

World Bank: M'sian 2023 economic growth expected to moderate at 3.9pct

Malaysiakini

02 October 2023

Bernama

Malaysia's economic growth is expected to moderate to 3.9 percent in 2023 from an earlier projection of 4.3 percent in April this year amid a substantial deceleration of external demand, according to the World Bank today.

However, it said, domestic demand would continue to support Malaysia's economic resilience this year while a limited fiscal space remained a key challenge for the economy.

"Growth for this year is actually 0.4 percentage points lower than our previous forecast, and the reason for this comes to no surprise - lower global growth this year, weak external demand.

"We can see that for Malaysia's exports numbers, which contracted by 3.3 percent (in the first quarter) and 9.4 percent (in the second quarter) of this year," World Bank lead economist Apurva Sanghi told reporters at the release of the October 2023 East Asia and Pacific (EAP) Economic Update and part one of the September 2023 Malaysia Economic Monitor (MEM) today.

Apurva pointed out that Malaysia was sensitive to changes in external demand, especially regarding the country's largest trading partners, namely the US and China.

The World Bank estimated that a 1 percentage point fall in the US growth rate could reduce Malaysia's economic growth by 0.82 percentage points, and a 1 percentage point fall in China's GDP growth rate could drag Malaysia's GDP by 0.45 percentage points.

"It is not just the external factors that played out on Malaysia's growth but also domestic factors, including the base effect from high growth last year and extreme weather events. Hot weather events have affected agriculture output earlier this year.

"That has an implication, and keep in mind that most rice production is concentrated in northern Malaysia. Extreme weather events can disproportionately impact agriculture and food security," added Apurva.

While Malaysia's economic growth has surpassed the pre-pandemic level, Apurva noted the absolute poverty rate in Malaysia stood at 6.2 percent and was still high from the pre-pandemic poverty rate of 5.6 percent.

"Not all households have experienced a uniform recovery. The gross domestic

product (GDP) has surpassed the pandemic levels, but almost half a million households remain below the poverty line.

“The benefits of growth have not trickled down fully as about half a million households remain under the poverty line,” he added.

The World Bank said around 490,000 Malaysian households remain vulnerable and are grappling with the aftermath of Covid-19, underscoring the importance of effective and well-targeted social protection programmes.

It added that Malaysia’s economy is projected to grow to 4.3 percent in 2024.

Semiconductor industry, FDI and ringgit

Apurva said Malaysia’s semiconductor sector was one of the bright spots for the economy as the sector constituted over half of the total electrical and electronics industry exports and 22 percent of the country’s total exports.

“What we found is that the US-China trade tensions have increased semiconductor exports to both China and the US.

“Interestingly, the trade tensions also have increased Malaysia’s semiconductor imports from China, but this can be a risk factor down the road if US sanctions

disrupt China's supply and consequently impact Malaysia's ability to produce more downstream related semiconductor products," he added.

On foreign direct investment (FDI), Apurva said Malaysia's investment ratio to the GDP has consistently come down since the Asian Financial Crisis from the highest of over 40 percent of the GDP to below 20 percent today.

"We believe that the New Industrial Master Plan (NIMP) 2030 will give new impetus to FDI and domestic direct investment, but there is a need to liberalise services, which will help the NIMP 2030 to achieve its objectives," he said.

Apurva also called for Malaysia to reduce its talent gap to further attract FDI inflows.

On the ringgit, the economist said the domestic currency has depreciated by 15 percent against the US dollar from January 2021 to June 2023.

He noted that the three primary drivers of ringgit depreciation are oil prices, interest rate differentials, and international investment position.

"Among the three factors, the US Monetary Policy tightening is the number one driver of ringgit depreciation," he added.

- Bernama

Copyright © 1999-2012 Mkini Dotcom Sdn. Bhd

Source: <https://www.malysiakini.com/news/681184>