

21/09/2002

Higher growth forecast for 2003

#### ECONOMIC GROWTH

MALAYSIA'S Gross Domestic Product (GDP) is expected to grow from four per cent this year to between six and 6.5 per cent in 2003, driven mainly by domestic economic activities.

Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad yesterday announced in the 2003 Budget that the services sector is expected to be the largest contributor to the increase in GDP, while the manufacturing sector is expected to record the highest growth.

The country's fiscal deficit meanwhile is estimated to further narrow to 3.9 per cent of GDP in 2003, compared with 4.7 per cent this year. The better performance is attributed to the higher Government revenue, which is expected to grow by almost eight per cent compared with five per cent this year.

The Prime Minister said the Government will continue to maintain its monetary policy, which sees the fixing of the ringgit at 3.80 to the US dollar, to further strengthen domestic economic activities.

In line with the strong economic growth, the purchasing power of Malaysians is also expected to grow with per capita income increasing by 5.5 per cent to RM14,100 in 2003, compared with RM13,400 this year. In terms of purchasing power parity, Malaysia's per capita income will rise by 5.4 per cent to US\$8,800 (RM33,400) in 2003, compared with US\$8,400 this year.

Additionally, the unemployment rate will continue to decline to 3.4 per cent in 2003, which is still within the level of full employment.

Dr Mahathir also noted that Malaysia continues to experience deficit in the services account.

"However, in recent years, we have been able to reduce slightly the deficit. It can be further reduced if we provide services that are in demand. We have been successful in accelerating the growth of our port services through more aggressive promotion to attract foreign vessels," he added.

Potential areas that Malaysia can develop include the production of components, oil refineries, and various types of machines, including cranes and machine tools as well as construction materials. In addition, fibre and wood products, high quality furniture and paper can also contribute to GDP.

Dr Mahathir pointed out that since the 1997 Asian financial crisis, the public sector has been the catalyst of economic growth.

The Government has implemented expansionary fiscal policies for five consecutive years since 1998. As a result, total public investment increased from nearly RM32 billion in 1997 to RM49 billion in 2001. In contrast, private investment declined sharply from RM90 billion to RM34.5 billion.

In terms of contributions to GDP, public sector expenditure increased from 24 per cent to 31 per cent, while that of the private sector declined significantly from 83 per cent to 59 per cent during the same period.

"(However,) the Government cannot continuously implement expansionary fiscal policies. Although revenue is rising, the increase in Government expenditure has been higher, especially following the implementation of the fiscal stimulus package in 2001," said Dr Mahathir.

"As a result, our financial position continued to be in deficit during

the period. Although borrowings are at a manageable level, and are largely sourced domestically, the Government is concerned that rising fiscal deficits will further increase borrowings beyond prudent levels.

"We must avoid borrowings continuously from external sources, which if not contained, can lead to instability and eventually, threaten the nation's sovereignty," he warned.

Dr Mahathir said it was now time for the private sector to resume its role as the main driver of economic growth.

"We must penetrate the markets of West Asia, Central Asia, Eastern Europe and South Asia, including India, Pakistan and Sri Lanka. China has a huge market that can provide opportunities for our products," he added.