

Malaysia in 2009

KUALA LUMPUR: The US subprime crisis has spread to the real sector and is depressing economic activity worldwide. Malaysia, however, is less affected by the global economic crisis than other Asian countries with big exposure to the US economy. Spending on oil and gas exploration and production in Malaysia is not expected to drop. The government is expected to continue applying fiscal and monetary stimuli to offset slower growth.

Although the banking sector in Malaysia has little direct exposure to the US subprime problems, it is starting to feel the effects of a slowdown in the US, as it is the second most important trading partner to Malaysia, with a share of close to 12% of total trade.

From a high of 7,1% of GDP growth in 1st quarter 2008, the growth has dropped to 4,7% in the 3rd quarter. Against the current global economic landscape, the robust growth in H1 is expected to lose its momentum in the second-half and the annual GDP growth for Malaysia is now estimated to 5%. and to 3% - 3,4% in 2009 – due mainly to slowdown in private investment as risk aversion heightens among investors.

Will weather the storm

Despite the forecasted slowdown in growth, Malaysia fares relatively well compared to its regional peers. Having weathered the 1997/8 Asian financial crisis, Malaysia enters this period of economic crisis with a more strengthened position.

A local rating agency believes the silver lining in the Malaysian economy is the huge surplus in the current account of balance of payment, a high level of external reserves and sound banking system. Banks in Malaysia are mainly domestically focused with more than 90% of total assets in ringgit-denominated assets, and this makes Malaysia much less impacted than other Asian countries like Japan, Singapore and China that had exposure to the US subprime market.

Diversification

The strategy chosen by Malaysia is to diversify the domestic economy as well as the export markets, and the services sector is expected to be the pillar of strength amidst a weak manufacturing sector.

While exports to the US stood at 13% of total exports (January – June 2008), its proportion has declined from 25% 10 years ago. Almost 56% of Malaysia's exports went to Asian economies (excluding Japan) and the growth of inter-Asian economic relations is regarded as a protection against a downturn in industrial exports to the US.

Businesses' and consumers' sentiments generally low

From local businesses and consumers' end, the feelings are found to be generally bearish towards where the economy is heading. As indicated by the results of third quarter surveys by Malaysia Institute of Economic Research, the Business Conditions Index (BCI), which is based largely on firm-level information, has slipped to 99,6 points from 114,1 points in Quarter 2.

On the other hand, the inflationary jitters among the Malaysian consumers have ebbed somewhat in Quarter 3, as evident with the Consumer Sentiments Index that has rebounded from 70,7 points in Quarter 2 to 88,9 points, aided by recent moves to lower domestic oil prices and bonus payment to public servants.

Despite the economic downturn, about 70% of the 202 companies which took part in the Malaysian Employers Federation (MEF) survey said there would be salary increases for staff in 2009. The pressure from high inflation has diminished following the drop in energy and food prices

and it is expected to moderate further in 2009.

Some sectors would be more insulated

Some sectors of the economy are more resilient. A local research house picked products for local consumption - oil and gas (O&G), food and beverage, as well as the agricultural sectors – to be less affected by the downturn.

Local industry players in the O&G sector are banking on orders in hand to weather the tough economic outlook – and this will keep their profit level sustainable for the next 2 to 3 years.

End of October, Petronas, Malaysia's national petroleum corporation, awarded 15 contracts for four upstream oil and gas projects worth a total of RM2.8bil to five local fabricators. The projects, all offshore, are expected to be completed by 2011, and the earning impacts from these contracts are expected to also channel activity to other service providers in the industry.

Petronas to uphold its development programme

Also, the fact that the exploration and production (E&P) of oil in Asia is driven by national oil companies and governments, the industry's spending here is less susceptible to price weakness. Petronas, with its huge cash coffer, is expected to maintain its planned long-term development programme.

With its focus on deepwater exploration to boost reserves and that more oilfields are entering the capital intensive development phase, E&P spending is not expected to drop. For its six-month period ended 30 September, Petronas' capital expenditure increased by 74% to RM23.2bil compared with the same period a year ago.

Food and beverage resilient

On the other hand, food and beverage (F&B), being one of the basic necessities, has always been known to be one of the most resilient industries. And in a modern society like Malaysia that consume high levels of processed food, F&B companies are expected to have better, although not less challenging, chances to continue doing well in an economic downturn.

Going Forward

In its November's monetary policy statement, the Central Bank of Malaysia mentioned that the global economic and the international financial conditions are expected to continue to remain volatile and uncertain. With Malaysia's manufacturing sector that is dominantly export-oriented (60% of the manufacturing production comes from export-oriented industries such as Electrical & Electronics, petroleum products and textiles), the heat from the economic slowdown will set in comes 2009.

On a more positive note, most analysts are of the opinion that the impact of the global economic downturn on Asia (including, of course, Malaysia) this time may be less acute than during the 1997/98 Asian financial crisis. Asian governments, including Malaysia, are expected to continue applying fiscal and monetary stimuli to offset slower growth.

On Malaysia's part, apart from an RM7billion spending package for public projects that was announced in early November, the country's Central Bank has cut its benchmark Overnight Policy Rate (OPR) to 3.25% from 3.50% (the first cut in 5 years), and signalled it was ready to cut the rate further. Also, the statutory reserve requirement (SRR) for banking institutions was reduced from 4% to 3.5% (for the first time in a decade), to inject more liquidity into the banking system.

Sources: *StarBiz, Business Times (New Straits Time), Bank Negara Malaysia, Malaysia Institute of Economic Research*