Govt's fiscal measures to boost lending in the offing?

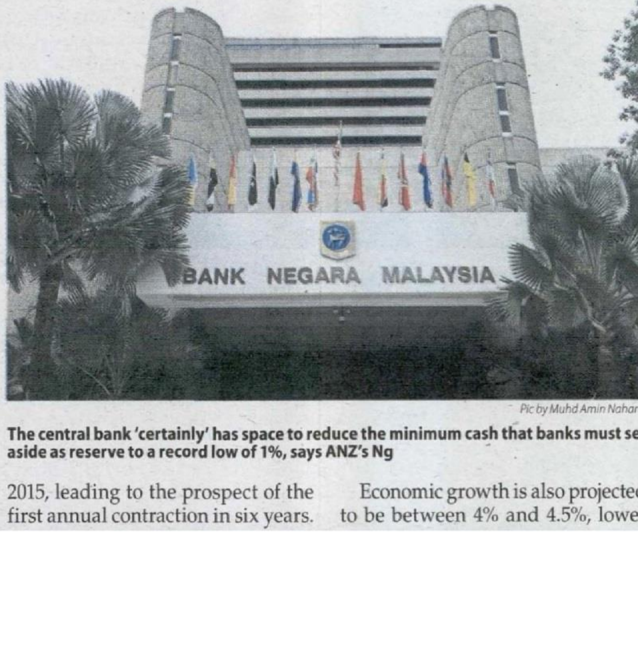
Malaysia expected to loosen liquidity in the face of all-round sluggish growth

by ALEXANDER WINIFRED

MALAYSIA is expected to introduce fiscal measures to boost lending as loans growth slows, car sales drop and the property sector remains sluggish.

Loan approvals continued a nine-month losing streak in March, dropping 23.4% year-on-year despite a marginal 1.1% increase in applications, Bank Negara Malaysia (BNM) data showed this week.

Car sales for the first three months of 2016 is 28% lower than the same corresponding period of 2015, leading to the prospect of the first annual contraction in six years.



Pic by Muhd Amin Naharul

The central bank 'certainly' has space to reduce the minimum cash that banks must set aside as reserve to a record low of 1%, says ANZ's Ng

Economic growth is also projected to be between 4% and 4.5%, lower than the 5% achieved last year. The first-quarter gross domestic product (GDP) figure is expected to be announced in the middle of this month.

The International Monetary Fund, Nomura Securities Co Ltd and Australia and New Zealand Banking Group Ltd (ANZ) project Malaysia's 2016 GDP at 4.4%, 4.3% and 4.2% respectively, the slowest pace since 2013.

"BNM governor Datuk Muhammad Ibrahim can use fiscal tools at his disposal to counter Malaysia's tightening liquidity," said ANZ's economist for Asean and Pacific, Weiwen Ng.

The central bank "certainly" has space to reduce the minimum cash that banks must set aside as reserve to a record low of 1%, "freeing up

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approximately RM30 billion of liquidity into the economy", Ng told *The Malaysian Reserve* on Wednesday. The January cut of the statutory reserve-requirement (SRR) ratio by 50 basis points had freed up to RM5 billion or 0.3% of the total deposits held in Malaysia's banking system, but the central bank's data showed the trend of tightening continued.

It is still unknown whether the new head at the central bank, who served as deputy to Tan Sri Dr Zeti Akhtar Aziz for six years, will take a more "preemptive" stance on banking policies compared to the outgoing governor, Ng said.

"Cutting SRR to 1% will send the cost of funds down, reducing interbank borrowing rates by as much as 50 basis points," said Pong Teng Siew, head of research at Inter-Pacific Securities Sdn Bhd in Kuala Lumpur.

January's move to cut SRR sent the Kuala Lumpur Interbank Offered Rate down from as high as 3.84% to 3.68%, Pong said, putting "banks in a better position to lend money to consumers".

With loans to deposit ratios currently at 90% levels, banks have deliberately cut asset growth targets, fearing Malaysia's sluggish growth will result in more bad loans. As a direct result, consumption has taken a massive hit.

LBS Bina Group Bhd, a prominent developer of mid-priced commercial and residential properties, said on Tuesday that 30% of its 2015 sales were cancelled because buyers failed to acquire loans, and said it expected a similar cancellation rate this year.

Aseana Properties Ltd, a Malaysian developer listed on the London Stock Exchange, said it swung to a loss in 2015 after weak sales at its high-end Mont Kiara properties had resulted in revenue plunging almost four times lower than in 2014.

"The red flags are there," said Dr Yeah Kim Leng, dean of business school at Malaysia University of Science and Technology and a member of BNM's external Monetary Policy Committee. "The Malaysian economy is no doubt moderating. The question is whether the slowdown will lead to stagnation."

If policies remain unchanged, analysts expect Malaysian banks will post loans growth of around 6% this year, its lowest rate since 2007.

The outlook for lending and consumption remains dim, with spending seen trimmed amid fiscal and inflationary pressures.

"For Malaysia, the balance of risk is skewed toward growth disappointment," said ANZ's Ng.

Malaysia is now at the tail end of "a credit upswing cycle", said Pong. "Banks are not in trouble, but they have turned off the credit pipeline."