



# ECONOMIC REPORT 2004/2005

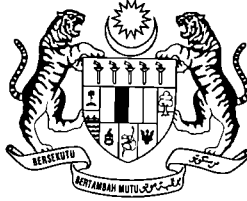


Ministry of Finance Malaysia



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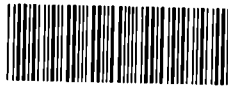




# Economic Report 2004/2005

MINISTRY OF FINANCE  
MALAYSIA

PUSTAKA PERDANA



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## MINISTER OF FINANCE MALAYSIA

### PREFACE

**R**iding on the strong growth of 5.3% in 2003, the Malaysian economy expanded at a higher-than-expected pace of 7.8% in the first half of 2004. Growth was broad based, driven by strong domestic demand and a buoyant external sector, with the manufacturing and services sectors as the key contributors to growth. More importantly, private investment activity has accelerated, signifying the resurgence of the private sector as engine of economic growth.

The robust economy further strengthened the nation's macroeconomic fundamentals, with low inflation, 81 consecutive months of trade surplus, rising international reserves, full employment, as well as a healthier banking system. Given the strong economic performance during the first half of the year, allied to a generally encouraging external environment, and despite higher global oil prices, rising interest rates and a tighter fiscal policy stance, the economy is expected to record the highest gross domestic product (GDP) growth since 2001 of 7% for 2004.

The rebound in private investment, reinforced by better corporate results and lower non-performing loans in the banking system, facilitated the Government's efforts towards fiscal consolidation, which began last year. The Government's pragmatic fiscal policy of striking a balance between prudent financial management and pro-growth strategies, to attain a gradual reduction of the fiscal deficit, has resulted in the deficit declining from 5.6% of GDP in 2002 to 5.3% in 2003, with an expected further reduction to 4.5% in 2004. Meanwhile, the nation's strengthened macroeconomic fundamentals continue to accord flexibility in pursuing an accommodative monetary policy to support private sector initiatives.

The year 2005 is the final year of the Eighth Malaysia Plan. It is a time when we must lay the foundations for the Ninth Malaysia Plan, which begins in 2006. While the growth momentum is anticipated to continue for 2005, there is a need for growth to be driven by increased productivity and efficiency, in light of the uncertainties in the external environment. In this regard, it is imperative that we make concerted efforts to reduce wastage, optimise the use of available resources and enhance the economic and aesthetic value of our physical assets through proper use and maintenance. Meanwhile, we have already implemented measures to instil a culture of high performance in the civil service and government-linked companies via the establishment of key performance indicators. This culture of high performance, which encompasses quality, discipline, diligence, accountability and integrity, should thereon permeate all levels of the nation.

The current competitive environment is characterised by increasing globalisation, greater liberalisation and rising levels of trade, and allows no room for complacency. We must move forward and up the value chain. The transformation must begin with the enhancement of our human capital, which is

the single most important factor in achieving success. Apart from possessing the requisite knowledge and skills, a mindset shift is necessary to change attitudes and revolutionise the way of doing things so that we can become a first-class nation. We must be vigilant, capable and agile and must endeavour to become global players through a focus on quality, efficiency and strong branding of our Malaysian products and services.

The social agenda has always remained a priority in Malaysia. The Government is determined to eradicate hardcore poverty and ensure that all Malaysians benefit from economic prosperity with no community being marginalised from the mainstream of development. All sectors must work together to enhance the quality of life in the country. Let us all always strive for *excellence, glory and distinction* to enable our nation to reach greater heights of success as envisioned in Vision 2020.

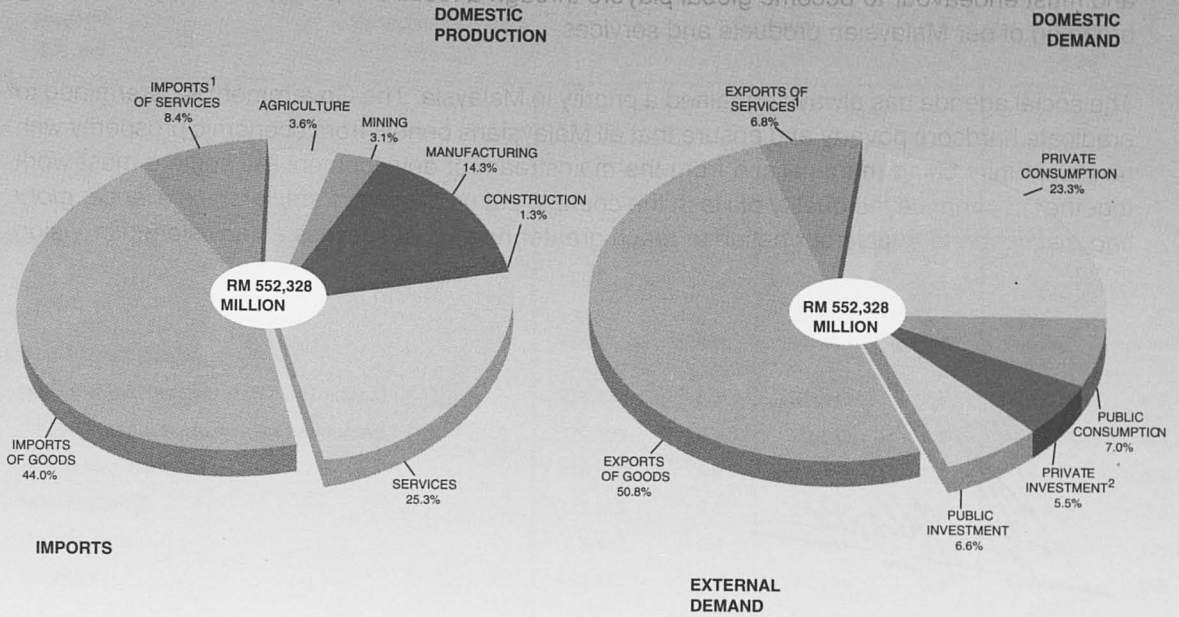


Dato' Seri Abdullah Ahmad Badawi  
Minister of Finance

Putrajaya  
10 September 2004

# THE ECONOMY 2005

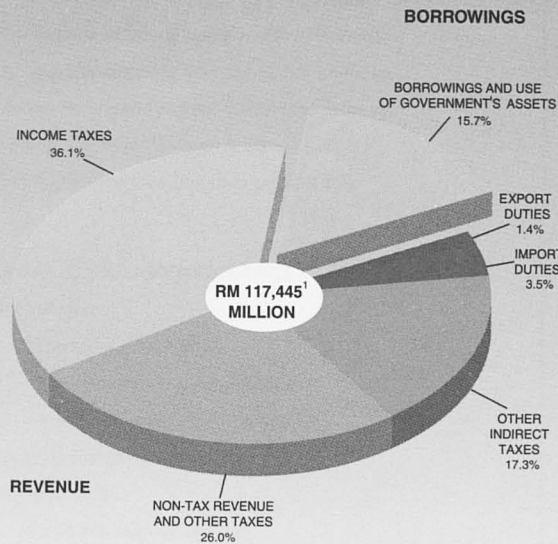
AT 1987 REAL PRICES



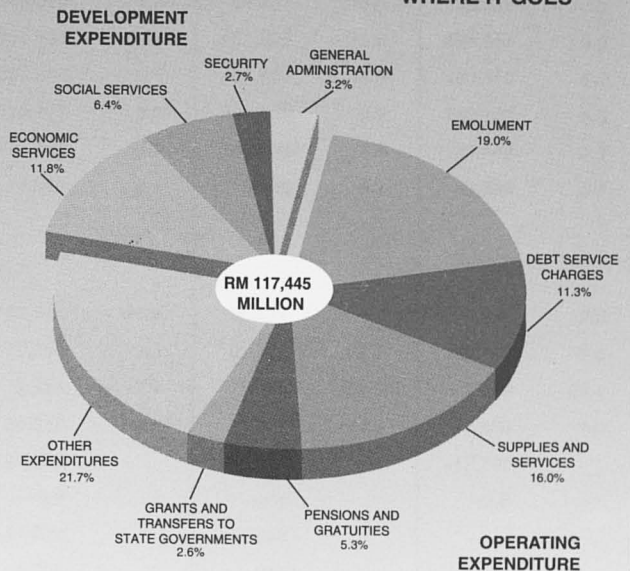
<sup>1</sup> Non-factor services.  
<sup>2</sup> Including change in stocks.

# THE FEDERAL GOVERNMENT BUDGET 2005

WHERE IT COMES FROM



WHERE IT GOES



<sup>1</sup> Includes revenue, borrowings and use of Government's assets.

