01 SEP 1999
OUTFLOW-UNFOUNDED
NO EXODUS OF FUNDS, PROPHETS OF DOOM SILENCED

KUALA LUMPUR, Sept 1 (Bernama) -- All the alarm bells and anxiety over the exodus of equity funds came to nought today when it failed to materialise while the prophets of doom were silenced over what is surely their poor grasp of the fundamentals of the Malaysian economy.

With effect from today, portfolio funds that came into Malaysia on Sept 1 last year or earlier can be repriated without any levy.

Undoubtedly, the lifting of the moratorium on the repatriation of portfolio capital today was a non-event as Malaysia's economic recovery, evidenced by the 4.1 percent growth in the second quarter, placed the economy in good stead to withstand such possible shocks.

Although the Kuala Lumpur Stock Exchange (KLSE) ended the day lower by 14.15 points to 752.91, there was no major sell-down and earlier fears of a massive outflow were mainly unfounded, given the moderate selling volume in the today's market.

Analysts and stockbroking circles described the repatriation deadline and today's market situation as a non-event.

There was little or no impact on the KLSE and dealers attributed the market's easier close to negative influences from the lower overnight Wall Street market.

Bank Negara Malaysia (bnm) today announced that a total of US$328 million of portfolio funds was repriated from the country today, an amount which was described as small.

There was also good news today when Malaysia reported its 21st consecutive monthly trade surplus of RM5.8 billion, thanks to a faster growth in exports versus imports, which dealers said reflected the country's improving economic fundamentals.

Datuk Megat Najmuddin Khas, president of Federation of Public Listed Companies (FPLC), referred to the lifting of the ruling on capital repatriation today as a non-event, especially as far as the domestic equity and the money markets are concerned.

"I didn't see any knock-down in the stock market today. Of course, with selective currency controls, it (the outflow of foreign funds) will not have any effect on the ringgit as well," he said.

Najmuddin said this has proven the sceptics wrong who had earlier predicted that the equitty market would witness a massive knock-down in share prices today when the ruling on portfolio capital ended.

" If it is a non-event today, I don't think it will otherwise in the coming days," said Najmuddin."Given the present scenario, I don't see any change. If anything, the change will be positive and the market will improve."

On the small trading volume on the KLSE, Najmuddin said market players were probably adopting a-wait-and-see attitude.

He said they would probably be awaiting for the announcement of the general elections.

"Another factor is the currency, for which the ringgit -- to the mind of most currency traders -- is undervalued at its current peg of RM3.80 per US dollar when compared with the Thai baht or even to the Indonesian rupiah," he said.

Tan Sri Ramon Navaratnam, corporate adviser to the SungeiWay Group of Companies and a former banker, said it was now clear that all the alarms sounded by the foreign analysts had come to nought.

"It shows how important it is to rely on our own resources and not pay attention to foreign analysts who obviously have their own interests to promote," said Navaratnam.

Apparently, investors, who were nervous, had been taking out their portfolio funds after Feb 15 this year and only those who were strongly confident of Malaysia's economic fundamentals and prospects stayed back.

"They will be no doubt be rewarded by their good sense of judgement," he said.

However, he said Malaysia might need to revise downwards the 30 percent levy on profits imposed on investment on Feb 15, 1999.

"The 30 percent levy could be too high when compared to the absence of any in neighbouring countries. After all, we've got to compete for foreign portfolio funds," he said.

As to funds brought in on or after Feb 15, 1999, the repatriation of profits earned within a period of up to one year from the date the profit are made are subject to a 30 percent levy.

The levy will be reduced to 10 percent if the profit is repatriated after one year from the date the profits are made.

"I believe that the stockmarket would strengthen as foreign funds will continue to flow in," he said.

Former BNM deputy governor,Tan Sri Dr Lin See Yan said the anniversary of the imposition of selective capital controls has turned out to be a non-event.

"I should point out that two factual pieces of information have been missed by most.

"Namely, from Sept 1, 1999 the exchange controls on foreign portfolio capital are lifted for all practical purposes," he added.

He added that the September 1998 quantitative restrictions had been replaced effectively by a price-based restriction, which essentially is a capital gains tax first introduced in February this year and which is clearly preferable.

Dr Lin also said the price-based restriction does not apply to either the capital employed nor the profits gained so long as the profits made are not repatriated.

"The time-based "capital gains" tax is only applicable when the profits are repatriated. Profits made and retained in Malaysia are not subject to capital gains tax," he pointed out.

From today, there are no exchange control restrictions on the outflow of foreign portfolio capital. There is only a tax on profits repatriated, which is not fundamentally an exchange control matter.

Last week, Dr Lin pointed out that the selective exchange control measures are not anti-IMF (International Monetary Fund) but are indeed IMF-consistent while the ringgit remains convertible.

"They are not destructive and are not devices to protect an inappropriate fixed exchange rate," he said.

An stockbroking analyst requesting anonymity said Malaysia could withstand any capital outflow after Sept 1 as its liquidity ratio was among the highest in the world as the country's reserves stood at US$32.3 billion, an amount sufficient to finance seven months of retained imports.

He said that "some amount of portfolio funds may go out but we do not think it is going to be significant and something to be worried about. While some may be pulling out their money, others are in no hurry."

With the bullish outlook of the economy and the reinstatement of the KLSE into the Morgan Stanley Capital International (MSCI) Emerging Markets Free Index from February 2000, the local bourse is set to rise further, he said.

"Interestingly, all the fears about Sept 1 is baseless as the stock market has been doing well," the analyst said."When there are profits to be made in the country, there should be no reason for foreign investors to withdraw from the market."

He said there are also investors who were switching their investments to stocks listed on the MSCI index, which are also bluechip stocks.

Last week, Bank Negara Malaysia's release of second quarter Gross Domestic Product (GDP) data confirmed that Malaysia was out of the recession. The announcement of a return to GDP growth came a week before the one-year anniversary of capital controls.

Malaysia's imposition of selective currency controls has been described as bold in concept, breath-taking in its implications and the reaction they evoked worldwide was ballistic.

Prime Minister Datuk Seri Dr Mahathir Mohamad has said that the curbs on foreign exchange flows were neccessry to protect Malaysia's stock market and ringgit against speculative attack and paved the way for economic recovery.

But with this decision, Dr Mahathir was strongly criticised in the international press and this condemnation continued unabated for almost a year.

It was only recently that opinions on currency controls had changed for the better among foreign circles. There has been a greater willingness to concede that capital controls had some merit and may be a viable policy instrument in crisis situations.

An economist, who did not want to named, said the market did not see any major outflow of funds that would adversely affect the stock exchange or the money market.

"The market did not really react to it today and even the money market is behaving itself," he said.

A futures market dealer said there was some outflow of funds from the country today but the amount was minimal and way below initial expectations.

But he said it was still too early to gauge the impact of outflow of foreign funds because it would take some time to repatriate the funds. -- BERNAMA

TM SHY