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Govt to tap local, international funds

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THE Government will consider tapping local as well as international funds to finance its plan to stimulate domestic demand which also includes the development of large infrastructure projects.

Bank Negara Malaysia governor Datuk Dr Zeti Akhtar Aziz said the Government could borrow part of the funds needed from local sources as there is enough liquidity in the banking system currently.

"We have ample liquidity and it (stimulus plan) can be financed from local sources without crowding out the private sector. However, if Malaysia considers it an advantage to go into the international markets, it will do so in terms of financing at a lower cost," Zeti said.

"We have the advantage of financing from both the local and international front," she told reporters after launching the central bank's annual report yesterday.

The central bank has mopped up a total of RM51 billion so far from the local financial system, which has been flushed with excess liquidity, the governor added.

On Tuesday, Prime Minister Datuk Seri Dr Mahathir Mohamad said the Government will increase its spending by RM3 billion, in addition to the RM28.8 billion expenditure that was allocated under the 2001 national budget.

New measures were also announced to counter a slowing economic expansion.

Pump priming efforts continue as new projects are identified and major infrastructure projects will be implemented earlier.

For instance, the RM9 billion Bakun hydroelectric project that will be funded entirely by the Government, has also been earmarked for early development.

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

However, the central bank also has to maintain enough liquidity in the system to ensure that interest rates remain low, which also helps firms to borrow funds at cheaper costs.

Taking out too much from the system could lead to higher interest rates, making it difficult for corporates to borrow cheaply.

This is known as the "crowding out" effect.

On the international front, Malaysia would be able to borrow long-term funds at cheaper costs, helped by the slowing US economy.

Industry observers say the market is conducive for a sovereign bond issue currently as the US Federal Reserve may further cut interest rates to stimulate its slowing economy.

The Fed has already cut rates twice this year to stimulate domestic consumption, which in turn benefited the bond markets.

A lower interest rate would mean lower yields for bonds.

This also means that the cost of raising funds through debt securities will be cheaper.

Bond dealers noted 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 against 3.3 per cent when it was first issued in 1999.

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