

Daim: Clear air on 1MDB

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"Although the government has said we are not in a crisis situation, we have what looks like a crisis, sounds like a crisis but may not be a crisis," says the former finance minister. (Pic by:Ismail Che Rus/TMR)

Former finance Minister Tun Daim Zainuddin said the government should be clear about what is happening with strategic investment company 1Malaysia Development Bhd and that it should admit that it has made a mistake if that was the case.

He said the uncertainty surrounding 1MDB has hit investor sentiment and the ringgit.

The former Finance Minister said if the huge debt surrounding the investment company remains unattended it will further affect the ringgit and Malaysia.

"The value of the ringgit is tied to many things. 1MDB is one of the uncertainties surrounding the decline of the ringgit. The government should resolve this problem and the ringgit will eventually strengthen.

"1MDB does not involve a small amount (of debt). Its about US\$40 billion," he told reporters after speaking at the Affin Hwang Capital Conference Series 2015 on Tuesday.

He said Malaysians should be told of the exact situation of 1MDB and its huge debt, as there are many confusing statements about the Finance Ministry-owned company.

"1MDB says they are doing well. If you are doing well, why do you borrow so much and why can't you pay your debts?"

"If it is a mistake, then I think the government should admit it and rectify. If you have to cut losses, then look at ways to do it. The more you hide, people will tend to become more curious," said Daim, who engineered Malaysia out of the 1998 Asian Financial crisis.

Daim said if 1MDB fails to pay the debt, it will be reflected as non-performing loan (NPL), which will affect the lender banks' bottom lines.

1MDB has a RM2 billion loan that was due to be repaid on the Jan 31, 2015. This loan was originally to be paid in November 2014, but has been rescheduled twice.

The banks and 1MDB have not made it clear whether the fund has repaid the loan.

During his talk, Daim said local banks should continue to consolidate, as Malaysia needs stronger banking institutions with larger capital base to face the competitive external market.

"During my time, I proposed to have only four banks, my view stays," he said.

Daim said consolidation of the banking, insurance and stockbroking industries is the way forward if Malaysia intends to avoid another financial crisis.

"Our financial sectors must be adequately capitalised and effectively supervised," he added.

Daim said the global crude oil price is likely to rise in June this year, to hover in a range of US\$65-US\$70 per barrel, driven by build up demand from India, China and Africa especially in the second half of this year.

"The current decline is not long-term. Malaysia had weathered all these conditions before, but we overcame because we took the right opportunities at the difficult times," he told some 350 participants of the conference.

Daim said in 1985, prices of commodities - Malaysia's key economic driver then - fell to the lowest point where crude oil prices averaged below US\$10 per barrel and palm oil was less than RM600 a tonne.

The challenge in current situation is to make strategic policy decisions under pressure, uncertainty and collective stress.

"Malaysia's unorthodox approach to the Asian financial crisis showed great courage and grit in the midst of pressures of conformity and conditionality."

"By and large, Malaysians are now told we have become a net petroleum products importer and hence the falling oil prices will not be detrimental."

"However, besides being a surprise to many, the arithmetic's did not include our LPG exports nor the fact that the falling Ringgit will also mean imports will be more expensive and lower exports earnings and its implication to the current account," he said.

"Although the government has said we are not in a crisis situation, we have what looks like a crisis, sounds like a crisis but may not be a crisis," he stressed.