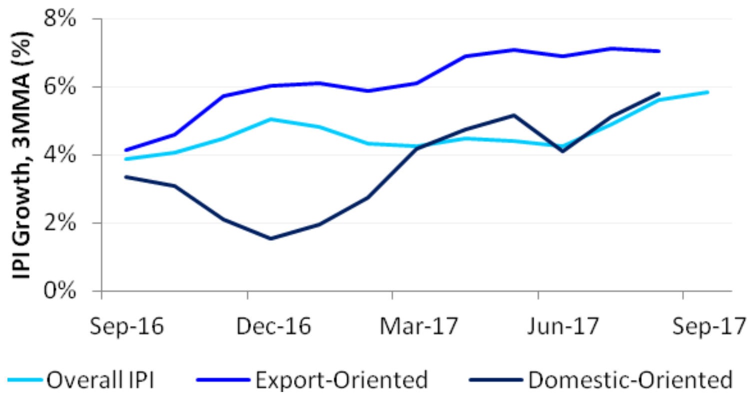
Media Release

RAM Ratings expects 5.2% growth in 2018 amid strengthening domestic demand and resilient exports

The recovery momentum in 2017 has been stronger than expected amid the firmer rebound of investments in productive capacity and external demand. As such, GDP growth appears likely to reach 5.8% this year, exceeding RAM Ratings' initial forecast of 5.4%. We project GDP growth to come in at 5.2% in 2018, with support from strengthening domestic demand and resilient external markets.

Figure 1: Broad-based expansion of industrial activities

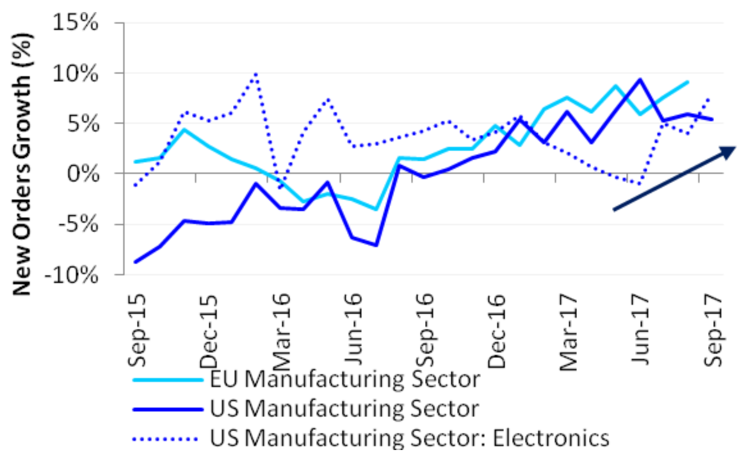


Source: Department of Statistics Malaysia, Bank Negara Malaysia and RAM

Private consumption and investment are anticipated to register more robust growth in 2018. Private consumption will be underpinned by healthier labour market conditions and sustained wage growth, thereby posting a 7.2% expansion next year, slightly better than the 7.0% expected this year. On the other hand, private investment will be boosted by the roll-out of big-ticket infrastructure projects and resilient investment by firms, attributable to sustainable economic growth and prospects. Private investment growth is anticipated to clock in at a robust 8.0% in 2018, compared to the 8.8% expected this year.

Although there has been some tapering of the low-base effects that had contributed to the export boost in 2H 2017, this has not disrupted the underlying resilience of exports. As such, growth momentum should be maintained, albeit at a more modest pace compared to the initial recovery boost. Export growth is envisaged to come in at 4.1% next year, supported by the continued expansion of export orders and production trends in our main export markets. Import growth is anticipated to again trump export growth, coming in at 5.4% in 2018 amid ramped-up investments and positive spillover effects from resilient exports.

Figure 2: Ongoing expansion of industrialised economies to support export demand resilience



Source: European Central Bank, US Census Bureau, RAM

RAM will be closely watching the development of the core inflation, which has been rising this year, albeit more moderately of late. In 2018, headline inflation is expected to moderate to 2.5% from the projected 3.8% for this year, against the backdrop of dissipating fuel price recovery effects and the corresponding low-base effects that were prominent in the first quarter. "We reiterate our view that there is room for Bank Negara Malaysia to hike the OPR, to ensure sustainable growth and that destabilising price pressures will not turn into a downside risk for growth. Any tightening of monetary policy is envisaged to be gradual; hence a 25-bps OPR hike may be on the cards for 2018," notes RAM's economist, Kristina Fong.

Analytical contact
Kristina Fong
(603) 7628 1011
kristina@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

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RAM Rating Services Berhad
(763588-T)
Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

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