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Exchange control measures come into full effect today

MALAYSIA'S exchange controls, aimed at insulating the country's economy from external pressures, take full effect from today following staggered implementation of various measures since they were announced on September 1.

As a result the ringgit is no longer convertible outside the country and its exchange rate is fixed at 3.80 to the US dollar. At the same time, export and import of the local currency is strictly controlled and ringgit assets parked overseas must be brought back to the country.

Transfers to residents' accounts now require approval and travellers can only import and export not more than RM1,000 each. No limits are imposed on foreign currencies being brought into the country, but Malaysians can only take out a maximum of RM10,000 in foreign currencies, and non-residents not more than RM1,000 and foreign currencies up to the amount they brought into Malaysia.

Special desks are established at all exit points in the country to assist travellers in their enquiries and to meet the requirements.

Bank Negara had said the measures are aimed at denying speculators access to the local currency thus minimising the impact of destabilising short-term capital flows on the domestic economy.

Immediately affected are the ringgit accounts abroad, payments between residents and non-residents and those for trade settlements, as well as credit facilities maintained by non-residents.

Stricter controls are also in place on payments by residents for investments abroad, credit facilities in foreign currencies, ringgit securities, and import and export of currency notes and other financial instruments.

Banks operating in the Labuan International Offshore Financial Centre have also ceased trading in ringgit instruments.

Foreign direct investors, who remain free to repatriate their earnings, will not be affected because the controls are aimed at containing the impact of short-term capital flows.

Apart from an immediate easing of liquidity in the system, thanks to the repatriation of ringgit assets from abroad, the measures have ended the exchange rate volatility which fluctuated wildly between 3.50 and 4.50 against the US dollar over the past one year.

Prime Minister Datuk Seri Dr Mahathir had estimated that between RM20 billion and RM25 billion is being parked abroad.

With a fixed exchange rate, foreign companies no longer need to hedge while foreign currencies can freely continue to flow in and all profits earned repatriated.

Special Functions Minister Tun Daim Zainuddin had said the measures will prevent economic chaos and spur growth as they insulate Malaysia from global instability.

Commenting on Malaysia's decision at a recent seminar, LIN Associates chairman Tan Sri Dr Lin See Yan said capital controls are an instrument, not a goal, of policy as they only provide temporary shelter to weather the storm.

"The causes of the storm must be tackled head on," he said, not least by reforming the international monetary system and remodelling the post-World War II Bretton Woods financial order.

The overhaul should include a new architecture to handle adequately the

challenge of massive international capital swings, and requires the promotion of greater transparency in currency trading as well as in the operations of the Bretton Woods twins, the International Monetary Fund (IMF) and World Bank.

"They should be made more open and responsive to complement the effective functioning of the reformed global system," he said.

Lin noted that the financial turbulence of the past year had occurred against a background of Asian countries having significantly liberalised their money and capital markets without sufficiently strengthening their regulatory and supervisory systems.

"What has unfolded is the consequence of a fundamental flaw in the international monetary system," he said, and not so much the domestic policies of individual countries, although there is much that can be improved.

Unregulated capital flows had upset the market's ability to adjust in an optimal fashion, to the extent that the value of assets can change significantly overnight, he said.

The "one-size-fits-all" austerity packages being proposed and imposed (by the IMF) target essentially the domestic symptoms and not the international causes of the crisis, Lin added.

The impact of the crisis on Malaysia has been very "deep" but it is fortunate that the country has no external debt problem, which should stand it in good stead to weather the storm.

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