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HETERODOX MEASURES AND CORPORATE CRISIS IN MALAYSIA

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Capital control measures and fixed exchange rate were introduced by the Malaysian government in September 1998 in response to the economic problems that emerged following the 1997 currency crisis. Malaysia had tried out orthodox economic policies before September 1998, but these were unable to stem the rapid decline of the economy. Instead, they drove the economy into a deeper crisis. Capital and Exchange Controls (CEC) were considered essential to check exchange rate instability and the decline of international reserves. These heterodox measures would give the government greater autonomy over monetary policy. Along with the government's directive to banks to increase loans to the business sector, CEC would help circumvent the collapse of the private sector. Since the financial crisis had increased the volume of non-performing loans (NPLs) in the banking sector and indebtedness of the corporate sector, the government established three institutions to deal with the matter. These were Danaharta, Danamodal and Corporate and Debt Restructuring Agency (CDRC). The government argued that if many businesses went bankrupt, not only would unemployment rise, but the financial sector would be in disarray or face insolvency. CEC, the reclassification of loans as NPLs, along with the introduction of low interest rates were attempts to help indebted firms by giving them more time to undertake the necessary restructuring to resolve their problems. In the experience of Malaysia, standard macroeconomic policies were unable to influence the economy at the sectoral or micro level. Therefore, other economic policies were introduced mainly to correct the imbalances which emerged mainly in the corporate and banking sectors. Whether the policies were orthodox or unorthodox is not the issue. The main issue is how to stimulate economic recovery as soon as possible in order to avoid any long-term economic and social crises. This study assesses the extent to which the implementation of CEC was able to stimulate economic recovery.

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1. INTRODUCTION

Capital control measures and fixed exchange rate were introduced by the Malaysian government in September 1998 in response to the economic problems that emerged following the 1997 currency crisis. These heterodox measures surfaced as a policy response when the recommendations by the International Monetary Fund (IMF) to Indonesia, South Korea and Thailand failed to check the impact of the currency crisis on the economies of those countries. Malaysia had tried out orthodox economic policies before September 1998, but these were unable to stem the rapid decline of the economy. Instead, they drove the economy into a deeper crisis.

Capital and exchange controls (CEC) were implemented to curb the rapid and massive outflow of portfolio capital that had contributed to extreme volatility in the exchange rate. CEC were considered essential to check exchange rate instability and the decline of international reserves. The introduction of the CEC would give the government greater autonomy over monetary policy. Moreover, liquidity in the banking system would be stabilised or increased, specifically with the return of offshore funds amounting to more than RM 20 billion. Along with the government's directive to banks to increase loans to the business sector, the CEC would help circumvent the collapse of the private sector. The aims of the fixed exchange rate were firstly to restore price stability in the export sector in order to speed up economic recovery and, secondly, decrease fluctuation in debt repayments of the corporate sector.

The financial crisis had increased the volume of non-performing loans (NPLs) in the banking sector and indebtedness of the corporate sector. To deal with the matter, the government established three institutions. These were an asset management company, Pengurusan Danaharta Nasional Bhd (Danaharta), to manage weak corporate entities and the NPLs in the banking sector; Danamodal Nasional Bhd (Danamodal), a special-purpose vehicle to recapitalise weak banks; and the Corporate and Debt Restructuring Agency (CDRC) to provide assistance to firms requiring corporate restructuring. Bank Negara, the central bank, established a Steering Committee to coordinate a "repairing" exercise of the financial and corporate sectors, and the three newly-created institutions were answerable to the Committee.

The government argued that if many businesses went bankrupt, not only would unemployment rise, but the financial sector would be in disarray or face insolvency. To help heavily indebted companies, the classification of loans as NPLs was changed from three months to six months. The CEC, the reclassification of loans as NPLs, along with the low interest rates regime were attempts to help indebted firms by giving them more time to undertake the necessary restructuring to resolve their problems.

In the experience of Malaysia, standard macroeconomic policies were inadequate to correct economic imbalances caused by the currency-cum-financial crisis. The standard macroeconomic policies were unable to influence the economy at the sectoral or micro level. Therefore, other economic policies were introduced mainly to correct imbalances which had emerged mainly in the corporate and banking sectors. Whether the policies were orthodox or unorthodox was not the issue. The main issue was how to stimulate economic recovery as soon as possible in order to avoid any long-term economic and social crises. This study assesses the extent to which the implementation of the CEC was able to stimulate economic recovery.

2. INTRODUCING CAPITAL CONTROLS

A major factor that contributed to the Asian currency crisis was cross-border flow of portfolio investments in bonds and equity. Portfolio capital differs from long-term loans and foreign direct investment (FDI) in terms of its contribution to economic development and the impact on domestic prices and the exchange rate. The most important difference between foreign portfolio investment (FPI), FDI and long-term external loans is that FPI can flow in and out of a country within a very short time. When FPI finds its way into the banking system and pushes up domestic expenditure and increases the current account deficit, its outflow can affect the domestic economy in a number of ways including through a decrease in asset prices, a rise in interest rates, the emergence of liquidity problems in the banking sector and a depreciation of the value of the currency (Corbo and Hernandez 1996). Furthermore, if the central bank does not act quickly enough and the volume of international reserves declines, then the reversal may cause a balance of payments crisis.

As the Asian pre-crisis experience has shown, FPI can lead to an inflation of asset prices (including consumer prices) and provoke interest rate hikes. These issues can stimulate a "herd behaviour" in the equity market. In expectation of an increase in future returns on investments, domestic investors pour more of their money or savings into the market, consequently creating a "bubble" in the economy[1]. If expectation of profits decreases, then foreign (and domestic) investors will leave the stock market by divesting their equity holdings and buying foreign currency. Stock prices will fall and, depending on the exchange rate system, contribute to a loss of international reserves and an increase in domestic interest rates, or a depreciation of the exchange rate, or both. If interest rates, asset prices or exchange rates fluctuate too widely, it can be very damaging for the economy because of two reasons. Firstly, high interest rates may lead to corporate failure because of an increase in NPLs. Second, an appreciation of the value of the currency will decrease export competitiveness or profitability of the export and import sectors. The increase in the cost of imports will result in a deterioration of the current account of the balance of payments. Another impact of the FPI is that it may induce a diversion of resource allocation (loans) in the banking system from productive to unproductive sectors[2]. In other words, resources might move from the tradable to non-tradable sectors, and this shift could harm real economic growth in the long run, which occurred in Malaysia prior to the Asian crisis.

In international finance, capital control is not a new issue. Industrialised countries have used capital controls to check fluctuations of the exchange rate. Under the Bretton Woods system, capital control was integral for ensuring stability of the exchange rate. The maintenance of capital controls had been authorised in the Articles of Agreement negotiated at Bretton Woods in order to reconcile exchange rate stability

[1] The inflow of FPI into the stock market is not always induced by the interest rate differentials. Investment in the market is based on the expectation of higher returns on investment, by betting on prices (arbitrage). In Malaysia, since the bond and derivative markets are less developed, the only possibility of inflow of foreign funds is into the equity market (There is foreign short-term capital inflow into the country based on the interest rate differentials, i.e. investment in fixed deposits in commercial banks).

[2] There is no evidence of FPI encouraging resource allocation and increasing efficiency in the banking or financial system. Efficiency in the financial sector is based on the development of new financial instruments (capital or money markets) and financial deregulation. The other issue that needs to be considered is how long FPI stays in an economy.

with other goals: in the short run, concerted programmes of post-war reconstruction; in the long run, the pursuit of full employment (Eichengreen 1996: 188). After the collapse of the fixed exchange rate regime under Bretton Woods, the flexible exchange rate system was promoted and currency and capital controls on international capital flows were gradually eliminated.

In April 1998, banks in offshore markets were offering ringgit deposit rates of more than 30 percent (Bank Negara 1999: 292). Malaysia could not afford to lose ringgit to offshore markets since the economy was already in recession and the government needed capital to reflate the economy. This led to the imposition of comprehensive controls over short-term capital flows on 1 September 1998 and a fixing of the exchange rate at RM 3.80 to the US dollar the following day. Some people, mainly from the financial sector, argued that this measure was not effective in restoring economic or market confidence.

The question, however, is had Malaysia had a policy of capital control (either on fund inflow or outflow) and stringent exchange control before 1997, would the economy have been as severely hit by the currency crisis? China, Singapore and Taiwan had a policy of capital and exchange controls in place before 1997 and this was partly the reason why these countries were not as badly affected by the crisis. For instance, since the Singaporean government does not allow foreigners to invest in the country's equity and derivative markets in Singapore dollar, speculation on the currency is generally eliminated. In other words, the government demands that the value of its currency be determined by economic fundamentals.

Under Malaysia's CEC policy, long-term flows and FDI were not regulated. A "12-month rule" was imposed, prohibiting the repatriation of portfolio funds for one year. For new funds, the "12-month rule" was subsequently replaced with a levy. The levy was reduced to 10 percent and applied only to dividends repatriated (Mahathir 2000). The 10 percent levy was subsequently lifted for portfolio capital that had been invested for over a year. Finally, after the then Finance Minister Daim Zainuddin had a discussion with domestic and foreign fund managers, the government decided to abolish the exit levy on 2 May 2001 (see Table 1).

The government also imposed the CEC to prohibit non-residents from holding the ringgit either in the form of hard currency or in bank accounts in offshore markets. According to Prime Minister Mahathir Mohamad (2000), the main purpose of the exchange control was to regain control of the ringgit from speculators and manipulators in the international foreign exchange market. This was done by declaring the ringgit an illegal tender outside Malaysia, thus necessitating the withdrawal and transfer of about RM 20-25 billion in bank accounts abroad into the country's financial system. This policy also led to the "freezing" of the external ringgit accounts of non-residents in Malaysia. Non-residents were not allowed to sell or lend the ringgit to other non-residents but could invest their funds freely in Malaysia. Thus, currency traders were unable to shortsell the ringgit and influence the exchange rate. Only the government could determine the exchange rate. The government replaced its managed floating exchange system with a fixed exchange rate, with the ringgit fixed at 3.80 per US dollar[3].

The main objective of the CEC was to eliminate or limit the impact of capital flow on the economy and help stabilise the exchange rate. The other aim was to slow down the fall in international reserves. Since international reserves are a part of the monetary base, a fall in reserves would destabilise monetary aggregates and could contribute to illiquidity in the financial system. The monetary base, or high-powered money (M^B), consists of domestic credit (DC) plus international (foreign exchange) reserves (IR), or net foreign assets, held by the central bank, as given by the equation $M^B = DC + IR$. A change in either international reserves or domestic credit will influence the monetary base. DC is a "control variable", which means that a government can control expansion (or accumulation) of domestic credit through the interest rate policy or credit rationing. But IR is an "exogenous variable", that is, it depends on external sector positions (balance of payments account) as represented by the equation $IR = CA + KA$[4], where CA = current

[3] Since the value of the US dollar against the ringgit is very much higher than the pre-crisis level, it has created difficulties for borrowers in terms of servicing their loans. This is one of the weaknesses of the fixed exchange rate in the case of Malaysia.

[4] It can also be written as $\Delta CA + \Delta KA = \Delta IR$. Foreign exchange or international reserve (IR) is also regarded as a net foreign asset (F). In the flexible exchange rate, the equation is read as CA = -KA, that is, the deficit of current account is offset by the surplus of KA, which means the central bank is out of the foreign exchange market.

account and KA = capital account. IR is equal to a net demand on domestic securities by foreign residents. The capital account comprises foreign loans (long-term and short-term) (FL), foreign direct investment (FDI) and foreign portfolio investment (FPI).

To simplify the matter, we can deconstruct the KA into two groups: non-speculative capital (F_{NS}) consisting of FL and FDI, and speculative capital (F_S) which is FPI. We can rewrite the equation to read as CA + [FDI + FL + FPI] = IR. If we assume that a deficit in CA is offset by F_{NS}, then F will be equal to F_S. So, it is logical that M^B = DC + F_S. Assuming that domestic credit remains unchanged, a change in F_S will contribute to a change in M^B. Therefore, the monetary base is entirely influenced by the FPI. Control of the Fs allows the government to manage the monetary sector more effectively. This is done by delaying a fall in international reserves through the outflow of Fs and encouraging the accumulation of international reserves through the current account and non-speculative capital. Therefore, the central bank, Bank Negara, would have greater freedom in implementing monetary policies without worrying about the accumulation of reserves from the speculative market. Second, capital controls would allow the economy to re-build international reserves through other components of the balance of payments, i.e. trade and long-term capital accounts. Since the beginning of the currency crisis in 1997, the Malaysian economy ran losses in international reserves, particularly from the outflow of portfolio capital. Third, capital controls can avert a credit crunch in the economy. As mentioned above, the main reason for capital controls was to enable the government to control international reserves.

In Malaysia, the main factor influencing money supply (and exchange rate stability) in the pre-crisis period and during the crisis was short-term capital, i.e. FPI (see Bank Negara Annual Report 1993 and 1994). Available data suggest that from 1993 to 1996, accumulation of international reserves was largely due to short-term capital. This is clearly indicated in Table 2.

Since under the fixed exchange rate regime, the central bank will lose control of its money supply, thus money supply becomes an endogenous factor. An increase in reserves represents an increase in the stock of net foreign assets owned by residents.

A combination of capital and exchange controls, to some extent, will increase the degree of independence of the monetary policy. Before the introduction of capital controls, the statutory reserve requirement (SRR) was 13.5 percent; by 2001, the rate was below 4 percent. The low SRR policy allowed for the transfer of about RM 80 billion into the banking system. This expansionary monetary policy increased money supply (M3) from RM 401.5 billion in 1998 to RM 458.5 billion in 2000, a 12.4 percent increase. Total deposits (demand, savings and fixed) increased from RM 232.9 billion in 1998 to RM 282.1 billion in 1999, while a figure of RM 302 billion was recorded in 2000 (see Table 3). Although the CEC increased liquidity in the financial system (Table 3), the banking sector was reluctant to provide financial facilities to the private sector. In 1999 and 2000, the growth of loans was less than 2 percent. While loans to the private sector amounted to RM 406.9 billion in 1997, they declined to RM 397.2 billion in 1998 and increased only marginally to RM 398.3 billion in 2000.

However, loans in the form of debt papers (securities) accelerated from RM 40.7 billion in 1997 to RM 54.5 billion in 1998 and RM 72.2 billion in 2000. This increase was largely due to the conversion of loans to bonds (medium/long-term). Banks were uncertain of the private sector's business performance, including their capacity to service debts. Since the number of outstanding unserviced debts of the corporate sector was still high, banks were reluctant to extend loans to the sector. The banks did not wish to be caught with "new" NPLs if the stabilisation policies failed. In the public sector, the CEC allowed the government to tap the excess liquidity to deal with the economic recession. The government budget was expanded. The government also issued debt value of RM 15 billion in 1998, RM 10 billion in 1999 and RM 16.4 billion in 2000 (see Table 4).

Based on the experience of developing countries, there is no solid evidence of the capital controls on outflow of short-term capital deterring inflow of long-term capital, particularly foreign direct investment. The Malaysian type of capital control is different, for instance, from the Chilean type. Malaysia restricted only the outflow of portfolio capital and welcomed the inflow of any type of foreign capital. In the case of Chile, the government controls the inflow of foreign capital by imposing a 30 percent reserve requirement (unremunerated) and a minimum holding period, i.e. of one year for new foreign

borrowings by banks and non-banks. The control measures also apply to trade credits, loans related to FDI projects, trading of Chilean stocks listed on the New York Stock Exchange and international bond issues (see Yoshitomi and Shirai 2000: 31). Chilean capital controls are generally viewed as price-based measures, which are supported by economists (see Stiglitz 1999; Ito and Portes 1999). In Chile, the capital control measures do not check the inflow of foreign capital; consequently, the real exchange rate appreciated by about 28 percent between 1991-1998 (see Edwards 1998, 1999a; Valdes-Prieto and Soto 1998; Laurens and Cardoso 1998).

In the case of Malaysia, the introduction of the CEC helped minimise the outflow of portfolio capital. The net outflow of foreign portfolio funds from September 1998 to September 1999 was about RM 1.3 billion. Between 1999 and 2000, the total net outflow of the capital was about RM 3.33 billion. As for FDI, the total volume of such investments into the economy in 1998 was about US$2.7 billion, increasing to US$3.5 billion in 1999, compared to US$6.5 billion in 1996. The international reserves increased from US$21.7 billion in 1997 to US$26.2 billion in 1998 and US$30.9 billion in 1999 before declining to US$30.3 billion as at 15 November 2000. The decrease in foreign reserves was not only attributable to the outflow of portfolio funds, but also the repayment of foreign debt, particularly short-term loans. Between 1997 and 2000, the foreign short-term debt was reduced from RM 43.3 billion to RM 17.6 billion.

The CEC also helped stabilise monetary aggregates and prevented a liquidity crunch in the economy. Measures to control trading of the ringgit in offshore markets and the fixed exchange rate managed to further insulate the economy from external price shocks and enabled the export sector to emerge as an engine for economic recovery. Furthermore, for companies that had borrowed money from abroad, the fixed exchange rate assisted them by stabilising the volume of the principal sum and thus the interest to be paid on the loan. However, there is no evidence to show that the movement of foreign portfolio capital had a detrimental impact on the corporate sector except in so far as it influenced share prices of firms listed on the Kuala Lumpur Stock Exchange (KLSE), as will be discussed below. The performance of the corporate sector, in terms of profits registered or dividend payments, depends on economic factors such as demand and supply.

3. DEBTS AND CORPORATE PERFORMANCE

The main issue arising from the currency crisis in Malaysia was the problem of private sector debt. The total volume of debts was estimated at more than RM 60 billion in 1997. The percentage of firms quoted on the KLSE that could not service interest payments increased from 5.6 percent in 1996 to 17.1 percent in 1997 and 34.3 percent in 1998, though it declined to 26.3 percent in 1999. During the period 2000-2002, it was estimated that about 16 percent of the listed companies would not be able to cover interest payments (Goad 1999). Furthermore, in terms of turnover, about 80 percent of Malaysian companies did not perform well in 2000 (Barrock 2001).

The companies most badly affected were those involved in construction, property development and banking. The share price of the firms in these sectors, with the exception of those listed on the finance counter, fell sharply, with some experiencing a reduction in value of more than 50 percent. Virtually all large property developers were struggling to deal with their debts and there were numerous cases of firms either stopping or abandoning construction projects. The failure of construction and property firms led to a rise in NPLs, which affected the banking sector.

Although the Malaysian economy expanded by about 7 percent in 2000, its real estate market remained in a slump. Given the slowdown of the property market, a large volume of commercial and residential units remained unsold. In the said year, residential units valued at about RM 6.6 billion awaited sale, whereas RM 21.8 billion commercial space remained unsold (shopping complexes: RM 10.2 billion, retail lots: RM 2.1 billion, industrial: RM 1.1 billion and office space: RM 8.4 billion). There were also about 514 abandoned housing projects, involving an estimated 195,000 units and valued at about RM 22 billion (Ministry of Finance, 2002). As a measure to deal with those problems, the government liberalised regulations on foreign ownership in the property sector. Before this liberalisation, foreigners were not allowed to own more than 30 percent of any housing project and were barred from owning properties worth under RM 250,000 each. Furthermore, they were not allowed to have majority control over commercial offices, shopping malls and hotels.

Most of the restructuring exercises involving private firms, whether public-listed or unquoted, had to do with debt reorganisation. A few measures were taken by some companies to settle debts, including sale of assets, debt-equity swaps (either in the form of rights issue, warrants or bonds), seeking a moratorium from creditors or asking the government for a bailout. Some companies were involved in protracted debt restructuring exercises. This was mainly due to the unwillingness of those companies to restructure or dispose of their assets. A number of them were still hoping that a vibrant stock market would help them resolve their debt woes. Many companies were also relying on the financial wizardry of their merchant bankers to shift their debts around, instead of trying to unload assets in the much-improved economic environment.

3.1. Stock Market Performance

The currency crisis precipitated a rapid decline of stock prices, with the KLSE composite index (KLCI) falling about 45 percent from the end of April to the end of December 1997. Uncertainties in the international capital market and the collapse of the Russian Ruble and Brazilian Real in the middle of 1998 continued to pressure regional and local bourses. The KLCI dropped to its lowest during the crisis at 262.70 points (a decline of 79 percent from April 1997) on 1 September 1998, which was the day that the government imposed capital controls on the outflow of portfolio capital. The declining trend of the stock market reversed thereafter. The KLCI index increased to 294.59 points on 2 September 1998 and 313.07 points on 3 September 1998, before reaching 586.13 points at the end of December 1998. Transaction values in the market rose from RM 3.856 billion in August 1998 to RM 8.175 billion in December 1998. The KLSE's improved performance in early September 1998 was not entirely due to the introduction of the CEC. The main factors that appear to account for the sharp rise and decrease in the KLCI are market sentiment and speculation. Investors can buy and sell shares without holding the equity, a practice referred to as shortselling. There is a general consensus that economic fundamentals are not the major factor in decision making when investing in the stock market. Speculation and noise factors are regarded as the main determinant of stock price movements. The rise of the stock price leads to the creation of a "wealth effect". During a bull run in the stock market, consumption and credit in the private sector will increase, while during a bear market,

stock prices will deflate, decreasing also the feeling of "wealth". It appears that shortselling and speculation rather than the implementation of the CEC affected the performance of the KLSE.

The limited interest in the equity market was reflected in the weak demand for initial public offerings (IPOs) issued since 1998. In 2000, about 38 new IPOs were issued and the share price of two-thirds of those firms was below their offer price when they were first traded. In 1999, about 21 IPOs were under-subscribed. The diminished market sentiment and under-subscription of the IPOs put the underwriters in a dilemma. Not only did they have to worry about mopping up under-subscribed equity, they would also be saddled with the unsold low-priced shares for a protracted period. Another issue which had an impact on investment in equity was a new regulation by Bank Negara limiting share financing by financial institutions to a maximum of only 20 percent of total loans. In 2001, total bank lending for share financing constituted only 7 percent of total loans. It is uncertain, however, if the introduction of the CEC was the reason for the poor response to IPOs as the stock markets in East and Southeast Asia had also been performing poorly during the period 1999-2000.

4. STATE RESPONSE TO CORPORATE CRISIS

4.1. Restructuring Firms: CDRC

The Corporate Debt Restructuring Committee (CDRC) was set up in 1998 as a non-statutory body to assist companies in debt restructuring. The CDRC was a short-term response to the crisis and its operations ceased on 20 August 2002. Tables 5 and 6 indicate the debt restructuring cases supervised by the CDRC.

In 2001, the CDRC received 75 applications for help with restructuring. By the end of that year, the CDRC had resolved 33 cases worth RM 27.6 billion. Out of the 33 companies, 20 were investment holding firms (with debts of RM 19.77 billion), seven were in property and construction (with debts of RM 3.62 billion), five in finance and services (RM 1.66 billion) and one in manufacturing (RM 425 million). 16 of them were listed on the main board of the KLSE, nine were quoted on the second board, while eight were private companies. About RM 7.94 billion, or 32.35 percent, of the debts of the 33 companies were

settled in cash payments, RM 4.6 billion, or 16.97 percent, in bonds and RM 3.99 billion, or 16.27 percent, in financial notes.

Most of the debt restructuring cases, including those not involving the CDRC, converted loans into bonds, rights issues (new shares) or warrants (debt-equity swap). Debt securities and new shares from these restructuring exercises expanded the capital market (Table 7). This, however, was not fresh capital. In effect, the public was unaware of the amount of funds that was raised in the capital market. On the other hand, in the balance sheet of banks, assets (excluding fresh assets) were not increased. The NPLs, however, were reduced because part of those loans were turned into performing loans.

Since the company which issues a bond needs to provide an assurance of repayment, the government formed the National Financial Guarantee Insurer (NFGI) in January 2001. This was to ensure that the bonds issued would not become junk bonds. The NFGI's objectives are to enhance bond rating and promote the growth of private debt securities and the bond market. The paid-up capital of NFGI is RM 500 million, while its shareholders include the Ministry of Finance Inc Bhd (30 percent), Amanah Capital Bhd (20 percent), Malaysian National Reinsurance Bhd (5 percent); while the remaining 45 percent will possibly be held by selected insurance companies and financial institutions, each holding 5 percent. The NFGI acts as a safeguard to firms issuing bonds.

4.2. Removing Debts: Danaharta

Pengurusan Danaharta Nasional (Danaharta) was established in 1998 primarily to remove NPLs from the financial system and rehabilitate the banks[5]. Other functions of Danaharta included assisting the corporate sector to seek help to restructure its debts. There were 86 firms, from 56 groups of companies, under the special administration of Danaharta. These included those involved in stockbroking (11), investment holding (10), property development (14), manufacturing (24), trading (3), services (2), groups holding a broad range of businesses (2), retailers/wholesalers (1) and non-specified (6).

[5] Malaysian banks were, however, in much better shape compared to the financial institutions in Thailand, Korea and Indonesia, as no bank in Malaysia was declared insolvent or found to be illiquid during the crisis.

In 2000, Danaharta received the accounts of 2,507 borrowers which had a total of RM 47.49 billion NPLs. Of this amount, RM 38.17 billion, or 80.37 percent, were within the banking system, while RM 8.60 billion were in the non-banking sector and with offshore institutions. Most of the NPLs were of companies involved in construction, property development and share financing sectors: property sector (29.9 percent), purchase of shares (16.9 percent), financing, insurance and business services (15.0 percent) and manufacturing (13.1 percent) (see Tables 8a and 8b). Most of the NPLs–about 67.1 percent–were in the form of restructured loans, of which 21.2 percent had more than one-year maturity and 11.7 percent below one year. The major borrowers were private limited companies (59 percent), followed by quoted companies (15 percent), non-residents (19 percent) and residents (7 percent). With regard to collateral, property constituted about 47 percent, shares 20 percent and unsecured portfolios 37 percent. 1,536 properties were valued at a total of RM 17 billion. About 80 percent of the total NPLs bought by Danaharta belonged to commercial banks. Of the total NPLs, about RM 27.1 billion came from the Sime Bank Group (RM 15.7 billion) and Bank Bumiputra (RM 11.4 billion). The Sime Bank was privately owned while Bank Bumiputra was then wholly owned by the government.

Since Danaharta was established without any paid-up capital, it was expected to raise funds in three ways. For working capital Danaharta took a loan from Khazanah Nasional Berhad (Khazanah) and Employees Provident Fund (EPF) amounting to RM 3.0 billion. Second, it would deal with the NPLs by taking over and selling the collateral (i.e. properties, shares, etc.) of indebted firms. Danaharta sold 325, or 72 percent, of the 449 properties it held (excluding hotel and leisure properties) for a total of RM 985.93 million through four property tenders. The money recouped amounted to about 5 percent of its total NPL property portfolio. The total of outstanding unsold properties were valued at RM 16 billion. Danaharta had problems selling off the other 95 percent of its property holdings because these were being tendered at prices that were considered unattractive. In some cases, the properties belonged to uncooperative borrowers, making the sale difficult, as Danaharta did not have physical control of the properties.

The third method that Danaharta used to raise funds was by issuing bonds in exchange for NPLs. Danaharta issued bonds amounting to RM

11.14 billion (15 bonds between 20 November 1998 and 31 March 2000). The maturity dates of these bonds are in the years 2003 (two), 2004 (ten) and 2005 (three). The government has guaranteed those bonds. Since Danaharta bonds are zero-coupon bonds, interest payments need not be made to the financial institutions that hold them. The government's Employees' Provident Funds (EPF) and banks are believed to hold a majority of those bonds (see Table 4). Danaharta is expected to redeem the first tranche (bond) which matures by 31 December 2003.

With respect to the second method of fund raising, the government introduced a bill giving Danaharta total rights over the properties charged as collateral that came under its purview. Danaharta could also sell any asset given to it as security without the consent of the owner[6]. Danaharta's decisions were final and could not be challenged in a court of law. In addition, it did not need to explain or account for its actions.

Till July 2003, Danaharta managed to recover RM 30.42 billion or 58 percent of NPL portfolio of RM 52.3 billion. About RM 12.16 billion of the recovery is from Bank Bumiputra Malaysia Berhad and Sime Bank NPL. The recovery rate rose to 58 percent and the average default rate decreased from 6.4 percent in December 2002 to 3.2 percent in December 2003. About 767 borrowers fully settled loans amounting to RM 14.58 billion as at December 2003 as compared to 571 borrowers settling loans totalling RM 13.3 billion as of December 2002. Danaharta also repaid a loan of RM 1.3 billion to government agencies. The impressive progress of Danaharta managing NPL decreased possibilities of a second round of corporate and banking crises. The installation of tight financial regulatory and bank merging programmes minimised the possibility of the banking sector falling again into crises.

4.3. Recapitalisation of Banks: Danamodal

A study conducted by Bank Negara on the banking sector in late 1997 indicated that a RM 16 billion recapitalisation was needed to restore all capital-deficient banking institutions to the minimum 9 percent capital

[6] Supporters of Danaharta argued that its special powers are necessary because they speed up the process of recovering bad loans. Danaharta buys bad loans from banks and has to find ways to ensure repayment from the borrowers, otherwise it will fall into insolvency.

adequacy ratio (CAR) levels. Following the improved economic conditions in late 1998, the amount of funds needed to recapitalise the banks was reduced to RM 14 billion. In August 1998, a special purpose vehicle (SPV), Danamodal Nasional Bhd, was established by the government, as a subsidiary of Bank Negara, to restore soundness to the banking sector. Danamodal is a temporary institution whose main objectives are to recapitalise, revitalise and restructure the financial sector. It is also involved in the government's programme of consolidating and restructuring the banking system[7].

Of Danamodal's original working capital of RM 10.7 billion, RM 3 billion were seed capital contributed by Bank Negara and RM 7.7 billion came from the issuance of Danamodal bonds in October 1998. Danamodal would only recapitalise an ailing financial institution with a capital injection after the latter had sold its NPLs to Danaharta. This activity had two unfavourable implications for the ailing institutions. First, the institution (or existing shareholders) would face losses from the sale of their NPLs to Danaharta. Second, any capital injection by Danamodal into an institution was seen as an "investment", meaning that the agency would emerge as a shareholder of this institution.

By December 2001, Danamodal had injected a total of RM 7.59 billion into ten financial institutions (see Table 9). These were five commercial banks, two merchant banks and three finance companies. Danamodal's capital injection into those institutions was initially in the form of 7.5 percent Exchangeable Subordinated Capital Loans (ESCLs), which were formalised through conditional agreements. Bank Negara recognised the ESCLs as Tier-ll capital, for calculation into the banks' risk-weighted capital ratio (RWCR). The ESCLs allow for the capital position of the institutions to improve immediately while Danamodal assesses the necessity for further support. Once this is determined, a definitive agreement is entered into between Danamodal and the recipient banks in order to convert the ESCLs into conventional Tier-l capital, such as ordinary shares and irredeemable non-cumulative convertible shares (INCPS), or Tier-ll subordinated debt. For instance, in November 1998, Danamodal's RM 1.5 billion ESCL injection into RHB Bank Bhd was converted into RM 1 billion's worth of INCPS and RM 500 million's worth of subordinated bonds. In March 1999,

[7] Danamodal is expected to cease operations in 2003.

Danamodal's capital injection into MBf Finance was defined as RM 362 million's worth of ordinary shares and RM 1238 million's worth of INCPS.

The loans provided by Danamodal for recapitalisation have to be paid by the affected institutions. In 1999, a total of RM 2.34 billion's worth of payments was made by five institutions: RHB Bank, Arab-Malaysian Finance Bhd, Arab-Malaysian Merchant Bank Bhd, Sabah Bank Bhd and United Merchant Finance Bhd. As at December 2000, Danamodal had investments in only four of the original ten financial institutions. Accordingly, the total recapitalisation amount of RM 7,590 million was reduced to RM 2,140 million (see Table 9). In December 2001, the full repayment by another recapitalised banking institution reduced further Danamodal's investment in financial institutions to RM 5,450 million.

Since the injection of capital by Danamodal was either in the form of ordinary shares or INCPS, which carries an interest rate (as a debt instrument), the agency expected to make a profit from all transactions. In 2000, however, Danamodal registered a loss of about RM 60.5 million. A crucial question is why did Danamodal expect to make a profit as it was "investing" in weak financial institutions? Moreover, Danamodal operated by borrowing money from the financial system and lending it to ailing institutions. If the interest rate differential (interest on bond minus market interest rate) was high, then the cost to Danamodal would also be high.

Moreover, although Danamodal had to pay about RM 11 billion to the bondholders in 2003 (the year when it was expected to cease operations), it was also argued that the agency would minimise the use of public funds. Initially, public funds were used, that is the RM 3 billion seed money received from Bank Negara when Danamodal commenced operations. However, factors such as the weak performance of the stock market, low interest rate and unfavourable economic situation regionally and internationally, may hinder Danamodal from securing sufficient funds to honour the bonds issued. If Danamodal does not make a profit, since it is a public agency, eventually the government is responsible for meeting this bond commitment, meaning further use of public funds. If this situation does emerge, it would appear as further evidence that there is a case of bailing out weak, poorly-managed banks.

It is evident that the introduction of the CEC provided time for institutions like the CDRC, Danaharta and Danamodal to clear up the debt crisis in the corporate and banking sectors. CEC implementation curbed depletion of international reserves that are a part of monetary aggregates. Had the reserves declined appreciably, instability in the financial system would have occurred and a liquidity crunch would have become unavoidable. Danaharta and CDRC have resolved nearly RM 100 billion worth of NPLs, while Danamodal has recapitalised ten financial institutions to the tune of RM 7.6 billion. Danaharta and Danamodal have prevented a meltdown of the banking sector, while the CDRC has helped turn around a long list of debt-laden companies.

4.4. Bailouts

In some cases, the government has to bail out or buy over certain private companies that have state interest. The rationale may be related to the economic and social factors and the worry that the collapse of the firm may hinder the government's efforts to eliminate the burgeoning NPL and improve corporate performance. Companies that were bailed out directly or indirectly included those involved in construction, transportation, heavy industries and public utilities. Some privatised projects and companies were also re-nationalised.

Bailing out certain private entities is unavoidable. The management of the firm are unable to resolve their debt by themselves or through asset management companies. Since most of the firms are in a critical condition financially, and given that the firms are considered as a strategic industry to the government, and that the government does not allow the firm to be sold off either to local private or foreign firms, therefore the government has no other definite option but to step into the market and help the firm. As mentioned, bailout of firms is also partly due to the welfare factor and aims to reduce the burden of Danaharta and Danamodal resolving corporate debts and removing "death" NPL from the banking sector. Most bailout cases involved privatised projects. The government bails out firms in three ways: by paying cash, issuing bonds or instructing state agencies to buy (a stake of) the firm. To conclude this section and fulfil the objective of this paper, a few relevant cases of bailout will be mentioned.

The first case involved the privatised Bakun Hydroelectric Dam project, valued at about RM 20 billion, which was awarded in 1993 to a

publicly-listed firm, Ekran Bhd. In November 1997, the government took over the project and paid nearly RM 1 billion as compensation to Ekran. The Bakun Dam project was resumed on a smaller scale at an estimated cost of RM 13.5 billion.

The publicly-listed shipping firm Konsortium Perkapalan Bhd (KPB), which was laden with debts amounting to RM 1.6 billion, was bailed out by the national oil firm, Petronas, through one of its publicly-listed firms, Malaysian International Shipping Corp Bhd (MISC) (Haggard 2001: 170). The rescue package, amounting to almost RM 2 billion, involved MISC's acquisition of KPB subsidiaries which carried a bulk of the group's debts. Petronas has a stake of 50 percent in MISC.

Other bailouts included the government's re-nationalisation of Indah Water Konsortium Sdn Bhd (IWK) from Prime Utilities Bhd (PUB) in June 2000. IWK, the national sewerage company, was privatised in 1994. Before its re-nationalisation, IWK had been incurring a loss of about RM 700 million despite having received soft loans and grants of about RM 925 million from the government. The Ministry of Finance (MOF) paid RM 192.54 million to take over IWK.

In early 2001, the government also re-nationalised the light rail transit (LRT) operations in Kuala Lumpur which were handled by Sistem Transit Aliran Ringan Sdn Bhd (STAR) and Projek Usahasama Transit Aliran Ringan Automatik Sdn Bhd (Putra). To implement the takeover, the government issued RM 6 billion of five-to-15 year bonds (Prasarana Bond) with an interest rate of between 5.8 and 7.2 percent. STAR was owned by a local consortium comprising the EPF, LUTH (National Pilgrimage Fund), LTAT (Armed Forces Fund), KWAP (Public Pension Fund), Shell Malaysia and the Sabah Retirement Fund. Star and Putra were then heavily laden with debts. Both firms had not been able to meet interest payments on loans taken from the Commerce International Merchant Bankers and RHB Bank.

The monorail firm, KL Monorail System Sdn Bhd, also received help from the government. Apart from a RM 300 million loan provided by the government, KL Monorail had its concession to manage the system increased by 10 years, i.e. from 30 to 40 years. The original cost of the project was RM 2.1 billion, but the figure was reduced to RM 1.7

billion when it was decided that Malaysian technology would be used to build the train.

Another railway service that received assistance from the government is Express Rail Link (ERL), which operates the Kuala Lumpur city-KL International Airport rail link. The project was launched in 1995 but shelved following the financial crisis. It was re-started in 1998 and completed in April 2002. Total investment in the project was about RM 2.5 billion, of which the government provided RM 1 billion, while RM 500 million were raised from the shareholders; the rest of the money came from loans. The major shareholders are the national pilgrimage fund, LUTH, through its subsidiary TH Technologies Sdn Bhd, and YTL Corp. LUTH holds a 60 percent stake in ERL and YTL the remaining equity.

Noting that the national airlines, MAS, registered losses totalling RM 1 billion in 2001, and accumulated debts amounting to RM 9.4 billion, the government acquired MAS about RM 1.79 billion in cash. A government agency, the EPF, acquired about 5.3 million MAS shares on the open market in October 2000. The government's EPF is currently the largest shareholder of MAS equity, owning 12.1 percent of the company's stake, up from 6.41 percent in June 1998. Another government agency, Public Pension Fund (KWAP) bought 70 million shares on 1 December 2000 from Brunei Investment Agency. In total, the government is a major shareholder of MAS. Since the government took over MAS, performance of the airlines has increased and the airline's balance-sheet has started to improve.

Finally the case of Proton. The parent company of Perusahan Otomobil Nasional Bhd (Proton) (national car project), DRB-Hicom Bhd was in debts totalling RM 5.06 billion. The national oil firm Petronas acquired 25.8 percent stake in the privatised Proton. The cost of acquiring the stake is RM 981.02 million. Besides Petronas, the government investment agency, Khazanah Holding, also had a stake in Proton. Proton is now controlled by the government.

5. CONCLUSION

The main contributions of the CEC policy to the economy have been to increase liquidity in the financial system, improve market confidence

(private consumption) and stabilise the exchange rate. Without the CEC, the government would probably have been rendered ineffective trying to secure and restore independence over monetary policy. International agencies and foreign portfolio investors had strongly criticised the Malaysian government for introducing the CEC, which they felt would harm both FPI and FDI. Although the CEC policy has had an impact on investments in portfolio instruments, it does not appear to have affected FDI in as significant a manner. Although there has been a decline in FDI, this fall was largely due to the diversion of international private investments from Southeast Asian countries to China. The inclusion of China in the World Trade Organisation was the main reason for this trend in FDI flows.

Although the CEC and expansionary monetary policies increased liquidity in the financial system, banks remain sceptical about providing or extending loans to indebted companies. The experience of the effect of the currency crisis on the financial sector was severe enough for banks to hesitate in providing loans too liberally, especially to weak companies, just to help reduce mounting NPL figures. With the implementation of the CEC, and the return of large volumes of offshore funds, the government was indirectly trying to get the banks to throw a lifeline to the indebted firms.

The CEC and new (temporary) agencies like the CDRC, Danaharta and Danamodal have played a significant role in dealing with the corporate and debt crises that emerged after the currency crisis This policy and those institutions have been crucial in helping the government re-establish confidence in the market. Since banks were reluctant to provide, or refinance, loans to the indebted companies, the government, through various agencies and public enterprises, stepped in to bail out or help the companies which were really strategic and associated with the welfare of the people. Government-guaranteed bonds and cash were used to help those firms. The government has succeeded in utilising the CEC to improve the quality of enterprise development and promote sustainable economic growth in Malaysia.

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Table 1. Malaysia: Capital Control (Exit Levy)

September 1998	Capital controls imposed. Ringgit fixed at RM 3.80 to USD1. Ringgit declared an illegal tender abroad. Foreign investors barred from repatriating stock market funds for one year.
February 1999	New two-tier system to replace ban on repatriation of equity funds: – for funds invested before February 1999, a staggered "exit levy" on principal amounts, ranging from zero to 30 percent. – for funds invested after February 1999, a levy of 30 percent on gains if repatriated within 12 months. Levy on gains is 10 percent thereafter.
September 1999	Two-tier system removed. Flat 10 percent levy on stock market gains. No levy on capital amount. New system does not distinguish when funds are brought in or repatriated.
February 2001	10 percent levy limited to repatriation of gains within one year. No levy if repatriated after one year.
May 2001	Exit levy removed entirely. Ringgit peg remains at RM 3.80 to USD1.

Table 2. Malaysia: Balance of Payments and International Reserves
(RM billion)

	Productive Items			Short-term Capital and International Reserve Movement			
Year	Current Account (A)	Long-term Capital (Net) (B)	Total (A+B) (C)	Net Short-term Capital (D)	Total Balance (C+D)	Gold & Forex	Net International Reserves
1975	-1.19	1.69	0.51	-0.48	0.03	3.59	3.93
1980	-0.62	2.21	1.59	0.59	2.18	9.71	10.30
1985	-1.52	4.23	2.71	0.50	3.21	11.77	12.46
1986	-0.32	3.39	3.070	1.28	4.35	15.71	16.54
1987	6.64	-1.41	5.24	-2.34	2.89	18.57	19.43
1988	4.74	-3.22	1.52	-2.63	-1.10	17.27	18.33
1989	698	2.00	2.76	0.57	3.33	20.62	21.66
1990	-2.48	3.47	0.99	4.38	5.37	25.89	27.03
1991	-11.64	10.33	-1.31	4.74	3.43	29.20	30.45
1992	-5.62	10.33	4.71	11.88	16.58	46.07	47.20
1993	-7.93	13.86	5.94	23.30	29.24	75.31	76.44
1994	-14.77	11.66	-3.11	-5.15	-8.26	66.83	68.17
1995	-21.83	16.61	-5.22	0.81	-4.40	61.68	63.77
1996	-12.25	13.53	1.28	4.97	6.25	67.86	70.01
1997	-16.70	19.10	2.40	-13.29	-10.89	57.03	59.12
1998	37.39	10.62	48.02	-7.72	40.30	96.27	99.42
1999	47.90	12.60	60.50	-42.68	17.82	113.77	117.24
2000	32.25	-14.45	17.80	-21.50	-3.70	109.84	113.54
2001	27.69	-12.33	15.36	-11.70	3.66	113.54	117.20
2002	27.32	-5.44	21.88	-7.70	14.18	127.52	131.39

Sources: Bank Negara Malaysia, Quarterly Bulletin and Monthly Bulletin, various issues.

Table 3. Malaysia: Monetary Aggregates (selected components)
(RM billion)

Year	Currency	Demand Deposits	Saving Deposits	Fixed Deposits
1990	10.1	14.2	13.4	30.0
1995	17.5	34.4	23.5	96.4
1997	21.4	41.9	26.8	156.5
1998	18.2	35.9	27.8	169.2
1999	24.8	48.7	35.2	198.3
2000	22.3	56.5	40.5	205.0
2001	22.2	58.6	44.8	202.9
2002	23.9	65.2	49.9	207.5

Source: Bank Negara Malaysia, Monthly Bulletin.

Table 4. Malaysia: Government Domestic Loans by Major Holders
(RM billion)

Year	Total	Treasury Bills		Malaysian Government Securities					
		Issued	Banks	Issued	EPF	Insur.	Socso	Banks	NSB
1990	70.0	4.3	3.7	62.1	36.2	1.4	1.3	11.2	1.6
1995	78.0	4.3	2.6	64.7	39.2	5.1	1.7	8.6	2.1
1996	79.2	4.3	1.8	66.9	38.8	5.4	1.8	11.4	2.0
1997	77.0	4.3	3.9	66.3	38.1	5.3	1.6	12.7	1.4
1998	88.2	4.3	3.7	76.0	45.7	5.4	1.5	15.3	1.2
1999	93.8	4.3	3.7	78.3	51.8	6.0	1.7	12.3	0.9
2000	106.8	4.3	4.2	89.1	61.5	6.7	2.8	12.4	1.0
2001	121.4	4.3	4.0	103.5	67.4	8.6	2.8	18.6	1.5
2002	128.7	4.3	3.7	109.6	73.0	9.3	2.8	14.8	1.5

Source: Bank Negara Malaysia, Monthly Bulletin.
Note: NSB: National Savings Bank; Socso: Social Security Organisation;
EPF: Employment Provident Fund; Insur: Insurance companies.

Table 5. CDRC: Company Debt Restructuring Cases (RM million)

	1998	1999	2000	2001
Application received	(36)	(66)	(75)	(75)
Total Debts	11,028.15	35,652.77	47,209.75	47,378.75
Withdrawn/Rejected Cases	-	3,504.35 (15)	7,825.89 (6)	7,825.89 (6)
Transferred to Danaharta	-	2,764.70 (8)	1,813.54 (1)	1,813.54 (-)
Completed Cases	344.50 (2)	11,778.29 (11)	25,476.92 (18)	27,576.92 (2)
Cases Outstanding	10,683.65 (34)	16,651.13 (28)	11,139.10 (12)	9,208.1 (8)

Source: CDRC website, www.bnm.gov.my/cdrc
Note: The figures in this table indicate the total volume of debt.
The figures in parentheses indicate the number of applications.

Table 6. CDRC: Debt Restructuring of Selected Companies

Company	Debt	Proposal
Setegap	RM 95.5 million (creditors – 21 banks)	Not available
Trans Capital Holding	RM 185.6 million	Rights issue – 79,288,500 new shares
Chase Perdana	RM 279.9 million	Rights issue – 147,366,501 new shares
TV3 (MRCB)	RM 500 million	Not available
Mycom Group (including Olympia Industries and Mycom Capital)	RM 1.5 billion (Foreign loan – US$47 million)	Rights issue – 116,285,131 new shares
Renong	RM 28 billion	Not available
Park May (Renong, 51 percent)	RM 146 million	20 percent of outstanding loan converted into rights issue and 80 percent of the loan converted into Redeemable Convertible Bonds.
Putra (wholly-owned by Renong)	RM 2 billion	Sold to government

Table 6. CDRC: Debt Restructuring of Selected Companies
(continued)

Company	Debt	Proposal
Lien Hoe Corporation	RM 212.06 million	40 percent of the debt converted into Redeemable Secured Bonds and rights issue of 254.252 million
Nam Fatt	RM 312.3 million	Loan converted into Redeemable Secured Bonds
Changai Corporation and Pembangunan Bandar Mutiara	RM 115 million	RM 3.26 million of the loan converted into rights issue
Tongkah Holdings	RM 1.189 billion	Issued a bond of RM 462.699 million; issued irredeemable convertible unsecured loan stocks, RM 161.996 million
Gadek (DRB-Hicom)	RM 750 million Creditor: CIMB	Not available
Naluri (Tajudin Ramli)	RM 950.1 million (of which RM 888.2 million is from Naluri and the rest from its subsidiaries)	Sold entire stake in MAS (29.09 percent) to the government for RM 1.79 billion cash
Lion Group (including Amsteel Corporation, Lion Corporation, Posim) (William Cheng)	RM 10 billion	Not available
Idris Hydraulic (M) Bhd. (Annuar Senawi)	RM 782 million	Disposed Sagisan Timber concession in Sabah for RM 150 million. Disposed stake in Prime Utilities for RM 150 million
Debts of other firms: Kretam Holdings (RM 360 million); Hai Ming Holdings (RM 54 million); Tanco Holdings (RM 295 million); Cygal (RM 230 million); Johan Holdings (RM 318 million) and George Kent (Malaysia) (RM 173 million). As at 30 April 2002, only eight cases with total borrowings of RM 16.8 billion were still outstanding. The firms were Lion Group, Intrakota Komposit, Sriwani Holdings, Johor Corporation, Metroplex, Land and General, HVD Entertainment and Perbadanan Kemajuan Negeri Pahang.		

Sources: CDRC website and various newspaper reports.

Table 7. Funds Raised in the Capital Market (RM billion)

Sector	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01
Public Sector											
MGS	3.5	3.8	1.6	2.2	2.0	6.0	3.0	15.0	10.0	16.4	23.1
Total New Issues of Debt Securities	3.8	4.3	3.7	5.5	6.0	6.0	3.8	17.7	15.0	20.0	26.5
Net Funds Raised by Public Sector	3.2	1.5	1.2	1.8	-0.04	1.3	-1.4	9.8	6.3	13.7	15.2
Private Sector											
Shares/Warrants											
Initial Public Offering	1.7	5.4	0.9	3.0	4.2	4.1	4.8	0.7	1.0	1.0	1.7
Rights Issues	2.2	3.4	1.2	3.4	5.2	5.3	8.5	0.7	4.3	4.0	1.9
Private Placement/Restricted Offer-for-Sale	-	0.03	0.7	0.8	1.1	4.6	3.2	0.3	0.5	0.9	1.7
Special Issues	0.5	0.3	0.7	1.2	0.9	2.0	1.8	0.06	0.2	0.1	0.03
New Issues of Shares/Warrants	4.4	9.2	3.4	8.5	11.4	15.9	18.4	1.8	6.1	6.0	6.1
Debt Securities											
Straight Bonds	0.6	1.2	2.1	1.0	3.9	2.7	4.2	10.2	9.6	12.9	14.4
Bonds with Warrant	0.2	0.5	1.1	2.9	3.8	5.6	3.0	0.2	0.6	-	0.9
Convertible Bonds	1.1	0.6	0.2	1.3	0.9	1.8	2.0	0.1	1.3	1.7	1.5
Islamic Bonds	0.4	0.03	-	0.3	0.8	2.4	5.2	0.3	1.7	7.7	13.5
Cagamas Bonds	-	2.1	1.7	4.8	3.0	4.7	5.2	3.3	4.4	8.5	6.4
New Issues of Debt Securities	2.1	4.4	5.0	10.3	12.2	17.0	19.6	14.2	17.6	30.8	37.9
Net Funds Raised by the Private Sector	6.3	12.5	7.1	17.5	19.8	30.5	35.0	8.0	10.9	26.6	23.7
Net Funds Raised in the Capital Market	9.4	14.0	8.3	19.3	19.7	31.8	33.5	17.8	17.2	40.2	38.9

Source: Bank Negara Malaysia, Monthly Bulletin.

Table 8A. Loans Sold to Danaharta (RM million)

	1998		1999		2000		2001/2002	
	NPL	Total	NPL	Total	NPL	Total	NPL	Total
Agriculture, hunting, forestry and fishing	98.4	98.4	218.4	525.9	479.5	557.8	480.7	571.3
Mining and quarrying	11.7	11.7	94.1	156.9	166.9	229.7	166.9	229.7
Manufacturing	1,733.3	1,933.1	4,396.2	5,695.1	4,527.0	5,832.3	4,555.3	5,953.4
Electricity, gas and water supply	14.0	14.0	56.7	58.1	61.8	63.3	62.0	63.5
Wholesale & retail trade, restaurants, hotels	523.5	648.6	1,530.3	1,806.9	2,001.3	2,392.7	2,011.2	2,423.0
Wholesale trade	321.5	349.6	759.8	932.2	827.3	1,009.7	831.5	1,029.1
Retail trade	164.9	192.9	365.5	455.1	402.7	597.3	405.2	604.8
Restaurants	106.1	106.1	405.1	419.5	771.3	785.7	774.5	789.1
Broad property sector	3,208.1	3,559.8	9,903.0	11,775.4	10,515.8	12,411.1	10,332.3	12,297.4
Construction	1,793.1	1,982.9	4,813.6	5,558.7	5,251.5	6,005.0	5,258.0	6,013.6
Purchase of residential property	11.7	69.5	536.8	782.9	560.9	806.9	617.2	864.2
Purchase of non-residential property	950.6	991.4	1,689.2	1,927.9	1,756.2	1,995.2	1,769.7	2,010.9
Real Estate	452.7	515.9	2,863.4	3,505.9	2,947.2	3,604.0	2,687.5	3,408.7
Transport, storage and communication	225.7	227.8	588.0	1,736.4	852.6	2,026.4	867.7	2,041.5
Finance, insurance and business services	709.1	907.1	2,074.1	2,700.7	2,135.6	2,762.5	2,140.7	2,788.0
Financial services	264.7	264.7	1,264.7	1,284.6	1,285.3	1,305.1	1,289.3	1,329.2
Insurance	30.2	30.2	36.6	36.6	36.6	36.9	36.6	36.9
Business services	414.2	612.2	772.7	1,379.7	813.7	1,420.7	814.7	1,421.9

Table 8A. Loans Sold to Danaharta (continued)
(RM million)

	1998		1999		2000		2001/2002	
	NPL	Total	NPL	Total	NPL	Total	NPL	Total
Consumption credit	44.6	73.1	778.8	845.7	912.3	979.1	950.5	1,024.7
Personal uses	31.5	60.0	677.8	740.5	801.5	864.2	722.8	790.3
Credit cards	0	0	76.6	76.9	86.0	86.3	76.7	77.0
Purchase of consumer durable goods	13.1	13.1	24.1	28.1	24.4	28.4	151.1	157.0
Purchase of passenger cars	0	0	0.3	0.3	0.3	0.3	0.5	0.5
Purchase of securities	5,340.7	5,488.4	7,600.3	8,339.1	7,956.7	8,911.2	8,045.0	8,929.8
Purchase of transport vehicles	0	0	6.1	6.1	6.1	6.1	5.8	75.8
Community, social and personal services	10.3	14.8	149.1	192.6	154.6	198.1	156.6	200.2
Others	59.9	64.3	1,012.5	1,330.6	1,033.2	1,351.4	1,043.5	1524.9
Total	12,212.1	13,041.1	28,637.4	35,369.5	30,803.1	37,721.7	30,818.9	38,123.0

Source: Bank Negara Malaysia, Annual Reports 1999, 2000 and 2001.
Note: The figures in this table are accumulated figures. There are no changes in 2002.

Table 8B. Commercial Bank: Loans Sold to Danaharta (Percentage of total loans sold)

	1998		1999		2000		2001/2002	
	NPL	Total	NPL	Total	NPL	Total	NPL	Total
Agriculture, hunting, forestry and fishing	9.0	9.0	68.7	73.4	65.4	70.3	65.5	71.0
Mining and quarrying	100.0	100.0	73.2	83.9	41.8	57.7	41.8	57.7
Manufacturing	99.2	94.9	92.7	93.2	92.0	92.7	92.2	92.9
Electricity, gas and water supply	100.0	100.0	42.5	43.9	39.2	40.6	39.4	40.8
Wholesale & retail trade, restaurants, hotels	98.9	88.4	90.3	91.5	91.5	92.6	91.8	93.0
Wholesale trade	100.0	100.0	98.9	99.1	98.6	98.9	98.7	98.9
Retail trade	80.5	83.4	83.7	86.9	83.4	88.8	83.5	88.9
Restaurants	59.6	59.6	80.2	79.4	88.1	87.5	88.9	88.3
Broad property sector	66.2	64.0	63.1	65.8	65.1	67.4	67.6	69.7
Construction	75.6	72.2	72.3	72.0	75.3	74.5	76.0	75.2
Purchase of residential property	100.0	100.0	96.9	97.9	97.0	97.9	97.3	98.1
Purchase of non-residential property	61.6	60.1	65.5	65.9	66.8	67.0	67.0	67.3
Real Estate	38.0	35.9	39.7	48.7	39.8	48.8	44.9	54.5
Transport, storage and communication	100.0	100.0	92.3	97.4	87.6	93.5	87.8	93.6
Finance, insurance and business services	85.8	88.9	72.6	78.8	71.7	78.0	71.9	78.2
Financial services	80.6	80.6	74.3	74.8	74.0	74.3	73.7	74.5
Insurance	0	0	0	0	0	0.8	0	0.8
Business services	95.4	96.9	73.0	84.5	71.5	83.3	72.2	83.7

Table 8B. Commercial Bank: Loans Sold to Danaharta (continued)
(Percentage of total loans sold)

	1998		1999		2000		2001/2002	
	NPL	Total	NPL	Total	NPL	Total	NPL	Total
Consumption credit	76.0	85.2	90.4	91.1	91.8	92.4	92.2	92.7
Personal uses	65.7	82.0	88.9	89.9	90.7	91.3	89.6	90.5
Credit cards	-	-	100.0	100.0	100.0	100.0	100.0	100.0
Purchase of consumer durable goods	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Purchase of passenger cars	-	-	100.0	100.0	100.0	100.0	100.0	100.0
Purchase of securities	98.0	95.5	88.5	88.5	82.2	85.8	85.4	86.7
Purchase of transport vehicles	-	-	8.2	8.2	8.2	8.2	3.4	0.3
Community, social and personal services	100.0	100.0	89.9	92.2	90.3	92.4	90.4	92.5
Others	100.0	100.0	98.1	98.5	98.9	99.2	98.9	99.3
Total	86.6	85.5	79.3	81.7	78.9	81.3	80.0	82.4

Source: Bank Negara Malaysia, Annual Reports 1999, 2000 and 2001.
Note: The figures in this table are accumulated figures. There are no changes in 2002.

Table 9. Danamodal and Recapitalisation of the Weak Banks, as at December 2001
(RM million)

Banks	Capital Injection	Repaid	Balance
RHB Bank	1,500	500	1,000
Arab-Malaysian Bank	800	340	460
MBf Finance	2,280	1,600	1,600
United Merchant Finance	800	800	800
Oriental Bank	700	700	700
Arab-Malaysian Finance	500	500	500
BSN Commercial Bank	420	420	420
Arab-Malaysian Merchant	400	400	400
Sabah Bank	140	140	140
Perdana Merchant Bankers	50	50	50
TOTAL	7,590	5,450	2,140

Source: Danamodal website, www.bnm.bov.my/danamodal.