



PRESS RELEASE MINISTRY OF FINANCE MALAYSIA

**STRONG ECONOMIC GROWTH NUMBERS DISPEL ANY DEFLATIONARY FEARS FOLLOWING THE 0.7%
YEAR-ON-YEAR DECLINE IN THE JANUARY 2019 CONSUMER PRICE INDEX (CPI)**



**PENURUNAN INDEKS HARGA PENGGUNA
SEBANYAK 0.7% TAHUN-KE-TAHUN SEMASA
EKONOMI NEGARA BERKEMBANG SIHAT
MEMBUKTIKAN BAHAWA DASAR KERAJAAN
MEMANFAATKAN RAKYAT**

Strong economic growth numbers, with the economy expanding by 4.7% in 2018, immediately dispel any deflationary fears following the drop in January 2019 CPI by 0.7%, the lowest in nearly 10 years. The CPI decline proves that the Government's policy of abolishing the Goods & Services Tax (GST) and replacing it by the Sales & Services Tax (SST) as well stabilising fuel prices with a ceiling price mechanism works by expanding the economic pie to benefit both businesses and the rakyat.

The fall in prices is due to cheaper input prices. Price of RON95 petrol for instance was approximately 13% cheaper in January 2019 compared to a year ago and this has positively affected the prices of goods and services that are free from GST. The fuel price stabilisation policy in particular passes the savings from cheaper fuel prices directly to consumers immediately while the ceiling price mechanism protects them from high and soaring petrol prices.

LOWER PRICES ARE ENCOURAGING ECONOMIC GROWTH

The price decline should improve the purchasing power of Malaysian consumers and add to economic growth. The low inflationary environment has encouraged private consumption to grow at a fast pace of 9.0% and 8.5% year-on-year in the third and the fourth quarter of last year respectively.

The economy is going strong and the Government projects the 2019 GDP to expand a further 4.9% after expanding 4.7% last year. Certainty, clarity and consistency in government policy have engendered growing confidence in the business community, capital markets and investors. The fourth quarter GDP growth of 4.7% year-on-year was higher than the market consensus of 4.5% year-on-year as compiled by Bloomberg.

Malaysia's faster-than-consensus growth and faster-than-average growth of A-/A3- rated economies have convinced credit rating agencies to maintain Malaysia's high sovereign credit ratings of either A- or A3. Fitch Ratings on Thursday, 21 February 2019 is the latest credit rating agency to reaffirm Malaysia's A- rating with a stable outlook based not only on the country's healthy GDP growth, but also due to progress on fiscal reforms to increase transparency and curb corruption, fiscal consolidation to reduce the fiscal deficit, and due to Malaysia registering a positive 2018 current account balance of 2.3% to GDP.

JANUARY 2019 PRICE DECLINE IS DIFFERENT FROM THE 2009 DEFLATION

The January 2019 CPI decline did not arise from any weakening of demand or economic growth. Instead, the price decline was largely caused by supply factors in the form of cheaper input cost, specifically cheaper fuel prices and this can be seen clearly from the public data published by the Department of Statistics Malaysia (DOSM). The CPI data can be obtained from DOSM by the public for free.

This makes the January 2019 price decline very different from the deflation Malaysia last experienced in 2009. During the Global Financial Crisis, Malaysia suffered a recession with the GDP contracting by 5.8% in the first quarter, falling 3.7% in the second quarter and finally decreasing 1.1% the third quarter of 2009. It is crucial to highlight that year-on-year price deflation followed soon after the 2009 recession began. Furthermore, industrial production declined significantly prior to the recession and the price deflation (**see Table 1**). This means the 2009 deflation was caused by a recession as households and companies tightened their belts significantly.

Table 1: Year-on-year growth of GDP, industrial production and consumer prices in 2009

Quarter	GDP growth	Industrial production growth	CPI inflation
S1 2009	-5.8%	-14.2%	3.8%
S2 2009	-3.7%	-10.7%	1.4%
S3 2009	-1.1%	-7.0%	-2.3%

On the contrary, the January 2019 price decline was not caused by recession or any kind of weak demand. The same severe GDP contraction Malaysia suffered in 2009 is nowhere to be seen today while industrial production is rising well based on recent quarters data (**see Table 2**). While the first quarter 2019 GDP and the industrial production figures are still being compiled, current observations on demand suggest both statistics will experience growth.

Table 2: Year-on-year growth of GDP, industrial production and consumer prices in 2018-2019

Quarter	GDP growth	Industrial production growth	CPI inflation
S3 2018	4.4%	2.4%	0.5%
S4 2018	4.7%	3.5%	0.3%
S1 2019	Currently being collected	Currently being collected	-0.7% (January only)

Yet another proof that the economy is healthy is the fact that Nielsen survey shows Malaysia's consumer confidence stood at 118 points in the fourth quarter of 2018, 24 points higher from a year ago. The jump is the highest among all countries surveyed and it places Malaysian consumers as the 7th most confident among 64 economies. Additionally, approved manufacturing foreign direct investment (FDI) for the first 9 months of 2018 rose to RM48.8 billion, or 249% higher than the same period in 2017. These approved investments are expected to create an additional 41,000 quality manufacturing jobs in the next 2-3 years that can help improve local wages.

Despite the 0.7% drop in the CPI, the Government understands there is much to be done in bringing the living costs of ordinary Malaysians to a more manageable level, especially for those belonging to the B40 group. The Government is working to ensure that the benefits from the reduction in CPI can be channeled downwards to a wider segment of Malaysians.

Sayangi Malaysiaku!

Lim Guan Eng
Finance Minister

Ministry of Finance Malaysia
Putrajaya
24 February 2019

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