

## **Chapter 10**

### **Conclusion**

The Malaysian banking sector has been developing for almost three decades and various reforms are gradually implemented to promote soundness, viability and stability of the sector. As early as 1970s, the central bank had liberalised its financial system which resulted in a rapid expansion of its banking sector, especially during 1980s and 1990s (Yan, 1994; Zahler, 1994).

The recent East Asian crisis reflects the adverse effects of financial liberalisation. This crisis is possibly caused by three factors: financial liberalisation, fundamental weaknesses in the affected countries, and financial panics. Since July 1997, the crisis has created severe financial and economic problems in the affected countries, Malaysia is one of them. Although, these countries' weaknesses vary from one to another, all governments consider reforming their financial systems as part of economic recovery.

The problems facing the Malaysian banking sector since 1997 are manifested in rising NPLs, falling profitability, higher costs of funds, tight liquidity, and loss of confidence. Bank Negara Malaysia has introduced various measures and prudential guidelines, including establishing special agencies, to restructure the banking sector. In general, this restructuring is aimed at strengthening the banking institutions, promoting lending and economic activities as part of economic recovery, enhancing transparency and corporate governance as well as restoring public confidence.

Even though the Malaysian banking sector is in a much better position compared to some of other affected Asian countries (where several financial institutions are forced to close down or be acquired by other investors, especially foreign investors), causes and lessons from this crisis should be carefully studied to

prevent reoccurrence and to mitigate the severity of future repercussions. Besides, useful lessons can be learnt from other emerging financial systems by examining experiences and comparing the approaches taken with the results achieved.

Currently, there are signs of improvement in the banking sector; however, the real outcomes have yet to be seen. Success of this banking restructuring largely depends on many variables; they are (1) policies implemented by Bank Negara Malaysia and its government (2) ability and effectiveness of its special agencies, (3) availability of funds, (4) public confidence, and (5) speed of economic recovery. Furthermore, several issues, for example, efficient resource allocation and moral hazard, should not be forgotten. Additional policies implemented to turn around the economy must not only be beneficial to the country in the short-term, but also permanently effective for the long-term.

To other researchers who wish to further study the same topic, there are several aspects that can be considered. They are, for example:

- research on the effectiveness of the Malaysian restructuring programmes in terms of costs, period, and results.
- research on factors or other government policies that can influence the effectiveness of the banking restructuring.
- comparable research on the policies implemented by the Asian governments to restructure their banking sectors.
- research on the importance of corporate governance to the banking sector or the banking restructuring.