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ZETI-CHALLENGES

MALAYSIA PREPARED TO MEET CHALLENGES, SAYS ZETI

By: Salmy Hashim

Washington, April 27 (Bernama) -- Malaysia is prepared to meet the challenges of a possible September exodus of foreign funds now locked in the stock market under the 12-month rule, Deputy Governor of Bank Negara, Datuk Dr. Zeti Akhtar Aziz, said here yesterday.

Dr. Zeti, however, did not believe that all US\$5 billion worth of foreign portfolio funds would leave the country five months from now as investments made by these investors had been preserved and even improved since selective capital and currency control measures were introduced last September.

"It is unlikely that the full amount will flee the country," once the one-year lock-out period expired because the stock market had shown significant improvement from a dismal 260 points last September to the current range of over 600 points, she told journalists at the National Press Club.

Dr. Zeti is the first high-ranking Malaysian official invited to speak at the prestigious club. The Deputy Central Bank Governor, who is here to attend several meetings, including the World Bank/International Monetary Fund (IMF) Spring meetings, briefed journalists about "Malaysia's Road to Economic Recovery" at the club.

She said, should an "exodus" occur, Malaysia was well prepared to absorb such an adjustment because the country's foreign exchange reserves had gone up by \$8 billion to \$28 billion, which accounted for six months of retained imports.

The Institute of International Finance, an umbrella group for about 300 international financial institutions, projected on Sunday Malaysia's reserves to increase from \$31 billion this year to \$37 billion next year, which it said, might lead to further relaxation of exchange restrictions.

Zeti said the relaxation of the 12-month rule through the introduction of an exit levy in February had triggered positive signs of recovery and had attracted significant amount of new funds.

She pointed out that Malaysia's prescription for economic recovery were not limited to a recovery in the financial sector but more fundamental than that.

"What's important is that our recovery is broad-based, sustainable and less vulnerable to derailment," she said.

Measures were being taken to lay the foundation for growth by strengthening the banking system, diversifying the economic base through investments in technology and resource-based industries, and improving the standard of living of the people, she added.

Asked when the controls would be lifted, she replied that the time was not right at this point in view of disturbing external factors such as recent events in Russia and the fragile international market conditions.

On the proposed sovereign bond sales, Dr. Zeti said, "We're monitoring the market conditions ... these are options presented before Malaysia, and we're looking for opportunity to raise funds at reasonable costs."

Prime Minister Datuk Seri Dr. Mahathir said last week that Malaysia would launch a global bond to raise RM8 billion - not because it needed the money but to prove its creditworthiness.

Dr. Zeti said here, there was no rush to borrow from foreign funds because Malaysia was able, at this stage, to finance its requirements from domestic sources because of its high savings rate.

Malaysia, classified by the World Bank as a moderately indebted country, would not like to increase its external indebtedness to that of a highly-indebted country, she added.

However, she said, efforts were being made to develop an active secondary bond market to finance long-term projects. Foreign investors could purchase these ringgit-denominated papers, she said.

She believed that the Bond Information Dissemination System (BIDS) created last year could help accelerate the growth of the secondary bond market.--Bernama

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