

## ECONOMIC REPORT | Malaysia Fiscal Outlook

# Malaysia's Fiscal Outlook Improves as Oil Prices Edged Above USD45 per Barrel

- Brent reached as high as USD47.4 per barrel on intraday trading yesterday. Year-to-date, oil price averaged USD37.1 and for this month (as of April 28<sup>th</sup>), oil price averaged at USD43.0 per barrel.
- This was higher than optimistic scenario projected in the recalibrated Budget 2016 of USD35 per barrel, giving rise to better probability for oil price to average higher than projected for the year.
- We view this as a positive development of which the government is likely to meet its fiscal target this year despite moderating overall economic growth projection.

**Brent crude oil price reached intraday high at USD47.4 per barrel, improving Malaysia's fiscal outlook for 2016.** In January, the government tabulated the recalibrated Budget 2016 to the parliament based on two possible oil price scenarios; 1) USD35 per barrel 2) USD30 per barrel. Hence, this means that oil prices have been averaging above the imputed projections for year-to-date. Below is the recap of federal projections:

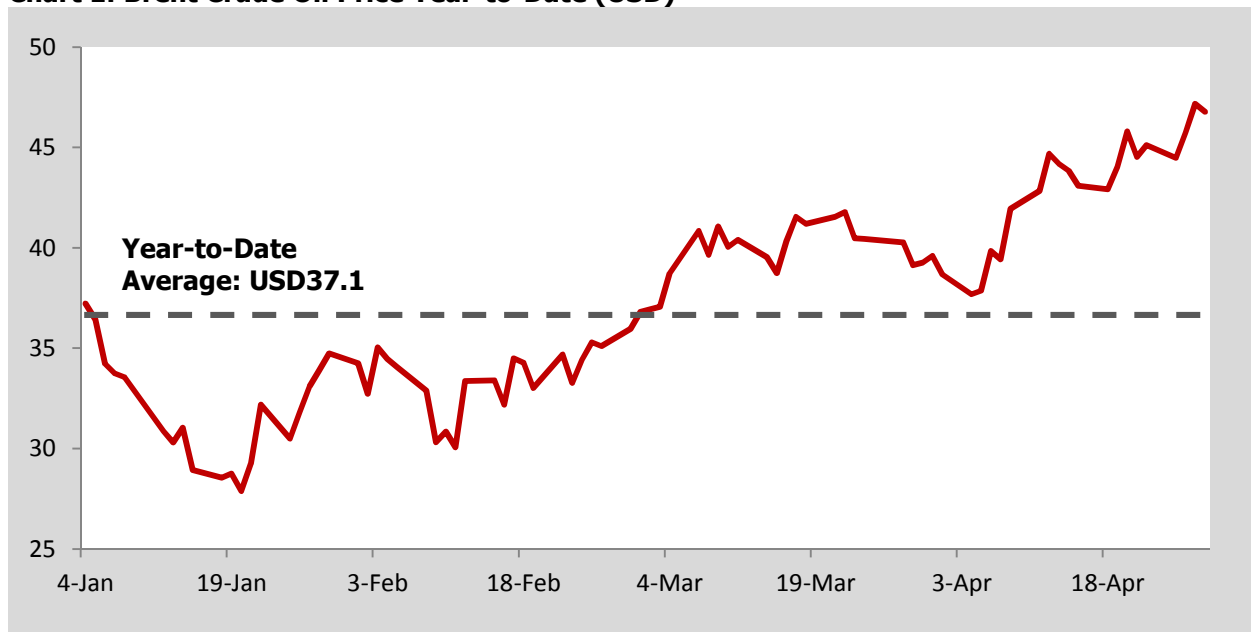
**Table 1: Recalibrated Budget 2016**

	RM million				YoY change			
	2015	2016	2016 Revised		2015	2016	2016 Revised	
Oil Price Budget Assumptions (USD)	50	48	35	30	50	48	35	30
Revenue	219,100	225,656	217,900	216,300	0.8%	1.4%	-0.5%	-1.3%
Operating Expenditure	217,000	215,224	211,002	210,700	-2.9%	0.9%	-2.8%	-2.9%
Current balance	2,100	10,432	6,898	5,600	781.9%	14.1%	228.5%	166.7%
Gross development expenditure	40,800	50,000	46,000	45,000	20.0%	5.4%	12.7%	10.3%
Less Loan recovery	1,500	785	800	800	-1.8%	-24.0%	-46.7%	-46.7%
Net development expenditure	39,300	49,215	45,200	44,200	20.6%	6.1%	15.0%	12.5%
Overall balance	(37,200)	(38,783)	(38,302)	(38,600)	-0.4%	4.1%	3.0%	3.8%
Overall balance as % of GDP	<b>-3.2</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-3.1</b>				

Source: MOF, MIDFR

**In April (as of 28<sup>th</sup>), crude oil price edged higher to average at USD43.0 per barrel.** Year-to-date, Brent averaged at USD37.1 per barrel, higher than the optimistic oil price projection (USD35 per barrel) imputed in the recalibrated budget. In April, oil prices continue to trend upwards, averaging at USD43.0 per barrel. Fed's recent dovishness has caused commodity prices to rally as investors pricing in the effect of a weaker dollar in the future.


**Chart 1: Brent Crude Oil Price Year-to-Date (USD)**



Source: 1MDB, MIDFR

**While fiscal target is likely to be achieved, further upside are limited as oil price is projected to average at USD40 per barrel for the year.** The recent rally in the oil price has limited upside as oversupply remains a threat despite pickup in demand due to marginally improving global economic condition. The limiting factor lies on US shale oil producers as they are likely to operate closed rigs once oil price climb higher. At higher price, operation becomes feasible and profitable.

**Exports grew in the first two months of 2016, albeit marginally.** The performance of exports was weak for the first two months of the year, contracting by -2.8%yoy in January while rebounded in February by 6.7%yoy. On average, exports grew by 1.5%yoy for the two months despite having a low base. The outlook for March's performance is rather dim as major trading partners show little sign of improvements. On this score, fiscal consolidation could be affected if economy expanded slower than expected.

**Nevertheless, we estimate fiscal deficit could improve to -2.9% over GDP.** Barring any unforeseen circumstances, ceteris paribus, Malaysia stands to benefit from higher oil prices. We estimate that fiscal deficit could improve to -2.9% over GDP from -3.2% reached in 2015. The 0.3% gained is higher than the estimate made by the government of -3.1% fiscal deficit as tabulated in the recalibrated budget. 

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