

26/04/1999

Perseverance pays off, economy now under control

Mustapha Kamil

A STRING of encouraging news emerged on the Malaysian economy throughout last week, a complete opposite of the immediate weeks following speculative attacks on the ringgit in June 1997.

Almost two years of perseverance is set to be rewarded.

The Malaysian economy, though not yet fully recovered, is under control.

The Kuala Lumpur Stock Exchange (KLSE), a listless bourse for a good part of the last two years, returned to active state last week.

The benchmark KLSE Composite Index (KLCI) closed last Friday at 646.92 points, a strong 10.49 points higher than Thursday after breaching the 600-point level earlier.

Foreign players were said to be very much in the market, signifying the return of confidence in Malaysian stocks, prompted also in part by the Government's continued pursuit of a low interest rates regime and endorsements by some international financial houses that Malaysia's approach in handling the economic downturn is bearing positive results. The sudden interest was also following a general change in views among Western investment funds towards emerging economies affected by the economic downturn.

Brazil, Chile, Colombia, Mexico and South Korea have all in recent weeks taken advantage from the change in views to tap funds from the international markets.

In Malaysia, some of the top investment bankers gave favourable reports on Malaysia's economic recovery efforts last week.

Investment bank Salomon Smith Barney expressed its confidence that Malaysia will stabilise this year, forecasting the KLCI to hit 700 by the end of the year.

J.P. Morgan and Goldman Sachs, two of Wall Street's big boys also noted Malaysia's fast recovery, recommending that now is an opportune time for the country to venture into the international bond market to raise funds. Rating agencies followed suit, reversing the negative ratings they made just months ago.

Moody's Investors Service upgraded Malaysia's outlook to "stable" from the previous "negative", indicating among others that Malaysia would make a creditworthy bond issuer.

The International Monetary Fund also changed its perception, saying Malaysia should manage a 0.9 per cent growth this year and a 2 per cent growth in 2000.

In Malaysia itself, the Mid-Term Review of the 7th Malaysia Plan (1996-2000) (7MP) was tabled in Parliament last week. There was no shocking revelation in the document.

In a nutshell, the review said the regional economic downturn has in fact affected numerous Plan targets, made the 7MP period one with the lowest ever revised overall growth forecast, outlined readjustment plans and said that if everything goes well, the economy will grow by 1 per cent this year and 5 per cent in 2000.

Reasons for the optimism were plenty, the most visible being the ever-increasing foreign reserves held by Bank Negara Malaysia amid the economic downturn.

Despite heavily criticised for implementing the selective currency rate exchange controls Malaysia's foreign reserves surged 50 per cent to US\$28.2 billion (US\$1 = RM3.80), enough to sustain 6.1 months of retained

imports.

Another economic fundamental aspect which helped has been the current account of the balance of payments, which has remained strong with a surplus equivalent of 13.7 per cent of the gross national product in the tumultuous 1998.

Also last week, Prime Minister Datuk Seri Dr Mahathir Mohamad put away rumours of his health failing, tabling the 7MP Mid-Term Review in Parliament himself, and later saying that the Government is ready to embark on roadshows to raise funds overseas.

This time, the Prime Minister said it openly, against a similar effort previously which was not disclosed until it leaked and the effort thwarted by a sudden downgrading of Malaysia's creditworthiness by rating agencies. It seems this time around the Government is not only confident, but bent on going all out to show international investors the real story about the Malaysian economy, instead of letting investment decisions be based solely on rating agencies rates, and hoping that in the end investment decisions will be made by the latter purely on facts of the economic story than anything else.

On another risk factor, no mention was made on political issues last week as the bullish market players and investment houses zeroed in solely on economic factors, signifying perhaps that as far as Malaysia is concerned, as long as its economy is strong and stable, there is little else to worry.

(END)