

## **Najib's response shows gov't not serious about Fitch**

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MP SPEAKS Najib Abdul Razak's immediate response to Fitch Ratings' revision of Malaysia's outlook to negative does not give confidence that the government views the matter seriously.

The prime minister tried to make light of the negative revision by pointing out that Fitch still "affirmed our rating". He said a negative element "is just the revision of our outlook but that depends on the move the government would make".

While Najib, who is also the Finance Minister, did highlight that "it is a concern that we share as a government and we would seek to address those concerns", the lack of gravity of the response does not give Malaysians and investors any comfort that real concrete actions will be undertaken.

It should be emphasised that this isn't the first "warning" by Fitch Ratings although it is the most serious action taken by the global ratings agency to date. In August 2012, Fitch has already warned that Malaysia's "fiscal trends may eventually lead to some form of negative rating action".

azlanIn November 2012, Fitch further reported that "Malaysia's public finances are a weakness relative to rating peers and offer limited scope for counter-cyclical fiscal stimulus at the current rating level... While this has not hindered the public sector's capacity to contribute to GDP, which grew 5.2 percent year-on-year in the third quarter according to Bank Negara Malaysia Friday, the growing is concerning."

Of biggest concern to Fitch then was "the increasing reliance on off-balance sheet funding could potentially call into question the meaningfulness of the 55 percent of GDP federal debt ceiling."

The "off-balance-sheet funding refers to Malaysia's penchant to provide of guarantees to government-linked borrowers which does not officially count as federal government debt. In reality, if both official government debt and government guaranteed debt are put together, our debt to GDP ratio will be a much higher and worrying 68.9 percent, as opposed to the official 53.7 percent.

Hence despite the warnings given a year earlier, the Najib administration hasn't taken the necessary steps to correct the fiscal shortcomings in the federal government finances. Instead the reverse happened and As a result, Malaysia's

issuance of off-balance sheet debt accelerated to 15.2 percent of GDP by end-2012 from 9 percent at end-2008. This is a drastic increase to nearly RM150 billion in 2012 from RM96.9 billion in 2010.

#### Failure of Najib's ETP

The above actually points to the failure of Najib's Economic Transformation Programme (ETP), where "Public Finance Reform" was one of the key 'Strategic Reform Initiatives' launched in 2010.

Among the key policies to be put in place are 'Expenditure Control' and 'Transparent Procurement'. The latter includes "eliminating incompetent suppliers/ service providers" and "value management". The ultimate objective was to reduce the government's budget deficit to 3 percent in 2015.

The outcome of the above initiatives however was for the government to channel development expenditure to off-budget measures, to paint a false perception of financial prudence. This is because the off balance sheet financing or contingent liabilities are not reflected as government debt and hence isn't included in the budget deficit calculations.

As an example, despite the RM50 billion MRT project being financed entirely by the government via debt instruments, not a single sen of the borrowings raised are considered official federal government debt despite the guarantees provided. Since such borrowings are excluded from deficit calculations, the official budget deficit figures give a false healthy picture of our public finances.

If the prime minister is really believes that the Fitch warning "is a concern that we share as a government and [the government] would seek to address those concerns", then the most important measure that he must agree to is to recognise all off-balance sheet loans and contingent liabilities as federal government debt in the upcoming Budget.

Only then Malaysians can see the true picture if the Najib administration has the political will to cut down our real budget deficit, instead of just providing a feel-good statistic that does not incorporate hidden debts. Najib does not reform the budgetary process, then we fear the ultimate consequence of not just a "negative outlook" but an actual downgrade of our sovereign ratings.

