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MALAYSIA'S ECONOMIC PREDICTABILITY & POLITICAL STABILITY IMPROVE

KUALA LUMPUR, March 26 (Bernama) -- Economic predictability and political stability, two key issues which are of concern to investors, have improved in Malaysia, said Goldman Sachs, a US-based financial institution.

Goldman Sachs, which is engaged in international investment banking and securities, has also predicted that Malaysia would achieve an economic growth of 2.0 percent this year.

It said the country's better economic prospects were helped by the aggressive treatment of bank restructuring with little political interference.

"Meanwhile, the struggle in UMNO (the dominant party in the Barisan Nasional ruling coalition) is cooling," it said in a statement released by the National Economic Action Council today.

It also said the political landscape was calmer after UMNO's victory in Sabah.

It added that the next political step would be the country's general elections and its timing would depend on economic recovery and Prime Minister Datuk Seri Dr Mahathir Mohamad's tour of the nation to assess the situation.

Goldman Sachs said the purchase/management of more than RM40 billion in non-performing loans (NPLs) by Pengurusan Danaharta Nasional and the Corporate Debt Restructuring Committee (CDRC) coupled with more than RM11 billion in capital injection from Danamodal were moving the banking and corporate restructuring process forward.

"The NPL purchases represent about 60 percent of our estimated peak NPL ratio and about 60 percent of declared NPLs (as of last September)," it said.

The next crucial step for the economy was the sale of these assets, said Goldman Sachs.

"We expect Malaysia will restructure before selling and this will take some time although key proposals (e.g. Renong) have already been announced," it said.

With Malaysia attempting to actively stimulate a ringgit bond market, Goldman Sachs said it expected the restructuring of the assets (from the NPLs) to be biased towards the sale of debt to new investors rather than debt exchanges with existing creditors.

Giving a "thumbs up" sign to Malaysia's credit (i.e. bonds) despite the already sharp tightening, Goldman Sachs said the prospects of an improved economic performance, lower interest rates and inclusion in major benchmark equity indices should help the equity market.

Noting that the basic real activity remained weak with industrial production having gone down by 12.4 percent in January, it was still optimistic that Malaysia has good prospects to achieve a 2.0 percent gross domestic product (GDP) growth this year.

This is based on the still low unemployment, expanding fiscal policy, expanding, a sanguine view for electronics and better oil prices.

Monetary aggregates showed expansion, although not excessive, and this also pointed to a better GDP performance, said Goldman Sachs.

On interest rates, it said with falling inflation, a modest decline of 80 basis points in six months was expected although this was more than was priced into the market.

It also expect no change in the foreign exchange rate of the ringgit

against the US dollar at 3.80 in the next six to 12 months.

It said some analysts in Kuala Lumpur were worried about lower foreign direct investment applications but approvals have held up relatively well.

However, it said Kuala Lumpur has many investment bankers and private equity investors, so capital flows "should not be a problem if, as we expect, restructuring gathers steam in the next six months." -- BERNAMA

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