

28 OCT 1997

BALANCED INTEREST RATES -- THE BEST SOLUTION, SAYS NAVARATNAM

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KUALA LUMPUR, Oct 28 (Bernama) -- Interest rates are probably one of the most watched economic variables and the question whether to raise or lower them has often received a lot of attention.

Towards this end, most economists feel that a "balanced" interest rate regime should be the best solution in sustaining and managing a sound and prudent economy as the regime has a powerful influence in terms of the country's gross domestic product (GDP) and inflation numbers.

Tan Sri Ramon Navaratnam, an advisor to the Sungei Way Group of Companies, said that higher interest rates would provide both favourable and unfavourable consequences to the economy.

"I will say that it is necessary to increase interest rates but of course the degree of raising them should be confined into a very fine judgement...and I feel the government is the one that has to decide," he said.

Navaratnam, who was once the Treasury's Deputy Secretary-General, said by increasing interest rates, they would contribute to currency stabilisation and draw in more funds into the country as well as increase the country's savings level.

On the other hand, too much of a hike will affect asset prices, both of real estate and equities.

He added that investors would also find it more expensive to borrow and this could prompt a reduction in current expenditure on investment goods.

"As it has both pros and cons, the government has to decide. But any decision, of course, has to be related to domestic and international market forces," he said when asked to comment on the government's decision not to excessively raise interest rates despite calls by certain parties to stabilise the ailing ringgit.

However, Deputy Prime Minister, Datuk Seri Anwar Ibrahim has assured that raising interest rates remained an option but it is not the only policy instrument to deal with the present economic problems caused by the weak ringgit and sluggish stock market.

Echoing Anwar's statement, Navaratnam added: "There are a lot of other fiscal measures...and maybe it is now necessary for us to seriously cut back and defer some of the unnecessary expenditure."

When asked whether too high an increase would lead to recessionary pressures on the economy, he said: " At this stage, we should talk about building up our confidence, not talking about recession".

Meanwhile, Prime Minister Datuk Seri Dr Mahathir Mohamad said in Edinburg yesterday that Malaysia did not raise interest rates to defend the ringgit from currency speculators because that would only attract short-term foreign direct investments into the country which would be pulled out once profits are made.

In the money-market today, the three-month Kuala Lumpur Interbank Offer Rates stood at 8.67 percent, which is still considered among the most attractive in the world besides Thailand and Indonesia. -- BERNAMA

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