The banking system is more resilient and has strengthened with the risk-weighted capital ratio (RWCR) at 13.1% in July, which exceeds the Basle minimum ratio of 8%.

The core capital ratio was sustained at 10.8%, which is also higher than the international requirement of 4%. The net non-performing loans (NPL) ratio, based on a six-month classification, remained stable at 8% in July on account of higher specific provisions and the banks' continuing efforts in debt restructuring.

The Economic Report said lending activities by the banking system remained encouraging. Outstanding loans of the banking system grew by 3.3% on an annual basis to RM483.52bil as at end-July.

In term of new approvals, a total of RM78.39bil was approved in the first seven months of this year, up 7.4% from the previous corresponding period last year, and a total of RM231.31bil was disbursed (a rise of 7.5% from a year ago).

The report said the bulk of approvals was channelled for the purchase of residential properties and passenger vehicles.

In term of disbursements, a majority was drawn down for the purchase of residential properties as well as the wholesale and retail trade, hotels and restaurants and manufacturing sectors.

The report said the consolidation in the banking sector has resulted in a better-capital domestic banking system that is able to undertake a wider scope of business activities.

Several measures have been implemented to ensure the soundness and stability of the financial system.

This included the Central Credit Reference Information System that enabled real-time, online access to a comprehensive and up-to-date database of all borrowers in the banking system.

To enhance corporate governance of the banking sector, the number of directorships that could be held by the chief executive officers of banking institutions was limited to five. And the enactment of the Anti-Money Laundering Act, 2001 in July last year provided for a comprehensive law to combat money-laundering.

There has been further progress in financial and corporate restructuring achieved by Danaharta, Danamodal and the Corporate Debt Restructuring Committee (CDRC), said the report.

Danaharta completed its NPL acquisition phase two years ago and is currently focused on implementing recovery measures on the NPLs under its purview.

As at end-July, recovery action has been initiated on almost all of the RM47.74bil (99.9%) of total rights acquired, with recovery expected at RM29.71bil or 57% (after incorporating 0% recovery on defaulted loans).

Since 1999, Danamodal has not made further addition to the initial capital injection of RM7.59bil into 10 banking institutions from 1998 to 1999.

To date, repayment of RM5.45bil has been made by seven banking institutions, while the outstanding re-capitalisation in the remaining three banks in institutions stood at RM2.14bil at end-July. Danamodal is expected to close its core operations by the end of next year.

CDRC, which has ceased operations on Aug 15, has resolved 47 cases with debts valued at RM43.97bil in the past four years. About 83% of the recovery proceeds were in the form of cash, redeemable instruments and rescheduled debts.