



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

MEA Webinar on
2022 BNM Governor's Address & Panel Discussion

Is Malaysia in for Multi-faceted Shocks?

Lee Heng Guie
Executive Director

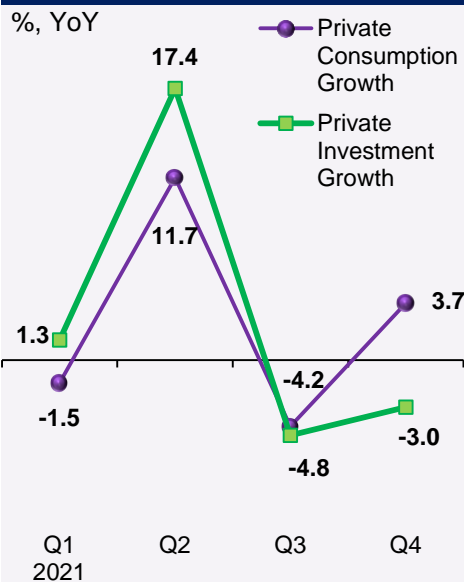
31 March 2022

The Malaysian economy is on the recovery path

Real GDP growth



Private consumption & Investment



Gross export and import growth



Cautious optimism transitioning into endemic phase



Transition from pandemic to endemic phase



Reopening of international borders



Recovery in the tourism-related services sectors

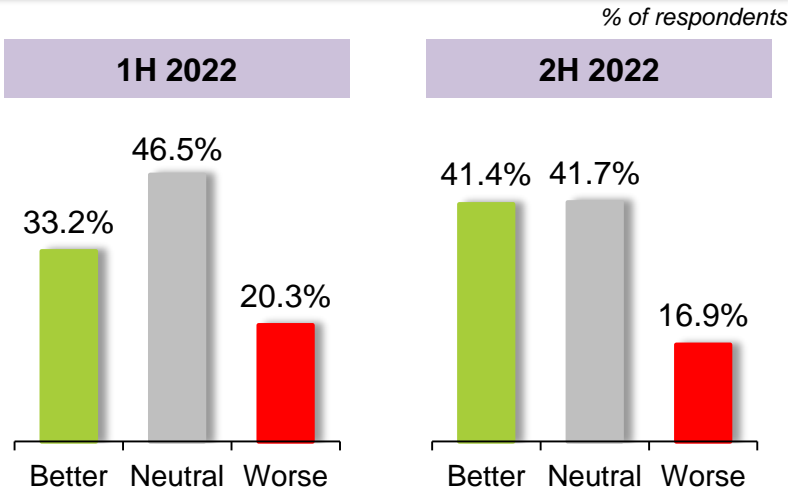
Risks: Global monetary tightening; trade friction; stagflation; climate change; geopolitical

Cautiously optimistic outlook for economy and business

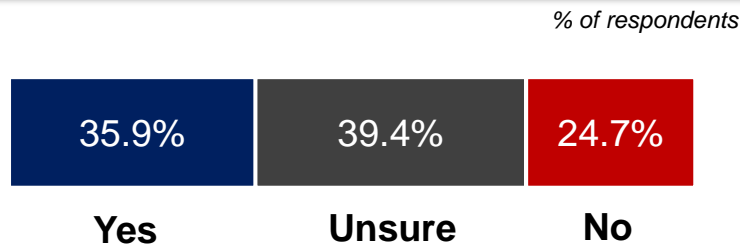
ACCIM M-BECS (2H 2021 and 1H 2022F): 807 respondents

Survey period: 25 October 2021 – 31 December 2021

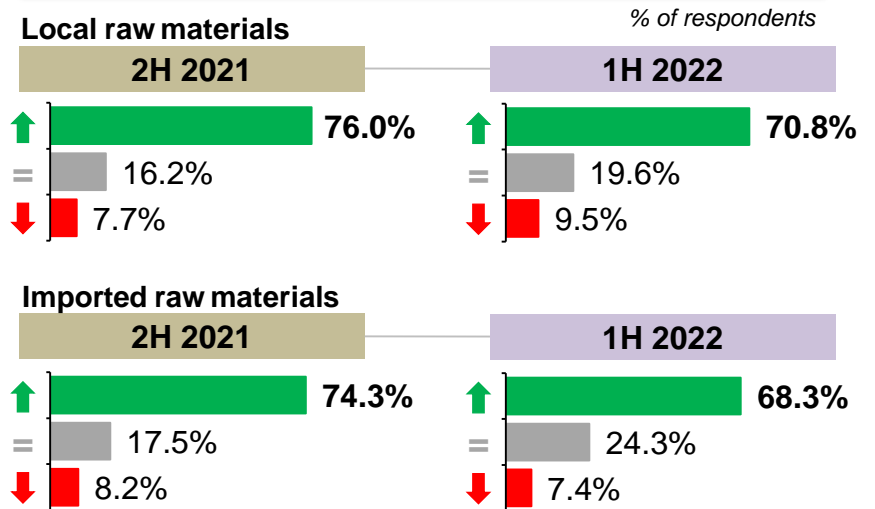
Economic prospects



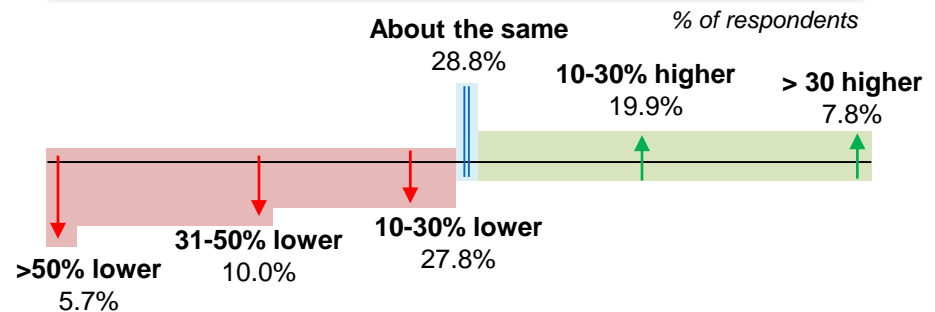
Are you still confident of an economic recovery in 2022?



Cost of Raw Materials



Business Sales Performance compared to pre-pandemic level...



Assessing the risks to global and domestic economy

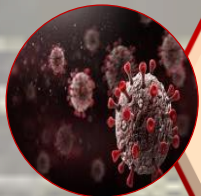
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1. COVID contortions

WHO:

- **Likely scenario:** Severity of virus wane over time due to public immunity
- **Best-case:** Less severe variants emerge; no need boosters and new vaccines
- **Worst-case:** New & more deadlier variant



2. An end to super cheap money

- Higher for longer inflation
- Tighter monetary policy
- Induced asset price adjustment; trigger financial volatility

4. Slowing China economy

- Real estate woes; crack down on risky debt; tougher pollution measures
- Zero COVID approach
- Restrictive consumer demand



3. Costs and inflation pressures

- High prices of energy, commodity and industrial materials
- Supply chain disruptions
- Shortage of workers



5. Geo-political and political risk

- Duration of Russia's invasion of Ukraine
- US-China relations
- Lingering concerns over domestic political condition



Malaysia's coping with Russia-Ukraine war and oil shock

A. GLOBAL ECONOMY



Russia: 1.8% of world GDP

- Negative supply and oil shocks; a double-blow to the global economy
- Harsh sanctions may hit the European countries
(25% of oil and nearly 40% of gas from Russia)

Russia



Ukraine



Nearly
 $\frac{1}{4}$



global exports

World's largest
supplier of
wheat



**Higher
business
costs and
consumer
inflation**

Oil and gas; wheat;
corn; soybean;
industrial materials

Worsening
global supply
chains

**Persistent
volatility**

- Stagflation, recession risk
- Global financial and foreign exchange markets
- Energy and commodities market



B. THE MALAYSIAN ECONOMY

External trade

Muted impact

Russia-Ukraine's war:

Total external trade: 0.4% (Exports: 0.3%; Imports: 0.5%)



Financial market

Spillover transmission through the global financial markets



Financial market may experience volatility

Flight to quality as investors lighten their portfolio

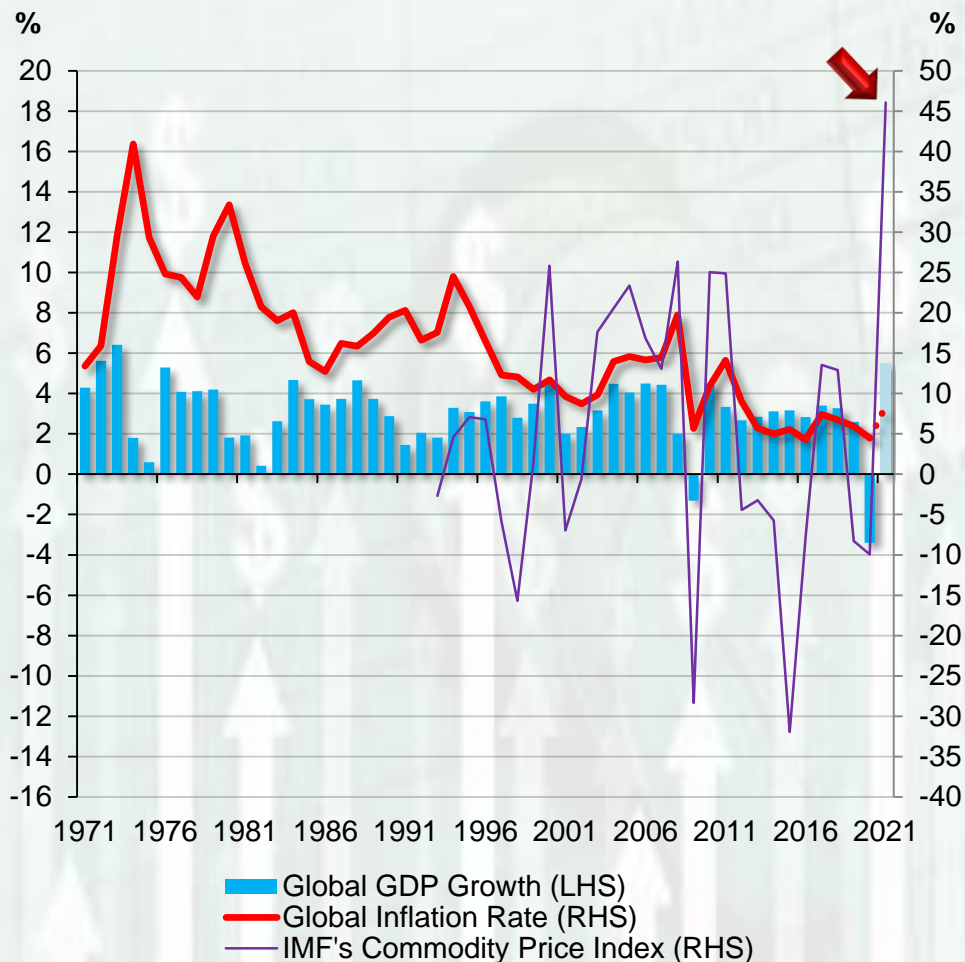


Ringgit would take a hit

- Higher oil-related revenue will be offsetting by **bloated fuel subsidies** and possibly other subsidies (cooking oil, fertilisers, food etc)
- Higher prices on wheat, corn and chemical fertilisers → **costlier animal feed, fertilisers and flour**



Global stagflationary pressures are now a serious risk



Source: World Bank; International Monetary Fund (IMF)



Globally...

- High and longer inflation in advanced economies (US: 40-year high at 7.9% in Feb; Eurozone: record high at 5.9% in Feb)
- New supply shock layered on top of old supply shock
- The US Fed embarks on interest rate tightening
- The risk of monetary policy mistakes could cause the next recession in the US



Malaysia ...

- Core inflation trending up
- First round price increases; second round may ensue from higher minimum wage and also if fuel subsidy rationalisation kicks in
- BNM's monetary stance: Balance between supporting growth and anchor inflation expectations

Reform beyond pandemic



Anchor Inflation Expectations

- Increasing business costs and margin squeezed → bigger pass-through
- Fuel price inflation triggered ???
- Prolonged period of low interest rate can lead to financial imbalances, overvalued asset prices and undervalued risks, misallocation of resources and credit



Supply Disruptions and Elevated Costs

- Persistent supply chain disruptions
- Increasing prices of raw materials
- Shortage of workers
- Increase in minimum wage, implementation of multi tiered-levy on FWs
- Impact of rising prices of building materials on construction projects



Rebuilding Fiscal Space

- The Fiscal Responsibility Act – Fiscal governance, transparency and accountability
- The Government Procurement Act ???
- Operating expenditure rationalisation – Fuel subsidy; cash assistance program
- GST, investment incentives review

Policy



Gaps in Social Protection System; Aged Care Reforms

- Fragmented and duplication programs
- Better targeting, administration mechanism and effective delivery
- Conditional assistance program – “Exit” strategy
- Retirement savings crisis





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谢谢
THANK YOU

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