MEDIA STATEMENT
ECONOMIC OUTLOOK 2015
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Kuala Lumpur, 23 January 2015 – The start of the new year is always a hopeful time, as we celebrate the end of one year and the beginning of another. Looking back, 2014 has been truly an eventful year, with the unexpected plunge in crude oil prices, the stop-starts in the US economy, and the surging Ruble volatility.

Indeed as we celebrate the arrival of 2015, all of us are eager to find out whether the year ahead will be kick started with an auspicious beginning and how the landscape of the new year will turn out.


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From what we can see, the US economy will continue its growing trend and remain a dependable growth engine for the global economy. The US economy has been rather resilient, with encouraging signs of growth in the labour market. Compared to the peak at 10%, the unemployment rate went down to 5.6% in December 2014. Importantly, it helped to wind down the QE program at a gradual pace and signalled to market that with the return of sustained growth, US interest rates would normalise soon.

In contrast to the robust growth in the US economy, the Eurozone is experiencing a fitful recovery process, with even Germany having shown signs of recent slippage. Importantly, unemployment remains a nagging issue across the Eurozone – it climbed to a high of 12%. To tackle this, the ECB unveiled an investment plan over the next 3 years to boost jobs and growth. Meanwhile, ECB began buying asset-backed securities in November last year to step up the pressure and broaden even more channels by altering accordingly the size, pace and composition of its purchases. This goes to suggest that sovereign QE could be on the 2015 card, even as soon as this week. Overall, growth is expected to be positive in Eurozone.

Here in Asia, the two giants of Japan and China are going through some interesting times as well. Japan looks to be on the mend while China is showing a rebalancing theme. In the case of Japan, Prime Minister Shinzo Abe just won the snap election last month. The voting assured that Abe will have another four years to complete his efforts in the “Three Arrows” initiative to revive the Japanese economy. Meanwhile, President Xi Jinping of China continues in his endeavours to advance a number of important reforms and put China’s economic growth on a more sustainable and equitable path. What both leaders manage to achieve this year will have long-term implications for the region.

For Malaysia, the rapid drop in global oil prices has brought on some challenging moments, unfortunately. To be sure, the challenges posed by low oil prices to Malaysia do not come through the trade channel. Indeed, the country’s oil trade balance is actually pretty much close to zero if we consider not just crude oil but also refined petroleum products. This is another way of saying that, whatever amount Malaysia receives by exporting crude oil, it spends nearly the same sum importing refined oil products, whose prices should adjust downward too even if not by a one-to-one ratio.

The primary channel for the transmission of concerns is really on the fiscal front. Even though Prime Minister Najib has succeeded in reducing the government’s fiscal dependence since he took power in 2009, oil-related revenue still makes up a chunky portion of 30% of total revenue in 2014. Hence, with every drop in oil price, the market casts a concerned eye on Malaysia’s fiscal health, especially as its price assumption of $100-$105 per barrel looks more and more untenable by the day.

Most recently, the PM has revised the assumption to a more grounded $55 per barrel. As a result, the budget deficit is seen to be at 3.2% compared to the 3.0% previously expected. While that is not ideal, it is nonetheless markedly better to acknowledge the new reality of low oil price than not.

On the growth front, we are revising our GDP forecast for this year from 5.1% year-on-year to 4.8% to reflect the effects of fiscal consolidation efforts as well as cutbacks in business investment activities, including those within the oil & gas sector. In the near term, lingering uncertainties about oil prices and the impact on Malaysia’s growth may continue to weigh on sentiment. However, the adoption of a more realistic budget outlook should offer some help eventually.

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