

REPORT

FINANCIAL CRISIS & THE CHALLENGES AHEAD: THE MALAYSIAN PERSPECTIVE

12 March 2009

6.30 p.m.

Lecture Hall 3

A PUBLIC FORUM SERIES

**Organised by the Department of Finance & Banking
Faculty of Business and Accountancy
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As agreed by the participants, the contents of their slide presentations can be shared, but the views presented represent the personal opinions of the panel, not their current employers or organisations. Hence the contents here do not pretend to be a consensus or majority position of the attendees.

Some common threads from the forum/talk:

- A lack of confidence in the transparent execution of the budget
- A lack of belief in the speedy implementation of the package
- A general negative perception of whether the budgeted amount will actually translate effectively to result in any meaningful impact on the individual in the street
- A lack of maturity among political masters in the current two-party government (well almost) to resolve the domestic financial crisis (besides other crises) together effectively
- Though the government has shown concern by allocating a huge budget to the Stimulus Package, the thoughtfulness or thoroughness necessary to develop the Package did not seem to have been undertaken, especially to ensure a more meaningful impact on the individual Rakyat.

1. Introduction

The event was organised to provide a platform for academicians, practitioners, the public, as well as students to hear the views of distinguished speakers on the current financial crisis. The four speakers were as follows:-

- **Tunku Dato' Ahmad Burhanuddin**, CIMB Executive Director representing the banking industry;
- **Mr. Leonard Ariff Abd. Shatar**, CCM Duopharma Biotech Berhad CEO representing the manufacturing industry;
- **Dato' Gan Ah Tee**, BDO Managing Partner representing the auditing/financial sector; and
- **Dr. Roslee Shaharudin** of UM Faculty of Business & Accountancy representing the academic sector

The theme of this talk was the impact of the 2009 Mini-Budget that was unveiled by the Government just two days earlier. The panel was asked to evaluate the potential effectiveness of this new stimulus package of RM60 billion to cushion Malaysia from the fallout of the global economic downturn.

This forum thus gave the audience the opportunity to listen to some of the speakers' personal views and comments on how the Mini-Budget would be able to help the public e.g. the ordinary man on the street, weather his individual financial downturn. A short Q&A session was also allocated at the end of the talk, followed with light refreshments to allow for a brief networking and interaction among the organisers, speakers, and audience.

2. Opening Remarks by Forum Moderator, Dr. Rubi Ahmad, Head of Finance & Banking Department, Faculty of Business & Accountancy, University Malaya

The audience and panel of speakers were welcomed to the forum by the Head of Finance & Banking, Dr. Rubi Ahmad. The four distinguished speakers were especially thanked for their willingness to come forward to provide their insights into the recent 2009 Mini-Budget. After briefly introducing the panel to the audience, Dr. Rubi invited Tunku Dato' Ahmad Burhanuddin as the first speaker to share his views on the financial crisis.

3. Presentation by Tunku Dato' Ahmad Burhanuddin, Executive Director of CIMB on the Financial Crisis & the Challenges Ahead: The Malaysian Perspective

Tunku introduced the topic with a summarised perspective of the financial crisis. The three financial 'tsunami' stages namely the sub-prime crisis, the credit market freeze, and finally the drastic economic downturn with their resulting chain of events were briefly outlined. The enormity of the final tsunami resulting in the state bailouts of several global financial giants is an

unanticipated precedent. Tunku commented though that whether this is the end of the road or more is yet to come is not definitely known yet.

Although the devaluations of Malaysian banks have not been as drastic as the international giants, the question still remains whether SEA can still sustain the crisis. Tunku highlighted that even when the total value of the three largest Malaysian banks combined in fact exceeds total current value of Citibank, for what length of time though can this crisis be sustained? And Tunku also commented that though NPL ratios have been maintained, the outlook is still cautious due to anticipated cash flow problems and delinquencies in consumer loans that would likely result from retrenchments and pay cuts.

The collapse of financial giants indicates that capitalism has failed to self-regulate due to greed and extreme risk taking. Tunku pointed out that this has raised questions not only on the *sufficiency* of existing regulations, but how *much* further regulation would be enough. Moving forward, there will be a New Economic Order with the ensuing greater protectionist policies being adopted by many countries which will further affect the financial landscape and global economy. To counter the economic slowdown, efforts have been increased worldwide. However to achieve an effective recovery, the question is still how much government intervention is going to be adequate.

Tunku highlighted that the Malaysian economy has suffered the slowest pace of growth of 0.1% in eight years. "Domestic demand has to be stronger as it will be the prime mover to bolster the economy but people are not putting their money down," commented Tunku. He also added that previously the consensus was that it might take two to three years to recover. However in today's environment that could be too optimistic, "a more realistic figure could be five to ten years."

On the first economic stimulus by the Malaysian government, Tunku mentioned that only 1 billion out of the 7 billion ringgit was established to have been spent on projects. Could a similar fate happen with this second package? Tunku stressed that the idea could be good, but how speedily the implementation can be executed determines the success of the package. In addition, technically speaking the cash outlay is actually only 13 billion ringgit. The balance of 47 billion is considered 'non-budget' spending. This unfortunately, Tunku indicated, will not immediately impact the economy, due to the 'kicking in' time lag of funds.

Finally, this unprecedented global financial crisis has also brought up the issue of profitability versus corporate responsibility. Tunku asked, for example, whether Microsoft was being a responsible corporate citizen to plan to lay off 5,000 of its workforce when it has an operating income of almost 6 billion USD, just because its profit has been lowered by 8%. Honda meanwhile has decided to drop their F1 for the 2009 season. This most probably will translate into job losses, and other negative ripples on the industry and the psyche of the people. So, "Do companies keep people and break even, or cut down to ensure a good profit?"

In his conclusion, Tunku quoted a verse from the Quran which serves as a reminder to all believers that this global crisis could be a form of cleaning up, just like floods washing away the scum that floats. Tunku highlighted, "It is the good that endures, at the end."

4. Presentation by Mr. Leonard Ariff Abd. Shatar, CEO, CCM Duopharma Biotech Berhad on the Financial Crisis & the Challenges Ahead: The Malaysian Perspective

Before delivering his slide presentation, the second speaker, Leonard shared with the audience some of his candid comments on the recent Mini-Budget.

Leonard mentioned that six months ago in September 2008 he had been invited to UM and spoken on the topic. Despite the first stimulus package though, the past six months has been like as though "we have been in a leaky boat, to put it simply." Hence the 7 billion ringgit did not seem to have had any impact on the economy.

Now the 2nd. Stimulus Package amounting to 60 million ringgit is expected to have more impact. However, Leonard lamented it does not appear as though it would be so. One example he noted was the provision of RM480 million to ensure toll rates do not increase. Leonard commented, "Would a farmer, for example in Kelantan benefit tremendously from this?" It is the vocal urban dwellers really that could only truly benefit, since toll is a substantial expense in urban areas (other than the North-South and East-West highways which affect everyone who travels long distance, and even this is probably of little relevance to East Malaysians). According to Leonard, this is actually a form of subsidy mentality, which perpetuates the rural-urban divide. The allocation would have been better budgeted for other areas that would likely benefit a much larger proportion of the population.

Leonard's personal assessment is similar to Tunku in that this global financial meltdown has been mainly caused by just plain greed, though subtly. As an example, the balanced scorecards upon which the performance of CEOs is based are actually unbalanced; it is not uncommon that over 70% comprises financial KPI (Key Performance Indicators). CEOs are driven to achieve bottom line profits, and evaluated based on quarter-to-quarter earnings.

The Best Solution, in Leonard's view, would be to go back to basics or fundamentals of low unemployment, sustainable growth of GDP, balanced trade, and permanent employment. "We need local people to spend. This would be an excellent opportunity to look back and overhaul the economy to buy, or purchase ourselves, and not to rely on others."

Leonard observed that the major difference now - between the last financial crisis and the current one - is our ability to respond. "Compare now with then. What is lacking today is the 'benevolent dictatorship', and policy changes are difficult." Leonard added that Malaysia is operating on an almost 2-party system but the country is not matured enough to be a 2-party system. "We can agree on Gaza, for example, but we cannot agree on our domestic affairs."

The Government though finally became concerned that not only the volume of trade had fallen, but so had the value. The 2nd. Stimulus Package was then developed. Commenting on the possible impact of the package on the individual, Leonard again asks, "How much of it is going to go into the pockets of the people?"

Finally, speaking on one of the business 'incentives', Leonard commented that if an owner has two factories or different companies, theoretically he could actually retrench both sets of employees and swap them for re-employment to obtain tax deductions!

5. Presentation by Dato' Gan Ah Tee, BDO Managing Partner on the Impact of the Current Global Financial and Economic Crisis on Malaysia

As the Managing Partner of BDO Asia Pacific Region with offices throughout the Mandarin-speaking nations, Dato' Gan began his lively presentation with a cartoon of an ox, referring to the Chinese calendar year of the Ox. This 'castrated cow', translated literally, according to Dato' Gan, has characterised the financial crisis years that have occurred, namely in 1973, 1985, 1997, and finally 2008.

During those periods Malaysia has survived but this time round the economic crisis is said to be the worst in generations. Dato' Gan asks, "Are we - really as strong as the Ox - to withstand it?" The US, the Euro, and the Japanese economies have all been falling at the same time. "Accounting firms have been retrenching; some implementing salary cuts." Even in China, one week a month has been declared unpaid leave. Our GDP has fallen from 7.4% in Q1 to 0.1% in Q4 2008.

"What could have been the key reason for this rapid economic decline? Had we been sleeping, or pretending to sleep - not to have had noticed the sliding?" Dato' Gan commented that there is a Chinese saying that a sleeping person would be rudely woken up if cold water was poured over him, but a person pretending to sleep might need *hot* water to be woken up! Dato' Gan further opined that if signs on the wall were to continue being ignored, we may just find our own economy quickly tumbling down the cliff before we even know it. However, asked Dato' Gan, "Would Malaysia be able to sustain a -1% growth?"

In assessing the 2nd. Stimulus Package which has two major thrusts on employment and the vulnerable groups, Dato' Gan highlighted that what matters at the end of the day is the *speed* and *transparency* of the Package execution and implementation. Whether the targeted groups and the people would be able to 'feel' any impact from the 60 billion ringgit budget is a big question mark. For example, on the car subsidy which is for the purchase of new cars only - Dato' Gan pointed out that if one is without a job how can one even afford to buy a new car?

The commitment of the Malaysian government to fight the current economic challenges and to help the lower income group and SMEs is reflected though in the budget amount ratio to GDP. The Malaysian Stimulus Package is the highest at 10% of its GDP compared to Singapore, China, US, and Japan (lowest at 2.3%).

However Dato' Gan commented that how much of these budgeted figures for the major thrusts would result in a personal, direct impact remains to be seen. Dato' Gan emphasised that if a greater portion of the budget were to be in the form of tax relief, rebates, or incentives that can be directly received by or can be of direct benefit to all levels of the Rakyat, the Stimulus Package would be more meaningful to the ordinary man on the street. This could bring a much more direct and personal impact on individual pockets.

In concluding his presentation, Dato' Gan commented on the SME assistance provided in the Package. Dato' Gan hypothesised that a company which may have made a profit of RM50 000 in 2008, could possibly later suffer much bigger losses the following year. In this case, Dato' Gan attempted to determine whether the company would be able to obtain any assistance to recover based on the provisions in the stimulus package. Unfortunately Dato' Gan finds that based on his initial assessment, there seems to be nothing from the Package that could be of much help for this case. Hence Dato' Gan concluded that the task of developing the Mini-Budget might not have been undertaken seriously enough so as to cover such likely, potential scenarios.

6. Presentation on the Financial Crisis by Dr. Roselee Shaharudin, Faculty of Business & Accountancy, University Malaya

The final speaker of the forum, Dr. Roslee, contributing the viewpoint of an academic, posed a question, "What realistically are the things that we can do, so that we can be better prepared if we were to be hit again by this financial crisis?" To determine this, Dr. Roslee indicated that we need to define what a financial crisis is first. Thus, based on the definition, Dr. Roslee continued with a brief explanation that the Malaysian market has turned bad primarily due to the bleak export market which the country has been heavily dependent upon. The weak export market had led to a large drop in production, falling sales and prices, reduced corporate earnings, and unemployment. A comparison of figures between the 3rd. and 4th. Quarters

of 2008 for GDP, real exports, consumer confidence index, value added in manufacturing, the service sector, agricultural output, mining output, and construction in Malaysia shows drastic reductions and contractions. To illustrate what these figures mean, Dr. Roslee listed several street indicators that we can easily identify with such as how have businesses at Mamak Stalls, Sri Hartamas and Bangsar, and hypermarkets been affected; kids daily expenditures; overtime work available; and one's ability to keep up with bank payments. These simple indicators show how bad things are.

After providing an overview of the composition of the 2nd. Stimulus package, Dr. Roslee shared his knowledge on what the likely impacts of this Package could be. A mild positive impact on the equity market could be likely, similar to banking though the impact would not be enough to prevent slide in earnings, according to Dr. Roslee. In construction, small projects mainly on the East Coast and East Malaysia may benefit, while for housing, too few incentives are provided for any significant impact.

However Dr. Roslee pointed out these effects cannot be realistically known immediately, because of the long time lag from policy to implementation. In addition further negative effects of the financial crisis are still yet to be felt, and the economy could still get worse even when global government interventions do work to cushion some of the effects. This is due to the fact that implementation takes time to materialise, but time is just not available as the economic slide is still continuing rapidly.

Dr. Roslee advised that the best solution would be to go back to basic fundamentals, to ease on credit though the risk may be high, and to make sure locals are provided with permanent jobs and that spending is continued. He explains that monetary policies to be developed today must be thought through thoroughly, aiming to achieve what the nation wants in coming years; specifically two, three, or five year goals must be pre-determined clearly.

Dr. Roselee closed his presentation with some personal opinions (which in no way reflect those of FPP-UM) on the decreasing business and consumer confidence as a result of anticipated sharp drops in exports, domestic and consumer demands, delayed project implementation, decreasing industrial capacity industrialisation, falling private investments, and retrenchments, to name a few. Dr. Roslee believes that massive stimulus packages by governments globally would cushion the downturn, though to what extent he could not truly predict. However he anticipates that the global economy would eventually stabilise at the earliest in the second half of 2009.

7. Q&A Session and Conclusion

Moderator Dr. Rubi requested the panel to share further any comment they may have on the stimulus package as announced in the Mini-Budget, and to what extent they think the package would help heal the Malaysian economy.

Tunku noted that how well and how fast the budget can be translated into the hands of the people will determine whether people will become confident that the package will be effective. As of now the perception is pretty low that it is not going to work, that things will be lost in the system, trapped in the banks, and of little benefit to people on the street. Incentives look great e.g. huge amounts are budgeted for loans but many things appear not viable because basically for example there are no export buyers, and cars here are still relatively more expensive than in other countries, so might as well put the money 'into our pockets'!

Mr. Leonard suggests that we look at the cost and standard of living by using for example the McDonald's index. 50% of the Malaysian GDP is driven by exports. "How much is required to maintain the standard of living in Malaysia? There does not seem to be enough reaching the pockets of the common people to improve their disposable income." We need to compare the cost vs. the standard of living. We should study the hot spot countries (as defined by IMF/UN) where there has been social unrest due to weakened economies and rising costs of living.

The political masters must be together to resolve the problem. But unfortunately, Leonard lamented that our political parties are not matured enough to drive through. "The Budget is twisted even before it got announced. The difficulty is that policy makers themselves are confused. There has to be a healthy debate with the common purpose to resolve an issue or a problem. But unfortunately this is not happening here due to the lack of maturity among our leaders."

Dato' Gan reiterated that the government must make sure the budget benefits everyone to cushion them from the impact of the downturn, and that it is transparency and speed of the package implementation that ultimately determine its success to help the people meaningfully and effectively.

Dr. Roslee is of the view that the root cause is that people do not spend, and people do not spend because there is just no money, since a huge chunk is eaten up by loan commitments. Today's basic salary is not far above that of decades ago, but prices have risen astronomically in comparison. We find foreign workers working in Malaysia nowadays such as in hotels and factories primarily because the pay is just too low for Malaysians to sustain their standard of living. Our cost of living has gone up so high.

8. Closing Remarks by Forum Moderator, Dr. Rubi Ahmad, Head of Finance & Banking Department

Dr. Rubi thanked the speakers, organisers, and audience for their participation and attention. In recognition of their contribution, a token of appreciation was presented to each speaker. In closing the event, everyone was invited to some light refreshments.