

# GDP growth to be revised to 4% or 5%

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Still not too bad in comparison to other countries in the region, says PM

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**KUALA LUMPUR** Due to the US slowdown Malaysia's economy is expected to decline faster than expected this year with its gross domestic product growth envisaged to be between 4% and 5% down from the 7% forecast earlier. This contrast with the strong 8.5% GDP growth in 2000.

Faced with this prospect Prime Minister Dr Mahathir Mohamad yesterday unveiled a RM3 billion fiscal stimulus plan which may help lift up this year's sagging GDP by 1.1%.

Announcing the plan at a press conference in the parliament house here yesterday Prime Minister Dr Mahathir Mohamad said (The GDP) may be 4% or 5%. This is not too bad compared to (the GDP growth of) other countries in the region, he added. However, he would not be more specific.

Growth estimates are being revised and details will be announced when Bank Negara releases its annual report (today), he said.

He also discounted any immediate interest rate cut. The market is expecting rate cut of up to half a percentage point.

The country's biggest bank, Malayan Banking Bhd, had last week cut its deposit rate and the second largest group, Bumiputra Commerce Bhd, announced yesterday plans to cut its rate this week.

Mahathir also said the ringgit peg at 3.80 to a US dollar would remain given the need to ensure a continued environment of predictability and certainty.

Economists and analysts have been expecting a GDP of this range. The Asian Development Bank has recently forecast the GDP to slow to 4.9%.

The Malaysian Institute of Economic Research (MIER) had earlier forecast a 5% GDP growth for this year.

The statistics department, which has constructed a new system of economic indicators, said the leading index (which shows where the economy is headed) since September 2000 had shown that economic growth would slow down in the months ahead.

It said the leading index had declined because of decreases in Malaysia's trade with its eight major partners, KLSE share price index, industrial output, new companies registered and industrial material price index.

The fiscal stimulus of RM3 billion was in addition to the RM28.8 billion already approved under the Budget 2001.

Mahathir said the additional RM3 billion would lift the GDP growth figure by 1.1% this year.

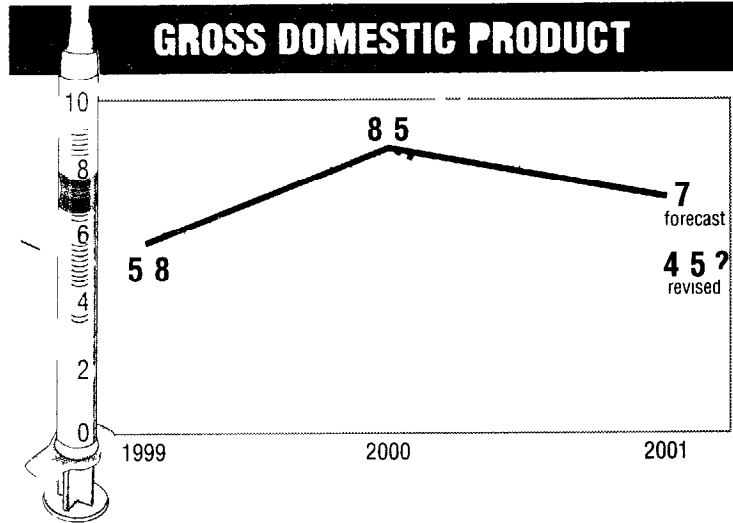
The bulk of the construction of public projects like the Bakun hydro electric power plant are not new but the emphasis is on speeding up its implementation.

For instance, of the RM1.5 billion allocated for building 6,600 housing units for the armed forces in Kuala Lumpur, only RM400 million will be used this year.

Mahathir said to boost consumer spending there will be a temporary reduction in the employees' contribution to the EPF by 2% from 11% to 9% effective April 1, 2001.

He said this is expected to raise real GDP by 0.24% to 0.36%.

## GROSS DOMESTIC PRODUCT



But there are some doubts over this. An analyst, Danny Oh of Sarawak Securities, said given the lack of consumer confidence they may want to save whatever extra they can get than to spend them.

The MIER latest consumer sentiment index reveals a drop of 10.4 points to 115.6 due to current and expected household income trending downwards, less employment opportunities, rising prices and more cautious spending approach.

To overcome the perennial bottlenecks at the Treasury in disbursement of allocations, Mahathir said the ministry of finance will delegate some of its powers in procurement procedures.

Mahathir also said changes would be made to the Foreign Investment Committee's (FIC) rules regarding foreign ownership of equity and assets to attract foreign

investments and inflow of foreign direct investments (FDI) as the current rules are too superfluous.

Mahathir also wants banks to lend out more and they are required to achieve an annual loan growth of 8%.

Bank Negara will monitor closely the growth and direction of lending. It will also review the current ceiling of the purchase of shares and unit trusts, he said.

He said RM1.25 billion would be allocated for small and medium enterprises including the setting up of a new entrepreneur rehabilitation and development fund with RM500 million.

To reduce the property overhang, the prime minister said certain incentives like stamp duty exemptions, waiver of processing fees and higher financing margins would be reintroduced.