

The MALAYSIAN CURRENCY CRISIS

HOW AND WHY IT HAPPENED

Mahathir Mohamad

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Preface

FOR ten consecutive years, Malaysia, a multiracial country which had always believed in the free market, grew by 8 per cent plus annually. It had always been politically stable and economically resilient. Its currency was strong and its international debts were well within accepted limits. Indeed, it was able to prepay loans repeatedly. It was certainly not a candidate for severe recession. A slowdown in growth perhaps, but not economic and financial turmoil.

Yet in July 1997, its currency began to devalue rapidly and its stock market plunged to extremely low levels. The pundits aver that this sudden downturn was due to bad governance and the contagion effect of the fall of the Thai baht. The fall in the value of the ringgit and stock-market capitalisation looked likely to be continuous and could not be arrested. Malaysians were bewildered as they found themselves suddenly impoverished.

The country and the government were completely unprepared to deal with the seriously deteriorating economy. But government leaders quickly identified currency traders and short-term investors as the culprits responsible for the turmoil. But knowing who were responsible for the turmoil was not enough. It was necessary to under-



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stand how they operated and how to counter their attacks on the Malaysian economy.

It is my sincere hope that in detailing the country's experience in handling the economic and financial turmoil, Malaysians will understand the very serious difficulty the country was in and appreciate the measures taken by the government to overcome the turmoil. It is also hoped that Malaysia's experience will provide invaluable lessons to other countries which might face similar situations.



DR MAHATHIR BIN MOHAMAD

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