Economic Monthly [Asia]

Malaysia to be required to promote growth strategies after a general election

AKI FUKUCHI
ECONOMIC RESEARCH OFFICE

26 APRIL 2018
(ORIGINAL JAPANESE VERSION RELEASED ON 25 APRIL 2018)

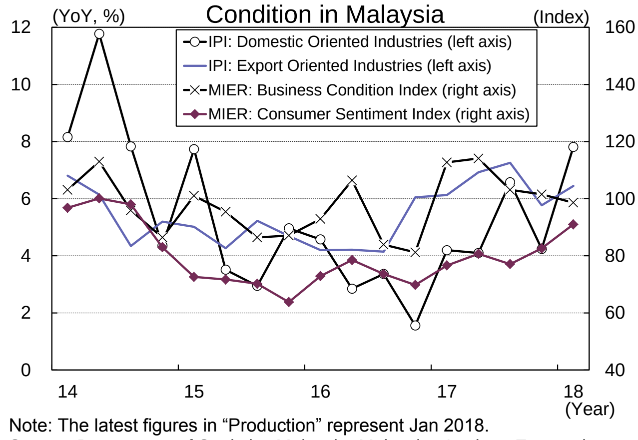
MUFG Bank, Ltd.
A member of MUFG, a global financial group

Malaysian economy has been showing resilience. Real GDP growth was +5.9% YoY in 2017, exceeding the levels of Indonesia (+5.1% YoY) and Thailand (+3.9% YoY) in ASEAN major countries. Since the beginning of the year, Industrial Production has remained firm, not just in the main export oriented industries such as electronic and electrical product but also in domestic oriented industries such as steel and transport equipment which has shown higher growth (see chart 1). Looking ahead, the economy will continue to expand as private consumption is expected to expand backed by an improvement in employment and income environment and consumer sentiment, and export will maintain its gradual increasing trend on the back of strong global economy.

Malaysian Prime Minister Najib Razak announced the dissolution of parliament (222 seats, five-year term) in early April. Having a general election scheduled on May 9, Najib's ruling Barisan Nasional (BN) coalition aims to stay in power by highlighting its achievements in economic growth while the opposition Pakatan Harapan (PH) coalition, under the leadership of a former Prime Minister Mahathir Mohamad, aims at a change of power by criticizing the corruption allegation against the current administration. It is widely thought, for now, that the ruling coalition is set to win another term. Continuity of policies as a result of victory by the ruling coalition would contribute to stable economic expansion in the near term.

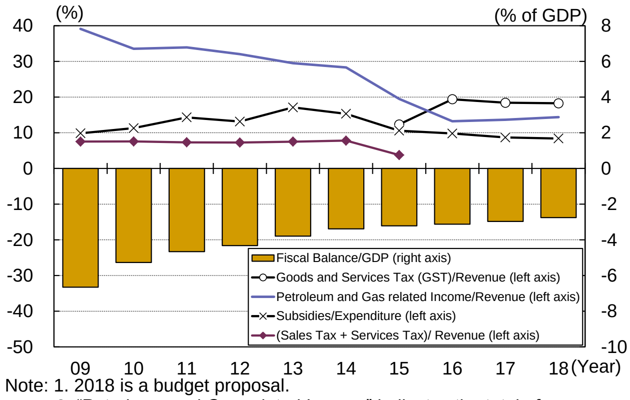
Looking back at the policy management by the Najib administration, the mid-to-long term economic stabilization policies such as fiscal reform can be generally evaluated. The administration has managed to narrow the fiscal deficit amid a decrease in petroleum and gas related income due to a drop in resource price through cutting subsidies for fuels and others in phases since 2010 and introducing Goods and Services Tax (GST) in April 2015 (see chart 2). Meanwhile, "New Economic Model (NEM)", announced in 2010, aimed at economic advancement and efficiency through reviewing bumiputera policy which protects and favours ethnic Malays and other indigenous people and lowering dependency on less-skilled foreign workers. However, not much progress has been made as bumiputera policy was re-strengthened afterwards and the foreign workers (even just the legal workers) still account for around 20% of total labour force. BN made "narrowing income gap" as one of the campaign promises. The government after the general election will be required to commit to promote growth strategies which would contribute to the advancement of industry.

Chart 1: Industrial Production and Business Condition in Malaysia



Note: The latest figures in "Production" represent Jan 2018.
Source: Department of Statistics Malaysia, Malaysian Institute Economic Research (MIER), MUFG Bank Economic Research Office

Chart 2: Major fiscal indicators in Malaysia



Note: 1. 2018 is a budget proposal.
2. "Petroleum and Gas related Income" indicates the total of Petroleum Income Tax, Petroleum and Gas Royalty and dividends received from the state-owned petroleum company, PETRONAS.
Source: Ministry of Finance (MOF), MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Aki Fukuchi <aki_fukuchi@mufg.jp>