MEDIA RELEASE

Economic Outlook
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Kuala Lumpur, 25 June 2010 – While there have been indications of some degree of stabilisation in the financial markets following the recent Eurozone crisis, uncertainties continue to linger at large, with the Eurozone still the centre of attention. The ECB highlighted that the sustainability of its public finances is a risk that could depress private investment in the Eurozone, keeping the gloomy outlook for the Eurozone prevalent. On the other hand, we have seen an improvement in employment conditions and rising consumer confidence painting a better economic outlook of the US, although the strength in consumer demand is still perceived to be rather shaky. Meanwhile, the Chinese economy continues to show its resilience, evidenced in its production and investment data for May. Overall, as expressed by the BIS, one might question if it were the case that too much focus has been given to the jitters in the financial markets, while positive macroeconomic views are being ignored.

Indeed, medium-term economic fundamentals remain attractive in Asia, including in Malaysia. The government has recently revised its growth forecast upwards to 6%. Exports are now growing at their fastest pace since 1998, and exports of major commodities have almost returned to the levels seen before the collapse of global demand at the end of 2008. While private investment growth came in rather disappointing in Q1, the wealth effect from a stronger Ringgit, stock market, and higher export earnings should boost investment further towards the year-end. As a whole, we maintain our current 2010 GDP growth at 6.7%. Inflation, however, should remain modest at around 2.6% in 2010, and would not pose any material threat to the economy even if the proposed subsidy cuts get through. While the BNM has turned more cautious in the wake of the Eurozone debt crisis, we still expect the central bank to further normalise its interest rate, and another 25bps rate cut in on the cards by the year-end. This rate hike cycle is aimed at normalising monetary conditions and preventing imbalances in the financial markets rather than an outright monetary tightening per se.

On the 10th Malaysia Plan, we are encouraged by the government's dedication to its fiscal consolidation and ambitious plan to achieve a 6% average growth by 2015. The shift of focus towards "soft infrastructure" is long overdue and would be crucial as Malaysia kicks off its structural shift towards higher skill and higher technology industries. The key challenge is, once again, the drive to push for strong private investment growth, which might fall short if the government fails to improve efficiency and provide new incentives at industry level.

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