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MAHATHIR-RATE

GIVE CHEAPER LOANS, DR MAHATHIR TELLS FINANCIAL INSTITUTIONS

KUALA LUMPUR, May 22 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad today said that banks should offer cheaper loans to borrowers now that the central bank's intervention rate has been cut by 50 basis points.

He said that banks should not be unduly concerned that "the lower rates would squeeze their margins (for) it doesn't affect their margins."

Anyway, "banks work on the basis of margins," he said in response to questions over concerns by financial institutions that the rate cut effective yesterday would squeeze their margins.

At a press conference after chairing the UMNO Supreme Council meeting, Dr Mahathir, who is also Finance Minister and UMNO President, said: "I don't see how they can get lower margins or lower earnings, it would be the same."

"If you fix the rate at 6.0 percent, they will add 3.0 percent and if you fix at 5.0 percent, they will still add," he said.

Yesterday, Dr Mahathir announced a 50 basis points cut in the intervention rate when unveiling the RM7.3 billion economic package aimed at bolstering the domestic economy, among other ways, by boosting domestic consumption.

The intervention rate is the rate at which Bank Negara intervenes in the interbank market to manage day-to-day liquidity, which means they would now intervene at 4.5 percent following the basis points cut from 5.0 percent.

It is a fixed rate which is a component in the computation of the base lending rate (BLR).

Hence, with the intervention rate cut by 50 basis points or 0.5 percent, the BLR would also decline accordingly, with analysts saying that a 50 basis points cut in the intervention rate translates to a 40 basis points in the BLR.

As a result of the rate announced by Dr Mahathir yesterday, the ceiling BLR for the commercial banks would accordingly fall to 6.0 percent from 6.42 percent while the BLR for finance companies would fall to 6.94 percent from 7.46 percent.

This means financial institutions would have to reduce their fixed deposit rates to reflect the cut in the intervention rate.

Dr Mahathir said that "it (rate cut) doesn't matter. If it is 12 percent or 9.0 percent, banks profit from margins and the margin remains the same.

"That is why we say, that it (rate cut) should not be used by the banks only, but that they should be passed on to the borrowers (in terms of cheaper loans)," he said.

Malayan Banking Bhd, the largest banking group in the country, was the first to announce that it was lowering its BLR to 6.0 percent effective today from 6.4 percent previously.

The other banking groups, believed to be working on their new rates for fixed deposits, are expected to make similar announcements soon. -- BERNAMA

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