Weak 2Q GDP showing puts spotlight on Putrajaya's 6% growth aspiration

STORIES BY **CINDY YEAP**

With second-quarter growth of 2.9% surprising the local market on the downside — a plunge from 1Q's better-than-expected 5.6% — the spotlight is on Prime Minister Datuk Seri Anwar Ibrahim. He had said on Aug 18 that the country's economy "remains resilient and continues to improve" and Putrajaya "remains confident" in meeting its 4%-to-5% economic growth forecast for the year.

"To support the momentum of domestic growth, the government maintains its responsive fiscal policy and will continue to focus on expediting the realisation of approved investments and accelerate implementation of government projects," Anwar, who is also finance minister, said in a statement last Friday evening, noting that "Malaysia's domestic economy remains vibrant, with many indicators showing healthy trends".

"In line with the Madani economy framework, upcoming policy documents — the New Industrial Master Plan 2030 (NIMP2030), the 12th Malaysia Plan (12MP) mid-term review and the 2024 Budget — will further set out strategies and measures to restructure Malaysia's economy and deliver inclusive development for the rakyat. Focus areas include improving the ease of doing business, promoting quality investments to generate higher-income jobs, ensuring good governance, and investing in better public services and infrastructure towards improving the quality of life for the rakyat," he added.

Whatever one's view on the likelihood of 2023 GDP growth coming in above 4%, the stage is set for the slew of upcoming policy announcements, starting with the NIMP2030 under the Ministry of International Trade and Industry (Miti) that the prime minister is expected to launch by end-August. The exact date had not been made known at the time of writing.

Meanwhile, parliament will reconvene for a special session from Sept 11 to 19 for the tabling and debate of the 12MP mid-term review and Anwar will table Budget 2024 on Oct 13.

Bank Negara Malaysia governor Datuk Shaik Abdul Rasheed Ghaffour, who had told reporters that 2023 GDP growth was expected to be "close to the lower end of the forecast range of 4% to 5% for 2023, anchored by domestic demand", also said 2Q GDP growth would have come in 40 basis points higher, at 3.3%, "had it not been for the synchronised commodity-related factors".

"Let me reiterate that moderate growth in the second quarter of 2023 was driven partly by several temporary factors, including plant maintenance in the mining sector, hot weather affecting agricultural output, as well as the high base effects from the economic reopening and policy measures in the second quarter last year," added Abdul Rasheed, who began his five-year tenure in July and last Friday (Aug 18) co-chaired Malaysia's quarterly GDP release briefing for the first time alongside chief statistician Datuk Seri Mohd Uzir Mahidin.

According to Abdul Rasheed, downside risks to 2023 GDP growth stems "primarily from external factors", but it could well see upside if tourism activity and spillover effects from the implementation of projects are stronger than expected.

Felicia Ling, economist at Hong Leong Investment Bank, who rightly predicted on Aug 10 that 2Q GDP growth would come in at 2.9% when consensus estimates were at 3.6%, has since revised her 2023 GDP growth forecast to 3.8%, from 4.5%.

"At 3.8%, I would say there is both upside and downside risk to the forecast," Ling tells *The Edge*, noting that growth could be lower if China's growth is weaker than expected. "Upside risks [include] faster recovery in Malaysia's tourism industry, accelerated recovery in advanced economies as well as faster disbursement of Malaysia's government budget spending to support growth."

Consensus estimates for 2Q GDP growth, which had fallen to 3.3% ahead of the official release at noon on Aug 18, was 40bps above actual reading of 2.9% year on year. Malaysia's actual 1Q2023 GDP growth of 5.6% y-o-y was 50bps ahead of Bloomberg consensus of 5.1%.

Julia Goh, senior economist at UOB Bank Malaysia, whose 3.2% projection for 2Q GDP growth was also below consensus view, revised lower her 2023 GDP forecast to 4%, from 4.4%, to "recognise a more challenging external environment" after 2Q growth came in at its lowest pace since 3Q2021. She pointed out, though, that seasonally adjusted quarter-on-quarter GDP growth had improved to 1.5% in 2Q2023 from 0.9%.

"Malaysia's domestic demand has fared well, given the negative external outlook, while foreign inflows (FDI and portfolio) persisted and the labour market improved. We anticipate more clarity on domestic economic policies and plans in the coming months that would help to catalyse higher investments and Malaysia's growth momentum," Goh wrote in a note dated Aug 18, telling clients that Malaysia's growth performance is "not bad, considering the negative external outlook and normalisation of domestic demand as pandemic measures are rolled back".

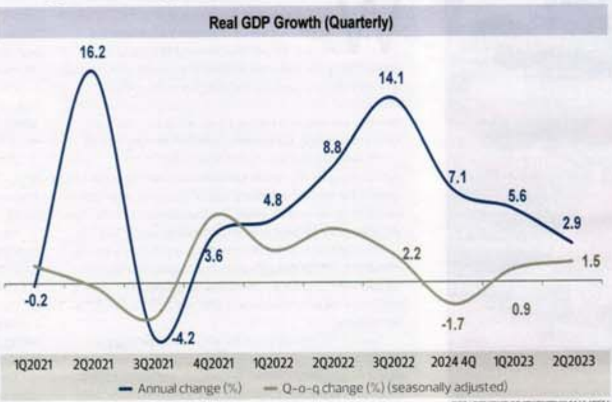
Lavanya Venkateswaran, senior Asean economist at OCBC Research, also cut her 2023 GDP forecast for Malaysia to 4%, from 4.4%, to reflect "a bigger drag from anaemic external demand conditions" and 2024 GDP forecast to 4.2%, from 4.5%, "as the drag from global growth is expected to persist". "This, nonetheless, underscores an improvement in growth momentum relative to 2023," she wrote in a note dated Aug 18.

While external demand weakness continued in 3Q, as reflected by July trade data (where exports contracted 13.1% y-o-y in July), she reckons that "the most encouraging aspect was the sustained improvement in electronics exports", which grew 7.3% y-o-y in July, up from 3.3% in June and 1.5% in May. "Indeed, Bank Negara Malaysia is seeing tentative signs that the global tech downcycle is bottoming out," she added.

Second quarter the worst in 2023?

With 1H2023 growth averaging 4.25%, Malaysia would need to grow at least at an average of 3.75% a quarter in 2H2023 — better than the 2.9% in 2Q2023 — for the economy to grow at least 4% for the whole year, a fact that central bank governor Abdul Rasheed acknowledged when asked whether growth

Malaysia's GDP grew 2.9% y-o-y in 2Q2023



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Annual change in GDP growth by component

Real GDP (% YoY)	Share, % (2022)	2022	2023	
		2Q	1Q	2Q
Domestic Demand (Excluding Stocks)	93.1	13.0	4.6	4.5
Private Sector	75.5	15.4	5.6	4.5
Consumption	60.2	18.3	5.9	4.3
Investment	15.3	6.3	4.7	5.1
Public Sector	17.6	2.5	-0.3	4.6
Consumption	13.2	2.3	-2.2	3.8
Investment	4.4	3.2	5.7	7.9
Net Exports of Goods and Services	5.5	-29.0	54.4	-3.7
Exports	74.6	15.9	-3.3	-9.4
Imports	69.1	20.1	-6.5	-9.7
Change in stocks, RM bil.	1.4	12.3	2.8	8.0
Real GDP	100.0	8.8	5.6	2.9

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ZAHID IZZANI/THE EDGE

Anwar: Malaysia's domestic economy remains vibrant, with many indicators showing healthy trends

REUTERS

Abdul Rasheed says 2023 GDP growth is expected to be 'close to the lower-end of the forecast range of 4% to 5%'

SUHAIMI YUSUF/THE EDGE

Liew says growing the economy at 6% per year 'is important and achievable'

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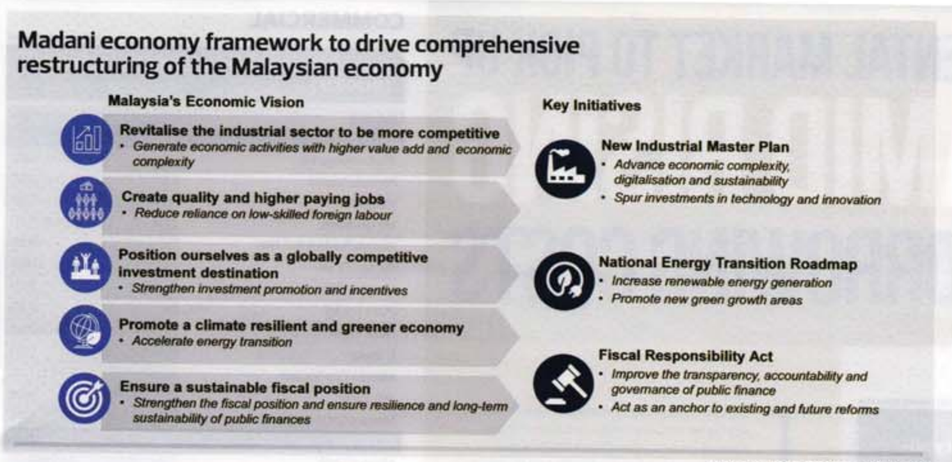
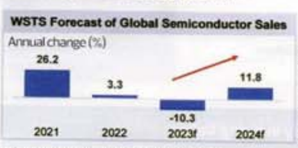


PRIME MINISTER'S OFFICE, BANK NEGARA MALAYSIA

Tentative signs of bottoming-out of global tech downcycle

...and expected recovery in 2024



BANK NEGARA MALAYSIA

**Compiled by World Semiconductor Trade Statistics

for the rest of the year was expected to improve from 2Q.

He also acknowledged the high base in 2H2022 but had, among other things, noted improving labour market conditions and that tourist arrivals had reached 75% of pre-pandemic levels and could still rise in 2H2023.

Mathematically, growth in 2H2023 would need to average above 4.75% per quarter for Malaysia's full-year growth to come in above 4.5% this year.

GDP growth of 4% this year would require stronger growth of at least 5.5% per year from 2024, if Malaysia wants to average above 4% on a rolling 10-year basis in the coming six years through 2029, back-of-the-envelope calculations show.

When introducing mission targets under the Madani economy framework about three weeks ago, Anwar had shored up expectations by saying Malaysia could achieve 5.5% growth "if we work hard and implement reforms". "In fact, I believe it is not impossible to generate growth of 6%," he said on July 27.

HSBC Global Research Asean economist Yun Liu, for one, did not cut her 4.3% GDP growth forecast after the 2Q GDP release and is looking out for details about how Malaysia intends to "push growth back up to 6%", bolster its chip manufacturing sector, accelerate energy transition to have 70% renewables by 2050 from below 5% now, and catapult itself to be among the world's top 30 largest economies within 10 years.

"With such ambitious goals, all eyes are on specific strategies and concrete measures to support Malaysia's economic transformation. After all, implementation is key," she wrote in a note dated Aug 17, describing Malaysia's 10-year Madani economic roadmap as "an ambitious plan".

"Another goal that merits attention is [reducing] Malaysia's fiscal deficit to 3% of GDP. We will closely watch out for concrete measures in the Mid-term review of the 12th Malaysia Plan in September and Budget 2024 in October. While Malaysia is in a better position to offer generous subsidies, medium-term fiscal sustainability now should be in focus, as its fiscal consolidation pace lags behind regional peers," the HSBC economist adds.

Asked whether Malaysia could afford to increase fiscal deficit to raise up public investments to shore up growth, she says: "After years of generous subsidies, Malaysia's medium-term fiscal sustainability needs to be prioritised. Its fiscal consolidation plan is already lagging peers, many of whom aim to return to fiscal deficits at pre-pandemic levels this year by the latest. In particular, targeted subsidies bode well for such a transition. We await more details in the Budget 2024 on the magnitude and timing of subsidy rationalisation."

Notably, Indonesia managed to lower its fiscal deficit to 2.38% of GDP in 2022, from 6.5% in 2020 and 4.65% in 2021 amid the pandemic. It would seem that the archipelago's budget deficit is poised to remain below 3% of GDP for a third straight year in 2024.

When tabling its Budget 2024, which is 6% bigger than the previous year, last Wednesday (Aug 16), President Joko Widodo had said the 2024 fiscal deficit was pencilled at 2.29% of GDP, comparable to 2.28% of GDP projected for 2023, with GDP growth expected to come in at 5.2% next year, down from its targeted 5.3% in 2023.

Delivering 6% growth

In support of the Madani Economy framework, Miti Deputy Minister Liew Chin Tong said on July 27 that growing the economy at 6% per year "is important and achievable", noting that the economy can double in size within a decade with 6% growth, whereas it would take 15 years to do so if growth were only 5%.

Liew offers three points when asked how Malaysia planned to achieve 6% growth.

"First, there is a chance of massive re-industrialisation because of the China + 1 supply chain reconfiguration, which the new industrial master plan attempts to deal with. Second, Malaysia is making green investments in a highly organised way, including in areas like electric vehicles, solar, green buildings, green infrastructure [as well as] attracting green bonds. Third, [growth can also be bolstered via] other reforms to unleash capital in consumption, including reducing reliance on unskilled foreign labour and paying Malaysians more," he tells *The Edge*.

While Malaysia would like to see economic growth averaging at least 6% over the coming decade, Liew acknowledges that "each individual year may be affected by different circumstances".

This year is likely to be one in which growth comes in below the aspired 6% average, owing to external headwinds as well as the high base effect of its 2022 GDP growth of 8.7% being among the highest in the world — above the Philippines' 7.6%, India's 7.2%, Indonesia's 5.3%, China's 3% as well as Thailand and South Korea's 2.6%.

In its July update for the World Economic Outlook (WEO) report, the International Monetary Fund (IMF) has revised higher its projection for global growth in 2023 by 20bps to 3% (versus 2.8% in its April update) on reduced risks of financial turmoil. Nevertheless, it says growth "remains weak by historical standards" and is still down from 3.5% in 2022, and "the balance of risk to global growth remains tilted to the downside" in 2023, as inflation "could remain high and even rise, if further shocks occur ... triggering more restrictive monetary policy".

IMF also notes that China's recovery "could slow, in part as a result of unresolved real estate problems, with negative cross-border spillovers". It expects China's GDP to grow 5.2% this year and 4.5% in 2024; Malaysia's to grow 4.5% in 2023 and 2024; and India's to grow 6.1% in 2023 and 6.3% in 2024.

The World Bank, in its Global Economic Prospects report in June, projects Malaysia's GDP growth at 4.3% in 2023 and 4.2% in 2024.

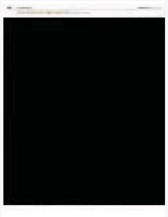
Success in reviving GDP growth above 6% sustainably would not only bolster confidence among investors but also place the country in a better position to finally escape the "middle-income trap" status it has been in since 1960. Malaysia, which has been an upper-middle-income country since 1994, was expected to graduate to "high-income" status by 2024, according to a 2017 study by the World Bank.

By 2021, the timeline for Malaysia's transition to high-income had been moved to between 2024 and 2028, provided that the country can institute "bold measures and tough [structural] reforms" that will help keep GDP growth above 4% and ensure that growth is enjoyed by all segments of the population. At the time, researchers at the World Bank had noted that the development model that helped the nation in the past was "no longer enough to help Malaysia navigate the next stage of its development" and that it now requires "a different set of policies to help it boost economic growth, improve competitiveness, create high-quality jobs, strengthen institutions as well as ensure greater inclusion to transition to high-income and developed nation status".

The revamped NIMP2030 is expected to articulate a set of comprehensive strategies and mission-like action plans aimed at creating a robust and catalytic ecosystem supportive of Malaysia's next phase of industrial development.

"First-quarter growth was stronger than expected. The second quarter came in weaker than expected. The high base effect is a challenge [for 2H2023], but who's to say Malaysia can't surprise on the upside again? Perhaps [the weak 2Q showing] is a much-needed dose of reality that the task ahead [towards 6% annual growth] is far from easy [and] much work remains undone," says a seasoned observer, who is looking forward to better policy focus and direction now that the six state elections are out of the way.

Indeed, what is at stake is not just Malaysia's headline growth for 2023 but whether the country can revive economic growth for a better future for all. ■



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SUMMARIES

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