

Daim: We cannot ignore red flags in the economy

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KUALA LUMPUR: Former finance minister Tun Daim Zainuddin (pic) said the country cannot ignore red flags that are affecting the economy globally that may have repercussions for the Malaysian economy.

“We must stay omniscient of the reality that is hitting us, and the speed of which it is happening. Who would have thought that in a short period of time, crude oil prices have dropped to levels of US\$50 (RM178) per barrel [from about US\$115 per barrel in June 2014], and our ringgit has depreciated to a level not seen since the Asian financial crisis [in 1997 and 1998],” he said in his keynote address at the Affin Hwang Capital Conference Series 2015 yesterday.

Daim was addressing a roomful of investment bankers, analysts, fund managers as well as members of the press on the current economic situation in the country which he labelled as “the elephant in the room”, but reiterated Prime Minister Datuk Seri Najib Razak’s stance that the country is not in a crisis.

“We are not in a crisis, but we cannot deny that we are in turbulent times. It will be foolish and nearsighted to deal with these turbulent times using unconvincing responses; we must think out of the box and resist conventional approaches, and make decisions that are strategic and have a long-lasting effect,” said Daim.

The former finance minister stressed the importance of transparency in a time of turbulence.

“When I was the executive director of the National Economic Action Council, as part of the National [Economic] Recovery Plan, we knew the importance of

enhancing domestic and international confidence through the release of timely, coordinated and accurate economic data which restored investor confidence and enhanced transparency,” said Daim.

He also called on the government to be more transparent in the dealings of sovereign wealth fund 1Malaysia Development Bhd (1MDB), which is wholly owned by the Ministry of Finance, and said the rakyat have the right to question the dealings of the fund.

“There are so many confusing statements on 1MDB and [the status of its finances]. If it is doing well, why isn’t it paying its debts?

“Why is so much money borrowed? The rakyat want to know [the answers to these questions], and I think there is no harm to being truthful. Let us be honest, the more you try to hide, the more people become suspicious,” Daim said.

He added that 1MDB’s debt was one of the factors causing the weakening of the ringgit, stating that the sovereign fund’s debt had caused uncertainty in the domestic economy.

“It is difficult to say when exactly the ringgit will stabilise, as its [fluctuation] is tied to many things. 1MDB is one of the factors that causes uncertainty [in the economy] as its [debts] are big.

“Its [estimated debt] is at [some] RM40 billion,” Daim told reporters after his keynote address.

The ringgit was traded at 3.5805 against the US dollar at about noon yesterday. This compared with 3.1415 in August 2014.

The Edge Financial Daily (TEFD), quoting sources, reported last Friday that based on auditors’ feedback given to Bank Negara Malaysia, the RM2 billion loan extended to 1MDB by several banks, was likely to be categorised as a non-performing loan (NPL) by the lenders.

Malayan Banking Bhd (fundamental:1.50; valuation: 1.30) and RHB Capital Bhd (fundamental:1.50; valuation: 2.10) are the lead lenders with 58.99% and 32.41% respectively of the RM2 billion loan. The other lenders are Alliance Investment Bank Bhd (4.06%), Malaysia Building Society Bhd (fundamental: 1.20; valuation: 2.40) (3.24%) and HwangDBS Investment Bhd (1.29%), TEFD reported.

TEFD also reported that the lenders were expected to revert on whether to officially declare the loan a default by Feb 18.

Daim opined that 1MDB’s loan should be categorised as a NPL.

“I think it is time the loan be recognised as a NPL, as they (1MDB) have been given extensions by the banks for the loan, and it is difficult to understand why they cannot settle the loan as they have already redeemed the funds [from the Cayman Islands],” said Daim.

However, according to a recent news report by Singapore’s Business Times, 1MDB executive director Arul Kanda Kandasamy said 1MDB had no plans to repatriate the US\$1.103 billion (RM3.95 billion) redeemed from its investments in the Cayman Islands.

Arul said the money would be used to service interest payments on 1MDB’s US dollar-denominated debts.

On the banking sector’s role in turbulent times, Daim said banks need to be financially strong and well-capitalised to weather the tough times.

“When I was the finance minister, I pushed for consolidation in the banking industry so as to avoid a financial crisis. Our financial sector needs to be adequately capitalised and effectively supervised,” he said.

He added that the recent failed merger among CIMB Group Holdings Bhd (fundamental: 1.8; valuation: 1.8), RHB Capital Bhd and Malaysia Building Society Bhd should not hinder future consolidation efforts in the banking industry, as the country needs stronger banks to compete globally.