NEW STRAITS TIMES

27 March 2012

Thumbs up to Bank Negara

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IN SAFE HANDS: 2012 will be challenging as the country grapples with the global financial crisis

BANK Negara Malaysia (BNM) released its 2011 Annual Report and Financial Stability and Payments Systems Report last Wednesday.

As always, these two reports were a great credit to the institution and the country.

Not only were the reports of their usual exemplary high quality but so, too, was BNM's conduct of monetary and financial policies.

Given the enormous global economic uncertainties, volatile capital movements, decelerating domestic economy and stakeholder pressures that it had to manage, BNM is clearly right in the frontlines of the economic battle.

On page 7 of the BNM report, it says "A key challenge for the government in 2012 is to continue providing support to domestic demand amid the weakening external sector, while ensuring that the (country's) fiscal position remains sustainable."

This, to me, is not just a key challenge but a very key challenge as, in my view, the next few years are going to see some significant domestic economic transitions.

Let me leave the all-important external sector for another time. I hope that current signs of incipient economic improvement can be sustained and that there will be no further black swan events to set the world economy back. Of course, this is just an assumption.

The greater challenge that BNM faces is management of the domestic economic front. Malaysians should not underestimate the macroeconomic adjustments that will be needed to put the economy on a sound and viable basis.

I am exceptionally proud of BNM's astute handling of monetary policy and its early efforts to normalise interest rates. It is always better to tap on the brakes before one gets into an accident, rather than after.

Steps taken to raise the bar for approvals on housing and car loans, the two major components of household debt, may not be universally popular but they deserve full backing. BNM should not have to step in again to pick up the pieces when things go awry.

Looking ahead, however, the government has announced plans for subsidy removals, price and tariff hikes, tax reforms, minimum wages and even an overhaul of the healthcare system.

Needful or not, they have to be carefully monitored to ensure that they have limited downward impact on the economy.

I am hopeful that enough thought and effort has been given to the enormous adjustments on the ground that are needed to ensure the fair, efficient and effective implementation of these policies.

BNM is not responsible for fiscal policy but has to take it into account at every turn. With larger public sector operational and investment spending commitments, much higher levels of financing this year and next should be expected.

These higher financing levels will need monitoring. So, too, will contingent liabilities, which represent financial risks, so that they do not impact on government finances as they have in the past.

With substantial property-related investments being undertaken under the Economic Transformation Programme (ETP), it may be an idea for BNM to examine the effects that a much larger non-tradable sector will have on the Malaysian economy.

Generally speaking, a rapid rise in the non-tradable sector has the effect of pushing up real exchange rates and wages. These can impede economic activity in other sectors or at least require substantial adjustments.

On Malaysia's finances, I have a slightly different perspective of the excess savings that have prevailed for quite some time. One can be seen either as a factor in fuelling future economic growth or a symptom of the substantial underinvestment that has taken place to date.

In either case, it is comforting to know that we do have a pool of liquidity if we need it. But if domestic economic activity goes ahead as predicted, especially driven by the ETP, it is only a matter of time before excess savings fall and interest rates rise.

This is by no means a bad thing as it will be creating growth, incomes and jobs. I would only hope that the private demand that the government is banking on to drive economic growth will come from private corporations rather than households.

I will address this issue in my next column when I focus on the issue of whether Malaysia should be saving less or more. For now though, congratulations go again to BNM, Malaysia's finest front-line institution.