

31/05/1998

Interest rates too high (HL)

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KUALA LUMPUR, Sat. - A couple of hours after Bank Negara announced a negative growth of 1.8 per cent for the first quarter of this year, Datuk Seri Dr Mahathir Mohamad said the Government was working to find ways to reduce interest rates.

The Prime Minister said the interest rates, presently 15 to 16 per cent, were very high.

Commenting on calls to lower the rates, Dr Mahathir said the actual lending rate was dependent on the cost of money, inter-bank borrowings and the margins that banks imposed on borrowers.

"We are under pressure because the so-called market forces want us to raise interest rates," he told reporters after opening the 45th general assembly of the MCA at Wisma MCA.

The Government is of the view that when companies get into difficulties which may lead to bankruptcy as a result of high interest rates, the Government's finances too would be affected.

At a Press conference earlier, Bank Negara governor Tan Sri Ahmad Mohd Don announced that Malaysia recorded a negative growth of 1.8 per cent in the first quarter of this year but chalked up a commendable trade surplus of RM8.808 billion on the back of surging exports and declining imports.

Ahmad, however, expressed confidence that the targeted gross domestic product expansion of 2.5 per cent for this year was achievable but he would not say if the second quarter would see positive growth.

Commenting on this, Dr Mahathir said "we have to accept that the economy is facing a lot of problems".

Dr Mahathir was also asked to comment on the observation by Economic Adviser to the Government and executive director of the National Economic Action Council Tun Daim Zainuddin that stagflation - a state of high inflation without the corresponding increase in demand and employment - would be imminent if credit growth remained at a standstill.

The Prime Minister said the Government wanted credit growth.

However, when banks were not confident of future performance, they were normally reluctant to give out loans. Against this, the banks would have to be "prodded" to give out more loans, he said.

Dr Mahathir said a whole spectrum of measures were being taken to help overcome the economic problems.

He said Malaysia had to conserve its earnings of foreign exchange and at the same time minimise spending.

"There is a need to reduce imports, increase exports and trade in the currencies of the countries concerned."

In this context, Japan has agreed to trade in yen.

"Before this, 70 per cent of our trade was conducted in the US dollar although actual trade with the United States was only at 18 per cent.

"When the US dollar strengthened, we have problems buying goods from abroad. When the yen depreciated, we did not get the benefit because the contract is in the US dollar."

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