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Salient points

- Timely for structural changes to the economy
- Labour-market reforms
- Targeted investments for sustained growth
- Embracing digitalisation
- Economic growth of 5.5% to 6%
- Private consumption mainstay of growth
- Public sector spending to decline
- Exports and imports growth to remain strong
- Current account surplus of 2% to 3%
- Risk of rising trade protectionism

Economy ripe for shift

Bank Negara governor says this is the best time to implement reforms

By **CECILIA KOK**
cecilia_kok@thestar.com.my

KUALA LUMPUR: The time is ripe for Malaysia to implement deep-seated economic reforms, given that the country's economy is humming along.

Expecting robust growth to continue for the next two years following a strong performance last year, Bank Negara governor Tan Sri Muhammad Ibrahim (*pic*) said policymakers have ample policy space to institute the necessary reforms to steer the economy towards a sustainable growth path.

"These are the best of times – because of the strong economic growth last year and this year, and most likely for 2019, the economy will be very vibrant – so it is at this time that we need to institute certain reforms, so that we can position the economy on a very strong footing.

"Typically, structural reforms would take time to show results. And in the interim, there might be some short-term economic dislocations. It is during a more positive economic environment that we pursue deeper and more impactful measures," Muhammad said.

According to Bank Negara's projection, Malaysia's gross domestic product (GDP) will grow between 5.5% and 6% in 2018. The central bank expected private domestic demand to remain the anchor of

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>
> Tan Sri Muhammad Ibrahim

the economy, hence the need for deeper reforms.

"New challenges are emerging. There are a number of reforms that we can embark on so that the country can stay competitive, inclusive and remain on a sustainable growth path," Muhammad said.

He stressed three main structural issues on which policymakers would need to focus on.

The first involved reforming the labour market by creating high-quality, good-paying jobs. The second involved attracting the right form of investments that can provide deep and lasting contributions to the country's economy and the third involved embracing new growth areas by accelerating the pace of digitalisation.

"Our economic history has proven ... reforms undertaken over the years. The reforms, he said, enabled the country's economy to become open, agile and highly diversified. He said Malaysia's robust growth projection of 5.5% to 6% for 2018 would be supported by continued growth in all economic sectors.

"We expect 2018 growth to be anchored by private domestic demand. Apart from domestic demand, the favourable external sector will provide further impetus to growth," Muhammad said.

He pointed out that as an open economy, Malaysia would benefit from the strengthening global demand.

Bank Negara expected gross exports and imports to grow at above-average trends in 2018. The central bank said exports would be lifted by favourable demand from major trading partners, the continued expansion in the global technology upcycle, increase in domestic productive capacity and broadly sustained global commodity prices.

Overall, Malaysia's current account balance is expected to record a surplus of between 2% and 3% of gross national income (GNI) in 2018. Last year, Malaysia's current account surplus stood at 3.1% of GNI.

In the domestic sector, private consumption growth would remain supported by continued growth in employment and income, lower inflation and improving sentiment ... growth would be underpinned by ongoing and new capital spending in both the manufacturing and services sectors, and strengthened by continued positive business sentiment.

Public-sector expenditure, however, is projected to decline due to the contraction in public investment amid more moderate growth in public consumption.

Meanwhile, Bank Negara has forecast headline inflation to moderate in 2018, averaging between 2% and 3%, compared with 3.7% in 2017. It attributed the expected moderation in inflation this year to a stronger ringgit and slower growth in crude oil prices.

Despite the positive outlook for 2018, Muhammad said Malaysia still faced several downside risks to growth.

The possible shocks, he noted, could come from rising trade protectionism by major trading partners, monetary and regulatory policy shifts in the advanced economies, and the re-emergence of volatility in financial markets and commodity prices that could weigh down sentiment, which, in turn, could dampen the strength of domestic economic activity.

On a positive note, however, Malaysia remained well-positioned to withstand the headwinds should the downside risks materialise.

"The structural reforms that were undertaken over the years have