

10/09/1998

Need to remain committed for measures to work

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IT HAS been only one week since the Government introduced capital controls and fixed the ringgit at RM3.80 to one US dollar to isolate the country from currency speculators and focus on rebuilding the economy and already there are signs that the measures are beginning to have positive effects.

Companies that import raw materials and components have started seeing savings in import costs, part of which should soon be translated into lower prices for end-users and consumers.

Exporters, while initially having to face the fact that they will not be earning as much now as when US dollar sales meant higher ringgit profits, nevertheless prefer a stable ringgit to a volatile one.

Interest rates are starting to come down, and soon businesses will be able to obtain desperately needed loans to jump start their operations. This in turn should have a spillover effect on other businesses.

Foreign investors should welcome the measures as there is no longer a need to hedge when the exchange rate is stable. Foreign currencies can continue to flow in and all profits earned can be repatriated without restrictions.

The emergence of a black market for the US dollar is unlikely as Malaysia's population is small and the average income of Malaysians is far better than those of other developing countries.

Bank Negara's measures announced on September 1 cover external accounts, general payments, investments abroad, foreign exchange credit facilities, securities, and import and export of currency notes.

Prime Minister Datuk Seri Dr Mahathir Mohamad said on Tuesday that the capital controls, which effectively ended the ringgit's convertibility abroad, have brought about "very good" results.

"Obviously people have regained confidence, business activities have improved and loans are now available for business people. Generally I think the economy is picking up and I hope this will continue," he said.

Even without calling on the International Monetary Fund (IMF) or other multilateral agencies for financial aid, Malaysia remains in better shape than other countries under attack by currency and stock market speculators.

"We are trying to handle the financial and economic turmoil ourselves - an exercise that involves not just the elected government, but also the administration and the public," Dr Mahathir said.

The Prime Minister warned, however, that certain forces in the financial world do not wish to see Malaysia's latest efforts bring about recovery. They are cracking their heads to find ways to frustrate Malaysia.

"We will see whether they (the measures) fail or not," Dr Mahathir said when asked about a prediction by IMF deputy managing director Stanley Fischer that Malaysia's capital controls will fail.

Critics will certainly point to the 95.50-point drop on the Kuala Lumpur Stock Exchange (KLSE) that very day to support their argument that the capital control measures are not market friendly.

This is not necessarily the case. The previous four days of substantial gains on the local bourse (due to the announcement of capital controls?) made it quite irresistible for investors not to cash in their gains, especially as many felt the market had gone up too fast and needed a breather.

Analysts said the drop, although steep, was actually healthy to prevent

overheating of the local bourse. Their sentiment remains bullish on the back of the positive outlook for the country's economy.

An external factor in Tuesday's fall was the impending resumption of Central Limit Order Book (Clob) trading in Singapore today, with analysts anticipating selling pressure due to the substantial discount in Clob share prices compared with the levels on the local front.

In the event, the key KLSE Composite Index (KLCI) rebounded 11.5 per cent yesterday to recoup half the loss suffered in the previous day. The KLCI surged 40.09 points to end at 389.65. Gainers thumped losers 532 to 130, with 81 counters unchanged and 204 untraded.

"Yes, there was profit-taking on Tuesday but when the index falls as hard as it rises, it is not really reacting to market forces," one analyst said.

Another said that coupled with retail investors coming back to the local bourse looking for better returns than what fixed deposits are giving, the market is seen remaining volatile over the next few days.

Realistically, no one should expect economic recovery overnight. The measures taken thus far have shown some positive signs. This is good. We must continue to monitor the right economic signals and make necessary adjustments where appropriate.

More measures are surely in the pipeline to help the economy recover. When these are undertaken, support and commitment must come from all quarters to ensure their success. We have started the ball rolling. It will be a shame to lose balance before we reach our goal.

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