



**BANKING CRISIS IN MALAYSIA:  
CAUSES, RECOVERY MEASURES TAKEN AND  
THEIR EFFECTIVENESS**

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## **Abstract**

This research project discusses the causes, recovery measures taken and the effectiveness of the measures to the Malaysian banking crisis in mid 1997.

There are combination of factors that contributed to the crisis. Among the factors are excessive credit growth, over-exposure of lending to broad property sector and stock market, weaknesses in the banking system and external shock-currency attack. In addition, tight monetary policy which was designed to rescue the currency attack further aggravated the banking problem.

Later in September 1998, Government further response by reverting the above tight monetary policy and gradually easing the monetary policy. Besides that, four other approaches were adopted to strengthen the banking sector and these included the banking merger programme, the setting up Pengurusan Danaharta Nasional Berhad (Danaharta), Danamodal Nasional Berhad (Danamodal) and Corporate Debt Restructuring Committee (CDRC).

Government's effort has proved some fruitful results to a certain extent. This was evidence by the downward trend of the non-performing loans of the banking system and the reclassification of some banking institutions to black.

In conclusion, some recommendations are made to further strengthen the Malaysian banking system.

## **List of Abbreviation**

BNM - Bank Negara Malaysia

BPS - Broad Property Sector

BLR - Base Lending Rate

CA - Austrian Credit-Anstalt

CDRC- Corporate Debt Restructuring Committee

Danaharta - Pengurusan Danaharta Nasional Berhad

Danamodal - Danamodal Nasional Berhad

GDP - Gross Domestic Product

NPLs - Non-performing Loans

US - United States

RWCR - Risk Weighted Capital Ratio

## List of Abbreviation

## Table of Contents

	Page
Chapter 1: Introduction	1
1.1 Overview	1
1.2 Definition of Banking Crises	2
1.3 Research Objectives	4
1.4 The Significance of the Study	4
1.5 Research Methodology	5
1.6 Limitations of the Research	5
1.7 Organization of the Study	6
Chapter 2: Literature Review	7
2.1 Causes and Policy Response of Banking Crises	7
2.1.1 The Austrian Credit-Anstalt (CA) Bank Crisis	7
2.1.2 The Nordic Banking Crisis	9
2.1.3 The Mexican Banking Crisis	11
2.1.4 The East Asia Banking Crisis	13
2.1.5 Cross-country Studies	14
2.2 Banking System in Malaysia	16
2.2.1 The Commercial Bank	16
2.2.2 The Finance Company	17
2.2.3 The Merchant Bank	17
2.2.4 Discount Houses	18
2.2.5 Money and Foreign Exchange Brokers	18
Chapter 3: Causes of Banking Crisis	20
3.1 Performance of the Banking Sector	20
3.2 Causes of the Banking Problems	22
3.2.1 Short Term Capital Inflows	22
3.2.2 Excessive Credit Growth	24
3.2.3 Lending Direction of Banking System	26
3.2.4 External Debt Growth	30
3.2.5 Weak Regulations and Supervisions	30
3.2.6 Overvalued Exchange Rate	31
3.2.7 Currency Crisis	32
Chapter 4: Recovery Measures Taken	35
4.1 Tight Monetary Policy	35
4.2 Capital Control and Loose Monetary Policy	39
4.3 Restructuring of Banking Sector	40
4.3.1 Merger Programme	41
4.3.2 Pengurusan Danaharta Nasional Berhad (Danaharta)	42
4.3.3 Danamodal Nasional Berhad (Danamodal)	43

	Page
4.3.4 Corporate Debt Restructuring Committee (CDRC)	46
Chapter 5; Effectiveness of the Recovery Measures	49
5.1 Non-performing Loans (NPLs)	47
5.2 Profitability	52
5.3 Capital Strength	53
5.4 Lending Growth	54
Chapter 6: Conclusion and Recommendation	56
6.1 Conclusion	56
6.2 Recommendation	59
Bibliography	a
Appendix	i

## List of Charts

Chart No:	Title	Page
Chapter 3	Causes of Banking Crisis	
3.1	Relationship between Private Short-term Capital Inflows and Malaysia -US Discount Rate Differential	24
3.2	Relationship between Private Short-term Capital Inflows and Composite Index	24
3.3	Growth Rate of Domestic Credit and M2	26
3.4	Loan Extended to Manufacturing versus Property Sector and Stock Market (1990-1999)	28
3.5	Relationship between Composite Index and Credit Extended to Property Sector and Stock Market	29
3.6	Kuala Lumpur Stock Market: Composite and Second Board Indices 1997-1998	34
Chapter 4	Recovery Measures Taken	
4.1	Non-performing loans to Total loans for Commercial Banks, Finance Companies and Merchant Banks 1997-December 1999	37
4.2	Objectives of the Banking Sector Restructuring Plan	41
4.3	Danaharta's approach in Management of non-performing loans	43
4.4	The Process of Recapitalization by Danamodal	44
4.5	Overview of Danaharta, Danamodal and CDRC	48
Chapter 5:	Effectiveness of the Recovery Measures	
5.1	Non-Performing Loan Ratio of the Banking System, June 1998-December 1999	50

## List of Tables

Table No	Title	Page
Chapter 1	Introduction	
1.1	The cost of rescuing banks	4
Chapter 3	Causes of Banking Crisis	
3.1	Indicators of Bank Performance	20
3.2	Unaudited Income & Expenditure Banking Sector for first and second half, 1997	21
3.3	Capital Inflows into Malaysia, 1990-1998	23
3.4	Domestic Credit Growth	25
3.5	Annual M2 Growth Rate (%)	25
3.6	Total Outstanding Loans and Loan-to-GDP of Malaysian Banking System (1990-1999)	27
3.7	Direction of Lending Of Malaysian Banking System, 1990-1999 (RM billion)	28
3.8	Performance of Composite Index (CI) versus Property Index	29
3.9	Growth rates in external loans (Banking System) and International Reserves	30
3.10	Percentage change of exchange rates: Malaysian Ringgit against Major Foreign currencies	33
Chapter 4	Recovery Measures Taken	
4.1	Changes to Bank Negara Malaysia: Intervention Rate and Statutory Reserve Ratio	36
4.2	Interest rates of Banking Institutions	36
4.3	Monetary Aggregate M1, M2 and M3	37
4.4	Loans by Banking System, June 1997-December 1999	38
4.5	Statutory Reserve Ratio Cut and its effects	39
4.6	Financing of Banking Institution Recapitalizations	45
4.7	Overall Progress of Danamodal till June 1999	45
4.8	Applications received by CDRC	47
Chapter 5	Effectiveness of the Recovery Measures	
5.1	Non-performing Loans Ratio of the Banking System	50
5.2	Total NPLs by Sector Acquired and Managed by Danaharta	51
5.3	Banking System - NPLs by Sector (RM million)	51
5.4	Status of CDRC Cases (as at December 31, 1999)	52
5.5	Pre-tax Profits for Financial Quarter Ended September 30, 1999	52



**Chapter 5    Effectiveness of the Recovery Measures**

5.6	Banking System-Outstanding Loans Provisions	50
5.7	Bank System-Constituents of Capital	54
5.8	Monetary Aggregates: M1, M2 and M3 (RM million)	55
5.9	Changes to Bank Negara Malaysia Intervention Rate	55
5.10	Interest Rates of Banking Institutions (%)	56