

# Economic credibility vs political expediency

**ECONOMIC** forecasting is a hazardous undertaking, as the UK chancellor of the exchequer discovered recently. In his budget speech last Wednesday, Alistair Darling said the UK economy is expected to shrink by 3.5% this year, bounce back and expand by 1.25% next year and accelerate by 3.5% in 2011.

By offering economic forecasts that were perceived by many as unrealistic, Darling inadvertently provided an excellent case study for his counterparts worldwide – including Malaysia's finance minister – for the proposition that sacrificing economic credibility on the altar of political expediency is often both counter-productive and futile.

Two days after Darling's budget speech, the Office for National Statistics (ONS) revealed the UK economy had plunged by 1.9% in the first quarter (1Q) this year – the deepest fall in 30 years and the first time gross domestic output (GDP) had contracted by more than 1% in two successive quarters since 1948.

Economists said the worse-than-expected 1Q 2009 figure is troubling because it raises fears the stimulus packages introduced by the UK government and the Bank of England have failed. It also suggests the contraction in the UK economy this year is likely to be far sharper than the chancellor's forecast and calls into question the likelihood of a V-shaped economic recovery beginning as early as next year.

Admittedly, talking up a country's economic prospects is a temptation almost all governments worldwide find difficult to resist. Recently, US President Barack Obama claimed to see glimmers of hope in a recession that many economists say is the worst in 70 years.

In the UK, the urge for the chancellor to be upbeat is even more compelling, given that a general election must be held by June next year. However, allowing political considerations to overrule economic credibility is economically irresponsible and politically foolhardy.

This is because governments are no longer the sole providers of information. In the Internet age, information is available freely, instantaneously and globally. Less than credible economic forecasts could undermine public confidence in top treasury officials' competence. And unless businessmen and consumers are confident a recovery is in sight, they could keep their wallets firmly closed.

To be sure, Malaysia's economic prospects are far better than that of the UK or that of other countries in the region. Official forecasts suggest Malaysia's economy could turn negative in the first half this year while the full year figure could range from -1% to 1% growth.

Private sector economists, however, are more pessimistic. They believe there will be a downturn this year and it will be far deeper



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than official forecasts indicate. Possibly influenced by jaw-dropping data from Singapore, many economists foresee Malaysia suffering from negative growth of -3.5% or more this year.

Singapore's economy is often regarded by many economists as a bellwether for other trade-dependent countries in the region, mainly because the island's data on GDP, trade and industrial production are often the first in East Asia to be released publicly.

For 1Q 2009, Singapore's economy plunged by a record -11.5% against the same quarter last year. This dismal GDP figure prompted its Trade and Industry Ministry to revise the full-year forecast to an unprecedented low of between -6% to -9%.

Additionally, industrial production in Singapore tumbled by 34% in March from a year earlier, the biggest decline ever, according to HSBC.

There are, however, key differences between the island economy and Malaysia.

Singapore's dependence on trade, finance and tourism has left its economy particularly vulnerable to the global economic downturn.

Although Malaysia's economy also relies on exports to generate growth, its economy is broader based. Like Singapore, Malaysia's manufactured exports have also fallen sharply. But this has been partially offset by commodity exports like palm oil, a major commodity export with high local value-added.

After declining in the second half of last year, palm oil prices have recovered significantly to above RM2,000 a tonne while major buyers – China and India – are enjoying markedly slower, but still positive, growth.

Furthermore, Finance Minister Datuk Seri Najib Abdul Razak has been extremely proactive in boosting the Malaysian economy. Two massive stimulus packages of RM7 billion and RM60 billion respectively have been tabled. Last week, the liberalisation of 27 services sub-sectors was proposed and a major announcement on the financial sector is expected soon, possibly today.

All these measures have triggered a surge in share prices on Bursa Malaysia. This trend, however, may prove to be ephemeral. Sustaining the current feel-good factor will require continuing public confidence in the credibility of the government's prognosis of the country's prospects and its economic forecasts.

Credibility is a government's most valuable resource. Unless this resource is carefully husbanded and continually fortified, it can be depleted rapidly and possibly irretrievably.

*Opinions expressed in this article are the personal views of the writer and should not be attributed to any organisation she is connected with. Her email address is [schoo@noordinsopie.com](mailto:schoo@noordinsopie.com).*