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Malaysia's economy to remain resilient in 2017 — MARC

KUALA LUMPUR: Malaysia's economy is expected to remain resilient in 2017, supported by stable private consumption and strong corporate bond issuance, said Malaysian Rating Corp Bhd (MARC).

Chief executive officer Mohd Razlan Mohamad said this was evident from the rebound in gross domestic product (GDP) growth in the final quarter of 2016 at 4.5%, and mainly underpinned by low private consumption volatility when compared with regional economies.

"Private investment is also rebounding, supported by the implementation of large infrastructure projects such as the Klang Valley mass rapid transit 2, light rail transit 3 and the Refinery and Petrochemical Integrated Development (Rapid) venture," he told a media briefing yesterday in conjunction with the 2017 Malaysian Economics & Sectoral Outlook Investors Conference.

Mohd Razlan said a stable investment climate was also evident from a sustained amount of corporate bond issuance of around RM85 billion per annum in the past four years.

However, he said MARC predicted Malaysia's external sector performance would continue to exert pressure on its headline growth.

This includes the lacklustre pace of global demand which caused exports in US dollar terms to post negative growth and the below-trend growth of China's economy, Malaysia's largest trading partner.

"Going forward, a possible trade war between China and the US may induce the former to continue devaluing its currency, hence hurting Asian exporters such as Malaysia," said Mohd Razlan.

Meanwhile, the rating agency's chief economist Nor Zahidi Alias said the continuing rebound in global crude oil prices would be positive for the Malaysian economy this year, thus enhancing government revenue and improving overall business sentiment.

"On the domestic front, consumer spending remains a pillar for the economy in 2017, though growth is expected to remain below the long-term growth trend.

"Notwithstanding this, domestic demand will remain the primary source of growth, while the key downside risks to our forecast will stem from reservations in the exterior environment," he also said.

He added that from a sovereign rating perspective, many of Malaysia's median macroeconomic parameters remain well in line with its single-A peers, which include Malaysia's real GDP growth, per capita GDP and purchasing power parity terms and amount of gross international reserves in US dollar terms.

The rating agency has also upgraded Malaysia's GDP growth forecast from 4% to 4.3% this year, mainly attributable to the stabilising pace of domestic demand and resilient external demand. — *Bernama*

Corporate credit growth set to improve this year

KUALA LUMPUR: Malaysian Rating Corp Bhd (MARC) says corporate credit growth for 2017 is expected to improve from 2016, supported by the steady pace of economic progress and an improving outlook in key sectors of infrastructure and crude palm oil.

Chief rating officer Rajan Paramesran said the outlook for the oil and gas (O&G) and property sectors, however, remained challenging.

This, he added, was due to the sluggish pace of contract replenishment for O&G companies despite the rebound in crude oil prices in 2016.

"For the property sector, it remains affected by the affordability issue and tight bank lending guidelines.

"We also anticipate most Malaysian corporates to manage their debts in the near term.

"This follows recent measures undertaken by several major corporates, including asset monetisation, rights issues and corporate restructuring, which are expected to strengthen the company's balance sheet metrics," Rajan said.

On banking, he said loan growth was expected to be sustained between 5% and 6% this year, with credit demand driven mainly by the household segment.

However, relatively low loan growth, coupled with the continued margin compression and elevated impairment charges would weigh on the banks' earnings over the near term.

Rajan said the banking system's funding profile remained healthy, underpinned by the banks' good access to the capital market.

Meanwhile, on the ringgit's performance against the US dollar, MARC chief economist Nor Zahidi Alias said the local currency might improve to between 4.0 and 4.2 this year, if global uncertainties were removed.

"This is because bond demands such as for Malaysian Government Securities are there.

"Although investors left Malaysia for a while, they are coming back as Malaysia is the second-biggest bond market in the Asia-Pacific, excluding Japan.

"Liquidity and infrastructure are there, and the capital market can easily attract them to come to Malaysia," said Nor Zahidi.

However, he said the strengthening of the US dollar, the Brexit and, possibly Frexit (France exiting the European Union) would continue to weigh on the ringgit, which is currently moving around the 4.4 to 4.5 level against the greenback. — *Bernama*