

Local banks urged to give out more loans

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Zeti: Emphasis to be on borrowers' creditworthiness

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WHILE banks have been directed to give out more loans to keep the economic engine purring, the emphasis will be on quality of loans, especially creditworthiness of borrowers, Bank Negara governor Datuk Dr Zeti Akhtar Aziz said.

Bank officers who process loans are already being trained, while a comprehensive credit information system on borrowers and wanna-be borrowers will be in place by July.

Even with set guidelines on assessing loan applications, Zeti assured that small and medium enterprises (SMEs) will find it easier to have access to funding. They will even be able to apply online as the Credit Guarantee Corporation extends its network nationwide.

The underlying basis will be to keep non-performing loans at a low level, which has now stabilised at 6.4 per cent of total loans, to help maintain the health of the banking sector.

Under the stimulus package announced by Prime Minister Datuk Seri Dr Mahathir Mohamad on Tuesday to enable the Malaysian economy to better face the US economic slowdown, financial institutions are required to increase the amount of loans by eight per cent this year.

This target was originally set for 1999 as part of the economic recovery strategy but it was not realised and no target was set for last year, when loans growth averaged 5.4 per cent.

At a Press conference yesterday to release the BNM Annual Report

for 2000, Zeti said although there would be no tax incentives for banks this year to meet this requirement, it however "gives the banks opportunities to increase their profitability".

"Previously, when we experienced export-led activities for recovery and growth, the export sector was financed from internal sources and other sources not from the banking sector.

"In an environment where the contributors to growth will be from the domestic sector, we would expect increased financing from domestic sources this year."

Zeti said greater emphasis would also be placed on financing the activities of SMEs.

This includes enhancing the role of CGC to improve SMEs' access to financing from the banking sector.

While the central bank encour-

ages financial institutions to give out more loans this year, the BNM Report said it would remain vigilant in ensuring that the banks' risk management systems and controls were adequate, adding that this was to allow it to counter weaknesses that could adversely impact the soundness of banking institutions.

To address this, the central bank would by July implement a more comprehensive Central Credit Bureau, with an online Central Credit Reference Information System that would enable financial institutions to make comprehensive credit evaluation on the total exposure of an applicant.

In the foreword to the Report, Zeti said regulations within the banking sector would be market-driven based on good corporate governance and best market practices.

"Similarly, the supervisory framework will be strengthened to ensure continuous surveillance of market developments and evaluation of trade-offs between encouraging innovation and maintaining stability."

In line with the ample liquidity in the banking system and the drive to push domestic demand, banks are beginning to lower deposit rates, and Zeti said yesterday the adjustments were very small — only five to 10 basis points — and she expected to see no impact on interest rates which "at this point of time are sufficient to promote and encourage investment activities."