Euler Hermes Economic Research

Country Report

Malaysia

Weak exports and low commodity prices weigh on growth

General Information

GDP	USD296.2bn (World ranking 35, World Bank 2015)
Population	30.3mn (World ranking 45, World Bank 2015)
Form of state	Constitutional Monarchy
Head of government	Dato' Sri Mohd Najib bin Tun Abdul Razak
Next elections	2018, legislative

Strengths

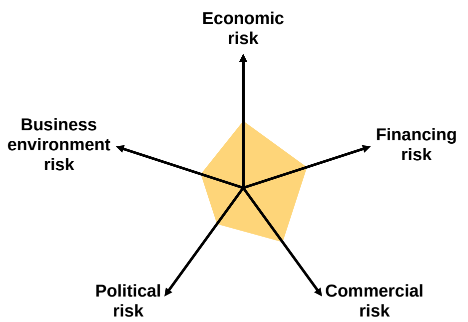
- Member of ASEAN
- Low inflation
- Large current account surpluses since 1998
- Generally strong business environment
- Resilient banking sector

Weaknesses

- Export dependency causes cyclical risk
- Slightly elevated fiscal deficits in recent years (currently not a problem but should be addressed in the medium term)
- High household debt and high external debt burden

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Singapore	14%	1	17%	China
China	12%	2	13%	Singapore
Japan	11%	3	8%	Japan
United States	8%	4	8%	United States
Thailand	5%	5	6%	Thailand

By product (% of total)

Exports		Rank		Imports
Electrical machinery	22%	1	22%	Electrical machinery
Petroleum products	13%	2	15%	Petroleum products
Gas, natural and manufactured	9%	3	4%	Non-ferrous metals
Office machines and automatic data processing machines	6%	4	4%	Other industrial machinery and parts
Fixed vegetable oils and fats	6%	5	4%	Iron and steel

Source: UNCTAD

Economic Overview

Below-trend economic growth

GDP growth is set to slow further in 2016 to +4.1%, down from +5.0% in 2015, due to weak exports and low commodity prices. On the upside, resilient domestic demand growth especially private consumption benefit from rising wages and a solid labor market. Sector-wise, services and (public) construction perform relatively well.
In 2017, GDP growth should improve to some extent, yet remain below its long-term average (c.5%). Better weather conditions should support a gradual recovery of the agriculture sector. Output value is set to grow at a gradual pace along a modest hike in commodities prices. Yet the weak pace of new orders from overseas markets may limit manufacturing momentum. On the expenditures side, private consumption may prove resilient thanks to a lower inflation and a stable job market. Private investment would be the main drag. This reflects weak business confidence and limited exports opportunities.

Macro-policies are constrained

Policymakers are to maintain a cautious stance. The Central Bank has eased its monetary policy. The decision was based on below-target inflation and elevated financial risk in the wake of Brexit. Looking ahead, one should not expect an aggressive easing strategy. The local currency's sharp depreciation against the dollar, along with low commodities prices and weak economic prospects, mean that the Central Bank is likely not to lower interest-rates at a rapid pace. This could change only in case of a sharp economic slowdown or a strong decrease of inflation.
Fiscal maneuvering is constrained by a hefty public debt compared to regional peers (above 50% of GDP) and low energy-related fiscal revenues. In that context, the government would likely maintain its gradual consolidation strategy. One can expect a frugal approach, except for already planned infrastructure investment.

External vulnerabilities are elevated

External vulnerabilities are elevated. The current account has shrunk rapidly even though it remains in surplus. External debt is large (above 60% GDP) compared to regional peers and strong currency depreciation has made payments more difficult.

There are few signs the situation will change in the short run. Exports will be limited due to the modest growth of demand in high-income markets and in China as well as low commodity prices.

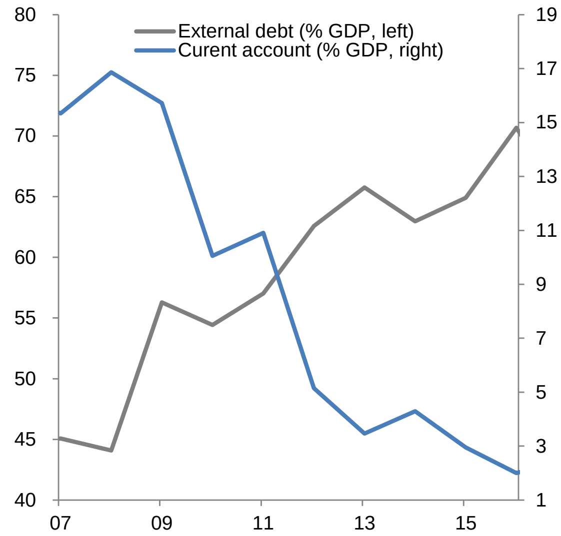
Pressures on the currency remain elevated. This reflects weak investors' confidence as political sentiment, external accounts, and growth prospects have deteriorated.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	6.0	5.0	4.1	4.4
Inflation (%, year average)	3.1	2.1	2.0	3.0
Fiscal balance (% of GDP)	-3.4	-3.2	-3.1	-3.0
Public debt (% of GDP)	55.6	57.4	55.8	55.0
Current account (% of GDP)	4.3	2.9	2.0	2.5
External debt (% of GDP)	63.0	64.9	70.7	67.3

Sources: IIF, IMF, Euler Hermes

Figure 1 – External debt and current account



Sources: IHS, Euler Hermes

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