

14 JUL 1998

MAHATHIR-FUNDS

GOVT WOULD BORROW TO RECAPITALISE LOCAL BANKS

KUALA LUMPUR, July 14 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said the government would borrow and use local funds for the RM16 billion needed to recapitalise local banks.

"We have quite a lot of savings, for example the Employees' Provident Fund with monthly contributions of RM1.2 billion," he said.

Part of the borrowings would be raised through bond issues, some internationally while the rest domestically, he told reporters after opening the 1,050-bed Universiti Kebangsaan Malaysia (UKM) Hospital in Bandar Tun Razak, Cheras near here.

Yesterday deputy prime minister Datuk Seri Anwar Ibrahim said RM16 billion is required for the banking system for 1998 and 1999 in order to maintain the risk-weighted capital ratio at 9.0 percent.

He had said that the computation was made "based on the past and the present and given the worst scenario."

On interest rates, Dr Mahathir said the government may find other ways of reducing interest rates without touching the base lending rate (BLR).

The government can reduce the BLR but if it does so, some foreign countries might increase their interest rates, causing an outflow of funds from Malaysia, he said.

Another setback would be the possibility of currency traders to further devalue ringgit as they might decide "this is bad," he added.

Mahathir said that the government hoped to further reduce the BLR in the near future.

He also pointed out that since the government has reduced the interest spread, banks may also reduce their margins.

This move will not kill the banks, he stressed.

"If the volume of loan is big enough, they can make enough money," he said.

Meanwhile, the prime minister expressed the hope that the Japanese government and its new leadership will pay attention to problems in Southeast Asia.

Commenting on the resignation of Japanese Prime Minister Ryutaro Hashimoto, he said: " We are shocked that he lost so badly."

"Nevertheless, we hope the Japanese government and its new leadership will look into the problems in Southeast Asia," he said.

Hashimoto resigned as Japan's Prime Minister and president of the ruling Liberal Democratic Party (LDP) yesterday following his party's humiliating defeat in the Senate elections.

The LDP retained only 44 of its 61 seats in the elections -- its worst result since the 1989 polls. -- BERNAMA

AD SA FR