

Coalitions 'must reveal stance' on national finance, debt

MalaysiaKini.com

April 8, 2013

By Nine academics

COMMENT Recent financial crises have visited economic calamity upon ordinary citizens in the countries of the East and West alike. Experience tells us that there can be no complacency about a nation's financial state.

Concerns voiced in various reports and the media call for special attention to Malaysia's finances and their management. These concerns are:

1. A record-breaking capital flight out of Malaysia: Financial watchdog Global Financial Integrity (GFI) reported that a total of RM880 billion of funds were illegally transferred out of the country between 2001 and 2010.

2. A sharply rising trend in government debt: This debt almost doubled from RM274 billion at the beginning of 2008 to RM502 billion at the end of 2012. International Monetary Fund (IMF) statistics expect it to grow by RM277 billion to RM779 billion in 2017.

3. Incomplete information about the Malaysian government's full exposure to debt: The official figures for government debt exclude debts that are called contingent liabilities.

These include off-balance-sheet borrowings and the debts of banks, government-linked companies and other private-sector enterprises that the government has guaranteed to pay off in the event that these entities default. One estimate of these hidden debts in 2011 placed it at RM117 billion.

4. Rapid growth of the share of total government debt owed to foreign holders: This has soared from 0.1 percent in 2003 to 6.7 percent in 2006, 11.8 percent in 2009, and 26.8 percent in 2012.

Although 97 percent of this debt remains Ringgit-denominated, this trend is a cause for concern, and compromises future policy autonomy as well as heightens exposure to capital flight in the event of financial panic.

5. Possible massive losses by 1Malaysia Development Bhd: Recent revelations indicate that this strategic company, wholly owned by the government and tasked to lead in market driven initiatives to help transform the economy, may have incurred losses of as much as RM4 billion through mispricing of its bond issue.

6. Inconsistencies in Bank Negara reports regarding Malaysia's total debt: While one portion of Bank Negara's statistics tallies with the official total debt of RM695.4 billion for 2011 and RM737.6 billion for 2012, elsewhere in its reports it is implied that Malaysia's total debt is more than twice larger, at about RM2.025 trillion for 2011 and RM1.743 trillion for 2012.

The latter would ordinarily be considered crisis-level figures.

7. Fears of an imminent credit bubble in Malaysia and other East Asian countries: Households in Malaysia have amassed a consumer debt in excess of RM600 billion according to an IMF country report.

Various financial analyses claim that Malaysia, Thailand, Singapore and Taiwan are at risk of a household debt crisis.

8. The lack of sustainability of Malaysia's GDP growth: Rapid liquidations of natural capital such as petroleum and forests to finance deficit spending or to fulfill debt obligations have adverse economic and ecological implications for present and future generations.

Moreover, unproductive investments and expenditures are recorded as positive GDP in the national accounts even if they yield returns that do not cover borrowing costs.

9. A lack of discipline in adhering to Malaysia's statutory ceiling for debt: The ceiling has been raised on the debt limit from 40 percent of GDP set in 2003 to 45 percent in 2008 and subsequently to the present 55 percent in 2009.

Minimum feedback

These details signal an alarming trend.

Decisive action is required to safeguard Malaysia's development potential and forestall a crisis situation such as in Greece.

In line with public interest, therefore, and as a first step towards democratising the management of government finances, we, the undersigned, call upon the BN and Pakatan Rakyat, the main contenders for government in the 13th general election, to openly lay out detailed policy positions on how they intend to manage the nation's finances.

In their policy briefs on national finance and debt, the two political coalitions must provide the following minimum feedback:

1. Justify the projections for the borrowings that they anticipate making in the coming five years under their respective watch;
2. Spell out plans for tackling fiscal deficits and ballooning government and household debts;
3. Explain how their election manifesto promises on government spending will be consistent with sustainable debt and resource management;
4. Declare their commitment to investigating illegal financial outflows and repatriating these monies as prescribed by the United Nations Convention against Corruption;

5. State explicitly whether they will support the foundations of public transparency and accountability in our national finances by:

- establishing a continuously updated 'debt register' that will be publicly available on the Internet, which records the stock of debts, the sources of these debts, interest/dividend payments made on these and details of the uses made of these borrowings;
- establishing a multi-partisan parliamentary committee for debt oversight and approval;
- holding public fora and referenda on spending or debt decisions of great import; and
- other possible measures.

We urge the two major political coalitions to produce their national finance and debt policy briefs focusing on the proposals set out as soon as possible.

The voters deserve to go to the voting booths with better knowledge of what to expect in the management of Malaysia's finance and debts from the new government in power.

Signatories:

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