

ASLI 2009 MALAYSIA STRATEGIC OUTLOOK
CONFERENCE

Malaysian Economic Outlook and New
Challenges

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ECONOMIC TRENDS

- Global economic slowdown
- Developed economies in recession
- Asian emerging economies lower growth
- Inflation down but risk of deflation
- Steep falling commodity prices
- Unconventional policy responses

NEW ECONOMIC PHILOSOPHY

- Neoliberalism and market failure
- Return of Keynesianism and role of State
- Policy response through fiscal stimulus and bailout
- Focus on domestic aggregate demand and return of protectionism

ASIAN CENTURY?

- Decoupling debate & Asian econ. Resilience
- Real & Financial decoupling- a distinction
- Financial contagion-increasing financial market swings affect EM financial markets & increasing correlation of stock market fluctuations across the world e.g. cataclysmic events on Wall St. affect financial markets worldwide
- Big question: whether financial spillovers affect the real ecy.
- Answer: answers less clear & there seems to be a dichotomy between real & financial variables in EMs

REASONS FOR DICHOTOMY

- Ems growth momentum's headwind sustains growth albeit lower & possibility of lags between financial market disturbances & the real ecy.
- Financial markets in Ems still relatively small & disconnected from the real ecy.
- Lessons from AFC built large forex reserves, less borrowings in foreign currencies & better regional cooperation for intervention
- Shifting structure of world ecy. – changes & effects are difficult to predict
- The past may no longer be a good guide to the future – difficult to rely on conventional wisdom

TRANSMISSION CHANNELS OF CRISIS CONTAGION

- In principle occurs in THREE channels
- Monsoon effect – thro foreign trade
- Financial contagion – thro financial flows & global deleveraging
- Pure contagion – thro systemic & simultaneous breakdown of money & bank markets creating generalised risk aversion & shedding of all assets without public guarantee
- First & second channels transmitted thro int. economic integration while the third can be stopped by decisive policies

GLOBAL POLICY RESPONSES

- Fiscal stimulus in most developed ecys.
- China's \$586 B infra stimulus
- Asian & BRIC cys. Institute measures
- Asian reserve accumulation strategy works
- Robust banking sector after AFC
- Increased intra-Asian trade – two-fifths of total trade
- Ems not so financially integrated to devd. Ecy's financial markets
- Asian cys. Limited exposure to toxic assets
- Declining inflation enables focus on growth

EVALUATING ECONOMIC RESILIENCE

1. Financial sector soundness
 - susceptible to sudden capital flow reversals
 - external borrowings
 - health of banking sector & capital market
 - investor confidence
2. Structure of demand
 - strength of domestic demand & impt of ext trade
 - products exported & direction of trade

EVALUATING ECONOMIC RESILIENCE (cont)

3. Macroeconomic management

- foreign reserves level & its volatility
- savings-investment gap & sources of savings
- Government fiscal flexibility, indebtedness & funding capacity

RESILIENCE EVALUATION OF MALAYSIA

- Our financial sector is sound
- Our domestic demand for the last few years supported sustained growth momentum
- Our exports have been diversified away from footloose industries to better value-added products
- Our strong natural resource-based economy acts as an economic stabilizer
- Our macroeconomic fundamentals remain strong
- Our high national savings can be mobilized for Inv.
- Our monetary & fiscal flexibility allows further actions

WORLD ECONOMIC OUTLOOK 2009

- OECD summary growth forecast very pessimistic for total OECD OF (-0.4%), where US is (-0.9%), Japan (-0.1%) and Euro area (-0.6%) & world trade growth of 1.9%
- Story of two halves – 1st Half of negative growth and 2nd Half of recovery of positive growth
- Impact of fiscal stimulus will take effect in latter half
- Downside risks will be minimized with coordinated actions globally
- Declining inflationary pressures will assist in focusing on growth measures
- Possible 2009 growth forecasts as follows (see table)

WORLD ECONOMIC OUTLOOK 2009

<u>Country</u>	<u>Growth (%)</u>
USA	0.5
Japan	1.5
Eurozone	0.2
UK	0.5
China	7.0
India	7.0
Singapore	1.5
South Korea	3.5
Thailand	4.0
Indonesia	6.3
Philippines	5.8
Malaysia	4.0

MALAYSIAN ECONOMIC OUTLOOK 2009

- Estimated 2008 growth of 5.4% & forecast 2009 of 4.0% with domestic demand growth of 4.6% (5.4% 2008), C = 3.7%, I = -0.4% and Net Trade = -0.1% where E = -0.5% and Imports = -0.6%
- Sector growth from Services (4.7%), Agriculture (3.3%) , Manufacturing (3.0%) & Mining (2.7%)
- Financial & banking sectors still robust with strong liquidity of about RM180 billion
- Macroeconomic fundamentals sound with falling inflation, still low unemployment and available flexibility for monetary & fiscal measures, if necessary

MALAYSIA: SECTORAL FORECASTS 2009

<u>Sector</u>	<u>Growth (%)</u>
Agriculture	3.3
Mining	2.7
Manufacturing	3.0
Construction	0.0
Services	4.7
<u>Real GDP</u>	<u>4.0</u>

OUTLOOK 2009 (cont)

- Measures implemented as follows:
 - 100% guarantee of bank deposits
 - OPR cut to 3.25%
 - Optional 3% cut in employees contribution to EPF
 - RM7.0 billion fiscal stimulus
- Development expenditure push in final two years of RM9
- Reductions in petrol fuel prices
Enforcement of price controls in place

CONCLUSION

Malaysian economic growth will slowdown from the financial crisis and slower global economic performance in 2009. However, the upside potential is promising if the global economy rebounds with a fast recovery. A forecasted growth of 4.0% is credible in the light of an adverse global scenario.

But if Asian growth performance begins to decouple and drive global economic growth, then we will begin to witness a true Asian century in the making.

THANK YOU.