TENAGA NASIONAL

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IMF: M'sian inflation may touch 4% in 2015

Consumer spending will continue to be robust but will not be as strong as previous years, says IMF

by P PREM KUMAR

Pic by Ismail Che Rus

Mourmouras *(left)* **and IMF deputy director of Asia-Pacific department Hoe Ee Khor at the media briefing in Kuala Lumpur**

THE Malaysian economy is moving toward a healthier track with a series of fiscal reforms and policies but at the expense of inflation touching close to 4% in 2015 due to a one-time adjustment of goods price hike.

The ongoing phased reduction of fuel subsidies and the introduction of the Goods and Services Tax (GST) in 2015 will contribute to a small rise in inflation, currently at 2.8%, to nearly 3% next year and 4% in 2015, according to International Monetary Fund (IMF) officials.

Alex Mourmouras, the IMF mission chief for Malaysia, said the inflation will, after 2015, reverse down to the initial inflation level.

He noted that Bank Negara Malaysia (BNM) has taken preemptive measures to deal with threats of price instability.

"Consumer spending will continue to be robust but will not be as strong as previous years. It is important for the public to understand how important is the fiscal reforms for the country in the long run," said Mourmouras in a media briefing in Kuala Lumpur yesterday. Also present was Treasury secretary general Tan Sri Dr Mohd Irwan Serigar Abdullah.

The IMF team is here for the IMF Article IV consultations, which usually take place once a year. IMF economists visit the member country to gather information and hold discussions with government and central bank officials, and often private investors and labour representatives, Members of Parliament, and civil society organisations, according to information on the IMF website.

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Vigilance required to preempt 2nd-round effects

FROM P1 IMF

Upon its return, the mission submits a report to the IMF's executive board for discussion.

The board's views are subsequently summarised and transmitted to the country's authorities, it added.

The discussion on Malaysia will be held in February, said Mourmouras.

Mourmouras said Malaysia's near-term growth prospects are favourable.

"Real GDP (gross domestic product) growth picked up in the third-quarter and is projected to reach about 4.5% by year-end, and with the growth momentum is likely to be sustained into 2014, underpinned by a pickup in private investment and stronger exports, which will more than offset mild headwinds from fiscal consolidation.

"The federal government is also on track to reach its fiscal deficit target of 4% of GDP in 2013. The 2014 federal deficit target of 3.5% is feasible if, as assumed in the mission's baseline, growth in current spending is contained within a tight envelope," he said.

Mourmouras said the mission welcomed the timely and comprehensive fiscal reform package comprising the establishment of a high-level fiscal policy committee, fuel and electricity subsidy rationalisation, and the planned introduction of GST in April 2015, which will help reduce the federal deficit to 3% by 2015 and to about zero by 2020.

"Inflationary expectations are well anchored. However, vigilance will be required in order to preempt second-round effects associated with increases in the minimum wage, subsidy cuts and GST introduction," he added.

On Dec 2, the government announced that Tenaga Nasional Bhd will raise electricity tariff by about 15% from January 2014, which may trigger imminent inflationary pressure on the economy and hit manufacturers like glove producers and steel mill players.

Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz had earlier this month said its early assessment estimated that the tariff hike would increase inflation by 0.4%.

"Given that the current inflation rate which is 2.8%, this could mean that inflation next year could touch over 3%," she said, adding that the level would be temporary.

Mourmouras said the Malaysian financial system is well-placed to withstand potential stresses, with strong capital and liquidity buffers, relatively low non-performing loans and improving asset quality over the past few years.

In that context, the mission welcomed steps taken by the authorities to strengthen financial supervision. Since November 2010, BNM has implemented a series of macroprudential policy measures aimed at slowing property price inflation and credit growth.

"The mission commends the authorities for implementing an extensive agenda of structural reforms to strengthen growth and make it more inclusive, as elaborated in a number of multiyear transformation programmes.

"Efforts to upgrade human capital, foster technological readiness, inject greater competition into product markets and transform the government are important ingredients in this regard. Of critical importance is the programme to improve educational attainment to meet the talent needs of the economy," he said.