

Crisis, capital Controls and Recovery in Malaysia

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Supplementary Table

Appendix 1

Malaysia: A Chronology of Crisis Management, 1997-2005

1977

May 14-15	Bank of Thailand intervened to defend baht from attack by speculators.
July 2	Bank of Thailand abandoned the long-standing peg of the bath to the US\$. The new market determined rate (US\$/Baht = 30) reflected about 18% depreciation against the US\$.
July 8	Bank Negara Malaysia (BNM) (the Malaysian Central Bank) intervened aggressively to defend the ringgit, boosting the currency to high of 2.5100 after a low of 2.5240.
July 14	BNM gives up the defense of the ringgit after unsuccessfully defending it by jacking up interest rates to 50% and spending an estimated US\$ 3 billion. The Malaysian ringgit plunged to a 33-month low.
July 24	Ringgit hit 38-month low of 2.653 to USD, and Prime Minister Dr. Mahathir launches bitter attack on 'rogue speculators'.
August 4	Bank Negara Malaysia instructed commercial banks to observe a US\$2 million limit on non-commercial ringgit offer-side transactions with each foreign customers.
August 28	KLSE banned short selling of 1000 blue-chip stocks.
September 3	A plan was announced to use funds from the Employees Provident Fund (EPF) to pop up share prices buying stocks from Malaysian shareholders, but not from foreigners, at a premium above the prevailing prices.
September 5	Ban on short selling of KLSE linked stocks was lifted.
September 15	BNM increased the three-month intervention rate from 6% to 7.55%
October 17	Finance Minister Anwar Ibrahim unveiled the 1998 Budget cutting infrastructure spending, increase in import duties and breaks for expenditures aimed at narrowing the current account deficit. Corporate tax rate was cut from 20% to 28% to stimulate investment.
December 5	Finance Minister Anwar Ibrahim announced an austerity package. It announced a reduction of the growth forecast for 1998 from 4-5% to 7% and that for 1997 1997 to 7.5-7.7% from 8.0%.
December 27	BNM increased its three-month intervention rate from 7.55% to 8.7%.

1998

- January 1 BNM reduced the period in arrears (default period) for classifying a loan as non-performing by banking institutions for six months to three months, with a view to strengthening prudential supervision.
- January 2 BNM instructed Malaysia's 39 finance companies to begin merger talks.
- January 7 The National Economic Action Council (NEAC) was established as a consultative body to the Cabinet to deal with the economic crisis. Daim Zainuddin who was finance minister during the economic crisis of the late 1980s (and a close confidant of Dr. Mahathir) was appointed as the executive director of NEAC.
- Finance Minister confirmed that BNM had moved to stem the slide in Ringgit.
- January 9 Government claimed sufficient foreign reserves and ruled out an IMF rescue.
- February 6 BNM increase its three-month intervention rate from 10% to 11%.
- February 9 Bank Negara Malaysia lowered statutory reserve requirement (SRR) from 13.5% (a rate which had prevailed from 1 January 1996) to 10% to help check extraordinary rise in bank lending rates.
- February 16 The statutory reserve requirement (SRR) for commercial banks, finance companies and merchant banks was reduced from 13.5% to 10% of their eligible liabilities.
- March 24 Bank Negara Malaysia introduced new measures for banks to shore up capital-adequacy position at the first sign of trouble. BNM also announced that three financial institutions – Bank Bumiputera, Abrar Finance and Cempaka Finance – might need to be recapitalized by a total of 782 million ringgit (\$2.08 million).
- June 1 Pengurusan Danaharta Nasional Berhad (the National Asset Management Company) was set up to acquire and manage NPLs of the banking institutions.
- July 1 SRR was reduced from 10% to 8%.
- July 23 NEAC launched the National Recovery Plan. Its recommendations, in particular an exchange rate system that reduces volatility, a shift away from high interest policy and easing of fiscal and monetary policy, did indicate significant departure from the conventional IMF lines, but there was no hint about imposition of capital control.
- July 31 A new framework for liquidity management in banking institutions was introduced.

August 1	Danamodal Nasional Berhad (Banking Recapitalisation Agency) was set up to recapitalise banking institutions. Corporate Debt Restructuring Committee, a joint public and private sector steering committee, was set up to facilitate and expedite corporate debt restructuring.
August 3	BNM's market intervention rate was reduced from 11% to 10.5.
August 10	BNM's market intervention rate was reduced from 10.5% to 10%.
August 17	BNM reduced its three-month intervention rate from 11% to 9.5%.
August 25	Tun Diam Zainuddin was appointed Minister of Special Functions to oversee the Malaysian economy. The media interpreted this as a calculated move to reduce Anwar's role in crisis management.
August 17	BNM reduced market intervention rate was reduced from 10% to 9.5% and ruled out any possibility of introducing capital controls.
August 31	Overseas trading of Malaysian securities was banned. KLSE announced that trading on Singapore's over-the-counter Central Limit Order Book (CLOB) market were no longer recognized.
September 1	A wide range of foreign exchange and capital controls were introduced, substantially insulating Malaysia's financial markets from external influences and effectively closing down the offshore ringgit market (See Appendix 2). The SRR was reduced from 8% to 6%. The base lending rate (BLR) framework was revised to ensure a more rapid transmission of changes in monetary policy on lending rates charged by banks.
September 2	The exchange rate for the ringgit was fixed at 3.80 per US dollar, a rate which was stringer than the average rate of 4.18 for the previous two months, but significantly below its pre-crisis level of about 2.49). Prime Minister Mahathir sacked his deputy and the Finance Minister Anwar Ibrahim on grounds of immorality.
September 3	Liquidity-asset ratio requirement for commercial banks was reduced from 17% to 15% with immediate effect. BNM's market intervention rate was reduced from 9.5 % to 8%.
September 4	Dr. Mahathir became the Acting Minister of Finance.
September 7	BNM relaxed ceilings on bank lending to the property sector. Dr. Mahathir became First Finance Minister and Mustapa Mohamed (former Minister of Entrepreneur Development) was appointed Second Finance Minister.
September 9	BMN instructed the banks to aim at achieving a minimum annual loan growth of 8% by the end of the year.

	SRR was reduced from 6% to 5%.
September 10	Salomon Smith Barney was appointed finance advisor to the Government and Danamodal Nasional Berhad.
September 16	SRR was reduced from 5% to 4%. Liquidity asset requirement of commercial banks was reduced from 17% to 15%.
September 23	Ceiling on loans for the purchase of shares and unit trust funds was raised from 15% to 20% of total outstanding loans for commercial banks and fiancé companies while leaving the ceiling on merchant banks at 30%. Default period for classifying a loan as non-performing by banking institutions was increased from 3 months to 6 months.
October 5	BNM's market intervention rate was reduced from 8% to 7.5%. Limits on bank lending to housing and real estate were relaxed.
October 23	The 1999 Budget proposed a significant fiscal stimulant package involving an increase in the budget deficit from ..
November 9	BNM's market intervention rate was reduced from 7.5% to 7%.
November 20	The minimum monthly repayment on outstanding credit card balances was reduced from 15% to 5%. Banking institutions were instructed to establish Loan Rehabilitation Units to manage problem loans.
November 21	Hire-purchase guidelines were abolished, allowing banking institutions to determine their own hire-purchase loans
December 5	The maximum annual lending rate under the Fund for Small and Medium Industries and the Scheme for Low and Medium Cost Houses were reduced from 10% to 8.5%.
1999	
January 4	Banking institutions were instructed to achieve a minimum loan growth of 8% by the end of 1999.
January 10	BNM took control of MBf Finance Berhad, the biggest finance company (with assets amounting to about US\$5 billion, one-fourth of total assets of all finance companies) on grounds of weak management.
February 4	The 12-month holding rule on repatriation of foreign portfolio capital was replaced with a three-tier exit levy on the principal and profit.
February 18	Repatriation of funds relating to investment in immovable property was exempted from the exit levy.
May 26	BNM raised US\$ 1 billion through a global bond issue. The issue was oversubscribed by 300%.

July 29	BNM unveiled a plan to combine the country's 58 financial institutions (22 commercial banks, 11 merchant banks and 25 finance companies) into six large banking groups.
August 7	Residents were allowed to grant overdraft facilities in ringgit not exceeding RM200 million for intra-day and not exceeding RM500 for overnight to foreign stock-broking companies subject to certain conditions.
August 9	BNM's intervention rate was reduced from 7% to 5%.
September 21	The three-tier levy on repatriation of portfolio capital was replaced with a flat 10% levy on profit repatriated.
October 21	Commercial banks were allowed to enter into short-term currency swap arrangements with non-resident stockbrokers for a maturity period not exceeding five working days with no rollover option,
2000	
March 14	Funds arising from sales of securities purchased by non-residents on the CLOB market were permitted to be repatriated without paying exit levy.
September 30	Licensed offshore banks in the Labuan Offshore Financial Centre were allowed to invest in ringgit assets from their own account only and not on behalf of clients. The investment could not be financed by ringgit borrowing.
October 27	Profit earned from foreign portfolio investment in Malaysia for a period of more than one year was exempted from the 10 per cent repatriation duty.
December 15	The 10 percent levy on profits earned from foreign portfolio investment repatriated within one year was abolished.
December 20	Licensed commercial banks were allowed to extend intra-day overdraft facilities not exceeding RM 200 million and overnight facilities not exceeding RM10 million to foreign stockholding companies and foreign custodiam banks.
2001	
January 6	All controls on the trading of futures and options on the Malaysian stock exchange were abolished.
November 21	Licensed banks were allowed to extend credit facilities to non-residents up to an aggregate of RM5 million to finance projects undertaken in Malaysia.

2002

March 12	RM 10,000 ceiling on foreign currency loans to residents for investment overseas was removed. The requirement for using only ringgit for settlement of transaction on ringgit-denominated assets between residents and non-residents and between non-residents was abolished.
August 3	Banks were permitted to extend ringgit overdraft facilities not exceeding RM 500,000 in aggregate to non-residents provided the credit facilities are fully covered at all time by fixed deposits placed by the non-resident customer with the lending bank.
2003	
January 4	The maximum amount of repatriation of profits, dividends, rental income and interests on all bona fide investment without prior approval was increased from RM 10,000 to RM 50,000, or its equivalent in foreign currency. Residents who have foreign currency funds were permitted to invest freely in any foreign currency products offered by onshore licensed banks. The ceiling on bank loans to non-residents (excluding stockbroking companies, custodian banks and correspondent banks) was raised from RM 200,000 to RM 10,000,000.
2005	
July 21	BNM announced abolition of the ringgit peg to the US\$ in favour of a managed floating system.

Source: Compiled from Bank Negara Malaysia, Annual Report (various years), and press releases and exchange notices (www.bnm.gov.my), and IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions* (various years)

**Appendix 2:
Malaysia: Exchange Control Measures Prior to and After 1 September 1998**

Transaction	Prior to 1 September 1998	New
(1) Transfers based on external accounts	Transfer between external account holders freely allowed	Transfer of any amount between external accounts requires prior approval. Source of funding external accounts are limited to: (a) proceeds from sale of ringgit instruments, securities registered in Malaysia or other assets in Malaysia; (b) salaries, wages, commissions, interests or dividends and (c) sales of foreign currency. Use of funds in accounts is limited to purchase of ringgit assets in Malaysia.
(2) General payments	Residents were freely allowed to make payments to non-residents for any purpose. Amounts of RM100,000 and above were permitted provided the resident does not have any domestic borrowing (if the payment is for investment abroad), or the payment is made in foreign currency (for non-trade purposes)	Residents are freely allowed to make payments to non-residents for any purpose up to RM 10,000 in ringgit or foreign currency, except for imports of goods and services. Amounts exceeding RM10,000 require approval and are allowed in foreign currency only
(3) Export of goods	Payments to be received in foreign currency or ringgit from an external account	Payments are to be received from an external account in foreign currency only.
(4) Credit facilities to nonresidents	Non-resident correspondent banks and stock-brokering companies were permitted to obtain credit facilities up to RM 5 million from domestic banks to fund mismatch of receipts and payments in their external accounts.	Domestic credit facilities to non-resident corresponding banks and non-resident stock-brokering companies are no longer allowed.
(5) Investment abroad	Corporate residents with domestic borrowing were allowed to invest abroad up to the equivalent of RM 10 million per calendar year on a corporate group basis.	Residents with no domestic borrowing are allowed to make payment to non-residents for investment abroad up to an amount of RM10000 or its equivalent in foreign currency per transaction.

Table A-2 continued

Transaction	Prior to 1 September 1998	New
(6) Credit facilities from non-residents	Residents were allowed to obtain ringgit credit facilities of below RM100,000 in the aggregate from non-resident individuals.	All residents require prior approval to make payments to non-residents for investing abroad an amount exceeding RM 100 equivalent in foreign currency. Residents are not allowed to obtain ringgit credit facilities from any non-resident individual.
(7) Trading in securities	There were no restrictions on secondary trading of securities registered in Malaysia between residents and non-residents and among non-residents. For transfer of securities registered outside Malaysia from a non-resident to a resident, the resident was subject to the rules on investment abroad.	Ringgit securities held by non-residents must be transacted through an authorized depositor. All payments by non-residents for any security registered in Malaysia must be made in from an external account (in foreign currency or in ringgit) All proceeds in ringgit received by a non-resident from the sale of any Malaysian security must be retained in an external account at least for one year before converting to foreign currency. All payments to residents for any security registered outside Malaysia from non-residents must be made in foreign currency.
(8) Import and export of currency notes, bills of exchange, insurance policies etc.	A resident or non-resident traveler was free to import or export any amount of ringgit notes or foreign currency notes in person. Export of foreign currencies required approval. Authorized currency dealers were allowed to import any amount of ringgit notes, subject to reporting to Bank Negara Malaysia on a monthly basis.	A resident traveler is permitted to bring ringgit notes up to RM1,000 only and any amount of foreign currencies. A resident traveler is permitted to export ringgit notes only up to RM1,000 and foreign currencies up to the equivalent of RM 10,000. A non-resident traveler is permitted to import ringgit notes up to RM1,000 only and any amount of foreign currencies. A non-resident traveler is permitted to export Ringgit notes up to RM1,000 only and foreign currencies up to the amount brought into the country.
(9) Transaction in the Labuan Offshore Financial Centre.	Licensed offshore banks were allowed to trade in ringgit instruments up to permitted limits.	Licensed offshore banks are no longer allowed to trade in ringgit instrument.

Source: Compiled from Bank Negara Malaysia, *Quarterly Bulletin*, Second Quarter 1998, Kuala Lumpur and IMF (1997).

Merchandise exports (US\$, FOB, %)	6.0	0.3	-6.9	17.0	17.0	-10.6	6.1	12.4	20.6	12.0	18.7
Merchandise imports (US\$, FOB, %)	1.0	0.2	-25.9	13.0	26.3	-10.3	8.1	5.4	25.0	9.6	26.4
Current account balance as % of GDP)	-4.8	-5.3	13	15.9	9.4	8.3	8.4	12.8	12.6	15.3	17.1
Foreign reserves (US\$ billion) ^{5,8}	27.0	20.8	25.6	30.6	28.3	29.5	33.4	43.8	65.9	69.9	82.1
Total external debt as % GDP ⁵	38.7	43.9	42.6	42.1	46.9	51.9	51.3	47.3	44.6	39.9	33.5
Short term foreign debt as % of total debt ⁵	25.7	25.2	19.9	14.3	10.9	13.9	17.5	17.9	21.8	23.7	22.8
Short-term foreign debt as % of foreign reserves ⁵	36.9	53.7	33.2	19.1	16.1	21.2	25.3	20.0	17.4	17.7	14.4
External debt service ratio	6.6	5.5	6.7	5.9	5.5	6.6	6.4	5.9	4.2	5.0	4.4
Average exchange rate (ringgit per US\$)	2.5	2.8	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.6	3.5

Notes:

- 1 All growth rates on a year-on-year basis.
 - 2 Sectoral share in GDP in 1996 are given in brackets.
 - 3 Based on manufacturing production index (1993 = 100).
The weight attached to each category in the total index is given in brackets.
 - 4 Net of non-performing loans (6-month definition).
 5. End of period.
 6. End-of-the-year stock of outstanding loans deflated by the GDP deflator
 7. Non-performing loans of commercial banks only. Based on a 'six month' non-performing period.
 8. Excluding gold reserves
- Data not available.

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Source: Compiled from Bank Negara Malaysia, *Monthly Statistical Bulletin* (bnm.gov.my), IMF, *International Financial Statistics* and MIER, *Monthly Economic Monitor* (various issues)