

'Budget speech must clear up RM36bil 1MDB debt'

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MP SPEAKS Prime Minister Najib Abdul Razak will on Friday announce the Federal Government's 2015 Budget.

However, any announcement by the prime minister without addressing the extravagance of 1Malaysia Development Bhd (1MDB) and its debt of RM36 billion will be missing the massive elephant in the room.

Should the 100 percent Finance Ministry-owned 1MDB collapse with the burden of its debt, and with the financial community getting increasingly worried and restless with this possibility, Najib will go down in history as the prime minister who will possibly bankrupt the Malaysian government.

Due to explicit and implicit guarantees by the federal government, 1MDB has accumulated a debt exceeding RM36 billion within a short span of only five years, some of which are already due and require immediate repayment.

In fact, according to Kinibiz.com, 1MDB plans to raise another RM8.4 billion in sukuk to finance its activities this year. At the same time, it is also busy rescheduling its short-term debts to avoid immediate default throughout the past year.

According to the Singapore's Business Times, the above rescheduling of debt has come at an expensive price of 2.5 percent interest above the annualised cost of funds, on top of RM20-30 million in upfront fees.

The report said the real threat of default had "ruffled the feathers of Malaysia's top banking circles as well as the country's banking regulator, Bank Negara".

The financial distress in 1MDB is so serious that the government has been forced to renege on its promises to the market of fair and open tenders for Independent Power Producer (IPP) contracts to ensure the lowest cost of electricity supply to Tenaga Nasional Bhd.

The government has been awarded an IPP contract to 1MDB despite the latter not having bid the lowest price. Subsequently, the government decided to eschew the open tender process altogether to award 1MDB a 50MW solar power plant in March and another 2,400MW gas-fired power plant in August this year.

The shocking concern is that the 2,400MW power plant isn't due to be needed till 2021 but it has been awarded via direct negotiations now.

The above actions are clearly expensive bailout exercises of the federal government to

enable 1MDB to secure sufficient revenue to list its power plant projects. 1MDB desperately needs to do so in order to raise urgent funds to repay its burgeoning debt.

1MDB overpaid for expiring IPP companies

This is especially since 1MDB overpaid for expiring IPP companies in 2012, which has resulted in a massive impairment of RM2.7 billion recorded in the financial statements ending March 2013.

The irony of the massive cash call is that 1MDB actually has RM7.18 billion in liquid assets, mysteriously invested offshore in the Cayman Islands. The investment has generated a pitiful 5.76 percent in returns recorded in 2013, despite the fact that the cost of funds for 1MDB is in excess of six percent.

Prime Minister Najib must provide a convincing answer as to why these funds residing in well-known, secretive tax havens have not been repatriated home for the much-needed funding for 1MDB's local projects.

Najib must also provide a detailed road map and explanation for 1MDB's splurge of RM1.38 billion for 238 acres of land in Penang, where it promised to build 9,999 units of low-cost and affordable housing a mere six days before the last general election.

For more than a year now, 1MDB has done absolutely nothing with the acquisition, which was paid with debt raised from financial institutions.

The prime minister's pet project, 1MDB, is able to single-handedly bring down the Malaysian financial system. The desperation of the federal government in awarding the company with lucrative contracts and cut-price prime property assets cannot be more obvious.

The RM36 billion direct and indirect contingent liability for the federal government casts a deep and dark shadow over any possible improvements in our budget deficit to be announced by Najib.

To quote former prime minister Dr Mahathir Mohamad himself: "The money for 1MDB is not from the country's surplus. It is a debt. Billions of ringgit in debt that is added to the already-high national debt. The national debt must be paid. If not, we will be bankrupt like Argentina. A country that has been facing a deficit every year could not possibly pay off a debt this big."