

11/12/1998

Banks relax with more realistic lending target

MALAYSIAN banks are now breathing easier after the government abandoned what was widely seen as an unrealistic target to boost lending by eight per cent this year.

Second Finance Minister Mustapa Mohamed announced earlier that it might be more realistic to aim for eight per cent growth next year as lending had grown by only two per cent to three per cent in the 11 months to November.

The target was announced by the central bank only in September, just after the governor and his deputy quit ahead of the dismissal of finance minister Anwar Ibrahim, who had advocated high interest rates to support the currency.

Under the new governor and deputy governor, and with Prime Minister Mahathir Mohamad assuming the post of finance minister himself, Malaysia has since adopted exchange rate controls and fixed the exchange rate while moving aggressively to slash interest rates and pump liquidity into the banking system.

Analysts said Mustapa's decision to abandon the target would ease concerns over the the asset quality of Malaysian banks.

"They would have either needed a miracle or highly imprudent banking practices," a banking analyst with a foreign research house told AFX-Asia, an AFP-affiliated financial news service.

"I think reality has finally hit them. They were far too ambitious in view of the fact that they pressed the banks only in the last quarter," he said.

"The fact that the government has softened its stance shows that it has become more realistic and is accepting the fact that eight per cent is not achievable."

The analyst said the short-term outlook for banking stocks, which rose on the news on Thursday, was positive amid expectations of further rate cuts.

But while government steps have largely reduced the possibility of systemic risk, the analyst said asset quality will continue to be a problem.

"The real economy has not shown any recovery. A lot of the sectors are having demand problems while others have huge, unresolved debt problems," he said, predicting that the banking system would continue to be burdened by bad loans with an improvement not likely until the second half of next year.

An analyst with a local brokerage said two to three per cent growth in lending this year was more realistic than eight per cent.

"The government cannot push banks to lend more than what they can cope with. Otherwise, the risk to the banks would be higher," he said.

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