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RM3b package to pre-empt impact of US slowdown (HL)

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THE Government yesterday unveiled a RM3 billion fiscal stimulus package designed to pre-empt the impact of a slowdown in the US economy.

Reminiscent of a supplementary budget, it includes measures to promote private consumption, tackle the country's property supply overhang, and hasten the implementation of socio-economic and infrastructure projects.

An annual loans growth target of 8 per cent is also set for the banks, compared to the industry average of 5.4 per cent last year; while foreign investment policy guidelines will be finetuned to draw more capital inflows, details of which will be announced "soon".

In addition, small and medium-sized enterprises' access to funds will be eased, and the services sector, including tourism and the wider use of the airports and ports, will be promoted.

And the ringgit peg at RM3.80 to the US dollar, which was introduced in 1998, will be maintained to ensure economic stability and continuity, Prime Minister Datuk Seri Dr Mahathir Mohamad said in Parliament after announcing the stimulus.

The Government also leaves open the possibility of bringing forward projects slated under the Eighth Malaysia Plan (2001-2005) if the slowdown in the US is even sharper.

The US, the world's largest economy and Malaysia's leading trading partner, has slowed significantly in the past months after a decade of rapid growth, the impact of which is being felt globally.

The package, which is in addition to the RM28.8 billion fiscal stimulus approved under Budget 2001 announced last October, is expected to expand gross domestic product (GDP) by 1.1 percentage points.

With the US economy having slowed much more than anticipated, the Government may now revise downwards the GDP forecast for this year to 5 or even 4 per cent, from the 5.8 per cent expected earlier (which itself was a revision from 7 per cent), the Prime Minister said.

Bank Negara Malaysia may announce the new GDP forecast for the year today.

Even in this worst-case scenario, Malaysia would still outperform most other countries. The GDP grew an estimated 8.5 per cent in 2000.

Dr Mahathir also gave the assurance that monetary policy will remain "accommodative" to ensure that the private sector has sufficient access to funds.

However, at a press conference later, he said there may not be any need at the moment for interest rates to fall lower than they are now. Speculation had been rife that lending rates would be lowered.

The bulk of the RM3 billion package is expected to go to socio-economic and infrastructure projects, ranging from the building of schools to the revival of Bakun hydroelectric project and boosting of port operations.

As for the implementation of the package, the Government has empowered ministries and agencies to approve some of allocations on their own. It has also set up a "Flying Squad" that will haul up errant agencies which delay the implementation of projects.

Economists and analysts contacted by Business Times welcomed the package, but warned that implementation holds the key to achieving the intended results.

They also noted that the measures must be recognised for what they are, a short-term response to a specific development, that is the slowdown in

the US economy.

For the longer term, Malaysia has to continue to work on its competitiveness amid an increasingly challenging global economic environment.