

FT questions Malaysian government's economic projections
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By Lee Wei Lian

KUALA LUMPUR, Aug 18 — The Malaysian government's confidence in the economy is increasingly at odds with rising uncertainty outside the country over the nation's growth prospects, the Financial Times said in a column published yesterday.

Kevin Brown, the Asian correspondent for the London-based newspaper, said that while government officials are optimistic that economic expansion will be stronger in the second half of the year despite another slowdown in GDP growth in the second quarter, foreign analysts are less sanguine.

He pointed out that Goldman Sachs downgraded its GDP forecast for the full year from 5.4 per cent to 5 per cent last week, while credit rating agency Standard & Poor's said the country's growth prospects were poor in the event of a crisis due to the relatively open export-driven economy and weak public finances still recovering from the 2008-09 crisis.

Brown said Credit Suisse economist Kun Lung Wu also argued this week that Malaysia joins India as the two Asian countries least well placed to withstand any sharp global slowdown caused by US and EU fiscal problems, thanks to a "toxic" combination of high government debt relative to GDP and a big primary fiscal deficit which makes expansionary fiscal policies more dangerous.

Malaysia's dependence on oil and gas revenue, which forms about 40 per cent of government earnings, is also a risk as oil prices have been dipping, noted Brown.

"Of course, the advanced economies may quickly recover, and oil prices may go up again. But if they don't, expect long faces in Kuala Lumpur," said the FT correspondent.

Malaysia recorded a 4 per cent GDP growth in the second quarter compared with a revised growth of 4.9 per cent year-on-year in the first quarter due to weaker external demand and moderating government spending.

Bank Negara governor Tan Sri Zeti Akhtar Aziz said yesterday, however, that stronger growth is expected in the second half of the year and that while there is no revision to the 5-6 per cent growth target for the year, it will "very likely be closer to 5 per cent."

Zeti said that the nation's economic fundamentals were still strong with a 5.2 per cent growth in domestic consumption, low unemployment and low levels of impaired loans at only two per cent.

FDI also rose to RM6.2 billion in the second quarter from RM4 billion in the first quarter thanks to an improved investment climate, which led to an increase in domestic private sector investment, said Zeti.

The Bank Negara chief added that the current overnight policy rate (OPR) of three per cent was still supportive of economic growth.

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