MALAYSIA WEEKLY ECONOMIC NEWS

(12 November 2018 – 16 November 2018)

Topics	Highlights
Malaysia's GDP at 4.4% in 3Q18, growth expected to be on upside: Governor	The economy registered a 4.4% growth in 3Q18, underpinned by private sector as private consumption expanded following zero-rating of the GST in June. Household spending rose by 9% in 3Q18, supported by sustained wage growth and the three-month tax holiday, while private investment was 6.9% higher on increased spending in machinery & equipment to cater to positive demand. Manufacturing and services sectors supported growth on the supply side, but mining sector were affected by production shock. The agriculture sector remained weak due to protracted recovery from production constraints in the previous quarter. Growth in 2018 and 2019 will be driven by private sector, amid adverse commodity supply shocks this year and continued reprioritisation of public sector spending in 2019. Private consumption will be underpinned by employment and income growth, while private investment will be supported by both FDIs and domestic direct investment in diverse sectors. Risks to growth remain tilted to the downside stemming mainly from escalation of global trade tensions, greater financial market volatility & disruption in commodity production. Recent announcements of further trade tariffs by the US could lead to lower global GDP and trade activity, posing a major shock to global growth prospects. *(Source: The Malaysian Reserve, 16 November 2018)*
Malaysia's external debt fell to 66.2% of GDP at end Q3 2018	Malaysia's total external debt declined to 66.2% of GDP as at end-Q3, 2018 from a peak of 74.3% of GDP as at end-2016. Bank Negara said that the bulk of the external debt was by corporations and banks. Foreign currency-denominated external debt stood at 46.0% of GDP as at end-Q3 2018, compared to the highest level of 60.0% of GDP during the 1997 Asian Financial Crisis. While risks surrounding external financing conditions have increased, risks to Malaysia's external debt, including short-term external debt, remain manageable. This was anchored by a favourable external debt profile & borrowers' resilient repayment capacity. Due to the progressive liberalisation of Malaysia's foreign exchange administration rules and the decentralisation of international reserves, Malaysian entities have accumulated significant external assets abroad. Of significance, Malaysia's non-reserve external assets have doubled from RM622bil as at end-2010 to RM1.3 trillion as at end-3Q 2018. Domestic corporations and banks now hold about three-quarters of Malaysia's RM1.7 trillion external assets. This accumulation has contributed to Malaysia having a net foreign currency asset position. This provides a defence against sharp exchange rate depreciation. *(Source: The Star, 16 November 2018)*
US-China trade war could reduce Malaysia's exports by 2.7 percentage pts	The on-going US-China trade war could reduce Malaysia's exports by up to 2.7 ppt under a worst-case scenario, impact export-oriented industries and reduce GDP growth. Bank Negara said the trade protectionism measures implemented since early this year are expected to weigh down on gross exports by 0.6-1.0 ppt, mainly reflects lower final demand from China, the US and the EU which account for 38.4% of Malaysia's final export demand. If both downside risks materialise, total impact to Malaysia's exports growth could be a reduction of as much as 1.8-2.7 ppt. As a small open economy, Malaysia will be affected by the escalating global trade tensions. The impact of trade tensions to the economy can be assessed via trade, income and investment channels. With total trade amounting to 131% of GDP, Malaysia would be primarily affected via the trade channel. Malaysia's exports are expected to be affected directly via lower demand from related countries and indirectly via slower production in the global value chain. But, there could be potential gains for Malaysia from trade substitution opportunities. The potential diversion of US' imports away from China to other countries is estimated about US$140bil. *(Source: The Star, 16 November 2018)*

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