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INTERVENTION RATE-BANK NEGARA

CUT IN INTERVENTION RATE CAN NARROW INTEREST RATE SPREAD

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KUALA LUMPUR, June 23 (Bernama) -- Despite hints from Bank Negara Malaysia that domestic interest rates are already nearing the bottom, market observers feel that there should be a further reduction in the intervention rate to help narrow the spreads between the two.

Banking experts, in responding to comments by central bank governor Tan Sri Ali Abul Hassan Sulaiman, said by lowering the intervention rate, the current spread of 4.14 percent could be reduced closer to the pre-financial crisis level of 1.45 percent.

One analyst said, "It is also more like adjusting the intervention rate to be more in line with the interbank rates to better reflect the supply and demand of funds in the banking system."

The Kuala Lumpur Interbank Offered Rates for three-month money which currently stands at 3.40 percent "is way down below" the intervention rate, thus providing a very wide gap, he said.

"Basically, the latest data shows that the inflationary pressure is on a declining trend and this gives the central bank more flexibility to lower the interest rates in an effort to further spur the economy," he said.

Although some observers expect a further reduction of 50-100 basis points this year, the analyst said "50 basis points is the best maximum level."

However, he was quick to point out that the cut in intervention rate in the near future would largely depend on the central bank itself.

The last time Bank Negara cut its intervention rate was on May 3, 1999, bringing it down to 6.0 percent from 6.5 percent.

Earlier at a press conference to announce the country's first quarter gross domestic product (GDP) growth, Ali Abul Hassan said the current domestic interest rates should not ease to a level where it could become a disincentive to savers.

He said in any case, domestic interest rates were already low.

On the country's first quarter GDP announced here, another analyst said, "It is within market expectation. Not a surprise."

"However, it is a very strong indication that the economy has turned around and we are now again on the path of recovery and prosperity," he said.

The country's GDP contracted by 1.3 percent in the 1st quarter of this year -- slightly lower than an earlier forecast. A new methodology as well as a new base year was used for calculation.

It would have contracted by 1.6 percent -- as mentioned by Prime Minister Datuk Seri Dr Mahathir Mohamad recently -- using a previous methodology and base year -- Bank Negara Malaysia and the Department of Statistics announced today. -- BERNAMA

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