

Credit Suisse cuts 2011 growth forecast to 4.6%
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Global finance company Credit Suisse AG predicts Malaysia's economy will grow by 4.6 percent - much below the federal government's six percent target.

Global financial services company Credit Suisse AG has slashed Malaysia's 2011 gross domestic product (GDP) growth forecast to 4.6 percent, down from 5.3 percent.

This spells troubles for the Najib administration's ambitious six-percent-a-year growth target to propel Malaysia to 'developed country' status by 2020.

Credit Suisse AG attributed the lowered forecast to weakening Western economies, with some on the brink of recession, thus lowering external demand.

"With the fiscal support provided during the global financial crisis removed and the lagged effects of higher interest rates working their way through, we had expected the Asian economies to soften from second quarter of 2011.

"Now that the Western world is teetering on the brink of recession we believe the outlook has dimmed further," it said in a research note released yesterday, according to Starbiz.

Expect government to spend more

Other than Malaysia, Credit Suisse AG also lowered its growth forecast for other Asian economies such as Thailand, Hong Kong and South Korea.

It expects growth to slide further over the coming months. Bank Negara had earlier forecasted a growth of between five and six percent.

Malaysia recorded a 4.9 percent growth for the first quarter of this year, but it dropped to four percent in the subsequent quarter.

However, Credit Suisse believes that the Malaysia government will increase spending during the second half to meet spending targets.

"What has kept us from cutting our growth forecasts further is the likely support from domestic demand.

"We think more investments from the Economic Transformation Programme (ETP) should come on-stream, especially in the oil and gas sector, which benefited from high oil prices.

"Also, the government has underspent its budget in the first half and we expect it to increase spending in the second half to meet its target," it said.

Subsidy cuts may be delayed

Meanwhile, Credit Suisse expects Bank Negara to maintain the overnight policy rate at three percent until the end of next year.

It had previously expected a 25-point hike this year.

It said that the central bank was unlikely to raise the rate further because of an uncertain global outlook and slowing inflation rate.

"In contrast, we think there is little scope for the government to stimulate the economy through fiscal policies above and beyond the existing high deficits they projected (5.4% of GDP for 2011).

"Even as things stand now, Malaysia would probably need to undertake significant fiscal adjustments over the next decade if it wants to bring its relatively high debt-to-GDP ratio down.

"A prolonged weakness in growth would increase the risk that the government would further delay its plan to cut subsidies and raise the consumption tax," Credit Suisse said.

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