

Common Sense To Counter Economic Downturn & Contraction In Banking Assets

By Matthias Chang – Future Fast-Forward

In the present unprecedented crisis, the contraction across the entire Private Sector will be enormous. For the purposes of this article, I will focus on two areas – **(1) A fall in private sector consumption and (2) A fall in the growth of Banking Assets**, in a DELEVERAGING ENVIRONMENT.

Can anyone dispute that the private sector is in a state of shock and paralysis?

This mental gridlock is further compounded by the general ignorance of Malaysians with regard to the depth and threat of the global economic contraction that will hit our country hard in the last quarter of 2020. Malaysia's economy is acutely dependant for its survival on China, Japan, Korea, India in Asia and US and EU in the West. It is inconceivable that Malaysia can have a speedy recovery and strong growth when the aforesaid economies are bleeding. I have stated often enough that our recovery would be a W shape recovery, if radical policies are adopted.

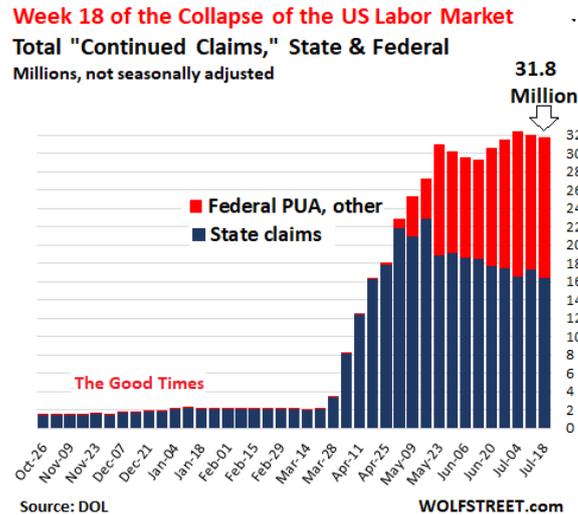
The tips of the icebergs are within view on the horizon and I can assure you, sailing East (Tun Mahathir's Look East Policy) won't bring economic sunshine anytime soon.

To put in context, Rabobank observed that Japan's new stimulus package in May, 2020 (the second supplementary budget) is approximately JPY 117 trillion. The first stimulus package (announced in April) was approximately JPY 113 trillion giving a total fiscal stimulus of approximately JPY 230 trillion. **The focus is mostly on preventing a sharp increase in unemployment and bankruptcies. The new package will be fully funded by issuing JGBs, a substantial part of which will likely be absorbed by the BoJ. The total size of all these measures clearly signals that the government and central bank have taken off the gloves in fighting the economic effects of COVID-19, and we expect it to succeed in keeping unemployment and bankruptcies from rising sharply.**

Interestingly, Rabobank opined that Japan **will not be able to escape a deep recession in 2020**. Bank lending will be insufficient to save all struggling firms, and more importantly, **consumers (which represent 56% of the Japanese economy) will be reluctant to spend against a backdrop of high uncertainty.**

Therefore, can our policy-makers be certain that aggregate demand will be strong enough to avoid a prolong period of weak growth since Malaysia relies on private consumption to drive economic growth (approximately 60% of its Nominal GDP)?

With regard to the US economy, the tip of the iceberg is the unemployment figures not the stock market. In the week ended in July 18, the total number of people who continued to claim unemployment compensation was 31.8 million (not seasonally adjusted), as reported by the Department of Labour. It was the third highest level ever and just below its peak.



The EU Commission has warned that the “EU economy will experience a deep recession this year due to the coronavirus pandemic, despite the swift (?) and comprehensive policy response at both EU and national levels. Because the lifting of lockdown measures is proceeding at a more gradual pace than assumed in its Spring Forecast, the impact on economic activity in 2020 will be more significant than anticipated”.

The most frustrating aspect in researching into the health of the global economy is the numerous inconsistencies, contradictions and diverse interpretations of data. There is an effort to scale down the adverse impact on Covid19 for political exigencies – to gloss over the failures in responding adequately to the pandemic, yet at the same time, Covid19 was a timely cover and the patsy for the economic downturn that was obviously apparent in the last quarter of 2019.

The Bank of England’s governor moaned that the “recession” in the UK would be the worst in 300 years and ZIRP (Zero Interest Rate Policy) would be one of the tools under consideration!

Given the above reality, should we in Malaysia not prepare for the worst case scenario?

In my previous articles, I had suggested that we adopt the mind-set “Why Not?” and urged the PN government to adopt radical solutions, to take the bull by the horns! **We should not be jubilant just because there are some green shoots and proceed to end the various programs that have kept the private sector afloat. Green shoots have yet to grow to blooming plants.**

It is absolute disaster to run a government and an economy on an “electric switch mode” – “Switch On” the fiscal and monetary stimulus

switch when there is a crisis. “Switch Off” the said switch when green shoots appears giving a false perception of a recovery, then “Switch On” again when disaster looms on the horizon!

The “Lost Decade” of Japan in the 90s is the classic example of a government and an economy managed on an “Electric Switch Mode”. If truth be told, Japan’s disaster went beyond 2000, more than a decade! If Malaysia wants to avoid a Lost Decade, proceed to the next paragraph!

The PN government should have a singular purpose and focus!

The Government must be:

- (1) The Provider of the Last Resort;**
- (2) The Funder of the Last Resort;**
- (3) The Borrower of the Last Resort; and**
- (4) The “Buyer” (Aggregate Demand) of the Last Resort.**

Why???

Simple! In laymen’s language and devoid of economic jargons:

- 1) People (individual and corporations) are not spending, therefore a dramatic drop in aggregate demand, triggered by the risk and fear factors.
- 2) People (individual and corporations) are not borrowing and or investing, triggered by the same risk and fear factors.
- 3) People (individual and corporations) are preparing for the unknown, for the rainy day - the pending global economic tsunami, triggered by the same risk and fear factors.
- 4) Banks are not lending for a lack of borrowers (i.e. quantity and quality of borrowers), triggered by the same risk and fear factors.
- 5) The country is waiting for inspiring leadership, clarity and certainty of effective solutions before taking actions.

A digression, if I may indulge at this juncture.

If truth be told, the freaking PH goons are in an intellectual gridlock, having kept silent since March 18, 2020 and as exemplified by the arrogant Lim Guan Eng (LGE) who in a statement, reported by NST’s Mohamed Basyir on 18.7.2020, declared:

My comments are in bold within brackets.

“Former Finance Minister Lim Guan Eng has called on the government to look into extending the existing six months moratorium on bank loan repayments.”

[The scumbag did not make the original proposal on loan moratorium but is now riding on this initiative. The asshole kept his mouth shut for months, still fighting for power and focusing on who is to be the future prime minister. Only now, he has awakened to the crisis! This statement by LGE is an attempt at reverse psychology – hoping that the government will refuse to extend the moratorium and the inevitable uproar but, if there is an extension, to claim credit for the extension. Any extension was embedded into the original initiative, as it would be dictated by circumstances and has nothing to do with LGE opportunism etc. If LGE tries to claim credit for any extension, I will certainly whack him and bury him in the memory hole.]

[And this scumbag went on to say,]

“... that people should spend in order to keep the economy moving to recover from the fall experienced since the pandemic.”

[A silly assumption, as if the pandemic has ended. And for the reasons stated above, the rakyat would not be spending.]

It is abundantly clear that PH advisers etc. are scared shit, hedging their advice and opinions, lacking in confidence, playing political games, motivated by self-interests in the widest sense, suffering from intellectual paralysis and the cowardice to debate and test in the public arena their advice, suggestions and conspiratorial whispers. The PH scumbags have not the slightest idea other than making noise in parliament. Pathetic! We must thank Allah that the PH regime was ousted from power in February, 2020.

That said, let's come back to the issues at hand.

In summary, the PN government should consider following:

- 1) Deficit should not be an issue at all. The point of contention is: Have we done enough for a recovery when the private sector is deleveraging?

Part 2 will follow in due course after the Budget 2021 has been tabled in Parliament in November, 2020.

I am ending my article here and held back the remaining part of the completed article since a Think Tank deemed it fit to make a premature and self-serving announcement, which has been confirmed by the Minister of Finance that there will be no extension regarding the loan moratorium expiring in September, 2020 on the

basis that the rakyat is able to make payments because the economy has been reopened.

This is a signal to the concerned rakyat that their views are irrelevant (when the PN government did invite views). Surely, hasty and premature decisions should not be made when data is still uncertain and fuzzy.

Let's see. November is a long way off.