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FUNDS-SHARES

MORE FUNDS FOR SHARES GOOD FOR STOCK MARKET BUT HAS RISK

KUALA LUMPUR, Sept 24 (Bernama) -- The move by Bank Negara Malaysia (BNM) to allow more funds to be allocated by banks and finance companies for share financing will be good for the stock market but it would have its risk.

A research manager at a bank backed brokerage firm said the influx of funds can easily boost the market with the Composite Index reaching 500 to 700 points level.

However, the banks and finance companies may be burdened by an additional risk which may put them "back to square one" if the funds are not prudently managed in view of the current tough economic climate, he said.

Although interest rates have come down handsomely to aid liquidity, he said, the problem of non-performing loans (NPLs) are still weighing on the country's economy and growth.

"With reclassification period for NPLs to be relaxed to six months from three months and the requirement of bad loan provisioning to be lifted as of Jan 1999, people may not pay their installments again," he explained.

On Tuesday, BNM announced measures loosening some banking regulations to stimulate the stock market as part of the government's efforts to rejuvenate the economy and catapult growth.

The measures include easing of share financing capping to 20 percent from 15 percent, reclassifying period for non-performing loans and lifting the requirement for bad loans provisioning.

The country's banking industry was previously troubled by increasing NPLs which forced BNM to impose capping on financing of unproductive economic sectors such as property and purchasing of shares.

"The situation turned around when Prime Minister Datuk Seri Dr Mahathir Mohamad shocked the world by choosing to heal the country's economy through unconventional expansionary methods," he said.

The expansionary methods involved putting more liquidity into the system giving life to the forces of supply and demand which in-turn revitalise economic growth, he added.

An investment analyst of a local securities firm said, the stock market may likely stabilise at higher levels with greater market confidence when there are more share financing facilities.

"With foreign players being tamed away from speculation activities on the stock market and capital control measures imposed by the government which require funds to be kept within Malaysia for at least one year, the country's investment environment will be subtle and safe.

"As you can see now, the market has been flattish and goes up and down marginally with foreign speculators out," he said.

To a question on local speculators, he said, "They are negligible but foreign speculators are vicious as they have the funds which can cause the market to move on a volatile note or fall significantly in a day."

Nevertheless, the performance of the stock market will still depend on domestic, regional and global factors which influences market sentiment, he said.

The world is facing a downturn and domestically we lack positive and favourable news to investors and the government need to work out something to make stock market investments attractive, he noted.

"Investors need to feel assured in investing. Although funds are

available people may not fully take-up and invest all at once in the stock market," he said.

The stigma is still there following the market's plunge a couple of months back, he commented.

Investors are not likely to be aggressive but cautious, he added. --
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