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Tight monetary policy not helping growth: PM (HL)

Kamarul Yunus; Sreerema Banoo

PRIME Minister Datuk Seri Dr Mahathir Mohamad said the existing tight monetary policy does not seem to be stimulating growth.

"I think that (tight) monetary policy may not be so good. We have seen the effect in the first three months of the year; a contraction in growth of 1.8 per cent," he told newsmen at the Sultan Abdul Aziz Shah Airport yesterday on his return from a five-day working visit to Japan.

Dr Mahathir was asked whether he endorsed Bank Negara's stand to maintain tight monetary policy while, at the same time, calling for lower interest rates.

"... we need to lower the interest rates. But effective interest rates and interest rates are two different things.

"When interest rates went up, at one time, to 24 per cent, that was very high. Subsequently, it came down to 15 per cent and 16 per cent ... still too high for us.

"But the interest rates that is fixed by Bank Negara is about 11 per cent. At this level, I think the businessmen here can survive but the problem is how to reduce cost of funds that the banks have to pay for because of the interbank rates.

"We are trying to find a solution so that the interbank rates do not affect the interest rates," he said, maintaining that there is no difference in opinion between him and his deputy Datuk Seri Anwar Ibrahim.

"No difference at all because what he has (Anwar) said, he told me ... what I spoke on I have already told him ... he knows."

Pressed on whether he endorsed Bank Negara's tight monetary policy, he said: "No, not necessarily ... because I think that tight monetary policy may not be so good ..."

On whether he would like to see Bank Negara moderate its monetary policy, Dr Mahathir said: "I think it is not a question of the central bank wanting to moderate the policy. The policy of the central bank is to stimulate the economy or growth."

Last Monday, Bank Negara said in a statement that the interest rate policy continues to aim to balance the need to maintain price stability and a stable exchange rate while ensuring that productive sectors are not undermined.

"At the current interest rate, this balance is being addressed within the comprehensive set of policies adopted in December 1997 and March this year," the central bank had said.

On the same day, Anwar said although Bank Negara has the option to lower interest rates, other factors such as high offshore rates for ringgit deposits must be taken into account in setting interest rates. Otherwise, he added, the financial system could be put at risk.

"The offshore ringgit interest rates are very high. We have to take that into consideration. People are of course welcomed to express their views but it is very important that the financial institutions remain strong and credit be made available," Anwar had said.

Analysts contacted by Business Times, while agreeing with the Prime Minister, said other factors are also responsible for the first quarter performance of the economy.

TA Securities senior economist Anthony Dass said the contraction in gross domestic product growth is attributed to the fall in manufacturing output. Output in the manufacturing sector declined by 2.4 per cent on an

annual basis compared with a 10.9 per cent growth in the last quarter of 1997.

Public and private expenditure, he said, has somewhat been dampened "in view of the tight credit policy and tight fiscal and monetary policy."

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