In the news

Malaysia's impressive recovery provides basis for high growth

In recent years, economic growth in Malaysia took off significantly. Initially, strong exports led the expansion, but then robust private domestic demand drove the recovery from the 2001 slump, backed by rising consumer borrowing, higher proceeds from commodity exports, low unemployment, and strengthened confidence. This is among the findings of the IMF's latest annual economic review. Inflation has generally been subdued, but nudged up in late 2004, partly reflecting higher petroleum product prices and tobacco and alcohol taxes. The IMF Executive Board praised the authorities' pragmatic macroeconomic management and decisive efforts to deepen structural reform.

Fiscal consolidation is proceeding but at an adjusted pace. Although lower than in 2003, the 2004 federal government deficit is estimated to have been higher than originally budgeted. The Board welcomed the government's commitment to fiscal consolidation and its plans to introduce a broad-based value-added tax by 2007, streamline tax incentives, and further strengthen revenue administration. The Board also supported additional measures, including tightened current expenditures, more efficient public investment, and better financial results of government-linked companies. The consolidated public sector deficit, meanwhile, is estimated to have declined in 2004 and is projected to turn into a surplus in 2005. Total public debt has remained high but is manageable. The trade and current account surpluses have remained large.

Bank Negara Malaysia's prudent monetary policies have bolstered the credibility of the currency peg, although most Directors noted that over time, a well-prepared move to greater exchange rate flexibility would benefit Malaysia. On structural reforms, progress has been made to improve financial and corporate sector soundness as well as the business climate. Capital adequacy of banks is strong; the ratio of nonperforming loans is declining further; and capital markets remain relatively deep by regional standards. ■

Malaysia	2001	2002	2003	2004 Prel. Est.	2005 Projections
			(percent change)		
Real GDP	0.3	4.1	5.3	7.0	6.0
Real domestic demand	0.0	6.1	3.7	9.3	5.9
			(percent of GDP)		
Federal government overall balance	–5.5	–5.6	–5.3	–4.5	–3.7
Total public sector debt[1]	69.1	69.4	69.0	68.3	62.9

[1]Excludes financial public enterprises and nongovernment-guaranteed domestic debt of nonfinancial public enterprises.
Data: IMF Public Information Notice No. 05/33.

Namibia enjoys steady growth, but needs to tackle HIV/AIDS, poverty

Namibia's macroeconomic performance has been strong in recent years with rising GDP growth, declining inflation, and a strengthening external current account surplus, the IMF said in its annual economic assessment. Nevertheless, Namibia's per capita income growth has lagged behind regional growth and has not generated sustained poverty reduction. Unemployment continues to exceed 30 percent and more than one-fifth of the population is infected with HIV/AIDS. The IMF Executive Board urged the authorities to continue implementing their strategy to combat the HIV/AIDS pandemic and broad-ranging structural reforms to promote private sector activity, generate employment, and address income inequality.

The fiscal deficit widened sharply recently, reflecting tax administration problems, a collapse in mining taxes, and a higher wage bill. However, the deficit is projected to fall in 2004/05 as tax administration problems are being addressed, customs union receipts are experiencing a one-time windfall, and nonpriority spending is being curtailed. The Board welcomed the authorities' intention to bring the public debt ratio close to their fiscal rule target of 25 percent of GDP over the medium term. To rein in nonessential expenditure, firm action will be required to reduce the wage bill and support for public enterprises, which together account for nearly half of total spending.

Namibia's external current account surplus widened further in 2004, partly reflecting an increase of exports to the rand area. The Board said the Namibian dollar's peg to the South African rand has served the country well, but, given the potential for further rand appreciation, it underscored the need to improve the productivity and flexibility of the economy. More developed domestic financial markets should provide better investment opportunities for the rapidly growing pension funds and insurance companies, and help contain capital outflows. Namibia's banking system is strengthening, but the Board urged careful monitoring of the surge in consumer lending. ■

Namibia	2000	2001	2002	2003	2004 Estimates
			(percent change)		
Real GDP	3.5	2.4	2.5	3.7	4.2
CPI (end-of-period)	10.8	8.3	13.6	2.0	5.0
			(percent of GDP)		
Overall fiscal deficit[1]	–1.4	–4.5	–3.5	–7.8	–2.0
Public debt[1]	23.1	26.2	25.0	30.9	30.1

[1]Figures are for fiscal year, which begins April 1.
Data: IMF staff report, January 2005.

For more information, refer to Public Information Notices No. 05/39 (Cyprus), No. 05/33 (Malaysia), and No. 05/29 (Namibia) on the IMF's website (*www.imf.org*).