

MALAYSIA



## ECONOMIC UPDATE

CIMB Economist(s)



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“Government will continue to monitor the price of crude oil before reviewing the fuel price. We have no plans to review the fuel price but we will work with the Finance Ministry and Bank Negara Malaysia to monitor the price of crude oil.”

*Datuk Seri Hasan Malek,  
Domestic Trade, Cooperatives and Consumerism  
Minister*

# How Malaysia can benefit from lower oil prices

*We think that Malaysia would benefit if oil prices were sustained at lower levels because of 1) a lower oil import bill which helps the trade balance and current account, 2) a positive second-round effect for exports and GDP whereby lower oil prices support advanced economies' growth and feed through to higher disposable incomes and higher consumption of Asian goods and services, 3) strengthening of public finances via higher subsidy savings and increased government revenue from higher growth via the positive external effect, and 4) a lower cost of doing business and higher production amid a positive demand effect.*

### Net positive for exports ➤

While Malaysia is the only net oil exporter in the region, its oil imports have risen relative to exports over the last three years. As such, the net oil trade surplus has been whittled down from 3.3% of GDP in 2008 to just 0.2% in 2013 and is currently a net oil importer based on Jan-Aug trade data. We think that rather than being a loser in an environment of lower oil prices, Malaysia could benefit from the recent fall in global oil prices, particularly if global demand is aided by higher discretionary incomes which then feed into export demand.

### Supports lower fiscal deficit target ➤

Malaysia's government oil revenue will be affected by weaker global oil prices. However, we can assume Petronas dividends (41% of total oil revenue and 12% of federal government revenue) to be quite constant and with an expanded revenue base (with GST coming), oil revenue's contribution to total revenue is projected to fall below 30% anyway, regardless of oil prices. As such, we do not see any real risk to the fiscal deficit target of 3.0% of GDP next year. In fact, with higher subsidy savings and enhanced revenue, the government may even be able to achieve a lower deficit outturn if oil prices stay at the current lows (government assumes oil price of US\$100/bbl in 2014 and US\$105/bbl in 2015).

### Neutral impact in the near term ➤

We project Malaysia's real GDP to expand 6% this year and 5% next year. In our view, any benefits from lower oil prices over the next six months would be neutralised by GST's impact on consumer spending and we are unlikely to see the positive pass-through effect to disposable incomes yet because the fixed price fuel subsidy system remains in place. We calculated that at the current Brent and Tapis crude oil price of US\$86/bbl, the subsidised retail price of RON95 petrol is almost the same as the market price. Moreover, the government raised the price of RON95 and diesel by 9.5-10% just this month. We do not expect the government to tinker with fuel prices as it will have to assess the average price for the month as well as other adjustment factors. Furthermore, it is still too early to tell if oil prices will sustain the current lows.

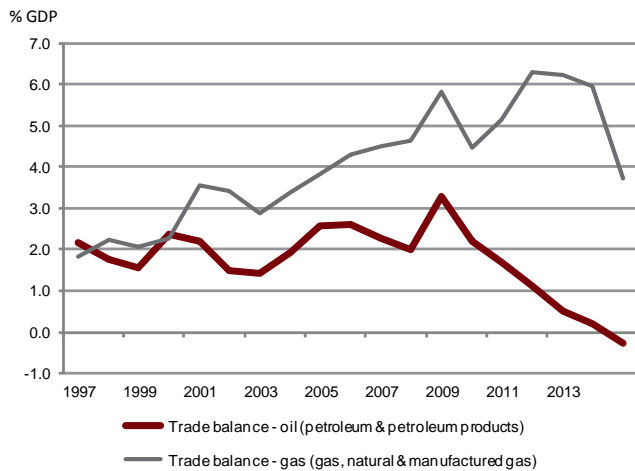
On the upside, the government's subsidy savings can either be used to bring down the fiscal deficit or be channelled towards productive spending. If the transition to a market-based fuel mechanism proceeds next year and oil prices drift lower, then consumers should benefit from higher disposable incomes assuming a complete pass-through of lower oil prices.

**Figure 1: Regional oil trade balance (2013)**

	Oil exports		Oil imports		Oil trade balance
	% of exports	% of GDP	% of imports	% of GDP	% of GDP
China	1.3	0.3	13.4	2.8	-2.5
India	20.1	3.3	35.3	8.7	-5.4
Hong Kong	0.2	0.3	2.8	5.4	-5.1
South Korea	9.6	4.1	25.4	10.0	-5.9
Taiwan	7.5	4.7	18.9	10.4	-5.7
Indonesia	8.1	1.7	22.7	4.9	-3.2
Malaysia	13.3	9.7	14.4	9.5	0.2
Singapore	24.3	33.5	31.3	39.2	-5.7
Thailand	6.3	3.6	21.0	13.5	-9.9

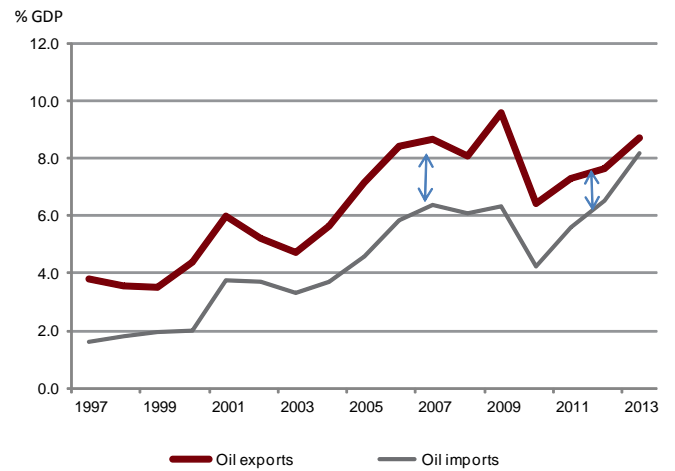
SOURCES: CEIC, CIMB RESEARCH

**Figure 2: Malaysia's oil trade balance (as % GDP) has been declining...**



SOURCES: CIMB RESEARCH, CEIC  
Latest data as at Jan-Aug 2014

**Figure 3: ... amid rising share of imported oil**



SOURCES: CIMB RESEARCH, CEIC

Latest data as at Jan-Aug 2014

**Figure 4: Impact of lower oil price on Malaysia and the region**

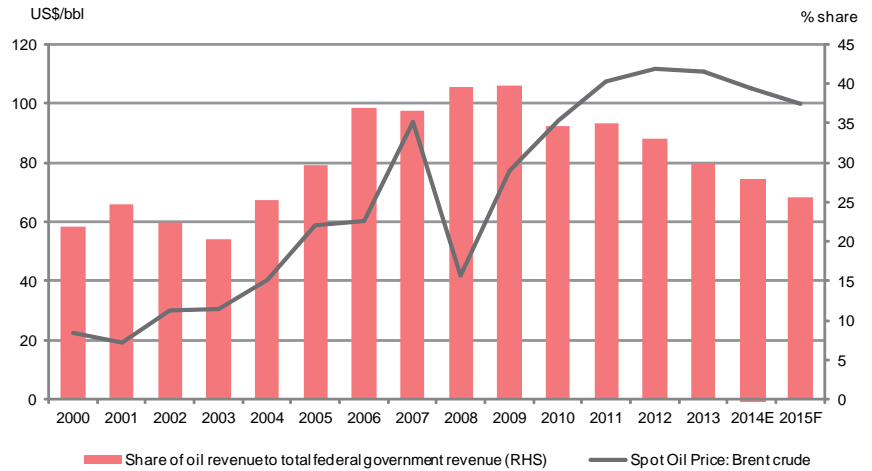
	Real GDP*	Fiscal budget	Inflation	Interest rate	Current account
Thailand	+ (0.6)	+	Lower	Neutral	+
Korea	+ (0.5)	+	Lower	Easing	+
India	+ (0.5)	+	Lower	Easing	+
China	+ (0.4)	+	Lower	Neutral	Neutral
Singapore	+ (0.3)	+	Lower	Neutral	+
Hong Kong	+ (0.3)	+	Lower	Pegged to Fed	+
Malaysia	+ (0.3)	+	Higher*	Neutral	+
Indonesia	+ (0.0)	+	Higher*	Neutral to tighten	+

SOURCES: CIMB RESEARCH, IMF

\* ( ) Estimated effect on annual growth assuming US\$5 oil price decline

^ Assuming government to push ahead with subsidy rationalisation and fiscal reforms

**Figure 5: Oil revenue (as % of total government revenue) projected to moderate amid lower oil price and larger revenue base**



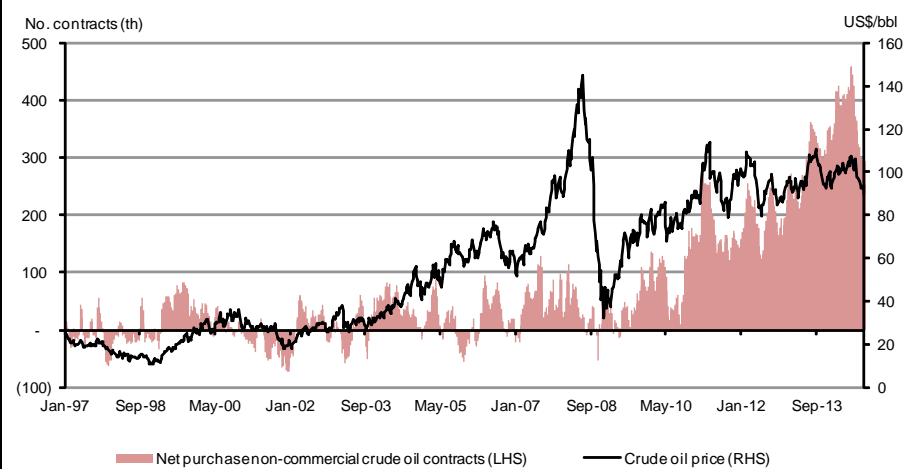
SOURCES: CMB RESEARCH, MOF, BLOOMBERG

**Figure 6: Household budget allocation for fuel; lower oil price to feed into higher disposable incomes depending on degree of oil pass-through effect**

	Percentage of household budget	Covers
Indonesia	3.8	Petrol, gas
Singapore	2.4	Petrol Octane 92/95/98
Philippines	1.5	Fuel & lubricant
Hong Kong	0.6	Motor fuel
China	5.4	Water, electricity, fuel & others
Malaysia	8.8	Ron 95/97, diesel
Thailand	11.4	Gasoline, diesel
Vietnam	5.9	Petrol, gas
India	5.9	Petrol, diesel

SOURCES: CMB RESEARCH, CEIC

**Figure 7: Share spike in net purchase of non-commercial crude oil contracts reflects large degree of speculative influence during recent decline in oil price; as such, how sustainable is the recent decline in crude oil price?**



SOURCES: BLOOMBERG, CMB RESEARCH

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#04

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