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ALTERNATIVE views

BY M SHANMUGAM

In an unprecedented move, the government is guaranteeing a RM6 billion loan taken by Tenaga Nasional Bhd to ease its cash flow because the utility company is not allowed to pass on the higher cost of generating and supplying electricity to households.

The guarantee came about as Tenaga's finances deteriorated owing to the freezing of the Cost Pass Through (CPT) mechanism since the pandemic broke out in March 2020. Under the mechanism, Tenaga could pass through the additional cost incurred in generating electricity to end-users.

However, to ease the public's burden, the government stopped the utility giant from increasing tariffs.

In return, the government will compensate Tenaga to the tune of RM5.9 billion. In lieu of the compensation, it has given the utility a guarantee for the purpose of raising RM6 billion in funding.

The economy started to open up in March this year and by May, life was back to normal in most economic sectors. But Tenaga was forced to continue to supply relatively cheaper electricity owing to the populist policies adopted by successive governments since March 2020.

Malaysia has had two governments since February 2020 and both had razor-thin majorities. The Perikatan Nasional and Barisan Nasional governments continued adopting populist policies to please the people.

Tenaga's receivables increased by almost 100% to RM19.2 billion as at June this year from RM10.5 billion last December. Net cash flow from operations fell to RM1.9 billion as at end-June compared with RM9 billion in the corresponding period last year.

Tenaga's deteriorating financial situation has impacted its valuations. Before the pandemic, in December 2019, its market capitalisation was RM12 billion. Today, it is RM8.5 billion.

Energy prices worldwide have gone up significantly. But in Malaysia, it has been kept artificially low — thanks to the huge subsidy borne by the government.

It is not just the price of electricity that has been kept artificially low. Prices of petrol, gas for households and some essential food items have also been kept low by the government. All these goodies will be removed in the months after the general election on Nov 19, irrespective of who rules in Putrajaya.

The subsidies and social assistance are over and above the direct financial assistance that the government provides to households and individuals under Bantuan Keluarga Malaysia (BKM). The allocation for BKM was RM8.4 billion this year and it will not be reduced in the next few years.

In the last two years, the government subsidy and social assistance bill surged significantly due to the higher prices of food and petrol. While Malaysia benefits from the higher crude oil and crude palm oil prices, the amount it pays out in the form of subsidies to the people is far greater.

This year, the subsidy bill is expected to be RM80 billion, way higher than the RM31 billion initially estimated. For next year, the government has almost halved the allocation to RM43 billion.

This means the supply of relatively cheaper electricity will have to stop. Prices of petrol at the pump will have to start going up to reflect the global trend.

The policy today is a blanket subsidy that benefits all segments of the population. It breeds inefficiency and inequality. The rich get to enjoy the cheaper food and fuel just like the poor.

The previous government was looking at implementing targeted subsidies from next year, which is obviously the way forward. But can it be done without drawing protests from the people?

Another unpopular measure that the next government will have to take is increase the tax base. Malaysia's tax revenue as a percentage of gross domestic product is estimated at 12%, lower than the global benchmark of 15%.

All political parties agree that a tax based on consumption is fairer and more efficient than the current structure. In 2015, the government introduced the goods and services tax (GST), which was hugely unpopular because of weak implementation.

The GST was dropped in 2018 and replaced with the sales and service tax. It resulted in the federal government's coffers seeing a net reduction in income for that year alone by about RM13 billion.

The spending spree will end this year. The Fiscal Responsibility Act (FRA) will be introduced and the cabinet has approved the tabling of the bill in parliament when it resumes after the general election.

The FRA's purpose is essentially to discipline government spending and to curb the exposure on the "off-balance sheet guarantees" it gives to government-endorsed projects or entities such as 1Malaysia Development Bhd (1MDB).

At the moment, financial institutions consider government guarantees to be as good as sovereign guarantees. It has led to a major hole in government expenditure. From the controversial Port Klang Free Zone project and Felda's acquisition of Eagle High Plantations in Indonesia to the 1MDB scandal, all of it involved government guarantees that are finally borne by taxpayers.

After Nov 19, the celebrations for the party that wins in Putrajaya will be short-lived. One of the first things that will need to be approved is Budget 2023.

It is highly unlikely that a single coalition will be able to command an absolute majority by winning 112 seats in parliament. Horse trading will take place and a government consisting of unlikely partners may be in power.

The new government will need to stop dishing out goodies such as cheap electricity. Interest rates will have to go up as it has in the US and other developing countries despite resistance from politicians.

A higher interest rate regime leads to slower investments and job losses. It is already happening in the US.

A new marriage of different parties will likely control Putrajaya, but the honeymoon period will be short.

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