



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

CIMB Commercial Banking Meeting

Macroeconomic Outlook For 2020 and Beyond

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30 October 2019

Key Messages



GLOBAL ECONOMIC RISKS ARE HIGH AND RISING



MALAYSIA ECONOMIC OUTLOOK REMAINS CAUTIOUS



THE POSITIVES AND NEGATIVES

Section 1

The World Economy

*A synchronized slowdown amid
global recession fears*



Waiting for the inflection points



The upcoming **2020 U.S. Presidential election**.



The **heightened risks surrounding the trade war**. A return to Trump's favorite maximum pressure tactics, or a refusal by Xi to make meaningful concessions, would reignite global recession fears.



The **damage to business confidence and global supply chains** already have been done, meaning the **inverted yield curve** is seemingly forecasting an impending recession.



The **alternative scenario: A trade-war retreat, coordinated global central banks' monetary easing and QE and China's massive policy stimulus** set the scene for stronger global growth in early 2020.



The **downside risks: Low or negative interest rates failed to work; limited fiscal space and the sustained U.S. yield curve inversion**.



Caution is still warranted as we move into 2020

2020

Downside risks to global growth are elevated

With a synchronized slowdown and uncertain recovery, the **global outlook remains precarious.**

- Uncertainty about the **trade tensions and trade barriers**
- **Global race to monetary bottom; plunging bond yields**
- Concerns about **global recession risk, the US and China economy**
- **Currency tensions** flared up, inflicted by the Chinese Renminbi's weakness
- Wide swings in **crude oil prices**
- **Heightened geopolitical tensions** (Middle-east and North Korea) and **political risks** (Brexit)

Monthly Global Economic Policy Uncertainty Index

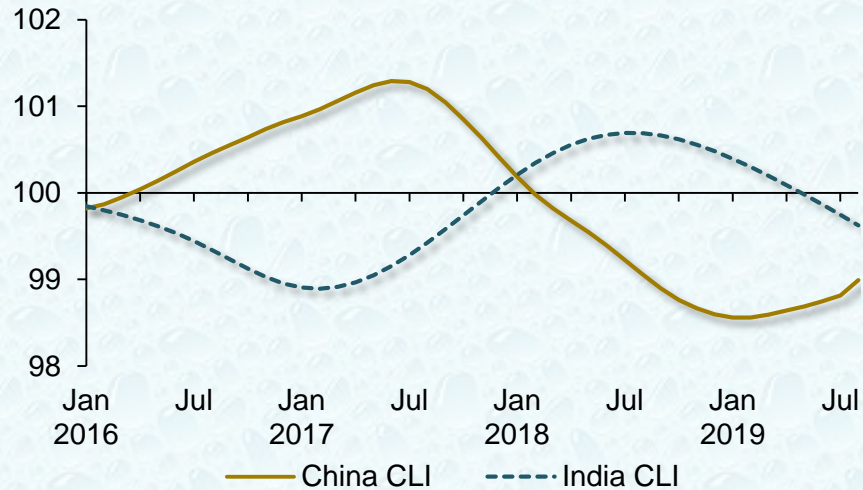
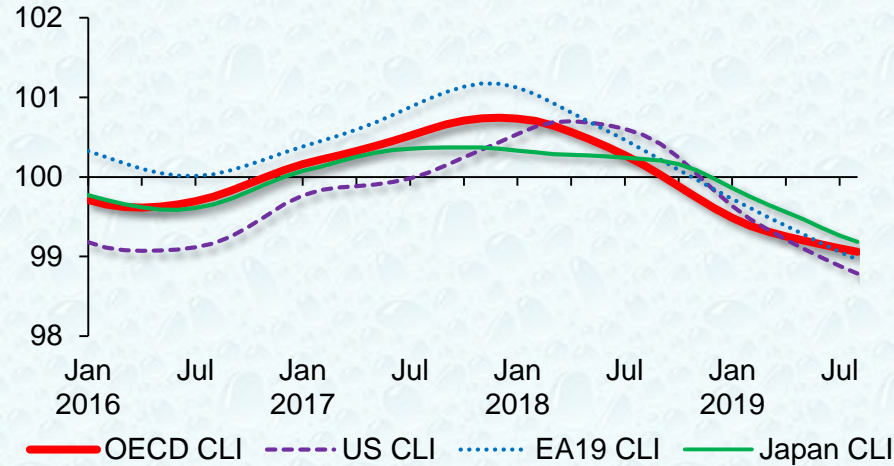


Source: Economic Policy Uncertainty

High frequency data pointing to slower global growth

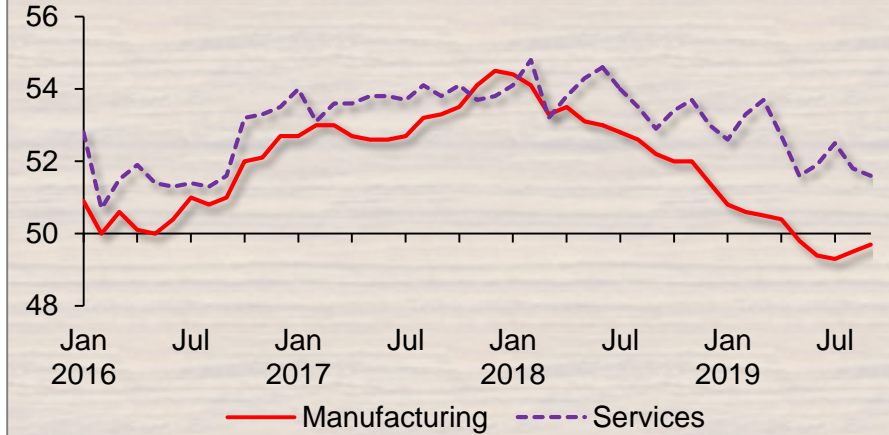
Composite Leading Index (CLI)

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



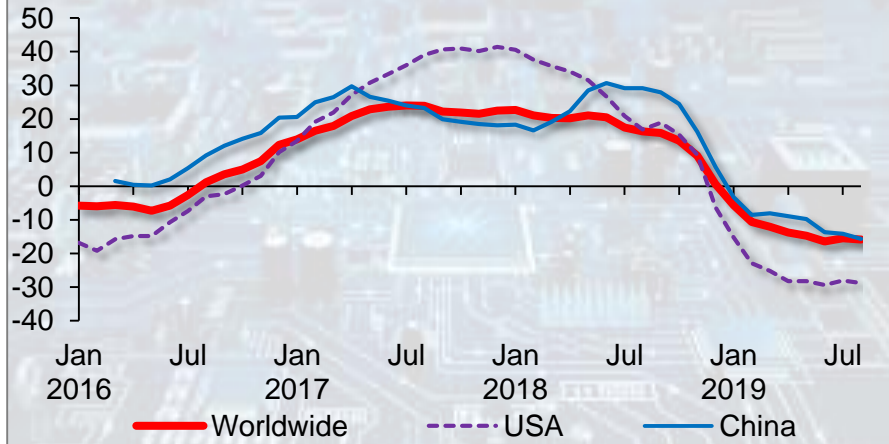
Global PMI for manufacturing and services

(50 = no change on prior month)



Global semiconductor sales

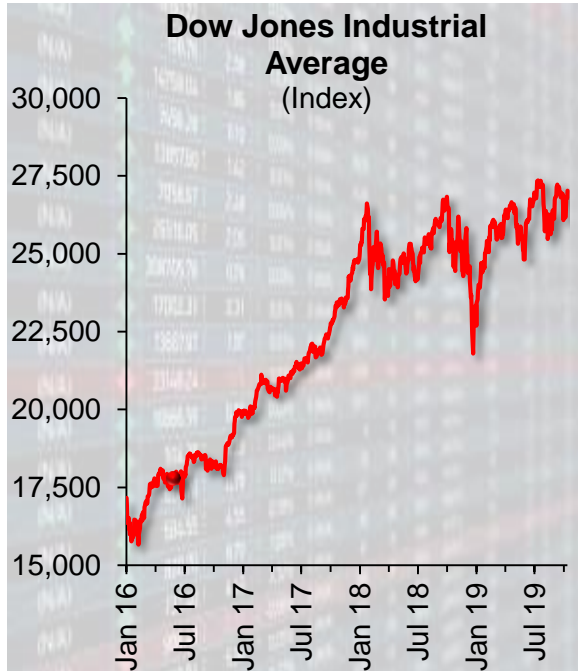
(%, 3-month moving average YoY)



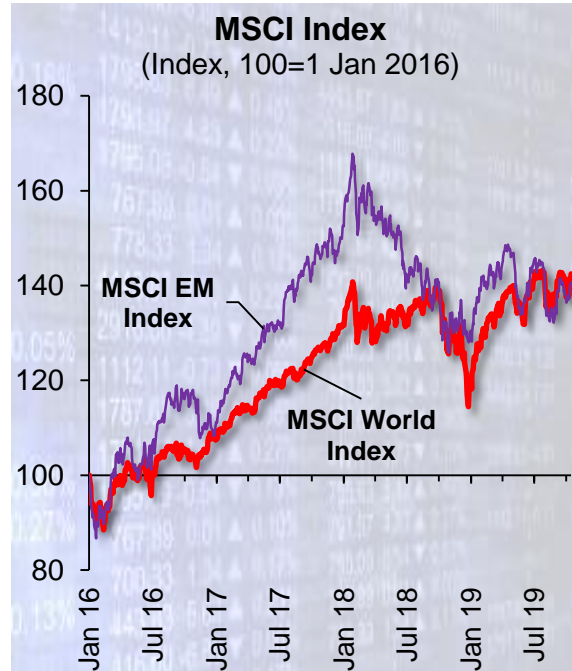
Source: OECD; Markit; SIA

Financial market barometers point to volatility

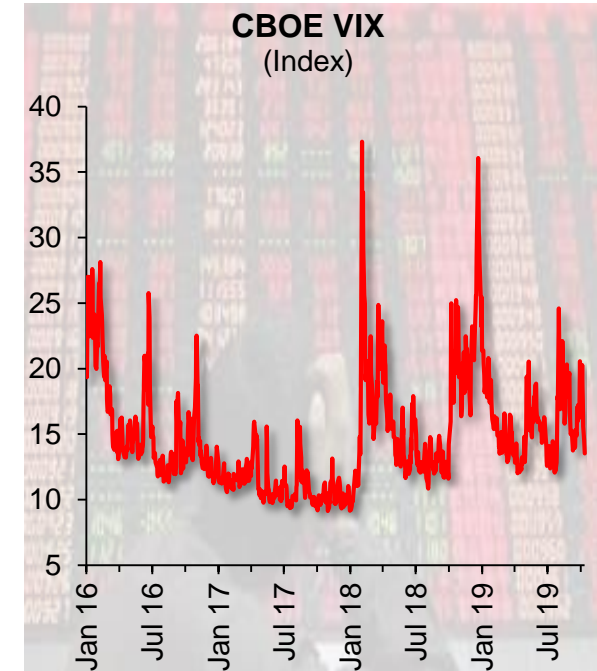
DJIA fluctuates amid uncertainty on the progress of trade talks



Emerging markets' equities are more volatile to economic newsflow



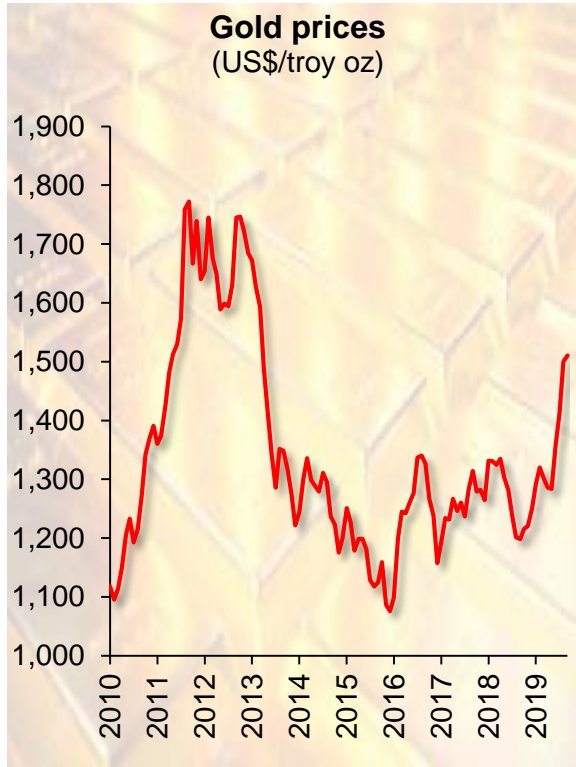
Recent global trade tensions and economic uncertainties spiked up 'Fear index' to above 20-pts



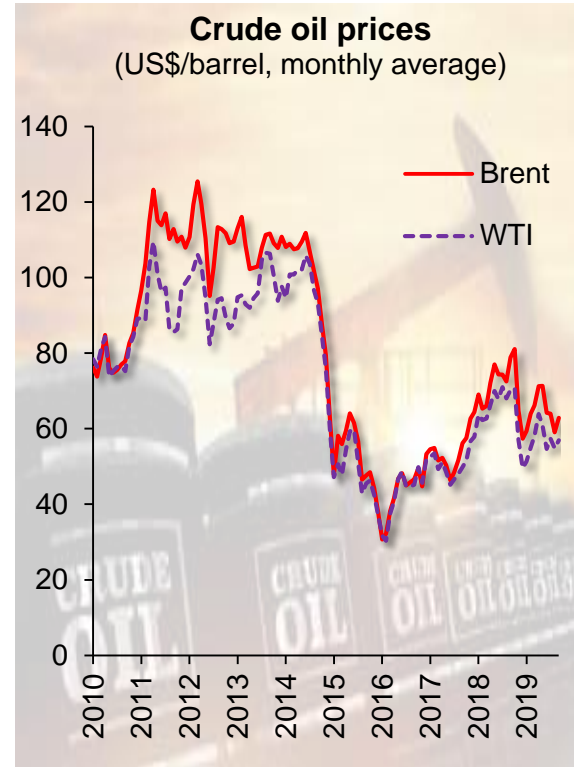
Source: WSJ; MSCI; CBOE

Gold a safe haven (a six-year high); Volatile commodity prices

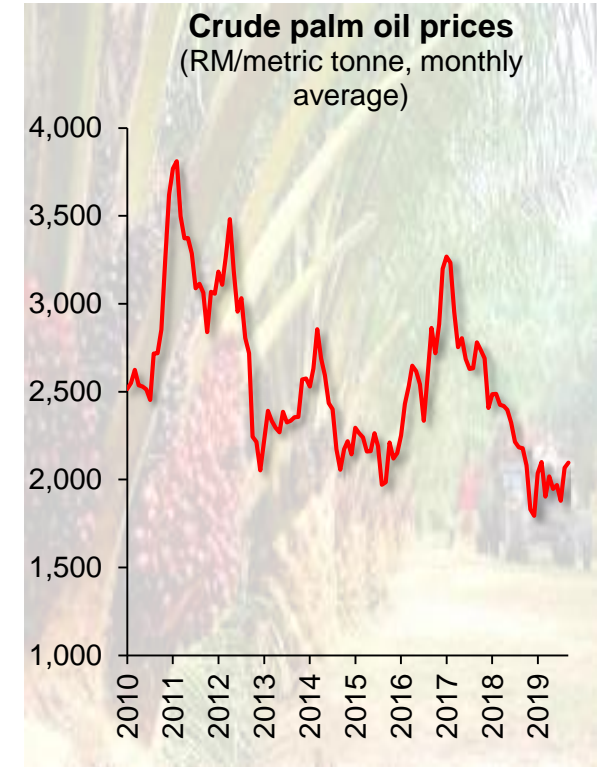
Gold prices rise on strong demand and falling long-term real interest rate



Volatile crude oil prices: Global growth concerns; Supply cut continues; the US-Iran tensions



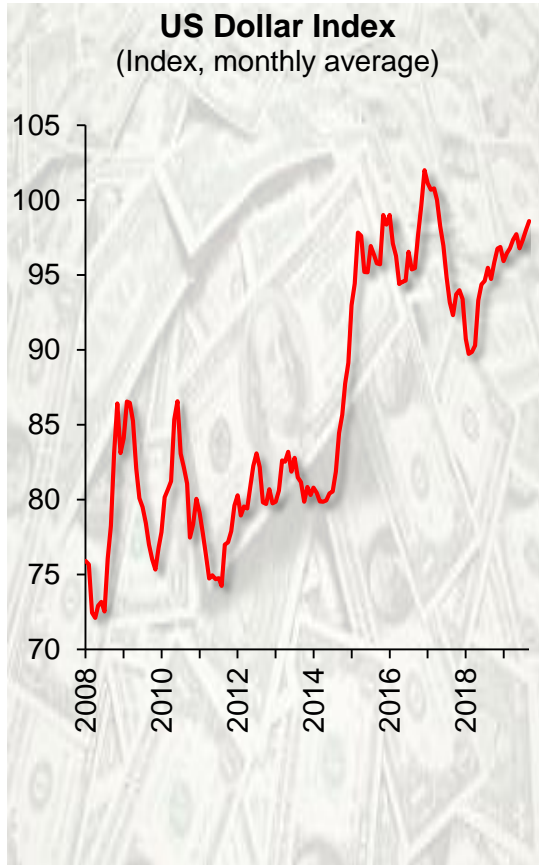
CPO prices yet to recover strongly amid a reduction in inventory



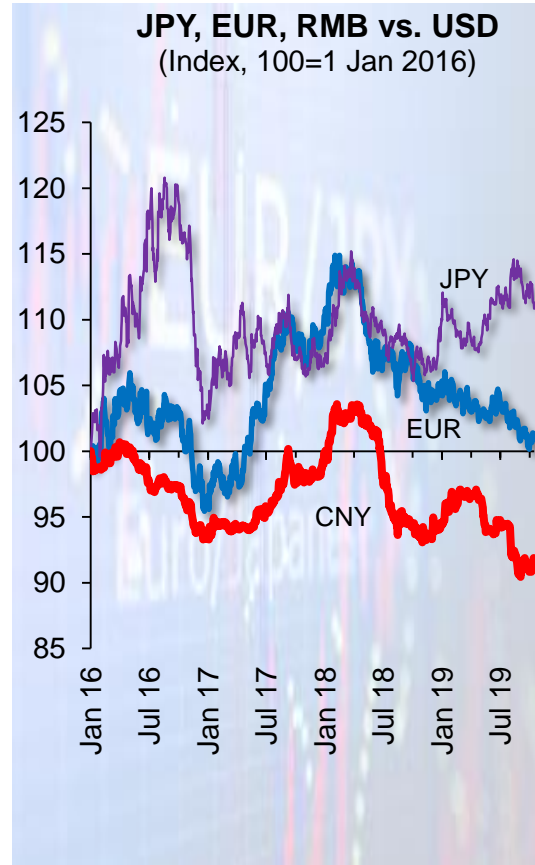
Source: World Bank; EIA; MPOB

The US dollar still rules world currency markets

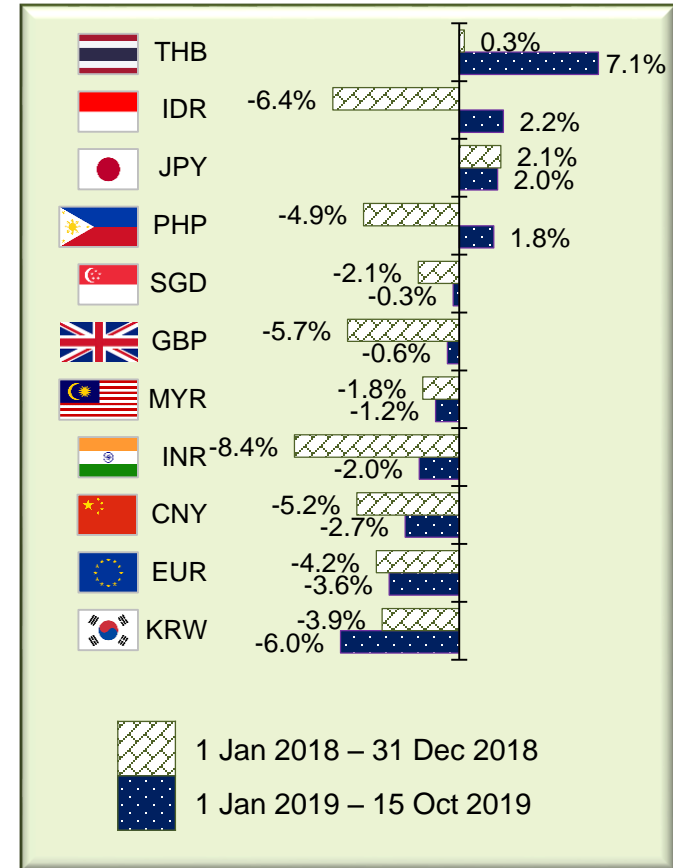
The US dollar index still firming up amid the Fed's dovish stance



RMB's weakness flares currency tensions



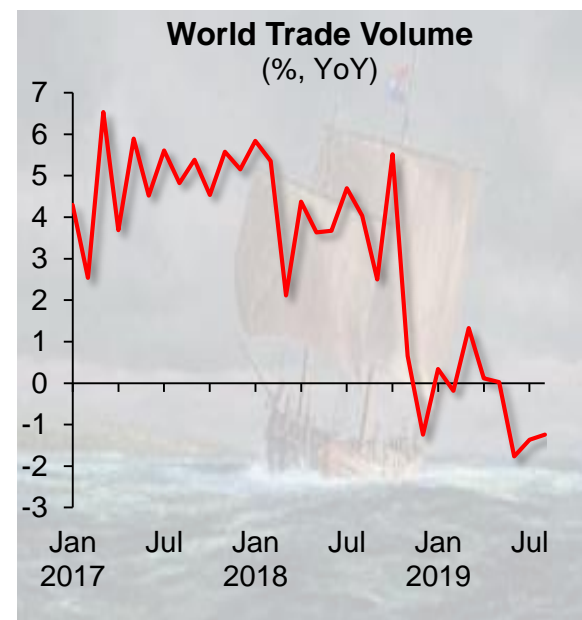
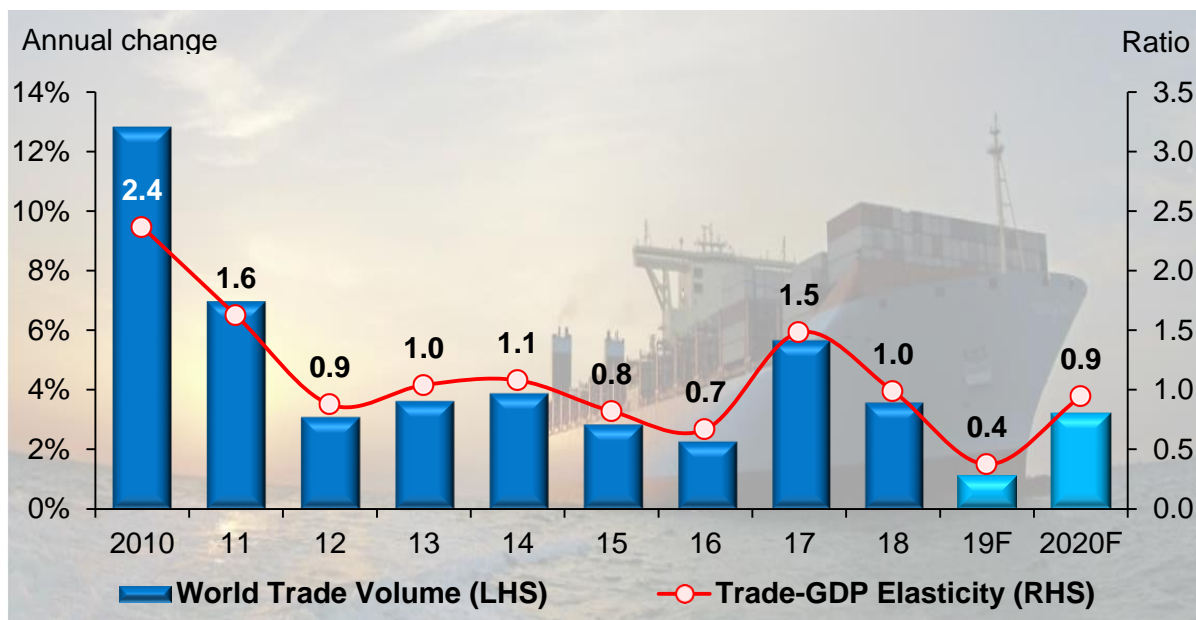
Major and emerging market currencies against the USD



Source: WSJ; BNM (cross rate)

Darkening global trade outlook, downside risks remain high

- The **WTO** slashed this year's **global trade growth** for the third time to **1.2%** from 4.0% (3.0% in 2018) while the IMF had fifth round downward revision to 1.1% from 4.7%. In **2020**, **WTO expects trade growth to accelerate slightly to 2.7% (vs. IMF's 3.2%)**.
- **Heightened trade tensions** pose a material risk to investment and trade via further denting business and financial market sentiments, slowing investment and growth. Macroeconomic shocks and financial volatility are potential triggers of a deeper slowdown.
- **World trade to GDP ratio** is expected to decline further to a decade-low of 0.4x in 2019.



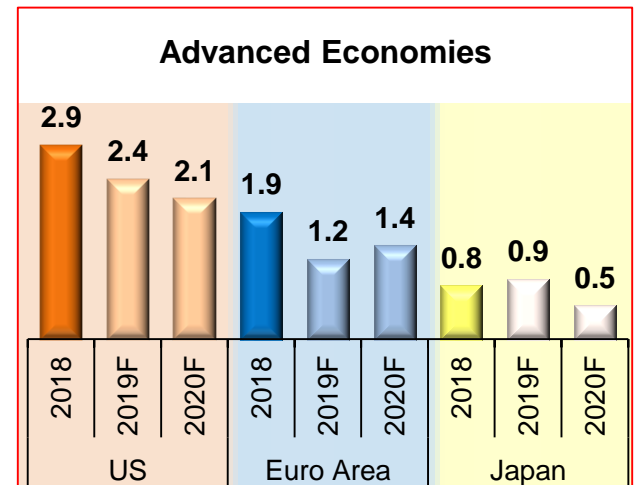
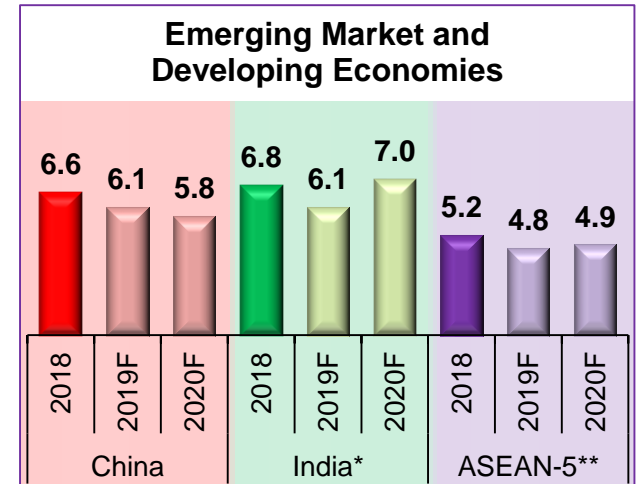
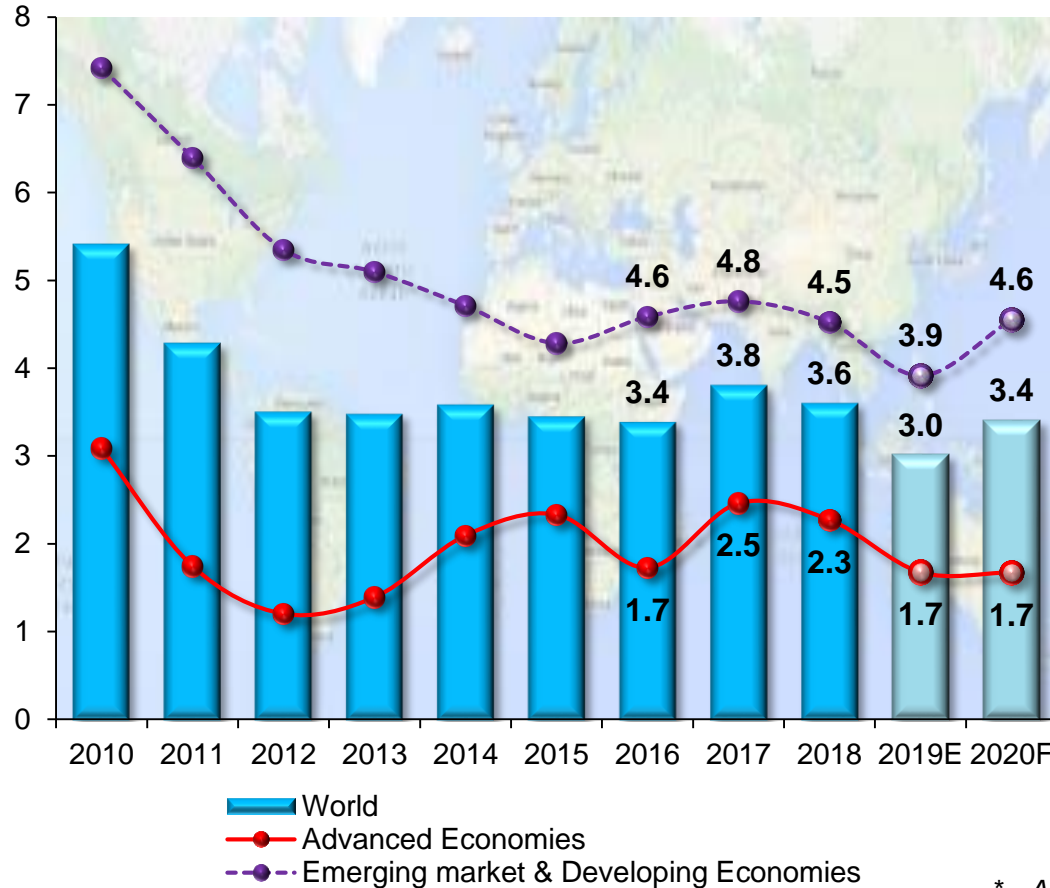
Source: IMF (WEO, October 2019); SERC's computation; CPB Netherlands

Deepening trade wars can slash global growth in 2020

IMF's estimation of world GDP

- **2019E:** 5th revision – from 3.9% to 3.7% to 3.5% to 3.3% to 3.2% to **3.0%**
- **2020F:** 2nd revision – from 3.6% to 3.5% to **3.4%**

Real GDP Growth (%)



* Annual GDP for India is on fiscal year basis

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

Source: Officials; IMF (WEO, October 2019)

Economic outlook: US; Euro area; Japan; China



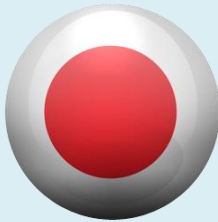
US ~ 2019E: 2.4%; 2020F: 2.1% (2018: 2.9%)

- At least 30% recession risk
- Resilient consumer spending; manufacturing slump
- Trade dispute
- Fading fiscal stimulus



Euro Area ~ 2019E: 1.2%; 2020F: 1.4% (2018: 1.9%)

- Lingering weakness in industrial sector
- Weaker global growth
- Geopolitical concerns and political risk
- Hard Brexit



Japan ~ 2019E: 0.9%; 2020F: 0.5% (2018: 0.8%)

- Consumption tax hike (10%)
- Construction works related to the 2020 Tokyo Olympic
- Subdued global demand
- Trade tensions with South Korea

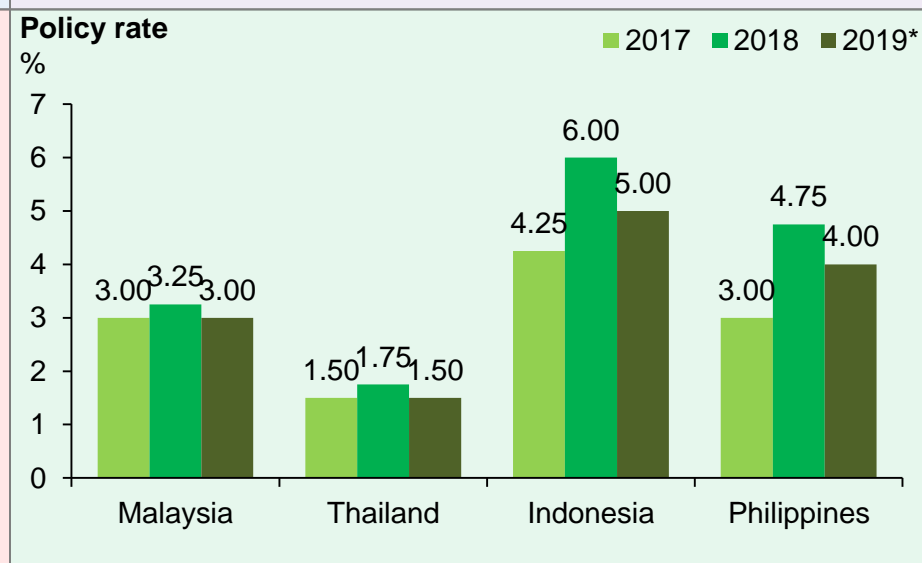
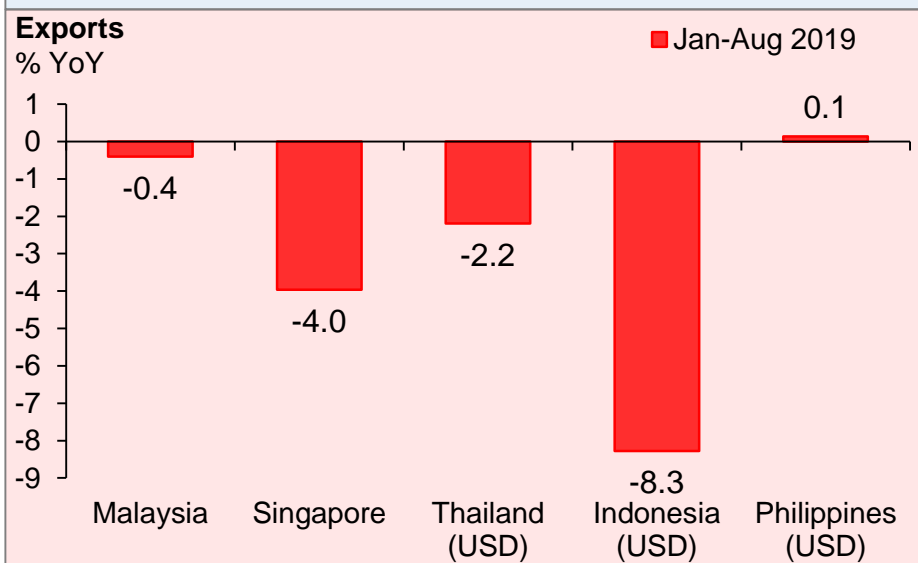
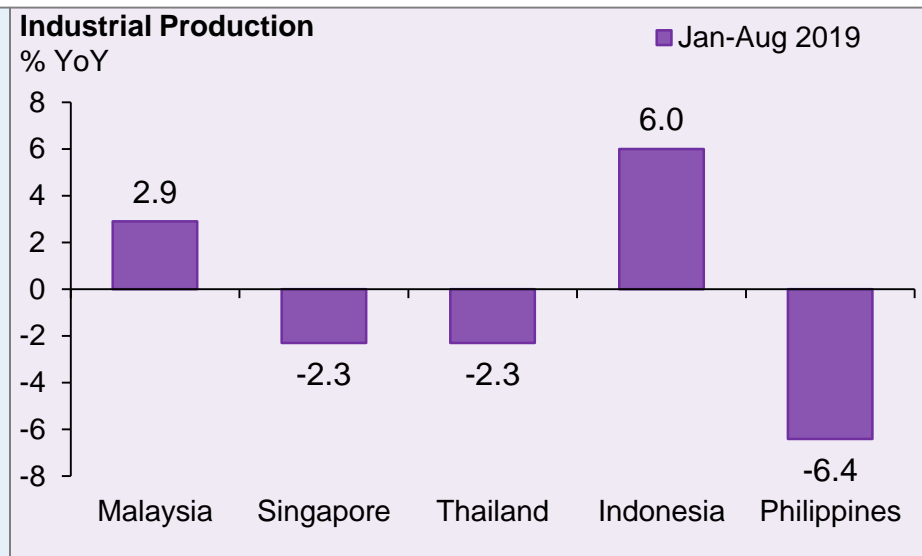
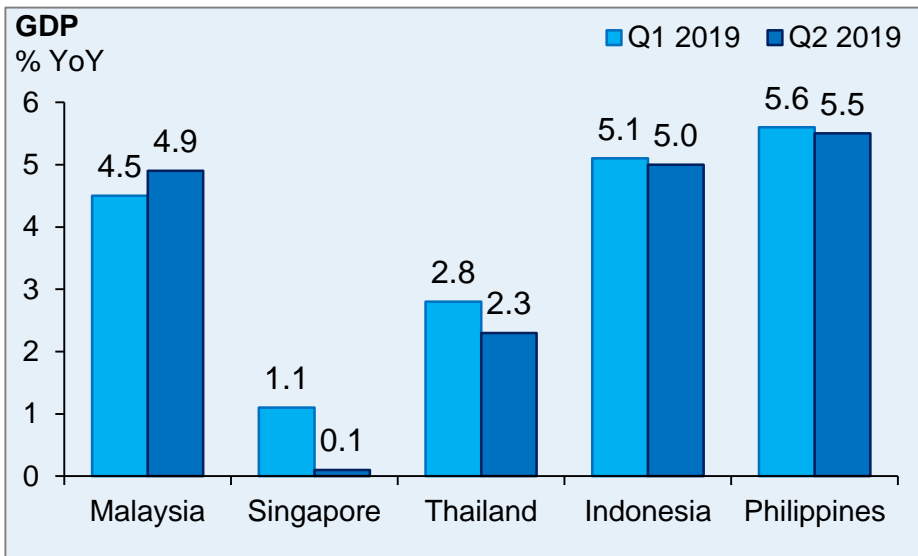


China ~ 2019E: 6.1%; 2020F: 5.8% (2018: 6.6%)

- 3Q's GDP growth (6.0%) the slowest in 27 years
- Ongoing economic structural reforms
- Trade disputes
- Monetary easing and fiscal support

Source: Officials; IMF (WEO, October 2019)

Economic snapshot of ASEAN-5



* As at 24 Oct 2019

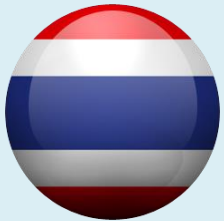
Source: Various officials

Economic outlook: Singapore, Thailand, Indonesia, Philippines



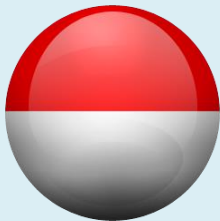
Singapore ~ 2019E: 0.5%; 2020F: 1.0% (2018: 3.1%)

- Narrowly escapes technical recession
- Manufacturing and NDOX down
- MAS on easing S\$ band



Thailand ~ 2019E: 2.9%; 2020F: 3.0% (2018: 4.1%)

- Strong baht has fed through to domestic economy
- Weighing on exports and inbound tourism, weaker domestic demand
- Fiscal expansion and monetary policy loosening



Indonesia ~ 2019E: 5.0%; 2020F: 5.1% (2018: 5.2%)

- Growth is seen fairly stable
- Domestic demand, recovery in fixed investment; infrastructure spending and recent tax incentives
- Prospects of further interest rate cut



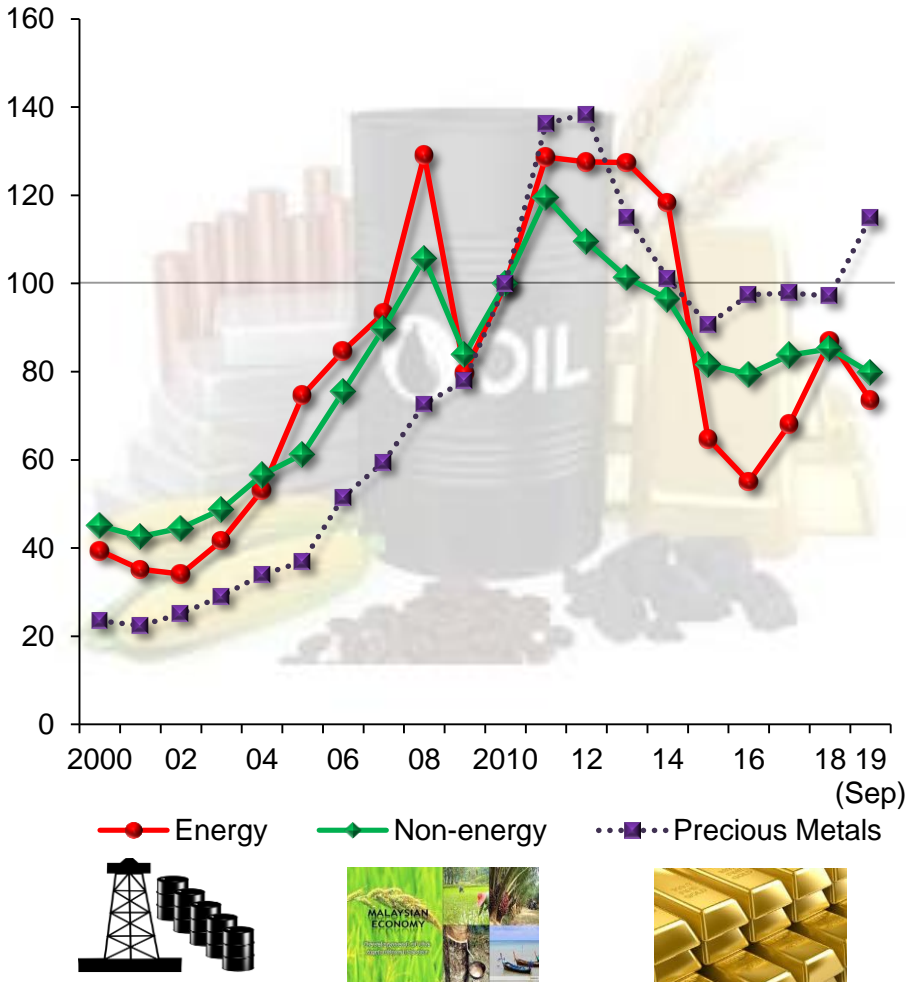
Philippines ~ 2019E: 5.7%; 2020F: 6.2% (2018: 6.2%)

- Public spending on infrastructure projects
- Accommodative monetary stance
- Sustained consumer spending

Source: Officials; IMF (WEO, October 2019)

Volatile energy prices remain a wild card

Commodity Price Index
(2010=100)

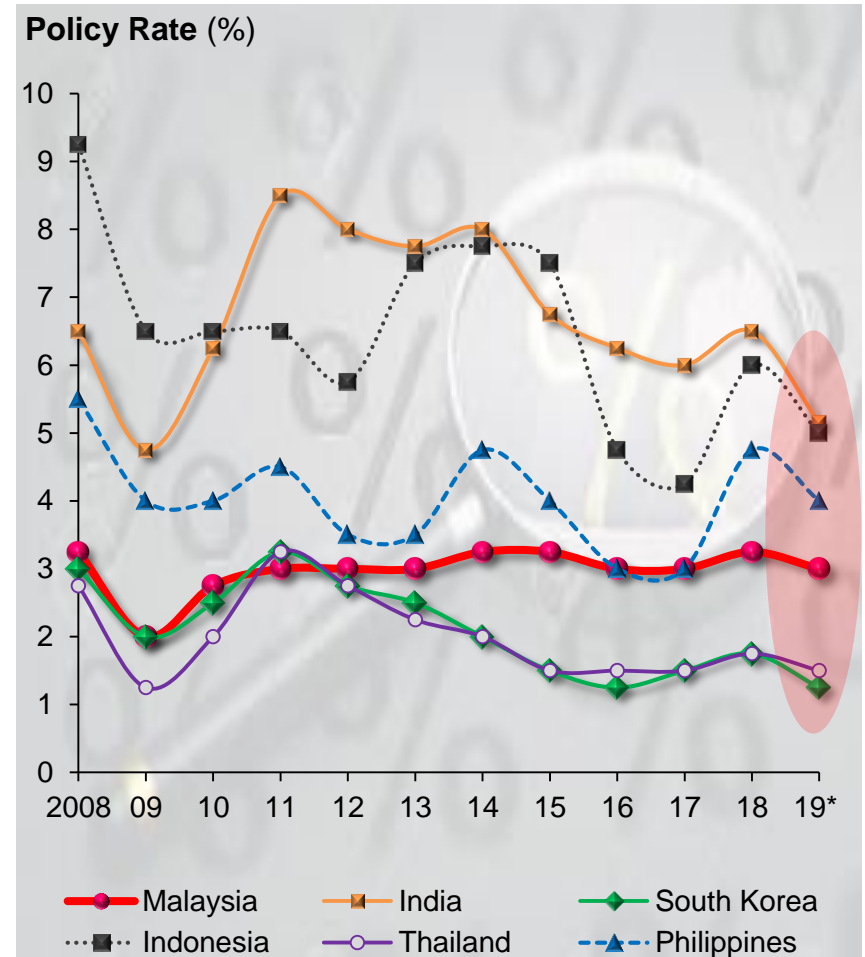
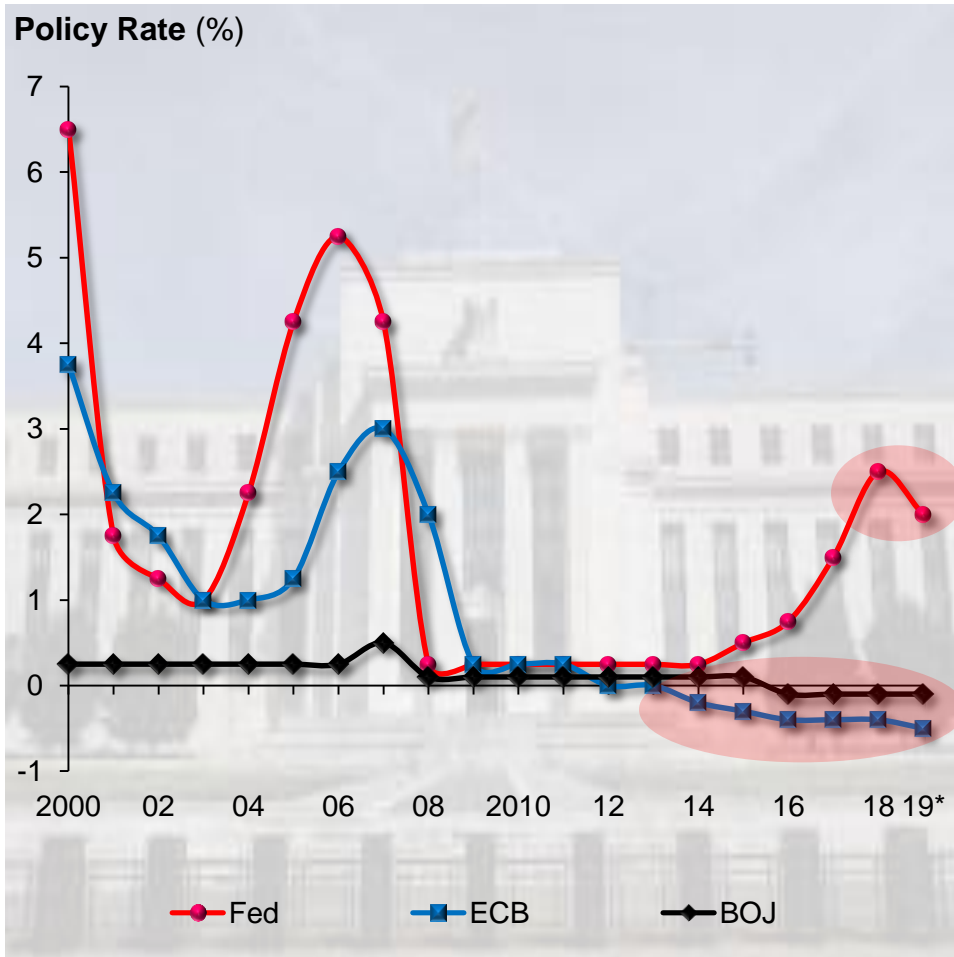


- **Brent crude oil prices**, which had climbed more than 30% to average US\$71/bbl in May 2019 (US\$51/bbl as at end-2018) have generally softened except for a brief spike to US\$68/bbl on 16 Sep following the drone strike on Saudi Arabia's oil facilities. YTD (Jan to 21 Oct), **Brent crude oil prices average at US\$64/bbl.**
- **US EIA** expects Brent crude oil prices to average US\$63.37/bbl in 2019 and **US\$59.93/bbl in 2020** (2018: US\$71.19/bbl). **IMF's estimate:** US\$61.78/bbl in 2019 and US\$57.94/bbl in 2020.
- **Factors affecting the near-term movement of prices:** (i) The compliance of OPEC+ supply cut; (ii) Disruption from the US-China trade war; (iii) Increasing shale oil production; and (iv) The US-Iran tensions.

Source: World Bank

Global central banks race interest rate to bottom

- Low or negative interest rate is a new normal again?



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

* As at 24 Oct 2019

Source: Fed; ECB; BOJ, Official central banks

Snapshot of selected central banks' policy rate

End-period of	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Oct)*	2020F
US, Fed Federal Funds Rate	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.75-2.00	1.25-1.50
Euro Area, ECB Deposit Facility	2.00	0.25	0.25	0.25	0.00	0.00	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50
Japan, BOJ Short-term Policy Interest Rate	0.10	0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
China, PBC 1-year Benchmark Loan I/R	5.31	5.31	5.81	6.56	6.00	6.00	5.60	4.35	4.35	4.35	4.35	4.35	4.10
India, RBI Policy Repo Rate (LAF)	6.50	4.75	6.25	8.50	8.00	7.75	8.00	6.75	6.25	6.00	6.50	5.15	4.65
South Korea, BOK Base Rate	3.00	2.00	2.50	3.25	2.75	2.50	2.00	1.50	1.25	1.50	1.75	1.25	1.25
Malaysia, BNM Overnight Policy Rate	3.25	2.00	2.75	3.00	3.00	3.00	3.25	3.25	3.00	3.00	3.25	3.00	2.75-3.00
Indonesia, BI 7-Day Reverse Repo Rate	9.25	6.50	6.50	6.50	5.75	7.50	7.75	7.50	4.75	4.25	6.00	5.00	4.50
Thailand, BOT 1-Day Repurchase Rate	2.75	1.25	2.00	3.25	2.75	2.25	2.00	1.50	1.50	1.50	1.75	1.50	1.25
Philippines, BSP Overnight RR Facility	5.50	4.00	4.00	4.50	3.50	3.50	4.00	4.00	3.00	3.00	4.75	4.00	3.50

Note: Selected central banks' benchmark policy rate have changed over the coverage period

Source: Officials (* as at 24 Oct 2019)

Section 2

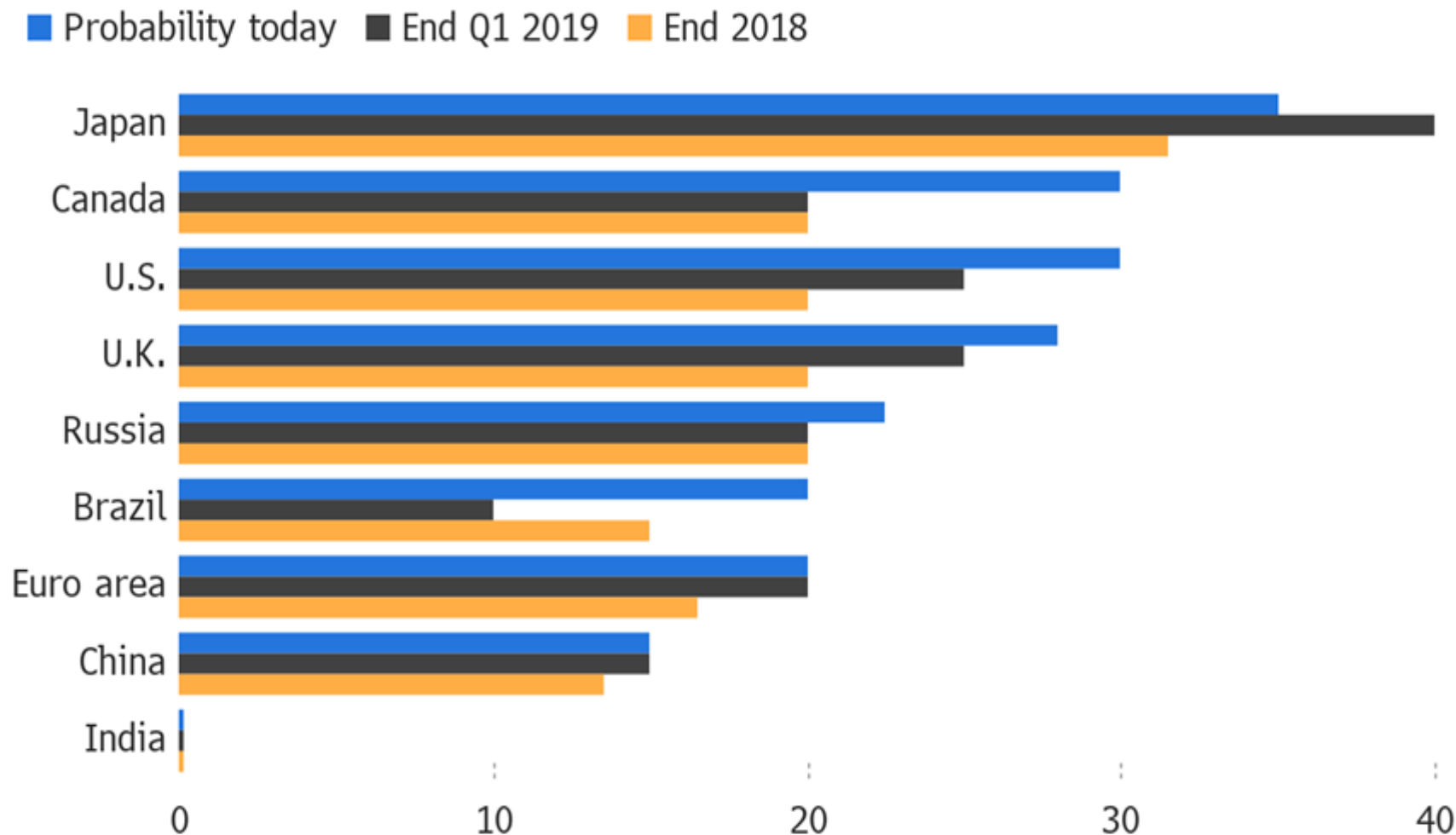
Global Recession Risk

Recession odds at 40-50%



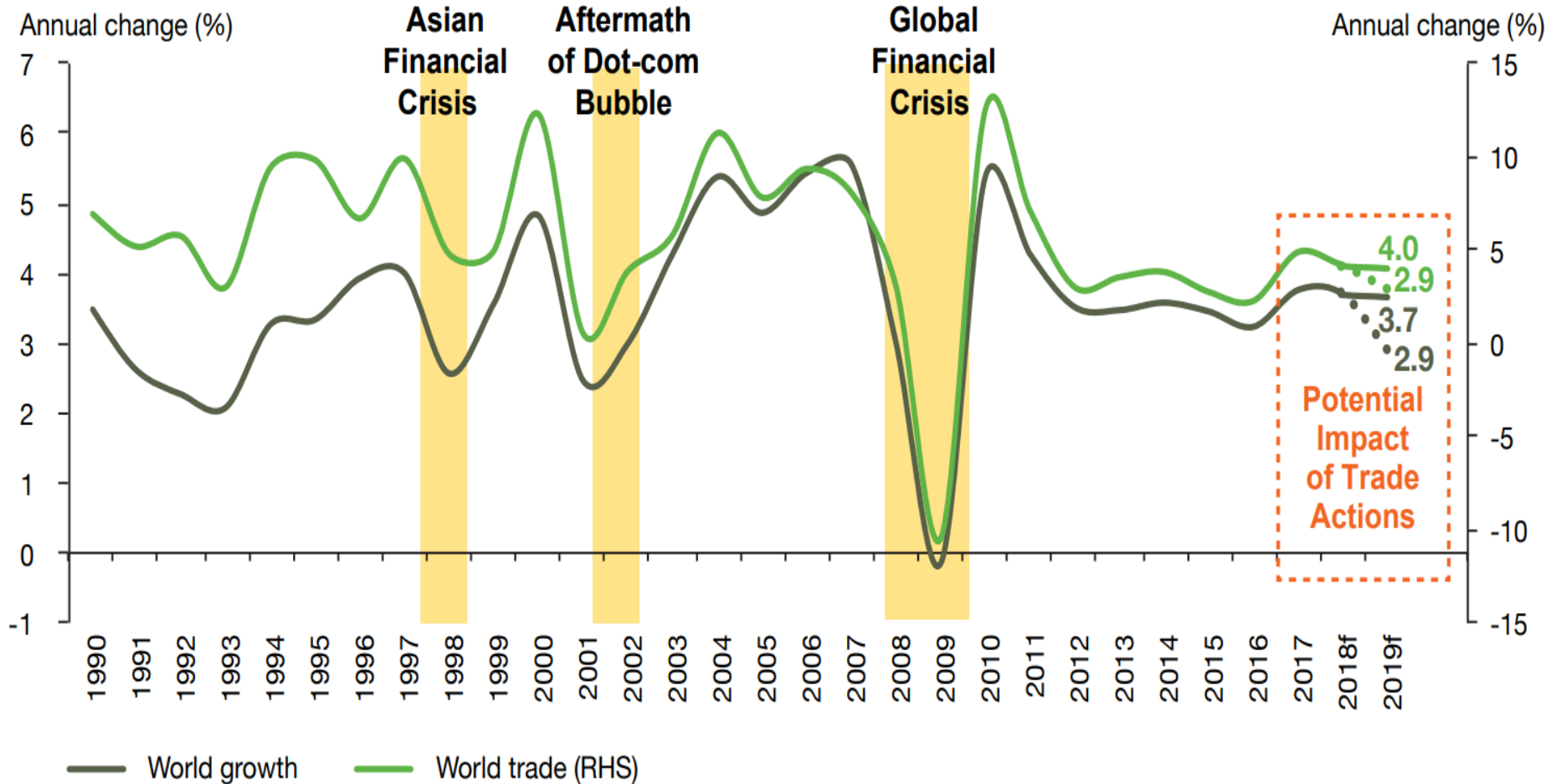
Recession risk on the rise

The risk of recession has increased in most of the world's biggest economies



Source: Bloomberg surveys, median probability of a recession in the next 12 months

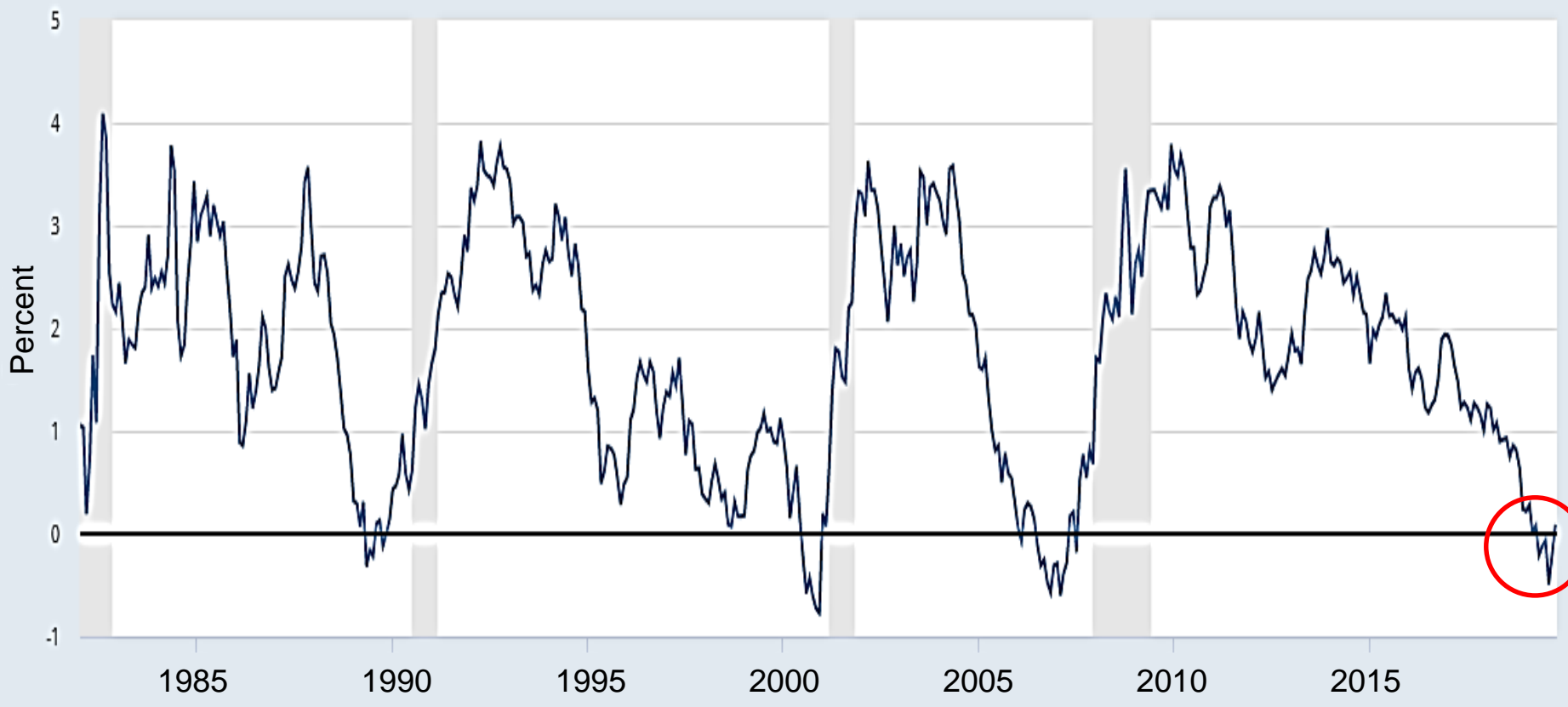
Intensified trade tensions pose significant risks to global economy



Source: BNM; IMF

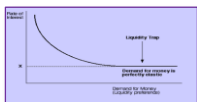
U.S. curve **INVERTS** for first time since 2007 – A reliable predictor of recession (Has happened ahead each of the past seven recessions)

10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Note: Shaded area indicates US recessions
Source: Federal Reserve Bank of St. Louis

Do Governments have policy tools to avert a financial crisis or global recession? A severe enough shock could usher in a global recession, even if central banks respond rapidly.



Policy tools are limited. Interest rates are very low and it gives the central banks very limited room to cut interest rates.

- Today, the **Fed** is starting with a benchmark policy rate of 2.25%-2.50% compared to 5.25% in September 2007.
- In **Euro Area and Japan**, central banks are already in negative-rate territory, and will face limits on how much further below the zero bound they can go.



Printing money (Quantitative easing (QE))? With bloated balance sheets from successive rounds of QE, central banks would face similar constraints if they were to return to large-scale asset purchases.



There's so much divide across the political spectrum, it may be difficult to put together a strong enough **government spending fiscal response**.



On the fiscal side, most advanced economies have **even higher deficits and more public debt** today than before the 2008-09 GFC, leaving little room for stimulus spending.

Section 3

The Malaysian Economy

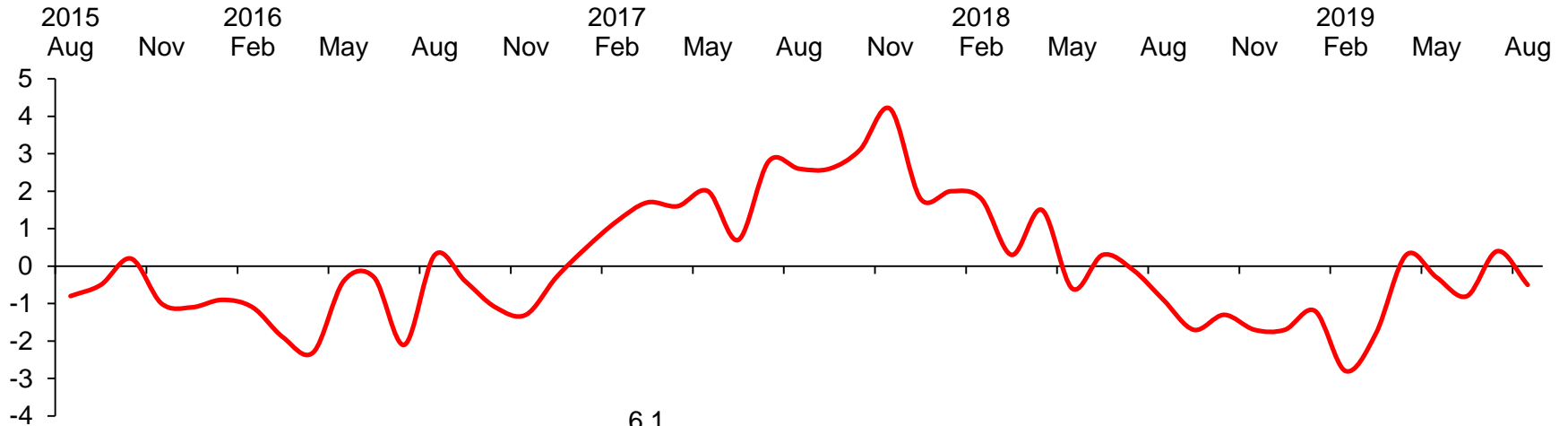
What the economic indicators say?



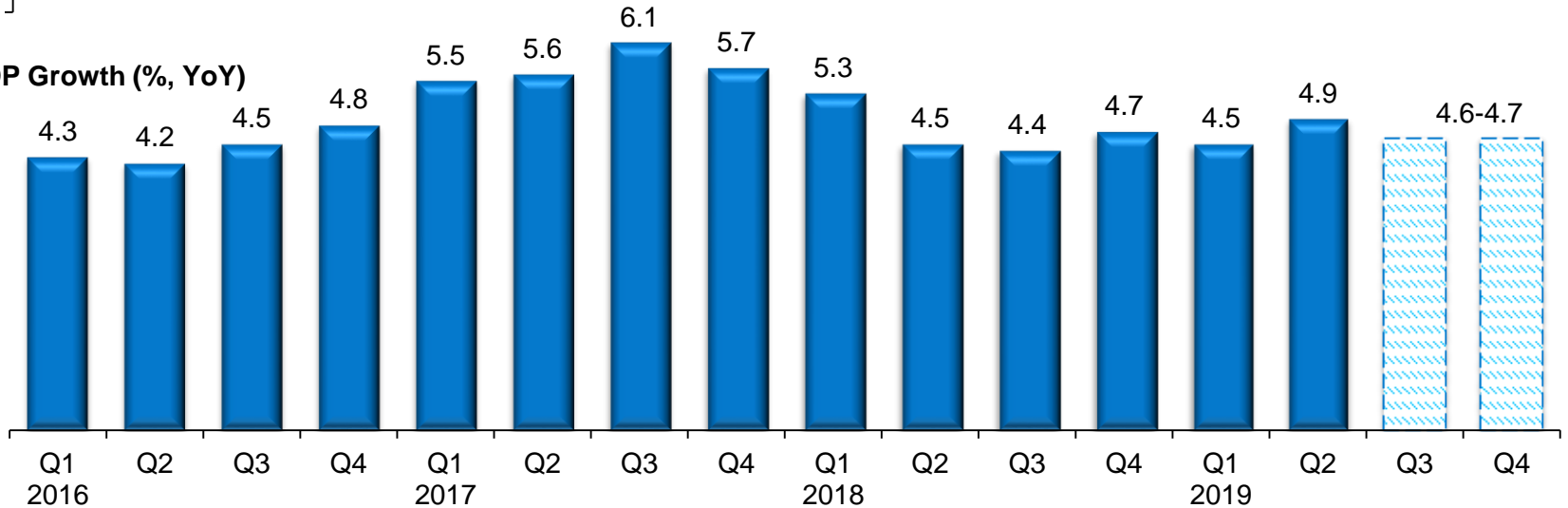
Malaysia's leading index indicates softening economic growth

The Leading Index (LI) indicators anticipates the overall economic activity in four to six months ahead, e.g. LI indicators in Feb indicate performance in Jun-Aug.

Leading Index Growth (% YoY)



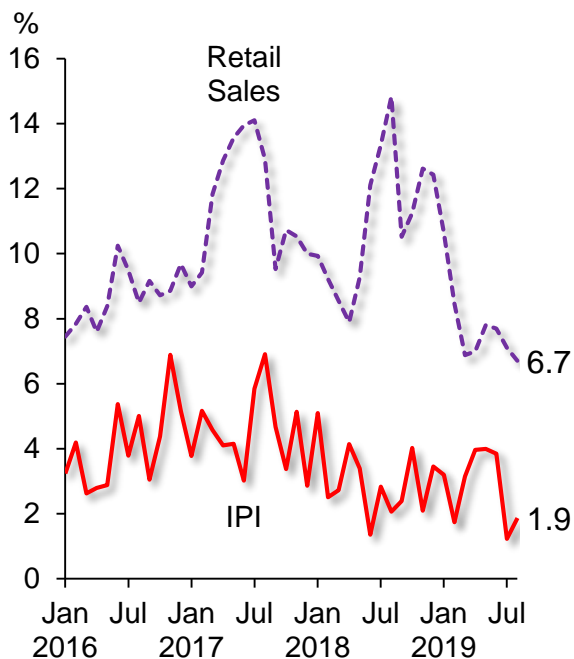
GDP Growth (% YoY)



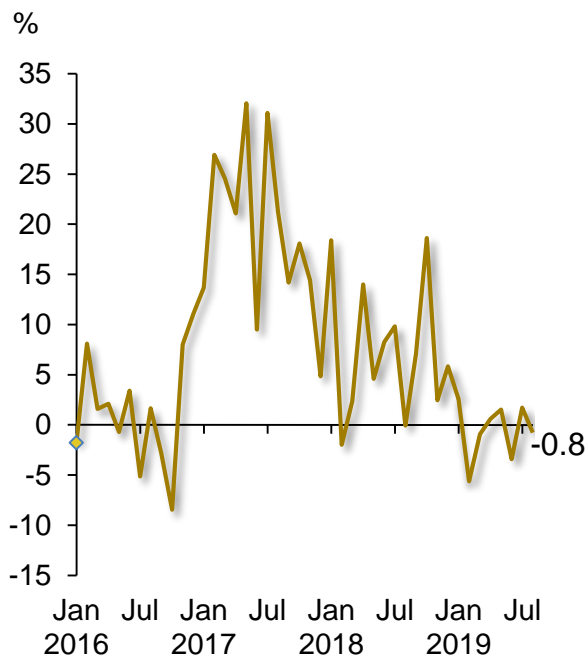
Source: DOSM; BNM

High frequency indicators suggest continued expansion; albeit slower

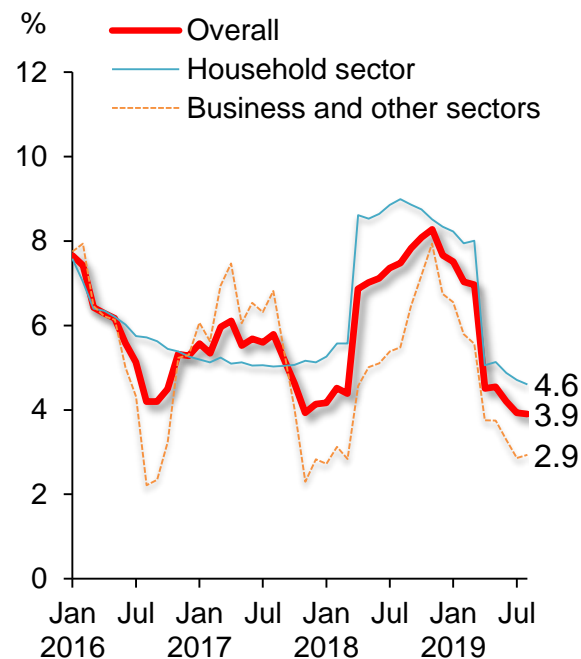
IPI growth sustained; retail sales growth moderated significantly



Exports declined by 0.4% yoy in first eight months of 2019



Overall loan growth continued to moderate

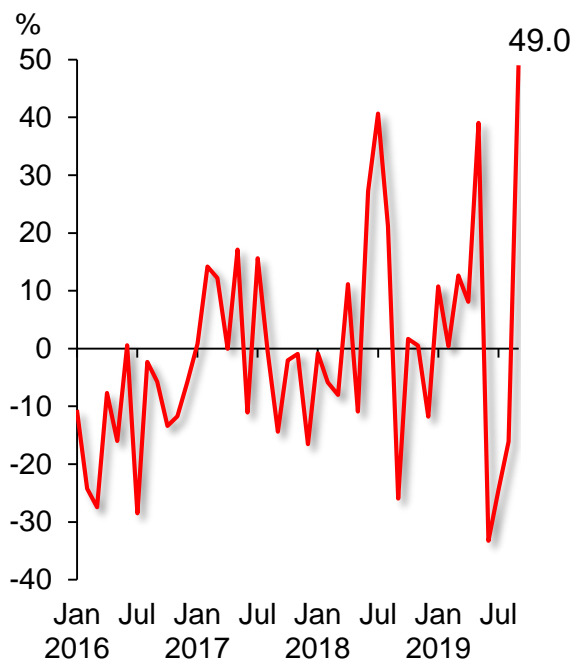


Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

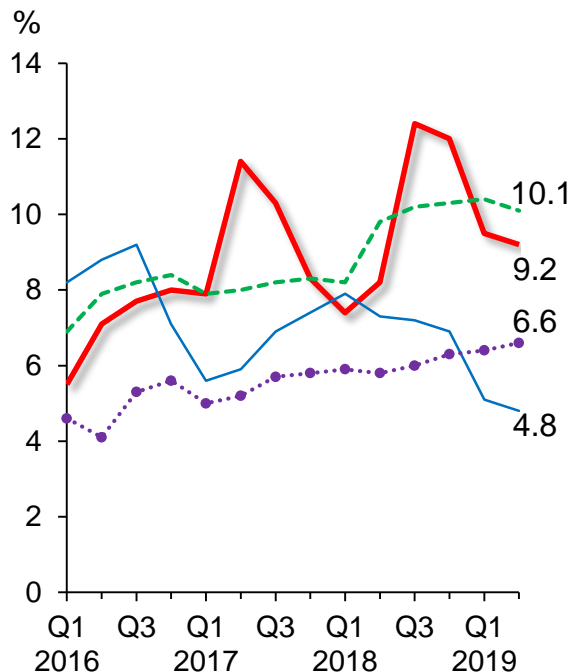
Source: DOSM; BNM

Private consumption indicators

Passenger car sales declined in Jun-Aug due to high base (zero-rated GST) last year and surged in Sep on low base

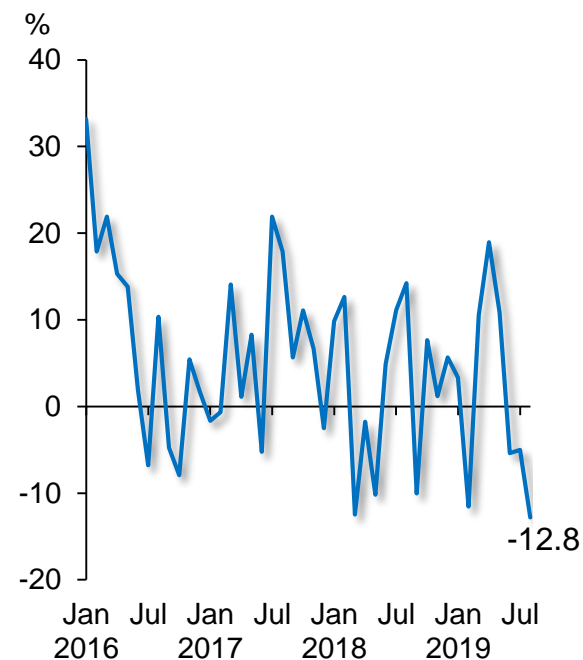


Growth of wholesale, retail, restaurant and hotels



- Retail Trade
- Wholesale Trade
- - - Food & Beverage
- Accommodation

Imports of consumption goods

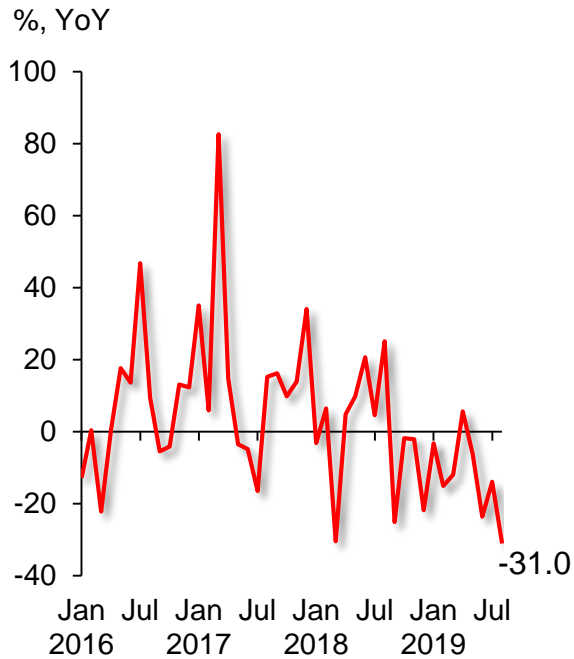


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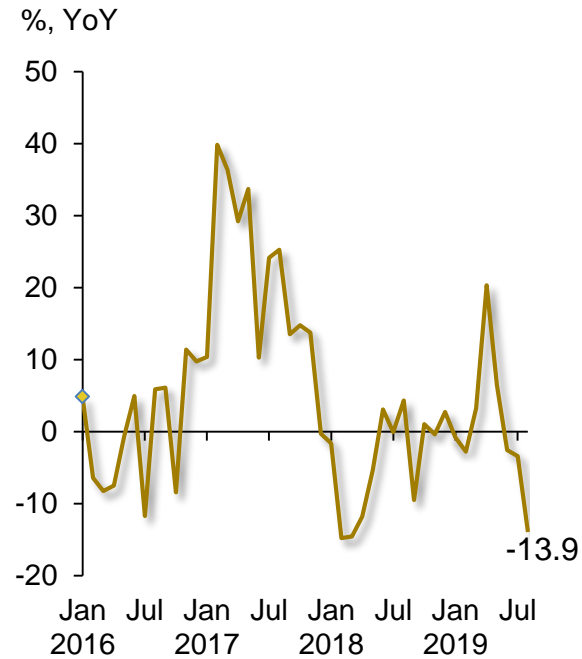
Source: DOSM; BNM

Private investment indicators

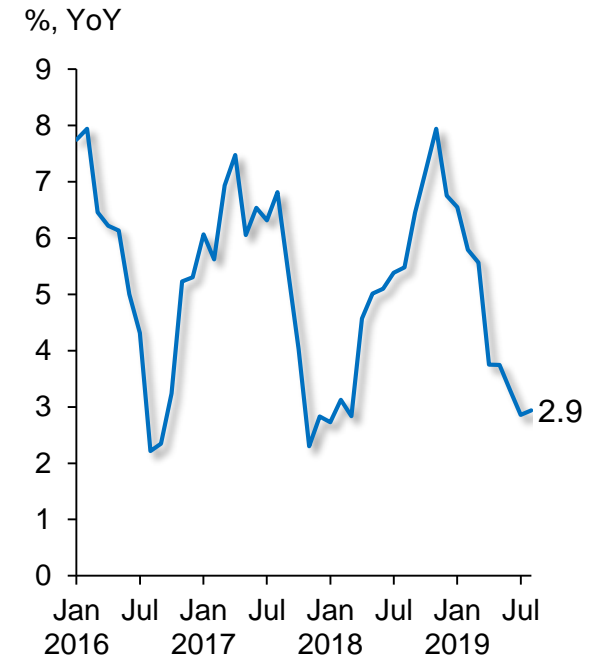
Imports of capital goods



Imports of intermediate goods



Loans extended for businesses and other sectors

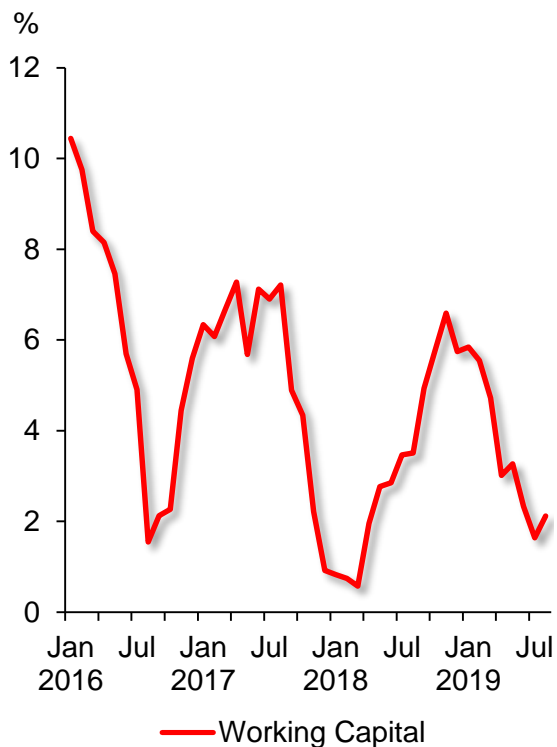


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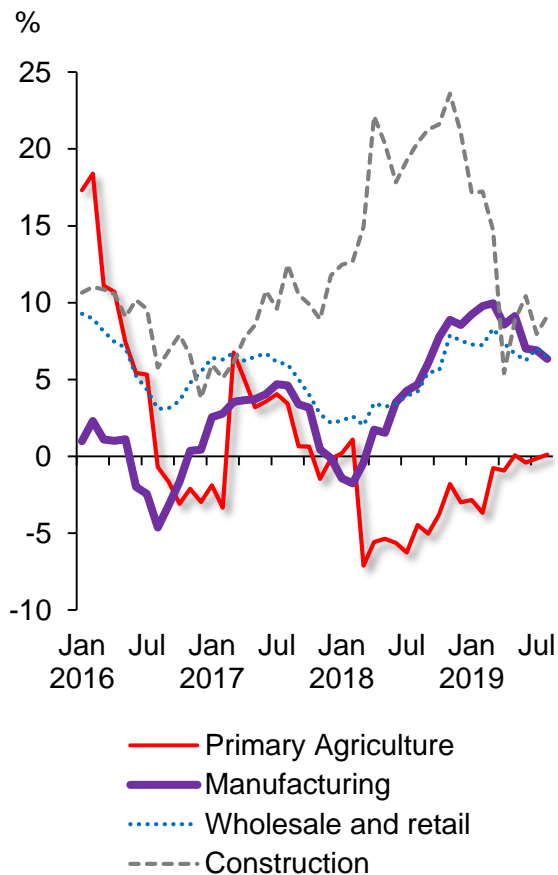
Source: DOSM; BNM

Lending barometer by sector shows mixed performance

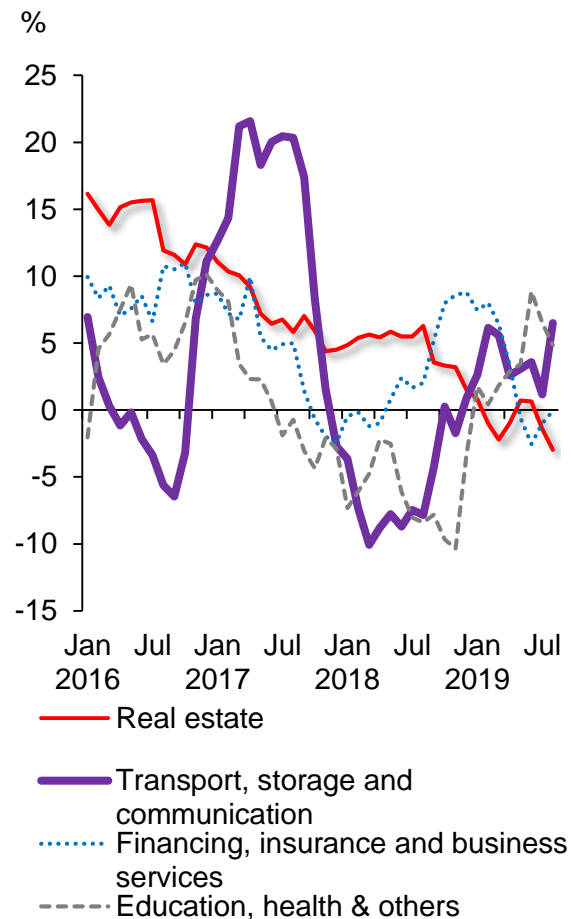
Overall loans growth for working capital softened



Construction, manufacturing as well as wholesale and retail sectors moderated; agricultural sector picking up



Real estate remains subdued; transport and communication still growing



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

Source: BNM

What say ACCCIM's M-BECS?

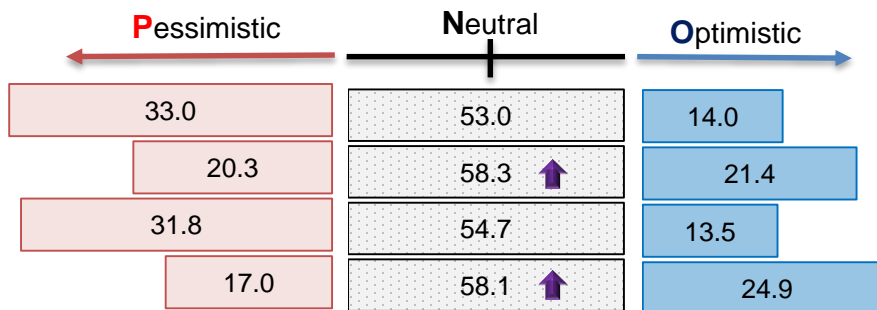
Economic Conditions and Prospects

% of respondents



Overall

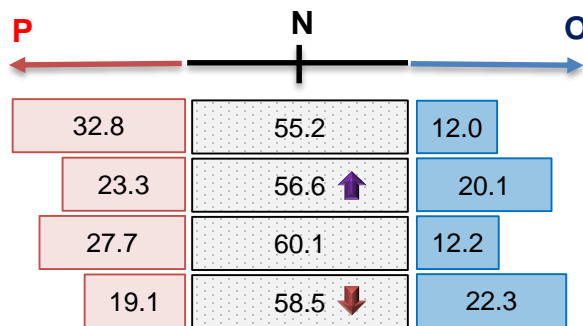
1H 2019
2H 2019F
2019E
2020F



Manufacturing



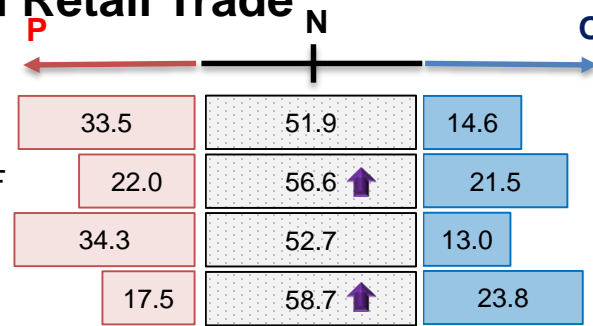
1H 2019
2H 2019F
2019E
2020F



Wholesale and Retail Trade



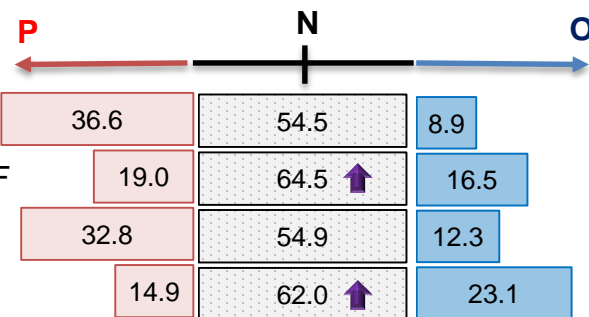
1H 2019
2H 2019F
2019E
2020F



Construction



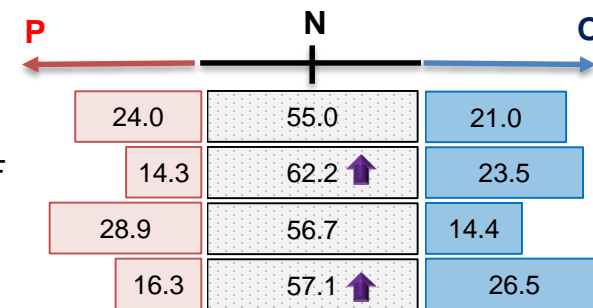
1H 2019
2H 2019F
2019E
2020F



Professional and Business Services



1H 2019
2H 2019F
2019E
2020F



Source: ACCCIM M-BECS

What say ACCCIM's M-BECS? (cont.)

Domestic Sales Volume Performance and Forecast % of respondents



Source: ACCCIM M-BECS

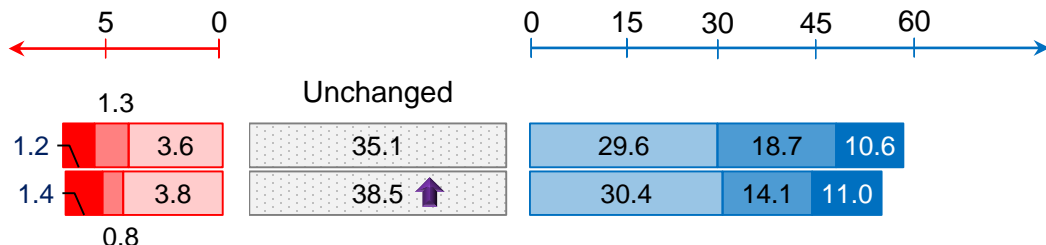
What say ACCCIM's M-BECS? (cont.)

Capital Expenditures Performance and Forecast % of respondents



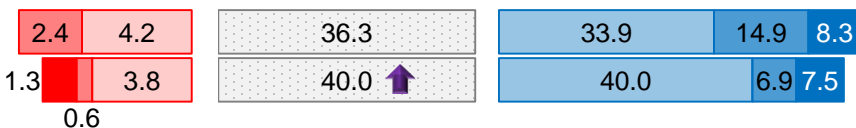
Overall

1H 2019
2H 2019F



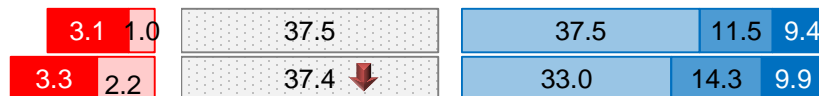
Manufacturing

1H 2019
2H 2019F



Construction

1H 2019
2H 2019F



Wholesale and Retail Trade

1H 2019
2H 2019F



Professional and Business Services

1H 2019
2H 2019F



■ Decrease >10%
 ■ Decrease 6%-10%
 ■ Decrease 1%-5%
 ■ Unchanged
 ■ Increase 1%-5%
 ■ Increase 6%-10%
 ■ Increase >10%

Source: ACCCIM M-BECS

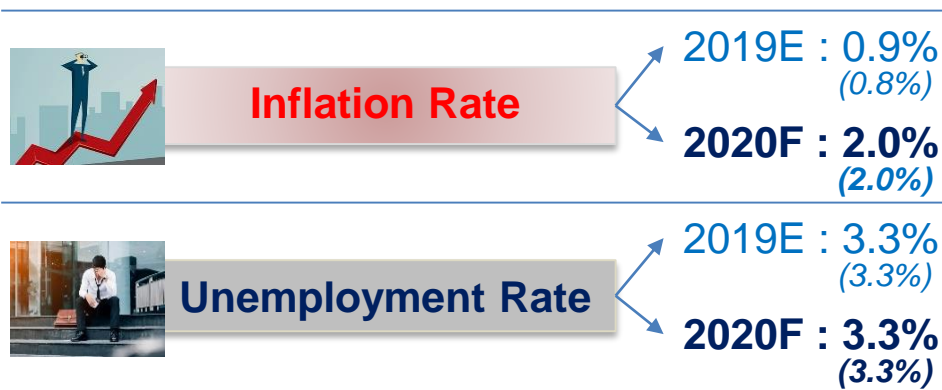
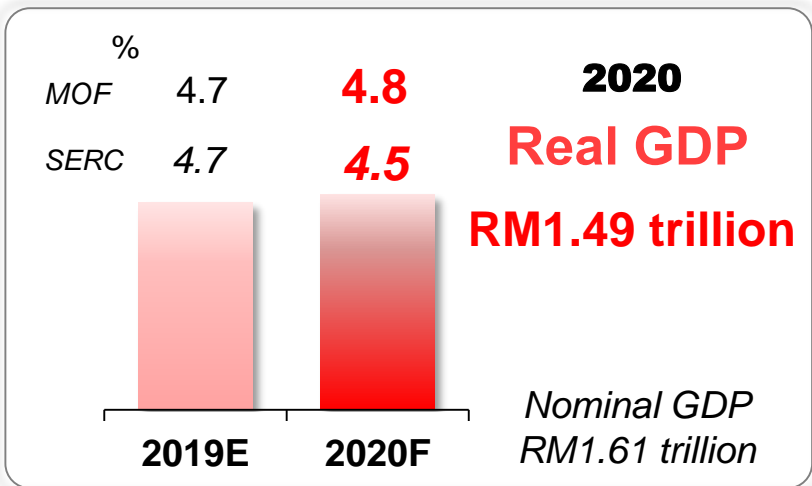
Section 4

The Malaysian Economy

Present, Prospects and Challenges



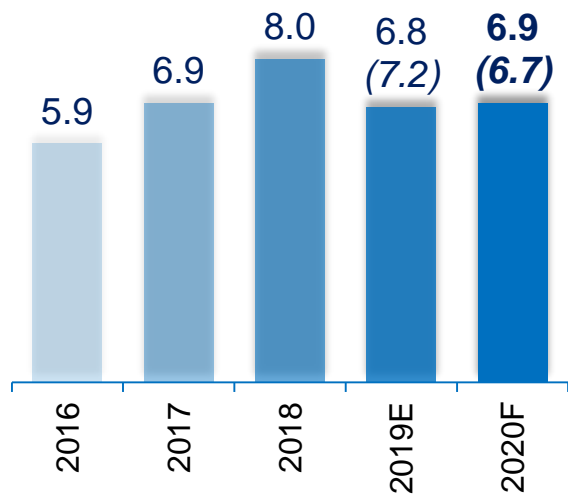
2020 economy still pinning hopes on private consumption



Resilient Private Consumption

2020F: **59.3%** share of GDP

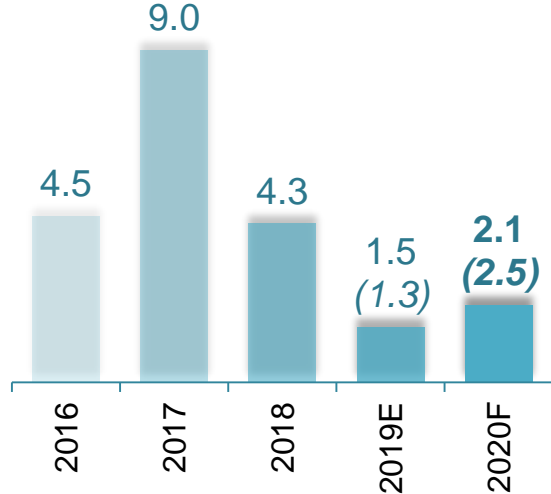
(Annual Growth, %)



Still Weak Private Investment

2020F: **16.3%** share of GDP

(Annual Growth, %)



Subdued Gross Exports

2020F: **63.1%** of GDP

(Annual Growth, %)

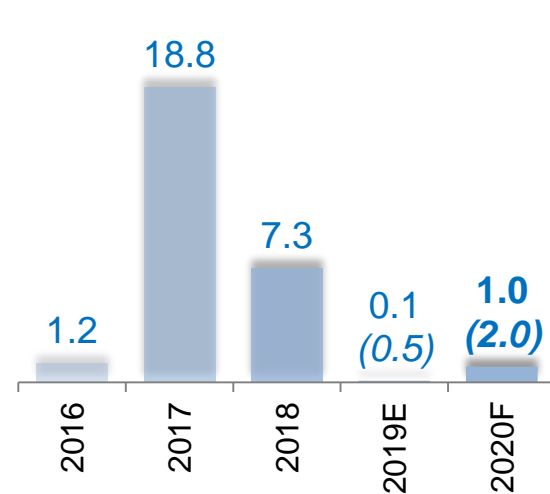
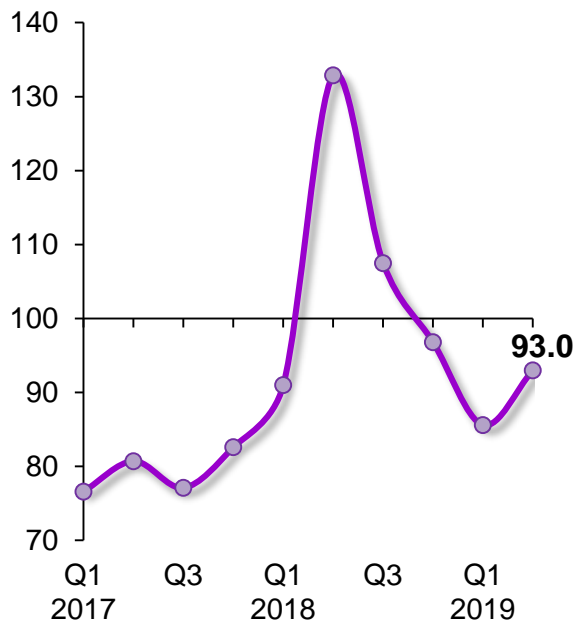


Figure in parenthesis indicates SERC's estimates and forecast
Source: MOF; SERC

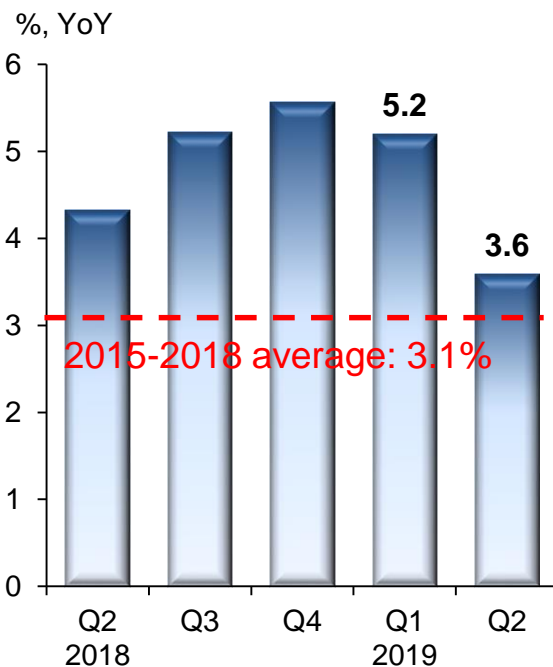
Still-strong consumer spending amid cautious sentiment

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

Consumer sentiment index (CSI)



Real private sector wage growth



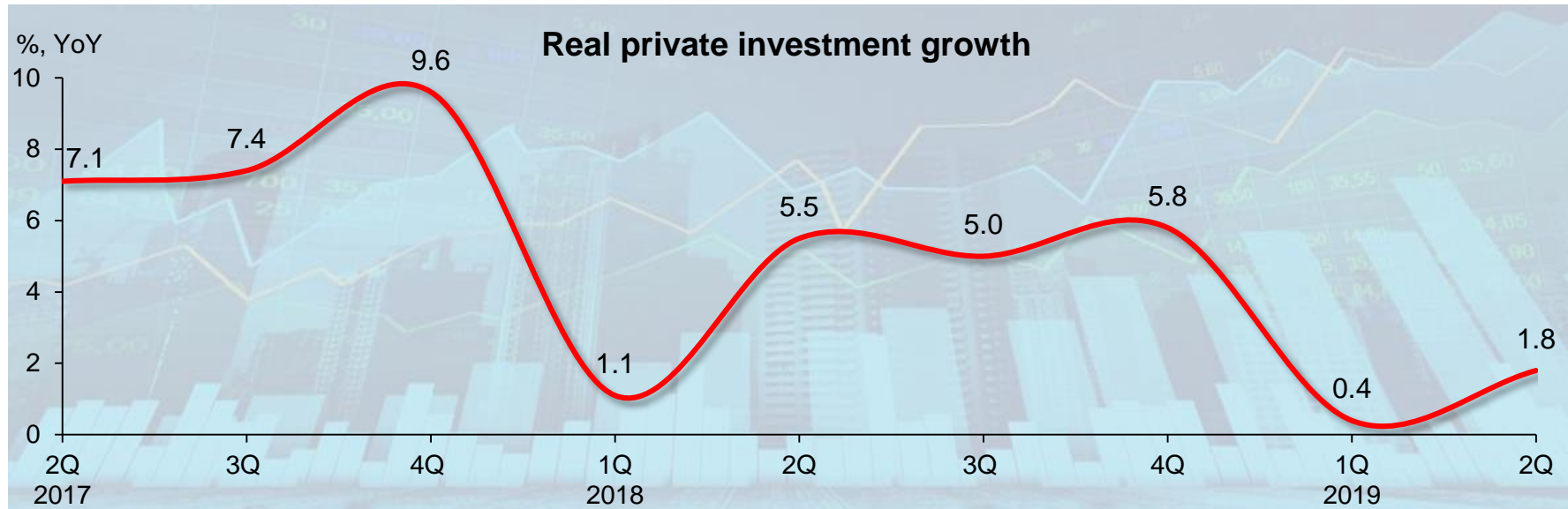
Consumer spending likely to moderate to 6.7% in 2020 (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

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

A smaller drag from public investment

- **Development expenditure (DE)** is budgeted to increase by **4.3% to RM56.0bn or 18.9% of total expenditure** in 2020 (RM53.7bn in 2019).
- Of the 2020 allocation, **RM53.2bn** is allocated for **4,744 ongoing projects** while **RM2.8bn** is for **722 new projects**.

- New projects in O&G industries (Kasawari Gas Development, ongoing projects (Floating LNG 2)).
- MRT2, LRT3, LRT line extension and ECRL, Tekai hydroelectric and Pasir Gudang combined-cycle gas turbine; Pan Borneo Highway, airports expansion, Singapore–Johor Bahru Rapid Transit System (RTS Link).

Smaller contraction in public investment

2020F: 6.1% share of GDP

(Annual Growth %)

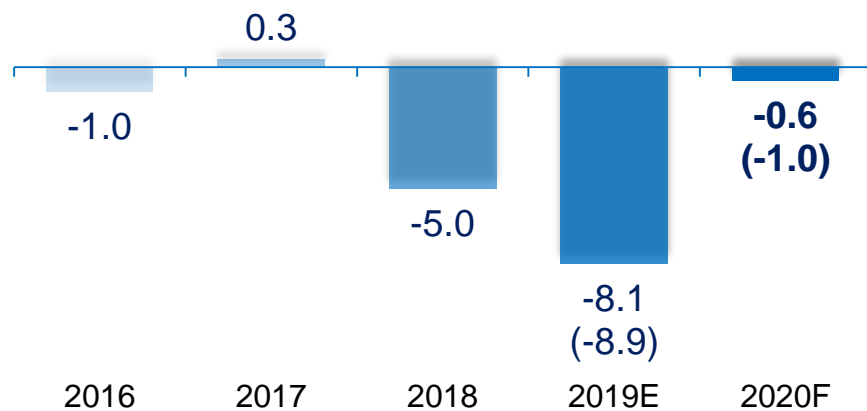
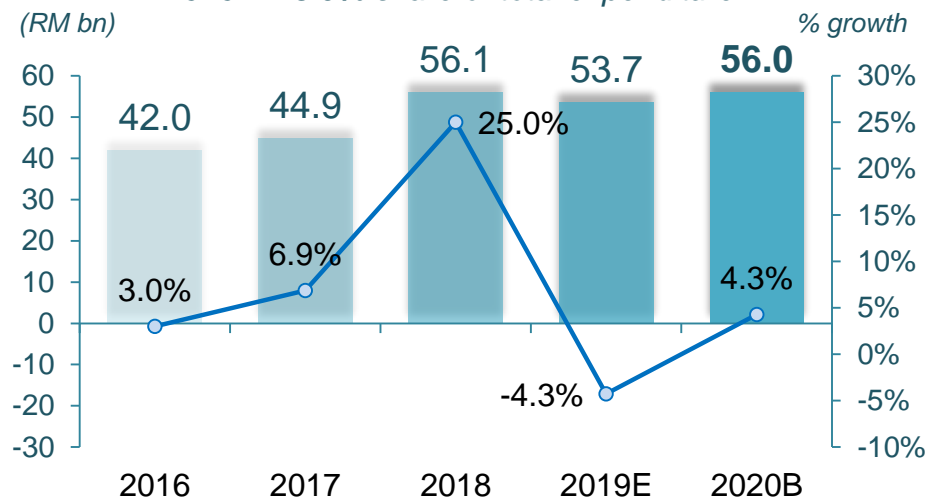


Figure in parenthesis indicates SERC's estimates and forecast
Source: MOF; SERC

Higher development expenditure

2020B: 18.9% share of total expenditure



Where is the GROWTH coming from?

Figure in [] indicates SERC's estimates and forecast



Services (2019E: 6.1% [6.1%], 2020F: 6.2% [6.0%])
% share of GDP in 2020F: 58.2%

- Supported by tourism related activities and accelerating growth of e-commerce.
- 5G-driven ICT; increase in bank lending and higher fee income; operation of new highways.



Manufacturing (2019E: 4.0% [4.4%], 2020F: 4.1% [3.9%])
% share of GDP in 2020F: 22.1%

- Benefit from global electronics supply chain following the US-China trade and technology dispute and uptick in electronics cycle.
- Domestic-oriented industries (consumer and construction-related clusters).



Agriculture (2019E: 4.3% [4.6%], 2020F: 3.4% [2.5%])
% share of GDP in 2020F: 7.2%

- Higher output of palm oil (2020: 22.2 mil tonnes vs. 21.0 mil tonnes in 2019); CPO average prices at RM2,100 per metric tonne in 2020 vs. RM2,000 in 2019; Higher demand (bilateral trade deal) from China.
- Higher production of rubber and food products (except aquaculture).

Where is the GROWTH coming from? (cont.)

Figure in [] indicates SERC's estimates and forecast



Mining (2019E: 0.6% [0.5%], 2020F: 0.3% [0.8%])

% share of GDP in 2020F: 7.0%

- Strong demand from petrochemical industry; rising exports of LNG.
- Commencement of the North Malay Basin Full Field Development (FFD – Phase 2), Gorek, Integrated Bokor (Phase 3), Betty redevelopment projects.
- Crude oil subsector is expected to increase moderately, underpinned by the development of Anggerik FFD, Zetung FFD and Bayan Oilfield (Phase 2B and 2C).



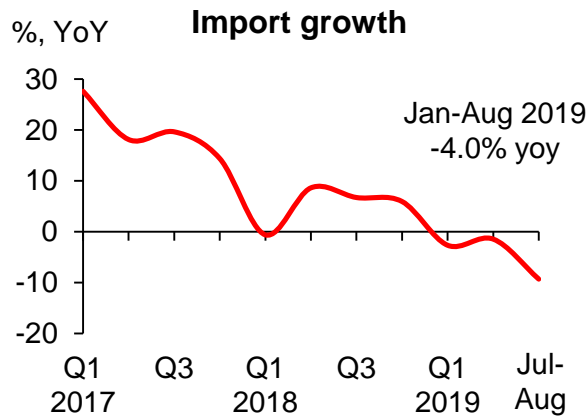
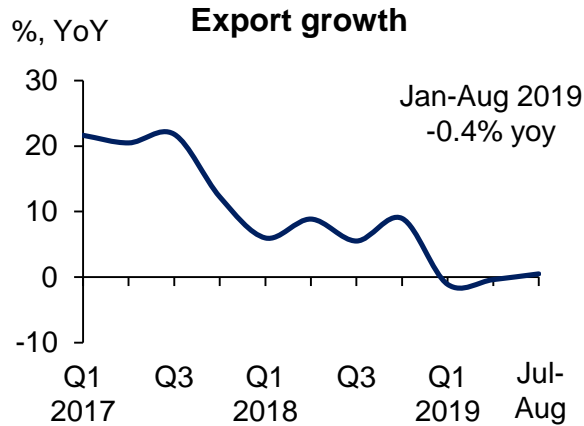
Construction (2019E: 1.7% [0.8%], 2020F: 3.7% [1.5%])

% share of GDP in 2020F: 4.7%

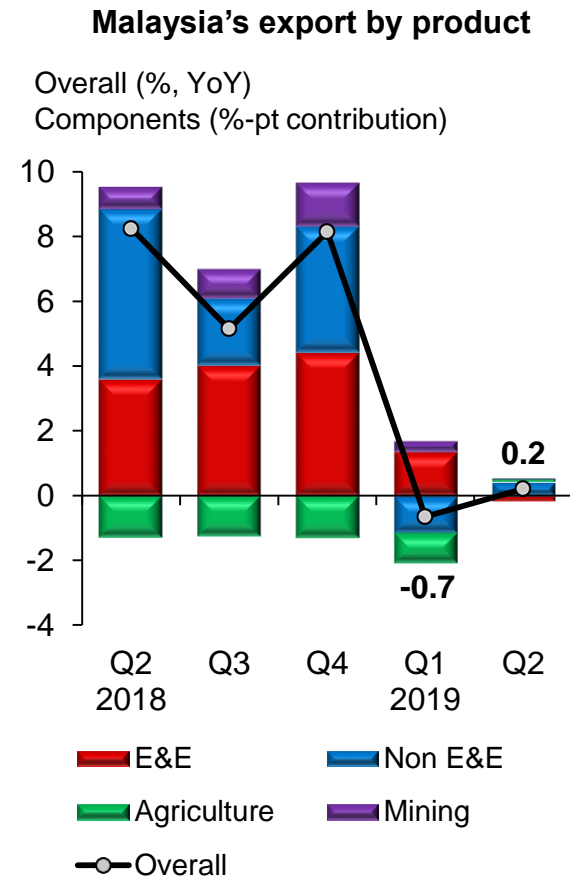
- Acceleration and revival of mega projects and building of affordable housing.
- Civil engineering segment: ECRL; MRT2; LRT3; Electrified Double Track Gemas-Johor Bahru; KVDT2; Central Spine Road; Pan Borneo Highway; and Coastal Highway in Sarawak.
- Non-residential subsector remains subdued, dragged by persistent overhang.

Exports hostage to slowing global growth & trade tensions

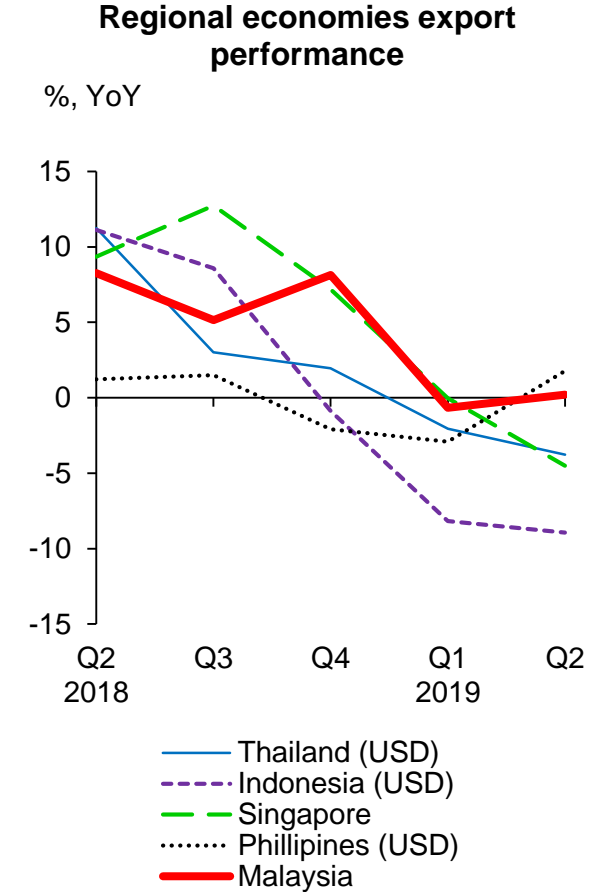
Lethargic exports growth



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

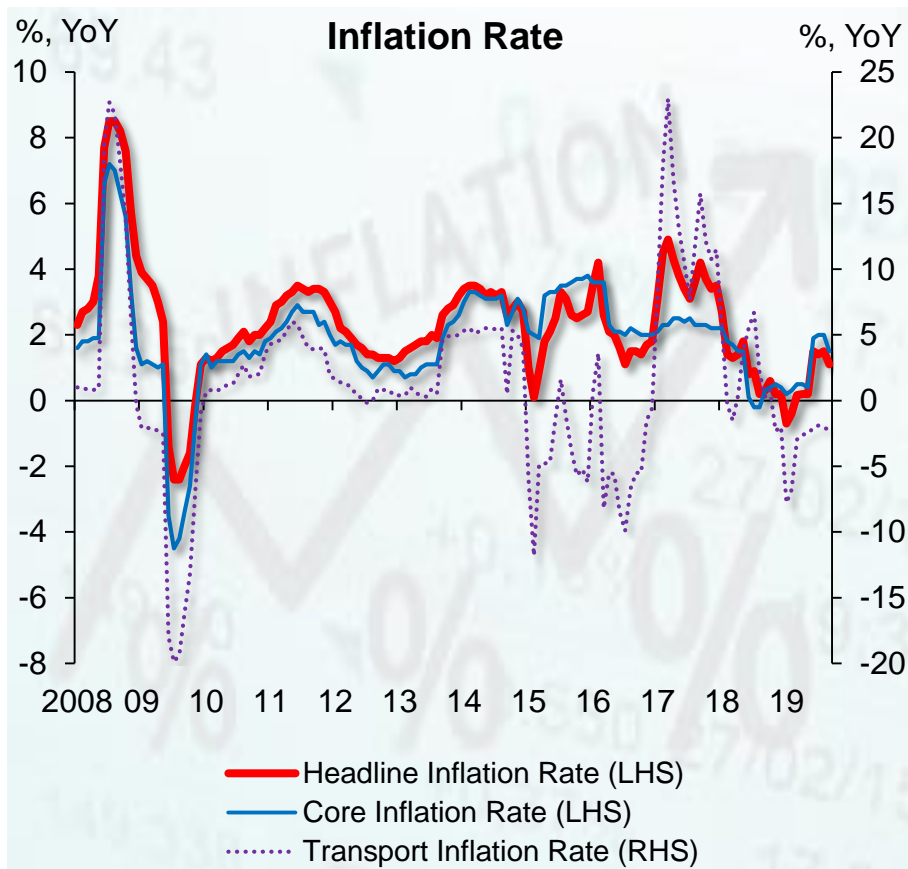


Malaysia's exports compared to regional economies



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

Inflation has returned to positive trajectory



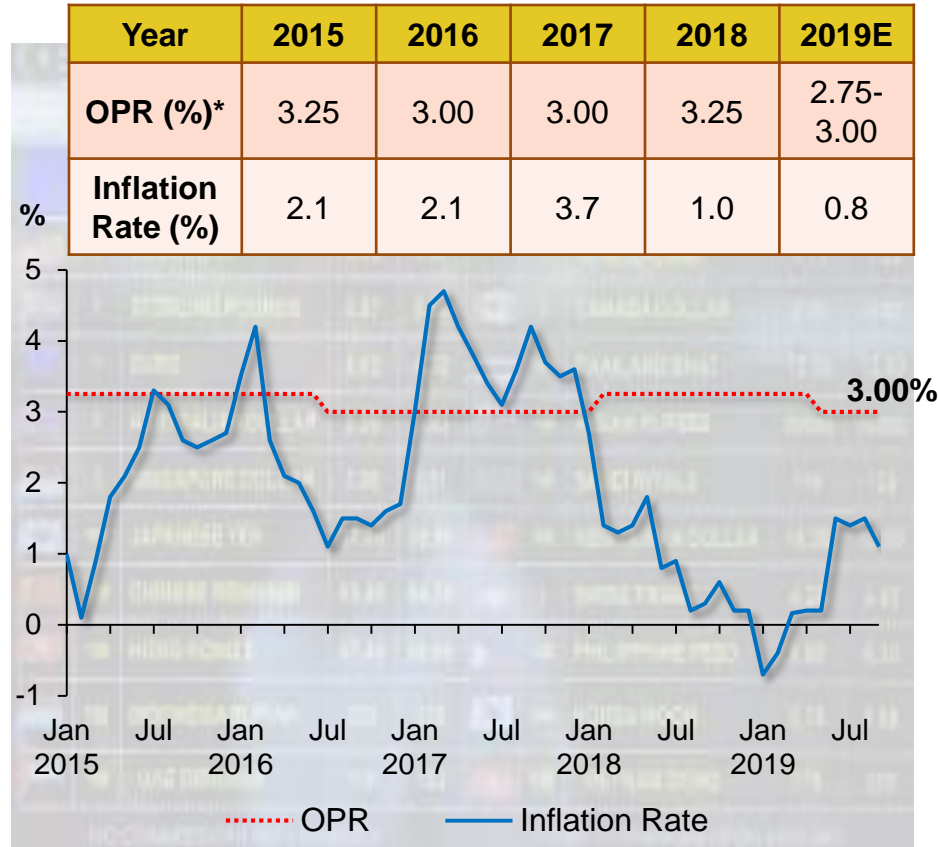
- **Headline inflation** normalises to 1.4%-1.5% in Jun-Aug and 1.1% in Sep after a year of either low or negative rate due to the change of consumption tax policy. In Jan-Sep, the consumer price index (CPI) increased by 0.6% yoy.
- Core inflation remained healthy at 1.5% in Sep (1.9%-2.0% in Jun-Aug), indicating continued domestic demand.
- SERC expects **headline inflation to average 0.8% in 2019 and will pick up to 2.0% in 2020** due to some cost pass-through from domestic cost factors. These include:
 - Reintroduction of targeted fuel subsidy
 - Departure levy
 - Digital tax
 - Potential increase in water tariffs
 - Spillover effects from higher fuel 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.

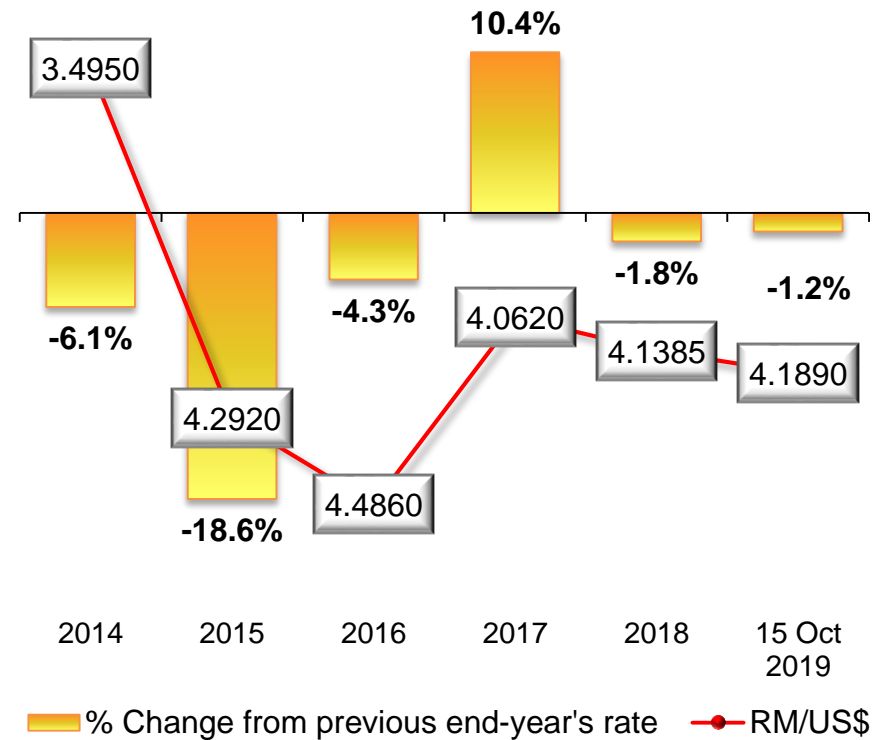
Inflation will rise in second half-year of 2019



* OPR as at end-year

Source: DOSM; BNM; SERC

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

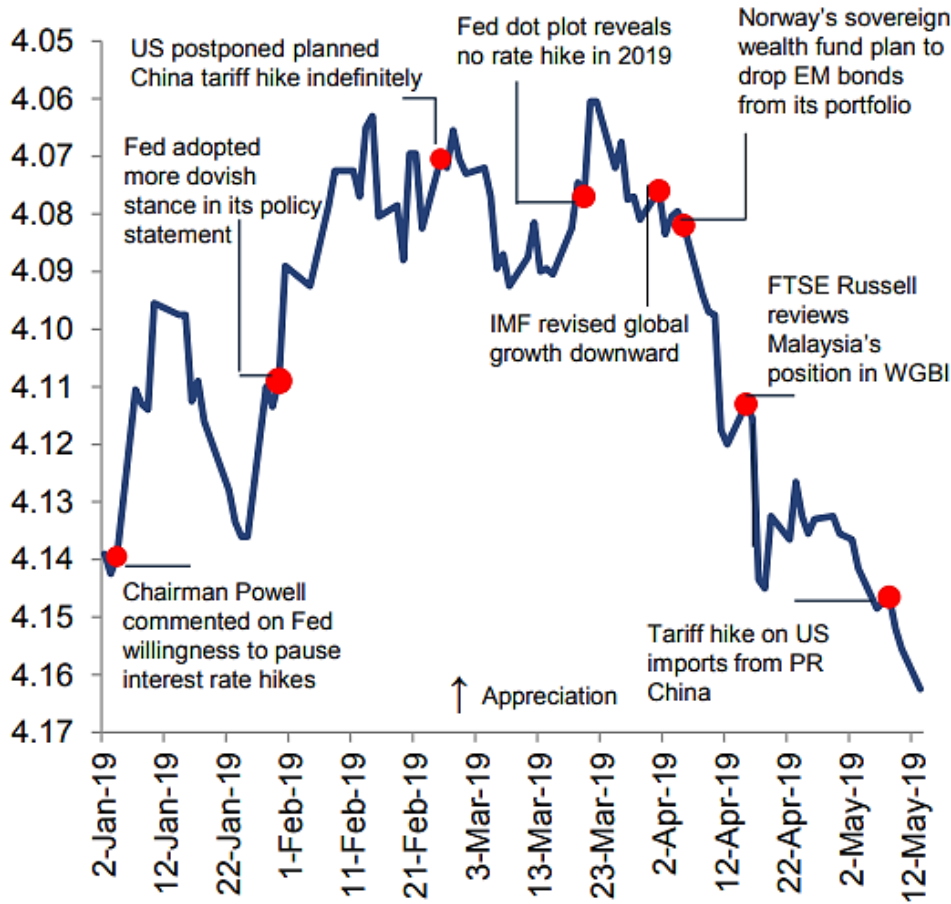


Note: Exchange rate (12:00 rate) as at end-period

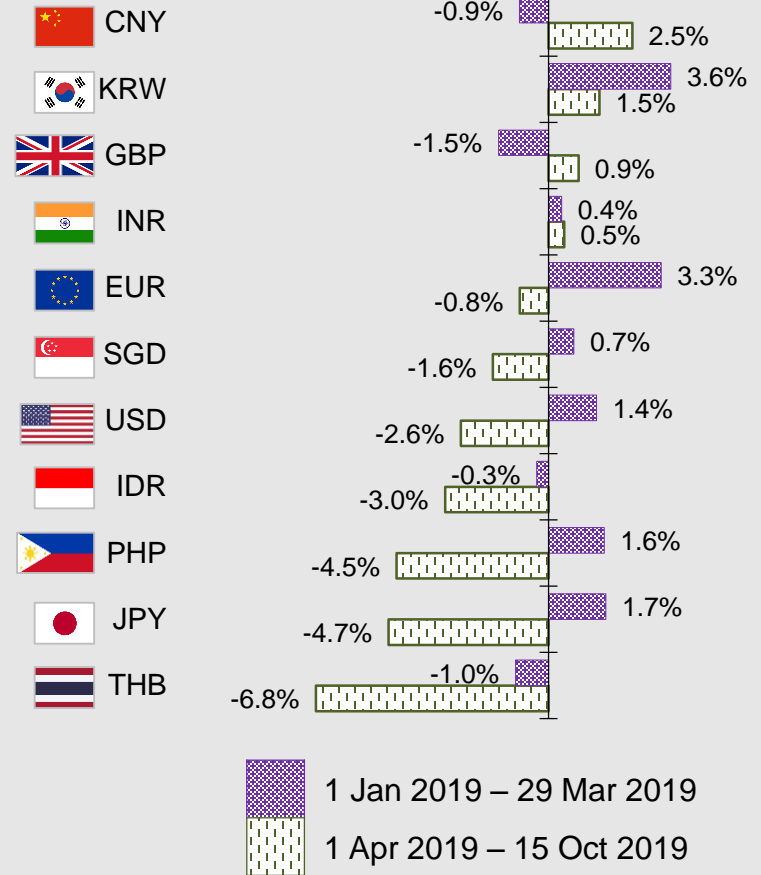
Ringgit's movements largely driven by external influences & cautious investors' sentiment

Movements of ringgit and global developments

MYR/USD



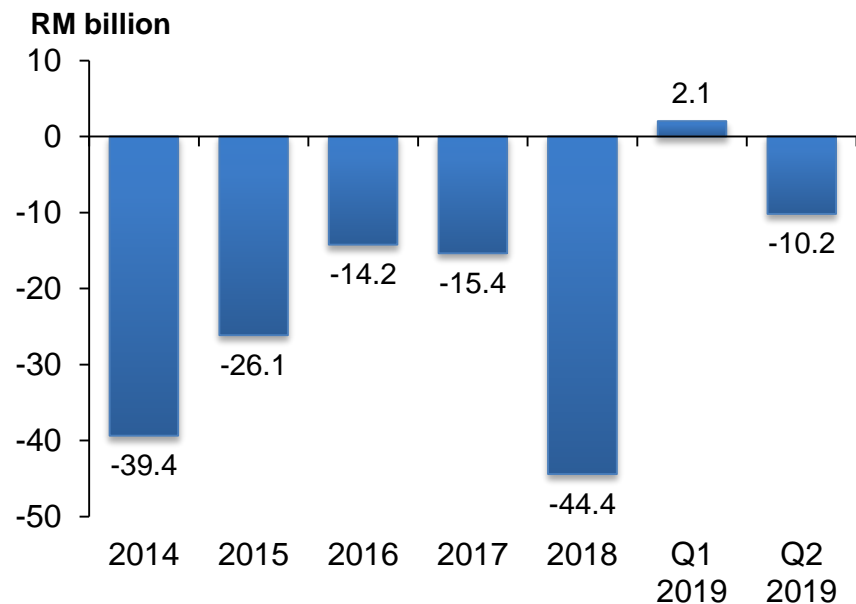
Ringgit performance against selected major and regional currencies



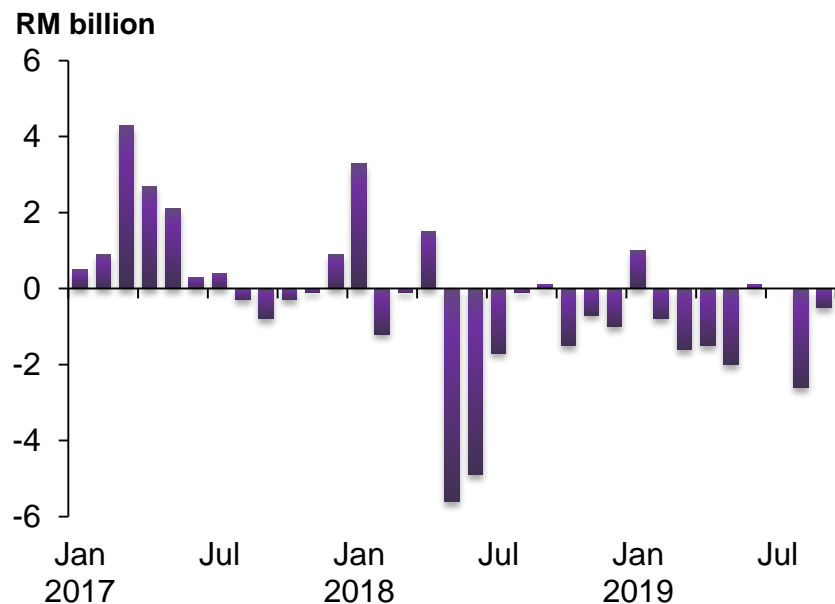
Source: BNM

Volatility in portfolio investment flows would persist

Portfolio investment



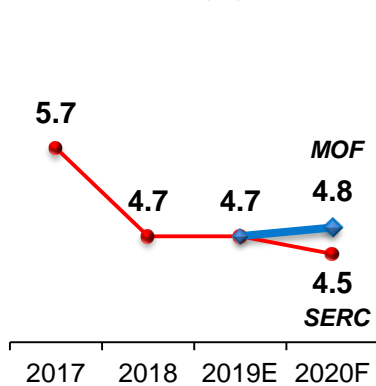
Foreigners' net buy/(sell) position of domestic equity market



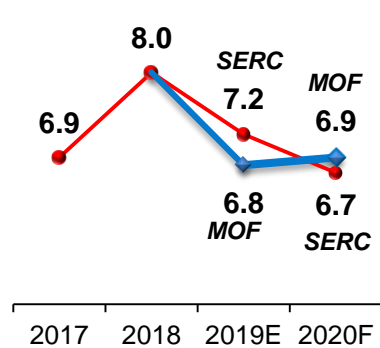
Source: DOSM; BNM

Malaysia's key ECONOMIC INDICATORS

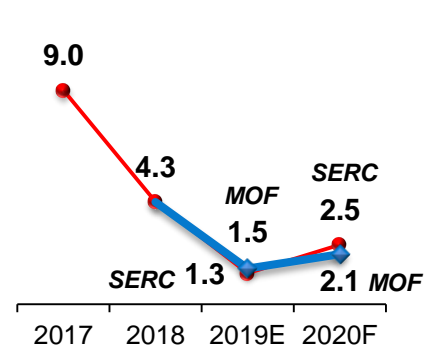
Real GDP Growth (%)



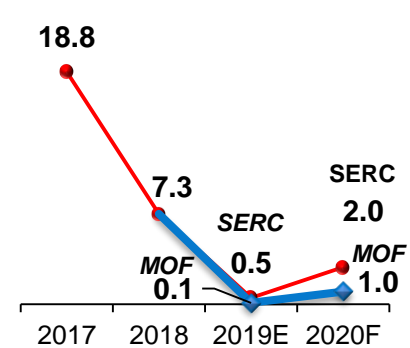
Private Consumption Growth (%)



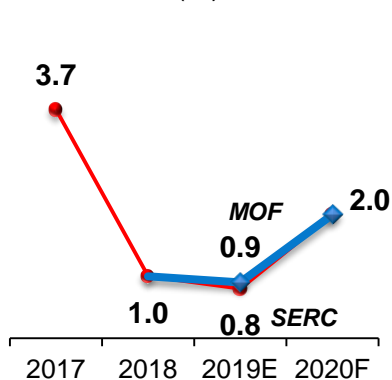
Private Investment Growth (%)



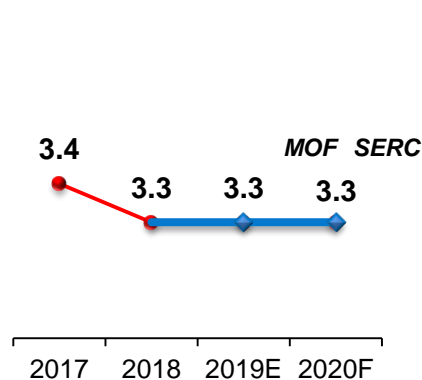
Gross Exports Growth (%)



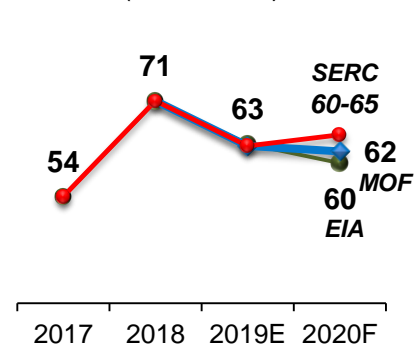
Inflation Rate (%)



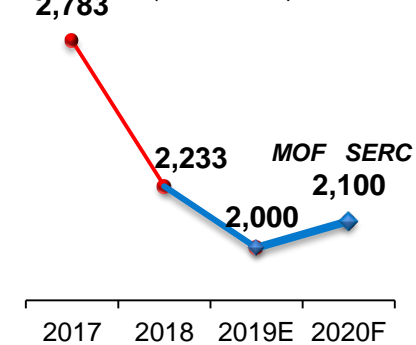
Unemployment Rate (%)



Brent Crude Oil Prices (US\$/barrel)



Crude Palm Oil Prices (RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC

Sources of GDP growth: DEMAND and SUPPLY side

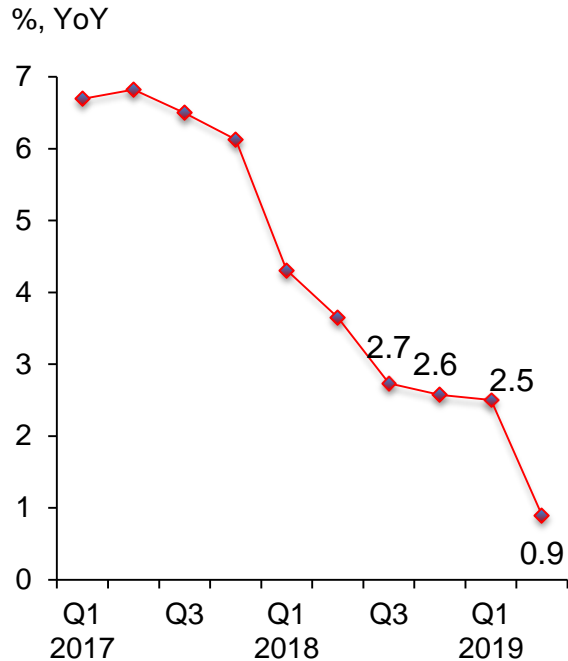
- **Private consumption remains resilient**; public investment will decline marginally in 2020.
- All economic sectors are expected to register **positive growth** in 2020.

<i>% growth, 2015=100</i>	2017	2018	2019 1H	2019E (MOF)	2019E (SERC)	2020F (MOF)	2020F (SERC)
GDP by demand component							
Private consumption (58.1%)	6.9	8.0	7.7	6.8	7.2	6.9	6.7
Private investment (16.8%)	9.0	4.3	1.2	1.5	1.3	2.1	2.5
Public consumption (12.1%)	5.5	3.3	3.2	2.0	2.7	1.5	2.0
Public investment (6.5%)	0.3	-5.0	-11.3	-8.1	-8.9	-0.6	-1.0
Exports of goods and services (64.3%)	8.7	2.2	0.1	-0.4	-0.7	1.4	1.2
Imports of goods and services (56.7%)	10.2	1.3	-1.8	-2.1	-1.6	1.9	1.0
GDP by economic sector							
Agriculture (7.3%)	5.8	0.1	4.9	4.3	4.6	3.4	2.5
Mining & quarrying (7.3%)	0.4	-2.6	0.3	0.6	0.5	0.3	0.8
Manufacturing (22.2)	6.0	5.0	4.2	4.0	4.4	4.1	3.9
Construction (4.7%)	6.7	4.2	0.4	1.7	0.8	3.7	1.5
Services (57.5%)	6.2	6.8	6.3	6.1	6.1	6.2	6.0
Overall GDP	5.7	4.7	4.7	4.7	4.7	4.8	4.5

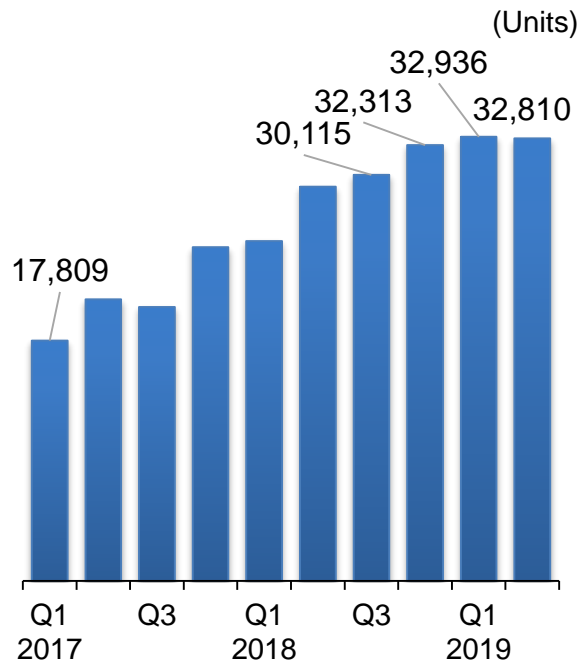
Figure in parenthesis indicates % share to GDP in 2019E
Source: DOSM; MOF

Property overhang continues to rise

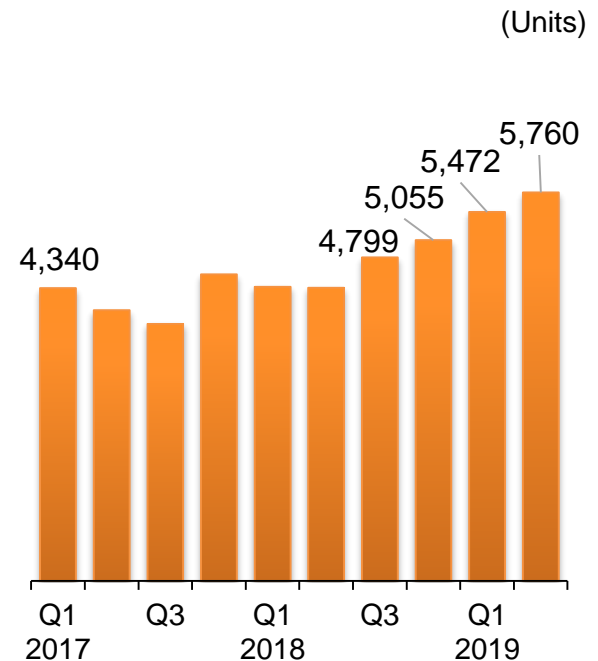
House price index slows further in 1Q19, marking seven consecutive quarters of easing



Overhang in residential properties surge new highs



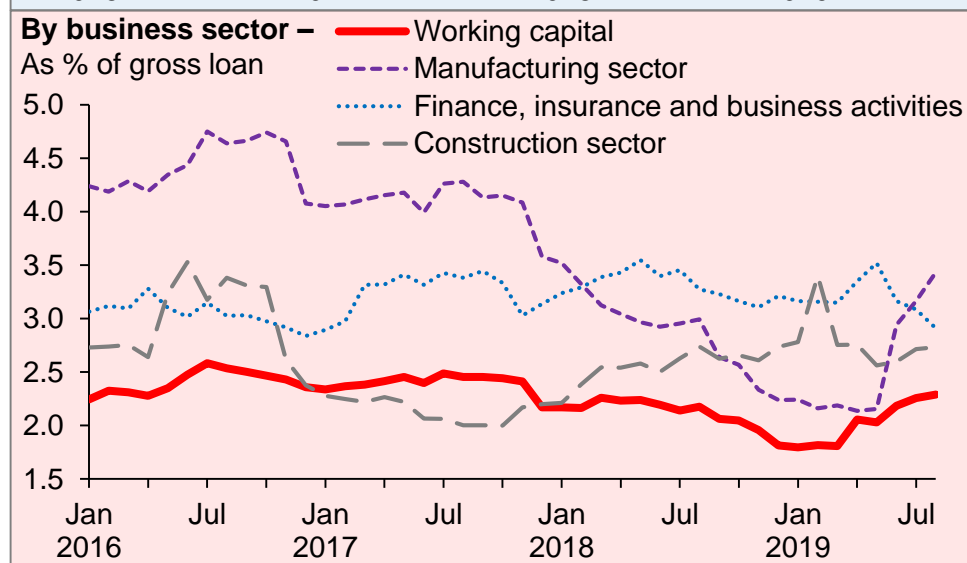
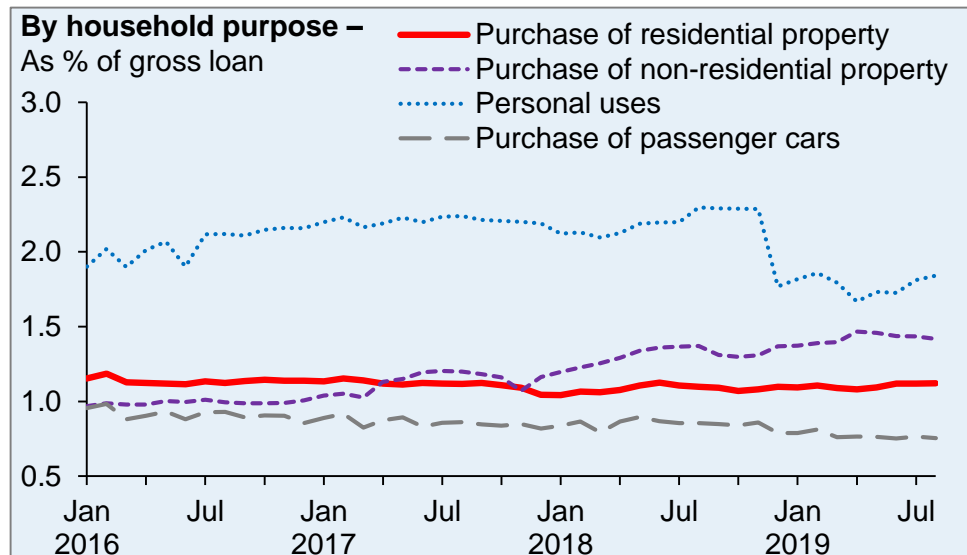
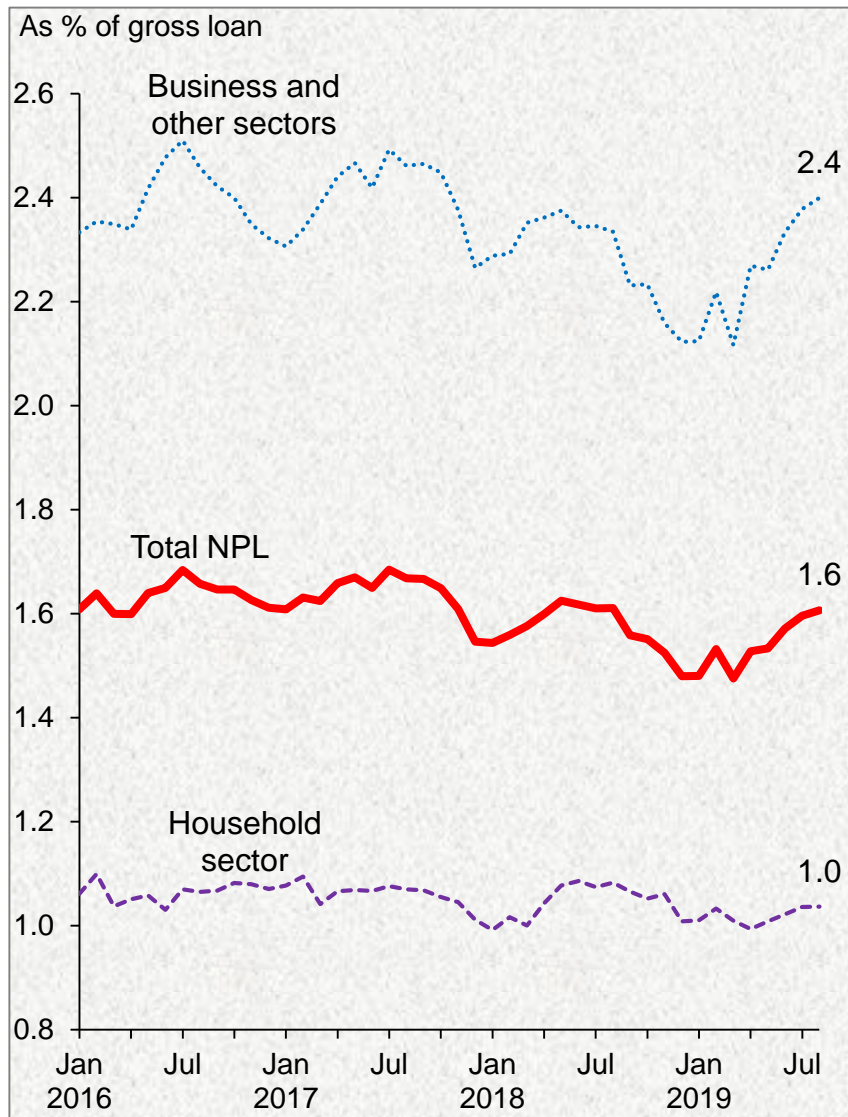
Further rise in overhang commercial properties



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

Source: NAPIC

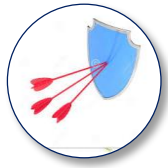
Non-performing loans (NPL) seen ticking up



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

Source: BNM

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 August 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 (90.3% to total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 152.2%.



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.**

Section 5

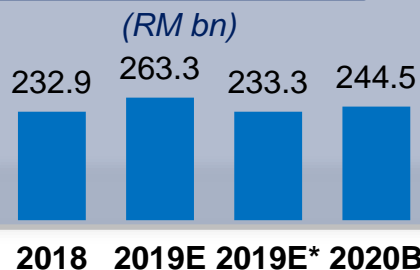
2020 Budget Impact

Expansionary yet responsible



2020 BUDGETARY OPERATION snapshot

REVENUE

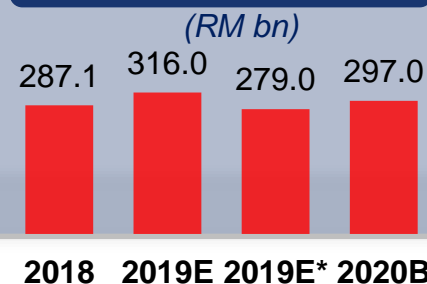


-7.1% from 2019E

+4.8% from 2019E*

* Excludes a one-off PETRONAS special dividend of RM30bn

EXPENDITURE

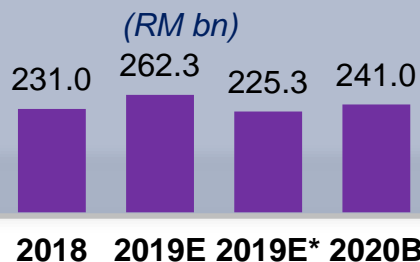


-6.0% from 2019E

+6.5% from 2019E*

* Excludes a one-off tax refunds of RM37bn

OPERATING EXPENDITURE



-8.1% from 2019E

+7.0% from 2019E*

* Excludes a one-off special tax refunds of RM37bn

DEVELOPMENT EXPENDITURE



+4.3% from 2019E

2018 2019E 2020B

Proposed fiscal measures for 2020 – Main focuses



Spurring Private Investment through Enhancing Competitiveness



Gearing up for Digitalisation & Industry4WRD



SME Financing & Entrepreneurial Development



Supporting Agriculture Sector



Jobs Creation and Upskilling of Workforce



Driving Tourism - Visit Malaysia Year 2020



Promoting Access to Housing & Ease Property Overhang



Affordable Healthcare in An Inclusive & Caring Society



Enhancing the Transportation Ecosystem



Enhancing Research & Development (R&D) Framework



Easing Cost of Living



Empowerment of Bumiputera Agenda



Narrow Rural-Urban Divide and Regional Development

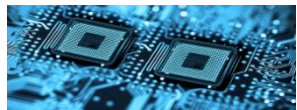
2020 Budget's overall impact – Mildly positive



- **Positive** – SMEs, Construction, Housing, Tourism (VMY2020), Telcos and services providers (National Fiberisation & Connectivity Plan – RM21.6bn over five years), plantation (palm oil and rubber), exporters (matching grants and Market Development Grant)



- **Unemployed youth, graduates, women** – RM6.5bn Malaysians@ Work initiative



- **Electronics and electrical sector** – Income tax exemption up to 10 years to services; special Investment Tax Allowance



- **Islamic finance** – Sukuk bonds market



- **Digitalisation and Industry4WRD** – Accelerated Capital Allowance (ACA) and automation equipment capital allowance; Smart Automation matching grants



- **Rural development** – RM10.9 billion allocation on rural electrification, roads, water projects, Pan-Borneo Highway project. Sabah will receive RM5.2 billion and RM4.4 billion for Sarawak





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

谢谢
THANK YOU

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