

# Banks get tougher on defaulters

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## To win back investors' confidence in bid to boost the market

By **J. S Dhaliwall** and  
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**KUALA LUMPUR:** The way Prime Minister Datuk Seri Dr Mahathir Mohamad says it, nothing unusual is going on at the local banks. Lenders, he said this month, "have always been going after defaulters".

Tell that to companies associated with former finance minister Daim Zainuddin. Renong Bhd, Idris Hydraulic Bhd and Land and General Bhd have all had the screws applied to them by banks and the government since Daim resigned on June 1.

The clampdown reached a climax on Monday as a state investment company moved to wrest Renong from Daim's associate, Halim Saad, to speed repayment of about RM20 billion in debt.

Investors said the move is a sign that even the best connected tycoons are not immune as Mahathir tries to reverse a slowing economy, slumping stocks and waning public support.

"We are seeing the first posi-

tive steps after a long time to win back investor confidence," said Kenny Tjan, who helps manage US\$1 billion (RM3.8 billion) at Rothschild Asset Management in Singapore. By taking over Renong, "Mahathir is putting the national interest first".

Other investors agree, driving the key Kuala Lumpur Composite Index up 11.4% since Daim quit.

A lawyer by training, Daim organised the assets of the ruling party to nurture the business ambitions of ethnic Malays, making political patronage a common feature. That made banks such as RHB Capital Bhd and AMMB Holdings Bhd wary of going after politically connected borrowers in the past.

Now, there are signs the government is cheering them on.

Shortly after Daim quit, Bank Negara reversed an earlier ruling and ordered banks to classify almost half the RM5.5 billion of loans given to the operators of two private light rail networks, including Renong as non-performing.

The government then put off a RM6 billion bond sale to res-

cue the rail companies, spoiling Halim's finances. Other companies to feel the heat included Idris Hydraulic Bhd, a group run by Annuar Senawi, Daim's nephew.

AMMB, the country's fifth largest bank, last month sold a block of shares used as collateral to recover RM325 million it loaned to a real estate company in 1998.

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**Investors say that with the clampdown even the best connected tycoons are not immune**

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Property developer Land and General Bhd, controlled by another Daim protege, Wan Azmi Hamzah, said Bayerische Landesbank Girozentrale and undisclosed local lenders have demanded RM143 million of unpaid loans.

Malaysian Airline System Bhd is investigating contracts signed when the company was under the manage-

ment of Tajudin Ramli, who worked with Daim and Halim at property developer Peremba Sdn in the eighties. It plans to expose any improper activity in a bid to help the national carrier cut costs.

"The government is aware of the need to improve corporate governance and investors' perceptions," said Ian Lui, who helps manage US\$500 million (RM1.9 billion) at Allianz Asset Management Ltd. "There is hope for Malaysia."

"Banks are getting tougher on defaulters as loans growth is insignificant and bad loans are growing as the economy slows," said Nik Hassan Nik Mohd Amin, executive vice-president at a unit of No. 2 lender, Commerce Asset-Holding Bhd. "Falling profits and eroding capital may trigger another round of mergers."

Speculation of a rift between Mahathir and Daim reached its height towards the end of 1999 when Mahathir decided to allow 10 banks to remain after mergers among the nation's 58 lenders. The central bank, indirectly under Daim's influence, had earlier ordered the banks to combine into six.

Analysts say Mahathir wants to cut bad loans so as to free banks, increasingly reluctant to lend in a slowing economy, to push ahead with new credit to boost consumer spending and corporate expansion. The government also needs to be seen as acting decisively to improve its image with investors and the public.

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Next on the list may be Lion Corp Bhd, owner of the nation's largest publicly traded steelmaker and the country's second biggest debtor. DRB-Hicom Bhd, Malaysian Resources Corp and Technology Resources Industries Bhd may also be under pressure.

"Entrepreneurs are beginning to understand that they have to take some pain and sell assets faster," said Chew Hoy Ping, executive director of PricewaterhouseCoopers. The world's biggest accounting firm is advising Lion on reorganising about half of its US\$2.7 billion (RM10.3 billion) overdue debt.

While bad loans, at 7.4% of total loans, are still below their 1998 peak of 20%, there are signs they are on the rise as the economy slows.

The Malaysian Institute of Economic Research says the country will grow at just 2.2% this year down from 8.3% last year. That gives owners of a record RM28 bil-

"Mahathir is cleaning up after Daim to win back foreign investors and also to gain voters who are disillusioned by the bailouts and mess created by businessmen linked to Daim," said P. Ramasamy, a political science professor at Universiti Malaya. "It's a genuine attempt" but whether Malaysians buy it remains to be seen.

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**The govt needs to be seen as acting decisively to improve its image with investors and the public**

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Not all foreign investors are fully convinced that the recent moves by banks to go after well-connected defaulters reflect determination to carry out sweeping reform.

The winners of bids to build the main contract of the RM9 billion Bakun Hydroelectric Dam, Southeast Asia's biggest dam project, will give an indication whether the government's attempts to reduce links with business is really taking place.

"It takes time to overcome these fears" about favouritism, said Cher Hung Jin, who helps manage US\$200 million (RM760 million) at Daiwa SB Investments Ltd in Singapore. - Bloomberg