社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

JP Morgan Investors’ Forum

Views from the Ground: A mixed bag of numbers

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Executive Director

13 September 2019

Section 1

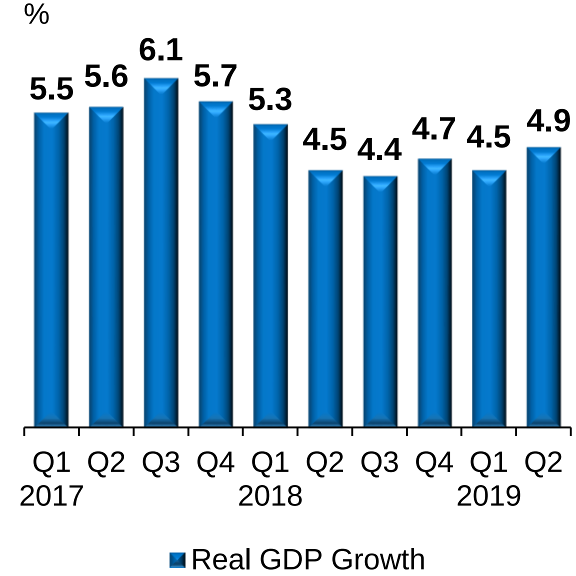
The Malaysian Economy

Present, Prospects and Challenges

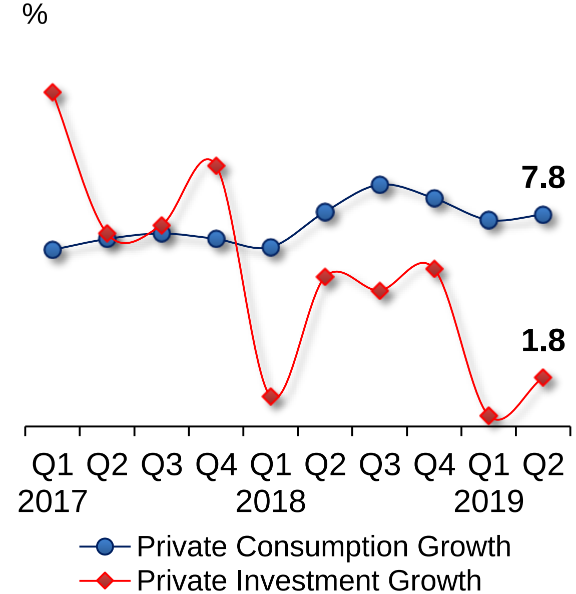
Malaysia's GDP growth: 4.7% in 2019 and 4.5% in 2020F

- **Higher real GDP growth in 2Q19 (4.9% yoy vs. 4.5% in 1Q19)**, underpinned by resilient consumer spending and a rebound in mining output.
- **SERC maintains GDP growth estimate at 4.7% in 2019.** Looking ahead, GDP growth is expected to grow by between 4.6% and 4.7% in 2H 2019. For 2020, real GDP is projected to expand by 4.5%.
- **Downside risks remain**: Global recession risk, the escalation of the US-China trade tensions, slowing domestic demand.

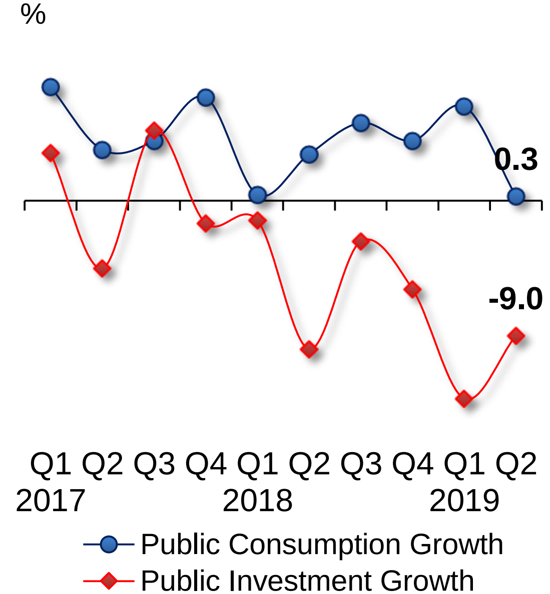
Malaysia bucks regional economies to record higher GDP growth in 2Q19



Consumer resilience remains; cautious private investment



Public sector spending continued to contract, albeit narrower



Source: DOSM

Private sector spending remained the key driver of growth

- Private consumption is holding the fort

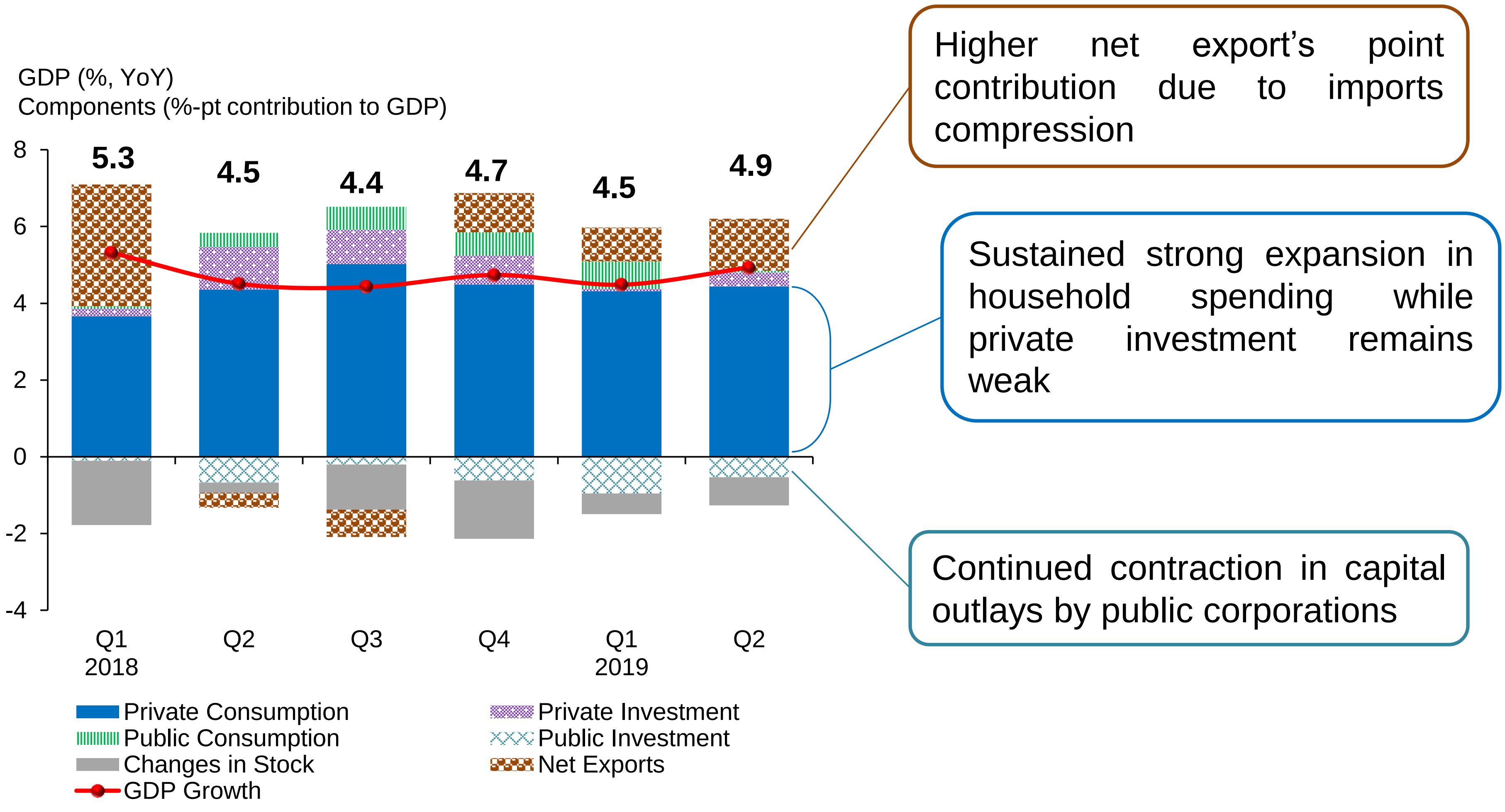
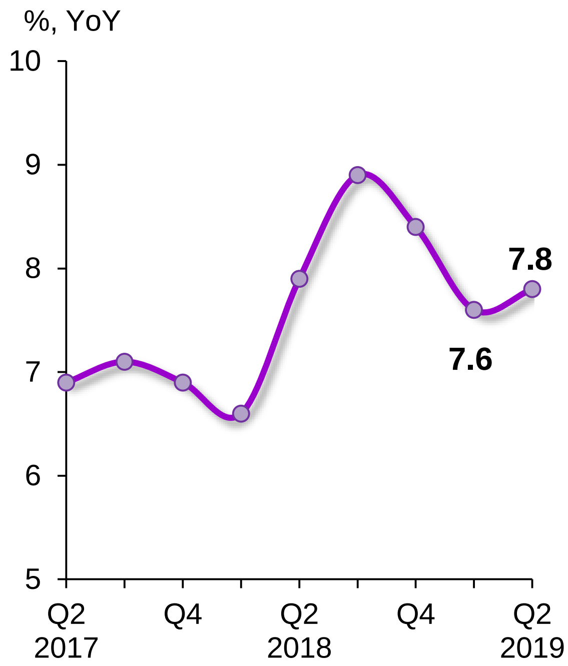


Figure indicates quarterly GDP growth
Source: DOSM

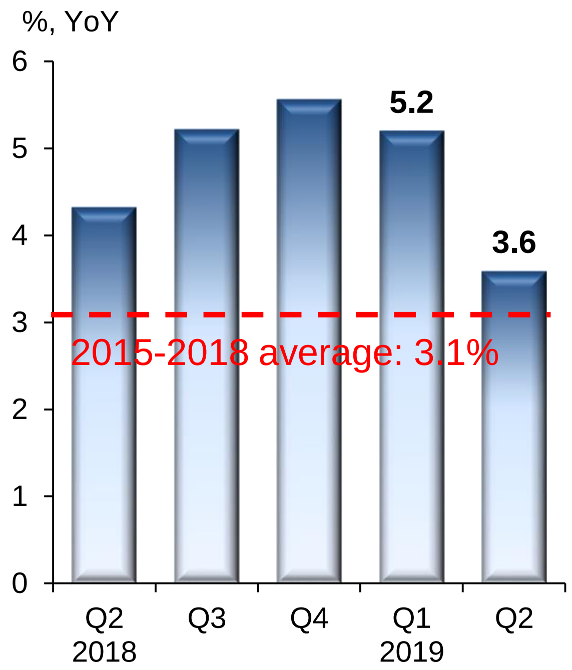
Still-strong consumer spending amid cautious sentiment

- Household spending propping up the economy, underpinned by above-average real wage growth and consumption-enhanced measures.

Real private consumption growth



Real private sector wage growth

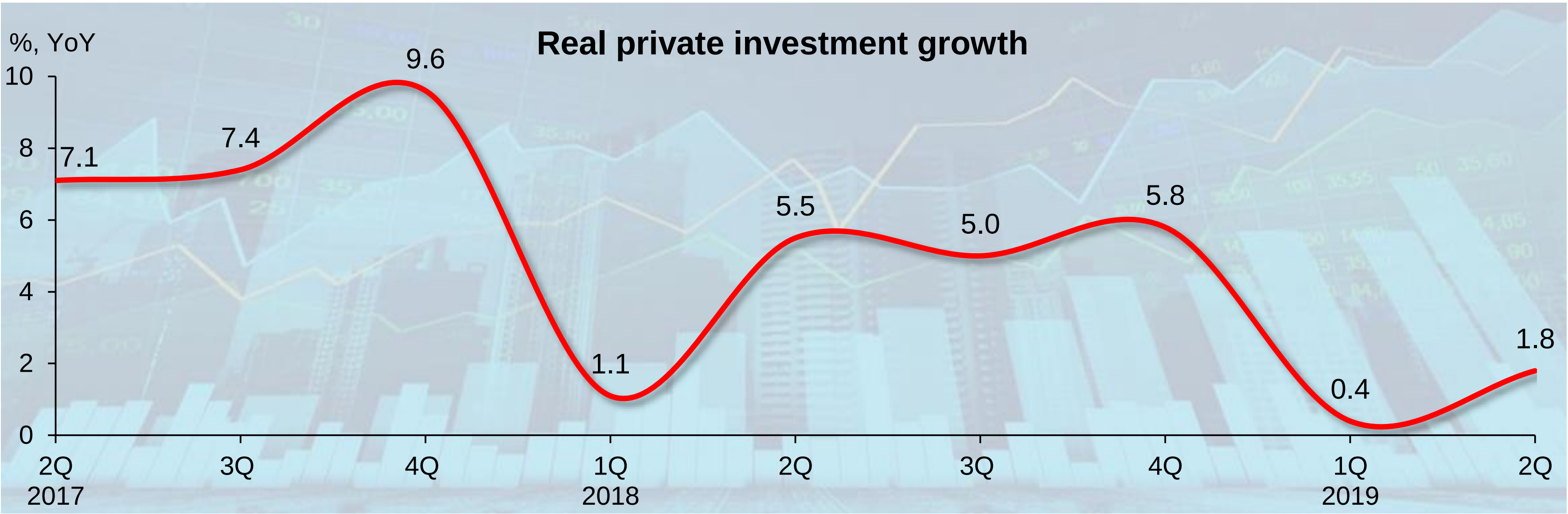


Consumer spending likely to moderate to 6.7% in 2020 (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

Note: Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).
Source: DOSM; BNM

Slackening private investment growth is worrying

- Private investment's momentum had moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It expanded by 1.3% in 1H 2019.



➢ **Downside risks remain**:

Heightened global uncertainty, slower global growth and trade hostilities

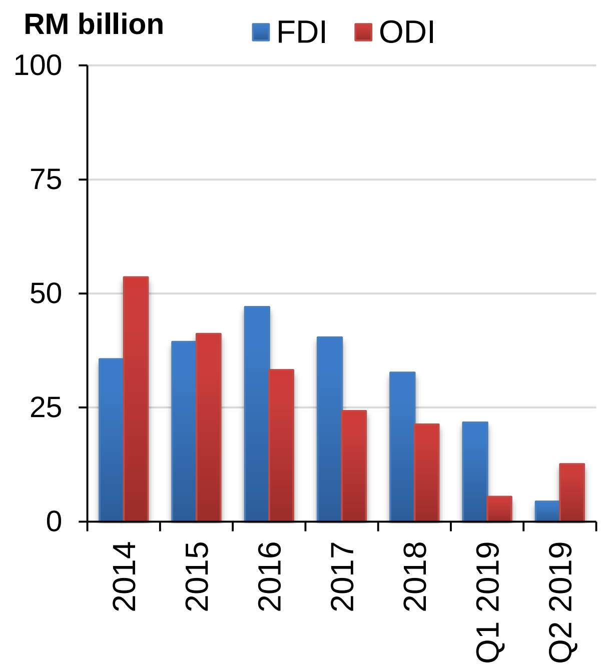
Domestic policy uncertainties; persistent weakness in the property segment, especially residential and commercial properties

Source: DOSM

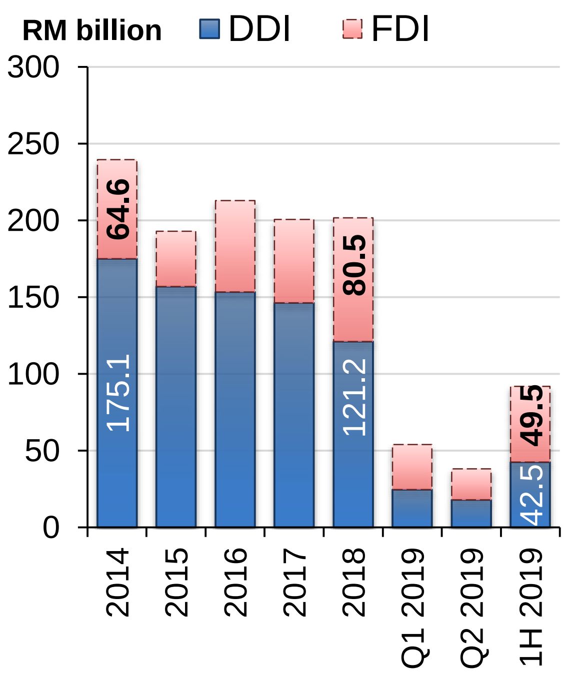
Foreign approved investment jump but domestic down sharply

- In 1H 2019, foreign investments approved in the manufacturing, services and primary sectors increased by 97.2% yoy to RM49.5bn (RM25.1bn in 1H 2018).
- Approved domestic investments declined by 29.6% to RM42.5bn in 1H 2019, contributing 46.2% of total approvals.

ODI surpassed FDI in 2Q19



Overall approved investment seen lower in 2019



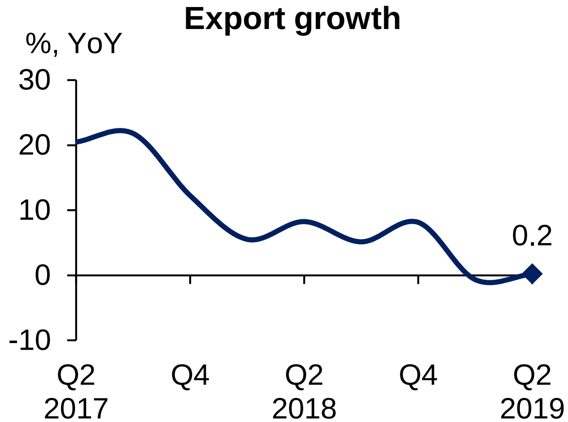
Top foreign sources in manufacturing sector were: The USA (RM11.7bn); China (RM4.8bn); Singapore (RM3.1bn); Japan (RM2.1bn) and the British Virgin Islands (RM1.4bn).

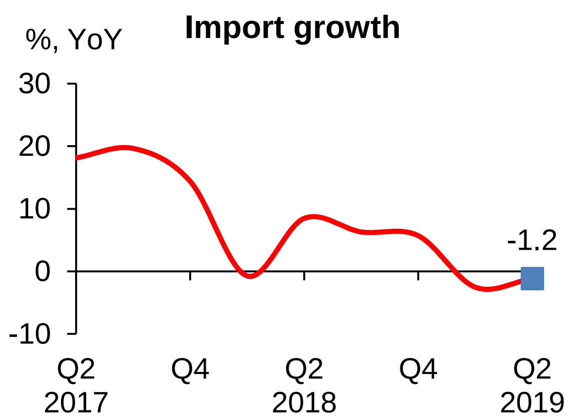
China's Longi Technology to produce monocrystalline solar cell; Advance Energy Industries; On Semiconductors and Plexus Manufacturing; Micron Technology and Jabil Circuit from US; China's XSD International Paper

Source: DOSM; BNM

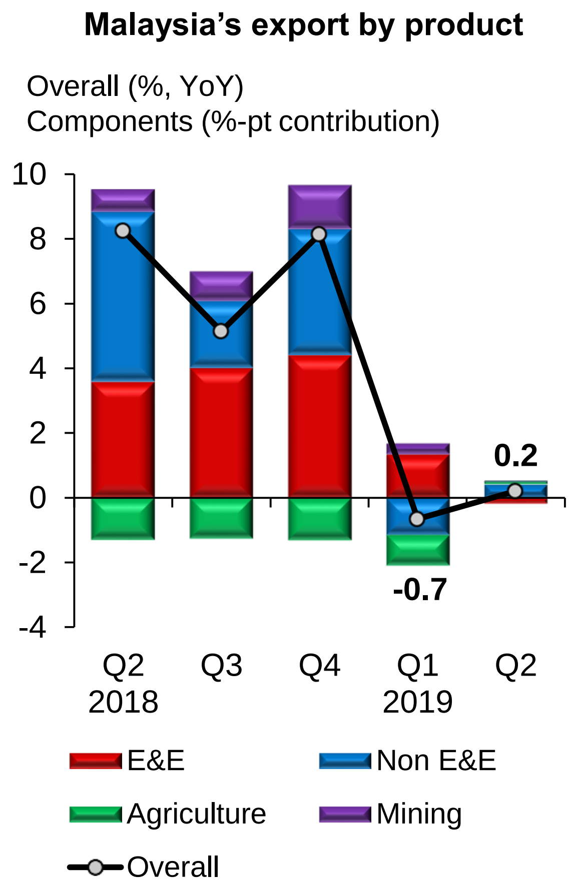
Exports hostage to slowing global growth & trade tensions

Lethargic exports growth

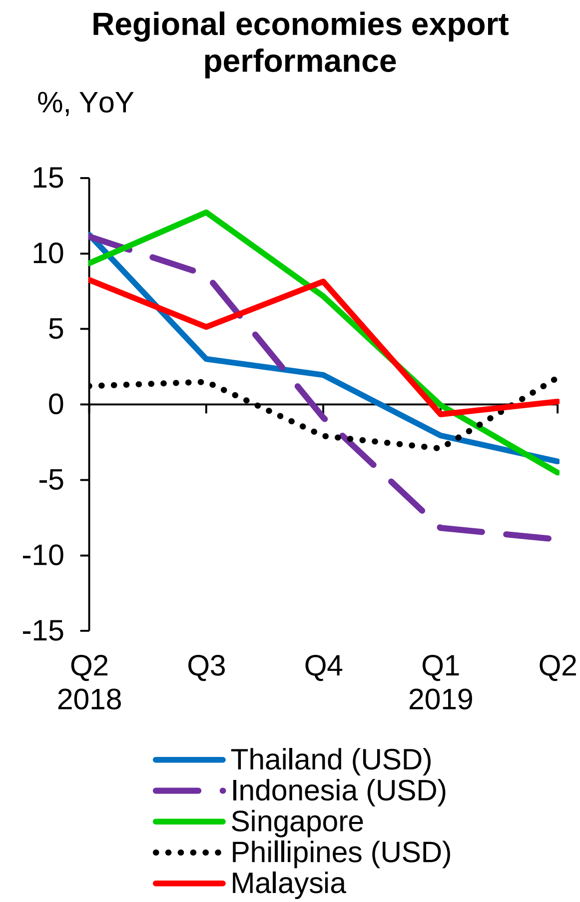




Diversified exports helped mitigate impact of weaker E&E export growth

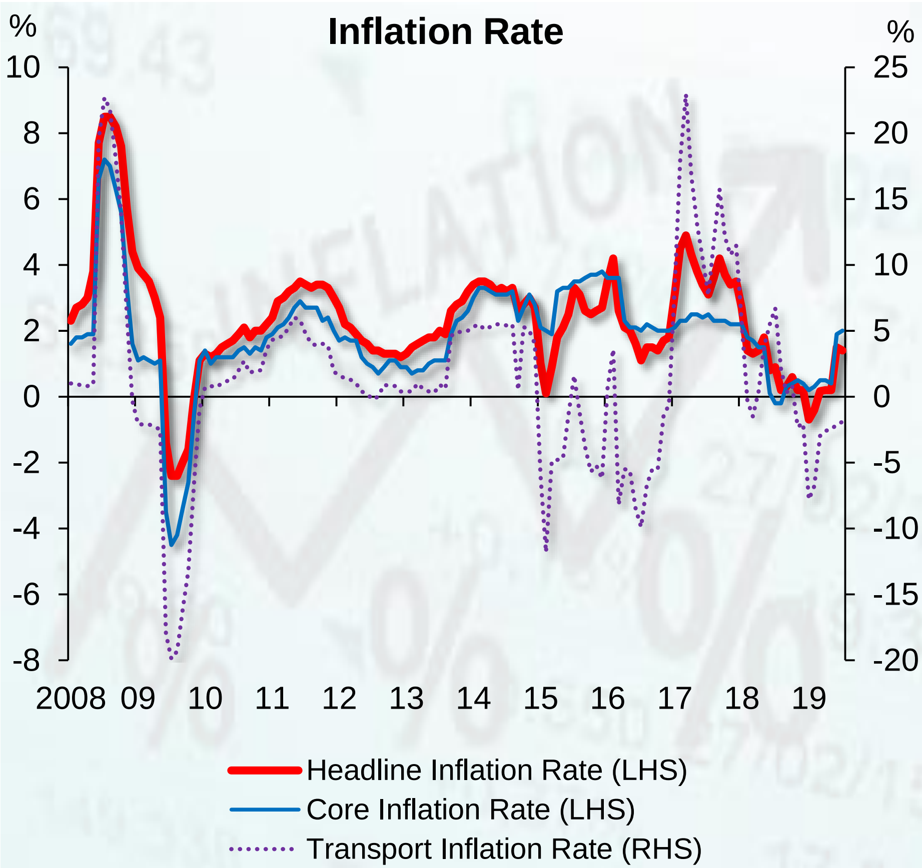


Malaysia's exports compared to regional economies



Note: Mineral products data taken is the data of mining products
Source: DOSM; Officials

Inflation has returned to positive trajectory



- **Headline inflation** normalises to 1.5% yoy and 1.4% in June and July respectively after a year of either low or negative rate due to the change of consumption tax policy. Inflation up 0.3% in Jan-July.
- Core inflation remained healthy and ticked higher to 2.0% in July (1.9% in June), indicating continued domestic demand.
- SERC expects **headline inflation to average 0.8% in 2019** due to some cost pass-through from domestic cost factors. These include:
  - Lapse in consumption tax policy;
  - Increase in prices of soft drinks due to soda tax;
  - Increase in minimum wage;
  - Higher electricity surcharges for businesses; and
  - Potential higher increase in food prices.

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

Should BNM cut rate further?

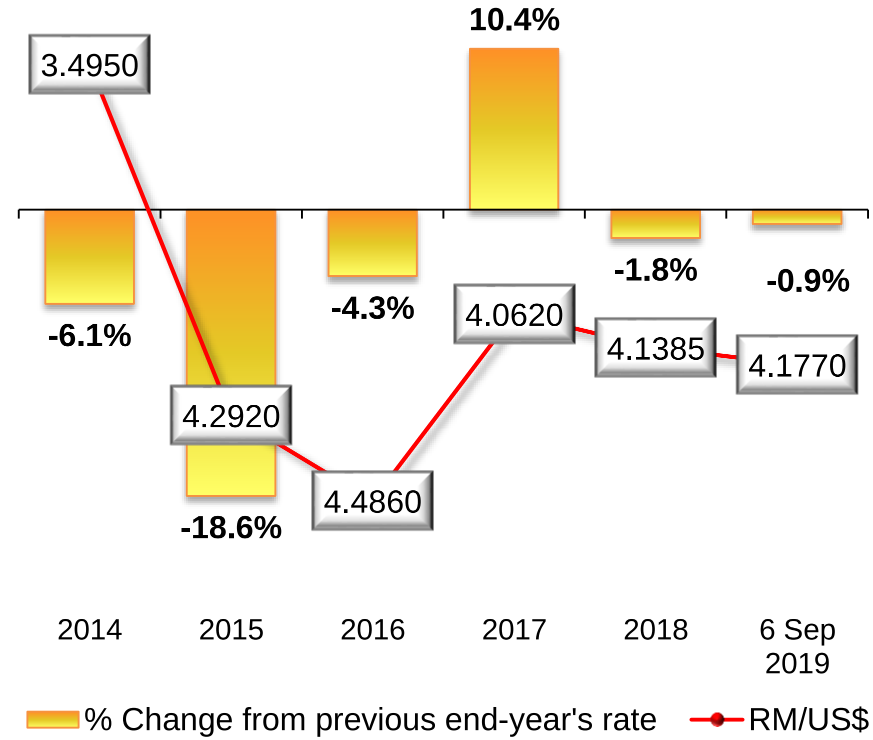
- BNM cut the overnight policy rate by 25 bps to 3.00% in May.
- Reserve monetary arsenal while continue to assess the impact of rate cut on domestic demand.

Inflation will rise in second half-year of 2019

Year	2015	2016	2017	2018	2019E
OPR (%)*	3.25	3.00	3.00	3.25	3.00
Inflation Rate (%)	2.1	2.1	3.7	1.0	0.8 (SERC)

* OPR as at end-year

Ringgit outlook at RM4.15-RM4.20 per US dollar

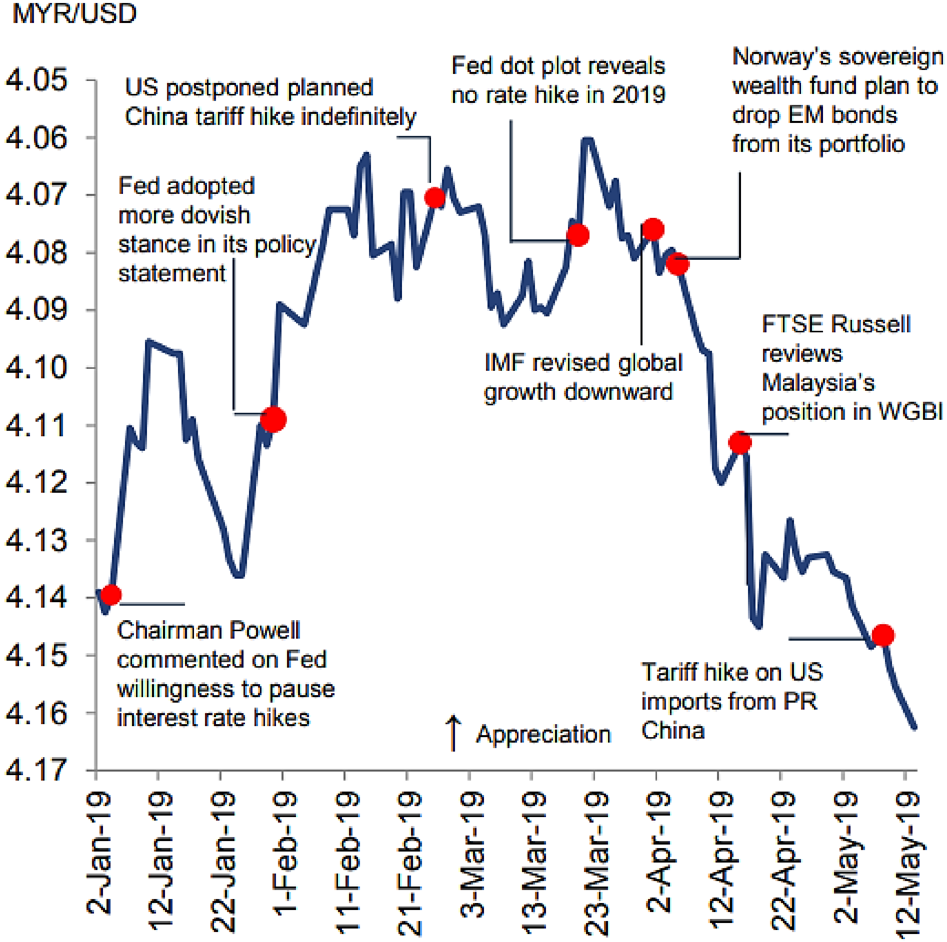


Note: Exchange rate (12:00 rate) as at end-period

Source: DOSM; BNM; SERC

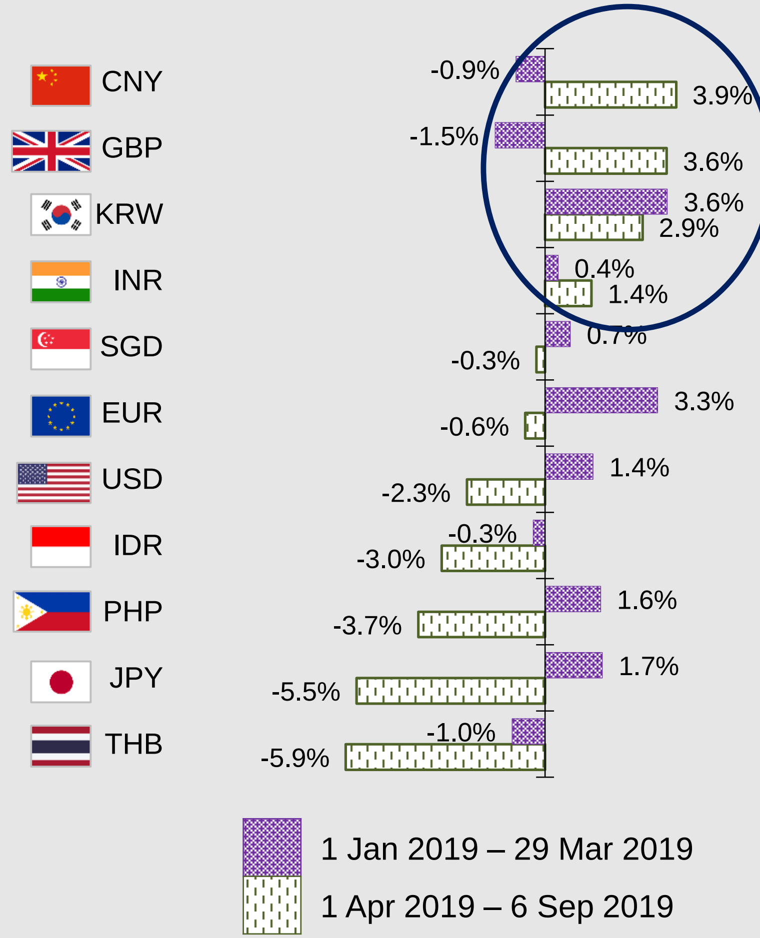
Ringgit's movements largely driven by external influences & cautious investors' sentiment

Movements of ringgit and global developments



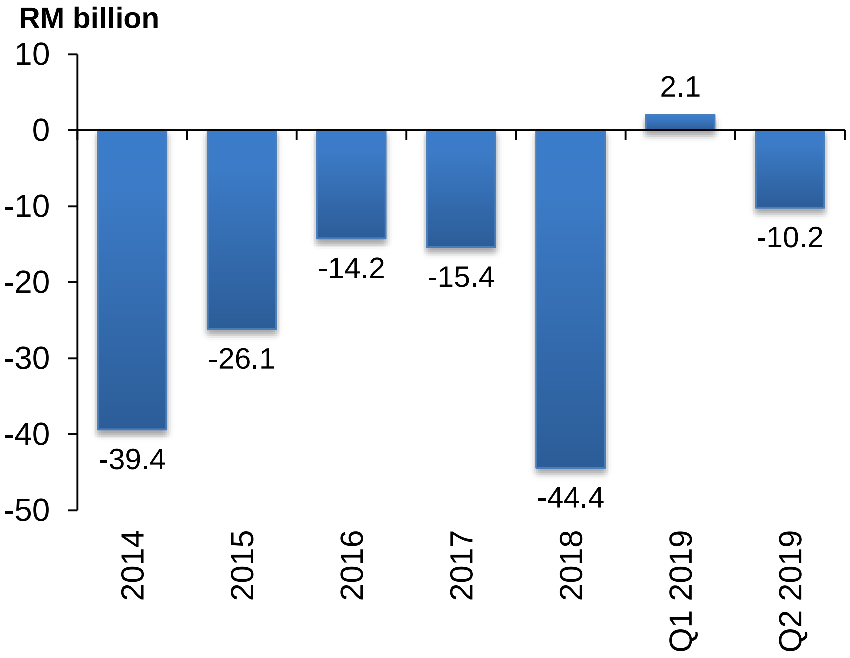
Source: BNM

Ringgit performance against selected major and regional currencies

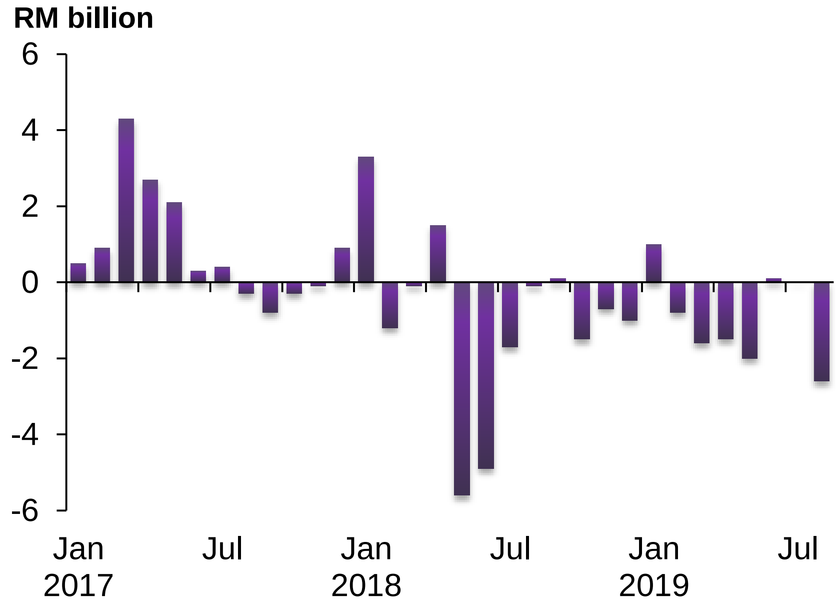


Volatility in portfolio investment flows would persist

Portfolio investment



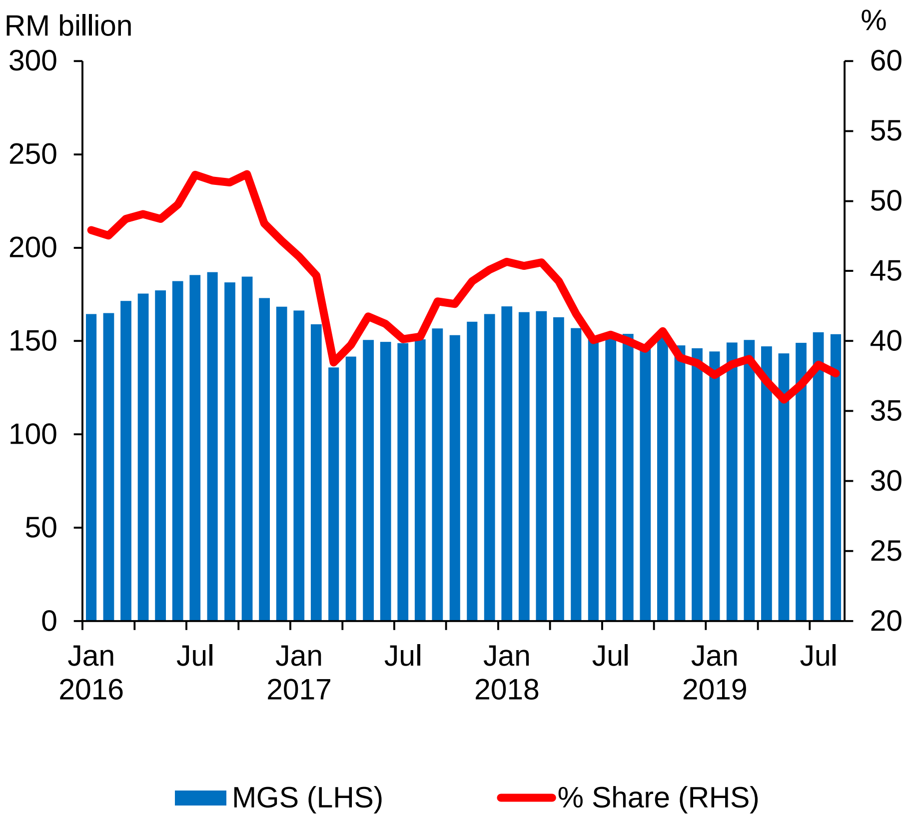
Foreigners' net buy/(sell) position of domestic equity market



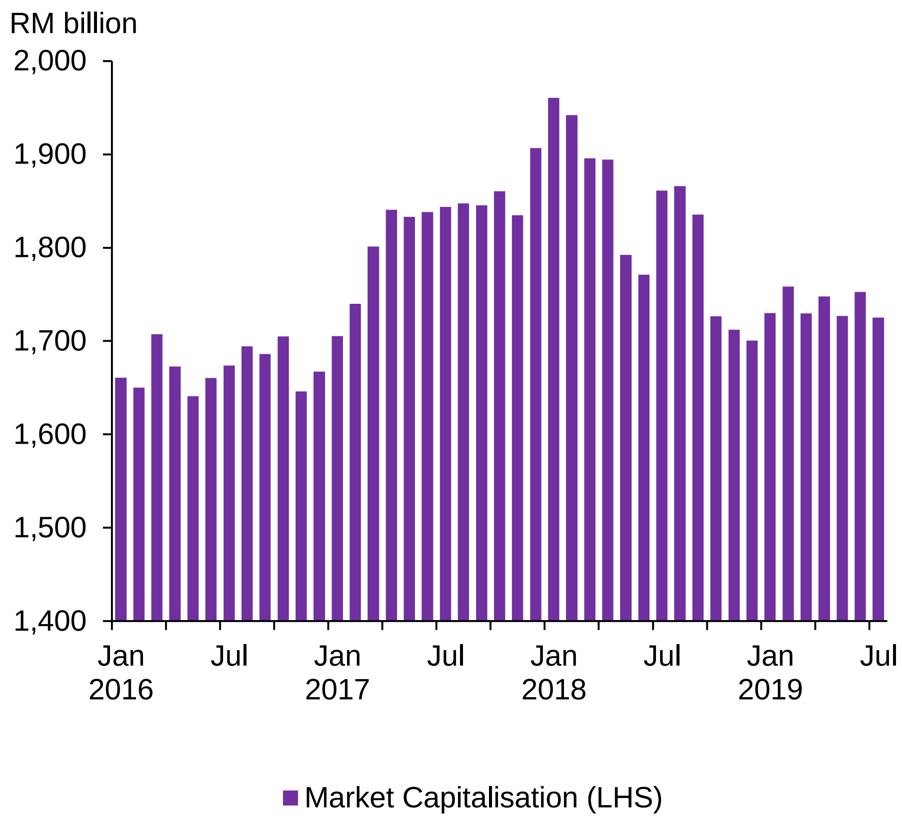
Source: DOSM; BNM

Further trimming of Malaysia bonds and equities

Foreign holdings of Malaysian Government Securities (MGS): 37.7% of total as at Aug 2019



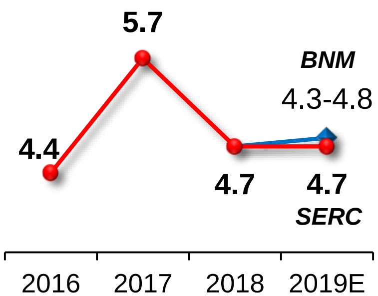
Equity market capitalisation has declined to RM1.7tn+ from the peak (Jan 18: RM1.9tn+)



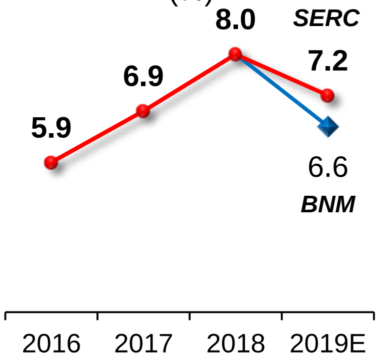
Source: BNM; Bursa

Malaysia's key economic indicators

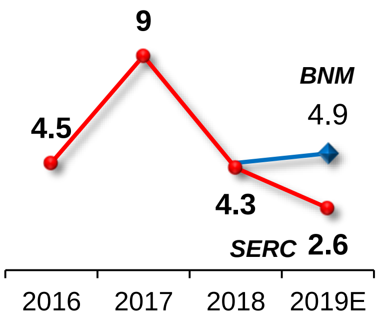
Real GDP Growth
(%)



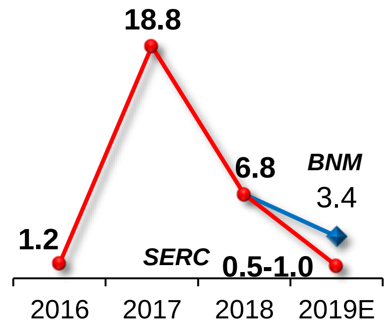
Private Consumption Growth
(%)



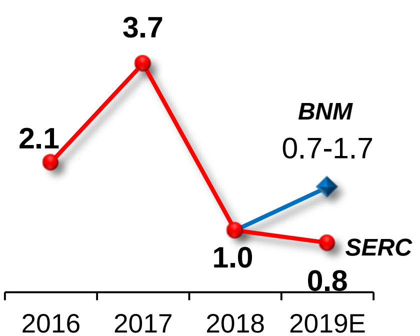
Private Investment Growth
(%)



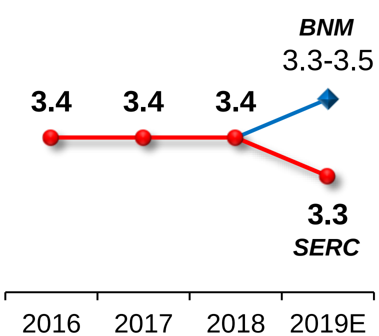
Gross Export Growth
(%)



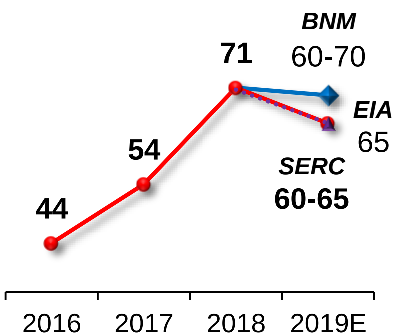
Inflation Rate
(%)



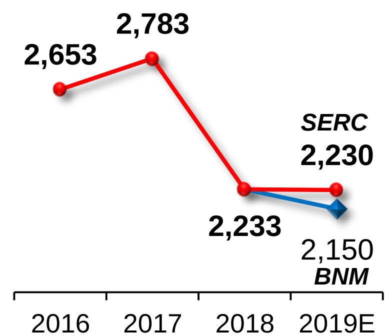
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)



Crude Palm Oil Prices
(RM/metric tonne)



Source: DOSM; EIA; MPOB; BNM; SERC

Sources of GDP growth: Demand and Supply

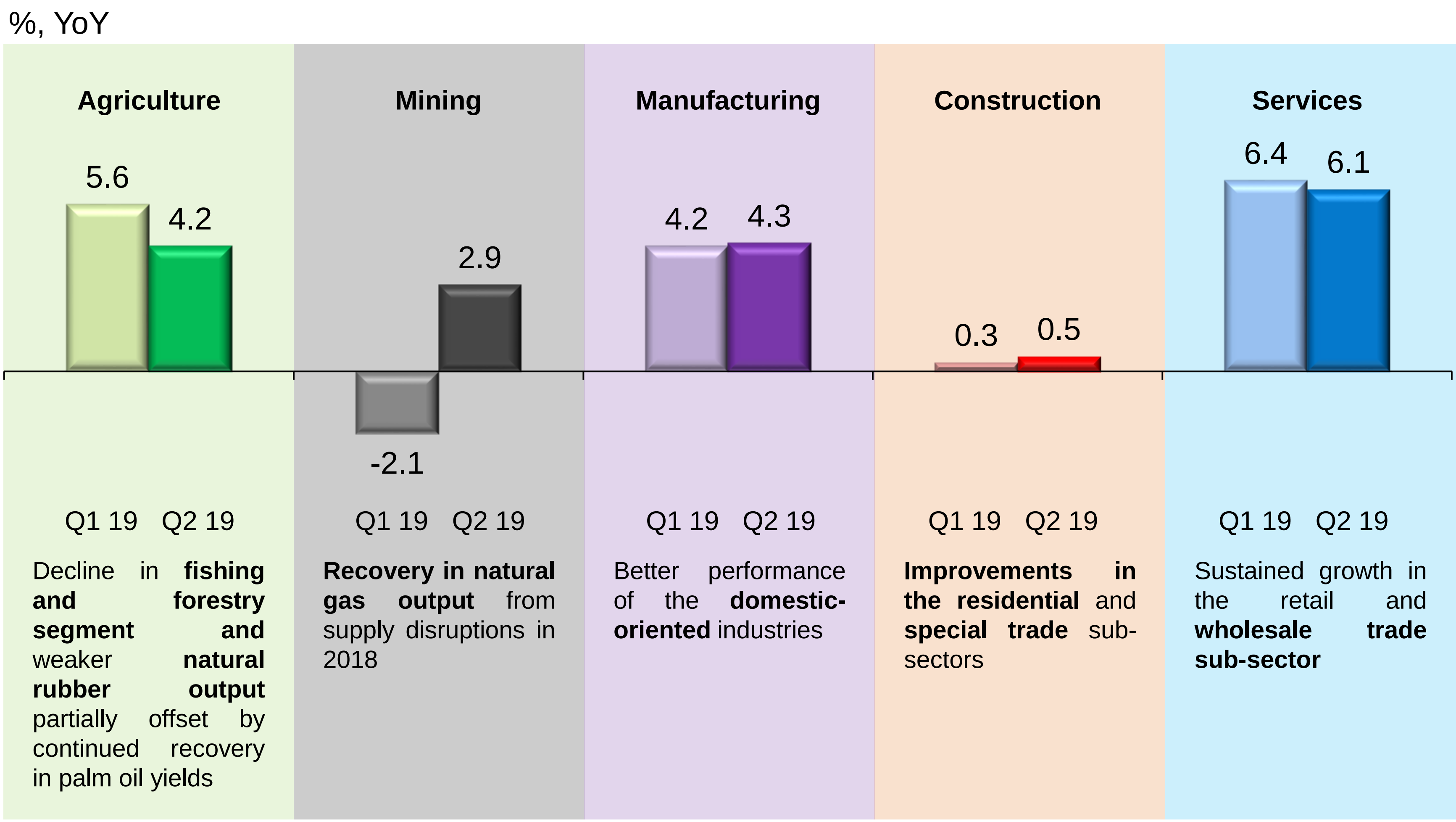
- **Positive drivers**: Continued expansion in services and manufacturing; recovery in agriculture and mining output
- **Negative drivers**: Weak investment activities and consolidation of public spending

% growth, 2015=100	2017	2018	2019 Q1	2019 Q2	2019 1H	2019E (BNM)	2019E (SERC)	2020F (SERC)
GDP by demand component								
Private consumption (57.0%)	6.9	8.0	7.6	7.8	7.7	6.6	7.2	6.7
Private investment (17.3%)	9.0	4.3	0.4	1.8	1.2	4.9	1.3	3.5
Public consumption (12.5%)	5.5	3.3	6.3	0.3	3.2	1.2	2.7	2.0
Public investment (7.4%)	0.3	-5.0	-13.2	-9.0	-11.3	-7.1	-8.9	-1.0
Exports of goods and services (67.6%)	8.7	2.2	0.1	0.1	0.1	0.1	0.3	1.2
Imports of goods and services (60.6%)	10.2	1.3	-1.4	-2.1	-1.8	0.0	-1.6	1.0
GDP by economic sector								
Agriculture (7.3%)	5.7	0.1	5.6	4.2	4.9	2.8	4.6	2.0
Mining & quarrying (7.6%)	0.4	-2.6	-2.1	2.9	0.3	0.8	0.5	1.5
Manufacturing (22.4%)	6.0	5.0	4.2	4.3	4.2	4.8	4.4	3.9
Construction (4.9%)	6.7	4.2	0.3	0.5	0.4	3.0	0.8	1.5
Services (56.7%)	6.2	6.8	6.4	6.1	6.3	5.7	6.1	5.9
Overall GDP	**5.7**	**4.7**	**4.5**	**4.9**	**4.7**	**4.3-4.8**	**4.7**	**4.5**

Figure in parenthesis indicates % share to GDP in 2018
Source: DOSM; BNM; SERC

Expansion across all economic sectors

- Growth supported by the recovery from commodity supply disruptions and improved performance in the manufacturing and construction sectors



Source: DOSM; BNM

A broad-based expansion is expected in 2019E-2020F

Sectoral performance (%)

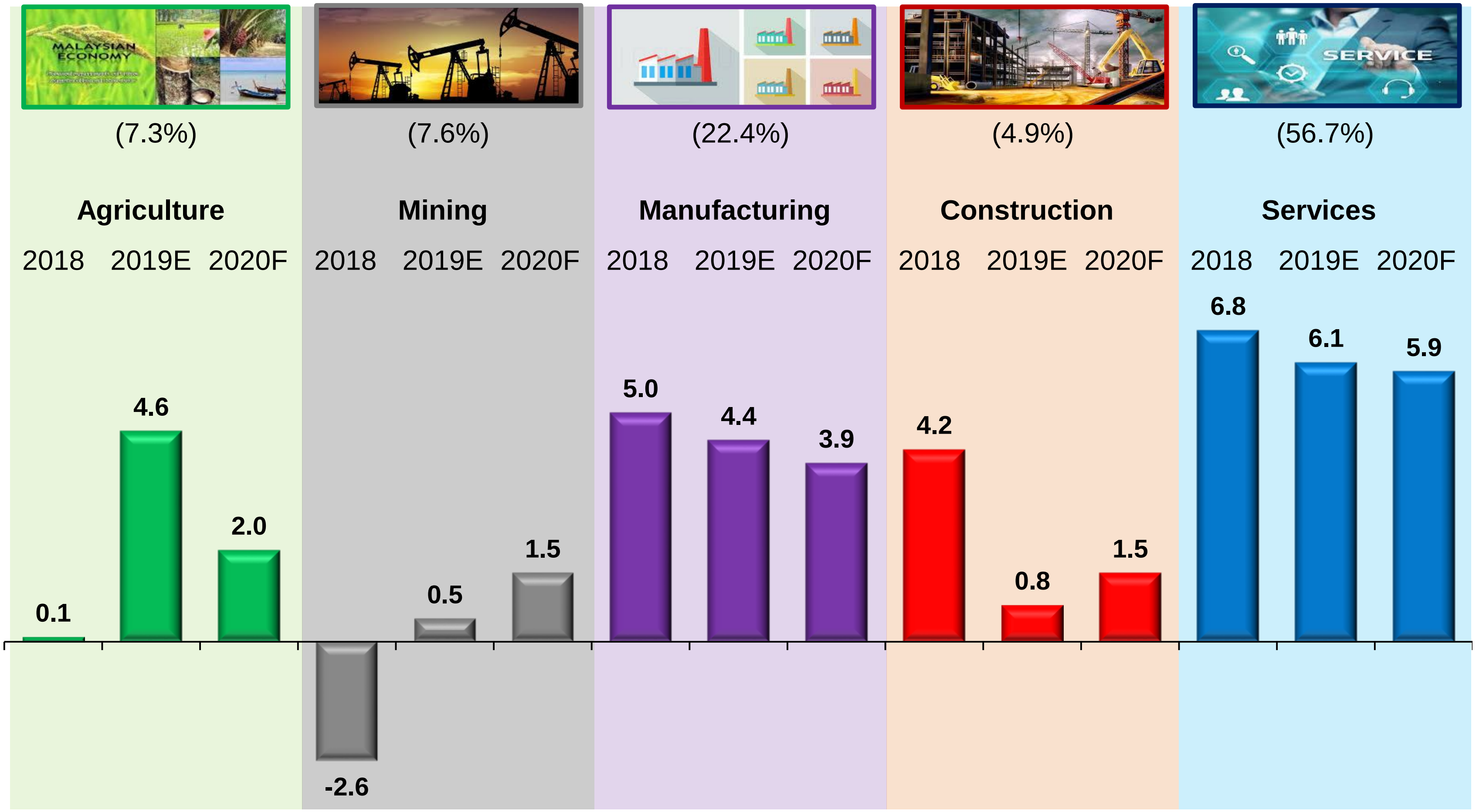


Figure in parenthesis indicates % share to GDP in 2018
Source: DOSM; BNM; SERC

Economic sectors' outlook in 2020

Services

2019E: 6.1%; 2020F: 5.9%

- Still dominant sector
- Domestic-demand driven services
- Wholesale and retail trade, communication and transportation

Manufacturing

2019E: 4.4%; 2020F: 3.9%

- Trade tensions dampen electronics and electrical products
- Domestic-market oriented industries grow moderately
- Food products and some construction related materials

Mining

2019E: 0.5%;
2020F: 1.5%

- Moderate increase in natural gas and crude oil production

Agriculture

2019E: 4.6%;
2020F: 2.0%

- Moderate rise in palm oil output

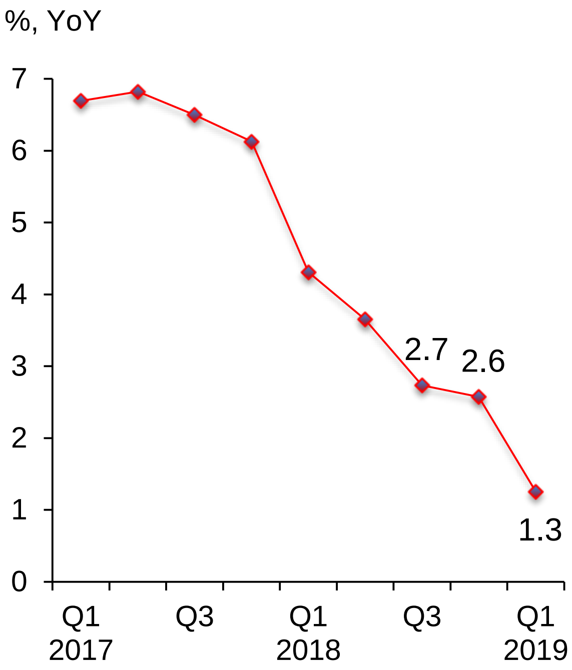
Construction

2019E: 0.8%; 2020F: 1.5%

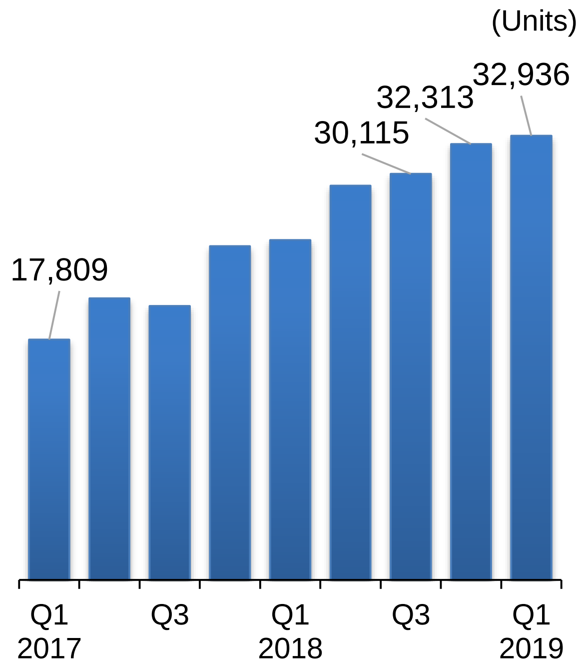
- Slow growth in civil engineering projects on near-completion of large projects amid the revival of ECRL
- Property overhang in residential and commercial sector remains a drag

Property overhang continues to rise

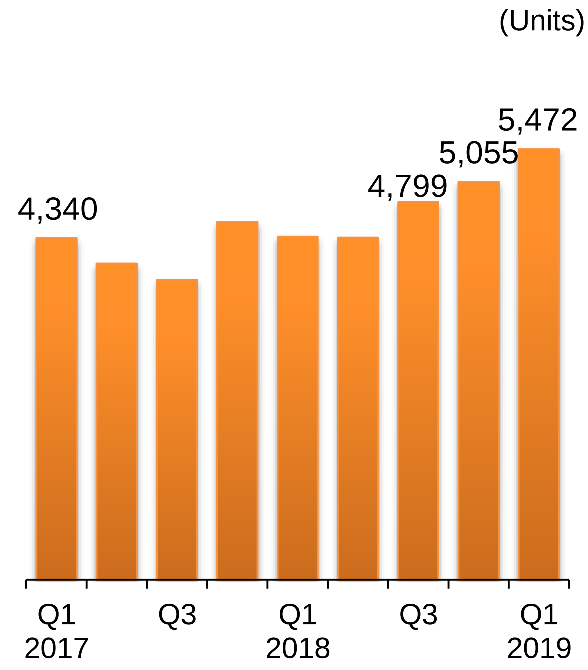
House price index slows further in 1Q19, marking seven consecutive quarters of easing



Overhang in residential properties surge new highs



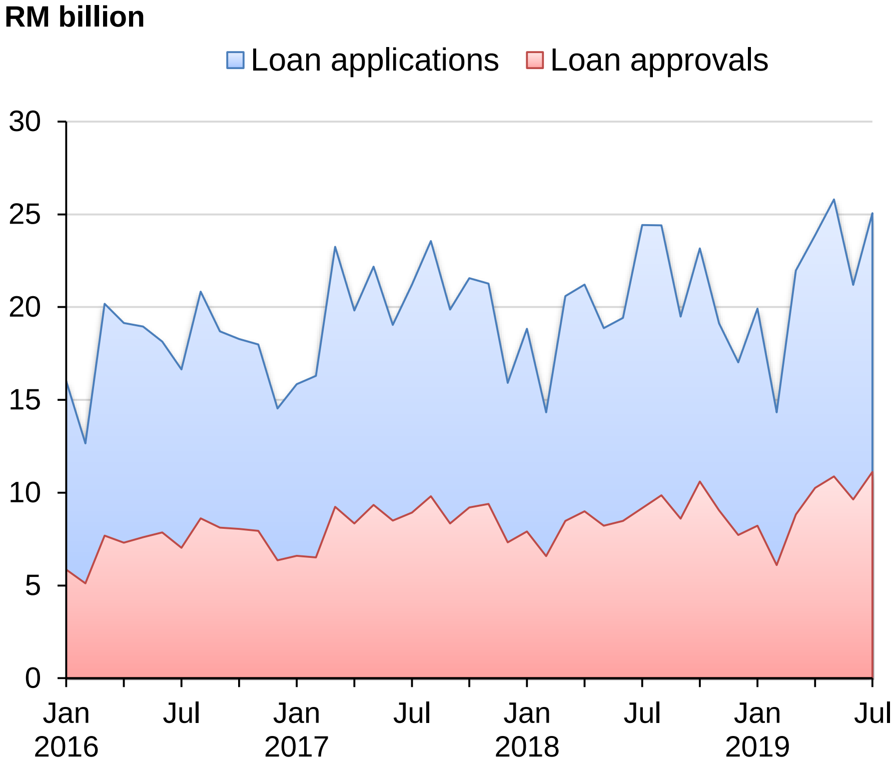
Further rise in overhang commercial properties



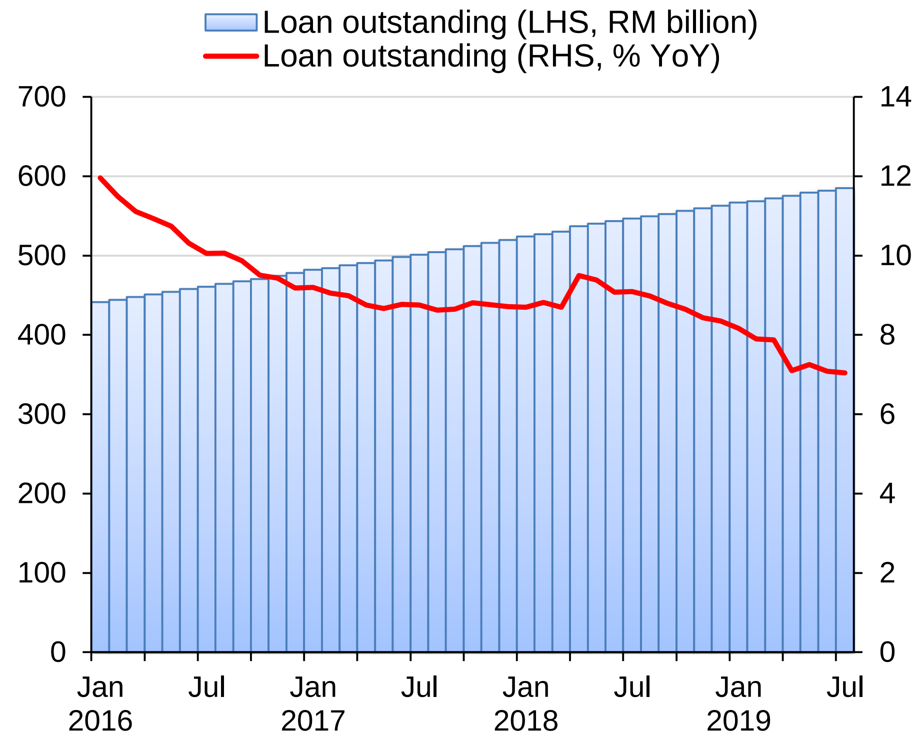
Note: Residential and commercial overhang properties data are excluding SOHO and service apartment.
Source: NAPIC

Home mortgage financing remained soft

Cautious loan approvals for property purchases

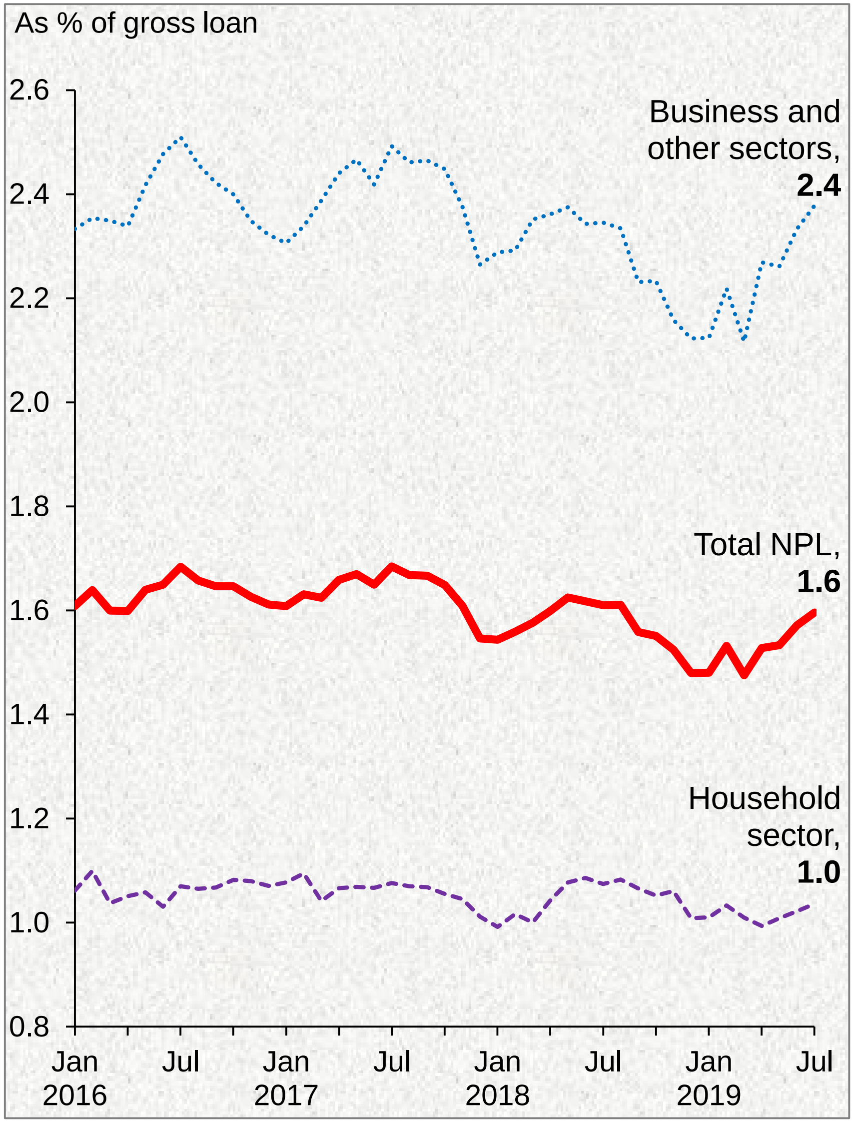


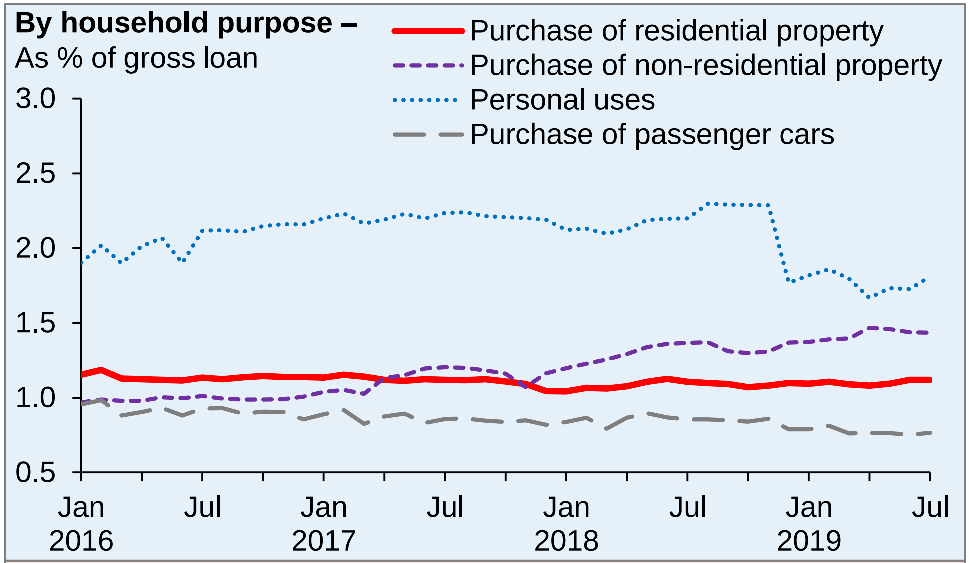
Housing loan outstanding growth continues to moderate in recent months

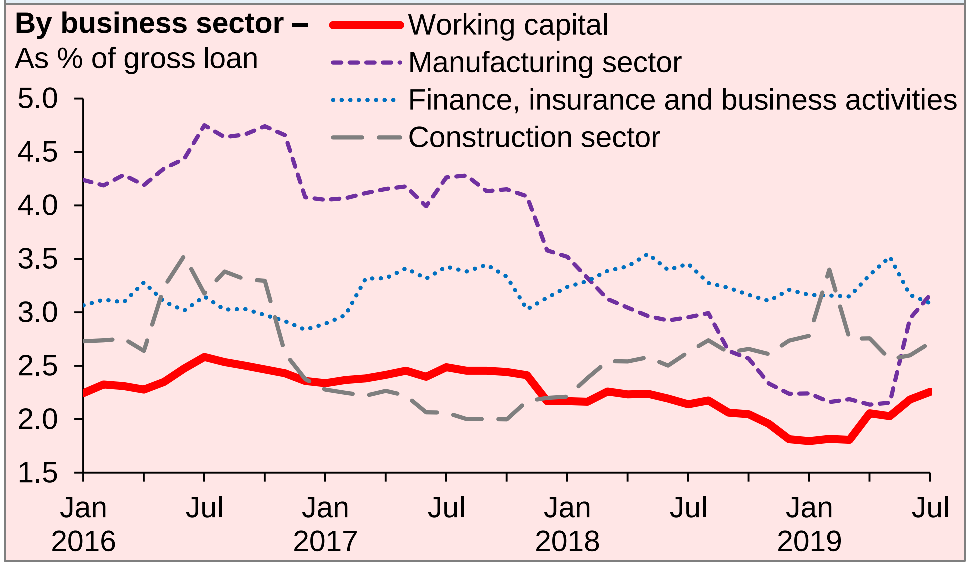


Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: BNM

Non-performing loans (NPL) seen ticking up





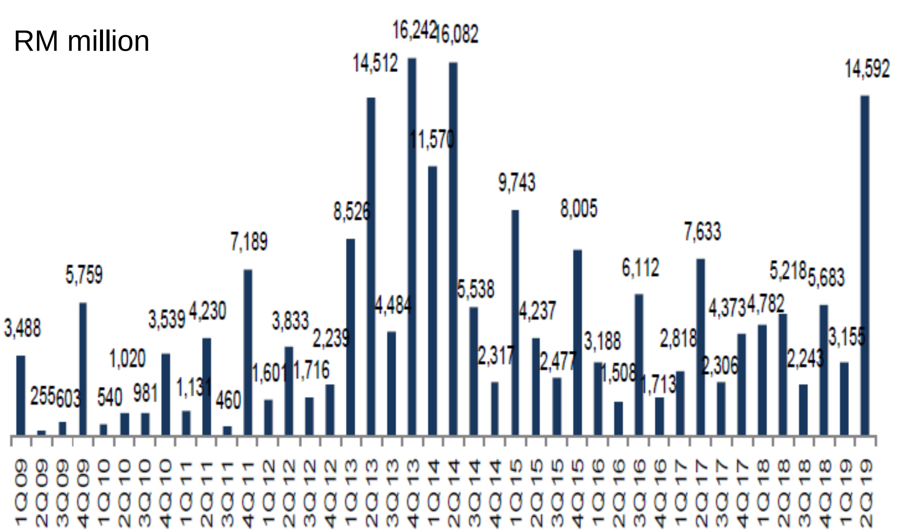


Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: BNM

Oil and gas (O&G)– Breaking dawn, but cloud still exists

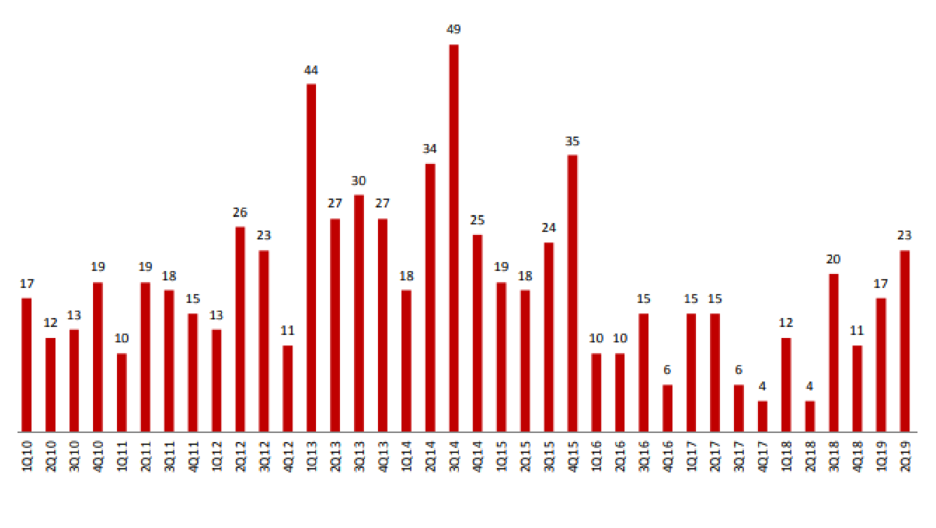
- **OPEC+** agreed to extend crude oil supply cut (1.2m bbl/day) till March 2020 and hence, provides a support to crude oil prices, albeit partially offset by increasing shale production from the US.
- **PETRONAS** has planned an upstream capex of RM32.0bn-RM34.0bn per year in 2019-2023 (with a ratio of 60:40 for domestic vs. overseas allocation), much higher than RM14.8bn-RM27.4bn per year in 2016-2018, albeit still lower than an average of RM54.3bn in 2014-2015.
- Many of the major contracts in key categories and its associated services are due for re-tendering in 2020-2021. This provides good opportunities for players to strategise on new technology offering and strategic partnerships. Decommissioning (which involves the safe plugging of the hole in the earth's surface and disposal of the equipment used in offshore oil production) presents next wave of opportunity for O&G. More than 20 platforms around Malaysia could be decommissioned in the next five years.

Domestic oil and gas contracts seen ticking up



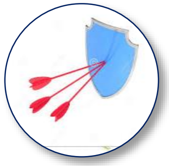
Source: Bloomberg; Affin Hwang

Number of oil and gas contracts announcements



Source: Kenanga Research; Bursa Malaysia

What can buffer Malaysia against external shocks?



Malaysia is in a position of strength to face headwinds. Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

A well-diversified trade, economic sectors and sources of foreign direct investments. This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as country.

Targeted gradual fiscal consolidation path is appropriate while continuing to protect growth-enhancing spending.

The **financial sector is well capitalised** to cope with most shocks. As at July 2019, banks' liquidity buffers exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs) at 1.6% of gross loans) and sizeable provisions (91.0% to total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 155.4%.

Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus**.

A priority for action, now more than ever

- The rise of global complexity and competition and uncertainty about its future as well as digitalisation acceleration will fundamentally reshape global economic and business landscape.
- Being a small and highly open economy, Malaysia remains vulnerable to external trade or financial shocks.
- Domestically, the Government must continue and has the political will to **enhance economic resilience and implement coordinated policy reforms** to ensure medium-term growth sustainability. Delays or resistance to the reform agenda could undermine confidence, leading to lower investment and growth.
- **Effective and well-designed structural reforms** are key to shaping Malaysia's future. Structural reforms are needed to boost the country's growth potential, raise productivity and investment as well as reduce the cost of doing business.

Priority should be given to

1. Formulate an **appropriate incentive framework** based upon a clear, transparent and predictable business and investment climate
2. Improving **education**, strengthen **manpower training and skillset of workforce**
3. Accelerating **innovation and technology** adoption
4. Move up further the **value chain and integrate in global supply chains**

Section 2

2020 Budget on 11 Oct

Expansionary stance on the cards

2020 Budget: Pragmatic and Responsive to external shocks

Focusing on appropriate budgetary stance and being prepared to be more expansionary is especially important during rising global economic uncertainties.

The Government's **fiscal policy can be calibrated to allow some room for an expansionary budget**, focussing on sectors, initiatives and measures that would protect growth-enhancing spending and investment.

A marginal reduction in the budget deficit to GDP ratio for 2020 (estimated -3.2% of GDP) from estimated 3.4% of GDP in 2019 is acceptable given the need to turn on spending taps under the threat of a bigger global economic slowdown and its spillover effect on domestic economy via both trade and financial transmissions.

The **2020 Budget policies must aim at strengthening economic resilience, sustaining domestic spending and investment, save jobs, create jobs and help viable companies staying afloat**.

It also prepares Malaysia to emerge stronger and enhance our capabilities and competitiveness for the long term.

2020 Budget: Proposed measures and initiatives

A. Sectoral Allocation

i. Allocate more budget for development expenditure, focusing on **education, utilities, ports, healthcare, housing, digital infrastructure, tourism (Visit Malaysia Year 2020), industrial development and SMEs**; and

ii. **Smart and green technology projects and climate change**, including flood mitigation, **renewable energy, public infrastructure, airports upgrading and ports projects**. Development of suburban nodes, roads and rail networks, drainage and sewerage networks, and public housing community, especially the low-cost flats and apartments rejuvenation.

By selected sub-sector	2017	2018E	2019B	2017	2018E	2019B	2017	2018E	2019B
	RM million			% YoY			% Share		
Agriculture and rural development	2,219	2,191	2,278	-23.5	-1.2	3.9	4.9	4.0	4.2
Energy and public utilities	2,475	3,379	4,589	-15.4	36.5	35.8	5.5	6.2	8.4
Trade and industry	3,800	6,686	5,721	-21.5	75.9	-14.4	8.5	12.2	10.5
Transport	10,429	15,501	13,388	33.2	48.6	-13.6	23.2	28.2	24.5
Environment	2,061	1,725	2,134	-12.1	-16.3	23.7	4.6	3.1	3.9
Education and Training	6,306	7,307	8,287	69.2	15.9	13.4	14.0	13.3	15.2
Health	1,470	1,897	2,257	-1.7	29.1	19.0	3.3	3.5	4.1
Housing	785	1,144	1,852	-64.9	45.8	44.4	1.7	2.1	3.0
Total Development Expenditure	**44,884**	**54,900**	**54,700**	**6.9**	**22.3**	**-0.4**	**100.0**	**100.0**	**100.0**

2020 Budget: Proposed measures and initiatives

B. Jobs Preservation and Creation

i. Provide **jobs credit for the employment of graduates and diploma students**; skills upgrading program; freeze of foreign workers' levy;

ii. Establish a **one-stop jobs bank and non-stop online marketplace** that are user-friendly to provide better search functions for job seekers. The online marketplace is to be equipped with individual learning portfolio portal to upskill their capabilities;

iii. Expand the **channels of job-matching servic**es through closer collaboration between academia, industry and private-sector employment agencies through focus on active job seekers, not passive job seekers;

iv. Introduce the **"Attach-Train-Employ" p**rogram by giving some form of incentives and tax rebates to incentivize private sector in providing job opportunities for fresh graduates; and

v. Introduce **New Enterprise incentive scheme** to support eligible job seeker, who is interested in starting and running a small business, and will get practical small business training, business mentoring and financial assistance from the scheme.

2020 Budget: Proposed measures and initiatives

C. Uplifting Productivity and Manpower Development

i. Provide allocation for **Skill and Productivity Enhancement** through the revamping of Technical and Vocational Education and Training (TVET). Tax deductible training expenses should be given to private sector in manpower development;

ii. Introduce various measures such as **SkillsFuture and Workforce Skills Qualifications Fund** to ensure that Malaysians remain employable in the face of automation and digital disruption; and

iii. Introduce the **skills for education and employment program** for fresh graduates and college students to improve soft skills such as speaking, reading, writing or communication in the workplace.

2020 Budget: Proposed measures and initiatives

D. Revitalise Private Investment

i. Increase the **grant for technology, industrial deepening and R&D as well as automation** to facilitate SME in the adoption of IR 4.0.

ii. Extend **Reinvestment Allowance (RA**) indefinitely from the current qualifying period of 15 years of assessment.

iii. Enhance **Accelerated Capital Allowance** (ACA) for machinery and equipment.

iv. **A moratorium on hikes in foreign worker levy for next three years till 2021** to ease manpower cost of SMEs. In efforts to increase labour productivity and production efficiency, the **levies should be ploughed back into a Designated Industrial Revolution/Adjustment Fund** that provides financial support or technical assistance to firms to facilitate automation, mechanization and technological development.

v. Enhancement of **bank lending guarantee**, especially to SMEs through enhancing existing schemes on risk-sharing initiative.

vi. Enhancing **business cash-flow and cost of doing business** via a rebate in quick rent and assessment for industrial and commercial properties, business fees and licences; road tax rebate for taxi, buses and lorries.

2020 Budget: Proposed measures and initiatives

E. Enhancing Domestic Consumption

i. Supporting households, especially B40 and targeted vulnerable group via **direct cash assistance**;

ii. **House rental payments to be given a personal tax relief of up to RM4,000 annually**, mainly for M40 households. In the 2018 Budget, a 50% income tax exemption was given on rental income not exceeding RM2,000 per month for each residential home. This is to encourage landlords to reduce their rents but intrinsically rents are market driven based on the supply and demand;

iii. **Personal tax relief** on tuition fees (primary & secondary) up to RM2,000 annually;

iv. "**Buy Malaysian Products**" Campaign;

v. **Re-introduce tax relief for interest payments on housing loan up to RM10,000 per year**. The interest relief is only entitled for one unit of residential property for owner-occupied and not renting out;

vi. To **increase lifestyle tax relief** from RM2,500 to RM3,000 annually;

vii. To **revise personal tax relief** from current RM9,000 to RM10,000. The last revision was in 2010; and

viii. Increase the **tax relief for EPF's contribution and life insurance** premium to RM6,000 each.

2020 Budget: Proposed measures and initiatives

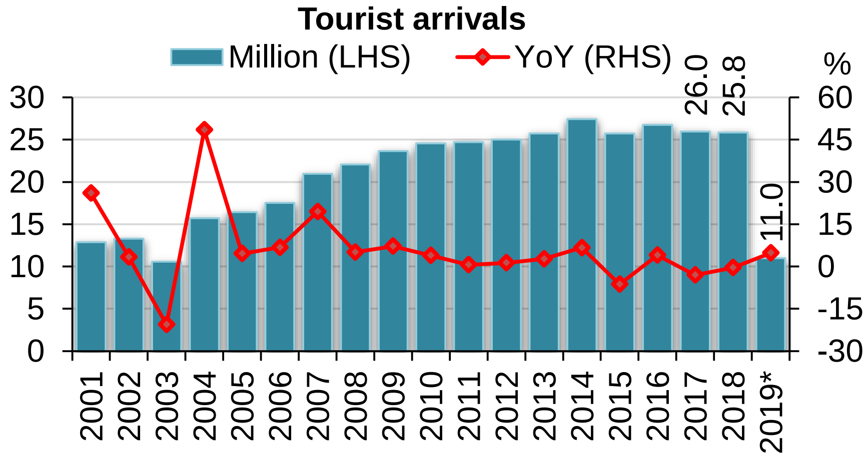
F. Boosting Tourism

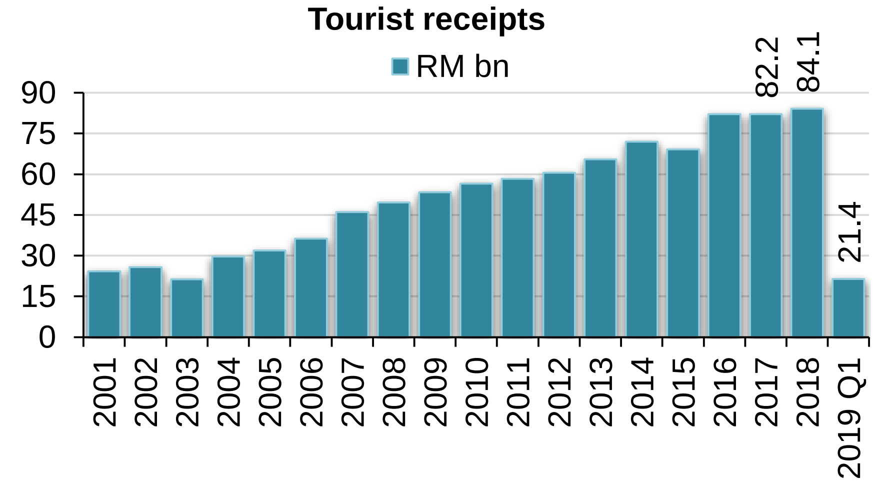
- The **tourism industry** is now the fifth largest economic sector in Malaysia, generating a total foreign exchange earnings of RM84.1 billion or 5.9% of GDP in 2018.

- The tourism-related services (wholesale, retail trade, accommodation, food and beverages, transport and storage as well as information and communication) made up 27.8% of total GDP.

- Malaysia's tourism industry had enjoyed 10.8% pa growth in tourist arrivals in 2001-2007. However, the pace of tourist arrivals has pulled back sharply to an average growth of 1.9% pa in 2008-2018. In the first five months of 2019, tourist arrivals increased by 4.8% yoy to 11.0 million persons while tourism receipts also jumped by 16.9% yoy to RM21.4 billion in the first quarter of 2019 (2019's Target is 28.1 million tourists and RM92.2 billion tourism receipts).

- The **Visit Malaysia Year 2020 (VMY 2020)** is targeted to bring in **30 million foreign tourists and RM100 billion in tourist receipts**.





*Note: *Jan-Mei*　*Source: Tourism Malaysia*

2020 Budget: Proposed measures and initiatives

F. Boosting Tourism

i. **Simplified visa rules, the rollout of e-visas or visa-exemptio**n are crucial to facilitate and ease entry of travellers and tourists. Thailand and the Philippines are taking active steps to attract China tourists.

ii. The Government can consider to (i) **Extend the Electronic Travel Registration & Information (eNTRI), a non-visa facility for China and India travellers** until 2020 and also **increase the maximum number of travelling days from 15 days to 30 days** or (ii) **Grant visa-exemption** for China and India.

iii. Malaysia to organise an **annual mega food fiesta** in major states to showcase colourful diversity of Malaysian food culture. Some nationwide food hunting tours should be organised to drive Malaysia as a food heaven.

iv. Niche markets such as **medical tourism, education tourism as well as meetings, incentives, conferences and exhibitions (MICE) industry** should be promoted as these are high quality tourism products.

2020 Budget: Proposed measures and initiatives

G. Easing Property Overhang Pressure

- The **persistent overhang in residential and commercial properties** require urgent attention and prompt policy intervention. In 1Q 2019, total overhang of residential properties remained high to increase by 30.7% to a new record of 32,936 units valued at RM20 billion. For commercial properties, the number of overhangs increased by 25.5% to 5,472 units in 1Q 2019 to value at RM4.5 billion.

- **Growth in Malaysia's House Price Index (HPI) has slowed for seven consecutive years**, from 13.4% in 2012 to 3.1% in 2018 (6.5% in 2017). In 1Q 2019, house price index eased further to 1.3%.

  i. **Review the threshold for the foreign purchase of properties**. Between 2012-2016, foreign purchases of properties only accounted for 0.3% (706 units) -1.0% (2,406 units) of total properties transacted;

  ii. **Review of RPGT, including the abolishment of 5% RPGT** on the disposal of property after the fifth year; and

  iii. **Extend the National Home Ownership Campaign (HOC)** until 31 December 2020, together with the stamp duty exemption.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THANK YOU

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