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Unchecked RM fall will have serious consequences: PM

Mustapha Kamil; Kamarul Yunus in Edinburgh

EDINBURGH, Fri: A continued slide in the ringgit can push up prices, reduce purchasing power, and affect revenues. Unchecked, the decline could in the long run bring about recession and widespread unemployment.

Painting this possible worst-case scenario of the consequences of a sliding ringgit, Prime Minister Datuk Seri Dr Mahathir said it could happen unless something is done to check speculative activities in the ringgit on the foreign exchange market.

Still, he told Malaysian students here yesterday, the Government has "some ideas" on how to prevent recession although they require a great amount of discipline and prudence from the people.

Here to attend the Commonwealth Heads of Government Meeting (CHOGM), the Prime Minister is to persuade other heads of state to collectively look into ways to fight off currency speculation.

Dr Mahathir, a lead speaker in the first executive session of the meeting tomorrow, stressed to the students the great deal of support needed by the Government from the people to weather the current weak economic sentiments at home.

He said continued weakening of the ringgit will increase prices, reduce purchasing power, affect revenues and if unchecked will ultimately result in widespread unemployment and recession.

Malaysians, he said, will now have to think carefully before spending, especially on foreign goods since the country will have to keep its imports low to ensure that the economy remains stable.

Dr Mahathir, who arrived here with his wife Datin Seri Dr Siti Hasmah Mohd Ali yesterday, dismissed the belief that the weak ringgit is tied to the country's economic fundamentals.

Despite tough measures announced in the 1998 Budget tabled last week, the ringgit has continued to weaken against the US dollar.

"We are not surprised at all that it has continued to fall as they (the speculators) have decided beforehand to continue pushing the value down to their pre-determined limit irrespective of what the Government does. It has nothing to do with the Budget or with economic fundamentals," he stressed.

The currency speculators, he said, are not investors, but merely those who are fuelled by greed and with leverage capacities of up to 20 times the amount of funds they have to play the largely unregulated market.

However, long-term and foreign direct investors have remained in the country, indicating their confidence in the economy, Dr Mahathir said.

On the potential for regional cooperation to fight off currency speculation, the Prime Minister said other nations have been scared to speak, fearing their economies will be attacked too.

"That is like someone in a tiger's cage, who keeps thinking that by keeping quiet he will not be harmed. The tiger will eat him anyway," he said, referring to the fact that while some countries in the region have chosen to remain silent, their currencies have not been spared.

Unless speculative activities are made illegal or are regulated in a proper market, any regional collaborative effort will not be effective, he added.

Dr Mahathir warned that some other developing countries are doing well economically and will one day be attractive targets for speculators, unless something is done now.

On large projects and the thinking by foreign economists that Malaysia is overspending, he said the country is not doing anything extraordinary.

"Before the speculative attacks on the ringgit, we had the money to carry out the planned projects," he said, adding that the cost of undertaking such projects as the Petronas Twin Towers in Malaysia are relatively cheaper than in developed countries.

Malaysia recently deferred some projects categorised as not immediately needed, as part of measures to strengthen the economy in the wake of attacks on the ringgit.

Dr Mahathir said even the Multimedia Super Corridor (MSC) project cannot be considered extraordinary since Malaysia is to build only the infrastructure for foreign investors in information technology to invest in.

"The concept is quite like the many industrial estates we have successfully built before," he added.

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