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REPORT-PREFACE

NEXT YEAR'S GROWTH WILL BE DOMESTIC-DRIVEN, SAYS PM

KUALA LUMPUR, Oct 19 (Bernama) -- Next year's growth 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 2002, said Prime Minister Datuk Seri Dr Mahathir Mohamad today.

The government, on its part, would not hesitate to institute necessary measures to further strengthen domestic demand and maintain a conducive business environment to facilitate business activities and attract investments from domestic sources, Dr Mahathir, who is also the finance minister, said in the Treasury's 2001/2002 Economic Report released today.

The private sector, on its part, must be resourceful and continue to play its role as the engine of growth to complement the government's efforts in achieving the desired growth objectives, he said.

"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," Dr Mahathir said.

The prime minister said Malaysia had recovered from the Asian financial crisis of 1997/1998 to register two years of strong economic growth in 1999 and 2000.

However, he felt that the growth momentum which Malaysia had so painstakingly built was affected since the early this year by the greater-than-expected global economic slowdown, in particular that of the US and Japanese economies.

Dr Mahathir said there had also been substantial initial impact immediately after the Sept 11 attack, including the crash in major equity markets, some of which were unprecedented.

With the possibility of the US going into recession and the subsequent contagion impact on the rest of the world, he said the effects could worsen the situation in Malaysia.

The effect of the US economic downturn before Sept 11 had caused Malaysia's Gross Domestic Product (GDP) growth to decelerate from 3.1 percent in the first quarter of 2001 to 0.5 percent in the second quarter, after achieving strong growth for seven consecutive quarters.

The deceleration marked the country's worst performance since the recovery from the Asian financial crisis, he said.

"We have revised our growth forecast twice. The first was in March this year, from Budget 2001 estimate of 7.0 percent to 5-6 percent. The recent development in the US has compelled us to further revise our growth forecast to 1-2 percent," he said.

The prime minister said the growing difficulties in the global economy also occurred at a time when the country was just into the first year of the Third Outline Perspective Plan (OPP3), 2001-2010 and the beginning of the Eighth Malaysia Plan (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, Dr Mahathir said the

country's macroeconomic fundamentals remained strong, largely attributable to the government's pragmatic approach as well as flexible management of the economy.

He said the current account of the balance of payments continued to register strong surpluses since 1998. The external reserves had stabilised at a higher level of US\$29.7 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," he noted.

"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," he said.

Dr Mahathir said Malaysia was fortunate that it has a more diversified economic structure in that while exports and foreign direct investment in the manufacturing sector has been instrumental in contributing to growth.

The country, he said, did not depend solely on electronics to drive growth as the manufacturing sector was more broad-based and steps would be taken to further enhance the agriculture sector as the third source of growth.

In addition, he said the economy would 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.

In riding this difficult environment, Dr Mahathir said the commitment and support of the rakyat were important for the government's initiatives to successfully achieve growth.

"The unstinting support of the rakyat as seen during the financial crisis, will once again see us through this difficult time," he said. --  
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