Malaysia’s Economic Outlook: New Challenges Facing the Malaysian Economy

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<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.4</td>
<td>-0.7</td>
</tr>
<tr>
<td>EU</td>
<td>1.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Japan</td>
<td>0.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>China</td>
<td>9.7</td>
<td>8.5</td>
</tr>
<tr>
<td>India</td>
<td>7.8</td>
<td>6.3</td>
</tr>
<tr>
<td>ASEAN</td>
<td>5.4</td>
<td>4.2</td>
</tr>
<tr>
<td>World</td>
<td>3.7</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook Database, Nov 2008
Global economic decline has not reached the bottom yet

- Difficult economic times ahead – How severe will the crisis be?
- Possibility of U-shape GDP growth curve with long flat bottom means recovery is slow
- Expected recovery – 2011 or 2012?
- Recovery is very dependent on US economy
  - The promise of Obama’s US$775bn stimulus package may be delayed
- European Commission’s 200bn euros (US$259bn) focuses on internal domestic demand
Export-led Implosion in East Asia Economies

- Contraction of China’s manufacturing sector is severe and unexpected
- Japanese corporate giants are experiencing losses – Toyota, Sony
- Korea – faced shortage of US dollars and was given dollar swap support
- Singapore is already in a technical recession
- Countries with large export exposure are being the hardest hit
## Global Unemployment (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Nov 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>7.2 (Dec)</td>
</tr>
<tr>
<td>EU</td>
<td>7.7 (Oct)</td>
</tr>
<tr>
<td>Japan</td>
<td>3.9 (Nov)</td>
</tr>
<tr>
<td>China</td>
<td>4.2 (Sep)</td>
</tr>
<tr>
<td>S. Korea</td>
<td>3.3 (Nov)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.2 (Nov)</td>
</tr>
</tbody>
</table>

*Various Official Sources*
## November Exports y-o-y (%) of Asian Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Nov 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>-26.7</td>
</tr>
<tr>
<td>China</td>
<td>-2.2</td>
</tr>
<tr>
<td>S Korea</td>
<td>-17.4 (Dec)</td>
</tr>
<tr>
<td>Thailand</td>
<td>-18.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>-17.5</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td><strong>-4.9</strong></td>
</tr>
</tbody>
</table>

Various Official Sources
### Preliminary Release of Malaysia External Trade Statistics November 2008

<table>
<thead>
<tr>
<th>External Trade (RM Million)</th>
<th>Nov 2007</th>
<th>Nov 2008</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>54.46</td>
<td>51.78</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Imports</td>
<td>44.06</td>
<td>40.29</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>23.6</td>
<td>11.49</td>
<td>-51.3%</td>
</tr>
</tbody>
</table>

Source: Department of Statistics
Is Malaysia following the same path as other exporting countries?

- Surprisingly the impact of the global meltdown on Malaysia is mild (up to December 08)
- 08 GDP growth is very likely to be more than 5%
- Government states that Malaysia is not going into a recession in 09
- But can we maintain 3.5% growth in 2009? The official GDP growth forecast may be reviewed downwards.
- Private sector 09 GDP forecasts:
  - RHB Research: 1.5%
  - Morgan Stanley: 1%
  - MARC: 2.5%
  - Citigroup: 0.9%
Other Economic Indicators

- November 09 Industrial Production Index: -7.7%
  - Manufacturing: -9.4%
  - Electricity: -2.8%
- Retrenchment: actual numbers of workers being retrenched are difficult to get
  - MOHR: 4,749 workers in electronic industry will be retrenched in the next three months
- Depreciating exchange rate: only about 5%
- MIER’s Business Conditions Index falls in 3Q08
MIER’s Business Conditions Index falls 14.5 points to 99.6-points in 3Q 08
However, there are also sound fundamentals in other areas

- Consumer confidence is still intact
- Banks are well capitalised
- Actual gross loans in the banking sector grew 11% (yoy) in November 09
- Banks expects average loans growth of 5% in 09
- Net NPL ratio remains at an all-time low of 2.4% (November 09)
- Asset quality preserved by proactive measures taken by banks to restructure loans for borrowers that are experiencing stress.
- RM7bn Fiscal stimulus package and the Government may consider another stimulus package if needed
MIER’s Consumer Sentiment Index rebounds to 88.9-points in 3Q 08 from historical low of 70.6 but below 100
New Challenges

- Plummeting oil and commodity prices implications on income for industry participants and Government
- Disappearing demand for exports - diversification of export markets is not working
  - Demand from non-core export markets (e.g. China, Korea and India) is softening
  - Services exports: Malaysian construction companies job abroad
- Capital flows, decreasing trade surplus and balance of payment
- Unemployment – will likely be a major concern
- Sharp decline in KLSE – massive value impairment to companies and investors
Ensuring Domestic Growth is the Priority

- Inflation is no longer an issue?
  - Inflation forecast for 2009: 3-4%
  - But Malaysia is operating at a higher price level
- Increasing disposable income and consumer propensity to spend
- What can be done to mitigate the fallout from the manufacturing sector
- How fast can the fiscal stimulus programs be implemented?
- Challenges: Determining
  - Is the size of the fiscal stimulus adequate to expand the economy
  - what kind of fiscal stimulus programs
- Is the fiscal deficit ceiling of 4.8% sacrosanct
How will Malaysia perform during this crisis

- Certainly we are going to be affected.
- At the moment, the impact is not so serious but we can suddenly “fall of the cliff” as experienced by other countries
- There are tough challenges but Malaysia has its own strength
- How to attract investment (Gross Fixed Capital Formation was only 21.8% of GDP in 2007) when demand is collapsing? Is improvement in investment climate the solutions?
- Multiplier effects of the stimulus package?
- Risks of rising unemployment – encouraging employment by the private sector
Malaysia’s Prospects

- In some areas Malaysia is in stronger position than in 1998
- Experience from the 1998 crisis prepared us for a more sensible response
- But the main worry is if the global crisis is a long one – how long can we sustain domestic growth:
  - Level of consumption
  - Government resources
- Hopefully the coordinated response for the real sector by the world leading economies will arrest the global economic slowdown

Thank you.