Euler Hermes Economic Research

Country Report

Malaysia

Fuelled by exports

General Information

GDP	USD296.3bn (World ranking 37, World Bank 2016)
Population	31.2mn (World ranking 45, World Bank 2016)
Form of state	Constitutional Monarchy
Head of government	Dato' Sri Mohd Najib bin Tun Abdul Razak
Next elections	2018, legislative

Strengths

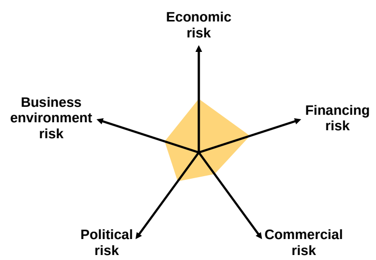
- Member of the Association of Southeast Asian Nations (ASEAN)
- Low inflation
- Large current account surpluses since 1998
- Generally strong business environment
- Resilient banking sector

Weaknesses

- Export dependency leads to cyclical risk
- Slightly elevated fiscal deficits in recent years are 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	15%	1	21%	China
China	13%	2	10%	Singapore
United States	10%	3	8%	Japan
Japan	8%	4	8%	United States
Thailand	6%	5	6%	Thailand

By product (% of total)

Exports		Rank		Imports
Electrical machinery, apparatus and appliances	25%	1	23%	Electrical machinery, apparatus and appliances
Petroleum and related materials	10%	2	9%	Petroleum and related materials
Office machines, automatic data processing machines	7%	3	4%	Other industrial machinery and parts
Fixed vegetable oils and fats, crude, refined or fractionated	5%	4	3%	Telecommunication and sound recording apparatus
Telecommunication and sound recording apparatus	5%	5	3%	Office machines, automatic data processing machines

Source: UNCTAD

Economic Overview

Improving gradually

GDP growth is expected to grow by +5.5% in 2017. Exports growth is set to pick up speed in 2017 driven by higher demand for electronic products and commodities from major economies. Domestic demand growth will remain strong. Private consumption growth is set to be firm supported by higher wages and improved job creation. Private investment is projected to expand at a solid pace sustained by higher new orders and favorable credit conditions. Yet public expenditures growth will be moderate as authorities continue fiscal consolidation.

In 2018, growth is set to continue at a solid but slower pace. Exports growth may moderate as tightening credit conditions in China lead to lower demand for Malaysian goods. Investment growth should slow due to lower growth in export opportunities and more conservative macro-policies.

Domestically, risks stem from a heavy public and households' debt. Externally, difficulties could arise from lower demand growth from major economies, weak commodities prices and heightened global financial stress.

Macro-policies: a cautious stance

Policymakers are poised to maintain a cautious stance. The Central Bank has eased its monetary policy in 2016. The decision was based on below-target inflation, elevated global financial risks and modest growth in demand.

With both economic growth and inflation picking up in 2017, we expect a wait-and-see approach from the Central Bank. It may focus on addressing financial risks. First, the institution will maintain its efforts to reduce households' debt (88% GDP) and contain financial vulnerabilities in sectors such as construction and oil and gaz. Second, avoiding currency volatility will be crucial in the wake of further tightening by the Fed, and elections in 2018.

Public finances are vulnerable with a hefty public debt (56% GDP) compared to regional peers (below 50% for Indonesia and Thailand). We expect the government to maintain its gradual consolidation strategy. Considerable efforts have been made to improve fiscal sustainability. These include a reform of fuel subsidies, the implementation of the Goods and Services Tax (GST) and measures to reduce risks related to contingent liabilities.

External position has improved although there are pockets of vulnerability

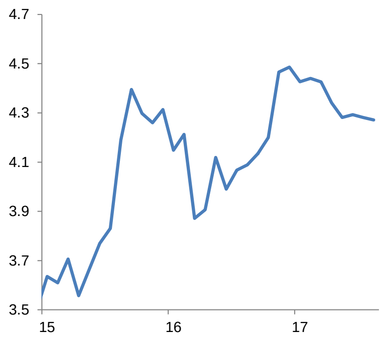
The current account balance has improved on the back of higher exports growth. It should account for 3% GDP in 2017 (from 2% in 2016). Moreover, better economic outlook and adequate macro-policies help maintain solid FDI inflows. Downward pressures on the currency have reduced and the ringgit has appreciated by +5% from December 2016 to August 2017. Foreign exchange reserves are ample and cover more than 5 months of imports. External debt is the main source of concern as it stands around 68% GDP.

Key economic forecasts

	2015	2016	2017f	2017f
GDP growth (% change)	5.0	4.2	5.5	4.5
Inflation (%, year average)	2.1	2.1	3.5	2.0
Fiscal balance (% of GDP)	-3.2	-3.2	-3.0	-2.5
Public debt (% of GDP)	54.5	52.7	52.5	52.0
Current account (% of GDP)	3.1	2.3	3.0	2.6
External debt (% of GDP)	65.6	68.8	67.3	67.0

Sources: IIF, IMF, Euler Hermes

Figure 1 – MYR per USD



Sources: IHS, Euler Hermes

Field Code Changed

View all Euler Hermes Economic Research online
http://www.eulerhermes.com

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2017-09-13
Country Risk Analyst:
Mahamoud Islam
mahamoud.islam@eulerhermes.com