

## Another upside surprise from Malaysia's growth

Growth allows for continued normalization of Bank Negara Malaysia's monetary policy this year. We expect the Malaysian ringgit to remain one of Asia's outperforming currencies



**5.9%** GDP growth in 2017

Better than expected

### Six quarters of above-expected growth

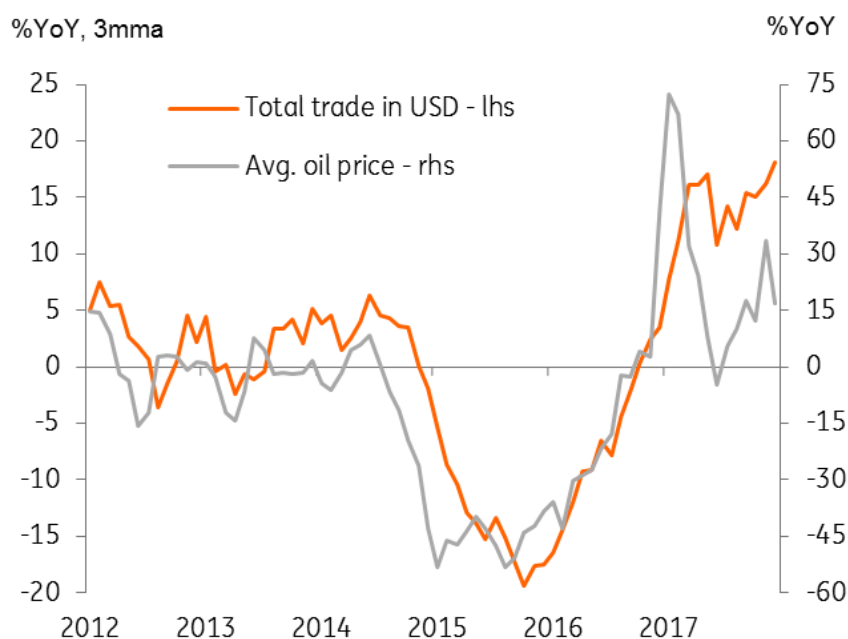
In yet another upside surprise, Malaysia's GDP growth came in at 5.9% year-on-year (consensus 5.8%, ING forecast 5.5%) in the final quarter of 2017. This was only a modest slowdown from the three-year high of 6.2% reached in 3Q17. This was also the sixth consecutive quarter with an upside growth surprise. Full-year growth, also 5.9%, beat the official forecast of 5.2-5.7%, making it the best year for the economy in the last three.

### Powered by strong domestic spending

Besides a positive terms-of-trade shock from an upturn in global commodity prices since 2016 (see chart) the economy has been powered by firmer domestic spending. Private consumption contributed 3.7 percentage point (ppt) to headline GDP growth in the last year and fixed capital formation 1.6ppt, up from 3.1ppt and 0.7ppt in 2016. The contribution of government consumption improved to 0.7ppt from 0.1ppt over the same year, while net exports were a drag only to the extent of 0.1ppt. On the industry side, services (3.6ppt) and manufacturing (1.6ppt) remained the

main growth drivers.

## Positive terms of trade shock



Source: Bloomberg, ING

## A favourable growth-inflation dynamic

On the domestic side, the election-related increase in government spending should help sustain momentum and keep GDP growth above 5%, which is where the official projection of 5-5.5% has it (ING forecast and consensus 5.3%).

Expansionary fiscal policy in the election year will be inflationary while rising global commodity prices may add to domestic inflation pressure. But as of now, things don't look that bad. The high base effects and appreciating Malaysian ringgit (MYR) are expected to mitigate inflation, possibly keeping it close to the low end of the government's 2.5-3.5% forecast (consensus 2.7%, ING forecast 3.0%).

### Policy implications

The strength of the economy allows for continued normalization of Bank Negara Malaysia's monetary policy this year. BNM started normalization in January with a 25 basis point policy interest rate hike. We forecast one more 25bp policy rate hike in the third quarter. We also expect the MYR to retain its status as one of Asia's outperforming currencies this year. Our end-2018 USD/MYR forecast is 3.72 (spot 3.93, consensus 3.85).