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PUMP-PRIMING-ECONOMY
PUMP PRIMING, A BETTER OPTION TO BOOST ECONOMY, SAY ECONOMISTS

KUALA LUMPUR, Jan 7 (Bernama) -- The pump-priming measures that the government is considering this year are being viewed by economists as a better option than slashing interest rates to further boost the national economy.

As interest rates are currently at their lows, slashing them further might cause the economy to fall into a liquidity trap, they said.

In reality, there is sufficient room for interest rates to come down further due to the current ample liquidity and benign inflation. Hence, reducing interest rates is seen as a viable option.

"But interest rates are relatively low at the moment and lowering interest rates could well be a negative signal to consumers. Our main concern is the possibility of falling into a liquidity trap if rates are lowered further," said an economist when contacted by Bernama today.

In addition, he said although the average lending rates had come off due to stiff competition, there is a possibility for the three-month intervention rate, now standing at 5.00 percent, to be slashed further. But this seemed remote, at least for now.

Another economist said lowering interest rates could dampen sentiment, thus curtailing spending although cost of funds would ease.

He noted that if this happened, the multiplier effect on the economy would become less significant.

"So, in order to prevent the above from happening, pump priming seems to be the best option," he said.

Yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad said the government might initiate another round of pump-priming measures such as injecting more funds into the economy and spending money on projects to increase monetary circulation. -- BERNAMA

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