

---

---

# 'Capital outflow anxiety to persist in near term'

BY SAMANTHA HO

KUALA LUMPUR: Concerns over capital outflow are likely to continue hogging the limelight although it would not have a material impact on the country's fundamentals, says the Malaysian Rating Corp Bhd (MARC).

"With the financial market still guessing the amount of short-term debt securities still held by foreigners after the recent outflows between September 2016 and February 2017, the anxiety in the financial market could persist in the near term," MARC said in a statement in Bank Negara Malaysia's (BNM) 2016 annual report.

"In the longer term however, MARC is of the view that a reduction in foreign holdings of short-term securities is a welcome development," it said, encouraging investors to see things "through a different perspective" as previous bond outflows outweigh the recent episode in magnitude.

"Many studies have highlighted the negative repercussions of short-term capital flows in several economies such as Chile, Brazil and even Malaysia in the 1990s," it noted.

On the ringgit, MARC opines that a correction in global crude oil prices and bond markets as well as an overreaction to the US rate hike could add further downside risks

to the currency. Beyond global political and economic uncertainties, MARC said it expects the ringgit to trade stronger at 4.20 against the US dollar although near-term capital volatilities are expected to add to its unpredictability.

The ratings agency concurred with the central bank's anticipation of 3% to 4% growth in the Consumer Price Index due to cost-push factors from stronger commodity prices to a weaker ringgit. "Besides the factors mentioned by BNM, further subsidy liberalisation measures, if undertaken in 2017, could add pressure on consumer prices," it said.

MARC concurred with the cen-

tral bank's prospects on gross domestic product (GDP) growth of 4.3% to 4.8% and better external prospects in 2017, although it said "it is too early to make a conclusive assessment on its impact on Malaysia's headline growth". Continued support from domestic demand should help Malaysia achieve another decent year of real GDP growth, MARC said, although it anticipates private consumption growth to remain around 5.8%, lower than BNM's forecast of a 6% expansion.

"As for private investments, BNM's projection of a 4.1% growth for 2017 is lower than MARC's forecast of a 5.6% expansion," it said.