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External debt low at RM10.4bil

FOUR years ago, when the Malaysian economy entered its sixth year of rapid growth, I reminded the House that we should not be complacent with our comfort and prosperity, that we should be mindful of the recurring cycles of economic prosperity and depression.

I suggested that lessons be drawn from the story of the Prophet Yusuf about the seven years of drought following seven years of fecundity, and about preparing for leaner times during the years of abundance.

He (Yusuf) said: "Ye shall sow seven years as usual, but that which ye reap, leave it in the ear, all save a little which ye eat. Then after that will come seven hard years which will devour all that ye have prepared for them, save a little of that which ye have stored." (Quran, 12:47-48).

On that occasion, it was stated that even though the cycles of prosperity and depression usually come in turns in any economy, they can be avoided. Indeed, prosperity can turn into depression through man's own negligence, profligacy and poor planning. Like the Prophet Yusuf, we must exercise wisdom and prudence in expenditure to enhance our resilience to meet the challenges of the future.

In 1995, I again reminded the House of this advice from the Prophet Yusuf. I emphasised that economic planning and management in a strong economic situation should not make us complacent. It was explained that our development philosophy was growth and equity.

Indeed, such a situation will enable us to implement more projects to assist the poor, build rural infrastructure, and low-cost housing as well as reduce the burden of taxes of the rakyat. We can take proactive measures and manage most problems as soon as they emerge. We need to maintain this state of readiness to face new and unexpected challenges.

Today, we are beset with new and tough challenges. Malaysia and other Asean countries are in the throes of a crisis affecting our currencies and stock markets. The Thai financial system which was quite fragile deteriorated even further after the baht came under severe attack by currency speculators.

The value of the baht has declined by 29.3 per cent against the US dollar as at Oct 15 compared with its value on July 1, 1997. During the same period, the Indonesian rupiah fell by 31.8 per cent, the Philippine peso by 21.9 per cent and the Singapore dollar by 7.6 per cent. The ringgit fell by 20.1 per cent.

The region's stock markets have become just as volatile. In the same period the stock exchange in Manila dropped by 27.5 per cent, Jakarta by 29.1 per cent and Kuala Lumpur by 25.7 per cent. The share index of Bangkok declined 19.8 per cent between December 1996 and July 1, 1997. The loss to the Malaysian stock market amounted to RM162.96 billion or 21.9 per cent.

It appears ironic that the currency crisis has hit the region at a time when the world economy in general is increasingly gaining strength. World trade grew by 7.7 per cent this year. The growth rate of major industrial countries (G7) rose from 2.4 per cent last year to 2.9 per cent this year. The US economy entered its seventh year of growth. However, this development did not guarantee a strong international foreign exchange market.

In the early 1990s the yen appreciated strongly against the US dollar. Between May 1990 and April 1995, the yen's value rose 81 per cent against

the US dollar. This strengthening contributed to the vigorous growth of these South East Asian economies as the high value of the yen caused many Japanese companies to become uncompetitive, forcing them to relocate their production units outside Japan, particularly to this region.

However, from April 1995, the tables turned. The yen plunged 30.4 per cent against the US dollar, discouraging the Japanese from investing overseas. This resulted in a decline in Japanese investment in South East Asia.

This decline in capital inflows has compounded the problems in servicing the huge current account deficit in most of the countries in this region. Some of these countries increased their foreign borrowings to deal with the decline in capital inflows which were in the form of FDIs. The bulk of such borrowings were denominated in US dollars to take advantage of interest rate differentials.

As it turned out, the repayment of such loans became a major problem when the US dollar began to appreciate against the yen. Most of the currencies of these countries were linked to the US dollar. These initial difficulties developed into a crisis when borrowings in foreign currencies were used to finance share acquisitions and property development. When the property sector softened, financial institutions which were overexposed to the sector found their stability undermined.

The strengthening of the US dollar since April 1995 also eroded the competitiveness of exports in the region because a large portion of the imports of intermediate goods were denominated in dollars. Financial institutions which were exposed to the non-productive sectors were put in a precarious position.

Under these circumstances, South East Asian currencies were perceived to be overvalued. The baht came under selling pressure in May and June, a pressure so intense as to force its flotation on July 2. With that, its value in the foreign exchange market plunged. The same pressure was exerted on the Indonesian, Malaysian, Philippine and Singapore currencies.

Whilst it is true that the exchange rates of South East Asian currencies needed correction, it is quite clear that there exist elements out to exploit the situation so as to depress the value of these currencies to artificially low levels.

The Thai financial crisis has spurred regional co-operation. In less than two weeks, a financial package for Thailand was put together at the initiative of the International Monetary Fund (IMF), amounting to US\$17.2 billion. This package was contributed by the IMF and several Asian countries. Malaysia contributed US\$1 billion. This package is to ensure that Thailand has sufficient financial resources to undertake a comprehensive programme to revive its economy and restore investor confidence. And now, Indonesia has also requested for assistance from the IMF and World Bank (WB).

Despite our exposure to the global marketplace, we are confident that we can overcome its vagaries and challenges. We will continue to succeed because we were not complacent when our economy was doing well. Indeed, during these years of prosperity under the leadership of Datuk Seri Dr Mahathir Mohamad, we have been strengthening our economic fundamentals so that we would be resilient in times of trouble.

When the economy showed signs of overheating from high growth, we implemented firm fiscal measures and tight monetary policies to control inflation. We spent prudently although government revenue continued to increase.

The strength of economic fundamentals is reflected in the expansion of the Gross Domestic Product (GDP) which is expected to grow for the 10th consecutive year by eight per cent. The rate of inflation remains low at

three per cent. The rate of growth in national savings is among the highest in the world at 39.8 per cent of the Gross National Product (GNP).

Since 1993, government finances have recorded surpluses and this has been maintained for five consecutive years, including a surplus of RM5.066 billion or 1.9 per cent of Gross National Product (GNP) for this year. The nation's reserves as at Sept 30, 1997 is still high at RM61.9 billion, sufficient to finance 3.7 months' of retained imports.

One important measure we took during the years of abundance was to settle our debts even before they were due for payment. Currently, our external debt is low and stands at RM10.4 billion. The prudent steps we took in 1987 to curb extravagance and debts have saved us from a heavy debt repayment arising from the depreciation of the ringgit. The first prepayment began in 1987, financed by domestic borrowings. However, from 1992, the prepayments were paid from the Government's surpluses.

The amount of prepayments between 1987 and 1997 is RM16.5 billion. As a result, the debt service ratio (DSR) fell from 18.9 per cent in 1986 to 6.8 per cent this year. National debt also declined from 75.5 per cent of GNP to 33.3 per cent in the same period.