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Banks step out of the shadows

DOES the average Malaysian believe that the banking system of this country is intact? After Sime Bank, the downward revisions by the rating agencies, and the results of Bank Negara's recent stress-test on banks, the sceptics will have grown in number. Will the measures introduced this week to strengthen the banking system be enough to prove them wrong?

Undoubtedly, the banking system is going through a trying time. The attention it has been given this week reflects this. First, Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim, in his ministerial statement on Tuesday, announced new measures to further strengthen the economy, the bulk of which were aimed at banking and financial institutions. Terms like greater transparency, better governance, and tighter surveillance resonated in the Parliament as Anwar spelt out measures to ensure that the banking system of this country remains strong in the face of the continued regional financial turmoil.

Prime Minister Datuk Seri Dr Mahathir Mohamad also outlined on Tuesday, the proposals by the National Economic Action Council (NEAC), the agency formed in January to help the Government chart the economy's comeback. Most of these measures were also aimed at further strengthening the banking sector, including an allowance for Tier-1 banks to exceed the 15 per cent lending growth limit and a suggestion that Bank Negara reduces the Statutory Reserves Requirement further.

Yesterday, Bank Negara governor Tan Sri Ahmad Mohd Don brought out more details on what the central bank would be doing to improve transparency, governance and surveillance, which will include requiring banks to go through stress-tests every three months, publish financial statements as regularly and for finance companies to drastically raise their paid-up capital to RM600 million from RM5 million now. These are just a few of the tough measures that the central bank is adopting to ensure that any threat against the system will be detected early. He also announced that the merger of finance companies - once said to be a temporary cause for dampening sentiments on the hyper-sensitive Kuala Lumpur Stock Exchange - is progressing well. By next Tuesday, the deadline given to finance companies to come up with their merger plans, 28 of the 35 local companies would have agreed in principle to merge or, in the case of bank-owned finance companies, be absorbed by their parent banks.

These are strong reasons to keep faith in the banking system. In addition, according to the Bank Negara annual report issued yesterday, banking system loans grew by 26.5 per cent as at the end of last year, narrowly missing the Government's target to limit lending growth to 25 per cent. The people at Bank Negara said this could be brought down to 12 per cent this year, even if Tier-1 banks are allowed to exceed their limit. Non-performing loans are under control and the Government has ensured that there will be enough liquidity in the system for financing productive sectors, including export-oriented sectors. The real economy has also shown signs of stability, which always augurs well for banking. Although the Gross Domestic Product (GDP) growth projection has been brought down to 2-3 per cent (World Bank has projected a 3.5 per cent growth for Malaysia in 1998), unemployment will remain low and the country is expected to bring down its current account deficit to below 1 per cent of the GNP, although inflation and production costs are expected to increase.

With these developments, the outlook for banks, on the whole, is

certainly more positive now than it probably was earlier this year or some months ago. Sime Bank's RM1.8 billion half-year losses has shaken a lot of confidence but the Bank Negara governor's assurance that no other banks are in trouble should calm nerves. The tightest monetary regime, though, is not enough. The onus is always on banks and finance companies to ensure they put the right people and the right system in place. Failing this, the sceptics deserve to be proven right.

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