



Media Release

RAM Ratings expects Malaysia's growth to hold up at 4.9% amid 'adjustment period' for economy

Overall economic growth momentum for Malaysia in 2018 is expected to remain resilient at 4.9%, moderately lower than our initially forecasted 5.2%, on the back of robust private consumption and slowing import activity. The big reveal of the government's key fiscal policy initiatives and direction going forward, and the renewed longer-term development policies of the revamped 11th Malaysia Plan after its mid-term review, will help provide more guidance on the medium-term economic growth trajectory. "The first 100 days in office was just the start of what seems to be a period of re-adjustment for the economy and managing this will require a careful balancing act by both policy makers and businesses alike," notes RAM's Head of Research, Kristina Fong.

Private consumption will continue to be the driving force for domestic demand this year with growth forecasted at 7.4%, as private investment is set to slow. Infrastructure project rationalisation has come at a time of moderating capacity building activities, as shown by insights from our quarterly RAM Business Confidence Index (RAM BCI) which indicate reduced impetus for marginal investment activity as capacity constraints become less binding. As such, private investment growth is expected to be less robust than anticipated, coming in at a more muted 3.9% compared to our initial forecast of 8.3%.

With diminished incremental impetus for industrialised economies to invest after growing from a low base the previous year and a corresponding ramp-up in restocking activities, our expectations for export growth had already veered towards a slower year without the additional distraction of tit-for-tat trade retaliation. As such, export growth is envisaged to clock in below our initial forecast (of 4.2%) at 2.8% in 2018. Potential benefits from trade diversion are only expected in the medium term after an adjustment period for global value chains and will be dependent on future domestic industrial and investment policies. Specifically, Malaysia stands to gain from potential trade diversion stemming from 'Part 2' of the USD50 billion Trump tariffs effective from Aug 23, which are heavily concentrated in chemical and technology-related goods. Conversely, minimal trade diversion benefits are expected from 'Part 1' and the RM50 billion worth of Chinese retaliatory tariffs due to come into effect soon.

Headline inflation is anticipated to stay subdued at 1.3% on the back of a sizeable downward pull from GST-zeroisation, the reinstatement of fuel subsidies as well as a lower-than-expected contribution from food inflation this year. In view of the lower core inflation trajectory and moderating growth, there seems to be some downward bias for the OPR this year. However, our base case is still for the OPR to stay put at 3.25% for the rest of the year, as we feel that lingering policy uncertainties and macro risks may continue to pose some capital outflow bias. That said, monetary policy will, in our view, play a bigger role as fiscal consolidation is seen to be a key trend going forward and, hence, will afford less scope for additional pump-priming.

The full Economic Update 2018 publication is available for download on our website.

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Date of release: 17 August 2018

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