

M'sia 'well-positioned' to weather global crisis: IMF
Malaysiakini.com
Aug 15, 2009

The International Monetary Fund on Friday said that Malaysia has been hit hard by the global economic crisis but that sound policies had positioned the country to cope with the downturn.

The IMF said the Malaysian authorities' fiscal response to the crisis "has been appropriately large."

However, there was "some limited room" for additional stimulus to the RM60 billion pumped in so far if the downturn proves longer or deeper than expected, the IMF said following a review with Malaysian officials on July 16.

"Executive directors commended the Malaysian authorities for sound macroeconomic management in difficult circumstances, and observed that Malaysia is well-positioned to weather the severe impact of the global downturn," the report said.

"A strong external position, robust balance sheets of household and corporate sectors, and sound financial system should lessen the blow from adverse external shocks," it said in a statement.

The Article IV consultation is a review usually held annually with each of the IMF's 186 member nations.

The IMF said that economic activity and inflation have slowed considerably since mid-2008, putting the economy on track to contract for the first time in 10 years. The Washington-based institution estimates the Malaysian economy will contract 4.5 percent in 2009 and grow 2.5 percent in 2010.

The export-led recession was expected to last through end-2009, with quarterly growth returning in early 2010.

"Risks to growth relate to the duration of the global recession, the evolution of commodity prices, and adverse macro-financial interactions," it said.

Is the ringgit undervalued?

Meanwhile, *Reuters* reported that a staff report found Malaysia's currency to be undervalued, but many of the fund's directors disagreed with the assessment.

In a statement following its regular consultation with Malaysia, the IMF said directors thought Malaysia's monetary policy and exchange rate were "broadly appropriate".

The export sector has been particularly hard hit, and that is part of the reason behind the difference in opinion between the IMF staff and directors over the value of the ringgit currency.

A weaker currency would support exports, but a stronger one would encourage the country to rebalance its economy toward more domestic demand.

IMF staff said the ringgit appeared to be "weaker than its equilibrium level in real effective

terms."

"However, many directors were unconvinced by the exchange rate assessment, and underlined the uncertainty about fundamentals and transitory factors related to Malaysia's commodity exports and the global crisis," the IMF said.

The IMF added that "some" directors supported the staff's position that once recovery is firmly established, a faster appreciation of the ringgit would help rebalance the economy.

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