KERATAN AKHBAR

TARIKH : 14 APRIL 2023

AKHBAR : THE SUN

MUKA SURAT : 3

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BY **HAYATUN RAZAK**
sunbiz@thesundaily.com

KUALA LUMPUR: The Malaysian economy is off to a slow start in the first quarter of 2023 due to weakening exports and normalisation of domestic demand, said Socio Economic Research Centre (SERC) executive director Lee Heng Guie.

Despite this, he said, the Malaysian economy is still expected to grow this year, albeit at a slower pace compared with last year with an estimated growth rate of 4.1%.

"After staging a strong recovery growth of 8.7% in 2022 post the Covid-19 pandemic, the Malaysian economy is expected to normalise to an estimated 4.1% in 2023 on a more sustainable pace of private consumption, which made up 60.2% of total GDP in 2022.

"Exports, which had been a strong contributor to the economy, have displayed slowing momentum since late 2022," he said at SERC's media briefing and press conference on Malaysia's quarterly economy tracker (January-March 2023) yesterday.

In addition, SERC expects Bank Negara Malaysia (BNM) to increase the overnight policy rate to 3% this year to address inflation.

BNM has stated that any adjustment to the degree of accommodation will take into consideration the evolving global and domestic conditions and their implications on the overall outlook of domestic inflation and growth.

Lee said that Malaysia's most recent economic data indicates a sluggish beginning to 2023 with the leading index continuing to decline in January 2023, marking three consecutive months of contraction.

The industrial production index (IPI) registered a low single-digit growth of 3.6% year-on-year (y-o-y) in February and 1.8% in January from 4% in Q4 '22 and 12.2% in Q3'22, due to dissipating overseas demand besides slower industrial output was weighed down by slower growth in the manufacturing sector (3% in Jan-Feb 2023 vs. 4% in Q4'22 and 13.4% in Q3'22) and a decline in the electricity sector.

Meanwhile, manufacturing sales reported double-digit growth of 10.3% y-o-y in February from 6.5% in January and 8.8% in December 2022 and that export-oriented industries, which accounted for 71.1% of total sales, expanded by 10% in February and 6.9% in January, while domestic-oriented industries (28.9% of total sales) accelerated by 11% in February and 5.6% in January.

"China's reopening will help to sustain stronger domestic tourism-related spending such as retailing, restaurants and accommodation," Lee commented.

Exports continued to pace at a much slower growth of 5.4% y-o-y in Jan-Feb compared to 11.8% in Q4'22.

In addition, the banking sector's outstanding loan that grew at a slightly more moderate pace at 5.2% y-o-y in February from 5.7% in December 2022, supported by the household sector (5.7%), while loans demand of business and others increased by 4.4%.