

26/11/1997

Ringgit grossly undervalued: Daim (HL)

ECONOMIC Adviser to the Government Tun Daim Zainuddin said yesterday the ringgit at its current level vis-a-vis the world's major currencies is grossly undervalued and definitely not at an ideal level.

"In the context of world trade, the acceptable rate should be where we are competitive and are able to sell and buy goods and services without losing our comparative advantage," he said in an exclusive interview with Bernama.

"It should be at a level where it should not reduce our standard of living and allow others to live off us cheaply," he said of the ringgit which has depreciated by 30 per cent to 3.48 to the US dollar due to speculative attacks since June.

"Insofar as the exchange rate is concerned, we generally adhere to a floating rate system, intervening only when absolutely necessary. This regime has served us well in the past. Unfortunately it is now being severely tested," Daim said.

By most reckoning, the free market forces should have already come into play to bring the ringgit back to a more reasonable level, he said.

"The fact that this has not happened suggests that market forces are obviously more influenced by negative sentiment than fundamentals."

Calling on Malaysians to have faith in the economy, the former Finance Minister said the International Monetary Fund (IMF) has in fact lauded Malaysia for its strong fundamentals.

Malaysia has also been cited as an example of a developing country that manages its economy well and this view is shared by such world leaders as President Jacques Chirac of France.

On the banking sector, Daim said that contrary to rumours, the system is solid.

"Banks in Malaysia have been making exceptionally good profits over the last 10 years... I do not think they will suffer losses... profits may be lower, of course, because the spread is smaller and problem loans will naturally lead to greater provisions.

"The banking system must continue to be resilient if we want it to continue to serve us well. There will be more prudent lending to the property and equity sectors, with the manufacturing and services sectors continuing to be supported," he said.

"We are also pushing for more exports... the banking sector will have to play a major role in this."

Turning to controls on currency trading proposed by Malaysia, Daim said it is a very complex problem, as the selling and buying of currencies have no parallel in the equity and commodities markets.

The rapid switching from one currency to another makes transactions almost untraceable and it is for this reason that currency dealers should be made to declare their positions at regular intervals, said Daim, echoing the sentiments of Prime Minister Datuk Seri Dr Mahathir Mohamad.

Still, Malaysia can submit its proposals to the IMF but the multilateral agency will have to get its members to adhere to the rules to protect the currencies, especially of the relatively small economies, he said.

On the call for transparency among banks and the need for greater disclosure, Daim said he is all for a higher level of disclosure "if the information is relevant to the specific needs."

Although banking operations are now highly computerised, it costs money

and time to prepare and read the reports.

Bank Negara, which he said is "on top of things", has within its powers to ask for additional information if the need arises.

However, he said, most of the information is protected under the Banking and Financial Institutions Act and cannot be made public, for example data gathered as part of an audit exercise on each bank.

Daim said he is certain that Bank Negara is very well informed of the activities of banks in Malaysia.

"All you have to do is refer to the Bank Negara Quarterly Economic Report.

"The timeliness of the (banks' annual) reports is perhaps an area that could be looked into... beyond that, the public have more than adequate information to decide whom they want to bank with," he said.

As for interest rates, Malaysia will take a judicious and pragmatic approach.

Daim said while there have been calls to raise interest rates to support the ringgit, "the Government would have to look at various angles to choose the best options".

"We will not preclude using any tools available to us that will produce the desired results, both in the long- and short-term," he said. However, in view of the complexities involved, Dain said, the Government would have to weigh carefully the merits of raising rates, which, at too high a level, might cripple business activity and attract "hot money."

"That is something which we do not want."

On the other hand, if the rates are too low local funds may flow out to markets which offer more attractive rates, a situation which may aggravate the parity of the ringgit.

Interbank rates are currently hovering at around 9.2 per cent while the base lending rate (BLR) of Malayan Banking, the country's largest bank, is 9.75 per cent.

The Government will make effective use of both its fiscal and monetary policies to ensure macroeconomic stability and improve the country's economic standing in the world, Daim said.

"We are now confronted more and more with problems that do not have their origins in this country and are impacting on what we do in the country... (despite having) managed very well the balance between high economic growth and a tolerable rate of inflation (below 3 per cent)," he said.

This very attractive environment has allowed investments to thrive, with foreign investors achieving the highest rates of return, higher even than that of Singapore, he said.

Nevertheless, businesses require an economic rate of interest to expand and the policy on interest rates is therefore governed by many considerations, Daim said.

(END)