

# Unenviable Task Ahead

**The selection of Tan Sri Nor Mohamed Yakcop as Second Finance Minister is an apt one given the immensity of the job and the challenges facing the economy.**

*By A Kadir Jasin*

**J**UST in case there are aspirants in the Cabinet who are green with envy over the appointment of technocrat Tan Sri Nor Mohamed Yakcop as Second Finance Minister, they should take a deeper look at the challenges ahead and ask if they are up to it.

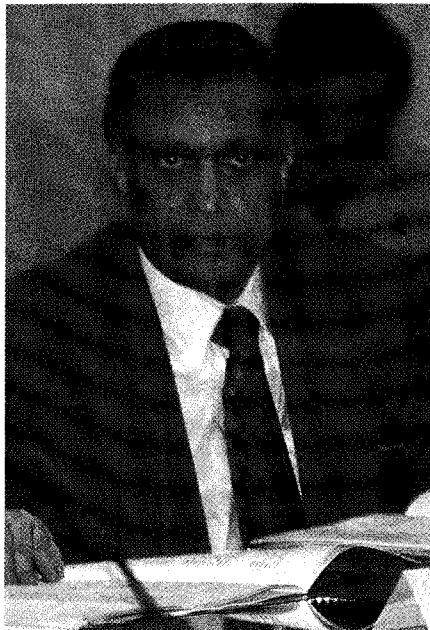
With Prime Minister Datuk Seri Abdullah Ahmad Badawi in control of the Finance Ministry, a capable assistant comes in handy. Financial and monetary management has gained new importance in the post-1997/98 regional economic crisis period.

Apart from Finance, the Prime Minister is also responsible for the Home portfolio. These are big, important ministries and good helpers are needed.

While Nor Mohamed is neither a politician nor an experienced businessman, he has wide exposure to economic and financial management, thanks to his long tenure at Bank Negara Malaysia.

He is mostly remembered as the influential adviser – equivalent to today's assistant governor – to the central bank back in the 1980s and early 1990's when he was the whiz kid of foreign exchange trading.

Away from prying eyes, Malaysia had for decades been active in foreign exchange (forex) trading. This was due largely to the fact that as a successful trad-



**Nor Mohamed: Spanning the Mahathir and Abdullah era of economic management**

ing nation, it amassed a huge amount of foreign currencies that had to be constantly traded and hedged to keep their value intact.

Except for one known case involving Malaysia Mining Corporation (MMC) some time in the 1980s, the forex trading activities involving the Government and its agencies had been beneficial.

But as the newly appointed Group Edi-

tor-in-Chief of The New Straits Times Press (Malaysia) Bhd, Datuk Kalimullah Hassan, wrote in his profile of Nor Mohamed on Jan 8, it (forex trading) was fine until the Maastricht treaty sent the European currencies, in particular the sterling pound in which financier George Soros betted against, reeling.

Bank Negara suffered billions of ringgit, forcing the then Governor, the late Tan Sri Jaafar Hussein, to take responsibility and resign. Nor Mohamed followed suit.

Deputy Information Minister Datuk Zainuddin Maidin, a close friend of Nor Mohamed, said in bringing him back as Special Finance Adviser, previous Prime Minister Tun Dr Mahathir Mohamad did what he was famous for – make use of the good side of people and forgive their shortcomings and shortfalls.

Thus, the Butterworth-born technocrat made a dramatic comeback during the 1997/98 crisis following what was believed to be his ground-breaking advice to Dr Mahathir on the post-crisis monetary policy. It led to the imposition of the limited currency control and pegging of the ringgit to the US dollar in September 1998.

According to Zainuddin, or Zam as he is popularly known, one day towards the end 1997, Nor Mohamed pleaded with him to go with him to Buenos Aires to see Dr Mahathir, who was then on an official visit to South America.

According to Zainuddin, Dr Mahathir had asked Nor Mohamed to make an urgent trip to Argentina to brief him on foreign exchange and currency trading. Nor Mohamed made the trip minus Zainuddin and there was a widespread belief afterward that the briefing he gave helped Dr Mahathir tilt the argument in favour of Malaysia going it alone as opposed to following the International Monetary Fund (IMF) methods favoured by the then Deputy Prime Minister and Minister of Finance Datuk Seri Anwar Ibrahim.

Whatever the case, the resurrection – for lack of a better term – of Nor Mohamed is sensational. For that reason alone, the challenge for him to perform can only be described as monumental.

While much of the problems associated with the 1997/98 crisis have largely been solved and the economy is on the path of

sustained recovery, issues concerning government finances and monetary policy need immediate attention.

The deficit of the Federal Government budget, while within the ability of the economy to sustain, has become a source of worry, bearing in mind that only a few years ago the expressed policy of the government was for a balanced budget.

As acknowledged by Dr Mahathir when presenting the 2004 Budget, the Government might not be able to achieve the objective of a balanced budget by 2005.

For the current year, the budget deficit is being targeted at RM13.4 billion or 3.3% of the Gross Domestic Product (GDP), an improvement over the RM20.8 billion or 5.4% of GDP estimated for 2003.

With the banking system highly liquid, raising money to finance the deficit and continuing with a reasonably high level of public sector expenditure may not be a major problem as the success of Khazanah Nasional Bhd's recent bonds issue had shown.

But such an exercise takes time and has

to be carefully weighed against market conditions, whereas the Government's requirement for money can sometimes be immediate.

The speedy recovery of the economy post-1997/98 could have given rise to such euphoria among government economic and financial planners that they over-estimated the capacity of the government to raise revenue through tax collection.

The recent news items concerning the collection of tax and other government revenues, if accurate, are a source of concern. Such a shortfall can only worsen the Government's cashflow problem.

According to Deputy Finance Minister Datuk Dr Shafie Mohamed Saleh, out of the target of RM50 billion set for 2003, only RM44 billion managed to be collected. The Internal Revenue Board is setting the same target for the current year.

And above all, with the general election coming – perhaps as early as March – the Government has to make sure that development expenditure is not affected by any short-term cashflow problem.

In the longer term, there is the issue of the country's global competitiveness, the slowing down of foreign direct investment (FDI) inflow and growing rift between the rich and the poor that require serious attention. The issue of racial economic imbalance too has to be re-addressed.

Thus, while he may not have bargained for such a complete 'rehabilitation' and others may be envious of his appointment, Nor Mohamed can be sure that he is landed with one of the most challenging tasks that any Cabinet Minister can hope to face.

He is also a good choice as he is in a position to provide continuity between the economic and financial management of the Mahathir era and that of the new Prime Minister.

As Special Finance Adviser to Dr Mahathir from May 2000 until the latter's retirement in October, Nor Mohamed has sufficient knowledge and information to help strengthen government finances, re-adjust expenditure priority and reinforce the recovery of the economy. 