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Banks come under fire (HL)

Carolyn Hong

KUALA LUMPUR, Tues. - Prime Minister Datuk Seri Dr Mahathir Mohamad today criticised banks for being a "drag on the economy" and failing to play their real role in leading development.

He said that after the last five quarters of consecutive growth, the banks' net lending remained sluggish and the flow of money supply was still being generated from external sources.

"Bank lending is a drag on the economy instead of leading it as we expected. I worry that our banks still have this culture of taking the umbrella away when it rains," he said.

Dr Mahathir said to the extent they had been extending new credit, "I know a significant part was being directed at the 'blues' (blue chip companies) and other large corporations which do not really need them".

Those in need were often denied and even working capital finance was hard to come by despite the rapidly expanding economy, he said at a conference held to commemorate the establishment of the Tun Ismail Ali chair in monetary and financial economics at Universiti Malaya.

Ismail was the first Malaysian Governor of Bank Negara. The conference was organised by Bank Negara and the Malaysian Economic Association.

Dr Mahathir said collateral lending was still far too prevalent, even for the most viable of ventures, and bankers were extremely guarded even with good projects involved in the new economy.

"As I see it, the bankers worry far too much about their bottom line at the expense of the real intent of their very existence.

"Some even pat themselves on the back, regarding themselves as 'good' bankers simply because they consider themselves prudent in lending out only 50 to 60 per cent of the deposits mobilised.

"Truly, they miss the wood for the trees, and not know it," he said.

Dr Mahathir said Ismail had revolutionary ideas and as far back as 1969 he had articulated clearly the role of the banks.

Ismail had said their true role was to mobilise savings, channel these savings for productive use to develop the economy, uphold public confidence in the banks and their management, and inject expertise and professionalism to develop a competitive intermediation mechanism to lubricate the development process.

Dr Mahathir said he was afraid that Ismail's dream had yet to be fulfilled. He said as he watched bankers at work during the economic crisis, he was not convinced that they really understood and accepted their true role.

"We need entrepreneurial bankers and not mere money lenders. We desperately need bankers whose umbrellas are ever present, come rain or shine, so that they can be relied upon as true partners in national development," he said.

The Prime Minister said while bankers must be prudent, lending based only on collateral was not prudence. Rather, it speaks of "primitive" banking skills.

Touching on the independence of the central bank, he said Ismail had a pragmatic approach.

Dr Mahathir said Ismail's approach was that fiscal and monetary policies had to be well co-ordinated to meet public policy objectives of the national agenda, set by the Government of the day.

The central bank was independent within the Government, but not of the

Government, he said.

The Prime Minister said Ismail had left his real legacy in building a body of lasting traditions at Bank Negara - absolute integrity, competency, efficiency to the point of ruthlessness, expertise, selfless service to the nation and setting up benchmarks of excellence.

"We need to go beyond pure pursuit of profit," he said.

Stressing the need for business ethics, Dr Mahathir said ethics were at the heart of all religions which taught one to care for others.

He said this had challenged the old thinking which emphasised the supremacy of the private marketplace and maximising profits.

He said new social theories established that the good of all was the final goal of business activity and mindsets were beginning to change.

"It is recognised, of course, that ethical business practices can only thrive within the economic systems created by Government," he said, adding that ethical businesses actually did better and lasted longer.

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