

MAJLIS MAKAN MALAM TAHUNAN INSTITUSI-INSTITUSI KEWANGAN
HOTEL SHANGRI-LA, KUALA LUMPUR, 21 OGOS 1989

Yang Berbahagia Tan Sri Basir Ismail,
Pengerusi Persatuan Bank-bank Dalam Malaysia;
Yang Berhormat Dato' Paduka Daim Zainuddin,
Menteri Kewangan;
Dif-dif Kehormat;
Tuan-tuan dan puan-puan.

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

2. Ini adalah kali ke lapan saya menghadiri Majlis Institusi Kewangan ini. Pada majlis-majlis yang lalu saya telah mengambil kesempatan untuk memberikan pandangan dan pendapat saya mengenai keadaan ekonomi serta peranan dan prestasi institusi-institusi kewangan di negara ini. Seperti dahulu, saya bercadang untuk meneruskan amalan itu dalam Majlis pada malam ini.

Ladies and gentlemen,

3. Over the last couple of years, much attention has been focussed on the state of the Malaysian economy. Economists have been pre-occupied with second-guessing the strength as well as the sustainability of the economic recovery. Today, there is no longer any doubt that the recovery is fully entrenched. Latest data released by the Department of Statistics confirmed that real GDP growth accelerated to 8.7% last year, the best performance since 1979. All indicators point to continued strong growth over the next few years. This year, first quarter real growth was about 7.5%, the second quarter growth rate was closer to 8%. This better-than-expected economic outturn is now well on track, with a strong revival across all sectors of the economy.

4. More importantly, the initially export-led expansion is being reinforced by rising domestic demand as incomes and profits improve. Consumer demand, in particular, has been expanding strongly. To a large extent, this represents the inevitable release of pent-up demand during the 1985/86 recession. As a result, car sales are booming after a prolonged slump. Imports of consumer products are growing at double-digit rates, and business is equally brisk in the wholesale and retail trade. In terms of private investment, the indicators are equally encouraging, especially in the manufacturing sector. As sales orders mount and profits increase, manufacturers are becoming more confident of business prospects. This is increasingly being translated into higher outlays for capital expansion in plant and equipment, as reflected in the surge in imports of investment goods.

5. Clearly, all signs point to a sustained expansion for a wide cross-section of the economy over the next couple of years. Not with standing the sharp rise in imports, the balance of payments is expected to remain favourable, with perhaps

a small surplus over the medium term. We can also look forward to further progress on the fiscal front as the Government continues to consolidate its expenditure programme.

6. Although the economic prospects are favourable, this is no time for complacency. A lot is riding on the ability of the major industrial economies to "engineer" what is called a soft-landing for the world economy. Even as the IMF talks of continued good times ahead for world commodity prices, the decline in the price of our rubber, palm oil and tin in recent months is a cause for concern. We cannot afford to subject ourselves to the vagaries of the world trading environment. While conditions remain favourable, we should redouble our efforts to reduce our reliance on commodities and the external stimuli and instead promote domestic sources of growth. In this regard, banks have an important role to play in channelling the large inflows of liquidity from our buoyant exports into productive investment in the domestic economy.

Ladies and gentlemen,

7. The banking system must thus be anchored on a solid and unshakable foundation and this foundation must be reinforced continuously to support the rapidly expanding economy. As you are well aware, the banking system had gone through the "acid test" during the turbulent years of 1985-86. There is no doubt that appropriate surgery has been performed on the major weak links in the system, which surfaced during the severe recession. The system is now stronger and more capable of withstanding future shocks. With the coming into force of the Banking and Financial Institutions Acts, Bank Negara would have the power to intervene and supervise the financial system better. It is not the desire of the Government to have more regulations but supervision is necessary in order to effectively promote monetary stability and a sound financial structure. We must all remember that it is the Government that is called upon to provide the safety net whenever banks are threatened with insolvency.

8. Moreover, I am certain that the financial institutions would have become wiser and more prudent after experiencing the bursting of the "speculative bubble". The lessons have been costly and it would be worthwhile to remember them, particularly in the present mood, when the economy is on the upturn again. Management must impress these lessons and principles upon the new officers who will be future leaders of their institutions. These officers may not have had first hand knowledge or experience of the recent turbulent period of banking not only in Malaysia, but the world over.

9. With the economic outlook distinctly bright, the banking community should take the opportunity to build up their reserves in order to reinforce their ability to support a more prosperous and more sophisticated economy. The best and easiest time for the banks to raise capital is when they have surplus capacity and do not really need it. Moreover, the build-up in capital and reserves during the upturn of the cycle will not only enable them to grow in the future, but more importantly will place them in good stead to withstand shocks and absorb any unforeseen losses during future downturns.

10. Bank Negara has recently introduced a risk-based capital ratio, formulated along the lines of the Basle capital framework to be observed by all licensed banks and finance companies. It is my hope that, with the new risk-based capital framework, banks will be more sensitive in structuring their balance sheet. Adequate capital and prudent assets and liabilities management will go a long way in avoiding the mistakes and excesses of the past.

Ladies and gentlemen,

11. We are now in the third year of economic recovery with the pace growing stronger. Within this broad development, I wonder whether the financial institutions, especially the banks are moving along at the same pace. If we take a cursory glance at their financial statements, we see apparent gains and consolidation. However, a major part of the profits had actually come from recoveries of bad debts. I do not have any quarrel with the banks' efforts to collect what is legitimately theirs, but I wonder whether it has not become an obsession amongst them to emphasise recoveries of past due loans at whatever expense.

12. I have heard that banks are too insistent on recovering their old loans. During the recession, interest had accumulated because borrowers could not get the cash to service their loans. On top of that, the banks had imposed heavy penalty interests for such default. When things became better, borrowers who came forward to repay get a shock when they were informed of the amount owed. Even for those who propose to pay the whole amount of the original loan together with accumulated interests, some banks refuse absolutely to waive the penalty interest or even a part of it. These banks seem bent on getting their pound of flesh even if it prevents their clients from making a recovery and remaining as their clients. This is the kind of short-term thinking that does not seem to reflect maturity.

13. The banks and the country as a whole will not gain from acts which prevent good borrowers who willingly come forward to pay their loans from recovering quickly. We need such businessmen who are able and honest enough to pay their debts as soon as they can. They are responsible debtors. They should be rewarded rather than penalised. They should be helped to recover and to remain good clients of the banks concerned. They are truly assets to the banks and the banking system as compared to those who would avoid paying back loans for as long as they can.

14. Malaysia is short on good businessmen and paymasters. It is in everyone's interest to rehabilitate these people. I hope that banks will be more businesslike in dealing with them. The faster these people recover and go on with their business the better it will be for our economy as a whole.

15. At the same time banks must not be harsh on those of their clients who fell on hard times because of the recession. The collaterals they put up depreciated with the recession and they were unable to pay up. Many were made bankrupt because of their failure and are now unable to restart their business. Yet with the

economic recovery their former properties have appreciated. Had they been given time it is possible that they would repay the banks with the recovery of prices of their collaterals. But they have been made bankrupts and are now not able to repay banks with their limited earnings. And of course they cannot do any business as they cannot raise any capital. They are now useless to the banks, to themselves and to the nation. It is to me such a waste. Some of them who misused funds deserve to be bankrupted. But those who failed through the property depreciation do not deserve to be so punished.

16. Speaking of collaterals, the banking community still seems to regard them as the only worthwhile guarantees for loans. This is strange because we have seen that collaterals in the form of properties or shares can so depreciate as to be almost useless. This was what happened during the recession. Despite the collaterals being, in many instances, worth more than the loan given out, banks found themselves unable to recover the collateral supported loans during the recession. The collaterals had not only depreciated but there were also no buyers.

17. Unfortunately when the property appreciated during the recovery some bankers paid themselves off together with interest and penalties. Their clients recovered very little from the appreciation of the value of the collaterals. While repayments in installments should be charged the full penalties, repayments in full deserve to have their penalties written off or reduced. Indeed even interests deserve to be reconsidered.

18. Banks should really depend less on collaterals but more on the soundness of company management and profitability of projects. This is especially so when dealing with new enterprises and new products. If we are ever to move into non-traditional businesses, banks must be prepared to study projects or enterprises with a view to evaluating their potential. Obviously these businesses are not going to have a track record. But if they are not to be given any loan because they have no collaterals and no track record, how is there going to be new businesses and entrepreneurs?

19. Admittedly it is risky business to finance a venture with no track record and no collateral. But banking is also a business and banks must also take risks. More than that banks must be prepared to lose money or to share losses. Banks are not entirely without blame when businesses go sour.

20. A few years back, at an annual dinner such as this, I suggested that banks should take up shares and actively participate in business. Then if the enterprises borrow from the banks they will be in a position to oversee the management. They will be able to halt any wild ventures at least through the boards. Certainly they can make sure that money is not misused.

21. As I remember it the suggestion was welcomed by the banking fraternity. But I know of no banks which have actually taken shares in companies and participated in their management. I do hope that this is because banks have their hands full running their normal business. I also hope that they will take up this

suggestion in the near future.

Ladies and Gentlemen,

22. At a recent exhibition of Malaysian science and inventions, a number of the brainchildren of Malaysian inventors seem to cry for production and marketing. If in addition our researchers take seriously the suggestion to identify products which can be copied and modified through reverse engineering, it would seem that there is a great scope for the start-up of many new enterprises. But of course such new enterprises would require venture capital.

23. A seminar was recently held in Kuala Lumpur on venture capital. If the seminar succeeded in convincing banks to the need to support new ventures, possibly involving new inventions or reversely-engineered products, we may yet see the emergence of new manufacturing activities in Malaysia by Malaysians. At the moment of course new technologies are only employed by foreign manufacturers with reputation and track records. Yet at one stage these foreign big names must have been small and unknown. They must have had some banking backers in their early days to be where they are today. Cannot our small new entrepreneurs be accorded the same backing by our banks?

Ladies and Gentlemen,

24. For banks to venture into what are to them uncharted seas, they must prepare themselves thoroughly. An ability to understand cash-flows alone is apparently quite inadequate. Banks must have people who look beyond pure money lending. They must understand the management of businesses, particularly new manufacturing businesses. They must also have officers acquainted with some current technology.

25. Thus equipped they will be able to make better evaluations and to take the kind of risks involved in providing venture capital, directly or indirectly. We need this kind of banking skills and risk taking if we are ever to escape from the traditional areas of business - commodity production, properties, construction and running kedais. We cannot go on relying on these limited areas of business because, in the final analysis, they are all commodity-based. And there is no way we can control commodity prices. I am not asking banks to be imprudent. They must be prudent but not to the extent of stifling entrepreneurship in this country.

26. I realise fully that banks have been badly bitten during the recent recession. They know that even with collaterals they can still lose their money. They know that some business people including valuers do overvalue collaterals. Leasing companies have had very bad experience indeed. Once the money is given out the lenders lose sight of it. Since banks and other financial institutions cannot possibly supervise the way all their loans are being expanded, the role of the auditors becomes extremely important. The auditors are there to ensure that the directors and managers manage their money properly.

27. In our system the auditors are supposed to be appointed by the shareholders at the annual general meeting. In actual fact it is the management and the

boards of directors which appoint the auditors. This being so the auditors often feel themselves beholden to the management and the boards. This is not healthy. Banks which often have more money at risk than the shareholders should really have a proportionate say in the appointment of auditors. The auditors should be beholden to the banks as well as to the shareholders. This way the banks will have some supervision over the money they have lent to the businesses. This would reduce their risks and consequently their reluctance to finance enterprises.

Ladies and Gentlemen,

28. We should also not forget that insurance companies too need to move along a similar direction. For too long, the insurers have stayed in the background. The time has now come for the insurance industry to move closer to the forefront of economic activities to seriously consider providing commercial insurance cover to the hitherto "averse" risks such as crop, livestock and fishery insurance; to upgrade risk management techniques so as to take on the more sophisticated megarisks of marine, aviation and energy; to pool resources together so as to retain domestically as much as possible the large premiums, a substantial proportion of which is now paid overseas, a big contributor to our invisibles, to package the most cost-effective insurance products for the salary earners and businessmen alike. All these are for the national good while not diminishing the profitability of the insurance companies.

Ladies and gentlemen,

29. We all feel that Malaysia is experiencing an upturn in the economy. We see evidence of it everywhere. We see more traffic jams, more frequent full house notices by hotels, more people eating out, more clubs and golfers, more crowds at shopping malls, more smog and indeed more of everything. All these sound good to businessmen and to bankers. But for all these growth to be accommodated and sustained everyone must tidy up his act and upgrade facilities and services.

30. Today Malaysia' s population is 17.4 million. When we became independent there were only 5 million Malaysians. The increase is rapid, very rapid. Assuming we have a population growth of 2% and we have more than that, there will be more than 340,000 new Malaysians every year or without compounding 1 million every three years. These people will have to be fed, clothed and housed through employment. They have to be transported and entertained. Doing these alone would mean more business.

31. The Government in anticipating these needs have set in motion plans and policies designed for accelerated economic growth. We are expanding vast sums on needed infrastructures. The State Governments, you may have noticed, are very much more active in attracting local and foreign investments and generally boosting the economy. Even local authorities have adopted very positive attitudes.

32. For all these economic growth for a burgeoning population to take place, capital will be needed. The financial institutions must play their role. They must be more innovative and open-minded. They must help our business people seize opportunities as they appear. They must not look merely at their immediate profits but also at the long-term returns they will get as the population increases and businesses grow along with it.

33. We do not want our rapidly growing population to result in the lowering of our standard of living. Per capita income must increase even as the population increases. While exports will continue to contribute more and more to our economic growth, the health of the nation' s economy would be better protected if domestic demands also grow to reduce dependence on export.

34. Money must move. It must not remain static. Every time money changes hands wealth is created. The faster money moves the greater will be the wealth created. The financial institutions, the custodians of the nation' s money must help this process, must give guidance, must provide expertise and must be more adventurous. They must not let their money stagnate in their vaults for any longer than they can help. They, more than everyone else, must keep money moving and consequently growing.

Ladies and gentlemen,

35. We have preached public and private sector cooperation. We have recently begun preaching a three-way cooperation between the Government, the businesses and the workers to heighten economic growth. Now we want to suggest the participation of another important partner to make it a foursome. We would like to see the financial institutions throw their full weight behind the other three so that we will take off on a sustained economic growth path for the betterment of all of us.

36. As you enjoy your dinner tonight try also to digest and absorb some of the special menu I have just cooked up for you. God willing we will build together a better Malaysia.