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RATE-BANKS

BANKS CAN GAIN FROM RATE CUT THROUGH HIGHER LOAN OFFTAKE

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KUALA LUMPUR, May 23 (Bernama) -- Financial institutions have no cause for concern from the cut in the intervention rate as they would ultimately gain in the long run from increased loan growth as more people will be encouraged to borrow since loans will be made relatively cheaper, analysts said.

The move is in line with the government's aspiration to boost consumer spending in the country, one of them said.

In the process, it would stimulate business activity with the economy affected by the war in Iraq and the Severe Acute Respiratory Syndrome (SARS) outbreak, she added.

Both factors had led to lower loan growth recently but this is expected to be reversed following the consequent lowering of the Base Lending Rate (BLR) by banks, she said.

The analyst said banks could gain further from increased lending to small and medium scale enterprises (SMEs).

Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday that banks should not be unduly concerned over the rate cut as they could still gain even from the reduced margins.

With the envisaged higher loan growth, it would be a win-win situation all round -- for banks, the consumer, the economy and the country in general, the analyst said.

Two lead banks, Malayan Banking Bhd and Bumiputera-Commerce Bank (BCB), have announced cuts in their BLRs to 6.0 percent per annum.

Other banks are expected to follow suit.

International investment bankers Morgan Stanley in a commentary on the RM7.3 billion economic package announced by the government on Wednesday described the 50 basis points rate cut as a rational decision.

Although it might not have a significant impact on a monetary system that is already flushed with liquidity, it would augment consumer spending, local enterprises and housing activity already boosted by the "grass root" or on the ground stimulative measures.

Morgan Stanley said that the "grass root" measures -- which include SMEs development, agricultural and rural development and new mass housing projects -- would tend to generate good multipliers for domestic income and jobs. -- BERNAMA

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