

# Emergency - The Global Debt Bomb Has Exploded! Malaysians Are Drowning In Debt As Well.

By Matthias Chang – Future Fast-Forward

As far back as 2015, every household, corporation, banker and politician were in a state of irrational exuberance. To be hugely indebted was chic - as having great credit scores. Bank Negara was conducting the Monetary Philharmonic Orchestra's Debt Symphony to rave reviews. International credit cards' partnership with Malaysian banks marketed new ways to satisfy the insatiable hunger to accumulate the latest and fanciest by the mere swipe of chip-embedded plastics.

The bomb was ticking. No one cared, the music was playing and the good times were supposedly rolling.

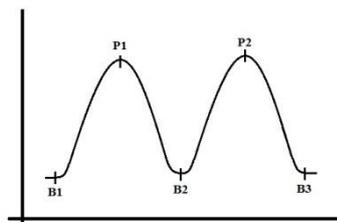
But, the indispensable tool of ***Predictive Analytics*** and ***Critical Path Analysis*** showed otherwise. I had warned Tun Mahathir Mohammad (Tun) in 2015 (at the Perdana Closed-Door Dialogue), in 2017 (in a "eight eyes" presentation at the Perdana Foundation) and twice in 2019 (in "four eyes" presentations at the Perdana Foundation) but Tun ignored my advice, in preference to DAP's blinkered vision as personified by Lim Guan Eng (LGE), the then Finance Minister, to maintain the artificial cohesion within the PH coalition and the insecure politicians.

What I wrote seems so prescient in the current circumstances and I hope that our new prime minister and his circle of policy-makers will consider my advisory presented in July, 2019 to Tun which I will quote in extenso:

## PREPARING FOR CYCLICAL CHANGES & SHIFTS

***Policy-Makers and planners must be acutely aware of cyclical changes and shifts and implement pre-emptive measures to eliminate or minimise the negative consequences.***

***As a general statement for the purposes of this analysis, most of the critical cycles have, as an average, a cycle of ten years as illustrated by the Bell Curves below:***



**The duration between Peak (P1) and Peak (P2) is approximately ten years.  
B1, B2 and B3 are market troughs/bottoms and the duration is approximately ten years as well.  
B1 to P1 is approximately five years; P1 to B2 is likewise approximately five years.**

*The most recent global financial boom and bust cycles were in 1987, 1997, 2007, give or take one or two years leeway. Because of the massive quantitative easing by the FED, the expected crisis in 2017/8 has been delayed somewhat but the storm clouds were there (see analyses by Jim Rogers, Ray Dalio, James Rickards etc.).*

*The most devastating cycles are the Debt Cycles because they always wreck (at the macro-level) the global economy and financial/banking system and (at the micro-level) national economies which result in severe recessions or depressions.*

*Presently, Malaysia is suffering from the consequences of the Debt Cycle, which began with the onset of the Najib regime's policies in 2009, morphing into the largest Kleptocracy in the world and ten years later, in 2019 we are still struggling to overcome its effects.*

*Looking at the Double Bell Curve Diagram above, Malaysia is now at the bottom of the cycle at B2.*

*In April 2015, Tun will recall that I had in the Closed Door Dialogue at PLF, forecasted the peak of the property market because of Malaysia's loose monetary policies and massive asset inflation resulting in the current state of affairs - the rakyat cannot even afford to acquire "affordable homes" at RM300,000!*

*From the Talking Points in Tun's Keynote Address at the Closed Door Dialogue [prepared by me], Tun invited the delegates to deliberate, the following:*

*High levels of leverage by public and private corporations;*

*High level of consumer debts;*

*Massive property overhang and the social problem of providing adequate housing;*

*Growing income inequalities;*

*Collapse of political cohesion; and*

*Loss of oil revenues and its impact!*

*Tun, we successfully forecasted and pre-empted the consequences of Najib's erroneous policies and their impact on the national Economy!*

*See page 6 of Annexure to this Executive Summary*

*Likewise, we forecasted and pre-empted the global crisis and consequences which I will not address in this Executive Summary.*

*I have therefore shown with concrete examples from our experience what can be achieved when we understand cycles and how to execute pre-emptive measures.*

*As ever,*

*Matthias Chang*

*19<sup>th</sup> July 2019*

**End of Advice**

But, PH scumbags diverted the focus of the government to concentrate on the power grab by Anwar and to depose Tun as prime minister. Tun was over confident and chose to listen to political green horns and those whom I had labelled as “over-rated and under-employed” at the PMO.

Notwithstanding the above dastardly political games by the dimwits in PKR and DAP, and the sycophants surrounding Tun, I persisted in ringing the alarm bells as the threats were looming large and the inevitable consequences of the rapid deterioration of the global financial landscape have begun to impact on our economy. There were glimpses of Nassim Taleb’s “Black Swan” on the edge of the horizon. If truth be told, Covid 19 was not the Black Swan but the **globalisation of the virus within a mere thirty days was the Black Swan** and it exposed the structural weaknesses of the entire global financial system and hastened the collapse of the entire global supply chains.

Pissed off by the grandstanding of LGE, I submitted another advisory to Tun. I will quote again in extenso:

### CRITICAL ISSUES & POINTERS FOR THE 2020 BUDGET AND 12<sup>TH</sup> MALAYSIA PLAN

#### 1) Strategic Objectives by 2025

Fulfilment of Vision 2020 in all sectors  
(No compromises) by end of 12<sup>th</sup> Malaysia Plan (2021 - 2025)

#### 2) Strategic Review: 10<sup>th</sup> Malaysia Plan (2011 - 2015) And 11<sup>th</sup> Malaysian Plan (2016-2020)

What targets have been achieved?

What targets failed? Why?

To reject / abandon what targets?

To roll over what targets, if necessary to 12<sup>th</sup> Malaysia Plan?

How will the failures of 10<sup>th</sup> and 11<sup>th</sup> Malaysia Plans obstruct the fulfilment of vision 2020 – our strategic objectives by 2025?

**[My current comments: I did not expect the resignation of Tun in 2020 notwithstanding the numerous plots and conspiracies. I had hoped that Tun on defeating the plotters (I had a strategy in place), Tun and Malaysia would move on and achieve the targets that I had set out. It was not to be and as they say, the rest is history.]**

#### 3) Priorities Of 2020 Budget

A) Strategic Objective – to lay the groundwork for the fulfilment of 12<sup>th</sup> Malaysia Plan beginning 2021

Therefore, Tun must have the understanding of the specific targets that are needed to achieve the delayed Vision 2020 by end of 12<sup>th</sup> Malaysia Plan (2025) and before 2020 Budget is tabled in Parliament in Sept/Oct 2019

Tun has no more than two months to fine tune the Execution Plan. No more honeymoon. Crack the whip and overhaul the cabinet if necessary. No more time wasting. Period!

If Tun gets this wrong and the two are not in sync, it will be a massive failure – “left hand not in sync with the right hand”. Tun must not allow anyone or party to derail the Strategic Objective in paragraph 1 above.

Hold all PH parties to their promises that Vision 2020 must be achieved after the sabotage by Pak Lah and Najib. This was promised in Budget 2019 by the PH Government. Year 2018, one freaking year was wasted by the nonsensical succession issue. Enough of that nonsense!

If this advice is sabotaged and not executed, no one will believe Tun and PH Government’s promises in any future manifesto – will be perceived as mere propaganda and the cheap 14<sup>th</sup> Election gimmick.

- B) Tactical Objectives – To resolve all outstanding issues and objectives of 11<sup>th</sup> Malaysia Plan and 2019 Budget’s unfulfilled targets / promises.

The enormous problems targeted to be resolved in 2018 have now rolled over to 2019 because of the wrong political narrative, supplanted by the internal politics of PKR on the corrosive and idiotic succession issue which continue to distract the focus of the entire nation and the PH Government in 2019.

Therefore, no stupid promises and or bravado rhetoric!

All debts issues arising from Najib’s criminal activities and failed policies must be resolved by Sept 2020 as Budget 2021 commences in tandem with the first year of the 12<sup>th</sup> Malaysia Plan (2021-2025).

The 2020 Olympics end on 9<sup>th</sup> August 2020. Malaysia must prepare for the next Olympiad in 2024, one year before the end of the 12<sup>th</sup> Malaysia Plan (2025)!

As the country is energised for sports in the 32<sup>nd</sup> Olympiad, so the Rakyat must be energised to achieve the goals of our Economic Olympiad!

Critical: The 12<sup>th</sup> Malaysia Plan will be the one and only Economic Master plan and Manifesto to inspire and motivate the Rakyat to return the Government to Putrajaya in the 15<sup>th</sup> General Election in 2023. Period!

[My current comments: The said advice applies equally to the PN Government to secure the 2/3 majority and reclaim Penang as announced by me in July, 2020. Given the above, it is not difficult and beyond the capabilities of the PN Government to achieve, unless the coalition screws up big time by factionism].

Electrify the entire country to race to the finish line by 2025 in full achievement of the delayed Vision 2020.

The five years from 2020 to 2025 will be most critical in catapulting our country to compete effectively in the first half (2021 - 2025) of the 3<sup>rd</sup> decade of the 21<sup>st</sup> century (2020 - 2030).

Tun must dominate the 12<sup>th</sup> Malaysia Plan and seal Tun's legacy beyond any debate.

[My current comments: Tun is now in a self-destruct mode and has jeopardised whatever remaining credibility that he had accumulated after 22 years as prime minister. Sad! ]

Traitors have sabotaged Vision 2020.

Tun has just one last chance to make good the promises embodied in Vision 2020.

Every ministry/minister must be given time lines to achieve targets assigned to the ministry/minister.

Nothing more need to be said or written.

**End of Advisory**

The above was the last wake-up call to Tun. I had come to the inevitable conclusion that Tun was too addicted to the power struggle and was slavishly engrossed in the "Game of Numbers" – the shifting of MPs' chairs to redraw the political boundaries to sustain his grip on power. From his **"siege mentality"** perspective, the reliance on economic tools was not lethal enough to counter the coup plotters.

Tun is now singing a different song and terribly out of tune, no doubt because the musical score has not been followed by Tun, to his detriment!

**Given the above, it would not come as a surprise that Tun may have decided inter-alia to scuttle the PH ship because the PH ship was a patched-up construct with a crew that had never sailed in stormy seas – a ship wreck on or before 2023! After all, Tun did degrade the members of his Cabinet with the passing mark of 5/10.**

That said, let's cut back to the chase and address the debt explosion.

If truth be told, debt bombs were already blowing up in the last quarter of 2019 triggered by the "big boys" in the housing and construction industry. The market had already peaked in 2015, but because projects commenced from 2015 onwards, would only be completed by 2018 (approximately three years as allowed by law) and the snowballing effect for houses built in 2016 and 2017, the glut and overhang became too obvious and that the music has stopped for the entire industry. But, banks were still too eager to lend to the industry as the

pursuit of “asset growth” was the toxic driving force. Loans are assets to the banks, until and unless defaults kicked in and become liabilities in the Balance Sheet. Compounding the problem, there was the huge appetite of the “Big Boys” of the housing industry to enhance their “Land Bank” financed by cheap loans and the misdiagnosis of the credit standing of such borrowers. The blood bath of the industry became all too apparent when incredulous marketing schemes were deployed to suck in the gullible “home-investors” with the so-called super-link terrace houses, seven bedrooms semi-detached houses (exceeding the RM1 Million price tag) to upgrade lifestyle on borrowed monies!

When the conductor of the Debt Symphony turned down the volume, it was too little too late!

The entire Supply Chain to the housing industry started bleeding because the players borrowed heavily to be in the game! So, and in the result the freaking developers refused to pay or delayed payment to the main contractors, who in turn delayed payment to the subcontractors and suppliers, and they in turn defaulted on their “easy” loans!

I invite policy-makers, economists and financial analysts to visualise the above scenarios being played out across the various industries critical to our economy. I need not say more!

In more ways than one, Covid19 was a timely cover for the banks to circumvent the need to report and declare Non-performing loans (NPL) when Bank Negara led the initiative for a “loan moratorium”.

It was a no-brainer, necessitated by the urgency to prevent further deterioration of banking assets and the threat to the fragile banking system. This was not a challenge faced by Malaysia alone. This was a global systemic crisis hastened by Covid19 when lockdown was implemented worldwide to prevent the spread of the Covid19 virus.

**A digression** – for you to understand that post September/October 2020, the financial problems will be aggravated further by a second round of defaults.

### **“Cross-Defaults” meaning:**

In all loan documentation throughout the world (no exceptions) there is a clause referred to as the “Cross Default” clause, a special provision over and above the “Breach of Covenants Clause”. Thus, if Borrower has 4 loans from four different banks e.g. Bank A, Bank B, Bank C and Bank D, the loan documentation of each bank will have the “cross-default” clause which provides that if and when the borrower defaults in his loan with Bank A or in any of the other banks, it automatically triggers defaults in all the loans from the other banks.

The banks can make immediate demand from the borrower to settle the loans. In the worst case scenario, bank accounts would be frozen, all securities would be liquidated (if property, by foreclosure actions). This is the chain effect of a cross default.

Let's cut back to the chase.

**Scenario 1:** if the borrower was in default for more than three months of instalments prior to the Loan Moratorium, he is technically still in default (as there has been no waiver by the bank of the default. The loan would have been considered an NPL. By the moratorium, the bank has merely delay recovery action. On expiry of the Moratorium, the bank may at its absolute discretion take whatever action, as NPL has crystallised.

**Scenario 2:** the borrower is not in default at all. The moratorium merely allows the borrower an extension (for the period of the moratorium) to repay the loans by six months. The loan instalments are suspended till expiry. Thereafter, the instalments are activated and the payment schedule resumes.

**Scenario 3:** the facts are as in Scenario 2, except that the borrower has defaulted in one instalment payment. The bank would not treat the loan as a NPL, but technically there is a default which would trigger the operation of the Cross Default clause.

### **The Fiasco:**

Post expiry of the moratorium, if in all the above scenarios the borrower defaults in only one specific loan say to Bank A, by operation of the Cross Default clause, all the four loans are in default. And if in the following months, the default exceeded three months for all the loans, than the four banks have NPLs on their books. Loan bombs would be exploding everywhere!

The problem stems from the cash flow of the borrower, whether as an individual, a firm or a corporation.

Thus, if revenue of the above borrowers (especially small businesses) drops by a staggering 70% (already happening) there is no way, post the moratorium for the borrower to resume instalment payments. There would be massive defaults.

If high-end retailers' revenue (branded goods retailers) drops by an unprecedented 40% all options would be on the table – shut down operations until good times return or continue for a few months to evaluate the cash flow and reserves. If bad, shut down the operations. And depending on the degree of gearing, defaults would ensue.

### **Another scenario:**

Assuming you are a businessman with a small family and you have reserves (cash and monies in a current account) amounting to RM500,000.00. Loan repayments per month on whatever loans amounts to RM250,000.00. There are no prospects of reviving or sustaining the business, with a rental millstone around the neck.

Would you really try to be a good debtor and continue to pay the instalments for one more month and by the end of the next month stare at Armageddon?

Or,

Would you say to yourself, better draw every sen out of the current account and with whatever cash, would be able to survive for a minimum of three years, even with the threat of bankruptcy. Loss of business is not the top priority. The family comes first! This profile is a composite picture of the people who are presently bleeding, are angry but have the common sense that it's not the prime minister or the government's fault for the time being. It's the consequence of the global Covid19 pandemic.

This is but a microscopic view of the challenges the country is facing and the data of the above scenario are not within the scope of the financial planners' radars. But, if the PN Government ignores reality and adopts a pure financial attitude to resolve the crisis as in past crises, then don't expect support or tolerance from the rakyat.

The above scenarios are already happening in USA, UK and Europe. So, what makes the experts in our country think the Malaysians would be acting differently?

In all previous crises, the government and Bank Negara rushed to save the banks as those crises were essentially financial crises.

The current crisis is a double whammy and a global one at that. Economies were shut down.

Therefore, if Bank Negara saves the bankers and leave the rest of the country high and dry, be assured there will be an unprecedented social crisis and what we see in the US, UK, France and many European countries will be triggered here in Malaysia.

There is only one critical factor, TIME.

Buy Time!

We must not, like typical economists focus on GDP growth. It is freaking irrelevant and the numbers are useless and meaningless. President Xi, like or hate him, has the courage to inform his entire country, that GDP numbers are not an essential issue. It is no longer about growth, but survival of his people. Go fact check!

Bank Negara has already announced that the first half of 2020, Malaysia had -8% growth. I will be generous and say that for the full year of 2020 growth will be -6%. And I will be equally generous to say that growth for 2021 will be +5%. So, what is the net figure? Obviously, still in negative territory! Common sense!

If we continue to sell the growth crap story by creative manipulation of data and people are not getting the “feel good factor” arseholes must be brought to account for selling “fake news” and making false promises.

Tell the truth, prepare the country for the bad times, treat the rakyat as adults, more action and less talk, then the entire country will rally behind an honest and truthful leadership.

Overwhelming victory will be secured in the next election, and by a 2/3 majority.

Politicians should stop their grandstanding and theatrics in parliament. Go to the ground, work hard, and show you really care. And don't you dare go to the constituencies in fanciful cars and adorn with glittering watches and multiple rings on your fingers! I will personally lead the masses to chase you out.

Don't talk about power, race, culture, religion, language and or indulge in intellectual masturbation. Just tell and share with the rakyat how we as a people will survive and overcome the crisis and build a just, equitable and harmonious Malaysia!