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Dr Mahathir: Have faith in Government's policies

MALAYSIANS must have faith and confidence in the policies that the Government has adopted, as it has the experience and tenacity to put the economy on an even keel again towards sustainable growth, Prime Minister Datuk Seri Dr Mahathir Mohamad said.

"I stress that the Government has acted in interests of the nation to preserve the gains we have made over four decades of our economic development.

"With your continued strong support, we can together look to the future with confidence," he said in a message in the preface of the 1998/1999 Economic Report, which was published by the Finance Ministry in conjunction with the presentation of the 1999 Budget in Parliament yesterday.

Dr Mahathir, who is also First Finance Minister, said the measures taken to revive the economy and remove the threat of speculation against the ringgit in currency trading have started to yield some positive results.

"We are beginning to see the signs of economic recovery. The banking institutions and private sector have benefited from the enhanced liquidity and lower interest rates and total loans extended by the banking system have begun to expand.

"Domestic demand, especially for passenger cars, has also picked up. Our external reserves position has strengthened, while market capitalisation of the Kuala Lumpur Stock Exchange (KLSE) has improved," he said, adding that the Government is confident the underlying economic fundamentals of the country will strengthen further in the coming months.

For instance, Dr Mahathir said, the current account of the balance of payments registered a surplus of RM15 billion during the first half of 1998 and a surplus of at least RM20 billion is projected for the whole of this year.

"Although the real economy for this year is estimated to contract by 4.8 per cent, it should turn around in 1999, with growth of 1 per cent, with inflation expected to remain low, especially with a firmer ringgit," he added.

Recalling the difficulties and challenges faced by the country since the onset of the Asian financial crisis more than a year ago, Dr Mahathir said Malaysia has incurred losses both in terms of income and wealth during the period.

"We have witnessed Malaysia's real gross domestic product declining sharply by 2.8 per cent in the first quarter and 6.8 per cent in the second quarter of this year, after almost a decade of strong growth.

"As a nation, we have become impoverished by the ongoing crisis. The ringgit has depreciated significantly and now we have to pay 60 per cent more for every one US dollar," he added.

At the same time, Dr Mahathir said the KLSE has lost two-thirds of its market capitalisation since the crisis began in June last year, which was equivalent to 186 per cent of 1998 gross national product or two years of national income.

He said the Government's revenue has also been adversely affected and the budget surplus that the country has enjoyed since 1993 has reverted to a budget deficit, adding that the ramifications are bound to be severe if the real economy is left to contract under the continuing contagion effects of a volatile financial environment.

He said this reaffirmed the Government's belief that Malaysia must act decisively to revitalise the economy, while concurrently addressing the need to insulate it from destabilising effects of the external environment.

To contain the severity of economic contraction, Dr Mahathir said, the Government had to reassess the International Monetary Fund's prescription of a tight monetary and fiscal stance and decided to adopt expansionary macroeconomic measures and ease monetary policies.

Thus, the National Economic Recovery Plan was implemented in July, aimed at stabilising the ringgit, restoring market confidence, maintaining stability in the financial markets and strengthening economic fundamentals.

"It became increasingly clear that in the absence of a concerted effort on the part of the international financial community to identify a permanent solution to the financial crisis, individual efforts by economies such as Malaysia, to stabilise the financial markets in an open regime were obviously ineffective," he added.

Later, Dr Mahathir said, the Government adopted a series of measures implemented on September 1, aimed at insulating the Malaysian economy from externally generated risks and vulnerabilities. These measures included exchange control rules and administrative measures.

However, they in no way restrict foreign direct investment flows into Malaysia.

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