

DELICATE BALANCE

MOVE GOOD FOR **BANKS, BORROWERS**

Extra time will allow borrowers to prepare to service their loans, say experts

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THE government's decision to extend the loan moratorium with targeted bank assistance to individuals and small- and medium-sized enterprises (SMEs) is a win-win situation for both, say economists.

Prime Minister Tan Sri Muhyiddin Yassin yesterday announced the Moratorium Extension and Targeted Bank Assistance initiatives, a move that was expected to benefit three million individuals and SMEs.

Bank Islam chief economist Dr Mohd Afzanizam Abdul Rashid said the government was trying to strike a delicate balance between supporting the needs of those affected by Covid-19 and

the health of banks, which was crucial to the economy.

"When the economy is weak, typically non-performing loans (NPL) will rise and, therefore, banks will have to make loan loss provisions."

He said the current low interest environment could also reduce the banks' net income margin (NIM).

"It is a tough operating environment for banks. With a targeted approach, I think it is a win-win for both (banks and borrowers)," he added.

Sunway University Business School economics Professor Dr Yeah Kim Leng said NIM would likely be compressed due to the moratorium extension.

"Banks' profitability will be impacted, but as long as they can sustain their operations without incurring losses, then it should not affect the banks' future prospects."

He said the banks might also experience higher provision for

bad loans as more borrowers suffered income losses, pay cuts and unemployment.

"Worst case scenario, banks need to look at the impact of the NPL in their capital adequacy and liquidity. They suffer from deferred loan servicing as NIM will be stretched over a longer period, depending on the financial capacity of the borrowers," he added.

Academicians, meanwhile, believed that the moratorium extension was crucial in creating a framework for business support and economic recovery as the country

emerges from the pandemic.

Putra Business School business development manager Associate Professor Dr Ahmed Razman Abdul Latiff said the extension would assist borrowers greatly, subsequently helping them to prioritise their spending before they could afford to resume normal repayments.

"Many SMEs are also still in re-

covery mode. Their main priority at the moment is to keep businesses afloat. The extended moratorium will help them greatly."

He said the short reprieve would allow those in need to get their finances in order before the moratorium ends.

Razman said putting an end to the moratorium without extending assistance after September (the initial month for the moratorium to end) could lead to even greater problems.

"This includes higher non-performing loans, which will affect the ability of banks to maintain its liquidity and performance, as these individuals and businesses could be declared bankrupt due to their liability commitments surpassing their revenue or income during the pandemic."

Socio-Economic Research Centre (SERC) executive director Lee Heng Guie said the announcement indicated a clear policy on what is to come after the expiry of the moratorium in September.

The moratorium, he noted, was targeted in its execution compared to the earlier one, which he described as "automatic".

"This time, it gives better options for individuals, SMEs and those unemployed based on their needs and financial positions."

"It is flexible in a sense, whereby individuals who lost their jobs, for example, will be given three months (of moratorium) and their condition will be reviewed for the following three months should there be any need for further assistance."

"As for businesses and SMEs, the banks will tailor options on whether they want a longer period of repayment so the monthly repayments will be lower. Alternatively, they can opt to pay interest first, for a specific period."

"The banks will continue to provide the necessary support, and at the same time will help businesses and the economy to recover."



Associate Professor
Dr Ahmed Razman
Abdul Latiff



Lee Heng Guie