

30/08/1998

Retrenchment, pay cuts will diminish

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IT'S official. The country is in recession. This fact is manifest in the two quarters of negative Gross Domestic Product growth.

Almost all workers in the country have been painfully aware of this fact of the weakening of the country's economy since the beginning July last year.

Since then, a number of workers have been retrenched. But the consolation is that almost all have found alternative jobs.

The question uppermost in the minds of every worker in the country is: when we will emerge out of these trying times?

The question might be simple. The answer, however, is complex. Why?

This would be manifest when we analyse the state of the national economy.

First, all must acknowledge that after 10 years of solid economic growth, between 1988 and last year, averaging more than 8.5 per cent per annum, the country has been sucked into an economic malestrom after June, last year.

The reasons are manifold and much recorded.

The consequences are that over the first three months of this year, the country registered a GDP contraction of 2.8 per cent.

In the second quarter, as it is now public knowledge, the economy shrivelled by 6.8 per cent.

The prognosis for the second half of the year is bleak. No one has the crystal ball to forsee the future.

But as Special Functions Minister, Tun Daim Zainuddin said last Thursday, "the damage has been done to the economy".

He averred that the country will record a negative GDP growth for this year.

How deep a recession we would be sucked into remains to be seen.

But it will be the worst the country had experienced since 1956.

According to Bank Negara's statistics, we have had only one year of negative economic growth over the past four decades.

That was in 1985 when the GDP contracted by a mere 1.1 per cent.

The problem then was the Government's borrowings, especially in the overseas market.

Daim was appointed Finance Minister in August, 1984.

That year the GDP growth was 7.8 per cent. But the public sector debt exacted its toll in the following year when the economy, for the first time in the history of the country, shrank.

Daim then introduced measures to nudge the private sector the bear the burden of the leading cog to galvanise the economy.

His policies declared that the Government would no longer be the prime mover of the economy.

The private sector has to take over that function. And so they bore the yoke of galvanising the economy.

The policies of Daim bore fruit almost immediately.

In 1986, the GDP emerged out of recession to record a growth of 1.2 per cent. The momentum of growth was sustained over the next four years: 5.4 per cent in 1987; 8.9 per cent in 1988; 9.2 per cent in 1989; and, 9.7 per cent in 1990.

His initiatives set in place in 1984 saw the economic growth of the country clipping at an annual average rate of more than 8.5 per cent

through the mid-1980s and for seven years in the 1990s.

Even in midst of bad times of the second half of last year, the country recorded a GDP growth of seven per cent.

Today, we are in worse times. We not only have to endure recession for the rest of the year but also the poignant fact that our currency has been devalued.

Time was when the ringgit was pegged at US\$2.50, as recent as June last year. Today the ringgit has depreciated. It's worth US\$4.20 today. A depreciation of 40 per cent.

The effect of the depreciation of the ringgit is manifold. We use a lot of imported products, ranging from peanut butter, oranges, lemons, to shaving creams and video disc players.

All these have to be paid in US dollars. The prices of these, and other items, have increased by 40 per cent. As the purchasing power of the ringgit decreases, so also we become poorer.

That is the startling consequence of the depreciated ringgit that now rides on the back of the contracted economy.

That is also the message the Prime Minister Datuk Seri Dr Mahathir Mohamad has attempted to convey to the people in his nation-wide tour to all states, culminating last Thursday in Kuching, Sarawak.

The overriding theme of his speeches is clear as it is simple. We must girdle ourselves for the hard times the country is encountering.

To combat the trying times one solution is to buy less imported goods; conversely buy more Malaysian products. The other is to spend wisely and save wisely.

Theses exhortations of Dr Mahathir might be heeded by all in the country. But the call has a converse side.

Which is the question that Malaysians would ask: when will the country emerge out of recession?

Already people like you and I feel the pinch of the economic downturn. Some of us are perforced to take home thinner pay packets.

This affects our household budgets. The price tag of the daily and weekly food baskets which we put on our tables is constantly increasing.

In essence, most Malaysians have become poorer. They would be poorer if the economic downturn continues and if the ringgit depreciates more against major currencies.

Daim has an answer: not this year. Next year. His prognosis is based on various measures the National Economic Recovery Plan have implemented.

These include the move to resuscitate the non-performing loans of financial institutions by the national asset management company, Pengurusan Danaharta Nasional Bhd.

Another measure is the establishment of the Danamodal Nasional Bhd, the special purpose vehicle to recapitalise weak banks.

A third is the injection of RM7.03 billion into the economy. This fund would be used to rejuvenate the construction sector, long a vital cog in the engine of the country's economy, which sputtered over the past six months and contracted by 20 per cent.

These policy intiatives, to be sure, are heady fiscal measures that most of us do not understand. The question, we would raise, is simply basic: how will they revive the economy?

Will the establishment of these agencies and the injection of funds galvanise the economy?

They might. Danaharta Nasional, for one, has already bought over the non-performing loans of Perwira Affin Bank Bhd.

Though details have not been disclosed, the buyout of the NPLs of the bank would provide Perwira Affin with funds to provide fresh loans to productive sectors.

It would also relieve the bank of the headache of monitoring bad loans and carrying them in their accounts.

The first buy by Danaharta Nasional is the beginning of many, many more future purchases of NPLs of financial institutions.

The initiative might resuscitate banks and other financial institutions, weighed down with NPLs that are now estimated to be 10.5 per cent of all outstanding loans.

This translates to about RM52.5 billion, a big and burdening figure.

We have yet to see the way Danamodal Nasional Bhd would function to strengthen weak banks.

For the nonce we do not know which banks they would rescue. But they would materialise. Next week. Next month.

The third measure the Government has initiated is the injection of RM7.03 billion into infrastructure projects, should see fruition over the next few months.

The construction industry has been in the past a vital cog in driving economic growth.

The additional allocation might revive this sector. More importantly, it would ensure jobs for workers, ranging from engineers to manual workers.

These are three of the many initiatives that the Government has implemented to jettison the country out of the quagmire of recession.

Whether and when they would succeed remains to be seen.

But people like you and I can be assured that once banks are relieved of their non-performing loans, they would finance companies that employ us.

Which means the spectre of retrenchment and pay cuts will diminish over the next several months.

That thought should be a balm as we read about the current recession the country has to weather.

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