

The State Of The Nation: Malaysia's 2022 GDP may exceed 6% for the first time in eight years

IF indeed a strong economy helps the incumbent, Putrajaya is understandably elated with Malaysia's second quarter GDP growth of 8.9%, so much so that the prime minister considered being the one to announce the robust numbers before Friday prayers on Aug 12.

Not only did Malaysia's 2Q GDP growth beat consensus expectations of around 7%, the latest quarterly performance is likely to be the highest among the Asean 5 countries — the Philippines (7.4%), Indonesia (5.4%), Singapore (4.4%) and Thailand (3.1%, Reuters poll, 2Q pending release). Malaysia's 2Q year-on-year GDP growth of 8.9% (1Q: 5%) is also ahead of Vietnam's 7.72% in 2Q (1Q: 5.05%), Taiwan's 3.1% (1Q: 3.1%), South Korea's 2.9% (1Q: 3%) and China's 0.4% (1Q: 4.8%).

Datuk Seri Ismail Sabri Yaakob rightly left the scheduled quarterly announcement to the heads of Bank Negara Malaysia and the Department of Statistics. The central bank governor and chief statistician, in turn, are leaving it to Putrajaya to announce a higher GDP forecast for 2022.

Bank Negara Malaysia governor Tan Sri Nor Shamsiah Yunus did signal confidence, though, without stealing the thunder — telling reporters that Malaysia's economy is expected to grow “at the upper end of the range of 5.3% to 6.3%, even after taking into account the slower global growth”, supported by private sector spending and higher tourist arrivals and a recovery in labour market conditions, “which will more than offset the moderation in external demand”.

Expectations are that third quarter growth is unlikely to disappoint, thanks to the low base last year (GDP contracted 4.5% in 3Q2021). Last year, second quarter growth of 15.9% benefitted from the low base of a 17.2% contraction in 2Q2020 owing to the first Movement Control Order (MCO).

Mathematically speaking, Malaysia's strong 6.95% showing in the first half of 2022 means that the lower end of the official forecast of 5.3% will be met even if the economy grows at high single-digit rates in 3Q and contracts less than 2% in 4Q. In the event 3Q GDP growth is 10% or more, Malaysia will beat the upper end of its forecast of 6.3% if the economy only grows just over 1% in the last quarter, back-of-the-envelope workings show.

In short, there is a chance that Malaysia's 2022 GDP growth could hit 6% for the first time since 2014. Beating 6% would put 2022 headline economic growth at its highest since 2010's 7.4%, the year Malaysia recovered from a 1.5% contraction in 2009 post the global financial crisis.

A number of economists could revise their 2022 GDP growth forecasts higher. Contrary to the International Monetary Fund (IMF)'s downgrade of Malaysia's GDP growth in late-July to 5.1% from 5.6% when trimming their forecast for global growth, all 10 economists who updated their 2022 GDP forecast for Malaysia in August expect growth to be at least 6%, with the highest being 7.4%, according to Bloomberg data as at Aug 11. S&P Global Ratings' forecast was 6.1% in late June while S&P Global Market Intelligence's was 7% in late July.

Ahead of the 2Q GDP release, UOB Bank Malaysia senior economist Julia Goh, for instance, had credited 2Q2022 GDP outperformance to four factors — the reopening of the economy from April 1; the one-off special withdrawals from the Employees Provident Fund totalling RM45 billion plus special Hari Raya Aidilfitri cash assistance to civil servants and pensioners in late April; continued subsidies to

alleviate the burden on cost of living; as well as commencement and realisation of investments, including for electrical and electronics as well as solar-related products.

Goh revised higher her 2022 GDP forecast to 6.5% from 5.5% on Aug 12, which is above the upper end of the existing official GDP forecast even though it implies expectations of growth moderating to 6% in 2H2022 from 6.9% in 1H2022.

“Malaysia continues to have adequate domestic drivers to sustain the growth momentum, albeit more prolonged and elevated external headwinds would affect local consumer and business sentiment that in turn could lead to more moderate demand and investments ahead. While awaiting more certainty in global developments and the announcement of Malaysia’s Budget 2023 details on Oct 28, we maintain our 2023 real GDP growth projection of 4.8% for now,” Goh wrote in a Aug 12 note, adding that the outlook for 2023 “is expected to be more challenging amid uncertainties surrounding the global economy” though a global recession is not in its base case for now.

Pent-up spending

For 2Q2022, at least, there was pent-up spending. The expenditure breakdown of the quarterly GDP showed private consumption surging to 18.3% in 2Q2022 compared with only 5.5% in 1Q2022.

Chief statistician Datuk Seri Mohd Uzir Mahidin said private consumption was “driven primarily by the recovery in the labour market and support from policy measures. In particular, spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishing expanded further during the quarter”.

He attributed the improvement in private investment of 6.3% in 2Q2022 (0.4% in 1Q2022) to “continued growth in the machinery and equipment (M&E) segment”. Public investment of 3.2% in 2Q2022 (-0.9% in 1Q2022) was “attributed mainly to higher capital expenditure by public corporations in oil and gas and telecommunications sectors” while slower public consumption of 2.6% in 2Q2022 (6.7% in 1Q2022) was due to lower supplies and services spending, Uzir explained.

Those who see more cash handouts in the run-up to the 15th general election (that has to be called by mid-July next year, the date the current parliament will automatically dissolve) may well work in more robust assumptions on private consumption. Speculation is rife that the tabling of Budget 2023 could be brought forward by a month to September (from the current Oct 28) so that GE15 can happen as early as October or early November before the rainy season nearer to year-end.

In a statement following the release of 2Q GDP numbers, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said his ministry “is currently preparing Budget 2023 through consultations and engagements with various economic sectors and states to ensure that the budget benefits the whole of Keluarga Malaysia. Priorities include more sustainable subsidy management, economic reforms, and strengthening of the country’s resilience to future shocks”. “Budget 2023 ‘will continue to prioritise the people’s welfare, particularly in terms of improving income and social protection’,” he adds, without stating a date for its tabling.

No 50bps hike

Citing the stronger-than-expected GDP growth in 1H2022, Nor Shamsiah says “it is very clear that [Malaysia] is no longer in a crisis”. “With the recovery in domestic demand, we are seeing some early signs of demand-driven inflation. As such, the recent OPR adjustments would also pre-emptively

manage the risk of excessive demand on price pressures [which] is more damaging to the economy and causes even deeper hardships for the rakyat compared to a gradual increase in policy rates.”

That said, it would appear that Nor Shamsiah is ruling out the possibility of Bank Negara’s Monetary Policy Committee (MPC) making its first-ever 50 basis points (bps) hike in the overnight policy rate (OPR) anytime soon.

“[A 50bps rate hike] will not be consistent with our gradual and measured manner”, Nor Shamsiah told reporters, stressing the need for monetary policy to remain “accommodative” to support the recovery momentum while reigning in any excess demand or price pressures.

UOB’s Goh, who is among the minority who rightly predicted that Bank Negara’s first 25bps OPR hike would be in May this year, “do not expect Bank Negara to accelerate the quantum of rate hikes (meaning maximum 25bps each time) or conduct unscheduled monetary policy decisions”. She expects Bank Negara to raise the OPR by another 25bps on Sept 8 to 2.5% and continue the path during scheduled meetings in November “and possibly January” to reach UOB’s projected terminal rate of 3% by 1H2023, “provided [that] growth conditions and supportive drivers hold up”.

OCBC Bank economist Wellian Wiranto also deems a 50bps hike unlikely.

“Even before the upside beat in the Q2 GDP print, we already saw a good chance of a 25bps hike in the September MPC meeting, partly because of the incipient price pressures that are starting to show up more concretely. Even though there might now be some whispers of a ‘fatter’ hike of, say, 50bps, we continue to attach a low probability to that. The fact that Bank Negara has been relatively early in normalising rates — having hiked rates twice this year already — gives it the space to continue adopting a modest and gradual approach for now. Still, we do see a higher chance of another 25bps hike in the last meeting of the year in November, which would put the OPR at 2.75% by the end of 2022. There is still some time to come, with a number of key data points to look out for in the interim months. In particular, if core inflation picks up speed to above 3.5% year-on-year by then, compared to the latest 3% print of June, the likelihood of the November MPC hike will be a lot more crystallised,” he wrote in a note dated Aug 12.

Whether the OPR reaches 3% by January, March or May 2023, Bank Negara’s MPC should be allowed to independently assess the pace based on data.

Targeted fixes and long-term reforms

In particular, Nor Shamsiah notes the need for targeted policies to address the uneven recovery that is taking place post-Covid-19.

“About 20% of the economy still remain below pre-pandemic levels”, she says, noting that conditions are “most severe in the construction sector due to labour shortages and higher input prices”. Tourism-related industries, “have only recently begun to recover”, she adds.

Even though unemployment rates have fallen to 3.8% in June, Nor Shamsiah points out that the recovery among vulnerable groups, particularly the youth and elderly along with low-skilled workers, is slower relative to other groups in the labour market.

“It is for these reasons that while macro policies are recalibrated as the overall economy recovers, targeted policies would continue to support these segments of society,” she elaborates.

As the economy continues on its recovery path, Nor Shamsiah says policy priorities “should now also accord a stronger focus on longer-term policies” to enhance the people’s well-being and ensure that Malaysia remains competitive globally. These include attracting quality investments, developing a high-skilled workforce, accelerating automation and digitalisation as well as enhancing the social safety net.

<https://www.theedgemarkets.com/article/state-nation-malaysias-2022-gdp-may-exceed-6-first-time-eight-years>