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Controls, ban on CLOB main recovery steps: PM

Hardev Kaur in Victoria Falls (Zimbabwe)

VICTORIA FALLS (Zimbabwe), Mon: The two most important measures implemented by the Malaysian Government to revive the economy following the Asian financial crisis were the "frustrating of currency traders and (putting a stop to) the short-selling on the Central Limit Order Book (CLOB)."

CLOB, Singapore's over-the-counter equity market which traded mostly in Malaysian stocks, was set up following the delisting of Malaysian counters on the Singapore Stock Exchange.

The effect of the selective controls, once put in place, "was quite dramatic and immediate", as can be seen from the economic indicators monitored daily by the executive committee of the National Economic Action Council.

"We are on target to achieve 1 per cent growth in 1999 although analysts predict a growth of up to 4 per cent," Prime Minister Datuk Seri Dr Mahathir Mohamad said.

Foreign reserves have topped US\$32 billion (US\$1 = RM3.80), banks are lending again and vehicle and property sales have picked up. In addition, work on infrastructure projects have resumed.

The Kuala Lumpur Stock Exchange Composite Index (KLCI) rose from 262 points on September 1 1998 to over 800 points earlier this year. It closed at 682.86 yesterday, up 2.79 points from last Friday.

Once trading on CLOB was stopped, share prices climbed rapidly, which served also to relieve both the banks and companies of much of the non-performing loans (NPLs) problem.

Contraction of the gross domestic product was reversed and a growth of 4.1 per cent achieved in the second quarter of 1999.

A number of investment houses, analysts and economists are forecasting a growth rate of up to 6.5 per cent for this year. The World Bank and the International Monetary Fund, which had condemned Malaysia's selective capital controls, are also more optimistic now of Malaysia's outlook, having grudgingly accepted that the controls have worked.

Dr Mahathir, here to attend the Third Southern Africa International Dialogue (SAID '99), was speaking on "Malaysia's Experience in Managing Economic Recovery while Safeguarding the Socio-economic Responsibilities". The theme of SAID '99 is Economic Empowerment Through Smart Partnership and the sub-theme is "Win-Win Africa - Smart Partnership for the Generation of Wealth and Economic Empowerment".

It was declared open by Zimbabwean President Robert Mugabe in a specially erected tent on the banks of the Zimbize River.

The first SAID was held in Kasana, Botswana, in 1996 and the second in Swakopmund, Namibia, in 1998.

While other countries turned to the IMF, this was not an option for Malaysia, Dr Mahathir said. The country had to find a solution that would protect it from the rapacious currency traders and stock market manipulators.

Malaysia actually had some experience in currency trading. In the early 1980s, the central bank traded extensively in the currencies of Europe, the US and Japan.

"It was pure speculation and the funds available were not adequate to move the market. In the end, Malaysia lost a lot of money and decided to get out of the activity. But the knowledge gained was useful,

nonetheless," Dr Mahathir said.

Malaysia studied the mechanism of currency trading thoroughly as part of efforts to devise a solution to overcome the currency crisis, and it quickly became obvious that the free convertibility of the ringgit, which facilitates trade, is also the Achilles' heel of the economy.

"We had to stop the free convertibility and to reassert the sovereignty of the Government over our currency," he said.

The ringgit was made worthless abroad and its exchange was fixed at RM3.80 to one US dollar, a rate "that is neither too high nor too low". Once these measures were implemented, business was spared the uncertainties of fluctuating exchange rates and the need to hedge. The repatriation of ringgit deposits from abroad also meant that banks had more money to lend, and interest rates could be reduced without fear of traders devaluing the currency further.

The rapid rise in NPLs was reversed. Debtors became solvent and could borrow again, and access to funds for productive purposes was re-established.

An asset management company was set up to buy over the NPLs, as were a company to recapitalise banks and a committee to facilitate corporate debt restructuring. Another reform measure which Malaysia has been able to pursue, thanks to the window of opportunity provided by the selective capital controls, is the ongoing consolidation of the financial services sector.

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