

Business

Malaysia plans to borrow its way out of economic downturn

Fiscal deficit approaching 6% after stimulus measures

KUALA LUMPUR: Malaysia aims to borrow its way out of an economic slump brought on by the coronavirus pandemic, and the finance minister told Reuters it will nearly double its fiscal deficit this year while keeping open the option of raising the public debt ceiling.

Southeast Asia's third-biggest economy has announced incentives worth 295 billion ringgit (\$69 billion) to soften the impact of the coronavirus pandemic, with the government vowing to directly inject 45 billion ringgit of that into the economy, mostly raised through domestic borrowings.

Finance Minister Tengku Zafrul Aziz told Reuters the fiscal deficit would rise to around 6 percent of annual economic output this year because of the stimulus, and that a direct fiscal injection of 10 billion ringgit announced on Friday would be raised through domestic borrowing. "There is only so much monetary policy can do," Tengku Zafrul said in an interview in his office. "So you need fiscal policy to come into play, as long as you have the discipline and the commitment in the longer term to go back to where you should be in terms of the deficit."

Tengku Zafrul, who was chief executive of lender CIMB Group Holdings Bhd before joining the three-month-old government, said the goal was to narrow the fiscal deficit back down to less than 4 percent of gross domestic product (GDP) over the next three years or so. It was 3.2 percent last year.

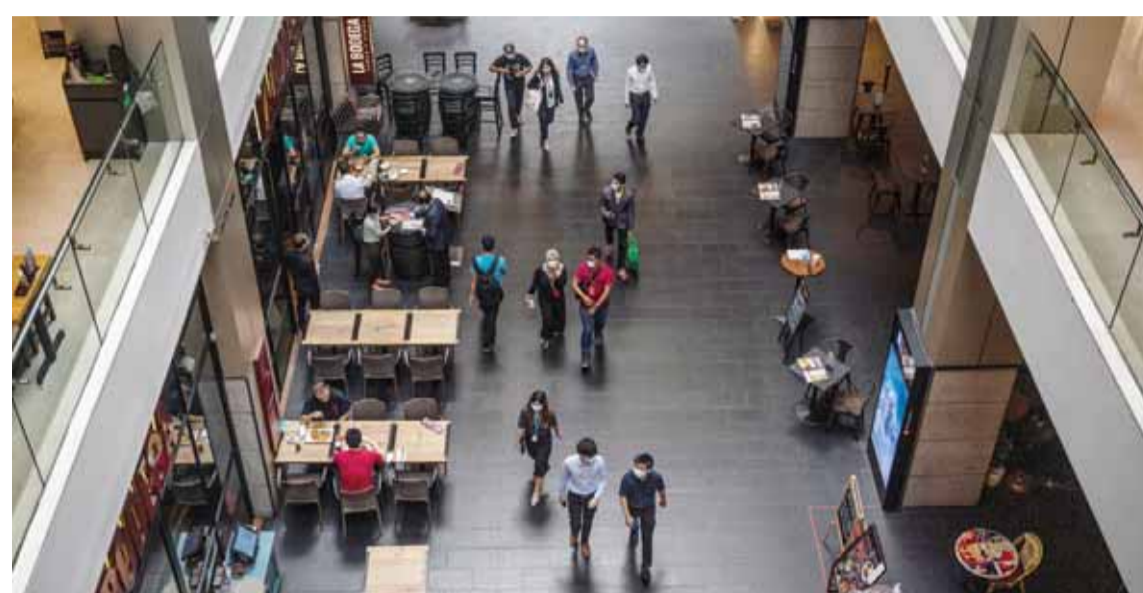
"How bad was it during the (global financial crisis)?" It was 6.7 percent. So we have room if we want to borrow," he said, referring to the country's peak annual deficit in 2009. The region's largest economy, Indonesia, said last month that it expected its budget deficit to swell to 6.27 percent due to virus-related stimulus.

Tengku Zafrul said Malaysia's outstanding public debt now stands at 52 percent of GDP but that "if we need to, then we should increase the ceiling" beyond the current 55 percent "to help the people and the economy".

He declined to say how high the government might seek to raise the ceiling, a move that would require approval from parliament. Neighboring Thailand said in April its latest borrowing plans would increase its public debt to 51.84 percent of GDP in the current fiscal year and 57.96 percent in



Central bank unlikely to cut interest rates



KUALA LUMPUR: People walk inside a shopping mall in Kuala Lumpur as sectors of the economy are being reopened following restrictions to halt the spread of the COVID-19 coronavirus. — AFP

the next one.

Tengku Zafrul, 46, said there was no immediate need for the central bank to cut its benchmark interest rate further from its decade low of 2 percent, "given the liquidity in the country and given where

the currency is going and where we are we are an economy". Bank Negara Malaysia's monetary policy committee next meets on July 7, and some analysts have predicted another cut. — Reuters

Sweden didn't lock down, but economy plunges

STOCKHOLM: Unlike most countries, Sweden never locked down during the coronavirus pandemic, largely keeping businesses operating, but the economy appears to be taking a hard hit nonetheless.

Under the Scandinavian country's controversial approach to the virus, cafes, bars, restaurants and most businesses remained open, as did schools for under-16s, with people urged to follow social distancing and hygiene guidelines. Whatever hope there may have been that this policy would soften the economic blow now seems dashed.

"As in most of the world, there will be a record decline for the Swedish economy in Q2," SEB bank economist Olle Holmgren said.

'A long time'

A rebound was likely in the latter part of the year, but "we expect it to take a long time before the situation normalizes," he told AFP.

To be fair, Swedish officials insist their strategy was always aimed at public health, and never specifically at saving the economy. The idea was to make sure hospitals could keep pace with the outbreak and protect the elderly and at-risk groups.

Sweden has succeeded at the former, but admitted failure at the latter, with more than three-quarters of virus deaths occurring



In this file photo, Danish police controls drivers from Sweden near the highway coming out of the tunnel to Sweden, in Copenhagen, Denmark. More than two months after the closure of its border, Denmark has loosened restrictions to allow lovers from the Nordics and Germany to reunite, but the application and legality of the practice has not really helped economy to recover. — AFP

among nursing home residents and those receiving care at home.

"When we have decided what measures to take to stop the virus from spreading, we have not had any economic considerations. We have followed the advice of our (public health) experts on this issue," Finance Minister Magdalena Andersson told reporters in late May. Still, authorities acknowledge that keeping businesses open was also part of a broader public health consideration, as high unemployment and a weak economy typically lead to poorer public health.

Sweden, a country of 10.3 million, had reported 4,639 COVID-19 deaths as of Friday. That gives it one of the world's highest virus mortality rates, with 459.3 deaths per million inhabitants—four times more than neighboring Denmark and 10 times more than Norway, which both imposed stricter confinement measures.

At first Sweden's export-heavy economy seemed to be doing okay, with GDP actually growing by 0.1 percent in the first quarter. But now the country is expected to follow the same path as most of Europe, with its economy shrinking for the full-year 2020 and unemployment soaring. — AFP

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WASHINGTON, DC: A Wells Fargo Bank near the White House is boarded up, after the unrest in downtown Washington, DC, in this file photo

cans have long proven a lifeline for America's black businesses.

The financial groups are based in the heart of urban centers and view banking as part of a larger activist mission that supports the black community by ensuring minorities can access needed capital. "If you go to another bank, you might see someone talking about a boat loan," said Teri Williams, president of OneUnited Bank, who said her company's programs are more tailored to the black community.

This includes "early pay" that allows consumers to get paid two days early. "We support Black Lives Matter, we support take a knee, so for us it's a mission to support our community and that's the service that we provide," she said.

Carver Federal Savings Bank, which has branches in working class areas in Manhattan, Queens and Brooklyn, reinvests 80 percent of its deposits back in the community,

said Chief Executive Michael Pugh.

"It's an opportunity to help ensure that in neighborhood by neighborhood in our great state," people have access to finance, he said. "If we didn't do this work who would do it?"

The process of opening a savings account is similar to that at traditional banks, but the African American lending companies also offer some other services aimed at their clients, such as business coaching and financial training workshops.

Industrial Bank requires a business plan of small businesses and scrutinizes financial statements and doesn't always provide financing, said Chief Executive Doyle Mitchell. "If we can't make a loan we will tell you what we believe you need to work on to better prepare for," Mitchell said, adding that the bank aims to be competitive on interest rates for mortgages, not the lowest but "not the highest" either. — AFP

Fed to weigh unemployment, reopening

WASHINGTON: The Federal Reserve will meet next week for the first time since US states began easing shutdowns imposed to stop the coronavirus pandemic, unexpectedly boosting employment numbers after two months of massive layoffs.

The world's largest economy added 2.5 million jobs and the unemployment rate fell in May, according to the Labor Department, even as COVID-19 remains a threat to daily life. The Fed moved swiftly and aggressively as soon as the pandemic struck, even before businesses were shut down nationwide, as the policy-setting Federal Open Market Committee (FOMC) slashed its key lending rate to zero in March.

The central bank also rolled out trillions of dollars in liquidity to support battered markets, and provide lending to large and medium businesses as well as state and local governments.

And Fed chair Jerome Powell has vowed to do more, if necessary. President Donald Trump who is counting on a solid economic recovery to boost his chances of winning a second term in November, cheered the better-than-expected job numbers.

But despite the unexpected good news the economy remains in trouble and BBVA's chief US economist Nathaniel Karp does not expect the FOMC to waver from its stance any time soon. "While there are some early signs that the worst part of the crisis has passed, we expect that the Fed will reaffirm its commitment to doing whatever it takes while also reflecting on how the committee is viewing the current crisis," he said.

The road ahead

The virus itself remains a real threat,

Pound pushes through \$1.27

LONDON: The pound rose above \$1.27 and was set for its biggest weekly gain against the dollar since the end of March on Friday, even though European Union and British negotiators said there had been little progress in Brexit trade talks.

Britain left the EU in January and there are just weeks left to extend a year-end deadline to reach a trade deal. A transition arrangement that keeps previous rules in place during talks expires at the end of 2020 unless both sides agree to extend it this month, which Britain has said it will not do.

"The market thinks there's still a better than 50 percent chance that we'll muddle through again," said Kit Juckes, FX analyst at Societe Generale, adding that the risk of not reaching a deal was a background worry for sterling. The pound, which has gained more than 3 cents in a week, rose as high as \$1.2705, its strongest since March 12.

Against the euro, which gained further after the European Central Bank's latest stimulus plan, the pound reached \$1.2704 pence, having retreated from the

90 level it briefly broke above late on Thursday.

The pound has gained 5 percent against the dollar since reaching a low of \$1.2075 in mid-May, but has been held back by Britain's high coronavirus death toll, Brexit-related risks, the prospect of negative interest rates and a growing debt pile.

It gained when the Bank of England's executive director for markets said that a negative interest rate would not be introduced in the near term.

"If the UK goes down the road of negative rates, it would be the first country with a negative current account deficit to do so, putting downward pressure on sterling," Deutsche Bank economist Sanjay Raja and macro strategist Oliver Harvey said in a note to clients. "This could see inflation jump at a time when the Bank is looking to shore up confidence and support the economy through the recovery," they added. The weakening dollar played a role in sterling's rise.

"The Federal Reserve is employing massive monetary expansion, and political tensions in the US cement that stance even further. Both have already contributed to a rebound in GBPUSD and will continue to do so," Thomas Flury, head of FX strategies, and Dean Turner, economist at UBS Global Wealth Management, said. — Reuters

African American banks vital for minorities in US

NEW YORK: When she needed capital to expand her business, Emisha Randolph was just one of countless African Americans to encounter roadblocks despite having no history of financial trouble.

About seven years ago, her catering company, Juanita's Kitchen, had secured a big government contract that guaranteed revenues for three years. To finance the expansion, she turned to banking giant Wells Fargo.

"I asked them for \$50,000 and when they denied it, I went down to \$25,000," she recalled in an interview. "I did not get that, either." Randolph turned to OneUnited, one of the leading African-American owned banks in the US that have supported minority-owned businesses over the decades.

With credit from OneUnited, Randolph transformed her Miami company into today's mini-food empire.

The Sweet Butter Hospitality Group includes the restaurant Shuckin & Jivin that now appears better positioned than many other restaurants and small businesses to survive the blow from the coronavirus.

"I am very very grateful for black-owned banks," Randolph said. "For so long we have been denied loans." As the political debate in the US shifts following mass protests in the wake of the killing of George Floyd at the hands of police, the focus is turning to systemic barriers to opportunity for African Americans, including in the banking system.

Larger mission

Banks led or owned by African Ameri-