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`Borrowings needed for any recapitalisation of banks'

Badrul Hisham Mahzan

THE Government can borrow internally and abroad to raise funds if it needs to recapitalise banks, Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday.

He added that part of the borrowings could be done through bond issues.

He said this when replying to a question on the Government's ability to raise funds if the banking system needed recapitalisation.

"We have to borrow. Some of the borrowings may be done within the country and the rest abroad and through the issuing of bonds," he said, adding that Malaysia had high saving rates.

"The Employees Provident Fund alone has RM1.8 billion monthly savings," he said at a Press conference after opening the Hospital Universiti Kebangsaan Malaysia at Bandar Tun Razak.

Deputy Prime Minister Datuk Seri Anwar Ibrahim said on Monday the banking system would need recapitalisation of about RM16 billion for 1998 and 1999 under the worst case scenario.

He said a special purpose vehicle was being established by Bank Negara to spearhead capital injection exercise. The SPV will act as a catalyst to consolidate and rationalise the banking sector, inclusive of mergers.

Asked whether there were plans to lower the interest rates in the near future Dr Mahathir said:

"We hope to do so in the near future. We can reduce the base lending rate but our problem is that some foreign countries may increase their interest rates causing the outflow of our currency.

"Also, currency traders may decide that it is a bad move and in the process devalue our currency further."

Dr Mahathir said the Government might find some other ways of reducing the interest rates without touching the BLR.

"We have already reduce the spread. Maybe banks will reduce their (profits) margin."

Asked whether the lowering of the margin could "kill" banks, Dr Mahathir said it would not.

The Prime Minister said banks could continue to register profits if the volume of loans given out was big enough.

Ask to comment on Ryutaro Hashimoto's resignation as Japan Prime Minister, Dr Mahathir said he was shocked with the Liberal Democratic Party's defeat in the Japanese Upper House election.

He hopes, however, the new Japanese Prime Minister and Government would take into consideration the problems faced by Southeast Asia nations.

When asked about the hike in the cost of drugs the Prime Minister said:

"The government hospitals are using locally manufactured drugs and those that are not branded. At the same time, we also encourage local companies to manufacture more drugs."

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