

21 MAY 2003

MAHATHIR-BONDS

NO PLANS TO RAISE GLOBAL BONDS, SAYS PM

By: Mohd Arshi Daud

PUTRAJAYA, May 21 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad says that the government has no immediate plans to issue global bonds to raise money from outside sources contrary to speculation that it may do so to finance the economic package.

"We don't need to borrow outside the country," he told a press conference after unveiling the much-awaited economic package to stimulate Malaysia's economic growth following the Severe Acute Respiratory Syndrome (SARS) outbreak and Iraqi war at his office here.

Dr Mahathir, who is also Finance Minister, said "Malaysia is cash-rich and any issuance of international bonds would be for benchmarking purposes."

"Unfortunately, it (the cash) does not belong to the government but the various organisations like Tabung Haji and the Employees Provident Fund (EPF).

The government, he said, could bear its portion of the RM7.3 billion economic package, amounting to RM1.7 billion.

The remainder of the package is to be provided by Bank Negara (RM2 billion), and development financial institutions; Bank Pertanian Malaysia, Bank Simpanan Nasional, Bank Pembangunan dan Infrastruktur Malaysia Bhd (RM3.6 billion).

"Of course the government will have to borrow and this may lead to a slight increase in deficit," he said.

The package of new strategies to stimulate economic growth would result in a loss of government revenue amounting to RM800 million a year, from the provision of incentives and tax exemptions.

"And the banks, which would have to come up with part of the package, would have to raise funds through the issuance of bonds," said Dr Mahathir.

These bonds would offer much better returns than what institutions like EPF and Tabung Haji obtained from their investments in the stock market and fixed deposits, the Prime Minister, said.

"We hope institutions like EPF and Tabung Haji will subscribe to these bonds," he said.

Dr Mahathir said that the package would have a much bigger multiplier-effect than the RM7.3 billion allocated for its implementation.

If it doesn't contribute positively to Malaysia's gross domestic product (GDP) figure, Dr Mahathir said it would at least "not make matters worse."

Asked whether the 4.5 percent revised GDP target would be reviewed, the Prime Minister said: "We are hoping that we can achieve the growth target."

Noting that the effect of SARS was much less than previously anticipated, he however said the government had to spend more to instil confidence to the hospitality industry, the worst to be affected by the virus.

"Of course, travel advisories that claim Malaysia is a dangerous place doesn't help," he said to the recent advisory issued by the US State Department to its citizens against travelling to Malaysia.

Asked whether the additional deficit as a result of the package would mean that the government would not be able to balance its books in 2005 as planned under the Eighth Malaysia Plan, Dr Mahathir said:

"We can't say at the moment. I don't know what other diseases are to come and whether there will be another war."

He disclosed that when the target to balance the books in 2005 was made, the government did not anticipate several things which crept up, such as SARS and the war in Iraq.

However, the domestic economic environment of the country was much better than the other countries that were also hit by SARS and affected by the fallout from the war in Iraq, he said.

Asked to comment on the depreciation of the US dollar, he said as the greenback was weakening and the euro strengthening, it was now preferable for Malaysia, in international trade, to buy in the US dollar and sell in the euro.

The US dollar was losing its strength in line with the declining US economy, he said.

"At the moment, they are overspending, they have a very big deficit and their trade balance is not in their favour," he said.

Dr Mahathir pointed out that with the Arabs now not happy with the money invested in the US and pulling out from the US, it would exert further downward pressure on the greenback.

The euro was currently at a four-year high against the greenback, trading at about US\$1.17.

Since early 2002, the dollar has fallen 24 percent against the euro.

With the ringgit fixed to the US dollar at 3.80, he said the Malaysian currency would of course be affected by the depreciating US dollar.

"But the government has no plans to revise the peg," he said.

One way to buffer the effect is for Malaysia to keep more of its reserves in other currencies like the euro and the yen as the country would benefit from the appreciation of these currencies against the US dollar. --

BERNAMA

MAD MR