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MAHATHIR-FRAMEWORK

MALAYSIA'S INSTITUTIONAL FRAMEWORK IS INTACT, SAYS MAHATHIR

By: Mohd Fisol Jaafar

LUXEMBOURG, June 12 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad reassured Luxembourgish businessmen, particularly its bankers and fund managers, that the Malaysian institutional framework was intact and stronger than ever despite having suffered a setback during the 1997-1998 financial crisis.

He said the numerous efforts initiated by the government to strengthen the institutional framework to enhance regulatory and supervisory capacity had enabled the banking system to be more resilient in the event of crisis.

He explained that the efforts included the development of a more comprehensive legislative framework, risk-based management and supervisory practices, enhanced corporate governance and disclosure, as well as measures to enhance the competitiveness and efficiency of the banking system.

"Prudential reforms and regulations had been continually reviewed and enhanced, while efforts to deregulate the banking sector to promote competition and enhance efficiency of the industry were also gradually implemented," Dr Mahathir said.

He said this in his keynote address at a business meeting organised by the Luxembourg Chamber of Commerce, Luxembourg Bankers' Association and the Federation of Luxembourg Industrialists, here today.

He arrived here last night for a two-day official visit, the first by a Malaysian Prime Minister, to Luxembourg, the smallest nation in the 15-member European Union but among the busiest financial hub in Continental Europe.

Dr Mahathir, who is also Finance Minister, said that the financial crisis in 1997 had necessitated quick action to be undertaken to deal with potential banking problems, to contain its severity and ensure market confidence, to ensure that the banking system continued to function and assume its role in the economy and not suffer a breakdown that could jeopardise the prospects for economic recovery.

He said that asset management corporation Pengurusan Danaharta Nasional Bhd, Danamodal Nasional Bhd and the Corporate Debt Restructuring Committee (CDRC) agencies set as part of the institutional arrangement strategy to resolve the debt problems of large corporations - had attained significant progress in their respective operations.

He said the loan rights and management activities of Danaharta resulted in the successful carving out of about 40 percent of the banking sector's non-performing loans (NPLs) at an average discount rate of 55 percent.

To-date, Danaharta has dealt with 99.9 percent of the total loan rights acquired and managed under its portfolio, with an envisaged recovery rate of 56 percent.

Based on its surplus recovery sharing arrangement, the prime minister said Danaharta had distributed US\$8 billion (RM30.4 billion) in cash to the banking institutions from its recovery efforts.

He said the conducive economic environment had provided Danamodal with the opportunity to divest its investment in one of the banking institutions under the merger programme.

As a result, as at end-2001, the outstanding amount of recapitalisation was reduced to US\$2.1 billion (RM7.98 billion) from a total US\$7.1 billion (RM26.98 billion) since its inception, he added.

In the case of CDRC, Dr Mahathir said the agency had to-date, resolved

over 69 percent of the cases that were accepted with debts amounting to US\$37.8 billion (RM143.64 billion).

He said the remaining cases were expected to be resolved by July this year and with that, the NPLs of the banking system could be expected to decline further.

"More importantly, the operational restructuring that was undertaken together with the debt restructuring would ensure these large corporate entities continue to remain viable in the longer term," he said.

Dr Mahathir said the positive results yielded from the efforts that were undertaken to manage the crisis had provided the opportunity to push through and accelerate the structural reforms to address fragmentation in the domestic banking sector.

Given the mounting pressures of globalisation and liberalisation, explained the prime minister, it was necessary for Malaysia to develop strong institutions that had sufficiently large capital size to undertake business expansion and which will contribute to the overall resilience of the banking sector, hence the merger programme to consolidate 54 domestic banking institutions into 10 banking groups.

Dr Mahathir said consolidation and rationalisation process following the merger was successfully completed with minimal impact on the provision of banking services.

He said the consolidation exercise represented a major structural enhancement to Malaysia's banking system and had facilitated the emergence of core domestic banks whose interests were aligned to that of the Malaysian economy. -- BERNAMA

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