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Election a non-issue for foreign funds: JP Morgan

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MALAYSIA is one country where foreign investors have very little to worry about when it comes to election results, according to global financial services firm JP Morgan.

The prospect of smooth and trouble-free voting as well as the high possibility of the ruling Barisan Nasional coalition being returned to power has made the general elections a non-issue for some foreign funds, JP Morgan said.

"It isn't that they (foreign investors) are waiting for the election results per se, as they know they don't have to worry about what may be the results of the elections," its head of Emerging Asia Economic Research, David Fernandez, told a media briefing yesterday.

A number of countries in the region are also going to the polls soon, including Sri Lanka, the Philippines, India, Indonesia and Taiwan.

In terms of political stability, Malaysia has distinguished itself by winning investor confidence following a smooth leadership transition over the past five months, he said.

In the leadership transition last October 31, Datuk Seri Abdullah Ahmad Badawi succeeded Tun Dr Mahathir Mohamad as Prime Minister.

"That (factor) gives investors confidence. And that was part of the reason why, when we tell them about where to invest across Asia this year, Malaysia is (given) overweight recommendation - both in equities and fixed income.

"It is the only country across all of Asia where we feel like that," Fernandez said.

Asked whether Malaysia will see an influx of foreign portfolio investors after the election outcome is clear, he said: "Over the course of the year, I think the macro-fundamentals will drive investors back into the country."

He said volatility in the local stock market over the past few days was not an issue as the country remained attractive.

On Malaysia Securities Exchange Bhd yesterday, early losses in stocks were capped at mid-morning with strong buying in blue-chips pushing the benchmark KLSE Composite Index (KLCI) higher.

The KLCI ended up 0.58 per cent, or 5.13 points, at 882.33, trumping a morning low of 870.16 points.

On Wednesday it fell by almost 2 per cent, after the announcement that Parliament was to be dissolved yesterday for a snap general elections.

JP Morgan has forecast Malaysia's gross domestic product (GDP) this year will grow 6 per cent compared to 5.2 per cent growth achieved last year.

Fernandez said out of this year's GDP growth forecast, 4 per cent will be derived from domestic demand coming from both consumers and the private sector.

He said the Government's decision to reject the International Monetary Fund's prescription during the 1997 Asian financial crisis, such as to cut public spending, allowed the country to survive a shortfall in private spending and consumption.

"In our view, that was the exact appropriate response," he said.

However, over the years private investments have returned to Malaysia and are expected to dominate, thus reducing government expenditure and narrowing the budget deficit this year.

He said the initial plan to cut the budget deficit to 3.3 per cent this year from 5.4 per cent the year before, as contained in Budget 2004, would require major spending cuts.

The Government has since decided not to try to cut spending too deeply and has targeted a more modest deficit reduction.

Fernandez said based on current signs, a 4.5 per cent budget deficit is more likely this year, higher than JP Morgan's forecast of 4.3 per cent.

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