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Forging ahead despite uncertainties

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TRIBUTES have been pouring in even before the central bank declared a healthy economic showing for the country during the second quarter of the year.

In the aftermath of the Sept 11 terrorist attacks in the US, there were fears of whether the country would slip into a recession but a strong consumption growth allayed these fears, placing the economy well on track with an expansion of 3.8 per cent.

With this momentum, the second half of the year can see further growth and the full-year growth of 3.5 per cent surpassed.

Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz said the Gross Domestic Product forecast would be revised.

This is even in the event that there is a significantly slower growth in the external environment as the risk of a US recovery setback persists.

Low interest rates resulting in higher private consumption, which jumped 5.6 per cent from a year earlier, emerged as a major growth impetus during the period.

The Government has also stepped up its spending, which surged 15.4 per cent owing to fiscal expansion and public servants' salary adjustments.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister, alluded to the success as a national victory, saying he was just one of many in the team and dismissed suggestions that it was his prescription which pulled the country around.

His reply to the good showing was simple, "We silenced the critics", in reference to the efforts taken by the Government to tackle the effects of the 1997 regional financial crisis.

The domestic economy has undeniably become a major contributor to growth.

The manufacturing sector's performance offered good news, having turned around after contracting for four consecutive quarters, and registering a growth of 5.6 per cent in the quarter.

The uptrend in loans approved and disbursed by the banking system in the second quarter is expected to continue throughout the second half of the year in line with the improved economic activities.

In the last quarter, loan applications and approvals hit their highest level since the third quarter of 2000.

Loan repayments also surged by 13.2 per cent to RM100.1 billion in the second quarter this year from RM88.4 billion in the previous quarter.

Zeti said the low interest rates continued to attract a higher demand for bank credit by the household sector, mainly for mortgage and car loans.

Lending to the property sector now represents about 19 per cent of the total loans, while another 11 per cent is made up of car loans.

In the corporate sector, financing for businesses was also sustained, with continued high disbursements for the manufacturing; wholesale, retail, restaurants and hotels; and transport, storage and communication sectors.

However, corporations continued to reduce their exposure to the banking sector as part of the debt restructuring exercise, which had also resulted in loan repayments by businesses going up during the period.

Nevertheless, improved economic prospects continued to generate interest for new bank borrowings by the private sector.

The good showing could not have been at a better time as interest rates were low, there was ample liquidity and a strengthened banking system.

With fundamentals remaining strong and with a strong fiscal policy, the economy has been well insulated from the worst effects of the global slowdown.

The Corporate Debt Restructuring Committee has closed its four-year-old operations after completing the reorganisation of RM45.8 billion of overdue corporate debt.

Bad debt agency Pengurusan Danaharta Nasional Bhd will monitor the remaining debt restructuring schemes.

During its active four years, it resolved 57 accounts with debts totalling RM45.8 billion. Two other accounts are yet to be resolved.

Market watchers have commended the national debt restructuring vehicle for its role in mopping up the country's corporate debts and restoring confidence in the banking system.

The disbanding of the CDRC reflects a significant reduction of risk in the banking system in relieving the burden of recovering non-performing loans. This is important for the economy to forge ahead.

The banking sector has been reformed, far more comprehensively and quickly than in any neighbouring economies, including those that had no choice but to submit to the International Monetary Fund.

The CDRC with Danaharta and recapitalisation agency Danamodal Nasional Bhd were created in July 1998 to help rehabilitate debt-ridden companies in the wake of the Asian financial crisis.

However, Malaysia, as with other nations, has to continue to face the challenge of rebuilding investor confidence.

The capital market authorities have made it clear that there will be no let-up in efforts to improve the level of corporate governance in the country, which would enhance investor confidence.

Recently-formed Companies Commission of Malaysia, which warns firms of tougher action for companies that do not comply with the laws and regulations, is a good direction to head for developing corporate governance.

The Enron debacle and woes of WorldCom Inc were not due to accounting fraud as of poor corporate governance, which Malaysia can attest proudly that it is ahead of the US.

The Kuala Lumpur Stock Exchange and PricewaterhouseCoopers are conducting a survey on corporate governance to gauge perception and expectations of the level in the country.

It is an important aspect considering that there are companies placed under Practice Note 4 sector of the local bourse which need a good level of corporate governance in their operations.

The Securities Commission is firm about the status of Practice Note 4 companies and has compelled the affected companies to put together a restructuring scheme soon or face the possibility of delisting.

PN4 companies have until Dec 31 to restructure their companies.

As of last month, 48 of the 88 companies, classified by the KLSE under PN4 before Dec 31 2001 have either failed to make a requisite announcement on their restructuring plans or have yet to submit proposals to be approved by the regulators.

They were required to do so before today.

Market researchers have predicted that domestic-oriented industries are expected to lead the next rally on the local bourse, what with the weak global economic outlook.

With uncertainties in the US in the wake of a string of corporate scandals, investors' attention may be diverted to domestic sectors and this will benefit selected telecommunications, infrastructure and consumer

stocks.

The trends are there and the listing of Plus Expressway Bhd in July was one of the most active, with it emerging as the seventh largest company listed on the exchange with a market capitalisation of RM12.45 billion. This places it just behind Maxis Communications Bhd's RM12.99 billion.

The revamped Malaysia Airlines, which unveiled a restructuring plan to resolve its financial problems, will be in a good position to take advantage of the recovery in global air travel which was hurt by the Sept 11 attacks in the US.

Despite the slump in global air travel, some companies have taken the dare like Tune Air Sdn Bhd, which went ahead and took over loss-making carrier AirAsia, introducing it as a budget carrier. This means low fare and no-frills (by slashing its domestic fares by more than 50 per cent than those charged by MAS).

In the industrial sector, some have taken major strides like Petronas Dagangan Bhd, the retail investment arm of Petronas, which managed to overtake Shell as the market leader in the petroleum retail sector business.

This is after venturing into the business for just 20 years.

The plantation sector is expected to continue with the strong performance it recorded during the first six months of the year, based on shrinking supply and growing demand from overseas. Palm oil exports to the European Union surged 54 per cent last year compared with the previous year.

With the Budget 2003 focused on Promoting a Dynamic and Resilient Private Sector (to be tabled in Parliament in September), the private sector can be expected to play a more active role as the prime mover in the economy.

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