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HARD TO TELL REAL RESULTS OF MALAYSIA'S CAPITAL CONTROLS, SAYS IMF

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SINGAPORE, Oct 18 (Bernama) -- International Monetary Fund (IMF) first deputy managing director Stanley Fischer is still not convinced about the effectiveness of the capital controls used by Malaysia and said it was hard to tell the real results of its implementation during the regional economic crisis.

"The controls were imposed at a time when capital flows to the region were strengthening in all countries and most countries' currencies had strengthened since then.

"The controls were not tested against downward pressure, against withdrawal pressures," he said at a news conference on the sidelines of the East Asia Economic Summit here today.

Earlier, Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad, speaking of Malaysia's recovery and economic fundamentals in a keynote address at the same summit, said currency control was a hard act to pull off successfully.

"I do not advocate it for anyone. I do not advocate it for Malaysia under very different circumstances. But no one has come to the conclusion that the currency measures which we introduced on Sept 1, 1998 have been a spectacular failure," he said.

Fischer said it was in Malaysia's favour that the country had persisted in financial sector restructuring after the imposition of the controls amid fears that countries may use such measures to avoid reforms.

He said it was also significant that the controls had been relaxed substantially and were now price-based.

There was now "much more convergence" between Malaysia and the international community with regards to capital flows, in particular to welcome rather than discourage foreign direct investment, said Fischer.

He conceded that there was closer consensus that capital controls could be used as an interim measure against short-term fund flows where financial systems or macroeconomic policies were weak.

Turning to the fast recovery of the region, Fischer warned against complacency and urged countries, including those with economies that were doing well, to strengthen their economic structure and financial systems to ensure sustainable growth.

"I have cause to warn against complacency. As recovery gets underway, the more one had to fear that fundamental restructuring, which is underway, and corporate restructuring, which is less underway, could be slowed down," he said.

He also said those with weak systems will be vulnerable against international fluctuations which will happen because "they cannot be avoided". -- BERNAMA

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