Press release

Malaysia outlook, growth prospects and game changers beyond 2017

KUALA LUMPUR – 8 MAY 2017 -- To achieve Malaysia's stated ambition to become a high income nation by 2020 requires boosting Gross National Income per capita to USD15,000 by that date (from USD9,096 in 2016). While this is no easy target, four game changers could accelerate the transformation, according to Mahamoud Islam, senior economist for Asia at Euler Hermes-Allianz Research, in a press conference today.

As Malaysia marches towards its 60th anniversary of independence, he reviewed the nation's aspirations, and the factors that could accelerate the pace of its transformation.

What does 2017 mean for Malaysia?

The stars are now aligning for the export-oriented economy, with global trade value set to increase by +3.6% in 2017 (-2.4% in 2016). Commodity prices are also slowly improving, while demand from major trading partners, such as China and the US, is set to remain strong.

Domestically, demand drivers are improving at a slow pace. For corporates, better revenues provide some leeway for increased capital expenditures. Business sentiment is rising, supported by increasing output and new orders. For households, both confidence and employment are improving. However, weak income growth and higher inflation point to limited momentum.

In that context, GDP growth is set to accelerate slightly to 4.5% in 2017 (from 4.2% in 2016).

What to expect in the longer term?

But challenges to growth remain, as Malaysia's financial capacity to support growth is limited. Fiscal maneuvering in Malaysia is constrained by a hefty public debt compared to regional peers (above 50% of GDP). High household debt (88.4% GDP) keeps the Central Bank from easing monetary policy, and a continued decrease in gross national saving to 29% of GDP (from 35% in 2010) gives little room for a strong rise in investment using national sources of funding.

Secondly, competition from neighboring countries is intensifying as regional manufacturing powerhouses aggressively expand their market share, while Malaysia's market share remains stuck at around 1.2%.

Thirdly, the global political environment is not supportive, with geopolitical tensions (e.g. with North Korea) creating a vast array of uncertainties for companies. More importantly, protectionism is becoming more prevalent. More than 1,400 new protectionist measures were introduced globally in 2015 and 2016.

Grow strong by growing smart – four growth game changers

In this context, there are four potential forces to aid faster growth.

Game changer #1: A more supportive business environment enabling Malaysia to become a capital magnet.

A more supportive business environment would require improvements in the regulatory framework to enforce contracts, the tax environment and insolvency related procedures. Malaysia ranked 23rd in the World Bank Doing Business survey, but it ranked low in the key components of contract enforcement (42nd) and insolvency procedures (46th).

Game changer #2: Malaysia increases its competitiveness by investing further in innovation and infrastructure.

Efforts to spur innovation could help Malaysia move up the value chain and increase its global market share. Improving both hard (e.g. airports and ports) and soft (e.g. efficiency of customs) infrastructure could also help reduce transaction costs and boost Malaysia's overall competitiveness.

Table 1: Sub-components of the World Bank Logistic Performance Index (ranking out of 160 markets, 1= best)

	Quality of infrastructure	Customs clearance efficiency	Timeliness of delivery
Singapore	6	1	6
Hong Kong	10	7	9
South Korea	20	26	23
Taiwan	26	34	12
Malaysia	**33**	**40**	**47**
Thailand	46	46	52
Indonesia	73	69	62

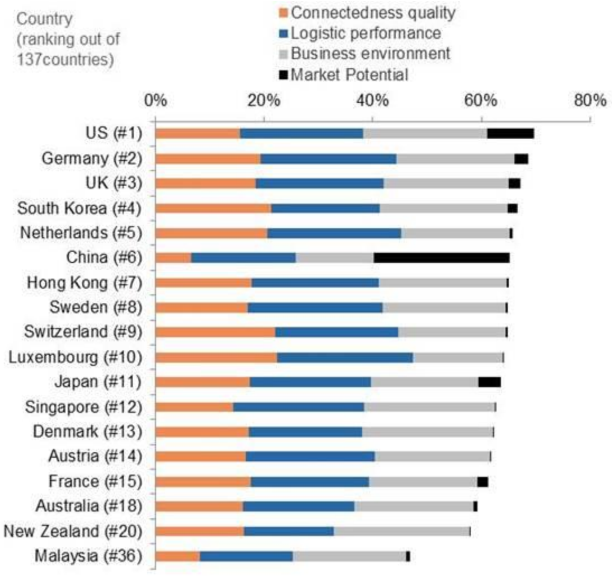
Sources: World Bank, Euler Hermes

Game changer #3: Digitalization & Servitization

Digitalization currently accounts for 9.4% of annual global economic output, and by 2020 will account for 16.6%. Malaysia ranks 36th out of 137 countries in Euler Hermes' Enabling Digitalization Index. While it performs relatively well in logistics, progress could be made in business environment and the quality of connectivity.

Services are on an upward trend, with their share of GDP growing steadily to 54% in 2016 (from 50% in 2011), and to an expected 56% in 2017. On the demand side, a continued rise in the middle class will support a rise in both intermediate (information and communication) and final services (finance, retail sales), while on the supply side, companies are set to adapt fast through servitization - the delivery of a service component as an added value -- when providing products.

Chart 2: Euler Hermes Enabling Digitalization Index (EH EDI)



Game changer #4: Selective Partnerships

Malaysia could deepen ties with fellow members within the ASEAN Economic Community (AEC) framework. Merchandise exports to ASEAN account for 28% of Malaysian exports. Economic growth in the AEC is set to be around 5%, driven by a strong domestic demand.

The country could also strengthen ties with China to leverage on its mega trade initiative "One Belt One Road". This could lead to a capital boost, with China's foreign direct investment approved for Malaysia's manufacturing sector reaching MYR4.7 billion in 2016. It could also lead to a rise in new orders. China is Malaysia's second largest export partner (after Singapore), accounting for 13% of its merchandise exports.

Conclusion

Expanding horizons bring both blessings and curses. Being more regionally and globally integrated comes at the price of being more exposed to external shocks. Seeking opportunities overseas means doing business with new and unfamiliar trading partners. Malaysian companies will need to step up their due diligence efforts on companies with which they are trading, evaluate the credit risks and put in place added financial risk management.

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About Allianz in Malaysia

The investment holding company, Allianz Malaysia Berhad, a subsidiary of Allianz SE, has two insurance subsidiaries - Allianz General Insurance Company (Malaysia) Berhad ("Allianz General") and Allianz Life Insurance Malaysia Berhad ("Allianz Life").

Allianz General is one of the leading general insurers in Malaysia and has a broad spectrum of services in personal lines; small to medium enterprise business and large industrial risks. Allianz General also leverages on the bancassurance agreement with CIMB Bank to reach out to the bank's over-a-million-customer base. The GWP for general insurance business for financial year 2016 reached a mark of RM2.08 billion.

Allianz Life offers a comprehensive range of life and health insurance and investment-linked products and for the financial year 2016, Allianz Life recorded a GWP of RM2.10 billion and is one of the fastest growing life insurers in Malaysia.

Allianz Malaysia has 38 branches nationwide.

In 2016, Allianz Malaysia Berhad received the Merit Award for Corporate Governance (CG) Disclosures at the Minority Shareholder Watchdog Group (MSWG) Malaysia-ASEAN Corporate Governance Transparency Index, Findings and Recognition 2016. In 2015, Allianz Malaysia Berhad received the Outstanding Achievement Award at the inaugural ASEAN Corporate Governance Conference and Awards (ACGCA) as well as the Excellence Award for Top Corporate Governance and Performance (Overall) and Merit Award for Most Improved at the MSWG-ASEAN Corporate Governance Award 2015.

Besides that, Allianz Malaysia was also listed on The Edge Billion Ringgit Club's Top10 Corporate Responsibility Initiatives (Below RM10 Billion market cap), which celebrates the largest and standout performers of the Malaysian corporate industry. The Company's MyAID (Malaysians Against Irresponsible Drivers) advertising campaign also won two bronze and seven merit awards at the Kancil Awards 2015.

To learn more about Allianz Malaysia, visit allianz.com.my.

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About Allianz

The Allianz Group serves 86 million retail and corporate customers in more than 70 countries, making it one of the world's largest insurers and asset managers. In 2016, over 140,000 employees worldwide achieved total revenues of 122.4 billion euros and an operating profit of 10.8 billion euros. Allianz Group managed an investment portfolio of 653 billion euros. Additionally our asset managers AllianzGI and PIMCO managed over 1.3 trillion euros of third-party assets. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property and health insurance to assistance services to credit insurance and global business insurance. As an investor, Allianz is active in a variety of sectors including debt, equity, infrastructure, real estate and renewable energy. The Group's long-term value strategies maximise risk-adjusted returns.