NEW STRAITS TIMES

Experts: Malaysia can manage debt by strictly adhering to fiscal regulations

By S. Birruntha - July 23, 2024 @ 7:00am

Economists believe that Malaysia's debt situation can be managed effectively by strictly adhering to the Public Finance and Fiscal Responsibility Act. -NSTP/AIZUDDIN SAAD

KUALA LUMPUR: Economists believe Malaysia's debt situation can be managed effectively by strictly adhering to the Public Finance and Fiscal Responsibility Act.

Fiscal deficits of less than three per cent of the gross domestic product (GDP) and government debt ratio of less than 60 per cent will be the goalpost that shape the government efforts, they said.

Government debt at the end of 2023 stood at RM1.17 trillion, about 66.9 per cent of the GDP. RM891.01 billion (76 per cent) was domestic debt and RM281.5 billion (24 per cent) was external.

Bank Muamalat chief economist Dr Mohd Afzanizam Abdul Rashid said strict adherence to fiscal regulations could help steer the government towards a sustainable fiscal position.

"Measures like rationalising subsidies and raising tax revenue will keep fiscal deficits low and stabilise the government debt ratio," he told the *New Straits Times*.

He said public investment can give returns in higher productivity, leading to higher growth and income, which would improve government revenue and reduce reliance on debt to finance spending.

On tax revenue, Afzanizam said the government was cognisant of the impact of raising taxes, introducing new taxes and reviewing subsidies.

He said the government was introducing changes gradually to avoid economic shocks that could slow growth.

"The economy may have grown five per cent in the first half of the year, suggesting that the economy is able to withstand the policy changes.

"This is positive as the policies become a foundation for the government to continue fiscal reform in the second half of the year."

Economist Dr Geoffrey Williams said the Fiscal Responsibility Act and Medium Term Fiscal Strategy would help the country manage debt better, as would cutting wastage, leakages and corruption.

He said the country's domestic debt was held by government-linked investment companies like the Employees Provident Fund, and hence were "very stable".

"There is an additional RM327.32 billion that is guaranteed by the government as contingent liabilities, such as the National Higher Education Fund Corporation.

"This is not formally government debt, but the government will have to pay it if there is a default.

"The latest debt estimate was RM1.22 trillion at the end of April. The debt to GDP level is below the regional average.

"For example, Singapore's debt reached 174 per cent of the GDP in March."

Williams said the real problem was debt financing, which was a commitment the government must pay before it could spend on other priorities like health, education and social protection.

He said it had reached RM50 billion and was becoming expensive.

"While the government can afford this, it diverts funds from other priorities and reduces fiscal headroom.

"I believe the Fiscal Responsibility Act and Medium Term Fiscal Strategy will help manage the country's debt. Subsidy rationalisation also helps.

"All of these are in place with a good team at the Finance Ministry. So it is a matter of keeping firmly to the fiscal sustainability policy."

He said the government should decide which public investments were necessary, which means re-evaluating priorities.

He said investments in health, education and infrastructure should be prioritised and avoiding investments that could be handled by the private sector, such as the High-Speed Rail project.

The government should also cut wastage, leakages and corruption so that it is not borrowing to finance investment when money is lost due to bad management.

"When this is done, the government should look at overall revenue and spending within a clean system to see if taxes need to be raised or if other methods can be used to finance investment.

"For example, taking civil service pensions out of operational expenditure and funding them through a Malaysian superfund would release those funds for investment."

Centre for Market Education chief executive officer Carmelo Ferlito said reducing debt requires both cutting expenditure and increasing revenue.

He believed it was important for the government to continue pursuing subsidy rationalisation, with a clear strategy to exit fuel dependency to ensure real and long-term benefits.

He said higher involvement
of the private sector should be sought, not only for financial sustainability, but also for better identifying of infrastructure that make sense from a market perspective.

Economist and Crawford School of Public Policy visiting fellow Dr Shankaran Nambiar said when the prime minister talked about reducing debt, it does not mean the government would not undertake new debt.

He said new debt could be undertaken carefully.

"Any expenditure that does not provide significant value or return should be avoided.

"Tax rationalisation measures should not be delayed. It is of utmost importance that they be rolled out as planned. This will be beneficial if the timeline set for these initiatives is followed."