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IMF INTEREST RATES

FISCHER DEFENDS IMF'S CALL FOR HIGHER INTEREST RATES

By: Michael Raj

TOKYO, June 2 (Bernama) -- The International Monetary Fund's (IMF) deputy managing director, Stanley Fischer, has defended the Fund's call for high interest rates in economies affected by the currency crisis, saying that firms with substantial foreign currency debts will suffer more from lower rates.

He said lower rates would probably depreciate already-battered Asian currencies further, which meant that firms with foreign debts would have to pay that much more, which they could ill-afford now.

In what is seen as a response to the barrage of criticism hurled at the IMF for insisting on higher rates which has stifled business activity, he said operating with lower rates and a greater devaluation might seem to be a relevant trade-off.

"But there can be no question that the degree of devaluation in the Asian crisis countries is excessive," he said in his presentation at the Fifth Symposium on the "Revitalisation of the Japanese Economy and the Future of Asia" organised by the Institute for International Monetary Affairs here today.

Earlier, Prime Minister Datuk Seri Dr Mahathir Mohamad at a question-and-answer session said high interest rates were bringing businesses to a standstill which in the process could bankrupt them and the government.

Fischer said there were so many companies in Asia which were saddled with high foreign debts and they stood to suffer more from a steep slide in their currency values than from a temporary rise in domestic interest rates.

"Moreover, when interest rates action is delayed, confidence continues to erode, thus the increase in interest rates needed to stabilise the situation is likely to be far larger than if decisive action had been taken at the outset," he said.

He claimed that the reluctance to tighten interest rates forcefully at the beginning has been an important factor in perpetuating the crisis.

Fischer said that monetary policy has to be kept tight to restore confidence in the economy but fiscal policy could also be tightened although not excessively at the start of each IMF programme.

"That is as it should be. Moreover, these policies are showing increasing signs of success in Thailand and South Korea and interest rates in these countries have come down quickly," he said. -- BERNAMA

MR SHY