MALAYSIA

VICTOR WEE
Economic Planning Unit

2003: GROWTH STRENGTHENS

In 2003, the Malaysian economy strengthened following expansion in the domestic economy and improved performance of the advanced economies, particularly the United States, the European Union and Japan. Real GDP recorded a 5.2% growth in 2003 compared to 4.1% in 2002. The main impetus to growth came from domestic demand, reinforced by stronger export performance.

In the external sector, exports for 2003 touched the US$100 billion mark, reaching an all time high.

All sectors of the economy recorded higher growth ranging from 1.9% to 8.2%. Leading growth was the manufacturing sector, which grew by 8.2% and contributed 2.5 percentage points to GDP growth. Strong performance supported by the expansion in the export-oriented industries particularly in the electronics, chemicals and rubber products industries.

In line with efforts to achieve a balanced budget, the deficit in the Federal Government account was reduced to 5.3% of GDP while total outstanding debt remained within prudent levels (48.2% of GDP) and external debt contained at 19.9% at end-2003.

ECONOMIC PROSPECTS

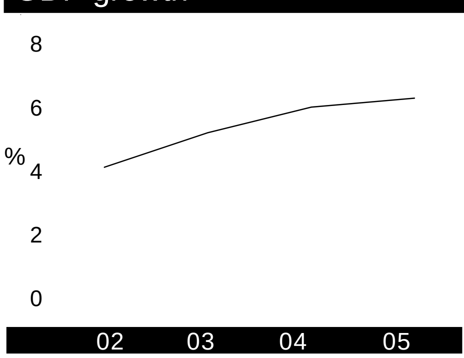
Real GDP growth is expected to gain momentum and register a higher rate between 6% and 6.5%. Growth is expected in higher exports with continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-business fiscal and monetary measures.

Domestic demand is forecast to grow by 5%, generated largely by the private sector, resuming its role as the engine of growth and supported by pro-growth fiscal and monetary measures. Stronger pick-up anticipated in business confidence and consumer sentiment is expected to increase private sector expenditure by 8.7% and decrease public sector expenditure by 1.3%.

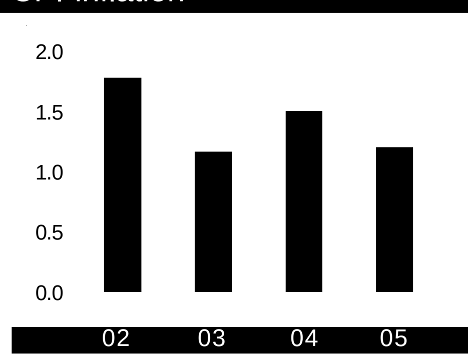
Private investment is projected to grow at 11.5% with its share to GDP increasing further to 10.5%. The private sector, particularly domestic investors are being encouraged to venture into new growth areas in the manufacturing, service and agriculture sectors. More buoyant activities are anticipated for higher value-added industries as well as for information technology, telecommunications, transport and finance. Growth in private consumption will be more broad-based and is expected to record stronger growth of 8.1%.

In line with the policy to achieve a balanced budget and reduce over-reliance on public sector fiscal stimulus, public investment is expected to decrease by 5.7%. Despite this decline, emphasis will continue to be placed on implementing socio–economic development projects as well as measures to improve the nation's competitiveness through human resource development particularly by improving the quality

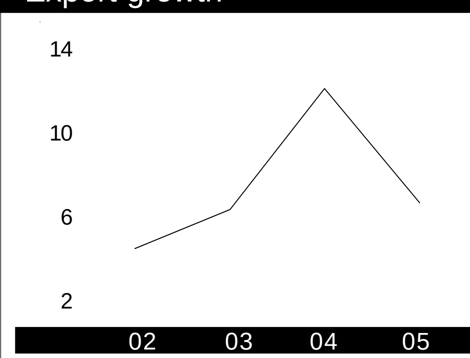
GDP growth



CPI inflation



Export growth



of education at the primary, secondary and tertiary levels. Public consumption is forecast to increase at a moderate rate of 4.2%.

On the supply side, all sectors are expected to record higher growth, led by the manufacturing and services sectors growing at 10.2% and 5.2% respectively. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption will further boost growth in the domestic-oriented industries. In the service sector, growth is expected to be broad-based, fuelled by higher demand for transport, telecommunication, financial and insurance services in tandem with improved economic performance. Agriculture is forecast to grow by 2.6%, mainly from higher production of palm oil following an increase in matured areas. The mining and construction sectors are expected to grow at 5.5% and 1.5% respectively.

Export and import growth are expected to remain strong at 11.1% and 15.4%, respectively, due to improvements in trade environment and improved world growth. With faster growth in imports, the surplus in the goods account is expected to marginally decline to RM96.4 billion. The performance of the services account is expected to improve, registering a smaller deficit of RM11.9 billion with the recovery of tourism.

CHALLENGES

In the medium term, the challenges that Malaysia faces are

- competitiveness *vis à vis* neighbouring countries
- questions of budget deficit consolidation
- finding new sources of growth, especially a niche within the rapidly growing Chinese and Indian economies
- raising the quality of the labour force to enable the economy to move to high value-added activities.

MEDIUM-TERM POLICIES

The Government undertook a review of the Eighth Malaysia's Plan (2001–05) policies and strategies in October 2003, taking into account the uncertainties in the global environment and with a view to repositioning the Malaysian economy to deal better with the changing global economic landscape. Strategic policy measures included

- pursuing sound economic management with fiscal prudence
- increasing competitiveness through productivity enhancement, raising the quality of workforce and greater application of knowledge
- strengthening resilience through sound economic fundamentals and strong financial and corporate sectors
- stimulating private domestic investment as well as attracting quality FDI to boost growth and raise the productive capacity of the economy
- initiating measures to promote selected services industries including education, tourism, Islamic finance, health, transport, and ICT-related and manufacturing-related services
- developing new sources of growth in selected manufacturing activities in marine, defense, aerospace and biotechnology industries
- generating new investment and commercial opportunities in agriculture, particularly in food and biotechnology-related activities
- developing the capability of local enterprises to market inter-nationally and participate in the global supply chain
- enhancing industrial skills training to meet market demand as well as improve education programs to increase employability of human resources
- implementing a more effective innovation system
- improving the delivery system of the Government to create a pro-business environment.

During 2004–05 real GDP is expected to grow at an average rate of 6.2% in line with its potential output. Economic growth will accrue from the increased activities in the manufacturing and services sectors as well as the agriculture sector. The high growth is expected to be achieved in an environment of low inflation and low unemployment rate. Per capita GNP is projected to increase to US$4,200 in 2005, while per capita GNP in terms of purchasing power parity is expected to increase to US$10,660 in 2005.

External reserves

International reserves stood at US$44.9 billion as of 31 December 2003, 6.8 months of retained imports and 4.9 times the short-term external debt.