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BLR-LIQUIDITY

BLRs MOVE TOWARDS MORE REALISTIC LEVELS

An analysis

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KUALA LUMPUR, Aug 13 (Bernama) -- The increased liquidity in the financial system has triggered a gradual downward revision in money market rates, judging from the string of announcements that commercial banks have been making each day on their base lending rates.

The BLRs of commercial banks have come down to more realistic levels now, some as low as 11.40 percent, following the move by Bank Negara Malaysia (BNM) to reduce its intervention rate to 10 percent recently.

This is certainly a far cry from the scenario in December 1997 when effective lending rates for businesses were as high as 20 to 21 percent, while banks were lending money among themselves at about 11 percent.

It is obvious that the main thrust of the government's monetary policy is to stabilise the monetary system and create a conducive banking environment that would stimulate economic activity.

However, many quarters say that in meeting these objectives, the government should not run the risk of discouraging private savings and trigger a capital outflow which would further weaken the ringgit.

"Reducing the cost of conducting business would certainly help, in part, towards creating a more conducive business environment.

"However, it would be some time before the lower BLR helps to "jump-start" the Malaysian economy," said Chie Kieng Ngu, TA Securities Sdn Bhd's banking analyst.

He told Bernama that there seemed to be no urgency, on the part of businesses, to reconsider their investment decisions, especially if they involved deferred or shelved projects, which require massive capital injection.

Many companies now prefer to look at the viability of shelved projects and worldwide economic developments before making an investment decision.

Nevertheless, Chie added that businesses would reap, almost immediately, the benefits of cheaper loans with the gradual easing of BLRs if banks were more generous in their lending activity.

"Bank Negara tested the waters two weeks ago by reducing its intervention rate by 50 basis points to 10.50 percent and was pleasantly suprised that it had minimal impact on the ringgit," he said, adding that the central bank announced a further reduction of 50 basis points to 10 percent on Aug 7.

Chie said the market expects Bank Negara to repeat its intervention exercise in the money market in the near term although the central bank has said that the intervention rate of 10.0 percent would remain for a while.

"They (Bank Negara) have to first watch the rate of the ringgit's depreciation...if the depreciation is not faster than other regional currencies, then maybe the intervention rate would be reduced further and thereby assist in the recovery of the domestic economy," he said.

By the end of the year, Chie estimates that the BLR could fall to a low of 10.3 percent, if the central bank continues with its unrelentless effort to trim its intervention rate.

Malayan Banking Bhd, the country's largest commercial bank, revised its base lending rate to 11.40 percent last Friday, making it the lowest to date.

Others which have joined the bandwagon to lower ther BLRs include Bank Bumiputra Bhd, RHB Bank (11.50 percent) and Bank of Commerce, ABN AMRO Bank (11.60 percent) and Phileo Allied Bank (12 percent).

Prime Minister Datuk Seri Dr Mahathir had led the charge for lower interest rates as he said that many businesses were suffering in a climate of tight liquidity, a severely weakened currency and deflated asset prices.

He also criticised banks for not cooperating with the government, by keeping money to themselves and even pulled back credit lines.

"If they don't believe in the economy, they might as well close down," the prime minister had said and added that the government would work towards a formula to narrow the banks' spread.

Dr Mahathir also expressed disappointment over the stand taken by banks in defending a high interest rate regime when businesses were already struggling to cope tightening liquidity.

Another analyst said the balancing act between interest rate, savings and currency strength is crucial in maintaining a stable monetary environment,

"Unfortunately, there isn't a scientific way of determining what combination of fiscal and monetary tools would provide an ideal result but the cut in intervention rate by Bank Negara and the subsequently easing of BLRs of commercial banks is a move in the right direction.

"On the overall, the cut in BLR addresses the cost of funds and the lending rate of the banking sector, which is very crucial to entrepreneurs and the man-on-the-street who can now look forward to borrowing funds at more favourable rates," he added.

Associate Professor Mohd Khir Ashari from the Faculty of Business and Administration Studies, Universiti Teknologi Tun Abdul Razak, is of the view that the reduction in the BLR does not mean that banks are prepared to farm out more funds under the current economic condition.

"Banks will lend to only viable businesses and those businesses which stand to expand and grow, and help in reactivating the country's economy.

Mohd Khir said "cheaper loans" to businessmen would mean a lower monthly commitment, on their part, to the banks.

Another academician said as more funds are expected to be released into the financial system, banks should be in a position to increase their lending.

Dr Mohd Aslam Haniff, Dean of Economic Kuliayah of the International Islamic University, said banks should pool their resources and lend more to stimulate growth without affecting the exchange rate, which usually suffers with the reduction of interest rates.

Referring to the prime concern of the National Economic Recovery Plan (NERP) to stabilise the ringgit, he pointed out that any impact on the exchange rate can be negated with the inflow of more foreign direct investments into the the country

On whether banks would be able to lend more following the cut in the BLR, he said, "We have to wait and see. It's up to banks to decide and this would depend on their lending priority."

Asked if the country's Gross Domestic Product (GDP) would improve with lower BLRs, Mohd Aslam said it is too early to ascertain but if it (improved GDP) becomes a reality, then the economic slowdown need not extend into next year.

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