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NEAC defends move by Malaysia to lower interest rates

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IN response to the article Malaysia lowers interest rates "... against the advice of economists" (Financial Times, Aug 2), it seems that the disparaging opinions of anonymous experts are often quoted and portrayed as the exclusive and prevailing belief held by all.

We respect that others may hold different opinions and hardly expect unanimous agreement in areas of economic policy. However, it would be refreshing if certain media were to present a more balanced perspective and give their readers the option to derive their own conclusions.

For example, the on-going debate on interest rate policy is hotly contested in the most prestigious think-tanks and universities in the world. Contrary to "the advice of economists" quoted, there is a discernible shift in thought and strong advocacy for the lowering of interest rates as a necessary means for economic revival in Asia.

Interviewed by Asiaweek (March 27), Joseph Stiglitz, vice-president and chief economist of the World Bank stated: "High interest rates and austerity programmes urged by the IMF worsen unemployment".

He explains: "High interest rates and excessively restrictive fiscal policy can have negative effects on domestic demand ... Excessive currency depreciations, like high interest rates, can also undermine corporations and financial institutions but our econometric studies tend to support the view that high interest rates have a more deleterious effect on financial systems than do devaluations."

James Tobin, Sterling Professor Emeritus at Yale University, awarded the Nobel Prize for Economics in 1981 for his work on monetary theory and exchange rate policies, writes:

"Macro-economic austerity is not a favourable climate in which to begin long-term structural reforms. In East Asia, the urgent priority is to arrest the plunge in economic activity and start vigorous recovery to restore rates of employment and GDP growth..."

"The IMF should support sensible recovery programmes by promising assistance to central banks in sustaining interest rate reductions to levels consistent with macro-economic recovery."

Steven Radlet, an Institute Associate at the Harvard Institute for International Development (HIID) and economics lecturer at Harvard University, and Jeffrey Sachs, director of HIID and Professor of International Trade at Harvard University, contribute their views:

"After one year, the combination of sustained high interest rates and illiquidity has, in fact, led to severe economic contraction and a vast overhang of bad debt throughout Asia..."

"The mixture of high interest rates, rising non-performing loans and IMF pressures for rapid banking re-capitalisation has left the entire banking sectors of South Korea, Thailand and Indonesia effectively moribund."

"Under these circumstances, continued high interest rates and the gradual workout of foreign and domestic debts will not solve the problem..."

"The key is to reduce interest rates and expand credit. Yes, this would probably entail some further depreciation in the region's currencies, at least in the short run. But that would be a relatively small price to pay for restarting economic activity."

"In any event, the impact on exchange rates is likely to be fairly small. Over time, as economic activity picks up and foreign leaders re-

enter the markets, exchange rates will again appreciate in real terms."

Radelet and Sachs conclude: "There is simply no reason to persist with punishingly high interest rates."

Philip Bowring in the International Herald Tribune (July 23) calls for Governments to "Ignore the IMF and Bring Down Interest Rates in Asia".

"This time," he says, "Malaysian Prime Minister (Datuk Seri Dr) Mahathir Mohamad has it right. Asia (excluding Japan) is being crippled by extraordinarily high interest rates that threaten to turn a necessary short, sharp recession into a depression. Policy must be changed, regardless of the IMF."

Locally, CIMB Securities has produced a research paper, entitled Malaysian Monetary Policy Revisited: Why Interest Rates Need To Come Down Now. Economist Patrick Er believes that for the National Economic Recovery Plan to succeed, an accompanied easing of monetary policy is necessary.

"Easier monetary conditions now would be of tremendous immediate benefit to the economy in the sense that the preservation of the financial system and the industrial backbone is not compromised while the more arduous task of restructuring and reform is given `breathing space' to take place."

CIMB's econometric research also shows that regional currency movements are more important in influencing ringgit changes than interest rate differentials.

SG Securities' global strategist, Bijal Shah, concurs that the key to economic revival and the necessary impetus to spur fresh consumer demand growth in Asia requires "massive cuts in interest rates". He observes: "A lot of Asian countries are doing the right thing by cutting interest rates."

Morgan Stanley Dean Witter's economic forecast reports that Malaysian "macroeconomic policy settings are appropriate for averting a depression and facilitating the deleveraging of Malaysian corporates."

It is evident that Malaysia's recent move to lower interest rates is actually in line with the advice of named local as well as internationally respected economists. I hope their views may also be taken into consideration in the name of objective journalism.

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