

Bank Negara: Malaysia's 2022 GDP expected to grow 5.3-6.3pct

Malaysiakini

30 March 2022

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Malaysia's gross domestic product (GDP) is expected to improve further by expanding between 5.3 and 6.3 percent in 2022, up from 3.1 percent growth in 2021.

This would be underpinned by the continued expansion in external demand, full upliftment of containment measures, reopening of international borders, and a further improvement in labour market conditions, Bank Negara Malaysia (BNM) said.

"In addition, the implementation of investment projects and targeted policy measures will provide further support to economic activity and aggregate demand," the central bank said in its Economic and Monetary Review 2021 report (EMR 2021) released today.

It said a stronger private sector recovery, supported by labour market

improvements would be the main growth driver in 2022.

Unemployment rate

"As economic activity picks up, the unemployment rate is expected to decline further in 2022 to around 4.0 percent of the labour force, supported by targeted measures to boost labour demand, facilitate re-skilling and up-skilling, and reduce labour market frictions," the central bank said.

It said a sustained recovery in employment and income is expected to drive an improvement in household spending, while progress in vaccinations and upliftment of containment measures would lead to an improvement in consumer confidence and some materialisation of pent-up demand.

"As a result, private consumption is expected to surge 9.0 percent (2021: up 1.9 percent), while private investment is also expected to recover, increasing 5.3 percent (in 2022) from 2.6 percent in 2021, supported by the continued expansion in global demand and the implementation of new and on-going investment projects," it said.

On public investment, BNM said it is projected to expand 9.6 percent in 2022 against a contraction of 11.4 percent last year, driven by continued capital

spending by both the government and public corporations.

"Public consumption is expected to expand 1.2 percent in 2022 from 6.6 percent in 2021, the moderation is due to a slower growth in emoluments and contraction in supplies and services expenditure," it said.

It noted that targeted policy measures are expected to remain in place to facilitate recovery momentum.

While noting that the potential reimposition of broad-based containment measures due to a resurgence in Covid-19, such as the emergence of severe and vaccine-resistant variants of concerns is a key downside risk for domestic growth, Bank Negara nonetheless projected the overall risks are tilted to the downside.

"Higher-than-expected global growth and stronger-than-expected improvement in tourism-related sectors amid reopening of borders pose an upside risk to domestic growth," it said.

Economic sectors

BNM said all economic sectors are projected to expand in 2022, with the export-

oriented sectors continuing to benefit from strong external demand and expansion in domestic production capacity.

It said the services sector is expected to see the highest growth of 6.9 percent from 1.9 percent in 2021, followed by construction (6.1 percent from -5.2 percent in 2021), manufacturing (5.2 percent from 9.5 percent in 2021), mining and quarrying (2.5 percent from 0.7 percent in 2021), and agriculture (1.5 percent from -0.2 percent in 2021).

It said higher growth expectations for the services sector would be led by the consumer and tourism-related subsectors; growth in the manufacturing sector would be supported by the electrical and electronics cluster due to continued global demand; and the recovery in the agriculture sector would be driven primarily by higher oil palm production.

As for the mining sector, BNM said it is expected to reflect the continued increase in crude oil and natural gas production due to the operationalisation of new facilities, such as the Pegaga gas project off the coast of Sarawak; while growth in the construction sector is expected to rebound following the reopening of the economy.

Exports

BNM said global demand would continue to support the external sector, with gross exports projected to grow 10.9 per cent in 2022 from 26.0 per cent in 2021, with strong demand from major trade partners for E&E products; while gross imports are expected to expand 8.1 per cent this year from 23.3 per cent in 2021, reflecting in part the demand for manufactured exports.

"Being an open economy, Malaysia will, however, be affected by the impact of the military conflict in Ukraine on global growth, mainly through the trade channel.

"Nevertheless, the corresponding increase in global commodity prices are expected to provide support to commodity exports and some lift to nominal incomes," it said.

BNM also said the current account is expected to register a higher surplus of 4.2-4.7 percent of GDP in 2022 from 3.5 percent of GDP in 2021, driven by goods surplus amid continued strength in external demand and high commodity prices.

Headline inflation

On headline inflation, the central bank expects it to average between 2.2 and 3.2 percent in 2022 amid higher underlying inflation, while core inflation is expected to average higher between 2.0 and 3.0 percent in 2022 due to stronger demand

conditions amid lingering cost pressures.

Going forward, the central bank said the monetary policy in 2022 will continue to support a sustainable economic recovery while preserving price stability.

"Future monetary policy decisions will continue to be data-driven and guided by the evolving balance of risks surrounding the outlook for domestic inflation and growth," it said.

Well-executed structural reforms needed

In her foreword, BNM governor Nor Shamsiah Mohd Yunus said 2022 is set to be a watershed year as most countries progressively transition towards endemic management of Covid-19, and the pace of recovery in Malaysia is projected to gather further momentum amid the reopening of the economy and international borders.

"While we are not yet out of the woods, we are better prepared now," she said.

Going forward, she said well-executed structural reforms are needed to address the critical challenge of reinvigorating growth opportunities and strengthening the country's economic fundamentals.

For Malaysia to emerge stronger and more resilient, she said it is important to focus on key areas of structural reforms such as a shift towards higher-quality investments which must be done in tandem with the development of a future-ready workforce, acceleration of social protection reforms, and rapid adoption of automation and digitalisation, as well as continued push for the adoption of environmental, social and governance agenda to stay globally competitive.

"I firmly believe that the Malaysian economy would be able to continue to prosper, and our prospects remain highly contingent upon our policy actions today.

"By ensuring an enabling and competitive economic environment, Malaysia will be well-positioned to benefit from new growth opportunities, which will prepare us to face new challenges in a post-pandemic world," she said.

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