

Mier GDP growth forecast lower than Govt's target

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KUALA LUMPUR: The Malaysian Institute of Economic Research (Mier) has revised downwards its gross domestic product (GDP) growth forecast for this year from 5.4% to 4.6%, which is below the Government's target of 5% to 6%.

Executive director Professor Datuk Dr Mohamed Ariff Abdul Kareem said the weaker outlook was due to the impact of the slowing US economy, soaring food prices, rising global oil prices and local political instability.

"The Malaysian economy is dependent on the health of the world's economy, especially the US, which has the strongest economy," he said at the 23rd National Economic Briefing yesterday.

"Together with the impact of higher food and oil prices, which will dampen consumption and reduce business profits, we are compelled to lower our growth forecast for the Malaysian economy."

Ariff said the situation was further compounded by the predicament created by local politicians.

"This is affecting short-term investors who would be deterred by the political situation now. Politicians need to be aware that what they do could cause a knee-jerk reaction and give investors the wrong signals."

For next year, Mier also forecast a 5% growth, underpinned by a boost in the services sector. Ariff said the political situation would have an impact on tourism, a segment within the services sector.

"An example was the widespread roadblocks on Monday, a scene which would scare away tourists," he said.

The Government's forecast to reduce the fiscal deficit to about 3.2% of GDP could not be achieved given the oil price hike, he said, adding that the fiscal deficit could even reach 3.5% due to the surge in oil prices.

Asked whether Bank Negara should raise interest rates, Ariff said: "Any increase in interest rates at this time will only dampen the economy, which we can't afford."

The combined effects of higher food and fuel prices had led to price pressures, posing a challenge to policymakers amid downside risks to growth, he said. Ariff expected the consumer price index (CPI) to continue to increase after it rose to 3.8% in May, which was almost a two-year high.

"On account of the oil subsidy review on June 5, inflation is expected to jump to about 7% in June, bringing the whole year inflation to 5%, if not higher."

Bank Negara had recently said the CPI was expected to exceed 6% in June.

Source: thestar