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MAHATHIR-SRR

MAHATHIR SAYS INVESTORS' NEGATIVE REACTION TO POSSIBLE HIKE IN SRR NORMAL

By: Mikhail Raj Abdullah

COPENHAGEN, Sept 24 (Bernama) -- Datuk Seri Dr Mahathir Mohamad said that investors' knee-jerk reaction to banking stocks following his hint of a possible hike in statutory reserve requirement (SRR) was normal.

But the Prime Minister said he was confident that over time investors would come to their senses and digest the benefits of any increase in the SRR of the financial institutions.

"That is always the reaction to any Budget speech, when you say something people will sell off and the reduction will cause a drop in the (finance) index," he told a press conference at the fourth Asia-Europe Meeting here.

"But we will overcome it over time as what I have said will be for the good of the bank as well as the general public," he said when asked to comment on the drop of banking shares following the SRR announcement when tabling the 2003 Budget last Friday.

SRR is a set of funds that banks are required to deposit with the central bank where they earn no interest. Currently, the SRR is at an all-time low of four percent.

In tabling the Budget, Dr Mahathir, who is also the Finance Minister, had indicated the SRR hike given the still sluggish loans growth.

Concerns over the SRR increase has caused the finance index on the Kuala Lumpur Stock Exchange (KLSE) to drop by some 234 points in the last two days.

Meanwhile in Kuala Lumpur, Maybank's deputy president Hooi Lai Hoong, speaking at the on-going KLSE Investors' Week 2002, said the the sell off on banking shares was overdone.

This should not have occurred as an increase in SRR would result in a higher base lending rates (BLR), which in turn would benefit the banks.

For Maybank, she said that for every one percent rise in the SRR, the bank would lose the opportunity to earn RM15 million in interest income each year.

But every one percent rise in SRR would cause a five basis points hike in the BLR and for Maybank this could lead to achieving some RM18 million to RM20 million per year in interest income, she said.

"The increase in BLR would offset the rise in SRR but there is ample liquidity in the market, I do not think the SRR will move up," Hooi said.

-- BERNAMA

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