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PM: GDP contraction will be reduced in next quarters

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PRIME Minister Datuk Seri Dr Mahathir Mohamad said yesterday he was confident the contraction of the country's Gross Domestic Product would be reduced in the third and fourth quarters of this year.

He was asked to comment on the report that the economy had shrunk by 6.8 per cent in the second quarter of this year.

Dr Mahathir said the people must understand the Bank Negara report on the matter.

"We have not been able to export many of our goods as the economies of countries we market our goods to, have been adversely affected," he told reporters after opening the Parti Pesaka Bumiputera convention in Santubong, 40km from Kuching, Sarawak.

He said Malaysia's inability to market these goods had taken its toll on its manufacturing industry.

Malaysia, he said, also had to compete with Indonesia, whose currency, the rupiah, had depreciated more significantly, thus making its goods cheaper on the world market.

Asked on the Government's immediate measures to improve the economy, Dr Mahathir said one of them was to reduce imports and raise savings to finance businesses.

"Whatever step we are taking, we need the people's support and action," he said.

Asked on the suggestion by American economist Paul Krugman on Wednesday that Asian nations should embrace China's foreign exchange controls to steer out of their economic woes, Dr Mahathir said that while he agreed with the suggestion, such controls were not easy.

"How to check? They (currency speculators) have a lot of money. We sought help from others ... we talked to the United States ... they said they could not do anything. But I know they can," he said.

In Kuala Lumpur, Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said the Government would revise this year's GDP forecast now that the second quarter had contracted 6.8 per cent.

He said the downward revision could be slight, adding that "I do not want to be presumptuous".

Anwar said the revised GDP forecast would be announced when he tabled next year's Budget during the October meeting of Parliament.

"We expect the overall growth will be negative and will be much lower in the third quarter," he told reporters after opening the World Malay Studies Convention at Universiti Malaya.

"The worst has been in the second quarter."

Bank Negara had announced on Wednesday that lower output in all major sectors, coupled with weak consumer spending, had led to the economy shrinking by 6.8 per cent in the second quarter of this year, from a revised first quarter contraction of 2.8 per cent.

Central Bank assistant governor Datuk Zeti Akhtar Aziz who had released details of the second quarter figures, however, said the external trade surplus for the same period had surged to a record of RM13.6 billion, bringing the cumulative surplus for the first half of the year to RM22.1 billion.

The improvement reflected a continued strong export growth of 39.3 per cent against a marginal import growth of 2.5 per cent.

Zeti had also announced measures aimed at reducing effective interest

rates such as lower Bank Negara intervention levels in the inter-bank money market, a lower reserves requirement and a new method of computing base lending rates.

To another question whether capital control would be one of the options taken by the government to stabilise the ringgit, Anwar said:

"We are considering measures but I think we will have to decide on it soon."

Asked whether the Government would reduce interest rates further, he said:

"The Government has been gradually reducing interest rates but it has not had any negative impact on the ringgit".

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