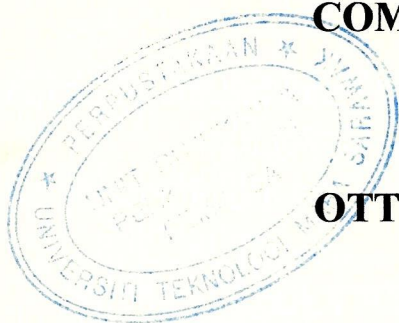




**THE ECONOMIC CRISIS AND ITS IMPACT ON THE  
EQUITY MARKET  
(KUALA LUMPUR STOCK EXCHANGE)  
COMPOSITE INDEX**



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**APRIL 2001**

## **ACKNOWLEDGEMENTS :-**

Many people contributed to this project paper. I would like thank all my colleagues and friends who give me support and a helping hand to make it possible.

To my respectable project advisor, a very special and sincere appreciation to Mr. Abang Feizal bin Abang Ibrahim, who had agreed to be my project advisor even though the request was made at the last moment semester has commenced. Thank you for your highly constructive, feedback and valuable suggestion through out the process of preparing this project paper.

In addition, I would also like to acknowledge Pn Chan, Head of Research Department of Sarawak Securities Sdn Bhd and also to all staff of Kuala Lumpur Stock Exchange, (KLSE) information Centre, Kuching Branch in Sarawak for renders assistance through ideas, advice, collecting the relevant data and encouragement towards the success of this project.

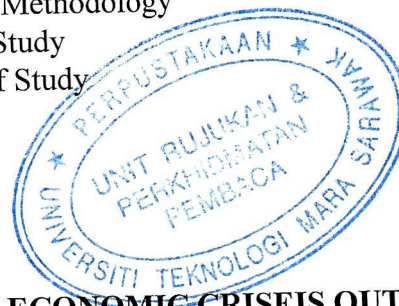
Finally, I would like to thank my wife Pn. Stella ak Moses, daughter, Patricia Debbie, Josephine Marthida and son Brian on their support and understandings.

**THANK YOU VERY MUCH TO ALL OF YOU !**

**OTTERAN AK GIRA**

**APRIL 2001**

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## **ABSTRACT**

Market sentiment weakened severely.

The onset of the crisis since July 1997 worsened sentiment in the stock market, which had commenced on its downtrend since April 1997. With the speculative attack on the ringgit and the de facto devaluation of the Thai baht, the depreciation of the ringgit reinforced the downward spiral of the KLSE C1.

From the high of 1,271.57 points on 25 February 1997, the KLSE C1 closed at its lowest in 11 years at 263.70 points on 1 September 1998.

### **The economic crisis began in July 1997**

#### **JULY 1997 – THE CRISIS BEGIN**

Bank Negara steps in a second day to shore up ringgit:

Bangkok stocks surge another 8.6%

#### **Friday – 4 July**

For two days Malaysia's central bank, Bank Negara has heavily supported the ringgit following selling of the currency as short-term interest rates fell; Malaysia's one-week money market rates were as low as 5.15% (for one-week money market rates) compared with 6.03% one week ago.

#### **Tuesday - 8 July**

Bank Negara sells between US\$1 billion (S\$1.44 billion) and US\$2 billion in Kuala Lumpur, New York and London to support the ringgit, hurting speculator.

## **INTRODUCTION : TO RESEARCH**

### **1.1 Equity Market Background**

In Malaysia , although the then Malaysia Stock Exchange was set up in March 1960, public trading of stocks and shares commenced in May 1960 in the clearing house of BNM. The Capital Issues committee (CIC) was established subsequently, 1968. Following the termination of currency interchangeability with Singapore and the floating of the Malaysian dollar, the Malayan Stock Exchange was separated into the KLSE and SES in 1973. Formal rules and regulations were also drawn up, including the enactment of the Companies Act 1965 and Securities Industries Act 1973 (replaced by the Securities Industry Act 1983). The use of information technology in the mid-1980 improved market infrastructure, facilitating improvement in trading facilities and information dissemination systems<sup>14</sup>.

Moving into 1996, market sentiment began to improve as coordinated efforts by the authorities to achieve sustained growth and address supply constraints led to clearer signs of improvement in the underlying economy. The year 1997 was a landmark in the history of the Malaysian stock market as the Kuala Lumpur stock exchange (KLSE) as they enjoy the positive sentiment 1996 continued into the early part of 1997 when the KLSE CI reached a high of 1271.57 points on 5 February. At the same time KLSE experienced its sharpest correction ever, with both its prices and value reduced by half. As a result, the KLSE CI fell to its lowest level during the crisis at 262.70 points on 1 September, a decline of 79% from the high on 5 February 1997<sup>20</sup>.