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Lower interest rates for trade loans

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BANKS may charge a higher interest rate for non-trade related loans as a means to curb speculation on the ringgit, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

"This measure applies to all, including foreigners," he told reporters after visiting several development projects in Langkawi yesterday.

Asked if this is part of the Government's efforts to stabilise the ringgit foreign exchange rate, 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 Monday to limit non-commercial ringgit offer-side swap transactions with each foreign customer to US\$2 million (US\$1 = RM2.63).

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

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.

An economist had noted on Monday that Bank Negara had effectively created a two-tier market: productive and non-productive.

The 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 of a speculative nature which Bank Negara wants to curb, TA Securities senior economist Anthony Dass 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 ensure that lower interest rates will apply for trade related loans and higher rates for non-trade related ones.

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

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

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

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

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

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