

29 MAY 1998

ANALYSTS ECHO DAIM'S VIEWS ON INTEREST RATES, TIGHT CREDIT

By: Azlina Aziz

KUALA LUMPUR, May 29 (Bernama) -- Analysts here have voiced a chorus of support for Tun Daim Zainuddin's warning that high interest rates and too tight credit may send the Malaysian economy spinning in a downward spiral.

In particular, the overly-cautious stance adopted by financial institutions in curtailing their lending has been identified as a dampener for the country's economic growth, which could make even the reduced 2.5 percent target out of reach, they said.

Daim, the economic adviser to the government, on Wednesday warned that high interest rates and reluctance by banks to lend, even to productive sectors, would have a crippling effect on the nation's economy.

Analysts surveyed by Bernama expressed concern that too rapid a contraction in credit growth coupled with the rigid stance adopted by bankers could make the country head for harsher times and even stagnant growth.

An analyst with a money-broking firm said the primary concern among the business community is lending rates, which are considered to be too high.

The current 14 to 15 percent lending rates charged by banks would somewhat choke businesses, he said and suggested that they should ease down to around 12 percent, a level before the financial crisis spooked the region.

"Higher interest rates would only cause many business to lose money and companies to go bankrupt, which would be of no any use to anyone," the analyst pointed out.

"If the higher inter-bank lending rates scenario continue for a fairly long period, this will translate into higher base lending rates which in turn would make business loans to be very expensive and beyond the reach of many," he added.

In other words, high interest rates could cause more problems, resulting in bad loans and defaults amidst the backdrop of a weak ringgit.

Currently, the three-month KLIBOR is pegged at 11.00 percent, which translates it into a BLR ceiling of roughly 12 to 13 percent. Analysts said such a ceiling is damaging for the economy as this implied that the effective rate charged by commercial banks would be as high as 14 or 15 percent.

In fact, prime minister Datuk Seri Dr Mahathir Mohamad has joined in the fray to question the prescription of a regime of high interest rates and reduced credit.

In a speech delivered at a conference here yesterday, he said such measures would bankrupt companies, throw workers out of jobs and induce riots and political instability, without alluding to recent developments in neighbouring Indonesia.

Although the Malaysian economy was predicted to recover by the first half of next year, certain quarters view that a high interest rate structure may delay any such recovery.

They were of the opinion that a reduction in interest rates would depend on the ringgit. The ringgit has been steadily hovering 3.84 to 3.85 level for the past two months.

Ringgit stability is seen as a pre-condition for sustainable market recovery, said one of them.

Due to such an eventuality, an analyst with a bank, said Malaysia would have to be prepared to face tougher times ahead despite having measures to

stimulate the economy.

On an optimistic note, he said, "We are not as bad as some of our neighbours."

In a move to propel the country out of the financial crisis, Bank Negara late last year asked financial institutions to submit their credit plans for this year based on their assessment of risks and opportunities. As a result, the central bank directed that credit growth in the country be reined in at 15 percent this year from a growth of 25 percent last year.

An analyst concurred with Daim's recent statement that banks, which were lending excessively previously, were now doing the opposite, even to the priority sectors.

Banks which got their priorities wrong were also criticised by Deputy Prime Minister Datuk Seri Anwar Ibrahim for being too cautious in their lending approach, which if not checked, could stifle economic activities, even in the current bad times.

According to the latest statistics issued by Public Finance and Pacific Bank, their loan growth grew by 6.6 percent and 0.6 percent respectively in the first quarter of this year when compared with the last quarter of 1997.

Following developments in the industry, Daim also said the targeted 15 percent credit growth set for 1998 may see banks even exceeding the target, hinting that credit may shrink to less than the desired level, a reflection of a downturn in business activity.

In other words, business could grind to a halt unless positive measures are implemented to make credit available, said one of the analysts.

According to the latest financial statistics released by the central bank, the annual growth rate of loans in April slipped to 14.7 percent from 16.9 percent in March.

Amidst the shrinking credit, Daim also said the nagging worries about recession, stagflation and inflation could all become a reality if no positive measures were taken.

An analyst said a high interest rate regime would only cause many businesses to lose money and companies to go bankrupt, which would be of no any use to anyone.

Malaysia, he said, should not be too keen to adhere to the International Monetary Fund (IMF)-style measures. "What is more important is to have a balanced approach in dealing with problems," he said.

As evidenced in Indonesia, he said extremely strict economic policies had caused adverse social implications which in the end would even render recovery measures to become useless.

While interest rates are expected to rise further due to the current tight liquidity in the system, analysts believed that the central bank was always there to ensure the rates were stable.

A more stable ringgit would allow an easier interest rates regime, which would be more conducive for economic growth and equity investment.

He, however, felt that the government was not likely to raise interest rates because theoretically, higher interest rates could attract short-term foreign direct investments, which would flow out just as quick after profits had been made.

Although the real cost of loans has come down to less than 16 percent from 16 to 20 percent few months ago, the present cost is still relatively high. Such a level cannot be serviced by many companies and businessmen.

Daim, who felt that interest rates may come down if the RM20 billion reportedly kept outside the country was brought back and deposited in local banks, had also questioned how much would one have to charge in order to service the loans at the present high interest rates. -- BERNAMA

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