NEW STRAITS TIMES: Sound economic management to overcome external challenges

A pre-emptive revision

THE sudden hefty drop in the price of oil over recent months has hit oil-producing economies hard. Where cost of production is uneconomic given the current crude oil price per barrel, companies teeter on bankruptcy as with America's shale oil producers. In Russia, the more than 50 per cent drop in price of oil aggravated by sanctions has resulted in capital flight, causing a massive ruble depreciation. Malaysia has, however, been fortunate. While the ringgit has weakened against the American dollar resulting from forecasts pre-empting an economic slowdown, these were built on false assumptions. They see Malaysia as, firstly, a nett exporter of oil and, secondly, that oil contributes nearly 50 per cent to the gross domestic product (GDP), both of which are baseless. Nevertheless, despite the sound economic fundamentals, this has resulted in volatile capital flows.

Hence the prime minister's announcement of revisions to Budget 2015, described as a reality check given changing external conditions beyond its control. An open economy has many risks, the most dangerous of which is the impact of adverse global economic influences. Oil has always had a tendency to pull down the world with it when prices are low, or enable domestic economies to fly when its price shoots through the roof as happened in the last couple of years. Malaysia is not alone in building budgets based on oil priced at US$100 (RM360) a barrel. Now that it has halved and expected to stay bearish for all of this year, these assumptions have to be taken into consideration. The budget revision is now based on crude oil prices at US$55 per barrel.

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The reality check is not an admission of crisis. Rather, it is to maintain strong economic fundamentals in the face of massive challenges. Naturally, therefore, annual growth remains in the black although a little slower. It is also worth mentioning that the country has, more than not, performed beyond expectations. Furthermore, apart from such savings through deferment of the National Service and postponing public service expenditure as replenishment of non-urgent items, allocation for development remains unchanged. To some extent, post-floods reconstruction is a blessing as local contractors find themselves presented with opportunities. More than RM1 billion has been allocated for rehabilitation works and reconstruction of basic infrastructure including schools, hospitals, roads and bridges. The government, as predicted by observers, is using this opportunity to strengthen Malaysia's real economy with financial assistance aplenty for small and medium enterprises through Tekun and Amanah Ikhtiar Malaysia (AIM). In fact, in general, the focus is on pouring financial resources into the domestic economy with government linked companies asked to increase investment at home. While export opportunities are being developed, the drive to encourage Malaysians to consume local products is already in the pipeline. In short, the budget revision will be used to drive the domestic economy while exports will benefit greatly from a weaker ringgit. This country will not be defeated by either market forces or the politics of oil.