



## **MARC RATINGS BERHAD**

# **P R E S S   A N N O U N C E M E N T**

### **ASIA A SOURCE OF STABILITY AMID RISING UNCERTAINTIES**

Global economic growth is expected to slow down from 3.4% in 2022 to 2.6% in 2023 against the backdrop of monetary policy tightening in advanced economies. While supply chain normalisation should support the recovery, economic momentum in advanced economies will likely remain uneven. The impact of an extended period of rate hikes in the US and Europe will continue to be felt throughout 2H2023, exacerbated by the slower-than-expected recovery in China's economy.

The contractionary impact of tighter monetary policy on real economic activity and financial markets will continue to linger regardless of the potential of future rate cuts by the European Central Bank and US Federal Reserve. Even if rate cuts were to occur in as early as 2H2023, the lagged impact of policy reversal will only materialise in 2024. Aggressive tightening of monetary policy by the advanced economies which could lead to a policy mistake is a heightening risk to the global economy.

Meanwhile, China responded to the ongoing global macroeconomic risks with its recent interest rate cuts. Interest rate policy expectations in Asia in the near term is mixed, although there are expectations for potential rate cuts over the next 12 months. In view of this, Asia's slowdown will likely be milder than that of advanced economies and provide a source of stability for global economic growth.

Malaysia's economic activity has slowed in tandem with the rest of the world. Of note, 1Q2023 gross domestic product (GDP) growth was higher than expected, while the contractions in the May and June 2023 exports have improved (-0.9%; -14.1%) compared to April's -17.6% y-o-y. Taking into consideration the latest Purchasing Managers' Index reading with a mild contraction, 2Q2023 GDP data is likely to moderate and be slightly lower than the level seen in 1Q2023, rather than fall significantly. For now, we maintain our full-year 2023 GDP growth forecast at 4.2% (2022: 8.7%).

We foresee inflation to soften this year and well into 2024, from 3.3% in 2022 to 2.8% in 2023 and 2.5% in 2024, with some upside risk. Overall, the narrative of global risk factors together with the easing

inflation trend should provide Bank Negara Malaysia the scope to keep the overnight policy rate unchanged at 3.00% for the remainder of the year.

Going into 2024, the global economy is expected to improve, premised on a firmer recovery in China following accommodative government policy and more dovish monetary policy by central banks. For the Malaysian economy, stronger external demand coupled with firmer domestic demand on continued recovery in the tourism sector will underpin a stronger GDP growth of 4.5% in 2024.

The full report can be accessed [here](#).

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July 31, 2023

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