MALAYSIA WEEKLY ECONOMIC NEWS

(24 April 2017 – 28 April 2017)

Topics	Highlights
Moody's continues to review Sime's Baa1 ratings for downgrade	Standard Chartered Bank (Stanchart) has raised its forecast for Malaysia's gross domestic product (GDP) growth to 4.1% from 3.8%, supported by the recent export recovery. The global banking group said the export growth was encouraging at end-2016, up 11% year-on-year (yoy) in December from a monthly average of 0.2% in the January-November period of 2016. The bank raised its forecast for this year's current account surplus to 3% of GDP from 2% projected previously. The bank said average headline inflation forecast this year has also been raised to 3.6%, higher than the central bank's forecast of 2%-3%, due to subsidy rationalisation and higher local fuel prices. The unemployment rate was relatively high at 3.5% in December last year and employment growth was just 0.6% yoy. Stanchart said it also expected the ringgit undervaluation to persist for some time amid a strong US dollar and US Federal Reserve's rate increases. It said the ringgit's real effective exchange rate was about 12% below its 10-year average and cheaper than during the Asian financial crisis. *(The Star, 25 April 2017)*
MITI revises upward growth target for total trade segment this year	The Ministry of International Trade and Industry (MITI) is aiming to achieve a 5% growth for the total trade segment in 2017. The new target is a revision of the earlier 2.7% growth projection by MITI in February 2017. There was a 20% growth in the trade segment for the first two months of 2017 compared with the previous corresponding period. The semiconductor machinery and equipment (M&E) export from Malaysia was expected to hit RM43 billion in 2020, growing at a compounded annual growth rate (CAGR) of 4.3%. Of these, domestic investments amounted to RM1 billion, while foreign investments totalled RM0.54 billion. These investments are expected to create 2,870 jobs in the country. In 2016, the M&E sector contributed about 5% to the total export of manufactured goods in 2016. Malaysia is now the world's seventh-largest exporter of E&E products with a total export of RM287.7 billion last year, in 2016. The E&E sector formed 36% of Malaysia's total export. *(The Star, 26 April 2017)*
Moody's: Stable outlook for Malaysian banks, stabilising asset risks and profitability	Malaysia's banking system is stable over the next 12 to 18 months, according to Moody's Investors Service. With the operating environment, Moody's says that operating conditions are stabilising, with the improvement in global growth, recovery of global commodity prices, and continued growth in domestic demand. Real gross domestic product (GDP) growth should register 4.3% on average in 2017-18, up from 4.2% in 2016, indicating that domestic economic activity will remain robust. However, ringgit volatility will likely persist — because of further adjustment in capital flows — and will weigh on business and consumer sentiment, the international rating agency said. On asset quality, Moody's noted that asset risks are stabilising, on the back of improving macroeconomic conditions. But the high leverage among corporates and households remains a tail risk, with risks mitigated by Malaysia's diversified economy and stable employment conditions. Moody's continues to view Malaysia as a high-support country, pointing out that there have been no bank failures since Bank Negara was established in 1959. *(The Star, 27 April 2017)*

MITI: Malaysia gaining momentum in aero parts and components export	Malaysia is gaining momentum in the export of aerospace parts and components after the industry's strong growth in 2016, said International Trade and Industry Minister YBhg. Dato' Sri Mustapa Mohamed. He said Malaysia's exports of aerospace products increased 32.6% in 2016 to RM5.53 billion compared with RM4.17 billion in 2015, with aerospace parts and components being the main export. "It was a remarkable year particularly for the aerospace manufacturing sub-sector which secured a revenue of RM6.4 billion, an 11% increase compared to 2015."The maintenance, repair and overhaul (MRO) sub-sector recorded RM5.7 billion in revenue, mainly supported by the expansion of aero-engine and component MRO activities," he added. *(Source: The Star, 28 April 2017)*

Economics and Policy Division
SME Corp. Malaysia
2 May 2017