



ECONOMIC REPORT 2002/2003

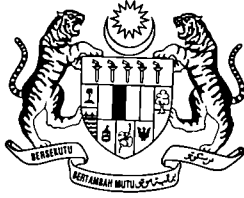
**Ministry of Finance
Malaysia**

MAZANAH MALAYSIA



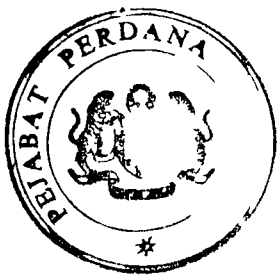






Economic Report 2002/2003

MINISTRY OF FINANCE
MALAYSIA



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MINISTER OF FINANCE MALAYSIA

PREFACE

The Malaysian economy rebounded strongly during the first half of this year, after experiencing negative growth during the second half of 2001. The strong recovery was led by robust domestic sources of growth which had mitigated the adverse impact on the economy from a weaker external sector. During the period, macroeconomic fundamentals further strengthened with external balance remaining in surplus, international reserves registering significant increases as well as inflation and unemployment continuing to remain low. Coupled with strengthened corporate and banking sector performance, the nation is well positioned to face a more challenging external environment. As such, the Malaysian economy is expected to register a stronger growth of around 4 percent this year, significantly higher than the 0.4 percent achieved in 2001.

Moving forward, the growth of the Malaysian economy will have to depend on stronger domestic activities, particularly with the environment of continued uncertainties in the external sector. The nation's growth has long been heavily reliant on foreign investment and trade which are subjected to volatilities in business cycles of our major investment and trading partners. The time has now come for us to reengineer our growth strategies towards reducing this high dependence and embark on initiatives to vigorously explore and promote our domestic sources of growth. Indeed, this calls for a paradigm shift in our approach in managing the economy. We must bolster domestic investment in new and niche areas, particularly in the services sector such as tourism, education, transport and health as well as making agriculture as the third engine of growth.

The private sector must resume its pivotal role in spearheading domestic economic activities. They must be resourceful and forthcoming in providing the dynamism as well as becoming the driving force of growth. They must step up investments, venture into new development frontiers, seek new markets, produce world-class products and strive to sharpen their competitive edge. The Government on its part, continues to remain committed to facilitate these private sector initiatives. In this regard, the Government has and will continue to provide the necessary infrastructure and incentives as well as administrative support to ensure a more conducive and cost-competitive business environment.

The shift in policy approach will ensure greater stability as well as sustainability of the nation's growth in the medium and long-term. However, to assure success, the *rakyat* from all walks of

life must resolve to work harder, stand resolute and lend their undivided support in undertaking these daunting and challenging tasks. I am confident with the unwavering support of all, we can together achieve growth and development and steer the nation to greater heights.

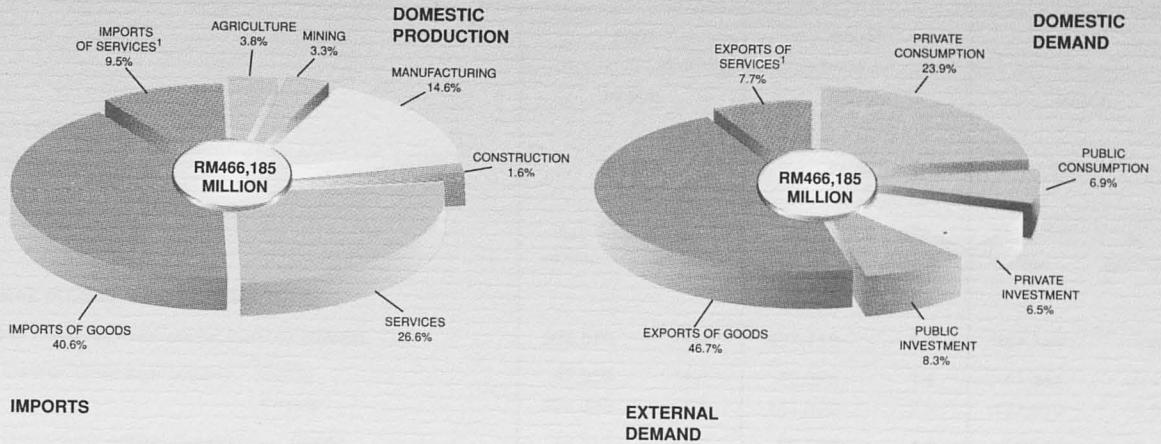
The 2002/2003 Economic Report is the 31st volume in its series. The Report provides an assessment of the performance and prospects of the Malaysian economy as well as issues and challenges confronting the nation. It also discusses the Government's policy responses in managing these issues and challenges. I would like to record my appreciation to all who have been instrumental in the preparation and publication of the Economic Report.



Dr. Mahathir bin Mohamad
Minister of Finance

Kuala Lumpur
20 September 2002

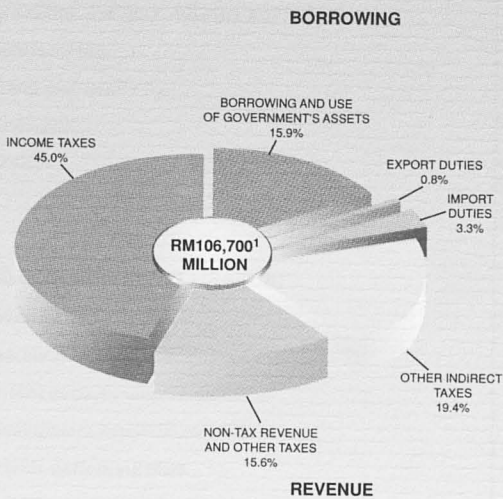
THE ECONOMY 2003 AT 1987 PRICES



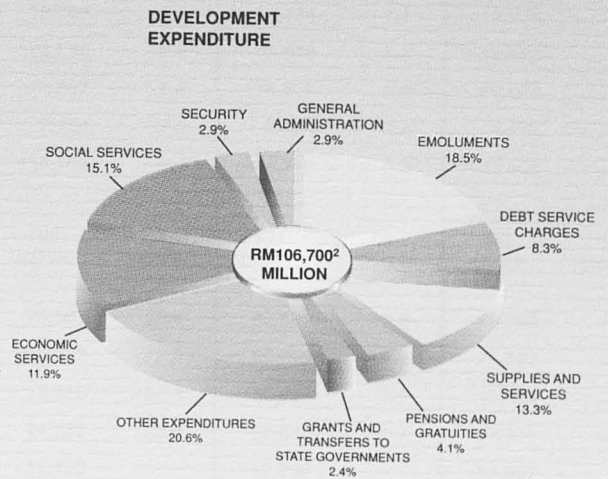
¹ Non-factor services.

THE FEDERAL GOVERNMENT BUDGET 2003

WHERE IT COMES FROM



WHERE IT GOES



¹ Includes revenue, borrowing and use of Government's assets.

² Excludes transfers.



