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MAHATHIR-DANAHARTA

RESTRUCTURING SHOULD NOT BE DONE HASTILY, SAYS MAHATHIR

KUALA LUMPUR, July 12 (Bernama) -- Malaysia will not rush into restructuring its banking system so as to avoid any disruption to the banking system, Prime Minister Datuk Seri Dr Mahathir Mohamad, said today.

"Bank restructuring should not be done hastily for it can disrupt the system, we must go about it progressively and without undue haste, we still have plenty of time," he said when commenting on Malaysia's bank restructuring.

In a one-on-one interview with CNBC Asia's anchor, Rico Hizon in the network's "Asia Market Wrap" segment here, Dr Mahathir warned the process of bank and corporate restructuring might fail if it were rushed into.

The Prime Minister also decried foreign analysts who continuously ran down Malaysia despite its efforts at bank and corporate restructuring and national economic recovery efforts.

When told that some analysts accuse the Malaysian government of basically encouraging financial institutions to go on rolling over debt to companies and starting a process of creative destruction, he said:

"The analysts always said negative things about what we do, and they will keep on doing so, but what is important for us is see what happens to the figures indicating whether the economy and the banks are doing well.

And the figures tell an encouraging story whereby Malaysia's restructuring of its banking system, particularly the acquisition of non-performing loans was progressively steadily.

This was evident by Pengurusan Danaharta Nasional, the asset management company, having bought over US\$6 billion worth of NPLs and Danamodal Nasional Bhd, the special purpose vehicle, having pumped in some US\$1.7 billion to recapitalize weak banks.

Danaharta had just recently moved on to the next stage of the acquisition of NPLs whereby it is in the process of disposing the first tranche of its non-ringgit foreign loan assets amounting to US\$142.82 million (RM542.716 million) through restricted tender.

Danaharta's managing director Azman Yahya recently disclosed that the sale of the first tranche of the NPLs was expected to be completed by mid-August while the entire loan portfolio would be completed by next year.

The Prime Minister also said that Malaysia's banking laws were much more advanced than most banking laws in other countries.

"So the reform that needs to take place is actually very minor, so we can take our time," he said, adding that there was sufficient funds for Malaysia for its bank and corporate debt restructuring.

In view of the availability of funds for restructuring, Dr Mahathir said there was no necessity for Malaysia to undertake another bond offering.

"At the moment, we have little need for more funds, there is no necessity for us to go into the bond market again," he said when asked whether Malaysia would go for another bond offering.

"We are comfortable with the US\$1 billion (raised in New York). We really don't need (it), we want to test the market to find out what is our real rating. and it has been proven that the market responded (positively) to our offers.

"It so happens that when we launched our bid to sell our bonds, certain factors pushed up the rates, which was why we reduced the bonds from the planned US\$2 billion to US\$1 billion," he said.

Dr Mahathir also disputed reports that regional economies, which did not impose selective capital controls, had fared better than Malaysia, saying that the actual situation belied the reports.

For instance, he cited the Thai economy, which, though was reportedly to be recovering, continued to suffer high unemployment with numerous projects being stalled, a scenario very different from the picture painted by the International Monetary Fund (IMF).

"So, I want to know exactly what is happening, there are a lot of empty buildings (in Thailand) and all that. Let's have a true picture, then we can make a comparison with those which are supposed to be recovering and what is happening in Malaysia," the Prime Minister said.

Asked whether crisis-hit Asian economies were still in intensive care or whether they were already heading towards the recovery room, he said he thought they were on the road to recovery.

However, he also said they should recover provided there was no more assault on the economies.

As for currency speculators and whether they were still lurking around and looking for opportunities to make another hit on Asian currencies, he said that "under the present (financial) regime, it was still possible for them to mess up the whole economies of all these countries.

Dr Mahathir also said contrary to speculation that the selective capital controls being in place for too long could turn away investors, high-powered information technology multinationals had told him that they were keen to set up operations in Malaysia's Multimedia Super Corridor (MSC).

He said members of the International Advisory Panel (IAP) of the MSC, who represented some of the world's biggest IT companies, and who were here last week for their third meeting "were very happy."

"I don't know why the analysts are not happy," he said of those who had painted a bad picture of Malaysia's attractiveness as an investment centre.

"They [investors] are all interested in coming in. In fact a lot of people are interested in long-term investments and are still coming in while short-term investments are coming in despite the currency controls," he said.

On whether it was time to lift the capital controls and the fixed exchange rate now that the Malaysian economy was staging a turnaround, Dr Mahathir said: "I don't see why we should change the so-called controls that we have imposed because they doing us a lot of good."

"They [the controls] are not doing us any harm, even during times when the economy was good, controls have not done us any harm," he said.

"We will lift them when the world's financial regime is changed so that things like currency speculation, lack of transparency, leveraging up 200 percent the capital of a hedge fund, these kind of things have to be done away with and there must be proper supervision of the flow of such speculative funds.

"At that stage we will lift them," the prime minister said.

He also disagreed with suggestions that countries can have strong currencies without imposing controls.

"No, I don't think so because they are still exposed to several kinds of manipulation. At the same time, I would like to know exactly when they said these economies are recovering."

Dr Mahathir said Malaysia was also not ready to revalue its ringgit peg upwards to RM3.20 or RM3.50 per US dollar.

"We believe the ringgit is undervalued at the moment, but that is not doing us any harm because the cost of imports remain the same. At the same time, we are more competitive because the cost of exports is much better," he said.

He said: "We do not like to change currency values very frequently because this is very destructive to business and people will not be able to plan budgets for the future if they do not know what the currency value is going to be like.

"They will have to spend a lot on hedging and this is a cost to their business. So we will avoid playing around with currency exchange rates unless it is absolutely necessary."

Dr Mahathir agreed that the economy had bottomed out but the government would stick to its one percent growth forecast.

"We are expecting at least a turnaround in the economy in the second quarter, but we are normally very conservative and we don't want to say something which may not turn out to be true," he said.--BERNAMA

MFJ/MR SHY