

Malaysia making positive policy progress, says IMF official

VISITING International Monetary Fund (IMF) official yesterday warned that investors were becoming increasingly discriminative of markets as risk averseness rose, but said Malaysia was making positive progress.

"There is now increased discrimination, where good policy will be rewarded and bad policy, punished," Luis Valdivieso, IMF's Asia and Pacific Division chief, told reporters on the sidelines of an economic conference.

Malaysia has had a rocky relationship with the IMF and previously criticised some of the agency's and the World Bank's policies. It rejected IMF prescriptions during the 1997-1998 regional financial crisis, instead preferring home-grown remedies, including a US dollar peg for its ringgit.

Valdivieso said Malaysia was taking the right steps to counter the downcycle, with the Government announcing a fiscal deficit to pump-prime its economy, and introducing reforms to raise corporate governance levels.

"Yes, it is positive. The Government announced a budget, that signals a deficit next year, to position itself for a recovery next year -- that's the right policy," he said. "The

market also values recent steps to improve corporate governance."

He added that Malaysia could afford to step up spending to mitigate the negative impact of a global slowdown.

"It has the macro-economics to allow that. Investors will only invest in those places which do things to help itself," Valdivieso said.

In last months budget for 2002, Prime Minister Datuk Seri Dr Mahathir Mohamad announced a total spending allocation of RM100.52 billion, 10 per cent more than last year's initial proposal.

The Government was forced to beef up its spending plans during 2001 as the economy worsened, though it has struggled to spend the extra few billion ringgit proposed.

Malaysia, running a fifth straight fiscal deficit, predicts gross domestic product (GDP) growth of between 1 and 2 per cent this year and 4 and 5 per cent in 2002, both of which are at the higher end of market expectations.

A respected local think-tank, the Malaysian Institute of Economic Research (MIER), yesterday forecast GDP to grow 0.3 per cent in 2001 and 3.2 per cent in 2002. — Reuters