Macroeconomic Outlook

Slower global growth in 2023

Uncertain global outlook amid elevated inflation and slower-than-expected economic recovery from China

The global economy is expected to grow at a slower pace in 2023. Resilient domestic demand, strong labour market conditions and recovery in services activity, particularly tourism will continue to support global growth. However, headwinds from persistently elevated inflation and higher interest rates remain. While China's reopening remains supportive of the global economy, the slower-than-expected pace of recovery in recent months will weigh on the global growth.

The balance of risks to global growth remains tilted to the downside, mainly from a slower momentum in major economies, higher-than-expected inflation, escalation of geopolitical tensions and a sharp tightening in financial conditions. Upside risk to global growth can arise from stronger-than-expected domestic demand particularly in advanced economies.

Malaysia's economic growth to remain moderate in 2H 2023

Growth will be supported by resilient domestic demand amid external headwinds

For the second half of 2023, the Malaysian economy is expected to expand at a moderate pace. Slower external demand will continue to weigh on economic activity particularly for the export-oriented sectors. Growth will be supported by domestic demand, underpinned by favourable labour market conditions, particularly in the domestic-oriented sectors. Tourist arrivals is expected to continue improving, thereby lifting tourism activities, while investment activity would be supported by implementation of multi-year investment projects. Domestic financial conditions also remain conducive to financial intermediation.

While the growth outlook is subject to some downside risks stemming from weaker-than-expected global growth, upside risks mainly emanate from domestic factors such as stronger-than-expected tourism activity and faster implementation of projects.

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Headline and core inflation to trend lower in 2H 2023

Both headline and core inflation are projected to moderate further

In line with expectations, headline inflation has continued to moderate to 2.8% in 2Q 2023 from the peak of 4.5% in 3Q 2022 amid lower cost factors. While core inflation has also moderated, it has been more persistent and remains elevated relative to the long-term average, amid lingering demand and cost factors. For the second half of 2023, both headline and core inflation are projected to trend lower within expectations, partly due to the higher base in the corresponding period last year. Nonetheless, risks to the inflation outlook remain subject to the changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

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