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MAHATHIR-YEN
MSIA TO AGAIN SOURCE YEN LOANS

By: Michael Raj

TOKYO, June 4 (Bernama) -- In what is seen as a major shift in policy, Malaysia has decided to once again source loans denominated in the yen.

Prime Minister Datuk Seri Dr Mahathir Mohamad said he had conveyed Malaysia's decision to source yen loans to Japanese Prime Minister Ryutaro Hashimoto during their more than half-hour meeting earlier tonight.

Although Malaysia stopped borrowing yen loans a few years ago when they became too expensive owing to the Japanese currency's marked appreciation, the loans would now be cheaper when compared with loans denominated in other major currencies such as the U.S. dollar and the British pound sterling.

Speaking to Malaysian journalists at the end of his working visit to Japan at the Okura Hotel here, he said the yen loans would be sourced by both the government and the private sector.

Currently, the ringgit is traded at the 2.84-level per 100 yen as compared with 2.16 a year ago and around 2.30 in 1996.

The ringgit is now traded at about 3.90 to the US dollar as compared with 2.40 over the last two years.

Against the pound sterling, the ringgit is currently traded around 6.30 compared with 4.10 a year ago and around 3.80 in 1996.

Later, both leaders spoke briefly at the Nikkei conference dinner where Dr Mahathir touched on the need for Japan to increase investments in Malaysia as Kuala Lumpur's prosperity would also benefit Tokyo.

He said the money would be used for various purposes including as project financing. Japan even has special loans for environmentally-friendly projects.

Asked whether the loans would offer concessionary rates like the Official Development Assistance (ODA) loans in the early 80's or based on market rates, he said that would have to be negotiated.

In fact, in the late 80's and early 90's, given its improving financial position and prepayment abilities, Malaysia graduated from receiving ODA loans a few years ago.

On whether Malaysia would undertake further major reforms of the banking sector after having set up Pengurusan Dana Harta Nasional Bhd (Danaharta), the asset management company, to take over the banking system's non-performing loans, Dr Mahathir said:

"The National Economic Action Council (Neac) has been studying every feature of the recession and how other countries handle similar problems (in banking)."

Dr Mahathir did not dismiss the possibility of Malaysia introducing a deposit insurance scheme to complement Danaharta's activities in making the banking sector more resilient.

Through such a scheme, which is understood to have been discussed by the Neac, deposits would be insured by an institution, thus removing the burden from the government which now has to guarantee deposits of the public and in the process increases its liability.

The Prime Minister said if they think that methods used by other countries in tackling their problems are effective, "we will do so but maybe it would be tailored to our own situation."

"We are not rejecting anything," he said.

This is why the Neac studies every feature of a recession in order to be able to understand it and by referring to similar experiences of other

countries in reviving their economies by way of reinforcing the capital market.

For instance, Chile, decided that short term capital should be regulated while Slovenia, although a new country, had stated that those who bring money into stock market should keep it there for a certain period of time.

The outflow of short-term capital from the currency and stock markets has been touted as the main reason which precipitated the currency crisis in Indonesia, Thailand, South Korea, Malaysia and the Philippines.

"We must begin to think there is no orthodox way of dealing with a situation that is unorthodox," Dr Mahathir said.

As such, he said there was no reason why Malaysia could not consider bail-outs when the United States bailed out Continental Illinois, the bank which ran into financial difficulties.

Faced with the prospect that the collapse of the bank would undermine the whole banking system, the US authorities did not hesitate to resort to unconventional methods to solve their problems, he said, adding that "we should learn from them."

Asked whether Hashimoto gave a guarantee that Japan would continue to invest in Malaysia and possibly increase them, he said there was no guarantee. -- BERNAMA

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