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MALAYSIA-GOLDMAN SACHS

3 PERCENT PLUS GROWTH FOR MALAYSIA IN SECOND HALF, SAYS GOLDMAN SACHS

SINGAPORE, June 15 (Bernama) -- US investment bank Goldman Sachs forecast that Malaysia will surge with more than 3 percent growth in the second half of the year, citing the country's strong financial progress.

It said April statistics had shown continued improvements in Malaysia's monetary data, strong money supply (M3) growth, higher international reserves and further progress on the sale of non-performing loans (NPL) and bank recapitalisation.

"The latest monetary data should help move gross domestic product (GDP) growth stronger as the year progresses. We are looking at 3 percent plus year-on-year growth in the second half of 1999," said Goldman Sachs in its June 1 Asia economic analysis.

It expects Malaysia's first quarter growth to contract 1.5 percent from -2.8 percent last year.

"A senior BNM (Bank Negara Malaysia) official noted that GDP growth in the first quarter would be much better than that seen in first-quarter 1998 (-2.8 percent), a comment that is consistent with our view that first-quarter 1999 GDP will show a year-on-year contraction of 1.5 percent," said Goldman Sachs.

Malaysia is releasing its first quarter results next week. Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad had said the economy was expected to contract 1.5 percent for the period.

Goldman Sachs' bullish view concurred with the official expectation and that of other analysts that growth will pick up in the second half of the year as Malaysia hauls itself out of the recession.

It said M3 growth, which rose 5.7 percent year-on-year in April on the back of higher net foreign assets, was likely to continue into mid-May with Bank Negara's international reserves rising above US\$1 billion to nearly US\$30 billion.

Loan growth, excluding the sale of NPLs, although sluggish, was up 1.1 percent year-on-year and it is a good sign for future exports as the loans are directed chiefly at manufacturers, it added.

Goldman Sachs expects loan growth to improve in the months ahead with further purchase of NPLs by Danaharta Nasional Bhd and more recapitalisation by Danamodal Nasional Bhd.

It said the combination of increasing M3 and modest loan growth had pushed three-month interbank rates to below 3.5 percent and with inflation continuing to fall, Bank Negara is likely to cut its intervention rate from 6 percent to 5 percent.

"This will drive down lending rates but will still leave banks with attractive spreads. Historically, interbank rates have traded within 5 to 10 basis points of Bank Negara's intervention rate, not the 250 basis points below that is currently the case.

"Lower lending rates will increase the demand for credit and lessen NPL problems, thereby lessening the excess supply of funds and bringing the interbank rate nearer to the intervention rate," it said. -- BERNAMA

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