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PREMIER TAX EVENT OF THE YEAR
NATIONAL TAX CONFERENCE
2016

9 & 10 AUGUST 2016 | KUALA LUMPUR CONVENTION CENTRE

DAY 1 : Tuesday, 9 August 2016

Economic Recalibration: What to Expect Next?

Dr. Sukudhew Singh

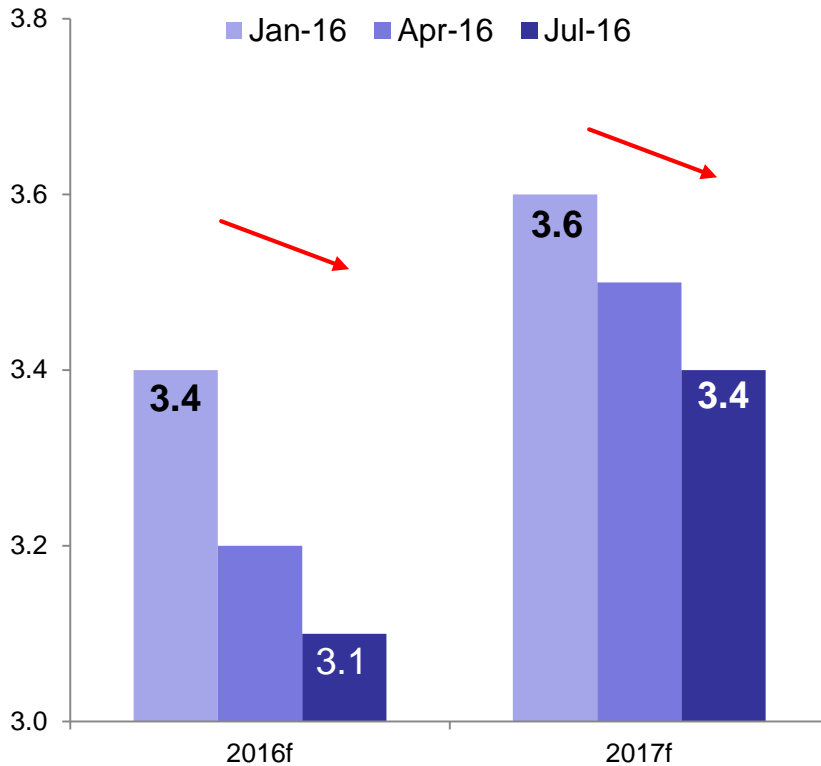
Deputy Governor, Bank Negara Malaysia



The Global Environment Remains Challenging

Global Growth Outlook Revised Downward

IMF Global Growth Forecasts for 2016 and 2017
yoy, %

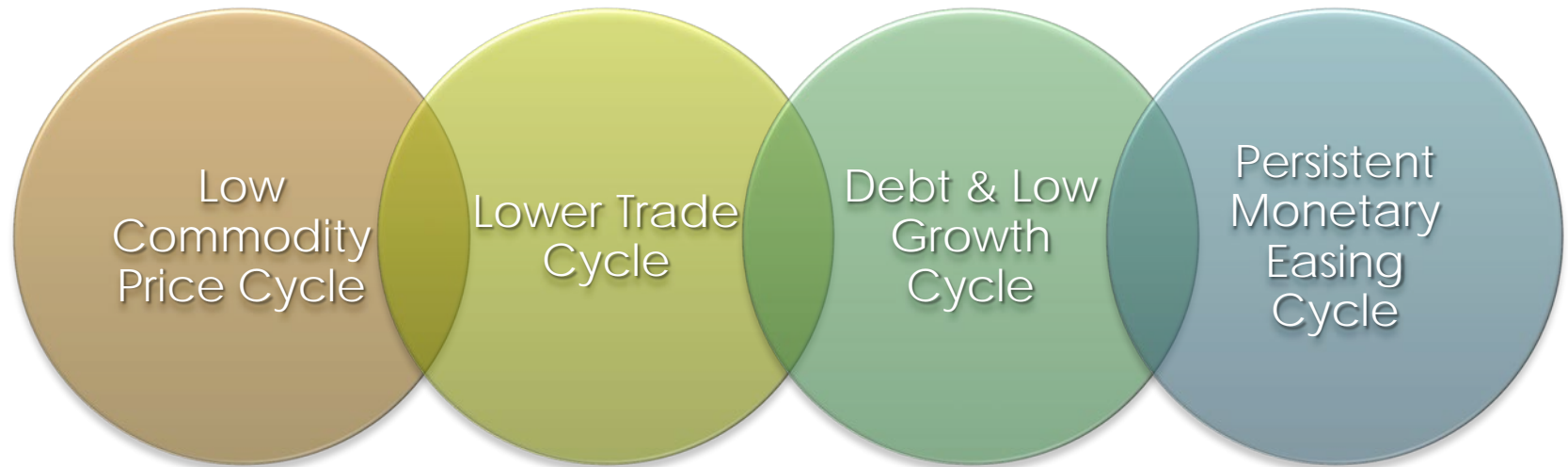


Source: IMF World Economic Outlook (2016)

Key risks in the Global Economy

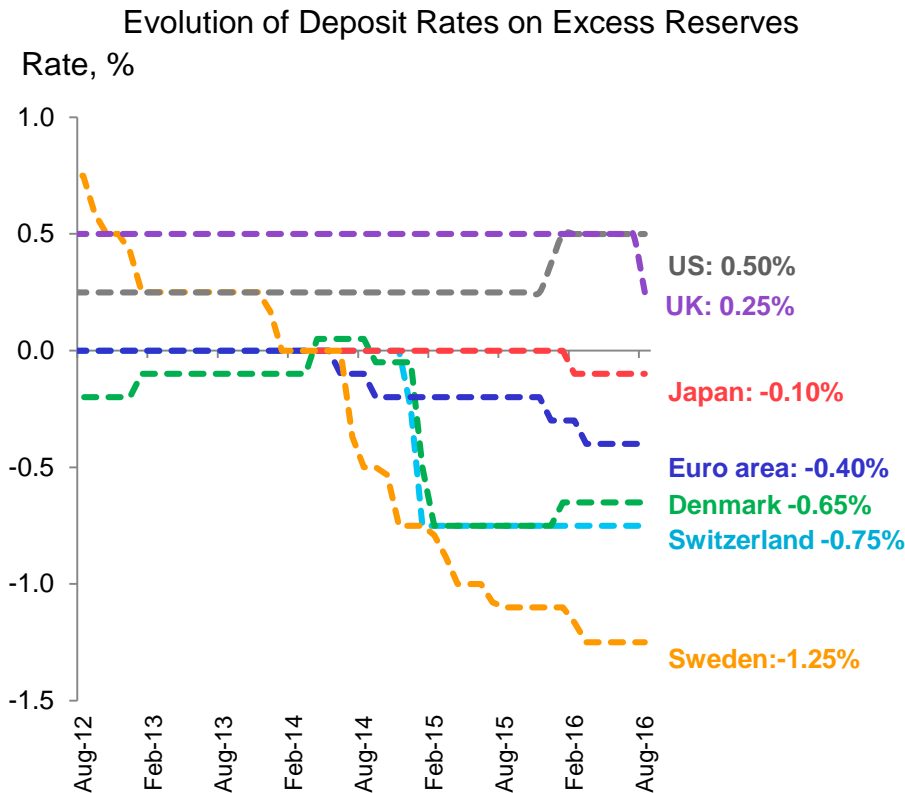
- 1 Slow growth of global economy & trade
- 2 Low energy and commodity prices
- 3 Long-term financial repression in developed world
- 4 More limited policy space
- 5 Higher geopolitical risks
- 6 Rise of protectionism and anti-trade sentiments

A World Caught in Bad Cycles



Policymakers have more limited policy space to support growth

Many central banks in AEs have adopted NIRP



*NIRP refers to Negative Interest Rate Policy on excess reserves

Source: National authorities

Mostly Ineffective and with large side effects

1. Financial sector health

- Erosion of profitability of banks and insurance companies

2. Distortion of asset prices

- Prices no longer reflective of underlying risks

3. Misallocation of resources

- Real investment has remained weak but financial investments have boomed

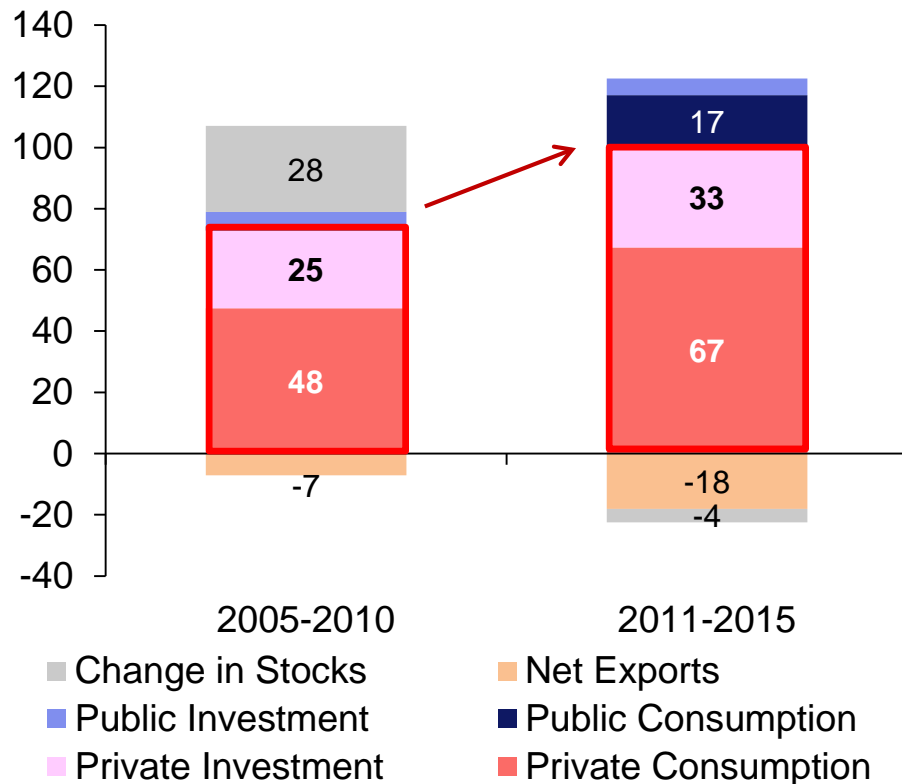
4. Rising income inequality

- The low interest rates and rise in asset prices benefitted the wealthy but not the lower-income groups

With weaker global demand, the Malaysian economy has been driven by domestic demand

Role of private domestic demand has increased over the past decade

Contribution to Malaysia's GDP Growth
Ppt. contribution



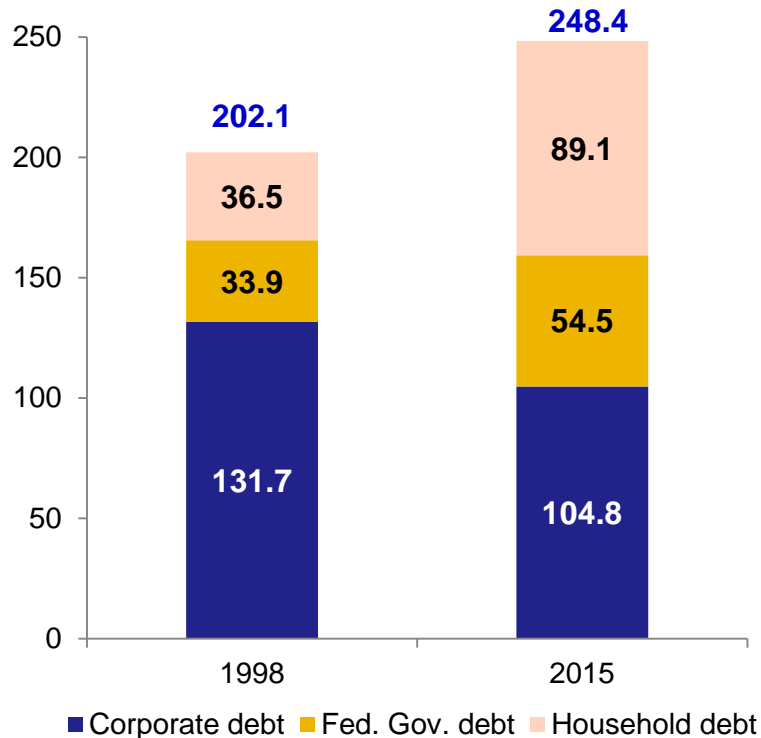
- **External demand is likely to remain weak**
- **It is therefore critical to sustain private demand**
 - **Consumption** – Employment and income growth
 - **Investment** – Favourable business environment (*domestic and global*)

Source: Department of Statistics, Malaysia

Sustaining domestic demand over longer term will become more challenging

Debt: Elevated indebtedness may constrain future growth

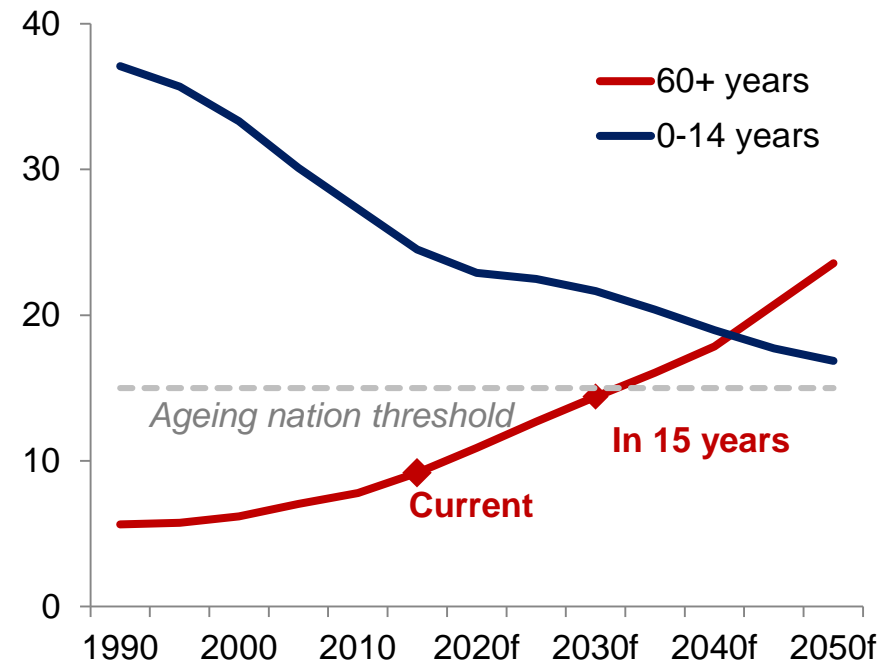
Malaysia: Total Indebtedness % of GDP



Source: Bank Negara Malaysia

Demographics: Malaysia will be an ageing society by 2030

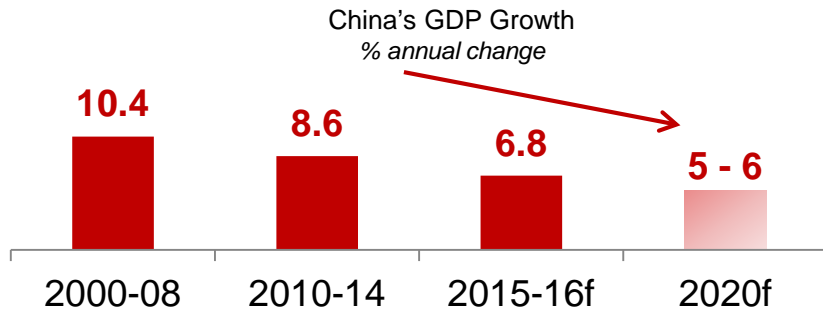
Malaysia: Population Projections % of population



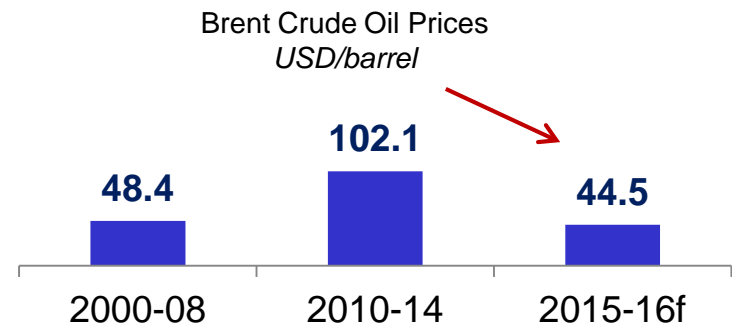
Source: UN World Population Prospects

Growth drivers for the Malaysian economy are waning (the 4 “C”s)

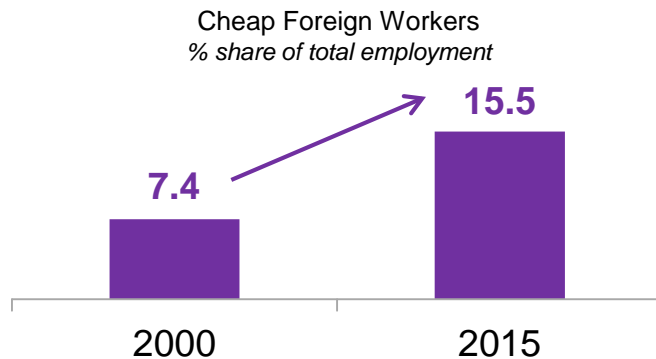
China's growth rebalancing provide lower support to Malaysia's external trade



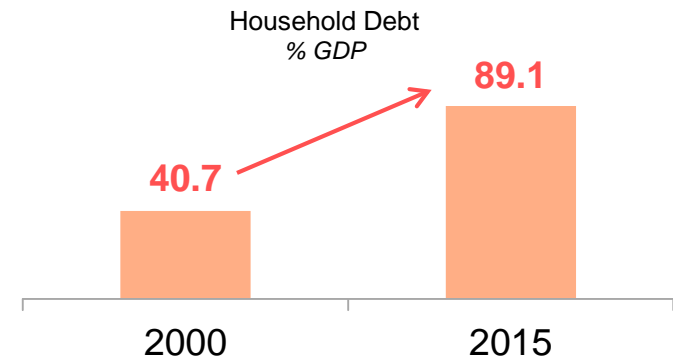
Lower **commodity** prices to affect commodity-related sectors



Heavy reliance on **low cost**, low-skilled labour inhibits movement up the value chain



Strong **credit** growth has led to high indebtedness

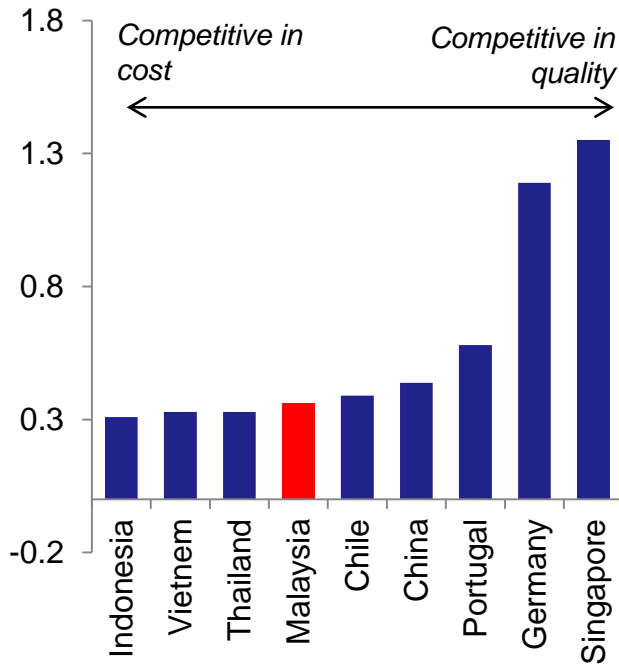


Source: Bank Negara Malaysia, MOHA, IMF, Oxford Economics

Malaysia's low-cost growth model affecting our ability to thrive in a more integrated world

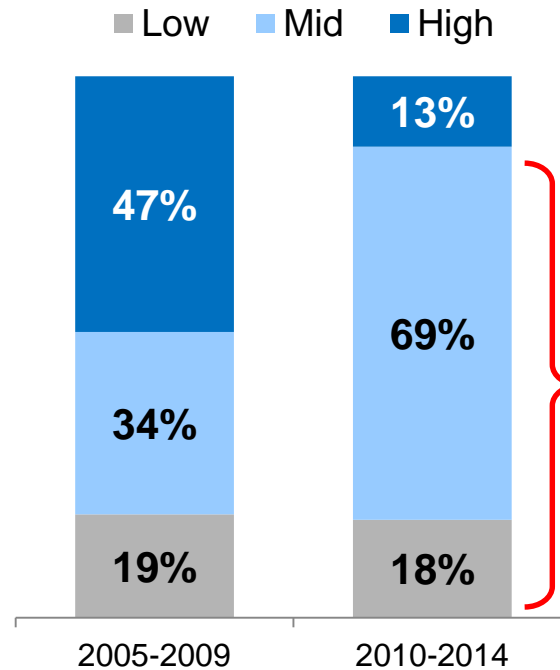
Malaysia competes on cost

Financial Attractiveness Score



87% of job creation is in low to mid-skilled jobs...

Share of Net Job Gain by Skills



...which face higher risks of obsolescence

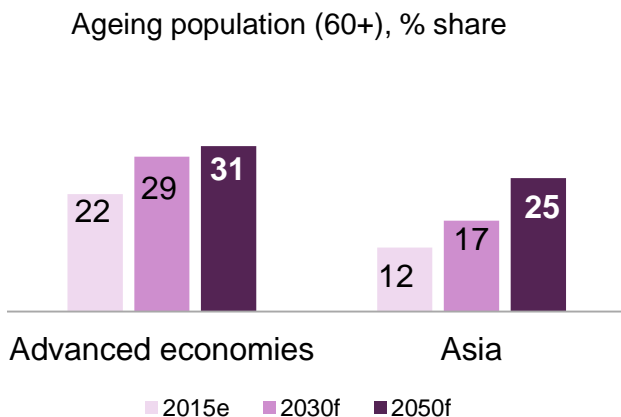
Risks of disruption from:

1. Competition from low-cost economies (e.g. Vietnam, Philippines)
2. Technological displacement (i.e. automation)
3. Migration of low-skilled foreign labour

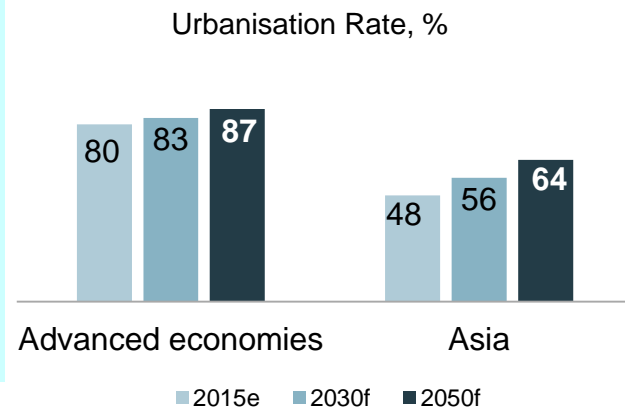
Source: AT Kearney, BNM estimates

The global landscape is fast evolving, shaped by immutable megatrends

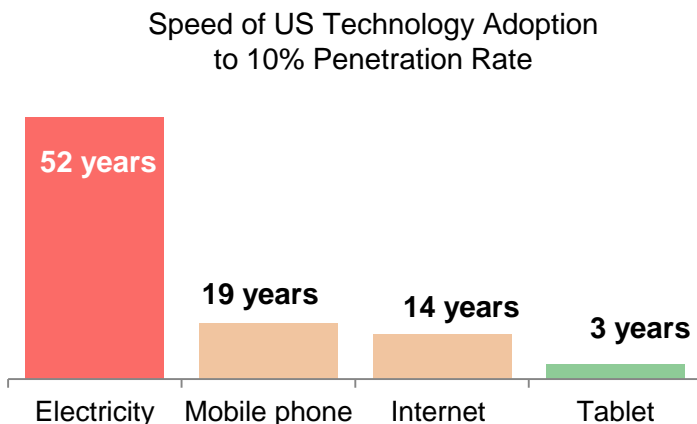
Rising demographic burden



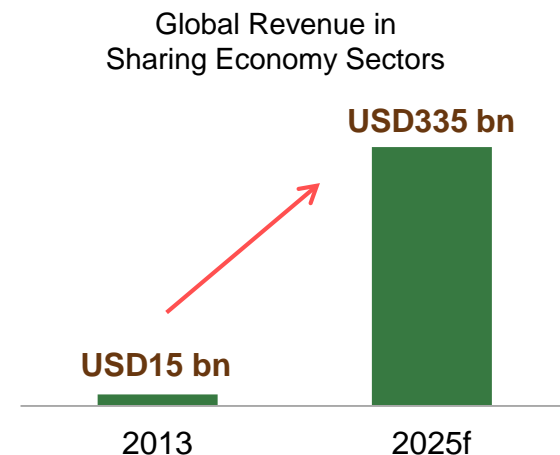
More urbanised societies



Rapid technological adoption



Evolving business models



Source: UN World Population Prospects (2015 edition), UN World Urbanisation Prospects (2014 edition) World Economic Forum, Pricewaterhouse Coopers (2014)

Necessary preconditions for a resilient and competitive economy



Low level of vulnerabilities

- Prudent levels of debt for government, firms and households
- Sustainable current account
- Strong social safety nets
- Absence of sectoral imbalances



Adequate economic resources

- Skilled labour force
- Developed physical and virtual infrastructure
- Well-developed and resilient financial sector



Solid economic foundations

- Openness to trade and investment
- Private-sector driven economy
- Flexible market-driven prices



Conducive policy environment

- Policies are proactive rather than reactive
- Strong governance, separation of power and rule of law
- Low bureaucratic and tax burden
- Transparency & accountability

Key priorities if Malaysia is to thrive and prosper

1. Manage domestic vulnerabilities
2. Open and competitive economy
3. High quality education and talent retention