

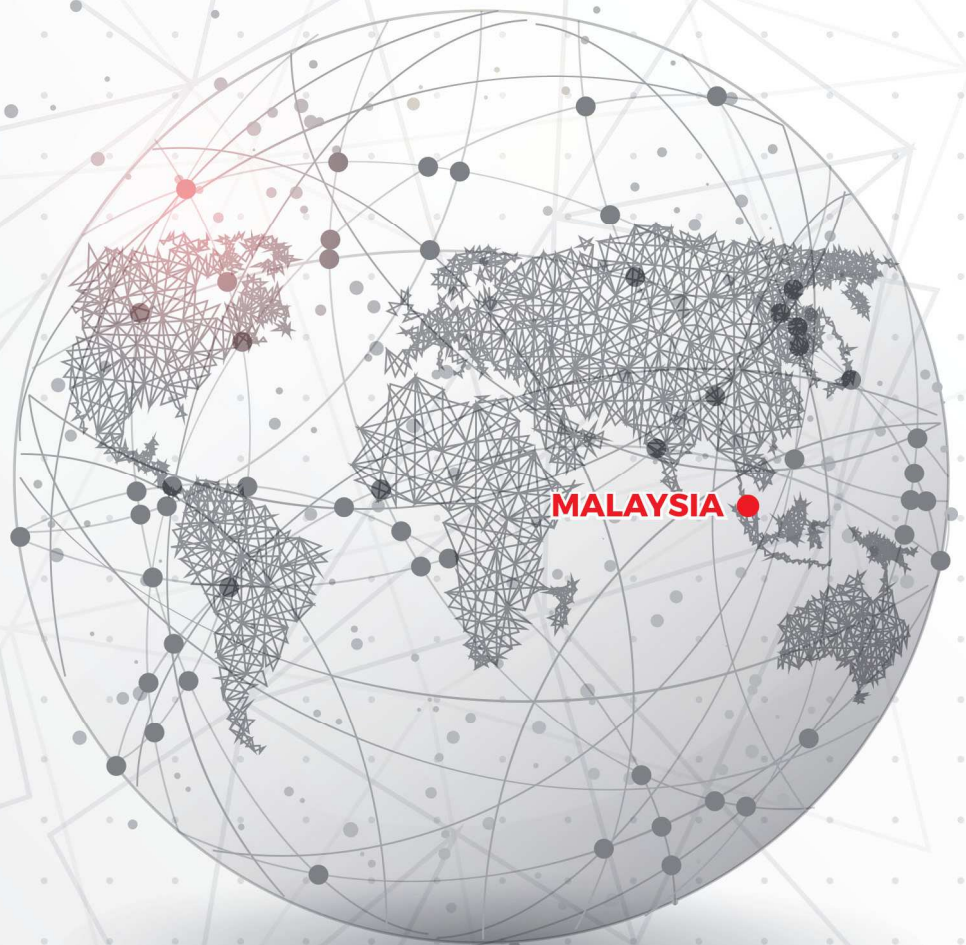


MALAYSIAN INSTITUTE
OF ACCOUNTANTS



Think Ahead

BUSINESS AND ECONOMIC OUTLOOK 2019 REPORT



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Introduction

This report is jointly commissioned by MIA (Malaysian Institute of Accountants) and ACCA (Association of Chartered and Certified Accountants) to provide insights into the collective view of accountants and finance professionals on the business and economic outlook for Malaysia in 2019. This study is part of a collaborative research initiative undertaken by both professional bodies to share critical findings on pertinent topics in today's economic landscape. Through a synergy of resources, this report will benefit policy-makers and top leaders in the industry in developing forward looking strategies and frameworks for their businesses.



Established under the Accountants Act 1967, MIA is the national accountancy body that regulates, develops, supports and enhances the integrity, status and interests of the profession in Malaysia. MIA accords the Chartered Accountant Malaysia or C.A. (M) designation to a professional in accountancy, business and finance with a recognised qualification and relevant work experience.

Working closely alongside businesses, MIA connects its membership to an unmatched range of information resources, events, professional development and networking opportunities. Presently, there are more than 35,500 members making their strides in businesses across all industries in Malaysia and around the world.

MIA's international outlook and connections are reflected in its membership of regional and international professional organisations such as the ASEAN Federation of Accountants (AFA), and the International Federation of Accountants (IFAC).

www.mia.org.my



ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world.

ACCA supports its 208,000 members and 503,000 students in 179 countries. ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

www.accaglobal.com

Professional Value

This alliance provides insights from accountants and finance professionals on various topics in the accounting and finance sector.

Boardroom Forums

Professional knowledge and researches that influence and strike dialogues, actions and change from the top of the organisation.

Leading the Profession

Unifying the profession to shape megatrends and key drivers of change in the accounting and finance sector.

Public Value

A collective influence that gives the profession a stronger voice on issues that impact the local and global community.

Thought Leadership

Expert findings that uncover global thought leadership which helps guide, shape and lead businesses and markets.

Shaping the Future

Sharing critical developments, skills, technologies and competencies required for success in businesses; today and in the future.

Foreword

The common interests and values of MIA and ACCA have led to a strategic alliance to better represent and lead the future of the accounting and finance profession in Malaysia. The collaboration between our two bodies aims to provide greater relevance and support to our members through the sharing of expertise, insights and resources – shaping businesses from within and highlighting the invaluable roles that the accounting and finance profession play in the development of the Malaysian economy.

From facilitating trade and growing the investment climate, to promoting ethical practices and adherence to international standards, the accountants and finance professionals play a pivotal role in the development and growth of a healthy socio-economic environment for Malaysia.

In their capacity as industry and public sector leaders as well as public practitioners, these individuals are an integral part of a collaborative ecosystem that supports business growth, trade and investment, public service delivery and a transition to high-value and sustainable development – while at all times working to protect public interest.

It is for this reason that MIA and ACCA commissioned this business and economic outlook for 2019 to gain their insights and views on the economic landscape and critical factors impacting business performance.

Our economy continues to evolve beyond its 61st year of independence and is anticipated to be resilient with a forecast GDP growth of 4.9% in 2019.

Despite this anticipated growth, the accounting and finance community are concerned that increasing domestic challenges and an uncertain global landscape - social, fiscal and environmental - could threaten business performance in 2019, possibly giving rise to an even higher level of collaboration needed amongst key stakeholders to address its impact across all business sectors in Malaysia.

This outlook is based on the collective views of accountants and finance professionals in Malaysia and we hope that it will facilitate further discussion on the development of pragmatic solutions and strategies that will effectively address some of the challenges faced by businesses in this country. We trust you will find this report informative and interesting.

Dr Nurmazilah Dato' Mahzan
Chief Executive Officer
MIA

Edward Ling
Country Head
ACCA Malaysia



About the study

Survey report

This report is based on a survey that was jointly commissioned by MIA and ACCA to provide insights from the community of accountants and finance professionals on the business and economic outlook in Malaysia for 2019.

This report highlights findings in the following areas:-

- Positive and negative factors, both domestic and foreign, that will influence the economy and critically impact the performance of Malaysian businesses
- Key challenges for Malaysian businesses at an organisational level
- Significant developments that will impact businesses over the next 5 years
- Overall business and economic outlook

The results from this survey have been carefully reviewed and analysed; common trends were identified and discussed to extract meaningful interpretations. The purpose of this document is to summarise the themes and findings from the survey conducted and to create a collective point of view from the accountants and finance professionals on the Malaysian business and economic outlook for 2019.

Survey respondents

The survey was conducted online between 23rd November and 9th December 2018, and garnered responses from 399 accountants and finance professionals in Malaysia. The survey was timed during this period to allow participants the ability to leverage on the deliberations and outcomes of strategic planning and budgetary processes in their own organisations, particularly for the majority of businesses in Malaysia whose financial year ends in December.

Based on the profile of survey participants, more than three-quarters (78%) of the respondents were from the corporate and public practice sectors.

While professionals from organisations of all sizes participated in this survey, close to 50% were from firms with over 300 employees, either in listed or non-listed companies.

Top management of both corporate sector and public practice form 17% and 10% respectively of total respondents. Middle management of both sectors represent the largest group of respondents, at 38% and 29% respectively.

MIA and ACCA would like to thank all members who participated in this important survey.



Domestic factors and its impact

Domestic drivers are expected to play a leading role in positively influencing business performance in 2019.

Confidence in policies introduced by the government to address economic issues and combat corruption represents the single largest positive factor that accountants and finance professionals believe will drive business performance in 2019. More than two-thirds expect business performance to potentially improve with more business-friendly policies and ethical business conduct across the market.

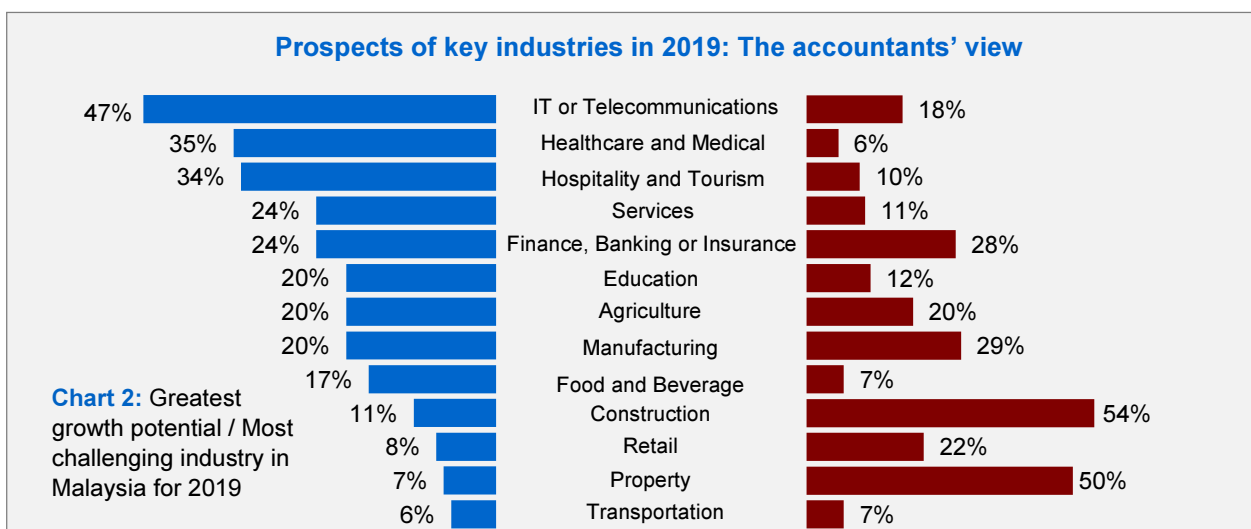
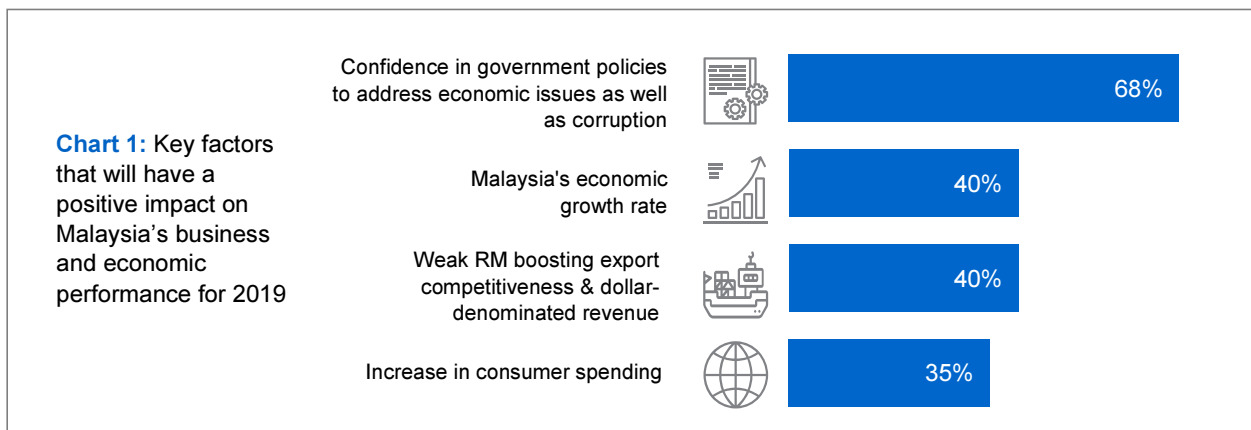
However, as reflected in chart 3, one-third of respondents are concerned that changes in government policies could have a detrimental effect on future business performance.

Malaysia has enjoyed a sustained period of economic growth for the past few years and this represents the joint-second most important factor in driving business performance in 2019. The Ministry of Finance (MOF) projects the GDP growth for Malaysia in 2019 to be 4.9%, up 0.1% from 2018¹.

While the World Bank recently adjusted the projected economic growth of Malaysia to 4.7%, it regards Malaysia's economic fundamentals as remaining strong due to its diversified nature².

A weak ringgit is ranked equally important for economic growth. As one of the most open economies in the world, with a trade to GDP ratio averaging over 140% since 2010, the value of ringgit would clearly influence export competitiveness and earnings of companies with significant foreign currency-denominated revenue³.

Slightly more than one-third of respondents expect an increase in consumer spending to positively impact the economy in 2019. This is in line with private consumption being a significant driver of the economy which has grown by 10.9% and 9.0% over the last two years⁴.



¹ Ministry of Finance, 2018, Economic Outlook 2019

² Star Online, 2019, World Bank: Malaysia's Economic Fundamentals Remain Strong

³ The World Bank Group, 2019, The World Bank In Malaysia - Overview

⁴ Ministry of Finance

The standout factor that respondents believe could negatively affect businesses in 2019 is the rising cost of living and low wage growth. As reported in Bank Negara Malaysia's (BNM) Annual Report 2017, the median wages of foreign workers are generally lower than those of locals especially in mid-skilled occupations where 60.8% of locals are employed. Further, 73% of net jobs created in 2015 to 2016 went to foreigners, of which almost all of them had at most a secondary education⁵. This pressure on wage growth is further evidenced by BNM's study on the living wage, where up to 27% of households in Kuala Lumpur were earning below the living wage in 2016⁶.

While an overwhelming majority of respondents are receptive to changes in government policies in addressing economic issues, a significant number are nonetheless wary about the effects of these policy changes. 43% of respondents voice concern that the high level of government debt would lessen public sector investment expenditure, while 28% of respondents believe that the rationalisation of large public-private and infrastructure projects may result in unfavourable effects on businesses in 2019.

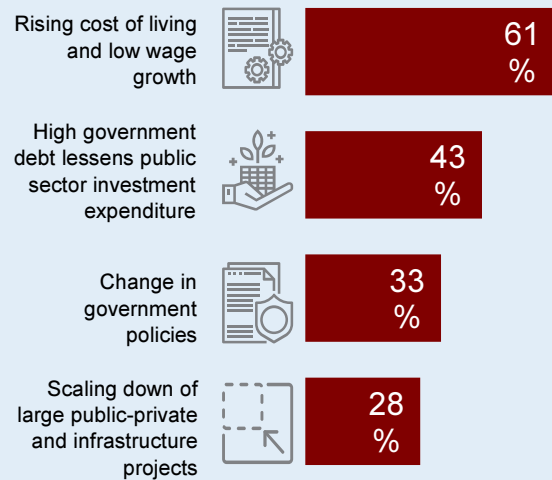
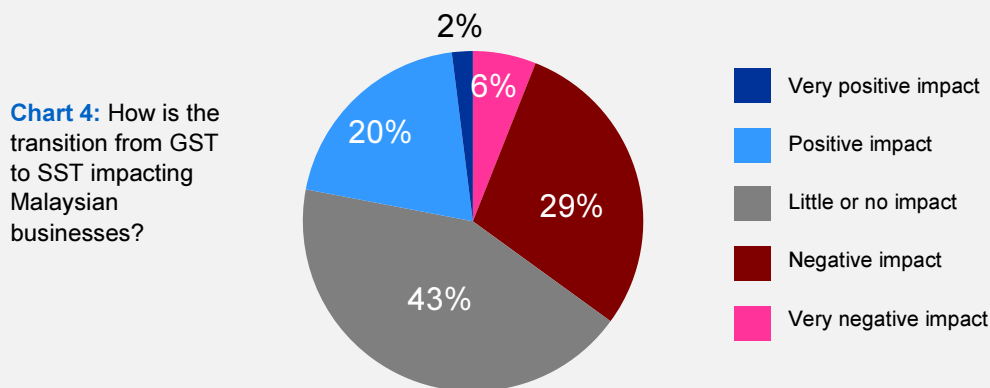


Chart 3: Key factors that will have a negative impact on Malaysia's business and economic performance for 2019

Transition from GST to SST

The Goods and Service Tax (GST) was replaced by the Sales and Services Tax (SST) on 1 September 2018 in a bid to alleviate escalating cost of living and cost of doing business. The business community is expected to enjoy tax savings from this change in tax regime.

Interestingly, the survey highlighted that 43% of respondents believe that the transition from GST to SST will have little to no impact on their businesses in 2019. 35% of respondents however, are of the view that the new tax regime could be detrimental to their businesses.



⁵ Central Bank of Malaysia, 2017, Bank Negara Malaysia Annual Report 2017
⁶ Chong E and Adam Khong, 2018, The Living Wage: Beyond Making Ends Meet, Central Bank of Malaysia

Global and regional factors and its impact

Accountants and finance professionals are not merely concerned with domestic forces at play. The findings of this business and economic outlook clearly demonstrate that Malaysian accountants are dialled-in to global and regional dynamics.

One such dynamic is the growth potential of ASEAN, which represents a combined market of over 600 million people with more than US\$2.3 trillion in GDP – the 7th largest economy in the world⁷. 34% of respondents see the strong growth potential in ASEAN as a significant positive factor for the economy in 2019. This is borne out by MATRADE's (Malaysia External Trade Development Corporation) statistics, which shows that exports to ASEAN rose by 4.8% to RM261.97 billion, in the first 11 months of 2018, on the back of higher exports of electrical & electronic (E&E) products, crude petroleum, manufactures of metal, chemicals and chemical products, while imports increased by 4.4% to RM206.2 billion⁸.

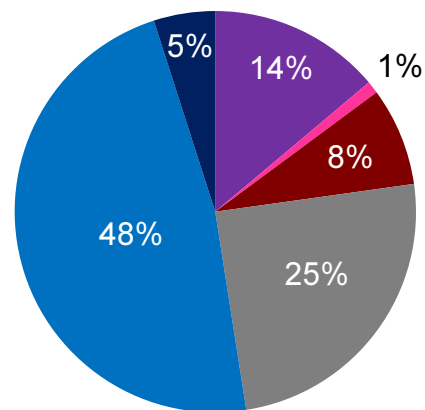
Interestingly, despite the controversies around the Belt and Road Initiative (BRI), particularly around selected large-scale infrastructure projects, the majority of respondents are however overall positive on the potential net benefits of BRI to businesses in Malaysia. 53% of respondents believe that BRI could have a positive impact on the Malaysian economy, while only less than 10% are concerned about a negative impact.

US – China trade war

In terms of potential headwinds, accountants and finance professionals are primarily concerned over the on-going US-China trade war. Here, 27% of respondents are wary of the potential impact to Malaysian businesses as a result of this conflict. This is supported by MATRADE statistics, where China is Malaysia's largest trading partner, both in terms of exports and imports⁹.

Among the respondents, finance directors and CFOs rate this even higher at 31%, reflecting a stronger recognition that any escalation of the US-China trade war, amid a Chinese economy already showing signs of slowdown, will have much larger implications on Malaysian businesses.

Chart 5: What overall impact do you believe Belt and Road Initiative projects can have on the Malaysian economy?



- Very positive impact
- Positive impact
- Little or no impact
- Negative impact
- Very negative impact
- Don't know

⁷ Singapore Institute of International Affairs, 2017, ASEAN@50: From Crisis to Community and the Coming Changes

⁸ Malaysia External Trade Development Corporation, 2018, Malaysia's Trade Statistics

⁹ Ibid

The findings of our survey in terms of future global and regional headwinds is further supported by data from the 4th quarter 2018 edition of Global Economic Conditions Survey (GECS) published by ACCA and IMA (Institute of Management Accountants), in January 2019, where a global poll of 3,800 accountants shows that all key regions recorded a negative confidence score with signs of growth weakening in the world's three biggest economies – the US, China and the Eurozone. Interestingly, the biggest concern of GECS respondents was rising costs, with 55% citing this as an issue. This is remarkably consistent with the findings of our survey, where rising operating costs is ranked as the top challenge by respondents from the corporate sector (45%). This is further elaborated in the section on 'Key challenges faced by Malaysian businesses' below.



Brexit

The impending Brexit is not seen as a major concern by accountants and finance professionals in Malaysia. Two out of three expect Brexit to have little or no impact on the Malaysian economy, with only 11% expecting a negative impact. This possibly is a reflection on the lack of clarity and uncertainty regarding Brexit implications to date, and may change with time as this is better understood.

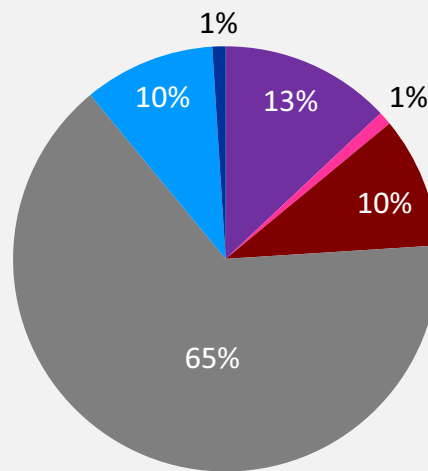


Chart 6: What impact do you think Brexit will likely have on the Malaysian economy?

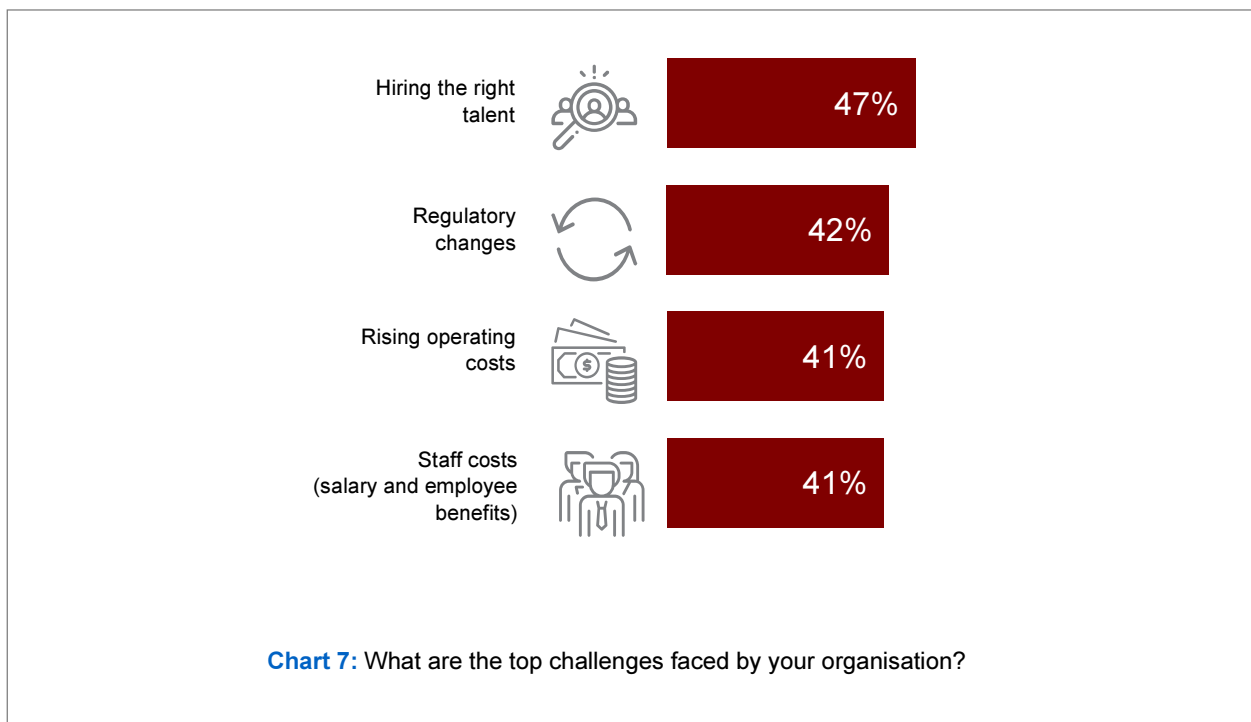
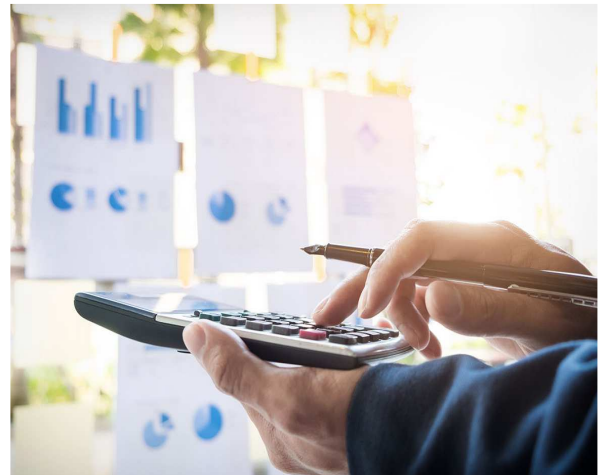
Key challenges faced by Malaysian businesses

The survey asked respondents to rank the key challenges that their organisations will face in 2019. Hiring the right talent is unsurprisingly the most significant challenge overall. Respondents in public practice rank this much higher (64%) compared to the corporate sector (36%), as they depend largely on a skilled workforce. This could explain why staff costs is again ranked higher by public practice (55%), marking it as the second highest challenge, given the need to incur higher staff costs to attract the right talent. In its 2017 report, the Audit Oversight Board cited that there was growth of staff costs and increasing proportion of managerial audit staff within the last two years among the top 10 audit firms in Malaysia¹⁰.

Regulatory changes is the second most significant challenge, reflecting a strong concern at an organisational level of the possible effects of changes in government policies alluded to earlier. Interestingly, accountants and finance professionals in public practice indicate that they are more affected than their counterparts in the corporate sector – this may well be due to the need to advise their clients on adapting to such changes.

Both sectors are concerned about rising operating costs with corporate sector respondents ranking it higher than public practice, probably due to their costs being more diverse.

According to SME Corporation Malaysia's third quarter 2017 survey, over two-thirds of small and medium-sized enterprises (SME) have reported a 20% yearly increase in operating cost as a result of increased material prices. This included utility bills, cost of fuel and gas for transportation, as well as higher salary and wages.



Significant developments expected in the next 5 years

Digital trends are among the most important developments that businesses need to embrace in the next five years. 80% and 59% of respondents respectively believe that digital revolution and transformation as well as increased usage of automation and artificial intelligence will affect businesses. The potential significance of digital trends is echoed by Asia Pacific Chief Executive Officers (CEO) where speed of technological change was rated the second greatest worry in the 21st Annual CEO survey by PwC in 2018¹¹.

Digital technology alone is not the solution to business transformation. What's important is speed of execution. This is where small and medium-sized enterprises (SMEs) could have an edge over larger businesses. The case can even be made that technological solutions benefit SMEs disproportionately over their larger competitors. The overall costs of change and implementing new systems in SMEs could be lower and the risks around failure more easily mitigated¹².

The Digital Technology Blueprint issued by MIA in 2018 advocates the direction the profession needs to take proactively in response to digital technology over the next 5 years.

As discussed in earlier sections, regulatory or policy changes is a consistent theme in this outlook. Respondents are clearly indicating that regulatory changes will play a big role in business operations for the next few years. One of the policy changes that will impact businesses is the widening of scope for services tax.

Tax authorities globally are contemplating the appropriate methods to tax digital services or transactions to level the playing field. Our government has already begun to devise policies in response to the new economy. Starting from 1 January 2020, foreign digital services e.g. popular music streaming service, Spotify, and video streaming service, Netflix, will be taxed under the service tax regime¹³.

The next generation

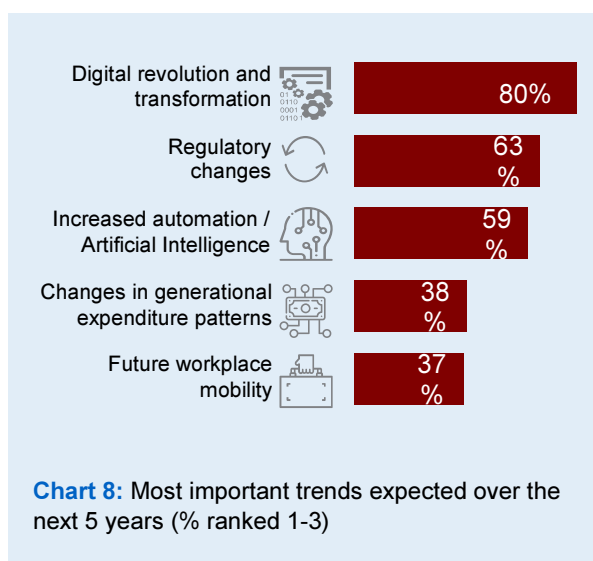
38% of respondents highlight that expenditure patterns of millennials and beyond will be significantly different from their parents while 37% rank future workplace mobility as the fifth most important development over the next five years.

By about 2020, nearly half of the working population will consist of millennials, many of whom are selective on the companies that they buy from and work for. This could result in a gradual change in company cultures and values¹⁴.

Businesses will be increasingly defined by an age of collaboration between smart tools and smart people that will create new opportunities for value. Future generations of workers have mobility aspirations so different from their parents that employers increasingly face pressure on engagement and retention.

However, corporate values attract and retain the next generation of employees better than flexibility¹⁵.

Larry Fink, Chairman and CEO of BlackRock Inc. in his January 2019 open letter to CEOs calls on CEOs to pursue purpose along with profits. "Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them", Fink said and he added, "Attracting and retaining the best talent increasingly requires a clear expression of purpose"¹⁶.



¹¹ PwC, 2018, 21st Annual CEO Survey

¹² ACCA, 2018, Technology Tools and the Future of Tax Administration

¹³ Star Online, 2018, Service Tax to be Levied on Digital Services: Budget 2019

¹⁴ Alton, L., 2017, How Millennials Are Reshaping What's Important in Corporate Culture, Forbes

¹⁵ ACCA, 2016, Generation Next

¹⁶ Fink, L., 2019, 2019 Letter to CEOs: Purpose & Profit

Accountants Preparing for the Digital World

The roles and expectations of accountants and finance leaders in embracing digital technology:

Commerce and industry

Accountants and finance leaders must acquire the knowledge to assess and implement technology initiatives that enhance the finance function as a strategic and business partner and bring holistic value to the organisation. Data science and data analytics are critical capabilities for finance functions of the future to manage risk and uncertainty, influence decision-making, and lead and strategise more effectively.

Public practice

Technology affects public practice firms of all sizes. Large firms must invest in technologies that are commonly applied to audits today, namely, data analytics, artificial intelligence and cognitive technology, or risk becoming irrelevant. Small and medium practices (SMPs) will be most affected by emerging technologies such as computer assisted audit techniques (CAATs), cloud computing, and enterprise resource planning (ERP) software. All these will enhance SMPs' productivity so they can focus on advising clients and helping them strategise.



Public sector

The finance function in the government has an indispensable role to play in planning future government programmes and services and assessing the sustainability of government policy, especially in light of demographic trends. It is acknowledged that by strengthening the planning and forecasting capability, the finance function stands to increase its relevance in the decision-making process. As the public sector finance function embraces accrual accounting, it will become akin to a finance function in the private sector with comparable roles and expectations, such as providing analyses and insights to support decision-making and implementing technological transformation projects that drive organisational value. As such, public sector finance leaders will require similar capabilities in smart technologies, data science and data analytics.

Academia

Members in academia must be cognisant of technology to produce market-ready talent and ensure that accountancy research and innovation is business-relevant. As educators, members in academia will be required to comply with upcoming and evolving standards on digital technology in accountancy education that seek to impart the relevant Information & Communications Technology (ICT) skills needed by accountancy professionals in Malaysia.

(Source: MIA Digital Technology Blueprint, 2018 and MIA Integrated Report, 2018)

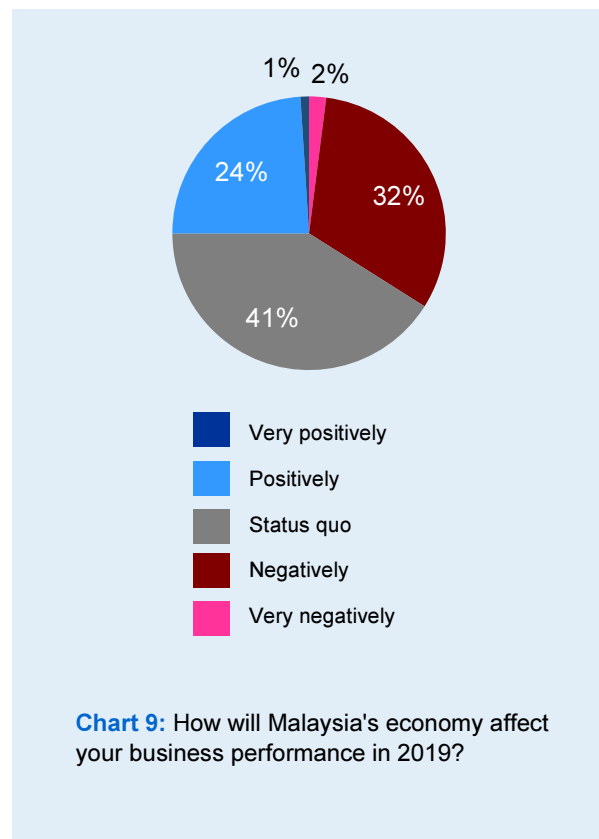
Overall outlook

With the backdrop of domestic, regional and global factors described above as potentially impacting the Malaysian economy and business performance in 2019, 41% of respondents believe that the economy's impact on businesses' financial performance will remain unchanged in 2019.

34% of respondents, however, predict that their businesses will be negatively impacted in 2019. These concerns appear supported by recent measures of manufacturing activity and business confidence. The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index™ (PMI) – an indicator of manufacturing performance – recorded 46.8 in December 2018, its lowest level since the survey started in July 2012.

In addition, the RAM Business Confidence Index (RAM BCI) fell to its lowest level in 2 years over concerns of the expected economic landscape in the first half of 2019, arising from lower optimism among corporates and SMEs.

As trusted advisors to organisations, accountants and finance professionals are highly encouraged to utilise the insights in this report for strategic and operational decision making to ensure the sustainability of their respective businesses.





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