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RINGGIT GROSSLY UNDERVALUED, SAYS DAIM

By: Michael Raj and S. H. Yong

KUALA LUMPUR, Nov 25 (Bernama) -- Economic Adviser to the Government Tun Daim Zainuddin said today 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 dropped by 30 percent to 3.48 to the U.S. dollar due to speculative attacks against it and several regional currencies since June.

Daim said: "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 this is being severely tested."

By most reckoning, the free market forces should have come into play already 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," he said.

"Most foreigners do not seem to care about fundamentals ... the ringgit and stock market (situation) reflects what I am saying now," Daim said.

Calling on Malaysians to have faith in the economy despite the currency problems, the former Finance Minister said the International Monetary Fund (IMF) has lauded Malaysia as having strong fundamentals.

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

On the impact on the banking sector brought by the currency and stock market problems, Daim said that contrary to rumours, the banking system is solid.

"Banks in Malaysia have been making exceptionally good profits over the last 10 years," he said.

"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 of course, with the manufacturing and services sectors to continue 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 mooted by Malaysia, particularly on speculation and manipulation of the market, Daim said it was a very complex problem, for the selling and buying of currencies have no parallel in the capital and commodities markets.

The premature switching of 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 which have been repeatedly expressed by Prime Minister Datuk

Seri Dr Mahathir Mohamad.

"We cannot continue with the present market structure. We cannot allow traders to manipulate," Daim said.

While Malaysia would submit its proposals to the IMF, the multilateral agency would have to get its members to adhere to rules to protect especially the currencies of relatively small economies.

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

Although banking operations were highly computerised, it costs money and time to prepare and read the reports.

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

However, he said most of the information was protected under the Banking and Financial Institutions Act and cannot be made public.

Information gathered as part of an audit exercise on each bank naturally cannot be made known to anyone else, he said.

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

"All you have to do is refer to the Bank Negara Quarterly Economic Report while information on the individual banks on the other hand can be easily found in their respective annual reports," he said.

"The timeliness of the report 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. -- BERNAMA

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