

25/05/2000

Broad-based 11.7pc GDP spurt in Q1 (HL)

Sreerema Banoo

MALAYSIA's economic recovery gathered momentum in the first quarter with gross domestic product (GDP) surging by 11.7 per cent to point to a strong performance for the whole year.

In releasing the January-March economic figures, Bank Negara Malaysia governor Datuk Dr Zeti Akhtar Aziz expressed confidence that the 5.8 per cent GDP growth forecast in the 1999 Bank Negara Annual Report will be achieved.

And it is "very likely" to be exceeded, barring negative external developments, she said.

Pleased with Malaysia's economic performance, Prime Minister Datuk Seri Dr Mahathir Mohamad said: "It is good... we should be happy."

He was speaking to reporters after launching the National Exhibition and Convention Centre in Subang yesterday.

Even so, Bank Negara prefers to remain conservative, saying the year's "growth will be in the region of our original forecast with potential for better performance".

In contrast, Rating Agency Malaysia has forecast GDP growth in 2000 at 6.1 per cent and the Malaysian Institute of Economic Research 6 per cent.

"Should the international environment change dramatically (for the better) in the second half, there may be prospects for an even higher growth than what we originally forecast," Zeti said when responding to questions from reporters.

The central bank will review and announce any revision to its forecast in October, she added.

Meanwhile, GDP growth for 1999 has been revised to 5.6 per cent from the 5.4 per cent stated in the annual report released in March.

While the spurt in the first quarter partly reflected the lower base of minus 1.5 per cent growth in the corresponding quarter a year ago, the magnitude of the increase shows that economic activity has gathered significant momentum.

It also point to a more broad-based recovery as can be seen from the expansion of aggregate domestic demand (12.2 per cent) and private consumption (14.4 per cent).

All leading indicators suggest that consumption will continue to be strong, Zeti said.

On the supply side, the level of manufacturing output has now exceeded the pre-crisis level for the third consecutive quarter. The sector expanded by 27.3 per cent during the three months.

Driven by strong global demand for electronics and telecommunication products, manufacturing production rose to a new high, which benefitted several service sub-sectors as well, Zeti said.

All sectors posted positive growth, including mining which grew by 0.8 per cent.

The balance of payments situation has also remained favourable with the trade account registering a surplus for the 11th consecutive quarter at RM16.2 billion.

International reserves stood at RM128.9 billion as at end-March, sufficient to cover 6.1 months of retained imports.

"Favourable developments in the real sector have also contributed towards the strengthening of the financial sector," Zeti said.

The risk-weighted capital adequacy ratio of 12.5 per cent for the

banking system is already stronger than pre-crisis levels and non-performing loans have stabilised at 6.5 per cent.

Allaying concerns over inflationary pressures, the central bank said the annual rate of price increase in the first quarter was only 1.5 per cent compared to 4 per cent a year earlier.

Price pressures were contained primarily by continued excess capacity in some sectors while imported inflation was negligible given the low inflation in industrial and regional economies.

In April, inflation remained stable at 1.5 per cent and, excluding food, it was at 1.2 per cent, Zeti said, but the rate can be expected to increase slightly in the second half of the year.

Asked if interest rates would be raised then, she said the monetary policy shall remain accommodative to support economic recovery.

Any changes to the base lending rates will depend on the economic environment, but "spreads (between deposit and lending rates) is likely to narrow and we would like to see deposit rates begin to edge upwards".

On the ringgit's peg to the US dollar at 3.80, Zeti said any revision will only be considered if a serious misalignment of the local exchange rate emerges.

"The ringgit reflects the underlying fundamentals and if we compare our currency with others in the region we currently do not see a misalignment," she said.

In March, Bank Negara had cited a study showing that the ringgit was undervalued by between 6 and 8 per cent. It did not see a need to adjust the peg then, and it does not now, according to Zeti.

(END)