

Economic Report 2001/2002

Ministry of Finance
Malaysia

ECONOMIC REPORT



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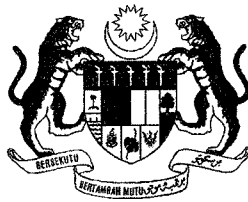


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MINISTER OF FINANCE MALAYSIA

PREFACE

The nation recovered from the Asian financial crisis of 1997/1998 to register two years of strong economic growth in 1999 and 2000. The momentum of growth which we have so painstakingly built up has, however, been affected since early this year by the greater-than-expected global economic slowdown, in particular that of the United States and Japanese economies. Global economic conditions were further aggravated by the September 11 attack on the United States. There has been substantial initial impact immediately after the attack. We have witnessed the crash in major equity markets - some unprecedented. With the possibility of the United States going into recession and the subsequent contagion impact on the rest of the world, the effects could worsen the situation in Malaysia.

The effect of the downturn in the United States before September 11 had caused our Gross Domestic Product (GDP) growth to decelerate from 3.1% in the first quarter of 2001 to 0.5% in the second quarter, after achieving strong growth for seven consecutive quarters. The deceleration marked our worst performance since the recovery. We have revised our growth forecast twice. The first was in March this year, from Budget 2001 estimate of 7% to 5-6%. The recent development in the United States has compelled us to further revise our growth forecast to 1-2%.

The growing difficulties in the global economy occurred at a time when the nation was just into the first year of the Third Outline Perspective Plan (OPP3), 2001-2010 and the beginning of the Eighth Malaysia Plan (8MP), 2001-2005. We must not let current difficulties derail our mission to achieve our Vision 2020 of making Malaysia a developed nation. Accordingly, we must search for and launch specific initiatives with greater vigour and determination to increase our resilience and enhance our competitiveness to face all eventualities.

Despite the adverse external environment, the nation's macroeconomic fundamentals remain strong, largely attributable to the Government's pragmatic approach as well as flexible management of the economy. The current account of the balance of payments continues to register strong surpluses since 1998. The external reserves has stabilised at a higher level of USD29.7 billion and is currently sufficient to finance 4.6 months of retained imports and is 6.2 times the nation's short-term liabilities. The external debt remains low. Inflation has also remained subdued. The banking system has strengthened while the ringgit peg continues to provide an environment of stability and predictability to facilitate economic activities. What should give us confidence regarding the ringgit peg by the Government is the acceptance of the ringgit value by all parties and there is no black market in the ringgit.


Malaysia is fortunate that it has a more diversified economic structure. While exports and foreign direct investment in the manufacturing sector have been instrumental in contributing to growth, the nation does not depend solely on electronics to drive growth, as the manufacturing sector is more broad-based. Steps will be taken to further enhance the agriculture sector as the third source of

growth. In addition, the economy will increasingly progress towards knowledge-based activities as the new sources of growth. In particular, the Multimedia Super Corridor has placed the foundation to transform the nation into a knowledge-based economy.

Growth for 2002 will have to be domestic-driven in terms of consumption and investment, with some improvements in the nation's external sector anticipated towards the later part of the year. The Government, on its part, will not hesitate to institute the necessary measures to further strengthen domestic demand as well as maintain a conducive business environment to facilitate business activities and attract investments from domestic sources. The private sector, on its part, must be resourceful and continue to play its role as the engine of growth to complement Government's efforts in achieving our desired growth objectives.

Despite the likelihood of a prolonged and deeper global economic slowdown, we are confident of achieving continued and sustainable growth, given the strong foundation that has been laid for the economy as well as the various strategies and measures that have, and will be put in place. In riding this difficult environment, the commitment and support of the *rakyat* are important for Government's initiatives to achieve growth to be successful. The unstinting support of the *rakyat* as seen during the financial crisis, will once again see us through this difficult time.

This Economic Report provides an assessment of the performance in 2001 and prospects in the year ahead. The Report also discusses the issues and challenges in the management of the economy and the Government's policy responses. All Malaysians must stay united and resolute and strive harder to revive domestic economic activities. As in the past, the unwavering support and strong determination of the *rakyat* will enable us to weather the current difficulties and emerge stronger and able to provide a better future for all Malaysians.



Dr. Mahathir Bin Mohamad
Minister of Finance

Kuala Lumpur
19 October 2001