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BNM: FINANCIAL INSTITUTIONS TO MUST USE DISCRETION IN LENDING

By: Yong Soo Heong

KUALA LUMPUR, April 28 (Bernama) -- Financial institutions must use their discretion when lending to the property and share sectors while adhering to the latest lending guidelines from Bank Negara, its deputy governor, Fong Weng Phak, said today.

He said when Bank Negara announced the monetary measures on March 28, it wanted to see a firm policy on restraint on further lending to property and share purchase sector, especially for speculative purposes.

"What we wanted was to re-allocate more of the financial resources to promote manufacturing and other (productive) activities and away from over-concentration on property and shares. That was the intention," he said in response to queries from Bernama.

He said there was no intention of the central bank to ask financial institutions to cut back on existing loans.

"Financial institutions must respect the spirit of the guidelines which we wanted them to emphasise, that is to be more discerning and lend to genuine purchasers and investors. We don't want lending for speculative activity that would fuel asset inflation.

"Although they (financial institutions) can still lend, they have to observe the spirit. I think they they know the spirit, that is, not to create asset inflation and not to fuel further speculative activity."

Prime minister Datuk Seri Dr Mahathir recently cautioned that there should not be too much speculation in the stock market.

Fong said the latest figures obtained by Bank Negara showed that a substantial number of financial institutions still have ample room to lend for property and share purchases despite adhering to Bank Negara's latest lending guidelines to these sectors.

He said the latest feedback from financial institutions showed that 26 commercial banks out of 37 in the country have still not exceeded their lending limits to the two sectors.

"They include some of the very large commercial banks," he said.

In addition, Fong said 31 finance companies out of a total 40 had not reached the ceiling on property lending and all of them could still lend for share purchases.

In the case of merchant banks, he said two out of 12 merchant banks could still lend for property purchases and six could still lend for share purchases.

All in all, Fong said there are about RM60 billion to RM70 billion available in the banking system to finance property and share purchases.

"That is quite a big amount. it works to almost 20 percent of the total loans of the banking system," he said.

Fong also said that this did not mean that the banks were restricted only to those amounts. If their loan portfolio were to rise, they could expand their lending to these sectors, he said.

But in stressing that Bank Negara was not backsliding in its earlier measures, he added that it would be firm in ensuring that financial institutions adhered to the guidelines aimed at preventing asset inflation and over-speculation in the stock market through moral suasion.

He said although the situation in the property and stock markets had not reached alarming proportions, Bank Negara decided to take pre-emptive measures when the economy was doing well.

It would be more painful if the central bank were to take action later

by allowing the situation to go out of hand as had happened in other countries in the Asia Pacific.

Ultimately monetary or credit policy has to work through the banking institutions, he said.

Asked why the central bank had zeroed in the property and share sectors, he said it was found that there was a correlation between the two.

Fong felt that easy credit could have fuelled the sharp rise on the Kuala Lumpur Stock Exchange last year where the second board soared by an average of 93 percent while the main board rose by 25 percent.

In the Malaysian investment context, he said those who made money from the stock market tend to buy properties which they would subsequently charge to financial institutions to obtain more credit to enter the stock market again.

Given this vicious circle, he said the central bank decided to nip the problem in the bud.

He said one should not accuse Bank Negara for having acted suddenly this time around for it had over the years taken firm action like allowing interest rates to rise in 1995.

He said the statutory reserves of financial institutions were raised twice last year to 13.5 percent, the highest in the world, to rein in excessive funds while levies were also imposed on purchases of property by foreigners percent.

Despite these measures, there was not much impact on the property and share markets which seemed to be moving too fast.

Raising interest rates again would not be fair to other business activities and hence the central bank decided to take action sectorally.

Fong also hoped that investors would look at the stock market rationally and should not use the central bank's recent guidelines as an excuse for the current downturn when other stock markets were also performing badly.

"They must respond to real market forces and not say that it has got to do with this (the guidelines) anymore," he said. -- BERNAMA

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