

April 1, 2005, saw further liberalization of the foreign exchange administration rules by Bank Negara in consonant with the strengthened financial position of the banking system in the country. With the relaxation, residents without domestic credit facilities, for instance, are free to invest abroad in foreign currency and corporations with domestic credit facilities are also free to use their foreign currency funds or convert ringgit up to RM10 million per annum for investment in foreign currency assets.

According to Bank Negara, the liberalization is part of the on-going effort to reduce cost of doing business, to facilitate efficiency in transactions involving foreign exchange and to promote better risk management of investments in line with the changing financial landscape.

Apart from changes to the threshold for investment abroad, below are the highlights of the other areas of the foreign exchange administration rules that have been accorded flexibility:-

- Residents are now allowed to enter into forward foreign exchange contracts to hedge, for example, foreign currency exposures of permitted overseas investments and payment for permitted overseas investments. Non-resident are allowed to enter into forward foreign exchange contracts for committed flows of funds i.e. repatriation of investment proceeds from Malaysia and purchase of ringgit assets in Malaysia.

Liberalisation Towards Greater Efficiency

- Residents are now free to extend any amount of ringgit credit facilities to Non-resident Controlled Companies (NRCCs) as the rules for domestic borrowing by NRCCs i.e. current RM50 million limit and 3:1 gearing ratio requirement have been abolished.
- Resident corporation, on a per corporate group basis, may now obtain foreign currency credit facilities up to the aggregate of RM50 million equivalent. The foreign currency borrowing may be used to finance overseas investment up to RM10 million equivalent.

The Association of Banks in Malaysia lauds Bank Negara's move as the liberalization will contribute towards a more diversified and dynamic financial system. As there will be enhanced investors' access to the Malaysian domestic market, the relaxed rules will further stimulate competition, encourage creativity and product innovation in the market.

Liberalisation Of Fixed Deposit Rates

In March 2005, the Guidelines on Base Lending Rate, Lending Rates and Deposit Rates of Banking Institutions was also liberalized where fixed deposits placed by non-SME corporations or business enterprises and non-residents, regardless of the amount, are no longer subject to the board rates prescribed by Bank Negara Malaysia and will be on a negotiated basis.

Other category of depositors, namely individuals, SMEs and others will continue to be eligible for the board Rates at 3% per annum and 3.70% per annum for 12-month deposits.