

13/04/2001

2pc EPF cut will stimulate spending: PM

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PRIME Minister Datuk Seri Dr Mahathir Mohamad yesterday expressed his confidence that the temporary 2 per cent cut in employees' contribution to the Employees Provident Fund (EPF) will stimulate consumer spending.

He said although the reduction is small, it will support other measures aimed at boosting domestic economic activities to counter the US economic slowdown.

"We are uncertain how much it will stimulate. It is believed that it would be quite a help for the retail trade.

"It may be small but it contributes to the other measures," he said when asked whether the cut in EPF contribution will stimulate consumer spending, given the uncertainties in the job market.

Speaking at a news conference after launching Silverfil dental filling at Technology Park Malaysia, Bukit Jalil, Dr Mahathir said every measure introduced will have its own impact on the economy.

The reduction in employees' EPF compulsory contribution is part of the Government's fiscal stimulus package to boost domestic economy in view of the weakening of global economy, particularly the US.

The move will see workers contributing 9 per cent of their monthly pay starting April 1 this year until next April. Employers' contribution, meanwhile, is maintained at 12 per cent of each worker's monthly pay.

Other measures in the package include a RM3 billion fiscal budget, the easing of car financing for civil servants, reinstatement of home ownership campaign incentives, expansion of special small- and medium-sized enterprises (SME) funds, easing of eligibility criteria for SME funds and a review on shares and unit trusts purchase ceiling.

The Prime Minister, when announcing the package on March 27, said the 2 per cent EPF contribution cut is expected to contribute between 0.24 per cent and 0.36 per cent rise in real gross domestic product (GDP).

The Government had estimated that the total package will expand the GDP by 1.1 per cent.

Bank Negara Malaysia governor Datuk Dr Zeti Akhtar Aziz had said that the multiplier effect from the cut in EPF contribution will lift consumer spending and benefit the overall domestic economy.

The pension fund, which collects about RM1.6 billion a month from more than 9 million contributors, has estimated its collection to drop by RM125 million a month, or RM1.5 billion over the next one year.

According to Malaysian Retailers Association (MRA), if workers spend all their extra take-home pay arising from the cut in EPF contributions, it will contribute to a 3.4 per cent rise in retail sector's total sales.

Theoretically, the multiplier effect will take off when workers start spending their extra monthly disposable income.

However, workers' fatter wallets may not result in more spending due to the current poor consumer sentiment.

According to economists and analysts, consumers may prefer to save or postpone their expenditure given the bearish performance of the local bourse and in anticipation of the impact of the US economic slowdown.

They believe the EPF contribution cut will likely benefit small retail sub-sectors related to lifestyle, food and beverage.

Meanwhile, the Malaysian Trades Union Congress (MTUC) is planning a picket at EPF offices nationwide on May 12 to protest the reduction in EPF contribution and the low dividend announced by EPF - a move which is not

shared by its public sector counterpart, the Congress of Unions of Employees in the Public and Civil Services.

The 800,000-strong MTUC wants the Government to increase both employers and employees' EPF contribution rates to 15 per cent and 12 per cent, respectively.

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