

03/09/1999

PM: Capital measures will not be dropped

Adeline Ong

THE selective capital controls Malaysia introduced last year will not be dropped since they do not harm anybody, Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday.

He said he does not understand why people are so worried about the controls.

"It is too soon to think about refining capital controls. Why are they saying 'Why shouldn't you drop the controls?' It has not done us any harm, it hasn't done anybody any harm," he said.

Asked to comment on the International Monetary Fund's (IMF) expectations that Malaysia's gross domestic product will be 2.5 per cent this year, Dr Mahathir said the IMF has its own opinions.

"He is not saying 'We are wrong and the Malaysians are right'. He is going to justify what the IMF does, the recovery of these other countries is actually due to not following IMF's advice.

"As you know, they initially raised interest rates, tried for a surplus budget, reduced government spending and went into a tailspin.

"But subsequently, they decided to reduce interest rates, made more money available and did not restructure the way they were asked to restructure. The big corporations were not dissolved - and this is not the IMF's advice ... but it is going against the IMF's advice that has enabled them to recover.

"After the Long Term Capital Management (LTCM) fiasco, banks are more cautious in lending money to hedge funds and hedge funds are not able to depress the currencies at will.

"So, the currencies are not subjected to that much of a threat before the LTCM affair," Dr Mahathir said.

At a press conference after delivering his keynote address at the symposium held in conjunction with the first anniversary of the implementation of capital controls, Dr Mahathir said Malaysia had always been convinced that the economy would turn around.

"Otherwise we would not have done something that we know the whole world would condemn us for doing. We were quite convinced. The only thing we did not know was the speed of the recovery.

"Almost as soon as the controls were imposed, good figures were coming in. Reserves were up, exports increased, imports decreased, we had a good balance of payments, the stock market index went up. We were immediately assured that we had taken the right step."

Asked if there are any plans to change the fixed rate of the ringgit, Dr Mahathir said it is strategically more important to have a stable currency.

"For as long as possible, we want to maintain a stable exchange rate because it is good for business. The business people know that the currency is not going to change and they do not have to waste money hedging.

"Otherwise, they will have to hedge against fluctuations in the exchange rate and this is a cost to doing business. A fixed exchange rate, a stable exchange rate is good for business and trade," he said.

He added that the Government will not review its fixed rate (of RM3.80 to US\$1) unless currencies of Malaysia's neighbours drop by more than 100 per cent, which will make them more competitive.

"We may then consider ... but before we consider that, we will think of

other measures because we really do not want to fiddle around with the exchange rate."

Dr Mahathir also said that the country's recovery is not due entirely to exchange rate controls but to other measures too.

"It is also due to scores of other things we have done to revive the economy. For example, when we found that there was a huge property overhang, we organised a special property-owning campaign.

"When we found that sales of cars were not doing well, we studied why, and we solved the problem. We do a lot of other things, including encouraging more exports, more manufacturing, reducing imports and having our own production of food."

On the performance of the stock market, Dr Mahathir said that he is not too worried.

"It will increase eventually. Even when the stock market hit 1,200 points and above, we were worried because it did not reflect the performance and assets of the companies.

"The value of shares increased purely on speculation and that had bad effects on the companies because they tended to borrow on very high share values. Therefore, when shares plunged, they could not make margin calls, so that was a problem. Today, I am quite happy with the levels we are receiving."

(END)