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Dr Mahathir: Trade-related loans will bear lower interest rate

LANGKAWI, Tues. - Banks may charge a higher interest rate for non-trade related loans as a means to curb speculation on the ringgit. For trade related loans, a lower rate may be imposed, Prime Minister Datuk Seri Dr Mahathir Mohamad said.

"This measure applies to all, including foreigners," he told reporters after visiting several development projects here today.

Asked if this is part of the Government's efforts to curb speculation on the ringgit, he said: "Yes ... if (the loan) is not related to trade, what is (the loan applicant) doing with the money, if not to speculate?"

The Prime Minister was asked to comment on Bank Negara's latest ruling requiring banks from yesterday to limit non-commercial ringgit offer-side swap transactions with each foreign customer to US\$2 million.

Swap transactions are agreements to buy or sell a currency at a specified time in the future. In an offer swap transactions, customers borrow ringgit from the banks to fund the short-term position.

According to Bank Negara, a swap allows a company to exchange the currency it holds for the currency it needs. Its latest measure is in line with the policy objective of promoting an environment that is stable and more predictable for genuine investments.

Economists who responded to the central bank's move said yesterday it had effectively created a two-tier market: productive and non-productive markets.

Productive market refers to genuine trade related as well as portfolio and direct investment transactions - activities that bring benefit to the economy.

The non-productive market, on the other hand, deals with the offer swap transactions, which Bank Negara wanted to curb, they had said.

Dr Mahathir said he did not know the details of the new ruling by Bank Negara, but said the Government had decided that it will provide lower interest rate on trade-related loans and higher rate for non-trade related ones.

Asked the proposed new interest rate imposed on such loans, the Prime Minister said: "I don't know. You have to ask Bank Negara."

Dr Mahathir was in Langkawi to officiate at the inaugural five-day Langkawi Oshkosh East Fly-In convention and exhibition. He left for Kuala Lumpur in the afternoon.

At the forex market today, the ringgit closed weaker against major currencies. Against the greenback, it closed 2.6325/45 after a day of tight range trading, dealers said. The local unit closed 2.6115/35 yesterday against the US dollar.

Dealers said trading was quiet today as the market was trying to digest the impact of the central bank's new ruling.

The ringgit weakened against the pound, closing at 4.2894/53 from 4.2460/19 yesterday; the yen, closing at 2.2198/23 from 2.2047/91; the deutschemark at 1.4070/88 from 1.3971/95; and Singapore dollar, closing 1.7941/63 from 1.7802/46.

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