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BANK NEGARA MALAYSIA GOVERNOR MAINTAINS HER FIRM STANCE

By: Salbiah Said

SINGAPORE, Nov 12 (Bernama) -- Judging by her recent remarks, Bank Negara Malaysia Governor Tan Sri Dr Zeti Akhtar Aziz plans to have her foot firmly on the accelerator, analysts said.

Dr Zeti, who was named Central Banker of the Year for Asia in September by the Euromoney, was also undeterred by concerns over pressure on the ringgit, the low interest rate regime and low national savings.

At the Morgan Stanley Asia-Pacific Summit here last week, Dr Zeti said the peg would be maintained because as a highly open economy, Malaysia needed "external price stability," a rationale which is said to be controversial.

Economists have often argued that allowing a degree of flexibility in the exchange rate would enable open economies like Malaysia to better absorb economic shocks.

But Dr Zeti, who was instrumental in helping to implement the ringgit peg at RM3.80 to the US dollar, said the prospects of a declining dollar had given Malaysia the opportunity to reap competitiveness gains.

"She gave no hint that she felt the country's reserve build-up is approaching excessive levels as some economists think", said Business Times' associate editor, Vikram Khanna in his 'BT Comment' entitled 'Bank Negara governor at full tilt,' on Monday.

At the summit, she suggested that interest rates would have to be raised to "prohibitive" levels to rein in asset price inflation.

In any case, she said the Malaysian economy was unlikely to overheat as there was plenty of excess capacity (unsold properties), noting that Malaysia's financial sector was in better shape.

Last week, she also warned against prematurely raising interest rates in Asia and elsewhere, saying this would harm the global economic recovery.

"It appears that rates have bottomed out in major economies and discussion has begun to shift the debate (to) the need to raise interest in the future," Dr Zeti said.

Her comments that the global economic recovery was still fragile were taken by analysts as a signal she was in no hurry to raise rates.

Malaysian interest rates have been on a downtrend since 1998. The central bank's last move was a 50 basis point cut in lending intervention rate to 4.5 percent in May.

Two other trends that might worry some economists, but not Dr Zeti, are Malaysia's declining savings rate and its rising consumer debt levels, said Vikram.

Malaysia's national savings rate has trended down from more than 40 percent in 1998 to around 33 percent at present and is heading into the 20s.

But she pointed out that Malaysia no longer needed high savings rates, because it no longer needed to invest heavily in infrastructure as in the 1990s.

"Whether Malaysia will get sustained high growth without high rates of investment remains to be seen, but in the meantime, it could well get a consumption boom," said Vikram.

Even if it was financed by higher consumer borrowing, there was plenty of room for debt to increase, she suggested, adding that new non-performing loans were low and the banking sector was in good shape.

"In other words, Malaysian consumers are a good credit risk, and the

country's commercial banks are well-placed to lend them more," said Vikram.

Judging from what Dr Zeti had to say about her approach to macro policy, Vikram said: "It's a fair bet that Malaysia can look forward to some seriously easy money policies in the foreseeable future, which could led to an asset-price take-off."

Aided by a pick-up in the electronics sector, rising commodity prices and buoyant domestic demand, Malaysia's economy was already looking up, said Vikram.

Malaysian Prime Minister Datuk Seri Abdullah Ahmad Badawi said on Monday that Malaysia's economic outlook remained strong, predicting growth of six percent for 2004 and vowing to keep interest rates low.

"The prospect is good. We hope the target growth that we have decided could be achieved," he told reporters in Parliament.

In his speech at the Dewan Negara, Abdullah, who is also the finance minister, predicted that Malaysia would see a Gross Domestic Product (GDP) growth of 5.5-6.0 percent in 2004, reiterating what former Prime Minister Tun Dr Mahathir Mohamad said when he presented the 2004 Budget in Parliament on Sept 12.

Economic growth for 2003 would be 4.5 percent, up from 4.1 percent in 2002, he said. -- BERNAMA

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