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Malaysia Business Forecast Report Q3 2014

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Abstracts

Core Views

Malaysia's once-bloated current account surplus is coming under pressure from a combination of income account outflows and a dwindling trade surplus. We expect the narrowing of the surplus to continue, forecasting it to come in at 2.5% of GDP in 2014 and 1.6% in 2015. However, the risks are weighted to the downside, with the emergence of a current account deficit over the next few years increasingly likely.

Over recent years Malaysia's fiscal accounts have exhibited some worrying trends, with spending rising as a share of GDP, subsidy spending rising as a share of total spending, and indirect tax revenues declining. Going forward, we are optimistic that these trends will be halted as subsidy spending is reduced and a Goods & Services Tax is implemented, which should help stabilise Malaysia's debt metrics and support private sector real GDP growth.

Bank Negara Malaysia will find itself under increasing pressure to hike interest rates over the coming months as consumer price inflation (CPI) pressures mount following the reduction of fuel and electricity subsidies. However, we expect the central bank to maintain the policy rate at 3.00% amid growing disinflationary signs emanating from weakening money supply growth, which should see CPI pressures ease in H214.

Major Forecast Changes

We have revised down Malaysia's current account surplus for 2014 and 2015, forecasting it to come in at 2.5% of GDP in 2014 and 1.6% in 2015, rather than the 3.5% and 2.7% previously expected. Even with these revisions, the risks are weighted to the downside as the pickup in domestic investment activity and the still-wide consolidated public deficit pose risks of a current account deficit over the coming years.

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spending rising as a share of GDP, subsidy spending rising as a share of total spending, and indirect tax revenues declining. We are optimistic that these trends will be halted as subsidy spending is reduced and a Goods & Services Tax is implemented, which should help stabilise Malaysia's debt metrics and support private sector real GDP growth.

Table: FISCAL POLICY

MONETARY POLICY

BNM To Maintain Neutral Stance On Interest Rates Despite Uptick In CPI

We believe that fiscal policy-driven spikes in headline consumer price inflation (CPI) will be transitory in nature, and not a reflection of underlying price pressures in the economy. As such, we reiterate our forecast that Bank Negara Malaysia will keep its policy rate on hold at 3.00% throughout 2014. The risk of second round inflationary pressures, however, could add further upward pressure on prices. Should we see evidence that businesses are passing on higher production costs to consumers, we would revise our CPI forecasts accordingly.

Table: MONETARY POLICY

Balance of Payments

Growing Risk Of A Current Account Deficit

Malaysia's once-bloated current account surplus is coming under pressure from a combination of income account outflows and a dwindling trade surplus. We expect the narrowing of the surplus to continue, forecasting it to come in at 2.5% of GDP in 2014 and 1.6% in 2015. However, the risks are weighted to the downside, with the emergence of a current account deficit over the next few years increasingly likely.

Table: CURENT ACOUNT

CHAPTER 3: 10-YEAR FORECAST

The Malaysian Economy to 2023

Productivity Gains To Support 4.0% Real Growth

Owing to strong demographic trends, a continually improving business environment, and further ASEAN economic integration, we see Malaysian real GDP seeing a compound annual average growth rate of 4.0% (8.3% in nominal US dollar terms) over the next decade. While this is slightly below the 4.3% (10.5% in nominal US dollar terms) rate seen over the past decade, this largely reflects lower growth in the working age population, while labour productivity growth is set to rise. The lofty level of household debt, and uncertainty regarding the fiscal trajectory are risks, but are not likely to derail the economy's strong prospects.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

CHAPTER 5: KEY SECTORS

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

FORECASTS, %

Table: Emerging Markets , Rea l GDP Growth , %

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