



From the Desk
of the
Chief Economist

BANK ISLAM

MALAYSIA'S GDP EXPANDED BY 8.9% DURING 2Q2022

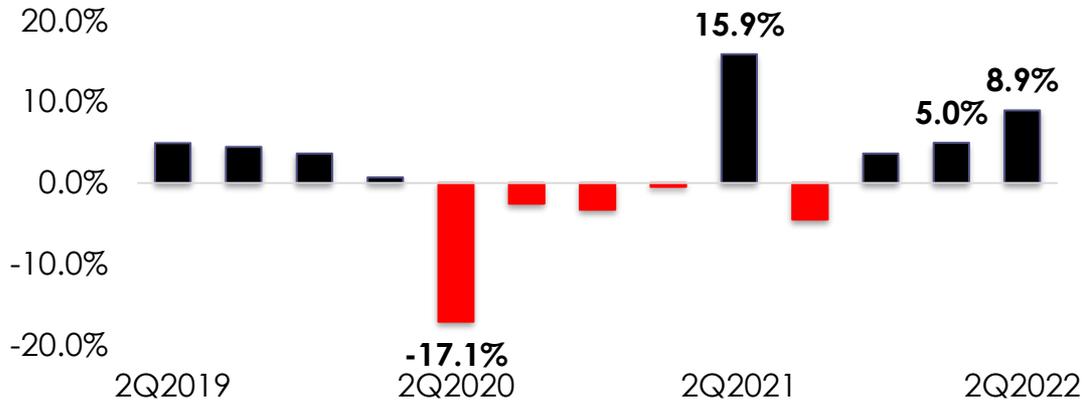
12 AUGUST 2022

ECONOMIC RESEARCH

**SAZRIN MOHD RAZAK
SHAFIZ JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

MALAYSIA'S GDP GREW BY 8.9% IN 2Q2022 AMID THE REOPENING OF INTERNATIONAL BORDER BEGINNING 1 APRIL 2022

GDP growth, y-o-y%



Sources: BNM, CEIC, DOSM

2Q2022: 8.9%

1Q2022: 5.0%

Key Factors:

- ✓ Expansion in domestic demand
- ✓ Continued recovery in labour market
- ✓ Resilient exports, particularly for Electrical and Electronic (E&E) products
- ✓ Ongoing policy support

- ✓ Malaysia's Gross Domestic Product (GDP) accelerated further by 8.9% year-on-year (y-o-y) in 2Q2022 (**Consensus: 6.7%, Bank Islam: 10.3%**) after rising by 5.0% in the previous quarter.
- ✓ Aside from the lower base recorded in 2Q2021, the strong growth during the quarter was underpinned by higher domestic demand (2Q2022: 13.0% vs. 1Q2022: 4.4%) following further normalisation of economic activity and robust recovery in the labour market.
- ✓ This can be reflected from the monthly GDP which showed positive performance during April, May and June that grew by 5.6%, 5.0% and 16.5% respectively.
- ✓ Apart from that, consumer spending shot up by 18.3% in 2Q2022 after climbing by 5.5% in the previous quarter driven by policy support from the government such as the implementation of minimum wage hike, Bantuan Keluarga Malaysia (BKM), as well as special Employees Provident Fund (EPF) withdrawal.
- ✓ In fact, the strength in the consumer spending also was attributable to the recovery in the labour market which saw the unemployment rate continued to decline (2Q2022: 3.9% vs. 1Q2022: 4.1%) since 3Q2021.
- ✓ As such, the reopening of county's border which began in April this year spells a positive development in the Malaysian economy despite headwinds from the external front.
- ✓ However, we do not rule out the fact that the country's growth is liable to a weaker-than-expected global outlook, further escalation of geopolitical conflicts and worsening supply chain disruptions.

ECONOMIC ACTIVITIES CONTINUED TO NORMALISE AS THE COUNTRY MOVED TOWARDS ENDEMICITY

Y-o-Y%	Share (2021)	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	1H2021	1H2022
GDP	100.0%	-17.2%	-2.7%	-3.4%	-0.5%	15.9%	-4.5%	3.6%	5.0%	8.9%	7.0%	6.9%
Domestic Demand (excluding stocks)	92.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.3%	-4.2%	1.9%	4.4%	13.0%	4.9%	8.6%
Private Sector	74.4%	-20.4%	-4.0%	-4.0%	-0.9%	13.0%	-4.4%	2.5%	4.4%	15.4%	5.3%	9.6%
-Consumption	58.8%	-18.5%	-2.1%	-3.5%	-1.5%	11.7%	-4.2%	3.7%	5.5%	18.3%	4.3%	11.5%
-Investment	15.6%	-26.1%	-10.8%	-6.6%	1.3%	17.3%	-4.9%	-2.8%	0.4%	6.3%	8.7%	3.4%
Public Sector	18.3%	-11.1%	0.1%	-5.7%	-1.5%	9.0%	-3.5%	0.1%	4.8%	2.8%	3.3%	3.8%
-Consumption	13.8%	2.2%	6.8%	2.4%	5.9%	8.2%	7.1%	1.6%	6.7%	2.6%	6.9%	4.7%
-Investment	4.5%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-28.9%	-3.4%	-0.9%	3.2%	-6.9%	1.0%
Net Exports of Goods and Services	6.0%	-37.9%	19.2%	10.0%	0.8%	57.6%	-39.9%	0.8%	-26.5%	-28.7%	27.7%	-27.6%
-Exports	69.1%	-21.7%	-4.9%	-2.1%	11.9%	37.1%	4.2%	13.0%	8.0%	10.4%	23.3%	9.2%
-Imports	63.1%	-19.7%	-7.9%	-3.3%	13.0%	35.5%	11.4%	14.5%	11.1%	14.0%	22.9%	12.6%

Y-o-Y%	Share (2021)	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	1H2021	1H2022
Services	57.0%	-16.2%	-3.9%	-4.6%	-2.3%	13.4%	-4.9%	3.2%	6.5%	12.0%	4.9%	9.2%
Manufacturing	24.3%	-18.4%	3.2%	3.0%	6.7%	26.7%	-0.8%	9.1%	6.6%	9.2%	15.8%	7.9%
Agriculture	7.1%	0.6%	-0.5%	-1.2%	0.1%	-1.5%	-2.0%	2.8%	0.1%	-2.4%	-0.7%	-1.2%
Mining and Quarrying	6.7%	-19.2%	-6.6%	-9.8%	-4.4%	10.6%	-3.2%	-0.6%	-1.1%	-0.5%	2.4%	-0.8%
Construction	3.7%	-44.3%	-12.2%	-13.7%	-10.5%	40.3%	-20.6%	-12.3%	-6.2%	2.4%	8.3%	-2.1%

Sources: BNM, CEIC

DEMAND SIDE – DOMESTIC DEMAND INCREASED BY DOUBLE-DIGIT GROWTH DURING THE QUARTER



Private Consumption

2Q2022:
18.3%
1Q2022:
5.5%



Private Investment

2Q2022:
6.3%
1Q2022:
0.4%



Exports

2Q2022:
10.4%
1Q2022:
8.0%



GDP

2Q2022:
8.9%
1Q2022:
5.0%



Public Consumption

2Q2022:
2.6%
1Q2022:
6.7%



Public Investment

2Q2022:
3.2%
1Q2022:
-0.9%



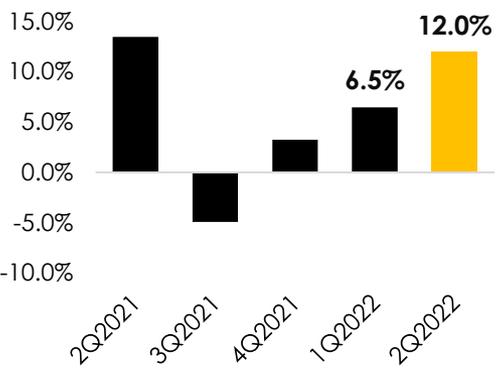
Imports

2Q2022:
14.0%
1Q2022:
11.1%

- ✓ Growth was mainly driven by firm domestic demand (2Q2022: 13.0% vs. 1Q2022: 4.4%) following steady recovery in the labour market and ongoing policy support.
- ✓ Other than that, continued strength for the demand of E&E remains the primary driver of exports despite moderation in the global growth.

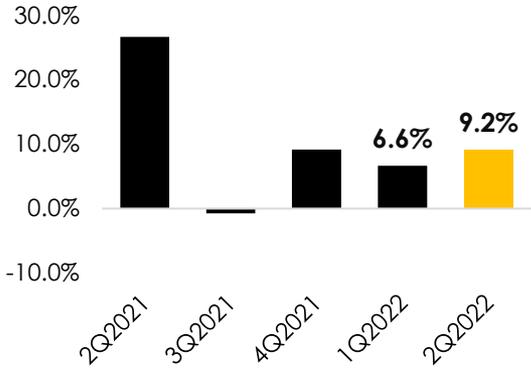
GDP BY ECONOMIC SECTOR- SERVICES ACTIVITIES HAVE BOOSTED THE OVERALL PERFORMANCE

Services



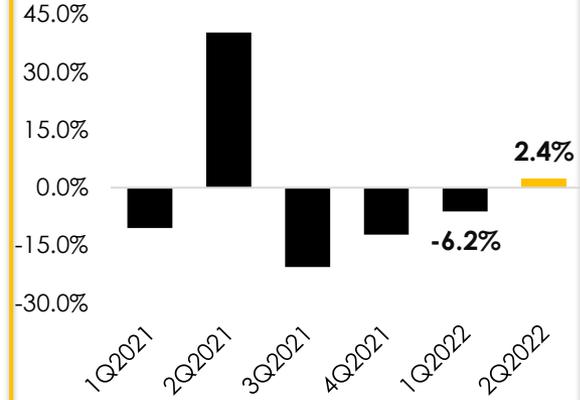
Mainly contributed by transition to endemicity, reopening of international borders alongside additional policy support.

Manufacturing



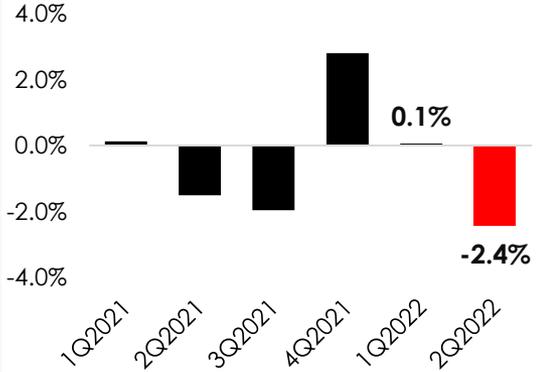
Strong external and domestic demand for semiconductors and consumer-related products.

Construction



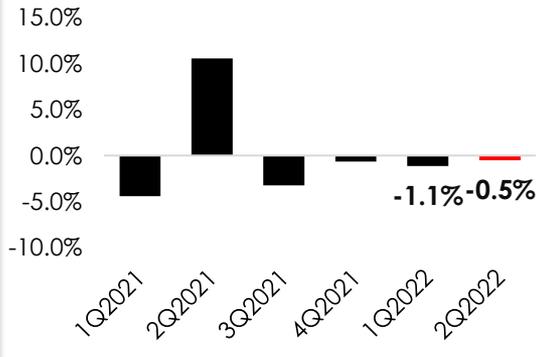
Higher progress in large non-residential and small-scale projects.

Agriculture



Weaker production of livestock and other agriculture products amid rising input costs and prolonged labour shortages issue.

Mining



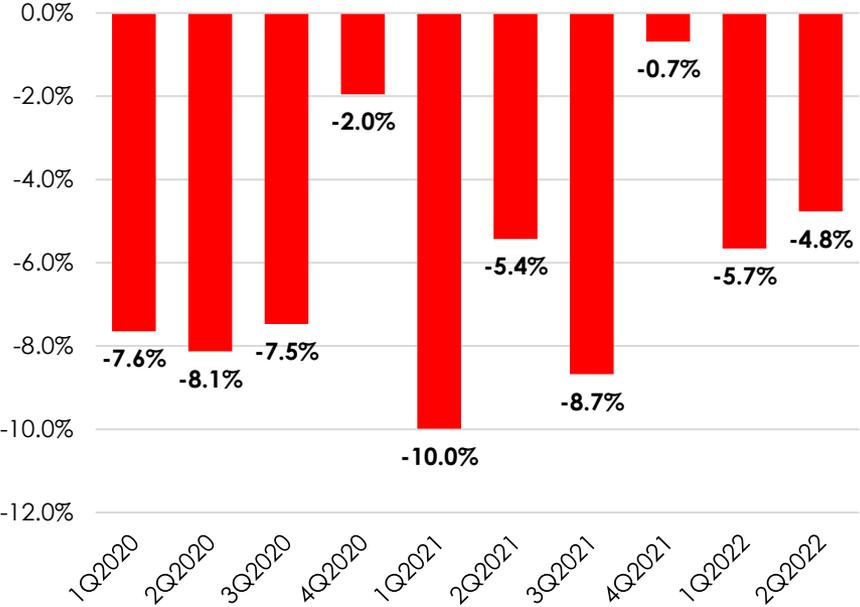
Smaller contraction in mining supported by higher production in oil and gas facilities, including from the Pegaga gas field in Sarawak.

- ✓ **Service and manufacturing** activities were the main drivers of stronger GDP growth during 2Q2022.
- ✓ Meanwhile, agriculture and mining contracted during the quarter.

Sources: CEIC, DOSM, BNM
ECONOMIC RESEARCH

FISCAL DEFICITS HAVE NARROWED WHILE EXTERNAL DEBT REMAINED MANAGEABLE DURING 1H2022

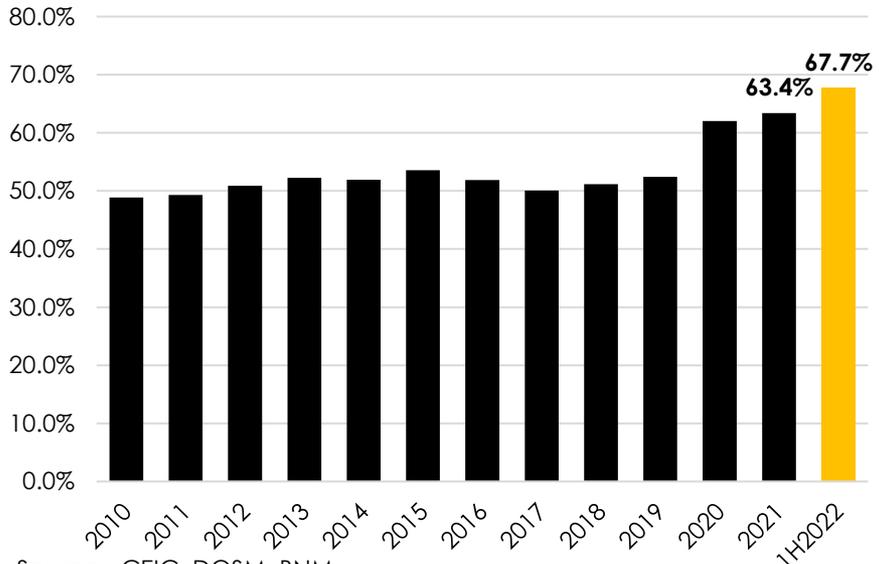
Fiscal Deficits, % of GDP



Sources: CEIC, DOSM, BNM

- ✓ The fiscal deficits slightly improved to 4.8% in 2Q2022 from 5.7% in 1Q2022 in view of lower net development expenditure (2Q2022: RM13.4 billion vs. 1Q2022: RM16.6 billion) and Covid-19 fund allocation (2Q2022: RM4.1 billion vs. 1Q2022: RM5.4 billion) while better economic performance in 2Q2022 have supported the fiscal deficits.
- ✓ Moving forward, we believe the government will be in tight position due to higher subsidy allocation needed in 2022 that will drain the fiscal coffer.

Federal Government Debt to GDP ratio, %



Sources: CEIC, DOSM, BNM

- ✓ Malaysia's federal government debt to GDP ratio was higher to 67.7% in 1H2022 compared to 63.4% at the end of 2021.
- ✓ This was mainly due to weaker Ringgit against selected regional currencies during first half of 2022.
- ✓ Be that as it may, a total of RM377.7 billion was in Ringgit-denominated and hence, it would cushion the risk from fluctuation in currency exchange.

HIGHER NET INFLOWS FROM CURRENT ACCOUNT WERE RECORDED DURING 2Q2022 AS COMPARED TO THE PREVIOUS QUARTER

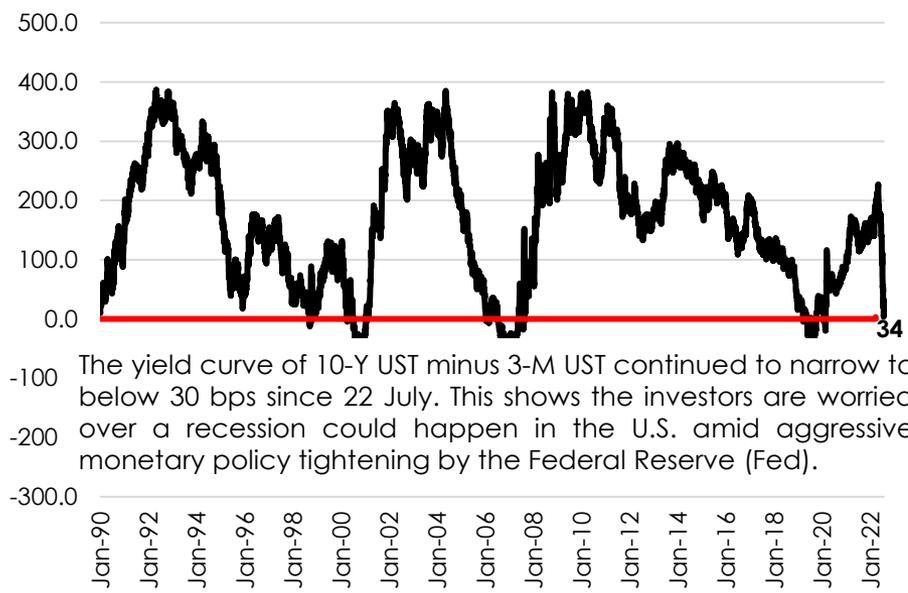
RM Billion	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	1H2021	1H2022
Current Account	5.6	26.5	18.9	11.9	13.2	18.2	15.3	3.0	4.4	25.2	7.4
% GDP	1.9%	7.2%	5.0%	3.2%	3.6%	4.8%	3.6%	0.7%	1.0%	3.4%	0.9%
Goods	23.7	43.1	42.8	36.7	40.7	41.5	51.8	40.5	34.0	77.3	74.6
Services	(12.4)	(13.4)	(13.8)	(14.8)	(15.2)	(15.3)	(15.4)	(15.0)	(12.3)	(30.0)	(27.3)
Primary Income	(3.8)	(10.3)	(7.3)	(6.3)	(10.8)	(4.8)	(19.6)	(20.1)	(14.7)	(17.1)	(34.9)
Secondary Income	(1.9)	7.1	(2.8)	(3.7)	(1.4)	(3.1)	(1.4)	(2.5)	(2.6)	(5.1)	(5.0)
Financial Account	(21.9)	(31.9)	(10.0)	16.6	(4.1)	(0.2)	0.7	30.4	0.2	12.6	30.7
Direct Investment	(0.6)	(2.5)	2.4	1.8	8.2	8.0	10.5	20.8	2.6	10.0	23.4
Asset	(0.9)	(9.1)	(2.8)	(8.0)	(8.4)	(15.3)	(17.2)	9.1	(17.0)	(16.4)	(8.0)
Liabilities	0.3	6.5	5.2	9.8	16.6	23.3	27.7	11.7	19.6	26.4	31.3
Portfolio Investment	20.6	(20.7)	(7.8)	(0.2)	20.1	(3.7)	2.6	(10.1)	(14.7)	19.9	(24.8)
Asset	(3.1)	(21.2)	(20.6)	(14.3)	(10.5)	(4.9)	(6.1)	(13.9)	(4.4)	(24.8)	(18.3)
Liabilities	23.7	0.5	12.8	14.2	30.6	1.2	8.7	3.8	(10.3)	44.7	(6.5)
Financial Derivatives	(0.6)	(0.5)	(0.9)	0.3	(1.5)	0.7	(1.8)	0.2	(0.2)	(1.2)	(0.0)
Other Investment	(41.2)	(8.1)	(3.7)	14.7	(30.9)	(5.2)	(10.6)	19.6	12.5	(16.2)	32.1
Errors and Omissions	10.0	3.9	(11.4)	(11.3)	(4.4)	3.4	(13.1)	(20.6)	0.3	(15.7)	(20.3)
Overall Balance	(6.4)	(1.6)	(2.6)	17.1	4.7	21.3	2.6	12.8	4.9	21.8	17.7

Sources: CEIC, BNM, Bank Islam

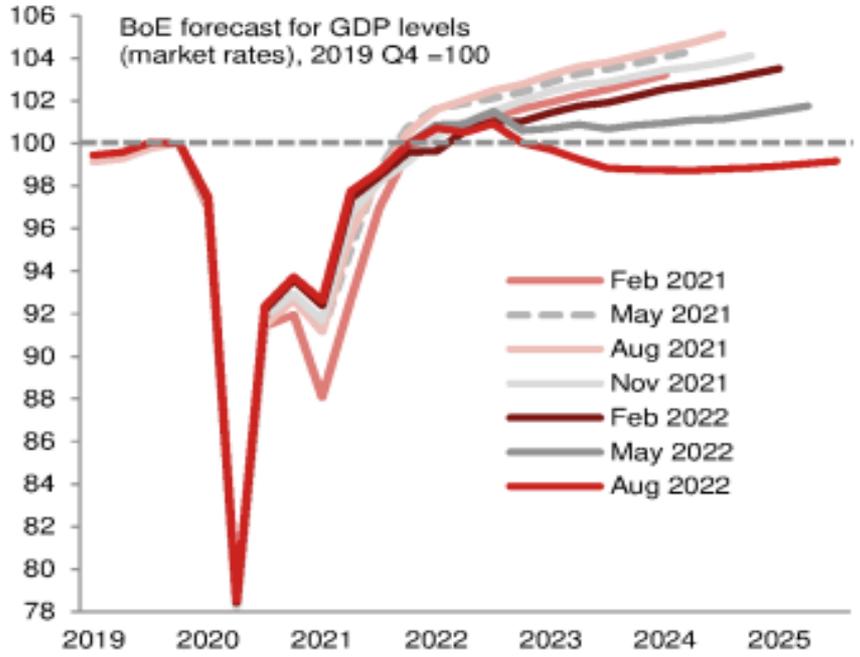
- ✓ Overall balance recorded net inflows of RM4.9 billion in 2Q2022, lower than RM12.8 billion net inflows reported in the preceding quarter.
- ✓ This was mainly contributed by the decline in Financial Account net inflows (2Q2022: RM0.2 billion vs. 1Q2022: RM30.4 billion), particularly from Direct Investment (2Q2022: RM2.6 billion vs. 1Q2022: RM20.8 billion).
- ✓ However, Current Account registered higher surplus of RM4.4 billion in 2Q2022 (1Q2022: RM3.0 billion) due to smaller deficits from Services (2Q2022: -RM12.3 billion vs. 1Q2022: -RM15.0 billion) and Primary Income (2Q2022: -RM14.7 billion vs. 1Q2022: -RM20.1 billion).

INFLATION HAS ALTERED ECONOMIC MOOD WHILE RECESSION RISKS FROM ADVANCED ECONOMIES SEEM INEVITABLE

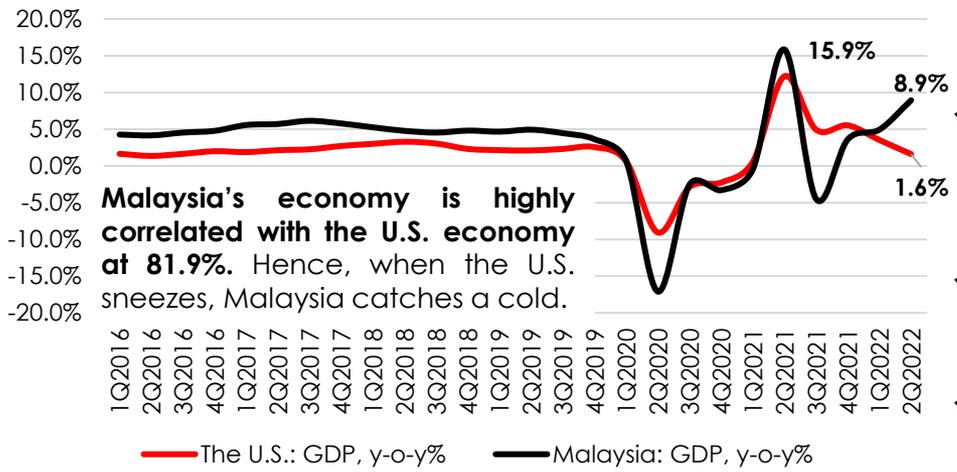
10-Y UST minus 3-M UST, bps



The yield curve of 10-Y UST minus 3-M UST continued to narrow to below 30 bps since 22 July. This shows the investors are worried over a recession could happen in the U.S. amid aggressive monetary policy tightening by the Federal Reserve (Fed).



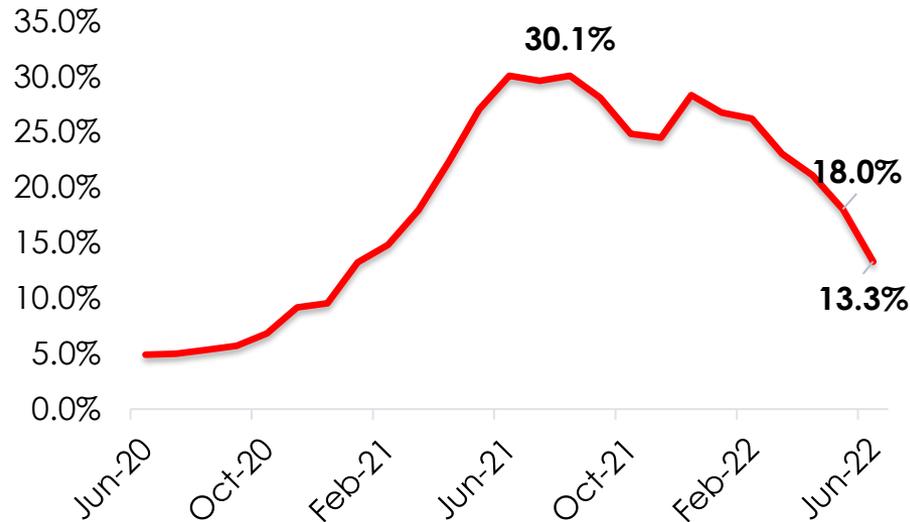
The U.S. & Malaysia GDP



Malaysia's economy is highly correlated with the U.S. economy at 81.9%. Hence, when the U.S. sneezes, Malaysia catches a cold.

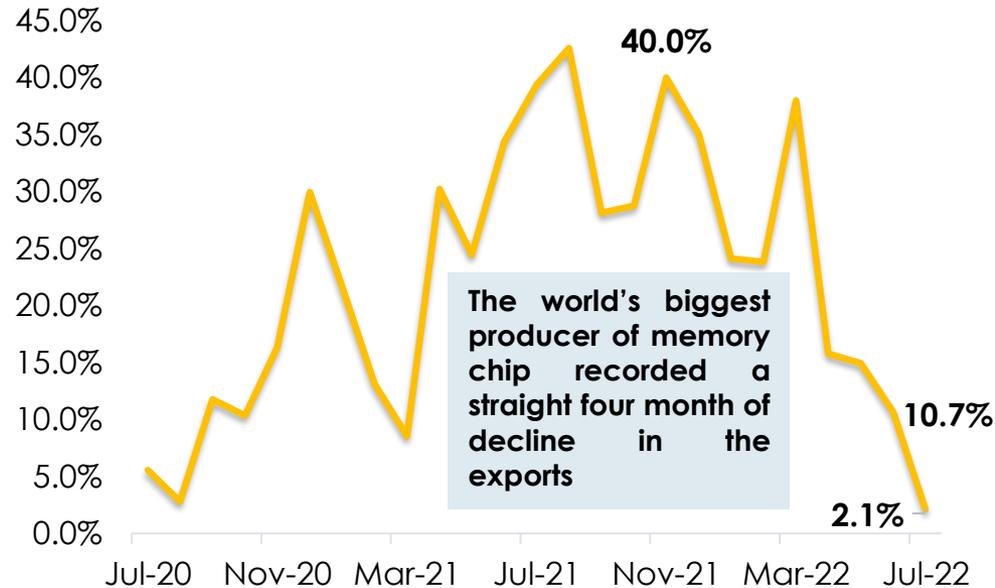
- ✓ Inflationary pressures in the U.K. and the rest of Europe have intensified significantly over the months.
- ✓ The main culprit was owing to Russia's restriction of gas supplies to Europe and the risk of further curbs which have pushed up the gas prices and headline inflation in the U.K. and the bloc.
- ✓ Following this, the central banks have decided to tighten their monetary policy aggressively to ward-off the inflation.
- ✓ Apart from that, the BoE has projected that the country could enter recession in 4Q2022 this year.

Global Sales Semiconductor (GSS), y-o-y%



Source: CEIC

South Korea: Exports of Semiconductor, y-o-y%

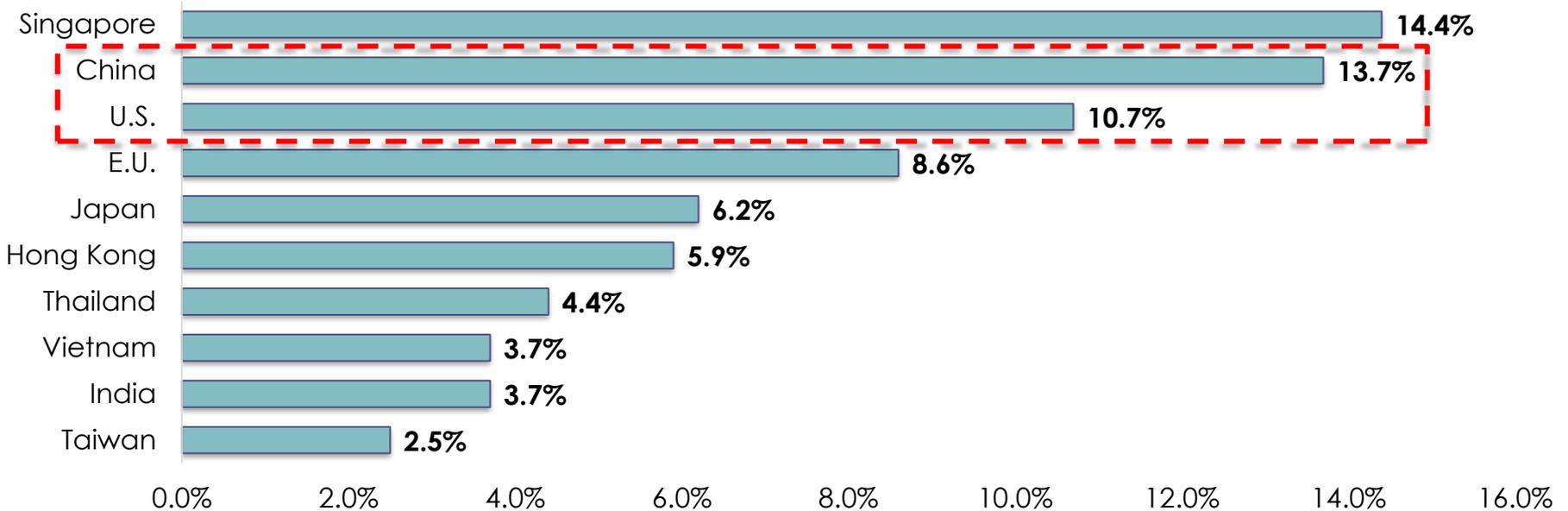


- ✓ World chip sales growth has shown a moderation trend since the start of this year, signaling that the global economy is weighed down by the central banks' hike interest rates and geopolitical tensions.
- ✓ The worldwide sales of semiconductors softened by 13.3% in June from 18.0% in the previous month, indicating the current slowdown is the longest since the U.S.-China trade war in 2018.

- ✓ Likewise, South Korea's exports for semiconductor dropped (July: 2.1% vs. June: 10.7%) in sign of cooling demand amid concerns mount about the world's economic outlook.
- ✓ Last month, the IMF slashed global GDP growth outlook to 3.2% from 3.6% projection made in April for this year, citing macroeconomic pressures as the key factors.

AT THE SAME TIME, RENEWED TRADE TENSIONS ARE ON THE SHOULDER OF THE SEMICONDUCTOR INDUSTRY

Malaysia's Top 10 Exports Destinations by Country (January – June 2022, %)

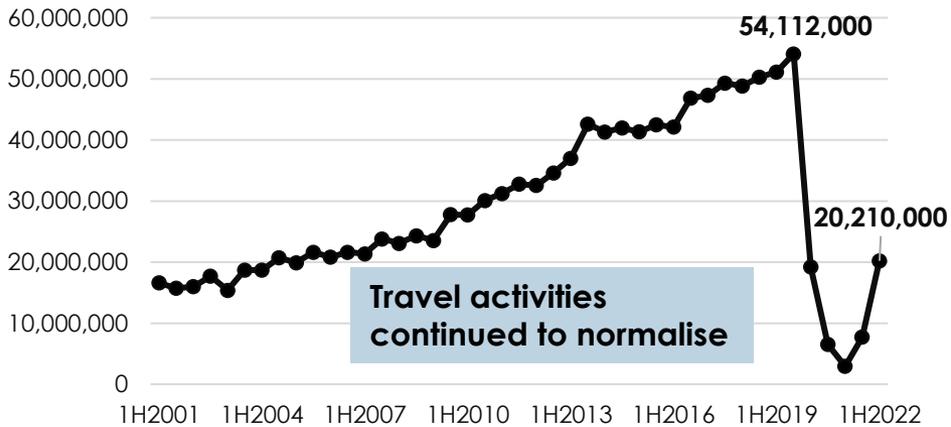


Sources: CEIC, DOSM

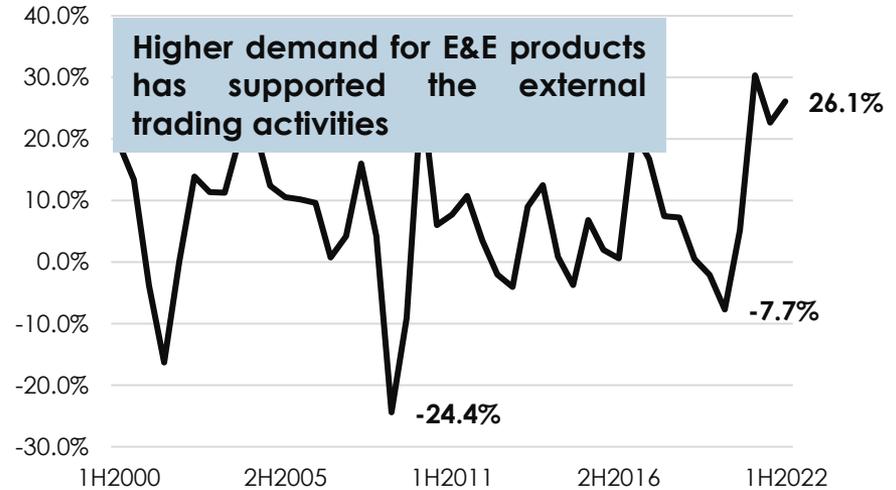
- ✓ Geopolitical tensions between the U.S. and China began to escalate following the U.S. House Speaker Nancy Pelosi's trip to Taiwan on 2 August 2022.
- ✓ Should the conflict grow rapidly, this could further disrupt the global supply chain particularly from the impact of the shipment and Taiwan's orders of the chip supply to the world since the country dominates the world's semiconductor's supply.
- ✓ Notably, China and the U.S. are major export destinations for Malaysia which accounting for 13.7% and 10.7% respectively after Singapore at 14.4%.
- ✓ Therefore, the heightened geopolitical conflict between the two countries could have strong negative impact on Malaysia's prospect in term of weaker export growth, as well as rising in the input costs.

OUR VIEW – IMPROVING ECONOMIC ACTIVITIES AND LABOUR MARKET CONDITIONS, AS WELL AS RISING COSTS OF LIVING WOULD LEAD TO HIGHER OPR DURING 2H2022

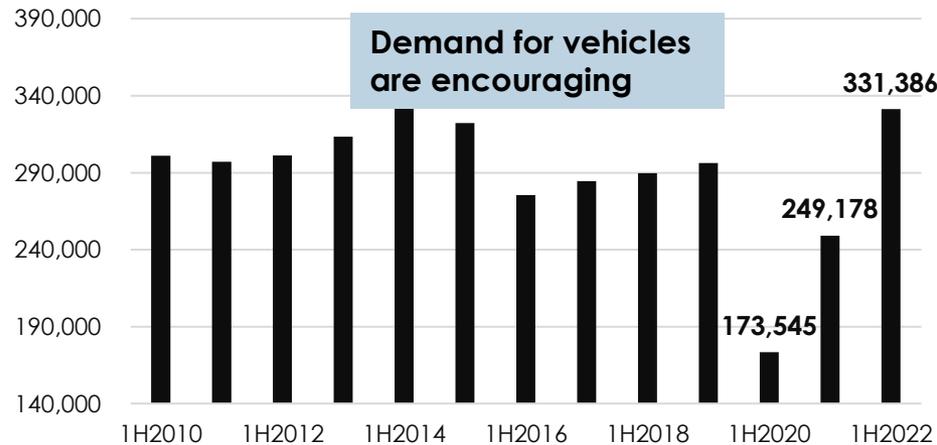
Malaysia Airports: Passenger Traffic, persons



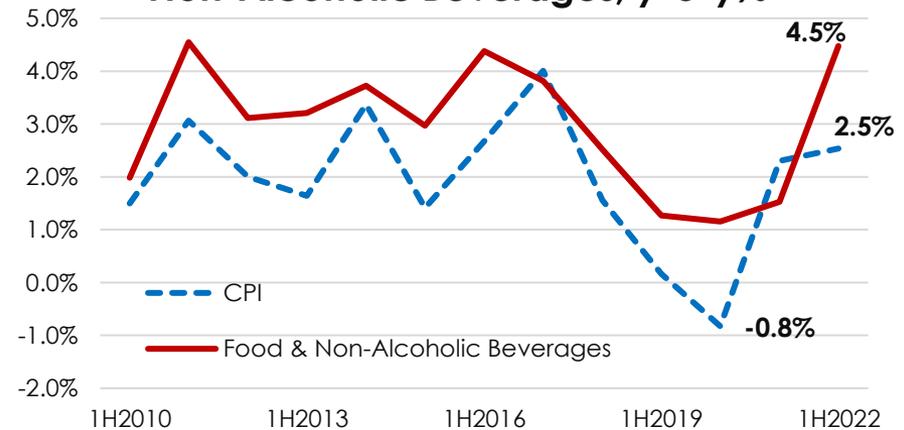
Exports, y-o-y%



Total Industry Volume (TIV), units



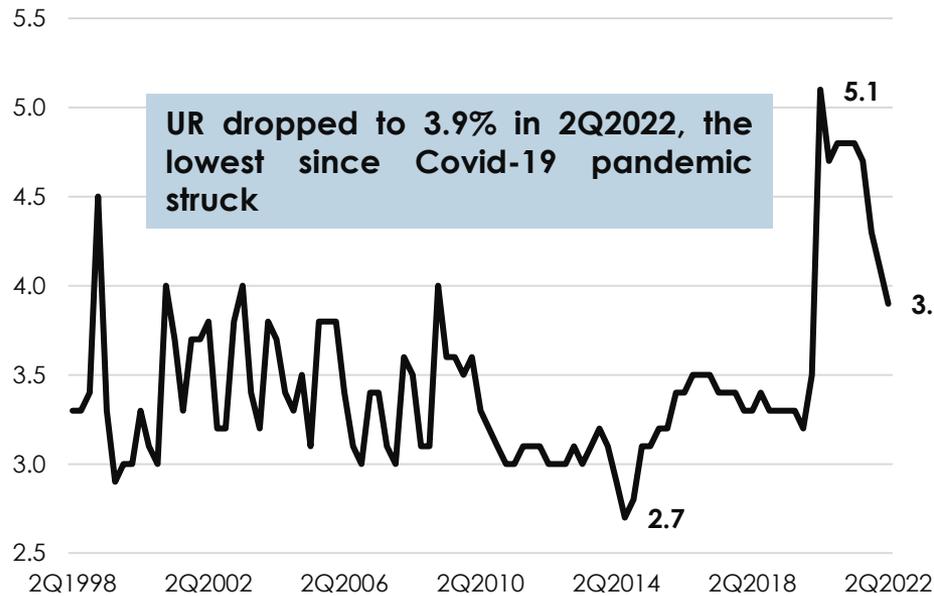
CPI: Headline vs. Costs of Foods & Non-Alcoholic Beverages, y-o-y%



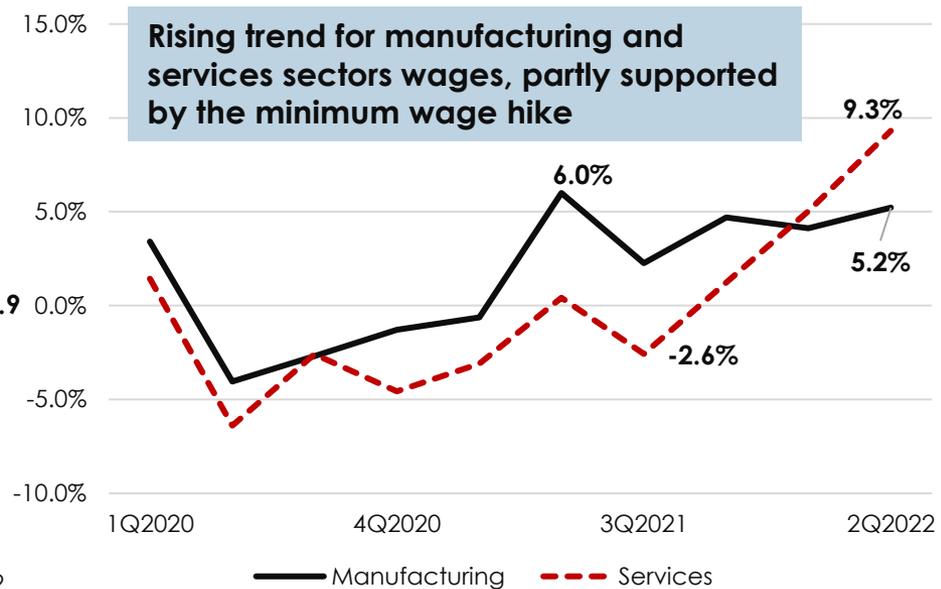
Source: CEIC

OUR VIEW – IMPROVING ECONOMIC ACTIVITIES AND LABOUR MARKET CONDITIONS, AS WELL AS RISING COSTS OF LIVING WOULD LEAD TO HIGHER OPR DURING 2H2022 (CONT'D)

Unemployment Rate (UR), %



Private Sector Wages, y-o-y%



Sources: CEIC, BNM

- ✓ These combination factors suggest a need for further policy normalisation. As such, September OPR hike seen imminent as Malaysia's economic recovery persists after the reopening of international borders beginning 2Q2022.
- ✓ Apart from that, following the demand and supply side pressures and higher food prices, these could further support the decision for BNM to raise the OPR to contain the inflationary pressures moving forward.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the urban landscape. The overall mood is warm and serene.

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APPENDIX: GOVERNMENT FISCAL POSITION IN 2Q2022

RM Billion	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022	1H2021	1H2022
Revenue	45.3	56.5	46.4	76.9	49.5	56.9	45.1	88.1	62.7	61.6	106.4	124.3
Operating Expenditure	62.1	51.9	56.8	53.7	62.2	55.2	50.7	63.5	64.6	65.2	117.4	129.8
Current Account	-16.7	4.5	-10.4	23.2	-12.7	1.7	-5.6	24.6	-1.9	-3.6	-11.0	-5.5
Net Development Expenditure	10.9	6.9	12.1	20.2	15.3	12.6	22.1	13.3	16.6	13.4	27.9	30.0
Covid-19 Fund	0.5	22.1	5.0	10.4	9.1	9.3	5.0	14.3	5.4	4.1	18.4	9.5
Overall Balance	-28.1	-24.6	-27.6	-7.4	-37.1	-20.2	-32.7	-2.9	-23.9	-21.1	-57.3	-45.0
Overall Balance, % of GDP	-7.6%	-8.1%	-7.5%	-2.0%	-10.0%	-5.4%	-8.7%	-0.7%	-5.7%	-4.8%	-7.7%	-5.2%

Sources: BNM, CEIC