


Chapter 3

Prospect of MSMEs in Malaysia





Chapter 3

Prospect of MSMEs in Malaysia

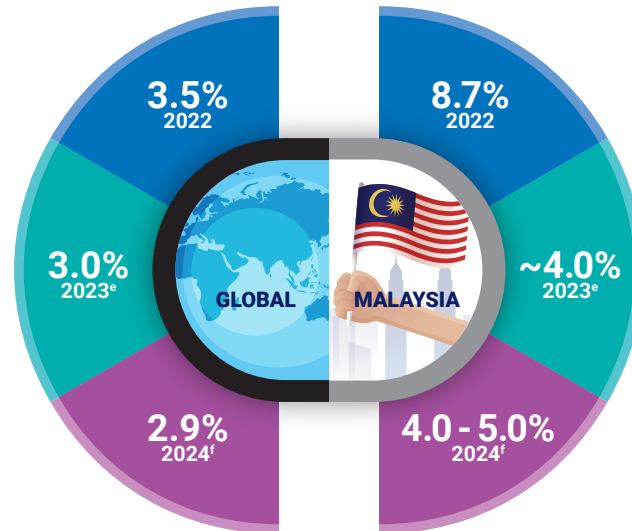
Post-pandemic recovery was in great momentum with many countries globally experienced notable upticks in trade, investment and consumer spending. However, this momentum is slowly fading given persistent challenges such as inflationary pressures and geopolitical uncertainties, thus warranting for prudent economic management. Considering unforeseen circumstances, MSME players globally and in the domestic market should be able to adapt and respond swiftly. A proactive approach to risk management ensures that MSMEs remain agile and resilient, allowing them to not only survive but thrive in a volatile economic landscape.

OUTLOOK OF THE GLOBAL AND MALAYSIAN ECONOMY

Since the onset of the COVID-19 pandemic, the world economy has been grappling with a challenging landscape. After a strong initial rebound from the depths of the pandemic, the pace of global recovery has moderated. Findings from the World Economic Outlook (WEO) in October 2023 published by the International Monetary Fund (IMF) showed that the global growth is forecasted to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. These projections for the global growth remain below the historical average of 3.8% (2000-2019). Escalating geopolitical tensions particularly Russia's conflict in Ukraine, tightening of monetary policies to combat inflation and increasing climatic changes have impeded the recovery and amplified the risk of global slowdown.

While there were some signs of economic resilience in early 2023 and efforts to lower headline inflation, the global economy is still not performing as well as it did before the pandemic, particularly in emerging market and developing economies. Looking ahead, the balance of risks to global growth remains tilted to the downside. Coupled with tight labour market and high inflation expectations may lead to ongoing inflation pressures, thus requiring higher policy rates than anticipated. Climate and geopolitical disruptions could also contribute to further hike in food and energy prices. On top of that, escalating geoeconomic fragmentation could hinder the trade flow across markets, thus leading to more price fluctuations and making the shift to green economy more complicated.

Chart 3.1: Global and Malaysia's Growth Projection



e: estimate f: forecast

Source: IMF World Economic Outlook, October 2023 and MOF's Economic Outlook 2024

As a small and open economy, Malaysia will inevitably be affected by these global developments. The increasing uncertainties in the external environment are poised to present risks to the country's economic growth. For the whole year of 2023, it is anticipated that the Malaysian economy will demonstrate a more moderate growth of around 4.0% as compared to the stronger 8.7% growth being witnessed in the preceding year. Shifting the focus to 2024, the economy is projected to expand within a range of 4.0 – 5.0%, with growth is expected to be broad-based. The services sector will play a pivotal role in supporting the growth in 2024, driven by sustained domestic consumption and improved export activities.

From the angle of demand, strong private sector expenditure and an uptick in global demand will be the driving forces of growth. The encouraging performance of the private sector could be partly attributed to the deliberate measures taken by the Government in fostering a more dynamic and thriving business environment. This will be made achievable through the comprehensive MADANI Economy Framework, complemented by strategic policies and initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030). Meanwhile, consumer spending is anticipated to be robust, supported by improved conditions in the labour market and provision of cash assistance by the Government such as special aid for civil servants, retirees, and e-wallet credit for youths, students and Malaysians earning annual wages of RM100,000 and below. The growing trend of digital lifestyle following higher e-commerce income and the implementation of Payung Rahmah initiative are also expected to provide additional boost in consumer spending.

The encouraging performance of the private sector could be partly attributed to the deliberate measures taken by the Government in fostering a more dynamic and thriving business environment. This will be made achievable through the comprehensive MADANI Economy Framework, complemented by strategic policies and initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030).

BUSINESS OUTLOOK FROM THE PERSPECTIVE OF BUSINESS ASSOCIATIONS

The prospect of moderating global and Malaysian economy is being translated into a more cautious sentiment by the business players. According to the Business Conditions Survey by Federation of Malaysian Manufacturers (FMM) released in September 2023, the business outlook among Malaysian manufacturing players remains cautious in the second half of 2023 ^[12]. Forward-looking indicators namely business conditions, local sales and production volume, are softening and fall below optimistic levels. External headwinds such as sluggish trade flows, China's fragile economic rebound and the United States Federal Reserve's monetary policy, as well as the domestic issues such as the rising inflation, shortage of raw materials and supply chain disruptions, may continue to put pressure on firms in the manufacturing sector. Moreover, respondents cited a cautiously optimistic view of the economic outlook for 2024 whereby 39% maintain a neutral stance, 35% anticipate improvement, while 25% express pessimism.

Shifting the focus to retail segment, the Malaysia's annual retail industry growth rate for 2023 has been reduced to 2.7% from 4.8% estimated earlier ^[13]. The Retail Group Malaysia (RGM) has revised downwards the short-term prospect of the retail industry following weakening spending power of Malaysian consumers even though shopping traffic has returned to level prior to COVID-19. While the monthly inflation rate has gradually stabilised, the price increments of many basic necessities and consumer goods are still higher than those prior to COVID-19. The depreciation of the Malaysian currency has also resulted in price hikes, stemming from higher import costs of raw materials, semi-finished goods and finished retail goods. On top of that, the industry players continue to grapple with several challenges including rising labour costs, increased rental rate and electricity bill, which has then further dampened the business outlook.

Meanwhile, findings from the Business and Economic Conditions Survey conducted by Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) between April until July 2023 showed that most respondents also taking a safe approach by indicating a neutral business prospect in 2023 and first half of 2024. Detailed analysis however offered a breather whereby there was an increasing trend of respondents citing an improved outlook. This can be seen whereby a total of 20.8% of respondents expecting a better business performance in the second half of 2023 (1H 2023: 11.0%), while 32.6% anticipate better business performance in the first half of 2024 ^[14]. Moreover, there was also lesser respondents who indicated a worse outlook, that is from 23.5% in the first half of 2023, down to 22.6% in the second half of 2023, to only 12.7% in the first half of 2024. Sales revenue and production too are expected to pick up slightly in the latter half of 2023.

In addition, the release of the 3Q 2023 Vistage-MIER CEO Confidence Index (CCI) in September 2023 highlighted a more upbeat perspective in the business landscape. This index, which surveyed CEOs, business owners and key executives of small and medium-sized enterprises, reflected a shift towards optimism and a heightened confidence in the anticipated economic conditions in Malaysia ^[15]. The bullish sentiment among CEOs is likely influenced by promising indicators, potential business opportunities and improved market conditions, thus may result in increased investments and strategic planning in the forthcoming quarters. A positive outlook on revenue, growth and employment signals a buoyant CEO prospect which could further impact both business expansion and the overall economic well-being.

The bullish sentiment among CEOs is likely influenced by promising indicators, potential business opportunities and improved market conditions, thus may result in increased investments and strategic planning in the forthcoming quarters.



PROJECTION FOR MSME GDP

MSMEs form a major component of business establishment in any countries, thus driving much of the growth across the world. Given the ongoing uncertainty in the global economy, it is crucial to uphold a dynamic MSME landscape to ensure their consistent contribution towards fostering inclusive and robust growth. While the expectation of moderating global and Malaysian economies may induce a sense of caution among business players, it is anticipated that Malaysian MSMEs will maintain their positive growth trajectory in 2023 and 2024. With the growth of overall economy is projected to expand around 4% in 2023 (2022: 8.7%), the MSME GDP is projected to increase by 4.8% during the year (2022: 11.6%). Heading towards 2024, against the backdrop of a challenging business environment, MSMEs are projected to sustain its growth momentum and remain resilient throughout the year.

Looking at the distribution of MSMEs in Malaysia, they are mainly concentrated in the services sector namely wholesale & retail trade, food & beverages, accommodation and transportation, which highly involved in the tourism industry. Thus, growth in tourism demand affects the growth of MSMEs in the country either directly or indirectly. Acknowledging this situation, the rebound in tourism industry in the post-pandemic period will certainly give positive impact to the local MSMEs. Also, worth noting that the Malaysian Ringgit (MYR) had experienced some depreciation compared to major international currencies. While a weak exchange rate is generally considered detrimental to a country's economy, this however will provide some support to the tourism industry as weaker Ringgit puts Malaysia as an affordable and attractive destination for foreign tourists compared to other countries. This can lead to an influx of international tourists, hence boosting the local economy through increased spending on accommodation, dining, shopping and various leisure activities.

Furthermore, the future holds great promise and vast opportunities for the MSMEs if they adopt sustainability practices and digitalisation in the business operation. The increasing emphasis on sustainability particularly through environmental, social and governance (ESG) practices present MSMEs an avenue to establish niche positions in environmentally conscious markets. Embarking on ESG can optimise cost efficiency, improve risk management and enhance firms' reputation. ESG adoption will also contribute to a healthier financial position and recognise the MSMEs as ethical players in the market. More importantly, the integration of sustainability and ESG practices will not only bolsters the resilience and competitiveness of MSMEs but also fosters a positive impact on the environment and society at large.

With the advent of digitalisation and innovation, MSMEs now are more flexible to reach global markets and expand their customer base. To accelerate growth of MSMEs, it is imperative that these businesses embrace the power of technology. It stands as a dynamic force which unlock doors to heightened productivity, streamlined operations and substantial cost-cutting measures. Embracing a paradigm shift from traditional brick-and-mortar models to automation not only provides a competitive edge but also allow MSMEs to harness the technological significance in the post-pandemic period.

Moreover, continuous Government initiatives and policies aimed at nurturing MSMEs are creating a conducive environment for their sustained growth. Under the recent Budget 2024, the Government has allocated a total of RM43.6 billion for MSME development through various focus areas that will directly or indirectly benefit the MSMEs, with a large portion of 73.7% is highly prioritised for financing. Furthermore, initiatives being introduced under the MADANI Economy Framework, Rancangan Malaysia Kedua Belas (RMKe-12) 2021-2025, New Industrial Master Plan 2030 and other policy documents will further empower firms to thrive and scale up in the coming years. As the business landscape continues to evolve, MSMEs stand poised to play a pivotal role in shaping its future landscape. Their capacity, agility and adaptability will position them as key driver of economic prosperity and resilience.