

02 JUL 2003

CSFB-REVISE

CREDIT SUISSE REVISES UP MALAYSIA'S GDP FORECAST

KUALA LUMPUR, July 2 (Bernama) -- Credit Suisse First Boston (CSFB) is revising Malaysia's full year Gross Domestic Product (GDP) forecast to 4.0 percent from 3.7 percent previously and remains comfortable with the 5.3 percent full year growth for 2004.

In "The Emerging Market Quarterly Report" released here today, CSFB said that the fiscal package, which was introduced by the government to boost domestic demand via easier monetary measures, would help boost growth in the second half of 2003.

"We estimate that the RM1.7 billion of additional fiscal spending, and the likely slower economic growth, will push the fiscal deficit to 4.7-4.9 percent of GDP, from 3.9 percent previously," the report said.

However, the likely lower interest rates is expected to keep the deficit on a sustainable path.

At the same time, the sovereign rating (BBB+/Baa1) would probably remain intact on strong external liquidity and low government debt (to GDP ratio) at 46 percent.

CSFB said with SARS (severe acute respiratory syndrome) in remission and likely quick disbursement of the loan fund, growth should rebound to four to five percent in the second half of the year, aided by the fiscal package, which should help boost growth.

Easier monetary policy and loan fund are likely to boost monetary aggregates in the second half of the year.

In addition, with projected loss of travel receipts due to SARS, the current account surplus are expected to narrow by about 0.6-1.0 percentage point to a still large six percent of GDP in 2003 (7.7 percent in 2002).

"With the government now willing to tolerate the savings rate falling to 30 percent of GNP over the next few years from 34.4 percent currently, and the investment rate likely to rise, we think that the current account surplus will probably narrow going forward," the report added.

However, after heavy investments in its physical infrastructure and incentives for a myriad of services industries, Malaysia is now beginning to compete efficiently with Singapore as a services hub.

This should enable the services deficit to narrow to near zero by 2005 and should allow the current account surplus to stay above three percent over the next two years.

The report also expected a smooth political transition in October.

"Prime Minister Datuk Seri Dr Mahathir Mohamad had warned against any challenge against Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi for the presidency of UMNO at next year's party elections," it said.

"During the PM's absence in March and April, Abdullah earned kudos for his mature handling of several challenging situations, including the SARS outbreak and the Iraq war." -- BERNAMA

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