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MALAYSIA-MIER

MALAYSIA'S BROAD-BASED RECOVERY CAN SUSTAIN GROWTH, SAYS MIER CHIEF

By: Tham Choy Lin

SINGAPORE, Jan 6 (Bernama) -- Malaysia's remarkable economic turnaround and broad-based recovery can support sustainable growth and accelerate Gross Domestic Product (GDP) to 5.3 percent this year, said Malaysian Institute of Economic Research (MIER) executive director Dr Mohamed Ariff.

MIER may again revise its 4.8-percent growth forecast for 1999 due to an expected strong showing in the fourth quarter and another positive business condition survey in the final three months of last year, he said.

"The 8.1-percent real GDP growth in the third quarter gave a concrete indication that Malaysia had recovered from the recession while the broad-based recovery has enhanced the chances of sustaining the growth path," he said in a regional economic outlook forum organised by the Institute of Southeast Asian Studies, which is based here, today.

Mohamed expected at least a 9-percent gain in the fourth quarter. MIER had initially estimated 3.8 percent GDP for 1999 before raising it to 4.8 percent, which is above the official forecast of 4.3 percent.

Prime Minister Datuk Seri Dr Mahathir Mohamad said recently GDP for 2000 might reach or even exceed 5 percent.

The MIER chief said for the longer term, Malaysia might pursue a more sustainable rate of growth at around its potential of 6.5 percent to avoid an overheating economy.

The outlook for this year remained bright as the external demand especially for electronics, of which Malaysia is a world producer, was expected to be maintained.

Although the United States' economy was moderating, he said an improving Japan and Europe as well as a recovering Asia would support Malaysia's recovery. More than half of Malaysia's exports went to Asia.

The impact of the government's expansionary policy would continue to be felt this year with low interest rates expected to remain steady for a while in view of the low inflation rate, he said.

Mohamed projected private consumption to grow to 7.8 percent this year from 2.9 percent in 1999 due to rising income and wealth, confidence and the continued impact of low interest rates.

Gross fixed capital formation was expected to rebound strongly with 8.2 percent growth with private investment surging by 9.6 percent on the account of corporate recovery.

In 1999, gross fixed capital formation had turned around in the third quarter, the first after six quarters of decline, and was expected to register a smaller contraction of 1.4 percent for the year, he said.

MIER also expected a slowdown in fiscal spending once the government was confident that the private sector was back on the growth track again.

Mohamed said it was highly unlikely that the fixed ringgit peg and exchange controls would be phased out soon as they were perceived to have contributed favourably to the recovery.

He said the bigger challenge now was how to dismantle the controls eventually. The measures, which included a fixed peg of RM3.80 to the US dollar, were imposed in September 1998 to insulate the Malaysian economy during the financial crisis.

Among the lingering concerns, Mohamed said, were the ongoing process of bank mergers and how Danaharta Nasional Bhd would dispose of billions of ringgit in assets without destabilising the property market.

Danaharta was set up by the government to acquire non-performing loans

from the banking sector. -- BERNAMA
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