

# Outlook for the Malaysian economy 2013-14



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## Main Messages

1. GDP growth to 2014 should moderate but remain resilient given strong consumer expenditure and public & private investment.
2. Net trade still highly uncertain with world growth and trade forecasted to slow in 2013. Pickup in 2014 with US and Europe but constrained by structural issues.
3. Persistent budget deficit and rising debt are concerns and is a risk, particularly in an environment of rising interest rates.



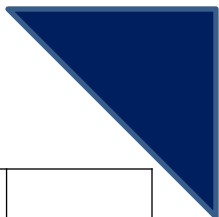
## Main Messages

4. Challenge for government is curtail operating expenditures, rationalise subsidies and plug leakages, all without derailing growth
5. Reining in public sector debt and improving performance of NFPEs must also be high on policy agenda. Failure to do so can have serious consequences.
6. Current account surplus falling with rising investment activity. Must avoid twin deficit problem so that credit rating and investment prospects will not be downgraded.





## Main Messages

7. As Malaysia shifts from export- to domestic demand driven economy, non-tradable sector will become more important driver of growth. This will have important implications for labour and credit markets and productivity.
8. Response must be to liberalise economy and seek greater foreign market access for goods, services and investment. Rationale for Asean Economic Community, Regional Comprehensive Economic Partnership and Trans-Pacific Partnership.




Period		GDP	Total	Consumption		Total	Investment		Exports	Imports
				Private	Public		Private	Public		
2010	1Q	10.3	6.3	5.5	9.9	7.4	20.8	-5.4	21.0	28.2
	2Q	9.4	8.7	8.2	10.5	13.5	37.6	-12.6	15.5	23.1
	3Q	5.5	4.2	7.0	-7.1	13.2	26.3	-3.1	7.9	11.7
	4Q	5.0	5.8	6.7	3.1	13.0	-11.0	37.2	2.4	4.3
2011	1Q	5.2	7.4	6.7	10.8	11.3	24.4	-4.8	2.2	9.7
	2Q	4.3	6.2	6.3	5.7	2.9	6.2	-2.8	5.5	4.3
	3Q	5.7	9.6	7.3	20.7	5.5	2.0	11.2	5.0	4.0
	4Q	5.3	10.8	7.0	22.5	6.0	13.7	0.9	5.7	6.9
2012	1Q	5.1	7.6	7.3	9.2	14.9	18.7	8.9	2.2	7.0
	2Q	5.6	9.1	8.6	11.0	26.2	25.6	27.2	1.6	8.3
	3Q	5.3	7.4	8.6	2.4	22.3	22.4	22.2	-2.5	4.5
	4Q	6.5	4.9	6.2	1.2	16.0	20.1	12.9	-1.6	-0.6
2013	1Q	4.1	6.1	7.5	0.1	13.2	10.9	17.3	-0.6	3.6

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- 2010: Strong 1HY due to sharp rebound in external demand and domestic stimulus package. 2HY moderated due to tapering of export recovery.
  - 2011: Expansion in 1HY fueled by public consumption and private investment. 2HY saw stronger government expenditure, with rising private consumption.
  - 2012: Private and public consumption continued to rise in 1HY. Private and public investment also kicked in strongly.

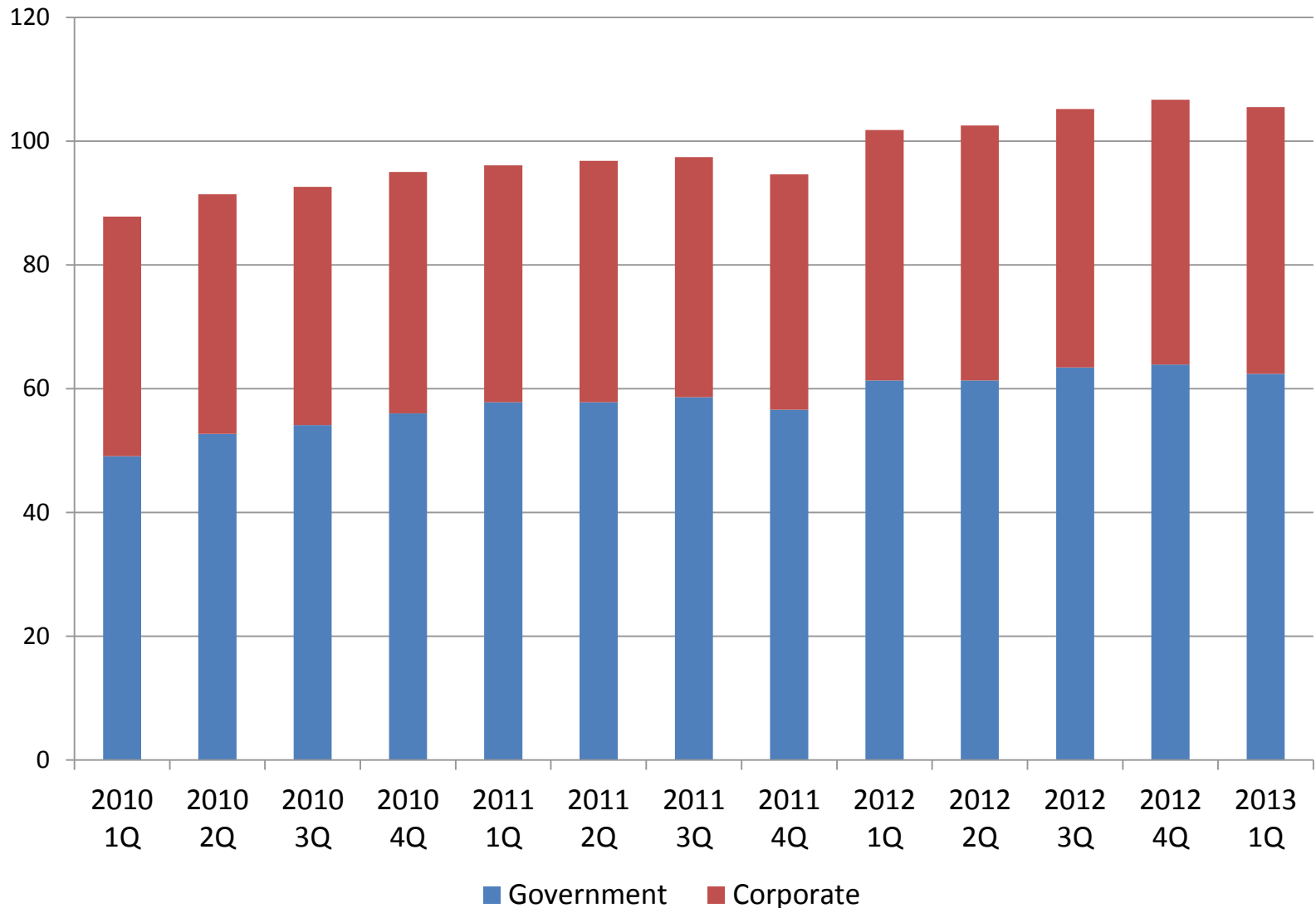
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- 2013: 1HY saw stronger private consumption and public and private investment. Latter two expected to continue through to 2014, while private consumption moderates in 2HY. Net trade, however, could drag as exports slow and imports rise. GDP growth expected at 4.5-5.0 per cent.
  - 2014: Follow-through of public and private investment and private consumption with less negative net trade contribution. GDP growth anticipated at 5.0-5.5 per cent.






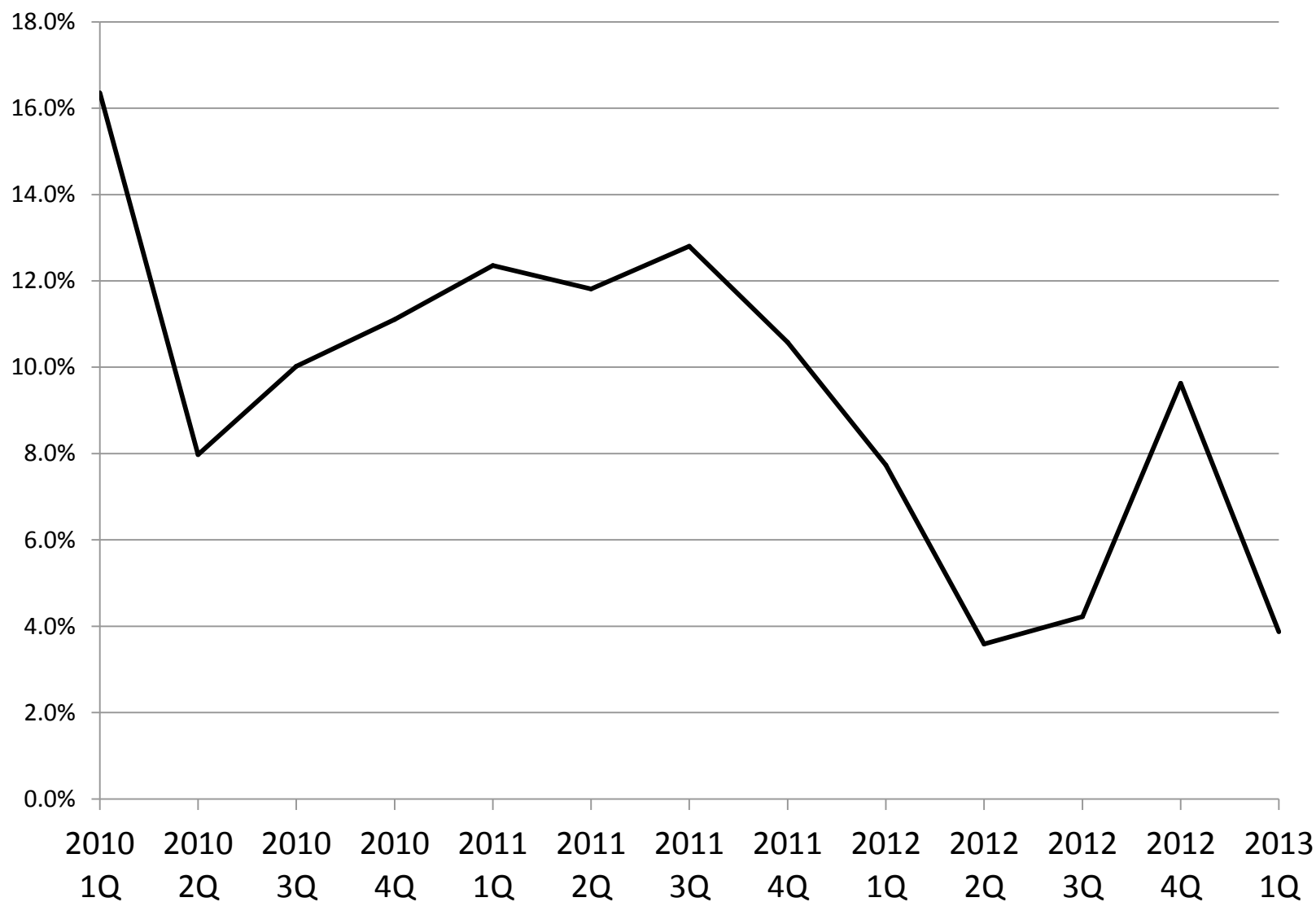
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- Operating surpluses of NFPEs have been falling while development expenditures have been rising (2012).
  - Led to markedly higher deficits and debt. Financing has been by financial institutions, with a significant portion backed by government loan guarantees.
  - Development expenditure unlikely to be curbed into 2014. NFPEs (and GLCs) need to build stronger balance sheets through equitisation.


# Public and corporate debt (% GDP)



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- Total debt topped 100 per cent of GDP in 2012 while public sector debt exceeded 60 per cent. Much more reliance on debt to finance economic activity will red-line the economy.
  - Gross household debt is 80.5 per cent of GDP, one of the highest in the world. Private consumption growth likely to be constrained.
  - Danger of debt-dependency is that economy is sensitive to interest rate increases and possible defaults.
  - Exposure to external debt, however, is not high at around 28 per cent of GDP.

# Current account surplus (% GNI)



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- Current account surplus of balance of payments has reduced considerably. Natural as investment and economic activity has picked up.
  - What is of concern is the speed of descent – from 12 per cent of GDP at end of 2011 to 4 per cent at present
  - Weaker exports have been primary causes although rising imports also a growing factor.