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Dr M confident growth will still top 8pc this year

PRIME Minister Datuk Seri Dr Mahathir Mohamad is confident that the economy will achieve a gross domestic product (GDP) growth of more than 8 per cent this year despite the speculative attack on the ringgit.

The pace of growth enjoyed since 1997 can in fact be sustained for the next 30 years, he said.

"We will achieve it by continuing with the way we manage our economy since 1987," he told reporters after meeting Kubang Pasu constituents in Jitra yesterday. Dr Mahathir is the Member of Parliament for Kubang Pasu.

He said slowing down the growth of Asean economies is one of the motives behind the currency attacks in the region, Bernama reports.

"They (currency speculators) said the region's growth should be slowed down because the economies are overheating. They want the inflation rate to be higher and the poor countries to get poorer," he said.

"They interfere in the region's economies because they want to make sure what they say is (proved) true," he said.

Asked about the impact of the ringgit's depreciation on the nation's food import bill, Dr Mahathir said: "They want to burden the poor people with the increase in the prices of imported food."

On the Government's move to seek a long-term solution to currency speculation, including imposing a tax on speculators, he said he has a plan but could not reveal it.

Asked how the Government will differentiate between genuine currency traders and speculators, he said: "If they exchange a lot of money in the market, penyanggaklah (then they are rogue speculators)."

ADELIN Ong reports: The idea of imposing a tax on currency speculators is workable once certain details are sorted out, say experts.

In welcoming the move, Sungei Way Group corporate adviser Tan Sri Ramon Navaratnam said: "Currency speculation is an issue which has to be addressed on all fronts, including taxation."

"However, we have to consult various world bodies like the International Monetary Fund, and study the idea carefully to find out whether imposing the tax will (effectively) punish the unscrupulous speculators," he added.

Dr Mahathir had on Wednesday said that the Government was studying the possibility of imposing a tax on currency speculation, a move which is also being considered by certain European governments.

Nobel Prize laureate James Tobin had in 1978 proposed a uniform international tax on spot foreign exchange transactions (including deliveries of futures contracts and options) structured to discourage short-term speculation without affecting long-term cross-border investments.

A tax practitioner contacted by Business Times said what needs to be done is to amend certain laws, for example, to define "speculation".

"This should not be too hard to do... if a person holds currencies for a short period of time and does nothing with it (not hedge like a manufacturer, for instance), then the person is engaging in speculation.

"The only problem is that the tax cannot be imposed offshore, which means that the move will not be effective in countering speculative attacks mounted from outside the country," he said.

MBF Northern Securities chief economist Dr Muthi Samudram stressed that any market-related statement must be well-defined and articulated in a clear manner so that the market can respond accordingly.

Vagueness will cause uncertainty and lead to further speculation on what has been reportedly said, he added.

In any case, he believes that there are already sufficient controls on inflow and outflow of funds, and with the economy "reorganising" itself, the ringgit should stabilise on its own.

On the foreign exchange market, dealers said the ringgit has weathered the storm and the worst may be over.

The ringgit, which closed stronger against the US dollar at 2.7630/80 compared with 2.7880/20 on Wednesday, is said to be finding its own level.

Reasons offered for the stabilising ringgit include news that Bank Negara will not cut the statutory reserve requirements (SRR).

"It was rumoured that the SRR might be reduced by 1 per cent to help improve liquidity in the system, and this has been denied," one dealer said.

Another dealer said Deputy Prime Minister Datuk Seri Anwar Ibrahim's statement that the Government does not rule out using taxation and other fiscal measures to discourage imports and boost exports also provided support for the local currency.

Against the Singapore dollar, the ringgit firmed to 1.8286/31 from 1.8403/41 on Wednesday, and against the yen to 2.3778/42 from 2.3927/72. It also strengthened to 4.3644/51 to the pound sterling from 4.4123/14.

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