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Bank mergers to be in place by end of 2000, says PM

DATUK Seri Dr Mahathir Mohamad, in defending his decision to backtrack on an aggressive bank merger plan, said the financial institutions needed more time to consolidate and might not meet the April 1 dateline. However, the Prime Minister said he expected the mergers, which will transform Malaysia's financial landscape, to be in place by the end of 2000.

"We need to shock the banking community into acting. We have been asking them to merge for a long, long time but they have not done anything. So, you need to come with a big stick over their heads and once you do that, they realise that we are very serious about it," he said.

He also said banks had been "shocked" by a central bank plan, announced in July, which directed all 58 financial institutions to merge into six core groups by April 1 2000.

In a wide-ranging interview with Reuters on Saturday, Dr Mahathir also dismissed calls by some foreigners to dismantle capital controls and float the ringgit currency, saying the year-old measures had worked well for Malaysia.

"The controls has not done us any harm. It has not done anybody else any harm except possibly the currency speculators. We don't see any reason why we should drop the controls merely because we are doing well," he said.

As to whether the ringgit-US dollar exchange rate, which has been fixed at 3.80 units per dollar since 13 months ago will be adjusted or revised, the premier said:

"At the moment, no, because we are quite competitive vis-a-vis our neighbours, our competitors in the region. So, we think that it is a good rate to have and I think we will stick by it."

Dr Mahathir said less capital than expected had flowed out of Malaysia since a restriction on repatriated foreign portfolio investment was relaxed on September 1.

"We expect a bigger outflow actually. There were talks that when the controls on repatriation capital invested in equities are removed, then all the investment will flow out.

"And that would amount to anything between US\$3 billion and US\$10 billion (US\$1 = RM3.80). But as it turned out, what went out over a period of time was only about US\$1.4 billion, which is very small."

The Prime Minister also expressed his confidence that the country will return to its long-term 7-8 per cent growth in a few years time, saying the economy is already showing great signs of recovery.

"I think we can achieve that in following years once we get over all these things and get all our acts together, I'm quite sure we'll be able to achieve good growth again," he said, adding that he expects gross domestic product (GDP) to grow by more than 1 per cent this year.

"It looks like it is going to be more than 1 per cent, but officially we are sticking to the 1 per cent. I think we will achieve at least 5 per cent in the year 2000."

GDP contracted by 7.5 per cent year-on-year in 1998, but expanded by 4.1 per cent in the second quarter of 1999, and is expected to register stronger growth in the third-quarter.

Reponding to a question on what can Malaysians expect in the budget for 2000, Dr Mahathir said:

"It should reflect the performance of the economy this year. Since the

performance is believed to be much better than expected, the budget would be probably a little bit more generous in many ways."

On the dates for general election, Dr Mahathir declined to comment but said he is confident of Barisan Nasional's victory. However, the challenge will be to deny the opposition its goal of taking one-third of the seats.

"We think that we have a very good chance. All the indications which we have received show that we will win the election," he said, speaking from his office in Putrajaya.

"The problem is whether we will achieve our aim to get a two-thirds majority ... we think we can do that."

Asked if he would hold polls in November, he said: "It's possible next month ... I want to be able to decide any time I like."

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