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RM15b in foreign funds expected

MALAYSIA is expected to attract as much as RM15 billion worth of foreign funds following the relaxation of capital controls on Feb 15.

The flow of foreign direct investment is expected to remain robust this year, with the potential deceleration in the United States' commitments being offset by an acceleration in Japanese investment.

Research firm HSBC Markets in its analyst's report on Malaysia entitled "HSBC Markets - Fixed Income Research on Malaysia", said in January, the FDI applications were equivalent to RM1.3 billion worth of investment.

Taking into account seasonal variations, HSBC Markets said Malaysia could expect to see the amount increasing to RM13-RM15 billion by the end of the year, approximately 10 per cent up from the previous year.

HSBC Markets is also projecting that portfolio managers are making a return to Malaysia on the back of its improving economy and the eventual re-inclusion aof the Kuala Lumpur Stock Exchange Index into the Morgan Stanley Capital International indices.

In addition, it sees a sizable current account surplus for 1999 (up six per cent of the gross domestic product) and import coverage of equivalent to six months.

HSBC Markets said comfort should also be derived from the low level of short-term foreign debt (12.7 per cent of total debt in 1998), capital inflow via the Miyazawa Plan, and official agencies and the Malaysian government tapping the international markets.

The firm, which is a unit of the HSBC group, said the perception gap that emerged after selective capital controls were imposed on Sept 1 last year had yet to be fully addressed, resulting in a disconnect between the country's fundamentals and the assessment of its credit risk by the market.

"Key to this disconnect is Malaysia's political risk premium. While evident political risks exist, they continue to be overstated and misunderstood."

It noted that central to the issue was Prime Minister Datuk Seri Dr Mahathir Mohamad's nationalistic political messages to domestic constituencies which "sometimes appeared jarring and at odds with Western sensibilities and norms.

"Quite often, the PM is simply taken out of context," it said.

It added that in many aspects, the Malaysian leader continued to be misrepresented and misunderstood.

On Sept 1, 1998, the Government introduced selective capital control measures which among others, required that portfolio capital be in the country for at least a year.

Effective Feb 15, exit levies replaced the 12-month holding period for foreigners who wish to repatriate their funds before the 12-month period.

On the capital exchange control, HSBC Markets said: "At the RM3.80 level against the US dollar, we believe that the ringgit is undervalued and is competitive compared to other regional currencies."

The fixed exchange rate is expected to provide Malaysia with the additional latitude to implement corrective measures onshore, particularly in terms of monetary policy.

It added that domestic interest rates could be lowered without lowering the base lending rate to 7.25 per cent from 7.65 per cent.

"We believe that the sluggish loan growth and moderating price pressures at the consumer level are the primary factors behind the central bank's credit easing for the seventh time since August last year."

HSBC Markets said the central bank still had leeway to further ease credit conditions in the months ahead.

"We think the three month intervention rate will be cautiously lowered to five per cent from six per cent," it added.

It said that easier monetary policy would not threaten price stability since the sizable output gap created by the economic downturn made it difficult for businesses to raise prices.

"We expect the ringgit to remain supported by attractive local deposit rates. Even though the rates will fall as the central bank eases credit conditions, the pace of decline will not be proportional to the fall in lending rates," it added.

HSBC Markets is projecting a 1.5 per cent growth in Malaysia's gross domestic product for 1999.

It said: "There's likely to be more upside surprises than downside ones."

HSBC Markets believes that Malaysia's credit fundamentals are closer to Hong Kong's rather than Thailand's or Korea's as the current BBB- rating implies.

HSBC expects that continued reforms in the banking sector will result in positive lending growth, a clearly important factor in the recovery process.

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