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Affifuddin: Malaysian economy likely to show some recovery by year-end

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THE Malaysian economy is expected to show some recovery towards the end of this year as a result of the latest fiscal stimulus package announced by Deputy Prime Minister Datuk Seri Anwar Ibrahim last week.

"Indications show that there might be some positive change by the end of the year. We may see some light at the end of the tunnel," Deputy Finance Minister Datuk Dr Affifuddin Omar said in Kuala Lumpur yesterday.

"The Government has done as much as it can to create the conditions conducive for economic recovery," he said when opening the 13th National Economic Briefing organised by the Malaysian Institute of Economic Research.

"In fact, the Government has already initiated a number of moves to overcome the problems, both in the immediate and long term.

"These include the creation of the asset management company, the lowering of the statutory reserve requirements for commercial banks and the additional Supplementary Budget announced by the Minister of Finance recently to stimulate the economy this year and in 1999.

"However, this does not mean the reactivation of mega projects that have been put on hold. Priority will be for projects that can generate demand for domestic goods and services."

Later, Affifuddin said that such measures could work only if all the projects approved for development are actually implemented by the agencies concerned.

"Formerly they used to take their time. Now, the agencies must ensure the projects are done immediately."

Asked if additional measures may be needed should the economy fail to recover, Affifuddin said: "Of course there may be other measures, but we have yet to see the impact of measures already instituted."

Responding to comments made by Prime Minister Datuk Seri Dr Mahathir Mohamad in the Dewan Rakyat on Monday, Affifuddin said there is no policy contradiction between the Government's fiscal stimulus and simultaneous spending cuts.

He said the fiscal stimulus refers to capital investments, which includes off-Budget items like the RM5 billion infrastructure fund, whereas spending cuts is strictly in reference to public spending allocated in the annual Budget.

On interest rates, Affifuddin said: "If the Prime Minister is satisfied with the interest rates, it is very good ... for the private sector.

"Appropriate interest rates would help the private sector to revitalise themselves. Bank Negara caps spreads at four per cent above base lending rate and most banks are now capping it at two per cent.

"We hope the BLR can also be lowered by increasing efficiency of the banks, especially since the SRR has been cut further to eight per cent.

"We are taking a strategy different from pure capitalistic strategies in which the private sector is expected to survive on its own. We are trying to help the private sector as the Prime Minister has advocated."

On the Special Purpose Vehicle announced by Anwar last week to conduct an estimated RM16 billion recapitalisation of domestic banks, Affifuddin said it is still at a conceptual stage.

He said the SPV establishment may not need new legislation to be tabled, as had been necessary to facilitate the setting up of asset management company Pengurusan Danaharta Nasional Bhd.

Should new legislation be needed, he said the draft Bill would only be tabled in the next Parliamentary session in October.

Asked about the 2.9 per cent contraction projected by Mier for the nation's economy this year, he said there may be some differences in the assumptions made in the projections.

"The Government also gets forecasts made in the Bank Negara and Treasury reports. What is good about these different assumptions is that we have a range. The three reports have to be looked at thoroughly and we will have a more realistic picture.

"We do not dispute the differences between the figures churned out by Government agencies and Mier. Each looks from different angles and takes different assumptions.

"Economics is not an exact science and is based on assumptions."

Asked about the economic performance during the second quarter of this year, Affifuddin said the report would be made public next month.

In the first quarter, the nation's economy contracted 1.8 per cent.

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