

02/09/1998

Malaysia reclaims exchange control (HL)

Mustapha Kamil; Kamarul Yunus

MALAYSIA is considering a fixed exchange rate system, Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday, a couple of hours after Bank Negara Malaysia (BNM) announced exchange control measures to insulate the economy from an increasingly unstable global financial system.

Speaking at a news conference after a special interview, carried live on television and radio, the Prime Minister said this could happen as early as before the end of the year.

The Government will determine a rate which the market is able to support but in the meantime the ringgit's value will continue to be decided by market forces, he said.

"I would like to see an exchange rate that is basically steady... so that business people know exactly the value of things... rather than having to hedge against fluctuating prices," Dr Mahathir said.

Asked whether Malaysia would have adequate reserves to fend off attacks on a fixed ringgit rate, Dr Mahathir said there would not be any need to do so.

"There is no problem with that... we don't need to defend it... because outside the country you can't trade," he said, adding that the measures were adopted by the Government through its normal decision-making process, and not by Bank Negara alone.

Earlier, BNM acting governor Datuk Dr Zeti Akhtar Aziz said at a separate news conference that the measures are principally aimed at bringing back ringgit currently held overseas. They are also intended to deny speculators access to the currency and minimise 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 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 are also no longer allowed to trade in ringgit instruments.

The measures, Zeti said, are introduced against a backdrop of an anticipated further deterioration in the global economy and financial system.

They are necessary both to insulate the Malaysian economy from further adverse effects and to ensure a stable exchange rate for the ringgit, she said.

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 fund flows, Zeti said.

With the strict rules, the ringgit will lose much of its convertibility abroad from October 1. With immediate effect, transfers of ringgit funds between external accounts require approval from the central bank while from next month similar approval is needed for transfers to accounts in the country.

Withdrawals of ringgit from external accounts also require approval, except for the purpose of purchasing ringgit assets which must be kept for at last a year.

Dr Mahathir estimated the total amount of ringgit kept in offshore accounts at between RM20 billion and RM25 billion.

For trade settlements, exports will now be paid in foreign currencies and all ringgit financial asset transactions can only be conducted through authorised depository institutions.

The restrictive measures, which effectively pulls the rug from under currency speculators as the ringgit will have no value outside Malaysia, are expected to be in force as long as necessary.

"Of course if the world decides that currency trading is not good, (that) it is not a part of the free market system, then probably they (the measures) will be changed," the Prime Minister said.

Also from October 1, travellers are allowed to bring or take out ringgit notes or similar instruments of not more than RM1,000 per person. 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 or foreign currencies up to the amount they brought into Malaysia. A special desk will be established at all exit points in the country to assist travellers in their enquiries and to meet the requirements.

"This is the best solution for Malaysia. We have to act on our own, considering the international community has failed to come up with any meaningful solution to the global financial turmoil," Zeti said, adding that ideally the world should have acted in concert instead forcing countries to act individually.

"We discussed several options with other central banks and with other governments but no concrete solutions were found. What we seek is only to regain some independence in determining our monetary policies based on Malaysia's economic fundamentals," she added.

Zeti said Wall Street's plunge on Monday is an indication that the international situation may get worse before it gets better.

While the economy has held its ground relatively well and the financial sector remains sound, "Malaysia is not waiting for the worst to happen before acting ... these are pre-emptive measures," she said.

(END)