

Mier revises Malaysia's GDP growth forecast to 4pc

THE Malaysian Institute of Economic Research (Mier) cut its forecast for Malaysia's 2002 economic growth yesterday amid fears of a Gulf war, the US slowdown and weak financial markets.

The country's top independent think-tank said the growth forecast for this year has been revised to 4 per cent from 4.5 per cent earlier. But it forecast the gross domestic product (GDP) to accelerate to 5.7 per cent growth for next year.

"However, the increasing uncertainty related to the slowing down of the US economy, port closures in the US, weak financial markets and the rising risk of war with Iraq will all pose a threat to Malaysia's GDP growth in the near term," Mier said in its economic outlook for the third quarter

The Government said last month that the economy could grow by between 4 and 5 per cent this year and between 6 and 6.5 per cent next year.

Mier put GDP growth in the third quarter at an estimated 5 per cent or more. It said that even if GDP failed to grow in the fourth quarter, it would still show growth on a year-on-year basis owing to statistical base effects.

Mier's Business Confidence Index dropped to 49.9 points in the third quarter from 57.5 in the second, pointing to "a possible loss of momentum in economic activity in the months ahead".

The Consumer Sentiments Index proved far more resilient, slipping only 0.1 point to 108.9 in the third quarter.

Next year's current account surplus was seen dropping to RM16.1 billion from the RM21.1 billion expected this year as imports were seen rising faster than exports.

Malaysia is an export-orient-

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ed economy, and electrical and electronic products make up nearly 60 per cent of its total exports. The US is Malaysia's largest trading partner, buying one-fifth of its exports annually.

The independent think-tank also forecast inflation at 1.9 per cent in 2002 and 2.5 per cent in 2003.

Mier said it saw a "lessening need" for an interest rate cut in Malaysia, where commercial banks' base lending rates are around 6.39 per cent.

"Although overall loans growth is weak, the growth in household loans, cars and housing is still good, lessening the need for a rate cut," it said.

"The effectiveness of another rate cut is also doubtful," it said.

The think-tank also said that negative pressures on the ring-

git peg had dissipated and concerns about dwindling foreign direct investment inflows were offset by the country's strong external balances.

Mier said a rise in the level of interest-free reserves that banks are required to place with the central bank was unlikely.

Prime Minister Datuk Seri Dr Mahathir Mohamad had warned banks to lend out more or risk having their statutory reserves requirement levels raised — a move that could squeeze lenders' profit margins.

"Although news of a possible rise in the statutory reserves requirement was hotly debated, this was highly unlikely to happen given the increased risks that the Malaysian economy will feel the heat from a global slowdown," Mier said. — Reuters