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Emphasis still on spending prudently, productively

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WHILE the RM3 billion stimulus package to face the US economic slowdown promotes domestic consumption, the emphasis is still on spending prudently and productively, Bank Negara governor Datuk Dr Zeti Akhtar Aziz said.

"Manage your finances well, spend within your means," was her advice to both consumers and companies.

Referring to the high savings rate in Malaysia, she stressed that it was "savings that saved Malaysia from going under IMF (International Monetary Fund) rule" following the regional financial crisis of 1997-98.

However, in view of the economic straits in the world's two largest economies - the US and Japan - there is a need to pump up domestic demand to maintain the health of the local economy.

The raft of measures Prime Minister Datuk Seri Dr Mahathir Mohamad announced on Tuesday includes an extra RM3 billion in allocation for infrastructure projects, reducing workers' contribution to the EPF by two per cent, removing the RM50 tax on credit cards, incentives for house buyers and increasing the allocation for various funds that promote economic activities, among other measures.

This package has been designed such that it has "minimum leakage - in that almost all the money will be spent within the country - and it has a high multiplier effect (its impact will be wide-ranging)", Zeti said.

Asked to comment on negative response on these measures by some foreign analysts and the lack of interest in the package by KLSE players, she stressed that the package was not drawn up to please portfolio investors but targeted at economic activities.

She noted that the market has a very short investment horizon.

"When Malaysia took steps to dig itself out of the regional crisis and rebuild its economy, analysts and markets took some time to realise the impact of the measures.

"It is only when the current stimulus package begins to show a positive impact on earnings in the corporate sector will they note its significance."

On sourcing the RM3 billion for the package, Zeti said it can be funded locally in view of the vast amount of liquidity in the market. But the Government will not discount looking abroad.

"It is opportunistic financing. If it is advantageous in terms of cost, then we will go overseas," she added.