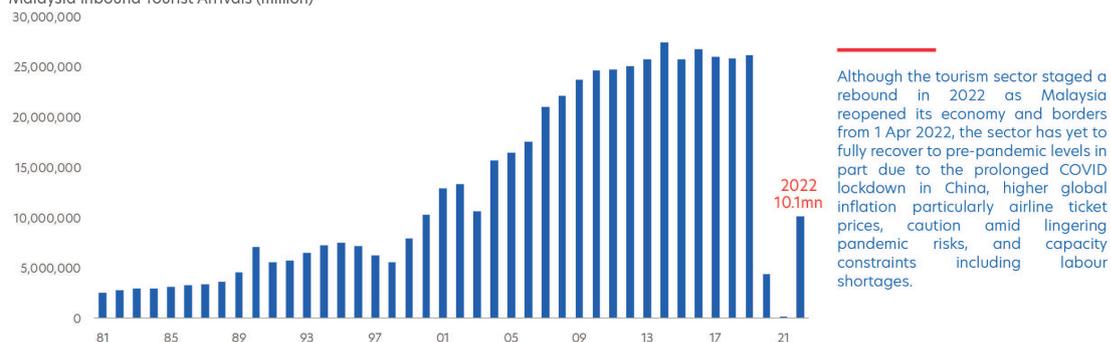


Malaysia Focus

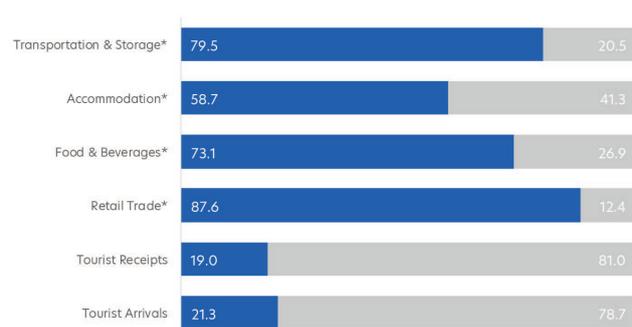
Tourism To Lift GDP By 1.0% In 2023

Malaysia's multicultural attractions and diverse landscapes will help drive the revival of inbound tourism amid recovering global tourism activities and resumption of China's outbound travels. The effect of stronger tourism activity could boost Malaysia's GDP by at least 1.0ppt, which further supports our baseline GDP growth forecast of 4.0% for 2023.

Malaysia Inbound Tourist Arrivals (million)



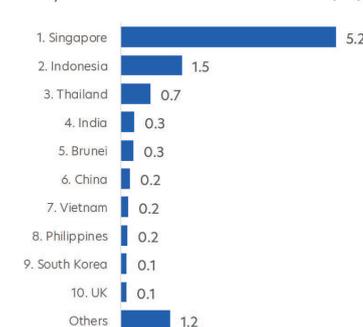
% of 2019 Levels Recovered in 9M22



■ % Recovered
■ % Not Recovered

*Based on nominal national GDP numbers as the 2022 Tourism Satellite Account is yet to be published. The % recovery numbers for the tourism sector could be smaller due to the inclusion of non-tourism related amount in the national GDP account.

Malaysia's Inbound Tourist Arrivals in 2022 (mn)



The recovery of Malaysia's tourism sector last year was buoyed by strong domestic tourism demand while a recovery in tourism arrivals towards the end of last year helped lift inbound tourist arrivals to 10.1mn (or 38.6% of 2019 levels) in 2022.

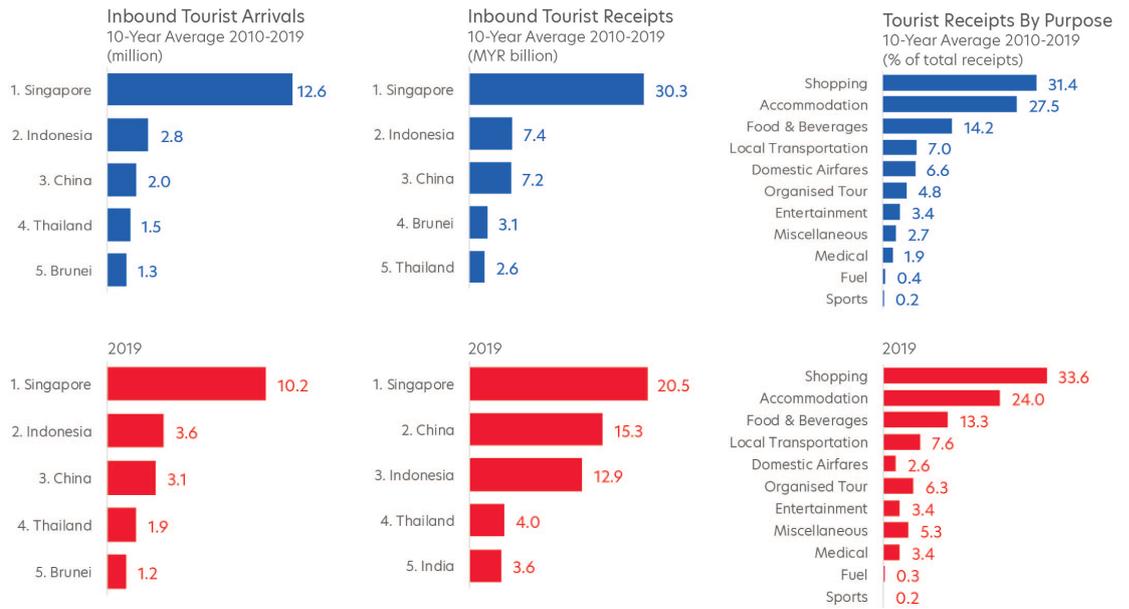
Based on past and current trends, the room to grow and recover is significant with positive effects on consumption of goods and services (i.e. shopping, retail trade, and travel agencies), accommodation, passenger transport, and food & beverages sub-sectors.

Key risks to Malaysia's tourism outlook include a weaker global outlook, slower China recovery and return of China tourists, capacity constraints, and inflation risks. According to UNWTO's latest survey of the Panel of Experts, the challenging economic environment including high inflation and interest rates, elevated oil and food prices, health concerns, and cautious spending amid global recession fears are main factors weighing on the tourism recovery.

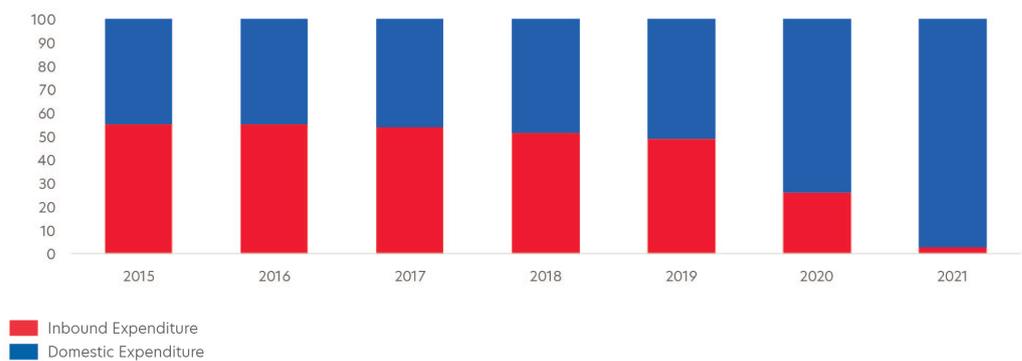
One challenge is balancing the impact on inflation as China's reopening and surge in demand may put upward pressure on prices of energy and other related goods and services. We estimated the potential effect of higher tourism demand on Malaysia's inflation. In Malaysia's consumer price index (CPI), tourism related services components including transport services; entertainment, recreation & cultural services; package tour; and accommodation services account for 4.4% of overall CPI weight. This implies that every 10% increase in the prices of tourism related services could directly add 0.4ppt to Malaysia's headline inflation (vs our baseline forecast of 2.8% for 2023). Noteworthy that we did not include the effect on prices of food and beverage as well as restaurant services due to its sizeable CPI weight that could overinflate the estimate. However, we do see potential upside risk given that it is the third largest expenditure item for tourists in Malaysia.

To mitigate these downside risks and sustain the tourism recovery will require consistent and stable reopening of countries and borders, minimal quarantine restrictions and requirements, affordable travel, improved travel connectivity, visa facilitation, processing of passports, build-up of capacity (i.e. airline seats, hotel rooms, and supply of labour), technology improvements and e-payment facilities, better safety and security.

How Does Pre-Pandemic Look Like?



% Share of Total Tourism Expenditure (Malaysia)



Country 2019	Tourist Receipts % of GDP	Chinese Tourists Spending % of tourists receipts	Sensitivity to GDP % points
Cambodia	18.1	35.8	6.5
Vietnam	12.5	32.2	4.0
Thailand	11.4	28.1	3.2
Hong Kong	9.0	23.6	2.1
Laos	5.0	21.3	1.1
Malaysia	5.7	17.8	1.0
Singapore	5.4	14.9	0.8
Taiwan	4.4	14.2	0.6
Philippines	2.5	25.0	0.6
South Korea	1.3	47.4	0.6
Japan	1.0	37.7	0.4
Myanmar	3.6	10.0	0.4
Indonesia	1.6	10.2	0.2
India	1.1	3.1	0.0