# MEDIA STATEMENT
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## *Growth to round off at 6.7% this year and to stabilise at 5.4% in 2011*

Kuala Lumpur, 15 December 2010 – Malaysia's Q3 GDP growth came in at 5.3% yoy in Q3, below market expectations, just as exports growth slid to 6.60% yoy from the high double-digit figures seen in H1 2010. The Q3 GDP data is a clear indication that Malaysia's growth prospect has taken a step back going into 2011.


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The upbeat sentiment that followed the 10% yoy GDP growth seen in Q1 is fast disappearing, amidst the faster-than-expected slowdown in exports seen in H2 2010. Exports growth remains a dominant factor that leads overall economic growth, and the trend in overall GDP growth has been fairly in line with the expansion in exports. Even if commodity exports (typically less price-elastic in nature) provide the underlying support for Malaysia's external growth, we expect exports growth to remain low until the second half of 2011, or until the point at which the global economy is on a more stable footing.

Given that weak exports growth might sustain in the next couple of quarters, the risk for domestic growth is also tilted towards the downside going forward. While base effects would have played a part, we note that growth of capital good imports has been on a declining trend in recent months, and given that it provides a good estimation of Gross Fixed Capital Formation growth, we prefer to be cautiously optimistic about the outlook on investment growth going into 2011.

As far as policy is concerned, we expect the BNM to hold its policy rate steady at 2.75 for the best part of H1 2011, as the authorities have shifted their focus towards supporting growth efforts especially since inflation remains tame. Even if inflation is on an uptrend, current levels remain within the authorities' comfort range and any significant surge in prices is only likely to come alongside stronger pick-up in commodity prices. Additionally, according to our model of financial conditions in Malaysia, current conditions are quite restrictive with regards to growth expansion. Hence, while the need to further normalise interest rate prevails, we expect the BNM to delay any move until the later part of 2011.

On the currency front, as opposed to the highly upbeat outlook that was dominant for most of H1 2010, we suspect the official rhetoric on the MYR will be somewhat toned down going into 2011. This does not mean that the authorities are going to defy a stronger MYR, as in fact, a stronger local currency is probably preferred to support domestic investment drive. Our view is that the MYR will not be a conspicuous out-performer as it was for the bulk of the first 3 quarters in 2010. Still, based on our current forecast, we expect the MYR to strengthen towards 2.9500 against the USD by the end of 2011. Note that given the anticipation of strong foreign inflows into the region amidst the quantitative easing measures in the US though, we expect the authorities to continue safeguarding the market from excessive volatility.

Overall, we see Malaysia registering a good 6.7% yoy growth in 2010 and a decent 5.4% yoy expansion in 2011. We see some downside risks to our growth projection, given the uncertainties in the global economy and the fact that Malaysia's exports and industrial production have slowed faster than what we expected in H2 2010. Coupled with the relatively high 5.4% budget deficit set for 2011, we look for overall public and private investment growth to help provide a buffer from these risks.

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