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Mahathir on the need for prudent lending

A SATISFACTORY financial framework should be based on four pillars - transparency, rules, regulation and controlled leverage, Prime Minister Datuk Seri Dr Mahathir Mohamad said on Friday.

In reply to a question after his luncheon address at the World Economic Forum, he said there should also be a limit on the amount which banks and fund managers should be allowed to leverage their funds.

Banks could, for example, be allowed to lend to currency traders two times their funds but certainly not 20 to 200 times.

Citing the example of the Long-Term Capital Management, he said it leveraged its funds 200 times.

"Could not the Malaysian Government also have the same kind of leverage, that is 20 times its reserves of US\$20 million?" he asked. However, he noted that "nobody wants to lend us that amount".

"But why are banks allowed to do so?"

Stressing the need for prudent lending, Dr Mahathir said the banks could be regulated by central banks. They could also register themselves in the countries in which they did trade.

Currently, he said "we do not know who is buying or selling the currency and how it gets devalued", adding that there was a need to know where the market was and where currency traders registered.

Dr Mahathir has, from the outbreak of the current financial crisis, identified currency traders as the cause of the crisis and culprits who need to be checked.

He is now being joined by other leaders and economists even though they do not want to admit it.

This sentiment was echoed by a number of participants and leaders attending the WEF including Singapore's Senior Minister Lee Kuan Yew who said there was a need for "more intrusive laws as I am not allowing my currency to be rubbish".

Canadian Prime Minister Jean Chretien, who described the currency traders as "young boys with red suspenders at Wall Street", is also clearly in favour of regulating them.

In reply to another question, Dr Mahathir said the currency crisis has impacted Malaysia and Singapore but the countries did not seek IMF loans while others in the region chose to turn to it.

On currency depreciation and increased competitiveness, the Prime Minister said the country did gain some competitiveness but not when the currencies of all its competitors in the region depreciated at the same time.

Citing an example of a Southeast Asian country where the currency had depreciated by 600 per cent, he said it had caused a lot of unhappiness as people could not afford to buy food and there were riots.

If there was a sudden depreciation of the currency, it would give rise to problems for businesses which have to hedge resulting in higher costs.

Dr Mahathir said the depreciation of the ringgit had benefited palm oil producers, especially the smallholders.

Malaysia exports some nine million tonnes of palm oil a year and since the price is quoted in US dollars, there are higher earnings for those in the industry.

That was why, the smallholders were largely unaffected by the crisis.

At the same time, however, with the depreciation of the ringgit, the

cost of imports had gone up.

"Malaysians have been denied a lot of things. Malaysia imported a lot of luxury goods, food and travelled abroad."

For example, he said, last year, 30 million Malaysians travelled abroad when the country's population was only 20 million.

"I am not sure where the rest came from," he said to laughter from the crowd.

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