社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

Malaysia Insolvency Conference 2019

2020 – Year of Inflection – Risks and Opportunities

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20 November 2019

What awaits in 2020 and Beyond?

CONTINUED TURBULENT GLOBAL ECONOMY ?

GROWTH STABILISATION AND ACCELERATION

RISKS IDENTIFICATION AND CAPTURING OPPORTUNITIES

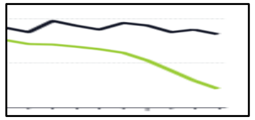
Section 1

The World Economy

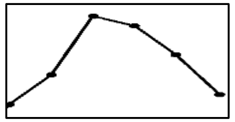
A synchronized slowdown amid global recession fears

“Weak” – These economic indicators are flashing RED

- **THE US AND CHINA ECONOMY** are slowing

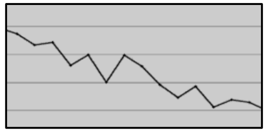


- **EASING global growth momentum. OECD Leading index** on a **downward trend since Feb 2018**

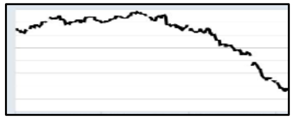


- **WORLD TRADE CONTRACTION for 3 consecutive months** since June 2019

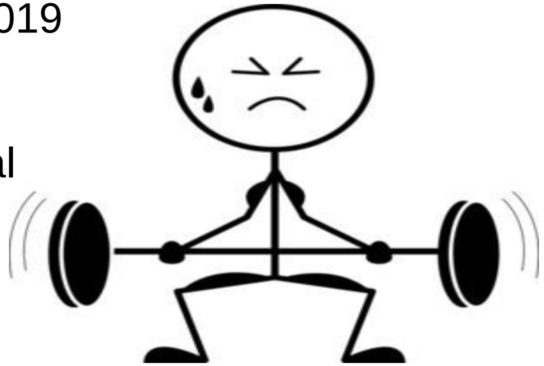
- **MANUFACTURING CONTRACTION for 6 months** in a row since May 2019



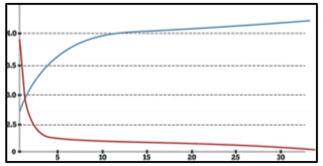
- **SERVICES GROWTH** on a weakening mode



- **GLOBAL SEMICONDUCTOR SALES DOUBLE-DIGIT DECLINE** for eight months since Feb 2019



- **THE INVERTED YIELD CURVE** (short-term bonds deliver a higher yield) may be back to normal but the US economy is still not in the clear



Waiting for the inflection points

The upcoming **2020 U.S. Presidential election**.

The **heightened risks surrounding the trade war**. A return to Trump's favorite maximum pressure tactics, or a refusal by Xi to make meaningful concessions, would reignite global recession fears.

The **damage to business confidence**, **global supply chains** and **global trade** already have been done, and could worsen if there's no trade deal is reached and deepens.

The **alternative scenario: A trade-war retreat**, **coordinated global central banks' monetary easing and QE** and **China's massive policy stimulus** set the scene for stronger global growth in early 2020.

The **downside risks: Low or negative interest rates failed to work; limited fiscal space; geopolitical tensions;** and **volatility in commodity prices**.

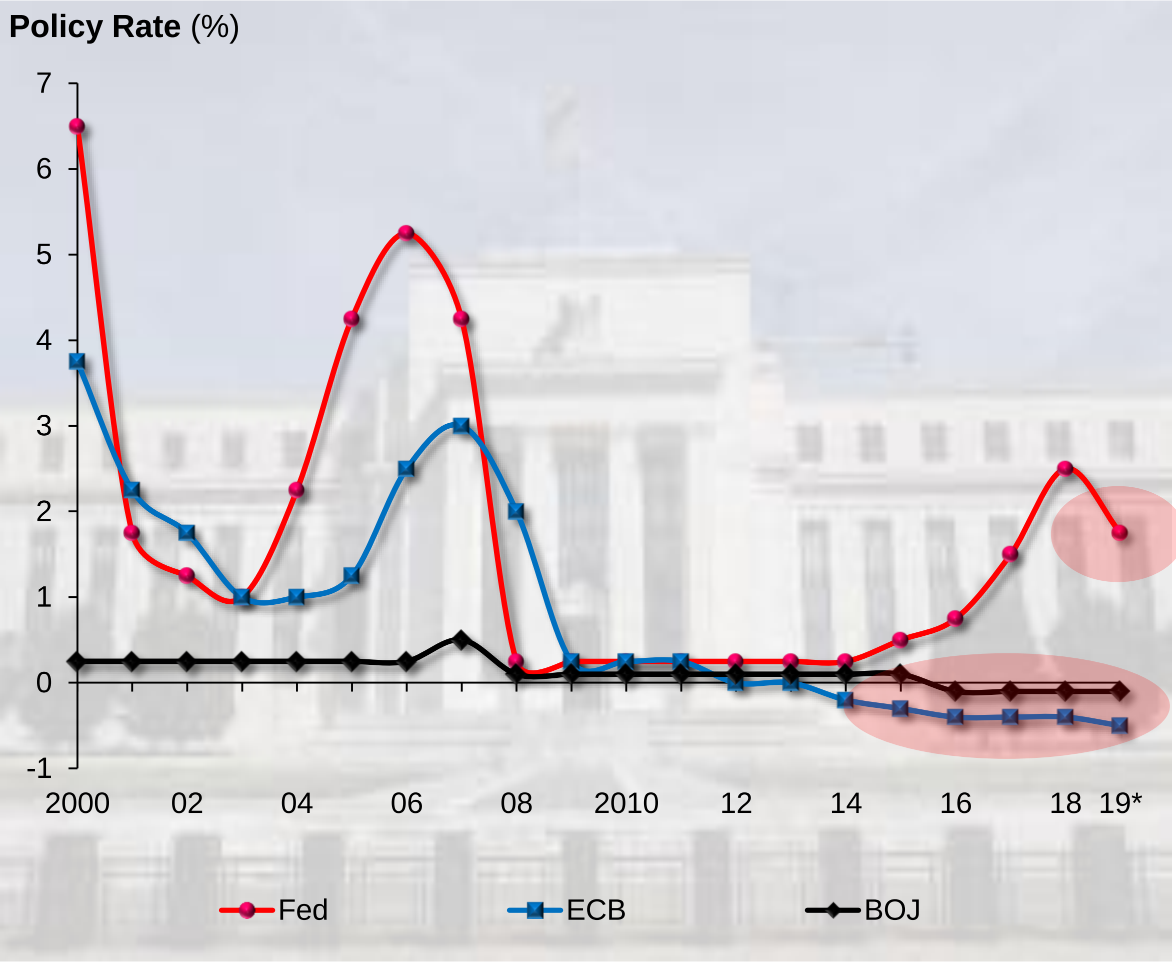
CAUTION IS STILL WARRANTED AS WE MOVE INTO 2020

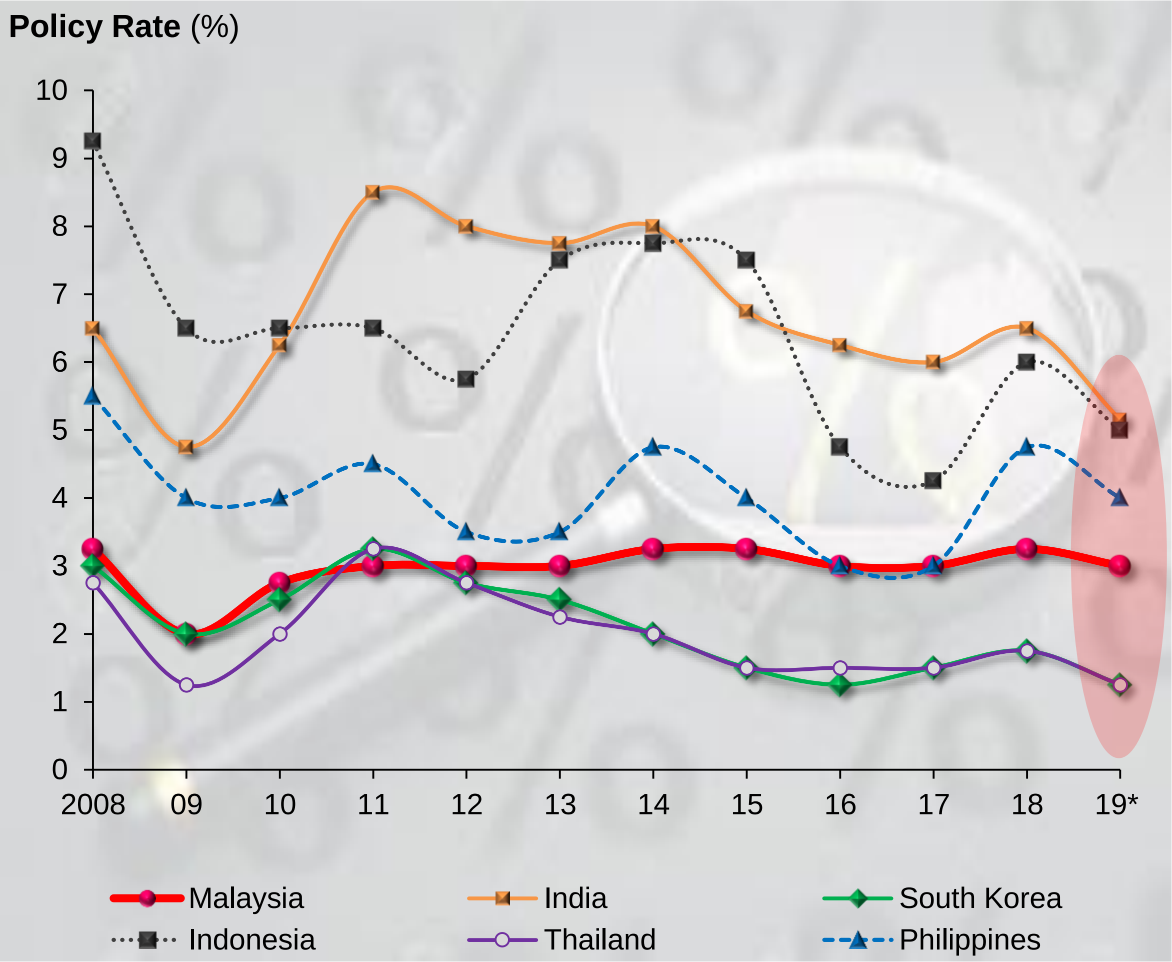
Global growth scenarios for 2020

 Scenario	Event	 Probability	 Projected Global GDP growth
Upside 	Global stabilisation or acceleration Policy stimulus is working	15%	3.5%
Base Case 	Continued global slowdown Continued trade tensions; financial turbulence; geopolitical risks	55%	3.2%
Downside 	Sharp global slowdown Policy stimulus fails to stem economic slowdown	35%	2.8%

Global central banks race interest rate to bottom

- **Low or negative interest rate** is a new normal again?





Note: Interest rate on deposit facility applied as ECB's policy rate
** As at 14 Nov 2019*
Source: Fed; ECB; BOJ, Official central banks

Section 2

The Malaysian Economy

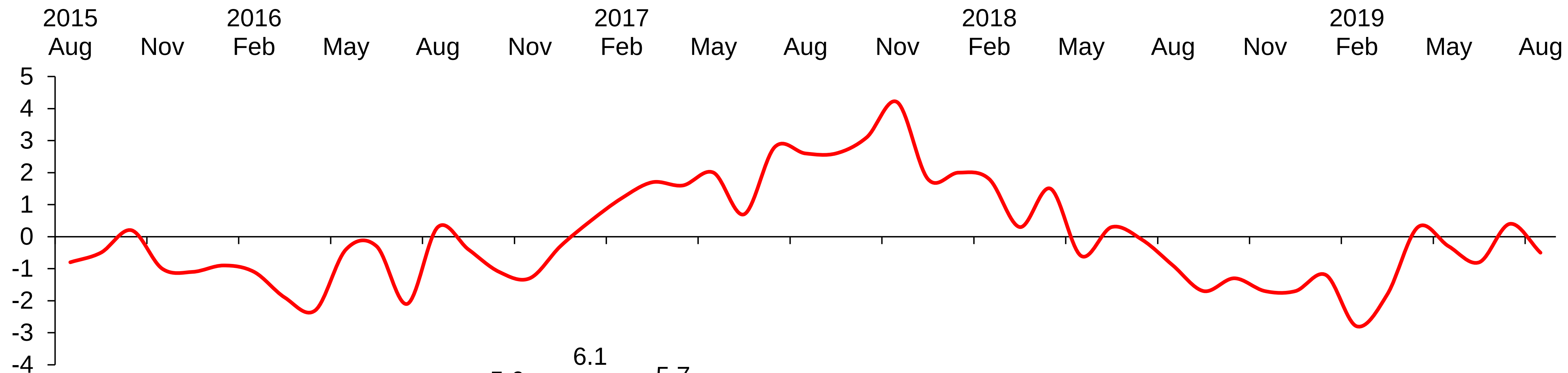
A priority for action,

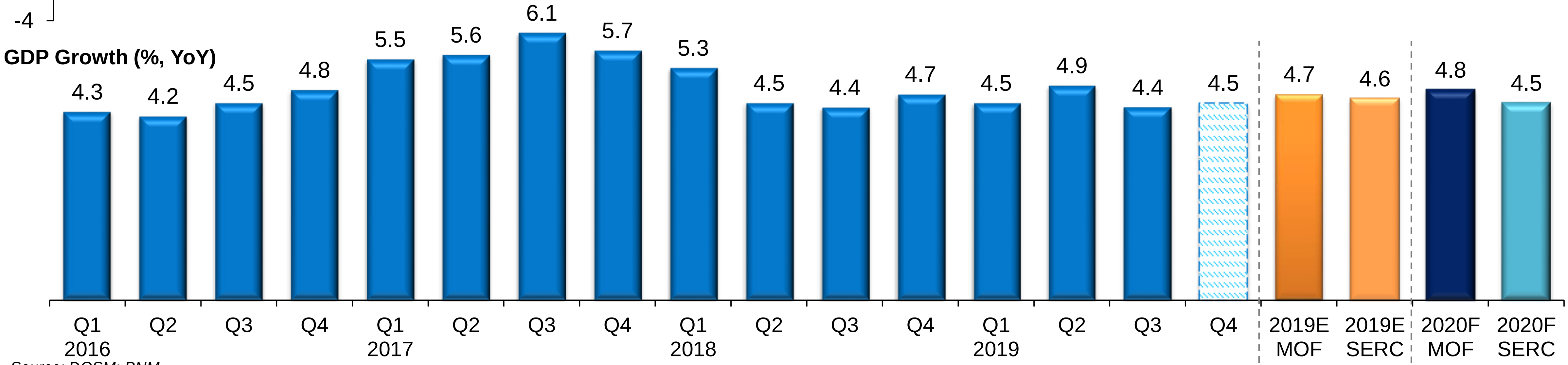
now more than ever

Malaysia's leading index indicates softening economic growth ahead

The Leading Index (LI) indicators anticipate overall economic activity in four to six months ahead, e.g. LI indicators in Feb indicate performance in Jun-Aug.

Leading Index Growth (%, YoY)



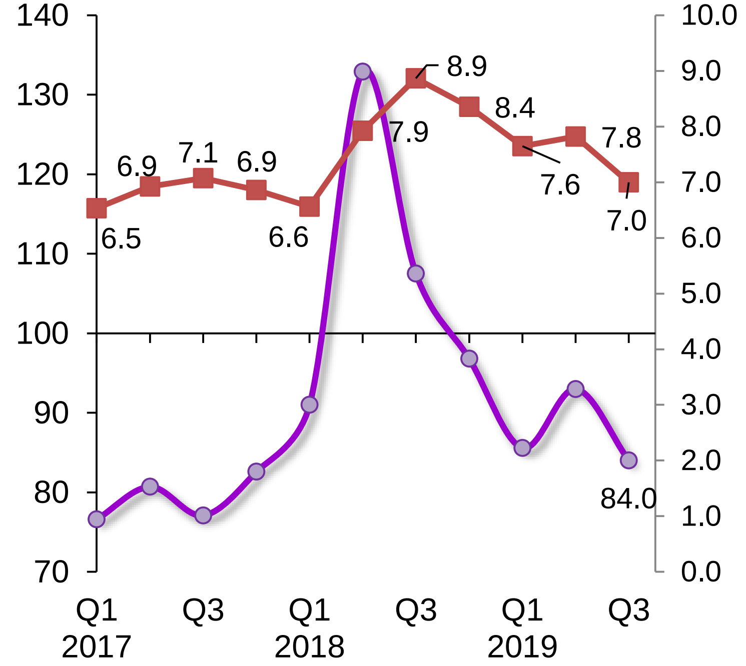


Source: DOSM; BNM

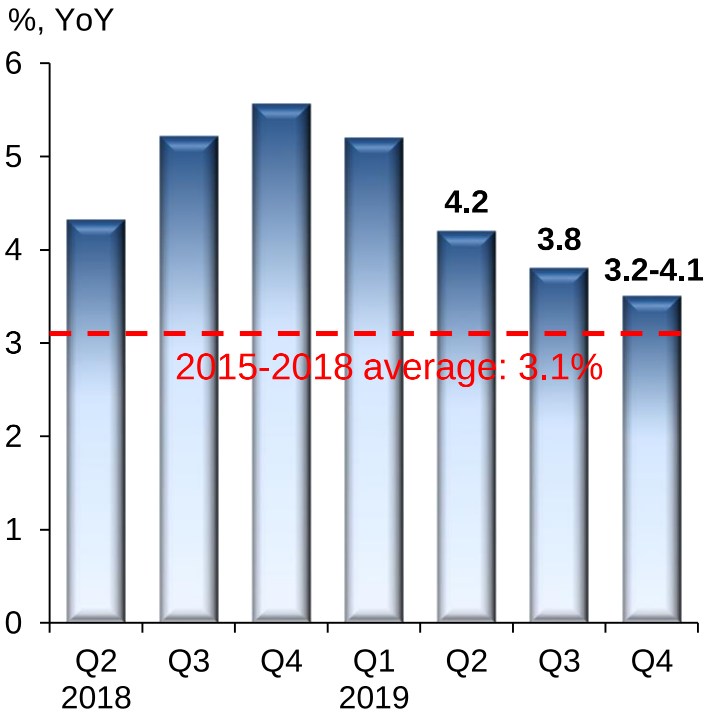
Still-strong consumer spending amid cautious sentiment

- Household spending propping up the economy, underpinned by above-average real wage growth and consumption-enhanced measures.

Consumer sentiments index (CSI) vs. Private consumption



Real private sector wage growth



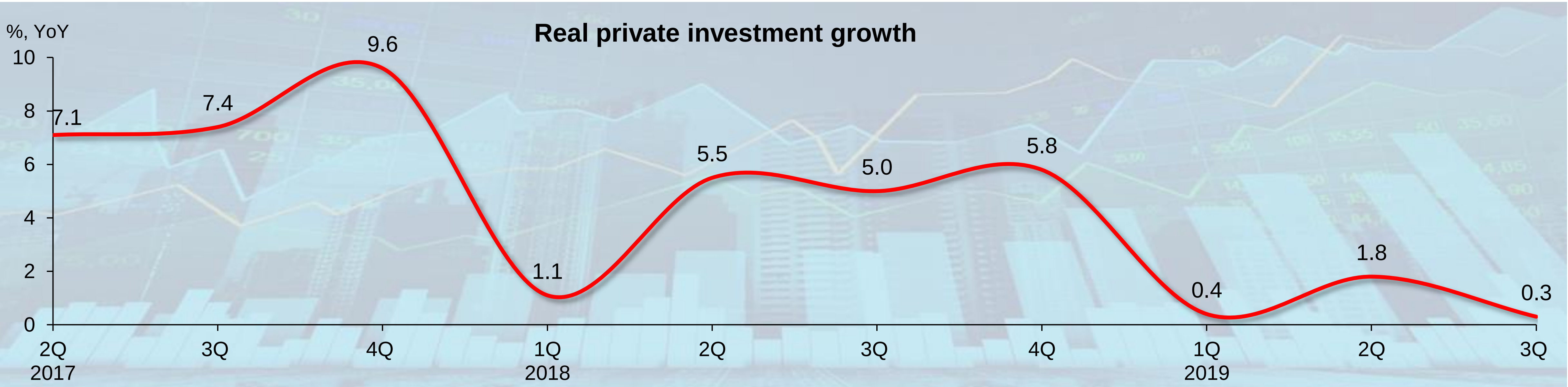
Consumer spending likely to **moderate to 6.7% in 2020** (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

Note: Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).

Source: DOSM; BNM

Slackening private investment growth is worrying

- Private investment's momentum had moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It expanded by 0.9% in Jan-Sep 2019.
- SERC expects **private investment to increase by 2.2% in 2020** (estimated 0.8% in 2019).



➢ **Downside risks remain**:

Heightened global uncertainty, slower global growth and trade hostilities

Domestic policy uncertainties; persistent weakness in the property segment, especially residential and commercial properties

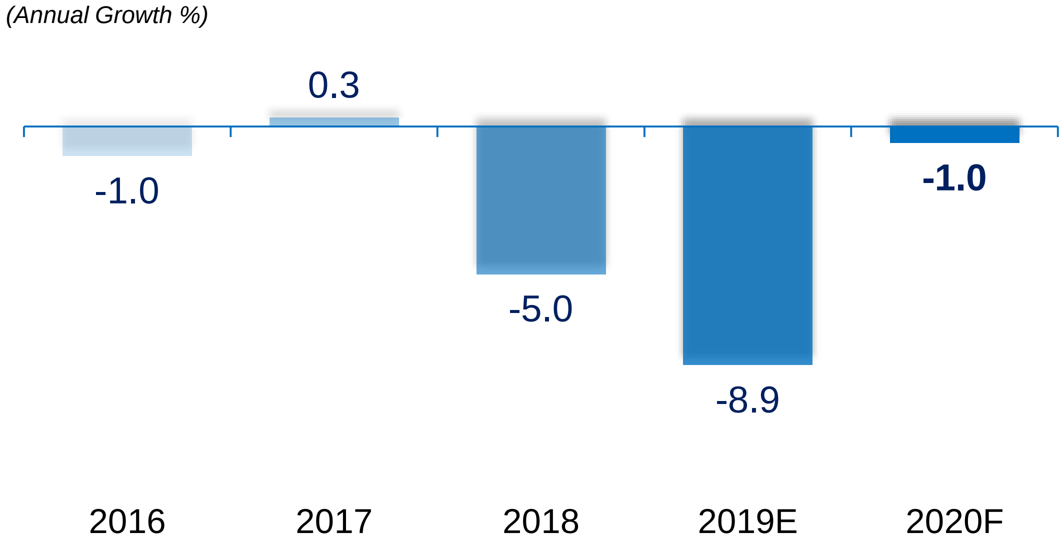
Source: DOSM

A smaller drag from public investment expected in 2020

- **Development expenditure** (DE) is budgeted to increase by **4.3% to RM56.0bn or 18.9% of total expenditure** in 2020 (RM53.7bn in 2019).
- Of the 2020 allocation, **RM53.2bn** is allocated for **4,744 ongoing projects** while **RM2.8bn is for 722 new projects**.
- New projects in O&G industries (Kasawari Gas Development, ongoing projects (Floating LNG 2).
- MRT2, LRT3, LRT line extension and ECRL, Tekai hydroelectric and Pasir Gudang combined-cycle gas turbine; Pan Borneo Highway, airports expansion, Singapore–Johor Bahru Rapid Transit System (RTS Link).

Smaller contraction in public investment

2020F: 6.1% share of GDP



Higher development expenditure

2020B: 18.9% share of total expenditure

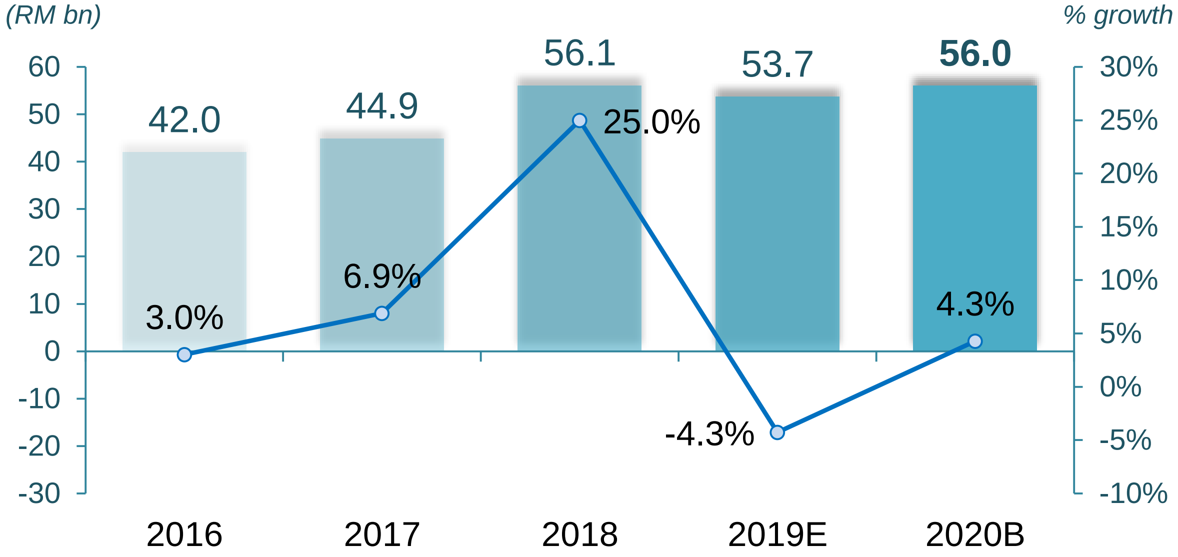


Figure in parenthesis indicates SERC's estimates and forecast
Source: MOF; SERC

Where is the growth coming from?

Services (2019E: 6.1%, 2020F: 6.0%)
% share of GDP in 2020F: 58.2%

- Supported by tourism related activities and accelerating growth of e-commerce.
- 5G-driven ICT; increase in bank lending and higher fee income; operation of new highways.

Manufacturing (2019E: 4.0%, 2020F: 3.9)
% share of GDP in 2020F: 22.1%

- Benefit from global electronics supply chain following the US-China trade and technology dispute and uptick in electronics cycle.
- Domestic-oriented industries (consumer and construction-related clusters).

Agriculture (2019E: 4.4%, 2020F: 2.5%)
% share of GDP in 2020F: 7.2%

- Higher output of palm oil (2020: 22.2 mil tonnes vs. 21.0 mil tonnes in 2019); CPO average prices at RM2,100 per metric tonne in 2020 vs. RM2,000 in 2019; Higher demand (bilateral trade deal) from China.
- Higher production of rubber and food products (except aquaculture).

Where is the growth coming from? (cont.)

Figure in [ ] indicates SERC's estimates and forecast

Mining (2019E: 0.5%, 2020F: 0.8%)
% share of GDP in 2020F: 7.0%

- Strong demand from petrochemical industry; rising exports of LNG.
- Commencement of the North Malay Basin Full Field Development (FFD – Phase 2), Gorek, Integrated Bokor (Phase 3), Betty redevelopment projects.
- Crude oil subsector is expected to increase moderately, underpinned by the development of Anggerik FFD, Zetung FFD and Bayan Oilfield (Phase 2B and 2C).

Construction (2019E: 0.8%, 2020F: 1.5%)
% share of GDP in 2020F: 4.7%

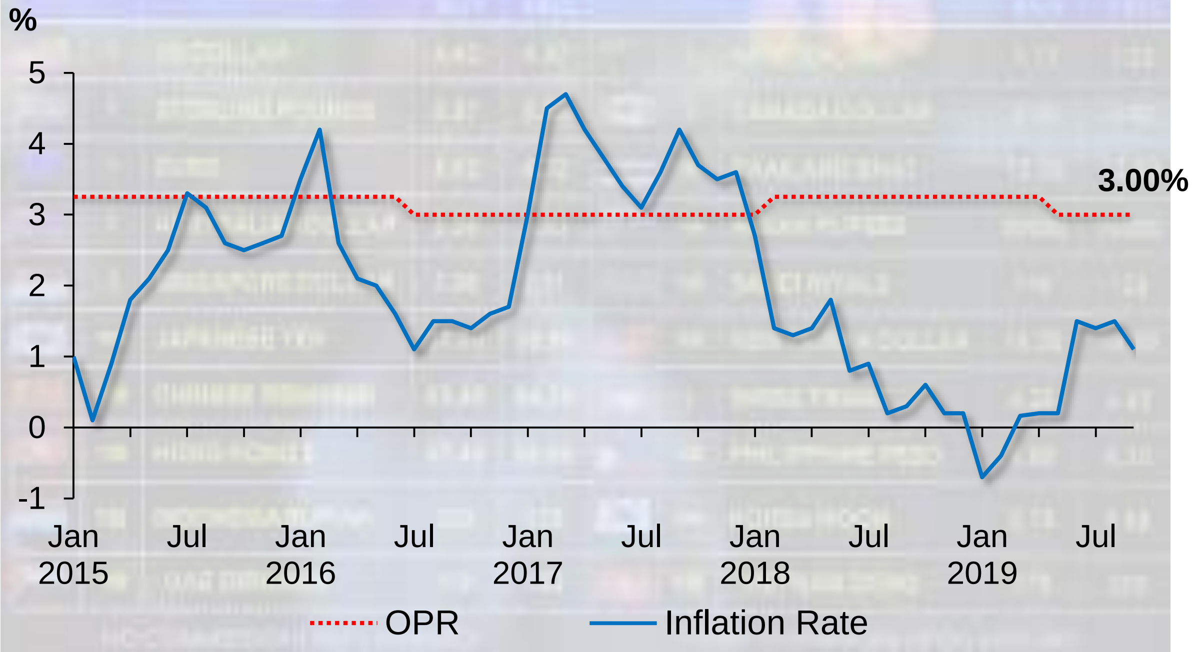
- Acceleration and revival of mega projects and building of affordable housing.
- Civil engineering segment: ECRL; MRT2; LRT3; Electrified Double Track Gemas-Johor Bahru; KVDT2; Central Spine Road; Pan Borneo Highway; and Coastal Highway in Sarawak.
- Non-residential subsector remains subdued, dragged by persistent overhang.

BNM keeps rate cut door open

- BNM cut the overnight policy rate by 25 bps to 3.00% in May. SRR was reduced by 50bps to 3.00% effective 16 November.
- Reserve monetary arsenal while continue to assess the impact of rate cut on domestic demand.

Inflation will average higher in 2020

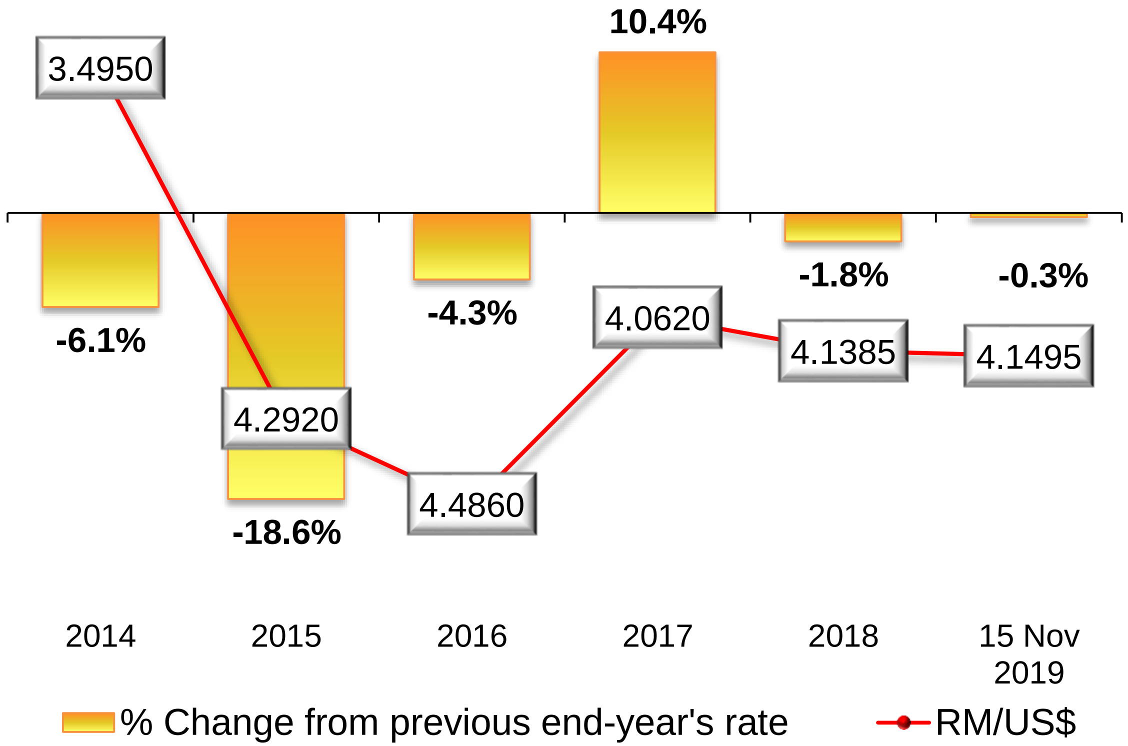
Year	2015	2016	2017	2018	2019E	2020E
OPR (%)*	3.25	3.00	3.00	3.25	3.00	2.75-3.00
Inflation Rate (%)	2.1	2.1	3.7	1.0	0.8	2.0



* OPR as at end-year

Source: DOSM; BNM; SERC

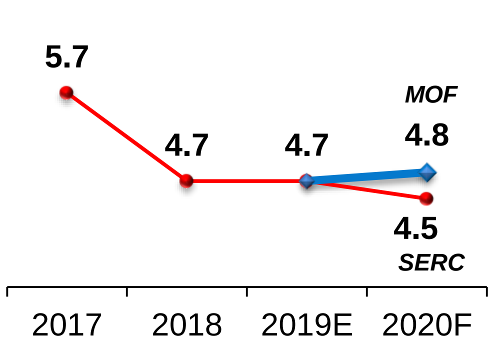
Ringgit outlook at RM4.05 per US dollar et end-2020



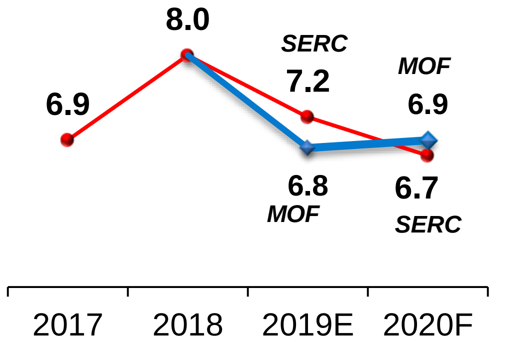
Note: Exchange rate (12:00 rate) as at end-period

Malaysia's key economic indicators

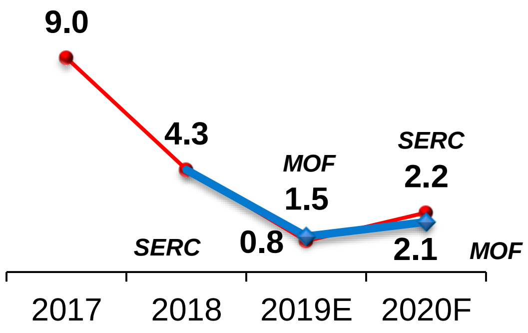
Real GDP Growth
(%)



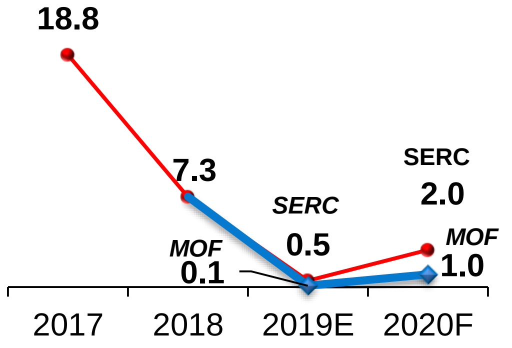
Private Consumption Growth
(%)



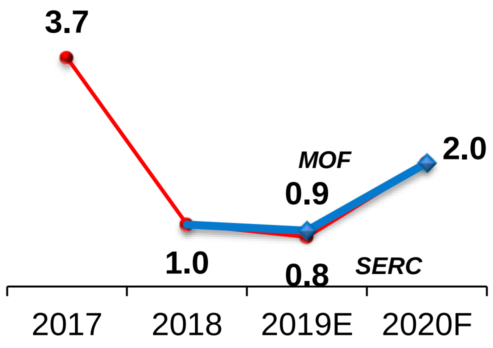
Private Investment Growth
(%)



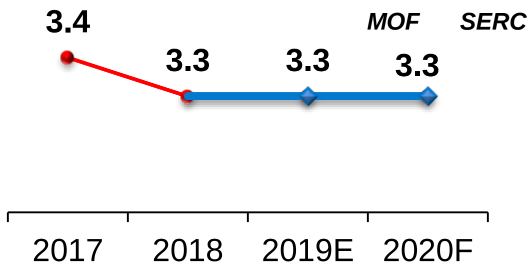
Gross Exports Growth
(%)



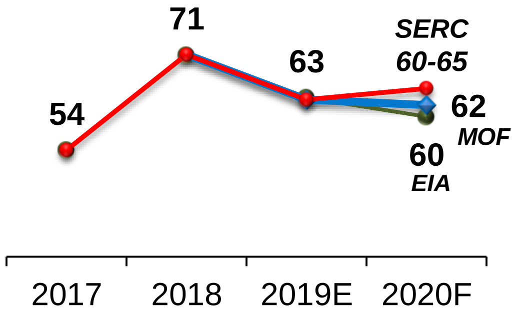
Inflation Rate
(%)



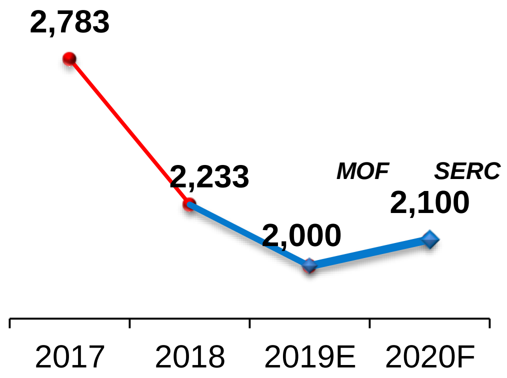
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)

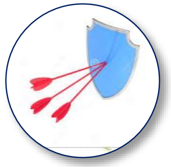


Crude Palm Oil Prices
(RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC

What can buffer Malaysia against external shocks?



Malaysia is in a position of strength to face headwinds. Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

A well-diversified trade, economic sectors and sources of foreign direct investments. This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as country.

Targeted gradual fiscal consolidation path is appropriate while continuing to protect growth-enhancing spending.

The **financial sector is well capitalised** to cope with most shocks. As at September 2019, banks' liquidity buffers exceeded regulatory levels with strong loan quality amid an uptick in aggregate non-performing loans (NPLs) to 1.6% of gross loans since March (1.5%) and sizeable provisions (88.8% to total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 143.6%.

Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus**.

2020 Budget – Budget for the Future

Spurring Private Investment through Enhancing Competitiveness

Gearing up for Digitalisation & Industry4WRD

SME Financing & Entrepreneurial Development

Supporting Agriculture Sector

Jobs Creation and Upskilling of Workforce

Driving Tourism - Visit Malaysia Year 2020

Promoting Access to Housing & Ease Property Overhang

Affordable Healthcare in An Inclusive & Caring Society

Enhancing the Transportation Ecosystem

Enhancing Research & Development (R&D) Framework

Easing Cost of Living

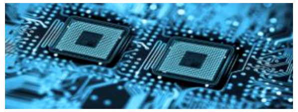
Empowerment of Bumiputera Agenda

Narrow Rural-Urban Divide and Regional Development

2020 Budget’s overall impact – Mildly positive

- **Positive –** SMEs, Construction, Housing, Tourism (VMY2020), Digital, telcos and services providers (National Fiberisation & Connectivity Plan – RM21.6bn over five years), plantation (palm oil and rubber), exporters (matching grants and Market Development Grant)

- **Unemployed youth, graduates, women –** RM6.5bn Malaysians@ Work initiative



- **Electronics and electrical sector –** Income tax exemption up to 10 years to services; special Investment Tax Allowances

- **Islamic finance –** Sukuk bonds market

- **Digitalisation and Industry4WRD** – Accelerated Capital Allowance (ACA) and automation equipment capital allowance; Smart Automation matching grants

- **Rural development** – RM10.9 billion allocation on rural electrification, roads, water projects, Pan-Borneo Highway project. Sabah will receive RM5.2 billion and RM4.4 billion for Sarawak

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THANK YOU

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