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LOCAL BANKS

LOCAL BANKS STILL SLOW IN DISBURSING LOANS TO PRODUCTIVE SECTORS

By: Mohd Arshi Daud

KUALA LUMPUR, Sept 19 (Bernama) -- Although the government has taken vigorous steps to lift the economy from the doldrums, it appears that these noble efforts have not been complemented by most of the country's domestic banking institutions.

These laggards continue to be insensitive to the needs of the various economic sectors which need the necessary funding to either stay afloat or grow.

In other words, they have not been quick to respond to the wants of the country and their foot-dragging have been reflected in the snail's pace of loan disbursements to productive sectors that have been identified as the engines of growth for the speedy rehabilitation of the economy.

On the other hand, there are also fears that while some banks may want to lend a hand, adherence to the latest lending guidelines under the present pressing circumstances have not been filtered down from top management to the bank employees on the ground, hence the information gap and subsequently the loans shortfall.

First Finance Minister Tun Daim Zainuddin and even Prime Minister Datuk Seri Dr Mahathir Mohamad had expressed regret in the past over the failure of local banks to contribute earnestly towards economic recovery.

"Giving out loans is the life support for any economic activity. If banks are too tight-fisted, they will stifle such activity," said Datuk Paul Low, president of the Federation of Malaysian Manufacturers (FMM).

"Banks have to realise that they have a role to play in the country. They have to balance not only their own objectives but also that of the nation," he added.

But why are they dragging their feet over this?

Low feels that given that banks are now under a period of consolidation following the recent economic crisis, they have become somewhat risk-adverse.

"Unfortunately this over-cautiousness has dampened efforts to bring about a faster economic recovery," said Senator Rosli Mat Hassan, secretary general of Persatuan Kontraktor Melayu Malaysia.

Banks should be more far-sighted, he said, adding that they would benefit over the long term if they helped companies and the country towards the fast growth track.

"Jangan bagi payung semasa hujan sahaja, berilah payung masa panas juga. (They should help during both the good and bad times)," said Rosli.

It appears that only the government is keen to help businesses to recover while only a very small portion of the banking fraternity shared the same conviction as the authorities.

"We can't afford to be selfish" stressed Senator Rosli.

Measures to rejuvenate the economy such as the award of RM20 billion worth of infrastructure projects would be meaningless if banks failed to take the cue, he said.

To Lachman Naraindas, president of Kuala Lumpur and Selangor Indian Chamber of Commerce and Industry, local banks should be more generous in their efforts to help genuine businesses come out of the recession.

"The crisis has hurt almost everyone's financial standing, affecting loan repayment ability," he said.

Observers believe that local banks have more reasons to be generous now since they owe it to the nation and government when taxpayers' money were

pumped to help revive a large number of institutions crippled by the downturn.

As at end July 1999, a total of RM6.9 billion had been injected into 10 banking institutions through Danamodal Nasional Bhd while through Pengurusan Danaharta Nasional Bhd, another RM39 billion worth of non-performing loans had been acquired from the banking system.

Banks have also benefited from ample liquidity in the financial system following a series of cuts in the statutory reserve requirement. This has provided banks with hordes of cash and an expanded capability to lend when compared to their liquidity-strap condition at the height of the economic crisis.

FMM's Low feels that the present flushed liquidity situation and low interest rate regime should slash the cost of funds.

"In view of this, they should be lending more," he said.

Banks, he said, must realise that money should flow into the system so that companies can generate more wealth and for the economy to grow.

With the tongue-lashing from the government in reminding banks to lend more and with great haste, Low, Lachman and Rosli noted that things had improved slightly of late.

But much more needs to be done, they chorussed.

"Our chamber has noticed that banks have loosen up a bit but they are still looking at financing secured loans," said Lachman.

Late last month, Bank Negara Malaysia governor Tan Sri Ali Abul Hassan Sulaiman revealed that commercial banks recorded a 7.4 percent increase in lending in the second quarter of this year.

Merchant banks' lending meanwhile edged up a mere 2.1 percent while finance companies recorded a decline due to current inherent problems faced by them.

For the whole of this year, the central bank has fixed a target of eight percent in credit growth. One of the major problems is that banks are more inclined to lend to those only with secured collateral.

But this has to change, the business leaders noted.

"They are (merely) looking at safe areas," said Persatuan Pedagang dan Pengusaha Melayu Malaysia president Datuk Izzat Emir, who added that this is rather sad amidst a backdrop of many genuine applications being turned down.

Low revealed that the bulk of the loans went to property and shares financing.

He contended that a large proportion of these funds should have gone to financing productive sectors like manufacturing and services.

As such, he said there needs to be different sets of lending targets for the productive sectors concerned so that banks would be more focused.

"The government should specify and set the target, sector by sector, so that banks will be more aggressive in finding candidates with potential," said Lachman, who also shared the same view as Low.

Low, Lachman and Izzat suggested that banks should cultivate a culture of knowing the credibility, interest, commitment and integrity of would-be lenders so that they could evaluate loans applications more efficiently.

Low and Izzat also said banks should have employees with special abilities to evaluate loan applications quickly without compromising the position of the lenders.

"They may for instance set up a unit or centre that is run by staff with expertise to better evaluate sectors like manufacturing and information technology," said Low. -- BERNAMA

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