

Tough period ahead



General Information

GDP	USD326.9bn (World ranking 35, World Bank 2014)
Population	30.2mn (World ranking 44, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Mohamed Najib bin Abdul Najib Razak (UMNO Party)
Next elections	2018, legislative



Strengths

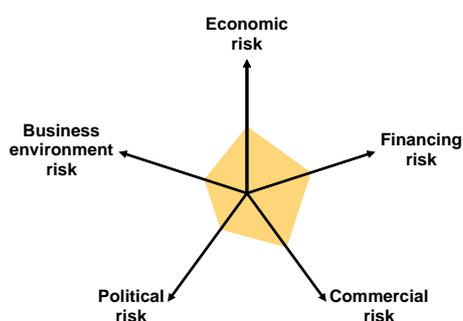
- Member of ASEAN
- Low inflation
- Large current account surpluses since 1998
- Generally strong business environment
- Resilient banking sector

Weaknesses

- Ethnic-religious tensions
- Export dependency causes cyclical risk
- Slightly elevated fiscal deficits in recent years (currently not a problem but should be addressed in the medium term)
- Government intervention and regulation of the economy remain an issue
- High household debt and high external debt burden

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination / origin

Exports	Rank	Imports
Singapore 14%	1	China 17%
China 12%	2	Singapore 13%
Japan 11%	3	Japan 8%
USA 8%	4	USA 8%
Thailand 5%	5	Thailand 6%

By Product

Exports	Rank	Imports
Electronic Equipments 28%	1	Electronic Equipments 26%
Mineral Fuels 22%	2	Mineral Fuels 17%
Machinery 10%	3	Machinery 11%
Animal and vegetable fats 7%	4	Plastics 3%
Plastics 3%	5	Vehicles 3%

Source: ITC, (2014)

GDP growth to lose steam in 2015

GDP growth is set to slow down to +4.8% in 2015 from +6% in 2014, reflecting lower commodity prices, lower global demand, especially from China, and reduced domestic demand growth. Domestic buffers have weakened. Consumer confidence is on a downward trend as a result of political scandals, lower economic prospects and lower "global purchasing power" due to the declining ringgit. The authorities have little scope to support growth: domestic vulnerability persists, including high household debt (88% of GDP at end-2014) and high public debt compared to regional peers. Furthermore, external risk has increased as reflected in the large fall in FX reserves and the sharp currency depreciation. Risks are tilted to the downside in the short run. In particular, external downward pressures are set to step up for demand growth with the slowdown in China (+6.8% in 2015 and +6.5% in 2016), and for currency and financing conditions with the upcoming Fed rate hike.

Policy mix to be cautious

Monetary policy is based on the assessment of the risk to growth and inflation prospects. The authorities have a good reputation with a positive track record anchoring inflation expectations and enhancing growth. After three years of status quo, the Central Bank raised its policy rate in July 2014 to 3.25% (from 3.00%) anticipating further inflationary pressures with the implementation of the Goods and Services Tax. Due to the fall in energy prices, we expect inflation to edge down to 2.4% in 2015 (from 3.1% in 2014). Although this gives more room for the Central Bank to ease monetary policy, we expect a neutral stance in the short run in order to maintain financial stability. Fiscal consolidation will continue but at a slower pace. Achieving the government's fiscal target (-3.2% GDP in 2015) will be challenging as oil revenues are set to decrease significantly so that there is little room for additional savings in the current low-growth context.

External risks to be the main hurdle

The current account surplus will narrow in the short run (+2.0% of GDP in 2015, down from +4.3% in 2014) as a result of lower export growth. Downward pressures on the currency will persist and the MYR will likely remain at historical lows due to investors' concerns about Malaysia's outlook, and diverging monetary policy with the FED. In that context, FX reserves will probably continue to fall though they should remain at an acceptable level (above three months import cover). A key concern will remain the high level of external debt (more than 60% GDP).

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.

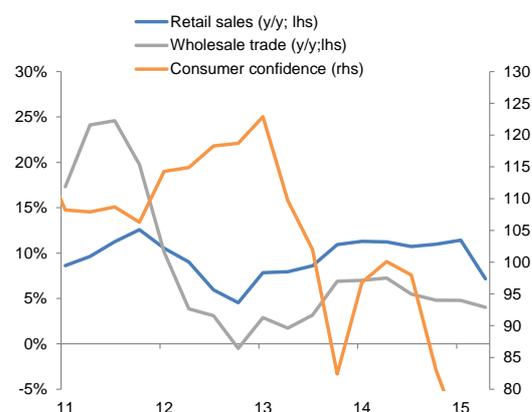
Economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	4.7	6.0	4.8	4.7
Inflation (% , yearly average)	2.1	3.1	2.4	3.0
Fiscal balance* (% of GDP)	-3.8	-3.4	-3.4	-3.2
Public debt** (% of GDP)	57.7	57.0	57.2	57.0
Current account (% of GDP)	3.6	4.3	2.0	3.0
External debt (% of GDP)	65.7	63.3	67.0	66.0

* Federal government balance, ** IMF WEO definition

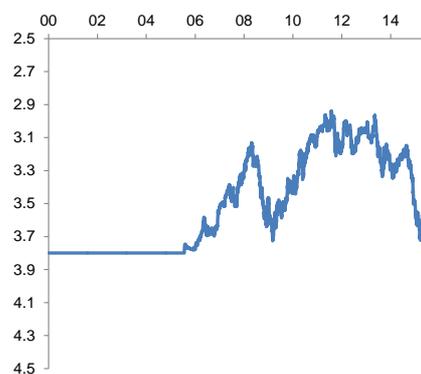
Sources: National sources, IIF, Euler Hermes

Retail and wholesale trade, consumer confidence



Sources: National sources, IHS, Euler Hermes

MYR/USD



Sources: National sources, IHS, Euler Hermes