

19/08/1997

Baseless to blame it on overheating (HL)

Adeline Ong

LOCAL economists say the Malaysian economy is "consolidating" and not "overheating" as claimed by some foreign experts and analysts.

The local experts said an economy is overheating when its current account deficit is large - around 10 per cent of the Gross National Product (GNP) - and at the same time there is runaway inflation. By this definition, there are no signs that the Malaysian economy is overheating.

They agreed with Prime Minister Datuk Seri Dr Mahathir Mohamad that it was baseless to conclude that the current state of the Malaysian economy, including the decline in the value of the ringgit, is due to an overheating economy.

Bernama reports that at a press conference in Kota Kinabalu yesterday, where the Prime Minister was just ending a two-day visit of Sabah, he said the idea of an overheating economy was played up by certain parties who are trying to undermine the economy.

"What is clear is they are frustrated we did not listen to their advice to slow down our economic growth. Subsequently, they resorted to irresponsible acts to curtail our economic performance," he said.

The parties scheming to weaken the country's economy are in no position to question how the Malaysian economy is managed since they know nothing about the country, the Prime Minister said.

"By right they should only worry about their own countries. They are ignorant of Malaysia. They can write articles (about Malaysia) but they don't have any practical experience whatsoever in running the country like we do," he added.

Asked whether he was also referring to the foreign press, the Prime Minister said in a lighter vein: "They are foreign press, (the) local press cannot (do that) ... because according to the foreign press, the local press is completely under government control."

The local economists and analysts contacted by Business Times agreed that there are no signs of overheating in the economy.

Arab-Malaysia Securities group economist Mustapha Mohd Nor said the economy is consolidating rather than overheating.

"When people talk about an overheating economy, they look at the current account balance and the inflation rate.

"If the current account deficit is large, to some this means 10 per cent of the GNP, and inflation is rising, then the economy is overheating.

"Malaysia is experiencing a current account deficit of less than 5 per cent of GNP and inflation rate of under 3 per cent. Surely, we cannot say our economy is overheating," he said.

"Analysts in 1995 were pointing at us when we experienced a current account deficit of 9 per cent, saying that we will be another Mexico. We proved otherwise," Mustapha said.

He added that the country will most likely see stability over the medium term based on the strong fundamentals.

"The fundamentals have not changed, and will not change if not disturbed," he said, adding that the question now is whether the fundamentals are determining the market, or the other way around.

"It looks like the market is trying to determine the fundamentals.

"Whatever it is, the fundamentals need to be kept intact so that confidence can be instilled in the business sector," Mustapha said.

He added that there has to be continued capital spending and investments

especially in the manufacturing sector.

TA Securities senior economist Anthony Dass thought overheating should not be an issue at all with the Malaysian economy.

"The issue should be whether the country can continue to grow at a favourable pace with low unemployment and without igniting inflation.

"The country is experiencing supply constraints due to a tight labour market causing labour cost to increase although it is being subsidised by foreign labour," Dass said.

The external account imbalance is rather high (at about 6 per cent) and the import of goods is putting more pressure on the deficit, he added.

"It is time for the economy to consolidate. A growth a 7.5 to 7.8 per cent will not mean that we are slowing down considerably.

"For a country that has a history of growing at 8-odd per cent for the past 8 to 9 years, having a growth of 7.5 to 7.8 per cent is acceptable," he added.

Another economist, who requested to remain anonymous, said the concept of an overheating economy is not even a clear one.

"Some people say if inflation and interest rates are high, and when efficiency has decreased, then the economy is overheating.

"Malaysia needs to slow down growth. It is just like driving a car. If the car is going at 140kph, it is only wise to moderate it to 110kph," he said.

He added that the country has been investing 45 per cent of its GNP and that is "way too much".

"Even under the Seventh Malaysia Plan, it is said that investments should not take up more than 40 per cent of the GNP.

"Therefore, moderating the economy would be exactly what the Seventh Malaysia Plan seeks," he said.

(END)