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Funds not farmed out fast enough (HL)

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THE various funds set up by the Government to boost specific industries and expedite economic recovery are not reaching their target groups fast enough, Datuk Seri Dr Mahathir Mohamad says.

The Prime Minister gave two reasons why this is happening: effective interest rates have remained high even though base lending rate (BLR) is low; and banks seemed more interested in the easy way of making profits.

"Sometimes, applications for loans are rejected without any reason being given by the bank," he said in an interview aired on RTM last night.

Dr Mahathir said in the case of the Small and Medium Industries Fund, for example, only RM40 million has been disbursed by banks even though the Government had set aside RM1.5 billion for the SMI companies.

"So little... Out of RM1,500 million, they gave out only RM40 million over three or four months," he added.

Dr Mahathir said some banks were guilty of pushing up interest rates to as high as 15-16 per cent (although the BLR was only 12 per cent). While this could bring profits to the banks, it makes it impossible for businesses to remain viable.

The banks would say that they could not give out loans because "this project will not be profitable or that project is not good".

"Thus, even though the Government tries to provide sufficient funds, these funds have not been fully utilised because there is no cooperation from the banks," he added.

The Prime Minister was asked why there were still complaints of insufficient funds when the Government had introduced several schemes to assist specific businesses and industries.

Kuala Lumpur Malay Chamber of Commerce president Syed Amin Al-Jefri, Federation of Malaysian Consumer Associations (Fomca) president Hamdan Adnan, and Star chief news editor Chua Yew Kay were panelists on the RTM programme.

"Here, we face a problem... that is the universal view that the Government or people in power should not direct the banks to give out loans as it is contrary to market policies.

"If we can't direct our banks (to give out more loans), our objectives would not be met. But if we insist on directing banks, we'll be criticised. Not only that, sometimes our currency will be further devalued," he said.

On capital flight and a suggestion that money is still being taken out of the country, Dr Mahathir said:

"There is an outflow of our money because of the higher interest rates on fixed deposits offered outside Malaysia.

"(In addition) some are of the opinion that the interest rates in Malaysia, although lower than that of other countries, are considered high by business people and so they don't borrow money. When they don't borrow money, the money will not earn interest through savings. That is why there is an outflow of money."

If the Government lowers interest rates, industrial business activities will increase, many will then need money and the money will become "cheap", he added.

"They will borrow money and hence there will not be any outflow."

WENDY LIM reports: Speaking to reporters in the morning, Dr Mahathir said the country faces two major problems if it uses the BLR to push down

domestic interest rates.

"We can reduce the BLR... but some foreign countries will increase their interest rates and cause an outflow of our currency.

"Secondly, currency traders will decide that this is bad. They may know the value of our currency and (use their influence to) lower the ringgit," he said when asked on the government's plans to lower interest rates.

The BLR now stands at 12.1 per cent following a Bank Negara's move to reduce the statutory reserve requirement (SRR) to 8 per cent from 10 effective July 1.

Dr Mahathir said the Government may find alternative ways of keeping interest rates down in the near future, after taking into consideration the level of the ringgit.

"We may find other ways to reduce interest rates without touching the BLR. We have already reduced the spread and maybe banks will reduce their margin," he added, after launching Hospital Universiti Kebangsaan Malaysia in Cheras.

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