

Laws Manipulated To Legitimise Debt
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The Loan (Local) Act 1959 and Government Funding Act 1983 puts in place a 55% federal government debt limit relative to Malaysia's Gross Domestic Product (GDP) as determined by the Ministry of Finance (MoF). Based on the Government's Economic Report 2011/2, our federal government debt will hit RM455.7 billion as at the end of 2011 which works out to 53.8% of our GDP, or a whisker away from the statutory borrowing ceiling.

However, what is worrying is the fact that the "statutory borrowing ceiling" has actually been raised multiple times by the Barisan Nasional (BN) Government over the past decade to "legalise" the federal government debt level which has been increasing at a much faster pace than our GDP.

The 55% statutory borrowing ceiling only came into effect in July 2009 by order of current Second Finance Minister Ahmad Husni Hanadzlah. Prior to the revised limit, the limit was set at 45% in June 2008, barely 13 months before by the then Second Finance Minister Nor Md Yakcop.

It was 5 years before that when the limit was raised to 40% in April 2003 by the then Second Finance Minister Jamaluddin Jarjis.

Hence our statutory borrowing ceiling has been raised by 15% of our GDP in just 6 years. The question is if the ceiling is repeatedly raised with such nonchalance, why did the Government bother setting a limit at all? Given that our debt level is expected to increase beyond 55% over the next 2 years, are we expecting the Federal Government to once again raise the ceiling in Parliament to circumvent the breach?

In fact, we are extremely concerned that the Federal Government, which is mindful of their debt level relative to the GDP, is using all sorts of creative measures to by-pass the limit set by law.

It should be noted that the MoF will be raising approximately RM20 billion to fund the first phase of the Klang Valley MRT mega-project this year. However, based on the fact that the MRT was never debated in the 2012 Budget tabled in Parliament for approval last year, it is clear that the funding will be raised by a wholly-owned "special purpose vehicle" (SPV) known as Dana Infra, and guaranteed by the Government.

This way, the BN Federal Government kills two birds with one stone. Firstly, the debt raised will not be part of the Federal Government debt (because Dana Infra is "not" Federal Government) and hence will not be perceived to jeopardise our credit standings. This is despite the fact that all parties are expecting MRT to be a financially loss-making project and that the Federal Government will have to fund Dana Infra's debt repayments at some point in the future.

Secondly, by placing the debt and expenditure of the MRT project in a SPV, such expenditure then escapes the purview of direct parliamentary oversight because it is never debated in Parliament as an official Budget item. As mentioned earlier, there is not a single line item in the 2012 Budget approved at the last parliamentary sitting for the purposes of constructing an MRT despite the fact that this will be Malaysia's largest ever infrastructure project by far.

Such creative manipulation of our federal government debt and expenditure is not limited to just the MRT project but many other multi-billion ringgit projects such as the construction of 74 police headquarters with government-guaranteed RM10 billion debt by MoF-owned Pembinaan BLT Sdn Bhd, or the proposed RM20 billion sukuk plan by Pengurusan Aset Air Bhd (PAAB) to restructure the country's water assets.

Governments all over the world, especially in developed countries like the United Kingdom and Germany, are now changing their laws to require such debts and contingent liabilities to be incorporated into the Government's financial statement to ensure greater transparency and financial accountability. This is to

avert a financial crisis which has already enveloped the Euro-zone over the past 2 years.

However, it appears that the Malaysian government is still sitting back and resting easy, while making full use of the "loop-hole" in our government financial reporting standards to continue to recklessly indebt future Malaysians with none of the checks put in place.

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