Growth slows to 4%, lowest in nearly 2 yrs
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The economy grew 4.0 percent in the second quarter, its slowest pace in nearly two years, on softening global export demand, the central bank said today.

The worsening outlook prompted Bank Negara governor Zeti Akhtar Aziz to temper Malaysia's earlier official estimate for full-year growth of between 5 and 6 percent, saying it would likely come in at the low end of that range.

"The economic activity was affected by weaker external conditions" and a moderation in public sector spending, the central bank governor said, adding that domestic demand had helped prevent a further deceleration.

The performance is down slightly from a 4.6 percent first-quarter expansion but markedly lower than the 8.9 percent growth achieved in the second quarter of last year.

Gross domestic product growth for the first half of this year was 4.4 percent.

Malaysia's economy had rebounded strongly to log 7.2 percent full-year growth in 2010 after suffering a 1.7 percent contraction in 2009 due to the global slowdown.

But the world economy has again been unsettled by the March earthquake and tsunami crisis in Japan, the ongoing Eurozone debt problem, and the US credit crisis - and Malaysia's export-dependent economy has felt the impact of a resulting slowdown in global demand.

"Right now, based on our assessment we can achieve growth of at least 5.0 percent," Zeti said, adding that the target could slip further if the US or European economic woes deepen.

Inflation remains high

In March the government forecast 5-6 percent full-year growth, spurred largely by domestic demand.

While the economy has slowed, inflation has not, averaging 3.3 percent in the first half of the year largely on increases in food prices, according to central bank data.

July's 3.4 percent inflation was the highest since March 2009.

Zeti said she expects full-year inflation of 3.5 percent.

The central bank has raised interest rates four times since March 2010 to contain inflation, which registered just 1.7 percent for all of last year.

However, the second quarter performance was "commendable" amid the global challenges, said Yeah Kim Leng, chief economist with research firm RAM Holdings.

"More efforts will be needed to ensure continuous consumer spending and investment by the public and private sectors in the second half of 2011 in order to offset the weak demand from the US and Europe," he added.

Prime Minister Najib Razak has unveiled a programme of major infrastructure projects and financial market reforms aimed at jump-starting the economy and attracting much-needed foreign investment, but critics say the results have been limited.

- AFP