

Battling to rescue beleaguered ringgit

COUNTER-ATTACK: In the second part of the extract from Tun Dr Mahathir Mohamad's book, *A Doctor in the House*, the former prime minister writes on the steps taken to fight the currency crisis of 1997

In September 1997, I was invited to speak at the annual meeting of the World Bank and the International Monetary Fund (IMF) in Hong Kong and took the opportunity to blast currency traders, accusing them of further impoverishing the world's poor countries.

I mentioned George Soros by name as one of the traders who had manipulated the currencies of Southeast Asian countries and undermined their development. The next day, (Datuk Seri) Anwar (Ibrahim) spoke at the same meeting. I had left for Sabah and he rang me there. He sounded annoyed and informed me that my speech had caused the ringgit to depreciate further. He stopped short of telling me not to speak like that again, but I continued with my criticism of the IMF and the currency traders.

At a later meeting in Santiago in Chile, I again condemned them and once again, the ringgit fell in value. That seemed proof to me that the currency traders were pushing the devaluation. It could not have been the market, as the reaction was instantaneous. This was not a general consensus from the market but a few key hidden players who were calling the shots. And for their own reasons — some people were deliberately trying to shut my mouth about currency traders.

At home Anwar started what became known as "the IMF solution without the IMF". But fundamentally, we were not in economic trouble. We had no need to borrow from the IMF to settle foreign debts because we had not borrowed much and few of our debts were due. Those that did fall due, we could still manage to pay. But regardless of whether we needed to borrow from the IMF, Anwar felt that Malaysia had to accept its advice.

He believed that to maintain international confidence in our economic management, we should do as we were told and manage our economy the way they wanted. Anwar seemed to think that the IMF medicine was good for us and would help us recover from the international malaise, even if we had not yet fallen ill. So he raised interest rates and cut back on government spending.

I warned Anwar that his actions might well deprive the government of the revenue it needed to pay the



Tun Dr Mahathir Mohamad signing a copy of his book 'A Doctor in the House' at KL International Book Fair in Kuala Lumpur in April.

salaries of our government servants. He also tried reducing the payment default period from six months to three months before declaring loans as non-performing. This landed the banks with a high percentage of non-performing loans, while making bankrupts of the borrowers. Business slowed down. The disease had arrived. The IMF medicine was not the cure but its cause. Still, Anwar pressed ahead.

The economy was now clearly heading towards a recession. Companies were going bankrupt and were defaulting on their bank loans, especially after Anwar's decision to reduce the default period and increase interest rates to 12 per cent. We decided to set up an operations agency along the lines of the National Operations Council, which dealt with the aftermath of the race riots in 1969. We wanted to minimise political contentions and

so we brought in all the chief ministers and menteri besar, including those from Pas, into what we called the National Economic Action Council (NEAC). Trade union and business leaders and think-tank heads were also included.

We were able to explain the problems faced by the country to them and heard their views on how to handle the situation. But because of its large size, the council could not meet often. I decided to have a small advisory panel to follow developments and to suggest remedies. It had to be backed by the cabinet as a whole, though only a few cabinet members would be in it. Fortunately, the cabinet did not question the authority or the arrangements for setting up such a powerful body.

Its members included Anwar; Datuk Mustapa Mohamed, a well-credentialed economist who now serves as international trade and

industry minister; Tun Daim Zainuddin; the chief secretary Tan Sri Samsudin Osman; the secretary-general to the Finance Ministry Tan Sri Samsuddin Hitam; the deputy governor of Bank Negara Datuk Fong Weng Phak (for some reason the governor never attended our meetings); Tan Sri Ali Abul Hassan Sulaiman who had headed the Economic Planning Unit; Oh Siew Nam, a man from the private sector who was familiar with banking and the financial markets; and Institute of Strategic and International Studies (ISIS) chief Tan Sri Dr Noordin Sopiee.

This small committee met for at least three hours every morning in my office. We scrutinised all the statistics on the economy, commissioned studies of anything that we considered might influence the economic performance or prospects of the country, brought in experts to explain developments and give their views, listened to numerous briefings, and often decided on action that needed to be taken.

Fortunately, we did not experience social unrest during this critical period. Malaysians could take a beating but a violent destructive response was not their way. We were also making final preparations for the Commonwealth Games to be held the following year, and we could not afford instability of any kind.

While managing the crisis, I continued to travel abroad to pursue both economic and diplomatic initiatives. I was in Buenos Aires in Argentina when I suddenly remembered Tan Sri Nor Mohamed Yakcop, who had headed the ill-fated Bank Negara currency trading operation.

I had spotted him walking down a street in Kuala Lumpur before I had left for Buenos Aires. That image now came to mind and I decided that he might be able to explain currency trading and possibly suggest ways of countering it. Our loss-making venture into currency trading might yet yield Malaysia a valuable, even life-saving dividend as the currency traders now closed in on us.

The matter was urgent and I could not wait to come home, so I asked my office to locate Nor Mohamed and fly him to Argentina. Soon after, in the hotel in Buenos Aires, we sat down together and he explained the intricacies of currency trading and why we had lost money. I asked him what lessons from that earlier experience could be applied to our present situation.

He suggested that we get some of our institutions with financial resources to set up a special fund to buy the ringgit. This we did, but again, we were no match for the funds the currency traders had at

their disposal. They could leverage 20 times their capital and we would have exhausted our reserves trying to fight them this way. We were up against not one but several funds which were involved in currency trading and so, inevitably, the exercise failed. Yet I found Nor Mohamed knowledgeable and decided to appoint him as my financial adviser and a member of the NEAC.

We directed many questions to him in our efforts to grasp and to curb currency trading. I had to fully understand the banking and the financial systems and Nor Mohamed was able to explain it all. Not understanding these intricacies had made us institute measures which proved ineffective. At one stage I had thought of deliberately devaluing our ringgit and increasing salaries and wages to neutralise the effect of devaluation. When I took this idea to some of my colleagues and ministers, they were adamant that it would not work.

Yet I believed there had to be something the government could legally do to stop the trade in our currency. I was still under the impression that actual money changed hands during all these transactions. I had not yet grasped the abstract and virtual nature of money, and how paper transactions in billions may flow across the world faster than you can pay for RM10 worth of vegetables at the local night market.

That was why when we were told that money was being taken out of the country, we thought people were actually taking cash out with them as they left. We asked the Customs officials at exit points to check travellers' bags but were mystified because no cash was being taken out of the country. Yet the amount of money in Malaysia was now considerably less than before, and we learnt that money had flowed to Singapore by the millions. That was why we asked the Singapore government to deposit some of their ringgit in Malaysian banks.

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We were also puzzled as to how currency traders who operated outside Malaysia could have billions of ringgit to sell. Where, I wondered, did these international predators get their ringgit? They were short selling the ringgit and entering into contracts to deliver ringgit they appeared not to have. Still, they had to deliver some time.

I asked Nor Mohamed how such large amounts of our currency could leave Malaysia undetected and how the currency traders could physically handle billions of ringgit. We had no record of their acquiring the ringgit before they started trading it as a commodity and destabilising the exchange rate. Yet at some stage, I reasoned,

"We were also puzzled as to how currency traders who operated outside Malaysia could have billions of ringgit to sell. Where, I wondered, did these international predators get their ringgit?"