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BLRS-FURTHER REDUCTION NEEDED

BLRS MUST COME DOWN FURTHER, SAY ANALYSTS

By: Durga Varma

KUALA LUMPUR, July 7 (Bernama) -- The government's unrelenting pressure on banks to cut interest rates is beginning to yield results, especially after the reduction of the statutory reserve requirement (SRR) from 10 percent to eight percent.

Since then, banks have begun reducing their base lending rates (BLR) by about 20 basis points to between 11.90 and 12.10 percent.

But analysts said a 20-basis point reduction is not enough to spur economic activity as the cost of interbank borrowings is still considered expensive.

Prime Minister Datuk Seri Dr Mahathir Mohamad has led the charge for lower interest rates because many businesses are suffering in the current climate of tight liquidity, severely weakened currency and deflated asset prices.

"During the heyday of an economic boom, a two percent cut in the SRR would have brought about a significant decrease of at least two percent in the BLRs," said a treasury dealer with a large local bank.

He told Bernama that in the long-term (three to six months), both lending rates and interbank rates should come down to more realistic levels if the recent cut in SRR helps lower interest rates, although slowly.

The dealer said unless interbank and lending rates come down below 10 percent, businesses will continue to see "no benefit" from the latest cut in the SRR.

Bank customers have been paying rates of between 15 and 16 percent while banks are lending money among themselves at 11 percent.

About a fortnight ago, Mahathir said that the govt was working on a formula to narrow banks' spread and expressed disappointment that banks were so keen to defend a high interest rate regime when businesses were struggling to cope without funds.

The new SRR became effective on July 1, 1998 and has released some RM8 billion into the banking system which has cut the BLR of commercial banks by 0.21 percent and that of finance companies by 0.27 percent.

This has eased the pressure on interest rates and, judging from the move by Malayan Banking Bhd, the country's leading bank, to quickly respond by lowering its base lending rate, many more commercial banks might likely follow suit soon.

On July 2, Maybank lowered its BLR to 11.90 percent from 12.90 percent, while Standard and Chartered Bank reduced its BLR to 12.10 percent from 12.30 percent.

Following this, RHB Bank, Perwira Affin Bank and OCBC Bank cut their BLR to 12.10 percent from 12.30 percent.

Jeffrey Tan, manager for financial institution ratings at Rating Agency Malaysia Bhd (RAM), said:"Looking at the measures taken so far by Bank Negara, their main thrust is to stabilise the monetary environment and create a conducive banking environment that will stimulate economic activity."

While meeting its objectives, BN has to ensure that the system, as a result of lower interest rates, does not run the risk of discouraging private savings and trigger capital outflows which will further weaken the ringgit.

Another treasury dealer said the government has to deal with the delicate task of maintaining the right balance in Malaysia when compared

with the speculative environment in Singapore where ringgit deposits have risen to as high as 30 percent to 40 percent.

"Singapore banks are short on ringgit and need funds to cover their positions," he said, adding that Singapore is the offshore centre for ringgit trading.

"Many traders short the dollar to buy the ringgit, as such the ringgit is always in demand," he added.

RAM's Tan said the balancing act between interest rates, 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 will provide an ideal result, but the cut in SRR is a move in the right direction.

"Reducing the cost of conducting business will certainly partly help create a more conducive business environment," he added.

The loosening of monetary policy by Bank Negara has to be read in the context of the expected contraction of the economy.

Overall, the cut in SRR addresses the cost of funds and the lending rates of the banking sector. -- BERNAMA

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