

# FINANCIAL CRISIS

**University Malaya - MAREF, Public Forum Series 12 March 2009**  
***“Financial crisis and the challenges ahead : The Malaysian Perspective ”***

# Financial Crisis

- ⦿ A financial crisis is a **disruption to financial markets** in which adverse selection and moral hazard problems become much worse, so that **financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities**. As a result, a financial crisis can drive the economy away from an equilibrium.  
*(Mishkin)*

# Why Makes Our Market Turning Bad lately ?

- ◎ **Export Market Bleak**
- ◎ **Production Reduces** (fell by a larger magnitude of 20.2% yoy in January, compared with -15.9% in December,
- ◎ **Global GDP Contracted (Euroland + US)**
- ◎ **Unemployment**
- ◎ **Commodity prices plunged**
- ◎ **High Default Risk but Interest Rate Low**
- ◎ **Corporate Earnings? Ouch!!** Apart from falling sales and prices that crippled corporate growth, companies' profit were also eroded by impairment losses and write-down on inventories. (Resort World, Star Publications and Pos Malaysia)

# Our Figure?

2000 = 100	3Q 2008	4Q 2008
GDP	+ 4.7%	+0.1% (-2.1% Q1f 2009)
Real Export	+ 5.1%	- 13.4%
Consumer Confidence Index	88.9	71.4
Value added in Manufacturing	+ 1.8%	-8.8%
Service Sector	+ 7.1%	+5.6%
Agricultural. Output	+ 3.0%	+ 0.5%
Mining Output	- 0.3%	- 5.7%
Constructions	+ 1.2%	- 1.6%

# Street Indicator?

- ◎ Mamak Stall?
- ◎ Sri Hartamas and Bangsar?
- ◎ Barber Shop?
- ◎ Hypermarkets?
- ◎ Kids daily expenditure?
- ◎ Overtime?
- ◎ Able to keep up with bank payment?

# The 2<sup>nd</sup> Stimulus Package

Purpose	RM (Bil)
Fiscal Spending	15
Guarantee Funds	25
Equity Investments	10
Private Finance Initiative	7
Tax Incentives	3

# Will The Stimulus Package Works?

- ◎ Government interventions took place Globally.
- ◎ **Don't really know.** Hope So !! problem of long lags from what happens in terms of policies and what happens to the economy.
- ◎ The negative effects of this financial crisis are going to be felt down in the future. And, indeed, even if things work, the economy could get worse.

# 2<sup>nd</sup> Stimulus Package Impact

- ◎ **Equity Market:** Mildly +ve
- ◎ **Banking:** +ve but not enough to prevent earnings slide
- ◎ **Construction:** 5B for operating and another 5 for Development: Fails to surprise but its good: More on small project which mainly in East coast and East Malaysia.
- ◎ **Housing:** Too few Incentives: Tax relief on interest for 3 yrs and RM10,000 a year

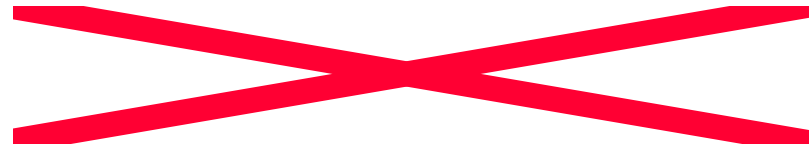


# What Should be The Best Solution??

- ⦿ Back to Basic Fundamentals.
- ⦿ Ease on credit but the market is high on credit risk
- ⦿ Keep on spending
- ⦿ Make sure locals must have jobs **permanently !**

## Rate Reduction By BNIM

- ◎ A central bank always has to worry about price stability. In the long run, that's the most important thing that it does. Clearly, in the short run it also has to worry about other things as well, in particular, keeping the economy at an even keel and also making sure that, in fact, the financial system doesn't blow up.



- ◎ When you do monetary policy, you have ask yourself not just what's happening today, but ask yourself what you thing is going to happen down the road. Because monetary policy takes a long time to have its effects. So what you have to do is you have to think about where you want things a year, two years down the road. And that's how you have to set monetary policy today.

# Hoping for Early Chinese Recovery ?

- Chinese Gov Pumped 4trillion Yuan Stimulus package.
- Sharp jump in corporate lending and Short term bill
- Domestic demand still weak, Housing construction slump continues.
- Export contract by 17.5% in January.

# How about Japan ?

- Export plunged by a record 45.7% yoy in January
- Expecting more closure of factories and more retrenchment
- 10 trillion Yen stimulus package

# Personal Opinion that Doesn't Reflect The Opinion of FPP UM

- **Sharp Fall in Export and rising retrenchment** will likely hurt business and consumer confidence.
- **Domestic demand** will down further to 0.9% in 2009 from 6.9% in 2008
- **Consumer spending** to weaken to 2.0% in 2009, from +8.4% in 2008 ( saved by high savings)
- **Private Investment** to fall due to falling industrial capacity utilization rate resulted from decline in export and investors delaying the implementation of projects.
- **Fixed capital formation** is projected to contract by 4.3% in 29 compared to +1.1% in 2008.

# Personal Opinion that Doesn't Reflect The Opinion of FPP UM

- **Easing Inflation** enables Central Banks to cut rates globally.
- **Massive stimulus package** will cushion downturn.
- **Cheap Liquidity** will protect the economy from downturn
- **Global economy** will eventually stabilize in 2H 2009 the earliest.

# Becoming a Make up Artist Again??

Ask Your Self !

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