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PM: Better-than-expected economic growth next year

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MALAYSIA expects to record a better-than-expected economic growth next year in view of the early results achieved through the capital controls introduced since September 1.

"On a conservative projection, it will be much better than projected," Prime Minister Datuk Seri Dr Mahathir Mohamad said when asked on the Government's forecast for economic growth in 1999 following the implementation of the capital controls.

Dr Mahathir, who is also First Finance Minister, however, cautioned Malaysians against being overly optimistic. It is still possible, he said, for the economy to see another contraction next year.

The Government's latest forecast, made the week before the capital controls were announced, is for a 1-2 per cent growth in gross domestic product next year. The economy is expected to contract this year.

Dr Mahathir spoke during a press conference after chairing a National Information Technology Council meeting in Kuala Lumpur yesterday.

He said the controls have already produced results, starting with the increase in car sales.

"It will take few months to see the results. But now you already see the first kind of economic recovery, with the sale of cars going up from 5,000 units a month to 12,000 a month. That is a very good.

"The controls have also enabled us to reduce the interest rate and reduce the downpayment on hire-purchase.

"At the same time our reserves have increased by US\$90 million (US\$1 = RM3.80)," he added.

Dr Mahathir said the controls have also allowed the Government to lower interest rates. Asked if he was happy with the present interest rate level, he said: "I think it is okay, it has been accepted and business has been picking up. I think 8 per cent is a good level, people can do business with that kind of level."

He also said ringgit's fixed exchange rate - 3.80 to a US dollar - will be maintained for as long as possible to allow businesses to remain competitive. The Government will adjust the rate only if other currencies are devalued.

"I cannot say how long but we will try to maintain it for as long as possible to maintain competitiveness. If other currencies are devalued and that we become costly producer of goods, then we need to lower the value of the ringgit."

With the ringgit fixed at RM3.80 against the US dollar, it is possible for people to plan out their budget, without worrying about currency fluctuation, Dr Mahathir said.

Contrary to what economists believed, he said, some of the capital control measures implemented by the Government are actually not different from those taken by other countries.

"What we are doing is something that a lot of countries are doing. Things like declaring how much money they have when you come in Malaysia or go out of the country, it is something that (other) countries do all the time.

"The law is there except that we have not enforced it. Now we are doing that," he said, when asked if he knew why the World Bank had decided to delay distributing financial assistance to Malaysia following the controls.

"... I believe they are not sure about our currency controls. "They think we are cutting ourselves from the financial system of the rest of the world, which is not true at all."

Dr Mahathir said the Government will try to explain to the World Bank officials that the controls it has imposed are not meant to prohibit foreigners from repatriating their profits.

"We will explain to them that these measures do not prevent foreign capital from coming in and are not meant to step investors from repatriating their profits," he said.

On whether Malaysia's controls would be permanent, Dr Mahathir said: "It depends, but people have been coming around to the idea that some kind of control will be good."

Malaysia, he stressed, would not have resorted to these measures if the international financial regime had been changed.

"We won't want these kinds of curbs if we can help it but if international financial regime is not changed, and if it still allows people to rob other countries, then we need to have these protective measures.

"There is need to change what they called the architecture of international financial sytem," he added.

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