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Growth within Govt's forecast (HL)

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THE various indices in the country show that the Malaysian economy is doing "quite well", with growth in the first quarter of 1999 well within the Government's estimates, Datuk Seri Dr Mahathir Mohamad says.

First quarter gross domestic product (GDP) "will contribute to the 1 per cent GDP growth forecast for this year", he told a press conference yesterday when asked to comment on the state of the domestic economy.

Economists and analysts contacted by Business Times predict a contraction for the first quarter but one which is much smaller than in the last quarter of 1998.

However, probably the best indication of an economic rebound came from Bank Negara late yesterday, when it said in a release that its international reserves had increased by RM4 billion in the two weeks to May 15.

The reserves increased dramatically from RM108.7 billion on April 30 to RM112.7 billion last weekend, adequate to finance 6.5 months of retained imports.

The pick-up in the stock market has also been cited by analysts and economists as a good indication of a recovery. On other fronts, investor and consumer confidence improved and exports performed well in the first three months.

Kaf Discount House group economist Anthony Dass expects the first quarter GDP growth to be between -1.4 per cent and -1.8 per cent, compared with -8.1 per cent in the fourth quarter of 1998 and -8.6 per cent in the quarter before that.

"This is based on the lower interest rates, increased liquidity and the impact of last quarter's Kuala Lumpur Stock Exchange's Composite Index (KLCI) performance," he said.

Dass said the economy is "flushed with funds" as a result of the easing of interest rates, which saw the KLCI closing at 586 points at the end of the 1998. Since then, the KLCI has rallied to 779.62 as of yesterday. He forecasts a -0.8 per cent GDP growth for the whole of the year, with a better performance dependent on external factors.

Dass cautioned, however, that the GDP growth will be adversely affected if the manufacturing sector records a contraction. The sector had posted a drop in output, as did the mining sector.

Based on retail associations' reports, he said retail sales fell by 16 per cent in the December-February period. "This was at a time when people should have been spending as it was the festive season. However, sentiments were bearish and consumer confidence was low."

As it turned out, the liquidity factor provided a cushion which would otherwise have seen the economy registering a negative 3-4 per cent GDP growth in the first quarter, he said.

Rating Agency Malaysia Bhd manager (economics and market research), Dr Yeah Kim Leng, concurred that apart from the export indicators, an improved performance is expected to stem from "the spillover effects of lower interest rates and an environment that has spurred bank lending". Overall, economists said the annual GDP growth is expected to be between minus 0.5 per cent and minus 2 per cent.

Bank Negara, in its statement, said deposits with financial institutions rose to RM2.39 billion, from RM2.16 billion, and deposits of commercial banks, finance companies and merchant banks to RM55.79 billion from

RM51.73 billion a fortnight earlier.

The Federal Government's deposits increased to RM24.39 billion from RM23.37 billion.

Total assets and liabilities stood at RM138.95 billion, up from RM134.67 billion as at April 30.

(END)