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A prescribed role

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IF A precociously inquisitive child asks you where the one ringgit coin you'd just given him came from and insists that your wallet was merely a convenient but temporary repository, tell him Bank Negara Malaysia and you'd be spot on.

You'd be giving the persistent nipper his first lesson in finance and banking - an introduction to the role of the nation's central bank.

Students of economics no doubt can repeat parrot fashion that any central bank has its four basic objectives - in the issue and safeguarding of the value of the nation's currency, to act as banker and financial advisor to the government, in the promotion of monetary stability and in influencing liquidity.

Ever since its inception back in January 1959, our central bank, Bank Negara has been precisely pursuing those objectives, some more successfully than others. Glitches notwithstanding, the people who sit at the helm of this venerable institution and the legion of its dedicated staff can look back with a great deal of satisfaction at having carried out its prescribed role to the best of their ability.

One of the prime reasons for the setting up of the central bank was the need to help manage the country's hoard of cash back in the mid-1950s. The revenues flowing homewards in the economy of then Malaya were entirely dependent on the nation's two commodities - rubber and tin.

It was recognised that a central bank was needed to make the revenues work so that there would be a cash cushion whenever rubber and tin prices hit a trough. The central bank would also be instrumental in directing a proportion of its reserves for the purpose of development.

Another important role of any central bank is entirely political - try naming one independent country which does not have a central bank! A World Bank mission sent to Malaya in 1954 to undertake a survey of the geo-political and economic situation of the country then reported: 'A central bank has become the symbol of monetary independence without which political independence is thought to be incomplete.'

One of the most important roles played by Bank Negara in the local economy is managing this country's money. The governor, with direction from the finance minister, ensures the right amount of cash circulating in the economy in order that economic growth is not pursued at the expense of monetary stability. This role has been described as a kind of balancing act between too much money chasing too few goods which leads to inflation, or the reverse situation where credit is tightened and growth is dampened and hence leading to a recession.

This juggling of conflicting goals in managing the country's finances is one of the most evident yardstick by which the performance of Bank Negara managers are judged. The period between the late 1980s and early 1990s, for instance, called for the bank's managers to perform the proverbial 'delicate balancing act.'

They had to ensure that interest rates rose sufficiently to contain inflation but not so high as to stifle private investment. It also allowed the ringgit to appreciate gradually so as not to disrupt growth and business confidence. Direct measures were imposed to mop up a sizeable RM71 billion worth of funds between 1989 and 1993.

Such measures included using traditional instruments such as adjusting the Statutory Reserve Requirement (SRR) and stabilisation operations

through short-term direct borrowings from the open market. New measures were also introduced like issuing Bank Negara bills, imposing limits on swap transactions with foreign customers and mopping up liquidity at source by transferring government deposits with the banking system to the central bank.

The centralisation of government deposits then was a costly affair. Bank Negara incurred unprecedented high interest expense as a result of holding funds belonging to financial institutions, the government and the Employees' Provident Fund (EPF).

However, the combination of medication did the trick. Though still on the high side, money supply stabilised, inflation was trimmed and there was orderly financial discipline.

In his speech to commemorate Bank Negara's silver anniversary in 1984, Prime Minister Datuk Seri Dr Mahathir Mohamad described the challenge faced by the nation in its onward march towards industrialisation as that of creating the right environment for entrepreneurs to thrive and succeed, pushing along economic, industrial and social development. He mentioned specifically the role of the banking system and of its central role as catalyst of this push.

He said that as custodian of the nation's funds, as mobiliser of savings and the key channel of credit for consumption and investments, the banking system itself must continually innovate and change.

'Under the leadership of Bank Negara, the Malaysian financial system has adapted itself very well to the changing times and circumstances. But, in the near future, the demands on the financial systems will become greater as modern enterprises will no longer be asset-based but will be operated more on ideas and knowledge.'

That challenge no doubt is one for which Bank Negara is fully cognisant. A timely reminder for everyone connected with the bank now in the midst of its 38th anniversary celebrations, is for them to take stock and renew their commitment towards scaling the heights.

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