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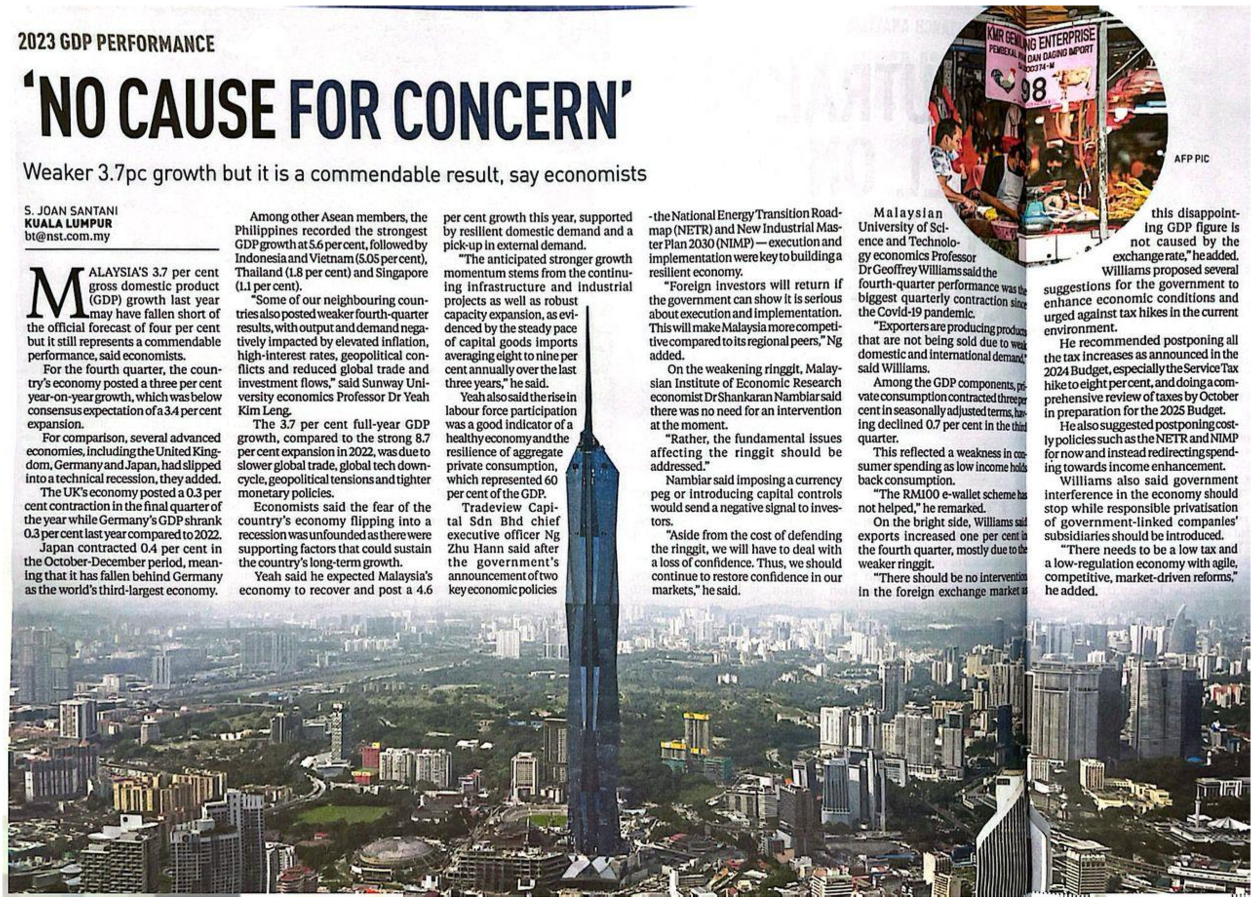
‘No cause for concern’



2023 GDP PERFORMANCE

‘NO CAUSE FOR CONCERN’

Weaker 3.7pc growth but it is a commendable result, say economists

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MALAYSIA'S 3.7 per cent gross domestic product (GDP) growth last year may have fallen short of the official forecast of four per cent but it still represents a commendable performance, said economists.

For the fourth quarter, the country's economy posted a three per cent year-on-year growth, which was below consensus expectation of a 3.4 per cent expansion.

For comparison, several advanced economies, including the United Kingdom, Germany and Japan, had slipped into a technical recession, they added.

The UK's economy posted a 0.3 per cent contraction in the final quarter of the year while Germany's GDP shrank 0.3 per cent last year compared to 2022.

Japan contracted 0.4 per cent in the October-December period, meaning that it has fallen behind Germany as the world's third-largest economy.

Among other Asean members, the Philippines recorded the strongest GDP growth at 5.6 per cent, followed by Indonesia and Vietnam (5.05 per cent), Thailand (1.8 per cent) and Singapore (1.1 per cent).

"Some of our neighbouring countries also posted weaker fourth-quarter results, with output and demand negatively impacted by elevated inflation, high-interest rates, geopolitical conflicts and reduced global trade and investment flows," said Sunway University economics Professor Dr Yeah Kim Leng.

The 3.7 per cent full-year GDP growth, compared to the strong 8.7 per cent expansion in 2022, was due to slower global trade, global tech downcycle, geopolitical tensions and tighter monetary policies.

Economists said the fear of the country's economy flipping into a recession was unfounded as there were supporting factors that could sustain the country's long-term growth.

Yeah said he expected Malaysia's economy to recover and post a 4.6 per cent growth this year, supported by resilient domestic demand and a pick-up in external demand.

"The anticipated stronger growth momentum stems from the continuing infrastructure and industrial projects as well as robust capacity expansion, as evidenced by the steady pace of capital goods imports averaging eight to nine per cent annually over the last three years," he said.

Yeah also said the rise in labour force participation was a good indicator of a healthy economy and the resilience of aggregate private consumption, which represented 60 per cent of the GDP.

Tradeview Capital Sdn Bhd chief executive officer Ng Zhu Hann said after the government's announcement of two key economic policies - the National Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP) — execution and implementation were key to building a resilient economy.

"Foreign investors will return if the government can show it is serious about execution and implementation. This will make Malaysia more competitive compared to its regional peers," Ng added.

On the weakening ringgit, Malaysian Institute of Economic Research economist Dr Shankaran Nambiar said there was no need for an intervention at the moment.

"Rather, the fundamental issues affecting the ringgit should be addressed."

Nambiar said imposing a currency peg or introducing capital controls would send a negative signal to investors.

"Aside from the cost of defending the ringgit, we will have to deal with a loss of confidence. Thus, we should continue to restore confidence in our markets," he said.

Malaysian University of Science and Technology economics Professor Dr Geoffrey Williams said the fourth-quarter performance was the biggest quarterly contraction since the Covid-19 pandemic.

"Exporters are producing products that are not being sold due to weak domestic and international demand," said Williams.

Among the GDP components, private consumption contracted three per cent in seasonally adjusted terms, having declined 0.7 per cent in the third quarter.

This reflected a weakness in consumer spending as low income holds back consumption.

"The RM100 e-wallet scheme has not helped," he remarked.

On the bright side, Williams said exports increased one per cent in the fourth quarter, mostly due to the weaker ringgit.

"There should be no intervention in the foreign exchange market as this disappointing GDP figure is not caused by the exchange rate," he added.

Williams proposed several suggestions for the government to enhance economic conditions and urged against tax hikes in the current environment.

He recommended postponing all the tax increases as announced in the 2024 Budget, especially the Service Tax hike to eight per cent, and doing a comprehensive review of taxes by October in preparation for the 2025 Budget.

He also suggested postponing costly policies such as the NETR and NIMP for now and instead redirecting spending towards income enhancement.

Williams also said government interference in the economy should stop while responsible privatisation of government-linked companies' subsidiaries should be introduced.

"There needs to be a low tax and a low-regulation economy with agile, competitive, market-driven reforms," he added.

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