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RM75 billion lying idle

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ABOUT RM75 billion is lying idle in the banking system. Using even a fraction of this to lubricate the economy will go a long way towards staving off the negative repercussions of the US economic slowdown.

The Government's measures announced yesterday to pump-prime the economy by an additional RM3 billion is more than adequately met by this excess liquidity of RM75 billion.

Consequentially, domestic interest rates are not expected to rise, said Affin-UOB Securities Sdn Bhd chief economist Suhaimi Ilias.

He added that the Government is also afforded the flexibility to either raise the RM3 billion locally or to borrow this from overseas, since global interest rates have declined.

Malaysia had recently reduced its external debt as a proportion of Gross Domestic Product (GDP) from 57.81 per cent in 1999 to 50.5 per cent as at end year 2000 and this has raised its creditworthiness internationally.

Suhaimi, among those contacted to comment on the range of government moves to gird up the economy to face up to the US slowdown, said: "While the foreign debt may increase, Malaysia can alternatively raise the extra RM3 billion locally since there is so much unutilised liquidity in the banking system.

"The loan-deposit ratio at 83.8 per cent indicates more deposits in banks than loans granted. Hence, the banking system currently has excess liquidity of about RM75 billion and therefore there is no upward pressure on domestic interest rates should the RM3 billion be locally raised to finance the additional budget deficit this year."

On maintaining the ringgit-US\$ peg at RM3.80 despite the depreciation of regional currencies in relation to export competitiveness, he added: "The Government realises that devaluing the peg would not increase Malaysian exports because of the weaker US demand."

On constraints to pump-prime the economy under a fixed exchange regime, Suhaimi assured that despite Malaysia's four consecutive budget deficits since 1998, there would not be any pressure borne to break the peg.

"This is because the size of the budget deficits are at about five to six per cent of our Gross National Product (GNP) which is manageable. It was at an unsustainable 15 to 18 per cent of our GNP in the 1980s. The Government is currently managing a prudent deficit."

Malaysian Institute of Economic Research (MIER) executive director Dr Mohamed Ariff Abdul Kareem said the stimulus package announced by the Government yesterday would, by making the Malaysian economy more resilient, help soften the impact of the slowing US market.

He added: "But it would not be able to neutralise everything. My concern is the addition to public debt although the additional RM3 billion is not relatively a big amount.

"Furthermore, the stimulus package does not address the issue of Malaysian export competitiveness and the RM-US\$ peg. It remains to be seen how the measures would impact on the balance of payments and on Bank Negara's international reserves as the increase in consumption may be directed towards consumption of imports instead, given a relatively overvalued ringgit in the region.

"And can we be sure that the reduction in the statutory Employees Provident Fund (EPF) contributions would be directed towards increasing consumption? Given current consumer sentiments, that portion of personal

income may be voluntarily saved instead," said Dr Mohamed Ariff.

On the Government's stimulus package, Morgan Stanley Dean Witter economist for Southeast Asia Daniel Lian said: "I think these are all positive measures. Boosting GDP by 1.1 per cent is not impossible given that the RM3 billion injection into the economy is through infrastructure spending and specific measures such as the EPF cuts."

Bernama reports BNP Paribas Peregrine's Singapore-based regional economist Chan Kok Peng gave credit to the Malaysian government, saying the extra stimulus is 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 its past policy moves, it should work," he said.

BNP expects Malaysia's GDP to hover around 5.4 per cent 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 premature to gauge if consumer spending would pick up because of the gloomy outlook.

"No other government in Southeast 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 it was 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 per cent 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.