

Growth expected to remain robust

PETALING JAYA: The economy is expected to remain buoyant this year, underpinned by strong domestic spending on the back of the reopening of the economy and increased tourist arrivals.

Economists, however, have cautioned that things could get tough next year due to global inflation and policy tightening by central banks worldwide which could impact the country's growth prospects.

Some economists are projecting the gross domestic product (GDP) growth to surpass 6% year-on-year (y-o-y) for 2022 before moderating in 2023.

The economy advanced 8.9% y-o-y in the second quarter (2Q22), accelerating sharply from a 5% y-o-y growth in 1Q22 and beating consensus forecast of a 6.7% rise.

According to the **Statistics Department**, real GDP is anticipated to grow 5.1% y-o-y in 2022.

The leading index (LI) for July this year signalled optimistic economic performance in the coming months.

The LI sustained its positive annual growth at 4.1% in July, albeit lower than the 5.3% recorded in June 2022.

As for the external sector, exports surged 48.2% y-o-y in August to RM141.3bil while imports soared 67.6% y-o-y to RM124.4bil.

The number of employed persons grew 4.5% to 15.98 million in July, while the unemployment rate stood at 3.7%.

The industrial production index (IPI) for the said month was up 12.5% y-o-y, with the sales volume from the manufacturing sector at RM148.4bil, up 23.8% from a year ago.

MIDF Research is maintaining its 2022 GDP growth forecast of 6.6% anchored by sustained growth in domestic spending on the back of economic reopening and increased tourist arrivals as a result of the resumption of international travel.

Continued growth in domestic spending and business activities would be crucial to cushion the potential impact of external demand slowdown, it noted.

It added that the performance of external trade has been better than expected following strong shipments of electrical and electronic products, petroleum and palm oil products.

"Despite the optimism, we are wary of the impact of global inflation and global policy tightening which could hit growth prospects especially going into 2023.

"To a certain extent, any sharp slowdown in global demand could affect Malaysia's trade and growth outlook," the research house noted.

It added that other downside risks to the near-term outlook include increased volatility in the global financial markets, weaker growth in major trading partner economies (for instance the United States and China), a sustained rise in inflation and renewed disruptions to global production and trade such as the escalation of geopolitical tensions, upward cost pressures and prolonged shortage of materials and labour.

Despite the external uncertainties, MIDF Research believes the economy will be able to face the global slowdown, thanks to the diversified exports and assuming the softening of global demand will not be as significant as in previous crises, and also if expansion in domestic demand could be maintained.

Meanwhile, Hong Leong Investment Bank Research expects a strong GDP print for 3Q22, before moderating in 4Q22 following weaker external demand and a dissipating base effect (forecast 6.5% y-o-y growth for 2022).

It projects Malaysia's 2023 GDP to moderate to 4.5% y-o-y and Bank Negara to pause the overnight policy rate (OPR) hike in November and resume with two 25-basis-point (bps) rate hikes in the first half of 2023, bringing the OPR to 3%.

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