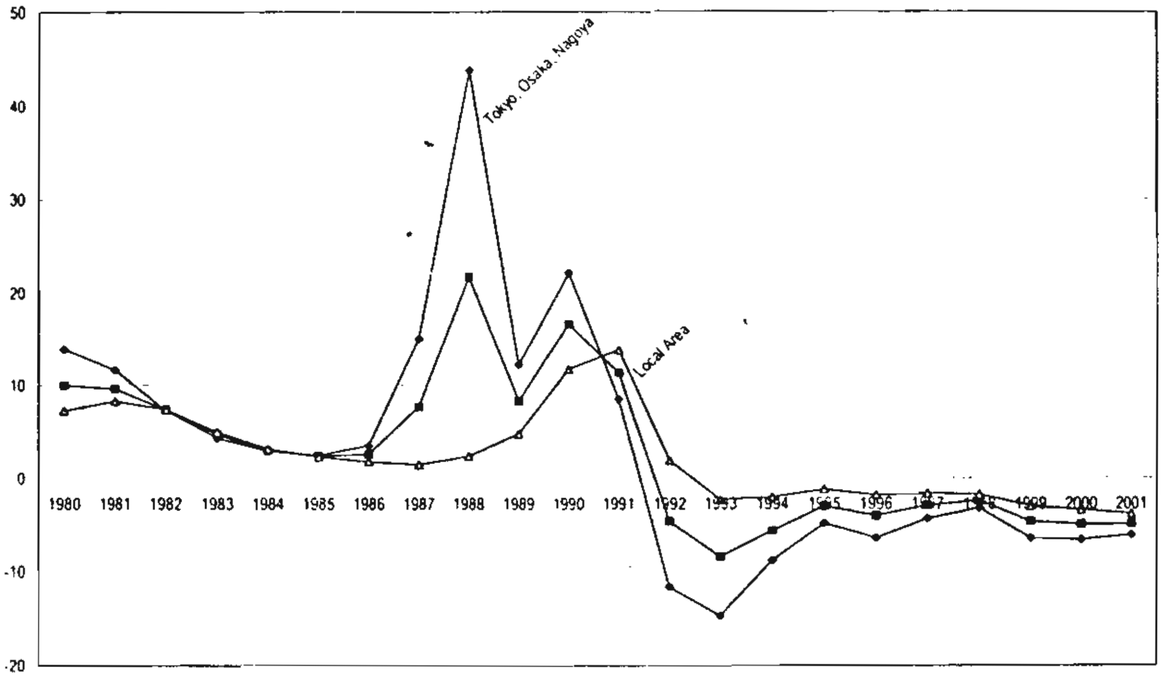
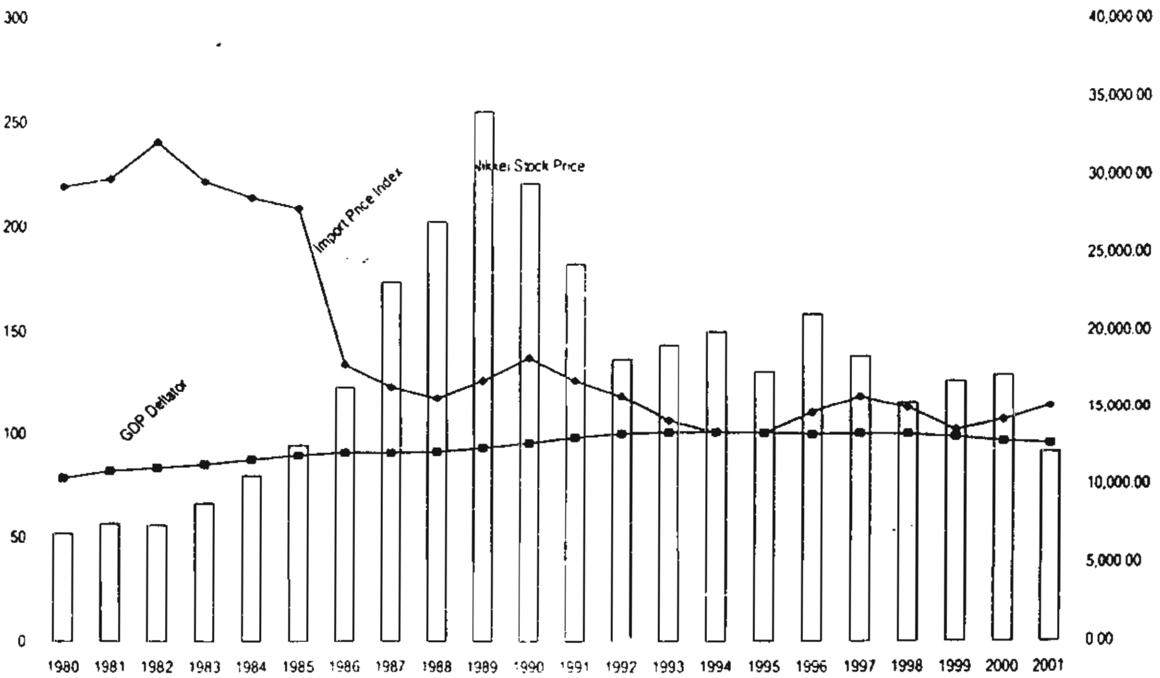
Figure 16 Land Prices



Source: Nikkei NEEDS

Figure 17 Deflation



Source: Nikkei NEEDS

Figure 18 Call Rates

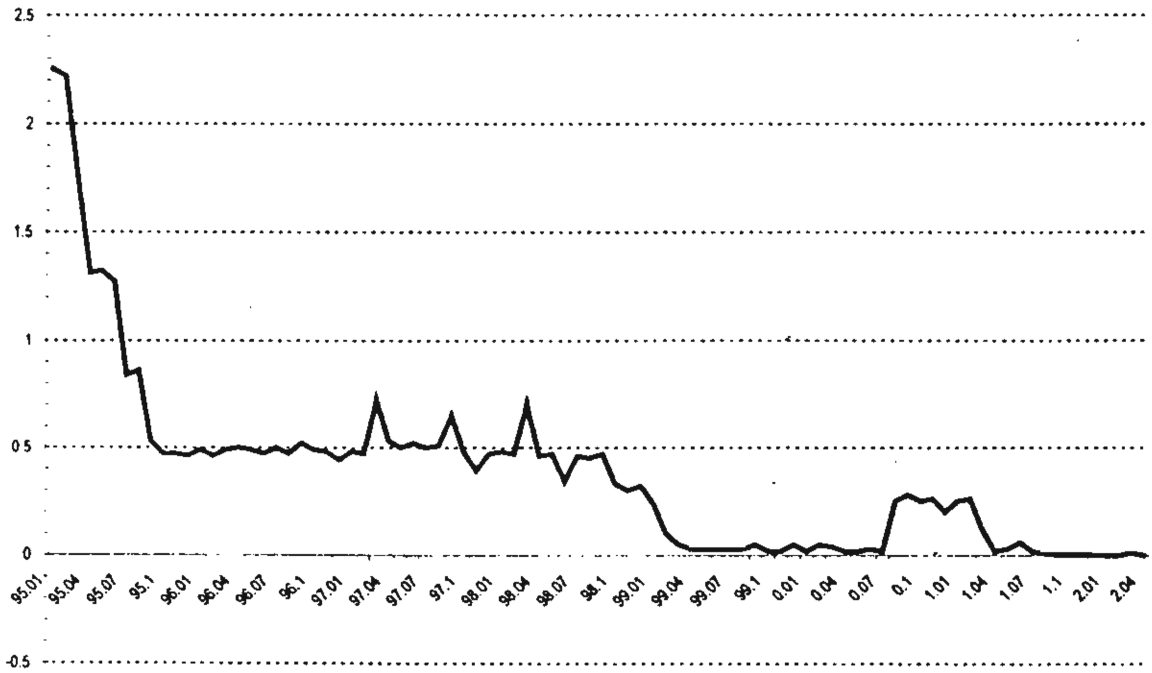
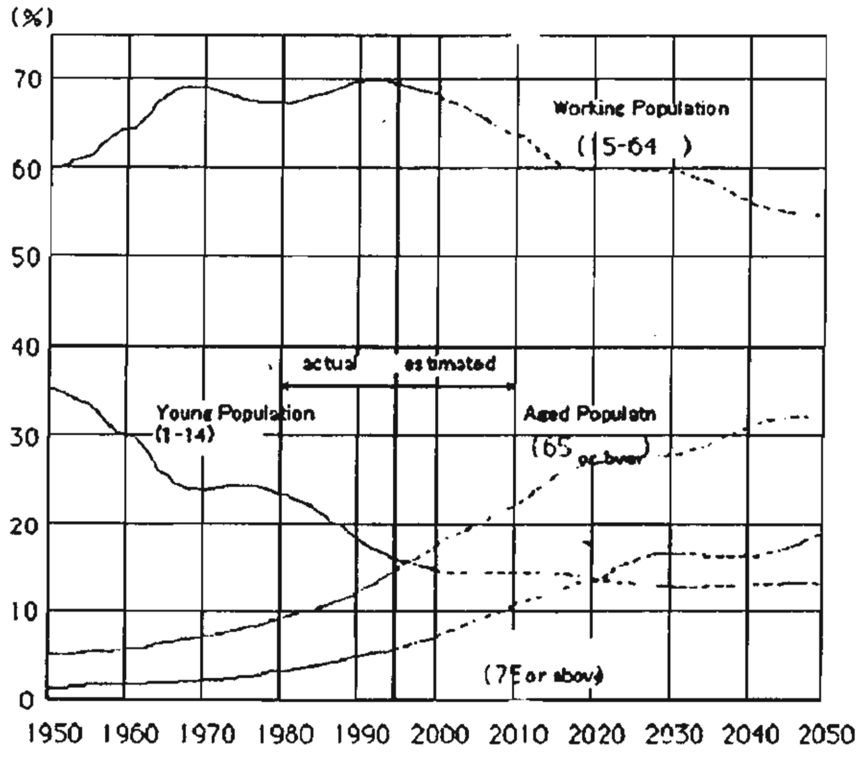
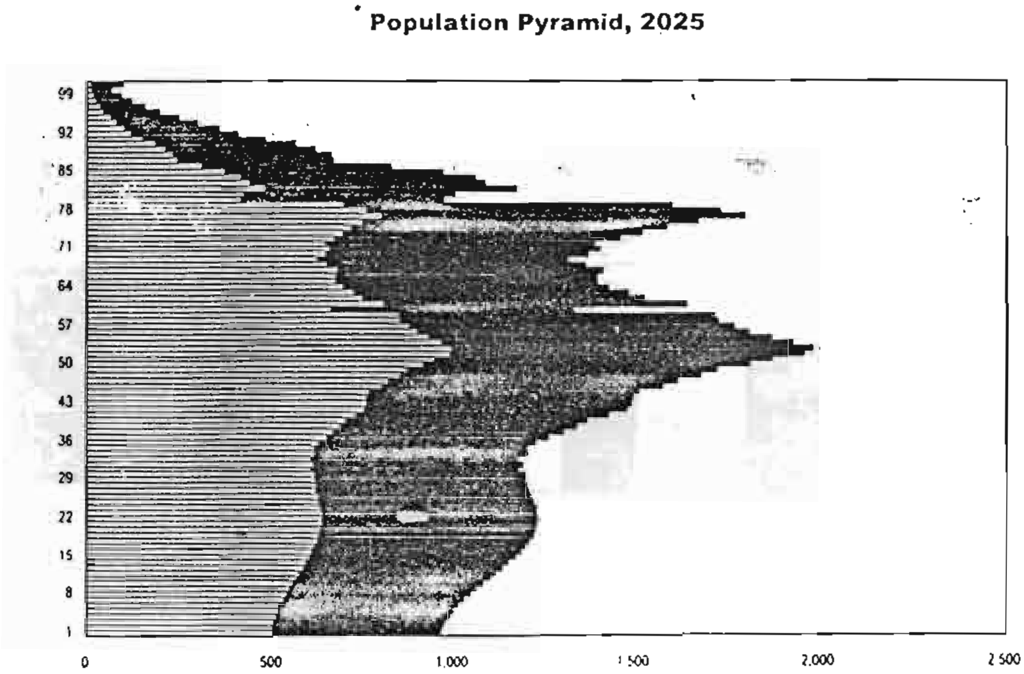


Figure 19 Aging



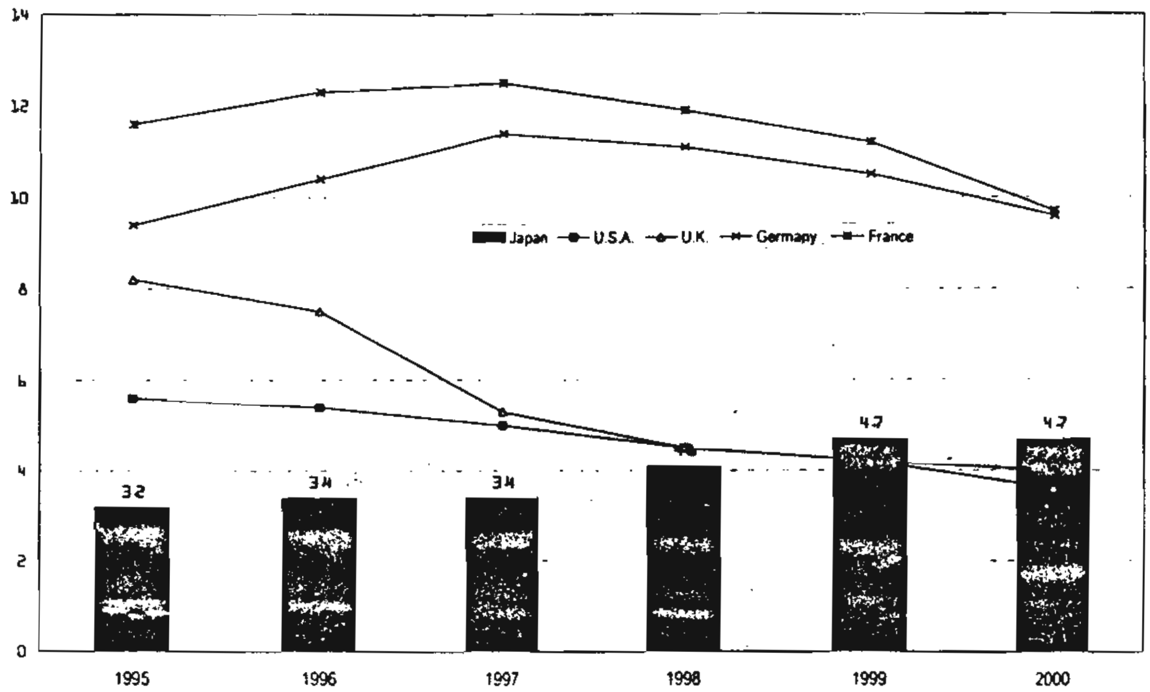
Source: Ministry of Welfare and Labor

Figure 20 Population Pyramid



Source: Ministry of Welfare and Labor

Figure 21 Unemployment



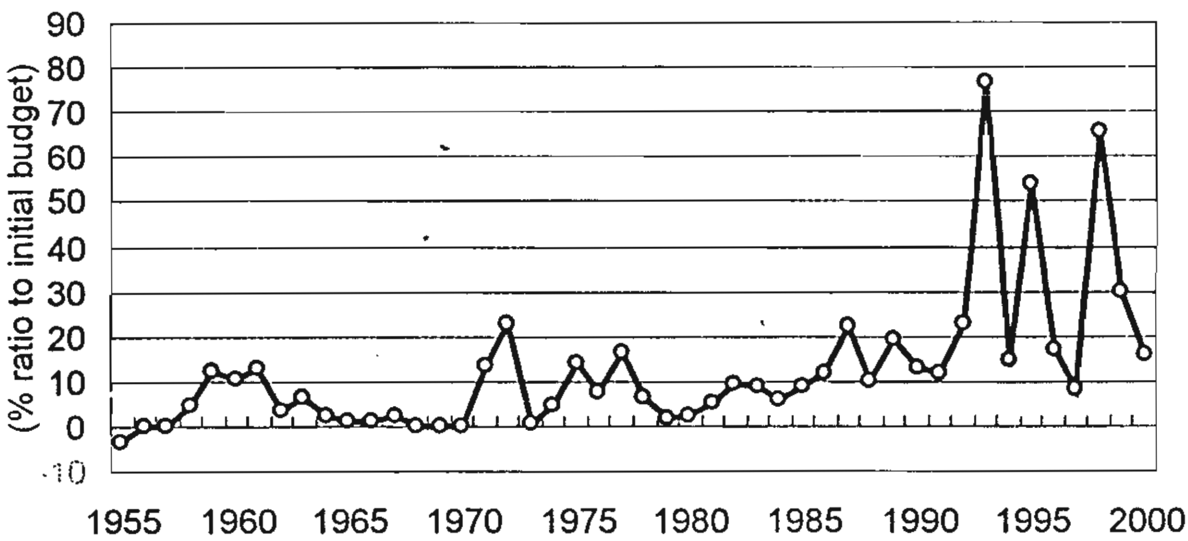
Source: OECD

Table 2 Major Economic Policies in the 1990s

Date	Measures	Overall Size of Project	Prime Minister
Aug.,1992	General economic measures	10.7	Miyazawa Kiichi
Apr.,1993	To promote general economic measures	13.2	Miyazawa Kiichi
Sep.,1993	Emergency economic measures	6	Hosokawa Morihiro
Feb.,1994	General economic measures	15.3	Hosokawa Morihiro
Apr.,1995	Emergency economic measures and against yen appreciation	-	MurayamaTomiichi
Sep.,1995	To fully carry out the economic measures and recovery	14.2	MurayamaTomiichi
Apr.,1998	General economic measures	More Than 16	Hashimoto Ryutaro
Nov.,1998	Emergency economic measures	More than 17(27including tax reduction)	Obuchi Keizo
Nov.,1999	New economic measures	17(18including elderly care program)	Obuchi Keizo
Oct.,2000	New measures for the rebirth of Japan	11	Mori Yoshiro
Apr.,2001	Emergency economic measures	-	Mori Yoshiro
Jun.,2001	Fundamental principle on economy and finance	-	Koizumi Junichiro

Source: *Economic White Paper*

Figure 22 Public Works



Sources: MOF; Daiwa Institute of Research (DIR).

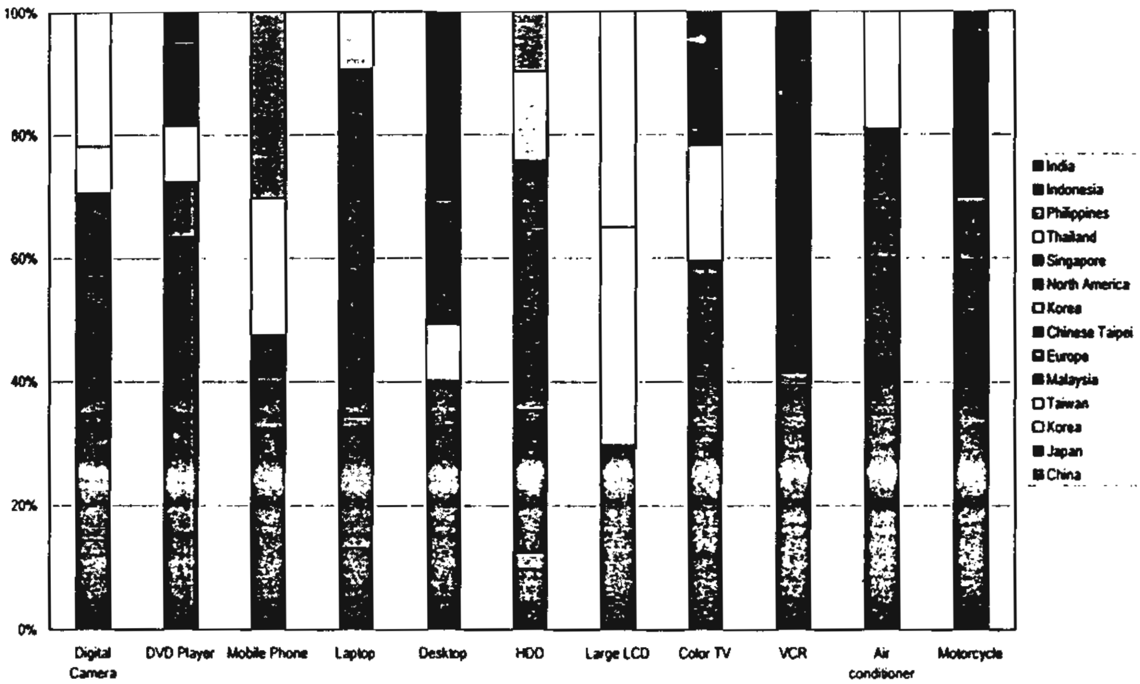
Notes: 1) Based on central government general account. (FY)

2) Negative values are cases when initial budget was cut

Table 3 Employment Reduction Plan

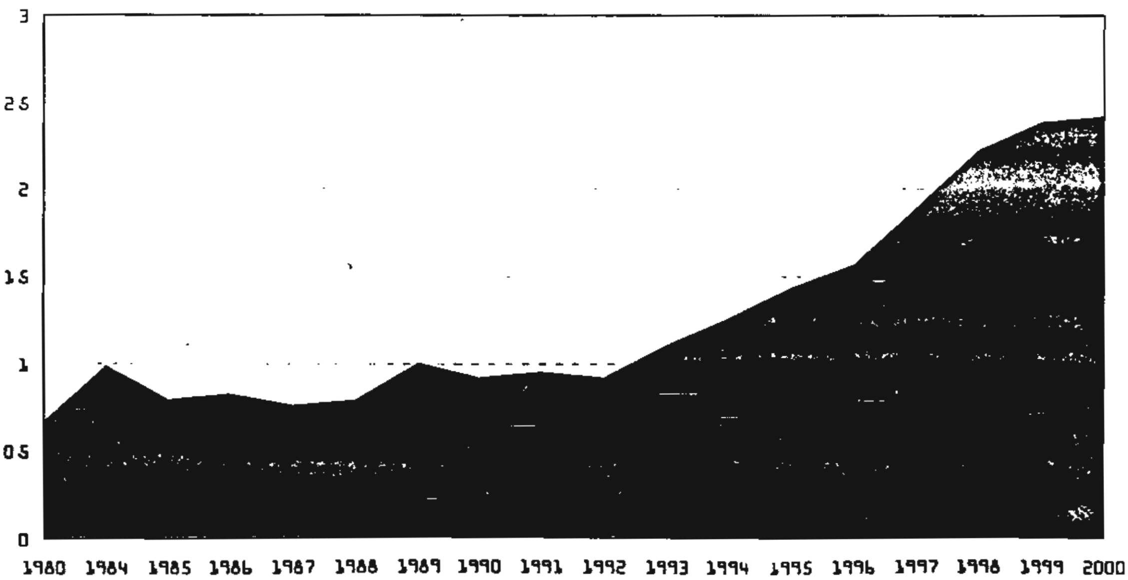
Employment Reduction Plan							
					NetProfit 2001(100mil yen)		
	Home	%	Foreign		Total	Midyear	Yearend
Hitachi	10,200	4%	4,500	6%	14,700	970	1400
Toshiba	17,000	12%	1,800	4%	18,800	1100	1150
Fujitsu	5,000	5%	11,400	16%	16,400	2100	2200
NEC	2,500	2%	1,500	5%	4,000	30	?
Matsushit					6,000	450	?
Kyocera	All contract employee		10,000		10,000	180	500
Oki	2,200	10%	0	0%	2,200	30	?

Figure 23 China: Emerging Power



Source: *Nihon Keizai Shinbun*, August 13, 2002

Figure 24 Technology Transfer



Source: Ministry of General Affairs

Figure 25 ODA

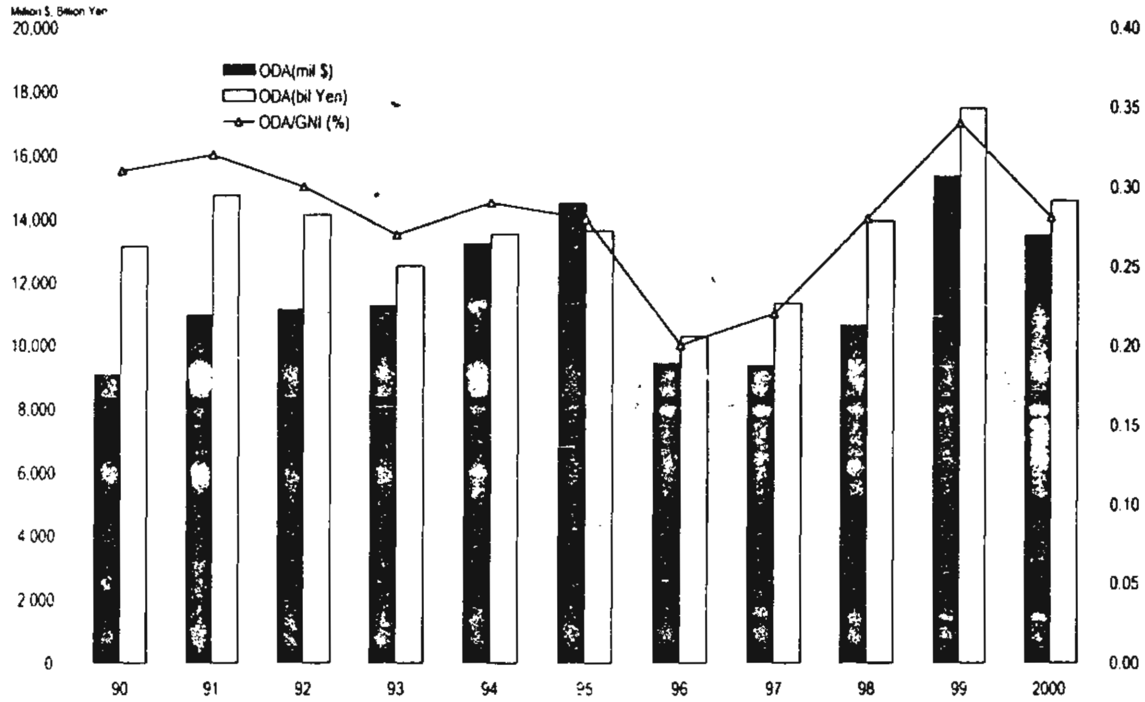


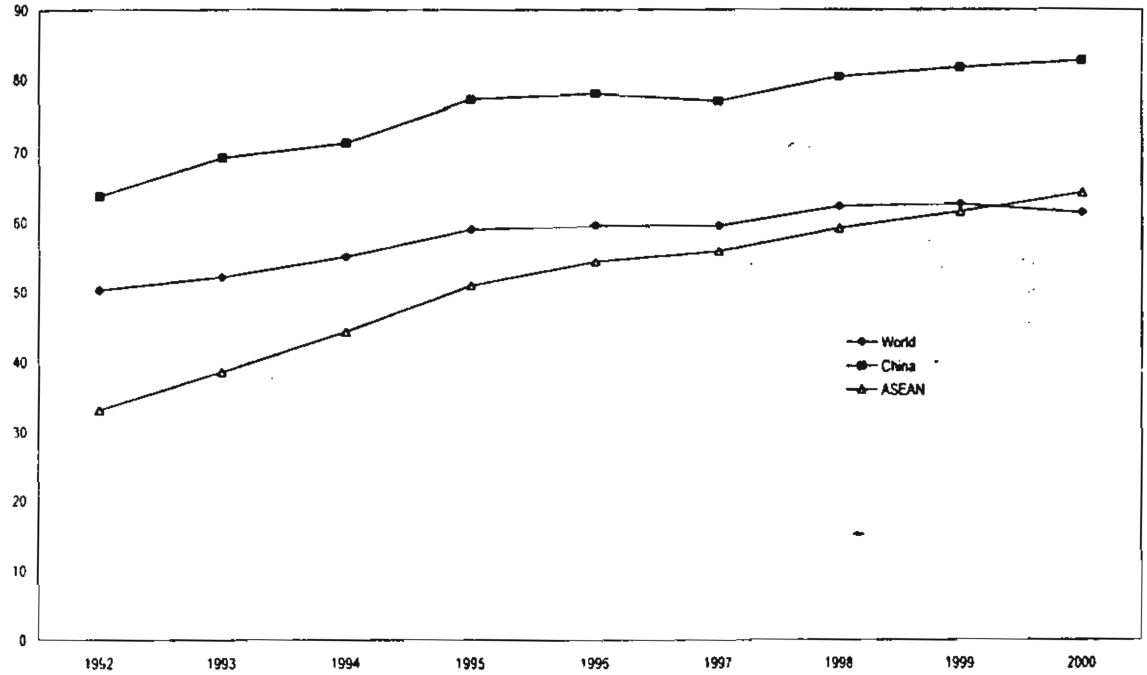
Table 4 Top 10 ODA Recipients

Million US dollars, %

Rank	1998			1999			2000		
	Country	Amount	Share	Country	Amount	Share	Country	Amount	Share
1	**China**	**1,158.16**	**13.46**	Indonesia	1,605.83	15.30	Indonesia	970.10	10.06
2	Indonesia	828.47	9.63	**China**	**1,225.97**	**11.68**	Vietnam	923.68	9.58
3	Thailand	558.42	6.49	Thailand	880.26	8.39	**China**	**769.19**	**7.98**
4	India	504.95	5.87	Vietnam	679.98	6.48	Thailand	635.25	6.59
5	Pakistan	491.54	5.71	India	634.02	6.04	India	368.16	3.82
6	Vietnam	388.61	4.52	Philippines	412.98	3.93	Philippines	304.48	3.16
7	Philippines	297.55	3.46	Peru	189.12	1.80	Pakistan	280.36	2.91
8	Sri Lanka	197.85	2.30	Pakistan	169.74	1.62	Tanzania	217.14	2.25
9	Bangladesh	189.05	2.20	Brazil	149.36	1.42	Bangladesh	201.62	2.09
10	Malaysia	179.10	2.08	Syria	136.17	1.30	Peru	191.68	1.99
Sum of top 10		4,793.70	55.70		6,083.45	57.95		4,861.64	50.43
Developing Coutries Total		8,605.90	100.00		10,497.56	100.00		9,640.10	100.00

Source: Ministry of Foreign Affairs, *White Paper on ODA*, 2001

Figure 26 Ratio of Manufacture Imports



Malaysia

Economic Recovery and Reforms: The Malaysian Experience

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ABSTRACT

Initially, Malaysia implemented IMF-style responses to the Asian financial crisis 1997-1998 but when these exacerbated the economic downturn, the government introduced counter-cyclical measures and announced the National Economic Recovery Plan (NERP) to provide a comprehensive and action-oriented framework to expedite economic recovery. The NERP has six interrelated and complementary objectives, which included the short-term focus of stabilising the ringgit, restoring market confidence, and maintaining financial stability. These were complemented with structural reform objectives of strengthening economic fundamentals, continuing the equity and socio-economic agenda, and restoring adversely affected sectors.

Specifically, the government imposed selective exchange controls on 1 September 1998 and fixed the exchange rate at US1=RM3.80 the next day. The Government also introduced pre-emptive measures to strengthen the resilience of the financial sector. These include strengthening the resilience of the banking sector through a merger programme; the establishment of Danaharta, the national asset management company to address the rise of NPLs as well as Danamodal, an interim funding vehicle to address the erosion of capital in some banking institutions; and the Corporate Debt Restructuring Committee to resolve the debt problems of larger corporations.

1. Introduction

Before the devaluation of the baht in July 1997 that triggered the East Asian financial crisis Malaysia was enjoying an enviable average growth rate of 9.7% per annum in the four years prior to the crisis. In the beginning most analysts expected it to be contained within a few months. However, the crisis turned out to be unprecedented in terms of the speed and severity of the contagion effect that also spread to countries outside of East Asia. In Malaysia, as in other East Asian countries, what started as a currency crisis quickly deteriorated into an economic and social crisis.

By most indicators the Malaysian economy was fundamentally strong on the eve of the crisis. Real gross domestic product (GDP) grew at about 8.5% in the first half of 1997 while the Government continued to register fiscal surpluses and, more importantly, the level of external debt was low at 43.2% of gross national product (GNP). Bank Negara Malaysia (1999a:569) states that the current account deficit was reduced to 5% of GNP in 1996 from 10% in 1995 and was expected to improve further. Inflation reached its lowest level, 2.1%, in July 1997. Measures were also taken to slow down the pace of bank landing so as to make domestic demand more compatible with the level of output, and to contain the development of any asset bubble.

Despite its relatively sound economic fundamentals, Malaysia was not spared from the crisis. The contagion effect spread to Malaysia soon after the sharp depreciation of the Thai baht on 2 July 1997 as herd behaviour caused market participants to view Malaysia as having the same common problems as those faced by her neighbours. By the end of August 1998, the speculative attack on the ringgit had caused it to be depreciated by 40% against the United States dollar compared to its level at the end of June 1997. The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) fell by 79.3% from a high of 1271.57 points in February 1997 to a low of 262.70 points on 1

September 1998. The effects were then transmitted to the banking and corporate sector, resulting in the economy experiencing a recession for the first time in 13 years by the second quarter of 1998.

How did Malaysia manage the economy during the crisis and what steps have been taken to revive the economy? What reforms have been put into place in order to strengthen the economy, particularly the financial and corporate sector, to become more resilient in facing future challenges in the turbulent era of globalisation. The objective of the present paper is therefore to trace the path of economic recovery in Malaysia after the crisis as well as examine the essential reforms made at the macro and micro levels. In this regard, the paper will concentrate mostly on the restructuring of the banking and corporate sectors. For this purpose, the next section will enumerate the various stages of Malaysia's policy responses to the crisis while Section 3 will describe macroeconomic impact of the crisis and measures on the Malaysian economy. The progress of controls and reforms will be addressed in Section 4. Section 5 will conclude the study.

2. Policy Response to the Crisis[1]

While measures were already put in place before the crisis to address potential vulnerabilities, they were insufficient to reverse the financial panic and speculative pressure that ensued. The Malaysian government's response to the crisis changed at various stages reflecting the different assessment and policy orientations (Ishak Shari and Abdul Rahman Embong 1998: 3-4).

[1] This section is mainly based on Bank Negara Malaysia (1999a)

2.1 Initial Policy Response

At the initial stages, using the IMF/World Bank approach, the Central bank attempted to stabilize the ringgit by intervening in the foreign exchange markets and raising domestic interest rates. However, these interventions were very costly as propping the ringgit led to a depletion of the country's foreign exchange reserves while raising the domestic interest rates had the negative effect of exacerbating the economic downturn. As the crisis appeared to be prolonged, interest rates were subsequently reduced to about pre-crisis levels so as not to adversely affect the real sector. However, after September 1997 interest rates were adjusted upwards (but not as high as prescribed by the IMF) to ensure depositors obtained a positive rate of return on their savings to be in line with the increase in expected inflation. To curb speculation in the currency and stock markets and to allow rates in Malaysia to reflect domestic conditions, banking institutions were required to observe a US$2 million limit on outstanding non-commercial related ringgit offer side swap transactions with foreign customers.

When both the ringgit and share prices were pushed to successive lows in a progressively volatile external environment, it was recognized that stronger macroeconomic adjustments were required. Hence, a set of austerity measures was announced in early September 1997 to further reduce the level of aggregate demand and contain the current account deficit. These measures included a 2% cut across the board in Government spending; rationalisation of the purchase of imported goods by public agencies, including the armed forces; and deferment of several large privatised projects (Bank Negara Malaysia 1998). These measures were reinforced with further measures announced in the 1998 Budget in October 1997, which included deferment of projects with total cost amounting to RM65.6 billion and establishing the RM 1 billion fund for small- and medium-scale industries (SMIs). When the regional instability persisted into December, the government introduced a stronger and comprehensive package of policies including a further sharp cutback in Federal

Government expenditure by 18% in 1998; deferment of selected projects; intensive promotion of exports, tourism and the utilisation of locally-produced goods; and a freeze on reverse investment which amounted to RM10.5 billion in 1996.

The government also instituted measures to further strengthen prudential standards of the banking system. These included the recognition of a loan as non-performing when its servicing had been in arrears for three months instead of six; increasing the minimum general provision from 1.0% to 1.5% and greater disclosure in financial statements. Measures were also taken to reduce credit growth and exposure to the less productive sectors in the form of voluntary credit plans whereby the financial institutions undertook to reduce overall credit growth to 25% by the end of 1997, 20% by end-March 1998 and 15% by end-1998. At the same time, the banking institutions had to ensure that in allocating credit, priority would be given to borrowers engaged in productive and export-oriented activities. Priority was given to rationalise and consolidate finance companies into fewer but stronger financial institutions and there was a push for greater corporate transparency and disclosure.

2.2 A Change in Policy Direction

As the crisis deepened, counter-cyclical measures were introduced to head off an impending recession. Fiscal policy was selectively relaxed beginning March 1998 and monetary policy was eased in early August 1998 when inflationary pressures became subdued. By April-May 1998, when it was obvious that the economy was contracting, Malaysia went against the IMF advice and allocated additional fiscal expenditures totalling RM3 billion. The fiscal measures included selective increase in infrastructure spending, setting-up of funds for SMIs, higher allocation on social sector development as well as reducing taxes (Bank Negara Malaysia 1999b). The government also implemented several programs under the National Economic Recovery Plan to help the poor weather the adverse conditions, which include the following: the 20% cut in the 1998 budget has been compensated by an additional allocation of RM3.7 billion (about 18% of the total social sector budget). This amount is to assist the vulnerable groups hit by the crisis, including funds for small farmers, micro-credit for small businesses, extension of community and rural health facilities, and development of skills training and higher education. The World Bank disbursed a USD 300 million loan in June 1998 to mitigate the adverse effects of the economic adjustment on the more vulnerable segments of society and in 1999 approved USD404 million to fund social programs such as low cost housing. The Islamic Development Bank also approved a loan of USD99 million. Malaysia had also obtained funding from bilateral sources such as loans under the New Miyazawa Initiative. Moreover, the government has not reduced the original budget allocated for poverty alleviation while ministries involved in providing the social services, such as the Ministry of Health and Ministry of National Unity, had smaller 1998 budget cuts. The government has also taken measures to increase opportunities for employment and self-employment by encouraging organized and systematic petty trading, farming and setting up of small businesses. Measures to contain inflation, such as removal of imperfections and distortions in the marketing of essential commodities, importing from cheaper sources and others, were executed.

In an attempt to protect itself against international financial volatility, the government imposed selective exchange controls on 1 September 1998. These were necessary as the risks of further instability persisted more than a year into the crisis, despite Malaysia's strong macroeconomic fundamentals and restructuring program. Unlike other regional currencies, the ringgit was significantly traded in the region, especially in Singapore. The substantial onshore-offshore interest rate differential attracted ringgit funds abroad, for example in Singapore where the ringgit deposit rates were as high as 20-30%. Hence, Malaysia was facing the dilemma of a trade-off between an accommodative monetary policy to avoid a contraction in the economy, and the need to check further deterioration in the exchange rate.

Specifically, the controls were aimed at bringing about stability and to enable monetary policy to be based on domestic conditions. The main selective exchange control measures include (see Bank Negara Malaysia 1999a: 292):

- Control on the transfer of funds in the External Accounts to immobilize trading of ringgit offshore;
- Control on ringgit loans to non-residents;
- Imposition of the 12-month holding rule on the repatriation of funds in External Accounts (replaced by repatriation levy on portfolio funds on 15 February 1999 which was subsequently liberalized further on 21 September 1999);
- Limiting the amount of ringgit that could be imported or exported and the amount of foreign currency that could be exported.

The ringgit exchange rate was fixed at US$1 = RM3.80 the next day. This move enabled the authorities to reduce the interest rate. For example, the base lending rate (BLR) of commercial banks, which rose from 10.33% at the end of 1997 to 12.27% at the end of June 1998 was reduced to a maximum rate of 8.05% as at 10 November, 1998. This move has benefited the banking institutions and private sector from enhanced liquidity and lower interest rates (Ishak Shari and Abdul Rahman Embong 1998), thus stimulating an expansion in domestic demand.

The selective exchange control measures had the specific target of eliminating access to ringgit by speculators by reducing the offshore market in ringgit and limiting the supply of ringgit to speculators. They also aimed at stabilising short-term capital flows and carefully designed to have minimal impact on economic activities. Thus, rules that governed trade transactions and foreign direct investment were left unchanged. Current account convertibility continued to be maintained. The only requirement was for trade settlements to be carried out in foreign currencies. As such, the exchange controls affect only short-term flows. As conditions stabilised and improved, modifications were made where on 15 February 1999, a "repatriation levy" replaced the 12-month holding rule. For funds brought into the country prior to this date, the principal amount was allowed to be repatriated subject to a graduated levy. For funds brought in from this date onwards, the principal amount was freely allowed to be repatriated, but the profits were subject to a graduated levy system, which was simplified to a flat 10% levy on 21 September 1999.

2.3 National Economic Recovery Plan

In late July 1998, the National Economic Action Council (NEAC), which was set up to deal with the crisis and revive the economy, announced the National Economic Recovery Plan (NERP) to provide a comprehensive and action-oriented framework to expedite economic recovery. The NERP has six interrelated and complementary objectives, which included the short-term focus of stabilising the ringgit, restoring market confidence, and maintaining financial stability. These were complemented with structural reform objectives of strengthening economic fundamentals, continuing the equity and socio-economic agenda, and restoring adversely affected sectors.

Related to these six objectives, the NERP contains 40 courses of action and more than 580 detailed recommendations (see NEAC 1998). Four areas of action were proposed in order to stabilise the ringgit and these includes the appropriate choice of exchange rate regime, increase external reserves, reduce over-dependence on the US dollar and adopt a balance interest rate policy. The market confidence-building measures recommended are improve transparency and the regulatory environment, establish rules for assisting industries and companies, increase the consistency of government policies, adopt liberal market-based policies, improve public relations and improve the dissemination of economic information. The actions identified to bring stability in the financial markets are preserving the integrity of the banking system, establishing an agency to insure deposits at commercial and savings banks as well as to close or merge insolvent thrift institutions, recapitalising the banking sector, monitoring closely overall credit expansion, improving the capital market and developing the private debt securities market.

The fourth NERP objective of strengthening economic fundamentals involves issues that are structural in nature, and the measures recommended are aimed at instituting structural reforms to build a more dynamic and resilient economy. Towards this end, the actions to be taken involve increasing the quality of investments, improving the balance of payments, maintaining a balance public sector financial position, appropriate monetary policy and price stability, and increasing labour competitiveness. The actions to be taken in continuing the equity and socio-economic agenda include ameliorating the hardship from poverty, addressing Bumiputera equity ownership, expanding employment opportunities, meeting the challenge of expanding tertiary education, addressing graduate unemployment and controlling the influx of foreign workers. With respect to the final aim of restoring adversely affected sectors, the sectors involved are the primary commodities and resource-based industries, mining and petroleum, manufacturing, information technology and the Multimedia Super Corridor, motor industry, construction, property, infrastructure, transport, freight forwarding, tourism, banking as well as insurance and reinsurance.

The NERP also recommended the easing of monetary and fiscal policies. As a continued effort to revive the economy, the 1999 Budget presented in October 1998 continued with an expansionary fiscal stance. The government development expenditure was raised by about 23% to RM19,378 million while the operating expenditure increased by 4.2% to RM46,563 million. Of the additional allocation for development expenditure in 1998, RM1,000 million was directed for social development projects to address and ameliorate the effects of the economic crisis on the lower income groups.

In early 1999, the economy showed signs of an initial stage of recovery after one year of economic contraction. Macroeconomic policy management focused on strengthening the recovery process and on expediting measures to address structural issues, both in the economic and financial sectors. In terms of Government spending, priority was given to projects that address structural and socio-economic issues (education and skills training, health services, low-cost housing, and agriculture and rural development), as well as revival of selected infrastructure projects to increase efficiency of the economy. An important criterion of the stimulus package was that it should result in minimal leakage abroad to ensure no build-up of risks in the balance of payments (Bank Negara Malaysia, 2000). Projects should also have strong linkages to ensure maximum stimulus to economic growth and have short gestation periods while meeting socio-economic objectives.

Monetary policy has become accommodative since early August 1998 when interest rates and the statutory reserve ratio (SRR) were brought down to reinforce the expansionary fiscal policy. The central bank lowered the 3-month intervention rate in three successive steps in August from 11% to 9.5%. The SRR was reduced from 8% to 6% on 1 September and further to 4% on 16 September so as to ensure sufficient liquidity in the banking system and to lower the cost of funds. Due to uncertainty, banking institutions had become excessively cautious in their lending decisions, causing a sharp slowdown in credit. To avoid a credit crunch situation, banking institutions with adequate capacity were encouraged to attain a minimum loan growth of 8% for 1998 with the proviso that financial discipline must be exercised in making lending decisions. The intervention rate was reduced further in successive steps to reach 5.5% by August 1999.

The Government also introduced pre-emptive measures to strengthen the resilience of the financial sector to ensure the continued efficient functioning of the banking sector and promote market confidence in the face of deteriorating economic conditions.

These measures were multi-pronged, aimed at strengthening all aspects of the financial system. They included strengthening the resilience of the banking sector through a merger programme; the establishment of Pengurusan Danaharta Nasional Berhad (Danaharta), the national asset management company, on 20 June 1998 to address the rise of NPLs as well as Danamodal, a special purpose vehicle to address the erosion of capital in some banking institutions; and the Corporate Debt Restructuring Committee (CRDC) to resolve the debt problems of larger corporation[2]. A series of measures was also implemented with respect to operations in the capital market in order to improve market transparency and corporate governance, including removing restrictions on submissions for new listings while strengthening rules, securities laws and procedures of the KLSE.

In addition to Danaharta, Danamodal and CDRC, the Government has also established or expanded several special funds to provide credit to priority areas at reasonable rates in order to avoid the adverse effects of excessively high interest rates on small businesses. These funds included the Fund for Food (RM1 billion), Fund for Small and Medium Industries (RM1.5 billion), Export Credit Refinancing Facility (RM3 billion), Special Scheme for Low and Medium Cost Houses (RM2 billion) and Rehabilitation Fund for Small and Medium Industries (RM750 million).

2.4 Measures to Resolve Financial and Corporate Sector Distress

Since the crisis had exposed the vulnerability of the finance companies, a merger programme for finance companies was announced in January 1998 to consolidate and rationalise the industry. While this was consistent with the longer-term objective of creating a core of domestic banking institutions to meet the challenges of increased liberalisation, it also represented part of the overall pre-emptive strategy to increase

[2] Elaborations on these three vehicles will be given in Section 2.4 below.

the resilience of the finance companies to withstand risks arising from the economic slowdown (Bank Negara Malaysia 1999b). The merger exercise was market-driven with Bank Negara Malaysia facilitating the process. Upon completion in 1999, the number of finance companies would be reduced by more than half of the original 39.

As the crisis deepened and prolonged, the banking institutions were being more preoccupied with preserving their balance sheet and managing the deterioration of their asset quality and loan portfolio instead of generating new businesses. The rising incidence of the NPLs also caused them to be overly cautious in their lending, resulting in many viable businesses failing to secure financing. Under the NERP's third objective of maintaining financial market stability, the Government created Danaharta. This is an asset management company established to remove the NPL distraction from the banking institutions to enable them to concentrate more on their credit operations, to facilitate an orderly payment/write-down of debts and disposal of assets as well as to restructure or liquidate ailing companies with outstanding loans of RM50 million or less. Given the non-performing nature of its assets, Danaharta does not expect to generate profits from its operations, but aims to minimise costs by maximising the recovery value of its NPLs.

Danaharta was set up at great speed because the Companies Act did not provide for the rapid acquisition and disposal or smooth management of assets and affairs of a distressed company. It is expected to have a life span of 7-10 years. The Danaharta Act and the amendments to the National Land Code passed in September 1998 provided the legal framework to engage in these activities. With this, "Danaharta is empowered to acquire assets with certainty of title while preserving existing registered interests over the assets, to foreclose on assets and sell through public auctions, public tender offers or private treaty and without consent of the borrower (provided the sale is at market value and a 30-day notice is given)"(Thillainathan 2000).

While Danaharta would not purchase the entire NPLs in the banking system, it would ensure that the residual NPLs remains at manageable levels at all times. Danaharta's acquisition process is divided into secured loans, unsecured loans and other credit facilities such as foreign currency loans and off-balance sheet facilities. Priority is accorded to weaker financial institutions, including those institutions seeking recapitalisation from Danamodal Nasional Berhad (Danamodal) before proceeding to acquire NPLs from other financial institutions. Danaharta also manages loans of selected financial institutions so as to facilitate strategic mergers between identified financial institutions and to preserve the strength of the acquiring institutions.

For loans which are secured by properties, Danaharta appoints independent professional valuers to perform detailed valuation of individual properties. For loans which are secured by quoted shares, the fair value of the loans is determined based on the characteristics of the company whereby premiums are attached to larger stakes that offer influence or control over the company. In the case of loans secured by unquoted shares, acceptable valuation techniques are used. A uniform discount of 90% to the principal outstanding is applied in general to unsecured loans. In terms of profit sharing, it is stipulated that any excess in recovery value over and above Danaharta's acquisition cost plus direct costs will be shared between the selling financial institution and Danaharta on a 80:20 basis. However, the financial institution's share of the upside will be limited to the shortfall value plus a holding cost of 8% per annum. For larger loans where valuation is either onerous or inconclusive, a risk-sharing arrangement with the selling financial institution is done on a case-by-case basis.

For loans acquired from financial institutions, Danaharta pays cash and/or issues zero-coupon, Government-guaranteed, tradeable bonds with yields approximating those of Malaysian Government Securities with similar tenor. These bonds are issued on a monthly basis with an initial tenor of five years and a rollover option exercisable at

Danaharta's discretion for up to an additional five years. For loans acquired from development finance institutions, Islamic loans and unsecured loans, cash payments are made. It is estimated that Danaharta would require RM15 billion to finance its activities.

The asset management approach is divided into loan management and asset management, and which approach is taken depend on the viability of the loans acquired. For viable loans, Danaharta will take the loan management approach whereby it will rehabilitate or restructure the loans including rescheduling the payments and debt equity conversion. For non-viable loans, Danaharta will take the asset management approach whereby it will manage the borrower through the appointment of Special Administrators or manage the collateral either through the rehabilitation of the collateral or foreclosure if all other options have been exhausted (Bank Negara Malaysia, 1999).

Danamodal was incorporated on 10 August 1998 as a fully-owned subsidiary of the central bank to serve as an interim funding vehicle for banking institutions to meet their capital adequacy requirements. The rationale for the its establishment are:

- To ensure that the banking sector recapitalisation process is commercially driven and that investment decisions are made according to market-based principles
- Delays in addressing recapitalisation and Non-Performing Loans issues will create a drag effect on the financial system and economic recovery
- Direct capital injection by the Government into the banking institutions is not desirable and would lead to conflict of interest position in the future.

Danamodal is to revitalise the financial services industry by the recapitalisation of, and active management of its investment in, the banking institutions within the framework defined by the central bank in an independent, fair and transparent manner. Revitalisation will be measured by institutions being competitive and well capitalised and showing sustainable levels of profitability, and having good corporate governance. Danamodal's financial objective is to operate profitably over its lifetime, but successful revitalisation will be given higher priority than maximising returns. To achieve these objectives, Danamodal will intervene as required by influencing corporate governance structure and process and helping to set the management agenda. As a strategic shareholder in the recapitalised banking institutions, Danamodal is in a position to facilitate the consolidation and rationalisation process and act as a catalyst to guide mergers. Danamodal will exit or divest its stake when the restructuring and financial criteria have been accomplished. Under the worst case scenario, the total funding requirement of Danamodal has been estimated to be RM16 billion to ensure that the risk-weighted capital ratio (RWCR) of all banking institutions to be at least 9%. These funds are to be raised in the form of equity, hybrid instruments, or debt in both the domestic and international markets.

Danaharta and Danamodal were complimented with the setting up of the CRDC in July 1998 to facilitate the restructuring of large corporate debts (exceeding RM50 million) and ensuring viable corporations continued to receive financing. The CRDC provided a platform for both the borrowers and creditors to work out feasible debt restructuring schemes without resorting to debilitating legal proceedings. Bank Negara Malaysia (1999) stated the objectives of CDRC are:

- To minimise losses to creditors, shareholdrs and other stakeholders through voluntary co-ordinated workouts
- Preserve viable businesses that are affected by the current economic conditions
- To introduce and implement a comprehensive framework for debt restructuring.

Many companies have opted to this friendlier arrangement to resolve their debt problems instead of going to court to defend against the creditors. CRDC acts as an advisor and mediator between the debtors and the creditors on the restructuring exercise. Once an application to CRDC is made by either the creditor or the debtor, the appointed independent consultant will come up with the restructuring programme for the debtor. CRDC will then evaluate the application and consider its viability and acceptability to the bankers and shareholders of the companies involved. If all parties are agreeable to the structure of the proposal, the proposal will be implemented (see CRDC 2002).

The CRDC framework relies on co-operation, persuasion and collegiate approach to reconcile the interests of the financial institutions and the borrower. The four basic principles of the framework are:

- Financial institutions must be supportive and not precipitate insolvency
- Decision-making is on the basis of sharing reliable information amongst all parties involved in the workout
- Financial institutions must co-operate to reach a collective view on whether a company should be given financial support based on specified terms
- Losses should be jointly borne in a fair manner to specified categories.

In other words, the restructuring efforts would be conducted on a voluntary basis, based on market-driven principles to ensure that there would be a win-win situation for both the borrowers and the creditor banking institutions.

Danaharta, Danamodal and CDRC are interdependendent and complimentary, representing a comprehensive and coherent plans towards strengthening the banking sector, as shown in **Chart 1**. As such, their functions were co-ordinated to ensure that they operated in a cohesive and structured manner to achieve the desired objectives.

This was undertaken by the Steering Committee, chaired by the Governor of the central bank, to oversee and monitor the policies, operations and progress of these three bodies.

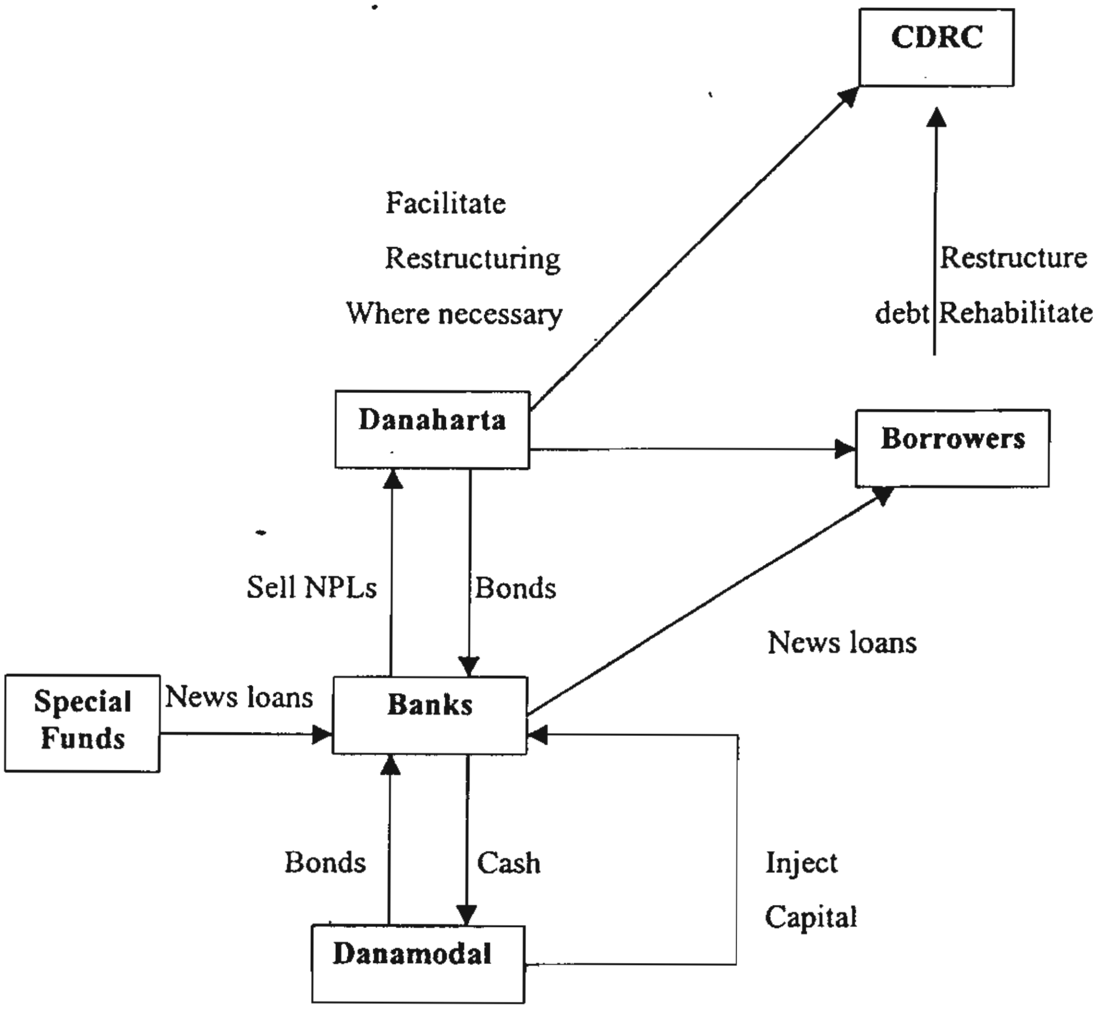

Chart 1
Overview of Danaharta, Danamodal and CDRC

Source: Bank Negara Malaysia (1999a)

In order to enable banking institutions to concentrate more on their credit operations rather than being overly preoccupied with managing the deterioration of their asset quality, the central bank reverted to the earlier definition of NPLs (loans that were defaulted for at least six instead of three months). The purpose was to ensure that the real sector of the economy continues to receive financing and to provide borrowers with the opportunity to regularise their accounts. Banking institutions, however, can retain shorter NPL classification periods based on their individual internal policies.

A series of measures was also implemented in relation to the operations in the capital market so as to improve market transparency and corporate governance, including removing restrictions on submissions for new listings while strengthening rules, securities laws and procedures of the KLSE. The measures were also targeted at protecting the local stock market from the adverse effects of the trading of Malaysian shares on a stock market that is not a recognised stock exchange. In essence, the regulatory supervision by domestic regulators was strengthened, including enhancing the operational ability to curb market abuses and boost enforcement powers of the Securities Commission and the exchange and clearing house.

3. Macroeconomic Impact of the Crisis and Measures

Table 1 shows that Malaysia had achieved an impressive record of growth prior to the financial crisis of 1997-98. The real (in 1987 prices) gross domestic product (GDP) grew at over 9% per annum during the first half of the 1990s, reaching a peak of 10% in 1996. In fact the crisis had only a moderate impact on the Malaysian GDP in 1997, when the economy still manage to grow at 7.3%. However, with the deepening of the economic turmoil, Malaysia experienced the full impact of the crisis in 1998 when the economy contracted by 7.4%, for the first time since 1985. Nevertheless, The economy made a speedy recovery and achieved a growth rate of 6.1% in 1999 and 8.3% in 2000. Unfortunately, the dampening of the US economy, the continuing recession in the Japanese economy (two of Malaysia's leading trade partners) plus the event of 11 September 2001 impacted negatively on Malaysia so much so that the growth rate which has been revised downwards to 2.0 plunged further to register only 0.4% for 2001. Growth has been forecasted to be at 3.5% for this year. Per capita GDP which peaked at RM9065 (1987 prices) in 1997 fell to RM8245 in 1998 and climbed to RM8493 in 1999 and RM8899 in 2000.

Table 1 also reflects that the high growth rate of the economy that preceded the crisis was associated with the intensive growth of the manufacturing and the construction sectors. The two sectors together with non-government services sector accelerated at double-digit growth. In contrast, the primary sector, was experiencing negative growth in the years before the crisis except for 1996 and 1997. The sectoral growth rates indicate that the construction sector was the worst hit, plunging by 23.0% in 1998 and 5.6% in 1999, and growing only at 3.1% in 2000. Consequently, its share of the GDP fell from 4.8% in 1997 to 4.0% in 1998, 3.6% in 1999 and 3.4% in 2000. Although the manufacturing sector also contracted sharply in 1998 by 13.4%, it recovered quickly and managed to register a growth rate of 13.5% in 1999 and 17.0% in 2000. As such, the share of the manufacturing sector which reached 29.9% in 1997 fell slightly to 27.9% in 1998, but rose to 30.0% in 1999 and 32.6% in 2000.

With industrialisation and the rise in employment opportunities, the unemployment rate contracted to 2.4% on the eve of the crisis. Actually, Malaysia was experiencing full employment throughout the 1990s. The labour market became so tight that some sub-sectors have to resort to imported labour from abroad, namely from Indonesia, Bangladesh and the Philippines. The crisis resulted in workers been retrenched from certain sub-sectors, particularly construction. However, some 74,610 vacancies were registered in selected sub-sectors enabling those retrenched workers to be re-deployed to other sectors still experiencing labour shortage, such as some sub-sectors in the manufacturing and services sectors as well as the agriculture sector. Quite a number of the foreign workers have returned to their respective countries. Hence, unemployment rate has been rising to 3.3% in 1998 and 3.4 % in 1999 but moderated to 3.1% in 2000. Preliminary figure shows that it has risen again to 3.7% in 2001. Table 1 also shows that the share of employment in the primary (agriculture, forestry and fishing) and the secondary (mining and quarrying, manufacturing and construction) sectors contracted in 1998 and 1999. On the other hand, the share of employment in the services sector went up. However, the total employment in the manufacturing sector went up by 6.7% in 1999, indicating a rapid recovery in this sector.

Table 2, which shows more macroeconomic and financial indicators, confirms that the economic recovery in Malaysia had begun in the first half of 1999 when the second quarter GDP growth rate registered 4.1% and went on to record 6.1% for the whole year. The current account balance as a percentage of GNP, which was negative for several years prior to the crisis) has turned positive since December 1998, reaching a peak of 17.1% in 1999. Although it has come down since then, it remains at a substantial level. External debt has also trimmed to about half of the GNP in 2000, but has risen since then. Net international reserves peaked in June 1999 at US31.1 billion or equivalent to 6.7 months of retained imports and remained at almost the same level since then. However, it has come down a little in terms of months of retained imports. The 3-month interbank rate contracted to just over 3% from its high of 11.2% in June 1998 while the base lending rate (BLR) dropped to 7.2% in June 1999 and 6.39% in 2001. The annual growth rate of banking system loans plunged from 28.2% in June 1997 to 0.1% in 1999 while the RWCR remained above 12% since June 1999, which far exceeded the internationally prescribed ratio of 8%.

The retrenchment of workers according to sectors for 1996-1998 is shown in **Table 3**. Between 1996 and 1997, there was a 143% increase in retrenchment which jumped to 345% between 1997 and 1998. A total of 83,865 workers lost their jobs in 1998. Almost 54% of the total retrenched were from the manufacturing sector while 11.1%

were from the construction sector. Another 12.4% were from the wholesale and retail trade, hotels and restaurants sector. The group most vulnerable to the crisis are migrant workers. While official statistics indicate that 3,246 have been retrenched in the first five months of 1998, an estimated 80% of the 768,400 employed in the construction sector were migrant workers. Given the dramatic decline in the level of construction activity, the reported figure would grossly under-estimate migrant worker retrenchments. Most of them have incurred labor brokerage costs and their debts could not be honored due to the abrupt retrenchment, repatriation and loss of income, which might result in an eventual entrapment of a vicious debt and poverty cycle. On the other hand, many of the retrenched locals might return to their villages to find jobs in the agricultural sector or register in the Training Scheme for Retrenched Workers program offered by the Human Resources Development Council to upgrade their skill and improve their income-earning potential. The Ministry of Human Resource has established a RM5 million retraining programme to upgrade the skills of the workers in assisting the retrenched workers to find new jobs. In easing the financial burden and moderating the retrenchment level, firms in selected sectors were exempted to pay the levy to the Human Resource Development Fund (HRDF)[3] for a certain period.

While the initial official expectation of inflation was 7-8% in 1998 (private sector estimates had been more pessimistic at 8-12%), it turned out to be better than expected at 5.3%, rising from 2.7% in 1997 (see **Table 4**). However, it is particularly alarming tonote the disproportionate rise in the index for food, which recorded a rise of 8.9%, since its weight in the Consumer Price Index (CPI) was 34.9% in 1998. Similarly, the index for medical care and health expenses also rose above the CPI of 5.3%, that is, by 6.2%. The rise in the cost of medical fees is mainly due to the 30% rise in the cost of imported drugs, which account for over 60% of drugs used in the country. Fortunately, this item has only a small weight of 1.9% in the CPI. With the

[3] HRDF was established in 1993 to conduct courses to retrain and upgrade the skills of employees.

implementation of the various Government policies, the CPI managed to be brought down to 2.8% in 1999, 1.6% in 2000 and 1.4% in 2001, particularly the index on food following the campaign on "zero inflation" and consumption of Malaysian-made goods. The Government also intensified efforts to promote measures to increase domestic food production as well as services related to the food industry.(Bank Negara Malaysia 2001:35).

The impact of ringgit depreciation on the Producer Price Index (PPI, 1989=100) was much faster compared to the CPI. The PPI, which measures prices of intermediate and final goods charged by domestic producers, increased by 10.7% in 1998 compared to 2.7% in 1997. The large increase in prices was largely due to the higher import prices following the weaker ringgit and higher local production cost. However, lower import prices (-0.6%) and lower local production costs (-3.9%) contributed to the decline in the PPI by 3.3% in 1999. The PPI rose by 3.1 percent in 2000 mainly due to the higher crude oil price. Due to the weak commodity prices in 2001, the PPI fell by 5.0% to reflect the lower prices charged by local producers.

The property prices as reflected by the Malaysian House Price Index (MHPI, 1990=100) declined by 9.4% in 1998 (compared to a rise of 1.9% in 1997). It has further declined by 2.3% in 1999 (an improvement compared to the 12% decline in the first half of 1999) reflecting an improvement in property prices following the measures taken by the government. These include the Home Ownership Campaign (12 December 1998 to 12 January 1999) and the Second Home Ownership Campaign (29 October to 7 December 1999), stimulating foreign demand for high-end properties and restricting the development of new residential properties and shop houses where the individual units cost more than RM250,000. In 2000, property prices increased as reflected in the rise of the MHPI by 4.7%, but with the exception of certain choice locations, particularly in the Klang Valley, property price levels remained below the peak levels that prevailed in 1997 (Bank Negara Malaysia 2001:37). The situation worsened thereafter when the MPHI only crept up by 0.9% for the first half of 2001.

4. Progress of Controls and Reforms

4.1 Changes made to the exchange control measures

Malaysia's imposition of the exchange control measures was controversial. However, conditions and circumstances were in Malaysia's favour then which increased the prospects for their success. According to Bank Negara Malaysia (1999a), capital controls have historically been imposed by countries facing acute balance of payments constraints, imposing restrictions on almost all transactions with non-residents, including current account transactions, due to weak external reserve position. In contrast, Malaysia has maintained free movement of all current account transactions and Malaysia had strong reserves position as corrective measures had turned the current account balance into surplus of 14% GNP in 1998. Secondly, capital controls were imposed in many of the countries when they were facing capital flight. In contrast, Malaysia has generally not experienced significant capital outflows of the type and magnitude experienced by countries facing acute balance of payments and international reserve constraints. Thirdly, external reserves of the country were intact, unencumbered and rising (see Table 2). At the same time, Malaysia was blessed with low inflationary rate as well as low external debt.

Critics dispute the effectiveness of the controls since markets in the region had stabilised, often saying that Malaysia "closed the stable door only after the horse has bolted". However, the central bank emphasised that the controls were aimed at containing the internationalisation of the ringgit to prevent speculative activities, not to be used as a substitute for sound and transparent domestic economic policies. Thus, after the imposition of the controls, inflows reflected export proceeds or purchase of ringgit assets and outflows represented import payments and sales of ringgit assets. As the controls were showing positive results, the controls began to be relaxed, beginning in February 1999 when rules on the minimum holding period on portfolio investments were partially relaxed. On 1 September 1999, the one-year rule on portfolio investments expired, enabling funds which were in Malaysia prior to 1 September 1998 to freely leave the country. Yet, contrary to expectations, the outflows were relatively small given the positive economic prospects. By 2001, the capital controls imposed on foreign portfolio investments had all been removed when the 10% exit levy on repatriation of portfolio profits within one year was withdrawn on 2 May 2001 (Malaysia 2001), but the new capital controls imposed on Malaysians still remains in place. Before the crisis, only those Malaysians with domestic borrowings had to have the prior approval of the Bank Negara Malaysia to invest overseas whereas after the crisis even those Malaysians without any domestic borrowings require the central bank's approval to invest abroad.

The exchange controls were sufficient to provide a greater degree of independence for the conduct of monetary policy to support the recovery process while the greater stability in the currency, stock markets and the financial system also revived consumer and investor confidence. The fixed exchange rate provided businesses with a degree of predictability under which they could plan their businesses. At the same time, policymakers had some "breathing space" to expedite economic and financial reform (Bank Negara Malaysia 1999b). It also enabled the recovery to be achieved without massive fiscal cost going into massive debt and the nation did not suffer widespread unemployment or social dislocation.

4.2 Progress of the merger programme

As at 15 March 1999, eight finance companies had been merged while 14 would be merged in the same year. Some banking institutions suffered severe losses during the crisis primarily from high levels of NPLs. In order to prevent further deterioration in the financial health of these banks, the central bank assumed control over the operations of four banking institutions, two of which merged with stronger entities later. Another was resolved through open tender exercise while the fourth was resolved through capital injection by Danamodal. Moreover, two of the larger domestic commercial banks were merged with stronger commercial banks. To ensure that the mergers would not weaken the strength of the acquiring banks, distressed assets of the weaker institutions were removed to subsidiaries of Danaharta.

By 31 December 2000, the merger programme for domestic banking institutions that was initiated in 1999 was successfully implemented, with 50 out of 54 domestic banking institutions consolidated into 10 banking groups and 94% of the total assets of the domestic banking sector rationalised and consolidated (Bank Negara Malaysia 2001). Under the merger exercise, each of the ten banking group should have a minimum capital base of RM2 billion or an asset base of RM25 billion. This exercise, which concluded in 2000, succeeded in consolidating the fragmented domestic banking sector without causing disruptions to the provision of banking services. In 2001, the focus of the domestic banking groups was to complete the business integration processes and rationalisation exercises. By the end of 2001, all banking groups had conducted their branch rationalisation exercise and five banking groups had rationalised their workforce. All the staff rationalisation exercise were conducted on a voluntary basis. Affected staff were granted the opportunity for various options of redeployment to other suitable business divisions, or to opt for the voluntary separation scheme with adequate compensation. As a result of the rationalisation exercise during the year, 187 branches were closed, whilst 55 branches were relocated and a total of 4,240 staff left the banking industry (Bank Negara Malaysia 2002).

4.3 Progress of financial and corporate restructuring by Danaharta

Substantial progress has been made in both bank and corporate restructuring. According to Thillainathan (2000), the ability of the Malaysia Government to act quickly and effectively on bank restructuring was significantly enhanced by the existence of a strong legal framework for Bank Negara Malaysia. It has already most of the specific powers necessary to deal with banking crisis. For example, it has the power to investigate, prosecute, take over the management of banks and impose a moratorium on their operations. It also has the power to acquire the shares of financial institutions and require a capital increase of a bank's capital impaired by losses. Because Bank Negara's powers are explicit and clear, they deter legal challenges during the implementation of the restructuring programme. The progress in the acquisition and management of NPLs by Danaharta is reflected in **Table 5**. It can be seen that Danaharta had acquired (19.1 billion) and managed (26.4 billion) RM45.5 billion (2,666 accounts) in NPLs from various financial institutions by 31 December 1999. According to Bank Negara Malaysia (2000), the book value of the loans removed from the banking system amounted to RM34 billion, representing approximately 42% of NPLs in the banking system. The removal of these NPLs from the banking sector has reduced the residual NPL level to 6.6% (based on 6-month classification) from the peak of 9% as at the end of November 1998. A total of RM10.3 billion nominal value zero-coupon bonds have been issued as consideration for the loan acquisitions, which is lower than the RM15 billion budgeted earlier.

The total loans acquired and managed rose to RM47.49 billion (2,835 accounts) by the end of 2000 (of which RM20.39 billion was acquired). The book value of the loans removed from the banking system was equivalent to 44% of the NPLs in the banking system. The removal of NPLs by Danaharta succeeded in reducing the NPLs in the banking system to manageable levels. The weighted average discount rate for the acquired NPLs was about 55% compared to 56% the previous year. Three tranches of zero-coupon bonds as consideration for the NPLs acquired were issued, bringing the total nominal value of bonds issued to RM11.1 billion as on 31 December 2000.

As at 31 December 2001, the total loans acquired and managed increased marginally to RM47.72 (of which RM19.82 billion was acquired) from 2,902 accounts. Six months later, as at 30 June 2002, it again rose slightly to RM47.76 (2,905 accounts) with the same amount being acquired. This is because Danaharta completed its loan acquisition phase in 2000 and did not make any direct purchase from the banking institutions in 2001. Over this period, the weighted average discount on all acquisitions fell to 54% up to the end of June 2002. Danaharta expects to resolve the remaining NPLs of RM12.4 billion (in gross value terms) by the end of 2001.

Table 6 illustrates Danaharta's loan management progress. As of 31 December 1999, Danaharta had within its portfolio 2,666 accounts relating to 2,345 borrowers and had initiated recovery measures with 88% of these borrowers in terms of value or 71% in terms of number. A total of RM17.6 billion or 38% of the loans and assets under its management has been restructured or disposed (as in the case of foreign loan assets), with an average recovery rate of 80.2%. Danaharta, being an asset management vehicle, has chosen the recovery measure that maximizes the recovery value of the assets. The preference is to restructure the loans wherever possible, and only resort to foreclosure and sale of collateral as a last resort. Loan restructuring has shown to give a higher recovery rate than outright foreclosure.

As at 31 December 2000, the number of accounts within its portfolio increased to 2,835 accounts relating to 2,507 borrowers, with a total gross value of RM47.49 billion. Danaharta had initiated recovery measures with 98% of these borrowers in terms of value or 91% in number. Danaharta concentrated on its loan and assets management process, applying various techniques on its loans and assets, such as active restructuring and rescheduling for viable loans; foreclosure, appointment of

Special Administrators and Schemes of Arrangement for non-viable loans. By year-end, Danaharta has successfully restructured RM35.8 billion of loans (representing approximately 74% of loans under its portfolio), with expected recoveries of RM23.8 billion. This translates into a 66% recovery rate over the outstanding loans (see **Table 7**).A year later, total loan rights acquired and managed by Danaharta amounted to RM47.7 billion, of which RM39.8 billion were from the banking system, accounting for approximately 40% of the total NPLs of the banking sector. By 31 December 2001, Danaharta has dealt with RM47.7 billion (99.9%) of the total loans acquired and managed under its portfolio. From the total adjusted loan outstanding already dealt with, Danaharta expects to receive total recovery of RM28.5 billion, resulting is a recovery rate of 56% (inclusive of interest).

The composition of Danaharta's assets would change over time from unresolved NPLs to various assets groups and ultimately into cash. As Danaharta moved from its establishment phase to management phase, its composition of NPLs also change from being unresolved to NPLs that have been processed where recovery proceeds have been received or pending implementation. Based on the current pace of resolution, Danaharta is on track to achieve its targeted unwinding by 2005.

4.4 Danamodal and Progress of Banking Sector Reform

In the case of recapitalisation exercise by Danamodal, initially it had RM10.835 billion funding (of which RM3 billion is capital). By 15 March 1999, it had injected RM6.15 billion as fresh capital into 10 banking institutions in the form of Exchangeable Subordinated Capital Loans. This total capital injection had decreased to RM5.3 billion at the end of 1999 upon repayments by five banking institutions. The recapitalisation by Danamodal had helped to strengthen the RWCR position of these institutions from 9.9% as at end-September 1998 to 12.3% as at end-December 1999 (Bank Negara Malaysia 2000).

Danamodal has made no additional capital injection during the year 2000. Following the improved economic environment and in tandem with the merger programme for domestic banking institutions, 8 banking institutions have repaid their loans to Danamodal amounting to RM3.4 billion, bringing the outstanding amount of capital injection to RM3.7 billion as at 31 January 2001. During the course of consolidation, Danamodal has played an active role in spearheading the merger negotiations for those banking institutions where Danamodal was the major shareholders. As a result of the merger process, two banking institutions repaid their loans to Danamodal. Where Danamodal continues to hold stakes in banking institutions, Danamodal would assess all viable options in order to maximize recoveries from the capital investment and give financial flexibility for Danamodal to redeem its bond amounting to RM11 billion when they mature in the year 2003. Due consideration would however be accorded to ensure that the financial strength of the banking institutions or bank holding companies would not be unduly weakened by the capital repayment (Bank Negara Malaysia 2001).

As the capital position of the banking institutions has continued to strengthen, no further capital injection was made since December 1999. In August 2001, Danamodal concluded the sales and purchase agreement on the disposal of its investment in one finance company. With the completion of the sale, Danamodal's outstanding investment in the banking sector has shrank to RM2.1 billion from RM7.1 billion since its inception (Bank Negara Malaysia 2002). Danamodal expects to recover the entire remaining investment over time.

4.5 Progress of Financial and Corporate Restructuring by Corporate Debt Restructuring Committee (CRDC)

As at 15 March 1999, CDRC had received 48 applications for debt restructuring, involving debt of RM22.7 billion. Two restructuring plans have been implemented and 26 Creditor Committees had been formed to oversee the restructuring efforts inception (Bank Negara Malaysia 1999). By 29 February 2000, the CRDC had successfully completed the restructuring of 19 cases with debts totalling RM14.1 billion, whilst 10 cases had been referred to Danaharta. As the economy improved, not many new applications were submitted to CRDC since late 1999. CRDC expected to complete the debt restructuring of 26 cases involving debts amounting to RM16.4 billion that was still outstanding by the third quarter of 2000. In addition to corporate restructuring, CRDC was also involved in the restructuring of transportation, telecommunication and steel industries comprising nine companies to ensure that the restructured companies operating within the industry would become feasible and viable (Bank Negara Malaysia 2000).

During the course of debt restructuring, various techniques were applied such as debt to equity conversion, debt to private debt securities conversion, participation of white knights and reduction in the paid-up capital of the borrowers. The cumulative progress of CDRC as at 31 December 2001 since its inception is illustrated in **Table 8**. A total of 37 cases have been successfully finalised, resolving debts amounting to RM34.5 billion, equivalent to 51% of the total referred to CDRDC. Withdrawn or rejected 23 cases with debts of RM10.1 billion or 15% of the total. Therefore, as at 31 December 2001, CDRC has 12 outstanding cases to be resolved with total debts of RM18.04 billion, representing 27% of the total.

The progress of corporate debt restructuring under the purview of CDRC has been relatively slower given the following factors:-

i) Larger number of creditors involved in the debt restructuring exercise;
ii) The need to obtain 100% consensus from the parties involved; and

iii) The lacklustre performance of the capital markets in recent months, resulting in difficulties for some borrowers to implement their debt restructuring schemes.

To benefit and strengthen the economy in the long run, CDRC also played a pivotal role in driving the restructuring of the public transportation industry. The debt restructuring scheme for the public transportation industry has been finalized and will be implemented in the near term. CDRC has also completed its study on the restructuring of the steel and telecommunication industries and the options to address the various issues concerning the industries are being considered.

One potential area of vulnerability that needed to be addressed was the resolution of the large corporate debts and its impact of the health of the banking sector. To facilitate this process, the corporate debt restructuring framework under the CRDC was revamped to accelerate the pace of corporate debt restructuring in Malaysia. Borrowers and creditors were subject to more stringent and definitive timelines in the debt restructuring process to ensure that they complete the resolution process within the shortest timeframe. Operational restructuring was undertaken together with financial restructuring to ensure the viability of the debt restructuring scheme. Significant progress has been achieved following this revised framework, with resolution of a number of debt restructuring cases, including the debts of three large corporates. CDRC had targeted to resolve 10 cases with total debts of RM 10.2 billion between 1 August 2001 and 31 December 2001. As at 31 December 2001, CDRC has successfully resolved eight of these cases, with debts accounting for 83.5% of the total targeted amount of debts to be addressed. In total, CDRC has successfully resolved 11 cases in the year 2001, involving debts amounting to RM 11.9 billion has targeted to complete the restructuring of the remaining cases by July 2002.