

2021 GDP GROWTH REVISION WAS INEVITABLE, HOPES ARE ON SECOND HALF TO LIMIT DAMAGE

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Last week saw the release of Malaysia's Q2 2021 GDP numbers, with a seasonally adjusted quarter-on-quarter decrease of 2% compared to Q1¹. This sluggish performance doesn't surprise of course, after the introduction of stringent lockdown measures in May and June, undermining performance for the quarter.

On the back of these numbers, the BNM revised its full-year GDP growth forecast down to a range of 3.0% to 4.0%, from the previous 6.0% to 7.5%. As we highlighted in our [10 questions to the BNM](#) in April, the writing was already on the wall even back then, due to the failure to bring the pandemic under control. Also as expected, the [meagre relief packages](#) announced by the government weren't able to offset the negative impact of the dismal handling of the pandemic, and the need to once again resort to lockdowns to manage the pressure on the healthcare system.

Even after this bleak picture for the first half of the year, there is **still plenty to worry about for the second half**. First and foremost, we are now deep into the third quarter, and the pandemic is plainly at the worst level it has ever been. There is **still no comprehensive FTIS strategy to speak of**, while bringing the pandemic under control remains the foundation of any economic recovery.

But there are also reasons to be cautiously optimistic. The focal point of our hopes for the economy is the national immunisation programme (PICK). It is proceeding apace, and reaching **80% of the adult population vaccinated** looks achievable in the coming weeks, at least in the Klang Valley. This should **translate into declining pressure**

on the healthcare system towards the end of Q3, hopefully enabling looser restrictions from then onwards. It is only then that we will start seeing the seeds of economic recovery at the societal level in the form of rebounding domestic demand through consumption, a key component of GDP that remains depressed and has actually taken another hit in the last quarter.

Economically, we're also seeing **modest positive effects from increased government spending and the accommodative monetary policy**. More importantly, Malaysian exports were buoyed over Q2 thanks to strong global demand. While that is expected to continue for the rest of the year, the outlook is now less certain than even a few weeks ago, due to the resurgence in global cases attributed to the Delta variant of the virus, and rising fears of a new wave in the northern hemisphere autumn.

So while the outlook **maybe brighter towards the end of the year, there are still plenty of downside risks**, and given the dynamics of the pandemic and the economy, we wouldn't expect a significant improvement until Q4. Considering these factors, ratings agency Fitch is now [forecasting 0% GDP](#) growth for Malaysia this year. Even if this proves too pessimistic it's already clear that 2021 is another wasted year for the economy, and it will be that much more difficult to return to pre-pandemic levels. **It is plain to see that as long as we remain in this precarious situation, fiscal support to the economy is paramount, at significantly higher levels than currently.** Then, hopefully, we can turn our attention to [policies to support the recovery](#) from 2022 onwards.

| ENDNOTES

1. On an annualised basis, the economy grew 16.1% compared to a year ago, but this is plainly due to the low-base effect from Q2 last year, when the first MCO was imposed.

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