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EXERCISE PRUDENCE TO MAINTAIN SUCCESS, SAYS AHMAD DON

KUALA LUMPUR, March 28 (Bernama) -- Malaysia must exercise prudence to prevent downside risks that can adversely affect the economy as the nation marches into its 10th year of superlative growth, Bank Negara Malaysia Governor Datuk Ahmad Mohd Don warned today.

Such areas include asset-based inflation as well as channelling funds to less productive areas, which if not checked through early corrective measures, can eventually cost the economy dearly, he said.

To this end, banks have by and large adhered to moral suasion by the central bank in lending to areas that promise high investment returns to the economy while cutting down on speculation, he told a press conference at which he released the central bank's 1996 Annual Report.

Also present at the function was his deputy Fong Weong Phak, the central bank's advisers and senior officials.

Fielding questions from both local and foreign journalists, Ahmad said efforts to contain price pressures had led to the average Consumer Price Index (CPI) being capped at below 4.0 percent.

He, however, denied that the CPI had been "massaged" in any way and that it was a realistic barometer of inflation done earnestly by the Statistics Department.

Asked about Malaysia's national savings efforts, Ahmad said many financial institutions responded very well to the National Savings Campaign launched by Prime Minister Datuk Seri Dr Mahathir Mohamad last December.

To further enhance its effectiveness, the central bank has been encouraging financial institutions to pay more attractive interest rates for deposits.

This had borne fruit in that "so far, financial institutions have responded by offering interest rates no less than five percent for all savings accounts and even higher for others such as fixed deposits which is now garnering a yield exceeding 7.0 percent, he added.

On whether the central bank might further increase rates for fixed deposits to promote greater savings habit among youngsters, he said: "I feel 7.0 percent is certainly a fair rate as interbank rates are also around that level.

"These efforts would also allow Malaysia to maintain its financial independence and continue to be in a position to determine its future destiny as far as financing its development and industrialisation efforts are concerned."

Ahmad also said the central bank had targetted M3 or money supply last year at 20 percent but it amounted to 22.7 percent.

Asked whether 20 percent was achievable this year, which would be an indication of the size of the liquidity in the system, he said: "In the first place, I don't think we have stated any target.

"You are quite right the M3 has grown as high as 27 percent in March 1996 but has declined to 22 percent by the end of the year... however, latest figures indicate there is a further slowing down in money supply in the early part of this year, so we have to continue to watch these numbers."

On speculation that the Statutory Reserves Requirement (SRR) might be raised yet again after its upward revision twice last year, in February and June, he said: "You think it is fair for us to tell you in advance we are raising the SRR or not?"

"But, with all the armoury we have at our disposal to combat excess liquidity, all this including the SRR would be taken into consideration. But, certainly today, we are not making any decision on the SRR."

He said he was unaware of any move by the central bank or the government to limit or close down the Central Limit Order Book (CLOB), an over-the-counter market where Malaysian stocks are traded in Singapore.

There is vibrant trading of Malaysian stocks on CLOB as 112 of the 129 counters are Malaysian counters.

Ahmad also said Bond Information and Dissemination System (BIDS), targetted to be set up in September this year, would provide more information on bond trading to investors.

Asked about Bank Negara's call for banks and financial institutions to merge, he said "the aim is to have a core of well capitalised banks operating efficiently in an increasingly liberalised banking environment."

He added: "Its very difficult to say exactly how many banks the central bank considers as adequate number in a liberalised environment... in the United Kingdom, we have the big four, in Australia we have the big four and in Singapore we also have the big four... but here, even if the number of core banks goes to six, it does not matter.

"Also, I don't think its right to say that the calling off of the merger between Pacific Bank and OCBC would put a spanner in the moves towards mergers... its just like courting, sometimnes it works, sometimes it does not, but that does not prevent others from attempting to marry." --

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