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Exit tax may replace holding period (HL)

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KUALA LUMPUR, Mon. - Malaysia is considering the introduction of an exit tax for the early repatriation of capital, Prime Minister Datuk Seri Dr Mahathir Mohamad told 28 visiting fund managers today.

The tax will replace an existing regulation imposed on Sept 1 last year to disallow foreign investors from repatriating the principle of portfolio investments until Sept 1 this year, or 12 months from the date of investment, whichever is later.

The holding period was introduced as part of a series of controls to insulate the country and the ringgit from speculation, and to minimise effects of the economic crisis.

The National Economic Action Council said in a statement that the Prime Minister also addressed concerns of an outflow of funds from the country from Sept 1 this year.

It said Dr Mahathir told the fund managers that Malaysia was working on steps to attract more foreign investors by making certain adjustments that will be announced in due course.

Chief representative of Malaysia equities in Salomon Smith Barney Malaysia Yeo Kar Peng, who attended the meeting, said Dr Mahathir also briefed them on the currency exchange rate controls.

The NEAC statement said Dr Mahathir assured the visitors there will not be any changes in the Government's economic policies.

"The economic problems were due to currency trading and stock market manipulation. We have dealt with that and the rest remains unchanged."

The fund managers from Asia, the United States and Europe were brought in by adviser to the Government, Salomon Smith Barney, as part of a "reverse road show".

They met with First Finance Minister and Special Functions Minister Tun Daim Zainuddin, Danamodal Nasional Bhd chief executive officer Mohd Daud Dol Moin, Pengurusan Danaharta Nasional Bhd chief executive officer Azman Yahya, the Corporate Debt Restructuring Committee chairman Datuk C. Rajandram, and Bank Negara deputy governor Datuk Dr Zeti Akhtar Aziz.

Dr Mahathir reiterated that the introduction of selective capital control measures do not mean that the Government is against foreign direct investment.

"We are not going to cut ourselves (off from the global economy)," he said. He added that over the years, foreign investors had played a major role in developing the economy.

Rather, the controls have shown positive results, judging from the trade surplus and the increase in Malaysia's foreign reserves. Exports in US dollar terms have also increased lately.

The measures which led to the closure of Singapore's Central Limit Order Book International, also had a positive effect on the Kuala Lumpur Stock Exchange. The benchmark Composite Index recovered from a low of 262 points on Sept 1 last year to trade at above the 600-point level currently.

Commenting on the re-trading of Clob shares on the KLSE, Dr Mahathir said a fair solution will be found.

"In order to be fair to them, we cannot be unfair to us ... We are studying the matter carefully."

Speaking to Bernama after the hour-long meeting, Yeo said Malaysia's need for currency exchange rate controls was now better understood and appreciated.

She said that investors would want to be able to bring money in and out with ease.

"However, they do understand the need for the controls and their significant applications, especially with the decline in the country's Gross Domestic Product in the second-half of last year.

"People understand why we need to implement capital controls. The question now is whether we are going to remove or whether it is going to be refined."

Among the major international fund managers present at the meeting were those from Prudential Investment Management, Loomis, AIG London, Black Rock Financial, TCW, Guinness Flight Hambro Asset Management, Columbus Advisors and Fineco.

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