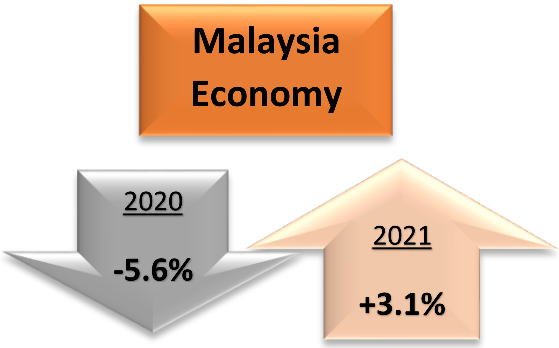
Malaysia's economy on right track following uneven 2021 recovery

March 2022

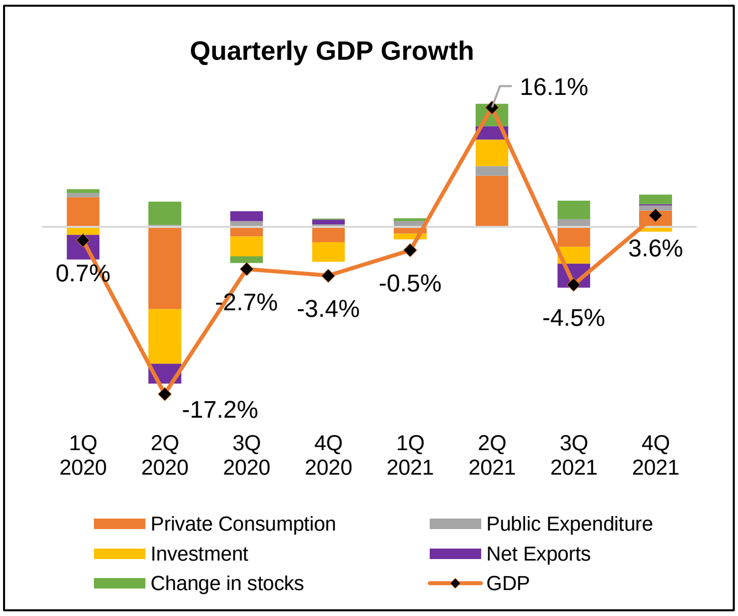
Economists:
Lynette Lee
Toh Wei Liang

Strategic Credit & Economic Analytics
SMEBank-SCEA@smebank.com.my
(603) 2615 2020



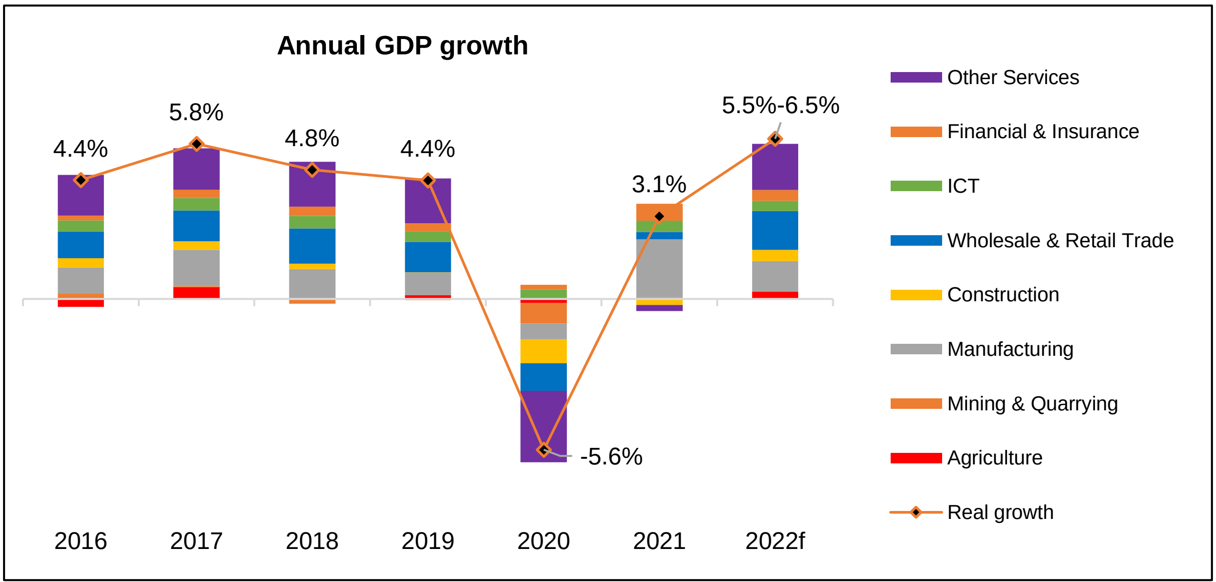
In 2021, Malaysia's economy chalked up 3.1% growth, following a sharp -5.6% contraction in 2020. The GDP growth came in within our expectations of 3%-4%, albeit titled to the lower end.

Quarterly performances were uneven, affected mainly by the re-instatement of mobility control measures throughout 2021. Economic recovery was relatively strong in 4Q due to pent up demand arising from the easing of containment measures under the National Recovery Plan. Nonetheless, the **Index of Wholesale and Retail Trade expanded at a more moderate pace of 0.6% in December 2021** (November: 2.4%). This reflected mainly **slowing activities in the retail segments** amid **rising price pressures** faced by consumers in the last quarter of the year.



On the supply side, the Agriculture, Mining & Quarrying, Construction and Services sectors had not rebounded to their 2019 levels. Notably, the Mining & Quarrying, and Construction sectors were 10% and 23.6% lower, respectively. The Manufacturing sector's GDP, on the other hand, surpassed its pre-pandemic benchmark by 6.6%. In terms of growth rate, the Manufacturing sector recorded an exemplary 9.5% y-o-y amid the continued upcycle in global technology, anchoring the overall growth in 2021. Within the Services sector, the imbalanced recovery was also seen in a marked divergence in sub-sectors' performance between those unaffected (finance & insurance: +10.2%; ICT: +6.3%; utilities: +2.6%) and those wrought severely by the lockdown measures (F&B: -8.9%; hotels: -24.4%; real estate: -13.1%).

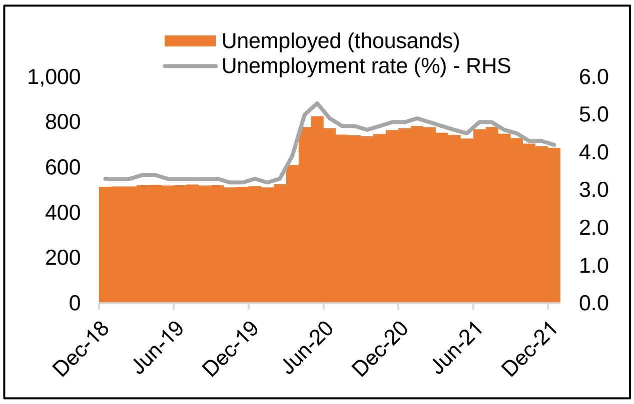
On the demand side, except for public spending which was fuelled by the expansionary budget, the GDP components of **private consumption and investment in 2021 were below that of 2019's.** Nevertheless, **export activities, which soared 15.9% y-o-y,** were above 2019 levels, underpinned by **buoyant global demand for Electrical & Electronics products, palm oil and refined petroleum.**



Against the backdrop of global and domestic economic reopening, **the government expects 2022 GDP growth to come in at 5.5%-6.5%**. **Our projection is broadly in line,** premised on healthy growth momentum this year as the country transitions to the endemic phase. Nonetheless, **downside risks** such as a weaker-than-expected global growth and worsening supply bottleneck situation exacerbated by ongoing geopolitical conflict, could affect Malaysia's manufacturing performance and export prospects.

While Covid-19 cases and hospitalisations are skyrocketing lately amid the spread of the Omicron variant (Feb 24: record high of 32,070 daily positive cases), we derive comfort from the nation's high vaccination rate. As at end-Feb 2022, close to 80% of total population have been inoculated with at least 2 doses of vaccines. This, in turn, suppresses fatality rate to less than 1% and helps reduce the strain on the healthcare system. Situation these days are no longer the same as 2 years ago as consumers and businesses have adapted their lifestyles. Hence, a **nationwide lockdown is highly unlikely, which bodes well for the economy**. That said, localised lockdowns are still probable for places with high number of Covid cases.

Furthermore, the government's proposal to fully open international borders by May 2022 is expected to fuel the economic recovery trend. This would mean fully vaccinated foreigners can visit Malaysia without going through mandatory quarantines. The beleaguered **Services sector, particularly those tourism related SMEs**, would benefit from this measure and accelerate recovery.



Meanwhile, improved labour market conditions (unemployment rate – 4Q21: 4.3%; 4Q20: 4.8%) also indicate higher households purchasing power. We foresee pent up consumer spending to support economic activities, especially in the lead up to festive seasons.

Considering the resumptions and commencement of infrastructure projects, such as LRT3, Johor-Singapore Rapid

Transit System, the Pan Borneo highways, MRT3 and the upgrading of Klang Valley Double Track Phase 2 as well as digital infrastructure for the 5G rollout, the Construction sector is likely to record a fruitful year. The government expects the **Construction industry to clock in a robust 11.5% growth in 2022** (2021: -5.2%). Stronger growth in the sector will further lift the economy due to construction activities' **high multiplier effect.**

To play our catalytic role in facilitating Malaysia's economic recovery, SME Bank, in collaboration with SME Corporation Malaysia, has recently offered a **fixed working capital financing**. The **RM50 million facility aims to assist SMEs** that needed an injection of funds to enable them to continue to operate during and post-Covid-19 pandemic. SMEs are allowed to utilise the approved financing for operating expenses and salaries. Previously, working capital funding was limited to renovation projects, purchase of raw materials and inventory. Each company is eligible to borrow up to RM500,000, with a profit rate of 4% per annum. We welcome entrepreneurs to drop us a visit to secure a credit lifeline to ride on the country's recovery trajectory.