Eight factors boost economy

THE STAR 18/09/18 MS. 2

Guan Eng: Bursa Malaysia one of the best performers in Asia Pac

PETALING JAYA: Malaysia's economic strength can be seen from eight different factors, and these reasons collectively have helped to make the FBM KLCI one of the best performers in Asia Pacific to date.

During the CLSA 25th Anniversary Investors Conference in Hong Kong, Finance Minister Lim Guan Eng (*pic*) said it is necessary to note that the FBM KLCI is one of the best performers in Asia Pacific year-to-date with a slight increase of 0.13% as of Sept 7.

In comparison, the Singapore Straits Times Index and the Nikkei 225 index decreased by 8.29% and 1.72% over the same period.

The recent uncertainty in global developments has created greater pessimism and increased downside risks, especially with the emerging markets. Malaysia, as a global trading nation, is not immune to these events.

The ringgit was not spared from these headwinds. Nevertheless, the ringgit remains one of the most resilient regional currencies against the US dollar year-to-date, depreciating by 2.6% against the US dollar since the start of the year.

"Despite all these headwinds, let us not forget that the Malaysian economy is fundamentally strong and resilient. Our strengths can be seen from eight factors," Lim said in a statement.

First, steady growth. The Malaysian economy is expected to remain on a steady growth path, driven by both domestic and external demand.

With growth in 2018 expected to be around 5%, Malaysia will still be one of the fastest-growing economies in the region.

Second, a highly diversified economy. Services account for 54.5% of gross domestic product. Exports are likewise diverse, with manufacturing exports accounting for more than 80% of our total exports.

Third, favourable labour market conditions which remain supportive of growth. This is evident from the low unemployment rate of 3.4% in July 2018 and firm private-sector wage growth. The latter remains strong, registering a growth of 6.2% in the first half.

Fourth, Malaysia continues to have a healthy current account surplus. Malaysia's current account surplus stood at 2.8% of gross national income in the first half and is expected to remain in surplus, going forward. Even more positively, the goods surplus will continue to be supported by a highly competitive and diversified export sector.

Fifth, a flexible exchange rate. The ringgit has evolved since the Asian Financial Crisis to become a fully flexible or floating currency. It is one of the best-performing currencies in Asia. Having this flexibility is advantageous to Malaysia as it allows the ringgit to play its role as a shock absorber during times of stress.

Nevertheless, it is highly important for businesses to recognise that exchange rate adjustments are unavoidable and be ready to manage their currency exposure prudently.

In the medium-term, as the government continues to improve its economic fundamentals, the ringgit will eventually reflect these positive developments.

Sixth, sufficient external buffers. Malaysia's international reserve position of US$104.4bil is adequate to facilitate international transactions.

International reserves account for only a quarter of Malaysia's total external assets. Banks and corporations hold three-quarters of Malaysia's external assets (as at end-second quarter 2018, it was RM1.3 trillion), which can also be drawn upon to meet external debt obligations of RM740.9bil, without creating a claim on international reserves.

Malaysian financial institutions also remain well-capitalised with sufficient liquidity to support intermediation within the economy.

Seven, a low inflation rate of 0.8% in June and 1.1% in July will shield Malaysia from any imported inflation caused by the decline in the ringgit against the US dollar.

Eight, the trade conflict between China and the United States has also created a unique investment opportunity for Malaysia. The tariff wars between the two largest economies of the world have resulted in many companies, particularly large manufacturers – both from the US and China – seeking to site their plants and factories in Malaysia, which is seen as a natural safe investment harbour.

Lim said that Malaysia's education level, quality of hard and soft infrastructure, as well as fluency in both English and Chinese gave the country a natural edge over its neighbouring competitors such as Thailand, Vietnam or Indonesia.

"At the same time, we remain a significantly cheaper investment destination than countries such as Singapore, and naturally Hong Kong," he said.

"Our government has been scarred by the 'global kleptocracy at its worst' that is the 1Malaysia Development Bhd scandal, which has resulted in Malaysia suffering a RM1 trillion debt. We are determined to put in all necessary measures to ensure that corruption and abuse of power is eradicated from our administrative system."