

02/06/1998

Interest rates `must stay firm'

Francis C. Nantha

DEPUTY Prime Minister Datuk Seri Anwar Ibrahim, who is also Finance Minister, yesterday said domestic interest rates must remain firm - especially since offshore ringgit deposit rates now stood at about 20 per cent.

He said the business community must understand that interest rates cannot be much lower than the offshore rates as it could otherwise lead to an outflow of funds in ringgit terms.

"It's very important that people who talk about interest rates know the offshore rates for ringgit. If you do not take this into consideration, you are putting the entire financial system at risk, because what is stopping people from bringing out our funds?"

Anwar also denied that a request had been made to the Monetary Authority of Singapore to assist in bringing down the rates for offshore ringgit deposits.

"I think it was simply a matter that was expressed in the Parliament there on all foreign currency deposits in general."

The offshore ringgit deposits in Singapore attracted attention recently when interest rates breached the 40 per cent mark. They have eased to about 20 per cent.

Malaysia's three-month interbank rates are now more than 11 per cent, up from 7.5 per cent in July last year, when Asia's financial problems began.

When asked about the statement by Prime Minister Datuk Seri Dr Mahathir Mohamad on interest rates on Saturday, Anwar said Dr Mahathir was merely expressing the general consensus of the business community who felt interest rates were very high.

He said the Government did not deny the fact that the business community was facing problems.

He explained the policy was to ensure the credit situation eases.

"I personally believe interest rates should be determined by market forces."

Asked if they could come down in the near future, Anwar said the central bank had that option, but high offshore rates for ringgit deposits must be taken into account.

"The option must be kept open through the central bank. A rate cut will affect adversely the currency and inflation.

"I personally would like the interest rates to come down but what can we do when there are so many other factors to take note of?

"What is more critical now is the easing of credit. This can be partly resolved by the setting up of the proposed asset management companies.

"The AMCs will take over part of the non-performing loans of the country's banks and that should enable commercial banks to disburse loans to the various sectors of the economy.

"We cannot direct the banks as to who or to which selected company they should disburse these loans to.

"Not every captain of industry or prominent businessman can expect that loans must be disbursed to them because of their position or influence.

"I want to say that such a move will be very unwise."

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