

03/06/1998

AMC: Government to put in 60pc (HL)

Nuraina Samad in Tokyo

THE Government may finance 60 per cent of the capital requirements of the Asset Management Company which will be set up soon to manage non-performing loans in banks and finance companies, Datuk Seri Dr Mahathir Mohamad said.

The Prime Minister said the Government expected the rest to be financed by the private sector.

He said this in response to a question from the Press after speaking at a symposium on "Revitalisation of the Japanese Economy and the Future of Asia" at the Okura Hotel yesterday.

Asked whether the Government would draw on taxes or Bank Negara, he said financing would "come from the Consolidated Fund".

"Anyway, we have some money," he said.

On the possibility of raising part of the funds by issuing government bonds, Dr Mahathir replied: "We have not decided on that."

Earlier, during a question-and-answer session after his address, Dr Mahathir was drawn to the AMC when a participant asked him about Malaysia still looking East, lessons to be learnt from Japan's mistakes and the percentage of Malaysia's non-performing loans in June last year, just before the region's "bubble" burst.

He was also asked about Malaysia's stand on recommendations of the International Monetary Fund for the troubled economies of East Asia.

Dr Mahathir said in handling Malaysia's banking system problem, the country actually "looked very far East" to the United States given that Japan did not handle this problem very well.

He said Malaysia decided to take the NPLs out of the system in the way the US did so that banks could get on with their operations.

Dr Mahathir also said Malaysia did not do the same thing as Indonesia, which had to close 16 banks in compliance with IMF conditions.

He said taking action against one troubled bank was not an isolated thing in a banking system.

"You mishandle one bank's problem and we will have a whole banking system problem."

Dr Mahathir said in Malaysia's case, the Government took measures to prevent the collapse of the banking system.

On Malaysia's seeming compliance with IMF policies, Dr Mahathir said: "Frankly, we feel threatened" and added that if it did not comply with certain conditions, then the country's currency would depreciate further.

"We try to follow (the IMF's conditions), but it is very damaging to us."

Dr Mahathir cited having to increase interest rates, a standard formula for troubled countries, which could lead to companies going bankrupt.

"When companies go bankrupt, the Government will eventually go bankrupt because we depend on corporate taxes in order to sustain us. So while we do follow the IMF, we are very hesitant about going the full way."

He said some IMF conditions, like opening up markets would hurt the economy and bring it to a standstill.

Dr Mahathir said he understood why "some people are now criticising the IMF", adding that there was basis for fearing the "medicine doled out by the IMF".

He remarked that although the patient was very sick and in need of medicine, "some medicine would kill".

"And I am speaking as a doctor," he said to applause.

He was also asked where he derived confidence that an international financial system could successfully deal with the financial crisis in the region given his strong views about the IMF's prescription.

Dr Mahathir replied that he got this confidence from "history" from the time after the Bretton Woods agreement was drawn up that helped regulate exchange rates which in turn helped countries like Japan and Germany rebuild and prosper.

In the wake of this, the world economy prospered too as the exchange rates of currencies stabilised.

"That is until people decided to be more competitive and started to fiddle with exchange rates."

He said it was "most important" to remove the "very violent fluctuation in the exchange rate where a currency could move from 100 per cent devaluation to 600 per cent".

"You become bankrupt. Do we want to bankrupt the world? Certainly not. If we can find a formula to reduce the volatility in the exchange rate, I am quite sure the world will recover."

(END)