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## Banking on economic recovery

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THE guessing game as to when the 10th general elections will be held has now ended with Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement yesterday that Parliament is to be dissolved today.

But long after the Election Commission set the date for nominations and voting tomorrow, coffee shop talk will continue on whether this is the best time to go to the polls, and why.

Economists, of course, believe the amazing recovery of the domestic economy is the overriding factor for Dr Mahathir's decision to call for elections. The general mood of the people is buoyant, the authorities are expected to release very good third-quarter economic data, and the stage is set for Malaysia to enter the new millennium with a bang.

If all other factors remain unchanged, that is.

Another factor for calling snap elections is the Barisan Nasional Government's bold and unconventional policies that have enabled the recovery.

Malaysia, under the Barisan Nasional (BN) rule, has weathered its worst economic crisis.

The economic figures for the second quarter of 1999 indicated that the country had snapped out of the recession, and is well on the way to reclaim its place as an economic tiger in the aftermath of the Asian economic crisis.

The Malaysian Strategic Research Centre's executive director, Encik Abdul Razak Baginda said if the country's economy had been the reason for this general elections, then this is the right time for the people to cast their votes.

"Looking at the indications, there is a general feeling of economic recovery which did not exist before. While political stability is important for economic progress to continue, there is also a need to have balanced views on the Government," he added.

Rating Agency Malaysia economist, Dr Yeah Kim Leng said the existing Government is going into the elections with all the weight of a nicely recovering economy behind it.

"The economic rebound, which is on its way, and the general well-being of the people has provided a greater sense of security and confidence for them to vote," he added.

He noted that political stability is a key factor to ensuring foreign and domestic investments keep coming into the country.

Malaysia registered a positive growth of 4.1 per cent in the second quarter of this year, after experiencing contraction for five preceding consecutive quarters.

This year, the real gross domestic product (GDP) is expected to grow 4.3 per cent based on expectations of a stronger growth of 7.2 per cent in the second half of 1999.

Sceptics may find it difficult to swallow but the measures taken by the Government had resulted in significant recovery of the economy as compared with the contraction of 7.5 per cent last year.

The massive turnaround of 11.8 percentage points in a short space of time was attributed largely to domestic economic activities. The recovery was achieved in an environment of lower inflation.

Consequently, per capita purchasing power parity has improved by 4.4 per cent to US\$8,604 (US\$1 = RM3.80) this year. Compared with other crisis-

affected economies, this increase is among the highest.

Malaysia also continued to register a trade surplus for 22 consecutive months up to August this year. From 1990 to 1997, the current account of the balance of payments recorded yearly deficits.

The nation's external reserves have increased to US\$30.2 billion on 28 October 1999 compared with only US\$20.2 billion US dollars at end-August 1998. This amount is sufficient to finance 6.2 months of retained imports compared with only 3.8 months registered at this time last year.

At this level, reserves are four times higher than the nation's short-term external debt, reflecting a strengthening of the nation's resilience. Investor confidence is also on the rise. Yesterday, the Kuala Lumpur Stock Exchange Composite Index (KLCI) closed at nearly 729 points, higher than the level on September last year when it was hovering just above 650 levels.

Domestic inflationary pressures have also abated. The rate of increase in inflation continues to decline, averaging 3 per cent in the first nine months of this year compared with 5.2 per cent in the corresponding period last year.

With regard to the labour market, the total number of workers that has been laid off declined from a high of 12,335 in July to 4,084 in September 1999. Job vacancies have also increased from a low of 4,244 in October 1998 to 10,767 in September 1999.

For the year as a whole, unemployment is expected to be 3 per cent, lower than the full employment rate of 4 per cent. In terms of contribution to the Employees Provident Fund (EPF), the number of contributors has increased by almost 1 million from September 1998 to September 1999.

Monthly contributions have increased to RM1.3 billion compared with RM1.2 billion in August last year. All these indicators provide clear evidence of the economic recovery.

The performance of the banking system continued to improve as a result of the measures taken to restructure and revitalise the economy. The risk-weighted capital ratio of the banking system stood at 12.7 per cent in September 1999 compared with 10.6 per cent in September 1998, higher than the base standard of 8 per cent.

The NPLs of the banking sector was at a manageable level of 7.9 per cent in August 1999, based on a 6-month classification, compared with 11.4 per cent in August 1998. At the same time, the base lending rate has been reduced from 11.7 per cent in August 1998 to below 7 per cent currently.

The Government has also taken full advantage of the economic recovery and the return of stability to financial markets to intensify efforts aimed at strengthening the financial system against systemic risks.

The establishment of Danaharta, Danamodal and the Corporate Debt Restructuring Committee (CDRC) has successfully addressed the NPL problems, enhanced the capital base of the banking system and encouraged corporate restructuring.

Up to October 15, Danaharta has taken over and managed NPLs amounting to RM39.3 billion while Danamodal has injected funds totalling RM6.91 billion in 10 banking institutions. During the same period, the CDRC had received 63 applications with debts totalling RM35.02 billion. Of this, 15 debt restructuring schemes involving RM12.73 billion have been resolved.

There are many statistics and figures to support claims that Malaysia has successfully pulled itself out of recession. Even the World Bank had acknowledged Malaysia's achievements.

With the 10th general elections well on its way at the end of this month, one can assume that the economic statistics for the third quarter, scheduled to be released soon, should be better than the one recorded in

the previous quarter.

This would definitely be another advantage for BN and its component parties for the coming elections when driving home a point that a stable government is critical in implementing effective nation building programmes.

With the Opposition going all out to prevent the BN from clinching another two-third majority in Parliament, the BN will count on the economic recovery to neutralise the Opposition strategy.

Dr Mahathir had said he was waiting for an inspiration before announcing the dissolution of Parliament. Looking at the existing economic conditions, it could very well be the inspiration that was what Dr Mahathir was looking for.

"I have been telling people that I was waiting for some kind of inspiration. The inspiration came, and it so happened to be today. It is a good inspiration," he said yesterday.

Solid policies from an experienced Government had made it possible for Malaysia to implement measures that has helped the country to overcome its worst economic crisis.

With its impressive track record in managing the economy, the BN Administration has drawn a long-term plan for the country to achieve a developed nation status by the year 2020, but whether it is allowed to do so is now in the hands of the voters.

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