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PM: Banks should meet loans target

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MALAYSIAN banks have sufficient funds to finance economic activities and should strive to achieve the 8 per cent loan growth target for the year, Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad said.

"If they do not achieve at least 8 per cent loan growth they are not doing their duty as bankers," he said at a press conference in Kuala Lumpur yesterday to announce the appointment of US-based Salomon Smith Barney as financial advisers to the Government.

The Prime Minister was asked whether the minimum 8 per cent will put pressure on the banks to lend. Dr Mahathir said Bank Negara had set an earlier target for loan growth of 15 per cent for the year but bankers reacted badly and did not lend.

"If this continues we will see credit growth of only 3 per cent for the year," he added.

Bank Negara on Wednesday directed banks to achieve a minimum annual loan growth of 8 per cent this year to help spur economic recovery. Those which fail to meet the target will have to provide acceptable justification to the central bank.

In rolling back the tight monetary policy which caused a debilitating credit squeeze in the past few months, Bank Negara now encourages banks which have projected loan growth exceeding 8 per cent under their respective credit plans to stick to their original targets.

Newly appointed Bank Negara Governor Tan Sri Ali Abul Hassan Sulaiman, when announcing the directive, said measures already implemented by the Government will not yield results if banking institutions do not respond positively to facilitate the recovery process.

Banks have been distracted from focusing on lending activities by their pre-occupation with stemming deterioration in asset quality and capital erosion. In some cases, they even stopped providing financing to productive sectors, including small- and medium-sized industries, Ali said.

Bank Negara also announced that the Statutory Reserves Requirement (SRR) for all banking institutions will be further reduced at an appropriate time by another 2 percentage points from 4 per cent.

The earlier requirement for banks to furnish data on their financial position on a quarterly basis has been lifted to ease the administrative burden on financial institutions. They now need only provide the data on a half-yearly basis.

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