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MALAYSIA-STIMULUS

MALAYSIA'S EXTRA FISCAL MEASURES POSITIVE, SAY ECONOMISTS

By: Tham Choy Lin

SINGAPORE, March 27 (Bernama) -- Malaysia's announcement of a RM3 billion supplementary fiscal package to sustain growth was well-received by economists who viewed the measures as positive to pre-empt the impact of a further deterioration of the global economy.

Prime Minister, Datuk Seri Dr Mahathir Mohamad had announced a number of measures today saying that the slowdown, especially in the United States, was expected to have an adverse impact on exports and growth prospects.

Given the expected deceleration in external demand, the government will increase fiscal stimulus, promote consumption, reduce the property overhang, continue the accommodative monetary policy, promote financing of small and medium enterprises (SMEs), promote the services sector and maintain the ringgit peg at RM3.8 to a US dollar.

"I think these are all positive measures. Boosting Gross Domestic Product (GDP) by 1.1 percent is not impossible given that the RM3 billion injection into the economy is through infrastructure spending and specific measures such as Employees' Provident Fund (EPF) cuts," said Daniel Lian, Morgan Stanley Dean Witter's economist for Southeast Asia.

Dr Mahathir said the package would boost GDP by 1.1 percent and that the government would revise downwards its 7 percent forecast for this year to five or four percent.

A two percent cut in workers' contribution to EPF to boost domestic spending would be implemented from April 1 and changes would be made to the Foreign Investment Committee (FIC) on foreign equity as well as property and asset acquisition by foreigners.

Lian said the market sentiment was 5 percent growth for Malaysia this year after its 8.5 percent performance in 2000.

On efforts to boost the economy through infrastructure projects, Lian said he favoured the building of more schools as announced by Dr Mahathir rather than spending on "white elephants."

BNP Paribas Peregrine regional economist, Chan Kok Peng gave credit to the Malaysian government, saying the extra stimulus was a move in the right direction and a "strong signal" from Dr Mahathir to ensure that the benefits trickle down to the lower income groups.

"The package is very pre-emptive, it is the right policy move to nip things in the bud before the situation worsens. In a sense, it is to the credit of the government to come up with a plan at this stage and based on their past policy moves, it should work," he said.

BNP expects Malaysia's GDP to hover around 5.4 percent this year.

Concurring, an analyst with a foreign brokerage also gave kudos to the government for the "pro-active and quick response" to the slowdown although it would be pre-mature to gauge if consumer spending would pick up because of the gloomy outlook.

"No other government in South-East Asia has come up with a supplementary budget so far for the slowdown we are facing. The Malaysian government had already surprised with a deficit instead of an anticipated surplus budget last October, showing even then they were prepared for a slowdown. This is going a step further," he said.

The analyst said the package was to prevent growth from sliding to two or three percent and not to keep GDP at a high level in view of the prevailing global climate.

Song Seng Wun, regional economist of G.K.Goh brokerage, agreed the package would check the deterioration early in concurrence with the global slowdown but he remained mixed if public spending would be boosted.

"Will the people spend? This is an issue of confidence and over the last few months, confidence has been affected because of job cuts and uncertainty over the political and economic outlook," he said.

He said the EPF cuts would add an extra RM3 billion to RM3.5 billion in the hands of the public but felt that a large amount might be saved instead.

But Chan predicted consumer spending should follow through despite the more difficult conditions.

Lian added: "There will always be a marginal impact."

Malaysia's Finance Minister, Tun Daim Zainuddin had said he hoped Malaysians, who already had a high savings rate of 40 percent, would spend to help lift the economy. -- BERNAMA

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