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Slower growth but still on track

BANK NEGARA'S ANNOUNCEMENT OF Malaysia's second quarter 2001 (2Q01) GDP figures was a keenly-watched affair. At issue was whether the country is heading for a recession, or is already in one. In the end, most observers were pleasantly surprised by the 1% quarter-on-quarter GDP growth recorded in 2Q01.

Malaysia's GDP slowed to 3.1% growth in the first quarter (1Q01), down from 6.3% recorded for the fourth quarter last year.

Another quarter-on-quarter contraction in 2Q01 would have qualified the country as being in a technical recession, defined as two consecutive quarters of contraction.

Year-on-year, the Malaysian economy grew a slight 0.5% in 2Q01. Bank Negara governor, Datuk Dr Zeti Akhtar Aziz, says the central bank will lower its GDP forecasts - for the second time this year - when it submits the 2002 Budget to Parliament in October.

Bank Negara last cut its 2001 GDP forecast in March, to between 5-6% from 7% previously. Last year the Malaysian economy grew by 8.3%.

'Based on the performance of the first half this year and the global outlook ... it is very likely the third quarter will be similar to the second quarter,' Zeti said at the release of the 2Q01 results. 'It will be in the fourth quarter before we see a recovery. Based on this, there will be a revision of the GDP estimate for the year.'

Zeti says the Malaysian manufacturing sector is adversely affected by the global electronics downturn, but to some degree this has been offset by growth in other sectors.

The manufacturing sector contracted 6.7% in 2Q01, with production in the electronics sub-sector plunging 25.2%. The important services sector, however, grew 6.1%, while the construction sector gained 3.2% as the government's expansionary policies filtered through the economy.

Most of the construction sector's gains came from government spending on infrastructure and development projects, which amounted to RM5.5 billion in 2Q01.

The agricultural sector grew 1.3% due to higher crude palm oil production, while the mining sector rose 0.7% amid higher natural gas output. Domestic demand, in a worrying sign, slowed to a growth rate of 1.5% in 2Q01, against a 6.4% rise in 1Q01.

Zeti said that while slower growth is a matter of some concern, it is important to recognise that Malaysia's underlying economic fundamentals remain on track for sustainable long-term growth.

'The country's strong current account surplus, low inflation and stable reserves underline its strong macroeconomic fundamentals,' she stressed. She said there is a possibility non-performing loans (NPL) in the banking sector might increase from 8.2% currently to 10.4% by year's end, but she also noted that the banking system is well-capitalised and quite able to handle a higher NPL level.

The government announced a RM3 billion supplementary budget in March to help shore up the Malaysian economy. Prime Minister Datuk Seri Dr Mahathir Mohamad has said there will be a further stimulus package in the October budget. Taken together, the medicine is thought enough to keep Malaysia out of recession this year.