

# No need to loosen monetary policy now, says Zeti

Bt 3 0 AUG 2001

MALAYSIA does not need to loosen monetary policy for now, as bank lending remains strong despite an economic slowdown and fiscal measures can provide any needed spark, the central bank chief said yesterday.

"Not at this moment," Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz responded, when asked by Reuters whether the central bank will use the increased room for manoeuvre afforded by low inflation, lower US interest rates and rising currency reserves.

Malaysia's gross domestic product (GDP) grew 0.5 per cent in the second quarter, year-on-year, and the Government says the country has avoided following Singapore and Taiwan into recession.

While the downturn in the global technology cycle has hit the export-driven electronics sector, and has reined in GDP growth from the 8.5 per cent sprint seen in 2000, other major manufacturing sub-sectors are still growing.

historical lows," she said.

"We feel, with these already low levels of interest rates, that fiscal policy is the key to stimulating domestic activity and the existing monetary policy will continue to provide a positive financial environment to reinforce the fiscal policies." Malaysia unveils its 2002 budget in October.

It announced a RM28.9 billion fiscal stimulus package in its 2001 budget last October, which it then augmented with an extra RM3.0 billion in March.

The current low rates and ample liquidity had contributed to stronger loan growth this year.

"For the first seven months of this year, the average monthly loans outstanding increased by RM2 billion compared to RM1.4 billion for the same period of 2000," Zeti said.

The lending was broad-based and channelled to manufacturing, construction, finance, insurance, the business sector and toward the

Strong petroleum and palm oil prices also gave Malaysia a cushion that countries without sizable commodities sectors lack.

The central bank sees the economy speeding up again in the fourth quarter, regardless of whether foreign markets recover.

Zeti also said Malaysia's currency reserves are likely to continue to recover and are not dependent on portfolio inflows attracted by the local stock market's 17 per cent gain since the beginning of July.

Reserves stood at US\$27.4 billion (US\$1 = RM3.80) in mid-August, up from US\$25.94 billion at the end of May, which was the lowest since December 1998. Malaysia raised US\$1 billion through a eurobond issue at the end of June, while portfolio inflows accounted for only a quarter of the other inflows since then.

The fixed exchange rate regime adopted during the Asian financial crisis in 1998, when the ringgit was pegged at 3.8 per dollar, remains a lynchpin of monetary policy. And the pro-growth, low interest rate policy put in place then was doing its job, Zeti said.

"Malaysia's pro-growth policy was front-loaded. In 1998 there was aggressive monetary easing and interest rates were brought down to

purchase of residential property and passenger vehicles.

Zeti said more mechanisms need to be put in place to improve borrowers access to funds, but there is already progress on this front.

She noted that lending to small- and medium-sized enterprises (SMEs) had risen by RM4.3 billion in the first half of this year, compared with just RM874 million in the first half of 2000. She did not give the absolute figures.

She echoed Prime Minister Datuk Seri Dr Mahathir Mohamad's exhortation to government ministries to speed up spending of the extra RM3 billion stimulus announced in March.

Zeti sought to allay any concern that the RM1.83 billion surplus run by the Government in the second quarter reflected a slowing down of the fiscal stimulus.

She said the surplus was due to a strong revenue performance resulting from higher income tax receipts following sharply higher oil prices in 2000 (the tax base year for 2001) and improved collection of corporate income tax.

"For the second quarter, total expenditure increased by 3.3 per cent. For the first half of the year total expenditure increased by 24 per cent year-on-year," she said.

Reuters