

Moderate 3.5pc growth expected

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The central bank does not rule out stronger expansion if the external sector improves further

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BANK Negara Malaysia expects moderate economic recovery this year with projected 3.5 per cent gross domestic product (GDP) growth, but it does not rule out stronger expansion if the external sector improves further.

The central bank's forecast is lower than the projected 4-5 per cent growth made in Budget 2002 and slightly higher than the 3 per cent estimate by Prime Minister Datuk Seri Dr Mahathir Mohamad earlier this year.

Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said the central bank's projection depends on the performance of the external sector, which is influenced by the performance of major economies.

"We certainly see that there are positive indicators for recovery taking place, particularly in the US economy, which is our major trading partner.

"So, if we have better performance in the external sector, there could be better performance of the overall economy, in which case, there could be upside potential for the growth," she said after briefing the press on the Bank Negara Malaysia Annual Report 2001 in Kuala Lumpur yesterday.

Malaysia registered real GDP growth of 0.4 per cent last year amid weak external demand and global slowdown. In 2000, real GDP grew by 8.5 per cent, up from 5.8 per cent in 1999 and negative 7.8 per cent in 1998.

Zeti said this year's economic recovery is expected to be gradual and modest, contributed by stronger growth in private consumption, a modest recovery in private investment, sustained public sector expenditure and moderate growth in exports.

The first and second quarters will see modest recovery, while the re-

covery is expected to strengthen as the external sector strengthens, with excess capacity diminishing and investment picking up in the second half of the year.

"We expect flat growth or 1 per cent growth in the first quarter, and it should improve in the second quarter and strengthen further in the second half," she said.

Zeti said resilient domestic demand, coupled with recovery in the external demand, is expected to result in a more broad-based diversified growth.

All sectors of the economy are expected to record positive growth this year, she noted.

According to the central bank report, the manufacturing sector is expected to grow by 4.2 per cent after contracting 5.1 per cent in 2001 due to the anticipated upturn in the US economy and electronics demand.

It also forecasts 3.8 per cent growth in the services sector, 3 per cent in mining, 2.4 per cent in construction and 1 per cent in agriculture.

Output of export-oriented industries is forecast to grow 4.9 per cent after falling 10.2 per cent in 2001.

Similarly, exports are projected to grow 4.4 per cent against a 10.4 per cent slump last year, with electronics exports alone to grow 9.5 per cent after contracting 16.3 per cent in 2001.

Imports are expected to grow faster at 4.8 per cent after declining 9.9 per cent last year.

Bank Negara expects stronger expansion in the manufactured goods, gaining momentum in the second quarter onwards following anticipated upturn in the US economy and electronics demand.

The impending improvement in the global personal computer market will benefit the local electronics industry as exports of computers and peripherals account for about 40 per cent of Malaysia's total electronics exports.

The report said domestic demand growth is expected to be sustained by the existing expansionary fiscal and accommodative monetary policies.

It anticipates private consumption

to grow 5 per cent this year due to improved employment outlook as well as effects from government policies to raise disposable income.

Zeti said private investment is expected to register 1.2 per cent growth while capital investment in manufacturing sector will also rise due to stronger global recovery in 2002.

Foreign direct investment (FDI) is projected to grow this year due to inflows of equity from strategic alliances, expansion and new investments in the manufacturing, services, and oil and gas sectors.

"While inflation is expected to edge up slightly, it is forecast to