6% growth possible with more spending

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Revised 5-6% GDP growth rate for this year still commendable says Bank Negara

By **SunBiz Team**

KUALA LUMPUR Bank Negara said yesterday the Malaysian economy will grow at a lower revised rate this year of between 5% and 6% compared with the 8 5% chalked up in 2000 But this is still comparable to forecasts for the four Asian tiger economies and ahead of those for other Asean economies

The central bank said a real gross domestic product (GDP) growth of 6% is likely because of the RM3 billion fiscal stimulus announced by Prime Minister Datuk Seri Dr Mahathir Mohamad on Tuesday as this is expected to add another 1 1% to the GDP

The decline in the external sector is expected to be shored up by domestic public expenditure and consumer consumption

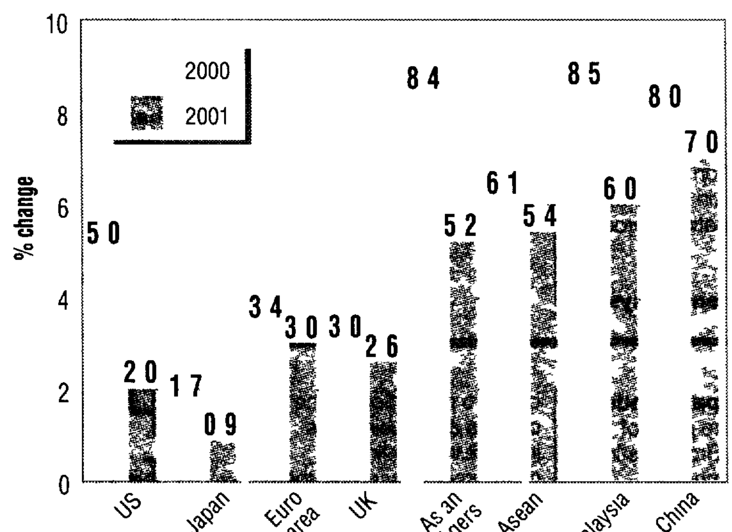
In an external environment that is less encouraging the main impetus to growth in Malaysia in 2001 is expected to come from the strength of domestic demand says Bank Negara s annual report released yesterday by its governor Datuk Dr Zeti Akhtar Aziz

The federal government is expected to draw down committed loans and raise new funds totalling RM5 billion to finance the fiscal deficit the report said

Indications are that the moderation in growth in the major industrial countries would persist for the first half year before an upturn can be expected it said

Economists pointed out that Malaysia s GDP this year may dip below 5% if the upturn later in the year from US and industrial economies is not forthcoming

But Bank Negara said Malaysia has the policy flexibility to respond and implement pro growth measures to raise domestic demand to compensate for slower external growth



Source Bank Negara

It said the expected impact of a slowdown in the US economy has been factored in

However it said production of manufactured goods is expected to slow down sharply by three fold to 8 7% in 2001 from 25% last year

The rate of export growth of manufactured goods is projected to decline by half to 8 5 in 2001 compared to 17% last year

Overall commodity export unit value index is expected to fall by 17 3% in 2001 and exports of agricultural commodities is forecast to decline by 12 8 and minerals (including crude oil) by 22 3% this year

The current account surplus is expected to narrow to RM22 1 billion or 6 8 of GNP due to the slowdown in export growth which declined three fold from 16 1% in 2000 to 4 9 in 2001 Import growth is also expected to be down three fold from 2 7% in 2000 to 8 4% in 2001

The services deficit is projected to be marginally higher at RM41 3 billion in 2001 or 12 7% of GNP

The long term capital account is expected to remain stable at RM11 6 billion in 2001

External debt outstanding is expected to increase moderately to RM163 2 billion at end 2001 or 50 3 of GNP reflecting mainly an increase in federal government debt while short term debt is expected to remain at last year s level

The agriculture sector value added is expected to increase mar ginally by 1 1 / mining sector by 1 4 / services sector by 36 / while the construction sector is expected to grow at 1 /

Inflation in 2001 is expected to remain low at 1 5 / in 2001 despite an upward trend

The public sector would there fore continue to assume a counter cyclical role it said

The adjusted overall budget deficit is expected to remain large at 5 1 / of GNP or 4 7 / GDP Public sector expenditure is projected to expand by 10 4 / in 2001 to cushion the slowdown in external demand and to give a boost to domestic con sumption and investment it added

The central bank said growth in public consumption is projected to increase further by 12 / because of higher spending on emoluments defence and supplies and services

Public investment spending is to increase by 8 9 / A higher alloca tion is given to social services sec tor Private investment is projected to increase at 9 2 / in 2001