MALAYSIA WEEKLY ECONOMIC NEWS

(4 December 2017 – 8 December 2017)

Topics	Highlights
Domestic demand to support Malaysian economic growth	In the wake of weaker business conditions and consumer sentiment, coupled with a decline in manufacturing data, there are concerns that Malaysia's recent strong economic growth may not be sustained. Domestic demand has been lifting growth. Despite falling business conditions and consumer sentiment in the third quarter, Malaysians continue to spend and invest. According to Executive Director, Socio Economic Research Centre, this lead to growth in private consumption and investment by 7.2% and 7.9% respectively, suggesting that disruption in sentiment may not necessarily translate into lower spending. Malaysian economic growth has been an upside surprise for 2017, boosted by strong domestic demand and higher exports on the back of strong external demand. The recovery of commodity prices from the slump in 2016 had also contributed to strong exports. According to Fortress Capital, growth is likely to moderate in the near term due to the waning of the low base effect. It will be supported by public and private investment while government handouts and bonuses to civil servants will continue to support growth in private consumption. *(The Star, 4 December 2017)*
October trade surplus may have widened to RM8.9 billion	Malaysia's monthly trade surplus is likely to widen to RM8.9 billion in October from an RM8.6 billion surplus in September in 2017, according to Moody's Analytics. In its "Asia-Pacific Economic Preview: 4-9 December 2017", it noted that the Malaysia's exports continue to perform well, with tech products the main bright spot on account of the economy's large integrated circuit sector. Palm oil shipments have likely started to come under pressure from La Niña, which formed in October and usually lasts until March. It typically brings heavier than usual rainfall which could hurt cultivation and shipments. After slumping in the first half of 2017, palm oil futures have rebounded on disappointing production growth and could be under further pressure as La Niña kicks in. In the first nine months of 2017, exports surged by 21.3% to RM690.25 billion and imports rose by 22% to RM620.66 billion. Total trade expanded by 15% to RM147.91 billion in September. Malaysia's trade in the first nine months increased by 21.7% to RM1.311 trillion compared with the same period of 2016. *(The Star, 5 December 2017)*
RAM cautious over rising Govt. contingent liabilities	RAM Ratings is cautious about the Government's contingent liabilities, which are estimated to rise to 18.4% of gross domestic product (GDP) by 2023 due to more infrastructure projects. It said the 16.9% level in the first half of 2017 was imposing a continuous risk on its fiscal position. This ratio is estimated to rise to 18.4% by 2023, premised on our expectations of existing and upcoming infrastructure projects, as well as the Government's routine commitments to housing and higher-education loan agencies. However, it said stricter oversight over the issuers of these debts was likely following the setting up of the Fiscal Risk and Contingent Liability Technical Committee, and a possible introduction of a limit on guaranteed debt in the future. *(The Star, 6 December 2017)*

Moody's affirms Malaysia's A3 rating; stable outlook	Moody's Investors Service has affirmed the Government of Malaysia's local and foreign currency issuer and senior unsecured bond ratings at A3. The outlook is maintained at stable. Moody's said Government debt burden will remain high but broadly stable. It said at 50.9% of GDP as of June 2017, Malaysia's general Government debt is significantly higher than the A-rated peer median (40.5% of GDP at end-2016). While it expects the debt ratio to remain stable in the next few years, it is also likely to stay above the median for A-rated sovereigns. The Government's commitment to fiscal consolidation has resulted in fiscal deficits narrowing in each of the past seven consecutive years. Deficit reduction has been achieved mainly through tighter spending and the introduction of a Goods and Service Tax in 2015. However, absent further meaningful revenue-raising measures, additional fiscal consolidation will be limited. In Moody's view, achievement of the Government's goal of a balanced budget will thus rest primarily on an expansion in growth, rather than any structural budgetary measures. It does not expect this objective to be achieved by the Government's original target of 2020. Policy space and debt affordability are constrained by a much narrower revenue base than available to other A-rated sovereigns. *(The Star, 8 December 2017)*

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