challenges



Rising input cost and competition may pressure refinery's profitability. Raw materials make up around 80% of the cost.

Sector Key Indicators

Share to GDP
(%)
Latest (1Q 2024): 4.9
4Q 2023 : 5.0

Export of manufactured petroleum products
YoY (%)
Latest (Apr 2024): -18.6%
Mar: -9.9%

Sector GDP
YoY (%)
Latest (1Q 2024): 0.3
4Q 2023 : -0.7

Brent oil price
bbl (USD)
Latest (Apr 2024): 89.0
Mar : 84.8

Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry	7.8	0.4	0.01
SMEs Industry*	56.4	14.7	8.4

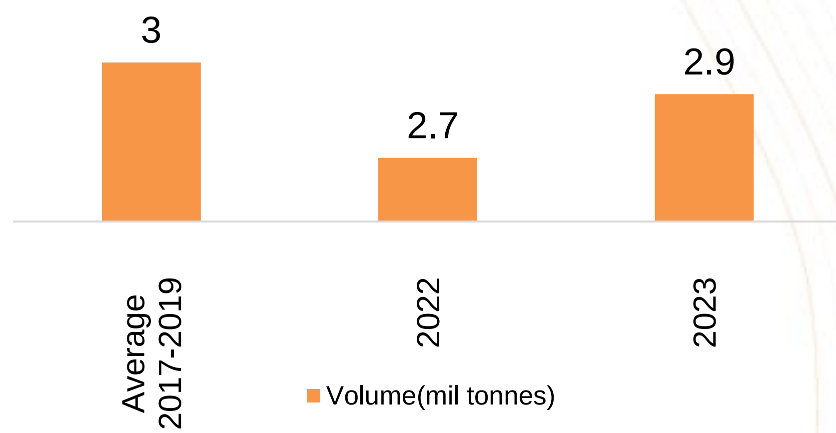
*Used total manufacturing value due to absence of breakdown by sub-sectors

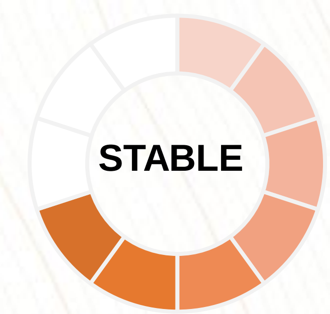
PROS

1. Chemical Industry Roadmap 2030 to drive investment for chemical sector, adding 4.5% to overall economy by 2030. Approved investment for the industry +12% YoY in 2023. Malaysia's chemical and petroleum sector is expected to record a CAGR of 4.2% from 2021 - 2025.

2. **The use of oleochemicals** in products such as soap has increased as consumers' preference shifted to plant-based ingredients. Oleochemical CAGR of 7% from 2024 till 2029

Exports of Palm-based Oleochemicals





5. **Lower oil production in Saudi Arabia may affect Pengerang** Integrated Complex's refining production, albeit **production capacity growth of 24% YoY** to 22.6 mil metric tones in 2023. Feedstock from Saudi accounted for 50%-70% of Pengerang's production.

CONS

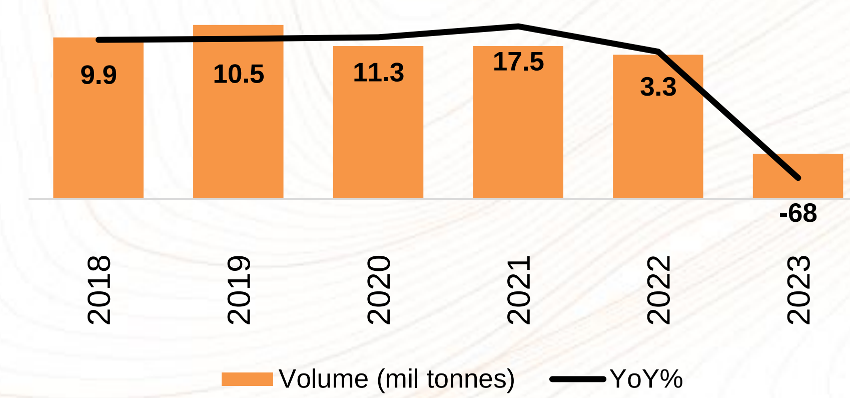
1. **Weak demand. Manufacturing sales** of refined petroleum products recorded a **drop** of 10% YoY to RM 224.7 bil in 2023 (2022: +42%, average 2017-2019: +15%)

2. **Rising input cost. High oil price** to maintain above historical 2017-2019.

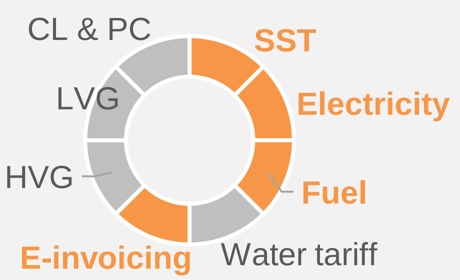
3. **Overcapacity in petrochemical industry**, where China and India increased their petrochemical capacity. **China** has 198 mil tonnes of refining **spare capacity** in 2023. Malaysia has total refining capacity of an estimated 46 mil tonnes.

4. European Union (EU) deforestation regulation affects the palm oil exports.

European Union: Exports of Palm Oil



 Sources: Bloomberg, CEIC, EMIS, The Edge, Department of Statistics Malaysia, The Star, and SME Bank Economic Research



Telco sector shows strong demand for subscriptions, but the infrastructure development especially in 5G may slow down with the already high coverage and cost cutting by providers.

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2024): 6.6
4Q 2023: 6.3

Broadband Subscriptions
YoY (%)
Latest (4Q 2023): 5.0
3Q : 6.0

Sector GDP*
YoY (%)
Latest (1Q 2024): 2.9
4Q 2023 : 3.3

Fixed-broadband (Penetration rate)
Latest : (4Q: 2023) :50.6%
3Q: 49.9 %

Outstanding loan/financing performance

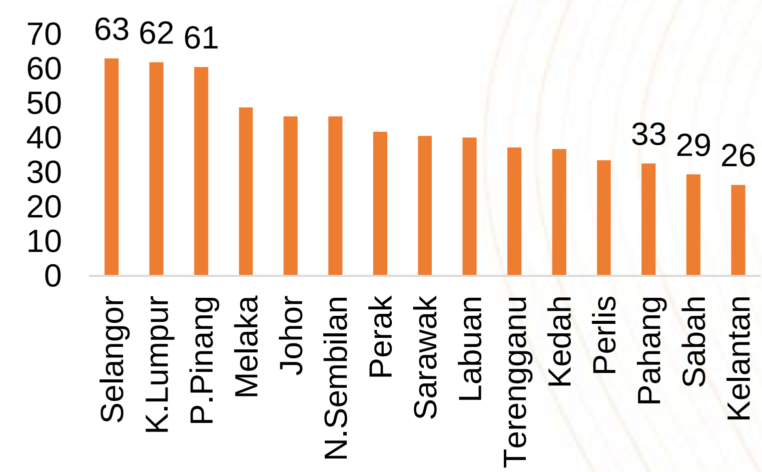
2023	RM bil	% Share	% YoY
Banking Industry*	22.9	1.1	-0.3
SMEs Industry*	7.8	2.0	58.4

*Used total ICT value due to absence of breakdown by sub-sectors

PROS

1. **Rise of hybrid work model** and demand for stable internet connections. Fixed broadband penetration rate increased to **50.6%** (2022: 47.6%). This growth signals a need for telco ports, creating opportunities for MSMEs related services.

Fixed broadband penetration rate 2023 (%)



2. Malaysia saw a sharp rise of 171% QoQ in mobile 5G broadband subscriptions (4Q 2023: 8.2 mil; 3Q: 3.05 mil) coinciding with a decline of 11% QoQ in 4G subscriptions (4Q: 36 mil; 3Q: 41 mil).

3. **Malaysia ranked 1st globally for 5G Consistency Score (97.3%),** 2nd: North Macedonia, 3rd: United Arab Emirates. Malaysia is still leading in 5G performance in Southeast countries, ahead of Singapore, Thailand and Philippines.

4. **Sarawak's Saluran-MySRBN Project nears 50% mark (600 towers).** 258 SMART towers were operational as of March 15 and expected to finish by 2025. This will benefit the SMEs due to opportunities in terms of maintaining the tower and build (>300 more needs).

CONS

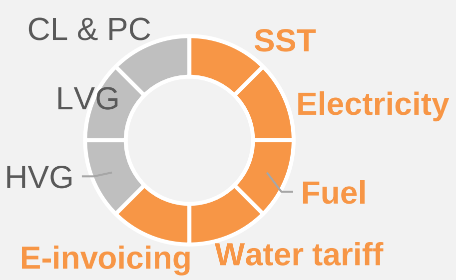
1. Due to successful 80% of 5G infrastructure coverage, this has **reduced opportunities** (left 20%) for SMEs to build new towers in the longer term & **increase competition.** Additionally, delays in dual 5G network rollout also meant less incoming new projects.

2. **CelcomDigi's ongoing network consolidation**, with 30% of towers merged and another 40% planned for this year (less antenna).

3. **High coverage but low adoption rate**, Even though Malaysia had 80% coverage, **5G Adoption rate** still need to catch up (29.9%) - 10.07 mil subscriber. Thailand adoption rate (36%)

4. **Govt's price controls on 5G access** and push for cheaper internet could increase telcos' operational costs. With limited ability to increase revenue to match the significant investment in 5G infrastructure, telcos face the risk of shrinking profit margins. This could translate into cost cutting plan (less or reduce vendor/supplier projects)

Sources: MCMC, CEIC, EMIS, The Edge, Department of Statistics Malaysia, CitizenJournal, New strait times and SME Bank Economic Research



Continued govt support will boost tourism (targets: 2024: 24 mil; 2025: 30 mil). However, increase in hotel room rates due to higher cost and SST could pose risks (people may opt for daily travel instead of overnight stays)

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2024): 0.8
4Q 2023 : 0.7

USD/MYR (Average)
Latest (1Q 2024): 4.72
4Q 2023: 4.70

Sector GDP YoY (%)
Latest (1Q 2024): 12.1
4Q 2023 : 9.9

Tourist Receipts bill (RM)
Latest (4Q 2023): RM22
3Q: RM19

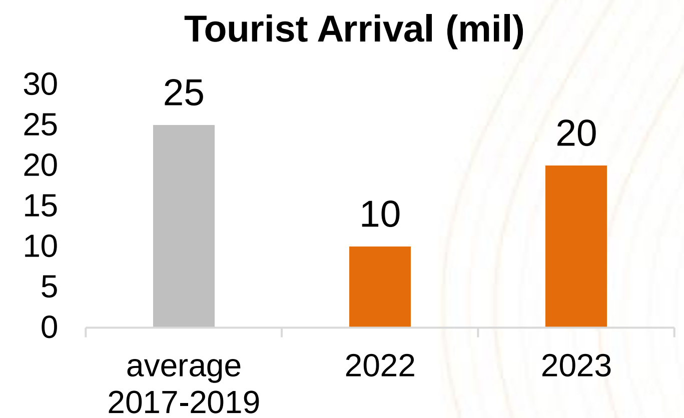
Outstanding loan/financing performance

2023	RM bil	% Share	% YoY
Banking Industry*	19.8	0.9	-2.3
SMEs Industry*	12.0	3.1	5.0

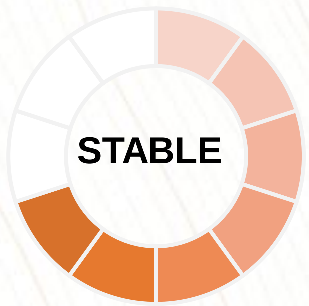
*Used total accommodation & F&B services due to absence of breakdown by sub-sectors

PROS

1. **Continuous recovery in tourist arrivals** supports demand for accommodation. In 2019, foreign tourists stayed for an average of 6.2 nights.



2. Malaysia is recognised as the most influential in terms of **Muslim-friendly accommodation.** Malaysia scored higher in Muslim hotel friendliness compared to other Southeast Asian countries (Malaysia: 77; Indonesia: 65, Thailand: 45).



3. **Hotel occupancy rates are showing signs of recovery**, reaching 51.6% in 2023 (2022: 46.6% ; 2027-19 ; 60.8%). Number of hotels have increased 0.6% YoY and rooms by 1.4% YoY in 2023.

4. **Continuous supports from Govt to boost tourism**
   - Becoming a regional Umrah hub
   - Hosting global events like Mobile Legends 6 and Sepak Takraw World Cup in 2024.
   - Charter Flight Matching Grant
   - China and India nationals enjoy visa-free travel
   - Promoting health tourism

CONS

1. **Malaysia losing out to Thailand** due to:
   - Higher 3-star hotel rates (e.g. Kedah: RM145 vs. Satun, Thailand: RM127). However, Malaysia still has advantage over Singapore as Johor's average hotel rates (RM247) are still more competitive compared to Singapore (RM565).
   - Tourist from Malaysia to Thailand 4.6 mil vs. Thai to Malaysia 1.6 mil.

2. **Increase hotel prices** due to higher services tax which rose from 6% to 8%, Some people may opt for day trips instead of overnight stays due to the rising hotel prices. Malaysia's hotel room rates are also projected to rise to 30% in 2024.

3. While **Malaysia** has more **traditional attractions** (e.g Islands, cultural, eco-adventure), countries like **Thailand and Singapore** are preferred destinations to **host events** such as **concerts.** Malaysia may lose potential tourists from entertainment events, which has spillover effects to the tourism industry. For example: Taylor Swift concert in Singapore was estimated to add around SGD300 mil to SGD400 mil, or 0.2 percentage points to its 1Q 2024 GDP.

Sources: Bloomberg, CEIC, EMIS, The Edge, Department of Statistics Malaysia, The Star, and SME Bank Economic Research

1 Macro Developments & Industry Cost Impact Analysis

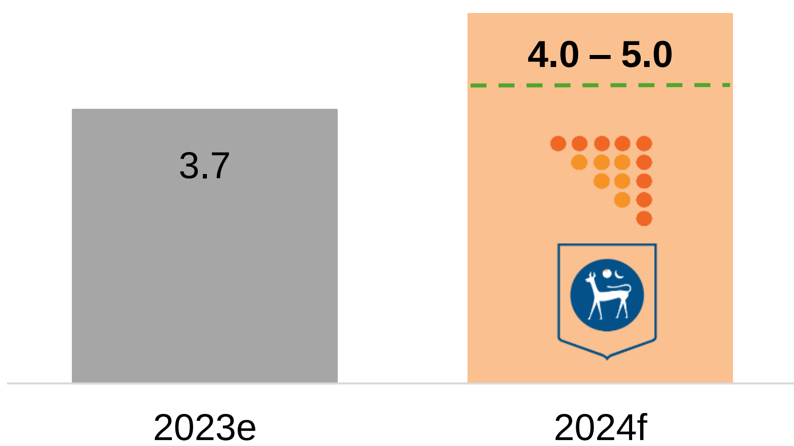
2 Sectoral Scan & Outlook of Key Sectors

3 Appendix

BNM's Economic & Monetary Report: Economic Outlook

1 GDP growth to be higher in 2024, in line with SME Bank

Malaysia GDP Growth (% YoY)



SME Bank expects higher likelihood of the growth to be at the lower tail of the forecast range.

3 Services & manufacturing to propel growth in 2024

GDP Growth by Economic Activity (Annual Change, %)	% Share (2023p)	2022	2023p	2024f
Real GDP	*100.0*[1]	8.7	3.7	4.0 - 5.0
Services	*59.2*	10.9	5.3	5.5
Manufacturing	*23.4*	8.1	0.7	3.5
Agriculture	*6.4*	0.1	0.7	-0.5
Mining & Quarrying	*6.2*	2.6	1.0	3.5
Construction	*3.6*	5.0	6.1	6.7

- Higher tourism activities
- Trade recovery to support logistics
- Ongoing construction projects

- Rebound in E&E
- Recovery in primary-related cluster

The highest growth compared to other sectors yet to fully recover to pre-pandemic level (91% of 2019).

2 Key growth drivers in 2024:

- Continued expansion in **household spending**
- Improvement in **investment**
- Recovery in **goods trade activity**
- Further improvement in **tourist arrival & spending**

4 Growth outlook remains subject to downside risks

UPSIDE RISKS

- Greater spillover from the **tech upcycle**
- More robust **tourism activity**
- Faster implementation of **new and existing investment projects**

DONWSIDE RISKS

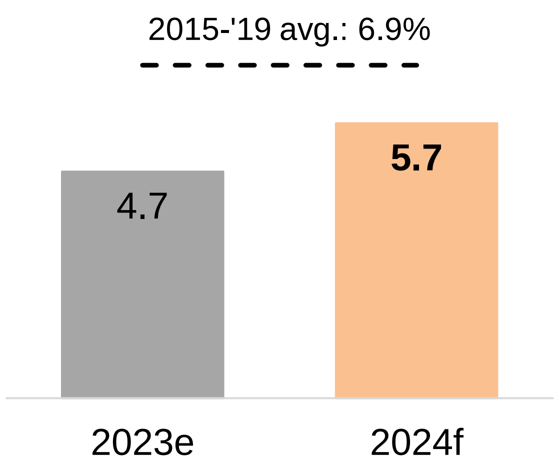
- Weaker-than-expected **external demand**
- Further escalation of **geopolitical conflicts**
- Larger decline in **commodity production**

 Sources: BNM and SME Bank Economic Research

BNM's Economic & Monetary Report: Economic Outlook

1 Private consumption will continue to be the main driver of economic growth in 2024…

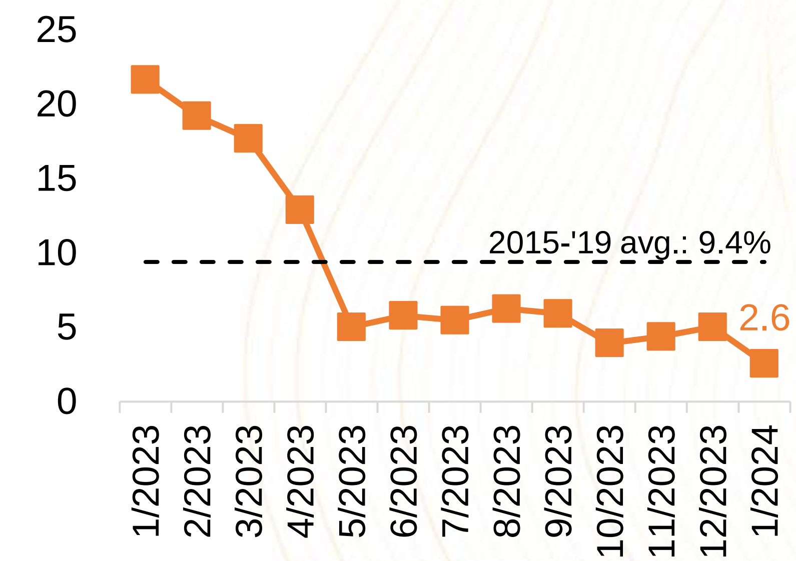
Real Private Consumption (% YoY)



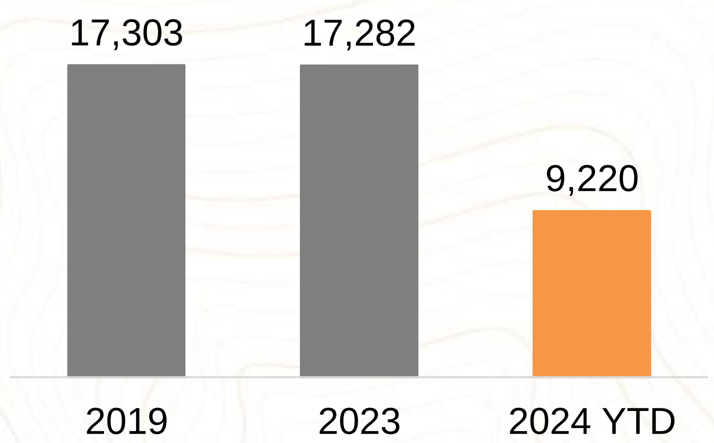
…underpinned by improving income and favourable labour market conditions, with additional policy support as well as sustained household savings.

3 Retail sales already had a weak start to the year

Retail Sales (% YoY)



Monthly Average of E-Commerce Transactions Volume (unit)



2 …but it will be challenging under rising cost environment

Rising cost environment:

- Increase in **service tax** rate & scope – Govt's collection: RM3.5 bil
- **Fuel subsidy** rationalisation – Govt's savings: RM29 bil (free-float)
- **Water tariff** hike – Concessionaires' collection: RM107.4 mil (Selangor & Labuan)
- **Electricity tariff** hike – Govt's savings: RM266 mil
- **Low value goods tax** – Govt's collection: RM200 mil
- **High value goods tax** – Govt's collection: RM700 mil

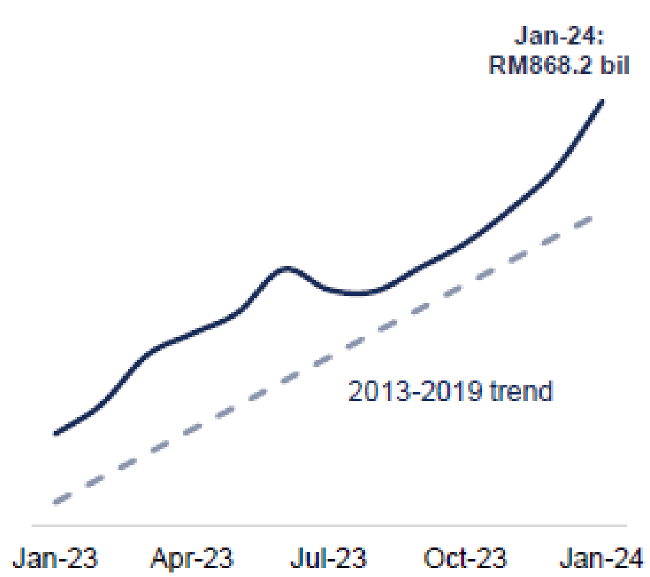
Govt's additional revenue collection & savings are **costs to consumers**

Cushioned by:

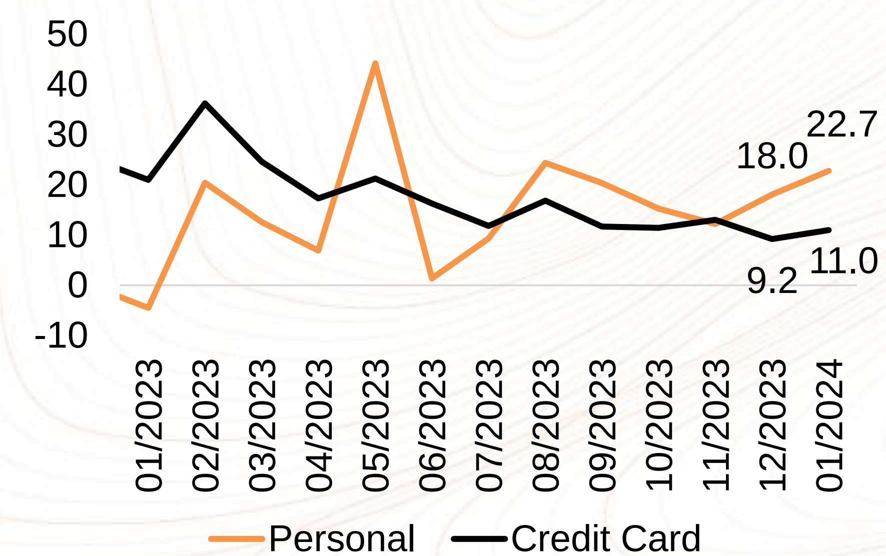
- Targeted **cash assistance** (e.g. STR) – budget allocation increased by RM2 bil to RM10 bil for year 2024
- Early **incentive payment** for civil servants (e.g. RM2.6 bil for 1.3 mil workers; RM885 mil for 885k retiree)

4 Consumers may opt to drawdown savings/financing to maintain their consumption patterns

Saving, demand and fixed deposits of individuals
RM bil



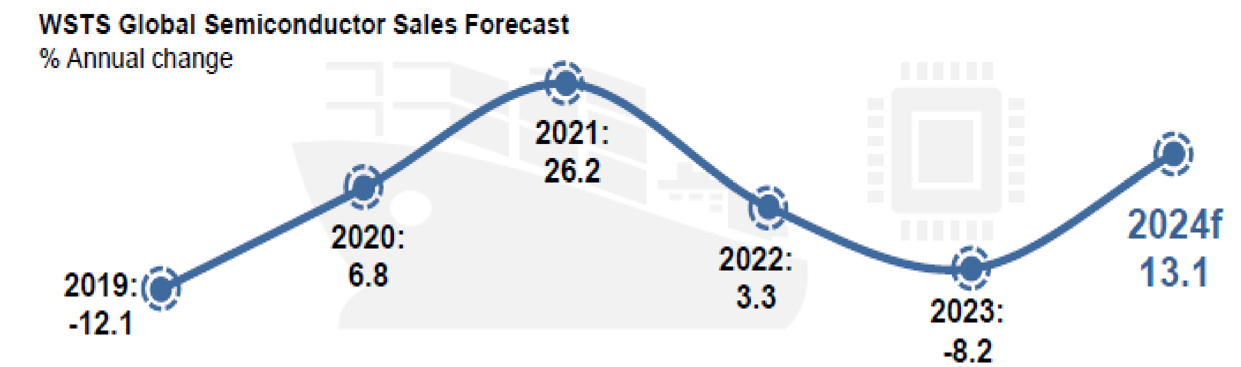
Banking System: Disbursement: Personal vs Credit (% YoY)

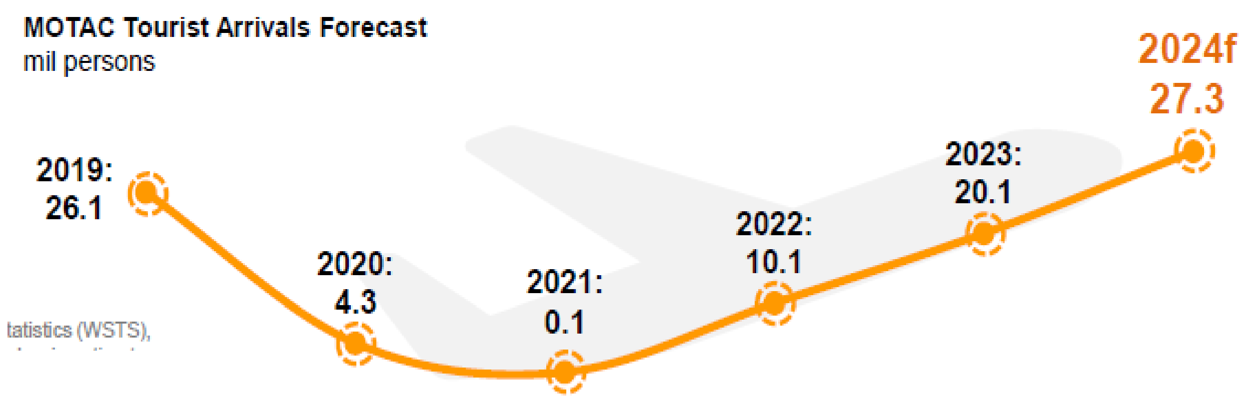


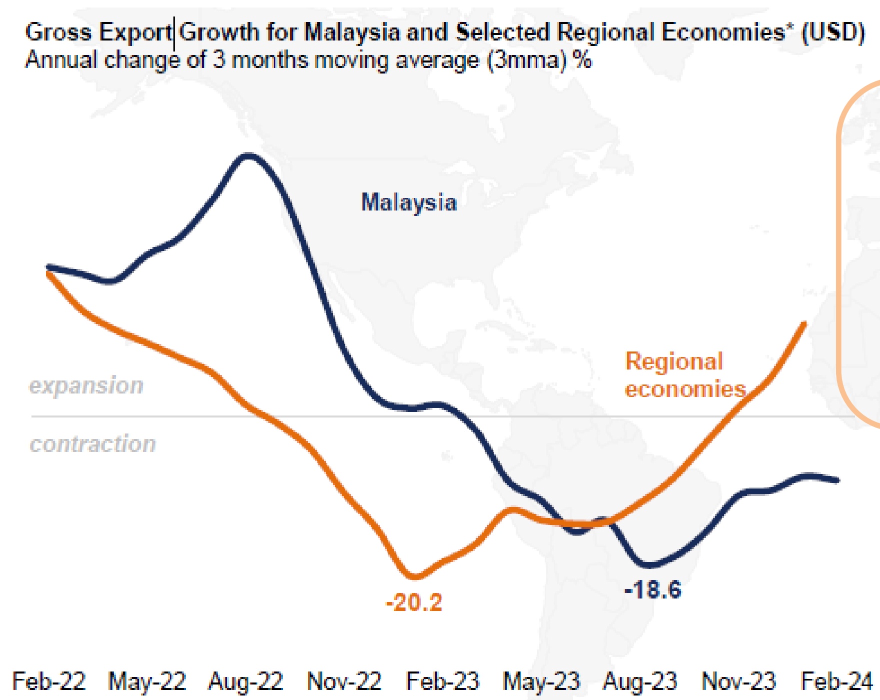
Sources: DOSM, CEIC, BNM and SME Bank Economic Research

BNM's Economic & Monetary Report: Economic Outlook

1 Rebound in global trade, technology cycle & tourism to provide impetus to our export's growth

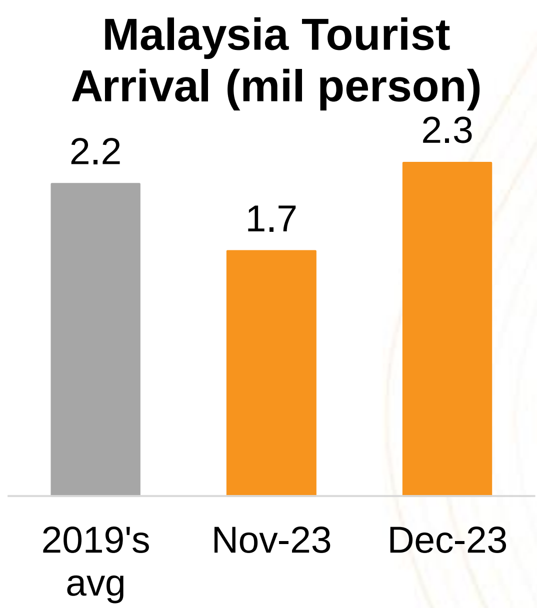


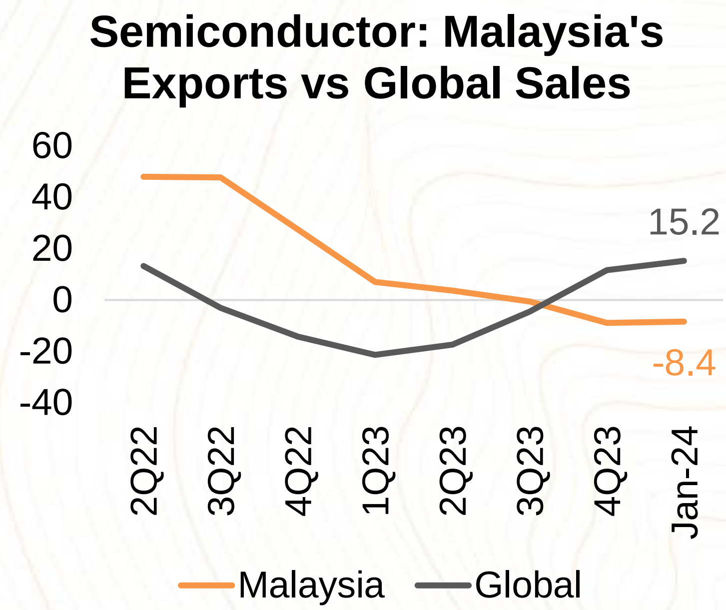




BNM highlighted that Malaysia's exports contracted later compared to regional countries, hence the late recovery now.

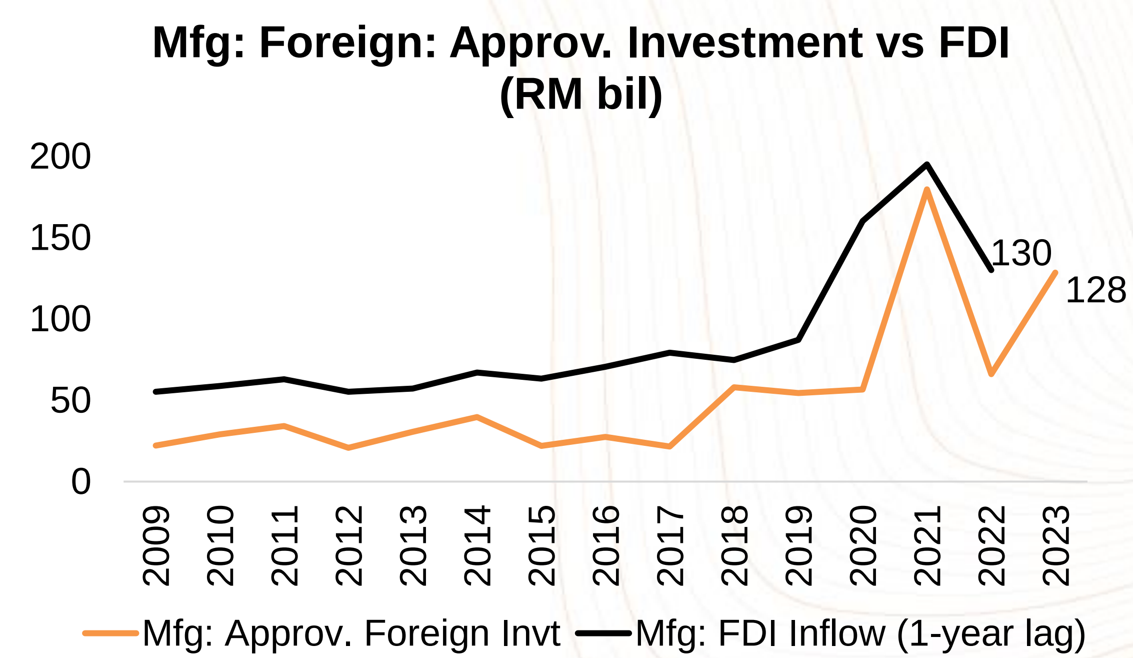
2 While tourism prospects seem encouraging, semiconductor exports remain weak





Global recovery in the semiconductor industry has **yet to be reflected in Malaysia's** exports performance probably due to **lagged effect.** To note, our semiconductor exports contracted only **after 4 quarters** of decline in global sales.

3 New investment as well as ongoing multi-year projects will also contribute to GDP growth



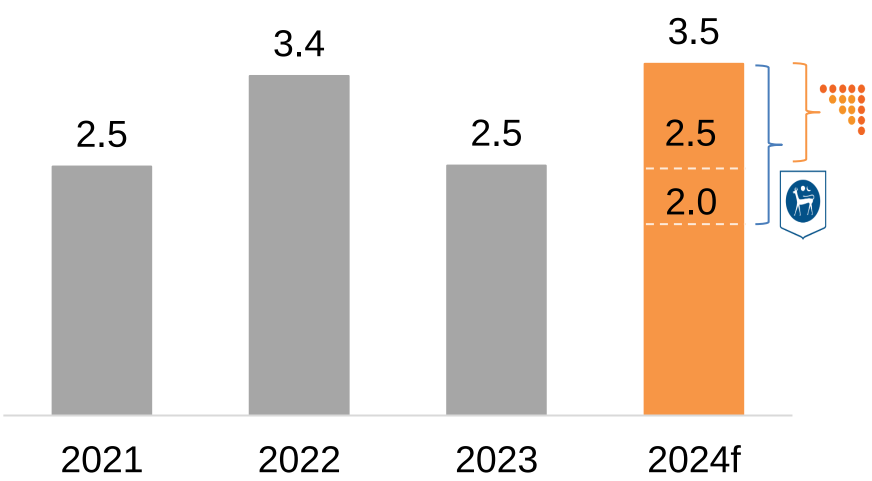
Between 2021 - 2023, 74% of approved mfg. projects are in various stages of implementation.
MITI: It typically takes between 18 and 24 months to implement.

Sources: DOSM, CEIC, BNM, World Semiconductor Trade Statistics (WSTS), Semiconductor Industry Association (SIA) and SME Bank Economic Research

SME BANK GROUP

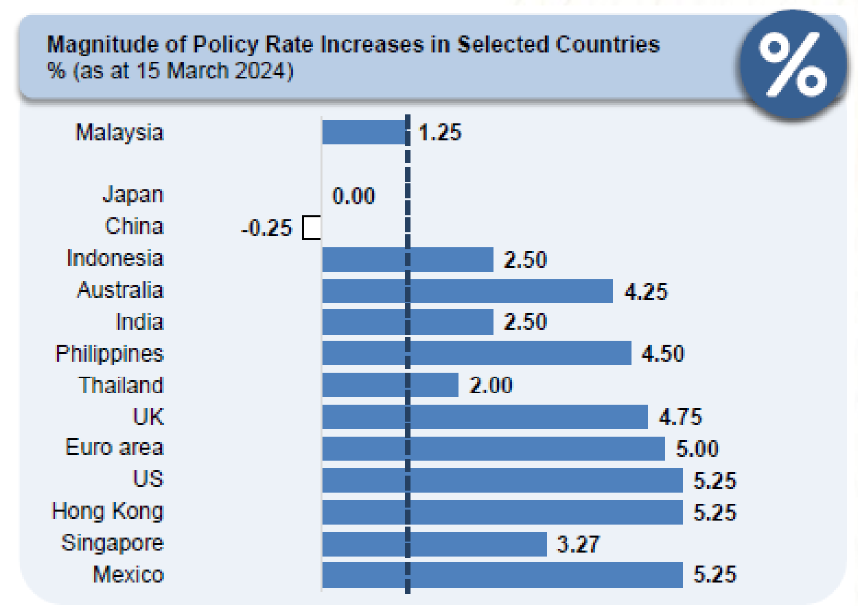
1 BNM's inflation forecast suggest consumer prices to be higher from now onwards, in line with SME Bank…

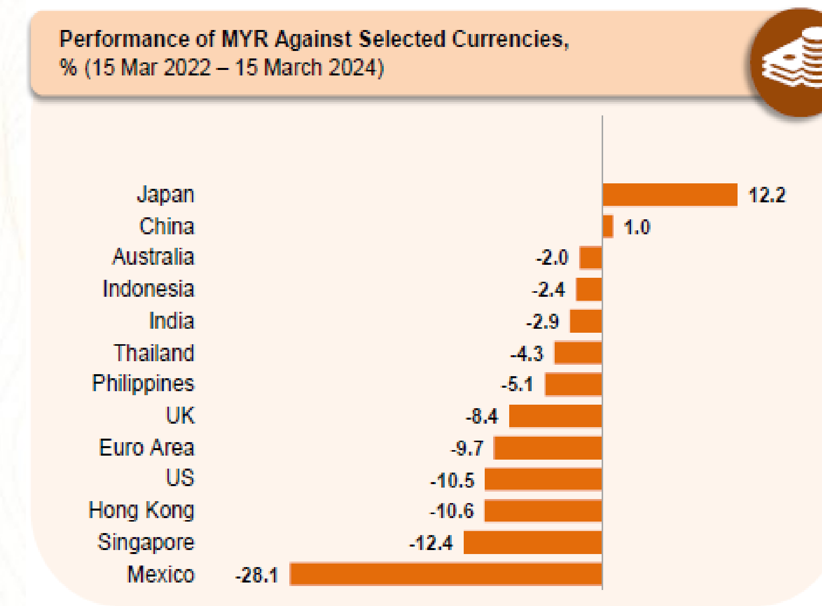
Headline Consumer Inflation (%)



…reflecting the upside from domestic subsidy rationalisation. Based on our estimate, **1% increase in diesel price will increase CPI inflation by 0.1ppt.**

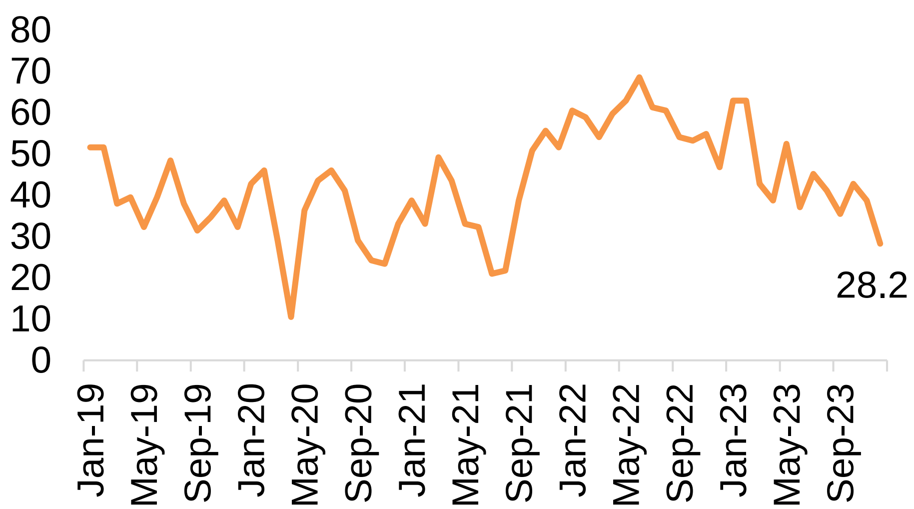
3 Ringgit performance has been mainly affected by cyclical factors such as interest rate differential





2 So far, pervasiveness of CPI inflation is trending lower

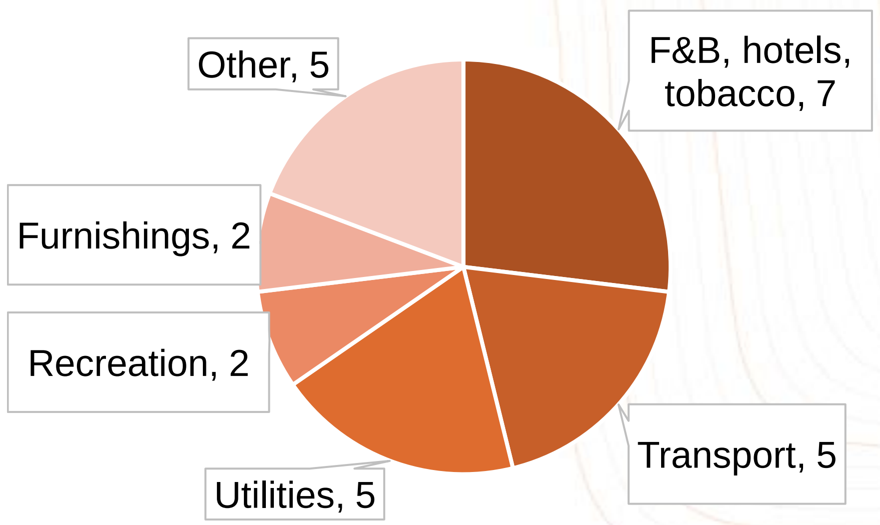
CPI Items Recording Monthly Price Increase (% share)



Nonetheless, **risks** to the inflation outlook remain **tilted to the upside**

4 The exchange rate pass-through (ERPT) to imports was evident but was more limited to CPI inflation

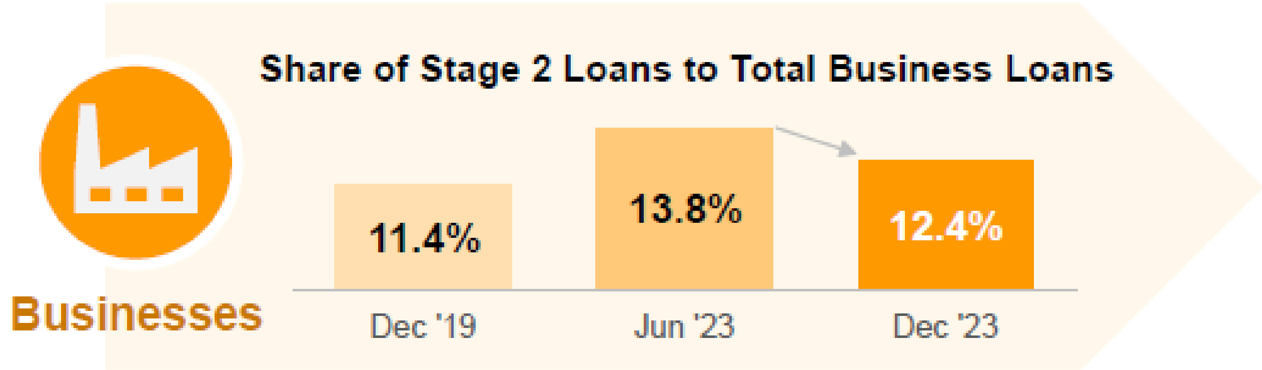
Breakdown of Import Content in Private Consumption (% share)



- **40%** of currency depreciation is **translated** to overall **import prices**.
- ERPT to CPI inflation was limited due to **incomplete pass-through**.
- Change in the RM/USD exchange rate by 5% will increase core inflation by 0.2 ppt over the year.
- **Impact could be larger amid prolonged depreciation**, particularly for key necessities.
- Share of import content in domestic consumption is modest at approximately 26%.

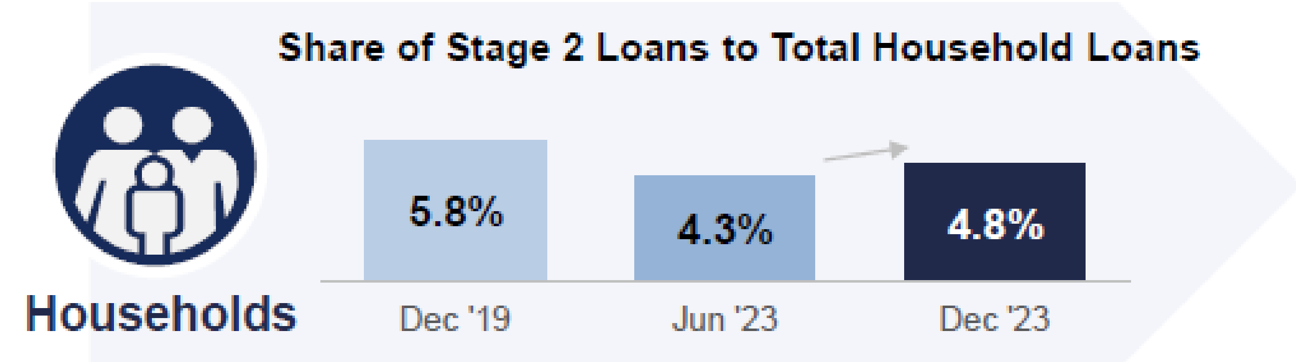
Sources: DOSM, CEIC, BNM and SME Bank Economic Research

1 Share of Stage 2 loans for businesses declined but remained higher than 2019



Repayment capacity continues to be supported by: 1) Improvements in firms' revenue growth; 2) Large liquid buffers maintained by firms

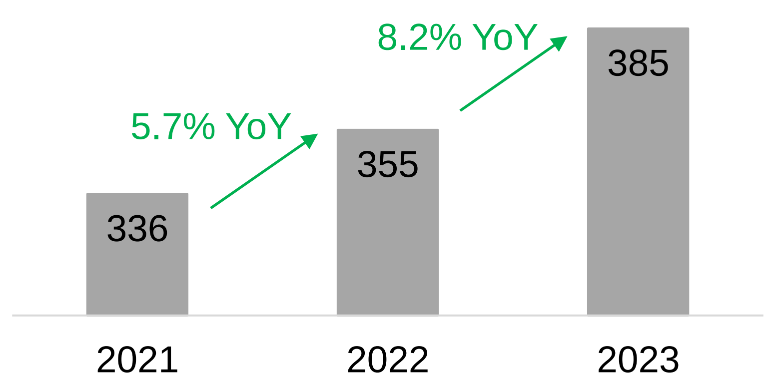
2 In contrast, share of Stage 2 loans for households increased but remained lower than 2019…



…driven by borrowers in the more **vulnerable segment** including: 1) lower-income borrowers; 2) borrowers who were previously under repayment assistance programmes; 3) borrowers whose income levels have yet to fully recover since the pandemic

3 National total SME financing increased higher

Outstanding SME Financing (RM bil)



Sources: CEIC, BNM and SME Bank Economic Research

1 Supporting SMEs Transition to Greener Practices

Climate Change

Physical risk
- Changing Climate Condition
- Extreme Weather Events

Transition risk
- Changing Climate Condition
- Extreme Weather Events

Liability risk
- Changing Climate Condition
- Extreme Weather Events

Impact to Businesses

- Disruption to operations
- Losses and damages
- Increase cost of doing business
- Negative impact to asset values

Benefits of Adopting Green and Sustainable Practices:

- **Cost savings and efficiency over the medium to long term** - UN Global Compact Network Malaysia & Brunei and SME Corporation highlights that 89% of SMEs adopting greener practices experience average cost savings of 39% with 11% achieving >50% cost savings.
- **Reduce regulatory compliance risks**
- **Elevate morale of employees**
- **Supply chain resilience**
- **Market demands**
- **Access to finance**

ESG initiatives remain a focus area for SMEs in the next 6 to 12 months but with lower prioritisation:

SME Bank SME Sentiment Survey

1H23 → 77%
435 Respondents

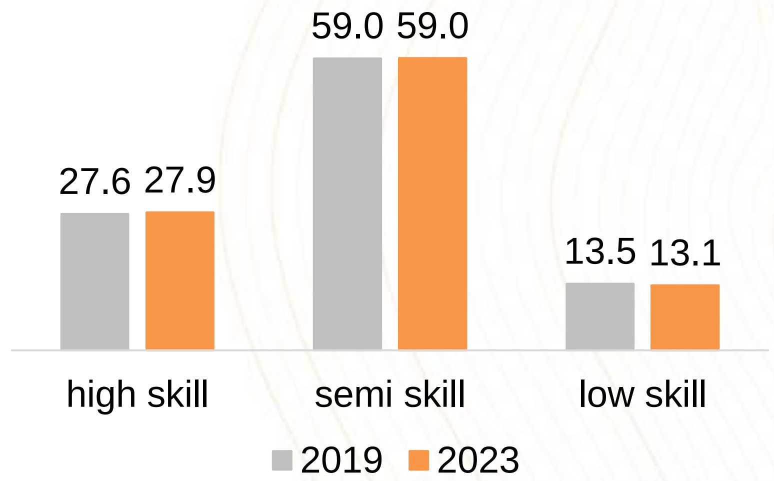
2H23 → 66%
265 Respondents

2 Labour Market Reforms

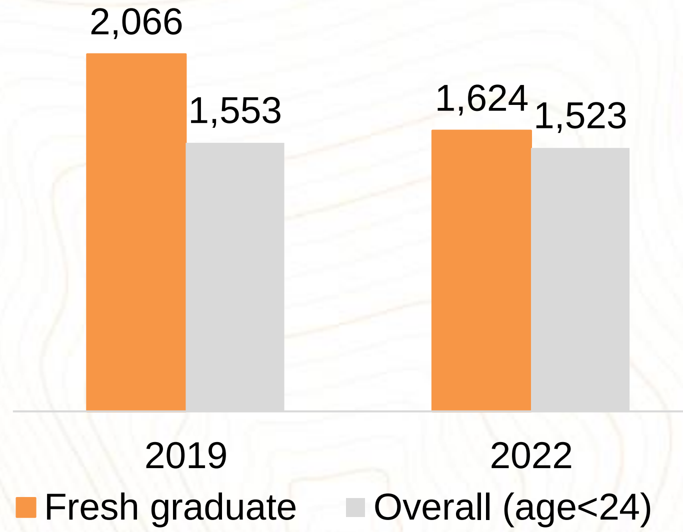
More challenges emerge to the low skilled jobs – the smallest share to total employment

High skill underemployment of graduates may have worsened their low bargaining power

Malaysia Employment by Skill (% share)



Median Wages (RM)



CHALLENGES & OPPORTUNITIES

- **Technology advancement** eliminates low-skilled & routine jobs while create jobs that requires skills in technology management.
- **Emergence of green economy** might dissipate the less skilled workers while giving opportunity to high skilled ones in sustainability
- **Rise of ageing population** shrinks young working population but may increase jobs creation in senior care centres.
- **Reconfiguration of supply chains** may affect employment in manufacturing sector.

POLICY REFORMS

- **Expedite** adoption of **Artificial Intelligence and automation** in SMEs.
- Reduce reliance on low-skilled foreign workers by adopting technology and **Multi-Tier Levy System.**
- Govt, industry & academia collaboration to address skills mismatch.
- **Differentiated minimum wage by skill** level – safeguard graduates.
- **Progressive Wage Model** (pilot begins in June 2024) – temporary solution.

Sources: DOSM, CEIC, BNM and SME Bank Economic Research

DISCLAIMER

SME BANK has exclusive proprietary rights in the data or information provided herein. This document is the property of SME BANK and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without SME BANK's prior written consent.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Any opinion, analysis, observation, commentary and/or statement made by SME BANK are solely statements of opinion based on information obtained from sources which SME BANK believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. SME BANK does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. Analysts based in SME BANK offices produce research on macroeconomics, equities, fixed income, currencies, commodities and portfolio strategy.

SME BANK and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by SME BANK or any information contained therein. Anyone using and/or relying on SME BANK document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bounded by it.

Small Medium Enterprise Development Bank Malaysia Berhad 49572-H
Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel: 03-2615 2020 **Faks:** 03-2698 1748

www.smebank.com.my
smebankmalaysia
smebankmalaysia
@SME Bank
smebank_malaysia
smebank

An agency under
KEMENTERIAN PEMBANGUNAN USAHAWAN DAN KOPERASI