

BNM too optimistic in its forecast

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BANK Negara Malaysia's (BNM) annual report is always welcome for its deep analysis and professionalism.

Governor Tan Sri Dr Zeti Akhtar Aziz and her able staff have long enjoyed a high reputation for integrity in their assessments of the state of the economy.

However, in making projections for the future, that is for 2011 and beyond, there can be optimistic and pessimistic or neutral assumptions made.

Hence, I believe that this time around BNM has veered too much on the side of optimistic forecasts.

Estimating economic growth at 5-6% is not only quite ambitious but playing safe, as the margin of error in the projections are about 20% (between 5% and 6%).

Given the grave uncertainties in the global economy and the fact that we are such an open economy (176% of the GDP

in 2010), we need to be much more cautious and less complacent.

BNM should not want to sound too generous in its socio-economic and political assumptions and then give our businessmen and critics grounds to question the credibility of its analysis. This can raise issues of national and international confidence, especially in the critical private sector's role in domestic, and especially, foreign investment.

For instance, what is the basis for estimating private investment growth at 9.7% this year? Have the government and Economic Transformation programmes really been significantly impacting the economy so far?

With inflation projected at a higher and wide average growth of 2.5% to 3.5% this year, how do we assume that private consumption can grow by a strong 6.9%? The actual inflation figures have always been viewed cautiously, if not with

some suspicion. Now it is worse as the ordinary consumer feels the pinch of rising prices in all the dry and wet market places. Some senior officials may not fully appreciate these rising prices as they don't do the shopping themselves!

How do we also think that employment will improve, when we are grappling with the problems and relatively low salaries, poorly qualified graduates, the brain drain and the high corruption, all of which do not promote growth and employment.

We have also to increasingly be concerned with the total socio-economic environment, and not purely economic factors that have a powerful influence on our national goals for better growth, employment and income distribution.

What about the negative effects on investment and consumption and even exports, due to our rising problems arising from religious

intolerance, racial animosity and injustice, still unacceptably high crime rates, deteriorating environment and too much politicking, etc?

I think the danger in making economic projections lies in our inadequate appreciation of some of these serious imponderables and the global uncertainty in the economic, finance and security spheres, that can adversely affect our somewhat high expectations and undue confidence, that could well be misplaced.

Hence, I would urge more caution and stress the need for us to become more determined to do even more to urgently overcome our underlying fundamental problems that can erode our confidence for optimistic socio-economic projections for our future.

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