

M'sian economy seen in full recovery mode in mid-2022

o MICPA and MARC say government needs to speed up safe reopening to prevent long-term scarring

PETALING JAYA: Malaysia's economy is on course for a modest rebound in 2021 and recovery is expected to take hold from fourth-quarter 2021 (Q4'21), albeit at a moderate pace, as the economy gradually reopens, with a full recovery estimated in mid-2022, according to the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Rating Corp Bhd (MARC).

"In any case, we believe the government needs to speed up the safe reopening of the economy to avoid long-term scarring. This should also help businesses adjust to the new normal as soon as possible and re-strategise to remain relevant," the MICPA-MARC Economic Update & Outlook 2022 said.

Its economic growth forecast for 2021 stands at 3.9%. Malaysia has benefited from the rally in commodity prices and increasing demand for exports from major trading partners that have started on their recovery path.

"We see the steep GDP growth rebound in Q2'21 as a positive indication of the economy's ability to adapt to the lockdowns. Notwithstanding this, we foresee GDP growth pace to contract slightly in Q3'21 due to the reinstatement of a nationwide lockdown in mid-May that had significantly constrained economic activities."

The reopening could see forced household savings during the pandemic lockdowns turning into pent-up consumption and boosting private consumption. That said, MICPA and MARC noted that the pandemic-

induced production crunch, if not dealt with, will keep a lid on growth. Meanwhile, weakened corporate balance sheets could undermine private investment.

Exports, aided by a weaker ringgit and easing capacity constraints, will continue to lend support to the recovery. MICPA and MARC see the E&E industry remaining as the main driver of exports amid the global digitalisation drive and chip shortage. In the first seven months of 2021, E&E exports jumped by 20.4% on-year.

In any case, the export sector overall still faces risks from, among other things, the emergence of virus mutations and an uneven global economic recovery.

"Supply chain bottlenecks, which we expect to persist into 2022, could limit manufacturing output growth and, subsequently, exports. The global chip shortage continues to disrupt production lines such as that in the medical devices, automotive and consumer electronics industries. While our E&E industry has benefited from the chip shortage (about 7% of global semiconductor trade flows through Malaysia), major economies - including the US and China - could reorient production back to their respective domestic markets if we do not improve our foreign direct investment (FDI) strategies," the report said.

While the newly approved National

Investment Aspirations framework - a forward-looking growth framework that will form the basis for comprehensive reforms of Malaysia's investment policies - may be a timely initiative to attract quality FDI, MICPA and MARC think it lacks bite, especially given the sparsity of details.

Meanwhile, rising expenditure and revenue shortfalls will push the fiscal deficit up. "We believe more fiscal support will be forthcoming until Malaysia gets firmly on a recovery path."

MICPA and MARC see support for the ringgit coming from sturdy global crude oil prices and a healthy trade surplus. Upside will be limited given that the outlook remains overshadowed by downside risks that include a possible sovereign credit rating downgrade for Malaysia by an international credit rating agency due to its worsening fiscal outlook; delays in economic reopening caused by outbreaks of new viral variants; and heightened global capital market volatility if the US Federal Reserve decides to taper its stimulus earlier than expected.

The ringgit's performance will hinge on domestic economic conditions and political developments. Trending downwards since the start of 2021, the ringgit touched a one-year low of 4.24 against the US dollar in mid-August as intermittent lockdowns and political feuding hit investor confidence. It then recouped some of its losses following the rapid vaccination progress and the appointment of a new prime minister. At 5pm yesterday, Bank Negara Malaysia (BNM) quoted the ringgit at 4.1538 against the greenback.

The report said BNM will keep the Overnight Policy Rate at the historical low of 1.75% until Malaysia is firmly in recovery mode.

