



**SERC**

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

**Quarterly Economy Tracker**  
**(Apr-Jun 2017)**

*Sustaining momentum*

**5 July 2017**

# Agenda

- **Global economy is gaining momentum**
- **A broadening base for domestic growth**
- **But, there are risks to the growth story**
- **Conclusion**

# Key messages

## The global economy is in a “synchronized recovery”

- A broad-based economic upswing
- Entrenching the recovery calls for a delicate balancing-act between monetary and fiscal policy
- Avoid policy missteps

## But, risks remain

- Be wary of political developments, policy, regulatory and geopolitical risks
- Inward-looking policies, UK Brexit negotiations and the Gulf crisis
- Tighter global financial conditions arising from higher US interest rates
- China’s build-up of debt is of an enduring concern

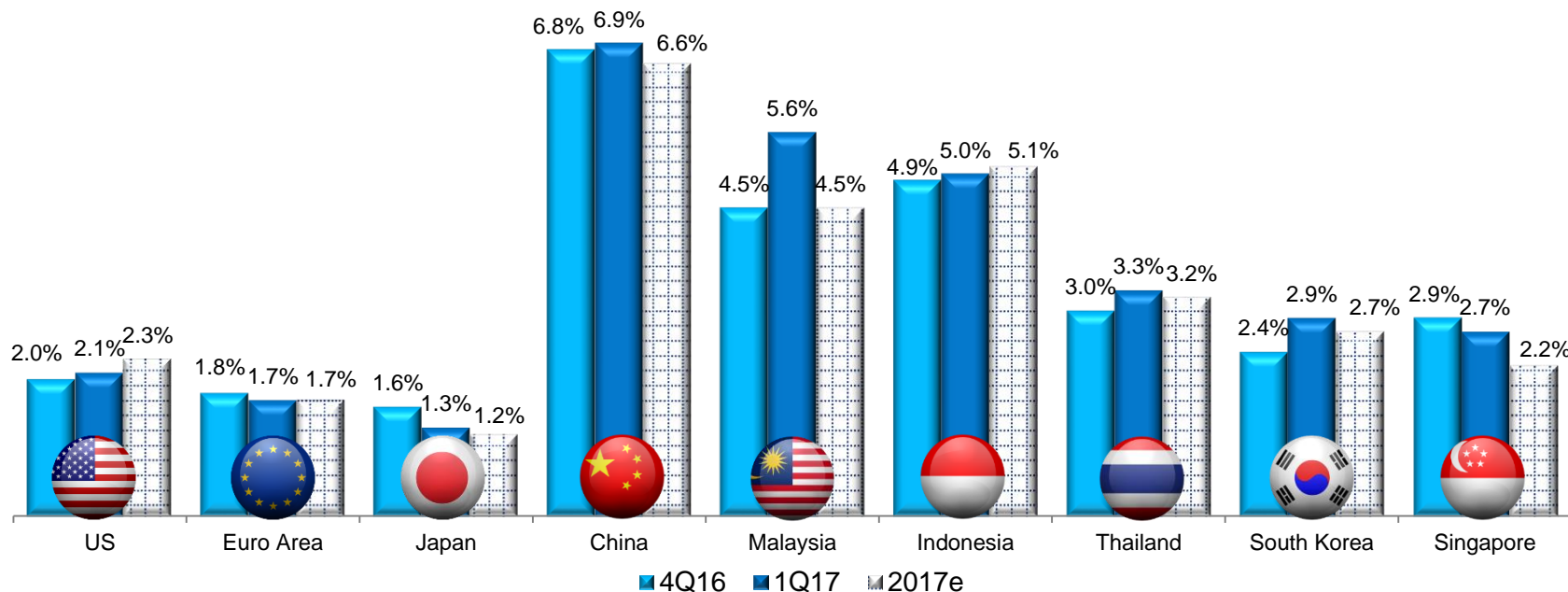
## Malaysia: Policy balancing to sustain growth & preserve economic resilience

- Stay on the path of fiscal consolidation to build fiscal space and contain debt
- Carefully calibrate monetary policy to anchor growth amid financial volatility
- Continued vigilance on financial risks through macroprudential measures
- Leveraging on productivity, innovation and digitalisation

# Global economic activity expansion continues

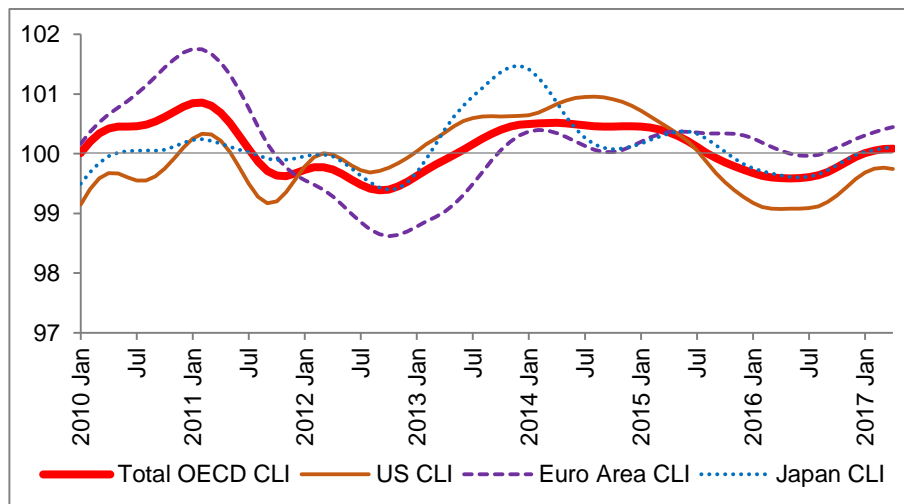
- Growth is becoming more synchronised.
- The IMF raised 2017's global growth estimate to 3.5% from 3.4% previously while keeping 2018's at 3.6% (3.1% in 2016).
- Industrial activity, exports and global trade have picked up.
- Sustained domestic demand and stronger exports underpinned growth in Asia.

Real GDP growth (% YoY)

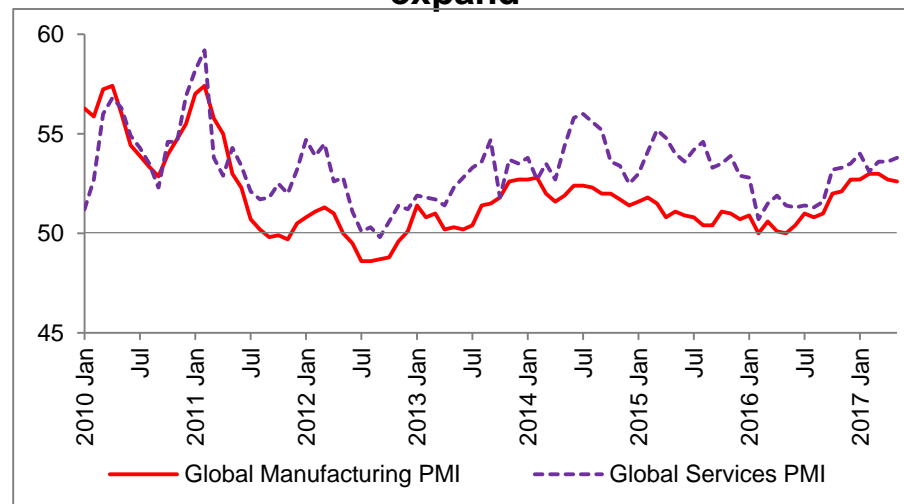


# Global activity indicators gaining momentum

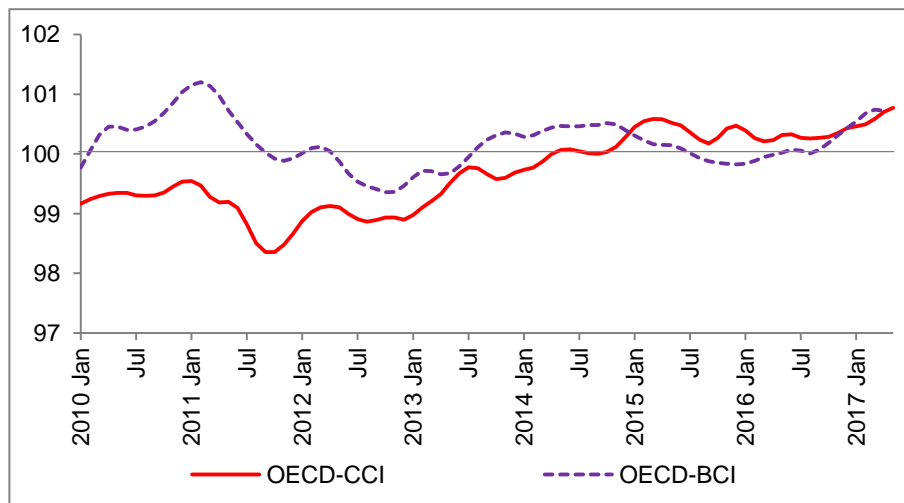
## OECD CLIs show stable growth momentum



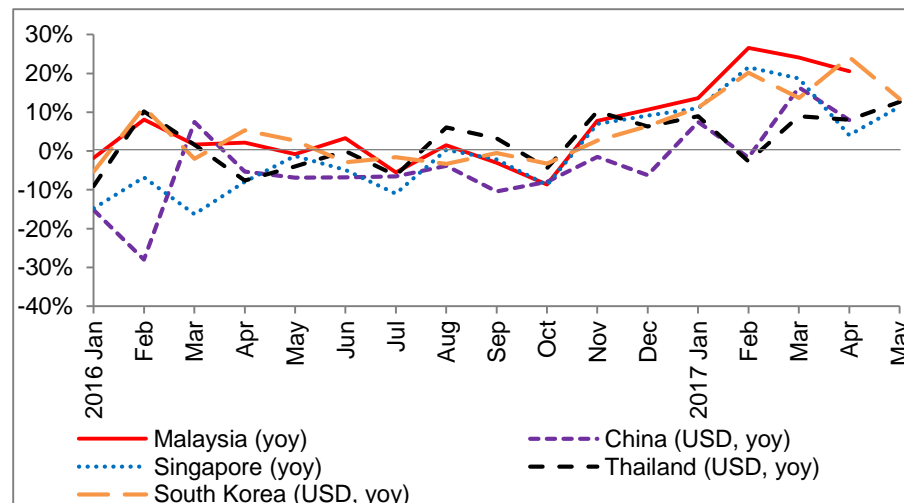
## PMI for manufacturing & services continued to expand



## Rising consumer and business confidence



## Regional exports in a synchronized recovery

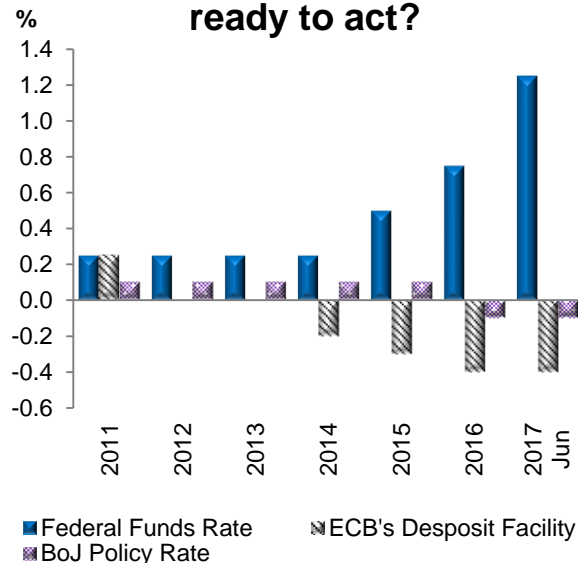


Source: OECD; Markit, DOS, Malaysia; NBS China; Singapore DOS; Bank of Thailand; MOTIE Korea

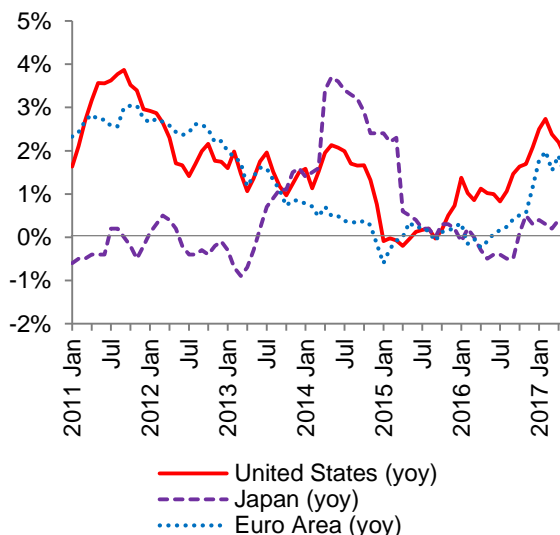
# Global central banks signal an end to easy-money era?

- Central banks' hawkish comments signal the beginning of the end of ultra-loose monetary policy.
- Headline inflation have generally risen amid the uneven pace of oil prices.
- The Fed still on course for the third rate hike this year; will begin to pare down its balance sheet if the conditions were right.

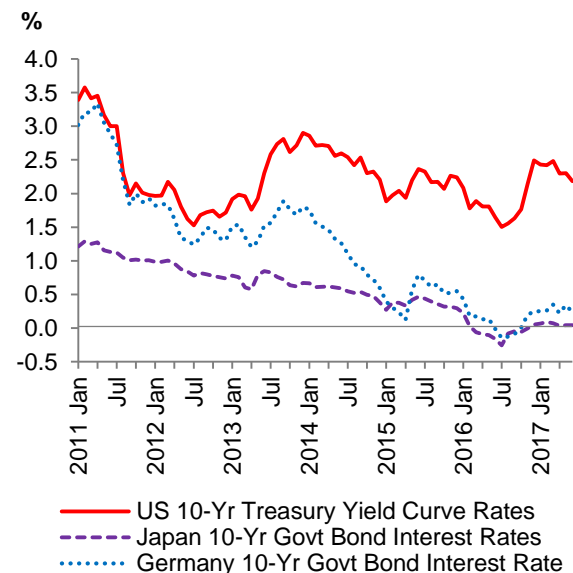
**The Fed's rate hike cycle continues; Is BoJ and ECB ready to act?**



**Inflation eased after 1Q17**



**Higher bond yields differential in 2017**



Source: Federal Reserve; ECB; BoJ; U.S. BLS; Eurostat; Statistics Bureau, Japan; U.S. Department of the Treasury; MOF, Japan

# What could trigger another financial crisis?

## Market valuations

- The stock market value is nearly 150% higher than the nation's GDP (WB)
- S&P 500 is trading at 25x trailing 12-month earnings (historical average of 16)
- 83% of FM said the US stocks are overvalued (BoA)

## Fading hopes

- Policy outcomes fall short of expectations or fizzled out
- Rising US interest rates cause reassessment of price-earnings that could send asset prices instability

## Bloated debt

- World debt at US\$215 trillion or 325% GDP
- Rising interest rates is a growing burden on debt-ridden emerging economies
- Canada and China would face the highest risk of a financial crisis, owing to elevated debt levels

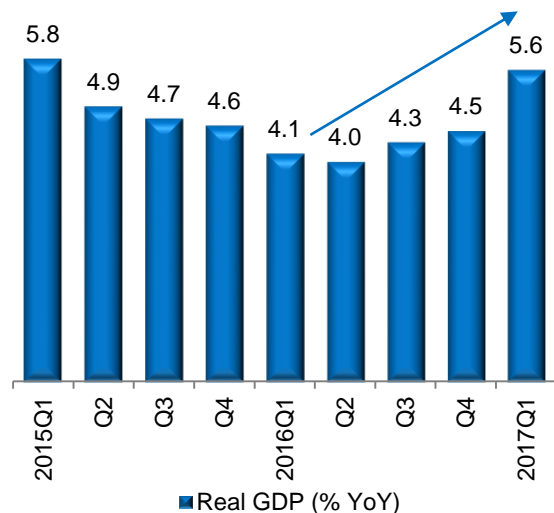
## Lack of financial oversight

- The impending rollback of the Dodd-Frank Act
- Create the circumstances for financial instability due to excessive risk-taking by banks and brokerages

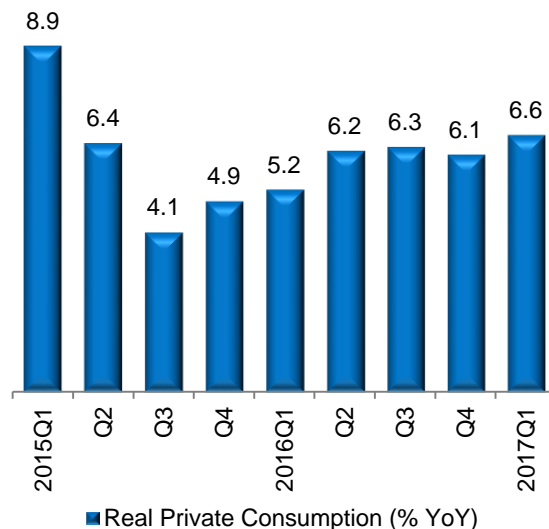
# The Malaysian economy gets to a roaring start in 2017

- Resilient consumer spending despite grappling with high cost of living and inflation.
- Stronger private investment growth, underpinned by capital spending in the manufacturing and services sectors.
- We have raised this year GDP growth estimate to 5.0% (4.3% previously) and 4.9% in 2018 (4.6% previously).

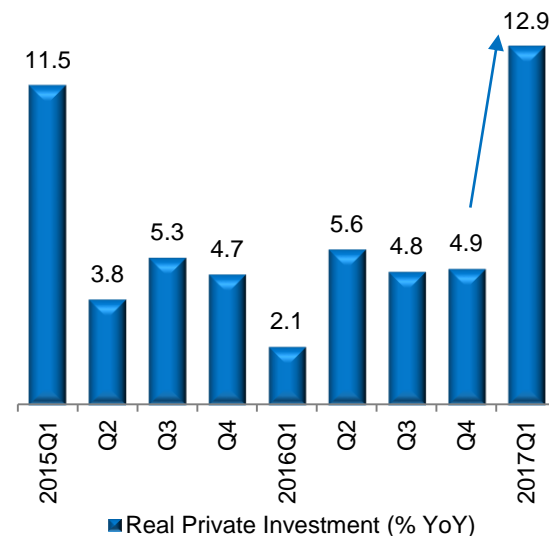
**1Q17's GDP growth higher than expected**



**Unrelenting private consumption growth**



**Private investment bounced back strongly in 1Q17**

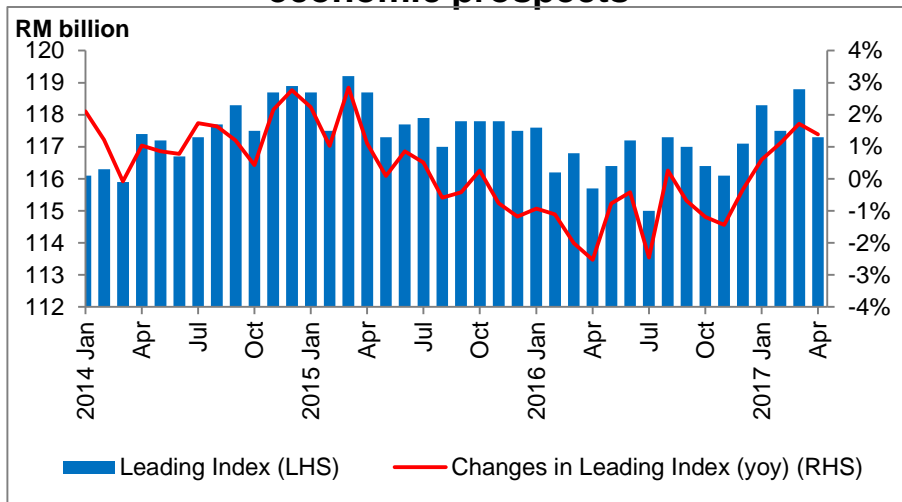


Source: Department of Statistics, Malaysia

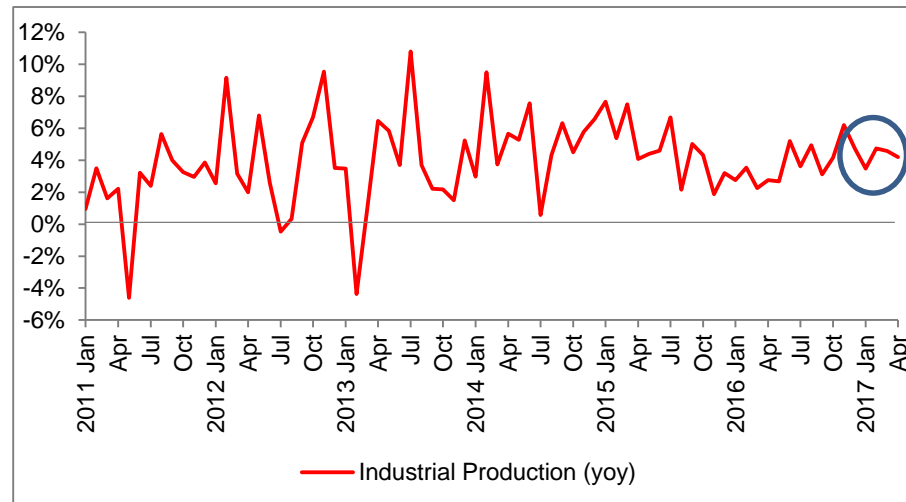


# Economic activity indicators show continued expansion

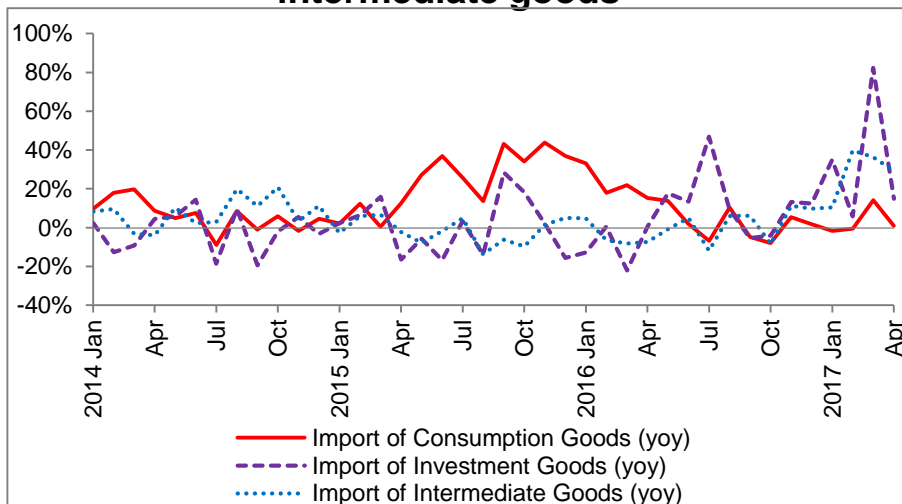
## Malaysia's leading index suggests positive economic prospects



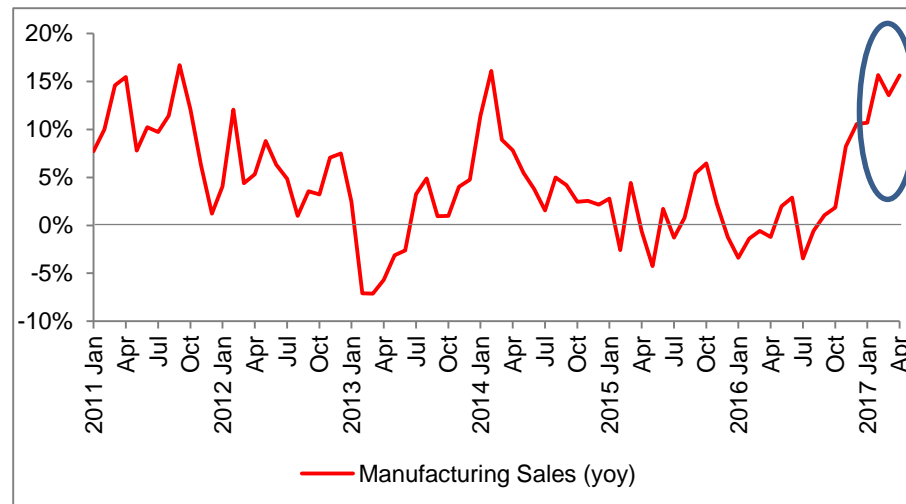
## Industrial production grew steadily



## Imports of consumption, investment and intermediate goods



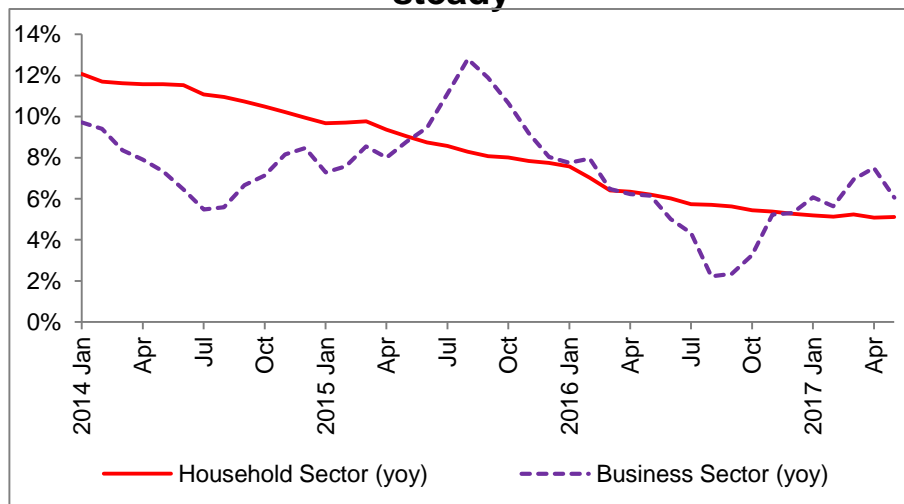
## Manufacturing sales trending higher



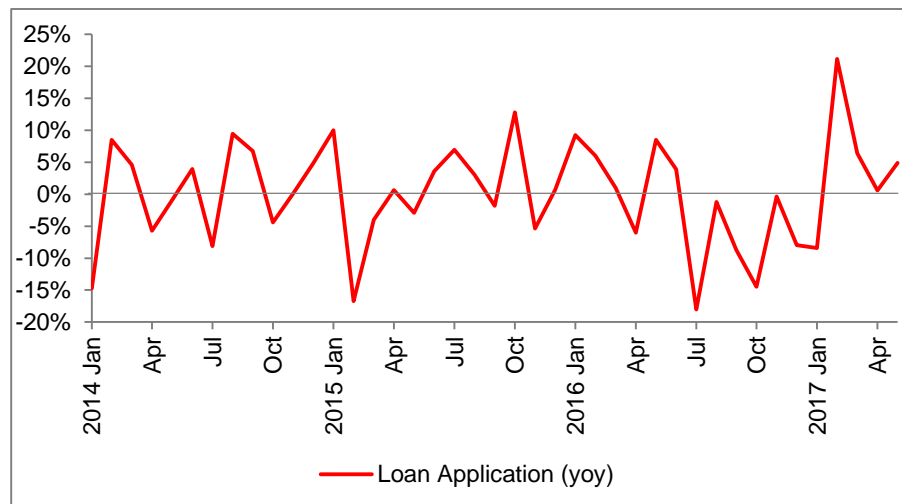
Source: Bank Negara Malaysia; Department of Statistics, Malaysia

# Household and business loan growth trend

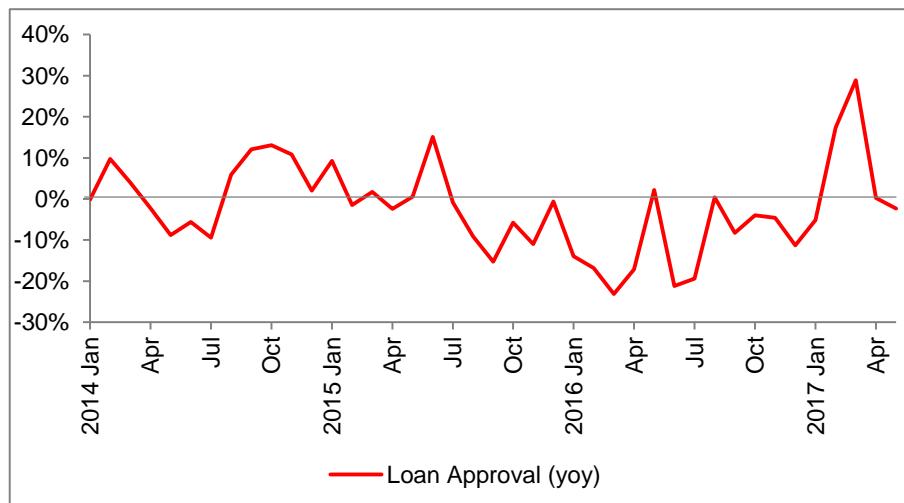
## Business loan growth eases; household loan steady



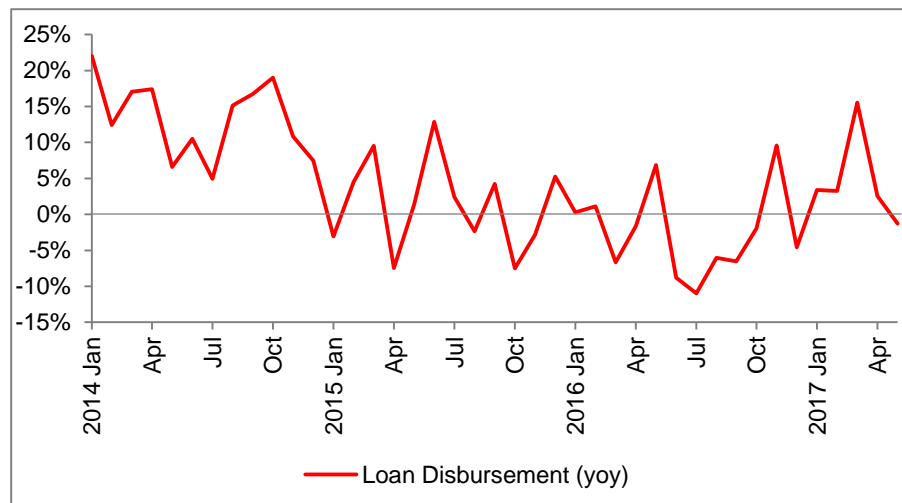
## Loan applications growth back to positive



## Loan approvals fell to negative in May



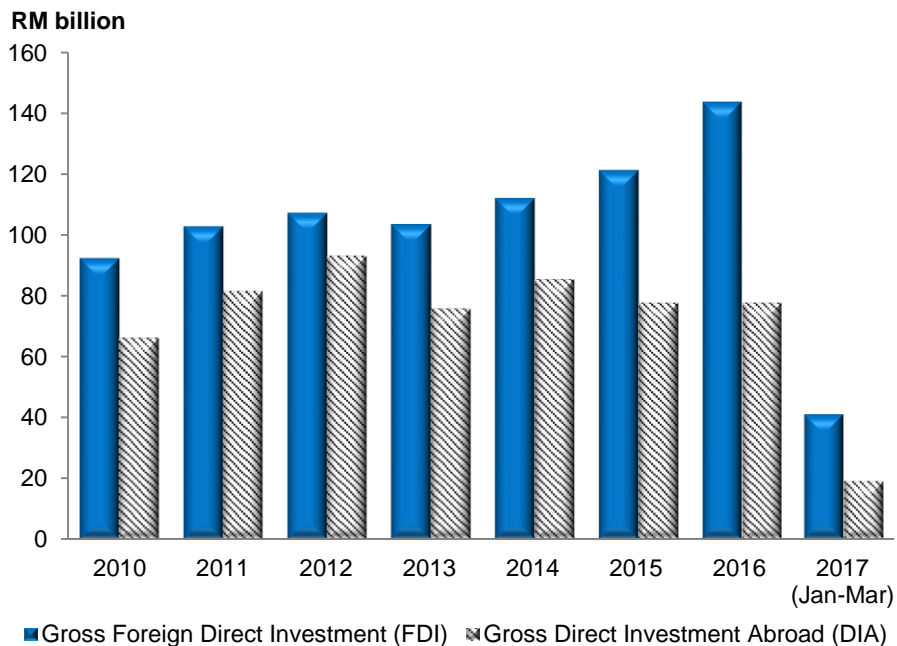
## Loan disbursements growth remains uneven



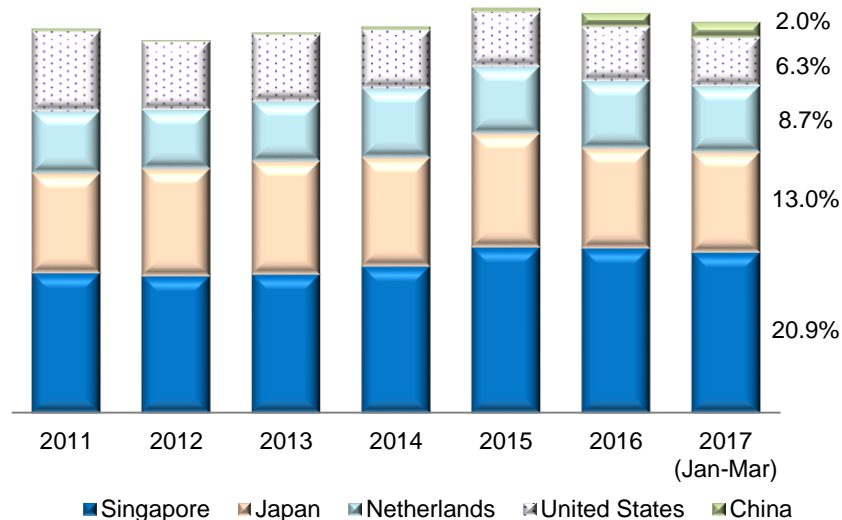
Source: Bank Negara Malaysia

# Foreign direct investment still flowing in despite headwinds

## Gross FDI is still higher than the Malaysia's investments abroad



## FDI stock in Malaysia: Diversified investors

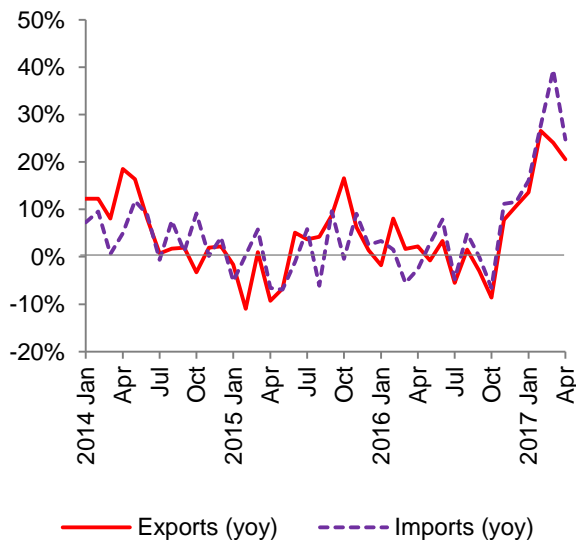


Source: Bank Negara Malaysia; MIDA

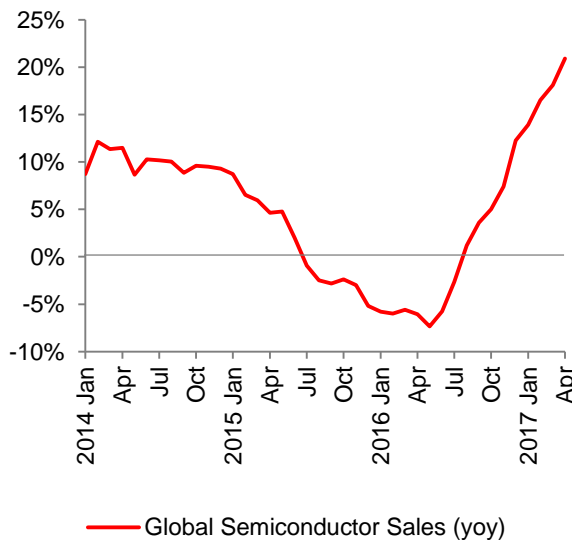
# Export engine fires up

- Gross exports growth estimate revised higher to 14.5% in 2017 (from 5.0% previously).
- Three fundamental drivers: improved global demand, tech demand and higher commodity prices. Base and weak exchange rate effects have inevitably played some part.
- Risks to global trade environment threatened by policy uncertainties associated with Trump's strong assertive of a free and fair trade policy, targeting at those countries running huge trade surpluses with the US.

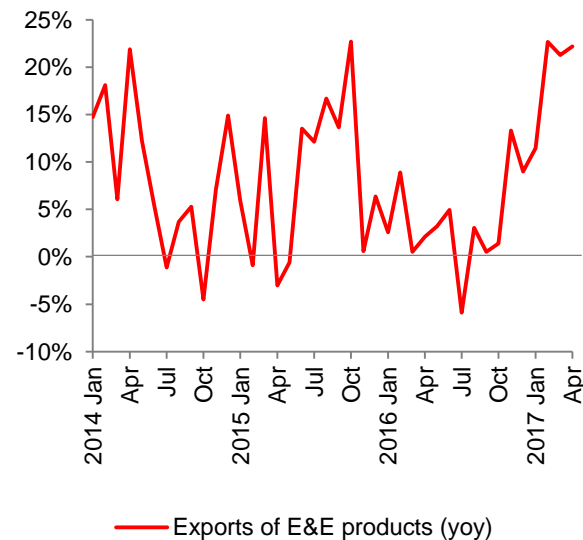
**1Q17's export growth strongest since 1Q10**



**Global semiconductor sales rose unabated...**



**... lifted higher exports of E&E products**



Source: Bank Negara Malaysia; Semiconductor Industry Association (SIA); Department of Statistics, Malaysia

# Sources of growth: Moving on two engines

- Domestic demand will continue to be the main driver of growth, underpinned primarily by private sector, aided by stronger exports.
- All economic sectors are expected to register positive growth.

% change, 2010=100	2014	2015	2016	2017 1Q	2017f (BNM)	2017e (SERC)
<b>GDP by demand component</b>						
Private consumption (54.0%)	7.0	6.0	6.0	6.6	6.0	6.2
Private investment (16.8%)	11.1	6.3	4.3	12.9	4.1	8.9
Public consumption (12.5%)	4.3	4.4	0.9	7.5	-0.2	6.3
Public investment (8.3%)	-4.7	-1.1	-0.5	3.2	1.5	2.8
Exports of goods and services (68.4%)	5.0	0.3	1.1	9.8	2.2	7.9
Imports of goods and services (60.3%)	4.0	0.8	1.1	12.9	1.8	10.2
<b>GDP by economic sector</b>						
Agriculture (8.0%)	2.0	1.3	-5.1	8.3	4.0	5.0
Mining & quarrying (8.7%)	3.3	5.3	2.2	1.6	2.7	1.3
Manufacturing (22.9%)	6.1	4.9	4.4	5.6	4.3	5.7
Construction (4.7%)	11.7	8.2	7.4	6.5	8.0	8.3
Services (54.4%)	6.6	5.1	5.6	5.8	4.9	5.2
<b>Overall GDP</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>5.6</b>	<b>4.3-4.8</b>	<b>5.0</b>

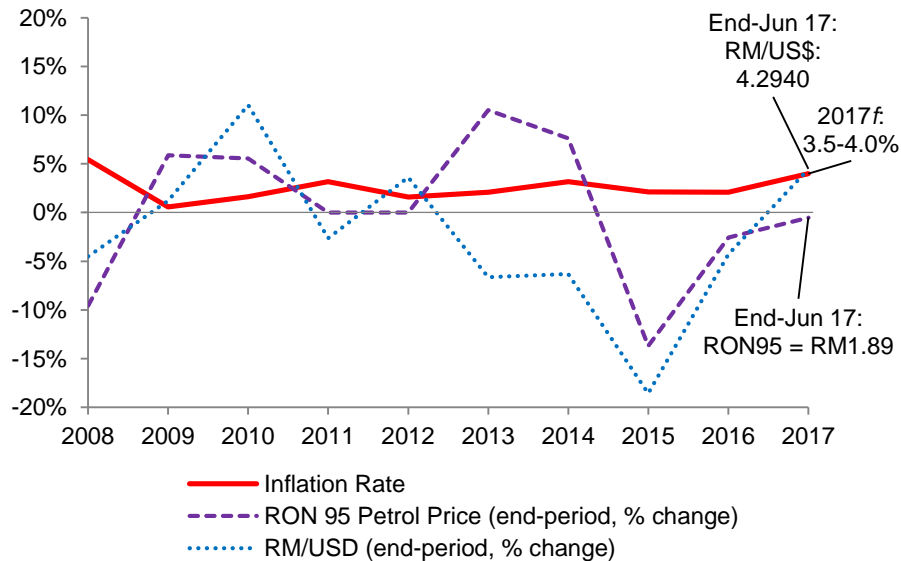
Source: Bank Negara Malaysia; SERC

\* % Share to GDP of 2017 from BNM

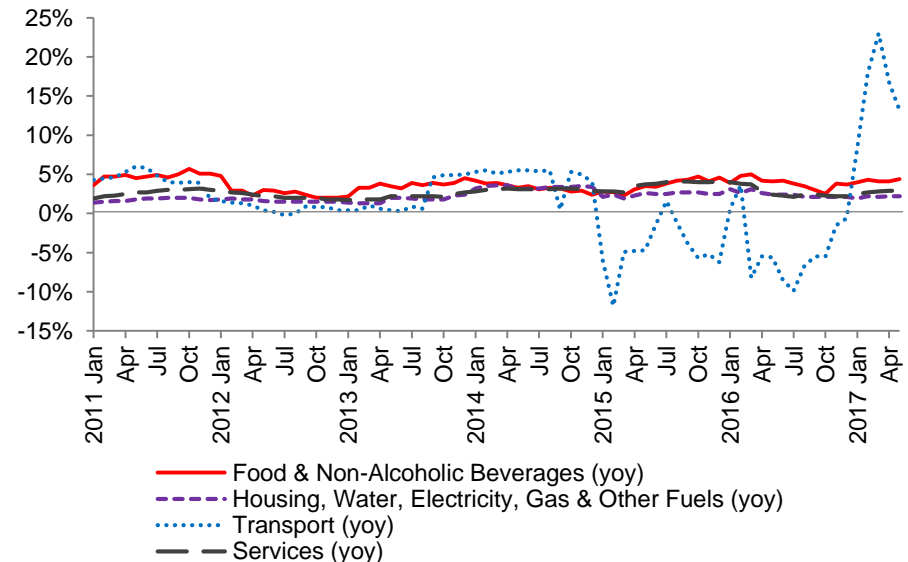
# Headline inflation will moderate...

- Headline inflation decelerated to 3.9% yoy in May (4.4% in April; 4.3% in 1Q17), thanks to moderating transport prices.
- Though the headline inflation readings will moderate in 2H17, the pace of price increases will depend on the volatile global crude oil prices.
- We estimate inflation to increase by 3.5-4.0% in 2017, with an average increase of 4.0-4.2% in 1H before moderating to 3.0-3.5% in 2H.

## Fuel price & exchange rate changes vs. inflation



## Fuel prices moderated since reaching the peak in March



Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC

# BNM to carefully calibrate monetary policy

## Wary of global environment

- Risks to global growth arising from threats (protectionism, geopolitical developments, and commodity price volatility)
- Reignite financial market volatility, including exchange rates

## Risks to growth 'broadly balanced'

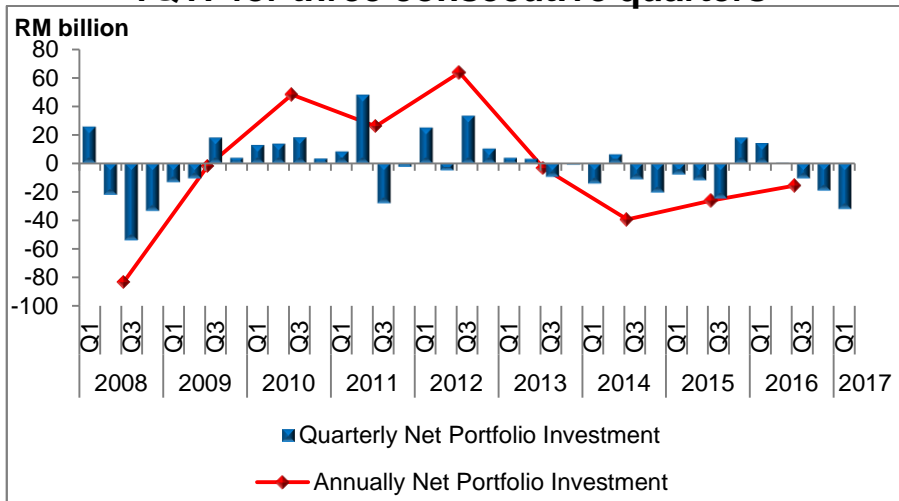
- Reaffirm monetary policy is accommodative and supportive of economic activity
- Assess the balance of risks between domestic growth and inflation
- Cost-induced inflation pressure to ease
- Household debt remains high though the debt to GDP eased to 88.4% at end-2016 (89.1% at end-2015)

OPR	3.50%	3.25% ↓	2.00% ↓	2.75% ↑	3.00% ↓	3.00% =	3.25-3.50% ↑
	2007	2008	2009	2010	2016	2017f	2018f
GDP	6.5%	4.7% ↓	-1.7% ↓	7.4% ↑	4.2% ↓	5.0% ↑	4.9% ↓
Inflation	2.0%	5.4% ↑	0.6% ↓	1.6% ↑	2.1% =	3.5-4.0% ↑	3.0-3.5% ↓

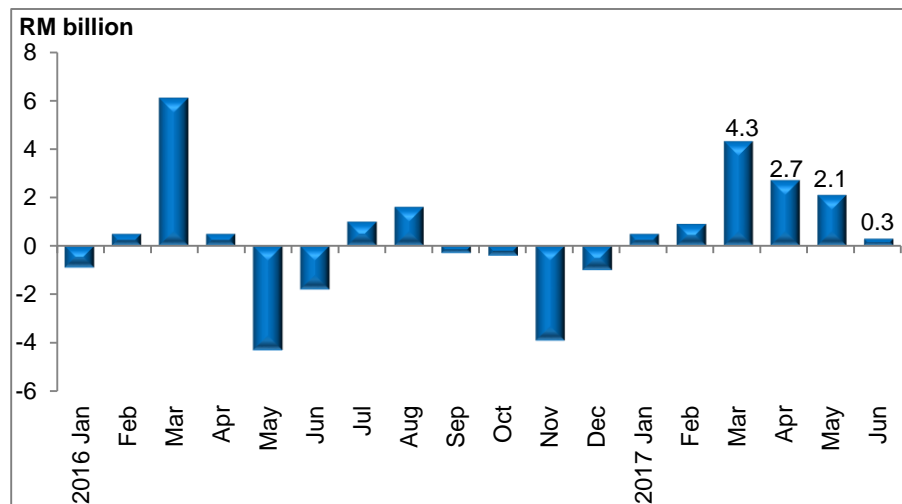
**BNM will face a tough yet decisive balancing act if the Fed takes more aggressive run of rate increases ahead**

# Capital inflows are returning to bonds and equities

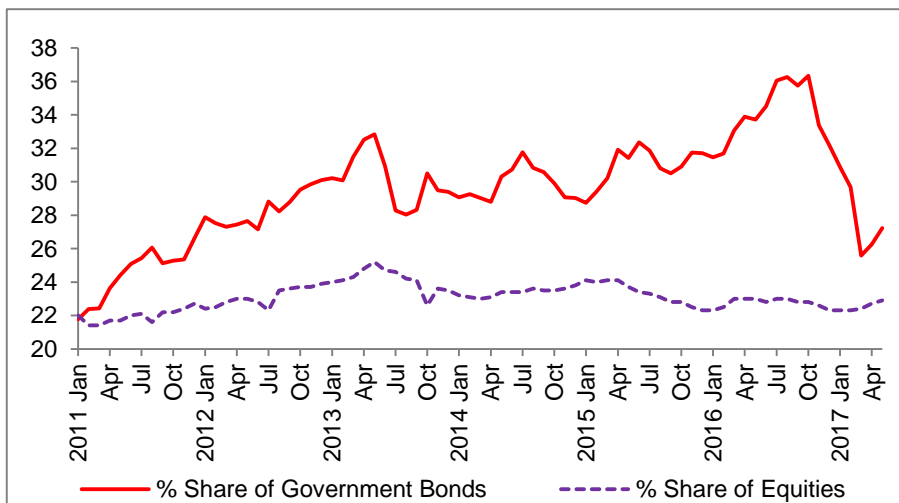
Net portfolio investment outflows continued in 1Q17 for three consecutive quarters



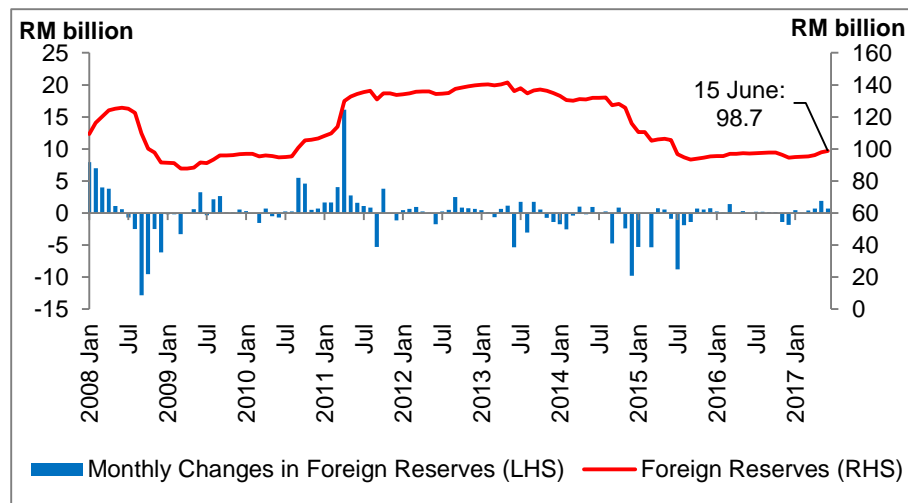
Continued net foreign buying of equities, albeit lower



Foreign shareholding of equities and gov't bonds



Foreign reserves rise steadily since end-2016

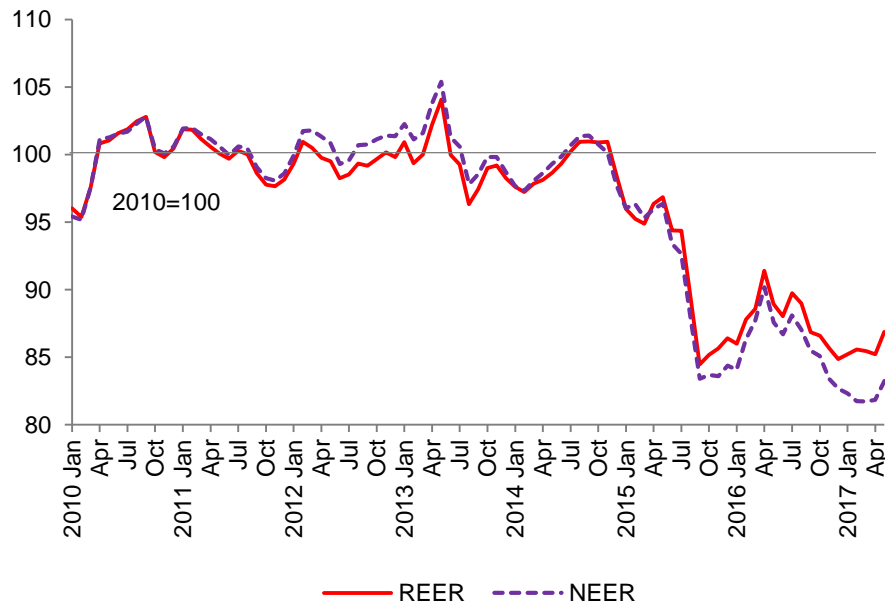


Source: Bank Negara Malaysia; Bursa Malaysia

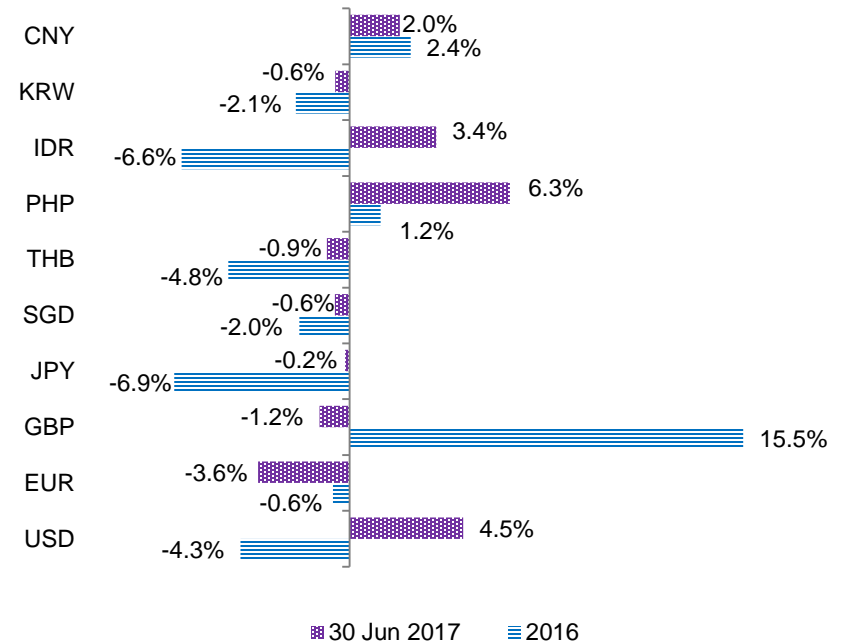


# Ringgit continues to stabilise but headwinds remain

Effective exchange rates of ringgit have been stabilizing and potentially recovering



The ringgit appreciated against USD and CNY but depreciated against EUR, GBP, THB and SGD



Source: Bank of International Settlements; Bank Negara Malaysia

# Policy balancing to sustain growth & preserve economic resilience

## Stay on the path of fiscal consolidation to build fiscal space and control debt

- Near-balanced fiscal budget by 2020 remains challenging
- Relatively high federal debt and contingent liabilities would limit fiscal space
- Further expenditure rationalization (public sector pension reform & rightsizing of civil service); identify areas of savings, including duplication of programs
- Continuous monitoring of contingent liabilities (End-2016: RM187.3 billion or 15.2% of GDP)

## Carefully calibrate monetary policy and exchange rate policy

- To anchor growth while mindful of global financial conditions
- While monetary space remains, global financial conditions could affect the space
- The onshore ringgit stabilization measures have bolstered resilience to external shocks
- Discourage offshore NDF is consistent with BNM's long standing policy of non-internationalization of the ringgit

# Policy balancing to sustain growth & preserve economic resilience

## Continued vigilance on financial risks through macroprudential measures

- Relatively high household debt (End-2016: 88.4% of GDP) remains a key vulnerability that requires careful monitoring
- House price growth has moderated to 5.5% as at 4Q16 from 11.8% in 2012 for four consecutive years
- The risk of a sharp decline in house prices should be carefully monitored

## Leveraging competitiveness, productivity and innovation

- Mitigate increasing cost of doing business, ease regulatory burden
- Create a conducive ecosystem to harness a digital and connected economy
- Leverage on technology and innovation to increase knowledge-based capital investment and raise productivity
- High value creation manufacturing and services

# 2018 Budget should focus on



**Responsible Fiscal and Debt Management**



**Building A Framework for Competitiveness**



**Addressing High Cost of Doing Business**



**Shaping A Connected and Innovative Economy**



**Boosting Export Potential and Capacity Expansion**



**A Caring and Inclusive Society**

# Conclusion

- 1) The Malaysian economy continues to stay on positive track (estimated 5.0% in 2017 and 4.9% in 2018 vs. 4.2% in 2016).
- 2) The growth is broad-based, firing on twin engines: Domestic demand, especially private sector expenditure and strengthening external demand.
- 3) Monetary policy must be well calibrated to support growth and anchor inflation expectations while mindful of global financial conditions. BNM's policy rate will remain steady at 3.00% this year.
- 4) While the ringgit has continued to stabilize, headwinds remain emanating from the potential risks associated with the monetary policy tightening, political development in advanced economies as well as geopolitical tensions.
- 5) Policy balancing to sustain growth and preserve the resilience of economy.

**Press Conference on  
SERC's Quarterly Economy Tracker  
Second Quarter of 2017**

**Q & A**



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谢谢  
THANK YOU

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