

01/07/1998

Lending rate expected to be reduced gradually

Kamarul Yunus

THE Government expects the lending rate to drop gradually, following the 2 percentage point reduction in the Statutory Reserve Requirement (SRR) for financial and banking institutions which becomes effective today.

Deputy Prime Minister Datuk Seri Anwar Ibrahim said the lower lending rate is expected with the reduction in the interest rate spread - margins that banks impose on top of the base lending rate.

Anwar, who was speaking to newsmen after chairing the International Islamic University's Council meeting in Kuala Lumpur yesterday, said a reduction in the spread is certain.

He said he had noticed specific proposals by banks to lower the interest rate spread which suggests a gradual reduction in the effective lending rate.

"This means the effective lending rate for loans to companies and individuals will be gradually reduced," he said, adding this is also in line with Prime Minister Datuk Seri Dr Mahathir Mohamad's call for lower rates.

Anwar, who is also Finance Minister, was asked to elaborate on Bank Negara's announcement last Friday that the SRR for banks and financial institutions be reduced from 10 per cent to 8 per cent.

This will be the second reduction in five months. On February 16, Bank Negara reduced the SRR by 3.5 percentage points from 13.5 per cent.

According to the central bank, the SRR rate reduction will release some RM8 billion into the banking system.

However, Anwar reminded that the Bank Negara's move, which was meant to increase the banking system's liquidity, will only be effective if banks disburse loans.

He reiterated that there are banks which are still too cautious and reluctant in giving loans.

"But this should not be misconstrued as urging banks to provide loans to selected companies," he added.

Anwar said while the Government wants banks to meet the credit growth policy of 20 per cent in the first quarter and 15 per cent by the end of the year, there are banks with less than 2 per cent growth in credit.

"This is what worries us and we have been firm on this matter," he added.

Anwar was also asked to comment on remarks he made to US Treasury Secretary Robert Rubin that interest rates are "prohibitively high".

He explained that while the conventional prescription of increasing interest rates is aimed at containing inflation and discouraging currency speculation, a high interest rate regime will result in a contraction, or further contraction of the economy.

"This is because it will render most economic or business activities less viable," he said, adding that there is a need to maintain a balance between relatively high interest rates and banks' capacity to continue to ease credit.

"It cannot be excessively low as in the pre-crisis situation. Neither should it be excessively high like what has been adopted by many neighbouring countries."

Thus, Anwar said, there is a need to maintain a balance and that "it is a very delicate balance".

"What we are doing now is, while being comfortable or retaining a

somewhat relatively higher interest rate policy, we want the spread to be reduced so that gradually the effective rate of interest is lowered."
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