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Banking shares retreat in wake of higher SRR warning

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THE Kuala Lumpur Stock Exchange Finance Index fell 2.52 per cent to 5289.23 points yesterday on concerns that the banking industry's assets may deteriorate if the Government raises the statutory reserves requirement (SRR) for banks from the current 4 per cent.

"Concerns over the increase in non-performing loans (NPL) and difficulties in doing business led to the selldown in most banking stocks," a local dealer said.

Banks are required to keep a portion of their customers' deposits with Bank Negara Malaysia in a zero interest bearing statutory reserves account.

Malayan Banking Bhd (Maybank) led the decline in the Finance Index. Its shares shed 3.48 per cent or 30 sen to RM8.30, with 2.72 million units traded.

Commerce Asset-Holding Bhd fell 8 sen to RM3.20 with 3.08 million shares changing hands, while Arab Malaysian Corp Bhd and Public Bank Bhd each eased three sen to RM1.00 and RM2.46 respectively.

Arab Malaysian Corp was the most active counter yesterday with a total of 4.74 million shares traded.

Prime Minister Datuk Seri Dr Mahathir Mohamad, when tabling Budget 2003 last Friday, said the Government may resort to increasing the SRR if banks continue to be reluctant in lending to the private sector.

Dr Mahathir, who is also Finance Minister, said the Government may look for alternatives to ensure adequate financing for investors.

Analysts said any increase in the SRR would be negative for interest margins and banks will be under pressure to take on more risky business.

"We understand that the Government is trying to boost the economy by encouraging more new businesses, especially in the small and medium industries.

"But not all sectors are booming now... there are some which are yet to recover," an analyst attached with a Singapore-based research firm said.

Property and construction sectors, the analyst said, are among industries that benefit most from the economic recovery as demand for residential units is encouraging.

However, the manufacturing sector is not as bullish as expected following the uncertainties in the US economy, which is one of Malaysia's main export markets.

Meanwhile the banking system's NPLs was at 8 per cent as at July 31 this year. An analyst said loan growth is currently at a comfortable level of between 4 and 5 per cent and the banks need not expose themselves to the risk of higher NPLs.

"Of course, we have Corporate Debt Restructuring Committee (CDRC), Danamodal and Danaharta to help with the NPLs like before, but why would banks take the risk when there are safer ways to make profits," the analyst added.

The CDRC, Danamodal and Danaharta were established to help reduce NPLs in the banking system.

As at July 31, recovery action had been initiated by Danaharta on 99.9 per cent of total loan rights acquired with recovery expected at RM29.7 billion or 57 per cent.

Danamodal managed to make repayment of RM5.45 billion to seven banking institutions as at the end of July, while the outstanding recapitalisation

of the remaining three banks stood at RM2.14 billion.

The CDRC, established in 1998, managed to resolve 47 cases and officially ceased operations on August 15 this year.

The analyst stressed that although the three government vehicles managed to resolve the NPLs situation, financial institutions should not be forced to increase their loans.

The analyst added that last Friday's announcement could put banks under pressure to give out more risky credit just to boost loan growth.