SIDANG AKHBAR

Prestasi Ekonomi pada Suku Ketiga Tahun 2002

oleh
Gabenor
Bank Negara Malaysia
27 November 2002

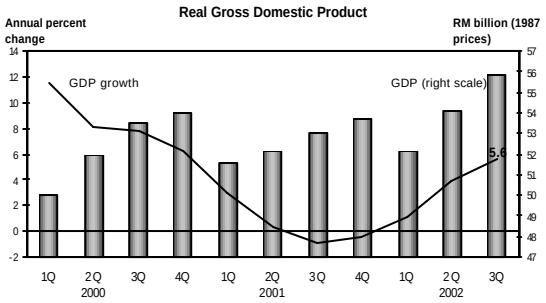
Sidang akhbar akan meliputi:

- Prestasi ekonomi pada suku ketiga tahun 2002
- Perkembangan monetari dan kewangan

Real GDP growth strengthens in the third quarter

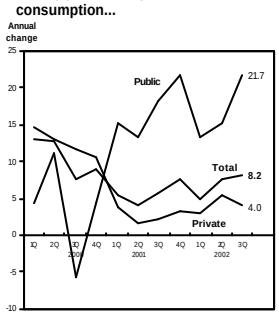
- Real GDP growth strengthened in the third quarter to 5.6%
  - Domestic demand supported by stronger export performance
  - Positive impact from the monetary and fiscal stimulus and higher commodity prices
- On a cumulative basis, economy expanded by 3.5% in the first three quarters of 2002

Real GDP growth strengthens in the third quarter

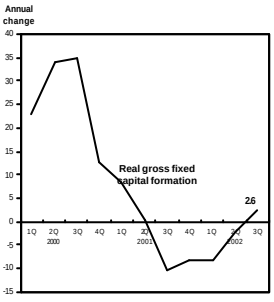


Broad-based growth in domestic demand

Strong public and private consumption...

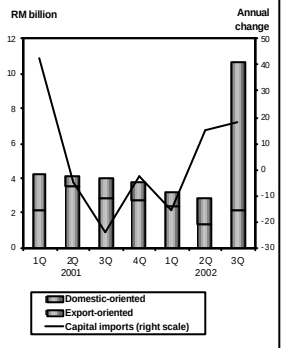


... with recovery in investment

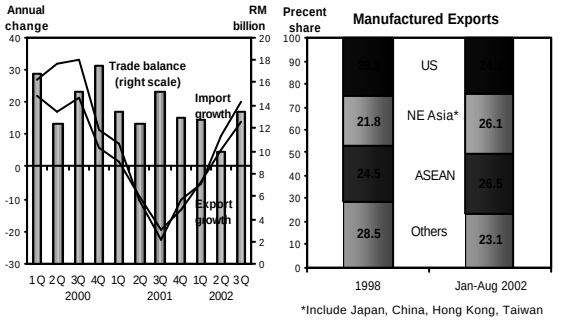


Investment expected to strengthen further

- Indicators show underlying investment trend remains strong
  - Applications to MIDA increased by 34.3% for Jan-Sep 2002
- Trend strongest for domestic-oriented industries
  - Applications increased by 175%
- Capital imports also increasing



Stronger export demand reinforces domestic demand…

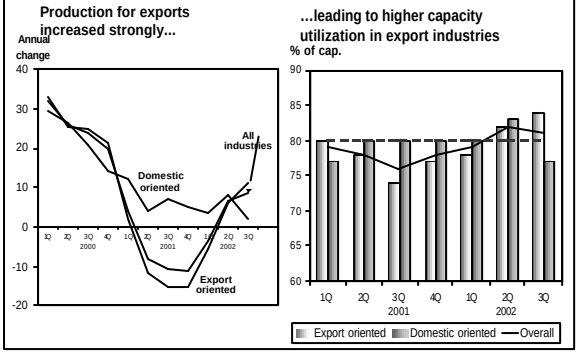


*Include Japan, China, Hong Kong, Taiwan and Korea.

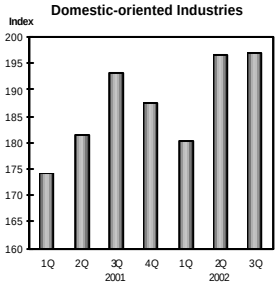
…resulting in positive growth across all sectors

	2001	2002	
	3rd Qtr.	2nd Qtr.	3rd Qtr.
	(Annual percent change)		
Manufacturing	**–9.1**	**5.6**	**7.3**
Services	**6.0**	**4.2**	**3.4**
Construction	**2.6**	**3.4**	**2.3**
Agriculture	**–3.5**	**– 1.6**	**5.4**
Mining	**2.2**	**–1.4**	**7.2**
GDP	**–0.9**	**3.9**	**5.6**

Manufacturing: Export-oriented industries expanded strongly…



…while domestic-oriented production remained high



- Domestic-oriented industries continue to record high production levels
- Stronger growth expected in the fourth quarter due to demand for passenger cars and food and beverages for the festive season
- Lead data confirms long-term growth

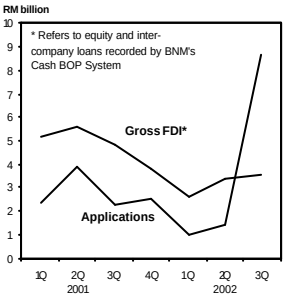
Growth in the services sector

- Output in the services sector increased by 3.4%
- During the third quarter, sustained consumer spending continued to support the services sector
- Growth was mainly in the distributive trade; and transport and communications sub-sectors

Growth in the services sector

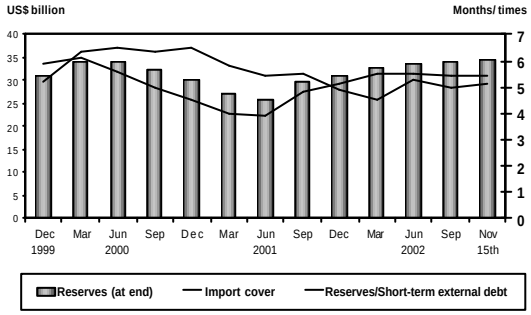
Sub-sector	Annual growth	Main contributing factors
Distributive trade & hotels	2.8	Supported by sustained consumer spending and higher tourist arrivals.
Transport & communication	3.0	Strong expansion in external trade and improved performance of the airline industry.
Finance	3.7	Supported by activity in the banking, insurance and real estate sub-sectors.

FDI inflows remain positive



- Gross FDI inflows increased to RM3.5 billion in the third quarter
  - Inflows were broad-based, with the oil and gas sector receiving substantial funds
  - Investment inflows also in high value-added activities
- MIDA applications data indicate future inflows will continue to remain substantial
  - Applications rose by more than two times

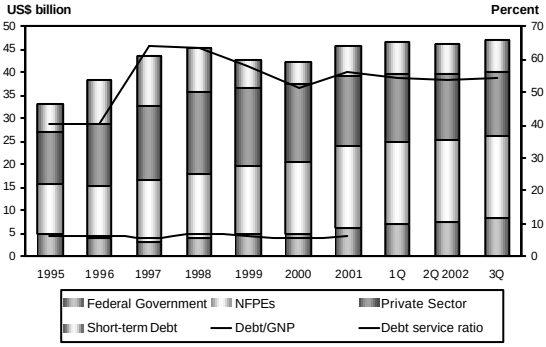
Trade and FDI flows contributed to increase in external reserves



External debt remains within prudential limits

- External debt outstanding amounted to US$47 billion or 54.5% of GNP at end-September
  - Medium- and long-term debt stabilized as higher borrowings by the public sector was offset by lower private borrowing
  - Short-term debt remains low to account for 14.4% of total external debt outstanding
- Malaysia's debt-service ratio is one of the lowest in the region

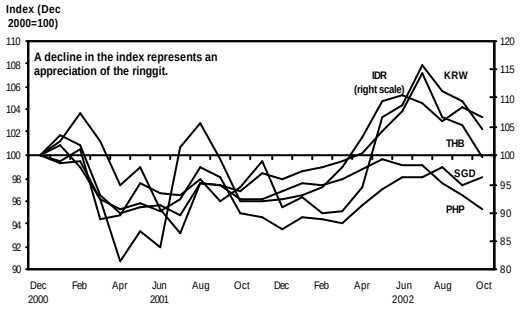
External debt remains within prudential limits



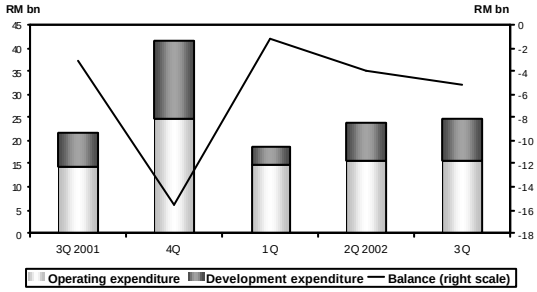
The ringgit exchange rate

- In the first 10 months of 2002, the ringgit weakened against the major currencies and most regional currencies
- The peg continues to provide stability, facilitating trade and investment activities
- The exchange rate peg remains consistent with fundamentals

The ringgit exchange rate

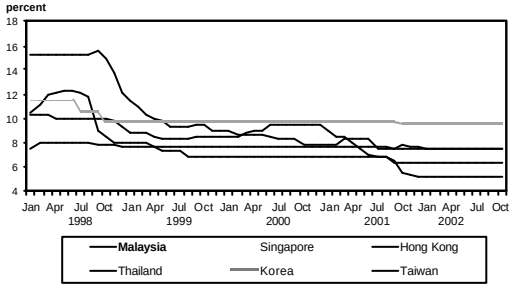


Budgetary operations were expansionary following implementation of stimulus

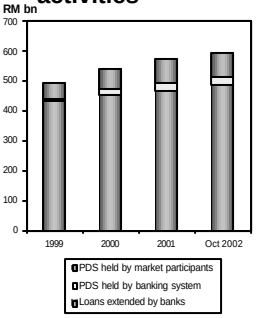


Monetary policy remains supportive of growth

Interest rates among lowest in the region



Increased lending supports private sector activities



	RM billion	Annual change (%)	
Period ending	September		Oct.
Loans outstanding	487.8	3.8	3.7
Adjusted loans	495.9	5.5	5.4
PDS held	25.6	13.1	18.7
During period	3rd Qtr.		Jan - Oct. 02
Applications received	57.7	17.1	12.4
Applications rejected	6.3	15.7	-8.9
New approvals	37.4	6.1	11.2
Disbursements	101.1	8.0	10.5
Repayments	101.1	10.1	12.0

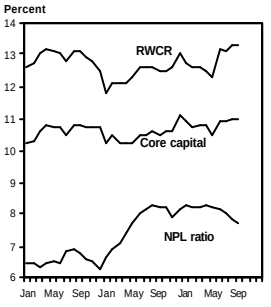
*** Adjusted for write-offs, conversions & refinancing**

Sectoral lending

	Loans outstanding	Approvals	Disburse-ments	Repay-ments
	Annual growth (%)			
	End Oct 02	Jan – Oct 2002		
Business	-3.0	4.8	2.8	1.2
Manufacturing	*-2.3*	*-12.8*	*0.9*	*1.0*
Construction	*-7.0*	*29.9*	*43.1*	*27.2*
Hotels and restaurants	*-5.9*	*7.9*	*17.2*	*36.4*
Individual	16.8	18.0	21.3	19.1
Purchase of residential properties	*17.3*	*11.3*	*5.2*	*21.0*
Purchase of passenger cars	*22.6*	*11.3*	*18.1*	*20.8*
Credit cards	*21.4*	*27.2*	*28.1*	*25.2*
Total	**3.8**	**11.2**	**10.5**	**12.0**

Banking system resilience sustained

- High capitalisation
  - RWCR : 13.3%
  - CCR : 11%
- NPLs have been on downward trend
  - NPL ratio of 7.7% in September, the lowest level since May 2001
- NPLs expected to moderate
  - Newly classified NPLs smaller
  - Recoveries still strong
  - Implementation of CDRC debt restructurings would reduce NPLs further
- Profits in first nine months of 2002 amounted to RM6.8 billion (RM5.4 billion in corresponding period of 2001)



Debt resolution exercise in final stages

- Danaharta has achieved advanced progress in disposal process
- CDRC was to resolve large debts which could have had systemic implications
  - All cases referred have been resolved
- Banking institutions have capacity to undertake any remaining restructuring
  - Remaining debts in difficulties mainly small in size
  - For any large loans, banking institutions can draw on the CDRC framework

Banking sector policies moving forward

- Focus now on enhancing:
  - Effectiveness → provision of products and services to meet new requirements
  - Efficiency → provision of services at competitive prices
  - Quality → products and services at world class standards

  while ensuring stability of the system

- Enhancing efficiency and quality of financial services
  - Promote greater innovation in development of new products & services through liberalisation of prudential requirements for product approval
  - Develop a Customer Satisfaction Index to measure the level of customer service efficiency
  - Expand role and operations of Banking Mediation Bureau
  - Promote greater usage of e-payments

Banking sector policies moving forward

- Launching of nationwide consumer education programme by BNM to foster:
  - greater financial literacy; and
  - public understanding of the roles and functions of different seg ments of financial system
- Promoting stability
  - to address new and emerging developments in financial sector
  - to enhance transparency and corporate governance practices
  - to promote sound banking and risk management practices:
    - Framework on regulation and supervision of financial conglomerates
    - Introduction of a deposit insurance scheme
    - Review of prudential requirements

Dynamic economic environment and challenges to the financial sector

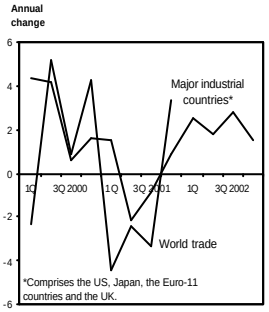
- Banking sector needs to be part of the process to ensure sustainable growth
  - Need to recognise that while traditional sectors continue to be important, the full potential from new growth areas needs to be realised
    - Services
      - ICT and knowledge-based industries, ports, shipyards, agro-tourism, health tourism, private hospitals, private colleges and universities
    - Manufacturing
      - Pharmaceuticals, biotechnology, high-end consumer equipment, petrochemical products, industrial rubber
    - Agriculture
      - Commercialised food production, specialty natural products, products from aquatic plants, sago, agro-tourism products, floricultural products, horticulture

SMEs are an integral part of value chain

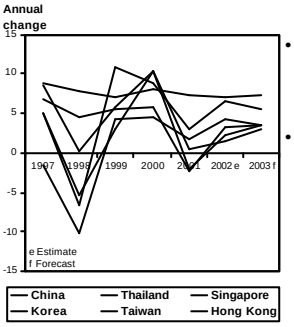
- As part of the effort to develop SMEs in Malaysia, BNM has proposed "A Comprehensive Framework for the Development of the SMEs"
  - Proposal builds on survey results conducted through BIs and DFIs in November 2001
- The objective is to generate endogenous growth through strengthening of domestic enterprises and developing indigenous capabilities. The proposed framework outlines:
  - Comprehensive framework to develop SMEs and enhance their contribution to the economy; and
  - Improve access to technology, finance and advisory services, management skills
  - A steering committee, consisting of senior Government officials has been set up to take this project forward
  - The first phase of the project will focus on strengthening the enabling infrastructure

Industrial economies to experience gradual recovery…

- Gradual recovery expected to continue in the industrial economies in 2003
  - Industrial countries to grow by 1.9% from 1.3% in 2002
  - World trade to grow by 5-5.5%
- Geopolitical events could affect the world economy
  - Governments still have capacity to institute measures to minimize the impact

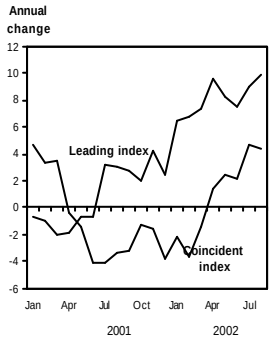


…while regional economies sustain positive performance



- East Asian economies to post positive growth
  - China to grow by over 7% in 2003
- Large proportion of trade is now intra-regional
  - Intra-regional trade accounts for almost half of Asia's total trade
  - New opportunities arising in services like tourism, education and health

Economic prospects remain positive



- Leading indicators show positive performance despite global uncertainties
  - Index of leading indicators on accelerating path, suggesting sustained growth into the first quarter of next year
- Government has flexibility to implement additional measures
  - Current macroeconomic framework ensures stability and predictability

Economy remains resilient

- In the immediate term
  - Private consumption expected to be sustained
  - Recovery in private investment to continue
  - Flexibility for policy to respond to changing conditions
  - Intra-Asian trade expected to grow
- In the medium term
  - Economic structure more diversified
  - Fundamentals remain strong
  - Increased access to financing
  - Positive enabling environment for businesses will contribute to the resilience of the economy and the sustainability of growth

THE END

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