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Rubin-Policy

LOOSE MONETARY POLICY HAS DRAWBACKS TOO, SAYS U.S. OFFICIAL

KUALA LUMPUR, June 29 (Bernama) -- US Treasury Secretary Robert Rubin, while supporting the view that a tight monetary policy may strangle an economy, felt that a loose policy has its drawbacks too.

He said the adoption of a loose monetary policy by a country experiencing an economic downturn could lead to a substantial depreciation of its currency and additional inflation.

It will also deter foreign investments, encourage capital flight and intensify debt repayment risks for loans denominated in foreign currencies.

"What the International Monetary Fund has done is about right," he said in a clear defence of the IMF's prescription of high interest rates and credit squeeze for economic reform.

Speaking at a press conference at the end of his one-day visit here, Rubin said "striking the right balance is what the IMF is trying to do, especially on complex issues and situations."

On Datuk Seri Dr Mahathir Mohamad's view that the IMF's strategy on interest rates adopted by Malaysia has damaged the economy, he said, "I think the Prime Minister's views on a lot of issues are fairly well known. I guess it is fair to say that the US' views are fairly well known too."

Rubin, however, felt that Malaysia's interest rate policy should be determined by its own authorities.

"I do not think I, from the outside, should comment on the level of Malaysian interest rates," he said.

Rubin said that the IMF was trying to find the right balance in monetary policy and that was why there is no "one formula that fits all approach."

On feedback from US businessmen operating in Malaysia, he said they were still confident of Malaysia's underlying strength and convinced that their investments in this country would continue.

On his meeting with Malaysian business leaders, he said he understood their concern over the economic slowdown which they felt were partly due to Japan's zero growth over the past six to seven years and the current recession.

Malaysian business leaders also raised the issue of restrictions on short term capital flow and felt that Japan has to address its banking system problems as soon as possible as it had a direct impact on the economies in the region.

Asked to comment on the so called rift between Mahathir and Deputy Prime Minister Datuk Seri Anwar Ibrahim and possible political instability, Rubin said:

"It is a question I will not get myself into. As to the political circumstances in Malaysia, I'm the wrong person to respond (to the question)."

On his visit here, Rubin said he has had good discussions with Malaysian leaders and that it was "time exceedingly well spent." -- BERNAMA

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