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BANK-LENDING  
STEP UP LENDING, BANKS TOLD

KUALA LUMPUR, March 28 (Bernama) -- Malaysian banks must step up their lending activities and participate in the growth process particularly during the current slowdown as this will raise their profitability, Bank Negara Governor Datuk Dr Zeti Akhtar Aziz, said today.

She said that the banking sector's loans growth last year stood at 5.4 percent.

This was lower than the 8.0 percent target contained in the stimulus package unveiled by Prime Minister Datuk Seri Dr Mahathir Mohamad yesterday in view of the adverse effects brought on by the U.S. economic slowdown.

"Banks will have to play an important role to finance the economic activities stimulated by the pre-emptive measures announced by the government to overcome the impact of the US economic slowdown," she told a press conference after the release of the central bank's 2000 annual report here today.

"Previously, when we experienced export-led activities recovery and growth, these export sectors were being financed from internal sources and other sources not from the banking sector," she said.

"This time, since the contribution of growth comes from the domestic sector, there will be a need for increased financing from domestic sources and banks will have an important role to finance economic activities in the year 2001," the central bank governor, said.

To encourage lending, the stimulus package had among others, included special funds specially for the small and medium sized enterprises to improve productivity while there would also be other financing needs involving the credit guarantee corporation and issuance of private debt securities.

This year, there would be no tax incentives for banks such as that given last year for an increase in loans growth but Dr Zeti said she expects the banks to take this opportunity to make profits by participating in the growth process.

On the banking sector's non-performing loans (NPLs), she said the ratio was still stable at between 6.3 and 6.5 percent.

Going forward, she said the central bank's assessment showed that the banking system could absorb any further increase in NPLs.

With a risk weighted capital adequacy ratio at above 10 percent and NPLs at below 10 percent, she said the banking sector has a high degree of resilience and was in a position to take in any form of stress.

To a question on the ringgit's peg, Dr Zeti said it would remain at RM3.8 per US dollar.

In an industrial economy, she said the priority was to achieve price stability but in an economic environment like Malaysia, the need was to achieve stable exchange rates.

The exchange rate should also be consistent with the underlying fundamentals and therefore no changes would be made to the pegging just because there were changes in the short-term trend, she added.

As for interest rates, the central bank governor said Malaysia has aggressively lowered interest rates since 1998 and 1999 to become the lowest in the region.

"We feel that interest rates at this point of time is at a level that is sufficient to promote and encourage investment activities," she added.

On deposit rates, she said that no significant reduction have taken

place as the rates were adjusted only between five and 10 basis points and  
for certain maturities. -- BERNAMA  
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