

30 JUN 1998

ANWAR-SRR

SRR CUT WOULD LOWER BANK'S SPREAD, SAYS ANWAR

KUALA LUMPUR, June 30 (Bernama) -- The two percent cut in financial institutions' Statutory Reserve Requirement (SRR) effective tomorrow is expected to lower their interest rate spread, said Deputy Prime Minister Datuk Seri Anwar Ibrahim today.

"With the reduction in the SRR, we expect that the banks' spread could be lowered while the fixed deposit rate remain unchanged. The lending rate meanwhile could be brought down," he said.

A `spread' is a bank's profit margin which it charges borrowers on loans based on the prevailing base lending rate (BLR).

Anwar said the SRR cut is in line with the call made by Prime Minister Datuk Seri Dr Mahathir Mohamad for a reduction in the effective interest rate so that businesses would not be over-burdened.

Although the SRR cut would flush additional liquidity into the banking system, the availability of more funds for lending depends on financial institutions' attitude in disbursing loans, he said after chairing the International Islamic University's (IIU) Council meeting here.

About RM8 billion worth of funds are expected to be released into the banking system with the SRR reduction to eight percent.

"But there are still banks which are over-cautious and decline to provide loans," added Anwar, who is also Finance Minister.

He said despite the government fixing a 20 percent credit growth target for the first quarter of the year, some banks failed to follow this and recorded a loan growth of less than two percent instead.

On Public Bank, which had recorded an unsatisfactory credit growth of 1.6 percent, Anwar said that the bank had given assurance that it was making some "adjustment" to raise its loan growth.

Anwar was also asked to elaborate on his remark at a function attended by US Treasury Secretary Robert Rubin yesterday that the current interest rate in Malaysia is prohibitively high.

He said: "What I am suggesting is that the conventional prescription to increase interest rate to contain inflation and to discourage speculation on currency is granted but the high interest rate regime would result in further contraction of the economy because it would render business activities as less or not viable."

Therefore, there is a need to strike a delicate balance between a relatively high interest rate with the capacity of the banks to continue to ease credit, he said.

"It cannot be excessively low as in the pre-crisis situation, neither should it be excessively high as adopted by many neighbouring countries. What we are doing now, while retaining somewhat higher rate policy, we want the spread to reduce so that gradually the effective rates of interest is lowered," he added.

He noted that this was already happening with specific proposals by some banks, adding that Maybank, the country's largest commercial bank, was already taking the lead in reducing its spread. -- BERNAMA

AD FR