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`Up to 1pc growth in Q1'

BANK Negara Malaysia expects the economy, which is in the early stages of recovery, to register a flat to one per cent growth in the first quarter of this year.

Governor Tan Sri Dr Zeti Akhtar Aziz said the growth for the first and second quarter of this year is expected to be modest and gradual.

"Current domestic indicators suggest that the economy is in the early stages of recovery. The index of leading indicators has shown positive growth for six consecutive months," she added.

Zeti expects the economy to pick up by the second half of the year and projected that it will grow to 3.5 per cent this year, based on a stronger growth in private consumption, sustained public sector expenditure and modest growth in exports.

"All sectors of the economy are forecast to show positive growth in 2002," she said adding that the economic recovery also rests on the performance of the external sector which depends on major economies.

There are positive indicators for the recovery taking place, particularly in the US economy, which is Malaysia's major trading partner, she added.

"We are quite pleased with the way things are," she told a Press conference when releasing Bank Negara's Annual Report 2001 in Kuala Lumpur yesterday.

The central bank's forecast was slightly higher than the three per cent target growth forecast by Prime Minister Datuk Seri Dr Mahathir Mohamad earlier this year.

On further consolidation of the banking sector, she said it would be market-driven.

"We have not specified any numbers that we want to achieve. What we have stated in our 10-year financial masterplan is that we expect three to four large banks to emerge, providing a full range of banking services.

"We also expect another three to four medium-sized banks which will specialise in specific activities," she said.

Zeti said the pegged exchange rate regime has provided a stable environment for businesses to plan their investments by eliminating wide swings in exchange rates.

She said that any prolonged misalignment of major currencies would be destabilising for the world financial system, particularly for emerging market economies such as Malaysia.

Commenting on the weakening yen, she said as Japan is an industrial country and in this region, its currency plays a very important role in providing stability to regional currencies.

"If there are swings or prolonged periods of misalignment, this would be destabilising on the region.

"(But) we have lived through the movement of the yen since we implemented the pegged exchange rate regime, from 101 to 146 and we have survived the volatility."

She said China's currency also plays an important role as it has been the source of stability for regional currencies.

"China has indicated strongly that it will maintain the stability of its exchange rate regime.

"This will contribute positively to regional currencies, including the ringgit," said the Bank Negara Governor.

( END )