

MAJLIS MAKAN MALAM TAHUNAN INSTITUSI-INSTITUSI KEWANGAN
PUSAT DAGANGAN DUNIA PUTRA, KUALA LUMPUR, 25 AUGUST 1986

Yang Berhormat Encik Daim Zainuddin, Menteri Kewangan; Yang Berbahagia Tan Sri Basir Ismail, Pengerusi Persatuan Bank-Bank Dalam Malaysia; Yang Berbahagia Dato' Jaafar Hussein, Gabenor Bank Negara; Dif-dif kehormat; Tuan-tuan dan Puan-puan yang dihormati sekalian.

Saya mengucapkan berbanyak terima kasih kepada Ahli Jawatankuasa Penganjur Majlis Makan Malam Tahunan Institusi-Institusi Kewangan Malaysia, kerana menjemput saya dan isteri saya ke Majlis Makan Malam ini.

Ladies and Gentlemen,

2. This is the fifth occasion I have been invited to address the annual gathering of bankers and financiers of the nation. I have invariably used the gathering to make critical observations which I believe have caused some people a fair degree of discomfort. I wish I could be more genial but I believe we are not here to scratch each others back. We are here to seriously review our roles and correct flaws. Glossing over our faults in the interest of comfort can be done elsewhere. This is not to say that there is nothing praiseworthy that you as bankers have done. I realise the contribution you have made to the development of our country. But there is still much to do, especially now. Now that the General Elections are over and wishful thinking of some quarters has been proven wrong, we should all turn our attention to the all important tasks of governing and the restoration of the economy of the country.

3. We are going through a rough patch, made worse by deliberate attempts by some groups to undermine the efforts of the Government to achieve recovery. One of the reasons why elections were held almost a year earlier is to demonstrate that the rumours that the Government has lost the support of the people is false. One would have thought that the overwhelming victory of the Government party would have put paid to such rumours. But the rumour mills are still busy churning out the most fantastic myths. The latest one is that the Prime Minister is going to resign. I am not so daft that I should lead my party to victory in order to resign.

4. But rumour-mongers are not the only ones to try and subvert the economy of this country. During the Raya Holidays when the banks were closed a big foreign-owned bank tried to undermine the ringgit. Predicting without any basis that the ringgit would be devalued by 18%, they sold forward some 100 million ringgit. What followed, you as bankers already know. But it is shocking that banks should try to make a fast buck at the expense of a country struggling to recover from an economic blight. This is the second time that this trick has been tried. When Bank Bumiputera lost money, crooked Malaysian bankers were rightfully castigated. But silence will greet the manipulations by some of the worlds powerful bankers. Those who went to the rescue of this bank should ask themselves whether they were doing a good turn or they were abetting unethical

practice.

5. I mention rumour mongering and banking ethics because they are additional irritants which this country has to tackle. They complicate the strategies and efforts that have to be put in to overcome the economic problems of this country. As bankers you must be aware of the ease with which a run on the bank can be started by rumours. You should therefore be more appreciative of the problems of the Government in its efforts to resuscitate the economy.

Ladies and Gentlemen,

6. The Malaysian economy is highly dependent on exports of commodities. At one time it was thought that diversification would solve the problem of fluctuating commodity prices and the lack of control over prices exercised by producer countries. But now that panacea is no panacea. Commodities can go down in price together and they have done so. A structural change has taken place in the commodity trade so that not only have the prices plunged severely and together but they are not ever going to recover to the old levels. New technology has changed permanently the linkages between commodities and manufactured products.

7. For Malaysia this collapse of prices has been aggravated by the developed countries' manipulation of exchange rates in order to balance their trade. The prudent borrowings by Malaysia have now been inflated so highly that our financial resources are seriously strained in order to service loans, particularly those in Japanese Yen.

8. The effect of the collapse of commodity prices is far-reaching. Apart from widespread unemployment, there is less money to spend even by the generally well-to-do. Economic growth which has been taken for granted by all Malaysians has now probably grounded to a halt. There has been very little new investment from domestic as well as foreign sources.

9. For the banks this means debts cannot be serviced. Banks like to think of fixed returns on their loans. They cannot accept that when their client lose they should share in the losses. Their natural reaction is to make their clients pay up somehow even if bankruptcies would be the result.

10. The attitude is right and proper. Banks do not lend their own money. They lend money belonging to their depositors. They have a duty to safeguard their depositor's money. If they don't they will lose their credibility and can no longer enjoy the custom of their depositors.

11. The Government too is concerned that banks continue to enjoy the confidence of the public. The only way they can do this is to ensure that the money the depositors keep with them are safe.

12. But how safe is forcing borrowers to go bankrupt? Borrowers who go bankrupt obviously cannot pay what they owe the bank. Since they cannot pay, it follows that the bank will lose money. What happens to the depositors money

then? If all or a majority of the big borrowers are unable to pay and become bankrupt, what happens to the banks, what happens to the depositors and what happens to the economy?

13. Some borrowers have been very unwise or have played around. They deserve to be made bankrupt because there is no way they can pay back. But some are in a bad way through no fault of their own. A declining economy due to falls in commodity prices and reduced export cause serious cash-flow problems not only to traders in commodities but to all businessmen. Property developers, car dealers, retailers of all kinds, contractors, building material suppliers all suffer during a recession. They all borrow and if their loans are all recalled, the economy would suffer disastrously. There will be unemployment on a massive scale. Indeed the Government would get so little revenue that it may not be able to pay salaries.

14. The bankruptcy route to safe-guarding the money of depositors in the end will save them nothing. Indeed they will lose more than their savings.

15. All these must be obvious to all bankers. It is really superfluous for a medical doctor to be repeating them here. I am not for one moment going to suggest that bankers do not recall loans. They should. But they should be judicious.

16. Malaysia is not teeming with entrepreneurs and good managers. We cannot annihilate the few that we have. We have to give them a chance. Not to all, of course. But those of them who show initiative and who honestly try to repay when they can they should be helped. They should not have the carpet pulled from under their feet.

17. It is not they that we really want to save. These people contribute to economic growth, to employment and to the coffers of Government. It is the latter that we are truly concerned with. Indeed even the banking industry is dependent on these people. If they go under we are all going to go under sooner or later.

18. The Government has been urged admittedly by the business people to amend the Companies (Amendment) Bill 1986 in order to provide for a formula to save ailing businesses threatened by debts. We have drafted the amendment after studying similar legal provisions in America known as the chapter eleven provision of the U.S. Bankruptcy Code, and in Europe and Singapore. In its present form the bill is probably not quite acceptable. But there is plenty of time before it is debated in Parliament. The bankers can study it and make suggestions for amendments where necessary. But let us not reject it out of hand.

19. We need to help the ailing companies because it is in the national interest to do so. But obviously the banks cannot move in and manage all these companies. There are not enough people in the banks to sit on all the boards of these companies. Certainly the banks cannot oversee directly the affairs of the numerous small companies which are also in trouble. We have a big problem

here. We cannot shrink from it. We have to devise ways of tackling these problems.

Ladies and Gentlemen,

20. The economy of the world has changed. We no longer trade in goods and services. The biggest trade is now in currencies and shares. Apparently one can buy and sell currencies or shares without paying the slightest heed to their basic functions. As a layman I am lost. \$1/worth of shares are sold for \$25/one day and a few months later may be worth only 40\$. The performance of the company concerned or its assets apparently bear no relation to the market value of the shares.

21. Worse still non-existent shares can be sold and bought at prices determined by rumours and imaginary happenings. As a result a country can lose billions of dollars for no very good reason. Of course, it can also make billions of imaginary dollars for the same no good reason.

22. Excited by the possibility of becoming millionaires overnight through playing the stock market, serious business is almost forgotten. Who cares about manufacturing or trading when selling non-existent shares in a day can bring in more income than a year of real business.

23. Now comes the co-operatives. The Government has been very careful about listing public limited companies. They must have a track record before they can be allowed to tap funds from the public. But the co-ops can tap the same source without having any experience in business or financial management.

24. The Government must not regulate too much. But if public listing is as easy as starting co-ops, one wonders what the picture would be like today. As it is the co-ops have demonstrated that there is plenty of capital available in Malaysia. Unfortunately they have been amassed by unscrupulous people. Not all of course. But a sufficient number of crooks have apparently got into the act.

25. As usual the Government is being asked to absorb the losses. Everybody cares about the poor depositors. But the usual champions of public moral have not let out a whimper about the people who have committed obvious fraud. In other cases they express a desire to see the culprits brought to book irrespective of the cost to the people. What is the reason for this new attitude one wonders.

26. From the foregoing it is manifestly clear that this country faces serious economic and financial problems. Can we overcome them and get back on the road to economic growth and progress?.

27. The recent election should be an indicator of the resilience and commonsensical attitude of Malaysians. Despite deliberate efforts by certain groups to undermine the Government and the stability of this country, the people of Malaysia reelected the Government parties with a huge majority-signifying a vote of confidence in Government policies and actions. Of course, the disappointed analysts are saying that the losers are actually the winners. But

then these people have to try to regain their lost credibility.

28. What is important is that the people want the stability and pragmatic approach of the Barisan Nasional Government. Having nailed the lies that the Government lacks support, it is now possible for the Government to attend to the economic ills of the country with confidence.

29. Already the reelection of the Government has removed the uncertainties which undermine economic activities. In the prevailing stability the Government is free to plan and implement various measures to resuscitate the economy.

30. We have already identified weaknesses in the financial sectors. Additional powers have been given to Bank Negara to deal with certain situations in the market. Growth is to be stimulated by making finances available for the sectors which have potentials including housing and road construction.

31. New incentives have and will be provided for investments. Much political controversy was generated by my statement that the New Economic Policy will be held in abeyance. The fact is that the NEP is based on growth and there are many facets to the NEP.

32. Obviously if there is no growth there will be nothing to distribute. If certain conditions are found to inhibit growth at a given time, it follows that those conditions will have to be modified to remove the inhibitions. In the case of work permits for example, factors such as amount of capital brought in, export-orientation and transfers of skills programme will be taken into consideration. We shall be more flexible in the issuance of work permits according to the needs of the particular industry.

33. Secondly the NEP is not just equity distribution. It is equally important that job opportunities are also evenly distributed. In a situation where unemployment is rampant it is invidious to protect the interest of certain categories of investors at the expense of unemployment for workers. We will, therefore, modify the NEP conditions regarding equity in order to implement the NEP stipulations regarding employment. The Government is studying very specific conditions so that investors will not be left in doubt as to when and how we are prepared to forego equity participation in favour of jobs for Malaysians.

Ladies and Gentlemen,

34. The Government had adopted the Look East Policy in order to instill Eastern work ethics but its detractors have been able to sabotage the efforts. Consequently Malaysian productivity has only improved slightly. We now want to be more positive in instilling Eastern work ethics. Training camps for youths and workers will be set up by the Government in order to instill the right attitude towards work and employment. They will know their rights but they will also be made conscious of their obligations not only to their employers but also to society and the nation.

35. The managers and executives need also to be trained so as to upgrade their

ethical values. Much of the scandals and embezzlements by executives is due to a ' get-rich-quick' mentality which they have developed. Executives should not regard this as a slur on their character. I am not saying that all of them are untrustworthy. But the fact is that every time we look closely we see all kinds of activities unworthy of people entrusted with responsibilities. The Government will take care of the public sector executives. The private sector needs to do the same.

36. The Government for its part have cut down expenses to the bare minimum. If we spend it is because we want to stimulate the economy. Obviously if the Government ceases to expand money during economic stagnation, growth will not take place and the income of a lot people will be adversely affected. It is hoped that the kind of carping criticisms which only hampers recovery will cease. We, the Government, can and we do. Those who cannot should confine themselves to teaching.

37. These are but some of the measures we are taking to revive the economy and stabilise the financial health of the country. Already we are seeing results. We are in a better position to sit out this recession than most other countries. The important thing is not that prices should recover but the terms of trade should be more equitable. Eventually the terms of trade will have to adjust. Our not buying foreign goods has already given us a favourable trade balance despite poor exports. The developed countries will lose if they skew the terms of trade further. However, if all prices go down together, the consequent revaluation of all currencies would not be bad for anyone. Even in Malaysia falling prices would harm no one if the banks can accommodate and adjust.

38. And so finally we come back to the role of the banks. They cannot function in a vacuum. Even a bad economy is better than no economy at all. So the banks should give careful consideration to measures to help the survival of their clients. In the short term ensuring that you get back your money may be good. In the long term it may drag you down.

39. Similarly the interest rates must go down. We cannot function if our interest rates are double those of our nearest competitor. If we say the prime rate is so much, that should be the prime rate. It is useless to have an official prime rate which nobody gets.

Ladies and Gentlemen,

40. The Government expects the banks in Malaysia to help the economy to recover. I have outlined some Government measures and the possible measures that banks could consider. There will be others you can think of. It is up to you.

41. Finally on behalf of myself and my wife, I would like to thank the Association of Banks of Malaysia for inviting us and giving me a forum to speak on a subject quite unrelated to medicine.

Thank you.