



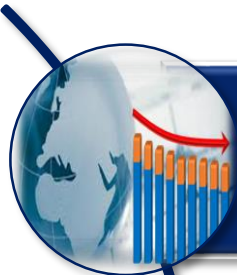
**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**Quarterly Economy Tracker**  
**(Jan-Mar 2019)**

**The Challenge to Sustaining Momentum**

**Lee Heng Guie**  
**Executive Director**  
23 April 2019

# Key Messages



**GLOBAL ECONOMY SLOWING; RECESSION RISK LOW**



**MALAYSIA: THE CHALLENGE TO SUSTAINING MOMENTUM**



**RE-ENERGISING PRIVATE INVESTMENT**

## Section 1

# The World Economy

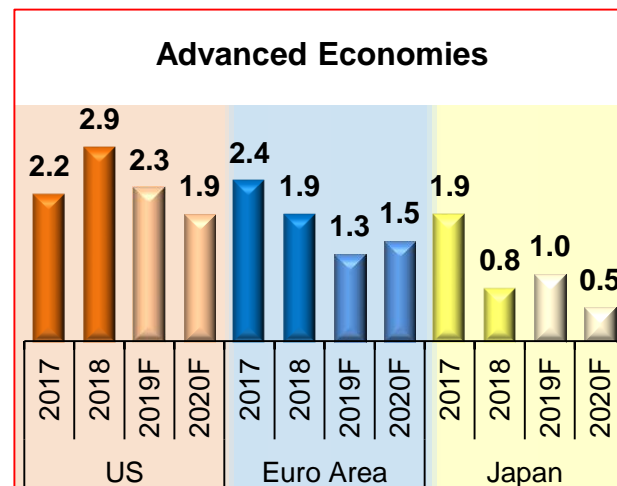
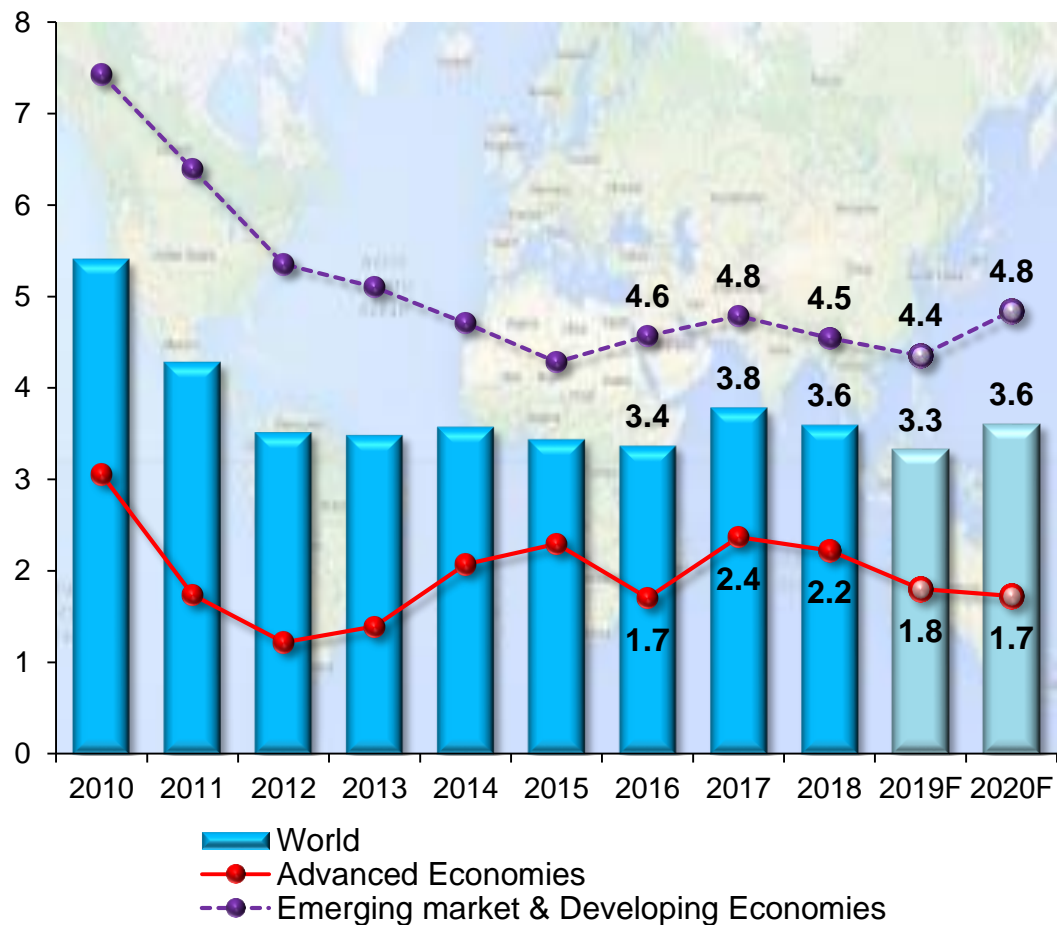
*A synchronized slowdown*



# Global GROWTH estimates marked down

The IMF cut 2019's global growth estimates to 3.3% from 3.5% previously, marking the third round of revision (3.7% and 3.9% respectively).

Real GDP Growth (%)



Source: Officials; IMF (WEO, April 2019)

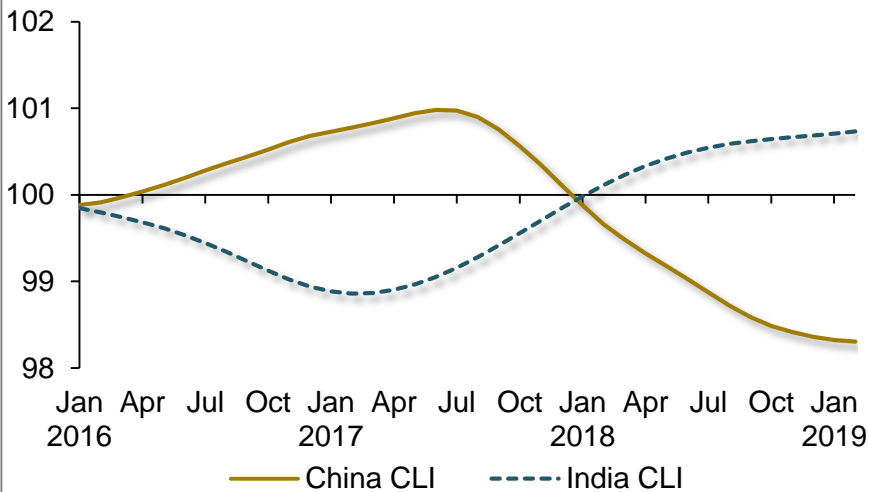
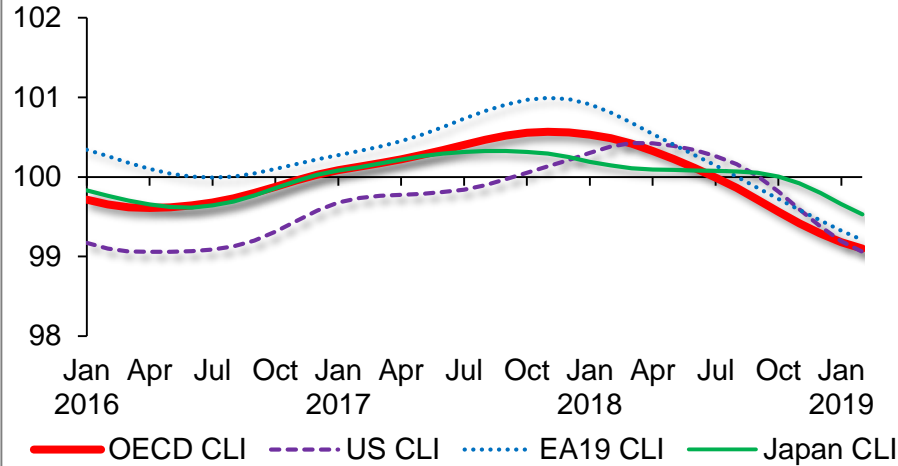
\* Annual GDP for India is on fiscal year basis

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

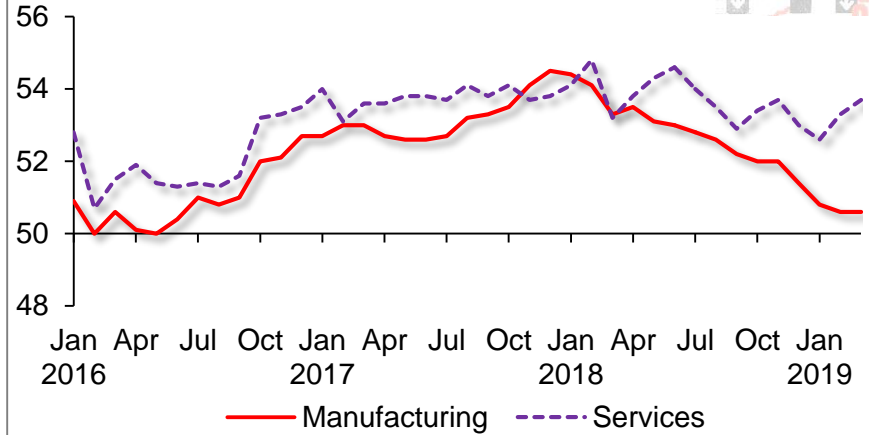
# Global growth PEAKED in 2H 2018; CONTINUED in 1H 2019

## Composite Leading Index (CLI)

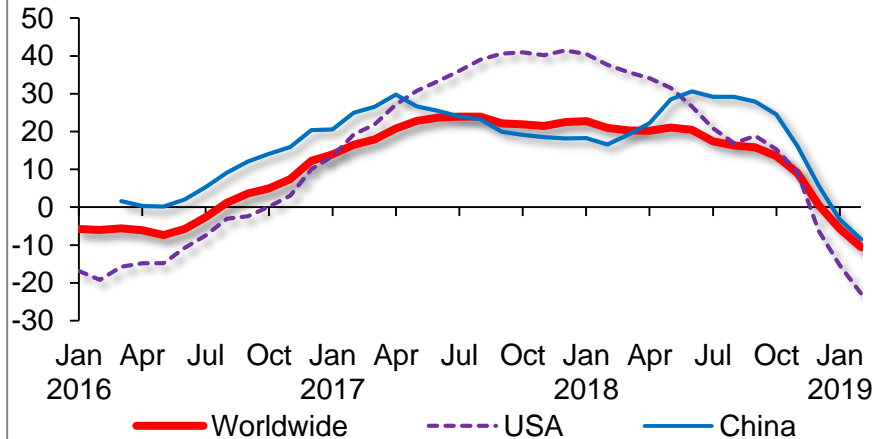
A gauge of economic outlook  
(Long-term average = 100)



## Global PMI for manufacturing and services (50 = no change on prior month)



## Global semiconductor sales (%, 3-month moving average YoY)



Source: OECD

# Global growth is MODERATING in 2019

- Three International Institutions have concurrently marked down 2019's global growth estimates: **IMF** (three rounds of revision to 3.3%), **World Bank** (from 3.0% to 2.9%) and **OECD** (from 3.5% to 3.3%)
- Signs of slowing momentum in most major **ADVANCED and EMERGING ECONOMIES** such as China



**US** – Fading fiscal stimulus, trade friction and the lagged impact of monetary tightening



**EURO AREA** – Sluggish global trade and geopolitical uncertainty are seen dragging on growth



**JAPAN** – Global trade uncertainty, slowing China demand and a downturn in the global tech cycle



**CHINA** – Ongoing structural reforms, trade disputes amid monetary easing and fiscal support

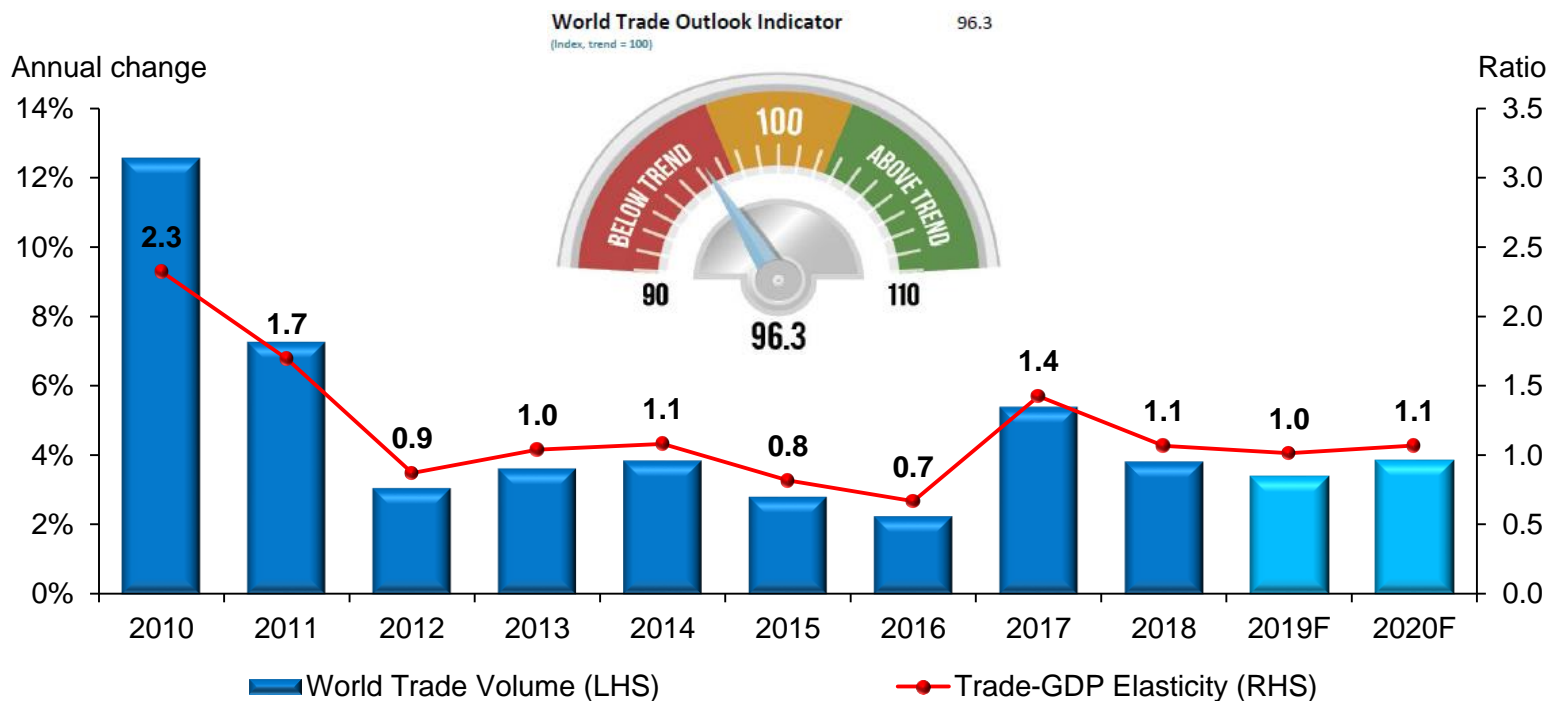


**ASIAN ECONOMIES** – moderate growth as exports react to slowing advanced economies and China



# Global trade growth continued to SLOW

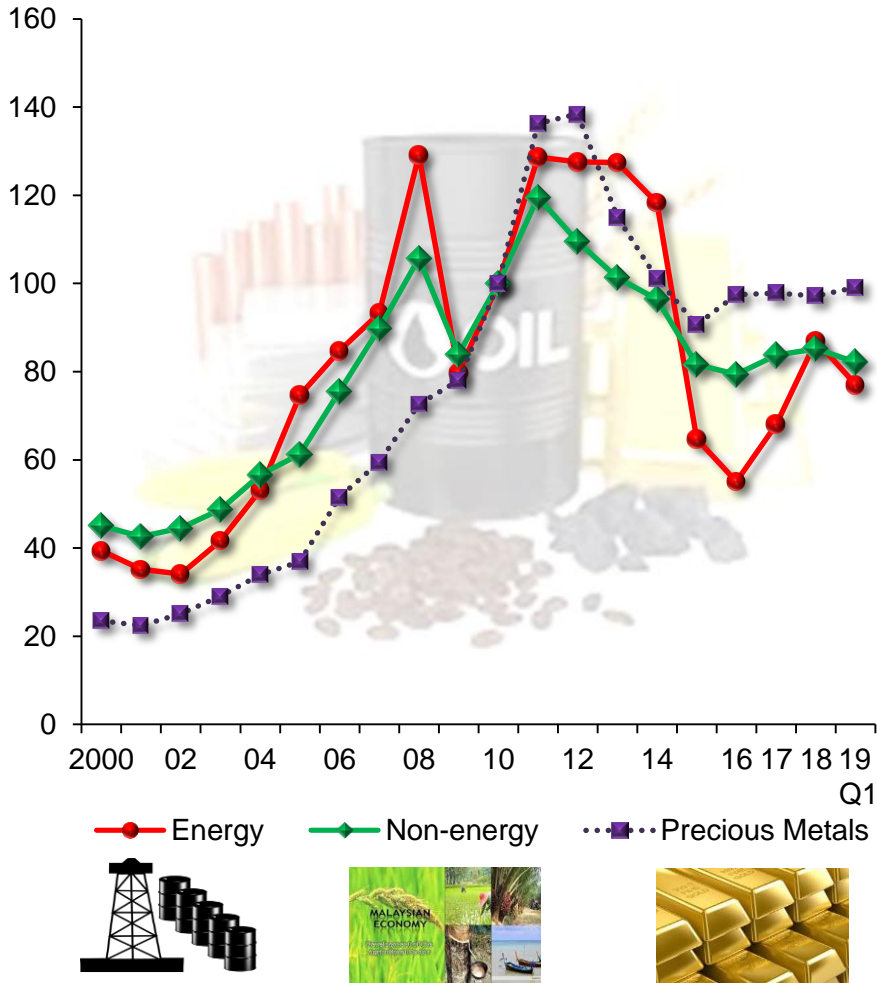
- The **WTO** slashed this year's global trade growth forecast to 2.6% (vs. IMF's 3.4%) from 3.7% previously (3.0% in 2018). It expects trade growth to rebound by 3.0% (vs. IMF's 3.9%) in 2020.
- **Trade tensions** is the biggest threat besides **low import demand from Europe and Asia**.
- **Trade to GDP ratio** is expected to slip further to 1.0x in 2019 before ticking up to 1.1x in 2020.



Source: IMF; SERC's computation

# VOLATILE ENERGY PRICES remain a wild card

**Commodity Price Index**  
(2010=100)



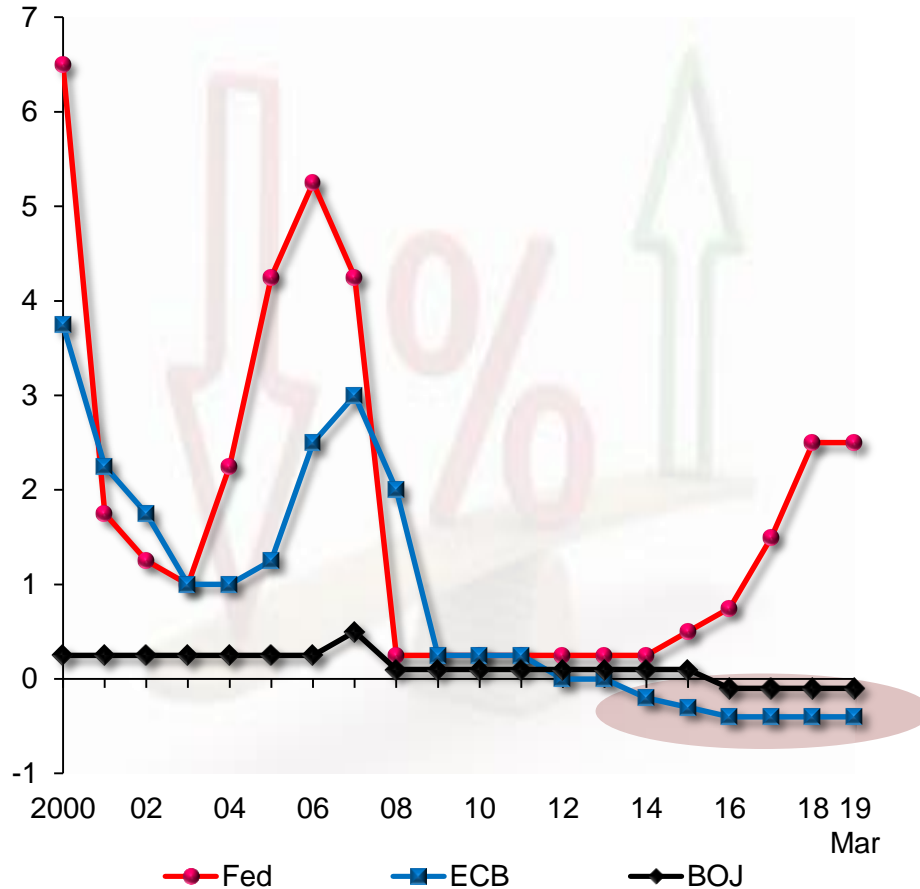
Source: World Bank

- Brent crude oil prices have climbed back more than 30% to US\$68/bbl as at end-Mar 2019 (US\$51/bbl as at end-2018). In 1Q19, Brent crude prices averaged US\$63.10 per barrel.
- Factors underpinning the movement in prices: (a) OPEC and its allies' compliance of cutting crude oil supply by 1.2 million barrel per day in Jan-Jun 2019; (b) Trade war fears subside; (c) Increasing shale oil production from the US; and (d) Syria and Middle East tensions pose bigger risk for oil prices in the near-term.
- The US EIA expects Brent crude oil price to average at US\$65/bbl in 2019 (2018: US\$71/bbl).



# Global central banks on PAUSING OR EASING MODE

Policy Rate (%)



- The **Fed** indicates that **no more rate hikes** will be coming this year. It will also **complete its balance sheet roll-off program at end-September**.
- The **European Central Bank (ECB)** pledges to **maintain its key interest rates at least through the end of 2019** and also provides fresh loans facility to stimulate bank lending in the face of weakening growth and external risks.
- **Bank of Japan (BOJ)** is expected to **continue with its stimulus program** in order to achieve the Bank's inflation target in a stable manner for an extended period of time as price pressures remain subdued.

Source: Fed; ECB; BOJ

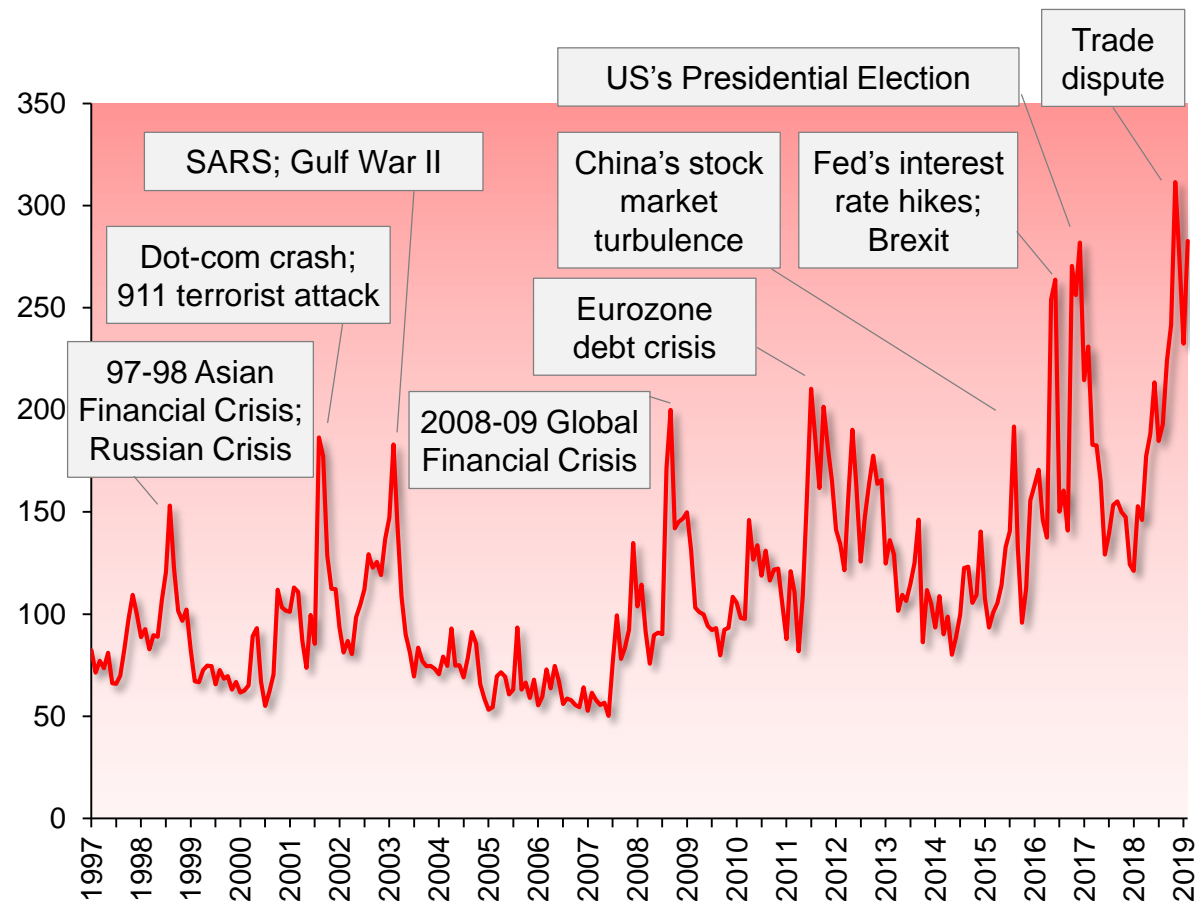
Note: Interest rate on deposit facility applied as ECB's policy rate

# 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

## Section 2

# The Malaysian Economy

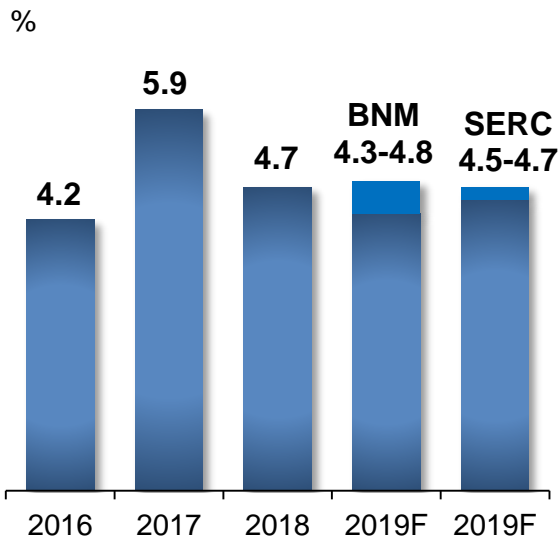
*Can the growth momentum be sustained?*



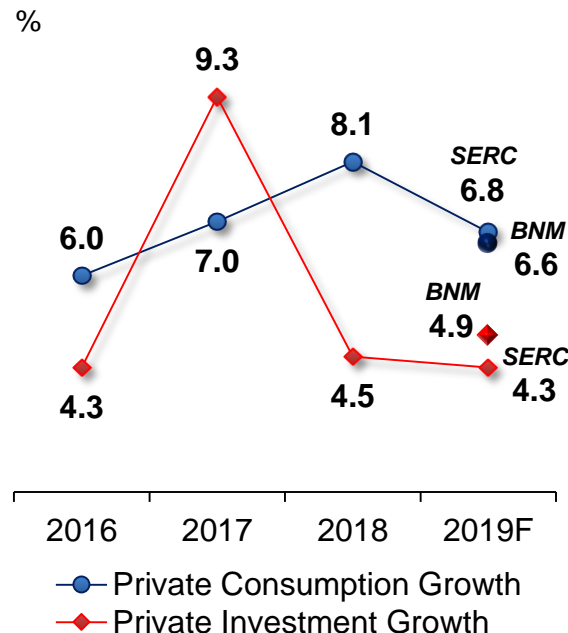
# Malaysia's GDP growth is **SUSTAINED** albeit slower in 2019

- **BNM** estimates real GDP growth to increase by **4.3-4.8%** in 2019 (4.7% in 2018), underpinned by domestic demand amid a more moderate expansion in exports. This marks a downward revision from Ministry of Finance's forecast of 4.9% during budget last year.
- **SERC's GDP growth estimate is between 4.5-4.7%** for this year, keeping a close watch on the state of global economy, the outcome of the US-China trade talks and the strength of domestic demand.

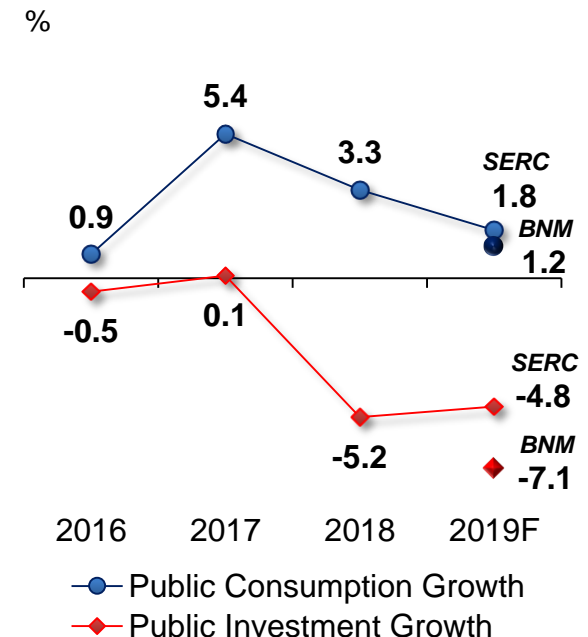
**Real GDP growth driven by domestic demand expansion**



**Private sector remains the growth anchor**



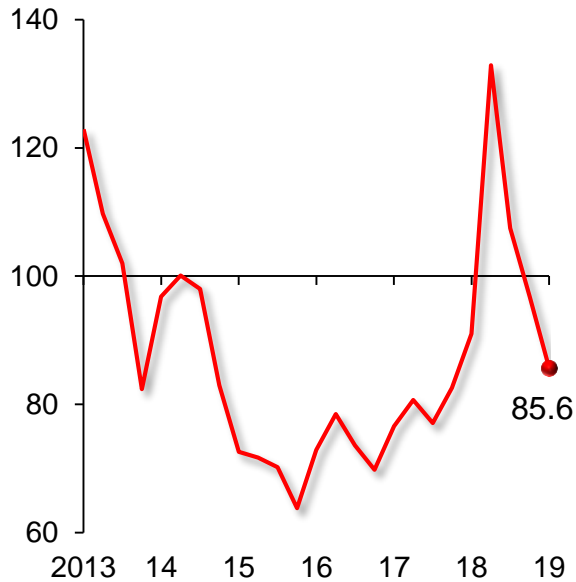
**Public sector spending remains a drag**



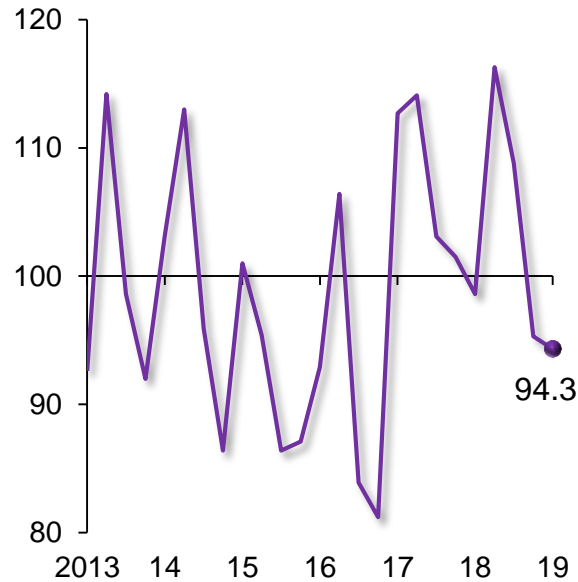
Source: DOSM; BNM; SERC

# Weakening CONSUMER SENTIMENT and BUSINESS CONFIDENCE

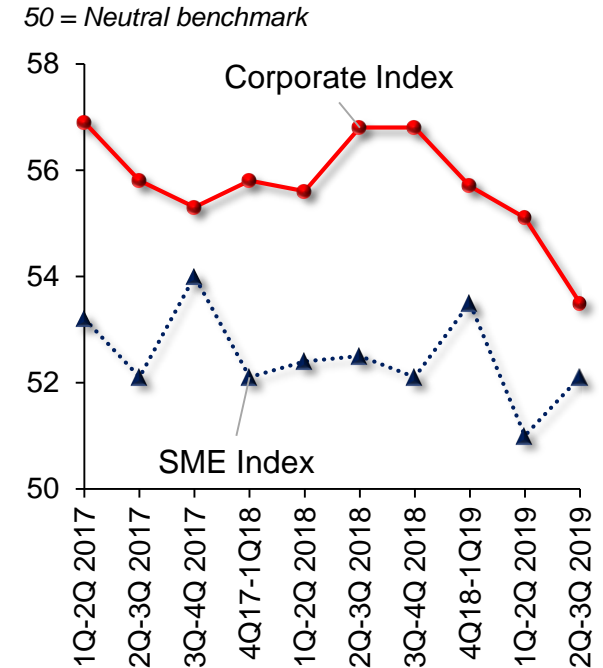
MIER's Consumer Sentiments Index (CSI)



MIER's Business Conditions Index (BCI)



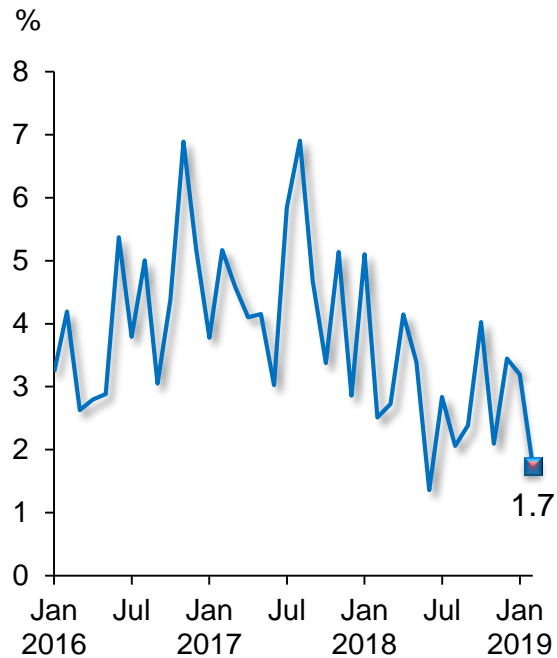
RAM Business Confidence Index



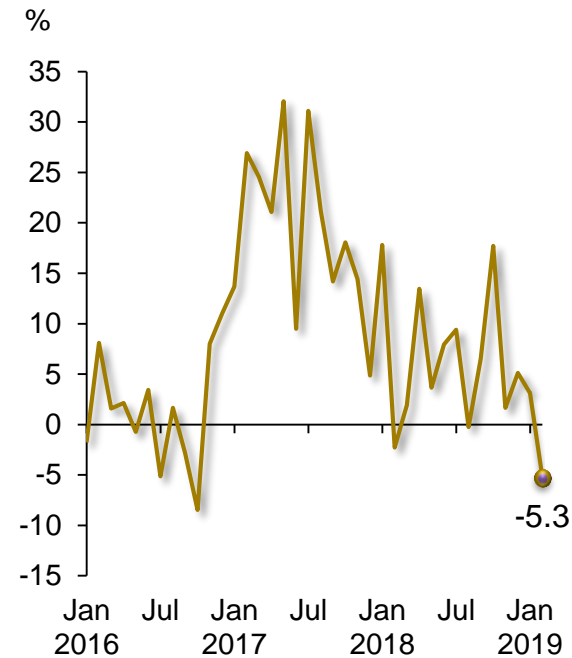
Source: MIER; RAM

# High frequency indicators suggest **CAUTIOUS** economic outlook

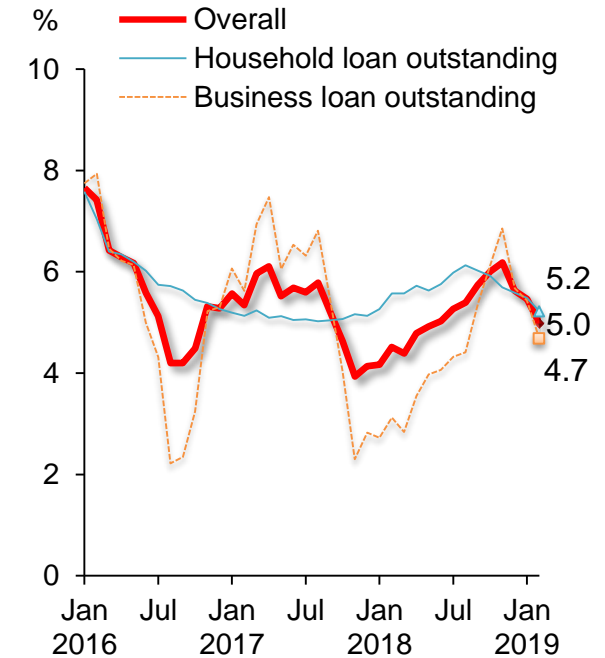
**Industrial production growth moderated on contracted oil and gas production**



**Export growth unexpectedly contracted in February**



**Overall, business and households loan outstanding growth softening**

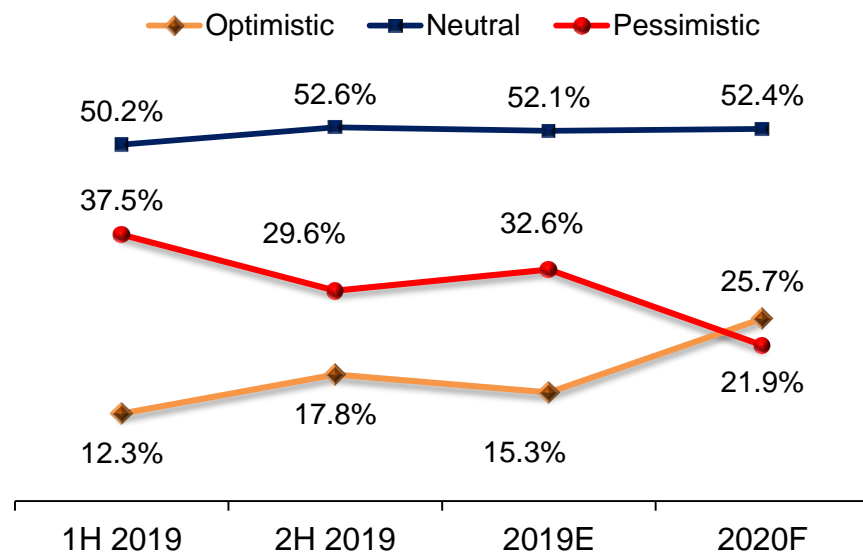


Source: BNM; DOSM

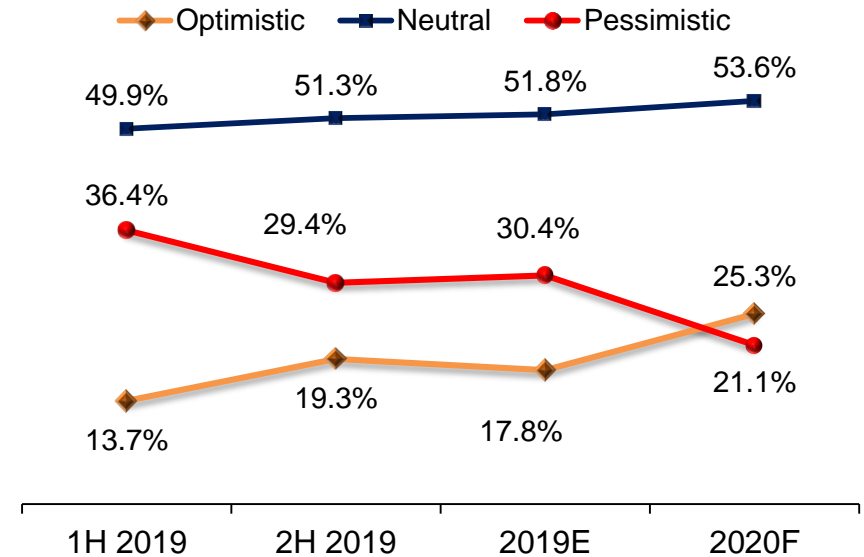
# ACCCIM M-BECS: CAUTIOUS economic and business conditions

- Respondents are clearly **cautious about their business prospects in 2019** as influenced by concerns about external environment as well as domestic policy transition and challenges.
- Generally more **guarded positive in 2H 2019** compared to 1H 2019.
- **Rising optimism about the economy in 2020** is probably premises on a more stable domestic policy landscape as well as the expected improvement of the Federal government's fiscal balance sheet in 2020.

### Economic prospects



### Business prospects



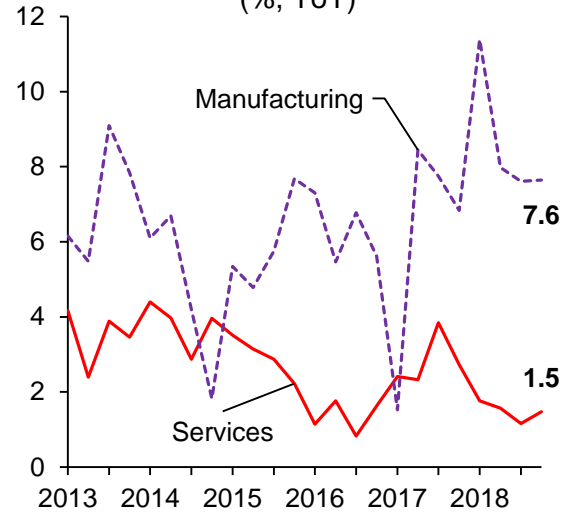
Source: ACCCIM; SERC

E=Estimates; F=Forecast

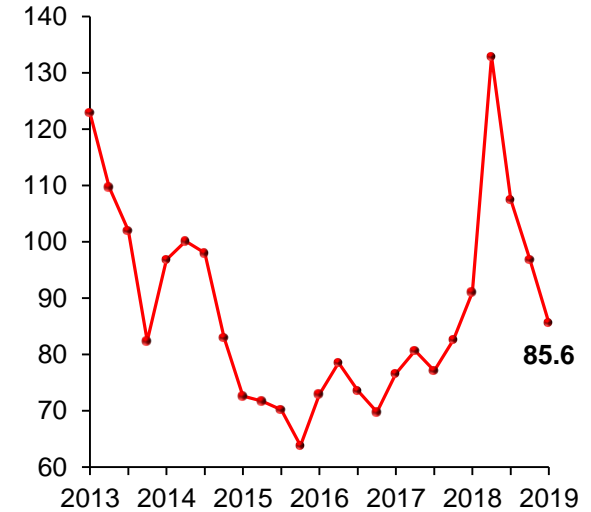
# CONSUMER SPENDING to slow but still firm

- **FUNDAMENTAL DRIVERS:** Income growth and healthy labour market conditions
- Household spending **NORMALIZED** post 3-month zero-rated GST tax holiday (Jun-Aug 2018) and the reintroduction of **SST** in Sep 2018
- Potential **DAMPENING FACTORS:** Review of fuel subsidy by second quarter

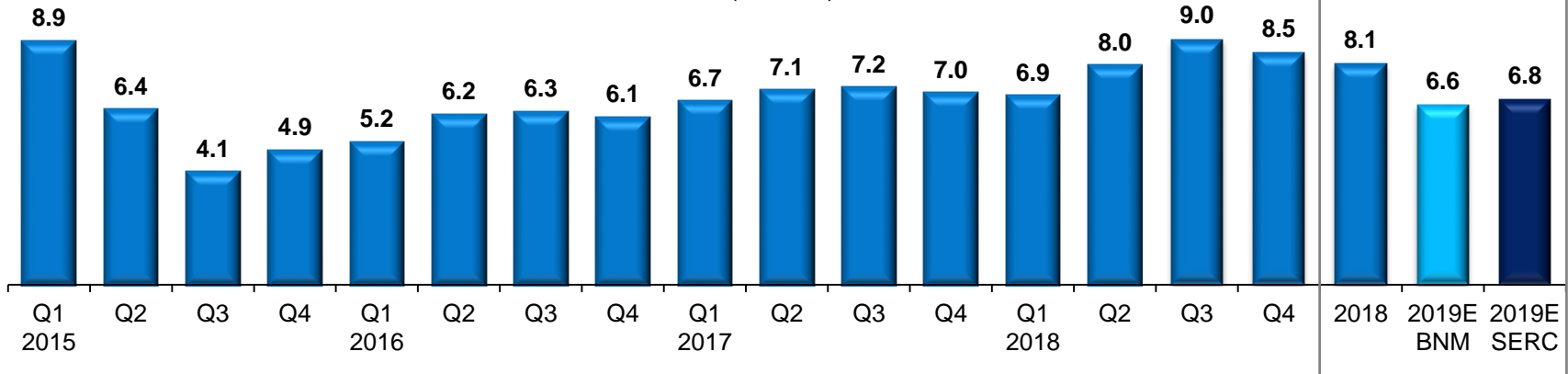
Private Sector's Employee Income (% YoY)



MIER Consumer Sentiments Index (CSI)



Private Consumption Growth (% YoY)



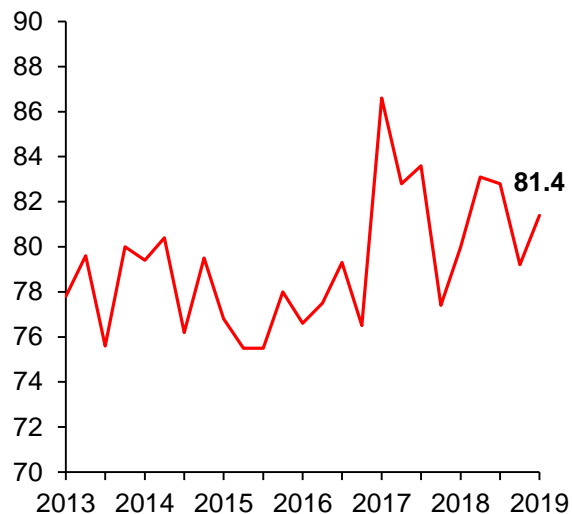
Source: DOSM; MIER



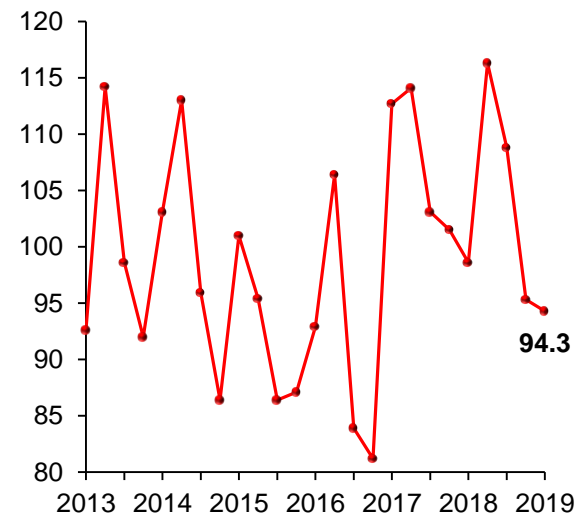
# Private investment remains CAUTIOUS

- Private investment growth **SLOWED** to 4.5% in 2018 from 9.3% in 2017 (10.5% pa in 2011-17)
- CAUTIOUS** about external environment; new government's policy implications
- 2019 Budget to **BOOST** private investment in tourism, manufacturing, IR 4.0 and e-commerce

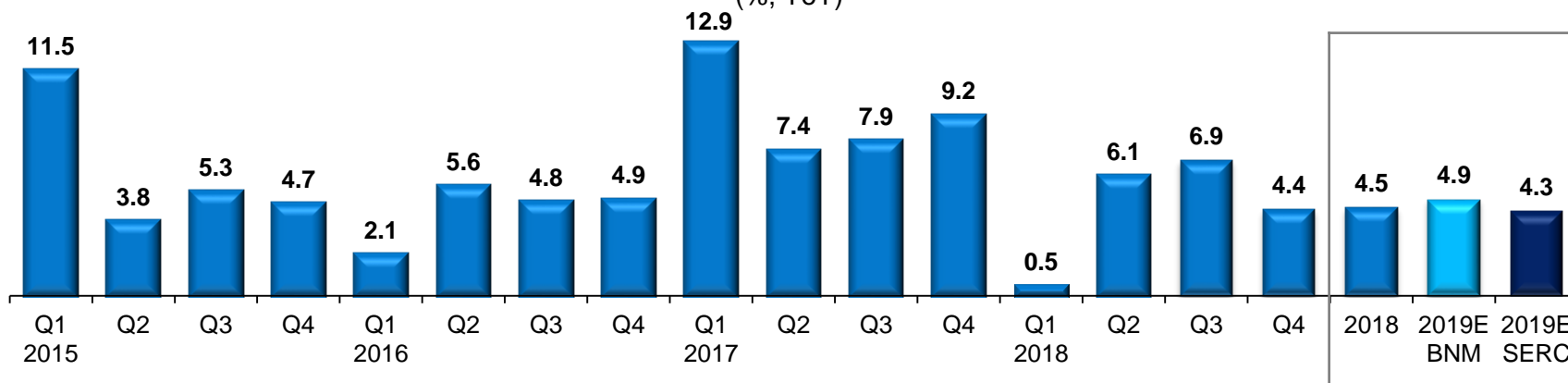
Capacity Utilisation Rate (%)



MIER Business Conditions Index (BCI)



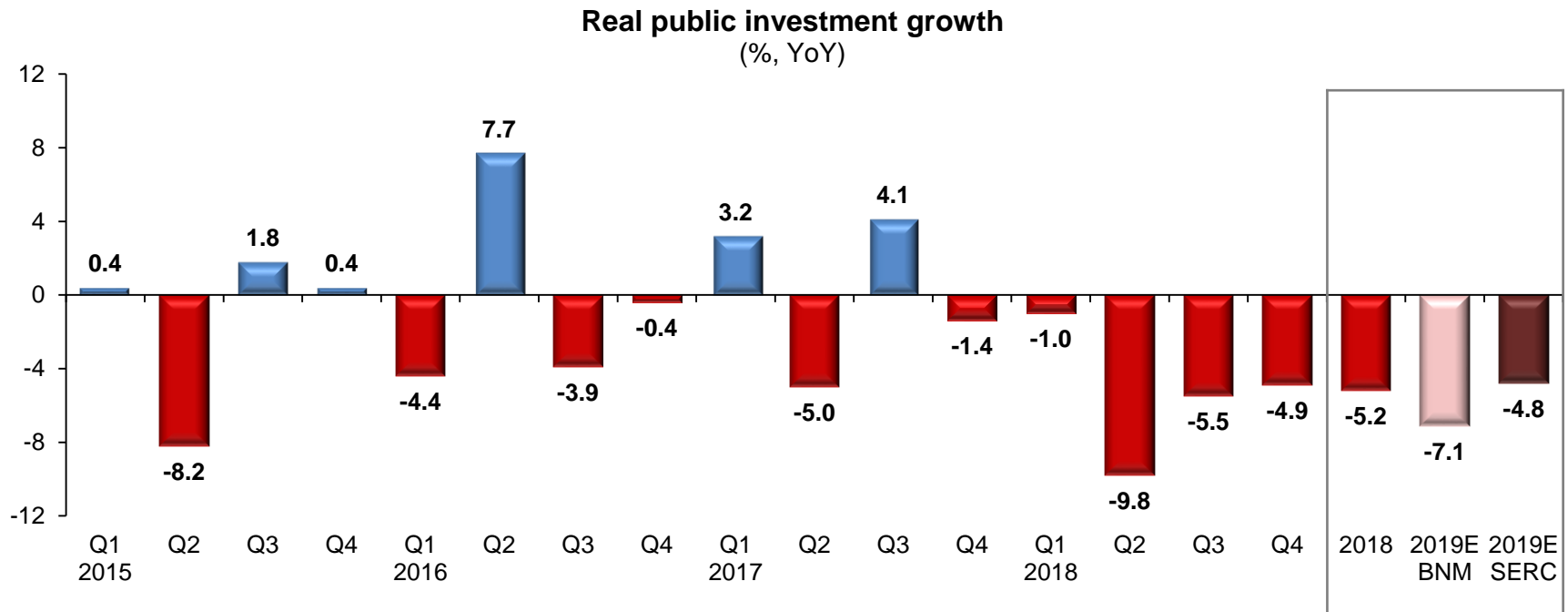
Private Investment Growth (% YoY)



Source: DOSM; MIER

# Public investment remains a DRAG ahead

- Public investment growth **CONTRACTED** for five straight quarters and is expected to contract further in 2019
- Rationalisation of development expenditure means moderate public investment growth

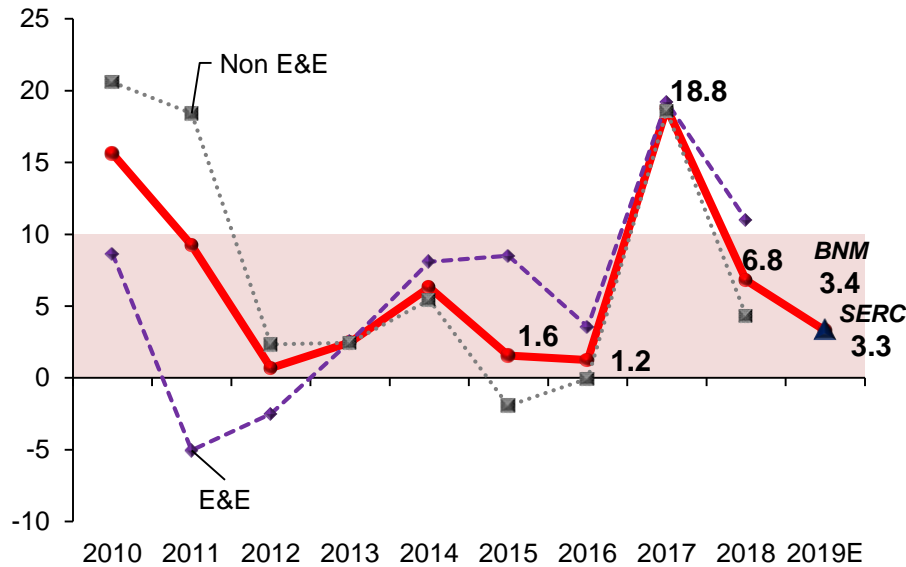


Source: DOSM

# Muted contributions from the EXTERNAL SECTOR

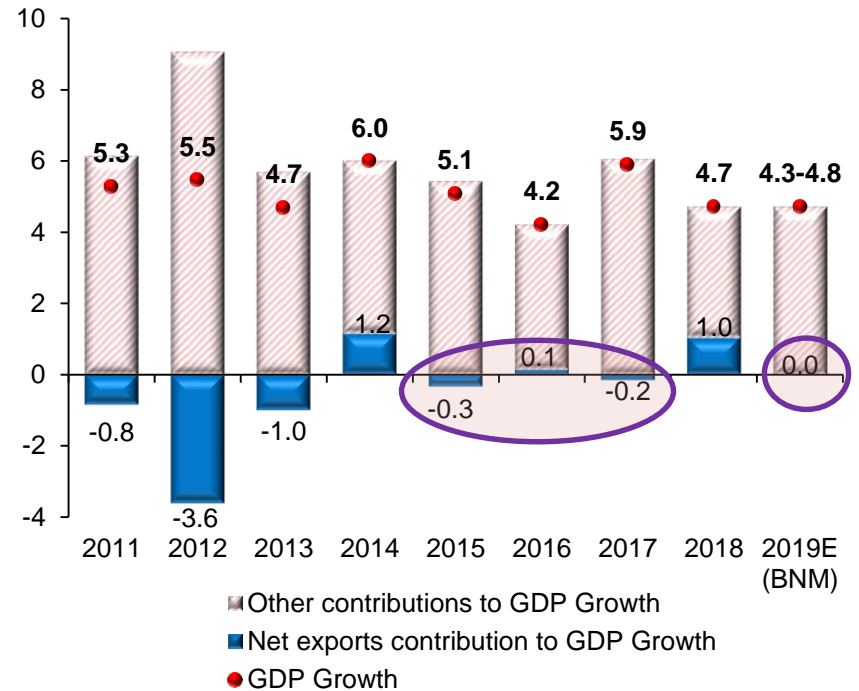
Except for 18.8% in 2017, exports are expected to stay in low growth trajectory

Export Growth (%)



Net exports have been a drag on GDP

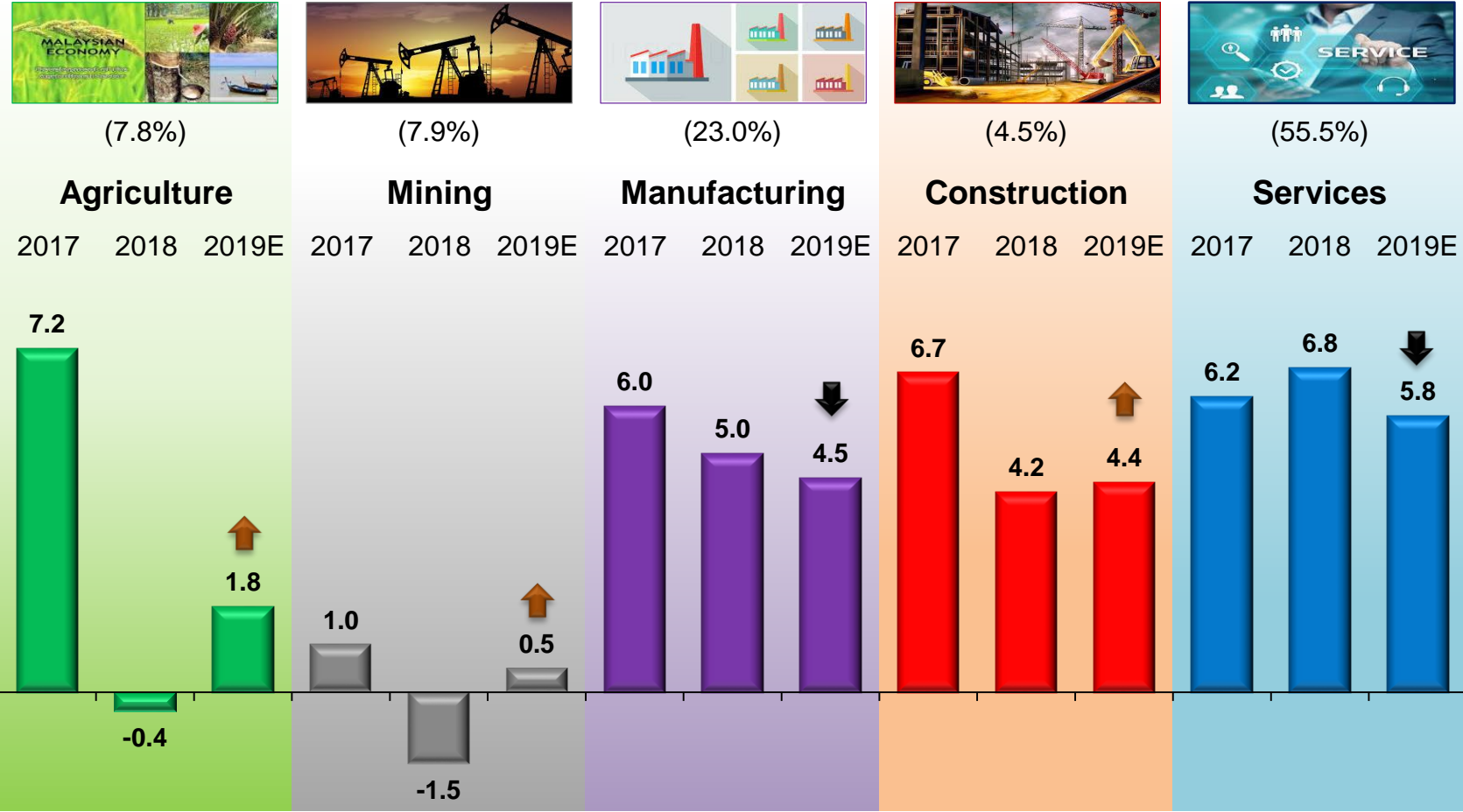
% point contribution to Real GDP Growth



Source: DOSM; BNM; SERC

# A BROAD-BASED EXPANSION is expected in 2019, albeit moderation in manufacturing and services sectors

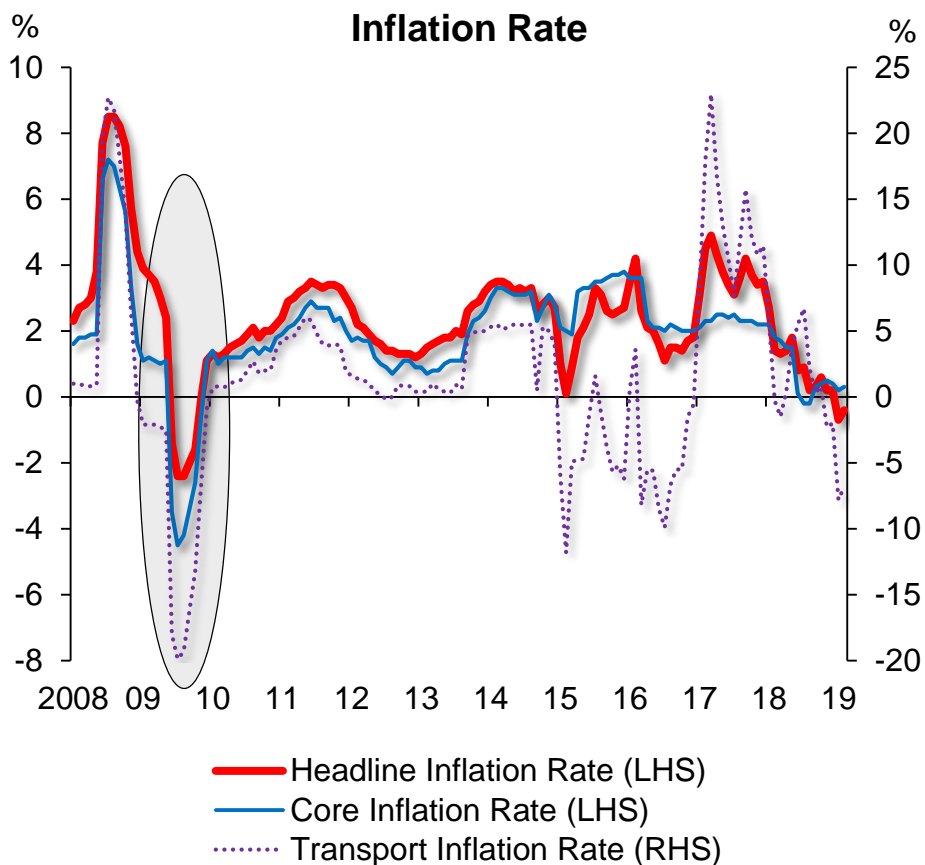
## Sectoral performance (%)



Note: Figure in parenthesis denotes share of GDP in 2018

Source: DOSM; SERC

# “Technical” base-induced DEFLATION is transitory



- BNM expects **HEADLINE INFLATION** to **average between 0.7-1.7% in 2019 (SERC: 1.0-1.5%)** (1.0% in 2018) due to some cost pass-through from domestic cost factors.
- **DOMESTIC COST FACTORS:** the lapse in consumption tax policy (the ending of 3-month zero-rated GST tax holidays and reintroduction of SST); increase in minimum wage and higher electricity surcharges for businesses; potential increase in food prices. However, global oil prices remain a wild card.
- **FIRST DEFLATION** (-0.7% yoy in Jan 2019 and -0.4% in Feb 2019) since end-2009. It is merely a technical deflation due to the decline in fuel prices and the replacement of GST with SST.

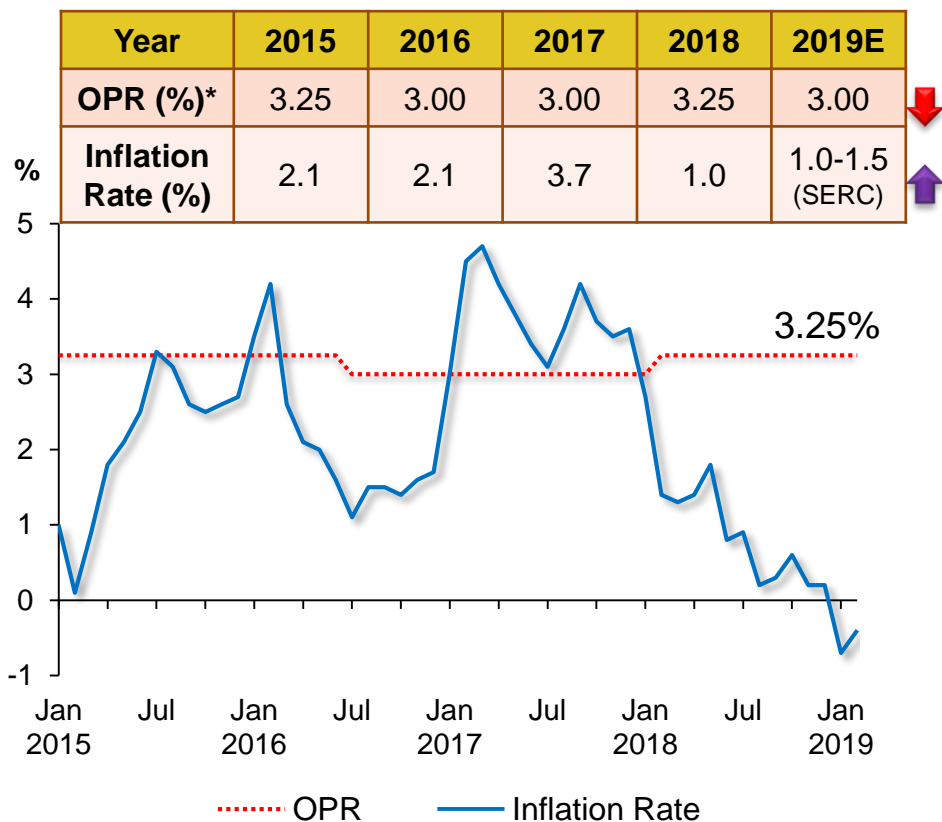
Source: BNM; DOSM

Note: Core inflation in 2008-2014 excludes food and non-alcoholic beverages only.

# An INTEREST RATE CUT might be coming ...

- Bank Negara Malaysia says that **MONETARY POLICY IN 2019** will focus on **SUPPORTING STEADY GROWTH**. The policy toolkit includes interest rate, micro-and macro-prudential measures.

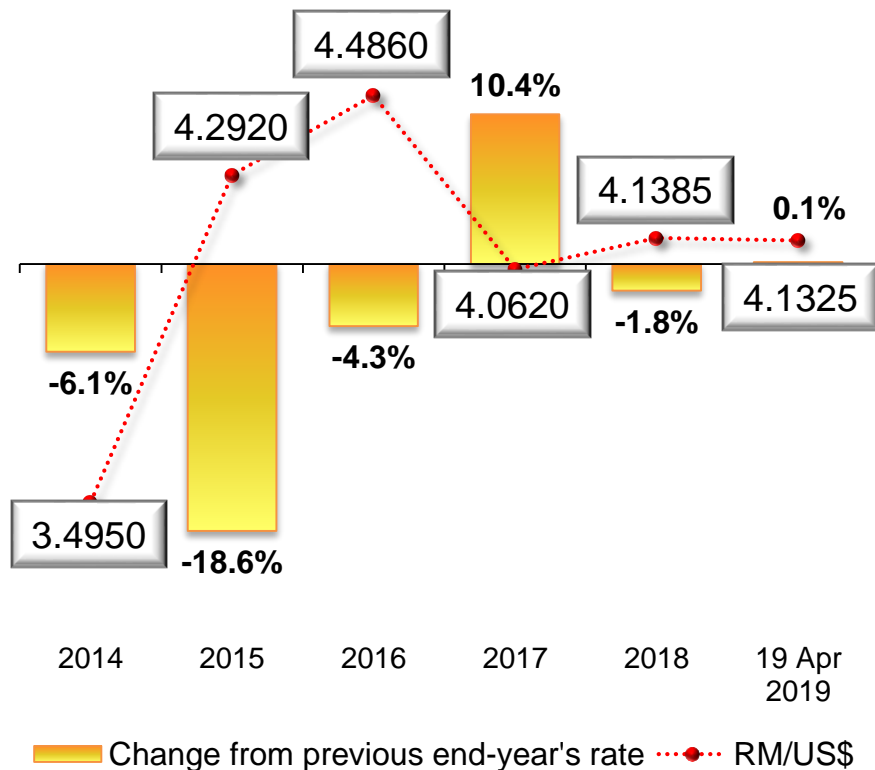
## Inflation will rise moderately in 2019



\* OPR as at end-year

Source: DOSM; BNM; SERC

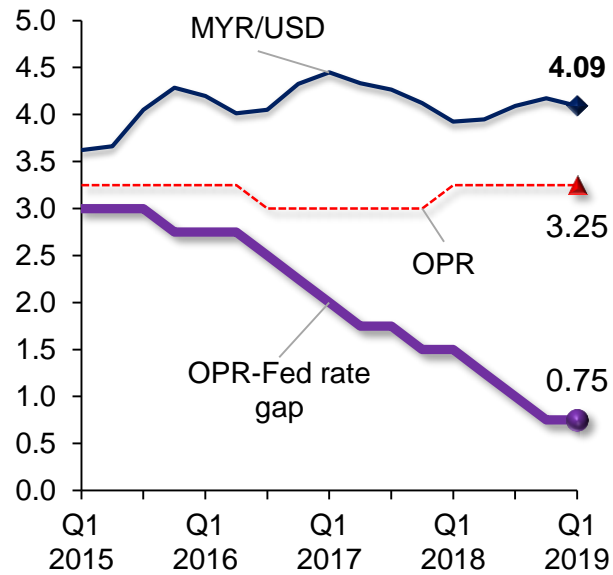
## Ringgit outlook at RM4.00-4.15 per US dollar



Note: Exchange rate (12:00 rate) as at end-period

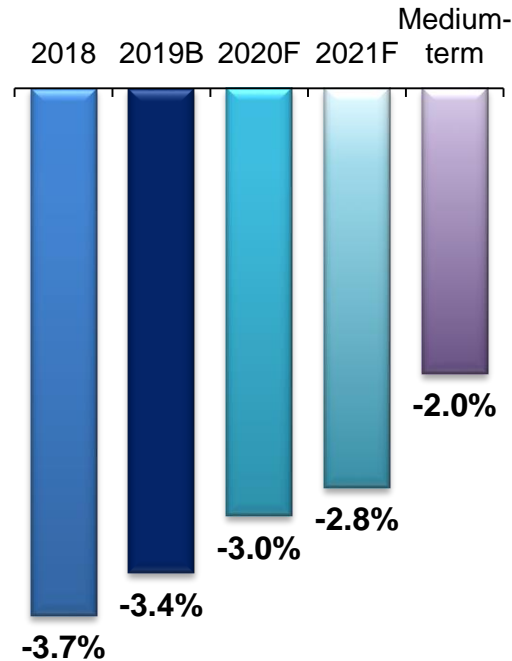
# MONETARY SPACE has some room but FISCAL LEVER is limited

## Monetary easing at a cost of weaker ringgit

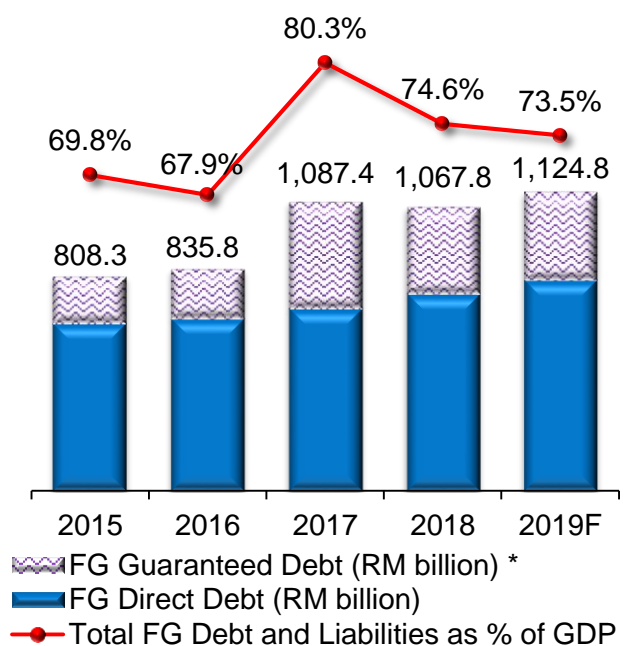


Note:  
Exchange rate: Average of 12:00 rate  
Rate gap: As at end-quarter

## Reset fiscal deficit path, set a three years to back on track



## Federal Government (FG)'s debt and liabilities



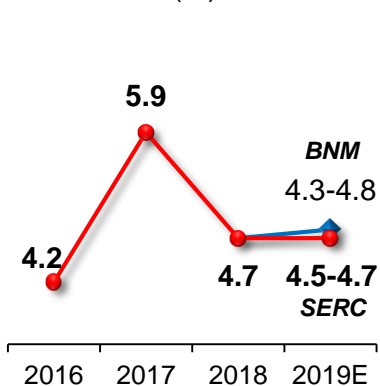
| Year                        | 2015  | 2016  | 2017  | 2018  | 2019  |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>FG Direct Debt</b>       | 630.5 | 648.5 | 686.8 | 741.0 | 792.7 |
| <i>% of GDP</i>             | 54.4  | 52.7  | 50.7  | 51.8  | 51.8  |
| <b>FG Guaranteed Debt *</b> | 177.7 | 187.3 | 400.6 | 326.8 | 332.1 |
| <i>% of GDP</i>             | 15.3  | 15.2  | 29.6  | 22.8  | 21.7  |

Source: BNM; Fed; MOF

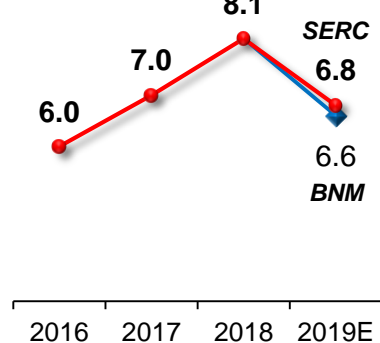
\* Includes liabilities from Public Private Partnership (PPP) for 2017-2019

# Malaysia's key ECONOMIC INDICATORS

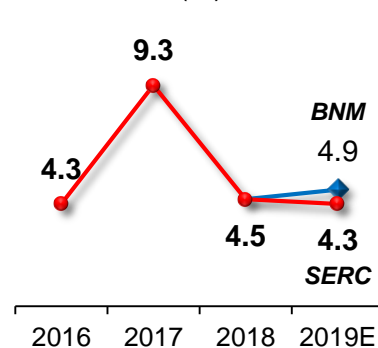
**Real GDP Growth (%)**



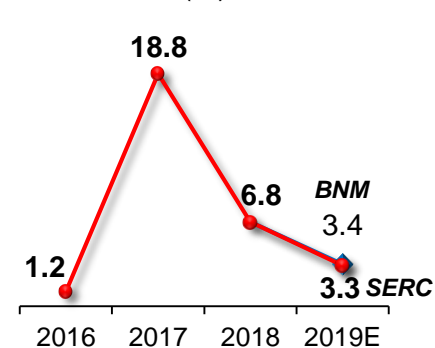
**Private Consumption Growth (%)**



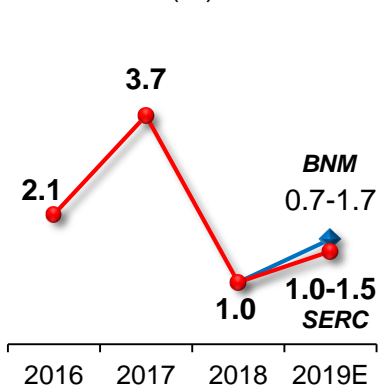
**Private Investment Growth (%)**



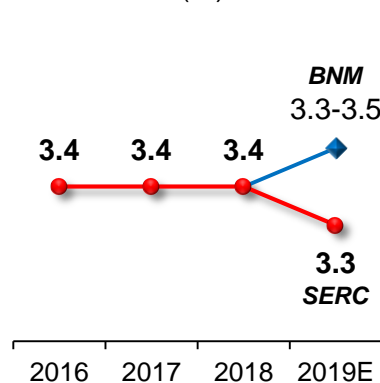
**Gross Export Growth (%)**



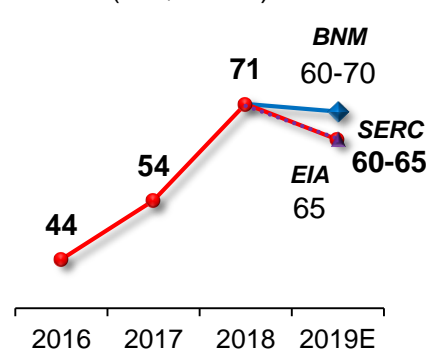
**Inflation Rate (%)**



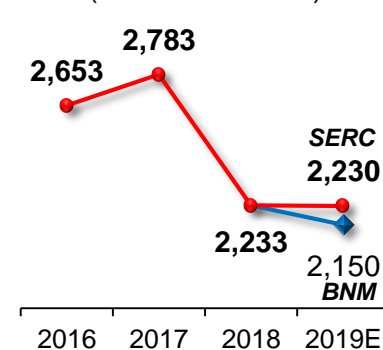
**Unemployment Rate (%)**



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



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



Source: DOSM; EIA; MPOB; BNM; SERC



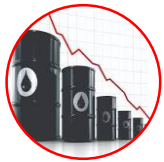
# DOWNSIDE RISKS to 2019's economic growth projection



**UNRESOLVED TRADE TENSIONS** between the US and China and a slower-than-expected global growth will affect Malaysia via the trade and investment channel



The **UNCERTAIN PACE OF THE MONETARY POLICY NORMALISATION IN THE US** could heighten financial market volatility across emerging market economies, leading to volatile two-way capital flows and currency fluctuations



**VOLATILITY IN THE GLOBAL OIL PRICE** could also affect export performance and mining sector investment



On the domestic front, a **RE-OCCURRENCE OF THE COMMODITY SUPPLY DISRUPTION**, partly from unanticipated weather patterns, could affect the recovery in the mining and agriculture sectors



**OVERSUPPLY SITUATION in the PROPERTY MARKET** could dampen activity in the construction sector

## Section 3

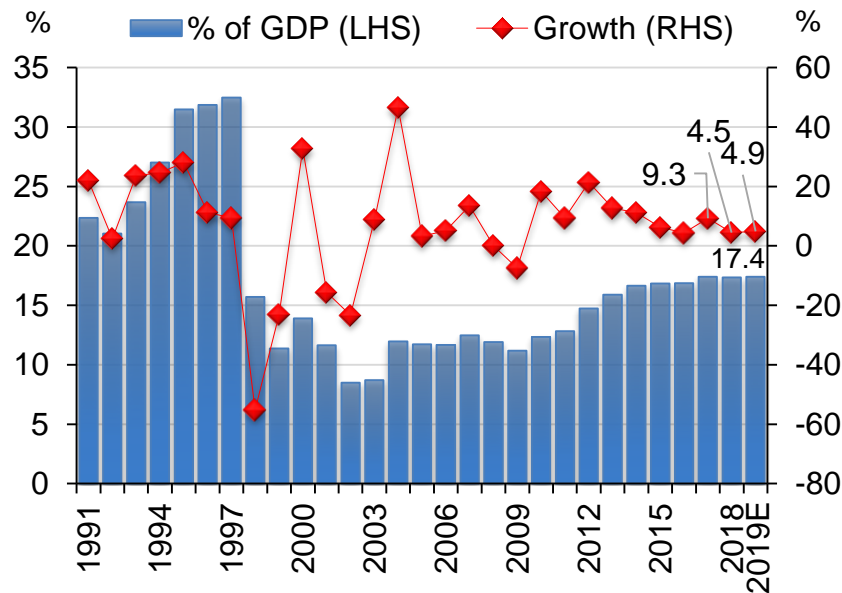
# Re-energising Malaysia's private investment



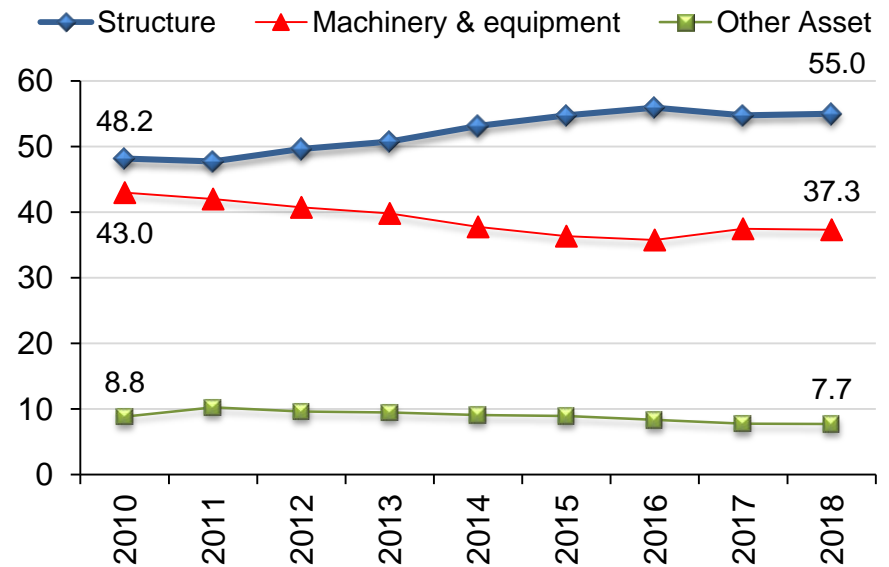
# Private investment seen LOSING MOMENTUM

- Post 1997-98 Asian Financial Crisis, Malaysia's private investment to GDP ratio had rebounded from an average of 11.2% in 2001-2010 to an average share of 16.1% in 2011-18. The ratio seen barely moved in recent years.
- Private investment's momentum had **moderated from 13.6% pa in 2011-14 to 6.1% pa in 2015-18**. It pulled back sharply to 4.5% in 2018 from 9.3% in 2017 (10.5% pa in 2011-17).
- Structure assets (comprising of residential, non-residential, other construction and floating structure for oil and gas activities) dominated total gross fixed capital formation (GFCF) at 55.0% in 2018. The share of **machinery and equipment to GFCF declined progressively from 43.0% in 2010 to 37.3% in 2018**.

### Malaysia's private investment trend



### Type of assets (% share of GFCF)

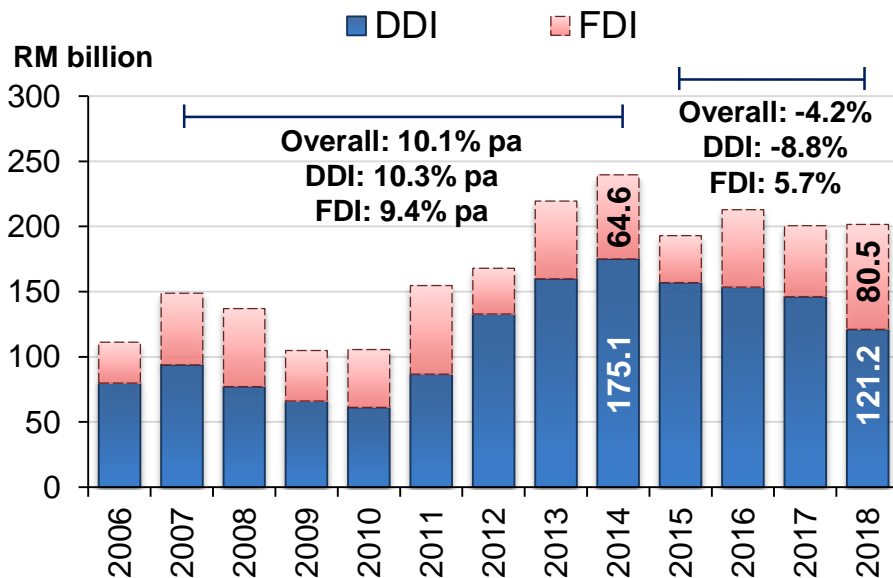


Source: DOSM; BNM

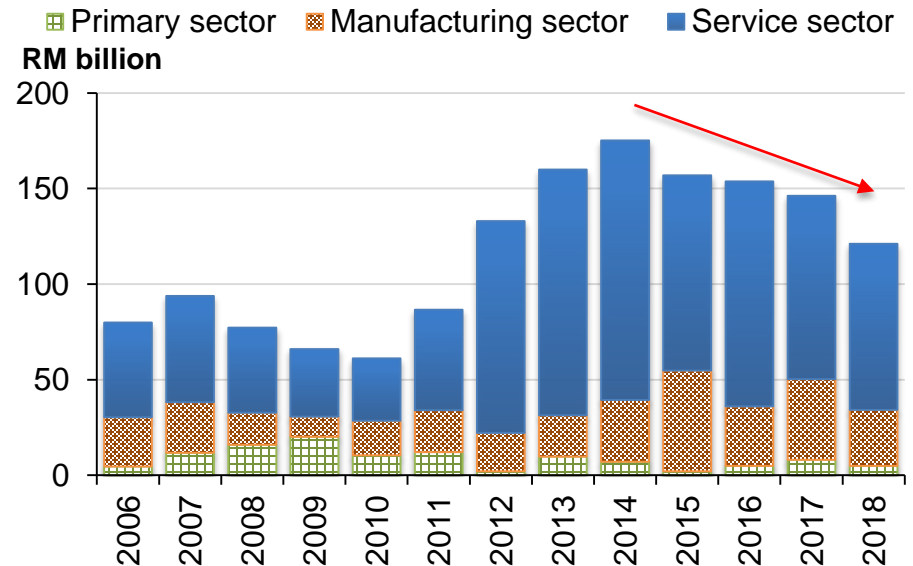
# DOWNWARD trend in domestic direct investment (DDI)

- Approved investment projects in services, manufacturing and primary sectors **contracted by 4.2% pa in 2015-18** from an increase of 10.1% pa in 2007-14.
- **DDI made up for an average share of 67.6% pa in 2006-18**, albeit seen declining share in recent years while **FDI accounted for an average share of 32.4%**.
- **DDI declined by 8.8% pa** from RM175.1bn in 2014 to RM121.2bn in 2018, reflecting declines across-the-board: services (-10.5% pa); manufacturing (-2.3% pa) and primary sector (-9.1% pa).

### Approved private investment projects



### DDI share by sector



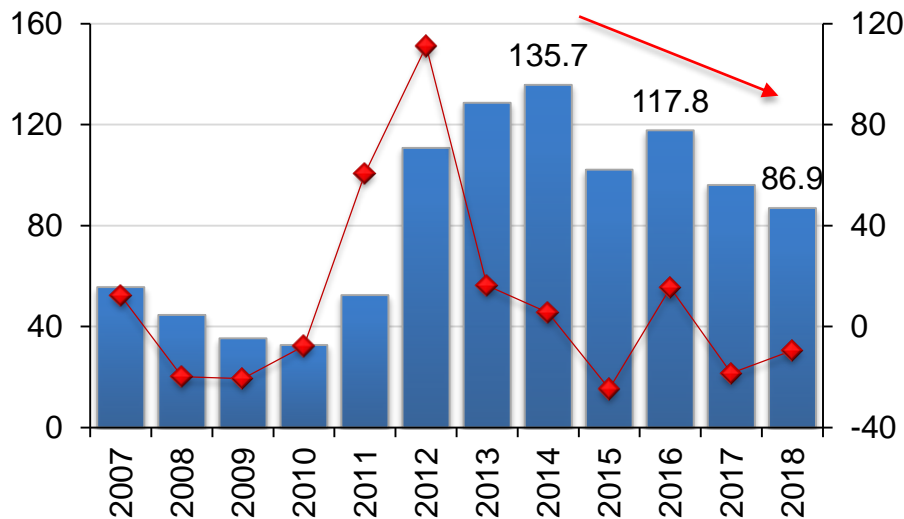
Source: Malaysian Investment Development Authority (MIDA)

# Services sector the **LARGEST** recipient, **over-concentration** in **REAL ESTATE**

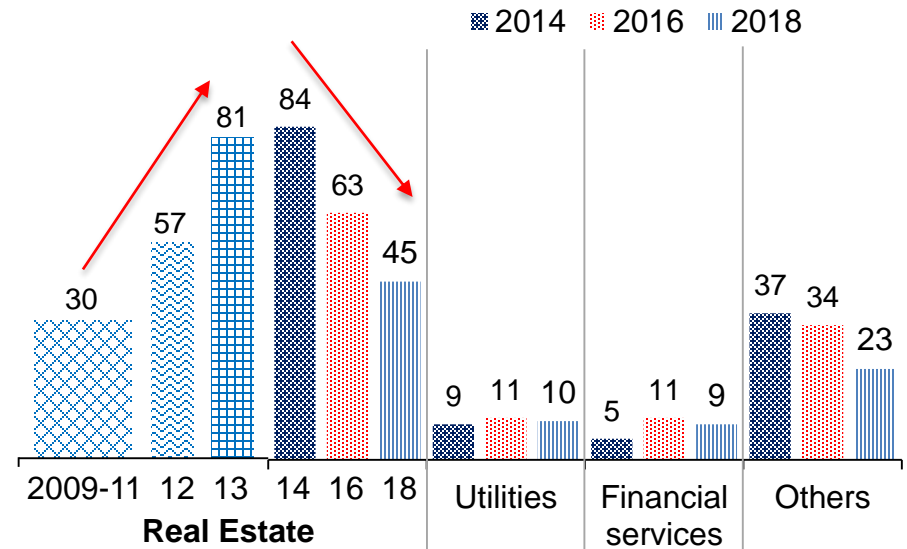
- **Services sector** was the largest contributor of approved DDI, which held an **average share of 66.7%** in 2006-18. However, it had **slumped by 10.5% pa** from RM135.7bn in 2014 to RM86.9bn in 2018.
- **Approved investment in real estate sub-sector** (excluding commercial buildings) shrank from RM84bn in 2014 to RM45bn in 2018, resulting a contraction in the services sector as **real estate accounted for 51.9-62.1%** of total service sector.

DDI – Approved investment in services sector

■ RM billion (LHS)    ◆ Growth, % (RHS)



Investment by subsector (RM billion)



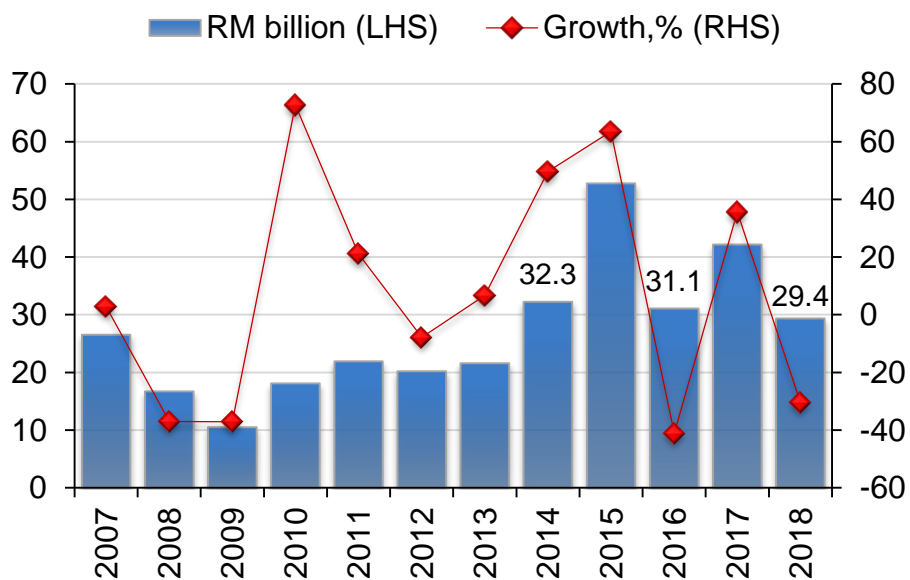
*Others include global establishments, support services, MSC status, transport, telecommunications, distributive trade, hotel and tourism, health services and education services; Data for telecommunications in 2018 only up to September*

Source: MIDA

# MANUFACTURING investment landscape

- In 2018, DDI in the manufacturing sector printed the lowest approved investment of RM29.4bn in five years.
- Petroleum products garnered the largest share (34.9-47.6%) in 2014-18 while the remaining five to seven industries each held around 4-10% share on average. However, some industries like furniture and fixtures as well as beverage and tobacco had insignificant presence of less than 1% of total DDI.

DDI – Approved investment in manufacturing sector



| Share      | 2014  | 2018   |
|------------|---|--|
| 4% - < 10% | <ol style="list-style-type: none"> <li>1. Basic metal products;</li> <li>2. Chemical &amp; chemical products;</li> <li>3. Fabricated metal products;</li> <li>4. Food manufacturing;</li> <li>5. Machinery &amp; equipment;</li> <li>6. Non-metallic mineral products; and</li> <li>7. Rubber products</li> </ol> | <ol style="list-style-type: none"> <li>1. Fabricated metal products;</li> <li>2. Food manufacturing;</li> <li>3. Machinery &amp; equipment;</li> <li>4. Rubber product; and</li> <li>5. Transport equipment</li> </ol> |
| > 10%      | <ol style="list-style-type: none"> <li>1. Transport equipment (11.6%); and</li> <li>2. Petroleum products* (34.9%)</li> </ol>   | <ol style="list-style-type: none"> <li>1. Basic metal products (15.9%); and</li> <li>2. Petroleum products* (47.0%)</li> </ol>   |

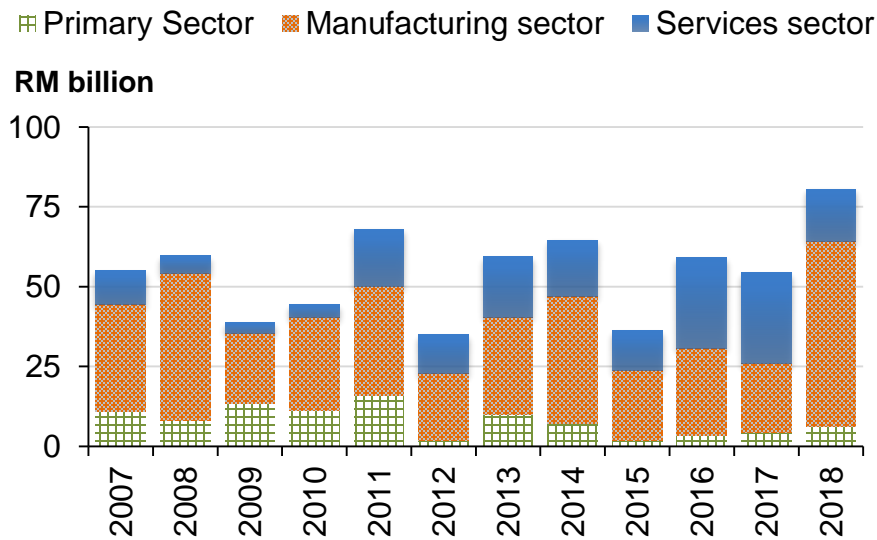
\* Including petrochemicals

Source: MIDA

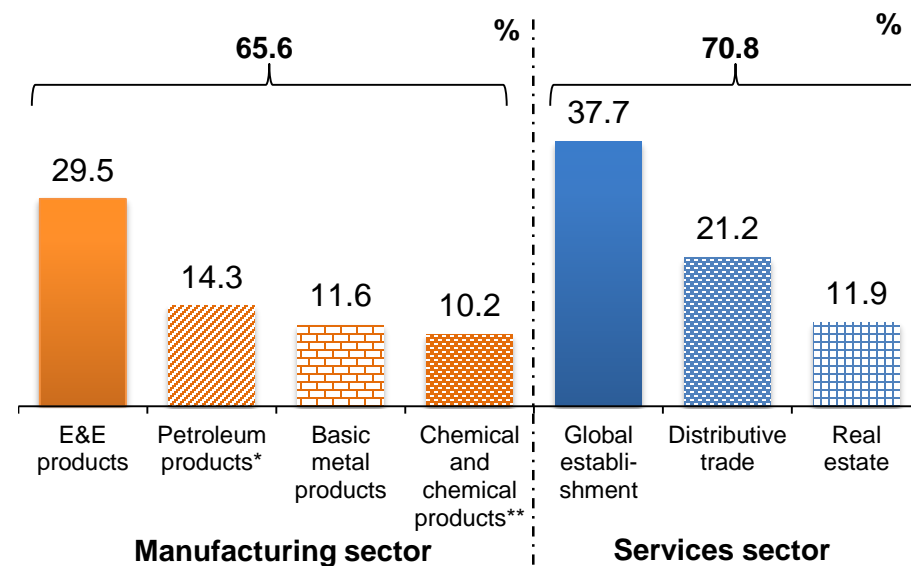
# Approved FDI hit record level in 2018

- Approved FDI expanded by 6.2% pa to RM80.5bn in 2018 from RM59.5bn in 2013 (5.7% pa in 2015-18; 9.4% pa in 2007-14). This had **broken the previous record** level of RM68bn in 2011.
- In 2013-18, foreigners invested in **electronics and electrical (E&E) products (29.5% of total)**, follow by **petroleum products (14.3%)**, **basic metal products (11.6%)** as well as **chemical and chemical products (10.2%)**.
- For services sector, **global establishment (37.7%)**, **distributive trade (21.2%)** and **real estate (11.9%)** top the list.

FDI share by sector



Average share by major industry / subsector (2013-18)

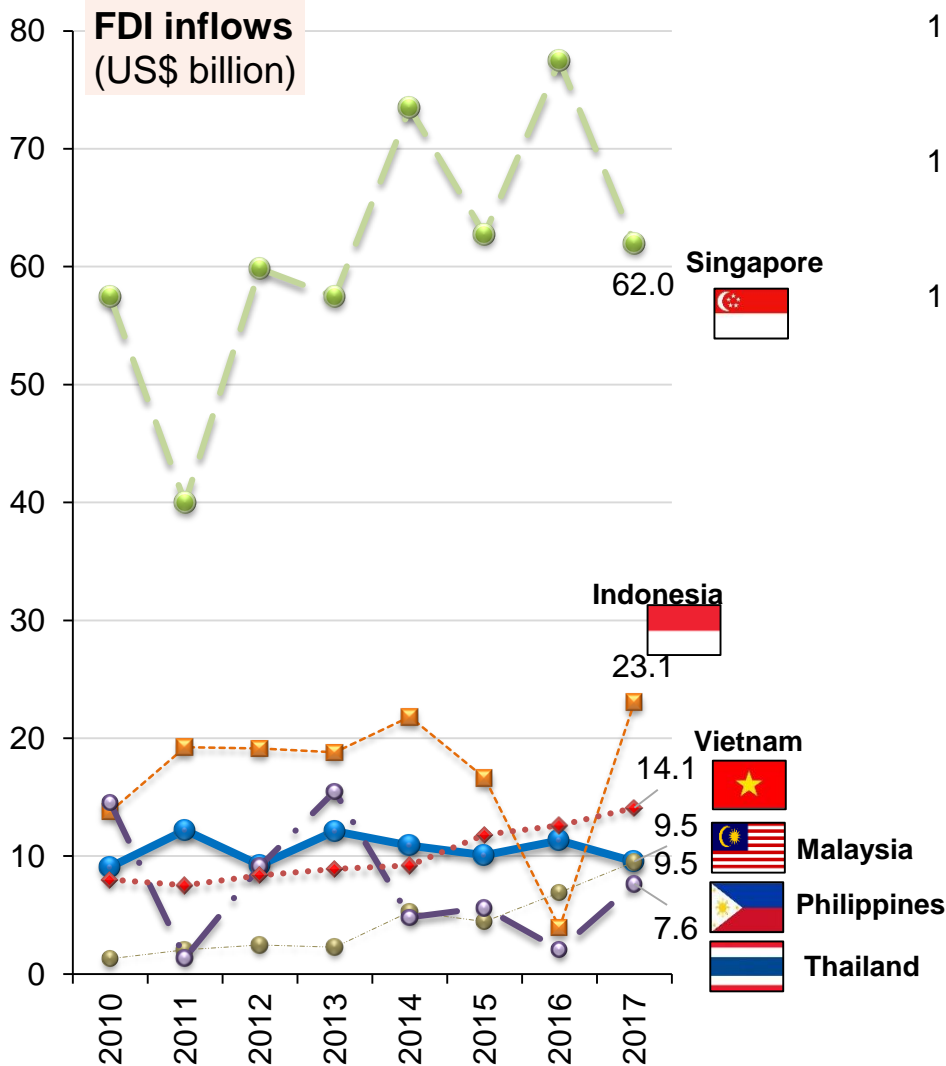


Source: MIDA

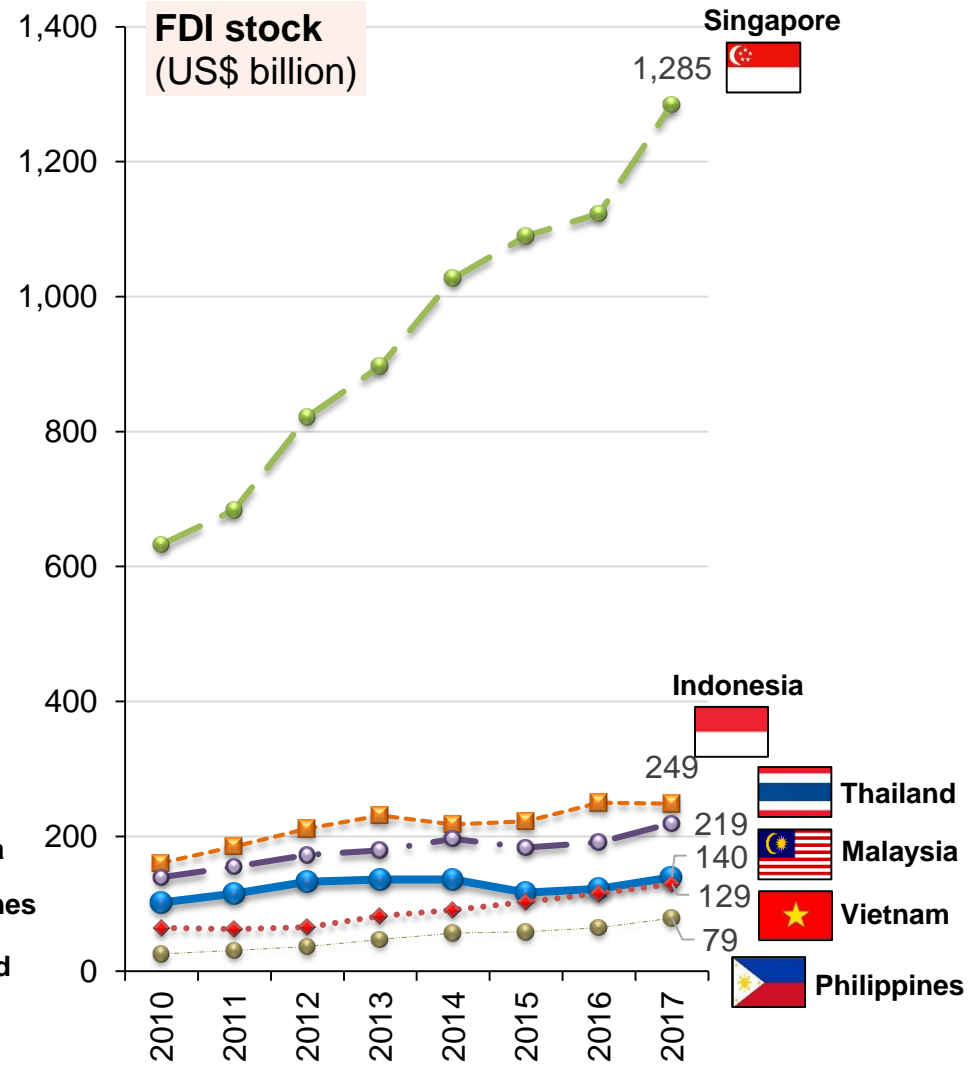
\*Includes petrochemicals; \*\*Includes oleochemicals, pharmaceutical, cosmetics and biotechnology

# Malaysia has been LAGGING behind Vietnam in attracting FDI

FDI inflows into Malaysia exhibited uneven trend



Malaysia's FDI stock paced moderately

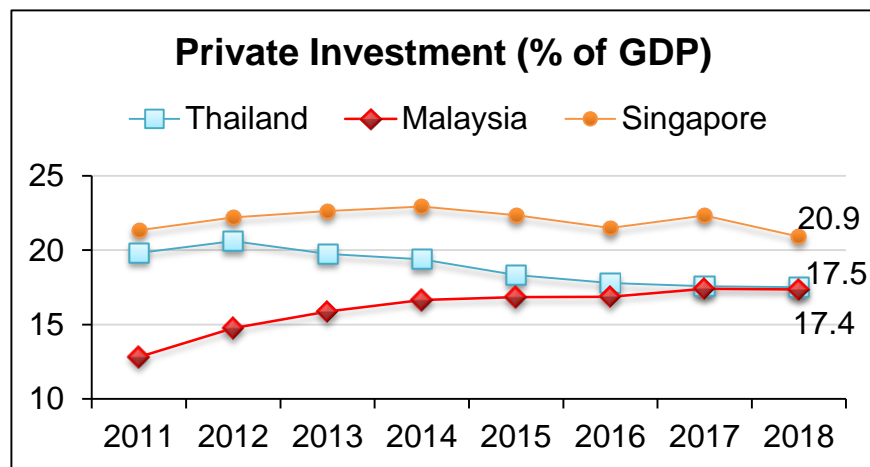


Source: World Investment Report 2018

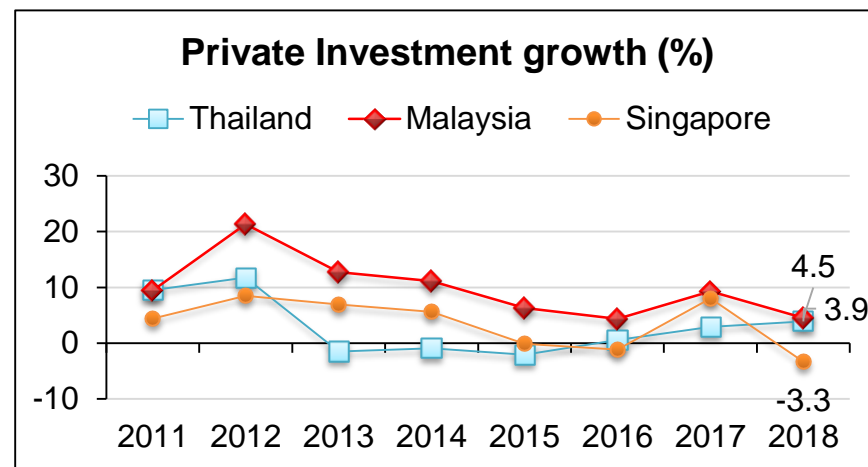


# Malaysia needs to RE-ENERGISE private investment

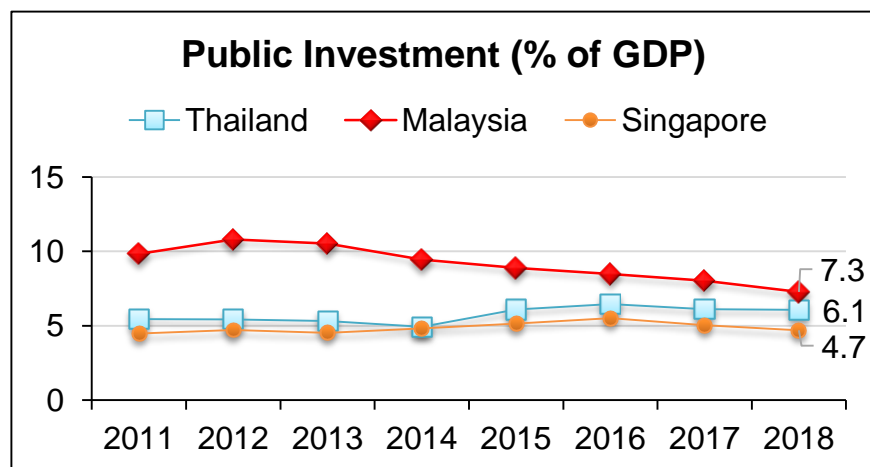
Private investment share still lower than its peers, albeit some improvements



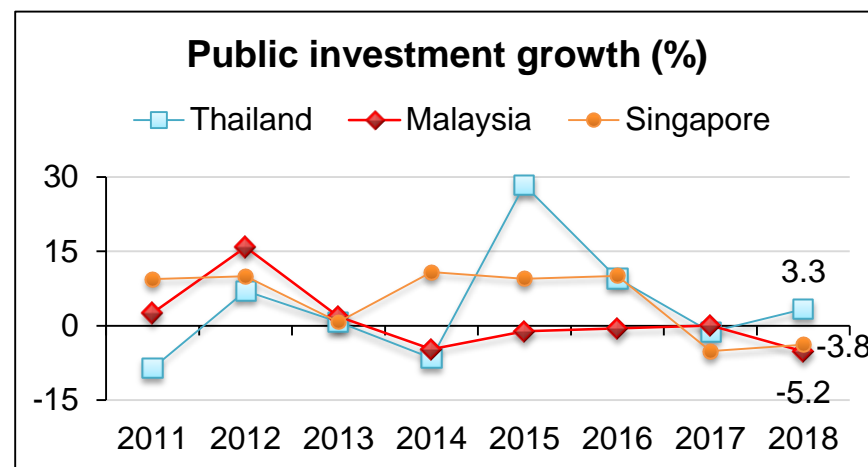
Slowing growth momentum (6.1% pa in 2015-18 vs. 13.6% pa in 2011-14)



Public investment is seen moderating over the years ...















... on low level of development expenditure



Source: Officials

# HIGH corporate tax rate in Malaysia compared to others
















| <br>EODB<br>2019 | <br>GCI<br>2018 |                  | <br>Corporate<br>Tax Rate | <br>Lending<br>Interest Rate | <br>Minimum<br>wage (US\$) |
|---|--|---|---|---|---|
| <i>Ranking</i>  |  | <b>ASEAN-6</b>  | (%, 2019)   | (%, 2018)   | 2019  |
| 2   | 2  |  Singapore       | 17  | 5.3   | -   |
| <b>15</b>   | <b>25</b>  |  <b>Malaysia</b> | <b>24</b>   | <b>4.9</b>  | <b>269.87</b>   |
| 27  | 38   |  Thailand        | 20  | 4.2   | 266.56  |
| 73  | 45   |  Indonesia       | 25  | 10.5  | 276.46  |
| 124   | 56   |  Philippines    | 30  | 6.1   | 265.84  |
| 69  | 77   |  Vietnam       | 20  | 7.4*  | 180.49  |

Note: GCI = Global Competitiveness Index; EODB = Ease of doing business; \*Vietnam = 2017

For minimum wage, conversion to US dollar based on exchange rate published by BNM on 1 Apr 2019, assumed 26 working days in a month for daily rate.

Source: KPMG; IMF; World Bank; World Economic Forum; KPMG; IMF; various sources for minimum wage (capital city)

# LONG procedures and time to START a business in Malaysia

| <br>Ranking    | GCI 2018<br>(by selected component)  |  |  |  |   | EODB 2019<br>(by selected component)   |   |   |
|--|--|--|--|--|---|--|---|---|
|  | <br>Business dynamism | <br>Infrastruc-<br>ture | <br>Labour market | <br>Product market | <br>Skills | <br>Starting a business | <br>Getting credit | <br>Trading across borders |
|  Singapore     | 16   | 1  | 3  | 1  | 20  | 3  | 32  | 45  |
|  Malaysia      | 19   | 32   | 20   | 24   | 24  | <b>122</b>   | 32  | 48  |
|  Thailand      | 23   | 60   | 44   | 92   | 66  | 39   | 44  | 59  |
|  Indonesia     | 30   | 71   | 82   | 51   | 62  | 134  | 44  | 116   |
|  Philippines | 39   | 92   | 36   | 60   | 67  | 166  | 184   | 104   |
|  Vietnam     | 101  | 75   | 90   | 102  | 97  | 104  | 32  | 100   |

Source: World Economic Forum; World Bank

# REINVIGORATING private investment a key priority



Private investment vitality is **critical for sustaining our economic growth on a sustained basis, raise the future growth potential, create high income jobs and increase exports.**



Policies should focus on:

- How we **could improve our competitive edge;**
- Which kind of economic policies we should adopt;**
- Map up the voyage to higher and more sustainable economic growth;**  
and
- For the short term, some quick fixes that we can look into to enhance our investment climate.



Policymakers need to focus on reforms that help Malaysia catches up with her peers on:

- Supply of a skilled and creative workforce;**
- Adapting to a rapid shift in technological advancement;**
- State-of-art infrastructure;**
- Industrial development; and**
- Good governance and best business practices.**

# Recommendations

Draw up **A National Investment Strategy Plan** to revitalise private investment, with equal emphasis placing on Direct Domestic Investment (DDI), especially for small-and medium-enterprises (SMEs) and high quality Foreign Direct Investment (FDI).



An essential investment **planning tool to achieve** overall investment **goals and targets**



To critically **examine the factors restraining business investment decision** (e.g. economic and investment prospects; external uncertainties; domestic policy uncertainty; regulatory and investment policies; financial constraints, cost of capital, profitability or the “crowding out” effect from the participation of the Government-linked companies (GLCs))



To **monitor the effectiveness** of tax or non-tax incentives, the regulatory and approval process, the quality of investment promotional programs and etc.



To give **preference to private sector investment** over public sector investment



To emphasis on attracting **capital-intensive, high-technology and quality FDI**, and achieving a better mix in investment in terms of different sectors



To create a **sound investment climate** for all through **enhancement in transparency, investor's protection and non-discrimination between sectors**, large and small companies, domestic and foreign investors



To **reap scale economies** and by **facilitating integration** into global supply chains, boosting productivity and rates of return on investment



To **form sound competition policy** which is transmitted the wider benefits on investment to society



To establish **fairer, competitive and efficient tax system** as well as **less complex in administration** to minimize compliance costs and reduce business costs as well as discourage tax avoidance and evasion



To **streamline, refocus and improve the fragmented** nature of Malaysia's investment promotion landscape



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**谢谢**  
**THANK YOU**

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