

# Public sector wages to boost domestic demand



By **FINTAN NG**

fintan@thestar.com.my

**PETALING JAYA:** Cash transfers and other forms of subsidies, together with the upgraded pay scheme for the public sector, are expected to be major factors in helping support domestic demand, which will continue to be the main driver of growth for the economy.

Economists said measures announced recently and in Budget 2012 were expected to provide support to private consumption and investment, which were projected to soften this year due to slower global growth, affecting income and capital expenditure in the external-related sectors of the economy.

AmResearch Sdn Bhd economic research director Manokaran

Mottain told *StarBiz* that measures such as the upgraded salaries for civil servants were expected to boost private consumption, one of the two components of domestic demand, the other being investment.

He said the central bank, which projected gross domestic product (GDP) to expand by 4% to 5% this year (a lower projection compared with the 5% to 5.5% earlier) acknowledged that growth would falter should crude oil prices rise further.

Bank Negara used oil prices of US\$100 to US\$105 per barrel for its GDP projections versus current price levels of between US\$105 to US\$110.

Governor Tan Sri Zeti Akhtar Aziz said at a briefing that global growth would be adversely affected should prices reach US\$150.

"I believe that even if oil reached US\$120 there will be negative consequences but then again prices may be under pressure should China's growth rate fall this year," Manokaran pointed out.

He added that because Malaysia's trade links with the emerging economies have become more important in recent years, there was also the worry that this could affect exports further.

Meanwhile, CIMB Investment Bank Bhd economic research head Lee Heng Guie said private investment would still play a major role in the economy this year (with a forecast rise of 8.3% year-on-year compared with the estimated 14.4% last year).

There were mixed views over the new lending guidelines for commer-

cial banks which came into effect on Jan 1, with calls for more prudent measures in loans to consumers.

Lee said the guidelines should not lead to an overadjustment in the market where loans to consumers would drop drastically because rules had become stricter.

"Having said that, we take the more cautious view that private consumption will see a slower pace of growth at 5.7% this year," he said, adding that this would be due to slower wage increases.

Manokaran, on the other hand, said the impact of the guidelines would not be known for some time as the measures were newly introduced.

"There'll be an impact, but we can't tell what it is at this point," he said.

Mottain expects spending by civil servants to boost private consumption.