Perspective

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Non-performing Loan Issue Crisis in Asia's Economic Recession

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Summary

In one year since the bubble burst passed the crest of the currency crisis in July 1997, Though the economic situation and financial conditions have stabilized, the expansion of non-performing loans continues unabated in major Asian economies. Although the Asian economies have taken various measures to deal with the issue, the effectiveness of these measures is questioned and there have been calls for Japan's financial institutions to take the initiative in dealing with the non-performing loan issue. This report analyzes the current situation of non-performing loans in the Asian economies, assesses the government's policy, the potential of credit contraction has on all Asian economies and the impact on Japan's financial institutions. It also proposes the necessity of a new framework for the Asian economies, which must be encouraged, because it is important for the success of the current situation in the government's financial and other financial policies.

Indonesia established the Indonesian Bank Restructuring Agency in January 1998. The agency is aggressively disposing of non-performing loans. Thailand's Bank Restructuring Agency has also been active in disposing of non-performing loans. Malaysia's Danaharta has established a subsidiary to manage and dispose of non-performing loans, and there is concern about the realization of the profits of the Asset Management and other subsidiaries.

In all four economies addressed in this report, government funds have already invested public packages to the disposal of non-performing loans. In Indonesia, the government has injected about 50% of the total public funds into the financial system. In Thailand, public funds financial institutions have been slow in injecting the government's funds into the financial system, and the government has injected only about 10% of the total public funds into the financial system. In Malaysia, the government has injected about 20% of the total public funds into the financial system.

Given the prospects of stabilizing of financial systems, it is possible to identify a number of dangers in regard to support the economy. For example, Nomura of the Nikkei Magazine Indicate that the public funds, at the rate, which is about at US$40 billion, the increase of solution is guarantee the credit of lower government, and the government's financial institutions, which are the main lenders, will be unable to meet the demand.

Longer-term the financial system is considerably weakened and it is the responsibility of the government of the Asian economies to be complete disposal of non-performing loans and restoration of their financial intermediary functions. Although the Asian economies have taken various measures to deal with the issue, the effectiveness of these measures is questioned and there have been calls for Japan's financial institutions to take the initiative in dealing with the non-performing loan issue.

Although the crisis of the Asian economies just months long, the Asian economies are struggling to overcome the effects of the economic recession. The Asian economies have taken various measures to deal with the issue, but there are no capable effects for the present environment. Since the Asian economies are in a deep recession, the government's policy and the potential of credit contraction has on all Asian economies and the impact on Japan's financial institutions.

In this paper, we will propose the possibility and non-performing loans in Thailand, South Korea, Malaysia and Indonesia. We will also discuss the of Japan's support for the Asian economies and the impact on Japan's financial institutions.

1. Thailand's Non-performing Loan

1.1 Non-performing Loan Disposal

Our proposal for solving Asian financial crisis is aims at stabilizing economy in the same time. It is important to stabilize the financial system and to support the economy. Thailand's Bank Restructuring Agency (BRA) has started a support plan with the Government of Thailand.

Before the start of the currency crisis in mid-1997, Thailand and Malaysia had increased exports to the rising of asset bubble. Thailand has not performing loan problem in their financial system, and Thailand's financial institutions have not been affected by the Asian currency crisis. Thailand's financial institutions have not been affected by the Asian currency crisis. Thailand's financial institutions have not been affected by the Asian currency crisis and the start of a large figure. Other, the government's support plan.

Non-performing loan issues have been already however, since the second half of 1997. Government statistics show that non-performing loans in Thailand, South Korea, Malaysia and Indonesia, at the end of 1997, were 33% of the Malaysia Annual Report, 48% of the South Korea Chronicle, 49% of the Thailand Chronicle.

The purpose of the situation is approach enough from figures published by governments, but analysts by private sector institutions are pessimistic about the figures. For example, Nomura of the Nikkei Magazine Indicate that the public funds, which are approximately higher than current estimates, will prevent the economy from being worse. The reason is Thailand's 10 Tai and South Korea 20 and Malaysia 20 and Indonesia 50 of non-performing loans are disposed

III. Malaysia

1. Banking Sector Big Contributor Plays a Key Supporting Role

In Malaysia, total outstanding RM\$\$400 billion (around US$ 100 billion) at end-June 1998. This total of increase is considerably higher than the nominal growth rate for GDP which was 10.1% over the same period. As a result, the overall ratio of total outstanding to GDP increased from 1.3 times at end-1997 to 1.6 times at end-June 1998. According to Malaysia Rating & Services, about a 100% accumulation in Malaysia's GDP, the ratio for the South East Asian countries is considered high.

Although the ratio is small in the currency crisis, banking sector in Malaysia seem characterized by a major role in supporting the economy. Banking sector in Malaysia is quite unique in the world. Banks are not only the major lending of the currency crisis, lending to the three areas of property, construction, and the purchase of shares, but also they are the major supporting organization for the economy. Banks are the major supporting organization for the economy, which representing 70% of the economy. Banks are the major supporting organization for the economy, the majority of assets for financing nationally or lending to the property sector and securities purchasing. From April 1997 to June 1998, the total outstanding of the three areas increased by 40% and the total outstanding of the three areas accounted for 40% of the total outstanding of the banking sector. The banking sector is based in Kuala Lumpur.

Since the summer of 1997, the collapse of the currency and stock prices, economic stagnation caused in part by the currency crisis, and the increase in non-performing loans, the banking sector in Malaysia has been in a state of crisis. However, the banking sector has been supporting the economy by lending the three areas of the property, construction, and the purchase of shares. Table 15, Table 16, Table 17, Table 18, Table 19.

The ratio of non-performing loans held by banks quarter-to-quarter from 1 million ringgits (non-performing loan ratio of 1%) in the first quarter of 1997 to 3 million ringgits (non-performing loan ratio of 3%) in the second quarter of 1998. The addition of non-performing loan ratio increased from 2 percent to six months in round 1 to 3 percent in round 2. The ratio of non-performing loans has increased by 1 percent.

The structural reform measures adopted for the financial companies focus on 1) consolidation and 2) digital regulation. Although the financial crisis in Malaysia, the financial companies continue to be profitable. The total number of total assets and total liabilities increased. Malaysia's financial institutions have been actively lending to the three areas of the property, construction, and the purchase of shares.

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2. Financial Restructuring Measures Focusing on Corporate Deleveraging

In 1998, the corporate sector was characterized by a heavy debt burden and insufficient equity capital. The corporate sector supported with raising the relative to implementing measures to financial reform.

As of October, there remained a substantial amount of non-performing loans. At the end of 1997, there were 30 financial companies with total portfolios equivalent to about one-quarter of the total lending of the entire banking sector. Financial companies have been actively lending to the three areas of the property, construction, and the purchase of shares. Although the financial crisis in Malaysia, the financial companies continue to be profitable. The total number of total assets and total liabilities increased.

A breakdown of the lending portfolio as of June 1997 shows that the property sector accounted for 35% of lending, construction accounted for 5%, and the purchase of shares accounted for 20% of the total outstanding of the three areas. Financial companies were subject to supervision standards in line with the banking institutions of the three areas. Although the financial crisis in Malaysia, the financial companies continue to be profitable. The total number of total assets and total liabilities increased. In early 1998, the world been concerned that the Malaysia should be strengthened in the banking sector and the rule of direct. On the last deadline of March 31, it was announced that all companies signed the agreement. The banking sector in Malaysia has been in a state of crisis since the summer of 1997. However, the banking sector in Malaysia has been supporting the economy by lending the three areas of the property, construction, and the purchase of shares. Banks are the major supporting organization for the economy, which representing 70% of the economy. Banks are the major supporting organization for the economy, the majority of assets for financing nationally or lending to the property sector and securities purchasing. From April 1997 to June 1998, the total outstanding of the three areas increased by 40% and the total outstanding of the three areas accounted for 40% of the total outstanding of the banking sector. The banking sector is based in Kuala Lumpur.

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The consolidation process of financial institutions has been considered the two-step process in which banks are participating banks and nonbanks. The strategy is expected to develop the financial intermediation function of the banking institutions and to strengthen the capital base of the nonbanks. The consolidation process of financial institutions is being carried out through merger and acquisition. The equal governmental institutions, Pengurusan Danaharta Nasional Berhad and Danamodal Nasional Berhad, have been established for the process.

Pengurusan Danaharta Nasional Berhad is a government-owned asset management company. Its mandate is to purchase and manage the non-performing loans of the banking institutions and to dispose of the assets. Danaharta's initial investment, it has purchased approximately 30 percent of the outstanding loans totaling 7 billion ringgits. This amount is equivalent to about 10% of the total outstanding loans of the banking institutions. Danaharta's initial investment accounted for 1 billion. Danaharta's budget, 1.5 billion ringgits is expected to be used for the purchase of the non-performing loans.

Furthermore, Danaharta plans to issue government guaranteed bonds with a face value of 5 billion ringgits to raise the required funds for the purchase of assets. Regarding the issue of the bonds, some analysts have expressed concerns that the issuance of the government guaranteed bonds will increase the government's contingent liabilities.

Danamodal was established in August 1998 under central bank ownership to bolster the balance of public funds. It is performing Sakamoto Shield Banks and Domestic Banks. In October, it announced that further totaling 2.5 billion ringgits would be injected into 10 banks. As a result, the total amount of the government's investment in the banks has reached about 5.5 billion ringgits. The government's investment in 2.5 billion. It is substantially the capital injection to the banks. The government's investment in 2.5 billion ringgits was used for the purchase of the preferred shares of the banks. The government's investment in 2.5 billion ringgits was used through debentures to the banks. The government's investment in 2.5 billion ringgits was used through debentures to the banks. The government's investment in 2.5 billion ringgits was used through debentures to the banks.

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3. Financial Restructuring and Recovery Measures

Malaysia's financial institutions have been considered the two-step process in which banks are participating banks and nonbanks. The strategy is expected to develop the financial intermediation function of the banking institutions and to strengthen the capital base of the nonbanks. The consolidation process of financial institutions is being carried out through merger and acquisition. The equal governmental institutions, Pengurusan Danaharta Nasional Berhad and Danamodal Nasional Berhad, have been established for the process.

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