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Recession puts resilience of rakyat to stern test

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MALAYSIA accepted the reality of recession calmly last week, with the only apparent anxiety being the search for a recovery path.

Internally, while the 6.8 per cent contraction in the economy for the second quarter of 1998 is rather shocking, it was almost anticipated with the unfolding of events, both domestic and global, since July 1997.

Malaysians can, however, take comfort in the knowledge that recovery efforts have been undertaken not since last Friday when the contraction figures were announced, but even as events took place in 1997 itself.

Thus, Malaysians must also know that the ticket to put their country on an early flight out of troubled times is almost secured, with the only remaining uncertainty, perhaps, resting on factors beyond the nation's control.

Malaysians must realise that the issue now is no longer whether the economy will go into a recession but rather how resilient they should be in the difficult times ahead.

While criss-crossing the country to meet the people, Prime Minister Datuk Seri Dr Mahathir Mohamad's message has been to urge them to preserve what is perhaps Malaysia's foundation for required resilience - maintenance of peace and stability even in this difficult period.

The figures indicating the first recession in 13 years are indeed unpleasant, what with across-the-board declines noted in the economy, led by a 22 per cent contraction in the construction sector.

Demand remains weak as the depressed equity market and reduced spending power attached to the declining ringgit have all led to consumers to hold tight to every sen.

As inflation was somehow put under control, there were worries of deflation threatening to grind economic activities to a halt.

The ever-vital banking sector was naturally exposed to increased risks, with levels of non-performing loans increasing, resulting in the tightening of liquidity in the system and the eventual weakening in capital.

On the social front, unemployment figures have escalated as employers either embarked on cost-cutting measures or just stopped doing business altogether.

But in spite of the spate of negative news last week, Malaysians took this in their stride, thus indicating that the platform for recovery needed by the Government is already in place.

From a regional perspective, Malaysia entered recession from a relatively higher level than most of the regional economies, with the country enjoying full employment, having registered a decade of an average 8 per cent economic growth and an inflation rate of well below 4 per cent.

The economic weakness felt in Malaysia now is thus more reflective of the strength it enjoyed prior to July 1997. Essentially, the first step towards recovery requires that Malaysians adjust to the weakened economy.

As the people put the second quarter figures behind them, the Government has given its assurance that the continued support of its citizens will be reciprocated by serious efforts to nurse the economy back to health.

The national company set up to rid the banking system of non-performing loans (NPLs) made its first acquisition last week while the one established to inject fresh capital into the banking system is operational.

The unemployment situation is accorded high priority and is closely monitored by the Government, with several measures already in place to address the retrenchment issue.

As for future funding requirements, Malaysia is rather fortunate that the crisis occurred after the nation completed the major portion of infrastructure projects and other initiatives planned to hasten development.

Most of the multi-million-ringgit highway projects have either been completed or are near completion. The new KL International Airport at Sepang is already bustling with passengers and cargo while the leading port, Port Klang, is now prepared to assume its role as Malaysia's main gateway for maritime trade.

Projects to improve the people's standard of living, education and healthcare have been going on and are not expected to be affected even during the present economic downturn.

Some may argue, however, that fast recovery efforts may be hampered by mounting debts saddling the corporate sector. However, a national level initiative has been put in place to lead corporate debt reconstruction efforts and prevent viable businesses from being liquidated.

The central bank has eased monetary policy slightly. It has effectively lowered interest rates to ensure that businesses hit by weak demand and depleting earnings are not further burdened by high borrowing costs that may lead to a complete halt in operations.

Another positive indicator perhaps is that Malaysia continues to be an attractive investment destination, indicating that while short-term investment funds may have left the country, direct investors remain confident.

Some 471 manufacturing projects involving a total capital outlay of RM15.15 billion have been approved by the Ministry of International Trade and Industry in the January-to-July period this year.

The second quarter economic figures do indeed indicate tough times ahead. But Malaysians can take comfort in the measures implemented to weather the economic downturn and the knowledge that the economy will emerge all the more fitter.

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