



**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**Quarterly Economy Tracker**  
**(Oct-Dec 2018 & 2019 Outlook)**

**The Malaysian Economy –**  
**Glass Half Full or Half Empty?**

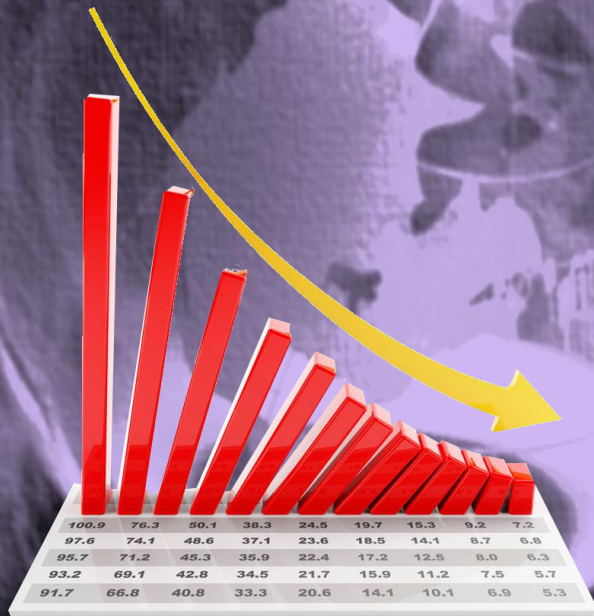
**Lee Heng Guie**  
**Executive Director, SERC**  
17 January 2019

# Key Messages



# Section 1

## The World Economy – *A synchronized slowdown*

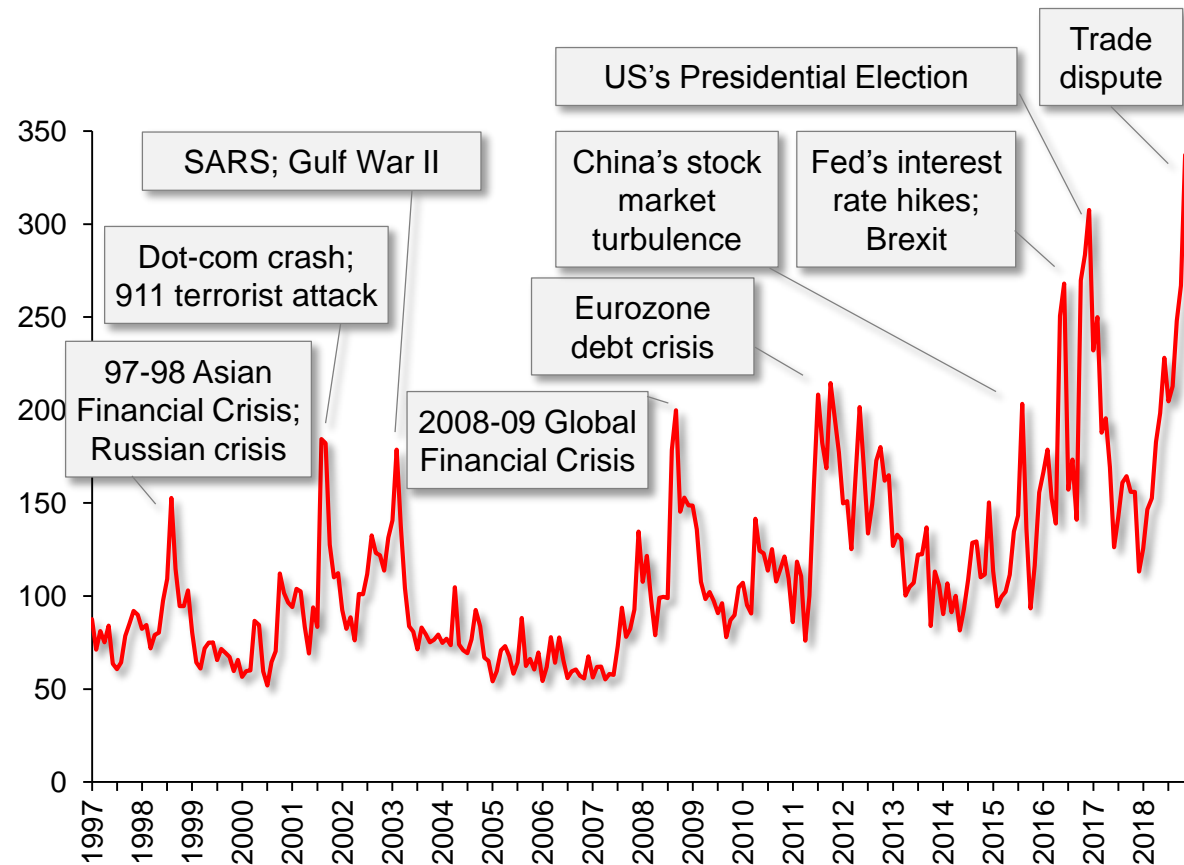


# Heightened UNCERTAINTIES weighing on global growth

Uncertainties in the global economy have soared to their highest level in Nov 2018.

- Lingering concerns and uncertainty about the **trade tensions**
- Uncertainty about the **Fed's future rate hikes**
- Concerns about **slowing global growth, the US and China economy**
- Induced **volatility in global financial markets**, including exchange rates in emerging markets
- Wide swings in **crude oil prices**
- **Geopolitical and political risks**

Monthly Global Economic Policy Uncertainty Index

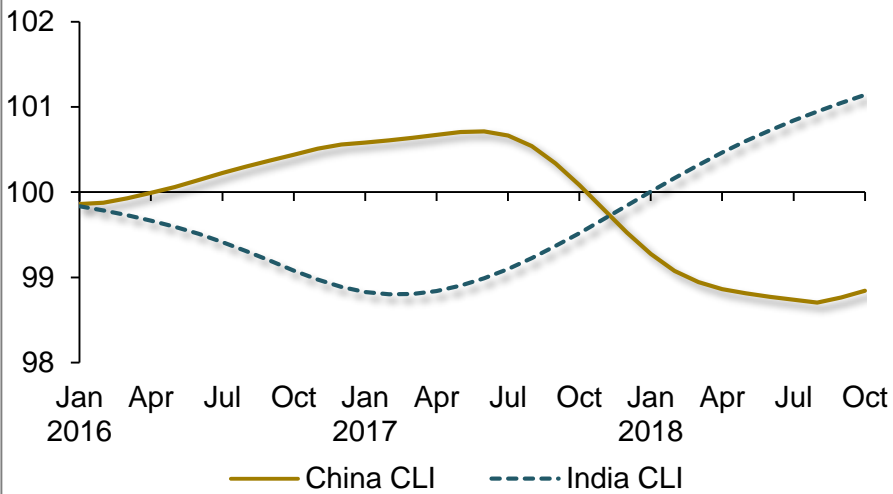
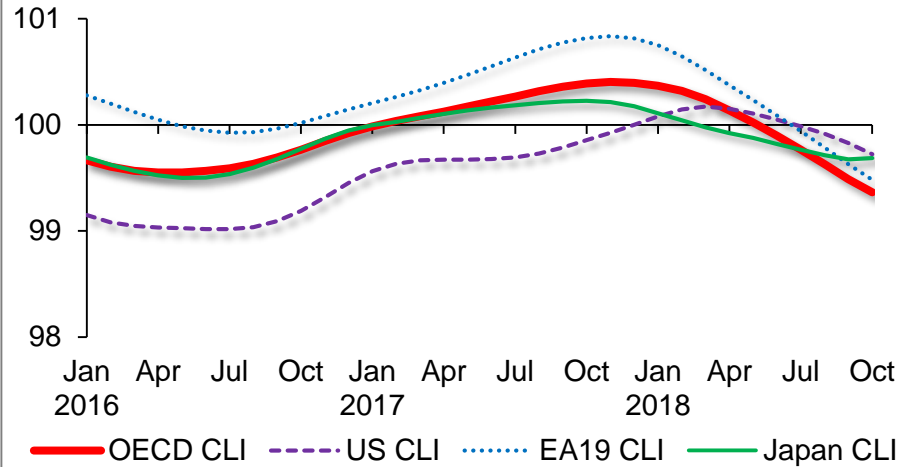


Source: Economic Policy Uncertainty

# Global indicators show growth PEAKING and is moderating

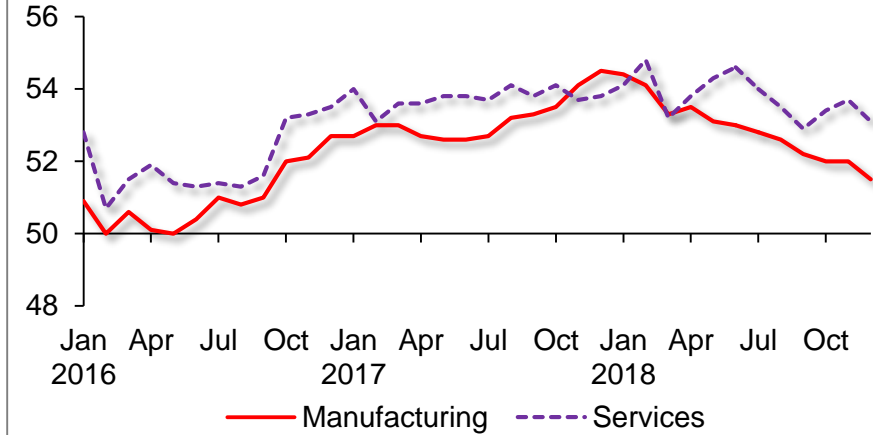
## Composite Leading Index – a gauge of economic outlook

(Long-term average = 100)



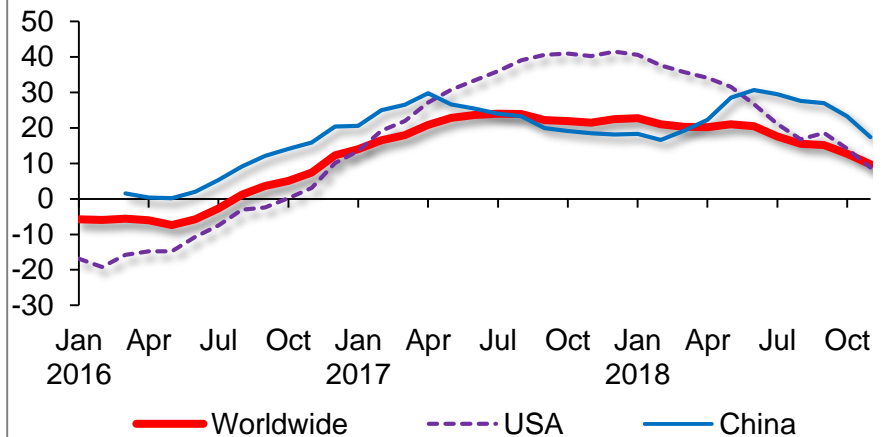
## Global PMI for manufacturing and services

(50 = no change on prior month)



## Global semiconductor sales

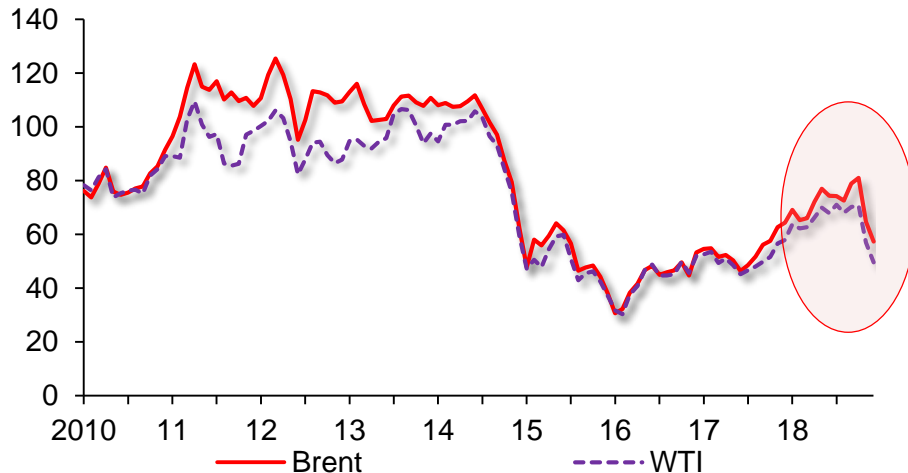
(%, 3-month moving average YoY)



Source: OECD

# COMMODITIES are flagging a WEAKER global economy

**Crude oil prices**  
(US\$/barrel, monthly average)



**Crude palm oil prices**  
(RM/metric tonne, monthly average)



Source: EIA; MPOB

- **Crude oil prices:**

- ❑ Surpassed US\$80/barrel in end-Sep 2018 but dropped dramatically recently (US\$51/bbl as at end-2018).
- ❑ **Downside risks:** Trade tensions, slower global economic growth, higher OPEC output, stronger than expected Canadian and US production.

- **CPO prices:**

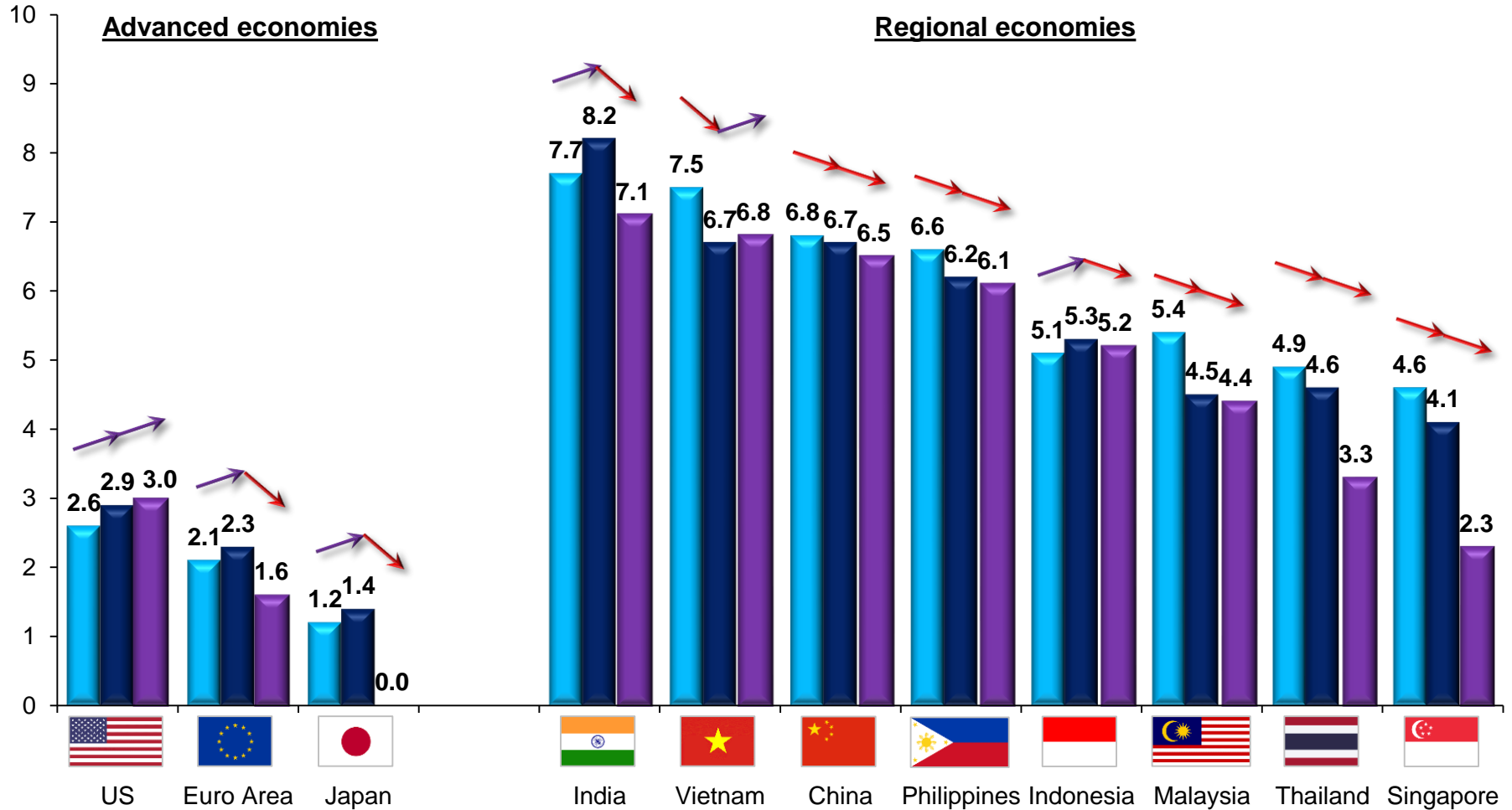
- ❑ High palm oil inventory in Malaysia and Indonesia. Stocks are piling up since May 2018.
- ❑ Soybean planting in South America.
- ❑ Proposed ban on the utilization of palm oil as biodiesel in Europe starting 2021.

# Uneven EXPANSION in advanced and regional economies...

Most countries' economic growth have moderated in 3Q18

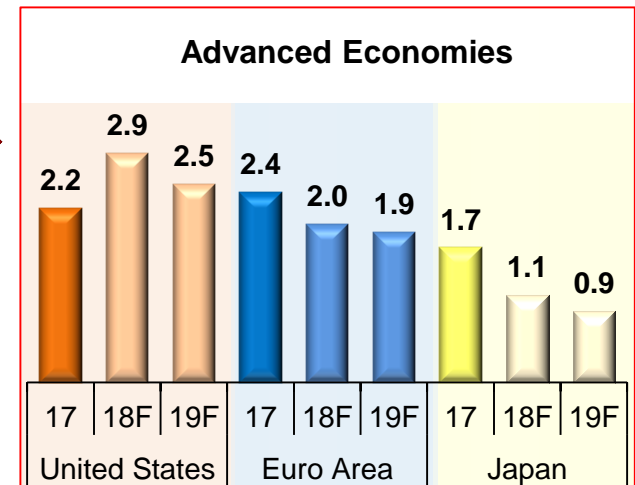
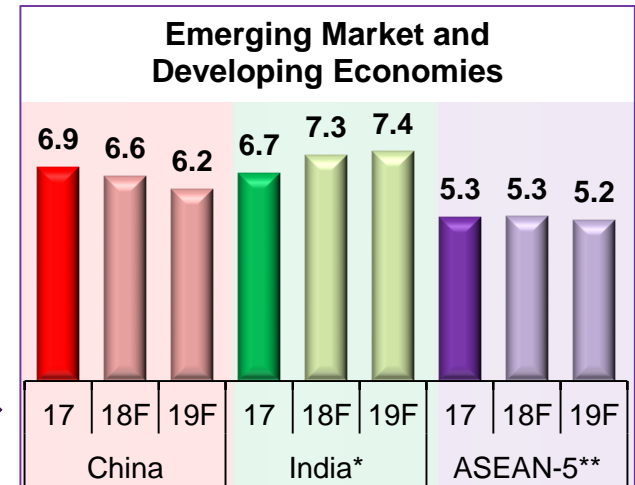
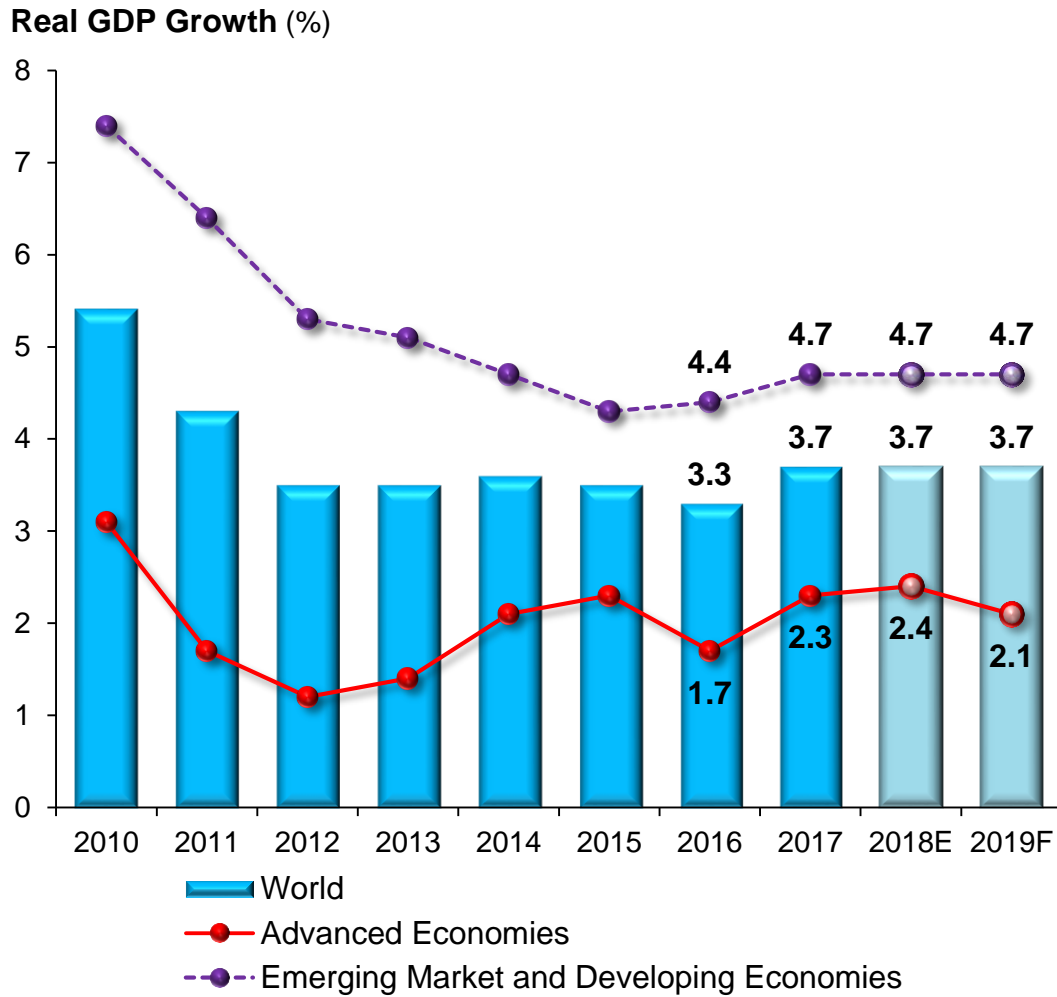
Real GDP growth (% YoY)

■ 1Q18 ■ 2Q18 ■ 3Q18



Source: Officials (unadjusted data)

# GROWTH prospects for advanced and emerging economies



Source: Officials; IMF (WEO, October 2018)

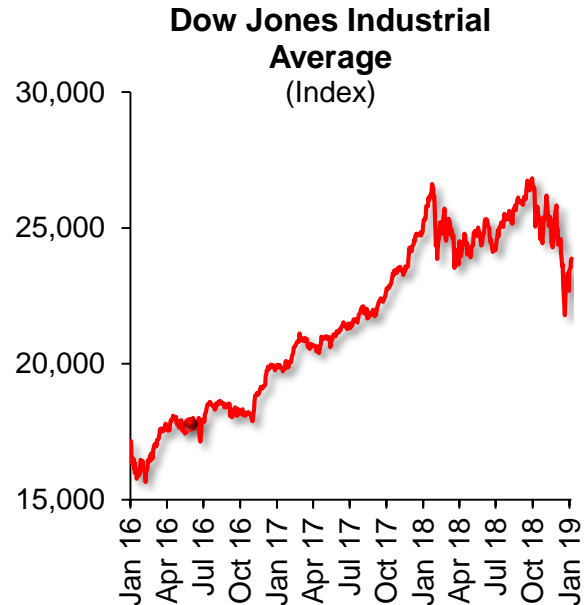
\* Annual GDP for India is on fiscal year basis

\*\* ASEAN-5: Malaysia, Indonesia, Philippines, Thailand, Vietnam

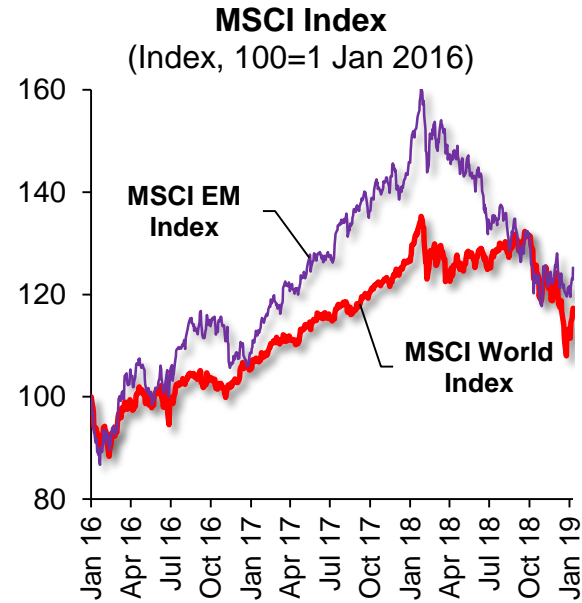


# Global equity markets VOLATILITY

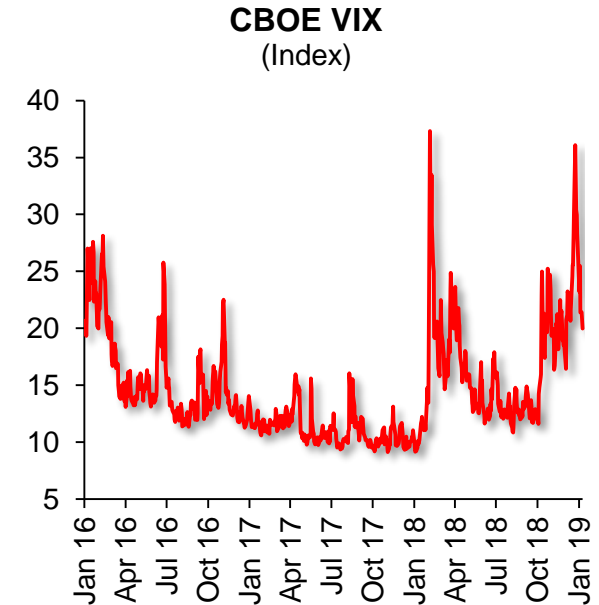
A correction in DJIA after hitting record highs



2018 was a bad year for emerging markets' equities



Two sharp spikes (above 30-pts) in the 'Fear index' over past twelve months



Source: WSJ; MSCI; CBOE



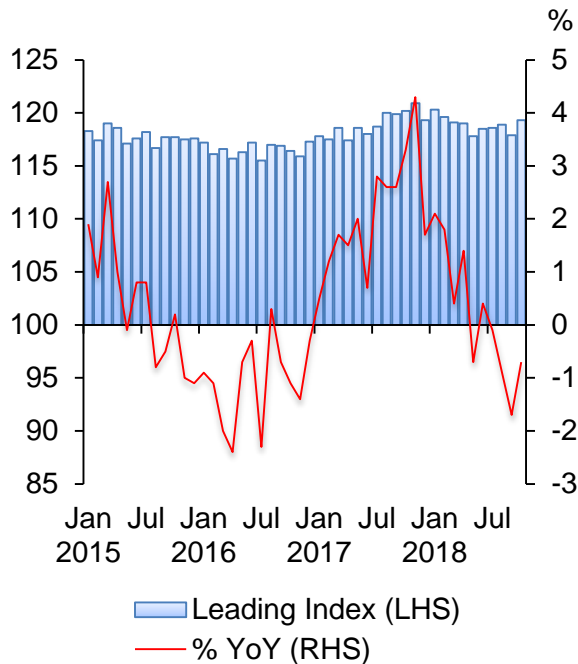


## Section 2

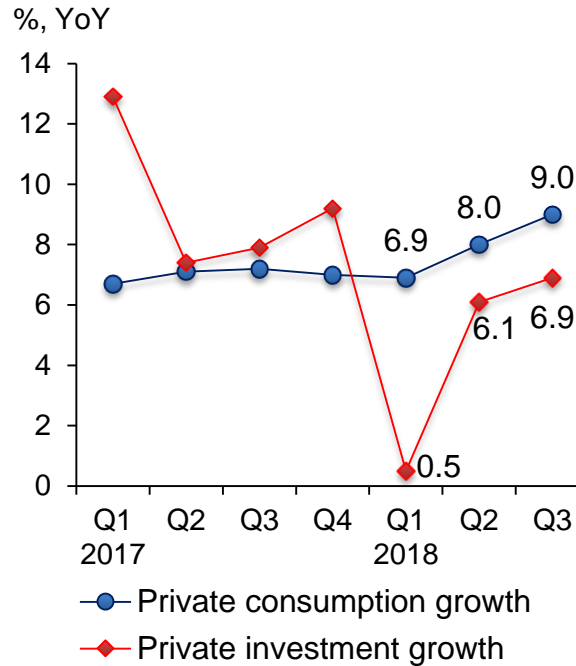
# The Malaysian Economy – *Where are we now?*

# GDP growth is LOSING MOMENTUM but still manageable

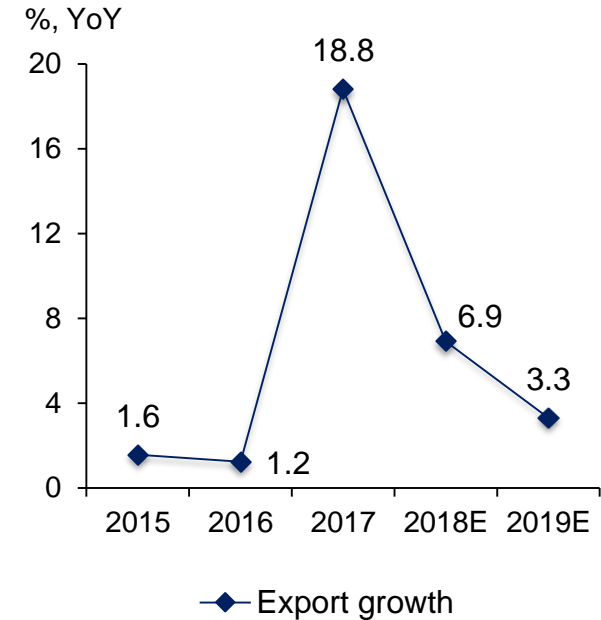
Leading index presages slower economic growth ahead



GDP growth largely underpinned by private spending



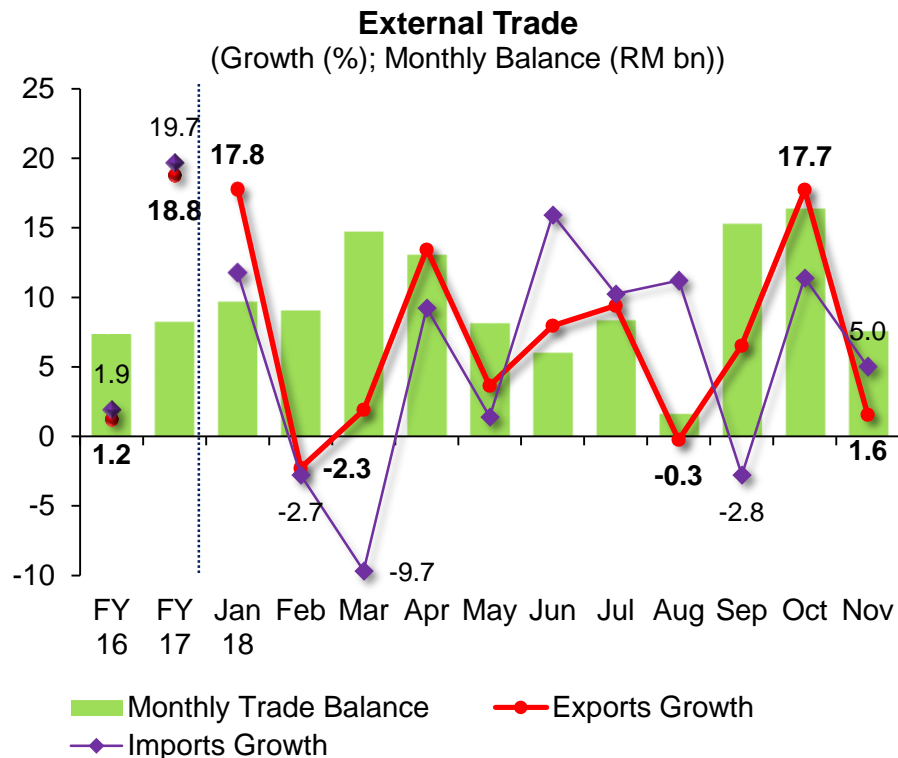
Exports facing headwinds from the trade tensions



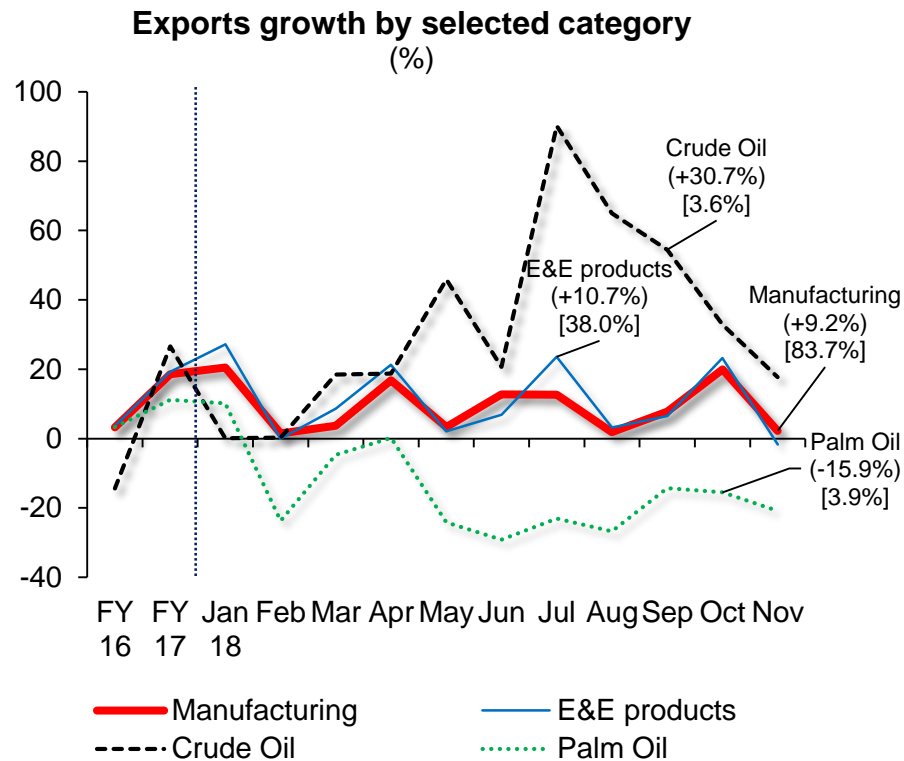
Source: DOSM; SERC

# Exports are estimated to grow slower by 3.3% in 2019

Front-loaded shipments helped lifting Malaysian exports in October 2018 (RM96.4bn vs. eleven months' average of RM83.2bn)



Technical high base effect in 2018 will challenge exports growth in 2019

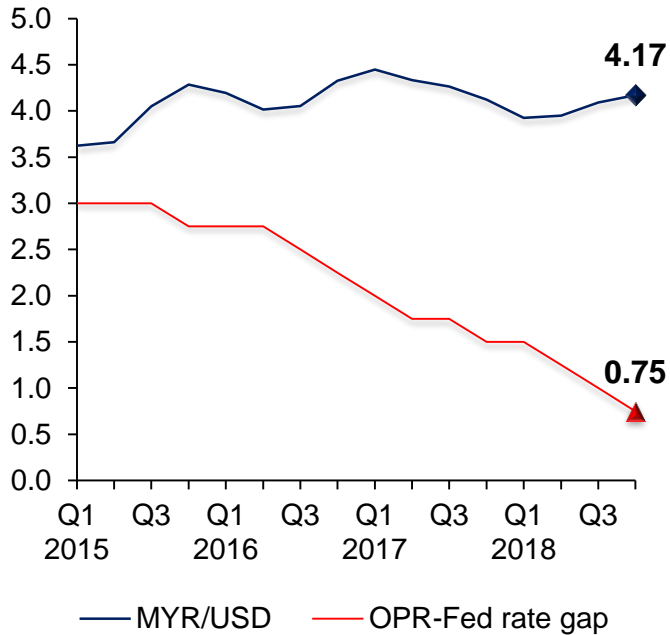


Note:  
( ) indicates average growth in Jan-Nov 2018  
[ ] indicates share of exports in Jan-Nov 2018

Source: DOSM; BNM

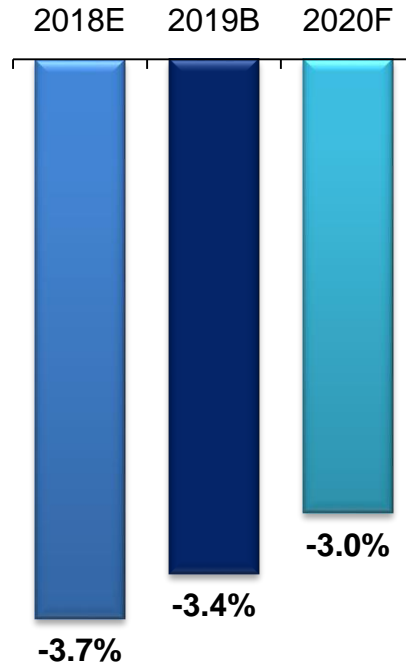
# MONETARY SPACE has some room but FISCAL LEVER is limited

Will the weak ringgit restrain monetary easing?

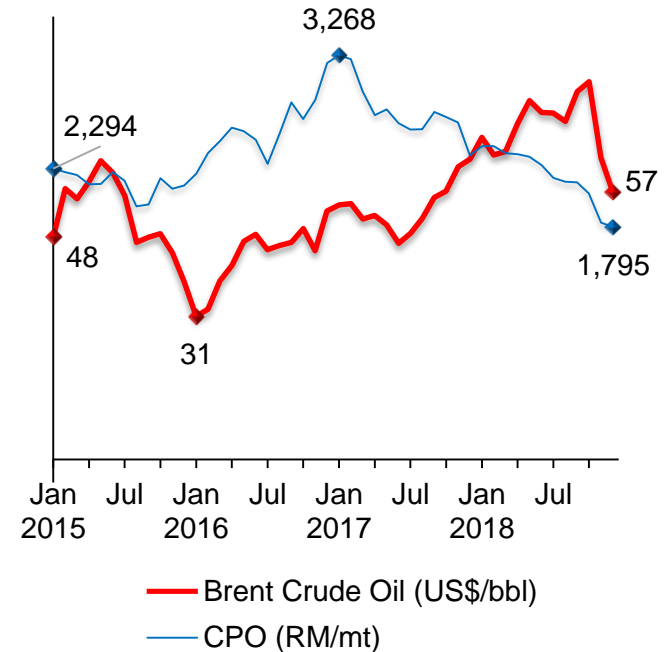


Note:  
Exchange rate: Average of 12:00 rate  
Rate gap: As at end-quarter"

Reset fiscal deficit path (2018E-2020F)



Facing headwinds from falling crude oil and palm oil prices



Source: BNM; MOF; EIA; MPOB

# Malaysia's ECONOMIC PROSPECTS for 2019



**A tumultuous year for 2019.** With the global economy looking to moderate further and weaker exports, the Malaysian economy is expected to grow at a gentle pace of 4.7% in 2019 (estimated 4.7% in 2018).



Still, **domestic demand** (2018: 92.3% of total GDP) will remain the dominant driver of economic growth with private sector spending (72.3% of GDP) holding the fort as public sector spending (20.0% of GDP) continues to rationalise, focusing on essential sectors and programs.



**Slower consumer spending but still respectable.** Solid consumer spending has been sustaining at a buoyant rate of averaging 6.9% yoy during 2017-3Q18 to support overall economic growth. The central question is whether its strength can be sustained in 2019? Private consumption growth is expected to grow by 6.8% in 2019 (estimated 7.3% in 2018).

- ✓ Higher minimum wage increases (between 10.0-19.6% or RM100-180 per month)
- ✓ Continued cost of living aid
- ✓ Lower fuel prices
- ✓ Freezing of all toll hikes and RM100 unlimited rides on public transport (MRT, LRT and buses)

# Malaysia's ECONOMIC PROSPECTS for 2019 (cont.)



**Caution prevails for private investment.** Slower global economy amid persistent trade tensions and global financial markets' volatility as well as investors still getting in tune with domestic policy landscape, private investment growth is likely to stay in cautious mode. **Private investment**, which grew by an average growth of 4.5% in the first nine months of 2018 will **grow moderately by 4.3% in 2019** (estimated 4.1% in 2018).



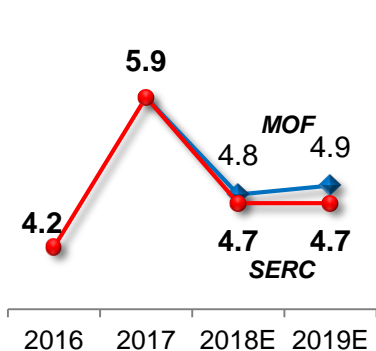
**A more difficult outlook for exports.** Exports will be challenged by slowing global demand for electrical and electronic products, weaker commodity and crude oil prices as well as technical base effect of high exports value averaging RM83.3 billion per month in 2018. We estimate **exports to grow at a slower rate of 3.3% in 2019** (estimated 6.9% in 2018; 18.8% in 2017).



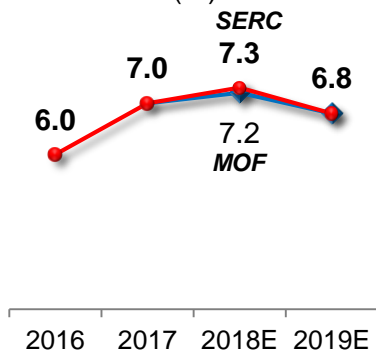
**Inflation will pick up gradually.** With fuel prices reverting to a weekly managed float system starting January 2019 while working on the targeted fuel subsidy by the second quarter, headline inflation is likely to be influenced by variation in global crude oil prices. Post-SST two months transition period allowing for inventory adjustment, hypermarkets and retail chains had to adjust their prices by 15 November. **Headline inflation** is estimated to **increase gradually to 1.5-2.0% in 2019** from estimated 0.9% in 2018.

# Malaysia's key ECONOMIC INDICATORS

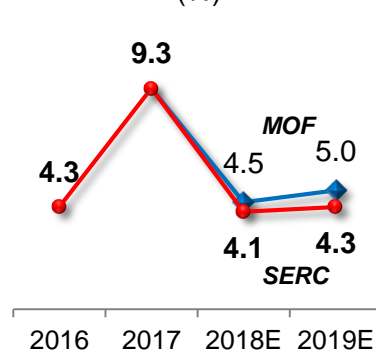
**Real GDP Growth (%)**



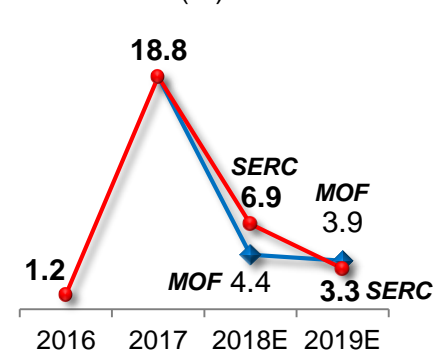
**Private Consumption Growth (%)**



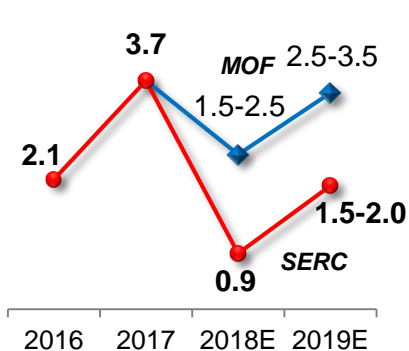
**Private Investment Growth (%)**



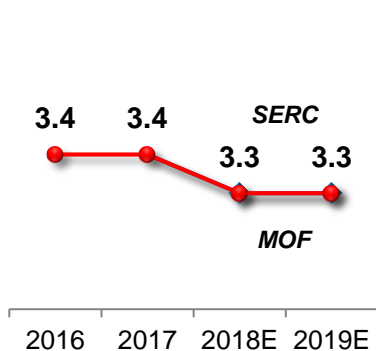
**Gross Export Growth (%)**



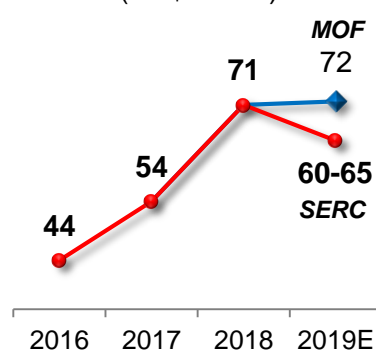
**Inflation Rate (%)**



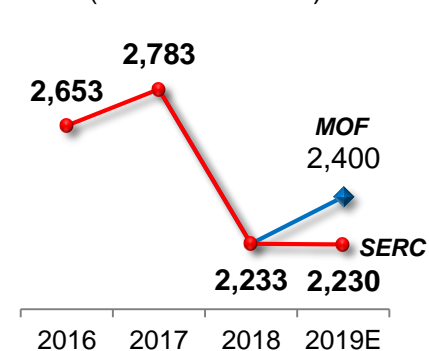
**Unemployment Rate (%)**



**Brent Crude Oil Prices (US\$/barrel)**



**Crude Palm Oil Prices (RM/metric tonne)**



Source: DOSM; MOF; EIA; MPOB; SERC



# Sources of GDP growth: DEMAND and SUPPLY side

- Private sector expenditure will cushion the effects of lower public spending.
- All economic sectors are expected to register positive growth in 2019.

<i>% growth, 2010=100</i>	2016	2017	2018 (Jan-Sep)	2018E (MOF)	2018E (SERC)	2019F (MOF)	2019F (SERC)
<b>GDP by demand component</b>							
Private consumption (55.0%)	6.0	7.0	8.0	7.2	7.3	6.8	6.8
Private investment (17.3%)	4.3	9.3	4.5	4.5	4.1	5.0	4.3
Public consumption (12.5%)	0.9	5.4	3.0	1.0	2.0	1.8	1.8
Public investment (7.5%)	-0.5	0.1	-5.3	-1.5	-1.8	-5.4	-4.8
Exports of goods and services (70.9%)	1.3	9.4	1.6	2.0	1.8	1.6	1.5
Imports of goods and services (63.0%)	1.3	10.9	0.1	1.4	0.5	1.8	1.3
<b>GDP by economic sector</b>							
Agriculture (7.8%)	-5.2	7.2	-0.4	-0.2	-0.4	3.1	1.8
Mining & quarrying (8.0%)	2.1	1.0	-2.2	-0.6	-1.8	0.7	0.5
Manufacturing (23.0%)	4.4	6.0	5.1	4.9	4.8	4.7	4.5
Construction (4.5%)	7.4	6.7	4.8	4.5	4.5	4.7	4.4
Services (55.3%)	5.7	6.2	6.8	6.3	6.5	5.9	5.8
<b>Overall GDP</b>	<b>4.2</b>	<b>5.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4.7</b>	<b>4.9</b>	<b>4.7</b>

Figure in parenthesis indicates % share to GDP in 2018E by MOF

Source: DOSM; MOF; SERC

# What could derail this year's domestic GDP growth?

## External Sources



- Unrelenting trade troubles, which would significantly dampen the US and China economies and severely disrupt global trade flows
- The Fed's over tightening of interest rates throwing the US economy into recession
- Sharp correction in global financial markets pulling down emerging markets, including downward pressures on currencies

## Domestic Sources



- Lack of policy clarity and inconsistency that dampens investors' sentiment
- Overly cautious spending behaviour on concerns about employment and income prospects
- Poor execution and implementation of Budget's development expenditure
- Negative external spillovers on domestic activities via exports channel and weak commodity prices



## Section 3

**What can the government do  
to power economic growth?**

*Structural reforms as cure*

# The REQUISITES for Malaysia to roar again as an Asian tiger?

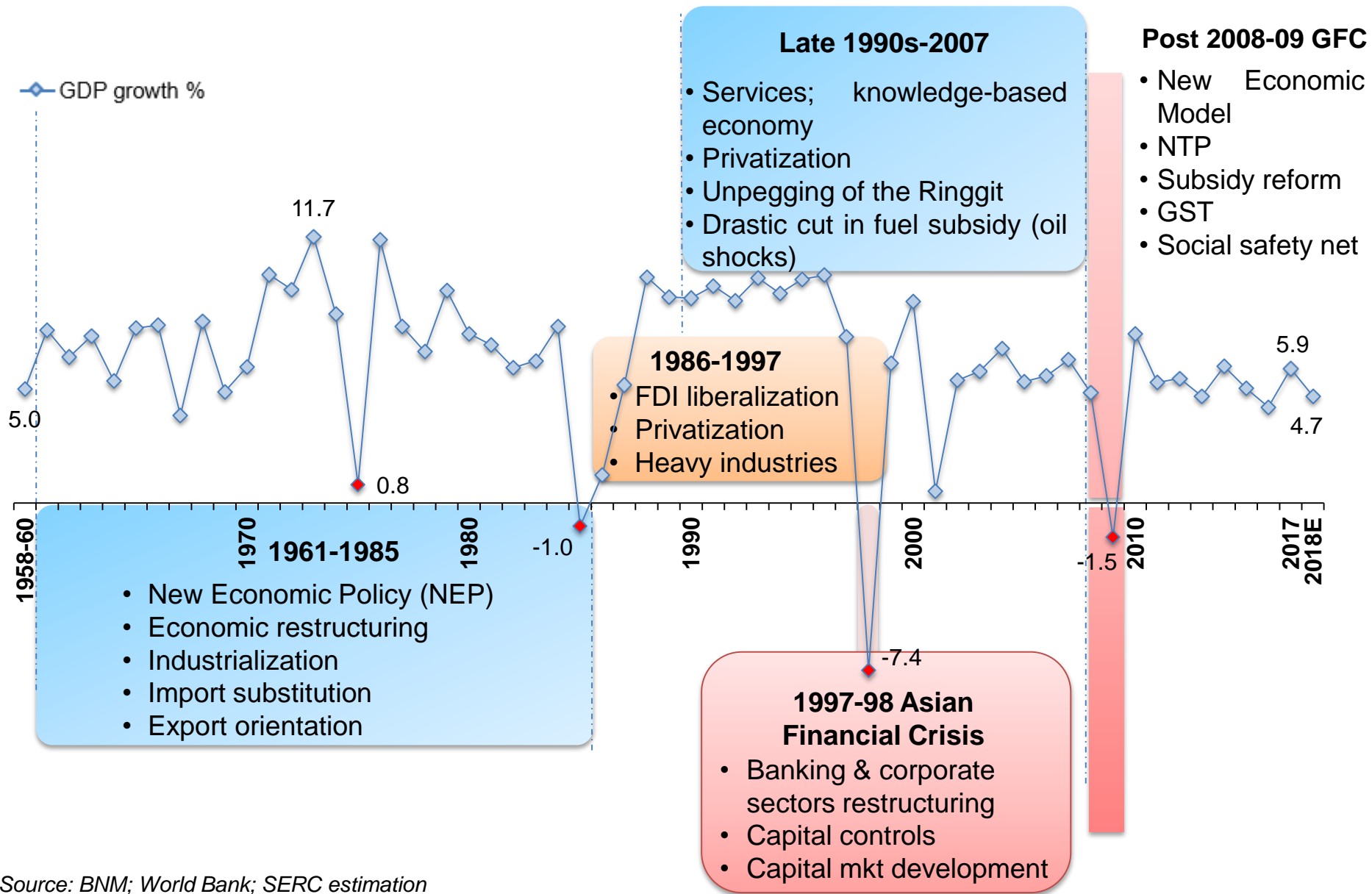


**Prime Minister Dr Mahathir Mohamad:** *Malaysia can regain 'Asian Tiger' status*

**Minister of Finance Mr. Lim Guan Eng:** *The Pakatan Harapan (PH) administration has pledged to return Malaysia to its former glory in the next three years of its term*

Reforms	Challenges and Issues
<ul style="list-style-type: none"><li>➤ Maintain a reform state of mindset</li><li>➤ Political, economic and regulatory reforms</li><li>➤ Continued reforms of business laws and regulations</li><li>➤ Improve the tax regime to enhance competitiveness and integration with the world economy</li></ul>	<ul style="list-style-type: none"><li>➤ Lagging productivity growth behind the newly industrializing economies</li><li>➤ Low wage compensation for workers (35.2% of GDP in 2017)</li><li>➤ Over-dependency on foreign workers (11% of total labour force in 2017), shortage of skilled workers (skilled workers made up 28% of total workforce in 2017)</li><li>➤ Slow adoption of information, communication and technology (ICT)</li></ul>

# Malaysia's journey of key economic RESTRUCTURING



Source: BNM; World Bank; SERC estimation

# Key ISSUES and CHALLENGES facing Malaysia

- 1 SLOWING PRODUCTIVITY GROWTH & IMPEDIMENTS:** Technology adoption, industrial structure, talent and skills gap, over-dependence on low-skilled foreign workers (Semi- and low-skilled workers: 72.5% of total employment in 2017; foreign workers: 15.5%).
- 2 BURDENSOME REGULATORY and COMPLIANCE COSTS:** Inconsistent interpretation and application of regulations, the complex and lengthy licensing application processes have resulted in high costs and delays.
- 3 QUALITY INVESTMENT:** Lower investment of ICT equipment (from 26% in 2010 to 22.2% in 2017). Many industries are still in the low-end to mid-range of the value chain as well as lower innovative capacity.
- 4 VALUE ADDED SECTORAL OUTPUT:** (a) **Services sector** - dominated by traditional services subsectors while technology-driven modern services subsectors have stagnated; (b) **Manufacturing sector** – premature deindustrialization; high value added; and (c) **Agriculture sector** – less on agro-based industries; leverage on technology.
- 5 LIMITED FISCAL SPACE:** Federal revenue has not kept pace with the economic growth and meet high committed expenditure. Tax buoyancy dropped from 2.2 in 2011 to 0.5 in 2017.
- 6 HIGH RATES OF YOUTH & GRADUATES UNEMPLOYMENT** (unemployment rate of 10.8%) due to labour market mismatches, limited job creation and inadequate supply of industry-ready graduates.

# A multifaceted approach to **ADVANCING** future economic growth trajectory

- 1 DISCARD THE “BUSINESS AS USUAL” MINDSET.** A new mindset and attitude as well as behavioral changes
- 2 INVESTMENT POLICIES AND FRAMEWORK CONDITIONS** must be right and conducive. **EQUAL OPPORTUNITIES FOR ALL** and based on the smart Public-Private partnership
- 3** Process of **CREATIVE DESTRUCTION** to optimize resources and sharing of growth and economic dividends
- 4 DOMESTIC DIRECT INVESTMENT (DDI) initiatives** must be strongly promoted and facilitated along with foreign direct investment (FDI)
- 5 DOMESTIC SMEs** must be competitive (cost, quality and delivery) and connected to global supply chains
- 6 The GOVERNMENT’S BUSINESS IS NOT IN BUSINESS. GLCS MUST BE OPENED TO A LEVEL PLAYING FIELD** to compete with the private sector
- 7 COMPENSATION OF EMPLOYEES (CE)** have to be improved if it is matched by the rise in productivity gains and commensurate with the skills set. Malaysia’s **CE to GDP ratio** increased from 33.6% in 2013 to **35.2% in 2017** was lower than Australia (47.8%), South Korea (43.2%) and even South Africa (45.9%). **The target is to raise it to 39% by 2020.**

# STRUCTURAL REFORMS to uplift growth potential



**STRUCTURAL REFORMS** are necessary to restore **ECONOMIC DYNAMISM**, ensure **SUSTAINABLE** and sustain **COMPETITIVE** growth in the long term



**BIG-BANG** versus **GRADUALISM** comes with adjustment costs

*Fiscal  
Reform*

*Labour  
Market  
and  
Wage  
Reform*

*Market and  
Investment  
Liberalisation*

*GLCs  
Reform*

*Social  
Safety Net*

**STRONG POLITICAL WILL  
AVOIDING DISRUPTIVE BIG-BANG CHANGES**



# Fiscal and Debt Reconstruction

- **Sustainable** revenue base (tax less on employment and business income; more on consumption)
- Plugging **tax leakages**; shadow economy (2017: 22.9% of GDP (RM298 billion); tax gap is about 20% vs 10-15% in developed economies)
- **Tax reform** (Fair, Effective and Simpler)
- **Expenditure rationalization** (targeted subsidy; pension reform)
- Active **debt** and **responsible budget management** (Zero-based budgeting; accrual accounting)



## Labour Market and Wage Reform

- Boosting productivity through **reskilling and training**
- **Performance-driven** wage system; labour flexibility
- **Technical and Vocational Education Training (TVET)**
- Spurring **innovation**; ecosystem for **creation**
- **Phase reduction of reliance** on foreign workers
- **Living wage** and linked with productivity



## Market and Investment Liberalisation

- **Equal and inclusive** opportunities for **ALL**
- **‘Schumpeterian creative destruction’**
- Targeted programs for **SMEs**
- Review **current incentives** (time bound)

## GLCs Reform

- **Leaner**, responsive and less intrusive
- **Functions to be systematically** reviewed
- **Transparency**, better **governance** & **accountability**
- Subjected to **Parliamentary oversight**
- **Optimization of resources** and mandates for real competition



## Social Safety Net

- Targeted **most vulnerable and needy households**
- **Conditionally social assistance system** – income enhancement, employability and empowerment; **Exit program** to wean off from subsidy mentality
- **Pension and healthcare** reform (ageing population)



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**谢谢**  
**THANK YOU**

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