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Mahathir-tax

DECISION ON EXIT TAX IN FEW WEEKS, SAYS MAHATHIR

KUALA LUMPUR, Feb 1 (Bernama) -- The government will decide whether or not to impose an exit tax in a few weeks' time to enable early repatriation of foreign capital, Prime Minister Datuk Seri Dr Mahathir Mohamad said today.

"We are studying areas including an exit tax in order to facilitate foreign equity investors to take out the capital they have brought in probably earlier than Sept 1 this year," he said.

From Sept 1 last year Malaysia required foreign equity investors to lock in capital in the country for at least one year in efforts to stabilise the stock market.

After Sept 1 this year, they are free to take out their money.

Asked whether the imposition of an exit tax was a certainty, he said: "We can't be certain yet, because it depends on the study by the National Economic Action Council and its recommendations to the government.

"However an exit tax should be favourable to us (Malaysia) and them (foreign investors)."

The prime minister was speaking at a press conference at the KL International Airport in Sepang upon his return after attending the World Economic Forum in Davos, Switzerland.

He was received by Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi and Transport Minister Datuk Seri Dr Ling Liong Sik, among other dignitaries.

Of late, there has been high expectation that the government would impose an exit tax to give foreigners flexibility in repatriating their monies earlier than the one-year moratorium.

Asked how much of the foreign funds would flow out, Dr Mahathir said there was a possibility a lot of money would go out but he did not think that was going to happen.

"A lot of them want to come in, not go out," he said hinting that the Kuala Lumpur Stock Exchange (KLSE) still had the potential to regain its days of glory and remain an attractive regional equity market to invest in.

As a measure of the foreign funds locked in Malaysia, he said it was about 23 per cent of the market capitalisation of RM300 billion, which works out to about RM69 billion.

"That is considerable. What they brought in was less than 23 per cent but since the market had appreciated, of course their holdings are much more," he said.

Dr Mahathir also said that the government was still not yet certain how to treat capital brought in and the profits or capital gains made in the country.

Asked on the benefits of an exit tax, he said: "When you put an exit tax, you get some money out of the funds that are being taken out.

"But if you wait until this one year, then they can take out the funds without paying anything to us."

Asked what were the criticisms hurled at Malaysia for imposing drastic measures to protect its economy, he said foreign fund managers actually did not understand what the selected currency controls imposed in Malaysia meant.

"They assumed that the controls did not allow the flow of money in and out of the country at all, but when told that there were no restrictions on foreign currencies, they began to understand," he said.

Dr Mahathir said the restrictions on currencies only applied to the ringgit and that all business transactions were unaffected.

Foreign investments continued to be welcomed in Malaysia, he said.

"However funds brought in for investment on the stock market has to stay in the country for one year," he said.

This was the issue which was misunderstood initially, but after the explanation, fund managers and banks in particular, understood that the controls were not too stringent, he said.

The prime minister said that the problem was with the media and economic analysts who seemed to be harping on the same issue and did not recognise what Malaysia had done.

They assumed that the measures taken by Malaysia would adversely affect the economy over the long term, he said.

He said:"But when we mention China which imposed capital controls a long time ago with the economy growing rapidly, they do not have any comments."

There was now a better understanding and appreciation as well as more support for some controls or regulation of currency trading, Dr Mahathir said.

"Many have mentioned the need for currency controls," he said adding that Singapore Senior Minister Lee Kuan Yew also touched and these controls and that many were supportive of such currency controls.

"Those who did not mention currency controls tend to highlight the need for transparency in the financial sector of the countries affected by the economic crisis. But when asked whether currency trading itself was transparent, they seem to be embarrassed.

"This is because while they asked others to be transparent, they themselves are not transparent," he said.

When asked on a proposal by the United Nations for a panel to formulate a global financial architecture, Dr Mahathir said they were just making proposals but did not understand what needed to be done.

"It looks like nothing can be done," he said.

Dr Mahathir said what was needed was that currency trading should;

- \* be open;
- \* be conducted in a fixed place with detailed reports so that the traders could be identified;
- \* reveal how much was involved;
- \* reveal the currencies used; and
- \* reveal which country the traders originated from.

He also stressed that banks should not give loans to hedge funds by as much as 200 times their capital and that one or two times the size of their capital was adequate.

As such, hedge funds would not have too much money to buy and sell currencies to the extent of controlling and being able to destabilise and cause havoc to currency markets, he added.

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