

02 SEP 1998

GOVT-MEASURES

GOVT'S RESERVES POISED TO RISE WITH NEW MEASURES

By: Azlina Aziz

KUALA LUMPUR, Sept 2 (Bernama) -- The government's reserves are poised to increase while the economy will be further reinforced against external shocks with the new exchange control measures announced by Bank Negara.

Analysts and economists say that curbs on trading in the ringgit outside the Malaysian market would help revive the ringgit and keep the afloat the economy which over the past year has been exposed to severe speculative attacks.

Even before the peg of 3.80 for the ringgit to the US dollar was announced today, it had already started appreciating while the stock market soared by 12.1 percent today, indicating that there was still light at the end of the tunnel for the Malaysian economy.

Describing it as a good move towards stability and confidence boosting among foreign investors, an economist contacted here today however expressed concerns that "if the government fixed the ringgit rate, it would require sufficient amount of reserves to back it up in the long term.

"The problem is that in Malaysia, we do not know what kind of circulation and the actual amount of reserves that we need to back up our currency once it has been fixed," he said.

Prime Minister Datuk Seri Dr Mahathir Mohamad, when explaining the measures yesterday, had assured that the government had some reserves and was increasing them, in tandem with the coming in of the ringgit from offshore.

Meanwhile, TA Securities Sdn Bhd's banking analyst Chie King Ngu concurred with the government's moves saying that for the past one year, the ringgit had been very volatile.

It had moved from the lowest level of 4.80 in January this year, and had been hovering between the 4.20 and 3.90 level for the past two to three months.

"For the past one year, with the type of volatility we have seen in the ringgit, most investors were reluctant to invest here as they did not know what kind of rate they were dealing with and it was very risky," he said.

On how the fixed ringgit would help to maintain low interest rates, he said that once the ringgit is brought back to Malaysia, "We will be able to isolate or insulate ourselves from outside factors and whatever we do to our interest rates, it will not have any effects on the exchange rates."

Currently, the Kuala Lumpur Interbank Offer Rates for three-month money stood at 9.5 percent while the Base Lending Rates (BLR) was at 10.3 percent.

Chie who also said that the measures taken were timely, especially during these extraordinary (crisis) time.

However, he cautioned against taking it easy with the reforms taken by the government.

"At this point in time of the crisis, I feel we really need extraordinary measures, but again, the government must be serious in adopting certain reforms. If we do not do it seriously, we will be less competitive in many ways," he said.

He stressed that productivity should be one of the areas to focus on, adding it was an area still far behind in Malaysia.

Chie also expressed concerns that the new measures might result in the development of a black market in forex trading for the ringgit, eventhough central bank's acting governor Datuk Dr Zeti Akhtar Aziz had reassured that

"there is no reason to worry."

On the effect on the level of non-performing loans, he said, "it is very hard to say at the moment, it will depend on the rate being set as well as the interest rates situation." -- BERNAMA

AA SA/MR