

FTSE BURSA MALAYSIA	1,444.41		1,454.95
CURRENCY; USD 1 =	RM4.65		RM4.68
BRENT CRUDE OIL (USD PER BARREL)	USD84.67		USD89.92

Source: CEIC

*Goldman Sachs believes oil prices could hit \$107 next year if Russia and Saudi Arabia maintain their production cuts. The bank emphasizes that they don't consider \$107 as the most likely outcome because they believe OPEC+ won't aim for prices significantly higher than \$100. Persistent economic uncertainty and demand concerns continue to weigh on oil prices, but Brent crude remains around the \$90 mark.*

# ECONOMICS & MSME NEWS

28 AUGUST 2023 – 08 SEPTEMBER 2023

## GLOBAL ECONOMIC NEWS IN ADVANCED ECONOMIES

### Bank of England is 'much nearer' to peak interest rates, Bailey says

Bank of England (BoE) Governor Andrew Bailey has indicated that the central bank is "much nearer" to the end of its series of interest rate increases. However, he cautioned that borrowing costs may still rise further due to persistent inflation pressures. Bailey stated, "I think we are much nearer now to the top of the cycle. And I'm not therefore saying we're at the top of the cycle because we've got a meeting to come." He emphasized that this assessment is based on current evidence. The BoE has raised interest rates in its last 14 meetings as it grappled with high inflation, currently the highest among major developed economies. The central bank is expected to raise borrowing costs again later this month, which would take the Bank Rate to 5.5%.

Source: Reuters, 7 September 2023

### US rates biting beneath the surface

Increasing business bankruptcies in the US are causing concerns despite a resilient economy that has withstood rising interest rates. The strong performance of the service sector, a decline in jobless claims, and robust retail sales suggest economic strength. However, rising bankruptcies, especially among SMEs, raise questions. Factors contributing to this trend include higher interest rates, inflation, and the resumption of student loan payments. While overall business bankruptcies remain below pre-pandemic levels, there's a growing concern about the trend's acceleration, particularly among firms with minimum assets and liabilities of USD2 million.

Source: Reuters, 8 September 2023

### Japan real wages fall for 16th straight month in July

Japanese real wages have fallen for the 16th consecutive month in July, according to government data released on September 8. This ongoing decline reflects a failure of salaries to keep pace with rising prices, which has significant implications for the world's third-largest economy. These wage trends are closely monitored by global financial markets, as they influence the Bank of Japan's decisions regarding monetary stimulus measures. In July, inflation-adjusted real wages, a key indicator of consumer purchasing power, dropped by 2.5% compared to the same period in the previous year. This followed a 1.6% decline in the previous month. CPI used to calculate real wages, which includes fresh food prices remained at 3.9%.

Source: Reuters, 8 September 2023

### Why is China's economy slowing down and could it get worse?

China is experiencing an economic slowdown due to various factors, including limited consumer spending during the pandemic, softening demand for exports, and troubles in the real estate sector. Unlike previous recoveries, this slowdown is challenging to address. The main problem is the imbalance between consumption and investment, as household consumption remains low as a percentage of GDP. To combat this, China must encourage households to spend more and save less. The economic slowdown could worsen, and achieving the 2023 growth target of around 5% may be difficult without increased government spending. Interest rate cuts have been used to stimulate consumption, but they come with risks. To revitalise the economy, structural reforms that boost household consumption are needed, such as consumer vouchers, tax cuts, wage growth, and a stronger social safety net. The focus will be on a key party conference in December for potential policy changes.

Source: Reuters, 1 September 2023

# MALAYSIA ECONOMIC NEWS

## OPR to stimulate growth

Amidst growing concerns about the global economic landscape, Bank Negara Malaysia, the country's central bank, has chosen to keep its overnight policy rate (OPR) at a steady 3%. This decision represents a shift in strategy from the bank, which previously prioritized controlling inflation and has now turned its attention to fostering economic growth. Economists predict that the OPR will remain unchanged for the remainder of the year to bolster domestic demand amid external uncertainties and diminishing inflationary pressures. Future adjustments may hinge on subsidy policies, price controls, and the implementation of a progressive wage model. The slower-than-expected economic recovery in China has also impacted Malaysia's monetary policy stance, which is now seen as supportive of economic growth. It is expected that the OPR will remain stable until the close of the year, given the ongoing weaknesses in external demand. Despite global economic challenges, Malaysia's economic momentum remains robust, particularly as the OPR-Fed Fund Rate differential hits a record 2.25% in favour of the higher US rate. Malaysia's status as a net exporter of liquefied natural gas and palm oil positions it well to benefit from elevated global commodity prices. The next meeting of the Monetary Policy Committee (MPC) is slated for November 2, following the unveiling of Budget 2024 on October 13. Malaysia's decision underscores its commitment to navigating a complex global economic landscape while balancing the imperative for growth with economic stability.

Source: The Star, 8 September 2023

## Weak ringgit set to attract more foreign tourists

Malaysia Shopping Mall Association President, Tan Sri Teo Chiang Kok, has highlighted the potential of the weak ringgit in attracting more tourists to the country. Speaking at the Reinventing Shopping Malls conference, Teo noted that despite the ringgit's depreciation, international brands with global pricing mechanisms would still offer competitive prices when tourists convert their currency. However, the local citizen might feel the impact when purchasing imported goods. The focus in the Malaysian retail sector has shifted towards enticing tourists to purchase locally-made products instead of imported international items. Teo emphasized the crucial role of tourism in the shopping mall sector and expressed confidence that with dedicated efforts to promote Malaysia as a shopping destination, the association could attract more tourists.

Source: The Star, 7 September 2023

## NIMP 2030 poised to attract more investments

Malaysia's New Industrial Master Plan 2030 (NIMP 2030) is focusing on attracting ESG-conscious investments and capitalizing on shifts in investments from China due to global trade tensions. The plan emphasizes sectors like electric vehicles (EVs) and sustainability, potentially attracting companies like Tesla. The electrical and electronics (E&E) industry, accounting for 40% of Malaysia's exports, is expected to benefit significantly. Companies like Inari Amertron and Greatech Technology are seen as promising. Successful execution is crucial, and strong cooperation among stakeholders is essential for the plan's success. NIMP 2030 aims to reshape Malaysia's industrial landscape and foster growth in strategic industries.

Source: The Star, 5 September 2023

## Businesses expect better market in Q3

Malaysian businesses anticipate a more positive business environment in the third quarter of 2023 (3Q23), with the confidence indicator turning positive to 0.7% from minus 3.1% in the previous quarter, according to the Statistics Department. Chief statistician Datuk Seri Dr. Mohd Uzir Mahidin cited factors such as job market stability, increased domestic tourism, and optimism in the health tourism industry as contributors to this improvement. The services sector, in particular, displayed optimism, with a confidence indicator of 6.1%, compared to 3.9% in the previous quarter. The industry sector also showed a positive trajectory, with a confidence indicator of 1.3% compared to minus 2.1% in 2Q23. However, the construction sector continued to anticipate negative business conditions, with a confidence indicator of minus 26.9% for 3Q23. The wholesale and retail trade sector remained pessimistic but improved slightly, with a confidence indicator of minus 1.5%, up from minus 10.2% in the previous quarter. Looking ahead to the next six months, businesses maintained an optimistic outlook.

Source: The Star, 30 August 2023

# MSME NEWS IN SOUTHEAST ASIA

## INDONESIA

### Indonesia also needs to downstream SME raw materials: Jokowi

Indonesian President Joko Widodo, popularly known as Jokowi, has stressed the importance of downstreaming not only for mining products but also for raw material commodities used by SMEs. Speaking at the 2023 Indonesian Young Entrepreneurs Association (Hipmi) National Working Meeting, Jokowi highlighted the need to industrialize SMEs by processing raw materials. He identified various potential raw materials within the domestic SME sector, including various coffee bean variants, sugar variants, seaweed, agar flour, and palm oil, which could benefit from downstreaming. Jokowi emphasized the necessity of retaining control over all natural resources provided by Indonesia's environment for domestic market requirements, discouraging the export of raw commodities. Apart from enhancing product value, the downstream policy creates employment opportunities and contributes to state revenues. Jokowi mentioned that Indonesian farmers produce 46 million tons of palm oil annually, which could be utilized by domestic medium industries for soap, cocoa butter, or oleofood production, resulting in significant added value. The President's remarks underscore the importance of downstreaming in Indonesia's economic strategy, with a focus on both mining products and raw materials used by SMEs.

Source: Antara News, 31 August 2023

## PHILIPPINES

### PH highlights role of digitizing MSMEs at ASEAN meet

In a recent statement, Joey Concepcion, Chairperson of the ASEAN Business Advisory Council (BAC) Philippines and Vice Chairperson of the MSME Development Council, emphasised the pivotal role of digitalisation in the growth of MSMEs within the ASEAN region. Concepcion noted the rapid expansion of digital adoption across Southeast Asia, highlighting its potential benefits for the region. However, he stressed that this digital growth must be inclusive and actively support MSMEs. Speaking at the ASEAN Business Investment Summit in Jakarta, Concepcion underscored the need to enable MSMEs to leverage digitalisation fully. As ASEAN is poised to become the world's fastest-growing digital market, driven by expanding consumer markets and the use of e-commerce platforms, MSMEs must harness digital tools for their advantage. The summit convened leading technology players, multinational corporations, global financial institutions, and public sector representatives to discuss financial technology, electronic trade, and cross-border facilitation. Concepcion proposed a memorandum of understanding among ASEAN stakeholders to focus digitalisation efforts, particularly in supporting MSMEs and the agriculture sector.

Source: Philippines News Agency, 4 September 2023

## VIETNAM

### Vietnam MSMEs not focusing on sustainable development

Experts have highlighted that numerous MSMEs in Vietnam have not prioritised transitioning to green development. This reluctance is attributed to various constraints, including limited human resources and access to capital. Hoang Minh Chien, Deputy Director of the Vietnam Trade Promotion Agency at the Ministry of Industry and Trade, emphasised the global shift towards a more sustainable development model driven by climate change and environmental pollution. Chien stressed that Vietnamese businesses should align with this trend, viewing it as an opportunity for growth, albeit a challenging one. A survey conducted by the Ministry of Planning and Investment revealed that 98% of Vietnam's MSMEs face limitations when attempting to transition their business models towards sustainability. The majority of these enterprises have explored green models but have yet to take concrete steps towards sustainable development. The survey also noted that the leaders in green development are foreign direct investment firms, public companies, and exporting enterprises. These entities possess the necessary resources and understand the trends and requirements of international markets. However, MSMEs face various barriers to embracing green development. Approximately 70% of these businesses lack full awareness of green development and the advantages of adopting a circular economy. They also lack knowledge regarding environmental standards, social responsibility, and corporate governance.

Source: Vietnam News, 4 September 2023