Regaining Investor Confidence in Malaysia: Recent Capital Market Efforts

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Agenda

- Impact of Crisis
- Some initial policy mistakes
- Capital Controls: a Necessity
- Capital Market Recovery Objectives & Measures
- Indications of Success
Impact of Crisis: Q1 97 to Q3 98

- Ringgit depreciates from RM 2.50 to RM 4.89
- KLCI crashes from below 1,200 to 250
- Bond spreads move from 66bp to 1,000bp
- Economy decelerates from +7.7% (1997) to -6.7% (1998)
- Problems in market intermediaries
- Increase in NPLs and corporate sector problems
Some initial policy mistakes

- curb on credit growth
- increase in interest rates
- tightening of prudential requirements
- cut in government expenditure
Capital Controls: A Necessity

- Extraordinary measures for extraordinary circumstances
- Sept 1 - controls introduced
  - restriction on portfolio flows
  - Ringgit fixed at RM 3.80
  - offshore trading of Ringgit no longer allowed
- adverse knee-jerk market reaction but
- breathing space allowed for introduction of recovery measures
Recovery Objectives for Capital Market

- Maintain systemic stability
- Strengthen market intermediaries
- Rehabilitate securities industry
- Improve market transparency and corporate governance
Capital Market Measures

- **Maintain systemic stability**
  - Introduce early warning system
  - Increase Compensation Fund by RM 300m
  - Establish RM 500m stand-by facility at KLSE
  - Conduct feasibility study on DVP

- **Strengthen market intermediaries**
  - Improve capital adequacy requirements
  - Improve client asset protection framework

- **Rehabilitate securities industry**
Capital Market Measures (cont’d)

- **Improve market transparency**
  - New Malaysian code on Take-Overs and Mergers
  - Strengthen rules on related party transactions
  - Strengthen insider trading laws
  - Strengthen enforcement capabilities

- **Improve corporate governance by**
  - Strengthening statutory and regulatory framework
  - Enhancing self regulatory mechanisms
  - Ensuring necessary human & institutional capital available
Indications of Success

■ Economy

- GDP of +1% in 1999 to +2.7% in 2000
- Private consumption up +2% in 1999/2000
- CPI at 4.3% in 1999/2000
- Current account surplus
- Foreign reserves at USD26bn
- Domestic confidence reappearing
Indications of Success (cont’d)

- **Markets**
  - Stock prices seen to be improving
  - Bond spreads narrowing to 280bp

- **S&P upgraded rating citing**
  - Pro-active policy response
  - Halt in capital flight
  - Successful and appropriate economic policies
  - Recapitalisation and asset management agencies on track and effective
Indications of Success (cont’d)

- Reinstatement into Indices
  - IFC: has said yes
  - MSCI: ?
Thank You