

Expanding amidst contraction? Malaysian macro economic policies & performance in 2011-12

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Weaker Global Recovery Ahead

| GLOBAL REAL GDP GROWTH RATES Y-O-Y (%) | | | | | | |
|--|------|----------|----------|------------|---------|---------|
| Country | IMF | | | World Bank | | |
| | 2010 | 2011 (f) | 2012 (f) | 2010 | 2011(f) | 2012(f) |
| US | 2.8 | 3.0 | 2.7 | 2.8 | 2.8 | 2.9 |
| Euro area | 1.8 | 1.5 | 1.7 | 1.7 | 1.4 | 2.0 |
| Japan | 2.8 | 1.5 | 2.0 | 4.4 | 1.8 | 2.0 |
| China | 10.3 | 9.6 | 9.5 | 10.0 | 8.7 | 8.4 |
| India | 9.7 | 8.4 | 8.0 | 9.5 | 8.4 | 8.7 |
| ASEAN-5 | 6.7 | 5.5 | 5.7 | n/a | | |
| World Economy | 3.9 | 3.5 | 3.6 | 3.9 | 3.3 | 3.6 |

Source: IMF Data and Statistics (Jan 2011) The World Bank (December 2010)



Even East Asia growth will slow down...

High growth rate in 2010 is partly due to lower base of 2009. Achieving same or higher growth rate in 2011 is likely to be challenging.

| | 2009 | 2010 (est.) | 2011 (f) | 2012 (f) |
|---------------------|-------|-------------|----------|----------|
| GDP | 7.4 | 9.3 | 8.0 | 7.8 |
| Private Consumption | 7.2 | 8.9 | 7.4 | 7.3 |
| Public Consumption | 6.7 | 8.0 | 8.6 | 7.5 |
| Fixed Investment | 19.1 | 10.1 | 9.9 | 8.2 |
| Exports | -10.5 | 31.8 | 11.7 | 13.7 |
| Imports | -2.1 | 33.4 | 11.2 | 12.1 |
| EA excl China | 1.5 | 6.8 | 5.2 | 5.8 |
| China | 9.1 | 10.0 | 8.7 | 8.4 |
| Indonesia | 4.5 | 5.9 | 6.2 | 6.5 |
| Thailand | -2.3 | 7.5 | 3.2 | 4.2 |

Source: World Bank, Jan 2011

Trend of slowing economic growth

| Countries | Q210 | Q310 | Q410 | Growth 2010 |
|-------------|------|------|------|-------------|
| Malaysia | 8.9 | 5.3 | 4.9 | 7.3 |
| China | 10.3 | 9.6 | 9.8 | 10.3 |
| India | 10.3 | 11 | n.a | 9.1 (est) |
| Japan | 2.7 | 4.5 | 2.2 | 4.0 |
| Singapore | 19.5 | 10.5 | 12.0 | 14.9 |
| South Korea | 7.2 | 4.5 | 4.8 | 6.1 |
| Thailand | 9.2 | 6.6 | 3.8 | 7.9 |



How far is Malaysia from its growth target?

| | 2010 | 10 MP Target (2011-2015) |
|---------------------------------------|-------------|-----------------------------|
| GDP | 7.2 | 6.0 |
| Private Investment | } 9.4 | 12.8 |
| Public Investment | | 5.0 |
| Private Consumption | 6.6 | 7.7 |
| Public Consumption | 0.1 | 4.8 |
| Export of Goods & Services | 9.8 | 7.2 |
| Import of Goods & Services | 14.7 | 8.6 |

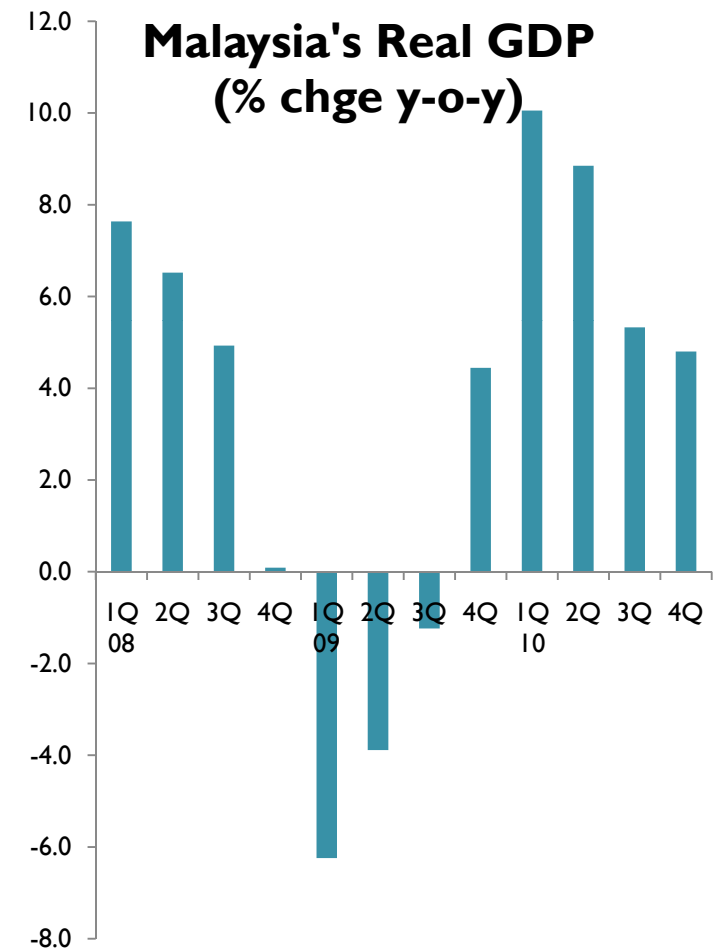
Another important contributors to national growth:

| % annual growth | 9 MP Projection | 9MP Actual | 10MP |
|-----------------|-----------------|------------|------------|
| Capital | 2.0 | 1.4 | 2.3 |
| Labor | 1.8 | 1.3 | 1.4 |
| TFP | 2.2 | 1.5 | 2.3 |

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Source: Department of Statistics, EPU

Strong recovery in 2010

- ▶ The strong growth in 1H2010 came from
 - ▶ government spending
 - ▶ rise in manufactured exports as companies replenished low inventory levels in aftermath of global crisis
 - ▶ regional government spending especially from China
- ▶ Weakness in 2H2010 is due to
 - ▶ Withdrawal of public spending in domestic and regional economies
 - ▶ Slower global demand
 - ▶ Drop in mining and agricultural output



Source: Department of Statistics

...but growth came off in 4Q

4Q growth 2010 :

- ▶ Private consumption holding up growth at 6.5% in 4Q (3Q 2010: 7.1%), supported by positive consumer sentiments.
- ▶ Robust consumption activity reflected in credit card spending, sales of passenger cars and bank lending.
- ▶ Public consumption declined by 0.3% (3Q 10:-10.2%), due to lower expenditure on supplies & services.
- ▶ Gross fixed capital formation increased 9.2% (3Q 10: 9.8%) driven by expansion in private and public capital spending.

| | 2010 | | |
|--------------------------------------|--------------|--------------|--------------|
| Annual change (%) | 3Q | 4Q | Year |
| Consumption | 3.5 | 4.7 | 5.3 |
| Private sector | 7.1 | 6.5 | 6.6 |
| Public sector | -10.2 | -0.3 | 0.1 |
| Gross Fixed Capital Formation | 9.8 | 9.2 | 9.4 |
| Net Exports | -31.7 | -18.3 | -24.2 |
| Exports | 6.6 | 1.5 | 9.8 |
| Imports | 11 | 3.3 | 14.7 |
| GDP | 5.3 | 4.8 | 7.2 |

Source: Department of Statistics

Malaysia Economic Projection (2011-2012)

| | MOF |
|-----------------------|----------------|
| GDP Growth (%) | 5.0-6.0 |
| Demand-side | |
| Private Investment | 10.2 |
| Consumption | 6.3 |
| Export | 6.7 |
| Import | 7.2 |
| Supply-side | |
| Agriculture | 4.5 |
| Mining | 2.9 |
| Manufacturing | 6.7 |
| Services | 5.3 |

Source: Economic Report, 2010/11

Projections by the private sector

| Name | GDP Growth (%) | Date |
|--------------------------------|-----------------------|-------------|
| IMF | 5.3% | Oct 2010 |
| OCBC | 5.4% | Dec 2010 |
| MIDF Research | 5.3% | Dec 2010 |
| Business Monitor International | 4.0% | Jan 2011 |
| MIER | 5.2 % | Jan 2011 |
| Ambank | 5.5 | Jan 2011 |
| HSBC | 5.1% | Jan 2011 |
| UOB | 5.6% | 22 Feb 2011 |
| Daiwa Capital | 6.2% | March 2011 |

Source: Various analyst reports

Growth is likely to come from domestic sources

- Need to boost domestic demand in the short term but can household afford it
- At the same time need to push for reforms if the economy is to have sustained high growth
- External factors will continue to remain important as:
 - Export growth still highly matter to Malaysian growth. Trade policy through bilateral and regional agreements continue to be pursue, seeking new market for Malaysian products and services.
 - Productive capital outflows in terms of M&A and FDI for high impact sectors must bring benefit to the domestic economy. As most cross-border investment is done by the GLCs, will it be easier to tie cross border investment with bringing benefits to Malaysia?.
 - There is the need to expand exports from the niche services industries eg Islamic finance and banking.
- Large export items like palm oil, petroleum and electrical and electronics components must bring higher value add

Rejuvenating Private Investment?

- ▶ The effort to revitalize private investment continues to be the priority
 - ▶ Programmes like Economic Transformation Plan and Government Transformation Plan are implemented to increase Malaysia's attraction as a place to do business.
 - ▶ Since October 2010, RM 67 billion have been pledged by private sectors under the ETP.
 - ▶ However momentum must be built as on average RM65 billion is needed for every six month until 2020 in order to reach target under the ETP (RM 1,311 billion).

Sustaining Household Confidence

- Household continues to be a reliable source of demand due to high consumption requirements and easy credit.
- ▶ However there are weak spots on household future outlook due to the following possibilities:
 - ▶ Subsidies removal on fuel prices. Two adjustments took place in 2010 despite stable oil prices. With the current upward trend of oil price, subsidies removal looks more certain.
 - ▶ Rising prices (according to the World Bank, international food prices have equaled the 2008 peak driven by food prices and transportation cost)
 - ▶ Asset bubbles in the real estate sector affecting the younger group ability to purchase property
 - ▶ High level of household debt
 - ▶ Tighter monetary policy to combat inflation



The ex-factors that can influence growth

▶ Elections

- ▶ Elections will inject more funds into the economy.
 - ▶ Sarawak state election will take place before June 2011.
 - ▶ General election?

▶ Capital flows

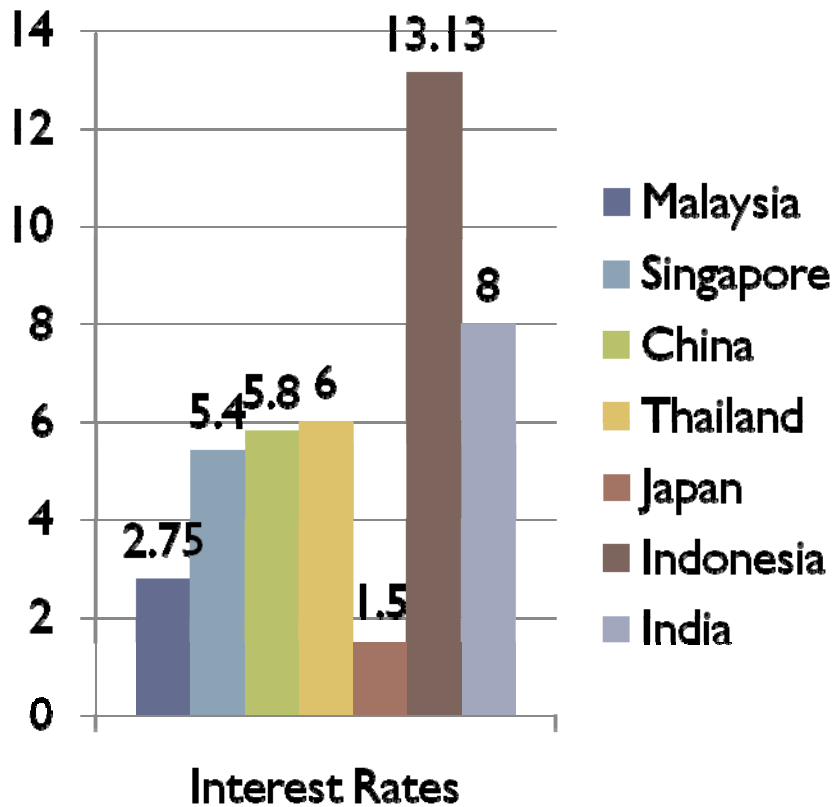
- ▶ Expectation of larger inflow of hot money in the domestic capital market as an outcome of the QE2.
- ▶ But, funds have moved out of the stock market recently to developed markets.

▶ MGS

- ▶ Government raising funds from the market

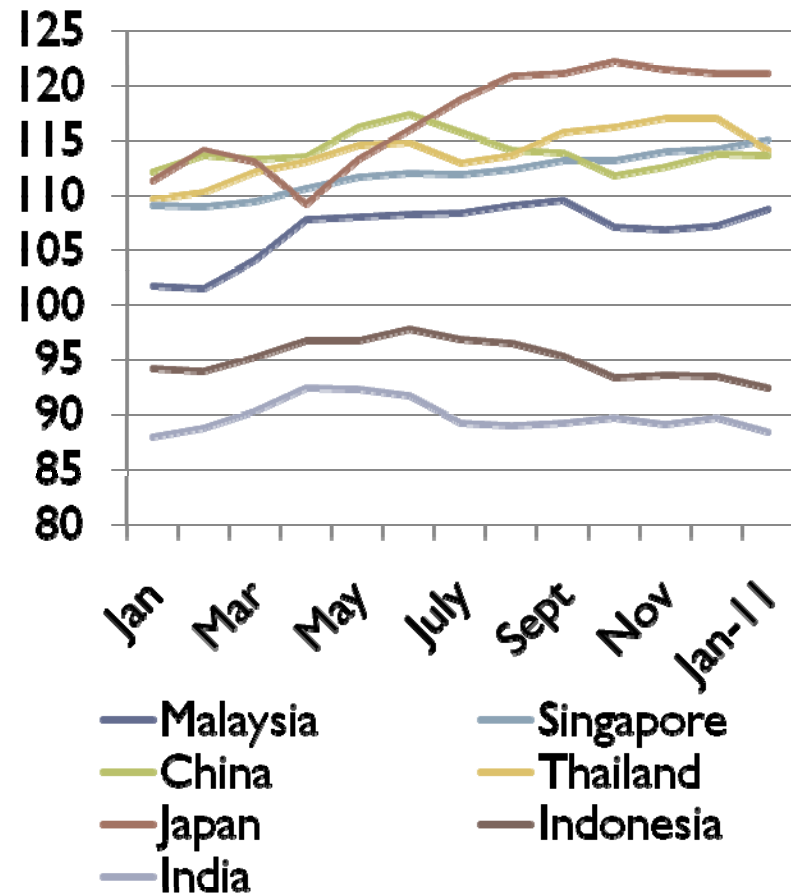
High interest rates and appreciation of exchange rate in the region – likely to continue?

▶ Interest Rates in the Region



Source: Economist Intelligence Unit

▶ Effective Exchange Rate Movement



Source: Bank of International Settlement

Expanding amidst contraction?

- ▶ Growth in 2011 remains challenging.
- ▶ Private investment and consumption are so important to produce growth
- ▶ Cost and benefit of rising commodity prices
 - ▶ Oil
 - ▶ Rubber
 - ▶ Palm oil
 - ▶ Other minerals
- ▶ Dealing with potential high increase in cost of living
 - ▶ Food prices - Targeted subsidies to soften the inflation impact to households.
 - ▶ Guaranteed no toll hike.
- ▶ What are the game changer for growth?
 - ▶ Large tourism initiatives eg holding of global events
 - ▶ Large infrastructure projects eg MRT
 - ▶ Iskandar Development Region

Conclusion

- ▶ Malaysian economic growth is expected to be positive but at a lower rate.
- ▶ Realisation of ETP projects is crucial
- ▶ SRIs/ fundamental transformation must also be undertaken
- ▶ External factors may provide more challenges.
- ▶ Will fiscal stimulus or continuation of subsidies needed?