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Mahathir-Banks

GOVT TO INJECT CAPITAL INTO BANK BUMI

KUALA LUMPUR, March 5 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said today the government will inject fresh capital into Bank Bumiputra Malaysia Bhd if it has to do so.

The government majority-owned Bank Bumiputra needs a capital injection of RM750 million to stay on course.

But Dr Mahathir said "whatever the government does to help Bank Bumiputra, it would be accused of trying a rescue or a bailout."

"This is not a bailout. This is a usual support that the government has to give to institutions which have the trust of the public," he told a news conference after opening the International Timber Conference here.

He explained that a bailout is supporting something "which has no value but these are institutions which have the right value."

Dr Mahathir said if the government injected funds into Bank Bumiputra, it would not be an excessive amount so as to allow it to post a profit.

"We are mainly trying to sustain them so they can have a chance to recover," and that its depositors would not suffer, he said.

Asked whether the government would speed up the privatisation of Bank Bumiputra due to its problems, he said it was not an appropriate option for the time being as this would only burden the private sector.

"Since it is a government bank at this time, we can't pass the responsibility to the private sector for there is a cost to them," he said.

Dr Mahathir said the problems at Bank Bumiputra and Sime Bank Bhd, which needed a capital injection of RM1.2 billion, were not due to management weaknesses but the devaluation of regional currencies and shares by speculators.

"They were very sound institutions before but when you knock off their financial strength, then naturally they will suffer."

Dr Mahathir also said that he was aware of "a lot of people" who wanted Malaysia to close down its (local) banks.

On whether the worst is over for local financial institutions, Dr Mahathir said: "I think we are already making a comeback since there is no more outflow of funds from Malaysia to other countries to be deposited there. Nor is there much movement (of funds) from local banks to foreign banks."

Although the flow of funds returning was not as much as the government had expected to see, the volume of funds flowing back has led to lower interest rates, he said.

Dr Mahathir called on Malaysians, who have deposited their savings in foreign banks, to continue bringing them back to local banks so that Malaysian banks would not have to charge higher interest rates because they now have to borrow from foreign ones.

At one time, he said, Malaysian financial institutions were charged interest rates at more than double the prevailing local base lending rate by foreign financial institutions.

To a question, Dr Mahathir said although the establishment of financial institutions' profit margin was at their own discretion, it would be healthy for the economy if they charged customers less.

-- BERNAMA

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