

- Cutback in public spending by 18% made up of immediate 10% cut across-the-board in public operating and development expenditure. Additional 2% cut in selective areas. This move brings total public spending cuts thus far to a substantial 20%.
- Pay cut of 10% for Cabinet Ministers. Pay cut of 5% for senior civil servants.
- Reduction in number of government sponsored students for overseas education.
- No new corporate listings, rights issues and corporate restructuring allowed through the stock market.

5.3 Six months later, in mid-June 1998, austerity measures were replaced by expansionary fiscal and monetary policies with the Malaysian Prime Minister Dato Seri Dr Mahathir Mohamad and Special Functions Minister Tun Daim Zainuddin regaining control of economic policy. The two leaders were of the view that the crisis was not caused by internal weaknesses but by external factors and agents. During this phase, counter-cyclical and expansionary measures were instituted. In addition to expansionary policies, exchange control measures were also introduced on 1 September 1998 to insulate the domestic economy from externalities.

Counter cyclical / reform measures announced in stages from June 1998 are as follows

- Development expenditure increased by RM7 billion in 1998 to fund projects in the following areas: agriculture, housing, education, infrastructure & public facilities, industrial development, rural development, health, poverty eradication, information technology projects, and asset management company .
- Infrastructure fund established with RM5 billion to revive some critically required large-scale infrastructure projects deferred in the earlier reform packages. Projects revived: mass rapid transit, ports development, highways,

water supply, waste and sewerage disposal. Fund will be disbursed through loans or grants. This Fund was established as an off-budget fund.

- Additional allocations for Special funds, i.e National housing fund, Small & medium-scale industry fund, New entrepreneurs' fund and Export credit fund
- Monetary policy eased through reducing banks' statutory reserve requirement from 13.5% in February 1998 to 8% in July 1998 and 6% in August 1998. The SRR was further eased to 4% in September 1998.
- Interest rate to be maintained at a level that will stabilise currency while allowing economic growth. Essentially a reduction in interest rates.
- Equity and export conditions lifted on all new manufacturing projects, including expansion and diversification, between 1 August 1998 and 31 December 2000. Not applicable to those sectors in which Malaysian companies have adequate capabilities, namely paper packaging, plastic packaging, plastic injection moulding components, metal stamping and fabrication, electroplating, wire harness, printing, and steel services. Financial & Corporate Sector
- Stock market restrictions on new listings, capital-raising exercises and restructuring imposed in December 1997 lifted to enable corporations to raise capital.
- Establishment of Asset Management Company (AMC/Danaharta) to purchase non-performing loans (NPLs) and assets from financial institutions so that latter will be free to increase credit provision to economy. The AMC will then rehabilitate the assets and sell them to new investors.
- Establishment of Special Purpose Vehicle (SPV/Danamodal) to re-capitalise banks. Will inject fresh capital into weak domestic banks while also strengthening core group of stronger banks to face global competition.
- Establishment of Joint Public-Private Steering Committee to expedite corporate debt restructuring. Main aim is to ensure access to liquidity for still viable companies but facing debt problems and to ensure those losses are borne evenly by all creditors and borrower.