



## S P E E C H E S

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**Address By**  
**Encik Ali Abdul Kadir**  
**Chairman, Securities Commission**  
**In conjunction with**  
**the 20th Inter-Merchant Bank Annual Dinner**  
**13 November 1999**  
**Mandarin Oriental, Kuala Lumpur**

Yang Bhg. Tan Sri Dato' Azman Hashim,  
Pengerusi Persatuan Bank-bank Saudagar di Malaysia,

Yang Bhg. Dato' Md Nor bin Md Yusof,  
Presiden, Commerce International Merchant Bank,  
selaku Bank Penganjur Majlis,

Tuan-tuan dan Puan-Puan sekalian

Assalamualaikum w.b.t. dan selamat sejahtera

Ladies and Gentlemen,

First of all, let me extend my gratitude to the Association of Merchant Banks in Malaysia for having invited my wife and me to tonight's Dinner. As this Dinner marks the conclusion of the 1999 Inter-Merchant Bank Games, let me also extend my congratulation to all the merchant banks for having participated successfully in this year's Games. I believe that the Games have further strengthened the spirit of sportsmanship and goodwill among members in the merchant bank fraternity.

Ladies and Gentlemen,

Our economy and financial markets had faced a period of extreme challenges particularly in 1998 because of the regional currency crisis. The economic recession has weakened the performance of all sectors, including the banking industry. The banking system as a whole saw a loss of RM2.3 billion last year after ten consecutive years of profits. The contraction in demand, increased non-performing loans and higher loan provisions had contributed to the loss. At the same time, the banking sector was affected by the rising cost of funds due to tightening liquidity. Banking institutions were therefore preoccupied with preserving their balance sheet and managing the deterioration in the quality of their loan portfolio as well as erosion in capital instead of generating new businesses. This posed a threat to the smooth functioning of the intermediation process.

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As access to financing is a crucial precondition towards economic recovery, measures were quickly introduced to remove the risks and concerns that have emerged in the banking system. Nonetheless, the worst is now over for the banking sector following economic recovery and successful implementation of various initiatives by the Government. The thrust of the banking measures implemented by the Government were twofold, aimed at stabilising the system in the immediate term and at the same time building a sound and resilient banking industry over the medium and longer term.

Ladies and Gentlemen,

A significant progress has been achieved in stabilising and strengthening the banking system, particularly in addressing the problem of NPLs, recapitalisation of banking institutions and restructuring of large corporate debts that impinge the health of the banking system. Danaharta, the asset management company, has so far completed its primary task of acquiring and managing NPLs of the banking system worth RM39.3 billion. Danaharta has now expanded its activities in loan and asset management, as well as begun to dispose off some of the assets acquired from financial institutions.

Complementing the work of Danaharta is the Corporate Debt Restructuring Committee (CDRC) which has completed the restructuring schemes of companies with debts totalling RM11.4 billion at the end of September 1999. Similarly, Danamodal has completed its task of recapitalising the banking institutions by early May this year, by investing RM6.4 billion in ten banking institutions. As at end-August this year, Danamodal's capital injection had declined to RM5.7 billion following repayments of capital by several banking institutions that have recorded improved profitability.

The successful operation of the special purpose vehicles along with various other initiatives undertaken by the Government to improve liquidity condition and stability of the financial markets have inevitably helped reduce to pressures on the banking system. While the net NPLs of the banking system has stabilised to below 8.0%, the risk-weighted capital ratio has strengthened to 12.8% in August.

Given the improved condition of the banking sector, the Government has moved a step forward in achieving its medium and longer term objectives by embarking on a consolidation and rationalisation exercise for the domestic banking system. The flexibility extended to the banking sector in its merger programme is a testimony of the Government pragmatism and determination at ensuring a smooth and successful consolidation exercise. It is hoped that the domestic banking sector after the merger programme at the end of next year will become more resilient, dynamic, competitive and efficient and will be in a better position to meet the future challenges from globalisation and liberalisation.

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Ladies and Gentlemen,

I believe the banking sector as a whole would be able to register profits beginning the current year given the improving economic and financial market conditions. Indeed, the recovery of consumer and investor confidence is becoming more apparent by the day. The latest September data on industrial activity has shown marked improvements. Domestic demand has also gained a greater strength, particularly on account of increased consumer spending. These only suggest that the economy is on right track to achieve the 4.3% estimate for the whole of this year.

While domestic demand and supply continue to respond in a positive manner to the Government recovery programmes, the external sector has simultaneously seen encouraging developments. Although imports are seen to rise to satisfy higher domestic spending, strong exports has so far enabled us to sustain trade surplus for twenty three successive months until September this year. For the first nine months of this year, the total trade surplus has exceeded RM52.0 billion. This has been a principal source of liquidity to the domestic financial system. As we are expecting more surplus to be accumulated during the final three months of this year, the current account of the balance of payments for the whole of 1999 is likely to chart a record surplus of more than RM40.0 billion.

Ladies and Gentlemen,

With a larger external account surplus, we can expect the level of our external reserves to continue rising in the next year particularly with a possible re-entry of foreign funds into our equity market. As such, liquidity and interest rate condition would be conducive to support growth of domestic spending and overall GDP. The Government is hopeful that loan approvals and disbursements would show an acceleration during the coming year. A bigger flow of financial resources to the private sector would only enhance Malaysia's economic prospect in the year 2000. It is projected that a faster real GDP growth of 5.0% could be achieved next year along with a moderate inflation.

Ladies and Gentlemen,

On the part of the merchant banking industry, your specialised role in the development of capital market and corporate sector should go a long way in accelerating recovery and sustaining development of the economy over the longer term. Immediately, the industry could work closely with companies affected by the recent crisis through restructuring exercise. At the same time, the industry could expedite the development of more financial instruments, including bonds, to help broaden and deepen the domestic capital market. In this respect, the Government looks toward an active merchant banks' participation in the preparation of the Capital Market Master Plan through the recently established Capital Market Strategic Committee and National Bond Market Committee.



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Another area that we will be focusing on, and one in which I believe that the merchant banking industry will also have important role to play in, is that of instilling the goal of maximising shareholder value in business decision making in our capital markets. The importance of this in meeting future competitive challenges cannot be over-emphasised. Increasingly, it has been show that companies focusing on value maximization not only experience greater increases in shareholder wealth but also enjoy higher productivity and greater employment gains compared to their competitors in the long run. Moreover, maximising shareholder value will in the process also benefit all corporate stakeholders; as well as lower the cost of capital; and promote management stability. The SC will be looking to encourage where possible the development of a framework of value maximisation through among other things, the development of broader and deeper capital markets; the enhancement of high standards of corporate governance and transparency and, measures to promote the education of corporate Malaysia.

Ladies and Gentlemen,

The success which we hope to achieve will only materialise if the public and private sectors continue to work closely, in harmony and single-mindedly for the betterment of our economy and the country. A strong economy and stable country would also benefit the financial services sector not only in terms of better profitability but also increased resilience to withstand future risks and shocks. As a final note, I hope all of you here will enjoy this informal family occasion and the dinner this evening. Let us hope and pray that we shall have many more of these happy occasions in the years to come.

Thank you.

**SECURITIES COMMISSION**  
**13 November 1999**