

29/03/2001

Bank Negara expects GDP to expand by 5-6pc this year (HL)

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BANK Negara Malaysia expects Malaysia's gross domestic product (GDP) to expand by between 5 and 6 per cent this year, after allowing for the possible impact of the slowdown in the US economy.

It is a downward revision from an earlier forecast of 7 per cent made last year. The continued weakness in the Japanese economy and uncertainties in global financial markets have also been taken into consideration.

The central bank's governor, Datuk Dr Zeti Akhtar Aziz, said despite the less encouraging global economic environment, GDP growth would still be a respectable 5 per cent and the fiscal stimulus announced by the Government on Tuesday would lift the figure to about 6 per cent.

The RM3 billion stimulus package, as unveiled by Prime Minister Datuk Seri Dr Mahathir Mohamad, include measures to stimulate domestic demand, and bring forward implementation of major socio-economic and infrastructure projects.

Beyond this year, Zeti said, given the same strong fundamentals - low inflation and unemployment, and high savings, among others - Bank Negara expects the current pace of growth to be maintained.

"The growth momentum built over the last two years, the strength of the economic fundamentals and the implementation of new measures are expected to generate sufficient impetus for output in the domestic economy to expand by 6 per cent in real terms in 2001," she told a news conference called to release the Bank Negara 2000 Annual Report in Kuala Lumpur yesterday.

Real GDP grew by 8.5 per cent last year, up from 5.8 per cent in 1999, and a negative 7.8 per cent in 1998.

Zeti also said that the financial system is currently flushed with liquidity, which means the Government's economic pump-priming measures can be easily financed, while not affecting the private sector's access to funds.

There is also always the possibility of Malaysia tapping the international market, she added.

"If Malaysia considers it necessary to raise funds from the international capital market, we'll do so based on the opportunities to obtain financing at a low cost.

"Last year, Bank Negara absorbed about RM51 billion from the financial system. Therefore, we have ample liquidity to finance the (new) fiscal stimulus and other activities."

The high level of liquidity, a stronger banking system, and the active private debt securities market will enable non-inflationary financing of growth, she said, adding that the new fiscal measures are expected to compensate for slower external demand without creating new risks.

According to Zeti, the proposed 2 per cent cut in employees' contribution to the Employees Provident Fund will hopefully promote private consumption, while the easing of rules on foreign ownership should provide a boost for the property market.

Consumers are reminded to spend productively, but not be overly cautious, as the economy in 2001 will be driven largely by domestic demand.

In fact, the fiscal stimulus package is directed at industries with strong domestic linkages and with minimum import content, hence limiting

any leakage that might affect the current account position.

The monetary policy will, meanwhile, remain accommodative, with interest rates expected to remain at the current level, as lending rates are deemed already sufficiently low to promote economic activities.

The central banker also said Bank Negara will not adjust the ringgit's peg to the US dollar as it is not its policy to react to short-term fluctuations on the foreign exchange markets.

Reports have suggested that the ringgit, fixed at 3.80 to the greenback since 1998, is now overvalued following the depreciation of most currencies against the US dollar.

Given the low inflation environment, the Government's strong financial position and the country's small foreign debt, the peg remains consistent with economic fundamentals, Zeti said.

And Malaysian banks have shown a high degree of resilience to absorb any economic shock, based on a worst-case scenario stress test.

The current account surplus in the balance of payments is expected to continue this year, to account for 6.8 per cent of gross national product.

This, together with sustainable inflows of long-term capital, will serve to cushion outflows.

As for possible job cuts, Zeti said the central bank expects some retrenchments in selected industries, but there will also be shortage of labour in others.

In the case of the banking sector, a programme has been put in place to retrain and redeploy retrenched workers in other industries.

"This is the new economy, where there should be greater agility and mobility of labour," the central bank governor noted.

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