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External reserves reach 9-month high at US\$32.6b

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MALAYSIA'S external reserves continued its healthy trend when its level reached a nine-month high as at mid-March which, in retrospect, is a better position than pre-crisis levels.

Bank Negara Malaysia said in its Annual Report 2001 that its external reserves grew to US\$32.6 billion (US\$1 = RM3.80) as at March 15 this year.

Economists said the swelling coffer is one of the factors which led to the confidence that the central bank has the muscles to keep the ringgit peg in place.

Concerns over the ringgit peg grew when reserves fell between mid-2000 and May last year but it has since subsided after the foreign reserves started to pick up.

It rose from US\$25.9 billion on May 31 last year to US\$30.7 billion on November 15. However, it wobbled at the end of January this year after Prime Minister Datuk Seri Dr Mahathir Mohamad's comment about the peg that month. The dip refreshed the debate over the peg but the subsequent growth of reserves helped to quench it.

Economists said the level of external reserves is only part of the equation that serves as an indicator to whether the peg should be retained or scrapped.

"Overall, the reserves are in a healthy position..., however, I would question placing too much emphasis on the reserves as an indicator as to whether the peg will stay or go.

"(The fact that) Dr Mahathir chose to highlight his concern about the peg in January - when reserves were at a six-month high - shows that there are other factors that will decide the fate of the peg, such as valuation or volatility," said Suresh Kumar, an emerging markets analyst at MMS International in Singapore.

He also said that Malaysia remains among the top countries in Asia in terms of economic growth. He maintains a growth forecast of 4.5 per cent this year, better than the official forecast of 3.5 per cent by Bank Negara.

Excluding the MMS International forecast growth of 5 per cent and 7.1 per cent for South Korea and China respectively, Malaysia did better than most of its neighbours such as Singapore (2.5 per cent), Thailand (3.5 per cent), the Philippines (3.5 per cent), Indonesia (4 per cent), Hong Kong (1 per cent), and Taiwan (2.2 per cent).

"Malaysia looks very good in terms of economic growth. I noticed that the equity and bond people are very happy with Malaysia. The corporate restructuring has pleased rating agencies, while such corporate developments as well as a host of broad economic developments have persuaded equity strategists to overweight Malaysia," he said.

In its annual report, the central bank said the growth projection for this year is based on stronger growth in private consumption, a modest recovery in private investment, sustained public sector expenditure and a moderate growth in exports.

Manufacturing, the country's engine of growth, is projected to grow by 4.2 per cent but economists said the forecast figure reflects a rather weak state of the sector. "The 4.2 per cent forecast reflects that the manufacturing sector is still fragile.

"While the upturn in the manufacturing sector is crucial to the economic recovery, Malaysia risks losing its comparative and competitive advantages

in a number of industries," said a local economist.

Malaysia had seen US\$4.8 billion worth of foreign direct investments (FDI) channelled into the manufacturing sector last year and it is expected to be higher this year. The US continued to be the largest trade partner with a share of 18.3 per cent of total trade.

Economists generally agree that the Malaysian economy this year will benefit from a growing investment portfolio from both domestic and external sources in the sector.

"In spite of the concerns over China, the fact that FDI still remain relatively strong here shows that Malaysia has good economic fundamentals," said another local economist.

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