

Stimulus package gets thumbs up

SUN 28 SEP 2008

Should be quickly disbursed for trickle-down effect to be felt

By Elffi Lee

KUALA LUMPUR: The RM4.3 billion stimulus package announced by Prime Minister Datuk Seri Dr Mahathir Mohamad yesterday is seen as a positive move to avert the economy from slipping into a deep recession.

Analysts contacted by *SunBiz*, said the stimulus package is welcome news as it is in addition to the RM3 billion and RM500 million packages announced earlier. However, they are of the opinion that the funds should be disbursed quickly to ensure that the trickle-down effect is felt immediately.

As Vickers Ballas' research head Sebastian Chang said: "The country is taking a proactive step in terms of using fiscal measures to counter any possible drop in economic situation. The stimulus package came in faster than most people had expected.

"This package is a short-term booster that may help to provide some new breathing space in the equity market. However, the true impact of the packages will only be felt upon the implementation of the projects."

Ng Han Sing, an analyst with Hwang-DBS Securities Sdn Bhd, said the three packages amounting to RM7.8 billion will undoubtedly help to stimulate domestic growth. These pack-

ages, he added, should also counter the adverse economic impacts and reflect the proactive move of the government in countering the weakness in the external sector.

He said: "The issue, however, is the disbursement of funds. It should be expedited so that the trickle-down will be felt sooner.

CIMB Securities in its latest report said the RM4.3 billion stimulus package is certainly welcome news and further indicates that the government is rightly serious about avoiding a recession.

However, it stressed that some observations are necessary. As it said: "Assuming every ringgit is spent, the full impact on the

economy may not include very much spillover onto the rest of the private sector.

"In other words, the fiscal multiplier in Malaysia is unlikely to be very large. Interest rates impact aside, estimates of the marginal propensity to save in this country has never gone below 0.3 while the marginal propensity to import has never gone below 0.60 to 0.65. Therefore, at maximum, the multiplier would be no more than 1.1 on average.

"The bottomline is one should not expect the marginal impact of the additional fiscal push to add much more than 1% growth to overall GDP growth, all things being equal."

However, as a means of stabilising any further contraction in economic activity, it is the right move, it said, adding that if the spending is on critical infrastructure, physical and human, then efficiency gains and greater supply capabilities will help increase the long run potential out growth of the country.

CIMB said it is more important to speedily implement the projects especially those identified and allocated for in previous Budgets.

"The huge infrastructure projects that were planned for post-Asian crisis, if carried out quickly, would surely be sufficient to achieve the objectives of keeping economic growth above zero – even without supplementary spending.

"While delays are not too cost-

ly in the export boom years of 1999 and 2000, tardiness this time round would be near disastrous. What the government should do is to publicly and explicitly spell out the time schedules and announce the progress report at each stage of development."

The dissemination of such information, it said, is crucial in maintaining confidence that Malaysia can attain some degree of resilience in the face of a serious global slowdown.

Some analysts also raised concerns that the increased fiscal spending may cause a sizeable debt to accumulate, long-term interest rates to rise and place a strain on reserves in the short-term.

Ng and CIMB, however, brushed aside the concerns.

Ng said: "We think that the government should be in the position to pump economy as its finances have remained in the black so far this year. Overall, budget balance was a surplus RM197 million in the first half compared to a target of RM19 billion deficits".

CIMB said the country's manageable public foreign debt to gross national product ratio of less than 6% would allow greater leeway to seek foreign financing.

"Moreover, its growing young population is one of the best assurances of future national debt servicing capabilities. Such foreign borrowings would enable reserves to be protected from any unnecessary draining."