KERATAN AKHBAR

TARIKH : 7 APRIL 2022

AKHBAR : THE STAR

MUKA SURAT : STARBIZ 2

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Inflationary pressures not likely to be prevalent

ECONOMY

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Nishad Majmudar

PETALING JAYA: While Moody's Investors Service has forecast an economic growth of 6% for Malaysia in 2022, there remain downside risks from the Russia-Ukraine war, high inflation, new Covid-19 variants as well as lockdowns in China.

Nishad Majmudar, who is assistant vice-president and analyst (sovereign risk group and credit strategy and research) at Moody's said besides the war, any potential surge in inflation would cause Malaysia to react in terms of policy rate normalisation.

"Our assumption is that the central bank will start to tighten policy in the second half of this year," Nishad told reporters at an online briefing entitled *Inside Asean: Malaysia*, yesterday.

"However, on the inflation front, given the existence of price controls, I think inflationary pressures are not likely to be as prevalent in Malaysia as they might be in other countries where there is full pass through of the commodity prices," he added.

While the credit rating agency is also cognisant of risks of border closures or movement restrictions which may result from new Covid-19 variants, Nishad noted that the Malaysian government has "indicated its interest in keeping the economy open" and the country had transitioned to the endemic phase on April 1.

He also pointed out that Moody's has revised marginally downwards its growth forecast for China this year to 5.2%, and 5.1% for 2023.

"With the lockdowns in China, as well as some of the potential supply chain issues that may affect some of the countries importing inputs from China, such as Malaysia, that could also result in weaker manufacturing growth," said Nishad.

Regarding the country's credit profile, he said there are "fiscal risks on the horizon, given that the debt burden has risen over time during the pandemic, and we don't see any significant revenue reforms on the horizon."

Nishad added that the government's fiscal trajectory "does entail elevated risk to the credit profile, and this is where we see the greatest downside pressure."

He pointed out that the credit rating agency expects the government debt burden to stabilise in 2022 at 65% of gross domestic product or lower, and Moody's has included the explicit liabilities of 1MDB in its definition of government debt.

"We do see that the debt burden will stabilise or peak this year, but only gradually consolidate over time, given the government's expansionary fiscal stance," said Nishad.

He said that in the absence of further revenue reforms, this will limit the government's fiscal flexibility over time.

"Therefore, the outlook for fiscal policy is highly conditional upon the growth recovery this year. Weaker growth trajectory in 2022 could result in some fiscal slippage and higher debt levels, given that the government intends to maintain high levels of expenditure to ensure economic recovery," said Nishad.

"The credit rating agency has assumed there will be no major revenue reforms prior to the potential snap election this or next year, "given the political constraints around that."

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