

08 FEB 1999

DAIM-ECONOMY

DAIM DOES NOT FORESEE MASSIVE OUTFLOW OF FUNDS COME SEPTEMBER

KUALA LUMPUR, Feb 8 (Bernama) -- Malaysian economic tsar Tun Daim Zainuddin said he does not foresee a massive outflow of funds after the 1-year moratorium imposed on the repatriation of portfolio funds ends on September 1 this year.

There is still a lot of profit to be made here, said Daim, who holds two Cabinet posts, Minister of Finance I and Minister of Special Functions.

"The stock market is improving and the economic recovery process is in place. The economy is moving again and the real economy is responding to the Government's measures," he told participants at the CLSA Malaysia Conference on "What Lies Ahead ?" here today.

Daim said the 1998 third quarter numbers did indicate some bottoming out of the economic slowdown and expected that the fourth quarter results will confirm the beginning of an upswing.

He also said prices on the Kuala Lumpur Stock Exchange had improved and the benchmark Composite Index, which was hovering around 262 points on September 1, 1998, had now shot up by 100 percent.

The Composite Index today ended at 526.10 points.

Capital control measures, which include the moratorium on the outflow of funds and fixing the ringgit at RM3.80 to US\$1.00, did not warrant the harsh treatment it had been subjected to, he added.

"Ours are actually selective exchange controls which are not in any way intended to affect the normal conduct of the economic activity. They are not aimed at preventing the free flow of foreign capital. Rather it is aimed at containing the speculation of the ringgit and minimising the vulnerable impact of short-term capital flows," Daim said.

He reasoned that it was imposed with the hope of creating an environment that is conducive to the restoration of investor confidence and providing breathing space for the country to undertake economic stabilisation measures.

He said foreign and local companies had agreed that the capital controls had been mild and helpful.

"Only the fund managers and certain media seemed to have taken the opposite view," he added.

He said the currency control is an issue which continues to require clarification even to this day as he still comes across confusing and negative reports about it by individuals, analysts and investors.

He also said the Government had been receiving feedback regularly about the fear that come September 1999, there will be a massive exodus of capital from Malaysia which will have adverse effects on the economy and put the recovery at risk.

"We are aware of this issue and the Government is instituting an exit levy which will help portfolio investors repatriate their funds before the 12 months lock-in period," he said, adding that the Government is always flexible in implementing its policies.

He added that the outbreak of the Brazilian crisis underscores very much what Prime Minister Datuk Seri Dr Mahathir Mohamad had been saying for a long time and which had been resisted so much, that is, the need to have in place a global mechanism to regulate the flow of short-term capital and oversee the role of hedge funds which have the capacity to wreck even strong economies.

"This, I hope, will be the central challenge for the economic and

financial leaders in the year remaining before we reach the next millennium," he added.

Daim also said the strong linkages between the financial system and the real economy cannot be overemphasised and the setting up of Danaharta, Danamodal and the Corporate Debt Restructuring Committee (CDRC) is, to a large extent, a recognition of this.

"In the absence of loan growth, the prospects for economic recovery would be weaker. That is why measures had to be taken to restructure the banking sector, remove non-performing loans from the system, recapitalise banking institutions and facilitate debt restructuring."

He said nine financial institutions had received capital injection totalling close to RM5 billion from Danamodal which is also developing a blueprint for the Malaysian banking industry that is to be finalised by the end of this month.

He added that Danaharta had taken over a total of RM21.8 billion non-performing loans to date.

"Both Danaharta and Danamodal will now be moving to the next phase of activity. Danaharta will look into the management of the assets it has acquired while Danamodal will meet the challenge of restructuring the financial institutions to make them stronger and more competitive," he explained.

On the CDRC, which was to provide an approach to the banking sector to play a greater role in the financial rehabilitation of the corporate sector, Daim said the Steering Committee of CDRC has so far received more than 30 applications involving more than RM9 billion.

Daim also gave the assurance that Malaysia's growth strategy in the next millennium will continue to be private sector-driven and the Government will spare no efforts in creating a conducive business and investment environment to stimulate private sector activities. -- BERNAMA

MSL LPS