

05 MAY 1998

Mahathir - rates

M'SIA FORCED TO KEEP INTEREST RATES AT CURRENT LEVEL, SAYS PM

KUALA LUMPUR, May 5 (Bernama) -- Malaysia is forced to keep interest rates at the current level because rates for borrowing the ringgit outside the country has been raised, Prime Minister Datuk Seri Dr Mahathir Mohamad said today.

"We are trying to lower interest rates but external forces have kept interest rates high," he said.

With interest rates raised the cost of doing business would increase and companies would suffer due to the inability to get funds which in the process would stifle business activity, he said.

The prime minister was speaking at a press conference after launching Asnita, Malaysia's first trust fund for women, where he was asked whether the government would lower interest rates.

He said as the government has a 28 per cent share on company profits as corporate taxes, it would be depriving companies from getting their funds if the government were to raise rates.

Interbank rates, the rates at which banks lend to each other, has risen to around 11.05 per cent now from 7 per cent before the currency attack last July.

This means banks have to lend out to customers at even higher rates.

Lending rates for business loans, which shot up to as high as 20-21 per cent last December due to tight liquidity, have declined to between 16 and 17 per cent.

The International Monetary Fund (IMF) has recommended that Malaysia raise interest rates slightly as there was a little imbalance in its policy mix where in keeping interest rates down, the country was obliged to have a very strong fiscal stance.

IMF's managing director Michel Camdessus, when asked about Malaysia's opposition to a tighter monetary policy, said in Singapore yesterday that while the Malaysian authorities felt the situation was manageable, Deputy Prime Minister Datuk Seri Anwar Ibrahim has made it clear he would keep his options open ready to increase interest rates if necessary.

Camdessus said interest rate regimes for each country in the region was a special case on its own.

On ratings on Malaysia by Standard & Poor, he said both S&P and Moody's have made wrong assessments on the country.

For example, he said the rating agencies did not predict the collapse of the Asean economies following the attack on the regional currencies and lots of people have lost money because they were not told beforehand by these rating experts.

"They have been wrong before and I don't think we should go by their ratings as their ratings have the habit of influencing markets," he said.

"It's not what they say is going to happen, but what they say will make it happen," he said.

He said that the government was now working on moving away from the need to use foreign currencies and instead use the ringgit and currencies of neighbouring countries.

Currently, he said, 70 per cent of Malaysia's trade dealings are in the US dollar while trade with the United States only accounted for 18 per cent of Malaysia's total trade.

"The exchange rates between the ringgit and the US dollar is not going to influence us. We can do away with the 52 per cent," he said.

He said the country did not have much of US denominated bonds but could still sell them without diminishing its reserves.

He said what Malaysia was trying to do was keep its reserves in various currencies and trade with other countries with their own currencies.

To a question about the country's bad debts, he said the bad debts were not as big as they were made out to be.

"But we find that by constantly harping on the bad debts of the banks, the banking system is being undermined and this has adverse effects on the banks," he said.

He said local banks were not in trouble but the foreigners have literally been insisting that they were.

"No matter what we say, what we do, they will still say that we are in trouble, but as you can see today things are moving here as though nothing had happened," he said.

He said nobody wanted to know how much money the government had been spending on poor people, development and teaching them how to do business.

When asked what lesson could be learned from the economic turmoil, Dr Mahathir said it was that foreigners could manipulate Malaysia's economy by devaluing the ringgit.

"Whether they plan it or not, it doesn't matter, the fact is they had devalued our currency and stolen half of our wealth," he added.

-- BERNAMA

SHO MR rn