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#### GREATER EFFORTS NEEDED TO PUSH CPI DOWN FURTHER

KUALA LUMPUR, March 20 (Bernama) -- Economists and market-watchers say that Malaysia's Consumer Price Index, which has been hovering around the "more than three percent level" for quite sometime, can dip further but that would take a lot more enforcement by the authorities.

They say that other countries had shown that it could be done and hence it is not impossible for Malaysia to do the same.

The CPI, which rose to 4.8 percent in 1992, a level viewed with considerable concern then, is closely watched as it is directly linked to the rate of inflation in the country. Since then, the CPI has dropped to 3.5 percent in 1993, 3.7 percent in 1994, 3.4 percent in 1995 and 3.5 percent in 1996.

But still, there is also this nagging question: does the CPI have to remain around the "three plus something percent" band? The answer is a big "no", especially when other countries had demonstrated that it could be done.

Among the Asean countries, Singapore, with a population of only 2.8 million, appears to have placed a lid on consumer prices. From 3.1 percent in 1994, its CPI dropped to 1.7 percent in 1995 while Thailand with a population of 61 million had brought down consumer prices to 4.2 percent last year from 5.8 percent in 1995.

Of the industrialised economies like the United States, Japan, France and Germany, their consumer prices are not expected to exceed 3.0 percent this year.

So can Malaysia, with a population of about 21.2 million, can make its CPI dip further? The "yes" answer is always enthusiastically given with a proviso: more enforcement by the authorities to curb excessive profiteering.

And to do this, the domestic trade and consumer affairs ministry has to beef up the number of enforcement officers in its ranks.

Besides wielding the "big stick" on profiteers, economists when interviewed, also stressed the importance of supply side adequacy in order to ease supply disparities.

On the other hand, economists also point to the difficulty in keeping the CPI down, especially when the economy is booming into its ninth year of growth. Some take the view that a CPI of 3.5 percent on an economy which grows at 8.2 percent as rather "mild" when compared to other dynamic countries.

Prime Minister Datuk Seri Dr. Mahathir Mohamad, when launching the zero inflation campaign in 1995, stressed that everyone was a supplier and a consumer and had a responsibility in keeping inflation down.

Dr Mohd Ariff Abdul Kareem of Universiti Malaya's economics faculty said the country's zero inflation target is worth having to ensure that its inflation rate is not getting too far off the mark.

Patrick Er, a senior economist at CIMB Securities (M) Sdn Bhd, said in order to get inflation down further, the government may have to put a brake on the economy, for example, by squeezing credit to cut back spending.

Malaysian Investors' Association President Dr PHS Lim said a vital strategy for inflation to be below the 3.0 percent level would generally be to increase the supply side equation of the economy, particularly food production.

Malaysia's CPI measures the average rate of change in the fixed basket

of goods and services with the base year set at 1994.

They involve items and services like food, where the weightage is 34.9 percent, beverages (3.6 percent), clothing and footwear (3.6 percent), gross rent (21.1 percent), fuel and power (5.6 percent), furniture, furnishings and household equipment and operation (5.6 percent).

Others items are medical care and health expenses (1.9 percent), transport and communications (17.9 percent), recreation, entertainment, education and cultural services (5.8 percent) and miscellaneous goods and services (5.6 percent). A total of 430 items are used in the computation from about 10,000 retail outlets throughout the country.

Inflation usually results when there are too much money chasing too few goods. To the layman, it also means that the value of money has shrunk. For example, if one paid 60 sen to get on the bus from the Central Market to Jalan Bukit Bintang shopping district in Kuala Lumpur last year, he has to pay 90 sen for the same journey this year.

Bus fares are some of the many controlled items which make up the components in the basket of goods and services in the CPI. In recent times, taxi fares in the Klang Valley and toll rates had risen significantly over a short span of time.

Currently, many food items, such as meat and fish, have seen demand exceeding supply, and this causes prices to spiral upwards.

"Incentives should be provided for aquaculture activities as well as the mechanisation of food output," said MIA's Dr Lim who also cited how the United States, despite being highly industrialised, is still a major producer of several agricultural commodities such as wheat, soya bean and corn.

Plantation companies should also be given a push to go into cash crop and livestock farming, which would augment food supplies, he said, adding that this makes sense since Malaysia's total food imports amounted to a staggering RM9.1 billion.

With food being a major item in all households and a major expenditure item among lower income households, Dr. Lim said raising food supplies is a step in the right direction towards achieving an average inflation of possibly two percent.

"Perhaps, we should liberalise the market to allow more competitive imports," he said, adding that this should also be extended to imports of other goods and services.

Professor Mohd Hamdan Adnan, the President of the Federation of the Malaysian Consumer Associations (Fomca), said Malaysia should also diversify its import markets for food.

While it would make economic sense not to depend on a few markets, it would also "enable us to buy from the cheapest source," he added.

Hamdan also suggested that oil companies with rights to explore petroleum offshore should consider fishing as a value-added activity.

MIA's Dr. Lim said another important element necessary towards a lower price scenario is to have a stronger ringgit in view of the massive amounts that Malaysia is currently importing, especially capital goods.

He said this would lower the country's import bill, consequently easing pressure on prices and help bring inflation to an even lower level.

Hamdan, stressing on enforcement, said it is vital to keep prices low, especially when it comes to ensuring that tax cuts announced in the successive Budgets are passed on to consumers.

On the hand, he also suggested that Malaysians discard their "seige mentality" in rushing to buy goods, thus creating excessive demand.

But with more people eating out given their busy lifestyles, efforts to contain inflation may be nullified since food is a major expenditure.

To aid the government's effort in containing inflation and make

Malaysia a shoppers' paradise, prices of goods should be kept relatively low, said Hamdan.

CIMB's Er said, "Bringing down inflation to zero may be difficult and in the short run might lead to unacceptable levels of unemployment...in general there is a trade-off in the short-term."

One of the ways the government could do to reduce inflation whilst keeping the economic growth on track to achieve Vision 2020 was by slowing down loans growth, he said.

Perhaps, the relevant authorities may want to ensure a better dissemination of information on the prices of goods and services so that there are less opportunities to raise prices outside of market demand, he added.

But in the longer term, ensuring stable prices requires supply side measures, especially increases in productivity levels, said Er.

Another economist said the CPI, which had largely been driven by the prices of foodstuffs, could be brought down lower than three percent if there was stronger enforcement by the ministry of domestic trade and consumer affairs.

Then again, he said there could be limitations in sustaining such a target over a long period of time since enforcing a price discipline is confined to a basket of food products that make up the food subsector of the CPI.

It would be impossible to enforce price control on every single item, Dr Loh Eng Seng of TA Securities said.

He said the CPI had actually been trending down since the last quarter of last year and attributed the "favourable" CPI to the strengthening of the ringgit against the US dollar and yen over the few past months.

Food imports, which were subject to global price volatility, have been made cheaper by the stronger ringgit recently, he said.

Even if it is possible to pull down the CPI below three percent, strong demand caused by robust economic growth would restrict the achievement of such a target for long periods, some economists contend.

As such, a watchful eye on the matter, stronger enforcement on prices and greater consciousness on being responsible suppliers and consumers are the prerequisites for Malaysia to remain a cost-competitive country. --

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