

21/09/2002

Banks get ultimatum to step up lending (HL)

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LEND more to the private sector or risk having a higher statutory reserves requirement (SRR) imposed, Datuk Seri Dr Mahathir Mohamad tells banks.

An increase in the SRR, the amount banks have to deposit with Bank Negara Malaysia, will definitely be more costly to them than maybe forgoing some profits by boosting lending activities, he said.

"I told them that...", the Prime Minister and Finance Minister told newsmen after presenting the Budget 2003 in Parliament yesterday.

SRR is a key financial system management tool, especially to control liquidity.

The country last cut the SRR by two percentage points in September 1999 to pump up liquidity in the banking system, as the economy grappled with the effects of the 1997-98 Asian financial crisis.

In his budget speech, Dr Mahathir said the Government may be compelled to increase the SRR ratio as part of efforts to ensure adequate financing for investors.

He regretted the reluctance among financial institutions to fulfil their responsibility as lenders, choosing only to make big profits by opting for safe investments.

The Prime Minister was probably referring to the strong appetite for Government papers among the country's financial institutions.

For the first half of this year, the sector's net pre-tax profit increased 18 per cent to RM4.5 billion, Dr Mahathir noted.

"It is not wrong in seeking profits but not at the expense of compromising long-term benefits of the nation."

Association of Banks in Malaysia chairman Dr Rozali Mohamed Ali, meanwhile, explained that weak lending activities of late are attributable to the current global and domestic economic uncertainties.

He acknowledged that the industry is flush with liquidity and interest rates are at an all-time low.

And indeed banks are ready to give out loans, even though many are still pre-occupied with post-merger matters.

"However, the demand for loans is relatively low," he said in a statement.

Bumiputra-Commerce Bhd executive vice-president Nik Hassan Nik Mohd Amin, when contacted, said banks will respond positively to the Government's suggestion that they increase lending.

He expects loan growth, currently at about 4 per cent, to pick up for the rest of this year and gather further pace in the new year amid signs of stronger economic growth.

"If the gross domestic product is around 4 per cent this year, we expect to see between 5 and 6 per cent loan growth," Nik Hassan said.

At his press conference, the Prime Minister was also asked about alternative sources of funding for investors.

He said companies should consider tapping the bond market.

"There is a bond market (including private debt securities) for them (investors) to raise funds."

On the country's corporate tax regime, Dr Mahathir said the rate is still low compared to other developing countries.

"Countries like Singapore, Taiwan, and Thailand have a much lower corporate tax but they impose a tax on dividends. If this is taken into account, Malaysia's corporate tax is low," he said.

He also dismissed suggestions that the existing corporate tax of 28 per cent has contributed to a decline in foreign direct investments (FDIs).

Foreign investments are currently flowing to China, he said.

"Lowering the corporate tax will not stop FDIs from flowing there. Furthermore, we have been very selective in attracting FDIs. No more labour-intensive industries."

As for the proposal to waive the 5 per cent service tax imposed on professional services rendered within the same group, Bumiputra-Commerce's Nik Hassan applauded the proposal as it will enable banks to outsource non-core activities to companies within the group.

"International banks have long been outsourcing some of their services."

Malayan Banking Bhd (Maybank) president and chief executive officer Datuk Amirsham A. Aziz also welcomed the proposal.

"In our opinion, it is in line with the current business model that strives towards greater operational efficiency through in-house specialisation and centralisation of services."

On the reduction in corporate tax for small- and medium-scale industries to 20 per cent, from 28 per cent, for chargeable incomes up to RM100,000, he said it will spur the development of local businesses and in turn domestic investment.