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#### Mixed reaction on AMC funding source

THERE were mixed reactions from financial market and analysts on the funding source of the proposed Asset Management Company (AMC), which was formed to take over troubled loans and assets in the banking sector.

Some analyst said there must be foreign fund injection to help the company to buy up loans off commercial banks, others seems to think that the sources of the funding will not determine the success of AMC.

Goldman Sachs Asia regional economist Donald Hanna said the participation of the foreign funds and the private sector is to demonstrate that AMC is "truly market oriented programme and not a bailout".

Yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad had said that the Government may finance up to 60 per cent of the capital needs of AMC while the private sector will fork out the balance.

The funds, Dr Mahathir had added will be drawn from the Government's consolidated accounts, and not through taxation or the central bank.

Hong Kong-based Hana is quick to add that AMC is part of the solutions to Malaysian economic problem as banks will be able to concentrate on lending and injects much-needed liquidity into the system to finance productive sector activities and not the collection of loans.

The AMC will acquire non-performing loans and assets of local financial institutions at market prices with a view to revive and then sell them at a profit.

The objective is to free the banks to concentrate on financing economic activities.

"The idea of pulling problem loans off the books of the banks is crucial in the solution for the credit movement in Malaysian banking system.

"AMC is part of the solution but problem will arise when loans rises rapidly as the economy slows down, making it difficult to sell problem loans at a market price," he said adding that the slowdown is from the impression given by the negative 1.8 per cent growth in the gross domestic product.

However, he said the Government has given an impressive guarantee and question arise on the mechanism of the guarantee, especially during a period when asset quality deteriorates making it difficult for banks to book loans.

However question arise on the capitalisation of the banks and mechanism of the guarantee.

When asked on the non-performing loan, Hanna said, that he expects it to peak over 25 per cent in 1999.

"There are other steps to be taken if our feel on the NPL ratio is correct. These includes greater clarity on deposit guarantee in order to ensure that people continue to hold deposits in banks," he said.

Analysts had expect the Government to provide the start-up funds including a bond issue with a government guarantee.

However, there were no speculation on the amount to be raised as it will only be determined only after AMC has assessed the situation.

Mr Mohamed Azman Yahya, who has been appointed as chief executive of AMC had said earlier that full disclosure and transparency in the agency's operations.

The operational structure of the agency is currently being worked out together with Bank Negara and other consultants.

The AMC has also been given a timetable by the Finance Ministry.

( END )