

GDP growth slows to 4pc as global economy falters
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KUALA LUMPUR, Aug 17 — Malaysia's economic growth decelerated to its slowest pace of four per cent since the 2009 recession as the country was hit by a slowdown in external demand and a moderation in government spending, Bank Negara said today.

This was the fifth consecutive decline in quarterly growth and down from the 4.6 per cent growth registered in the first quarter of this year.

Bank Negara governor Tan Sri Zeti Akhtar Aziz added, however, that stronger growth is expected in the second half of the year and that while there is no revision to the 5-6 per cent growth target for the year, it will "very likely be closer to 5 per cent."

Zeti said that the nation's economic fundamentals were still strong with a 5.2 per cent growth in domestic consumption, low unemployment and low levels of impaired loans at only two per cent.

Zeti said net FDI rose to RM6.2 billion in the second quarter thanks to an improved investment climate.

Domestic consumption growth was down, however, from 6.9 per cent in the first quarter due to public sector spending growth falling from 8.9 per cent to four per cent.

Private sector consumption growth, meanwhile, remained fairly steady at 6.4 per cent as compared with 6.7 per cent in the first quarter.

Net foreign direct investment (FDI) rose to RM6.2 billion in the second quarter from RM4 billion in the first quarter thanks to an improved investment climate, which led to an increase in domestic private sector investment, said Zeti.

With concerns mounting over a global economic slowdown, the central bank will now have to balance the need to fight inflation while supporting economic activity in setting interest rates.

Zeti said that inflation hit 3.4 per cent in July and 3.3 per cent for the first half of the year.

She said that the central bank's current overnight policy rate (OPR) of three per cent was still supportive of economic growth.

The Malaysian economy grew 7.2 per cent in 2010 as it rebounded from the global economic slowdown in 2009.

The global economy this year, however, has been shaken by the spread of the euro zone debt problem to Italy and Spain and by fears that the recovery of the US economy may be faltering.

Share market investor confidence also slumped in recent weeks after Standard & Poor's cut the credit rating of the world's biggest economy and the debt crisis in Europe threatened to escalate.

Reflecting the fears of slower economic growth, Bank Negara has so far raised borrowing costs only once this year to three per cent as compared with three increases in 2010 despite inflation hitting its highest level in two years in June.

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