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Anwar: Lower interest rate spread will make economy more viable

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KUALA LUMPUR, Sat. - Datuk Seri Anwar Ibrahim said today there was a need to reduce the spread of interest rates - margins that banks impose on top of the base lending rate - to make the economy more viable.

The Finance Minister said he explained the need to introduce a programme to lower the spread at the last Cabinet meeting which discussed the issue of interest rates and other economic matters.

Anwar, who is also Deputy Prime Minister, said his position on this was in line with the views of Prime Minister Datuk Seri Dr Mahathir Mohamad.

Explaining the mechanics, he said if the three-month base lending rate was at 11 per cent, and the spread now at four and five per cent, lowering it would bring down the effective lending rate.

"I am happy that there are banks, including Maybank, that have started reducing the spread.

"This is important because it will lower the effective lending rate so that the business can become more viable," Anwar told reporters after opening Masjid Al Muhajirin in Bandar Sri Damansara.

Later, commenting on the same subject after briefing some 200 Umno veterans on the economic situation, Dr Mahathir also said the spread should be lowered.

"Interest rate is high because of cost of funds. But at 11 per cent, it is not so high. The cost of funds bring it up to 15 per cent and 16 per cent. That should not be so. We want it to go to 11 per cent, and we have to find ways and means so that the spread is not so high."

The Prime Minister said banks could make money, but "don't make too much money during these hard times".

"You (referring to banks) kill your clients, you will lose your business. They should lower the spread and make it possible for people to borrow low cost funds, so that their businesses can succeed and they can pay back the banks.

"The Government will also lose if the companies don't make money as they can't pay tax. It is very simple."

Earlier, Anwar said some banks had shown "great reluctance" in disbursing loans according to the credit plan.

"We are not changing the credit plan, but we have to view this with great concern because the refusal of banks to disburse according to the credit plan will then stagnate the economy."

He said the Cabinet did deliberate on the issue of interest rates because it was of concern to the society.

"But the Cabinet did not at any stage recommend specific figures or rate," he said, adding that this was the jurisdiction of Bank Negara.

On various funds introduced by the Government including for low-cost housing and export credit, he said designated banks risk being cut off if they did not disburse the loans speedily and effectively.

They will be replaced with banks willing to do so.

Anwar, who had named the mosque when laying its foundation stone on Aug 16, 1996, said there was a need to fully utilise mosques such as to impart Islamic knowledge and get the participation of the young.

Tan Sri Wan Azmi Wan Hamzah, chairman of Land & General Bhd, the developer of Bandar Sri Damansara, said the mosque would also be used as a centre for social work and spreading knowledge to the community.

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