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HOPE FOR RINGGIT TO STABILISE IN SHORT TERM

A year-end report

By: Jeffri Mohd Rafiee

KUALA LUMPUR, Dec 30 (Bernama) -- The ringgit, which has been ravaged by rogue speculators, and subsequently resulted in a loss of confidence in the currency and stock markets, is likely to stabilise in the short term, dealers said.

The speed of its recovery, however, depends to a large extent, on the performance of regional economies as Malaysia's performance alone is not likely to be able to revive confidence in the economy, they said.

"The (Western) financial markets see the Southeast Asian economies as a single economy," admits Tun Daim Zainuddin, the economic adviser to the government, when addressing members of the Malaysian Association of Certified Public Accounts (MACPA) here recently.

"The economic fundamentals differ, but these are ignored by the currency traders," said Daim, who is now the executive director of National Economic Action Council, a body set up by the government to address the country's economic crisis.

The economic challenges faced by Malaysia and other regional economies had been widely attributed to the turbulence in the currency market which was initially triggered by speculative attacks on the Thai baht.

The dip in the Thai baht then ignited the "contagion effect" which spread rapidly to the whole region, with countries having high current account deficits faring worse.

Malaysia was not an exception as the ringgit, which used to be stable at between RM2.45 and RM2.55 to the US dollar as it reflected the country's sound fundamentals and economic stability, was suddenly dumped by currency traders.

In a short span of six months, the ringgit depreciated by about 36 percent from RM2.52 for a dollar in June to RM3.94 in mid-December.

On Dec 29, the ringgit was at 3.8940/90 to the US dollar from 2.5270 on Dec 31, 1996.

It was also sharply lower against Singapore dollar at 2.3276/33 from 1.8054, against the yen at 2.9926/76 from 2.1747 and against the deutschemark at 2.1939/74 from 1.6255 previously.

Against pound sterling, the ringgit slumped to 6.5295/17 from 4.2807 at the end of 1996.

Admittedly, Malaysia is having a large current account deficit. But the situation has started to improve when the government swung into action to exercise prudent economic management.

Malaysia's economic fundamentals have remained intact even before the speculative attack. Perhaps, that was why prime minister Datuk Seri Dr Mahathir Mohamad criticised global currency traders, for their manipulative attacks, especially those who operated hedge funds subscribed by high-networth individuals who sought above average returns.

Dr Mahathir has since called for tighter enforcement and greater transparency in currency trading. Currency, previously used purely as means of exchange, is now used as a commodity which can be bought and sold, not just for hedging against its fluctuation, but more for profit.

In seeking their huge fortunes, currency speculators like George Soros found Thailand to be a gold mine due to its overheated property and finance sectors.

Currency speculators sold the baht short, triggering an intervention by the Bank of Thailand to defend the baht but it subsequently lost about

US\$10 billion of its reserves. In the end, the central bank of Thailand conceded defeat and allowed the baht to float freely.

Shortly after that, more speculators joined in the fray and identified the rupiah, peso and ringgit as their targets.

When the ringgit was under attack, Bank Negara Malaysia tried to defend the currency but then aborted its defence. Other central banks in the region, including that of South Korea, also tried to defend their currencies but lost.

Thailand, Indonesia, the Philippines and South Korea had to seek help from the International Monetary Fund (IMF), which imposed strict conditions in trying to revive their economies. The IMF's bail-out packages, however, have yet to solve the crisis.

In light of this, Malaysia is staving off overtures to accept IMF aid. A number of reasons point to this firm stance. First, the country's position is not as bad as the other troubled nations.

Second, the strict conditions imposed by the IMF and hailed as "economic cures" had yet to bear fruit in the few affected East Asian countries.

The currency crisis, which precipitated a lack of investor confidence on the region's economies, prompted Malaysia to articulate the need for greater transparency in currency trading.

In many international conferences at the highest levels, such as the Asia Pacific Economic Co-operation (Apec) Forum's summit in Vancouver, the Group of 15 developing countries' summit in Kuala Lumpur and the International Monetary Fund's (IMF) meeting in Hong Kong, Malaysian officials expounded the paradox of currency trading.

Although many have begun to acknowledge the dangers of indiscipline in currency trading and the need for transparency, practical solutions are yet to be found.

On the government's part, it has embarked on an austerity drive in its 1998 Budget expenditure to restore stability on the currency and stock markets.

Strict measures were also imposed to address investors' concerns like the large current account deficit and high loan growth, especially on "non-productive sectors."

But many feel that Malaysia alone may not be able provide the solution to the crisis as global financial markets would still see the country as being part of a bigger entity and would treat Southeast Asian economies as a single economy.

Hence, they said the key towards the recovery of the ringgit hinged on regional co-operation and the revival of regional economies. -- BERNAMA

JR SHY