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Malaysia's economic stimulus package: not aggressive enough?
By Quah Boon Huat

During tough economic times, government policies can do a lot to restore consumer confidence and help shore up aggregate demand.

The IMF, in its updated World Economic Outlook (WEO) published in November 2008, forecast a global recession in 2009. It revised its projection of 2009 world output growth to 2.2 per cent, down from the 3.0 per cent projected in the October WEO.

In November 2008, Malaysia announced a seven-billion ringgit economic stimulus package to avoid a possible recession in 2009. There have been criticisms about the timeliness of the package, understandable because by the fourth quarter of 2008, business conditions and consumer sentiments in Malaysia had turned so bad that the MIER Business Conditions Index virtually collapsed to a new historical low of 53.8 points, way below the 100-point threshold, while the Consumer Sentiments Index fell to 71.4 points, its second lowest on record. The previous low of 70.5 points was achieved in the second quarter of 2008. Year-on-year, the indexes had plunged an unbelievable 51.7 points and 39.3 points, respectively.

The VISTAGE-MIER CEO Confidence Index had also by then charted four consecutive lows in each successive quarter of 2008. In the fourth quarter of 2008, the index had also plummeted to its new historical low of 52.3 points, lower year-on-year by a mind-boggling 43.5 points.

In uncommonly tough economic times like the present, government policies can do a lot to restore consumer confidence and help shore up aggregate demand. The key to successfully doing this lies in the optimal timing, scale, and composition of stimulus packages being put in place.

Though timing stimulus packages is extremely difficult, they should nevertheless be structured so that their peak effects are felt when most needed. By the time the Malaysian measures finally kick in and the multiplier effect works its way through the economy, it is probably a bit too late considering the poor performances of the Business Conditions Index, Consumer Sentiments Index, and VISTAGE-MIER CEO Confidence Index in the fourth quarter of 2008.

Malaysia's seven-billion ringgit stimulus package has also been criticized as being too small. Seven billion ringgit works out to about one per cent of Malaysia's GDP.

The stimulus package signed into law in the US in February 2008 also works out to about one per cent of the country's GDP. As it turned out, that was not enough to jumpstart the US economy. The new Obama Administration is expected to call for a fiscal stimulus package to the tune of about 6 per cent of GDP. China, on the other hand, announced in

November 2008 an aggressive stimulus package that represents about 16 per cent of its GDP and 66 per cent of its annual budget in 2008.

Olivier Blanchard, the IMF's chief economist, has suggested that the world's advanced countries should enact stimulus packages equivalent to about 2 per cent of their national GDPs. Taking 2 per cent of GDP as the benchmark, as well as considering that both external and domestic demand for Malaysian products is expected to become even more lifeless in the months ahead, talk of a second Malaysian stimulus package coming within the year should not come as surprise.

Malaysia's seven billion ringgit stimulus package announced in November 2008 has been allocated mostly to infrastructural projects, which includes: i) the building of low- and medium-cost houses; ii) the upgrading, repairing and maintenance of police stations and living quarters, and army camps and quarters; iii) minor projects like village roads, community halls and small bridges; iv) public amenities such as roads, schools and hospitals; v) the building and upgrading of roads in rural areas, villages, as well as agriculture roads.

The construction sector is thus the most likely to benefit from the stimulus package, but what about the economy itself? It is possible that the much hoped-for multiplier effect from the stimulus spending may be muted. This is because the construction sector employs a substantial number of foreign workers and remittances made by them to their home countries constitute a leakage from the domestic economy. Leakages of this sort can be serious because according to the World Bank's Migration and Remittances Report, the total of all officially recorded remittance flows out of Malaysia in 2006 equaled 3.7% of its GDP in the same year.

Though the timing may again be off, a second Malaysian economic stimulus package, more aggressive and substantial than the first in terms of scale and composition to stimulate the sliding domestic sector, is in order. After all, the US package announced in February 2008 failed to kick-start the US economy, which also happens to be Malaysia's biggest export market.

China's stimulus package announced in November 2008 is a good example of what an aggressive and substantial stimulus package looks like. According to news reports, the package would be used to, among other things, ease credit restrictions, spend on agriculture, health care and social welfare services, and launch an infrastructure spending program that would cover 10 areas, including the construction of new railways, as well as projects aimed at environmental protection and technological innovation.

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