

MAJLIS MAKAN MALAM TAHUNAN BERSAMA PERSATUAN BANK-BANK DAN  
INSTITUSI-INSTITUSI KEWANGAN MALAYSIA  
HOTEL HILTON, KUALA LUMPUR

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Yang Berbahagia Datuk Jaaffar Hussein, Pengerusi Persatuan Bank-Bank Malaysia; Yang Berhormat Menteri-Menteri; Dif-Dif Kehormat; Tuan-tuan dan puan-puan,

Saya mengucapkan terima kasih kepada Jawatankuasa Penganjur Majlis Makan Malam Tahunan Bersama Persatuan Bank-Bank dan Institusi-Institusi Kewangan Malaysia kerana menjemput saya dan isteri saya ke Majlis ini. Seperti biasa apabila seseorang itu dijemput ke majlis jamuan makan ia selalunya diminta untuk memenuhi salah satu syarat jemputan itu, iaitu menyampaikan sepatah dua kata.

Ladies and Gentlemen,

2. I am honoured to be invited once again to address the leaders of the nation's financial community. This annual affair is a good opportunity to take stock of our progress in the past year in the financial and economic fields and to consider how to meet the challenges ahead. Having recently returned from a visit to Italy and the United States, I have been impressed how the indicators suggest that the major industrial countries are recovering from the recession. Indeed, output growth in the industrial world is expected to increase by almost 5% in 1984, the best performance in eight years. As in the past, the economic recovery continues to be dominated by the strong performance of the United States economy, although there are increasing signs that most of Europe is also improving slowly. However, even in the United States, doubts still remain about the sustainability of the recovery process because of large budget deficits and trade imbalances, which have been financed by capital from outside drawn by high interest rates. Some Italians likened the United States economy to the famous leaning tower of Pisa, clearly lop-sided but surprisingly stable -so far at least. Nevertheless, all economists seem to agree that no lop-sided economy, however stable, can defy gravity too long, and there is a very real danger that the present recovery may give way to another recession in 1986 and beyond if major steps are not taken by the industrial countries to correct their structural imbalances and address the problem of high interest rates and anarchic foreign exchange markets.

3. The dilemma of the international economic order today is that political ideology in the major industrial countries is at divergence with practice. Everyone professes to be for free trade, but practices protectionist measures of one form or the other, including voluntary restraint of exports and non-tariff barriers. The inability of the large nations to co-ordinate their economic and monetary policies in an increasingly inter-dependent world has led to the present uncertainties in international trade and investments. Few nations are taking the long view to invest in the developing countries because of the international debt crisis, and high interest rates offered in the United States. Unless corrected, this combination of protectionist measures, continuing high interest rates, and the painful adjustments by the developing countries to such measures, could plunge the world into another phase of recession as witnessed in the 1930s. We in Malaysia, therefore, must take cognisance of the world environment, and plan accordingly our long-term strategies to overcome the barriers to trade. We can only do so if we increase our productivity and efficiency so that we not only produce more goods that the world wants, but also cheaper and better quality goods, even though competition increases in the medium term.

4. As announced earlier this year, the Government is reviewing all its policies within the framework of the preparations for the Fifth Malaysia Plan period 1986-90 and beyond, to promote growth and trade, increase national efficiency, reduce poverty and improve income distribution with price and monetary stability, in line with the objectives of the New Economic Policy. Indeed, in addressing the problems of the balance of payments, the key issues facing the nation will be the need to find additional resources for development, primarily from domestic savings and funds which are domestically generated. The recent budget strategy of tax cuts is but the first phase in our national programme to make our country attractive and competitive financially and to provide incentives for hardwork and the taking of risks. It should also lessen the demand for higher pay for those executives and employees in the higher income (particularly for a fair portion of their earnings will now be retained by them). In a very tangible way the various tax cuts represent a revision of pay. The Government is committed to the control of public sector expenditure, in line with available resources, and to provide the framework and infrastructure for private sector dynamism and initiative to flourish. In the true spirit of Malaysia Incorporated, the Government will seek trade initiatives within the international trade environment to assist the private sector to export competitively. But, the private sector must respond, not timidly with more and more demands for greater Government assistance, but with vision, initiative and daring, to penetrate new markets with new products and services.

5. The Administration is further committed to maintaining a stable economic environment for business to flourish and expand. I regard this as the underpinning of a robust economy. The recent Budget clearly demonstrates that we are determined to bring about a business climate that is conducive to enterprise and initiative, and to the willingness to work hard for a better living. The history of modern civilization teaches us that the greatest growth occurs in societies where men have an eye to spot the economic opportunities for profit and have the energy to stir themselves to seize it. The disincentive due to high marginal tax rates is a matter of the past. We now provide an environment that offers greater reward for effort, skill, responsibility and risk.

6. Over the next two years, we can see that with a reduced tax burden, the nation could grow between 6 to 7 per cent annually, with price stability and a reasonably buoyant external sector. The public sector deficits are being corrected and the balance of payments should improve over time. What is needed now, is to place our manufacturing and agricultural industries in a strongly competitive position so that the nation is ready for the next stage of export growth in the second half of the 1980s. This is where the financial sector can come in to help.

7. Over the last four years, since the nation began to be affected by the international recession, the financial sector has consistently out-performed the rest of the economy, with value-added rising at an average of 7.3% annually, compared with 6.4% for the nation as a whole and 6.2% for the manufacturing sector. Since 1979, employment in the commercial banks alone have risen by an average of 12.9% annually to reach nearly 35,000 persons by the end of 1983. Total assets rose from \$25 billion over the same period to \$60 billion, while total revenue rose at the same average rate of 24% annually to \$5.3 billion in 1983. Similarly, pre-tax profits of the banks doubled from \$342 million in 1979 to nearly \$700 million in 1982. Since 1981, these profits have risen at an annual rate of about 22%. The rates of increase in profits have remained consistently high even during the recent supposedly lean 'recessionary' years. This trend of growth was also reflected in the accumulation of profits among finance companies and merchant banks. In 1983, for example, their pre-tax profits rose by 42% and 45% respectively. On the whole, productivity in the banking sector has improved steadily over the last five years. Total assets per employee of the banks have increased by nearly 50% to \$1.7 million in 1983, while assets per ringgit of staff cost had improved by 15% over the same period. Net profits per employee has also increased by 31%. Malaysia has now a fairly sophisticated financial system, with gross financial assets nearly double that of national income, compared with just under 50% at the time of independence. Nevertheless, much remains to

be done to improve financial services, particularly in the rural areas. The productivity of banks is also uneven. In 1982, for example the domestic banks earned only \$19,000 net profit per employee, compared with \$32,000 for the foreign banks, despite staff costs per employee of the foreign banks being higher by nearly 40%. Today, the domestic banks dominate the banking scene in mobilised and 67.2% of the bank credit extended. But being big is not necessarily the most efficient. Certainly the domestic banks have not been as profitable as the 'smaller' foreign banks. It is now timely for the domestic banks in particular to take stock. Indeed, no financial institution can afford to be complacent in an increasingly competitive environment.

8. While the banking sector must strive to improve productivity, it must not be forgotten that the banking system is a service sector, complementary to the well-being of mining, manufacturing and agriculture. The early 1980s have not been easy years for the banks despite their continuing profitability. The international recession had made them more adaptable and to some extent, more responsive to changing needs and rising expectations. The years ahead will see new challenges. Increasingly, the banks will be called upon to appraise and finance projects that are clearly unorthodox. For example, there will be requests to provide equity finance. For most bankers, this is something new since they have been traditionally trained to believe that domestic banking is all about money transmission and the provision of working capital via the overdraft facility. Then, there is venture capital, a new request by entrepreneurs spurred on by the projects of high risks and the burning desire for a "window on technology". In ventures like these, the financial element should not be overemphasised. What matters really is the quality of management in the final analysis. Bad management is often Bankers need to develop a keen eye to be able to spot good management capabilities. In essence, bankers will increasingly need to evaluate ventures on the basis of projected cash flows rather than the balance sheet position. Banks will need to be more involved in assessing the design of the projects they are asked to finance. This will doubtless put new demands on banks in terms of shifts in the type and quality of personnel. In addition to new challenges in lending, there will be other demands for changes. Technical innovation in the retail deposit market, in payments clearance and in electronic funds transfer, will also put increasing pressures on bankers and the banking industry generally. Bankers should welcome and be alive to these innovations, and continually seek to improve and upgrade the service which they provide, particularly to business, in a rapidly changing and more competitive environment.

Ladies and Gentlemen,

9. I would like at this point to touch on the anarchy in the world's monetary system. There was a time when the exchange rates between the currencies of various countries were fixed. If there was to be a change in the rate of any one currency, it was premeditated and it was announced. Of course, there was some artificiality in this system. But by and large it was orderly.

10. Now that system no longer applies. Governments are frequently powerless to determine the value of their own currencies. Despite reserves being held in different currencies in order to reduce the effect of collapse of any one currency, the fluctuation continues. Money is now just another commodity to be traded as one trades rubber or tin or palm oil. And as such it comes under the machination of speculators.

11. While the fluctuation in the price of the usual commodities has only limited economic effect, the movement in the value of money can affect the total economy of a nation. This being so, it is dangerous for the unscrupulous to be allowed into the trading of currencies. Indeed, it is a dangerous trade for we can never be sure that even banks will not be tempted to depress the value of money and raise it again in order to make a 'fast buck'. In fact, I strongly suspect that the recent pressure on the ringgit was artificially contrived at by people whose greed has overcome their commitment to ethics. If the culprit is caught, the Government will make sure that suitable punishment will be meted out. This Government does not believe that devaluation will solve its economic problems. Only high productivity will.

12. I would like to make a plea to the banks in Malaysia and abroad which deals in the ringgit to live up to the trust placed in them and adhere rigidly to good financial ethics. In the long run it will pay to do so.

Ladies and Gentlemen,

13. Success depends ultimately on good management. The achievements of the nation have been due to the successes of the nation's managers and the sound management of our economy. The recent losses suffered on account of the BMF affair demonstrate all too clearly that without adequate attention to sound management and effective supervision, serious mistakes can occur. The nation cannot afford such losses, nor should we expect to. I would like to reiterate that action will be taken against the wrong-doers, but the lesson must be driven home. The managers of our financial institutions, just as the managers of our public and private enterprises, must be totally committed and involved in the affairs of institutions under their charge. Hence, you will notice that we

have separated the non-executive Chairmen from the Chief Executive Officers in some public enterprises. The management of our financial institutions must at all times be professional in carrying out their duties. This means that the Boards of Directors of our financial institutions must at all times be alert to the effectiveness and competence of their staff. The senior officers, including Board members, must choose effective and competent personnel at all levels; they must supervise on a "hands-on" basis the affairs of their institutions; they must devise effective management information systems and follow sound and prudent policies in meeting their objectives. Most of all, no organisation can function well with self-serving officers and leaders. These must be weeded from the system. Just as I expect the administrators in Government to be fully informed and be on top of the state of affairs and policies in their charge, so would I expect the senior bankers and their Boards to be fully aware of the health of their financial institutions and the direction they are steering over the short and long term. In the pursuit of profit, bankers must never lose sight of their basic responsibility as trustees of the financial assets of the community in which they serve. Public accountability of their behaviour helps in inculcating this trust, which must be seen to be upheld to instill continuing public confidence in the banking system.

Ladies and Gentlemen,

14. I do not wish to lecture my hosts. But the financial community has a special responsibility to society. The standing of the nation, the value of the ringgit, and the confidence of the public here and abroad, rests on the competence, professionalism and integrity of the leaders of our financial agencies. Such is the responsibility that you bear and such is the trust placed on you. You must never, never, abuse them. If for any reason you abuse them, you do so at your peril.

Ladies and Gentlemen, on that note I thank you for your hospitality.