

Numbers Game

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What's next for Malaysian politics and economy?

- As if the virus scare is not enough, Malaysia has had to experience an overdose of bizarre political drama of late. The PM quit – because opposition ganged up to get him to stay longer – only to come back in an interim role. All eyes are now on whether there will be a new coalition or a snap election.
- The acute uptick in political uncertainty could not have come at a worse time. The economy was already reeling from a slowdown even before the threat of global pandemic stares at us. Now, the outlook may dim further, with investment activities likely to be hit the most, if the uncertainty persists.
- Given the multifront challenges facing the economy at a time of relative political vacuum, the central bank's role will be ever more crucial. Apart from its steadying hands on the currency markets and such, the economic one-two punch could compel BNM to ease further, on March 3rd.

'Curiouser and curiouser!' cried Alice (she was so much surprised, that for the moment she quite forgot how to speak good English).

Alice in Wonderland, by Lewis Carroll

Twists and Turns

A lot has happened and nothing has happened at the same time. That might be the summary of what has taken place in Malaysian politics recently.

First, a quick rundown on what had happened over the weekend:

- Opposition parties, UMNO and PAS, reportedly met with some members of the Pakatan Harapan (PH) ruling coalition, including Azmin Ali of PKR and Minister Muhyiddin Yassin of Bersatu at Sheraton Hotel Petaling Jaya.
- The agenda was apparently to form an alternative coalition to support continued leadership under PM Mahathir Mohamad. The catalyst was said to be attempts by some within the PH coalition to compel the PM to hand over the reins to the long-time PM-in-waiting Anwar Ibrahim.
- The "Sheraton Gang" proceeded to have an audience with the head of state, the Agong, ostensibly to present their case for a new government. What transpired is not known precisely, but the attempt apparently fell flat, perhaps because the PM himself was not present.

Fast forward to Monday this week, and the hitherto silent PM Mahathir shocked the country by submitting his resignation to the Agong, only to be reinstated right away as the interim PM.

Hence, nothing has changed on the fact that Mahathir remains the PM, albeit with the moniker interim attached to the title. Still, the rest of the cabinet has

been disbanded, which leaves Malaysia technically without much of the government at this point.

As of today, the Agong is still in the process of interviewing each and every one of the 222 MPs to ascertain where their support lies in terms of PM candidate, or if they prefer to have an election.

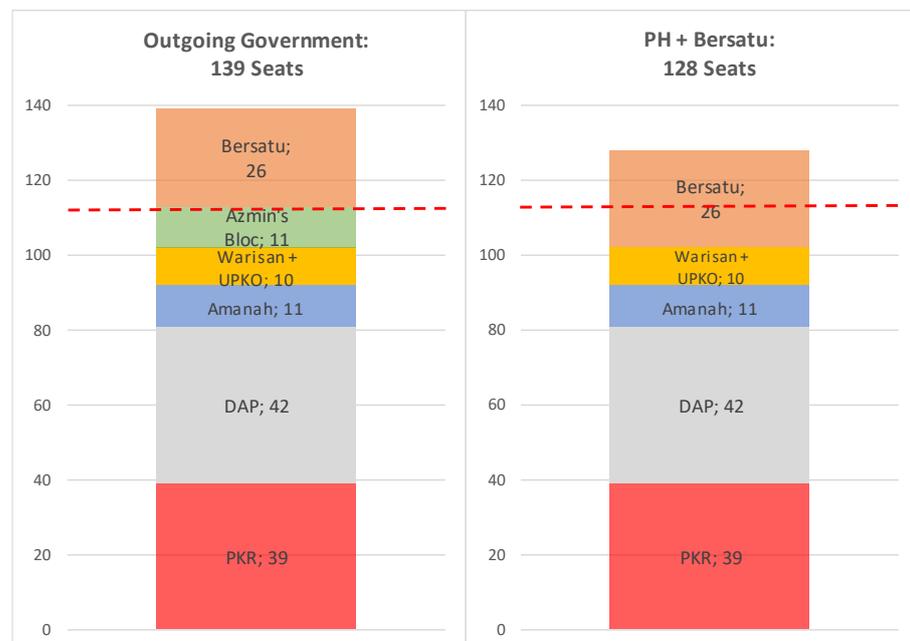
While, at one point, it appears that every single political group across the spectrum was adamant that Mahathir should still be the PM – which would have left him spoilt for choice in forming a new coalition – the situation changed yet again.

UMNO and PAS which had backed the purported move to form a new coalition with Bersatu and Azmin’s bloc announced that they would now opt for a snap election, instead, perhaps sensing that they can improve their seat counts following a string of recent by-election wins.

From the perspective of the economy, a new election is by no means a panacea, however.

Unless it brings forth a massive win for one of the major parties, with seat wins of close to 90, allowing the party to be on a strong footing despite having to take on a coalition partner or two, we might well see a repeat of the current political carousel. Given the fractious state of play, however, such a victory for any party looks unlikely.

Figure 1. Seat counts of selected parties in the Dewan Rakyat



Source: OCBC, Dewan Rakyat. Note: The red line denotes the 112-seat threshold needed for a majority in the 222-seat parliament.

Hence, political uncertainties would dominate for a while, unless we see a resolution of the current quagmire in one way or another soon. For instance, to play the numbers game optimistically, if Mahathir manages to charm at least some of his Bersatu party members to switch their support back to what remains of the PH coalition now, a new government can be formed. Latest reports suggesting that PKR members may prefer Anwar as the PM immediately may put paid to that scenario too, however – highlighting just how fluid the situation is.

If the uncertainties persist into March and beyond, however, economic growth will suffer more than it already has from the slow momentum from last quarter plus the ongoing Covid-19 outbreak scare that is reverberating through the world economy.

We have already shaved down our Q1 [growth forecast](#) to 3.5% yoy and for the full-year GDP to grow at 4.0% from 4.2% previously. If the political situation does not improve in the coming week or two, we might have to take into account a greater hit on the investment and consumption fronts in particular.

Moreover, over the medium term, Malaysia could stand to gain from a [reconfiguration of regional supply chain](#), particularly in the technology sector. It has already benefited from the recent trade war-induced FDI relocation, but unless it can put its house in order, politically speaking, the momentum might be lost.

With those risks in mind, we think the chances of BNM pursuing another rate cut in the upcoming meeting on March 3rd, to bring the OPR to 2.5%, has risen sizably. A quick political resolution may dampen the chances somewhat, but the pandemic threat that is looming larger now would still tip the balance for a cut in aggregate.

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