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Dr M: Our position better understood after explanation

Hardev Kaur in Davos, Switzerland

MALAYSIA'S selective capital controls are better understood among fund managers, bankers, businessmen and investors following the explanation by Prime Minister Datuk Seri Dr Mahathir Mohamad.

"Apparently they did not really know what we have done. Once we explained, then they have a better appreciation.

"With an explanation, the misconception and misunderstanding is reduced and they are not so antagonistic towards the measures we have taken so far," Dr Mahathir said.

Speaking to Malaysian journalists, Dr Mahathir said that judging from the questions asked (on the issue), it showed that they wanted to know more.

Once it was explained to them, they would appreciate the measures taken and would not be so critical, he added.

What many failed to appreciate is that Malaysia went into the controls from a position of strength. The country had sustained growth with low inflation over a period of time.

The country's current account deficit was financed by direct foreign investments and its external debt at the end of 1997 stood at US\$43.6 billion while the short term debt was US\$11.2 billion.

Reserves at US\$20 billion in July 1997 were more than sufficient to cover the short term debt unlike other countries.

Earlier, at a Press conference with the international media covering the World Economic Forum (WEF), Dr Mahathir was asked about his statement in Kuala Lumpur that he wanted to find out why Malaysia was being criticised.

"I wanted to know why we have been criticised for our currency controls when what we are doing has not affected anybody else."

He said that there was some confusion that Malaysia's measures meant a total halt in the movement of funds. This certainly was not the case, he said, adding that the only control was over the flow of short-term capital.

Queried on what was the biggest problem, Dr Mahathir said it was the media reports.

He said they did not understand the issue and sometimes deliberately provided wrong interpretations which gave rise to misconceptions.

Asked about improvements to the controls, Dr Mahathir said discussions have been held and various measures being looked into, including exit tax and most favoured investors.

Replying to another question, he said if there was any slowness in the inflow of foreign capital it was only temporary.

Speaking to newsmen, Bank Negara adviser Datuk Nor Mohamed Yakcop, who is also in Davos, said the stock market index which rose from a low of 260 in September to about 600 now represented an increase in market capitalisation of more than RM220 billion, from RM181 billion in September to about RM400 billion now.

The leading indicator of economic turnaround is perhaps loan approvals. These have increased in Malaysia since the controls. Between January and August last year, total loan approvals by the banking system averaged RM4.2 billion a month. This increased to RM7.2 billion a month between September and December 1998.

Similarly, consumer confidence is also returning as seen from the improved wholesale and retail trade. The Department of Statistics business

expectations survey for the wholesale and retail trade shows gross revenues increased in the second half of last year to 7.3 per cent from a decline of 37.4 per cent in the first half of 1998.

Inflation has also moderated to 5.3 to 6.2 per cent, the base lending rates has been reduced from 11.7 per cent to 8 per cent, retrenchments has fallen from 12,335 in July to 5,137 in December and passenger car sales rose from 5,724 in February to 16,427 in November.

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