

Simple minded report full of inaccuracies

S23.12.98

IN AN article "Mahathir's Economic Policies Could Bring His Downfall", published by the *International Herald Tribune*. (Dec 15, 1998), David Roche painted a dismal economic story on Malaysia.

The gist of his piece warns that Malaysia's "... policy of capital controls is nothing short of disaster."

In short, "Malaysian living standards will plummet" leading to "social upheaval that will force Mr Mahathir to go ..."

Essentially, it is an argument against Malaysia's own approach in overcoming the financial crisis.

Unfortunately, for Roche his sweeping, simple minded story with the unhappy ending will not hold as it is unreasonable, weighed by excessive pessimism, and inaccurate.

First, the grim economic outlook has already

been officially acknowledged. 1998 is a bad year and the issue is how bad it will be; the third quarter growth contraction of 8.6% could be the limit to the bottom but we will have to wait and see whether growth in the fourth quarter picks up.

The crucial year is 1999. In Budget 1999 only a growth rate of 1% is anticipated, and recovery is anticipated in the second half of the year and a better 2000 is anticipated.

Roche makes no prediction for 1999 but, probably, on the basis of his dire prediction, thinks that it will be a year when the economy collapses.

He gives no detailed evidence in support of his prognosis.

Second, picking on some of the factual mistakes and inaccuracies, Malaysia does not have a current account deficit in 1998 as reported by Roche.

A current account surplus of about RM20bil is anticipated for 1998.

At RM38.7bil trade surplus in the third quarter of 1998 the year's trade surplus has been exceeded and the current account surplus will even be better.

A current account surplus of RM15bil has been booked in for the first half of 1998.

Third, Roche's estimates of non-performing loans reaching 40% of total lending and that the Government will need RM56bil, or 22% of GDP, to restore the banks is way off the mark.

The net non-performing loans (NPLs) of the banking system, on the basis of the six-month criteria, fell from 8.9% as at end-June to 8.1% at end-September 1998 but using the three-month criteria it increased to only 12.8%, still about a third of Roche's estimates.

The net international reserves of Bank Negara has increased to US\$23.6bil (RM89.6bil) by mid-November.

This is sufficient to finance 4.5 months of retained imports.

And the former Governor of the Central Bank resigned rather than was sacked.

Fourth, Roche's estimates that Malaysia needs RM98bil (37% of GNP) worth of funds for economic recovery, again, is too excessive.

Official estimates show an amount of about RM68bil and there are sufficient external and internal sources to fund this recovery bill.

The recent Japanese funding assistance to Malaysia and the expected allocation from the Miyazawa Plan will meet much of Malaysia's needs.

Printing money is not an option at all.

In an effort to paint the grimmest picture possi-

ble, Roche has failed to report on the details and progress of restructuring and reforming the banking system through Danaharta, Danamodal and the Corporate Debt Restructuring Committee and other detail measures contained in the National Economic Recovery Plan.

They are making headway and the breathing space provided by capital controls is breathing some life into the economy.

Even so, some fine tuning of the capital controls is expected and that would boost investors' confidence.

While living standards have been eroded the social fabric is still intact and will remain robust.

All in all Roche's prognosis of a Malaysian disaster is premature.

ZAINAL AZNAN YUSOF
Institute of Strategic
and International Studies
(ISIS) Malaysia