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Economy is indeed returning to positive territory

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THE first hard, indisputable indicator that the Malaysian economy was returning to positive territory was announced without much fuss last Wednesday. The lack of fanfare and the almost cautious announcement of the first quarter economic figures showed that the country's economic policymakers wanted to temper the good news with the reality of the situation.

Prime Minister Datuk Seri Dr Mahathir Mohamad himself has indicated as much. Commenting on the economic performance for the first quarter of 1999, he stressed that he wanted Malaysia to have its feet firmly on the ground, saying Malaysia must continue to be mindful that external factors could yet still undermine efforts towards achieving economic recovery. The International Monetary Fund (IMF) on its part noted the region-wide progress, saying Asia-Pacific is set to chart sustained economic recovery this year, with several economies having introduced strengthening measures.

Never known for being sedate, the Kuala Lumpur stock market did not wait to be told twice that, chances are, we may be out of the woods. Sentiments soared on news of the significantly lower contraction recorded by the Malaysian economy in the first quarter.

The exchange was abuzz with buying interest resulting in the benchmark KLSE Composite Index (KLCI) shooting past the 800-point level on Thursday for the first time since September 1997, and from a low of 262.70 on September 1 1998.

Malaysia's real gross domestic product (GDP) contracted by only 1.3 per cent during the quarter, against a shrinkage of 10.3 per cent in the final quarter of 1998.

The economy actually showed a positive growth rate of 1.4 per cent in February and March this year against the corresponding months last year. Only January spoiled what could have been an early return to positive growth territory, the month still carrying residue of the impact of the downturn in 1998.

However, this time around, there was no going overboard with the "pat on the back".

Indeed, the news was a welcome change to Malaysians and senior officials at Bank Negara Malaysia were all smiles, a sharp contrast to the situation in June 1997 when the ringgit first came under speculative attacks.

But the central bank has avoided showing over-enthusiasm, with Governor Tan Sri Ali Abul Hassan Sulaiman stressing that a lot more could be done to increase the economy's resilience.

His attention is focused specifically on further strengthening the country's international reserves to provide an even more solid foundation for the economy - as insurance against future external attacks on the economy.

Malaysia's international reserves stood at US\$31.3 billion (US\$1 = RM3.80) on June 15 this year, sufficient to finance 6.9 months of retained imports.

With manufacturing output having turned around to a growth of 4.6 per cent, and imports of intermediate goods remaining stable during the period while those of capital goods having declined, Malaysia looks set to continue reaping benefits from an active export sector. Manufacturers seem to have managed to complete a major part of their reformation programmes,

and have been to concentrate on increasing their margins and thus export revenues.

Providing added comfort was Ali's assertion that the Government has no plans to change the fixed RM/US dollar exchange rate imposed earlier as part of Malaysia's capital and currency exchange rate controls to insulate the local economy.

Forecasts were not foremost on Ali's mind, who said while he is personally optimistic of the economy surpassing official expectations of a 1 per cent growth for this year, the Government is not changing its forecast as yet.

Dr Mahathir's comments at a separate function were along a similar line. Having been instrumental in guiding the economy back towards the growth path through an expansionary policy which succeeded in preventing a complete halt in economic activities, he issued a stern warning to those who may avoid contributing to recovery efforts.

He reminded banks not to hold back loans disbursements and said although the Government does not wish to make decisions for banks, it will step in should they fail to play their role.

It was considered by some analysts as a fair reminder since much of the recovery efforts led by the Government were designed with the banking system very much in mind. "The banks have a duty to repay the Government for all the relaxations provided for them during the downturn period," an analyst said.

Banks have emerged much stronger, with the industry's risk weighted capital ratio reaching 12.3 per cent at the end of March 1999, or 4.3 per cent more than the level prescribed by the Basle-based Bank for International Settlement.

A huge chunk of the banking system's non-performing loans have been taken over for management by Danaharta Nasional Bhd, a company tasked with managing assets of such loans.

Already analysts are expecting a positive growth rate for the second quarter which will end on Wednesday, and many have expressed confidence that the Malaysian economy will end the full year with a growth of between 2 and 3 per cent.

With car sales picking up, consumer and investor confidence returning and switchboards in stock trading rooms jammed with buyers and sellers making orders, they could be right.

The Government has acknowledged the spurt of optimism but somewhat prefers to let the market judge the economic recovery results for itself.

An analyst noted that having faith in the ability of the domestic economy is a better option than relying too much on foreign investors and reports. "The recovery is there for those watching from the sidelines to see. When they believe, the foreign fund managers and investors who made the exit in 1997/1997 period will surely re-enter," the analyst said.

Providing a distinction between Malaysia's economic recovery and those of countries surrounding it, he said that in the Malaysian case, economic fundamentals were strong when the crisis started. It was the strength that prevented a total collapse of the economy and one too which enabled the country to make drastic adjustments without outside help.

Those drastic measures, some rather confusing when first imposed, are getting clearer now and, most importantly, making a lot of sense.

Ali and his team at the central bank might have purposely avoided sounding too optimistic, although when she was just about to enter the lift at Bank Negara, Assistant Governor Datuk Dr Zeti Akhtar Aziz could not hold back her happiness. "... We did it, just like we said we would," she said.

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