Government not satisfied with banks' lending activities

THE government is not satisfied with the current lending activities of banks that it considers as rather slow, Prime Minister Datuk Seri Dr Mahathir Mohamad said.

Dr Mahathir said the government regretted the attitude of the banking community that appeared to be interested only in seeking excessive profits and opting for safe and non-risky investments.

He said it was not wrong to seek profits but not at the expense of compromising the nation's long-term well-being.

"The reluctance of financial institutions to fulfil their major responsibility as lenders may require the government to find other alternatives to ensure adequate financing for investors."

"The government may be compelled to increase the statutory reserve ratio (SRR)," Dr Mahathir said.

Outstanding loans of the banking system grew by 3.3% on an annual basis to RM483.52bil as at end-July.

A total of RM78.39bil in new loans was approved in the first seven months of this year, up 7.4% from that in the previous corresponding period of last year, and a total of RM221.31bil were disbursed (a rise of 7.5% from a year ago).

An economist said this was a warning to the bankers that they should lend out money more aggressively, otherwise the cash pile that they were sitting on would be kept in Bank Negara (the central bank) and not earn any interest income.

On the other hand, the economist is of the view that the central bank meant to save on the costs of having to mop up liquidity by raising SRR, instead of doing it through open market by buying treasuries.

The central bank is spending approximately RM2bil everyday mopping up liquidity in the system.

The economist said, however, that the banks were not to be blamed for slow lending activities as the demand for loans from viable business entrepreneurs was not that high.

Should the central bank raise SRR, banking analysts said, banks with high loan-to-deposit ratios such as AMMB group, would feel the pinch most as they would have to either borrow from the inter-bank market or sell their short-term investments to raise funds.