

Q3 GDP growth at 5.3%, slow external demand
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KUALA LUMPUR - Malaysia's economy grew by only 5.3 per cent in the third quarter compared with a strong 8.9 per cent in the second-quarter, which was in-line with the slowing trend seen across Asia.

In outlining the country's latest GDP growth figures, Bank Negara Governor Dr Zeti Akhtar Aziz said the expansion in domestic demand was supported by private sector spending while the slowdown in the global economy led to external demand moderation.

Other Asian economies such as Indonesia, China, South Korea and Singapore have all reported slower growth in the third quarter as the region feels the chill from weaker overseas demand, Reuters reported.

For example, Thailand earlier said its economy shrank 0.2 percent in the third quarter after a 0.6 percent contraction in the second, putting it technically in recession and reducing chances of a rate rise.

In Malaysia on the supply side, all major economic sectors, except mining, continued to expand during the quarter, but at a more moderate pace, according to Dr Zeti.

However, she said public consumption declined 10.2 per cent as a result of lower government spending on supplies and services.

The gross fixed capital formation expanded 9.8 per cent driven by capital expenditure from the private sector, Dr Zeti said and Bernama reported.

She added that private sector capital spending was supported by the expansion in domestic production, amidst, high-levels of capacity utilisation and positive business sentiments.

Growth in the manufacturing sector moderated to 7.5 per cent, reflecting mainly the slower growth in external demand, the services sector remained resilient, growing at 5.4 per cent benefitting from favourable domestic demand conditions.

Dr Zeti said the construction sector expanded 2.8 per cent supported by growth in the non-residential and civil engineering sub-sectors while growth in the agriculture sector increased to 2.7 per cent following higher production of crude palm oil and rubber.

However, the mining sector recorded a contraction of 1.0 per cent as lower crude oil production offset the higher production of natural gas.

The governor also said gross inflows of foreign direct investment (FDIs) were higher at RM8.9 billion in the third-quarter reflecting mainly larger inflows of equity capital and the drawdown of inter-company loans.

After adjusting for gross outflows, due to repayment of inter-company loans, net FDIs more than doubled to RM5.0 billion, she said.

Direct investments abroad by Malaysian companies recorded a larger net outflow of RM4.9 billion arising from both higher equity capital and net extensions of inter-company loans to

subsidiaries abroad.

Portfolio investments registered a larger net inflow of RM9.3 billion reflecting strong foreign interests in domestic capital markets during the quarter particularly equity market.

The inflows of portfolio funds continued to be driven by the favourable growth prospects for the Malaysian economy, amidst, a strengthening of the ringgit.

During the quarter, Dr Zeti said the ringgit appreciated by 5.5 per cent against the US dollar as the diverging economic outlook between Asia and the advanced economies boosted investor sentiments towards the regional economies and financial markets.

Domestically, she said the strong recovery and the further liberalisation of foreign exchange administrative rules also lifted investor sentiments.

She said the financial system stability was preserved throughout the third quarter, Bernama reported.

Institutional soundness and orderly functioning of the financial markets continued to support financing activities in the domestic economy.

Meanwhile, the quality of loan portfolio remained intact, supported by a high loan loss coverage of 95.4 per cent.

Pre-tax profit for the quarter improved on account of higher net interest and financing income and revenue related to financing activities resulting in returns of assets and equity of 1.6 per cent and 16.6 per cent, respectively.

Moving forward, Dr Zeti said the domestic economic recovery was proceeding amid heightened uncertainty in the global economy.

As advanced economies continued to be confronted with weak labour markets and fragile financial sectors, she said concerns mounted over the limited policy flexibility given the immediate need to address the fiscal position.

In contrast, she said most Asian economies remained on a firm recovery path, supported by the strength of domestic activity.

Amid the moderation in global recovery, she said the pace of growth of the Malaysian economy would be influenced by the expected continued slowdown in external demand.

"We are very likely to see between six and seven per cent growth for this year," she said, adding that overall growth would continue to be supported by robust domestic economic activity.

Dr Zeti also said private consumption would benefit from the favourable employment situation, firm commodity prices and the accommodative financing government transformation programme would underpin the continued growth of private investment

