

Economy could shrink 1%, warns DPM
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The government today unveiled a RM60 billion stimulus package but warned the export-driven economy could still shrink by 1.0 percent this year despite the massive spending.

The RM60 billion plan was much larger than expected, and comes with the Southeast Asian nation fighting slowing growth as the global downturn dries up demand for its exports in the United States and Europe.

"The implementation of such a large stimulus package is unprecedented in the nation's economic history," said deputy premier and finance minister Najib Razak, who will take over as prime minister at the end of this month.

He said the package would "contribute towards mitigating the impact of the global contraction on the domestic economy."

But despite the measure, and a RM7 billion stimulus package announced last year, he said the economy could still be headed for a contraction. The government had previously stuck to its 2009 forecast of 3.5 percent growth.

"Taking into account these measures, GDP growth is expected to be in the range of minus 1.0 percent to 1.0 percent for 2009. Without these efforts the economy faces the prospect of a deep recession," Najib told parliament.

Budget deficit goes up to 7.6%

The plan accounts for almost 9 percent of GDP and will be implemented over 2009 and 2010, driving the federal budget deficit up from 4.8 percent to 7.6 percent in 2009.

It includes RM15 billion in fiscal stimulus or government spending, as well as RM25 billion in guarantee funds - to help companies gain access to capital - and RM3 billion in tax cuts.

Malaysia's growth slowed to just 0.1 percent in the fourth quarter of 2008, hit by declining exports and manufacturing as demand from its trading partners evaporated.

January exports plunged 27.8 percent year-on-year to their lowest level since 2001.

Najib said that the downturn, which has hit the manufacturing sector particularly hard, would push Malaysia's unemployment rate to 4.5 percent this year compared to 3.7 percent in 2008.

Package 'not as large as it looks'

Yeah Kim Leng, an economist with ratings agency RAM Holdings, said the huge stimulus package could help the economy, although at least a technical recession of two consecutive quarters of negative growth was unavoidable.

"We can see this is a response to a once-in-a-lifetime economic crisis. This is a larger-than-expected stimulus package," he told AFP.

"It should be adequate to address the needs of the country in facing the exports downturn, which is having a strong knock-on effect on domestic demand and investors' confidence levels."

Mohamed Ariff Abdul Kareem, head of an influential think-tank, the Malaysian Institute of Economic Research (MIER), said the package was "not as large as it may seem" as it was spread over two years.

"The package looks good on paper but much depends on how it is being implemented and the amount of confidence that it can generate. I hope the government can implement it transparently," he said.

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