Higher growth in GDP expected on the back of earlier US recovery


Riding on the back of an earlier-than-expected recovery of the US economy and a stronger outturn in the later half of 2002, the Malaysian economy is expected to register a higher but moderate growth in gross domestic product (GDP).

The year 2002 began with optimism about the global economic recovery led by the US, on account of better demand for housing, motor vehicles, increased public expenditure on defence and the turnaround in demand for electronics.

The high expectations of a strong recovery were however marred by a series of uncertainties, particularly a weak second quarter performance, reflecting a slower US GDP growth and lower corporate earnings.

Billion dollar corporate scandals, involving gross mismanagement and fraudulent accounting practices in the US, coupled with rising Middle East tensions, had also adversely affected equity prices and depressed investor and consumer confidence.

The continuation of an easy monetary policy and swift government regulatory measures to improve corporate accountability helped to arrest further declines in sentiment.

The euro area’s moderate expansion and Japan’s recovery from recession are envisioned to remain on track despite increasing risks.

With global economic growth intact and supported by the strong domestic sector, Malaysia’s economy is expected to further strengthen, particularly during the second half of 2002.

The fiscal policy remained mildly expansionary as a continuing measure to fuel growth momentum and compensate for the probably anticipated slack in exports as well in private sector investment.

Notwithstanding the strategic thrust towards fiscal consolidation, the public sector, in a lesser degree, continues to play a pivotal role in catalysing growth.

Tax and tax incentives introduced this year, apart from stimulating competitiveness, were directed towards enhancing economic and social stability.

Complementing the fiscal policy, monetary policy remains accommodative in order to support economic activities with monetary aggregates continuing to expand along with the improving economy.

The banking system remains resilient with a risk-weighted capital ratio of (RWCR) of 13.1%, well above the internationally prescribed Basle ratio of 8%, capable of covering non-performing loans (NPLs) which remained stable at 8% in July 2002.