Malaysia among most vulnerable to euro crisis, says Nomura
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By Lee Wei Lian

KUALA LUMPUR, Dec 7 — Malaysia will be hit harder than its Asian peers by the economic crisis in Europe due to its relatively weak public finances and dependence on commodities, said Nomura International today.

Its chief economist for Asia ex-Japan, Robert Subbaraman, said that unlike most countries in Asia, Malaysia will be negatively affected by an expected drop off in commodity prices while the government will also find it difficult to keep up stimulus policies.

"Malaysia is one of the economies that will weaken the most; it is in the weaker group of economies," said Subbaraman at a media briefing here today.

Nomura forecast a growth of 2.3 per cent for Malaysia for the first quarter of next year and a full year growth of only 3 per cent in 2012, well below this year's expected growth of 4.7 per cent and also below government forecasts of between5-6 per cent.

Nomura economist for Southeast Asia Euben Paracuelles said Malaysia's growth in the first three quarters of this year was largely led by government spending, but as public finances were relatively weak, he doubted that it would be sustainable.

Subbaraman also noted that Malaysia ranked third in Asia ex-Japan in terms of exposure to European bank claims, after Hong Kong and Singapore, which could mean a drying up of liquidity should European banks start to cut their exposure to the region.

Figures provided showed that European bank exposure to Malaysia amounted to US$50 billion (RM155 billion), or about 19 per cent of GDP, double that of the Asia ex-Japan average of nine per cent.

Commodities would dip by 15 per cent if a slowdown hits, says Paracuelles.
Only the financial centres of Hong Kong and Singapore had higher exposures, at 77 and 55 per cent of GDP respectively.

"As European banks pull back exposure, it will show up as net capital outflow and availability of funding will start to dry up," said Subbaraman.

He noted, however, that Malaysia still has a large current account surplus at 13 per cent of GDP, which should help support the ringgit against hefty depreciation against the US dollar, due to its trade performance.

Paracuelles said that if a global downturn happens, there would be a 15 per cent decline in commodity prices.

Malaysian government economists earlier said their economic projections were bolstered by expected continued high rubber and palm oil prices, which would help boost rural area spending.

Petronas said in a briefing last week that it expects oil prices to decline to US$85-87 per barrel next year, from US$110 currently.

In its November Asia Economic Monthly report, Nomura noted that Malaysia faces the prospect of unsustainable fiscal support.

“Given the public debt to GDP ratio of 55 per cent, the second highest in Asia, scope to continue with a very expansionary fiscal policy next year could prove to be limited,” said the report.

Subbaraman also said the risk of a hard landing in China is “not trivial” although the threat is greater after 2013-2014, following the handover of power to the next generation of leaders.

Nomura expects growth in Asia to drop to 6.6 per cent next year, from 7.5 per cent this year, and revised its 2012 global growth forecast from 3.8 per cent to 3.2 per cent.

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