

Issuing Currency

The Bank is the sole issuer of ringgit banknotes and coins, which are the only legal tender in Malaysia.

The Bank's mandate is to ensure that there is sufficient supply of ringgit banknotes and coins at all times to meet public demand (see the accompanying feature article on the challenges in managing currency operations during the COVID-19 pandemic), and to maintain the quality and integrity of the currency in circulation (CIC). In doing so, we seek to conduct our currency operations in a cost-effective manner.

Currency in circulation

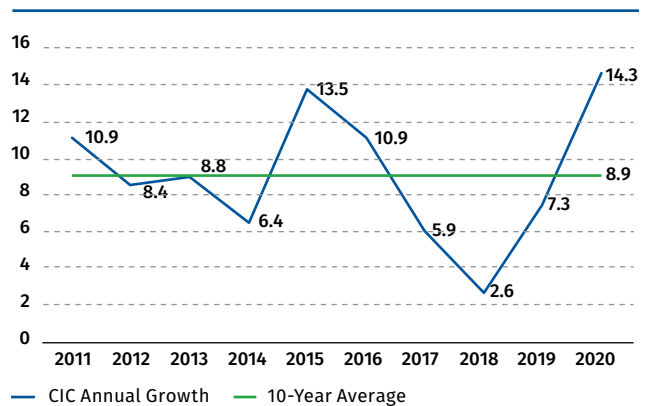
Physical currency is used as a medium of exchange to facilitate payment transactions and as a store of value. Despite movement restrictions and rapid acceleration in e-commerce and online spending in 2020, cash remains the most prevalent medium of payment. At end-2020, there was approximately RM130.4 billion worth of banknotes and coins in circulation, with an annual growth of 14.3%. This was the highest increase in CIC in the last ten years (Chart 1, 2019: 7.3%, last ten-year average of 8.9%). This significant increase in demand for cash, which can also be observed in other countries¹, was due to members of the public and small businesses engaging in precautionary behaviour, as they sought to hold more cash during the COVID-19 pandemic. With higher CIC and decline in GDP, our CIC over GDP² rose to 8.3 from 6.6 in the previous year³ (Chart 2).

¹ According to the Currency News September 2020 edition, 53 currencies registered a median annual growth of 14.5% in 2020 (2019: 6.7%), with more than 60% of the countries recording their highest annual growth rate of CIC. The US and the Euro area reported more than 10% year-on-year increase in CIC.

² CIC over GDP is a measure of cash intensity for a particular country.

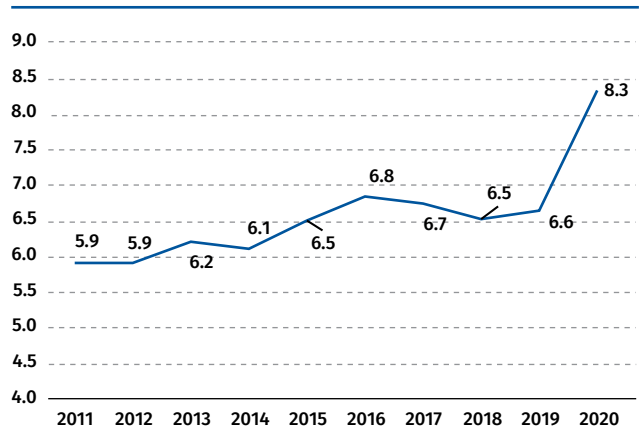
³ Based on data for 2019 from the Bank for International Settlements, Malaysia's CIC over GDP (6.6) was higher than Australia (4.0) and the UK (3.4) but lower than Singapore (9.6) and Japan (19.3).

Chart 1: CIC Growth (%)



Source: Bank Negara Malaysia

Chart 2: Malaysia's CIC over GDP (%)



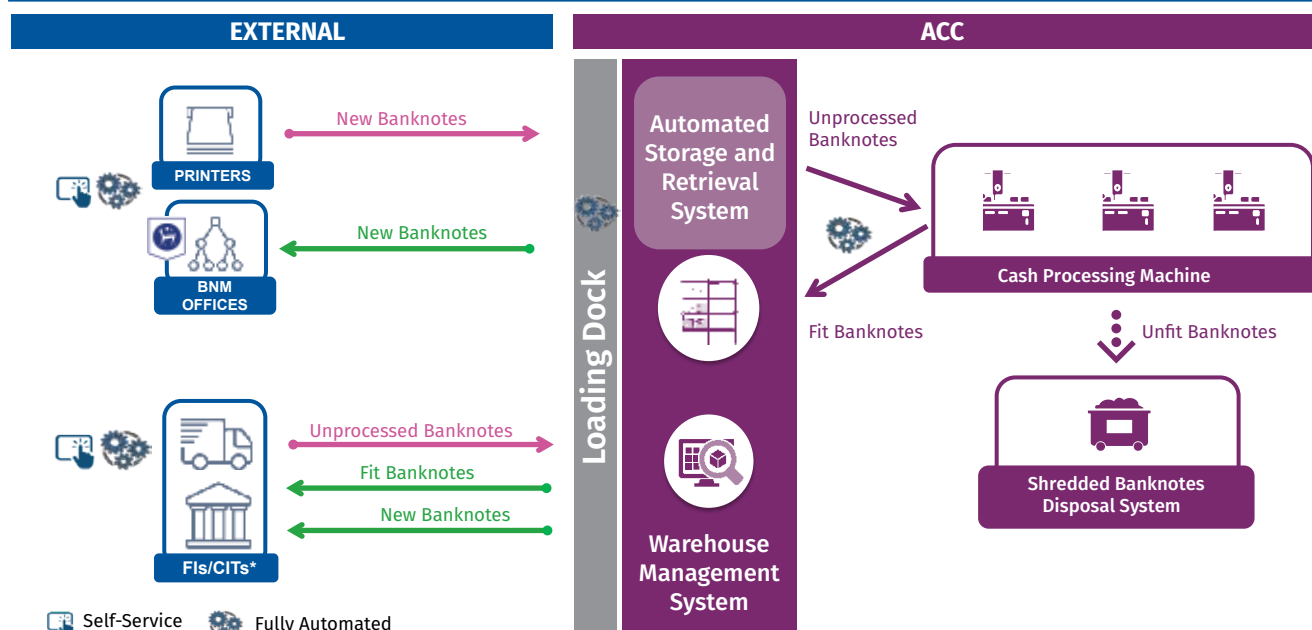
Source: Bank Negara Malaysia

Currency operations

In managing currency operations, we procure our banknotes from qualified international printers through open tender and mint coins at our minting facility, Kilang Wang (KWG).

Unlike banknotes, we are not able to recirculate used coins on the same scale. This is because the public are less likely to deposit their excess coins

Diagram 1: Currency processing at Automated Cash Centre (ACC)



*Note: Financial Institutions/Cash-in-Transit companies

with financial institutions. We estimate that as much as 30% of coins issued every year ends up being kept idle at home, in jars and drawers, as “dead coins”. To encourage recirculation, we actively partner with coin agents⁴ and financial institutions to collect coins from the public, which are then reissued into circulation. In 2020, we collected and recirculated 82.1 million coins or 9.1% of KWG’s annual output. This represents a considerable cost saving. Nevertheless, the challenge remains to get the public to recirculate more coins kept at home, when making payment for retail transactions.

A key focus is to maintain the high quality of banknotes to ensure public confidence in our currency. This involves the Bank removing worn and defective banknotes that do not meet quality standards and replacing them with either new or fit banknotes. Fit banknotes are used banknotes which meet the acceptable quality standards for recirculation. Banknotes that are found to be unfit for recirculation will be shredded. These notes are processed at our Automated Cash Centre (ACC) and the Bank’s regional offices in Johor Bahru, Penang, Kuala Terengganu, Kuching and Kota Kinabalu. In total, we processed 2.3 billion (2019: 2.9 billion) banknotes in 2020 and

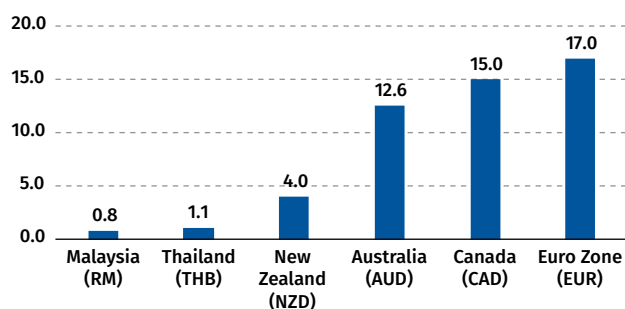
shredded 23.3% (2019: 20%) of these banknotes that no longer met the quality standards. The ACC processes about half of the banknotes collected. Leveraging on state-of-the-art automation and high speed processing machines, the ACC has a significant capacity to process banknotes, enabling the Bank to more efficiently meet demand with fit banknotes throughout the year, even in the midst of a pandemic.

The Bank also acts to safeguard the integrity of the ringgit against counterfeit banknotes and coins. Counterfeiting currency is a serious crime that undermines public confidence in the ringgit. To combat banknote counterfeiting in Malaysia, we work closely with local law enforcement agencies. We also conduct currency awareness and education programmes. During the year, efforts to raise awareness and educate the public on currency issues continued, albeit in virtual mode. These ongoing efforts contribute to Malaysia’s consistently low counterfeiting rate. As at end-2020, Malaysia’s counterfeiting rate was less than one per million pieces (ppm) of banknotes (2019: 1 ppm), well below that of other benchmarked countries (Chart 3).

In managing our currency operations, we strive to keep the cost of operations low by prioritising the use and distribution of fit banknotes. The issuance of fit banknotes in lieu of new banknotes also reduces the environmental impact of the Bank’s currency operations. Printing 500 million pieces of new

⁴ Coin agents provide a one-stop logistics service to the Bank and customers, where all coins collected from circulation will be processed according to the quality standards set by the Bank and segregated based on their fitness level. Only fit coins will be recirculated, while unfit coins will be returned to KWG for destruction.

Chart 3: Currency counterfeiting rate of Malaysia and other countries (ppm)



Note: Data for 2020, except for Thailand, New Zealand and Canada (2019)
 Source: Bank Negara Malaysia, website and annual report of the respective central banks

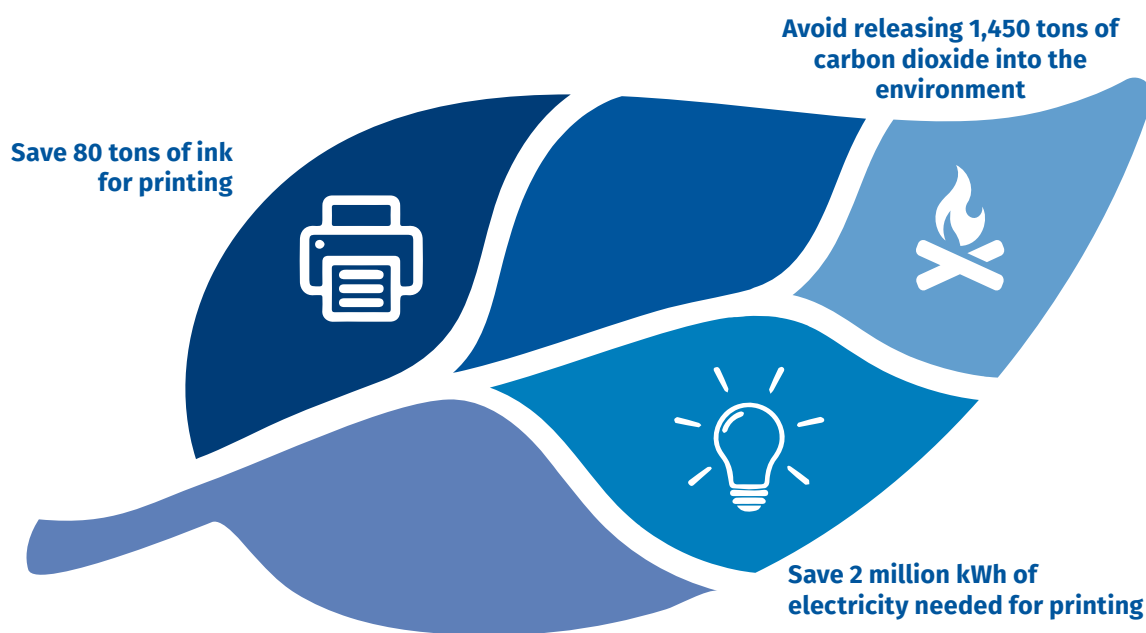
banknotes releases 1,450 tons of carbon dioxide into the environment and consumes more than 80 tons of ink and 2 million kWh of electricity - enough to power 7,500 Malaysian homes for a month.

We produce commemorative banknotes or coins to mark special occasions that have national significance. During the year, we issued a series of commemorative coins in conjunction with three occasions - the 50th anniversary of Universiti Kebangsaan Malaysia, the 25th anniversary of Putrajaya and Malaysia’s hosting of the Asia-Pacific Economic Cooperation Meetings in 2020 (APEC 2020).

We also took steps to provide the public with convenient and safe access to our services. During the year, we shifted to online orders, payments and direct deliveries of commemorative coins. In addition, we launched an entirely online process for the 11th auction of the Malaysian banknotes with special serial numbers. Beginning January 2021, we also enabled the exchange of defaced banknotes at the counters of any financial institution⁵ nationwide. Before this, the public could only exchange these banknotes at the Bank’s headquarters and BNM Offices.

Diagram 2: Minimising the environmental impact of currency operations

Issuing 500 million of fit, instead of new, banknotes can have significant positive impact on the environment



⁵ The public will get the full value of the defaced banknotes immediately in 'straightforward' cases. Otherwise their cases will be referred by the financial institutions to the Bank. The public will receive the value of the defaced banknotes after the case has been assessed by the Bank. Straightforward cases are when the defaced banknote fulfils all the following conditions:

- Size of the defaced banknote is two-third or more of the original size;
- The defaced banknote does not contain any marking on the portrait of the DYMM Yang di-Pertuan Agong or writings depicting political slogans; and
- The banknote is not defaced due to markings or writings of words, figures and others.



View inside the cash processing area which houses cash processing machines at the ACC



A glimpse inside a cash processing machine

Currency Act 2020

The Currency Act 2020 came into force on 1 October 2020. It sets out a comprehensive regulatory and operational framework for the management of currency operations. The new law will complement the existing Central Bank of Malaysia Act 2009. Among others, the law requires that any entity involved in the currency processing business⁶ must fulfil the requirements

stated in the Currency (Registration Requirements) Order 2021, which will be gazetted soon, and apply to the Bank for registration to conduct their business.

Consistent with the provisions of the new law, to ensure the high quality and integrity of currency in circulation, all registered currency processors will need to meet the quality and integrity standards that the Bank will announce this year.

⁶ Section 2(1) of the Currency Act 2020 defines currency processing business as the business of collecting, sorting as well as packing currency by quality, quantity and denomination.



Obverse (left) and reverse (right) design of the 50th Anniversary of Universiti Kebangsaan Malaysia (UKM50) commemorative coin



Obverse (left) and reverse (right) design of the 25th Anniversary of the Establishment of Putrajaya commemorative coin



Obverse (left) and reverse (right) design of the Asia-Pacific Economic Cooperation Meetings 2020 in Malaysia (APEC 2020) commemorative coin