

30/06/1998

Extend credit to keep economy going: Rubin (HL)

Fadzil Ghazali ; Sreerema Banoo

US Treasury Secretary Robert Rubin yesterday said local banks must extend credit to "genuine and capable investors" to keep the Malaysian economy going.

Echoing a call already made repeatedly by the Government to banks, Rubin listed "requiring the local financial sector to give out loans to genuine and capable investors" as one of five areas that Malaysia should focus on when it embarks to reform its economy to deal with the current problems.

The other four are in the areas of equity and capital restriction in foreign ownership in local companies; ensuring that mergers are carried out on a transparent basis; strengthening the banking sector; and maintaining sound fiscal policies.

"Obviously, all these are difficult to do, and will take place in time considering that the region is right in the middle of a difficult situation," he told a dialogue session in Kuala Lumpur on responding to the Asian crisis.

Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim was also at the roundtable session.

Rubin was in Malaysia as part of his second tour to Asian countries affected by the financial crisis that will be one-year old by the end of this week.

He arrived in Kuala Lumpur on Sunday and left yesterday after a courtesy call on Prime Minister Datuk Seri Dr Mahathir Mohamad.

He had also met Anwar and Daim separately.

At the dialogue, Rubin said Malaysia has been able to shield itself from the worst of the region's crisis.

Its success as well as the region's ability to weather the problems, however, hinges on changes and reforms as well as recognising the problems' existence.

Rubin cited lack of transparency in relationships among financial institutions, investors, companies and governments as one of the main factors contributing to the crisis.

"Looking back at what had happened in the last couple of years, international investors had extended credit far from the focus of available information and on ways the risks were managed."

He admitted, however, that the crisis has also pointed out the need for an improved global financial market sector.

Business leaders, he said, have voiced concern over international capital market flows and flaws in the way international capital markets work.

Rubin said the US remains committed to the region and is confident that the countries affected have the strength to recover.

"There is still a long way to go before stability and economic growth can be restored to the region.

"A difficult time lies ahead before we can see recovery. But there are signs of progress," he said

On the preparations for globalisation, Rubin said nations should strengthen their banking systems, promote greater transparency and disclosure on matters regarding financial information by both private and public sectors and ensure investors bear the consequences of their actions.

Later, Rubin told a press conference that the International Monetary

Fund (IMF) does not have a "one-formula-fits-all" approach for the recovery of countries faced with economic and financial problems.

Issues and measures that needed to be considered for the economic recovery of countries under the IMF programme are extremely complex and vary from country to country, he added.

"What the IMF does, is to find the right balance and as time goes on it makes adjustments if circumstances warrant them."

When asked if a tighter monetary policy will hurt an economy, he said on balance the IMF has taken the right approach.

A loose monetary policy, he said, will result in greater depreciation of a currency which then "leads to higher inflation and runs the risk of deterring outside investment and encouraging capital flights, and increases the difficulty in repaying the debts denominated in a foreign currency".

"On the converse, a monetary policy that is too tight runs the risks of strangling the economy.

"So it seems to me what the IMF has done is just about right ... it has tried to find the right balance between the two considerations so that it can rebuild confidence and support the currency, and at the same time not strangle the economy," he said.

When asked for his comments on the interest rate regime that Malaysia has to adopt, he said the US agrees with the IMF's view that the interest rate regime has to help support the currency.

(END)