CHAPTER 7

RECOVERY OF THE MALAYSIAN ECONOMY

7.1 Introduction

The recovery to the Malaysian economy was first sensed in the first quarter of the 1999 as the economy contracted by only 1.3 per cent. In January 1999, the economy registered a sharp contraction. Then the Malaysian economy witnessed some pleasant development when it recorded some growth in February and March 1999, averaging at 1.4 per cent. Although the overall record stated a contraction of 1.3 per cent for the first quarter of 1999, that modest growth in February and March was vital as it gave confidence that the good days were on their way back. Improvements to the Malaysian economy was then seen when its economy expanded by 4.1 per cent in the second quarter of 1999. Further encouraging scenario took place in the third quarter when growth was recorded at 8.1 per cent. Other indications of the recovery are shown in the following paragraphs.

7.2 External Sectors

The improvement in this sector was one of the reasons that enabled other sectors to recover as well. It was recorded that the Malaysian trade surplus had reached to RM58.4 billion in 1998. However, in 1999, the trade surplus improved by nearly 23 per cent to enable the accounting year to close at RM72 billion. That was a remarkable achievement towards recovery. As a result, the current account position had improved significantly to RM34 billion or approximately 13 per cent of the GNP in 1998. At the same time too, the Malaysian international reserves had also strengthened from USD20.2 billion registered in August 1998 to USD31.7 billion in July 1999, an increase of 60 per cent.

7.3 Foreign Direct Investments

There were positive signs that indicated that there had been some inflow of FDI after the capital controls. It was registered that in the first half of 1999, there was an amount of RM7 billion of approved FDI in the Malaysian market as compared to RM6.8 billion for the same period in 1998. Although the percentage of improvement was quite minimal, i.e. less than 3 per cent, nevertheless, the participation of foreign investors in the Malaysian market contributed significant impact towards recovery. Any improvement in the FDI percentage would likely to boost the market confidence in Malaysia. For the record, the net portfolio cumulative inflow from 15 February 1999 to 11 August 1999 was registered at RM4.2 billion.

7.4 Survey Done By Federation Of Malaysian Manufacturers

In the fourth quarter of 1998, the Federation of Malaysian Manufacturers did a survey with an attempt to check the business confidence in Malaysia. The survey indicated that:

1. The number of companies reporting financial difficulties had gone down tremendously;
2. Higher propensity to import;
3. Improve business activities; and
4. More companies were gearing up to increase export.

7.5 Car Industry

The car production had increased by 10 per cent in January 1999. That 10 per cent was equivalent to additional 14,708 cars produced to meet the demand. The improvement indicated that as the economy was recovering, people were confident that they were able to sustain their standard of livings.

7.6 Interest Rate

The interest rate had declined significantly between mid of 1998 and early 2000. The base-lending rate in March 2000 was recorded at 6.79 per cent compared to 12.27 per cent in June 1998. Lower interest rate would generally encourage more borrowings in order for companies to finance for new ventures and business expansions.

7.7 Inflation Rate

Although Malaysia was one of the worst hit during the crisis, the inflation rate only rose to a controllable 5.2 per cent in 1998. On the hand, the Consumer Price Index had gone down to 2.1 per cent in October 1999.

.8 Industrial Production

A strong recovery was recorded after a continuous decline for twelve nonths in February 1999 when the industrial production grew by 3.9 per cent. Three months later, the index increased by almost 113 per cent to register the production growth at 8.3 per cent. Amazingly, in October 1999, it recorded an index of 27.5 per cent, a tremendous increase of 231 per cent from the figure recoded in June 1999.

Manufacturing had always been classified as one of the most important areas in the industrial sector. Remarkably, the manufacturing achieved a growth of 19.5 per cent in the third quarter of 1999.

7.9 Kuala Lumpur Composite Index (KLCI)

The Kuala Lumpur Composite Index (KLCI) indicates the confidence level in the Malaysian market. As from May 1996 till just before the currency crisis began, the KLCI had been in the range of 1000 points to 1300 points. When the crisis started, the KLCI began to show downfall in the market confidence. The index was declining tremendously and it reached down to 262 points on 2nd September 1998. Ever since then, the KLCI had shown some good signs as it slowly climbed and at one time managed to touch to 991 points on 10th February 2000.

7.10 Consumer Aggregate Demand

This is an important recovery indicator. Here it is measured by looking at the sales of consumer durables. At the moment, the recovery is still weak. However, the fact that the consumer aggregate demand figure now is higher than when the currency crisis started in July 1997 indicates that Malaysia is on its way to economic recovery.

7.11 Financial And Corporate Sector Restructuring

The achievements of Danaharta, Danamodal and Corporate Debt Restructuring Committee have been very encouraging.

a) Danaharta

Danaharta has successfully completed the first phase of what it was supposed to have achieved. It managed to acquire a total of RM 23.1 billion NPLs, amounting to 31.8 per cent of the total NPLs in the banking system. The level of NPLs in the banking sector has been significantly reduced to 12.4 per cent. The process to purchase the NPLs took about 6 months to be completed. That was 6 months faster than the original time target i.e. one year.

b) Danamodal

The participation of Danamodal to recapitalize financial institution has also been successful. Danamodal managed to inject about RM6.4 billion into 10 financial institutions. The contributions made by Danamodal were critical, thus resulting in the capital adequacy ratio of the banking system to increase to 12.7 per cent.

In the process of recapitalization, Danamodal has also appointed their representatives in the recapitalized financial institutions. That was essential as a way to ensure that those institutions were being managed prudently and efficiently.

c) Corporate Debt Restructuring Committee

There had been some progress for Corporate Debt Restructuring Committee in the Malaysian market. However, it is quite a pity that the process of restructuring of the corporate sector remains rather slow. Unfortunately, the progress has been slow because the process requires agreement of all creditors. It is common that banks, in particular, are often been reluctant to settle before full repayment is made. The process of negotiations often takes a long time to reach to the point of agreement. A disagreement from one creditor will jeopardize the whole process of negotiation.

7.12 Factors Influencing The Economy Recovery Pace

Previously, we have looked into areas that the Malaysian economy can be proud of as they are showing some good signs of recovery. It is also important that we should be practical when forecasting how soon the Malaysian economy will be fully recovered. There are a few factors that we must consider when estimating how much time is needed before we can declare that our economy has fully recovered. The factors are:

1. The crisis had led to the United States experiencing a financial meltdown, thus making the American market weak. As the American has a huge influence in the global market, a weak market in its own country may lead to negative impacts in the global market.
2. Although the Japanese market is slowly recovering, the confidence level is still low in Japan. This is reflected when the Japanese investors are more cautious in investing in the multi national corporations in Malaysia. This development may affect local productions in Malaysia. This could lead to shortage of certain products especially electrical goods in the market. Malaysia would then be left with little choice but to import them from other countries.
3. Malaysia has to face stiff competitions from countries like Hong Kong and China in terms of international trade. Hong Kong's currency was severely attacked by the currency traders resulting in devaluation of the Hong Kong dollar. China on the other hand had devalued its currency, a movement to make its currency cheaper in order to boost its exports. Those developments were bad news to Malaysia as they could lead Malaysia to stiffer competition in the international market.
4. Countries that were affected by the crises will also take measures to tighten their trade barriers to protect their local companies. As a result,

some of the Malaysian goods may not be able to penetrate into these countries.

5. Apparently the financial crisis had hit many of the Malaysia's trading partners, thus affecting their financial abilities to purchase the Malaysian goods.
6. There are many countries affected by the crises. In the process of economic recovery, these countries need to borrow loans. As the demand for loans increases and the supplies are quite limited, the interest rates for the loans would increase. Malaysia then will suffer from paying higher interest rates.

7.13 Conclusion

In this chapter we have seen some indications that Malaysia is on its way to economic recovery. It is important to acknowledge that at the point of time that Malaysia is experiencing this recovery, other countries in the region that were also badly hit are also in the process of economic healing.

Some of the measures taken by the Malaysian government had achieved fruitful outcomes while others may require much longer time before any comment can be given. Gaining the success is very important. The shorter the time taken to fully recover, the faster would the Malaysian economy be on its track back to achieve the objectives of Vision 2020 (see Appendix 6).