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When it is cheaper to borrow abroad

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THE damning reality is that the high interest rate and tight liquidity are making it impossible for companies and individuals to borrow even for productive purposes.

Even those who qualify may still be turned away by banks which have exceeded the loan growth target set by Bank Negara or do not have sufficient funds to lend.

It is learnt that some very telling facts surfaced at a special meeting between Prime Minister Datuk Seri Dr Mahathir Mohamad and senior bankers in Kuala Lumpur on Tuesday. Also present was the Economic Adviser to the Government and executive director of the National Economic Action Council Tun Daim Zainuddin.

With the effective lending rate exceeding 15 per cent per annum, it is cheaper to borrow abroad in the US dollar despite the depreciation of the ringgit.

One source said even at RM4 to US\$1, the dollar lending rate works out to less than nine per cent. As for suppliers' credit, a well-established Malaysian company can still obtain it from foreign banks for as low as four per cent.

Yet we hear stories of importers of capital goods being chided for not securing loans from local financial institutions whenever they go to Bank Negara to seek advice and assistance.

With the domestic liquidity remaining tight and banks continuing to be cautious in offering new loans, partly in compliance with Bank Negara directives, companies have to look abroad for loans.

Some examples have lately emerged to show that foreign banks can be a lot more supportive of appeals by Malaysian borrowers to reschedule their loans in order to avoid defaults and avert bankruptcies.

While this may not be the best situation for the country, businesses are not presented with other viable choices.

Understandably, they have to abide by the conditions of the foreign lenders. It is no longer uncommon for these lenders to require Malaysian borrowers to subject themselves to examination by foreign auditors before new and existing loans are disbursed.

Lenders are also known to dictate terms, such as cost-cutting measures and limiting dividend payments.

Even after swallowing their pride and losing their independence, not all Malaysian companies will get access to foreign funds. They may be either too small or too weak to qualify.

If the private sector is to remain the engine of growth, its access to cheaper foreign capital has to be widened. One way of doing this is for the Government to borrow abroad and replenish the domestic banking system with reasonably priced funds.

This is the most natural thing to do as the country has lost a considerable amount of reserves in defending the ringgit. This was aggravated by the outflow of private funds.

Increasing the liquidity of the banking system is an addendum to the removal of the non-performing loans by the Asset Management Company.

With the NPLs removed, the banks can start lending again. But some of them do not have sufficient money to do so. They need loans themselves. It is understood that economies such as Japan and Taiwan are keen to offer official loans to us.

