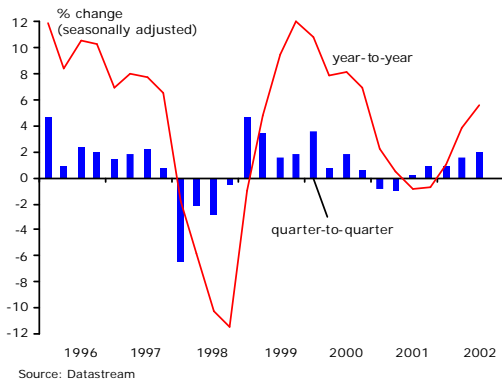
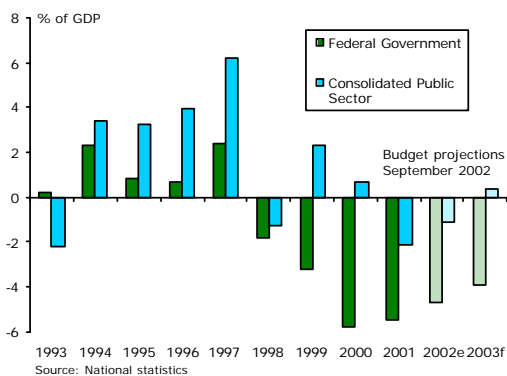


# Country Update: Malaysia

## Economic recovery in 2002



## Stimulatory thrust of fiscal policy is being wound back



- Real GDP growth is estimated to have been around 4% in 2002, up from 0.5% in 2001. There are reasonable prospects of a further, albeit modest, improvement in GDP growth in 2003 although the international environment will be a major influence reflecting Malaysia's heavy reliance on electronics exports. ANZ forecasts GDP growth of around 5% in 2003, below the official projection of 6.0-6.5%.
- The government is keen to curb the expansionary thrust of fiscal policy with the 2003 budget aiming to reduce the federal government's fiscal deficit from an estimated 4.7% of GDP in 2002 to 3.9% in 2003. Tax reductions in the 2003 budget were smaller than many analysts had expected. The main corporate tax rate was unchanged at 28%, but the rate for small companies was reduced sharply from 28% to 20%. Selective tax exemptions for some foreign companies, high-tech firms and manufacturers of auto parts are designed to reinforce Malaysia's attractions as a regional centre and to raise the value-added content of exports.
- Abdullah Badawi, who is due to succeed Prime Minister Mahathir late this year, has held a range of ministerial posts since 1978, but has no experience in economic policy so there will be keen interest in who he appoints as Finance Minister. The ringgit is close to fair value according to Bank Negara and the exchange rate peg is expected to remain in place for at least the next two years unless there are big moves in the US\$ against other Asian currencies.
- The recent decline in net inflows of direct foreign investment seems to have continued last year. International reserves, which have been on an upward trend since mid-2001, are at their highest level since 1994.

## Economic data and debt statistics

Malaysia	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	7.3	-7.2	6.1	8.4	0.5	4.0	5.0	6.0
Inflation (yr av, %)	2.7	5.3	2.8	1.5	1.4	1.8	2.0	2.2
Budget Balance (% of GDP)	2.4	-1.8	-3.2	-5.8	-5.5	-4.7	-3.9	
Current Account (% of GDP)	-5.9	13.2	15.9	9.3	7.9	6.8	7.1	
External Debt (USD bn)	47.2	42.4	41.9	41.8	42.6	47.5	50.4	
External Debt/GDP Ratio (%)	47.1	58.8	52.9	46.4	48.4	50.1	49.6	
External Debt/Exports Ratio (%)	49.3	49.9	42.7	36.6	40.8	41.8	40.1	
Short-term Debt/Reserves (%)	71.9	33.1	19.7	15.7	19.2			
Debt Service Ratio (Paid) (%)	7.4	7.2	4.5	5.2	8.2			
Debt Service Ratio (Due) (%)	7.4	7.2	4.5	5.2	8.2	5.4	5.1	
International Reserves (USD bn)	20.8	25.6	30.6	29.5	30.5	33.6*		
Import Cover (g & s) (months)	2.7	4.5	4.8	3.8	4.2			

\* October 2002

Sources: IMF, Economist Intelligence Unit, national statistics, ANZ Bank