

# Malaysia 14<sup>th</sup> General Election

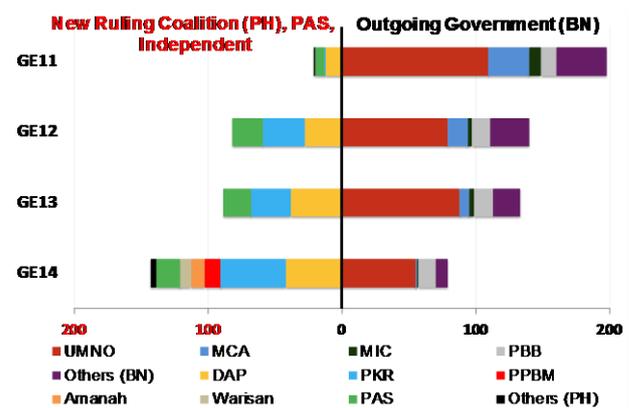
Surprise victory for Pakatan, short term uncertainty but outlook remains positive

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## OVERVIEW

- A new beginning.** When victory was certain for the Pakatan Harapan (PH) alliance as the official results were announced a day after the 14<sup>th</sup> General Election (GE14) on May 9th, it marked the starting point for the new coalition government to clean up the mess that have been allegedly accumulated by the previous regime under Datuk Seri Najib Abdul Razak for nearly a decade. The former coalition government, Barisan Nasional (BN), had been in power ever since Malaysia achieved its independence from the British colonial in 1957. Hence, a change in the ruling party, after 61 years marks a history in Malaysia.
- The biggest comeback.** The GE14 victory is remarkable as it was led by Prime Minister Tun Dr. Mahathir Mohamad who ousted BN, the ruling coalition he once steered under the United Malays National Organisation (UMNO) banner. During his premiership from 1982 till 2003, he served as Malaysia's 4th and longest serving PM. Aside from being the first Malaysian PM to not represent the long-serving coalition, Tun Mahathir's current premiership makes him the first Malaysian PM to serve from two opposing parties and on non-consecutive terms. After retiring from politics for 15 years, he made a comeback on 8 January 2018 when he was announced as the PH coalition candidate for PM for the GE14. At the age of 92, he is also the world's oldest head of state. However, Tun Mahathir has expressed that that he would only be a caretaker leader of the new government and will eventually hand over the premiership to his former deputy PM Anwar Ibrahim upon the King's pardon.
- Against the odds.** PH coalition won by a commendable margin with 122 or 54.5% of the total 222 parliamentary seats despite many alleged attempts of gerrymandering and dirty tactics in the GE14 by the then-incumbent BN government. In terms of total votes, it garnered 66.8% of total turnout, a significant improvement from 50.8% in the last election. More surprisingly the alliance won 9 out of the 14 states in Malaysia including Johor, the birth state and stronghold of UMNO. PH also made almost a clean sweep on the west coast of peninsular namely gaining Negeri Sembilan and Melaka while retaining Federal Territory and Selangor. The alliance technically won more seats in the state of Kedah, Perak and Sabah but not enough to form a state government. Surprisingly, the Islamic party or PAS, though not part of the PH, secured 18 parliamentary seats in Kelantan and Terengganu.

Graph 1: Malaysia's Elections Results At A Glance



Source: Election Commission, Kenanga Research

Table 1: Malaysia's Election Results Historical Trend (1959 – Present)

Year	Govt (BN)			Opposition			Total Seats
	Seats	% seat	% vote	Seats	% seat	% vote	
1959*	74	71.15	51.7	30	28.9	48.3	104
1964**	89	85.6	58.5	15	14.4	41.5	104
1969	95	66.0	49.3	49	34.0	50.7	144
1974	135	87.7	60.7	19	12.3	39.3	154
1978	130	84.4	57.2	24	15.6	42.8	154
1982	132	85.7	60.5	22	14.3	39.5	154
1986	148	83.6	55.8	29	16.4	41.5	177
1990	127	70.6	53.4	53	29.5	46.6	180
1995	162	84.4	65.2	30	15.6	34.8	192
1999	148	76.7	56.5	45	23.3	43.5	193
2004	198	90.4	63.9	21	9.6	36.1	219
2008	140	62.6	50.3	82	36.9	46.8	222
2013	133	59.9	47.4	89	40.1	50.8	222
2018	79	35.6	33.2	143	64.4	66.8	222

Source: Various.

\* Government means the Alliance for 1959 and 1964, the Alliance and coalition partner the Sarawak United People's Party for 1969, and the Barisan Nasional from 1974

\*\* 1959 figures are for Malaya. Similarly, 1964 figures are only for Peninsular Malaysia as parliamentary elections were not held in Sabah and Sarawak

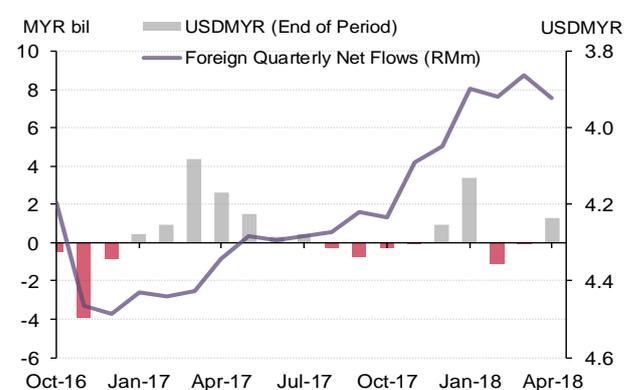
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- **Dismal BN results.** Meanwhile, BN managed to secure only 79 or 35.6% of the 222 parliamentary seats compared to 60.0% in the last election. In terms of total number of votes BN only managed to secure 33.2% of the total, a record low. Hence, the BN coalition managed to retain only three states, namely Perlis, Pahang, and Sarawak.
- **Peaceful transition.** We believe the main reason why the GE14 came in as a surprise to market and our base case scenario (of a simple majority win for BN) is because the *rakyat* (people) has dauntlessly expressed what was perceived as mere dissatisfaction and concern towards alleged corruption, governance and transparency on to action via the ballot box. The dissatisfaction from the *rakyat* largely came about from the alleged handling of the 1 Malaysia Development Bhd (1MDB) scandal, which had put Malaysia on the map as one of the most corrupted countries in the world, among others. In addition, the outgoing BN government has allegedly failed to address the perennial issue of rising cost of living despite various initiatives including large annual cash handouts or BR1M as well as various forms of assistance and subsidies since the last election. Wages and household income remained relatively low and did not keep up with the inflated cost of living especially in the urban areas. Adding salt to the wound was the imposition of Goods and Services Tax (GST) of 6.0% since April 2015. The volatile and weak Ringgit, largely stemming from negative news flow from the 1MDB scandal, weakened purchasing power and reportedly did little to help improve the financial wellbeing of most Malaysians.

## Economic Impact

- **Knee jerk reaction.** As in any unprecedented event, a knee-jerk reaction is expected when the capital market opens today (Monday, 14 May) after three days of closure. The market is expecting that companies associated with the previous regime and its cronies along with listed companies that are linked to China investment in Malaysia could experience a selloff resulting in the FTSE Kuala Lumpur Composite Index (FKLCI) to tumble. This is due to the political pledge by Tun Mahathir to review major projects that has the Chinese government's involvement. In April, the FTSE KLCI reached an all-time closing high of 1,895.18 which concurrently saw a large net inflow of portfolio capital from abroad totalling RM1.3b in the same month. FKLCI last traded at 1,846.51 on Tuesday (May 8) prior to GE14. Until we see a clear policy signal from the new government we expect in the short term there would be volatility and some outflow of portfolio capital but not to the extent that would destabilise the capital market. In the immediate term, circuit breakers would be applied to stop any free fall on the stock market.

Graph 2: Equity Fund Flows vs Inverted USDMYR



Source: Bursa Malaysia, CEIC Data, Kenanga Research

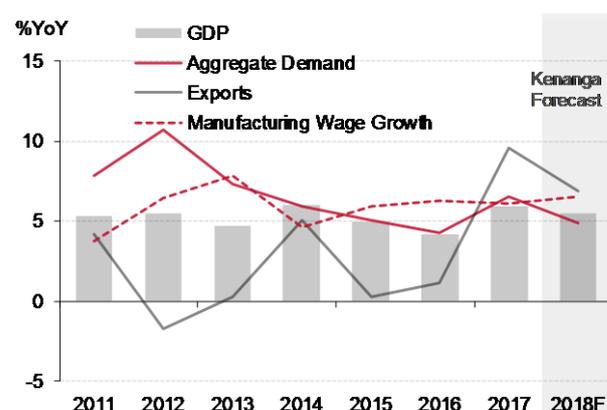
- **Bond outflows to continue.** Meanwhile, we also expect that foreign bond holders of long term government bonds to continue to decline in May following a net decline of RM3.1b of Malaysian Government Securities (MGS) in April, reducing total foreign holdings of MGS to 44.3% of total in April from 45.6% in March. While we are still concerned on the foreign fund flows in the coming months following expectations for the US Fed's rate hikes, rising uncertainties following the unprecedented GE14 outcome is expected to result in exacerbated outflow of bond funds in May and the coming months.
- **Pressure on the Ringgit.** Evidently, the expected selloff of assets in the capital markets would exert downward pressure on the value of the Ringgit. On May 10, the surprise outcome of GE14 spooked investors and saw the one-month offshore Ringgit or non-deliverable forward (NDF) traded at its lowest since last December at 4.0750 versus the USD. Meanwhile, the on-shore Ringgit fell to a four-month low of 3.9497 against the USD on May 8. While we do expect the USDMYR to remain volatile with a downward bias, we still believe that the Ringgit remains relatively undervalued. In some ways, the two-day public holiday (May 10 & May 11) and the order on banks to temporarily stop financial settlements following the victory of PH has helped to prevent more money been taken out without scrutiny. We maintain our view that the USDMYR would be increasingly volatile with bias on weakness and trading would be range bound between 3.85 and 4.10 in the next 3-6 months before ending the year at 3.90.
- **Restoring confidence.** The new government didn't waste time to come up with measures to restore public and investor confidence during the two-day that the market was closed. A day after the official victory, the PH government announced the initial line up of 10 key cabinet members and the Council of Elders (See Table 3). The main purpose of the council is to advise the government and to shore up confidence in the new administration. Out of the 10 new cabinet line it had only announced the first three ministerial positions: Finance, Home Affairs and Defence.
- **Policies to support growth.** One of the major concerns following the unprecedented election outcome is policy uncertainty and unfamiliarity with the new leadership. The first act to remove such uncertainty was for BNM to continue with its scheduled Monetary Policy Committee (MPC) meeting on May 10, signalling it was business as usual. As expected the MPC decided to maintain the overnight policy rate (OPR) at 3.25%, reassuring that the financial sector is strong and monetary and financial conditions are supportive of economic growth in the post-election environment. On

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the back of looming global uncertainty over the ongoing trade war between US and China as well as the slowdown in global semiconductor sales and expectation that GDP growth to taper off this year, we expect BNM to maintain the OPR at 3.25% this year to accommodate growth.

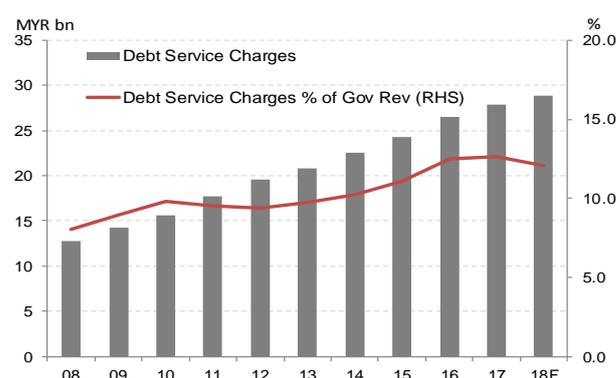
- A fiscal policy adjustment soon.** A promise to replace GST with a “fairer” Sales and Services Tax and “people-friendly and entrepreneur-friendly” tax as well as to review budget spending and allocation as well as key development projects could possibly bring about major uncertainties on the ability for the PH Government to reduce its debt and budget deficit. To remove concerns and doubts on how the new government would fulfil its promise, a supplementary budget must be tabled and passed in Parliament as soon as possible. But that’s the least of concerns because PH government needs to plug a big hole in the fiscal budget amounting to at least RM42.0b after it abolishes the GST. We reckon the introduction of the new proposed sales and services tax would at most collect about RM20.0b-RM25.0b, which means it is still short of about RM20.0b. Other ways that the new technocrats may approach this is by: 1) going full force to streamline expenditure and trim unnecessary discretionary spending, 2) review and prioritise major projects, 3) revamp and restructure revenue generating Non-Financial Public Enterprises for example Petronas and its subsidiaries, 4) managing debt or raise funds.
- A plus for private consumption.** While it would be a policy challenge to come up with a solution to the replacement of GST, it would probably boost public sentiment especially among the lower and middle income earners. Hence, we expect it would give a booster to private consumption provided the alternative would be implemented smoothly and the rates are reasonably lower than the current GST rate of 6.0%. Since private consumption contribute about 54.0% of GDP it would bring about a significant impact on consumption growth and may partly help to mitigate a shortfall in investments and public spending. At this juncture we are maintaining our GDP growth forecast of 5.5% for this year (2017: 5.9%).
- No fear, change.** A regime change would entail disruption to the current fiscal and economic policy. However, except for the abolishment of GST and a review of major investment projects, we do not expect it would lead to a significant economic policy shift. However, there is always risk associated to a change or adjustment in current policies and it can go both ways. On this respect, we are confident under the leadership of Tun Mahathir as a caretaker PM that the policy changes would be done in a proper manner. As the transition to power seemed to be happening smoothly we would expect it would have a positive impact on the health of the fiscal balance sheet. Furthermore, with oil prices expected to remain above USD70/barrel this year, and GDP growth remains above trend at 5.5% this year there is a fair chance that the fiscal deficit target of 2.8% of GDP this year would still be achievable.
- Debt management.** The other key concern that the new government highlighted is on debt management which by far is relatively manageable at 50.8% of GDP and below the statutory limit of 55.0% of GDP. However, the Government have paid interest amounting to RM27.9b to service its debt in 2017 or almost 12.6% of total fiscal revenue (2016: RM26.5b or 12.5% of revenue). If combined with the government guarantees, the total government debt would reach almost 70.0% of GDP. A review of some of the major projects may help to identify any underlying financial risk to the government debt. There are talks that one of the ways to reduce the debt burden is to re-price some of the loans of some of the major projects.
- How will the political shift affect China-Malaysia relations?** We expect the new coalition government to fulfil its pledge to review and possibly renegotiate some deals with China as well as scrutinise investment projects entered during former PM Najib’s term. As such, we expect Malaysia to revert to its hedging strategy of ensuring equivalent distance between both China and US governments while retaining Malaysia’s sovereignty and protecting the local businesses and employees. Given China’s significant economic, business and political influence in the region we expect the PH government to thread it with providence and diplomacy.
- More objective approach but retains positive ties.** While we foresee the new government exercising more assertiveness in matters related to the South China Sea and Belt and Road Initiative (BRI) investments, we expect China to remain as Malaysia’s largest trading partner and source of foreign direct investment in Southeast Asia. We

**Graph 3: GDP Growth, DD and Exports Trend & Forecast**



Source: Ministry of Finance, CEIC Data, Kenanga Research

**Graph 4: Government Debt Servicing**



Source: Ministry of Finance, CEIC Data, Kenanga Research

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do not expect significant shifts in the positive ties between both nations which has been established for decades. At the same time the new administration would be more objective in its decision with regards to major infrastructure projects. With the proposed review of Govt-to-Govt Chinese projects we believe it would give other parties a fair chance in the bidding process for mega projects.

- **How will the regime change affect other Asian economies?** The regime change came in as a surprise to global investors and markets. It may also trigger concern of some neighbouring countries that may still impose harsh restrictions on freedom of speech, human rights and open political debate. As the election outcome marks an unprecedented political change for Malaysia, we expect uncertainties to weigh on political sentiments of other ASEAN member countries. However, the PH government has expressed its intention to play a more prominent role in ASEAN. Hence, we expect the ASEAN relations to strengthen and consequently elevate the growth of the region as a whole backed by upcoming collective trade agreements and investment initiatives.

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**Table 2: Malaysia's Election Results - Performance of Political Parties**

PARTY	PARTY LEADER	GE13 - 2013	GE14 - 2018
<b>Pakatan Harapan (PH)</b>	<b>Tun Dr. Mahathir Mohamad</b>	<b>Formed in 2018</b>	<b>122</b>
Parti Keadilan Rakyat (PKR)	Datuk Seri Wan Azizah Wan Ismail	30	49
Democratic Action Party (DAP)	Lim Kit Siang	38	42
Parti Pribumi Bersatu Malaysia (PPBM)	Tun Dr. Mahathir Mohamad	Formed in 2016	12
Parti Amanah Negara (Amanah)	Mohamad Sabu	Formed in 2015	10
Parti Warisan Sabah (Warisan)	Datuk Seri Mohd Shafie Apdal	Formed in 2016	8
Parti Solidariti Tanah Airku (Star)	Datuk Dr. Jeffrey Kitingan	0	1
Parti Islam Se-Malaysia (PAS)*	Datuk Seri Abdul Hadi Awang	21	18
<b>Barisan Nasional (BN)</b>	<b>Datuk Seri Najib Tun Razak</b>	<b>133</b>	<b>79</b>
United Malays Natikonal Organisatio (UMNO)	Datuk Seri Najib Razak	86	55
Malaysian India Congress (MIC)	Datuk Seri Subramaniam Sathasivam	4	1
Malaysian Chinese Association (MCA)	Dato' Liow Tiong Lai	7	1
Parti Pesaka Bumiputera Bersatu Sarawak (PBB)	Datuk Patinggi Abang Johari Tun Openg	14	13
Others		21	9
Independent		0	3
<b>TOTAL</b>		<b>222</b>	<b>222</b>

Source: Election Commission, Kenanga Research

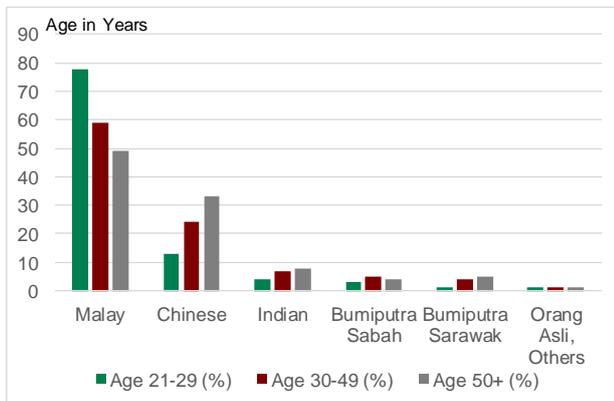
\*Note: PAS is note part of PH coalition

**Table 3: Pakatan Harapan's Cabinet Line Up 2018 (As of 12 May 2018)**

<b>Pakatan Harapan Cabinet Line Up 2018 (As of 12 May 2018)</b>	
Prime Minister	Tun Dr. Mahathir Mohamad
Deputy Prime Minister	Datuk Seri Wan Azizah Wan Ismail
Finance Minister	Lim Guan Eng
Home Minister	Tan Sri Dato' Haji Muhyiddin Yassin
Defence Minister	Mohamad Sabu
Rural Development	TBA
Economy and International Trade	TBA
Public Works	TBA
Multimedia, Science & Technology	TBA
Foreign Affairs	TBA
Panel of Advisory Council - To study Matters Happened Since 2009	
Tun Daim Zainuddin	Former Finance Ministers and UMNO Treasurer
Tan Sri Dr Zeti Akhtar Aziz	Former Bank Negara Malaysia Governor
Tan Sri Mohamed Hassan Marican	Former Petronas President & CEO
Tan Sri Robert Kuok	Malaysia's Richest Man aka Sugar King
Dr. Jomo Kwame Sundram	Harvard-trained Professor of Economics

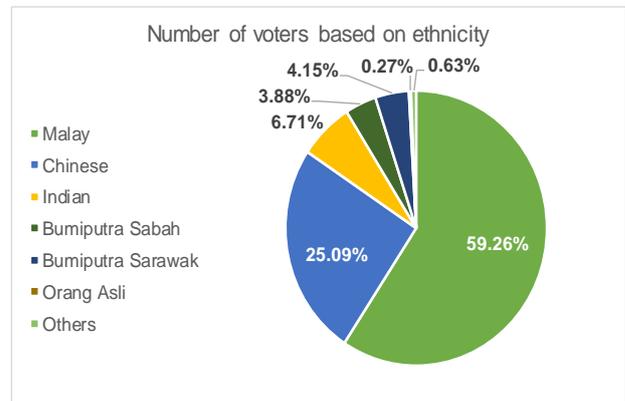
Source: Media announcement, Kenanga Research

**Graph 5: Percentage of Voters Based on Ethnicity & Age**



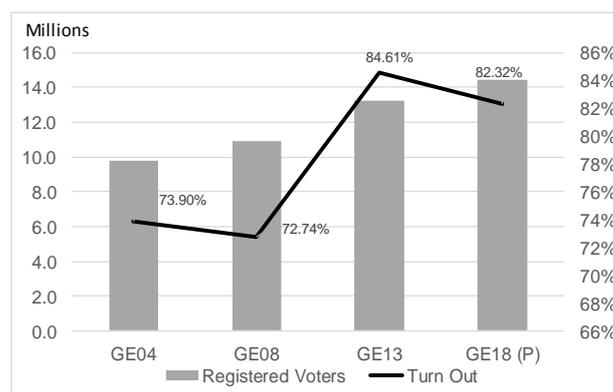
Source: Election Commission, Kenanga Research

**Graph 6: Malaysia Voters Based on Race**



Source: Election Commission, Kenanga Research

**Graph 7: Malaysia Election Voter Turnout Trend**



Source: Election Commission, Kenanga Research

**Table 2: Pakatan Harapan GE14 Manifesto****10 promises in 100 days:**

- Abolishing the Goods and Services Tax (GST) which was introduced at 6.0% in April 1, 2015 — with a plan to replace it with a “fairer” Sales and Services Tax and “people-friendly and entrepreneur-friendly” tax.
- Reintroducing petrol subsidy which was scrapped from December 1, 2014, but targeting only eligible groups with motorcycles below 125cc and vehicles below 1,300 cc.
- Introducing Employees Provident Fund savings for housewives — with 2.0% contribution by working husband, and RM50 monthly by the government.
- Abolishing the debts of Federal Land Development Authority (Felda) settlers.
- Allowing federal study loan PTPN’s borrowers to delay repayment until they earn RM4,000 monthly, and no more blacklisting of defaulters.
- Equalising and increasing monthly minimum wages to RM1,500 by the first term and reviewable every two years, with government contributing half of the pay hike. The current minimum wage for the private sector are RM1,000 in Peninsular Malaysia, and RM920 in East Malaysia.
- Introducing RM500 annual subsidy per low-income family at registered private clinics.
- Special Cabinet committee to review the Malaysia Agreement 1963 with Sabah and Sarawak with a report within six months.
- Launching royal commissions of inquiry to probe 1Malaysia Development Bhd, Felda, MARA, Tabung Haji (Pilgrims Fund), and revamping their leadership.
- Launching detailed studies of mega projects awarded to foreign countries.

**More promises in five years:**

- Easing the people’s burden.
- Reforming political and administrative institutions.
- Boosting fair and just economic growth.
- Restoring Sabah’s and Sarawak’s status based on Malaysia Agreement 1963.
- Building a nation that is inclusive, moderate and excellent at the global stage.
- Abolishing highway tolls gradually, while introducing RM100 public transport pass in major cities and cutting excise duties on imported cars below 1,600 cc for first-time buyers.
- Providing one million affordable houses in 10 years.
- Making Internet connection speeds two times faster at half the price.
- Retaining the 1Malaysia People’s Aid (BR1M), but with a new special agency to take over the scheme and introduce a non-partisan cash transfer system.
- Voting age to be lowered from 21 to 18 and automatic voter registration to be introduced.
- Limiting the post of Prime Minister (PM), Chief Minister, and Mentri Besar to two terms. Enforcing that the PM cannot hold the finance minister portfolio, and trimming the Prime Minister’s Department from 10 to three ministers. Budget for the department to be trimmed from RM17b to RM8b.
- Half of government’s development budget in first three years will be for Malaysia’s five poorest states: Sabah, Sarawak, Kelantan, Terengganu and Perlis.
- Get two national parks recognised as Unesco World Heritage Sites and working towards getting Malaysia into top 10 least corrupt countries in the Transparency International’s Corruption Perception Index by 2030.
- Making national schools the school of choice and encouraging academic freedom and university autonomy.
- Abolishing Biro Tata Negara and National Service training programmes; Bernas’ monopoly on rice; mandatory death sentence; laws such Sedition Act, National Security Council Act, and the Universities and University Colleges Act.
- Felda settlers were promised that abuses in the agency would be stopped with mishandled assets to be recovered, and its management to be revamped.
- The ethnic Indians were given the ambitious promise that the community’s problem of stateless Indians or Malaysia-born Indians without citizenship would be settled in 100 days.
- Women were told that they will get 90 days of maternity leave and law changes that deter teen marriages, sexual harassments, and ensure gender equality.
- Youths were promised a RM500 incentive for each couple marrying for the first time below the age of 35; and free broadcast of English Premier League football matches over state broadcaster RTM.
- The elderly will get laws against age discrimination at the workplace; and RM150 incentive each for everyone aged above 60

Source: Pakatan Harapan GE14 Manifesto, summary by the Malay Mail, edited by Kenanga Research

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