

Bracing for the Financial Tsunami

COMMENT BY WONG CHUN WAI

Rather than providing cash handouts to score political points, the Government has opted for longer-term fiscal flexibility to tackle the slowing economy.

IT'S the hardest time now for heads of governments everywhere as they grapple with the financial storm.

From bankrupt businessmen to retrenched workers to opportunistic politicians, the Prime Minister's job can only get harder.

For Datuk Seri Najib Tun Razak, who is taking over the helm soon, it is no different.

When Finance Ministry and other government officials sat down in late January to put together the mini-Budget, they were guided by one principle – look at policy responses which would address the nature of the crisis effectively.

They knew that giving cash handouts or dishing money around would grab the headlines and help score political points but ultimately would not tackle the three main underlying issues facing the slowing Malaysian economy – retrenchments, flow of credit to businesses and stimulating investments.

No one in the world has a clear picture when the global economy will recover and how long the malaise in demand will last. The Government has accepted that it needs to have fiscal flexibility to deal with what could be a long drawn-out slowdown.

Taking these into considerations and the fact that the country's Budget deficit still has to be managed responsibly, the Government put together the RM60bil mini-Budget.

By and large, the response to the package, which was announced in Parliament by Najib on Tuesday, has been positive.

Economists say the mini-Budget will help mitigate the impact of the global recession on the Malaysian economy.

They also note that the size of the mini- Budget seemed big enough to avert a much deeper and more prolonged recession, as well as to prevent massive job losses.

Large chunks of the money are going towards maximising job retention and benefiting the low-income group, and also helping businesses access funds through government guarantees.

Schools, for example, now get to hire their own contractors to do renovation works instead of having to depend on the Public Works Department, as in the past, which had resulted in sloppy work and malpractices.

At a briefing on the mini-Budget on Monday, Najib joked that the Chinese schools had been the most efficient in the use of these funds, adding that all schools, from Indian to missionary schools, would benefit.

As expected, the Opposition and some critics have attempted to puncture the euphoria and have labelled the mini-Budget as inadequate, saying that the RM60bil package was not as large as it appeared, as the fiscal injection from it amounted to only RM15bil.

That there is criticism is understandable. When US President Barack Obama unveiled his package to breathe life into the US economy, he was slammed by Republican lawmakers who said the stimulus plan was not large or focused enough.

Britain's Premier Gordon Brown has also been on the receiving end of some serious stick. His remedies for reviving the economy have been ridiculed.

The point both these leaders and others around the world have made is that there is no silver bullet to tackle the world's deepest recession.

There is no one template or policy response. Some countries like Taiwan have opted for food vouchers and direct cash handouts while others have opted to pump funds into the beleaguered financial system. Thailand provides free bus rides for some routes.

But what is clear is that every country has a limit to what it can do and this limit is dictated by financial capacity.

In Malaysia's case, the response was dictated by the nature of the crisis faced by the country, in particular the lower export growth, tighter credit flow by banks and the need to stimulate private investments to stimulate growth. In this instance, the move is to get the private sector to generate growth.

To ensure that the number of jobless Malaysians is kept to a minimum, RM15bil will be used on training and job creation. And while some countries have opted to give their citizens cash payments, there is no need for Malaysia to do so as this is already being done through subsidies.

In addition, several of the programmes in the mini-Budget involve cash transfers either directly or indirectly. For example, training programmes will involve the payment of allowances to trainees.

A key focus of the mini-Budget is to ensure that businesses, small and big, have access to credit. That is why the credit guarantee scheme could be pivotal to the overall health of the economy and ability of Malaysia to bounce back quickly.

Among the plans would be the setting up of a Working Capital Guarantee Scheme totalling RM5bil to provide working capital to companies with shareholder equity below RM20mil.

Also on the plate is an Industry Restructuring Guarantee Fund Scheme totalling RM5bil for loans to increase productivity and value-added activities, as well as the application of green technology.

When all is said and done, the mini-Budget is a laser-guided strategy by the Government to tackle impediments and problems in the Malaysian economy.

The Government could have thrown more money around but it would have been irresponsible. While there is less focus among governments around the world on keeping a tight leash on budget deficit during these difficult times, Malaysia cannot afford to adopt a cavalier approach to how we manage our finances.

Given the uncertainty over the extent and duration of the global crisis, it would be dangerous for any government to use all the bullets in the chamber at once.

Najib was asked by editors whether there would be a need for a third stimulus package. The truth is, no one can answer the question as we brace for the financial tsunami.

*Courtesy of the Writer