

20 JAN 1998

INTERBANK RATES MOVE ABOVE 10 PCT, HIKE EXPECTED UP TO 2ND QTR

By: Minggu Simon Lhasa

KUALA LUMPUR, Jan 20 (Bernama) -- The Kuala Lumpur Interbank Offered Rates moved above 10 percent today and this gradual uptrend is expected to continue through the first half of the year.

The high interest rates were seen as necessary to stabilise the ringgit and slow down the rapid credit growth, which at the end of November grew by 26.9 percent.

Already, Prime Minister Datuk Seri Dr Mahathir Mohamed said Malaysia would consider raising interest rates in line with the suggestion by the International Monetary Fund. IMF managing director Michel Camdessus has said that Malaysia must raise interest rate to counter inflationary pressures from the currency depreciation and higher credit growth.

The interest rates would continue to rise until the rapid growth of credit showed moderation, said Rating Agency Malaysia Bhd's manager of economics and market research department, Dr Yeah Kim Leng.

It would also depend on inflationary pressures, which were now on the uptrend, he said.

Raising interest rates is seen as a buffer against the weakening of the local unit. Dr Yeah felt that interest rates could be allowed to grow to 11 percent, saying that growth above that would hurt the economy and stifle economic growth.

The benchmark three-month Klibor rate stood at 10.4 percent today as compared to 9.57 percent yesterday.

Dr Yeah said higher interest rates would also put extra burden on servicing outstanding loans.

So far the full impact of the turmoil and the higher interest rates that came with it had not really filtered into the economy, he said, adding that this would happen in the second half where the effects of the slowdown effect would be felt.

Higher interest rates would also dampened new projects. Dr Yeah said highly geared companies and projects would feel the results of the interest rate hike in terms of the debt servicing burden.

The short term outlook for interest rates is rather volatile as financial institutions depended on a large part on funds in the interbank market, he said, adding that the level of liquidity would influence the market.

On some forecast that interest rate would hit 13 to 14 percent, he said if that happened, the level was too sharp and would have severe impact on the local economy.

He said there were differing views about interest rates being used as a prescription for the financial problem, but the emerging view was that high interest rates were not desirable as they killed growth.

Financial problems, like the one faced by the region now, should be solved by other means such as mergers or restructuring, he added.

"You can imagine the impact of the 200 to 300 basis points rise in terms of debt servicing cost with the loans outstanding as at the end of November last year at around RM399 billion," he added.

Regionally, he believed that the recipient countries of IMF assistance such as Indonesia, South Korea and Thailand would continue to have some influence on interest rates and the ringgit. The other country is China, which faces declining exports due to the more competitive products from South East Asia following the currency depreciation.

Kompleks Metrowangsa chief executive officer, Dr Ghazali Atan, said there was no fundamental economic logic for interest rates to move above 10 percent now.

But he said he would understand if the move was to defend the ringgit and following the statement by IMF's Camdessus who said that Malaysia must raise its interest rate.

He said the interest rates is hard to predict and would very much depend on the situation that arise and this include what happen in other countries in the region.

On the ringgit, Dr Yeah said the local unit, which has been undershot, would see a gradual rise but there would be no quick return to the pre-turmoil level of around RM2.50 to the US dollar.

He sees the ringgit moving between the RM3.5 and RM4.3 level against the US dollar, saying that there would be consolidation in the next two years with growth in the region of 3.0 to 4.0 percent per annum before Malaysia could enjoy higher growth comparable to before the turmoil.

Meanwhile, a forex dealer at a local bank said the ringgit could go up to 3.94 after the long festive holidays if it was able to stabilise at between 4.00 to 4.17. The rise in the local unit would happen gradually, he said. -- BERNAMA

MSL SHY