Private sector resumes to generate growth

The private sector has begun to resume its role to generate economic growth, given the positive impact of the filtering-through fiscal stimulus measures and the recovery in external demand.

However, the recovery is not expected to be as dynamic as before the 1997 financial crisis.

The strength of private consumption spending, among others, is due to the improvement in disposable income arising from the recovery in export earnings and the positive impact of an upward salary revision in the civil service sector and a reduction in individual tax rates.

Other contributory factors include better employment opportunities, higher commodity prices and a positive wealth effect on the back of a modest recovery of the stock market.

The favourable trend is reflected in several key consumption indicators including imports of consumption goods, sales of passenger cars, sales tax collections and consumer credit cards, which have increased significantly between 7.7% to 39% for the first half of the year.

As at the end of June 2002, consumption credit has increased significantly to RM75.67bil compared to RM63.34bil during the same period of last year.

With better consumer sentiment, private consumption expenditure growth is forecast to increase more than double at 5.9% (2001: 2.8%) and contribute 2.8 percentage points to GDP growth (2001: 1.2 percentage point).

The ongoing fiscal stimulus programmes which include the implementation of several privatised projects are expected to boost private investment.

These projects include the KL Monorail, New Pantai Expressway, Kajang Expressway and Sprint Highway.

The pick-up in private capital outlays is reflected in several key indicators. These include sales of commercial vehicles, production of ready-mixed concrete and cement and concrete products which increased between 3.9% and 22.7% during the first half of the year.

As at end of June 2002, the amount of disbursement for manufacturing and construction sectors was almost sustained at RM66bil and RM39.2bil respectively.

Business confidence is envisaged to build up further, as reflected by a substantial increase in the value of proposed investment in applications for manufacturing received by the Malaysian Industrial Development Authority (MIDA).

The value of applications amounted to RM2.8bil, an increase of 16.2% compared to the same period in June 2001.

In line with the government’s intention to consolidate its financial position without compromising its supporting role to stimulate business activities and the pursuit of its economic objectives, public investments are estimated to increase, although on a much slower rate of 4.1% in 2002 (2001: 14.5%).

In respect of public consumption, a slightly higher expenditure is expected for supplies and services mainly due to upgrading of the government’s administrative machinery to enhance its delivery system as well as higher emoluments arising from new salary revisions.