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## RM5.2m limit helps genuine trade-related activities

THE recent Bank Negara's ruling to limit ringgit swap transactions was mainly imposed for non-trade related activities while protecting the local unit from speculative attacks.

Banking sources said the measure would benefit genuine trade-related activities as well as direct investment transactions as it would reduce the speculators' ability to move through swap transactions.

"With the measure, those who seek the ringgit through swap transactions without supporting documents that it was for trade related activities, are limited to US\$2 million (RM5.2 million) per transaction," said one banking source.

Without the documents and if the transaction was beyond the limit, they had to seek the ringgit from other sources at higher rates, the source added.

"Those that can provide documents and evidence that the transactions are trade related are allowed to go beyond the limit."

The central bank had, over the weekend, instructed banks to observe the US\$2 million limit on outstanding non-commercial ringgit swap transactions per foreign customer.

In a knee-jerk reaction to the measure, the ringgit gained more than 300 points against the US dollar after losing ground since early last month on speculative attacks.

Economists said the ruling, which limits offshore banks' capabilities to borrow from onshore, would also give the central bank greater flexibility to maintain lower interest rates.

Yesterday, the ringgit ended at 2.6360/90 per the greenback from Tuesday's close of 2.6335/45.

Dealers said the larger than expected trade deficit of RM2.8 billion for June pressured the local unit further, adding that there were also fresh bids for the dollar from local and offshore players.

On the money market, the benchmark three-month Kuala Lumpur Interbank Offered Rates was quoted at 8.16 per cent from 8.15 per cent the day before.

Prime Minister Datuk Seri Dr Mahathir Mohamad had said with the measure, the Government had decided to allow for lower conversion rates for trade-related loans in the foreign exchange market to lend stability to the currency market.

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