

Malaysian politics overshadows economics

Malaysia's central bank will decide monetary policy just a few days prior to the government unveiling the budget for 2021. The second wave of the pandemic strengthens the case for more policy support but elevated political uncertainty casts a dark overshadow



Malaysia's Prime Minister Muhyiddin Yassin (2-L) arriving for a meeting at parliament building in Kuala Lumpur, Malaysia

Source: Shutterstock

An eventful week for the Malaysian economy

Malaysia's central bank has started its two-day meeting today, with the policy decision out on Tuesday, 3 November, at 3 pm local time - just days ahead of the government's 2021 budget on Friday, 6 November.

Capping all the excitement about the additional policy stimulus, if any, could be an escalation of political risk.

Despite the excitement about more fiscal stimulus, any escalation in the political risk could

overshadow both of these policy events. And given the government's razor-thin majority in the parliament, the challenge to have the budget approved in parliament remains significant.

Just as some green shoots of recovery started to emerge from the most recent data, the second wave of the pandemic has started to widen its grip over the economy. This means much prolonged economic slump going well into 2021, so accommodative macro policy is definitely required.

The last thing the economy needs at this time is political uncertainty. And, there has been plenty of it since the state elections in Sabah in mid-September, especially in terms increased power struggle from within and outside the ruling coalition. The Budget vote will serve as a taste of confidence in the current government. Although Malaysia's King has urged lawmakers to refrain from politicising the Budget, we don't rule out this turning into yet another political crisis in less than a year.

Monetary policy – on hold or further cut

The central bank has cut its overnight policy rate by a total of 125 basis points to 1.75% in the first four meetings of this year. The decision to leave policy on hold in the last meeting in September was a signal towards an end of the easing cycle as the economy gained some traction. This is probably why the consensus for the current meeting is skewed towards rates keeping on-hold. However, there still is a slim minority calling for a 25bp policy rate cut.

We haven't pencilled in a rate cut for this meeting, though we don't think it will be an unwarranted move at all. The pandemic continues to deter both domestic and external demand. On the domestic front, the high unemployment and lack of confidence have been hindering the economy. Exports, so far the key driver of recovery, will likely be under fire from renewed lockdowns elsewhere in the world. A 17% YoY GDP contraction in 2Q was the worst in Asia. So will be about 12% contraction that we anticipate for 3Q and 9.3% fall for the entire year.

We haven't pencilled in a rate cut for this meeting, though we don't think it will be an unwarranted move at all

While growth continues to take a hit from weak domestic demand, the persistently negative inflation trend offers the central bank sufficient room to cut rates further. Inflation dipped to -2.9% at the height of the first-wave in May, the second-worst in Asia after Thailand. It has recovered to -1.4% by September, though we don't see it turning a corner into positive territory anytime soon. Moreover, this has left Malaysia's real interest rates, defined as the policy rate minus the latest inflation rate, one of the highest in Asia – not a conducive backdrop for the recovery.

Among other arguments favouring further BNM rate cuts are limited leeway for fiscal policy easing, as discussed in the section below, as well as relatively resilient currency (Malaysian ringgit, or MYR) to the recent spike in political uncertainty, which should provide some comfort to the central bank in lowering rates.

Fiscal policy – a tight rope walk for government

The upcoming budget has become a contentious political issue in view of the slim majority the

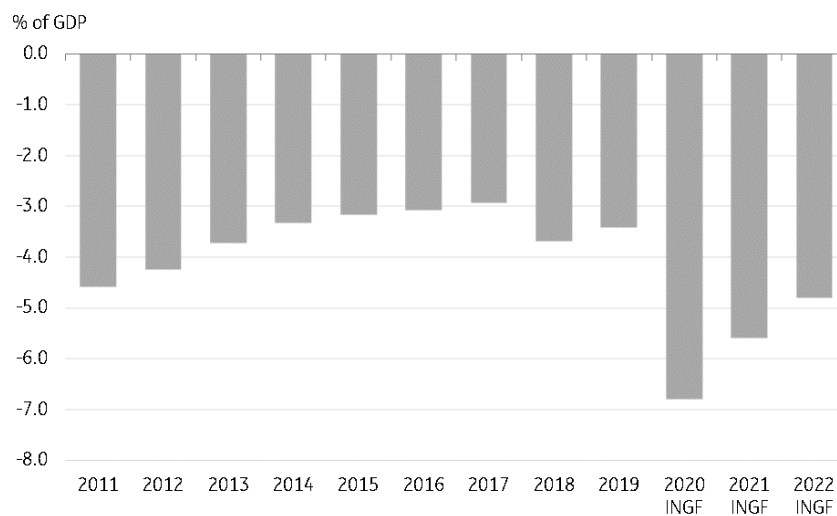
coalition government holds. Yet, whether it offers additional stimulus remains a key question given the spending constraints imposed by the large fiscal stimulus rolled out earlier this year.

More stimulus in the forthcoming budget will further increase the government debt ceiling from 60% of GDP after it was raised from 55% earlier this year

Four packages from late February to early June included a huge stimulus worth about 19% of GDP, nearly half of which was on-budget (real) spending. Certainly, this will have swelled the overall fiscal deficit out of proportion; the market expectations are for more than doubling of deficit to over 7% of GDP from 3.4% in 2019.

More stimulus in the forthcoming budget will further increase the government debt ceiling from 60% of GDP after it was raised from 55% earlier this year. The actual debt as of June was just shy of this limit.

Fiscal deficit



Source: CEIC, ING

It's not the time for fiscal consolidation just yet, though any hopes of a lower fiscal deficit in 2021 will have to rest on the acceleration of GDP growth rather than reduced spending. While prime minister Muhyiddin Yassin would not want to jeopardise his political standing further by cutting spending, the expectation of a rebound in GDP growth next year is far-fetched. This makes it a tight-rope walk for the government. But, Malaysia's finance minister Zafrul Abdul Aziz has said it will be an expansionary budget.

Among the measures widely talked about include: Additional support for low-income earners, tax cuts, expansion of social protection, an extension of wage subsidies scheme for small and medium-sized enterprises, extended loan moratorium, and increase in healthcare spending.

There is also the talk about re-launching the goods and services tax, but we are sceptical of such of pro-cyclical measures.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke

Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com