

Pua: Malaysia a sitting duck if global economic crisis hits

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Malaysia will be hit worse than most countries in the event of a global economic crisis, warned the Petaling Jaya Utara MP Tony Pua today.

He said although Malaysia is probably not at risk of running into bankruptcy like the Greece, the country's high level of national debt and off-budget expenditure would mean the government had only a few options at hand to weather the crisis.

"We are running out of room to manoeuvre, to increase spending and to provide stimulus to the economy in the event of a crisis.

"The concern we have today is that a crisis might be coming given the huge decline in oil prices, the ringgit depreciation, the slowdown in the Chinese market, and perhaps [...] I don't know what is going to happen in the US after they raise their interest rates," he told a forum in Kuala Lumpur.

Speaking to reporters later, he said Malaysia's level of contingent liabilities in 2013 was RM157.5 billion, which was the latest available figure. This represented an 86.8 percent increase since the year 2009.

In comparison, the government spending that is reported in the budget only grew less than 25 percent over the same period to RM249.7 billion

A contingent liability is one form of off-budget spending where the government explicitly guarantees a loan taken up by another party such as MRT Corp for the construction of the MRT system and a RM5.8 billion loan taken out by 1MDB.

These loans would be paid with taxpayer money in the event these entities fail to service the loans themselves.

Greek lesson

Another two types of off-budget spending, Pua explained, are letters of support and implicit guarantees by the government. There are no figures or estimates available for these two liabilities.

Pua said treasury secretary-general Mohd Irwan Serigar Abdullah had previously admitted in a Public Accounts Committee (PAC) hearing that the government resorts to off-budget expenditures so the liabilities incurred would not be reflected in national debt levels.

He said Mohd Irwan had told the PAC that if the government makes the expenditure within the government budget, Malaysia would exceed the national debt limit of 55 percent of

GDP, which would in turn affect the country's credit rating and cause a drop in the GDP.

"So they openly admit that this is an attempt to circumvent the budget and the debt limit, and give a perception that we are still a prudent country," said Pua, while carefully noting that this aspect of the PAC hearings has already been tabled in parliament, hence he is allowed to discuss it in public.

Pua added that the Greek crisis occurred because its government had taken on too much contingent liabilities, and yet no one had any idea of the extent of the practice until the crisis hit and the liabilities became due.

It was only then that the Greek government found out that it could not repay its debts.

Spend, spend, spend

Following the crisis, he said the European Union (EU) mandated new rules for its member states whereby such liabilities must be reflected in their official national debt figures.

"You cannot say 'This is a government guarantee. We didn't spend any money, hence it is not part of our debt.'

"So all (EU) countries went through that exercise of conversion. They were given one or two years to convert and incorporate all off-budget measures," he said.

Pua also slammed the way the Malaysian government formulates its budget, which does not appear to be based on objectives and needs.

Instead, he said the government appears to be working in reverse by determining the level of budget deficit that can be tolerated by the market based on projected revenues, and then allocating and spending everything.

"As a result, our spending is not optimised. Our spending is, how much money do we have and how much deficit will the market tolerate? Let's spend all of it.

"Rather than, how much money do we actually need to spend, and hey, we may actually have a surplus in the budget," he pointed out.