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KL and Manila to conduct net settlement in local currencies

MALAYSIA has already signed an agreement with the Philippines to conduct net settlement of trade payments in each other's currencies.

International Trade and Industry Minister Datuk Seri Rafidah Aziz yesterday said a similar agreement will soon be signed with Thailand.

"Net clearing between two Governments have not yet been done. We will have to wait for Bank Negara to brief importers and exporters."

She spoke after a dialogue session with the heads of more than 200 major firms, chaired by Prime Minister Datuk Seri Dr Mahathir Mohamad in Kuala Lumpur.

Rafidah said: "Only the format of the modus operandi (for the net settlement system) has been presented to Government." The concept involves each country having a designated clearing house - the central bank, a financial institution or any other entity nominated by the Government of that country, maybe the Export-Import Bank.

For Malaysia, Bank Negara is responsible for net settlement clearing with other countries - which will be done using the existing financial system.

"Banks will collate information on all the import-export transactions. This information goes to the central bank as a clearing house. The central bank will then collate how much we owe another country."

She said the clearing houses will then effect net settlement, hopefully in each other's currencies like the baht and the ringgit.

"Some of our trading partners have said they want the difference paid in US dollars or in some other currency. This is where negotiations are being done."

"Even if the net difference is to be paid in US dollars or another hard currency ... we only need to pay the difference between the import and export totals, not the total amount of imports."

"Traders are not affected at all, they do their normal trade," she said, explaining that the net settlement system involves only bilateral clearing of payment between countries.

But, to facilitate the process, exporters are encouraged to quote the transactions in ringgit or each other's currencies.

"It will help to conserve foreign exchange. We don't have to source the full amount of foreign exchange to pay each other, we need only to pay the net difference."

"That itself is already a big benefit because you can use the rest of the foreign exchange for other purposes. Some Asean countries, for example, don't have that much foreign exchange to spare."

Rafidah reiterated that the net settlement system does not mean Malaysia is eschewing usage of US dollars or other hard currencies.

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