

## **Malaysia's economic outlook for 2009**

August 29, 2008

Following are highlights from Malaysia's annual economic forecast from the Finance Ministry on Friday.

It details the expected outcomes for 2008 and 2009.

### **GROWTH**

A more diversified and balanced economy has contributed towards greater economic flexibility and resilience to withstand volatilities in the external environment. Against this background, the Malaysian economy is expected to register gross domestic product growth of 5.7 percent in 2008. Going forward, we are confident this momentum will continue into 2009, with a GDP growth rate of 5.4 percent.

### **BUDGET DEFICIT**

The high fuel and food prices necessitated the government to adopt a more flexible stance towards fiscal consolidation which has been pursued since 2002. The budget deficit is expected to increase to 4.8 percent in 2008 after achieving a low of 3.2 percent in 2007.

Despite a widening budget deficit, fiscal policy will continue to focus on fiscal discipline with budgetary controls in place to ensure effective public spending.

### **OUTLOOK for 2009**

A marginal increase in operating expenditure and slower growth in development expenditure, supported by prospects of a strong revenue performance in 2009 will enable the government to resume consolidating its finances. Consequently, the federal government deficit is projected to decline to 3.6 percent of GDP in 2009.

### **REVENUES AND SPENDING**

The federal government revenue in 2008 is expected to register a strong growth of 15.5 percent to 161,558 million ringgit or 22.6 percent of GDP in 2008. (2007: 13.2 percent; 139,885 million ringgit; 21.8 percent of GDP).

Subsidies account for 22.6 percent of the operating expenditure. The cost of subsidies is expected to reach 34,103 million ringgit in 2008 on account of high prices of crude oil, food, meals and other commodities globally.

Fuel subsidy, the largest component in the category is expected to increase substantially by 142.2 percent to 18,100 million ringgit in 2008 (2007: -1.1 percent, 7,473 million ringgit)

Development expenditure is projected at 46,258 million ringgit in 2008 (2007: 40,564 million ringgit).

The federal government borrowing is projected to increase following the higher deficit level for the year. However, the government will continue to borrow locally and mainly from non-inflationary sources, while ensuring that borrowing is primarily for financing development expenditure. Given the ample liquidity in the banking and financial system as well as the savings rate in the country, the increased borrowing is not expected to impact negatively on private sector borrowing.

Total gross borrowing of the federal government for the year is expected to amount 60,533 million ringgit.

## SECTORAL OUTLOOK

All sectors are projected to grow at a slower pace in 2008 except agriculture and manufacturing.

The agriculture sector is projected to expand by 3.6 percent in 2008 after a 2.2 percent rise in 2007 while the manufacturing sector is expected to grow by 4.7 percent this year, up from 3.1 percent in 2007.

Mining, construction and services, which is the largest contributor to GDP growth, are expected to register slower growth in 2008.

## EXPORT EARNINGS

The overall export earnings are expected to grow by 9.3 percent in 2008 after a 2.7 percent rise in 2007, driven by strong exports of commodities and recovery in the exports of manufactured goods.

Singapore emerged as the largest trading partner for Malaysia, accounting for 13.5 percent of total trade, based on the first six months figures while the United States, which used to be the top trading partner for the country, moved to the second place.

## PALM OIL EXPORTS

For the whole year, the high demand and price of palm oil is expected to boost export volume and receipts to 14.9 million tonnes and 43.221 billion ringgit.

Malaysia is the world's largest palm oil exporters, accounting for 47 percent of world demand.

## INFLATION

Promoting growth with price stability remains the major thrust of monetary policy.

Amid prospects of global prices persisting at high levels, inflation is projected to remain high in the second half of the year and into early 2009 before moderating in the second half.

## ON IMPACT OF HIGH OIL PRICES

Being an open economy, Malaysia is susceptible to the adverse second round effects on its private consumption, exports and real income (as a result of cost-push inflation) as well as employment.'

**Source: Thomson Financial News**