

## Malaysian economy beats expectations with 4.9% 2Q GDP growth

Firmer growth, low inflation, and a healthy external payments position – all are coming together in support of positive investor confidence in the economy in the current global economic turmoil. That said, we don't think the authorities will relax just yet and we have stuck in an additional 50bp of BNM rate cut in our forecast for the rest of the year.



**4.9%** 2Q19 GDP growth

Better than expected

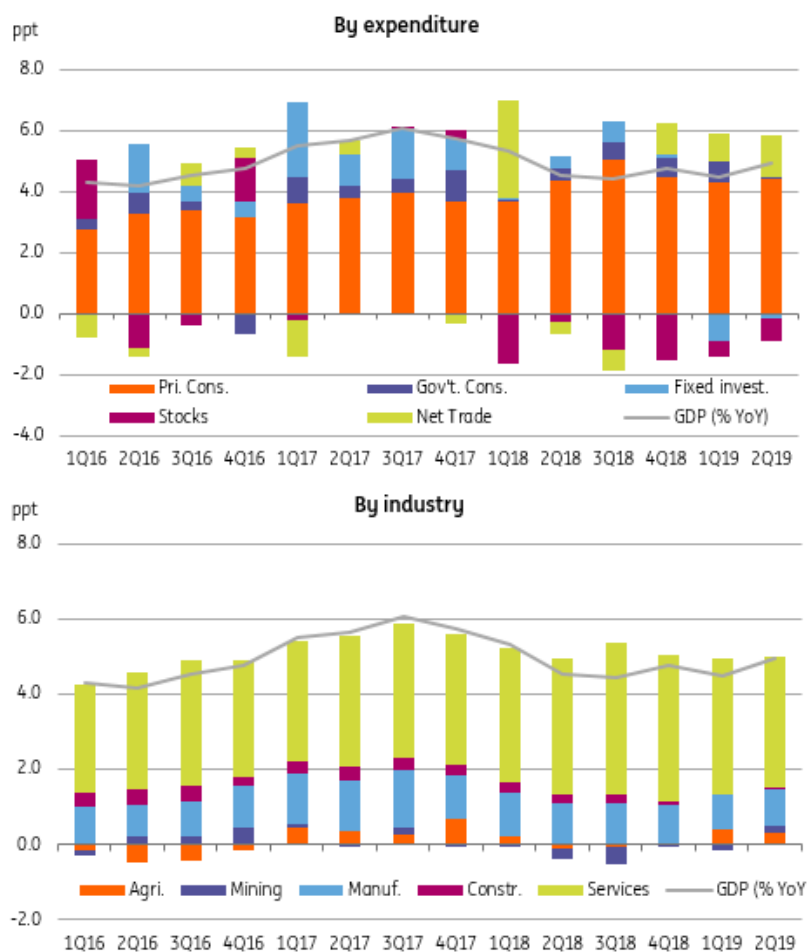
### Bucking the global slowdown

Contrary to the slowdown everywhere else, Malaysia's GDP growth accelerated to 4.9% year-on-year in 2Q19 from 4.5%. This was ahead of the consensus estimate of 4.7% and our 4.8% forecast.

Aside from government consumption, the contribution of all spending side GDP components – private consumption, gross fixed investment, and net trade – improved. But private consumption remained the key driver. Investment remained a weak link, albeit with a smaller negative than in the first quarter as the key infrastructure projects stalled a year ago are now being revived, e.g. East Coast Rail Link project as part of China's Belt-and-Road initiative. Yet, the drive to consolidate public finances explains some of the weakness in government spending.

Services remained the key growth driver from the industry side, though the improvement in the manufacturing contribution is noteworthy.

## What's driving GDP growth?



Source: Bloomberg, CEIC, ING

## Healthy external payments

Even as domestic demand continued to be strong and exports affected by the trade and tech war, the net trade contribution rose to 1.4 percentage points (ppt) from 0.9 ppt in 1Q. This also squares with a steady and strong current account surplus. Released alongside GDP, the balance of payments for 2Q19 showed a current surplus of MYR 14.3 billion, also far ahead of the consensus of MYR 6.8 billion, though slightly smaller than MYR 16.4 billion surplus in 1Q.

This still leaves the cumulative MYR 30.7 billion surplus in the first half of 2019 nearly double the

year-ago level.

## Outlook for rest of 2019

Firmer growth, low inflation, and a healthy external payments position – all are coming together in support of positive investor confidence in the economy in the current global economic turmoil. Yet, it's hard to imagine the economy continuing to outperform the rest of the world as global trade tensions scale new heights. Nor do we see Malaysia's low value-added electronics sector continuing to beat the global tech slump, though some green shoots of a bottoming of the tech slum have started to emerge from regional data.

That said, we see GDP growth in the rest of the year remaining close to the top end of BNM's 4.3-4.8% forecast for 2019. We maintain our full-year growth forecast at 4.7%. We have cut our inflation forecast for the year to 0.8% from 1.0%, and are now looking to revise our 2% of GDP current account surplus forecast higher.

We don't think the authorities will relax just yet. Persistently low inflation allows scope for more Bank Negara Malaysia (BNM) policy easing. We have stuck in an additional 50bp of BNM rate cut in our forecast for policy rates for the rest of the year, taking them to 2.5% by year-end. Even so, the MYR should remain a resilient Asian currency within emerging markets.