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RUBIN-POLICY

TIGHT MONETARY POLICY MAY STRANGLE ECONOMY, BUT A LOOSE ONE HAS DRAWBACKS

KUALA LUMPUR, June 29 (Bernama) -- US Treasury Secretary Robert E Rubin, while supporting the view that a tight monetary policy may strangle an economy, however felt that a reverse (loose monetary policy) has its drawbacks.

He said for a country facing an economic downturn, adoption of a loose monetary policy could lead to a substantial depreciation of its currency, additional inflation, deters foreign investments, encourages capital flight and intensify the risks for debt repayment for loans denominated in foreign currencies.

"What the International Monetary Fund (IMF) has done is about right," he said in a clear defence of the IMF's prescription on high interest rates and credit squeeze for economic reform.

Speaking at a press conference at the end of his one-day visit here, Rubin said "striking the right balance is what the IMF is trying to do, especially on complex issue and situation."

On Prime Minister Datuk Seri Dr Mahathir Mohamad's views that the IMF's strategy on interest rates which Malaysia has adopted has damaged the economy, he said, "I think the Prime Minister's views on a lot of issues are fairly wellknown. I guess it is fair to say that the US' views are fairly wellknown too."

However, Rubin felt that Malaysia's interest rates' policy should be determined by its own authorities.

"I do not think I, from the outside, should comment on the level of Malaysian interest rates."

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

On feedbacks from US businessmen operating in Malaysia, he said they were still confident of Malaysia's underlying strength and are convinced that their investments in this country would continue.

On his meeting with Malaysian business leaders, he said he understood their concern over the economic slowdown in the country which they felt were partly due to Japan's nil growth over the past six to seven years and the current recession.

Malaysian business leaders also raised the issue of restrictions on short term capital flow and felt that Japan has to address its banking system problems as soon as possible as it had a direct impact on the economies in the region.

Rubin was also asked to comment on the so called "rift" between the Prime Minister and Deputy Prime Minister Datuk Seri Anwar Ibrahim, and a possible political instability,

To this he said, "it is a question I will not get myself into. As to the political circumstances in Malaysia, I'm the wrong person to respond (to the question)."

On his visit here, Rubin said he has had good discussions with Malaysian leaders and that it was "time exceedingly well spent." -- BERNAMA

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