

Performance Of Banking Sector Likely To Be Moderate Next Year
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By Samantha Tan

KUALA LUMPUR, Dec 23 (Bernama) -- The performance of the Malaysian banking industry is likely to be moderate next year in line with the economy, says RAM Holdings' Group chief economist Dr Yeah Kim Leng.

He said loan growth is expected to ease to nine per cent next year after expanding at 12-13 per cent annually in 2010 and 2011.

Yeah said deposit growth is projected to ease slightly to eight per cent in 2012 from an estimated 11.6 per cent rise in 2011.

"Although the banks' interest margin and non-interest income are expected to come under pressure due to a more challenging economic and business environment, we do not expect any severe erosion of their profitability and asset quality," he told Bernama today.

However, Yeah said, the strategies outlined for the banking industry in the Financial Sector Blueprint 2011-2020 will provide firmer indications of the sector in the long run and position the industry on a stronger footing.

He said Malaysia's banking and financial services are largely driven by domestic demand and monetary conditions.

However, these drivers are partly influenced by the external economy and the extent to which consumer confidence and investor sentiments are affected by uncertainties in the global economy.

"As demonstrated by its resilience during the recession in 2009 and given its enhanced balanced sheet strength and ample liquidity in the economy, the banking industry is well-placed to weather any global credit crunch, liquidity shock and financial market turbulence that may intensify in 2012," he said.

Yeah said banks could face major challenges relating to uncertainties in the external environment, especially the increased risk of a double-dip in the eurozone economies and its knock-on effects on the domestic economy.

"A more pronounced slowdown in the domestic economy may increase financial distress among highly-indebted companies and households, leading to a rise in loan delinquencies.

"However, we do not expect a full blown global recession in 2012 and the Malaysian economy in general and the banking industry in particular are well-placed to ride through the turbulence next year," he said.

He said among the key factors supporting the local economy and the banking industry are several positive factors buttressing domestic consumption and investment that in turn underpin banking activities in the country.

"These include steady employment and income increases, rising private investment, moderately strong commodity prices, high private sector savings and liquidity, increasing number of middle- and upper-income households and growth-accommodative fiscal and monetary policies," he said.

Yeah said the continuing deleveraging in the advanced economies together with the ongoing eurozone debt crisis have increased the attractiveness of Islamic finance.

On the risks of Malaysian banks' exposure abroad, Yeah said the current volatile global economic conditions should not pose a danger to well-managed and well-capitalised entities.

On concerns Maybank and CIMB in Indonesia may be forced to sell down their stakes, Yeah said, if that does not result in losses, then there is little negative financial impact on them.

"They would have to re-strategise on how to operate within the new equity and regulatory framework and perhaps look at other more welcoming countries to execute their regionalisation or internationalisation plans," he said.

On whether interest rate direction would affect banks' incomes, he said it would not be too adversely affected as the interest margin, or the spread between lending and deposit rates, is usually maintained regardless of the direction of change in the official policy rate.

"The impact also depends on the relative amount of fixed versus floating lending rate and the extent to which the banks' portfolio are shielded against interest rate risks," he said.

Meanwhile, an analyst from investment house, who declined to be named, said the local banking industry development next year will depend much on external environment.

"Economic growth for Malaysia is likely to moderate and we expect loan growth to moderate alongside.

"Competition for funds remains stiff and margin pressure is likely to remain," he said.

He said positively, the Malaysian economy is largely domestic-driven so it is likely to be more sheltered from the external effects, adding, project take-off under the Economic Transformation Programme will provide support to the banking system.

On further liberalisation of the banking industry, he said, competition will increase but Malaysian banks are well-capitalised and more than ready to cope any competition that arises.

He expects interest rates to remain stable at least for first half 2012.

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