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Dr M: Rubin also says high interest is sapping economy

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KUALA LUMPUR, Mon. - Prime Minister Datuk Seri Dr Mahathir Mohamad said today visiting US Treasury Secretary Robert Rubin agreed that the high interest rate was damaging the economy.

Dr Mahathir said although Rubin did not raise the issue when he called on him (the Prime Minister) at his office today, the matter was discussed yesterday between Rubin and Tun Daim Zainuddin who was appointed last week as Minister in the Prime Minister's Department in charge of economic development.

"All these (interest rates) have been raised by him and Tun Daim and in fact he agrees that (the) high interest rate is damaging the economy," Dr Mahathir told reporters after chairing a meeting to set up the National Water Resource Council at the Prime Minister's Department.

Dr Mahathir was responding to a question on whether Rubin expressed concern over the issue of interest rates.

The Prime Minister added that Rubin and he discussed general economic matters, but they did not go into specifics.

"I gave my views and he gave his. There was nothing specific except that we all agreed that this is a global problem, not a Malaysian or Asian problem or East Asian problem."

Thus, Dr Mahathir added, the world would have to figure out how to resolve it.

On whether Rubin raised the need for Malaysia to open up its banking system, Dr Mahathir said: "No he didn't ... not to me. He may have done that to somebody else.

"But I have pointed out to him that in currency trading, you don't know who is selling and who is buying because when you sell Malaysian ringgit for US dollar it is also the same as selling the US dollar for Malaysian ringgit. So which one should go down?"

On whether Malaysia was pursuing inflationary policy, Dr Mahathir said this was not so.

"Actually, there should be high inflation now but we have been able to control inflation in this country all the time. The only cause for inflation is imported inflation.

"If you buy sugar now because you have to use foreign currency, that increases the price of sugar. Because the price of sugar rises, people might try and raise the prices of their things in order to buy imported items. That is what causes inflation, not interest rate."

At a separate Press conference, Rubin said the Malaysian Government "really had to address the interest rate issue".

"I don't think as an outsider, I should comment on the level of Malaysia's interest rates.

"Obviously, there are various considerations. The IMF has agreed that it needs to be an interest rates regime that will provide support for the currency," he said.

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

However, the IMF understood the risk of a low interest rate would result in the currency suffering accordingly, while a high interest rate would also create difficulties.

He was also asked to comment on Dr Mahathir's views that the IMF's strategy on interest rates which Malaysia had adopted had damaged the

economy.

"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."

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