

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

Ali Abdul Kadir

Chairman

Securities Commission Malaysia



# Agenda

- Triggering Events
- Policy Initiatives
- Indications of Success



# Triggering Events (Q1 97 to Q3 98)

- Ringgit depreciates from RM2.50 to nearly RM5
- 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 RM3.80
  - 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**

