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Malaysia’s fundamentals still solid

PETALING JAYA: The Malaysian economy is not out of the woods yet, but experts say the country remains supported by solid macroeconomic fundamentals.

The fundamentals will help to put the economy back on track, once the Covid-19 pandemic is brought under control.

Moody’s Investors Service said last week that the country has a diversified, competitive and moderately large economy, ample natural resources and strong medium-term growth prospects.

The country’s large pool of domestic savings also supported the high government debt burden and lowers liquidity risk.

Speaking with StarBiz, Bank Islam Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid (pic, below) pointed out that Malaysia has a resilient banking system that is highly liquid and well-capitalised.

“This has allowed more flexibility for Bank Negara to leverage on the strength of the banking institutions to complement the prevailing monetary policy stance, ” he said.

The country enjoys the presence of strong institutional investors such as the Employers Provident Fund, the Retirement Fund Inc (KWAP), large insurance companies and asset management companies, according to Mohd Afzanizam.

The presence of strong institutional investors will allow better absorption rate in the event of volatility in foreign capital flows.

“In addition, the government debts have very little exposure to foreign currencies, with 97% of them being ringgit-denominated debts.

“This would give the government the flexibility to raise more funds via the local capital markets as the credit risks are low. The government can always resort to increasing its funds and refinance existing borrowings, ” said Mohd Afzanizam.

Meanwhile, MIDF Research economist Abdul Mui’zz Morhalim said Malaysia’s growth fundamentals would remain intact, especially after the current health crisis is brought under control.

Being an exporting country, he told StarBiz that Malaysia would benefit from the recovery in global demand.

“Despite the lockdown, we foresee Malaysia’s economic growth to be supported by the technology upcycle, as well as demand for commodity products such as rubber gloves, palm oil and crude oil.

“On the back of growing international trade and recovery in demand from major trading partners like China and the United States, Malaysia is expected to continue recording a current account surplus, ” he said.

In April 2021, Malaysia’s total trade recorded the strongest growth ever since 1998 with a surge of 43.2%, reaching RM190.8bil compared with RM133.2bil a year earlier.

According to the Statistics Department, exports remained at a higher level, increasing by 63% year-on-year (y-o-y) to RM105.6bil. Imports in April 2021 were valued at RM85.1bil and increased by 24.4% y-o-y.

Trade balance continued to record a surplus with a value of RM20.5bil.

Apart from the recovering global demand that boosts Malaysia’s exports, Abdul Mui’zz said the country would also benefit from the high commodity prices, especially crude oil and palm oil.

Malaysia continues to be backed by its “stable and strong” banking system, despite the ongoing macroeconomic challenges. according to Abdul Mui’zz.

“Stress tests conducted by Bank Negara showed Malaysian banking institutions are well-capitalised and able to withstand shocks to the economy.

“Until now, we see banks continue to extend new lending and financing to the economy, supported by the currently accommodative monetary policy, ” he said.

Moody’s Analytics, in a report issued yesterday, concurred that Malaysia’s exports are powering ahead, thanks to high commodity prices coupled with strong consumer tech demand.

However, it pointed out that there are concerns about how much the domestic manufacturing sector and the country’s exports will be limited by capacity constraints introduced during the latest lockdown

“Prior to the latest lockdown, the government pinned GDP growth at 6% to 7.5% in 2021. But there will be downward revisions announced in coming weeks.

“Our baseline forecast assumes a 5.6% expansion in 2021, but there is added downside risk and heightened uncertainty.

“The lockdown will disproportionately impact domestic demand, particularly household consumption given that only essential services are allowed to be in operation, ” it said.

However, Moody’s Analytics opined that the latest fiscal stimulus should do the heavy lifting that guides the economy through this latest lockdown.

On May 31, the government introduced a new stimulus package called Pemerkasa Plus worth RM40bil, equivalent to 2.7% of the gross domestic product to cushion the blow from the lockdown.

The latest fiscal package is the third package to be introduced by the government this year and is double the RM20bil package announced in March.

“The government is running out of fiscal space against rising debt obligations.

“Prior to the latest stimulus package, the government estimated the fiscal deficit would hit 6% in 2021, unchanged from the deficit in 2020 and the largest since the financial crisis in 2009, ” according to the research firm.

Moody’s Analytics added that Bank Negara has limited room to flex monetary muscle after substantial monetary easing in 2020.

“We put odds of a 25-basis point rate cut in the third quarter at 70%, bringing the policy rate to 1.5%.

“It is a potentially risky move with some chance of igniting capital outflows given higher US yields, ” it said.

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