

# Macro Note

## Malaysia: Parliament Dissolved Paves Way For 14th General Election

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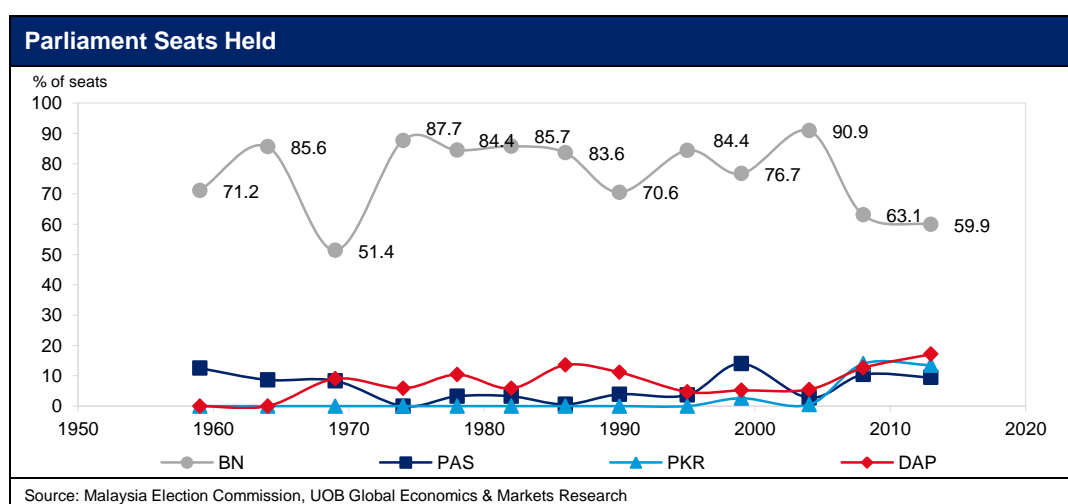
- Prime Minister Najib announced that Malaysia's parliament will be dissolved on 7 April paving the way for the 14th General Election (GE14) to be held within 60 days after the dissolution. The specific election date has not been announced but speculation is that it would be early May, just before Ramadhan starts in mid-May.
- The ruling coalition is widely expected to win the election. Key to watch is whether the incumbent government can retain 59% of the country's parliamentary seats currently held or even regain two-thirds majority that it lost since the 12th General Election in 2008.
- Assuming no surprises in the coming election, this provides medium-term policy certainty particularly on infrastructure development, implementation of the recently signed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade deal, and fiscal consolidation. The unfolding global trade tensions remains a risk albeit we continue to hold the view that there remains room for negotiation over the next 60 days before the tariffs can go into effect. We expect investment flows to pick up post-election and support further Ringgit strength. We maintain our year-end USD/MYR forecast at 3.80.

### What Happens Now?

After months of speculation, Prime Minister Najib announced that Malaysia's parliament will be dissolved. This paves the way for the 14<sup>th</sup> General Election (GE14) to be held within the next 60 days. In 2013, the period between the parliament being dissolved and polling day was 30 days.

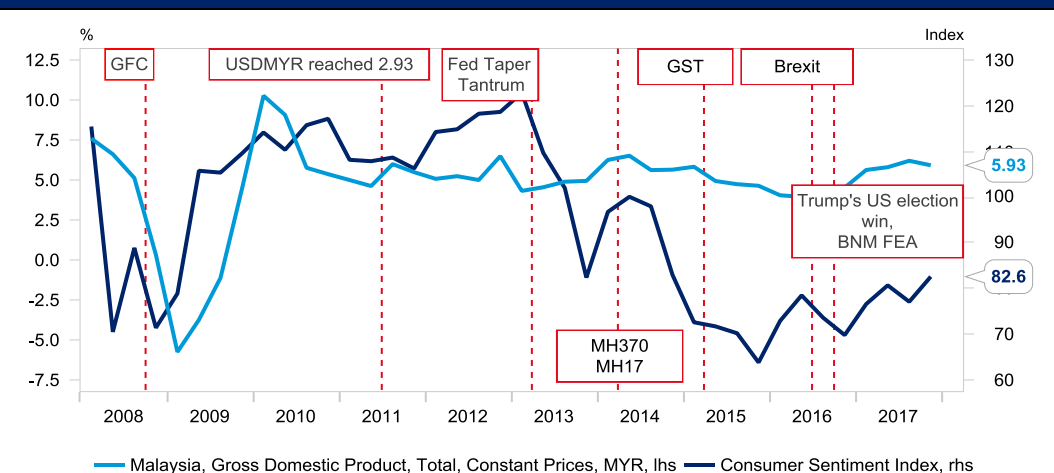
### What To Expect?

The ruling Barisan Nasional (BN) coalition is expected to secure a comfortable victory at the election. Of interest is whether BN can retain the 133 seats or 59% of the country's parliamentary seats currently held or even regain two-thirds majority. The two-thirds majority in parliament is a political psychological threshold. BN lost its two-thirds majority in 2008 and 2013, the first time since 1969.



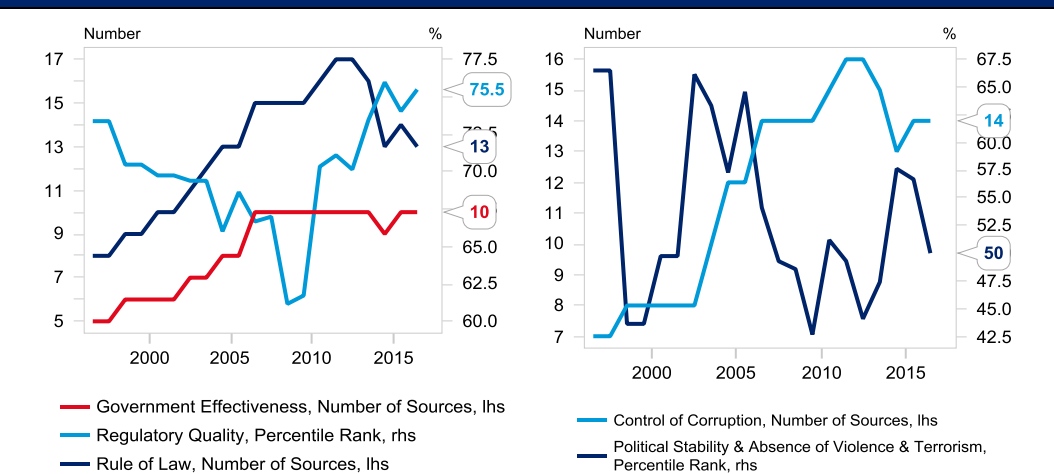
Although economic growth has improved, consumer confidence has not recovered back to the highs of 2012. The common feedback is that the benefits are not trickled-down to the ordinary households. Several fiscal measures have been announced such as personal tax cuts, higher BR1M cash aid, and budget giveaways. Nevertheless a persistent concern among Malaysians is the higher cost of living owing to the goods and service tax (GST) that was implemented in 2015, removal of subsidies, and relatively weaker Ringgit. Other issues include a slippage in the perception of corruption and mixed trends on governance, citing the 2017 annual survey by Transparency International and 2016 World Bank Governance indicators respectively.

### Malaysia: Consumer Sentiment Index



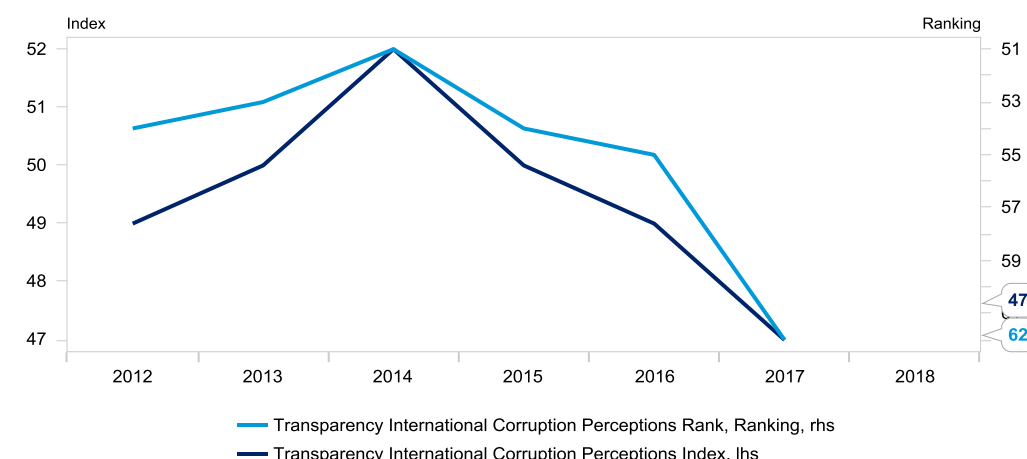
Source: Macrobond, UOB Global Economics & Markets Research

### World Bank Governance Indicators Shows Mixed Trends For Malaysia



Source: Macrobond, UOB Global Economics & Markets Research

### Malaysia: Transparency International Perception of Corruption

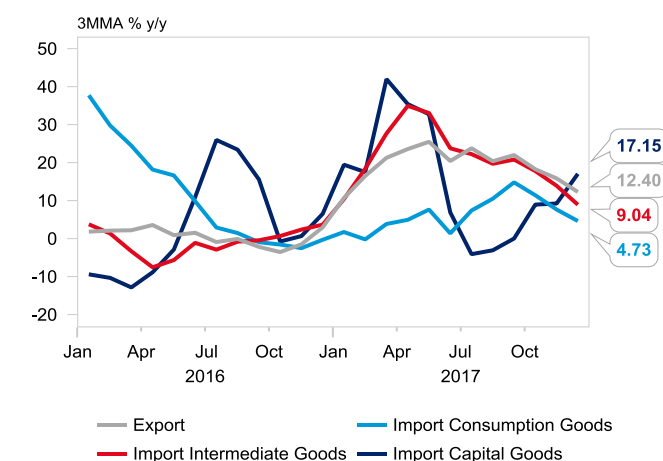


Source: Macrobond, UOB Global Economics & Markets Research

### How Is The Economy?

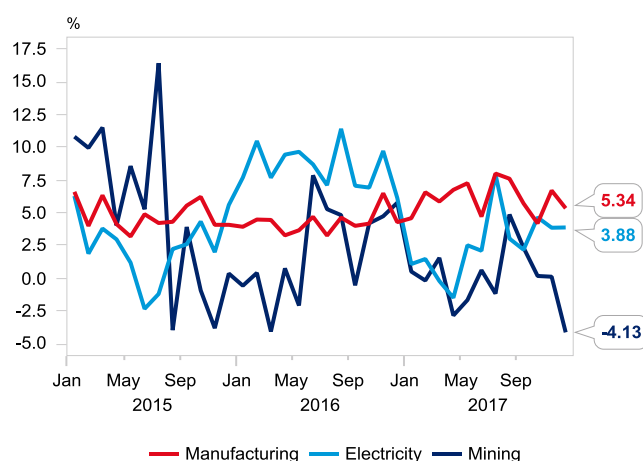
Based on high-frequency indicators in Jan-Feb 2018, growth momentum appears to have moderated albeit we think should remain at robust levels at ~5.4% y/y in first quarter. Exports rose 7.8% y/y in Jan-Feb (from 4.7% in December) aided by robust demand for Malaysia's electrical and electronic exports, supportive demand for liquefied natural gas, and palm oil and related products. But slower intermediate imports presage a moderating export trend ahead. Manufacturing production recorded more modest expansion in January amid inventory destocking and seasonal effects. Services activity has been resilient thanks to strong wholesale and retail trade. Motor vehicle sales have recorded smaller declines in recent months. Agriculture output is supported by strong palm oil production though utilisation rates slowed early this year. Housing prices have ebbed further but still in positive territory. Construction activity hums along with private and public projects.

#### Slower Intermediate Imports Presage Moderating Export Trend Ahead



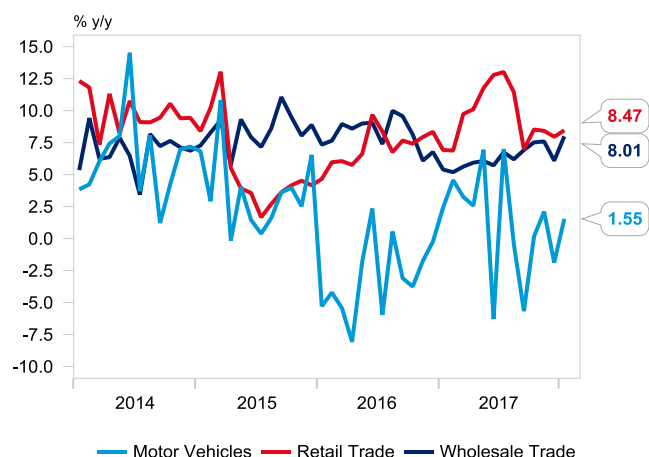
Source: Macrobond, UOB Global Economics & Markets Research

#### Resilient Manufacturing Output



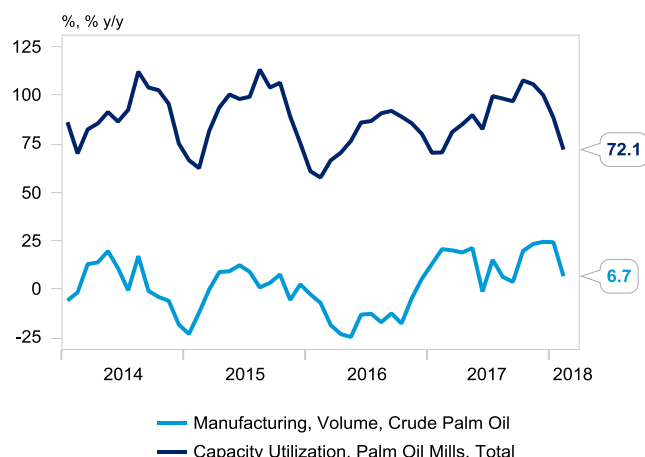
Source: Macrobond, UOB Global Economics & Markets Research

### Wholesale And Retail Trade Holding Up



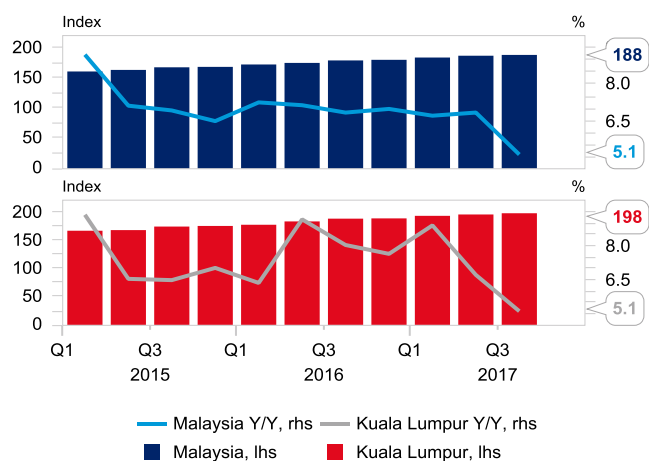
Source: Macrobond, UOB Global Economics & Markets Research

### Agriculture Output Supported By CPO



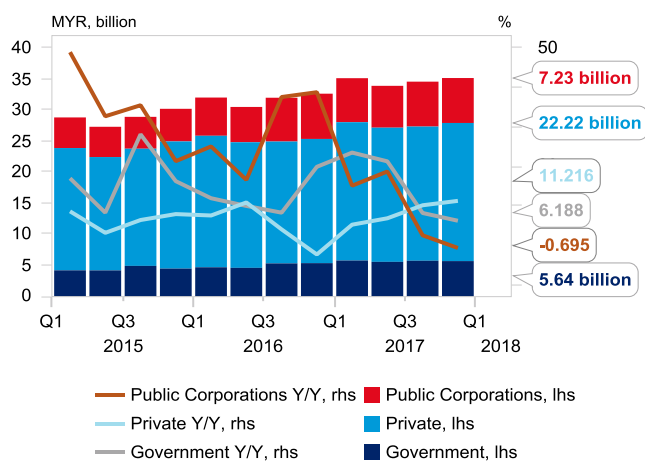
Source: Macrobond, UOB Global Economics & Markets Research

### Housing Prices Have Eased But Still Positive



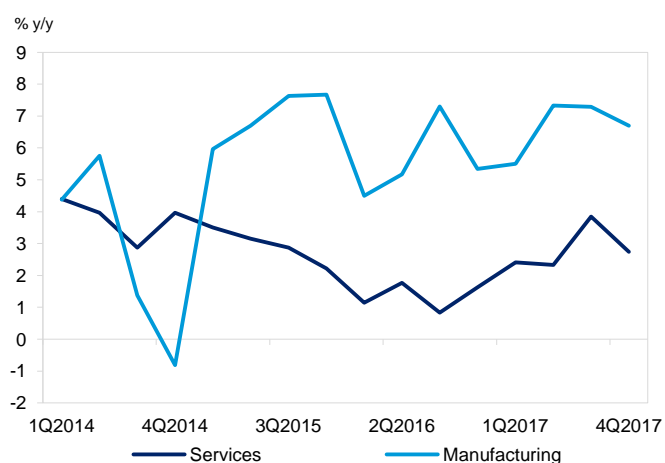
Source: Macrobond, UOB Global Economics & Markets Research

### Construction Activity Supported By Private And Public Projects



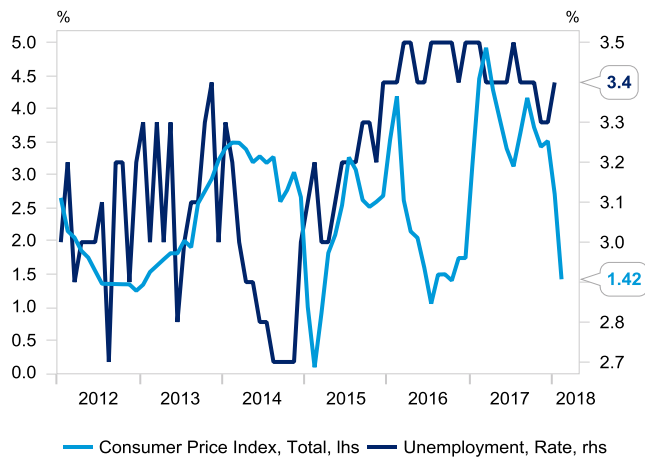
Source: Macrobond, UOB Global Economics & Markets Research

### Positive Growth In Wage Per Employee



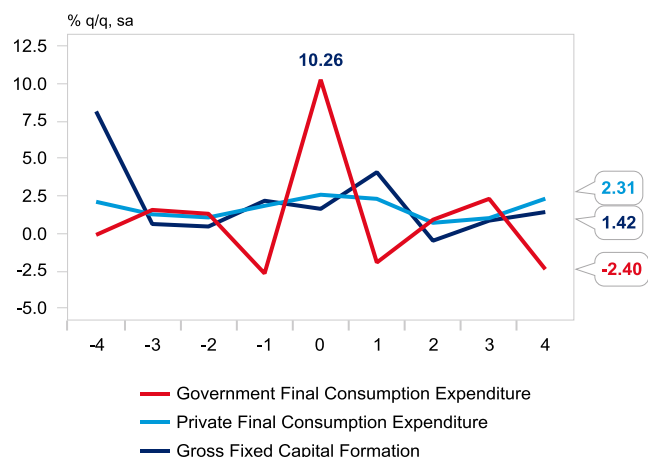
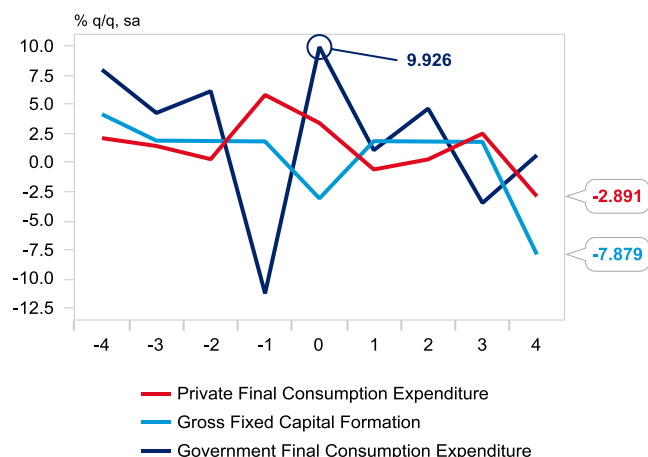
Source: CEIC, UOB Global Economics & Markets Research

### Unemployment Rate vs. Inflation



Source: Macrobond, UOB Global Economics & Markets Research

## Government Spending Spikes During 2008 (lhs) And 2013 (rhs) Election



Source: Macrobond, UOB Global Economics & Markets Research

## What Are Key Policy Differences?

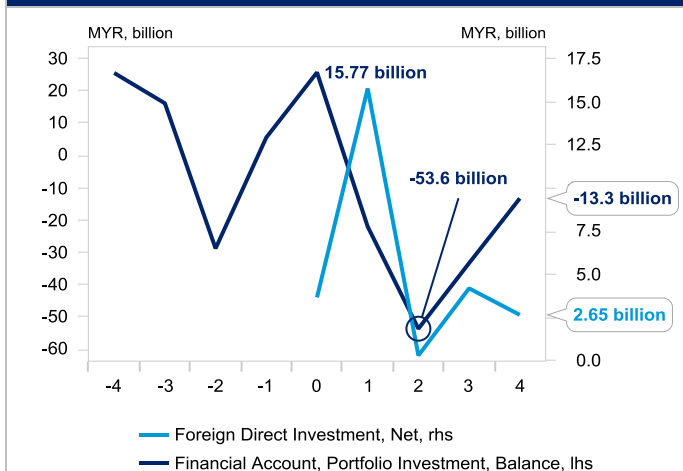
The main difference between the policy agenda of the ruling Barisan National (BN) and opposition parties (Pakatan Harapan) are on the tax system, fuel subsidies, tolls, infrastructure projects, minimum wages, migrant workers, oil royalties, and institutional reforms.

	Barisan National (BN)	Pakatan Harapan
<b>Economy</b>	<ul style="list-style-type: none"> <li>- Focus on high impact projects</li> <li>- Strengthen SMEs through financing schemes, soft loans and assistance programs</li> <li>- Promote the digital economy</li> <li>- Promote Bumiputera entrepreneurship</li> <li>- Restore the revenue rights for Sabah and Sarawak</li> </ul>	<ul style="list-style-type: none"> <li>- Focus on urban rural gap</li> <li>- Rights of Sabah and Sarawak</li> <li>- Incentives for SMEs to develop technology</li> <li>- Review existing infrastructure projects, and to renegotiate or even cancel projects that are unnecessary</li> <li>- Improve the implementation of affirmative policies</li> <li>- Increase oil royalties for Sabah, Sarawak, Kelantan and Terengganu to 20% from current 5%</li> <li>- Two-tier system for government contract allocation for Bumiputeras</li> </ul>
<b>Fiscal</b>	<ul style="list-style-type: none"> <li>- Target near balanced budget</li> <li>- GST to diversify government revenue base</li> <li>- Provide GST relief and zero-rated supply on specific items</li> <li>- Reduce personal income tax rates</li> <li>- Rationalise subsidies, targeted assistance</li> </ul>	<ul style="list-style-type: none"> <li>- Abolish GST and revert to Sales and Services Tax (SST)</li> <li>- Reinstate fuel subsidies</li> <li>- Trim the budget for the Prime Minister Office</li> <li>- Less burden on middle income</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>- Continued BR1M handouts</li> <li>- Special incentive payment for Felde settlers</li> <li>- Standardize price for basic necessities in Sabah and Sarawak</li> <li>- Affordable housing</li> <li>- Improving welfare of senior citizens, people with disabilities and children</li> <li>- 1Malaysia products to manage rising costs</li> <li>- Salary increments for 1.6m civil servants totaled at MYR1.46bn</li> </ul>	<ul style="list-style-type: none"> <li>- Welfare of people, especially the poor, single mothers, disabled individuals, and low income households</li> <li>- Maintain BR1M but conditional on the recipients staying employed</li> <li>- Increase maternity leave to 120 days from 90 days</li> <li>- Abolish tolls by taking over toll concessionaires stage by stage</li> </ul>
<b>Education and labor</b>	<ul style="list-style-type: none"> <li>- Institutions of learning in science, technology, engineering, and mathematics</li> <li>- Child care centres in new office buildings</li> <li>- Introduce coding in schools</li> <li>- Apprentice programs</li> <li>- Discounts and extended repayment for education loans under PTPN</li> </ul>	<ul style="list-style-type: none"> <li>- Free education at public universities within 10 years</li> <li>- Focus on Technical and Vocational Education and Training (TVET)</li> <li>- Expand German Dual Vocational Training (GDVT)</li> <li>- PTPN borrowers to pay back loans after their income exceed MYR4,000 per month</li> <li>- Higher minimum monthly wage to MYR1,500</li> <li>- Reduce migrant workers</li> </ul>
<b>Institutional reform</b>	<ul style="list-style-type: none"> <li>- Transparency in government procurement</li> <li>- MACC Service Commission</li> <li>- Transformative Salary Scheme for civil servants</li> </ul>	<ul style="list-style-type: none"> <li>- Limit the tenure of the Prime Minister to 2 terms</li> <li>- More independent MACC that reports directly to the parliament and granting it prosecutorial powers</li> <li>- Reform the political funding system</li> <li>- Remove direct negotiation practices for all government contracts and procurement</li> <li>- Transparency for government contracts</li> <li>- Laws to prevent discrimination against women in work force and reduce gender wage gap</li> </ul>

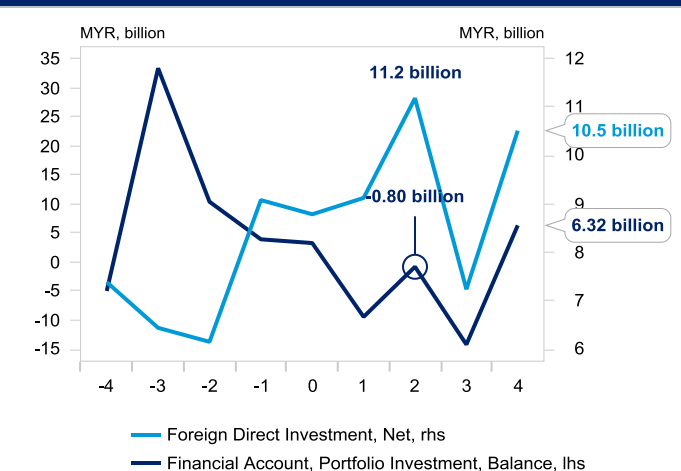
Source: Media, Budget 2018 Prime Minister's Speech, Pakatan Harapan manifesto

Barring any surprises in the coming election, this provides medium-term policy certainty particularly on infrastructure development, implementation of the recently signed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade deal, and fiscal consolidation. While inflows remain positive, the size of net FDI and portfolio inflows has eased ahead of general election. We expect investment flows to pick up post-election and support further Ringgit strength.

### Net FDI Picks Up Post 2008 (lhs) And 2013 (rhs) Election



Source: Macrobond, UOB Global Economics & Markets Research



Source: Macrobond, UOB Global Economics & Markets Research

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