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# Stakeholders' Perceptions of Alternative Money Creation for Commercial Bank Money Lending Activities in Malaysia

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**Abstract** – The study aims to explore stakeholders' perceptions on alternative money creation for commercial bank money lending activities in Malaysia. A phenomenological approach was employed to examine the stakeholders' perception through experience sharing. Data were collected using a semi-structured interview approach among 10 consenting individuals from different stakeholder groups. The study revealed respondents' two opinions on possible alternative money creation for commercial bank money lending activities. First, fiat money should be removed from the monetary system. Second, money backed by real assets such as gold and silver should be issued and controlled only by Bank Negara Malaysia (BNM). Moreover, other respondents highlighted that the accounting entry for commercial bank money lending needs should align with the accounting entry of non-bank or trading institutions. Thus, the scope of commercial banks to create money in the lending system will be reduced. Significantly, as long as the central bank can control commercial bank money lending activities through its various mechanisms, money creation is not a big issue but finance quality is. The study could be the basis of for essential future research due to the lack of research on the subject. Additionally, future studies can investigate views of the key regulator (BNM) and other respondents' arguments.

**Keywords:** Money creation, Money lending, commercial banks, Stakeholders' Perceptions

## 1. Introduction

Studies demonstrate that 97% of the money held by the public is considered bank deposit money instead of currency (McLeay et al., 2014; Wolf, 2014) where the maximum portion of the broad money is in the bank recording process rather than real paper currency. The consequence of this money creation in the socio-economic environment makes the subject more crucial for the stakeholders to understand the issue. The practice (commercial bank credit creation activity) has been heavily criticised for causing the global financial crisis (GFC) between 2007 to 2008, as acknowledged by different groups of stakeholders, such as academia, business, and politics (Acharya & Richardson, 2009; Farhi & Tirole, 2012; Kashyap et al., 2008; Liikanen, 2012; Stiglitz, 2009; Vickers, 2011).

Enjoying the credit creation by the commercial banks significantly contributes to enhancing inflation (Li et al., 2016; Turner, 2012). Greater expansion in currency supply in the economy stimulates the rise in the price of commodities, thus reducing the purchasing power of money, causing greater inflation. Moreover, banks are unable to regain their money in full as the price of houses and land do not reflect maturity price. Consequently, the bank liquidity crisis and issuing new home loans became increasingly complicated. The situation is the main contributor to the fallout from the sub-prime lending bubble. Hence, the stakeholders' perceptions on the alternative money creation might encourage positive responses for the potential future economic consequences, such as GFC 2007 to 2008.

Conventional deposit money creation through commercial bank money lending activities significantly impact financial instability in Malaysia (Abdullah, 2015). Furthermore, excess money supply devaluates the Malaysian *Ringgit* through accumulated commercial bank deposits. Past studies suggested that excessive money supply through accumulated credit creation caused inflation and Malaysian fiat money (*Ringgit*) gradually lost the purchasing power since adopting the 1970 fiat standard (Abdullah, 2015). Moreover, relationships among debt, money supply, and inflation were experienced in Malaysia and other countries (Yasmin & Waqar, 2013). The matter became increasingly difficult despite BNM being responsible for maintaining the value of *Ringgit* under the Central Bank Act of 2009. Specifically, fiat money in Malaysia is largely backed by debt. Table 1 illustrates the monetary balance sheet of the *Ringgit*, thus indicating that fiat money is 99.6% backed by debt. Meanwhile, Table 2 depicts a similar trend of credit creating for the current practice of commercial bank money lending activity, implying threats of a potential financial crisis.

Table 1: The monetary balance sheet of the *Ringgit* (RM) as of 31st December 2014

(RM Billion)			
Assets	RM	Liabilities	RM
Gold	5.2	BNM Currency	68.2
IOUs Owed to Banks	1,548.6	Bank Deposits	1,485.6
	1,553.8	M3	1,553.8

(Source: Abdullah 2015)

Table 2: Balance of M3 and Gold as at 31st December 2016

Items	RM (Billion)
A. BNM Currency	85.5
B. Bank Deposits	1,557.0
<i>M3</i> (A+B)	1,642.5
Gold	6.4

(Source: BNM Annual Report, 2016)

Despite all the significant consequences of commercial bank money creation, past studies still seek unique alternatives aligned with the different accounting treatments of commercial bank money lending activities. Unique alternative denotes any replacement that merges different alternatives suggested by earlier studies. For instance, converting the bank notes into gold and the intensification of central banking (Faure, 2013), and “full reserve banking” under the gold standard (Huerta, 2009). Calls were made for absolute discontinuation of the fictitious deposit money creation (Salleh & Borges, 2015 & 2016). Conversely, studies support commercial bank money creation, claiming that the money creation is backed by the existing (collaterals) assets and confidence in future cash flows (Becke & Sornette, 2014). Additionally, studies suggested that ending commercial bank money creation leads to an economic collapse as the economic boom situation is affected by the continuation of credit expansion. Thus, money creation is not an excess of demand over supply in the economy (Becke & Sornette, 2014). Hence, the conflicting arguments complicate finding possible alternatives aligned with commercial bank money creation practices.

The study is relevant in questioning the current commercial bank practice, particularly by making the stakeholders re-think the phenomenon to prevent potential future long term economic crises such as the GFC 2007 to 2008. To gain a better understanding of the issue, the study examined stakeholders’ perceptions on alternative money creation for commercial bank money lending activities in Malaysia. The study is organised into the introduction part and the background of the study. In the literature review section, relevant past studies were summarised accordingly. Meanwhile, the remaining sections comprise the research method, analysis, findings and conclusions.

## 2. Literature Review

### 2.1. Money Creation in Malaysia

Commercial bank money lending activities and accounting treatments are identical in Malaysia. The identical practice created an opportunity for commercial banks to create deposit money during the money lending process, as in Malaysia and other countries. The deposit creation denotes a conflicting meaning based on the definitions in existing Malaysian law. The Financial Service Act 2013 [Section 2(1)] clearly identified the sources of the deposits in the commercial banks. Specifically, deposit money should come from outside customers, whereby the customer owns the money and banks must repay the money based on the contract. Nonetheless, the deposits created by the commercial banks do not

come from outside but are created within the bank through accounting treatments during the money lending activity (Salleh and Borges, 2015). Thus, deposit money creation raises several important questions. For instance, how do stakeholders perceive the practice? Does the practice comply with the existing law and what is the socio-economic impact of the practice? Essentially, only BNM possess the absolute power to issue, print, and control money creation [Section 62(1), Central Bank of Malaysia Act 2009] and is the only institution that can control any commercial bank partial or entire money lending activity [Financial Service Act 2013, Section 167 (1)]. Furthermore, how does BNM play its role to control commercial bank money lending activity when the activity is claimed to create money?

Few studies addressed the commercial bank money creation activity in Malaysia compared to the main developed countries (Abdullah, 2015). Moreover, past studies failed to investigate the stakeholders' perceptions on the issue and identify the real causes of money creation in commercial bank money lending activities. Abdullah (2015) stated that financial instability in Malaysia results from conventional deposit money creation by commercial bank money lending activities. Additionally, accumulated commercial bank deposit money devaluated the Malaysian currency *Ringgit* through inflation due to the excess supply of money. Similarly, the adoption of fiat money leads to the gradual reduction of purchasing power of *Ringgit* (Abdullah, 2015).

One study found a strong relationship among debt, money supply, and inflation, as observed in Malaysia and other countries (Yasmin & Waqar, 2013). The BNM annual report 2016 mentioned that M0 (physical cash) is only 5% of the total money in Malaysia, while most of the money is kept in the form of banks deposit (Table 3).

Table 3: Money creation by the banking industry

	M3 (Deposit, short term loan, and cash)	M0 Physical cash (notes and coins)	%
	RM million	RM million	
2103	1,462,390	62,617	4.28%
2014	1,553,803	68,029	4.38%
2015	1,595,264	76,643	4.80%
2016	1,642,449	85,460	5.20%

(Source: Bank Negara Malaysia Report, 2016)

Most of the money in the economy is backed by debt as the commercial bank money deposit is created during the lending activity (see Tables 1 and 2). Similar practice of commercial bank money lending activities continues, presenting a potential threat which could result in financial crisis. Studies propose discontinuing commercial bank money creation and stakeholders including auditors must know about the current practice as auditors of the financial report (Salleh & Borges, 2106).

## 2.2 Impact of Commercial Bank Money Creation

A bank is a different financial institution unlike traders or non-bank financial institutions as only commercial banks possess the legal authority to grant customers with credit. Institutions, such as traders or non-bank financial institutions or even individual persons possess no legal permission to accept people's deposits and perform lending activities. The process indicates that the credit creation function is the unique ability of banks (Stoop & Sornette, 2010).

Bank credit creation ability significantly impacts economic growth. Banks create credit as much as needed to support economic growth and credit creation, influencing existing and future gross domestic product (GDP) growth. Ideally, the economy ensures no excess supply of credit over demand (Stoop & Sornette, 2010). Lapavitsas and Saad-Filho (2000) proposed the same shape of money supply:

The demand for money cannot be independent of the supply: there can never be an excess supply of money because money settles debts and can always be held for 'convenience' reasons: for the advantages provided by money liquidity.

Therefore, the money supply is not independent of demand, cannot be excessive, rejecting inflation as a monetary phenomenon. Becke and Sornette (2014) expressed that:

It follows that because money supply is demand-driven, there cannot be "excess money supply", and hence, inflation cannot be a monetary phenomenon. ....The causes of inflation can be manifold but are generally a result of conflicts over the distribution of income between different social classes and are not a given consequence of economic growth.

Excess reserves influence the money supply through credit extension. The Central bank can limit money supply by initiating changes in the reserve requirement for commercial banks and can implement the control mechanism in the money supply (Lapavitsas & Saad-Filho, 2000). Theoretically, the total amount of money creation depends on the percentage of the total deposits that banks require to hold over the excess reserve. Therefore, the Central bank can interrupt the money creation by changing the reserve requirement and the price (interest rate) to receive the additional reserve. The theoretical credit growth aids the money supply in the economy (Ábel et al., 2016). The money supply benefits depend on the economic growth of the money supply. For instance, if people begin using loans to repay loans instead of placing the loans in economic activities, the situation creates a negative impact on the demand for bank loan and economic growth. Bank money creation activities experience different issues from the economist, academician or bankers' perspectives. Ryan-Collins et al. (2011) argued that money creation of commercial banks significantly affect the economy:

Capital adequacy requirements do not restrain money creation and are not effective to stop the credit booms and the associated asset price bubbles.

Banks extend the credit as long as they have confidence in loan repayment, and thus interest rate does not determine the amount of credit extension.

The uncontrolled practice of banks creating money through credit creation (Stiglitz and Weiss, 1988) is the main factor of financial instability and economic impact (Turner, 2013; Turner & Thirty, 2013). Turner (2012) noted three causes of the 2008 world crisis, such as banks creating credit and private money through fractional reserve practices. The major question is what outcome lies ahead if the practice is allowed to continue? Turner (2012) presented a cautious comment: “If we mistakenly allow excessive debt and leverage to develop, and the inevitable bust follows as it did in 2008, the subsequent challenges of deleveraging are extremely difficult.....”.

If the banks perform the money creation without any central control mechanism, the bank turns any money into debt in the economy as they can issue unlimited credit (Ravn, 2015). Ravn (2015) explained how the banks perform the activity:

Bank use account money freely invented, which, when entered as payments into the interbank payment system, more or less cancel each other out, requiring the banks to put up no more than the marginal differences between the millions of payments moving between banks every night. This is the real source of money creation in the modern economy, this decentralised system of banks extending loans for practically for free, but under no other control than the sets of government regulations circumscribing bank lending practices by the minimal requirements of liquidity and solvency ratios, and whatever other restrictions apply nationally.

### 2.3 Alternative Money Creation for the Commercial Banks’ Money Lending Activities

Klynveld Peat Marwick Goerdeler (KPMG) presented on their website an official report in September 2016 regarding the political development on the nature of money and money creation since 2008. The report was commissioned by the office of the Prime Minister of Iceland, encompassing the latest progress in the movement for alternative money creation in the United States of America (USA), Iceland, the United Kingdom (UK), Netherlands, Switzerland, and the European Union. The following are the political development regarding the issues in the report (Table 4):

Table 4: Political development regarding alternative money creation

Country name	Progress
USA	The USA is attempting to restore the authority to create money to a Monetary Authority within the department of the Treasury. In December 2010 and September 2011, the USA formed an act and referred it to the Committee on Financial Services but did not pass the act into law.
UK	For the first time in 170 years, a significant debate was held in the UK parliament on November 2014 on the notion of

	<p>“Money Creation and Society”. Subsequently, a proposal was made for a monetary commission and the proposal did not get voted on in the parliament. Meanwhile, in the parliamentary debate parliament members (MPs) Michael Meecher and Zac Goldsmith came out in favour of a monetary commission, as proposed by the Institute for Public Policy Research. Martin Wolf (Chief Editor of the Financial Times) and Angus Armstrong (Director of Macroeconomics at the National Institute of Economic and Social Research) came out in favour of a monetary commission. Nevertheless, the proposal did not receive a vote in the parliament.</p>
Iceland	<p>In 2012, the Iceland Parliamentary resolution proposed a study presented to the Icelandic Parliament for the separation of money creation and lending function of the bank. In September 2015, a resolution called for the establishment of a commission to conduct a review of the arrangement of money creation in Iceland. Although most committee members (eight out of 11) supported the resolution, the Icelandic Financial Services Association reiterated its view and insists following the pattern of the European Economic Union.</p>
Switzerland	<p>In December 2015, Switzerland prepared a referendum to decide whether to ban commercial banks from creating money following a petition calling for the central bank to be granted the sole power to create money in the financial system. Following the announcement of a referendum to be held in 2016, the Federal Council and Swiss Bankers Association made an initial reaction to reject the Swiss Sovereign Money Initiative. If successful, the sovereign money bill grants the Swiss National Bank a monopoly on physical and electronic money creation so that the decision concerning how new money is introduced into the economy would reside with the government.</p>
Dutch	<p>On March 16th, 2016, the Dutch Parliament plenary assembly discussed the possibility of transitioning towards a sovereign monetary system and adopted two motions committing the government to conduct further research.</p>

Excessive and limitless money creation forced the policymakers to seek for alternatives to curb the money creation. One popular alternative involves converting the

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banknotes into gold to remove paper money (fiat currency) from the economy, proposing the intensification of central banking (Faure, 2013). Another alternative under the gold standard is to create “full reserve banking” (Huerta, 2009). Economist Fisher (1997) also proposed 100% reserve banking to control the money supply completely. Although full reserve banking possesses less experience of practice on a wider scale (Freixas & Rochet, 2009), the practice was criticised as banks could not add to the money supply by issuing credit (Becke & Sornette, 2014). Conversely, studies claimed that the practice reduces business cycle volatility and eliminate bank runs (Benes & Kumhof, 2014).

While people seek alternatives within the existing deposit and reserve systems, others seek a fresh alternative to the system. For instance, Wolf (2014) proposed that the state will create all transaction money such as creating today’s cash and banks can offer investment accounts that will supply loans, but they can only lend money invested by customers. Hence, banks will fail to create money out of thin air, becoming an intermediary.

Most countries are concerned over the 2007 and 2008 world crisis from the excessive debt through the continuous money creation by commercial banks (Salleh & Borges, 2015). The issue pushed the relevant authorities to take initiatives to ban bank power to create money and grant the power to democratic independent authority. Huber and Robertson (2000) debated that restoring democratic control over how new money is created is an important step to sustainable development. Hence, the world is more concerned with developing an alternative to money creation by the banks. For instance, Ravn (2015) suggests establishing a money creation committee that will follow the vision of a democratically controlled government agency in charge of the monetary system, particularly the money supply:

This is a system that does not let banks exploit the payment system for money creation purposes, endangering it when bank lending grows reckless. Ordinary payments would be kept separate from lending activities. The amount of credit available in the economy is regulated by a transparent panel under public oversight and is allocated for banks to dispense, given that they are uniquely suited to assess the creditworthiness of local businesses and investors (Huber & Robertson, 2000; & Ryan-Collins et al., 2011).

Different views were presented on the money creation systems. Since Werner (2014a) proved that banks create money through the accounting treatment in the lending process, the process was strongly recommended to be discontinued (Salleh & Borges, 2015 & 2016):

The route to resolving the issue of bank credit creation out of thin air by accountants is through evidencing to accountants that there is an absence of substance inherent in the transactions, and out of a sense of honesty and loyalty to the ideals of their profession, they must discontinue giving ontological reality to such “debt” transactions.



Past studies propose multiple ways of alternative money creation for the commercial bank money lending activities. Hence, investigating the stakeholders' perceptions on the issue before fixing any alternative is crucial. Accordingly, the study aimed to answer the following research question: How do stakeholders perceive the possible alternatives that align with the different accounting treatments for commercial bank money lending activities in Malaysia?

### **3. Method**

The study selected a qualitative research method as the approach produces data with depth and detail in understanding the phenomena and to live the experiences (Bowen, 2005). Hence, the social interaction with stakeholders constructs knowledge (Given, 2008). Moreover, the study adopted the phenomenological research method to explore the stakeholders' experience from the respondents' perceptions of the issue as experience can range from perception, thought, memory, imagination, emotion, desire, and social activity (Nodelman & Allen, 2003).

The study applied the snowball sampling strategies due to difficulties in finding respondents after the rejection of interview requests from BNM and the Malaysian Accounting Standard Board (MASB). The participants recruited other participants for the study, which is a very good technique to perform exploratory research where respondents are hard to identify or locate (Saunders, Lewis, & Thornhill, 2016). The respondents were chosen based on acceptance of interview offers sent by the researcher. Interview offers were sent to the respondents through email and a data collection forwarding letter collected from the university, with a brief on the research issues and objectives.

The study collected data from ten individuals deemed important for the study. The individuals include the Ex-Chief Executive Officer (CEO) of a private commercial bank, two members of the Malaysian Institute of Accountants (MIA), two academics from International Islamic University of Malaysia (IIUM) and International Centre for Education in Islamic Finance (INCEIF), and five ADS officers from the Ministry of Finance of Malaysia (MOFM). To ensure confidentiality, each respondent was provided symbolic code name irrespective of the race, sex, family or provided name (Table 5).

Table 5: Respondents' background

SL No	Interviewees	Position	Institution	Others
01	G1	ADS officer (M41)	MOFM	Strategic Investment Division (less than one year experience)
02	G2	ADS (M48)	MOFM	Strategic Investment Division (three years' experience)
03	G3	ADS officer (M41)	MOFM	Strategic Investment Division (one year experience)
04	G4	ADS (M48)	MOFM	Strategic Investment Division (two years' experience)
05	G5	ADS (M48)	MOFM	Strategic Investment Division (three years' experience)
06	MIA1	Ex-President	MIA	Certified Practising Accountant (CPA) Australia, Board Member (Bank Islam)
07	A1	Professor and PhD	INCEIF	Specialised Area: Accounting, Auditing, Finance
08	B1	Ex-CEO	Bank Muamalat	28 years' experience (four years as CEO)
09	A2	Associate Professor, PhD	IIUM	Specialised Area: Banking and Islamic Finance
10	MIA2	Member	MIA	CPA Australia

(Source: Authors' own creation)

The study included saturation point as an overall pattern for all types of stakeholders instead of saturation for each stakeholders group separately. Although the respondents were from different professions, all respondents possessed common understanding of accounting treatment. Thus, all respondents were considered one type of respondent from the research issue perspective. Meanwhile, all stakeholders possessed common understanding of accounting treatment regardless of their profession, which is the main point in selecting the respondents. The common observation according to data collection led to the study saturation point.

The semi-structured interview approach was applied followed by several specific questions guided by hardcopy or softcopy of PowerPoint slides to elaborate the different aspects of money creation by the commercial banks and accounting treatment regarding the phenomenon. The entire interview session was recorded using the audio recorder with the respondent's prior approval. Each interview session was approximately 30 minutes on

average. The study also employed the key informant interview approach in designing the semi-structured interview questions, allowing the researcher to choose the participants by considering their position, role, and willingness to be interviewed (Blee & Taylor, 2002).

The study followed the thematic analysis, one of the most common forms of analysis in qualitative research (Guest, 2012). The method pinpoints, examines, and records patterns (or "themes") within data (Braun & Clarke, 2006; Daly et al., 1997). The method extends beyond simply counting phrases or words in a text and moves on to identifying implicit and explicit ideas within the data (Guest et al., 2012). The inductive approach (Boyatzis, 1998) was applied to derive the themes from the interview data. Thematic analysis was performed through coding in six phases to establish meaningful patterns. The phases include manual familiarisation with data, generating initial codes, searching for themes among codes, reviewing themes, defining and naming themes, and producing the final report (Braun & Clarke, 2006).

#### **4. Analysis and Findings**

Several common themes emerged from data analysis, categorised based on the research questions, as explained below:

##### *4.1 Research Question 1:*

The respondents' proposed alternatives that demonstrated challenges in implementation. For example, the respondents elaborated on the challenges and the proposed alternatives. The main challenge is peoples' understanding and awareness of money creation. Despite the lack of understanding, most respondents believe that there should be an alternative to the existing money lending system under the full control of Bank Negara.

##### **4.1.1 Possible Alternatives to Align the different Accounting Treatment for Commercial Bank Money Lending Activities**

During the discussion with stakeholders, an alternative to the accounting treatment was proposed, which is to minimise money creation by the commercial bank lending activity. Most respondents were highly conscious about proposing an alternative to the existing commercial bank credit lending system. The reason behind the consideration is different from the discussion. Respondents admitted that the existing money lending practice is still risky due to fiat currency circulation, quality financing, and inflation threat. Additionally, other challenges include insufficient alternative to the situation and lack of people's awareness on the issue. The respondents stated:

‘I think they should have the alternative to control the excessive supply of money to the individual, but I am not sure about what types of alternative they .....’(G1).

‘Umm, I do not know.....’(G4).

‘I and some people like me do not agree with the system but still, we make use of it because no alternative to the situation... ’ (B1).

‘In terms of substance, I think they (Cryptocurrency) are not ready at all at this moment because it is volatile, it is being allowed to the medium of exchange, it is being used as an investment.’(A2).

The Ex-CEO of a bank emphasized that the current system is a fraud due to allowing private authorities to create money. The respondent argued that the system is not good practice, enabling private commercial banks to create money. Only a Central bank should be allowed as the bank represents the money ownership of a country. The respondent remarked:

‘money cannot be created by any other party except only by the central bank, thus the bank must lend the physical money, not perform money creation because money creation is a fraud, it is done by others, to me money creation by the Central bank is different compared to money creation by private banks because private banks are owned by a private individual whereas the central bank is owned by the country’(B1).

The respondent also highlighted the need to educate the public regarding the money creation system and the consequences to create a better alternative. The respondent stated:

‘Central bank can educate people, maybe that is very hard to get, but you can try, because nowadays people are more concerned about money and if they know where does the money go and what happened to the money when they have gone, they must be wiser in choosing whether they want to deposit money or they buy goods instead and then Central bank.....’(G2).

The study revealed that respondents presented a two-fold alternative for the accounting treatment of commercial bank money lending activity. The suggestions were explored on alternative money by the Central banks and to stop using the existing accounting entry for money lending. For alternative money, respondents proposed several alternatives in the discussion, including gold and silver backed money, cryptocurrency, physical cash lending by commercial banks, and others. All the statements are cited below:

‘There are alternatives, gold and silver, there are plenty of gold stocks but we are not all in the same page, .....the other option is to look at technology, .....  
cryptocurrency, bitcoin is definitely an option...’(A2).

‘Other forms of currency with intrinsic value.’(MIA2).

‘... ....it is the Central bank that will create the money and lending by the banks will be the physical cash, thus there is no fractional reserve by the commercial banks.’(B1).

‘they are creating money outside of our knowledge, then we are facing in future risk of no money in the banks when we want to withdraw, hence that will be lost for us, but if you are backed by others type, other physical... gold, we actually have value in gold ’(G2).

The current use of accounting entry for money lending is strongly criticised by the respondents during the discussion. The respondents stated that only the private commercial banks use the accounting entry (debit the loan and credit the customer deposit) for money lending. Respondents B1 and A2 argued that by using this accounting entry, the private commercial banks can create money through lending while other individuals or traders or organisations cannot use the same entry for lending purposes. Thus, the respondents suggested that commercial banks should be allowed to use similar accounting entries as others. Therefore, commercial banks would not be able to create money, as mentioned below:

‘... Money should be created only by the government.....But why should private banks which in effect is just another business enterprise be allowed to make profits from "money" which they create through bookkeeping entries but the borrowers have to work to earn the money before they can payback. The accounting entry will be the same if you or a trader gives a staff loan or a credit on a sale. ’(B1).

‘So there is no money creation by the banks. ’(B1).

‘No, it should not be recognised as it does now as there is no actual asset.’(MIA2).

‘Customers agree to sign a debt contract with the bank which is recorded as an asset...the bank then creates a matching unfunded bookkeeping entry in the form of a non-cash deposit on the liability side as a credit- it creates money out of nothing... it should be accepting capital first and lending, investing, purchasing items, which should be accounted for just like a trader or any other corporation... The bank should account for its entries like a trader or any other corporation. .... ’ (A2).

The above discussion proves that choosing the alternative to the existing commercial bank lending system through the accounting entry mostly depends on the stakeholders’ awareness. Nonetheless, the study noted that the respondents could not agree

on a common alternative. Hence, stakeholders' awareness and other factors promotes greater understanding of the money creation phenomenon.

#### 4.1.2 Challenges in implementing the alternative to the existing commercial bank lending activity system through accounting treatment

Despite the above alternatives, the study found challenges of the proposed alternatives. The profit motive of commercial banks influences the lending decision despite the rules and regulations from the central bank. Money circulation will not be as much as the current circulation, but practical for economic growth, as cited by the respondents:

‘the commercial banks, if they are looking for profit, I think it is very hard for them to follow the clean system, but they can if the central bank applied regulation, they have to follow...’(G3).

‘.....banks can lend what they have, no fractional creation by the commercial banks, so the money will be.....circulation of money will be much lesser, there will be developments, growth of market prices will not increase as much as it is now.....’(B1).

People can manipulate the threshold set by the Central bank, but they must consider the quality of lending. One bad decision can collapse the entire bank. In Malaysia, the Central bank plays a big role to control detrimental financing decisions. The respondent cited:

‘The regulator really looks at the quality of financing. So they have to go through certain assessments, pass a certain test for financing and banks are really careful now,.....there is a thing that central bank control from making bad decisions.’(A1).

‘They can go into the threshold, but how about the quality of financing in each threshold? The bank will collapsed because of this bad decision...’(A1).

The respondents also argued that the quality of finance could solve the issue. Therefore, the regulator must be strict in ensuring quality of finance while controlling bank lending activities. The Central bank should strictly apply all the control mechanism to intervene in the commercial bank money creation opportunity. The respondent remarked:

‘Yes that will solve all these issues, why? When...they focus on capital adequacy ratio, they are focusing on quality of assets, means assets the financing you give, if the financing you give is not high quality, then they bring down their ratio. When they bring down their ratio, bank is really afraid of them’ (A1).

All respondents expressed the possible challenges when presenting arguments, raising awareness of the diversity of the respondents' perceptions on the issue.

Nevertheless, the main challenge to the existing system is the peoples' understanding of the issue. The MIA2 stated:

'Unawareness and the disbelieve that the system is set up in such a way.'(MIA2).

#### 4.2 Summary of findings

The study presented the respondents' opinions on possible alternatives to align the accounting treatment of commercial bank money creation. The respondents suggested two-way proposals. First, to remove fiat money from the monetary systems. Second, money backed by real assets such as gold and silver should be issued and controlled only by BNM. Additionally, other respondents emphasised that the accounting entry for commercial bank money lending needs to be similar to non-bank institutions or trading institutions. Hence, the practice will reduce the scope for commercial banks to create money in the money lending system. Other than commercial banks, no individual or organisation possess the same accounting treatment as commercial banks which can create money through money lending activities.

Accounting treatment for commercial banks appears on both sides of the balance sheet, indicating that the balance sheet is expanding. For all organisations other than commercial banks, accounting treatment appears on the assets side only, meaning that balance sheet is not expanding (Werner, 2014b). Therefore, using the existing accounting treatment suggests fraudulence as the practice allows the unique opportunity for (Stoop & Sornette, 2010) all commercial banks to create money (Salleh & Borges, 2015 & 2016). Therefore, all the created money will become debt in the economy. Thus, using the accounting treatment is strongly discouraged. Moreover, studies revealed that money creation through the accounting treatment is an uncontrolled exercise, contrary to Stiglitz and Weiss (1988). In Malaysia, despite practicing the same accounting treatment, BNM possesses strong control over the commercial bank money lending activity.

Despite the different alternatives, respondents stated that the major challenge is stakeholders' understanding and awareness on the money creation activity in the commercial banks. Ensuring the quality of finance is a significant challenge as quality finance can limit or stop the money creation practices. Furthermore, BNM possesses a major role in ensuring quality process through strong monitoring and controlling system. Nonetheless, the profit motive of commercial banks may influence the bank to make excess lending which could create a detrimental decision enough to collapse the bank. Thus, BNM must be strict in monitoring bad financing decisions. Additionally, the respondents debated that the problem of lower circulation of money unlike current money circulation system, but does not stop economic growth.

## 5. Discussions

Recognising the reality of money creation is a major step in preventing a banking collapse and financial crisis (Werner, 2014a). Awareness is gained through the stakeholders'

perception of the research issue. Hence, the study contributed by investigating stakeholders' perceptions of the commercial bank money lending activity. The study revealed that stakeholders' perceptions of the issue were directly influenced by personal understanding and awareness. Therefore, the different perceptions were examined and explained accordingly.

The main question is why commercial banks still exercise money creation through the accounting treatment despite being one of the main reasons for the world financial crisis 2007 to 2008. The study enhances the literature in answering the mystery that as long as the Central bank can control the money lending activity of commercial banks through various mechanisms, money creation is not a major issue but quality of finance is the matter of concern. Hence, the study highlights the controlling role of BNM to provide input in the process of accelerating BNM controlling role in commercial bank money lending activity to prevent future potential crises.

Due to limited literature on the issue, the study provides a valuable source for future research, important inputs, and information on the impact of the accounting treatment for the commercial bank money lending activity in actual practice.

## 6. Conclusions

Perceptions on money creation are impacted by the respondents' understanding and awareness of the issue. Respondents believed that money creation occurs in Malaysia as in other countries through accounting treatment for the commercial bank money lending activity. Additionally, the opportunity to use the accounting treatment allows commercial banks to create money as desired. Consequently, the excess money created causes inflation and a potential financial crisis. Conversely, money creation results from the systematic approach of the fractional reserve banking in Malaysia. Moreover, money creation does not threaten the economy if strong controlling rules exist from BNM. Hence, money creation becomes a significant challenge if the controlling role of BNM is weak. The BNM also controls the volume of money creation during money lending but not money creation through the accounting treatment. Thus, the crisis could happen as the accounting treatment provides the opportunity to create money out of thin air.

The respondents also stated that the lending system and the accounting treatment created a debt based monetary system. Consequently, the accounting treatment involves creating matching deposit for extended loan, which does not involve real money. Nevertheless, few alternatives were suggested to prevent the potential threat of fiat currency. For example, money backed by real assets should be issued under the full control of BNM. Therefore, commercial banks cannot create money. Additionally, Cryptocurrency created a new dimension as an alternative for the money creation practice. Furthermore, commercial banks should use identical accounting treatment as other organisations in money lending activity. Future research should examine the practical scenario on the issue from private commercial banks and BNM perspective.

The study noted several limitations from various aspects. First, the study faced limitations to reach all the stakeholder groups, including respondents from BNM, several private commercial banks, public universities, and MASB. Despite attempts of formal



communication, several invited respondents rejected the offer to share their experience on the issue due to lack of time to entertain requests for interview sessions. Moreover, the study did not verify the interview transcript with the respective respondents. Correspondingly, Riley (1990) stated the importance of writing the actual words spoken by the respondents despite repetitiveness, slang, and grammatical errors. Contrarily, Bayliss (2007) highlighted that a complete and acceptable transcript should be provided to the respective respondents for verification. Respondents share perceptions according to experience. Based on different organisational backgrounds, the way of understanding a situation differs for each respondent, proving a challenge in seeking common ground in answering the research questions.

Due to the limitations, the study cannot cover all the required stakeholders, particularly from the BNM, which is significant to cross-check the money lending activity of commercial banks along with other respondents' arguments. Thus, additional studies on the perceptions of BNM to analyse the nature of money lending activity and accounting treatment should be considered. The study focused on the conventional banking money lending practice. Several respondents suggested examining similar research issues from the Islamic bank perspective.

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