

Feeble denial by Pemandu on its GNI figure

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MP SPEAKS In an unsigned article titled Pemandu: We didn't lower 2009 GNI figure, the Performance Management and Delivery Unit (Pemandu) of the Prime Minister's Department made a feeble attempt to defend itself from allegations that it had manipulated the GNI estimates contained in its Annual Report.

The article contains 11 points. These points are contentious and the claims and assertions made are open to challenge.

This rejoinder exposes the many fallacies and untenable statements offered by Pemandu in its own defence. The 11 points are taken up sequentially.

The article begins with a flat denial that the GNI per capita figure for 2009 was deliberately lowered in an intention to mislead the public.

The primary attempt at defending the number is that the unrevised GNI figure for 2009 was used in the preparation of the Annual Report issued last month because that was the number used originally, as a benchmark at the starting point of Pemandu's launch.

This is rather simplistic.

Pemandu appears to be in a state of denial and is offering a rather lame defence. It ignores the fact that professionally, all assessments are based on the latest available data.

What Pemandu did in its Annual Report was either unprofessional or an act of incompetence. Or, a deliberate attempt to hoodwink. The effect was to present "feel good" results.

The second assertion, concerning the use of the revised System of National Accounts 2008 (SNA 2008), does not address the basic issue at all. The partial adoption of the SNA 2008 had a marginal impact on the level of aggregate GNI.

The preface to the Department of Statistics publication, Annual National Accounts Gross Domestic Product (GDP) 2005-2011 issued in May 2011, confirms that the revision was partial. The preface reads:

"The estimates has embarked on the recommendation of System of National Accounts 2008 (2008 SNA) by adopting the new treatment on Financial Intermediation Services Indirectly Measured (FISIM), Capitalisation of Weapons Systems and Research & Development (R&D). The other recommendations will be adopted progressively."

These modifications changed the scope of the GNI estimates fractionally. The assertion that

the national accounts were re-based to 2005 from the earlier base year is irrelevant and a red herring.

Pemandu either negligent or out to mislead

The GNI per capita series used in the Pemandu Annual Report were expressed in current price terms, a point confirmed by reference to the data carried in the Bank Negara Monthly Bulletin and the series reported by the Department of Statistics.

The re-basing had no impact on the current price series. The bottom line that remains is: Pemandu was either negligent or out to mislead by using an unrevised per capita GNI figure for 2009.

The claim that the use of a revised figure would have been "disruptive to the momentum of project implementation "is pure baloney". The national accounts are macro aggregates and have no bearing on individual projects.

The justification offered for the choice of 2009 as the base year is highly questionable. A base year of 2008 could be justified as it represented the beginning of a new administration. Equally, 2011 could be justified as it marked the beginning of the five-year 10th Malaysia Plan. That Pemandu was established in 2009 has little relevance for measuring the country's economic performance.

The Pemandu statement that the World Bank has four different measures of per capita GNI is well known. However, the different measures are applied according to the issues being reported on or studied.

For determining country groupings by income status, the pertinent measure is the per capita GNI calculated by use of the World Bank Atlas Methodology. Countries are then classified by income groups, the high income group being one such group.

This methodology provides a means to set the framework for bank lending operations and the eligibility to bank funds. Concurrently, it is used as a reference by other multilateral and bilateral donors to determine aid and grant trade concessions.

Pemandu needs to be reminded that the World Bank Atlas-based estimates of GNI are of operational use and not estimates for mere research or analysis.

World Bank methodology is transparent

The Pemandu assertion about how the World Bank uses Malaysian-generated GNI figures begs the question. The World Bank's methodology is transparent and is basic to inter-country comparisons.

Pemandu goes on to assert that for domestic purposes, the World Bank-generated numbers are of no use and it is necessary to rely on GNI estimates (in Ringgit Malaysia and US

dollars) calculated using unadjusted exchange rates. This assertion is indeed remarkable.

The truth of the matter is that Pemandu in its Annual Report is attempting to be selective. For the estimates of GNI per capita, it makes use of domestically calculated estimates of GNI; for estimating the target threshold (high income level), it takes a recent high income threshold from the World Bank and projects this at a constant rate of two percent.

The resulting number of US\$15,000 is then adopted by Pemandu as the "high Income" level that Malaysia needs to aspire to. It then projects the present GNI figures. The projections take no account whatsoever of changes in the RM/US\$ exchange rate over the projection period.

Pemandu' s approach is totally flawed as it uses two different measurement tools or yardsticks to arrive at its magical estimate of Malaysia attaining "high income" status by the year 2018. This is patently nonsensical as it is akin to combining apples and oranges.

The introduction of the Singapore example and the claim the country estimates and World Bank estimates of GNI differ is not questioned. Each method provides a basis and serves a purpose.

Combining results from separate approaches is wrong

The methods are distinct, a point acknowledged by Pemandu. However, it is wholly inappropriate and unprofessional of Pemandu to combine results from two separate approaches. By doing so Pemandu is perpetrating a fraudulent and misleading presentation.

In point 6 of its comment, Pemandu makes the audacious claim that it is confident that Malaysia "... will reach high income status before 2020".

In support of this claim, Pemandu offers the view that " ...overall private investments in 2012 surpassed its RM127.9 billion target to reach RM139.5 billion, demonstrating domestic and foreign investors' continued confidence in the Malaysian economy."

This claim is for a single year and represents lumpy investments. Other figures paint a contradictory and a dismal picture of massive capital flight that is indicative of a lack of confidence. The KLCI performance was the worst in the region; exports have taken a sharp slowing down and grew at 0.6 percent in 2012.

Nothing is said about the medium-term economic prospects and trends in the global economy that have implications for investment and growth in the Malaysian economy. Pemandu also seems to be setting its own targets, without reference to the macro-economic framework outlined in the 10th Malaysia Plan.

Pemandu remains selective in addressing key issues concerning the federal government debt amounting to RM502 billion, a level close to breaching the ceiling. In addition to this, the contingent liabilities now amounting to 15 percent of GDP cannot be ignored. There is

not even a murmur about the rapid and alarming growth in household debt, which is now at 80 percent of the GDP.

Pemandu goes on to state: "Our economic growth in 2012 was 5.6 percent, up from 5.1 percent for the previous year, an achievement made more remarkable in the midst of a global economic slowdown."

There is nothing much to crow about this level of growth. There clearly is an element of amnesia. It would appear that the goalposts are being shifted surreptitiously. Pemandu appears to have abandoned the GDP growth rate targets that were incorporated into the 10th Malaysia Plan.

Development plan uses different growth measure

Pemandu needs to be reminded that the national development plan used a vastly different growth measure, namely GDP growth: "Looking ahead towards 2020, the challenge is to sustain the momentum of robust growth. Our goal of high-income status by 2020 requires, among others, achieving an average GDP growth of 6.0% per annum during the Tenth Plan Period."

By this criterion, Malaysia has fallen short thus far in attaining GDP growth of six percent. Growth in 2011 was 5.1 percent; 5.6 percent in 2012 and is projected at under six percent in 2013. Thus, the claim now being made that the country could reach developed status by 2018 is truly delusional.

Pemandu berates Pakatan and other critics for raising the debt issue. The claim that borrowings are for investment purposes and " ...over the economic cycle, the government will borrow only to invest and not to fund current spending. In layman's terms this means that on average, over the ups and downs of an economic cycle, the government should only borrow to pay for investments that benefit future generations" may be a plausible position.

However, it is not possible to overlook the fact that the debt of the federal government has grown from RM228 billion in 2005 to RM502 billion by end 2012; the level was approximately RM306 billion at the beginning of the Najib administration.

The record shows that the federal government has borrowed relentlessly since the onset of the East Asia Economic Crisis. There appears to be no end to this addiction to debt and deficit budgeting.

While Pemandu is sanguine and dismissive, it must be noted that the IMF in its latest report following the Annual Article IV Consultations, urged the Malaysian government to address the deficit issue. The government acknowledged that it would by broadening the tax base.

If the Pemandu position is to be taken seriously, debt represents no problem and nothing needs to be done. This is truly an irresponsible position.

Pemandu is being disingenuous about the contingent liabilities of the federal government and pontificates about their treatment in accounting terms. International best practice has moved to an accrual basis of accounting. The IMF has urged the Malaysian government, and the government on its part, has indicated that it will adopt the accrual basis in the near term.

Out of step with government's intentions

Therefore, the Pemandu statement is most curious and out of step with what the government intends to do. Pemandu cannot wish away problems, since it aspires to be taken seriously as an agency charged with taking responsible actions to move the nation forward.

The rationale offered by Pemandu for using current price estimates of investment is most remarkable indeed. Pemandu seems to indulge in bait-and-switch games. It uses commercial accounting terminology when it suits its purpose and then moves to using macro-economic concepts freely without qualification and explanatory statements.

Yet again, the approach taken by Pemandu is nothing short of shameful. It is a brazen attempt to deceive.

Pemandu doth protest too much in defending its use of the concept of trade. It chooses to aggregate imports and exports and reports the total. It has departed from the conventional analysis of trade trends by reviewing imports and exports separately.

A transparent discussion of the trends in imports and exports is the norm. Either Pemandu wishes to conceal the downward trend in exports or it has failed to recognise the fact that Malaysia is a heavily export-oriented open economy.

Exports determine incomes and growth. The downtrend in exports is a signal that the export sector's recent performance reflects the loss of competitiveness and that counter-cyclical measures taken by the government have been insufficient.

Further pump-priming is no longer feasible as the headroom for borrowing is simply not there. It is also noteworthy that the IMF pointed to the need for "rebalancing."

The overall conclusion that can be reached from a careful reading of the Pemandu comment is that Pemandu is indulging in games.

In its eagerness to project and create a feel-good atmosphere, it is willing to pull all stops to use all manners and means to achieve its goal.

Pemandu is now facing a crisis of its own making on its image as a credible, ethical and professional institution.

It is fast gaining a reputation as a propaganda tool that cannot be taken seriously.

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