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Banks must prove it by deeds

AFTER the many complaints of difficulty in securing funding, the banks' assurance yesterday that they will do their part to lend more to help revive the country's economy is heartening. But this is not the first time in recent months that the banks have given such an assurance.

In early September when Bank Negara announced that financial institutions are required to have a minimum annual loan growth of eight per cent by the end of the year to counter the sharp deterioration seen in the first half, the Association of Banks was swift in giving a positive response. Judging by the subsequent flood of grouses to the authorities, evidently banks have not matched their words with deeds. Ironically, after the easy lending spree of the past decade, banks have now swung to the other extreme.

The reluctance to lend despite the authorities' consistent moral suasion has incurred their ire. For instance, Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad told the Association of Merchant Banks on Saturday: "I hope what I am hearing is just a fairy tale." He once again expressed the hope that banks will be more positive in loan approvals. Second Finance Minister Datuk Mustapa Mohamed said after meeting the banks' representatives on Monday: "We hope we are getting somewhere."

It is now left to be seen whether the banks will continue to pay lip-service to their all-important role, being the life-blood to the nation's growth. Time will no doubt be given to them as requested to intensify their effort leading to an improvement in credit growth. Aside from complaints acting as an indicator, an effective way to monitor progress is to ask banks to give regular reports of loan applications received and the number approved.

The current economic downturn has revealed several weaknesses in our banking system, as aptly pointed out by an MP in Parliament recently. He hit the nail on the head in saying that a major shortcoming was the non-practice of prudent management and risk management when giving out loans. Certain banks, he lamented, gave out loans which exposed them to high risks should the borrowers face problems. There were many small-time applicants with lesser risks and even viable projects which had been sidelined.

Another is the "pawn-shop" mentality of certain banks which in a nutshell tells clients, especially the small-timers, "no collateral, no talk". Thus, regrettably, especially in these difficult times when slow debt collection has affected all businesses and urgent bridging financing from the financial institutions provides an essential lifebuoy to keep the companies from going under, such facility is not forthcoming. Needless to say, the small and medium-sized industries are the hardest hit.

Prudence is an ever-green virtue and especially pertinent at a time when the Government is emphasising good corporate governance in all sectors, including in its reform of the banking system. To play their effective role, it is high time banks changed their mindset and became more helpful to the business community. Given the will, there is much they can do. Speeding up approvals will be a tremendous help.

With liquidity no longer an issue, banks with the funds have no cogent reason not to lend to viable projects henceforth. After talking about the problem for months, the authorities appear to have sent out a warning this

time that they will likely wield the big stick if compliance is not forthcoming.

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