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Danaharta just needs RM15b to buy NPLs

PRIME Minister Datuk Seri Dr Mahathir Mohamad says Pengurusan Danaharta Nasional Bhd now needed total funding of RM15 billion instead of RM25 billion stated previously to acquire non-performing loans from the banking sector.

This was due to improved liquidity and lower interest rates, as well as the reclassification of NPLs from three months to six months, which would lead to a moderate growth of unserviceable loans.

"Danaharta will acquire up to RM8 billion of NPLs from 21 financial institutions by December.

"In addition, Danaharta has agreed to manage the NPLs of Sime Bank Bhd, worth a gross value of RM6 billion."

Dr Mahathir, who is also the First Finance Minister, said Danaharta was expected to take over NPLs at a much faster rate than anticipated when it was first set up.

"To promote transparency, starting Dec 31, Danaharta will publish details of NPL acquisitions and disposals. Also, Danaharta will apply international best practices in all its activities, including valuation of NPLs."

The Prime Minister said to help financial institutions, the Government proposed that 50 per cent of the amount in the interest in-suspense account would not be considered as income for purpose of income tax. Such income, however, would be taxed once it is realised, he added.

At present, interest from NPLs are credited into the interest in-suspense account. Interest income under the interest in-suspense accounts are taxed based on accrual.

This means financial institutions are taxed on income in the interest in-suspense account although the income has not been received.

Due to the economic downturn, financial institutions are experiencing an increase in the amount of interest in-suspense due to marked increase in NPLs.

Dr Mahathir said as the banks' capital base had been affected by NPLS and the decline in share prices, there was a need to recapitalise them (the banks).

For this purpose, the Government set up Danamodal Nasional Bhd to inject capital into banks facing difficulties.

Danamodal needed RM16 billion for the the banks' recapitalisation.

"From the RM16 billion required by Danamodal, Bank Negara will provide RM3 billion as seed capital," Dr Mahathir said.

Danamodal signed agreements with eight financial institutions on Oct 20 for recapitalisation through the exchangeable subordinated capital loans totalling RM4.5 billion.

This injection would improve the resilience of these institutions, increase their capacity to grant new loans and consequently speed up the economic recovery, Dr Mahathir said.

The Government has set up a Corporate Debt Restructuring Committee to help viable corporations from being forced into liquidation as a result of financial problems.

A total of 23 companies with accumulated debt of RM5.5 billion had applied for the committee's help, he added.

On banks' loan growth, Dr Mahathir said that it had contracted from 25.9 per cent at the end of December to 4.5 per cent at the end of September.

However, new loans approved by the banking system had been maintained at an average of RM4.5 billion per month since June.

The reduction in credit growth was due to, among others, tight liquidity for many banks, high interest rates and the reluctance as well as cautious attitude of several banks in approving loans.

Dr Mahathir said to ensure businesses have access to funds, the Government took steps to promote lending.

They included reducing interest rates and the statutory reserves requirement to raise liquidity in the banking system, removing restrictions on lending and stipulating a minimum requirement for credit growth.

On monetary policy, Dr Mahathir said that the exchange controls introduced by the Government recently were meant to prevent currency traders from making a large profit on the ringgit or intimidating the country against taking any action to revive the economy.

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