

Creative Manipulation Of The Federal Budget Deficit
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When the 2012 Budget was presented in October 2011, the Prime Minister Najib Razak had announced that the Federal Government will reduce the budget deficit from 5.4% in 2011 to 4.7% in 2012. The figure is also reduced from a deficit of 5.6% in 2010 and 7.4% in 2009.

On the surface the reduction in deficit has been commendable despite it being still significantly higher than our medium term target of less than 3%.

However the Barisan Nasional (BN) Federal Government budget deficit figure is a complete sham, or in layman's term, "legalized accounting fraud". Under pressure to reduce the Government's deficit to appease international investors and to demonstrate financial prudence, Najib's administration has chosen to deploy creative means to finance the Government's financial extravagance.

Taking the 2012 Budget as an example, if one were to parse through the hundreds of pages of expenditure allocation, he or she will be shocked that some of the big ticket expense items promised by the Federal Government is completely "unbudgeted" for.

Malaysia's single largest infrastructure project, the Klang Valley MRT which works have commenced and is expected to cost record RM53 billion is not provided for in the 2012 Budget. The first MRT line, the Sungai Buloh – Kajang line alone is expected to cost RM20 billion, and billions of ringgit of contracts have already been awarded.

The expenditure is not included in the budget because the project is expected to be funded from loans raised by Dana Infra, a Ministry of Finance (MoF) owned special purpose vehicle (SPV) and guaranteed by the Federal Government.

Similarly, Syarikat Prasarana Bhd, another wholly-owned MoF company has already awarded RM6.5 billion of contracts for the LRT Line Extension Projects since the end of last year with more expected to be awarded this year, and yet, none of these expenditure items were provided for in the 2012 Budget.

Furthermore, another wholly-owned subsidiary of the Government, Pembinaan BLT (PBLT) has been given RM10 billion federal government guaranteed financing to build 74 police stations which will subsequently be leased back to the Government. Many of these stations will be built this year and next and yet again, none of these expenditure items are found in the 2011 or 2012 Budgets.

Because all these large ticket items have all been excluded from the Government's budget, Najib is able to claim false credit that his government has been prudent in managing expenditure and has been able to "reduce" its deficit from a high of 7.4% in 2009 to the projected 4.7% in 2012.

The only reason why the government has been able to "reduce" the deficit is because Government expenditure has been "externalized" to wholly or majority-owned Government agencies which is in turn not reflected in Malaysia's annual budget. As a result, this form of "off-balance sheet" financing mechanism has been used with increasing size and frequency in recent years causing Malaysia's contingent liability or funds guaranteed by the Government to increase from RM84.3 billion in 2009 to RM96.9 billion in 2010. This figure would have increased significantly beyond RM100 billion in 2011.

The Government is under pressure to spend more in part to support many of Barisan Nasional crony businesses who are not able to secure projects competitively, as well as to increase public investment to cope with the decline in private investment in the country.

If all of the "off-balance sheet" expenditures cited above and more which has not been accounted for, are

taken into consideration in the Federal Budget, then the real budget deficit for 2012 will easily be in excess of 7%. This creative manipulation of our federal budget is sheer legalized accounting fraud to present a false picture of financial competence and prudence. The accelerated increase in size of our hidden debts, if unchecked, will sooner or later cause a massive shock to our financial system, not too different from what the Greeks are suffering from today. When the shit hits the fan, Malaysians and our children will certainly be made to pay for it.

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