Election spending risks credit downgrade, say S&P and Moody's
The Malaysian Insider
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By Shannon Teoh

KUALA LUMPUR, April 26 — The federal government's record spending binge ahead of elections expected within months may result in Malaysia's first credit-rating downgrade in 15 years.

Bloomberg reported today that several top rating companies say Putrajaya must bring down its debt, the second highest in Asia at 53.8 per cent of GDP or face a ratings cut.

Najib unveiled a record RM232.8 billion budget in October despite pledging to cut the fiscal deficit. — File pic
The international business wire cited Standard & Poor's (S&P) analyst Takahira Ogawa as saying it "might have to think about" a potential cut in a few years unless the next government boosts revenue and reduce subsidies after polls.

It also reported that Moody's Investors Service and Fitch Ratings also said Malaysia must cut its debt, which the International Monetary Fund (IMF) projects may climb to a 20-year high of 55.9 per cent this year, above the statutory 55 per cent ceiling.

A downgrade to Malaysia's credit, rated as A- by S&P, would be its first since the 1997 Asian financial crisis.

The rating is the same as Botswana, which has a debt ratio of 16 per cent, while Indonesia, Southeast Asia's largest economy, is rated BB+ by S&P and has seen its debt fall to 25 per cent in 2011 from 95 per cent just after the crisis.

"Elections have delayed the required policy adjustments and aggravated the fiscal situation as populist policies take centrestage.

"Not going through with structural reforms, including introducing a broad-based consumption tax and reducing fuel subsidies, will eventually hurt Malaysia's credit standing," Bloomberg quoted Chua Hak Bin, an economist at Bank of America Merrill Lynch in Singapore, as saying.

Prime Minister Datuk Seri Najib Razak unveiled a record RM232.8 billion budget in October, which included raising civil service salaries by as much as 13 per cent and giving households earning less than RM3,000 a month a one-off RM500 handout, despite pledging to cut the fiscal deficit.

The prime minister later said that further adjustments to public sector pay would cost an additional RM6 billion, meaning the wage bill would rise by 16 per cent to RM58 billion this year.

Bloomberg also cited Fitch analyst Andrew Colquhoun as saying that while debt levels rose globally after the 2008 financial meltdown, Malaysia "has yet to articulate a clear strategy for getting the debt ratios back down."

But Datuk Seri Idris Jala, whose PEMANDU is tasked with transforming the economy, has insisted that Malaysia is "moving in the right direction" as both national debt and fiscal deficit would continue to fall.

"Our position will get better because we are cutting costs and increasing revenue," the minister in the Prime Minister's Department told Singapore's Business Times in February, saying this allowed the government to make the one-off RM500 handout.

But Moody's assistant vice-president Christian de Guzman told Bloomberg that the upcoming election is "crucial given that the long-term outlook for fiscal sustainability and economic growth will likely hinge on the next government's reform agenda."

"While both sides of the political divide readily acknowledge the need for such reforms, getting them passed will indeed be much more difficult with a weak mandate," the Singapore-based analyst said.

Najib must call elections by May next year and has said that regaining his Barisan Nasional's (BN) customary two-thirds supermajority in Parliament would be "challenging."

Pakatan Rakyat (PR) denied the ruling coalition 82 out of 222 federal seats and five state governments in a landmark election in 2008 that has given opposition parties hope that it can topple BN for the first time since independence.

But a survey by independent pollsters Merdeka Center in February found that the prime minister's popularity had surged by 10 percentage points from last year to 69 per cent.

The research centre said this was driven by a huge gain among households earning less than RM1,500 a month, with 78 per cent backing the Umno president on the back of an improving economy and the RM500 cash handout to low-income earners under the Bantuan Rakyat 1 Malaysia (BR1M) scheme.

Bank Negara has projected economic growth at between four and five per cent this year compared to 5.1 and 7.2 per cent in 2011 and 2010 respectively.

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