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Dr M: We prefer to pre-empt problems (HL)

Hardev Kaur in London

LONDON, Thurs: Malaysia is quite confident of managing its finances and prefers to take pre-emptive measures to stave off possible problems and to maintain the soundness of the economy.

"Yes, we like to react early even though we are not in a difficult situation," Prime Minister Datuk Seri Dr Mahathir Mohamad said in reply to a question on the recent Bank Negara guidelines on lending to the property sector to contain asset inflation and to ensure stability of the banking system.

He said the authorities saw what was happening in Bangkok and what happened previously in Hong Kong and Tokyo. "We like to warn our people that they should not put all (their money) in property. If we do not take action early it may be too late. That is why Bank Negara came out with the guidelines."

Thailand is facing problems due to asset inflation and Tokyo is still suffering from the effects of a property bubble that burst in the 1980s. Some banks have gone under and other sectors of the economy have been adversely affected.

To avoid such problems, Bank Negara in March issued guidelines requiring banking institutions to limit credit facilities to the property sector - excluding those costing RM150,000 and below, owner-occupied houses and infrastructure projects - to 20 per cent of outstanding loans. Basically Bank Negara is encouraging lending to the productive sectors of the economy.

Dr Mahathir stressed, however, "the property sector in Malaysia is not yet affected but by reacting early we can avoid problems and a property collapse."

Earlier, in off-the-cuff remarks, Dr Mahathir told fund managers that even though some money has been pulled out due to the problems in Thailand, and the Malaysian stock market is depressed, "it is temporary because we are conscious of the issues and taking pre-emptive action".

Efforts are being made to reduce the deficit in the balance of payments which declined to RM12.97 billion last year from RM18.69 billion in 1995. Many analysts have forecast further falls in the current account deficit this year and next. The Malaysian Institute of Economic Research has forecast deficits of RM12.41 billion and RM12.47 billion in 1997 and 1998, respectively.

The Prime Minister said some foreign reports had suggested that Malaysia may suffer the same problems as Mexico. "We in Malaysia could not understand such conclusions," he said.

It was also argued that Malaysia should slow down its economic growth to reduce the deficit. However, the Government feels that a slowdown would only give rise to other problems.

The Government opts instead to go for high growth with low inflation while the deficit is being reduced with the cooperation of the private sector by reducing imports and increasing exports. The Government, he said, holds regular dialogues with the private sector.

As the deficit is also due to the repatriation of funds by foreign workers, efforts are being taken to reduce the country's dependence on foreign labour. This explains in part the Government's shift in emphasis to high-technology and capital-intensive industries.

Dr Mahathir, who is here to drum up support for the Multimedia Super

Corridor (MSC), had earlier addressed a group of fund managers at a luncheon in the Old Hall of Lincoln's Inn. It was organised by Caspian Securities.

He told them that Malaysia's economy is fundamentally sound and people who have invested in Malaysia seldom lose money; they, in fact, make a lot of money.

"Listen to me, come and invest in Malaysia, as I think I know Malaysia a little better than the foreign magazines (that publish adverse reports about the Malaysian economy)."

The ringgit has been quite steady and has strengthened against the yen and the US dollar and this, Dr Mahathir said, is something that does not happen in developing countries.

In reply to a question, Dr Mahathir said the Government allows free movement of capital as if money can flow out, it can also flow in, and the Government is confident that foreign funds will find their way to the country.

However, there is sometimes an excess of short-term or "hot money", which is not good for the economy. This is something which "we have to live with but we do not like it."

He pointed out that one of the keys to the success of the Malaysian economy is "privatization". Many have failed on this front but in Malaysia's case even the employees have asked the Government to consider privatizing their facilities and departments. This is because they can see for themselves the benefits to be derived.

Asked about the mismatch in supply and demand of skilled labour for the MSC, Dr Mahathir said the MSC is not dependent only on Malaysian workers. It is also a site for foreigners to bring in their knowledge.

In the process, Malaysians will become trained and foreigners may eventually want to employ Malaysians as well.

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