Headline	MoF worries about shrinking exports hitting trade surplus		
MediaTitle	The Malaysian Reserve		
Date	25 Oct 2016	Language	English
Circulation	12,000	Readership	36,000
Section	Corporate Malaysia	Page No	1,4
ArticleSize	632 cm²	Journalist	ALEXANDER
PR Value	RM 17,886		

Pic by Hussein Shaharuddin

CLARIFYING MEASURES IN BUDGET 2017: Mohd Irwan *(left)* and MEA president Tan Sri Mohd Sheriff Mohd Kassim *(second from right)* at MEA post-budget dialogue at Sasana Kijang in Kuala Lumpur yesterday.

MoF 'worries' about shrinking exports hitting trade surplus

Current account surplus at RM1.9b, the lowest on record since June 2013

by **ALEXANDER WINIFRED**

MALAYSIA'S fast dwindling trade surplus has caught the eye of the Ministry of Finance (MoF), and the main worry is how this is affecting the current account balance.

Treasury Secretary General Tan Sri Dr Mohd Irwan Serigar Abdullah said Malaysia recorded a RM1.9 billion current account surplus in the second-quarter of 2016, a sharp decline from the RM5 billion recorded in the preceding quarter and the lowest since June 2013.

"We really need to look at exports," Mohd Irwan said at a post-budget dialogue organised by the Malaysian Economic Association (MEA) at Bank Negara Malaysia's Sasana Kijang in Kuala Lumpur yesterday, addressing a hall packed with economists and analysts.

Mohd Irwan said the approved spending in the 2017 budget for export-related promotion is expected to help fight off a global slowdown in trade, which is projected to ease a little in 2017.

Budget 2017 included an allocation of RM130 million to be disbursed to Malaysia External Trade Development Corp and Malaysian Investment Authority, as well as SME Corp through the National Export Promotion Fund; loan financing of RM200 million; and up to RM1 billion in insurance credit facilities for small and medium enterprises; as well as RM286 million to be directed at increasing exports of palm oil, rubber, cocoa and pepper.

Economists warned if Malaysia's imports continue expanding at their current rate, they may soon

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Concern on growing contingent liabilities

FROM P1 MoF 'worried'

outweigh exports, resulting in a twin deficit for Malaysia, which has been running a government deficit since the Asian financial crisis.

In response to concern Malaysia is shifting increasing amounts of debt off the books, Mohd Irwan said even as the country tries to trim the fiscal deficit, the federal government sees pressure from growing contingent liabilities but is confident that it will not see those liabilities activated.

"It's not a time bomb kind of thing," Mohd Irwan said.

He said companies which receive government guarantees are examined to ensure they have viable business models and those deals are approved by the Cabinet.

In recent times, more scrutiny has been placed on the rising borrowings of government-linked companies (GLCs), classified in the government's annual economic report as the "non financial public corporation financial position".

Federal government contingent liabilities are off balance sheet unless a guarantee is activated, resulting in the crystallisation of the deficit on the government's balance sheet.

From 2013 to 2016, based on Malaysia's 2016/2017 economic report, the total deficits recorded by the 29 companies under that category has increased from RM10.6 billion to RM50.4 billion, which exceeds this year's federal budget deficit of RM38.7 billion.

In a statement last Saturday, Opposition lawmaker Tony Pua, noted the growth in off-balance sheet debt stemming from GLC borrowings as "the biggest time bomb to the Malaysian public finances".

The Malaysian Rating Corp Bhd in June noted the fast growth of federal government contingent liabilities were "risk concerns".

Mohd Irwan said the GLCs created to build and develop projects for the government could pay off their debt "on their own".

He also assured the companies tasked with delivering projects like the mass rapid transit (MRT) lines, which are expected to cost a combined RM51 billion to complete, would be able to recoup their investments.

"People will pay for tickets," Mohd Irwan said.

Mohd Irwan added established GLCs like Petroliam Nasional Bhd (Petronas), Telekom Malaysia Bhd and Tenaga Nasional Bhd are expanding and need to make investments, and said those companies have no problems servicing their debts.

"They are making profits," Mohd Irwan said.

Malaysia's debt levels have remained a concern as it nears 2020, which is the year when it targets a balanced budget after running on deficits since 1998.

Mohd Irwan said the government expects to collect RM40 billion from the Goods and Services Tax in 2017, and will cut the annual dividend payment it receives from Petronas by over 18% to RM13 billion from RM16 billion this year.

Petronas is working on a US$42 (RM176.40)-a-barrel estimate for 2017, even less than what the government has budgeted for, said Mohd Irwan.

Extensive cost-cutting across the ministries saved the government about RM5 billion this year and the spending cuts will continue into next year, said the Treasury official.

Mohd Irwan said the cuts would not affect essential items and operational activities.