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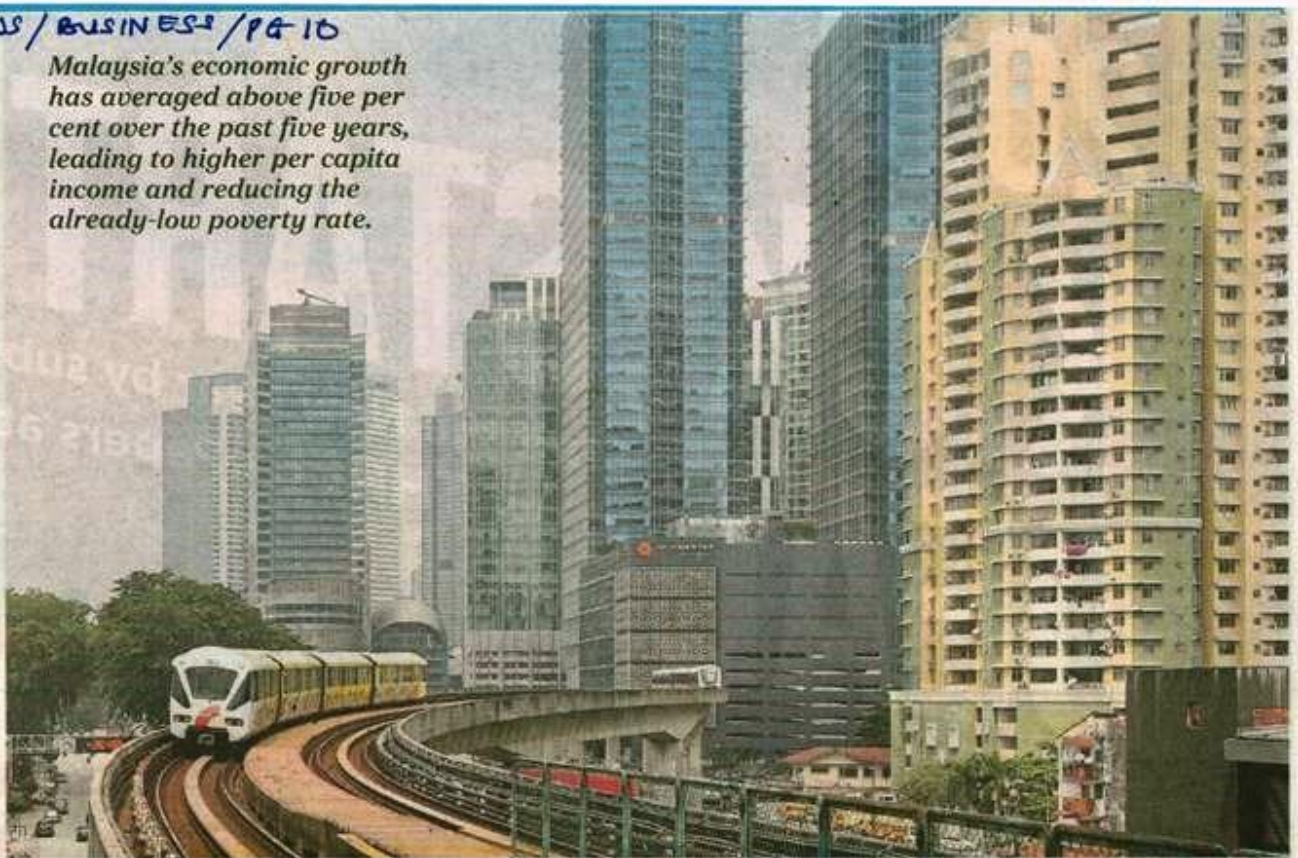
MALAYSIA'S ECONOMY

IMF: GROWTH REMAINS RESILIENT

Domestic demand expected to remain main driver



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KUALA LUMPUR

MALAYSIA'S economy continues to perform well despite external headwinds, says the International Monetary Fund (IMF).

It commended the government for the resilient economic performance over recent years, noting that growth had been solid without signs of inflationary pressures.

The country's economic growth has averaged above five per cent over the past five years, leading to higher per capita income and reducing the already low poverty rate.

"Growth is now moderating and is estimated at 4.7 per cent in 2018, underpinned by robust domestic and external demand," said the IMF in a report after concluding its annual discussions with the government officials on Malaysia's economic development and policies.

The fund concluded that Malaysia's financial sector appeared resilient with sound profitability and liquidity indicators and low non-performing loans, supporting the broadly neutral monetary policy stance.

It agreed with Malaysia's planned gradual pace of fiscal consolidation this year and over the medium term to support debt reduction and strengthen fiscal buffers.

It pointed out that Malaysia's headline inflation had dropped to an estimated one per cent last year from an average of 3.7 per cent in 2017 as domestic fuel price adjustment was suspended, the Goods and Services Tax (GST) was zero-rated and replaced by the narrower-base Sales and Services Tax, and food price inflation declined.

The credit-to-gross domestic product (GDP) ratio was declining while on the external side, the current account surplus was estimated at 2.2 per cent of GDP for last year, said the fund.

The surplus had gradually narrowed in recent years as growth drivers had shifted towards domestic demand, it added.

The IMF expects Malaysia's GDP growth to stabilise this year and over the medium term, with inflation picking up and the current account surplus continuing to narrow.

"Domestic demand will remain the main driver of growth. Given Malaysia's position in global value chains, the United States tariffs on imports from China could reduçe its growth rate by 0.2 percentage points this year via traditional trade channels and through financial and confidence effects, despite some trade diversion."

The IMF added that while public investment would contribute negatively to growth in the near term due to the ongoing review of infrastructure projects, private consumption and investment were expected to be robust, underpinned by an improved business environment and greater confidence.

The latter factors are expected to counterbalance the negative drag from the external environment and fiscal consolidation, leaving growth flat at 4.7 per cent for this year.