

## **Political concerns may weigh on reserves, growth outlook**

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**STORY BY SHERILYN GOH**

Ongoing political uncertainty in the country could further undermine market sentiment and capital inflows, which may in turn diminish reserves and growth outlook, both of which have trended downwards to a credit negative this year, according to Moody's Investor Service.

Citing the 34-hour Bersih 4.0 rally – where thousands took to the streets over the past weekend calling for the resignation of Prime Minister Najib Abdul Razak over an RM2.6 billion “donation” to his personal accounts – as a reflection of the current political instability, Moody's cautioned that lower business confidence and weaker capital inflows could erode the support that reserves and growth have offered so far.

It is unclear, though, as to whether the peaceful demonstration would pose broader policy implications, admitted Moody's.

“Continued political uncertainty could dampen business sentiment and gross domestic product (GDP) growth, which we expect to slow to 4.8% this year from 6% last year. The pace of economic expansion will moderate as the goods and services tax (GST) and lackluster sentiment curb consumption and investment, and lower oil prices push down liquefied natural gas (LNG) prices with a lag.

“Between April and June, growth in private gross fixed capital formation decelerated to 3.9% year-on-year, its lowest since 2011. By contrast, private investment registered double-digit growth rates in 12 of 14 quarters prior to April-June 2015,” said the credit rating agency in a statement released today.

Earlier this year, Najib's administration saw the implementation of the 6% GST in April, while retail fuel prices have also risen under the managed float mechanism introduced.

Despite the drag from lower prices for commodity exports such as petroleum, LNG, and palm oil, Moody's noted that Malaysia's current account has remained in surplus, albeit the surplus declining significantly from above 10% of GDP in 2010 and 2011 to a forecast of 3.5% of GDP this year.

This is while the ringgit depreciated by more than 18% this year, and gross foreign currency reserves dropped to US\$94.5 billion (RM395.3 billion) by mid-August from US\$116 billion at end-2014.

The depreciation pressure has been attributed to decline in global oil prices and international risk aversion in anticipation of slower growth in China and a rate hike by the US Federal Reserve.

Meanwhile, domestic uncertainty clouds outlook as the prime minister is finding himself embroiled in a political scandal due to revelations of a RM2.6 billion “donation” allegedly transferred to his personal accounts in the run-up to the 13th General Election in 2013.

Recently, Najib removed two of his more vocal cabinet members – including former deputy prime minister Muhyiddin Yassin – for their criticisms against government-owned strategic investment company 1Malaysia Development Bhd (1MDB) that has debts of around RM42 billion.

Najib, chairman of the advisory board of 1MDB has also terminated the services of former attorney-general Abdul Gani Patail, who was a key member of a committee investigating the alleged wrongdoings linked to the debt-ridden company.

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