

17/01/1998

Malaysia doesn't need help: IMF (HL)

Kamarul Yunus

MALAYSIA does not need any financial assistance from the International Monetary Fund (IMF) to tackle the country's economic problems in view of its strong financial sector, good economic policy and the tough pre-emptive measures already taken, its managing director Michel Camdessus reaffirmed.

In Kuala Lumpur with an IMF team since Thursday, he arrived at the conclusion after two days of consultations with Malaysian leaders, including Prime Minister Datuk Seri Dr Mahathir Mohamad and his deputy and Finance Minister Datuk Seri Anwar Ibrahim, and Treasury and Bank Negara officials.

At a press conference at the end of his visit yesterday, Camdessus said: "I believe when one compares Malaysia with its neighbours, one must recognise that Malaysia is not facing the same situation as some of the other countries."

"Malaysia is not likely to require financial assistance from the fund," he said, adding that Malaysia should continue with the present strategy, which includes adopting tough measures like those announced by Anwar on December 5 to stabilise the economy and strengthen economic management.

The IMF will however continue to offer policy advice and technical assistance when needed, Camdessus said. The IMF team will return in March to further discuss the implementation of the economic measures.

"We are in constant touch on this," he said, noting that the country's financial system remains reasonably strong as is its fiscal position which means there is no need to increase taxes.

Unlike some of the other countries, Malaysia's problems are largely attributable to the "contagion effect" sparked by the July 1997 de facto devaluation of the Thai baht, he noted.

Nevertheless, the IMF is concerned about the "excessive" credit growth of the past two years. "We would like to see some easing... through supervision and constant vigilance," the IMF chief said.

While acknowledging that credit expansion, which had averaged 30 per cent a year, has slowed to 27.5 per cent as a result of the measures taken by the authorities, Camdessus said Bank Negara has to monitor the financial system closely to make sure that the capital adequacy ratios are complied with and non-performing loans capped at low levels.

Malaysia should also consider raising interest rates to rein in credit growth and counter external pressure arising from the depreciation of the ringgit, he added.

On his meeting with Bank Negara officials, Camdessus said the central bank has indicated its readiness to keep credit expansion in check and continue to support the value of the ringgit.

In addition, the country's Budget, although adequate, must be strengthened from time to time with effective policies that take cognisance of problems caused by currency volatility, for example inflationary pressures.

Asked about IMF's reported revision of Malaysia's projected economic growth rate to 2.5 per cent this year, Camdessus appeared surprised, saying: "We have no official forecast ... not to my knowledge".

Malaysia has forecast a growth of between 4 per cent and 5 per cent this year, after expanding by more than 8 per cent a year for close to a decade.

On possible structural reforms, he said the system of price controls for a number of goods as well as intervention by the Government in certain economic areas, which had served it well in the past, may need to be reviewed and possibly abolished.

As for the proposed mergers of local financial institutions, Camdessus welcomed the initiative as it will lead to consolidation of the sector and put it in good stead to compete with foreign players when the financial market is further liberalised.

Turning to the region, he said much progress has been achieved by all the worst affected countries, namely South Korea, Indonesia and Thailand.

From his visits, Camdessus said he noted "an overall sense of hope" for the recovery of the economies.

"Within two or two and a half years, these countries will achieve growth in a more sustainable way provided they follow the reforms they have set," he said.

Thailand is neither seeking to renegotiate its existing programme with the IMF nor appealing for additional funds, while confidence in South Korea has improved.

Drawn to the question of transparency in IMF's activities and its alleged lack of social agenda when pushing countries to undertake economic reforms, Camdessus said the organisation has always been supportive of social programmes which are critical for maintaining growth and reducing unemployment and poverty.

"I was in South Korea to avoid a worker-employer collision and in Jakarta I pressed the Government for more social expenditure, something which commentators of IMF forget to say.

"We are the only institution in the world which is reviewed by 182 countries. The 182 members receive our reports and documents daily," he said.

Asserting that the IMF is not in the business of bailing out countries, Camdessus said: "Our work is to help countries to establish confidence among international investors... this is in our charter... we help them in their policies... to shorten the period of adjustment and minimise social costs."