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OUTFLOWS-SEPT 1 DEADLINE

NO MASSIVE OUTFLOWS EXPECTED ON SEPT 1

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KUALA LUMPUR, Aug 30 (Bernama) -- The increasingly large inflow of foreign funds into the domestic market for the long-haul plus Malaysia's stronger foreign reserves will diffuse the brouhaha surrounding the lifting of the moratorium on foreign portfolio capital on Sept 1, say analysts.

Many have jumped on the bandwagon to say that Sept 1 would be a "non-event", a description that was first used by Kuala Lumpur Stock Exchange president, Datuk Salleh Majid, some three months back.

Such optimism is on the rise of late amidst the improved economic indicators. For instance, until Aug 11, 1999, there was a net inflow of new portfolio funds amounting to RM4.2 billion while international reserves as at Aug 14, 1999 stood at US\$31.9 billion, sufficient to finance 6.8 months of retained imports.

Most of the analysts say that the KLSE would stay at the current level come Wednesday while for the money-market, outflows, if any, would be minimal.

"The whole Sept 1 outflow issue (when the one-year locked-in period for portfolio funds expires) has already been discounted by both markets," an analyst said.

Had there been huge deliveries meant for Sept 1, the ringgit transactions would have been done from last Thursday but until today, the foreign exchange market has been quiet, he said.

As for the stock market, there would not be much selling since most of the selling had been done two weeks ago. "The cash outflow that you should watch out is from the banks, not from the share market," a dealer said.

The National Economic Action Council (NEAC) said recently that "any outflow would be temporary and these funds will return for reinvestment, given the positive trends that are emerging in the underlying fundamentals of the country."

However, some analysts maintain that Bank Negara Malaysia is already geared up for this occasion and that any outflow would be "chicken feed" compared to the huge amount of funds eager to gush into Malaysia because of the country's improved investment potential.

A dealer estimated that BNM has excess liquidity of between RM45 billion and RM60 billion while the outflow in portfolio funds was earlier expected at US\$6 billion.

BNM, he added, has also taken into account the "worst-case-scenario" and is well-prepared, thus there is no cause for alarm. With the ample reserves, Malaysia can sustain the withdrawals.

Sharudin Abdul Majid, assistant general manager (broking services) of Amanah Butler Malaysia Sdn Bhd, said some foreign investors had already re-invested for the long term.

The latest 4.1 percent gross domestic product (GDP) growth for the second quarter of this year as well as the re-inclusion of Malaysia into the Morgan Stanley Capital International (MSCI) Emerging Markets Free Index from next February, have made investors think twice about leaving the market.

The hike in the US interest rates recently too makes the Malaysian stock market an attractive place to invest, he added.

Against such a scenario, analysts say that Malaysia is well-placed to withstand any potential outflow of foreign portfolio investments, estimated at between US\$5 and US\$7 billion, should it occur, when certain taxes on

repatriation of portfolio funds are lifted.

While some outflow would occur, much of it would be mitigated by new or reinvestment in Malaysian equities.

The rule on one-year holding of portfolio capital was liberalised from Feb 15 this year to allow foreign investors to repatriate principal capital and profits, subject to a graduated levy depending on when the funds were brought into Malaysia and the duration of the investment.

The rule facilitated a more graduated outflow of funds prior to Sept 1, 1999, so this should have removed further fears of a mass exodus, the analyst said.

The government has made it clear that as a matter of policy, long-term investments in the country will always be welcomed and the present repatriation levy system was designed to achieve this objective.

Economics guru Prof Paul Krugman, who once adopted a sceptical stance on Asia's growth prospects after the financial crisis, recently congratulated Prime Minister Datuk Seri Dr Mahathir for imposing capital controls.

"Malaysia has been able to come out of the recession in the shortest duration. I believe Sept 1, 1999 will come and go just like any other day. I am not expecting to be alarmed because we are talking about a country that has vast reserves. So, be rest assured that nothing terrible will happen," he said.

Malaysian Investors' Association President Dr PHS Lim said the Sept 1 deadline should not be a serious matter altogether for the KLSE investors.

At around this time last year when the country received the full brunt of the economic crisis, the local stock market was driven to very low levels.

"At that time, most of the hot money was drained out as a lot of foreign fund managers were frightened by negative rumours," said Dr Lim.

But with the real recovery of the local economy amidst clearer signals like the improved financial market and the continued stability of the ringgit, foreign investors would be encouraged to stay rather than flee, he said.

Furthermore, prices on the KLSE at this stage are still low when compared to other Asian stock markets, especially Singapore and Hong Kong, he said.

"Therefore, the KLSE has more room to advance and consequently narrow its discount to other markets," he added.

In adopting an optimistic stance, Dr Lim said there is no cause for worry, adding that "everybody should have faith in the economy and support the country." -- BERNAMA

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