Major challenge of sustaining post September 11 growth

THE immediate and major challenge for 2002 is sustaining post Sept 11 growth and strengthening macroeconomic fundamentals.

The fragile and vulnerable global recovery necessitated a mildly expansionary fiscal stance in order to ensure the growth momentum is sustained.

Projects under two stimulus packages amounting to RM7.3bil in 2001 is expected to filter through into 2002 to contribute positively to growth, as larger infrastructure projects require a longer period for completion.

The higher gross domestic product (GDP) growth of 4% to 5%, driven by the domestic sector for the second year running, is expected to emanate from increasing contribution of the private sector.

The services sector continued to be the leading contributor to economic growth adding three percentage points to growth, followed by the manufacturing sector with 1.6 percentage points arising from the turnaround and improvements in global demand for information and communications technology (ICT) products.

Spurred by improvements in external demand for electronics exports, and higher palm oil and rubber prices, private consumption is projected to expand by 5.9% (2001:2.8%), with private investment recovering by 1.8% (2001: minus 19.9%).

In the first seven months of 2002, the Consumer Price Index (CPI) rose by 1.8% following price increases for telecommunications in March and petroleum products in May.

The KLCI performance was remarkable in the early part of 2002, with the KLCI composite index soaring 207.6% from its lowest ebb of 262.7 points in September 1998 to a 20-month peak of 808 points on April 23, 2002.

The success of sound economic and prudent financial management was evident from the strength of the underlying macroeconomic fundamentals such as surpluses in the balance of payments, strong reserves, stable exchange rate as well as low inflation and unemployment.

This has prompted international rating agencies to revise upward their ratings and upgrade the country’s outlook from stable to positive in the early part of 2002 and subsequently to BBB+ stable in the middle of the year.

Reflective of the strength and confidence in the country’s financial position, bonds issued by the government as well as the non-financial public enterprises in the international markets were well received.

The sovereign bond of US$750mil priced at 175 basis points above the 10-year US Treasury notes, issued in March 2002 was snapped up by a wider base of investors from the US, Asia and Europe and was oversubscribed almost five times.