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'Easing of monetary policies has helped Danaharta'

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PENGURUSAN Danaharta Nasional Bhd managing director, Azman Yahya said the Budget, as expected, has addressed the need to stimulate the economy. This is important especially if one sector is stimulated it will have a multiplying effect on the other sectors which is crucial to achieving growth.

From Danaharta's operational view point, he said, the easing of monetary policies such as the reduction of interest rates and Statutory Reserve Requirements has tremendously helped the company.

Following these measures, he said, Danaharta does not need cash to buy these bad loans anymore.

"Instead, we can issue bonds to banks for purchase of non-performing loans (NPLs) as they are quite liquid now," he said.

On whether the budget deficit will result in a substantial increase in inflation, he said this is not necessary as the country has suffered quite a deflationary impact from the crisis.

In the budget report, First Finance Minister Datuk Seri Dr Mahathir Mohamad said Danaharta will acquire up to RM8 billion of NPLs from 21 financial institutions by the end of 1998.

Azman said the Government's contribution to Danaharta is RM1.5 billion but that is only applicable this year. However, from next year onwards the funds will come from Danaharta itself.

On the tax incentives for financial institutions such as tax exempt for 50 per cent of the amount in the interest-in-suspense account and stamp duty and real property gains tax to reduce cost of mergers, Azman said banks have been pushing for this.

"The exemptions are quite useful as this will give banks a lot of breathing space," he said.

Currently, loans in arrears for six months or more, in respect of principal or interest payments, are categorised as non-performing loans. Interest from NPLs are credited into the interest-in-suspense account.

Interest income under these accounts are taxed, based on accrual although the income has not been received.

Total interest-in-suspense accounts as at end of August 1998 stood at RM6 billion on an accumulated basis. The first eight months of this year from January to August saw an increase in interest-in-suspense accounts by RM3 billion.

The proposal on this exemption is not retrospective and is only effective for the year of assessment 1999 and 2000.

From the sovereign credit aspect, Hong Kong-based Salomon Smith Barney head of sovereign credit research Steve Taran said the 1999 Budget is certainly viewed as the Government's efforts to reflate the economy.

"This is critical in Asia, including Malaysia as without reflation, the sovereign credit rating will not improve as the external environment continues to remain negative," he said, adding however, that an improved sovereign rating is going to need a more favourable external environment.

Another point which rating agencies will be looking into is the overall Government expenditure and obligations that needs to be fulfilled such as financial sector reforms.

"The burden is getting heavier but it is manageable for Malaysia as it has a strong starting point which is its modest Government debt," he continued.

On stimulating the economy through the 8 per cent loan growth, Taran said the perception that it may lead to inefficient reallocation of resources is simply premature. He added the pace and extent of the steps taken by both Danaharta and Danamodal is encouraging.

"Clearly, the action to set up these institutions is the essential first step. It is going to be an enormous task for the Government but so far it has demonstrated that it is aware of the problems and this is a good start," he said.

DRB-Hicom group chairman, Tan Sri Wira Mohd Saleh Sulong described the measures announced in the Budget as "innovative, pragmatic and business friendly".

The measures provide strong impetus for renewed growth and will spur more economic activities in these sectors namely automotive, banking, construction and tourism.

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