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Exit levy on repatriation of profits to stay, says Dr M

KUALA LUMPUR, Wed. - Prime Minister Datuk Seri Dr Mahathir Mohamad said today that an exit levy on the repatriation of profits on foreign portfolio investments will remain in force.

He said there was no plans now to review the graduated exit tax introduced since Feb 15 in place of the one-year moratorium on capital gains.

He said the levy was imposed because while foreign investors made profits from their investments, the country gained nothing out of it.

"They come into the country, make money from investments and the gains are not taxed at all.

"They buy our shares, make profits when the shares appreciate...(and) when the shares are dumped, the economy goes down. They then take out everything and what do we get?"

He was speaking after opening the International Construction Week at the Malaysian International Exhibition and Showroom (Mines) in Seri Kembangan.

The Prime Minister was also asked to comment on fears that there would be a massive outflow of foreign portfolio funds when the levy on them was lifted today.

"We do not see anything extraordinary happening today.

"There is a 14-point drop in the share market but this is nothing compared to the time last year when it went down from 1,200 to 800, 600, 300 and so on.

"We expect that there will be a drop...some people want to take out their money, it is all right, they can take out," he said, adding that there would also be investors, especially those who have been in the country for a long time, who would continue to stay on.

In fact, Dr Mahathir said at the start of trading in the morning, there was more inflow than outflow of funds.

The Prime Minister reiterated that any outflow of funds was not worrying as Malaysia had enough foreign reserves to fulfil its obligation.

"Between last September and now, there has been a 60 per cent increase in our reserves to US\$32 billion, sufficient to pay for seven months of retained imports.

"Unlike other countries, we have always maintained a (minimum) reserves of US\$20 billion...so we can finance our imports sufficiently even if there is an outflow."

On the maximum amount of funds expected to be repatriated, Dr Mahathir said it was estimated to be around US\$3 billion to US\$4 billion only.

On whether there was any plan to revise upwards the Government's forecast of one per cent in the gross domestic product growth for this year following the economic recovery, Dr Mahathir hinted that any revision would only be possible after the third quarter's performance was known.

Even if there was a dismal performance in the fourth quarter, he said it would not have much effect on the overall growth figure for the year.

"At that stage (third quarter), we will know whether the GDP will be more or less than one per cent. That's why the third quarter is very important to us."

Dr Mahathir said Malaysia was very conservative in nature and did not like to "tell people we are doing wonderfully well when we are not".

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