

Anwar: Cut in SRR to bring down effective lending rates 8

By HAZEL ONG

EFFECTIVE lending rates are expected to come down with many banks submitting proposals for a much-lowered spread, following the reduction of the statutory reserve requirements (SRR) by 2% today, Datuk Seri Anwar Ibrahim announced yesterday.

The Finance Minister said this was the country's way of maintaining a "very delicate balance" between a relatively high interest rate and ensuring banks had the capacity to continue to ease credit.

"It (interest rate) cannot be excessively low as in the pre-crisis situation, neither should it be excessively high

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like the rates adopted by our neighbouring countries. A high interest rate regime will result in a further contraction of the economy and render economic or business activities less or not viable," he told reporters after attending Universiti Islam Antarabangsa's Board of Governors meeting in Gombak, Kuala Lumpur, yesterday.

Anwar said it was a certainty that banks' spread would be reduced when the SRR was lowered.

"Now, we have seen this happening, I have noticed that specific proposals by banks, where the spread will be much lowered. So I think there will be a gradual reduction in terms of effective

lending rates. There is a difference between effective lending rates and effective interest rates," he said.

According Bank Negara figures, the spread for the banking industry (commercial banks, finance companies and merchant banks) stood at 5.8% at the end of April.

Asked whether others banks apart from Malayan Banking Bhd (Maybank) had proposed to lower their spread, he said it was normal for Maybank to take the lead which would be followed by others in the industry.

Anwar said the reduction of the SRR was aimed at creating more liquidity in the banking and financial sector,

but the move would only be effective if financial institutions offered loans. However recently banks were reluctant to give out loans.

"We want banks to register a 20% increase in loans in the first quarter of the year and a 15% rise in the final quarter of the year in line with our policy.

"But there are banks having less than 2% increase (in loans)," he said.

Anwar said the move to lower effective lending rates was in line with Prime Minister Datuk Seri Dr Mahathir Mohamad's call for not burdening the local business community.