The State of the Nation: Are Malaysia's contingent liabilities a 'time bomb''

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THERE is a "time bomb" on Malaysia's books, opposition lawmaker Tony Pua cautioned last month, and he was not referring to 1Malaysia Development Bhd (1MDB). He used the words to describe how the federal government had "hidden the bulk of its excessive spending" off its balance sheet, including shifting expenses to non-financial public corporations (NFPCs).

According to Pua, spending deficits at NFPCs had ballooned from RM10.6 billion in 2013 to RM56.9 billion in 2015 and were expected to hit RM50.5 billion in 2016. Not only that, 1MDB is not included as an NFPC despite its size. Consolidated public-sector accounts, including those of NFPCs, show an overall deficit of 7.1% for 2016 — more than double the federal government's fiscal deficit target.

Treasury secretary-general Tan Sri Mohd Irwan Serigar Abdullah refuted Pua's "time bomb" claims, though, arguing that the NFPCs' deficits were necessary as these corporations invested for growth.

While NFPC debts are a type of contingent liability, "it is a pressure we know, not a time bomb, because they [NFPCs] can repay their loans … they are profit-making entities like Tenaga Nasional and Telekom Malaysia", he said, adding that the government publishes its debt and contingent liability amounts.

Apart from blue chips like TNB and TM, Petroliam Nasional Bhd (Petronas) is also among the 29 companies counted as an NFPC — essentially, companies that are more than 50%-controlled by government-related institutions, generate sales of more than RM100 million and significantly impact the economy. Other NFPCs are Malaysia Airports Holdings Bhd, Malaysia Airlines Bhd, Mass Rapid Transit Corp Sdn Bhd, Prasarana Malaysia Bhd and Syarikat Perumahan Negara Bhd, which have sizeable expenditure and debt obligations.

Irwan has a point and the government does publish its accounts, but Pua also rightly pointed out a rising trend. And given the attention paid to debt in Malaysia and globally, a more detailed and timely disclosure is warranted, economists say.

Malaysia's federal government debt stood at RM655.7 billion or 53.4% of GDP as at June 30 this year — below the self-imposed 55% ceiling, helped by the transfer of RM21.9 billion of civil service housing loans off the balance sheet to the Public Sector Home Financing Board in January. In 2008, federal government debt stood at RM306 billion.

The government also counts depositors' savings in Bank Simpanan Nasional, the Teachers Provident Fund, the Employees Provident Fund and Lembaga Tabung Haji — which stood at RM742.6 billion as at end-2015 — a contingent liability. All of this would become actual government liability if these entities fail.

Given the relative asset strength of these deposit-taking entities, economists usually only refer to debt guaranteed by the federal government as a contingent liability — a figure that would push the country's debt-to-GDP ratio to about 68%.

From 2008 to 2015, debt guaranteed by the federal government had grown from RM69.2 billion to a whopping RM177.7 billion. This figure had increased to RM178.06 billion as at March 31 this year, according to latest data on Bank Negara Malaysia's website.

In the seven years, the guarantees were given to 33 companies, 28 of which still owe the RM177.7 billion guaranteed by the federal government as at end-2015, according to notes accompanying the federal government's financial statements.

The largest contributor or 22% of the RM108.5 billion additional debt incurred during the seven years was from National Higher Education Fund Corp (PTPTN), which has a long-standing collection issue despite haircuts (discounts) given to entice students to repay their study loans.

Only RM9.6 billion had been collected from 1.16 million students when RM18.31 billion was due from 1.92 million students as at Aug 31 this year, Higher Education Minister Datuk Seri Idris Jusoh was quoted as saying. That means RM5.19 billion is due from 753,058 PTPTN defaulters and another RM3.52 billion is arrears due from other borrowers.

Loan guarantees for PTPTN stood at RM35 billion, nearly 20% of total debt guaranteed by the federal government in 2015, up from RM20.4 billion (17.4%) in 2011 and RM11 billion (15.9%) in 2008.

The federal government's accounts also show a guarantee of RM5 billion on 1MDB's debt in 2009, RM800 million on 1MDB Real Estate Sdn Bhd and RM4 billion on SRC International Sdn Bhd in 2012 — all RM9.8 billion of which remained outstanding as at end-2015.

Infrastructure-related obligations also contributed to the rise in debt guaranteed by the federal government with the following four entities alone accounting for about half the rise between 2008 and 2015.

Danainfra Nasional Bhd, the entity created to undertake infrastructure projects by the government such as the mass rapid transit (MRT) network, had RM20.7 billion of guaranteed loans in 2015, up from RM2.4 billion in 2012.

Government-owned public transport operator, Prasarana Malaysia, had RM17.6 billion of government-guaranteed loans in 2015, up from RM7.1 billion in 2008.

Pengurusan Air SPV Bhd, another vehicle owned by the Minister of Finance Inc-controlled Pengurusan Aset Air Bhd (PAAB), had RM12.2 billion of guaranteed loans in 2015, up from RM9.5 billion in 2011.

The MoF Inc-controlled concessionaire for the Second Penang Bridge, Jambatan Kedua Sdn Bhd, had a RM5.6 billion guaranteed loan in 2015, up from RM5.2 billion in 2014 and RM719 million in 2009. The second bridge, which opened on March 1, 2014, to relieve congestion on the first bridge, reportedly cost RM4.5 billion to build. The reason for the difference in debt and cost could not be immediately ascertained at the time of writing.

Meanwhile, there are guarantees to Penerbangan Malaysia Bhd (RM4.99 billion), Asset Global Network Sdn Bhd (RM758.7 million) and Turus Pesawat Sdn Bhd (RM5.31 billion) to buy assets (planes and buildings) and lease them back to Malaysia Airlines as part of its restructuring. These totalled RM11.1 billion in 2015 compared with RM12.1 billion in 2013.

There are other entities whose debt guarantee was reduced, presumably because part of the debt was paid down. For example, Sabah Electricity Sdn Bhd's guaranteed debt was reduced to RM9.6 million in 2015 from RM42.1 million in 2008 while that of KL International Airport Bhd was trimmed to RM2.5 billion in 2015 from RM8.4 billion in 2008.

Other big names on the list are Khazanah Nasional Bhd with RM20 billion in 2015, up from RM10.4 billion in 2008, and Projek Lebuhraya Usahasama Bhd (PLUS) with RM11 billion in 2012 — which it continued to hold in 2015 — from zero in 2011.

The Federal Land Development Authority (FELDA) had RM4.57 billion of guaranteed debt in 2015, down from RM5.72 billion in 2013 but above RM1.5 billion in 2009.

Generally, infrastructure projects should aid a country's development and could well warrant these government guarantees on their debt. As the government is only obliged to take over the guaranteed debt should the entity that borrowed fail, a periodic summary of how each of the borrowers is doing should help allay concerns over whether there is a ticking time bomb.

UOB Malaysia economist Julia Goh, for one, is all for greater transparency. "When looking at the government guaranteed debt, not everything is deemed high risk and for such items, their fiscal cost is usually invisible unless particular events occur. There are valid reasons why certain projects and entities are provided financial backup and government guarantees, especially when long-term financing of large-scale projects or schemes with substantial public and economic interest is involved — government guarantees help lower the borrowing costs.

"However, the risk for contingent liabilities is the potential to create a moral hazard. Thus, to improve transparency and governance levels, perhaps there is a need to disclose the efficiency of the direct and contingent forms of government support that can better help in analysing fiscal risks and managing policy priorities," she says.

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