MALAYSIAN RATING CORPORATION BERHAD (364803 V)

As reality bites, MARC lowers its 2009 forecast for Malaysian GDP to 2.5%

MARC has revised its forecast of Malaysia's GDP growth for 2009 to 2.5% from its October's projection of 3.5% as a result of the continuing uncertain outlook for the global macro economy combined with moderating consumer demand which would dampen domestic economic growth prospects.

As shockwaves from the global financial crisis continue reverberating across the globe, Asian economies are finding themselves face to face with a perfect financial storm. The region's key growth driver – the export sector – has been dented by plunging external demand against a backdrop of weak domestic demand still reeling from the impact of high consumer prices on their economies in the early part of 2008.

In the wake of the ongoing turmoil, weakened regional economies are anticipated to have a material impact on Malaysia's external sector, which in recent months has exhibited signs of fatigue. Exports have contracted in October, as indicated by a sharp 12.6% decline in the shipments of electrical and electronic products. Two consecutive monthly declines in industrial production index further underscore the country's vulnerable macroeconomic fundamentals in the final quarter of 2008.

Private consumption, while expected to be lethargic in comparison to previous years, is still expected to play an important role in helping to shore up the economy. The wealth effect from the recent bull-run in the commodity markets, particularly in crude palm oil, is providing some buffer against a sharp decline in consumer spending. In this context, we foresee private consumption to register a decent 4% growth in 2009 after posting an estimated 8.2% expansion in the preceding year. The strength in private consumption will, to a large extent, offset the decline in private investment caused by deteriorating business sentiment and rising risk aversion.

In view of the slowdown in business activity, we expect smaller corporate debt issuance in the range of RM25 billion to RM30 billion in 2009, in contrast to a significantly expanded supply of Malaysian Government Securities (MGS) issuance, projected at RM70 billion to RM75 billion. Of this amount, some RM36 billion would be to refinance maturing MGS in 2009, while the balance would be to finance the fiscal deficit which is expected to be at 4.8% of GDP in 2009.

Risk averseness to corporate bonds, particularly to lower-rated papers, is likely to persist in 2009, prompting continued investor interest in government bonds. The widening of corporate spreads over government bond yields is a reflection of the continued flight to safe haven investments amid prevailing economic uncertainty that will continue to assert downward pressure on corporate credit quality, particularly among issuers rated single A and below.

Given these factors, MARC has cut its forecast for Malaysia's GDP growth by 1% from its October's projection of 3.5% to 2.5%. In spite of the ongoing weaknesses, Malaysia's economic conditions are not expected to see a precipitous decline as experienced during the 1997 – 1998 Asian Financial Crisis. The Malaysian economy is still expected to show positive growth for the whole of 2009. The resilient banking sector that exists today following a significant restructuring post Asian Financial Crisis and the abundant liquidity in the financial system, evident in the country's still strong external reserves, will help Malaysia withstand the present global economic malaise with greater equanimity than during the last major crisis.

Contacts :
Nor Zahidi Alias 03-20902277 / zahidi@marc.com.my ,
Mohd Afzanizam 03-20902231 / afzanizam@marc.com.my

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