

Regaining Investor Confidence in Malaysia: Recent Capital Market Efforts

Ali Abdul Kadir

Chairman

Securities Commission Malaysia



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 RM2.50 to RM4.89
- 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 RM3.80
 - 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 RM300m
 - Establish RM500m 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

