KERATAN AKHBAR

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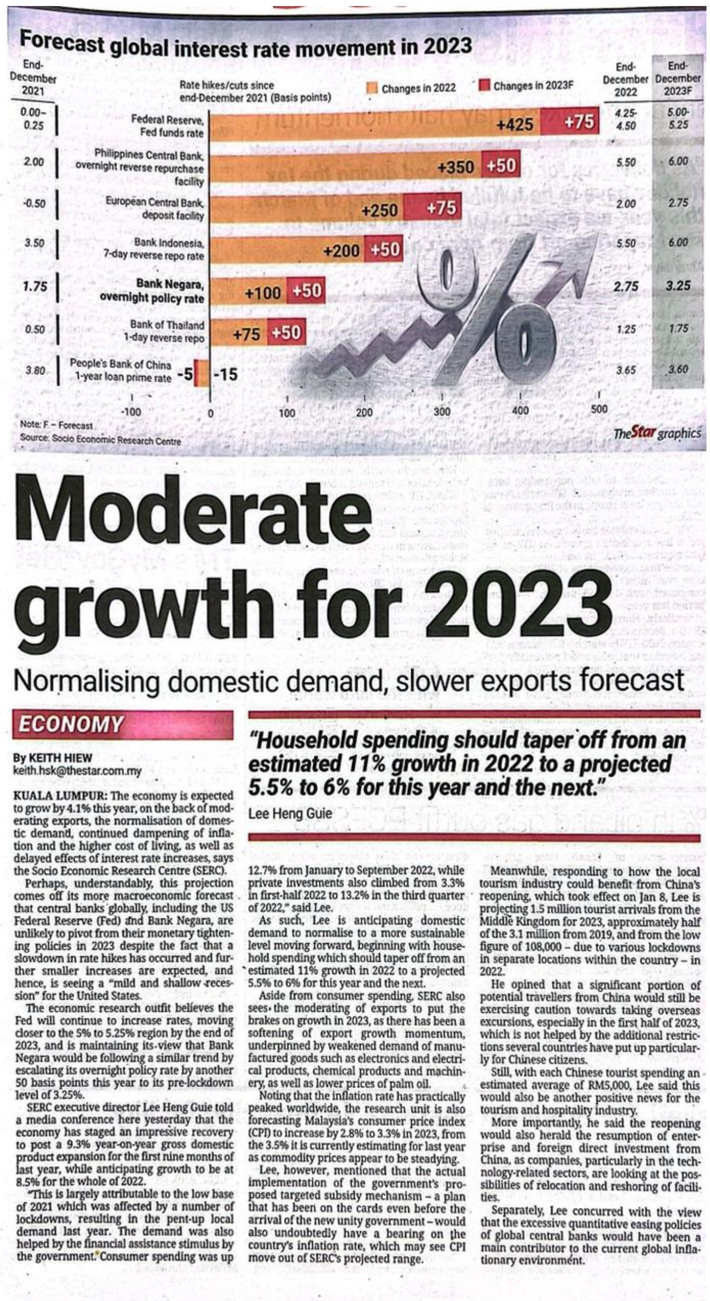
Moderate growth for 2023



Forecast global interest rate movement in 2023

Rate hikes/cuts since end-December 2021 (Basis points)

End-December 2021		Changes in 2022	Changes in 2023F	End-December 2022	End-December 2023F
0.00–0.25	Federal Reserve, Fed funds rate	+425	+75	4.25-4.50	5.00-5.25
2.00	Philippines Central Bank, overnight reverse repurchase facility	+350	+50	5.50	6.00
-0.50	European Central Bank, deposit facility	+250	+75	2.00	2.75
3.50	Bank Indonesia, 7-day reverse repo rate	+200	+50	5.50	6.00
1.75	**Bank Negara, overnight policy rate**	+100	+50	2.75	3.25
0.50	Bank of Thailand 1-day reverse repo	+75	+50	1.25	1.75
3.80	People's Bank of China 1-year loan prime rate	-15	-5	3.65	3.60

Note: F – Forecast

Source: Socio Economic Research Centre

TheStar graphics

Moderate growth for 2023

Normalising domestic demand, slower exports forecast

ECONOMY

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"Household spending should taper off from an estimated 11% growth in 2022 to a projected 5.5% to 6% for this year and the next."

Lee Heng Guie

KUALA LUMPUR: The economy is expected to grow by 4.1% this year, on the back of moderating exports, the normalisation of domestic demand, continued dampening of inflation and the higher cost of living, as well as delayed effects of interest rate increases, says the Socio Economic Research Centre (SERC).

Perhaps, understandably, this projection comes off its more macroeconomic forecast that central banks globally, including the US Federal Reserve (Fed) and Bank Negara, are unlikely to pivot from their monetary tightening policies in 2023 despite the fact that a slowdown in rate hikes has occurred and further smaller increases are expected, and hence, is seeing a "mild and shallow recession" for the United States.

The economic research outfit believes the Fed will continue to increase rates, moving closer to the 5% to 5.25% region by the end of 2023, and is maintaining its view that Bank Negara would be following a similar trend by escalating its overnight policy rate by another 50 basis points this year to its pre-lockdown level of 3.25%.

SERC executive director Lee Heng Guie told a media conference here yesterday that the economy has staged an impressive recovery to post a 9.3% year-on-year gross domestic product expansion for the first nine months of last year, while anticipating growth to be at 8.5% for the whole of 2022.

"This is largely attributable to the low base of 2021 which was affected by a number of lockdowns, resulting in the pent-up local demand last year. The demand was also helped by the financial assistance stimulus by the government. Consumer spending was up 12.7% from January to September 2022, while private investments also climbed from 3.3% in first-half 2022 to 13.2% in the third quarter of 2022," said Lee.

As such, Lee is anticipating domestic demand to normalise to a more sustainable level moving forward, beginning with household spending which should taper off from an estimated 11% growth in 2022 to a projected 5.5% to 6% for this year and the next.

Aside from consumer spending, SERC also sees the moderating of exports to put the brakes on growth in 2023, as there has been a softening of export growth momentum, underpinned by weakened demand of manufactured goods such as electronics and electrical products, chemical products and machinery, as well as lower prices of palm oil.

Noting that the inflation rate has practically peaked worldwide, the research unit is also forecasting Malaysia's consumer price index (CPI) to increase by 2.8% to 3.3% in 2023, from the 3.5% it is currently estimating for last year as commodity prices appear to be steadying.

Lee, however, mentioned that the actual implementation of the government's proposed targeted subsidy mechanism – a plan that has been on the cards even before the arrival of the new unity government – would also undoubtedly have a bearing on the country's inflation rate, which may see CPI move out of SERC's projected range.

Meanwhile, responding to how the local tourism industry could benefit from China's reopening, which took effect on Jan 8, Lee is projecting 1.5 million tourist arrivals from the Middle Kingdom for 2023, approximately half of the 3.1 million from 2019, and from the low figure of 108,000 – due to various lockdowns in separate locations within the country – in 2022.

He opined that a significant portion of potential travellers from China would still be exercising caution towards taking overseas excursions, especially in the first half of 2023, which is not helped by the additional restrictions several countries have put up particularly for Chinese citizens.

Still, with each Chinese tourist spending an estimated average of RM5,000, Lee said this would also be another positive news for the tourism and hospitality industry.

More importantly, he said the reopening would also herald the resumption of enterprise and foreign direct investment from China, as companies, particularly in the technology-related sectors, are looking at the possibilities of relocation and reshoring of facilities.

Separately, Lee concurred with the view that the excessive quantitative easing policies of global central banks would have been a main contributor to the current global inflationary environment.