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YEARENDER-ECONOMY

MALAYSIANS NOW MORE UPBEAT OF BETTER FUTURE

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KUALA LUMPUR, Dec 31 (Bernama) -- Malaysians, who were badly shaken by the bleak times of the 1997 and 1998 recession, are now ushering in the new year and new millennium with greater optimism and better expectations.

They are now more sure of a brighter future because the economy has stabilised and is now on a growth path. There is certainly a lot to look forward to now that the economy is on the roll.

Thanks to the government undertaking some difficult, much-criticised and somewhat unorthodox recovery measures, the economy has been humming along smoothly towards an uptrend since April this year.

After a lower contraction of 1.3 percent in the first quarter of this year, the economy grew for the first time in the second quarter since the financial crisis struck in late 1997 when the gross domestic product (GDP) expanded by 4.1 percent.

This was described by many analysts as commendable since the recovery was achieved within a short time given that it was just in the July-Sept 1998 period that the downturn was at its worst when the GDP shrank by 10.9 percent.

That the "good times are back again" were starkly evident when the GDP expanded by 8.1 percent between July and September this year, paving the way for further improvement in the economy for the last quarter of the year as well as in the future.

Economists had attributed the rapid recovery to a mixture of factors, foremost of which was the government's expansionary policy which stimulated spending to counter the recession when business almost ground to a halt at one time.

"That has reduced financial pressure on the private sector and stimulated domestic demand drastically," said Rating Agency Malaysia (RAM)'s economist Dr Yeah Kim Leng.

Another analyst said the electronics sector -- one of the country's major GDP contributors -- had benefitted from the upswing in global electronics demand, which, in the process, hastened recovery.

To a large extent, he said Malaysia owed its economic upturn to selective capital controls introduced in September 1998, for they insulated and provided much-needed breathing space to repair the ailing economy.

Bank Negara governor Tan Sri Ali Abul Hassan Sulaiman re-affirmed this winning formula, saying that the economy "has moved out of a complete standstill situation" due to the stability and certainty accorded by the controls and fixed exchange rate.

With the ringgit pegged at RM3.80 to the US dollar since September 1998, both importers and exporters saw a major impediment being removed because they would be able to determine their costing since they no longer had to contend with wide fluctuations in exchange rates.

With the sustainable global electronics boom, some economists forecast that the country's GDP would grow between seven and nine percent in the fourth quarter of 1999 while Dr Yeah projects a more than 8.0 percent growth.

Dr Yeah said RAM's GDP projection for the whole of 1999 was 4.6 percent while the Treasury's forecast was 4.3 percent, a revision of the 1.0 percent growth made earlier).

Prime Minister Datuk Seri Dr Mahathir Mohamad, indicating that the 1999 GDP could exceed the projected four percent, said the economy, which was

insulated by capital controls, was doing better since unscrupulous currency speculators could no longer attack the local currency.

For next year, RAM has forecast that the economy would grow by 6.1 percent against the 7.5 percent contraction in 1998 while the Treasury's prediction is for the economy to expand by 5.0 percent.

Some were even more bullish, projecting that Malaysia would return to its pre-crisis growth levels by averaging an eight percent growth next year.

They also said the country's low inflation rate and large surplus resource position would enable further demand stimulus measures to be taken to sustain the recovery process.

This would be aided by the favourable international economic outlook and a continued low interest rate regime that would spur greater economic activity.

Dr Yeah said Malaysia has excess capacity in several sectors which would boost GDP growth without overheating the economy.

He said capacity utilisation of some manufacturing activities was still less than 100 percent while the RM39 billion overhang in the property sector (up to October 1999) were among examples of excess capacity.

The present non-full employment scenario and hordes of school leavers and new graduates joining the labour force next year also meant upward wage pressures were not around the corner, he added.

Malaysia's labour force is expected to increase by 2.0 percent to 9.194 million workers, while the unemployment rate is forecast at 3.0 percent in 2000.

Asset price inflation was also non-existent, given the absence of a strong stock and property run-up since the crisis erupted in mid-1997, said Dr Yeah.

An analyst pointed out that the economy was now more resilient to potential external shocks and systemic risks following policy measures initiated by the National Economic Action Council (NEAC). These measures relate to the strengthening of Malaysia's external reserves position, financial system and corporate sector.

The analyst also said financing the economy during the crisis was commendable because the government resorted to the cheapest source of funds without over-exposing the country to external shocks.

Malaysia's ratio of short-term external debt to foreign reserves, a key indicator of external vulnerability, stood at only 20 percent last September compared with 52 percent for Thailand and close to 60 percent for South Korea. -- BERNAMA

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