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NEAC-FUNDING

MALAYSIA'S FINANCING REQUIREMENT ESTIMATED AT RM62 BILLION, SAYS NEAC

KUALA LUMPUR, Dec 22 (Bernama) -- Malaysia's total financing requirement for 1998/1999 is estimated at RM62 billion and not RM98 billion as stated in an article in the Dec 15 issue of International Herald Tribune, a spokesman for the National Economic Action Council (NEAC) said here today.

Describing the estimated figure as "grossly exaggerated", the spokesman said Bank Negara Malaysia's estimate shows a much lower financing requirement comprising RM26 billion to finance a fiscal deficit, RM31 billion for the restructuring of the financial system and RM5 billion for infrastructure development.

In the article titled "Mahathir's Economic Policies Could Bring His Downfall", the spokesman said: "The author had failed to present a complete and correct assessment of Malaysia's economic policies."

Responding to queries from Bernama, he said this financing gap will be more than adequately financed by non-inflationary domestic sources without recourse to deficit financing.

"Malaysia's savings rate is high at over 40 percent of Gross National Product (GNP) and there is sufficient liquidity in the banking system.

"The external current account is expected to record large surpluses in 1998-99, thereby providing additional liquidity for the economy," the spokesman added.

Saying that there was no necessity to resort to monetisation to finance the fiscal deficit, he emphasised that the Malaysian government is committed to its policy of financial discipline in the conduct of fiscal policy.

"The government is committed to an operating expenditure that will not exceed its revenue and to contain the overall fiscal deficit at six percent of GNP," he added.

He also said that the government would finance the fiscal deficit through the issuance of Malaysian Government Securities (MGS) that would mainly be absorbed by provident, pension and insurance bonds.

The funding required by Pengurusan Danaharta Nasional Bhd, Danamodal Nasional Bhd and Infrastructure Development Fund would be raised through the private sector.

"In summary, funds from both domestic and official external borrowings will be more than adequate to meet Malaysia's financing requirement of RM62 billion," the spokesman added.

Meanwhile, the article also said that the cause of Malaysia's economic crisis is similar to the causes of the crises buffeting other Asian states.

The NEAC spokesman pointed out: "To state that the credit overhang is the cause of the economic crisis in Malaysia shows a lack of understanding of the several elements associated with the recent developments in the East Asian region.

"Although the ratio of bank credit to GDP was high at 153 percent in 1997 (not 160 percent of GDP as reported), it should be recognised that deposits as a percentage of GNP has been even higher at 166 percent of GNP."

The banks therefore financed their lending operations from their own domestic mobilisation of savings, primarily in the form of deposits.

The NEAC spokesman also said that Malaysia is committed to the long-term objectives of achieving sustainable economic growth with price

stability and external equilibrium.

"The policies that have and will be implemented will always be consistent with these long-term objectives.

"While the policy priority now is to stimulate economic activities, Malaysia has, in fact, accelerated the implementation of the necessary structural reforms, in particular in the financial and corporate sectors.

"We believe that this is the way for Malaysia to achieve an economic recovery that is both sustainable and resilient", he added.

The NEAC spokesman said the author has distorted the information and in some cases used inaccurate information to arrive at inaccurate assessment and interpretation, while at the same time having failed to present the policies in a proper context.

In referring to another article titled "Moving in The Wrong Direction", published in the Dec 21 issue of Time Magazine Asia, which touched on substantial cuts in interest rates and the mandatory reserves of commercial banks, he said even the US, the UK and a host of other industrial countries had undertaken a series of interest rate reductions at the mere prospect of slower economic activity.

"Malaysia experienced a severe contraction. Interest rates have been reduced to contain the severity of the contraction and to support economic recovery.

"Maintaining high interest rates would be counterproductive to financial stability," the NEAC spokesman said, adding that the additional liquidity was provided via a reduction in the statutory reserve requirement (SRR) which was at very high levels.

As the SRR is a tax on financial intermediation, the reduction in the SRR also increases the efficiency of banking institutions and lower the cost of businesses.

"The author has also conveniently failed to highlight the fact that the inflation rate in Malaysia has in fact been on a declining trend since it peaked at 6.2 percent in June 1998.

"Although the inflation rate increased marginally from 5.2 percent in October to 5.3 percent in November, this increase was unrelated to monetary conditions. It was primarily due to the supply-constraint driven increases in food prices and the increase in import duty and excise duty on tobacco products and alcoholic beverages," the NEAC spokesman said. -- BERNAMA

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