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Dr M: Move will insulate economy from abused system

KUALA LUMPUR, Tues. - Malaysia's move to adopt a fixed exchange rate regime will insulate the economy from a system which has been abused by currency traders who reaped huge profits while impoverishing "whole countries, regions and peoples", the Prime Minister said today.

Datuk Seri Dr Mahathir Mohamad was speaking during a "live" interview over radio and television soon after Bank Negara made fresh measures to contain ringgit speculation and to minimise the impact of short-term capital inflows on the economy.

The interview was conducted by a panel comprising New Straits Times Press group editor-in-chief Datuk A. Kadir Jasin, Bernama economic service acting executive editor Yong Soo Heong and Public Bank Bhd's director of economics division Nasaruddin Arshad.

Dr Mahathir said besides regaining control of the exchange rate, the move would free Malaysia to reduce interest rate, strengthen the financial system, enable the economy to grow and boost genuine long-term investment.

It also provides an opportunity to revalue companies whose shares now bear no resemblance to their value as a result of speculative activities.

Dr Mahathir said this option had been studied for some time with the decision taken after considering, among other things, Malaysia's favourable export earnings.

"We would buy and sell in any foreign currency and we have earned more from our exports to pay for our imports," he said.

To a question from a panelist, Dr Mahathir said he did not consider the new measures by Malaysia to be retrogressive.

Instead it was the way the free market system was heading that was retrogressive, explaining that moving away from the Bretton Woods regime had not better reflected the relative value of currencies.

(Bretton Woods is a 52-year-old agreement that set up World Bank and the International Monetary Fund.)

The Prime Minister added that the new measures would neither bring Malaysia a bad image nor affect foreign direct investment.

"Bank Negara will allow investors to convert the ringgit to purchase components while companies can continue to repatriate profits.

"The serious investors who do their study well, stand a good chance of making profits."

The country is however against "hot money" used to repeatedly buy and sell shares to the extent that the share price bears no resemblance to the value of the companies.

Dr Mahathir said in this context, the one-year requirement for share purchases, also announced by Bank Negara, would reduce speculative activity.

"If they buy shares, they have to keep for one year, and the measure is applicable to Malaysians as well as foreigners because foreigners have a way of using locals."

He said more measures would be announced such as those amending laws related to the stock market to prevent speculators from attacking the ringgit as well as undermining the stock market.

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