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M'SIA HAS ADEQUATE FOREIGN RESERVES, SAYS DR MAHATHIR

KUALA LUMPUR, Jan 9 (Bernama) -- Malaysia has adequate foreign reserves to finance its requirements and sustain growth amid the current economic problems but further steps should nevertheless be taken to build up its foreign exchange reserves, Prime Minister Datuk Seri Dr Mahathir Mohamad said here today.

He said that by increasing foreign exchange reserves, the country would be able to fight those who speculated against the ringgit, which had fallen by almost 96 percent in value against the US dollar due to speculative attacks.

Urging the people to have more faith in the country's economic resilience, the prime minister said the fact that Malaysia had not asked for financial aid from the International Monetary Fund (IMF) showed that the economy was stable.

The measures to build up reserves include increasing exports, cutting imports where necessary and buying the ringgit, he said when appearing as a guest over TV3's morning talk show "Malaysia Hari Ini" (Malaysia Today).

Dr Mahathir was optimistic that the economy could stage a moderate recovery within the next six to 12 months if the people placed more confidence in the ringgit and took measures to cut imports and increase savings.

Malaysia has revised downwards its economic growth rate from 7.0 percent for this year to between 4.0 and 5.0 percent.

Dr Mahathir said a further positive indication of the economy was that Malaysia's debts were not large and the country's position was stronger than other countries because it has prepaid much of its debts.

To a question whether Malaysia would eventually turn to the IMF for help, he said if "we receive IMF aid, we would not be able to control our economy and would throw it open to foreign domination whereby they would come in and buy our banks and companies at cheap prices," which would then amount to "economic colonialism."

In view that the country has adequate reserves coupled with the guarantee given by Bank Negara for deposits, the prime minister said the people should retain their money in local banks and not shift them to foreign banks.

If they shifted their deposits, then local banks would have to borrow from foreign banks which in turn would exert further pressure on interest rates to rise and make loans more expensive.

On concerns that some projects might be shelved due to lack of funds, he said the banking system would continue to lend to productive sectors such as export-oriented industries which would help to build up the country's foreign exchange reserves.

Asked on the decline in the stock market, he said there had been too much speculation whereby prices had risen to the extent that they did not reflect the company's asset value.

Manipulators bought a lot and then unloaded the shares, causing their prices to fall and this affected confidence in the company, thus leading other investors to sell their shares and caused prices to go down even further.

"This is what has happened (currently) where the share value is below the actual value of the company's assets," he said.

On calls by the government for financial institutions to merge into

bigger entities, he said by becoming bigger, they would be stronger as evidenced by a merger of two big banks in Switzerland which resulted in the merged entity emerging as the second biggest bank in the world.

As such, local banks should merge to compete and not lose out to competition with foreign banks which were well capitalised, he said, adding that banks which had a larger capital base would not be shaken even if they incurred slight losses.

Dr Mahathir said the call for banks to merge was made many years ago but there were still many which did not like to depend on others, as a result of which they were weak and unable to play an effective role during the current difficult conditions.

On intra-Asean trade, now seen as a further measure to build up reserves, Dr Mahathir said its members had memoranda of understanding to help each other.

Currently, the emphasis was on enhancing intra-Asean trade because regional currencies had fallen significantly against the US dollar but not against each other.

So trading in each other's currencies rather than the dollar would mean less expenditure, he said.

"With that, we do not need to ensure adequate foreign exchange reserves to purchase our requirements," he said.

Malaysia also had bilateral payments arrangement where payments for transactions were made only after all sale and purchase transactions were aggregated.

With this, the payments would be minimal and indirect such as that done through barter trade. For example, purchases of RM1,000 would be settled through sales of an equal amount.

Meanwhile, he said the ringgit's decline was due to the emergence of the economic problems and the currency attack which started in Thailand last June.

He said currency trading was somewhat strange whereby everytime a currency was sold, its value would drop.

"And for the ringgit, when it was sold numerous times for the US dollar, its value fell to the extent of impoverishing the nation."

Dr Mahathir said although the country faced a severe recession in the mid-80's, the ringgit did not decline, which made it easier for an economic recovery.

He said the current pressure on the economy had led to the country's purchasing power dropping to US\$3,000 compared with US\$5,000 before.

Dr Mahathir said the government's borrowing policies always adhered to the line of not over-borrowing and that payments would be made early through pre-payments.

On the country's economic fundamentals, he said since they were strong, the country could withstand this trying period.

But he said if they attacks continued for years, then those fundamentals might be eroded.

In view of this, he said the people should co-operate with the government so that the economic fundamentals would not be affected and could be sustained.

He called on the people to use whatever opportunities that were present to ensure the country's economic recovery.

In view of the strong fundamentals, he said Malaysia need not go to the IMF or others for aid as this might expose the country to economic colonialism.

Dr Mahathir also said if foreigners were able to buy Malaysian banks and companies at cheap prices, then Malaysia might not be able to defend its economic fundamentals. -- BERNAMA

SHO SHY