Triggering Events, Policy Initiatives and Indications of Success: Malaysia’s Experience

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Agenda

- Triggering Events
- Policy Initiatives
- Indications of Success
Triggering Events (Q1 97 to Q3 98)

- Ringgit depreciates from RM 2.50 to nearly RM 5
- 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
Policy Initiatives - Some initial wrong turns

- curb on credit growth
- increase in interest rates
- tightening of prudential requirements
- cut in government expenditure
Policy Initiatives - Necessary Step: Capital Controls

- 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
Policy Initiatives - Recovery Objectives for Capital Market

- Maintain systemic stability
- Restore market confidence
- Improve market transparency and corporate governance
- Facilitate raising of funds
- Rehabilitate securities industry
Policy Initiatives - Measures

- **Raise corporate governance standards**
  - Finance Committee, June 1998
  - Report published, March 1999
  - Recommendations
    - to strengthen statutory and regulatory framework
    - to enhance self regulatory mechanisms
    - to ensure necessary human and institutional capital available
Policy Initiatives - Measures (cont’d)

- Strengthen rules on related party transactions
- Strengthen insider trading laws
- Strengthen enforcement capabilities
- Restructure stockbroking industry
- Improve capital adequacy requirements
- Improve client asset protection framework
Policy Initiatives - Measures (cont’d)

- Revision of primary market regulation
- New Malaysian code on Take-Overs and Mergers
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)

- Reinclusion into Indices
  - IFC: yes
  - MSCI: ?
Thank You