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Global bond sale to capitalise on low interest rates?

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THE Government may consider taking advantage of the current low interest rates regime to launch an international bond issue to raise funds for not only a new fiscal stimulus package but also big infrastructure projects.

The Government announced yesterday that it will spend RM3 billion more this year, on top of the RM28.8 billion fiscal stimulus approved under Budget 2001. It had earlier also decided to revive the Bakun hydroelectric project which is estimated to cost some RM9 billion.

Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday that the new measures might be financed through another government bond sale.

Industry observers noted that the international debt market is currently conducive for a sovereign bond issue, with the US Federal Reserve having cut interest rates three times so far this year as part of efforts to stave off a hard-landing for the American economy.

Bond dealers pointed out that yields on Malaysia's bonds have been tightening in tandem with an improved outlook on its risk profile. The Government's eight-year bonds were trading at around 2.32 per cent above US Treasuries recently, compared to 3.30 per cent when they were issued in May 1999.

"The Government says it is spending RM3 billion on its fiscal stimulus package but it is possible that it will take the opportunity to raise a larger amount than that to finance large infrastructure projects as well," said a foreign investment analyst.

And the exercise will be quite straight-forward as Malaysia had in 1999 registered with the US Securities and Exchange Commission to raise US\$3 billion (US\$1 = RM3.80), but has so far tapped only US\$1 billion. If the RM3 billion is raised domestically, money supply and interest rates might be affected, which will run counter to the accommodative monetary policy promised under the stimulus package.

Nonetheless, there is ample liquidity in the domestic banking system right now, and it is in a position to meet at least part of the requirements, some analysts and dealers said.

"There's still a lot of money around and RM3 billion is not exactly that big an amount. I don't see any problems raising the money from the local market," a dealer said.

The case for utilising excess liquidity is a strong one as surplus funds would in effect be channelled into activities that yield good returns for the economy as a whole.

As at end-January, the loan-to-deposit ratio stood at about 84 per cent, which means 16 per cent of the banking system's deposits are not given out as borrowings.

On the other hand, the central bank has also to maintain sufficient liquidity in the system to ensure that interest rates remain low and companies have access to financing at a reasonable cost.

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