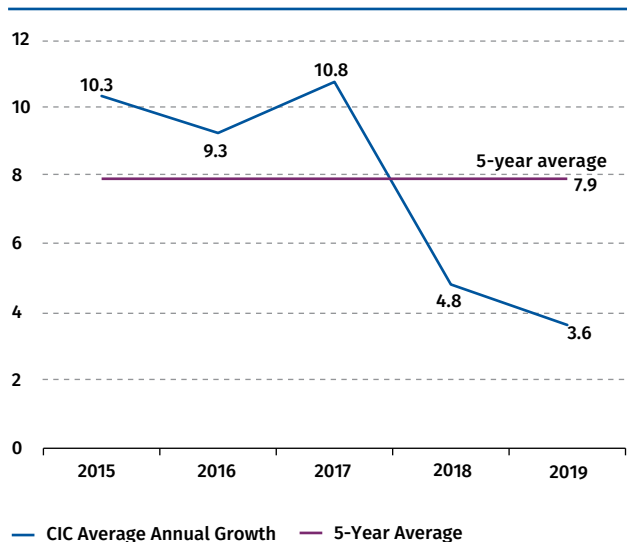


Issuing Currency

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

Our mandate is to ensure that there is sufficient supply of ringgit banknotes and coins at all times to meet public demand, and to maintain the quality and integrity of the currency in circulation (CIC). In doing so, we also seek to conduct our currency operations in a cost-effective manner.

Chart 1: CIC average annual growth (%)



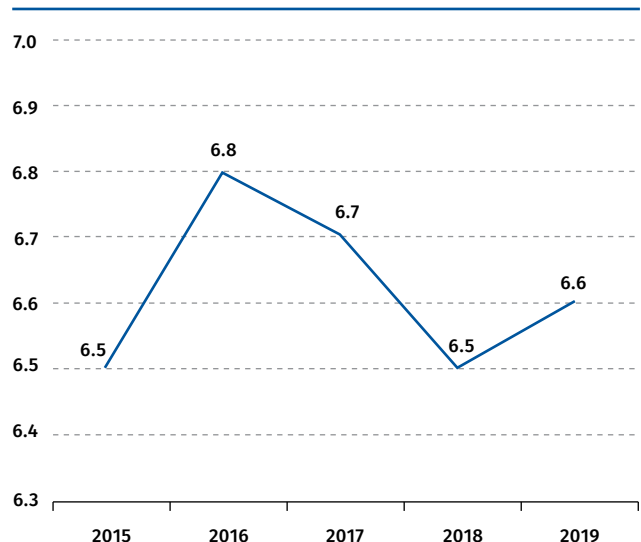
Source: Bank Negara Malaysia

Currency operations

Physical currency is used as a medium of exchange to facilitate payment transactions and as a store of value. It continues to be widely used in the Malaysian economy, with approximately RM114.1 billion in banknotes and coins in circulation at end-2019. In 2019, CIC grew by 3.6%, markedly lower than the five-year average of 7.9%. However, the country's CIC as a share of Gross Domestic Product (GDP) has been hovering between 6.5% and 7% in the last five years. While the country's CIC continues to grow in tandem with the economy, there are clear signs of slower growth with greater adoption of electronic payments for economic transactions.

In managing the Bank's currency operations to meet the needs of the economy, we procure banknotes from international printers through competitive tender and mint coins at our *Kilang Wang* located in Shah Alam. In 2019, we minted nearly one billion coins. We also conduct on-site assessment on the capability and controls of qualified printers.

Chart 2: CIC over GDP (%)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia



Quality testing is part of the coin minting process in Kilang Wang.



An engraver is applying the finishing touch on the master die as part of the process to mint commemorative coins.

Our currency operations are also directed at ensuring the high quality of CIC, so that the public has confidence in our currency. This involves the Bank removing worn and defective banknotes from circulation, and replacing them with either new or “fit” banknotes. Fit banknotes are used banknotes which meet the acceptable quality standards for recirculation. The Bank processes about three billion banknotes annually, with about half of this carried out at our Automated Cash Centre (ACC) located in Shah Alam. The other half is processed by our five regional offices located in Johor Bahru, Penang, Kuala Terengganu, Kuching and Kota Kinabalu. The ACC which started operations in 2016 has reduced the time taken to process banknotes¹ from three months to one month, enabling the Bank to more efficiently meet the demand with fit banknotes throughout the year and thus, reduce the cost of printing new banknotes.

In ensuring a continuous supply of our currency throughout the country, the Bank works closely

¹ Banknotes deposited at the Bank are checked using high speed processing machines for their quality level and those that are worn out, defective or fake are then removed. Only high quality and genuine banknotes are recirculated.

with the Royal Malaysia Police (RMP) to ensure safe delivery to the ACC and regional offices based on the needs of the local community. The banknotes and coins are then transported to the branches and cash service machines² of financial institutions by cash-in-transit companies (CITs) and coin agents. These companies play an integral role in the currency management supply chain as they are responsible for ensuring the safe and efficient distribution of the ringgit.

The Bank also acts to safeguard the integrity of the ringgit against counterfeit or fake banknotes and coins. Counterfeiting currency is a serious crime that undermines public confidence in the ringgit and the Bank’s role as the sole issuer of currency. To combat counterfeiting in Malaysia, we work closely with law enforcement agencies, such as the RMP and Attorney General’s Chambers of Malaysia, to investigate and charge acts of counterfeiting. We also conduct currency awareness and education programmes. The general public may find information on the

² Refers to automated teller machines, cash recycler machines and cash deposit machines.



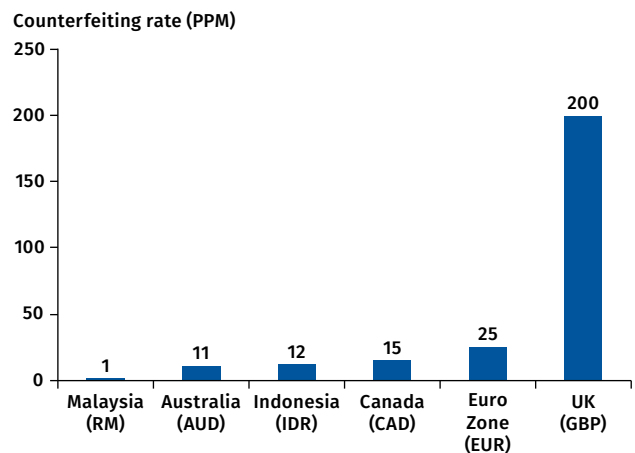
Currency processing is undertaken efficiently at the ACC.

banknotes and coins, including their security features, on our website and MyRinggit mobile application. In 2019, we certified more than 160 trainers from various partner institutions – including government agencies, business and consumer associations, and retailers – to conduct currency awareness and education programmes which complement our own outreach efforts. These ongoing efforts contribute to Malaysia’s consistently low counterfeiting rate. At end-2019, Malaysia’s counterfeiting rate was at one piece per million (PPM), well below that of other global benchmarked countries.

In managing our currency operations, we strive to keep our cost of operations low. We do this by prioritising the distribution of fit banknotes as it substantially costs less to process used banknotes than to produce new ones. Importantly, the issuance of fit banknotes in lieu of new banknotes also minimises the resource and environmental impact of the Bank’s currency operations. The issuance of polymer banknotes for the lower denominations of RM1 and RM5 has also reduced the need for new banknotes, especially during festive seasons. This is due to the higher durability of polymer banknotes which last four times longer than paper banknotes. They are also more resistant to dirt and moisture. In 2019, about 20% of processed polymer and paper banknotes were found to be unfit for circulation and shredded.

From time to time, we produce commemorative banknotes and coins to mark special occasions of

Chart 3 : Currency counterfeiting rate of Malaysia and other countries



Note: • Data for 2018, except for Malaysia and Australia (2019)
 • Exclude coins
 • PPM: piece per million

Source: Bank Negara Malaysia, website and annual report of respective central banks

national significance. During the year, we issued a series of commemorative coins in conjunction with the installation of His Majesty Seri Paduka Baginda Yang di-Pertuan Agong XVI. The distribution of this series was also marked by the Bank’s launch of a new online ordering and payment facility to facilitate more convenient purchasing of commemorative coins by the public. A computerised balloting process was also introduced to allocate the limited supply of the commemorative coins to orders received.

As part of our continuous public awareness campaign, we educate the public and night market traders on how to authenticate genuine banknotes.



Currency legislation

The year also saw the passage of the Currency Bill by the *Dewan Rakyat* and *Dewan Negara* in December. The new currency law – Currency Act 2020 – will complement the Central Bank of Malaysia Act 2009 in setting out a comprehensive regulatory and operational framework for the management of currency operations. A key enhancement of the law are provisions for the Bank to oversee and regulate CITs that are involved in currency processing activities. As they process about 70% of circulated banknotes, stronger oversight arrangements for currency processors will serve to ensure high standards for

currency processing to maintain the high quality and integrity of CIC.

The new law also sets out a number of provisions that apply to the general public on the proper treatment of currency.

Going forward

Going forward, the Bank will implement the requirements of the Currency Act 2020. This will include establishing a registration regime to regulate currency processors.



The obverse and reverse of the commemorative coin issued in conjunction with the installation of His Majesty Seri Paduka Baginda Yang di-Pertuan Agong XVI.

Notable provisions under the Currency Act 2020

There are several notable provisions in the Currency Act 2020:

- a. No entity other than the Bank can issue currency or any other instrument as legal tender. This includes any instrument that is likely to pass as legal tender based on characteristics defined in the law.
- b. An economy-wide cash transaction limit can be set to prohibit large value cash transactions.
- c. A legal tender limit for coins is set at 25 pieces. Recipients may refuse to accept payment if it is made using more than 25 pieces of coins of any denomination.
- d. A registration regime will be introduced to regulate currency processors. Standards on currency processing will be imposed on them to ensure high quality and integrity of CIC.
- e. The Bank, financial institutions and registered currency processors are empowered to seize currency that is suspected to be fake. The bearer of the seized currency must provide his personal information to facilitate investigations. Failure to do so is an offence.
- f. No one is allowed to melt coins with the intention to gain profit.