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RM3b stimulus may see only RM920m usage by year-end (HL)

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ONLY about RM920 million of the RM3 billion fiscal stimulus package introduced by the Government in April is expected to be disbursed by year-end, with stringent bank rules, red tape and slower economic growth all seen as contributing to the fund's low utilisation rate.

By the end of this month, disbursements would total a quarter of the allocated amount, or RM750 million, with RM200 million having already been released, said an industry source.

Still, the construction sector can expect to see a flurry of activity in the next few months as the authorities rush to step up the package's utilisation, in response to the Prime Minister's comments on Monday, analysts said.

Datuk Seri Dr Mahathir Mohamad had said that only RM200 million, or 6.67 per cent, of the allocation has been utilised so far, and greater efforts would be needed if the stimulus package is to have the intended impact on the economy.

The RM3 billion was in addition to the RM28.8 billion expenditure approved under Budget 2001 and new projects identified for immediate implementation include the single school session programme (RM2 billion), community colleges (RM900 million), a university each in Perlis, Malacca, Pahang and Negeri Sembilan (RM1.6 billion), housing for Armed Forces personnel (RM400 million), and subsidies for oil palm and rubber growers (RM600 million).

A flying squad was established by the Ministry of Finance to fast-track the projects, but the implementation process is only now gathering momentum.

It is understood that distribution of subsidies for smallholders have started while funds for the construction of quarters for Armed Forces personnel are in the process of being disbursed.

The education projects are however held up by lack of suitable sites to build new schools or extend existing ones.

However, Malaysian Institute of Economic Research executive director Dr Mohamed Ariff Abdul Kareem said it is normal, for all countries, to see spending pick up only towards the end of the year.

"If you look at previous years' spending patterns, utilisation of funds in Malaysia usually started slow and then slowly picked up towards year-end."

Companies and organisations like to do things at the last moment and bunch up their activities late in the year, it seems, he said.

As such, any positive impact on the economy from the stimulus package is likely to be felt only next year, Mohamed Ariff added.

Construction Industry Development Board (CIDB) chief executive officer Datuk Abdul Rahman Abdullah meanwhile said the strict rules adopted by banks are not helping.

"The economy is still not picking up and the banks should be speeding up approval of applications for facilities, instead of making it more difficult for contractors who urgently need money to start their projects," he said, when contacted by Business Times.

This is because the lenders had probably learnt a costly lesson from the previous recession in the mid-1980s.

Government-funded low- and medium-cost housing and infrastructure projects aside, construction companies have continued to experience

difficult operating conditions, he said.

The overall housing sector is faced with a glut, and "there is not much we can do because demand for new houses has remained depressed, despite aggressive home ownership campaigns and advertisements".

Even if the developers want to start a new project now, they cannot get new funding as their existing housing stocks are not moving, he added.

CIDB has 40,000 contractors on its register.

"The party is just beginning for the construction sector," said MIDF Sisma Securities in research note.

The rest of the RM3 billion package will start to trickle down in the second half and help boost construction company earnings, it said.

There was already a significant pick-up in activities in the sector in the second quarter of 2001, when it posted a 3.2 per cent year-on-year growth compared to a mere 0.9 per cent in the first three months of the year, it added.

The Kuala Lumpur Stock Exchange Construction Index closed about unchanged at 168.33 points yesterday, after touching an intra-day high of 169.86. The benchmark Composite Index dipped 2.75 to 691.47.

"For the moment, there is unlikely to be any major movement in the sub-index because most investors are still keeping an eye on the earnings of construction concerns, which do not look positive," an analyst said.

"Depending on the recovery of the US economy and external demand, the Government may have to continue with its development expenditure programme for Budget 2002 and to favour a low interest rate regime," MIDF Sisma said.

If the emphasis is on socio-economic development, smaller construction companies may benefit the most, it added.

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