

## **Fitch: Politics will blunt Malaysia's economic growth for next 10 years**

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Politics in Malaysia is expected to blunt economic growth for the next decade, predicts financial analyst Fitch Solutions.

Combined with slower population growth and reduced fiscal space to cushion against negative future economic shocks, Fitch predicts real GDP growth to be at just 3.4 percent over the next 10 years compared to 6.4 percent over the past decade.

In a forecast comment today, Fitch said among the political issues that will weigh down on the economy are constant power shifts as Malaysia transitions away from single-party rule.

"We expect power to change hands often, leading to questionable policy continuity and stalled reform momentum," it said, citing the February change in government as proof of the potential for upheaval.

"While a successful transition to a more stable multi-party or two-party system present in more mature democracies could eventually reap dividends for Malaysia, the uncertainty in the interim is likely to be a negative factor counted against it by potential investors," it added.

This, it said, would put Malaysia at a disadvantage in attracting foreign direct investments from countries looking to shift away from China.

Meanwhile, Fitch predicted that politicians would likely resort to populist measures to shore up support.

"(This) could lead to a worsening business environment over time as more protectionist measures are implemented," it said, citing Pakatan Harapan policies to hike the minimum wage, penalise the hiring of foreign workers, and subsidising the hiring of locals as examples.

It added that political defections could lead to a resurgence of corruption and graft and even bloated governments due to political patronage.

"Against this backdrop, key reforms that could unlock further growth potential in Malaysia are likely to be put off.

"A chief example would be affirmative action policies favouring the ethnic Malay population, which is likely to continue to cause a 'brain drain' where talented non-Malay members of the population seek opportunities overseas," it said, adding that an uneven playing field for government procurement was also an issue.

"These race-based policies will be very difficult to address and look set to slow the pace of economic development for the foreseeable future," it added.

Meanwhile, Fitch forecasts that Malaysia's active population growth will average 1.0 percent over the next decade, compared to 2.3 percent over the past 10 years. This too will result in slower real GDP growth.

Additionally, it said the government also has less fiscal space to manoeuvre if there are further negative economic shocks,

This is weighed by growing public debt, including debts guaranteed by the government, which "exceeds 80 percent of GDP" and is growing steadily.

"Furthermore, populist appeals to the population is likely to include regular cash handouts over the coming years, which would further limit available resources to

support the economy during leaner times," it said.

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