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ECONOMIC REPORT | Government Debt

Malaysia is Still Far from The 55% Debt Limit

- *Despite Malaysia's debt to GDP level was at 54.5% as at end of 2015, it should be noted Malaysia is still far from breaching its own self-imposed debt limit.*
- *The 55% limit was in fact should only include Malaysia Government Securities, Government Investment Issues and Islamic Treasury Bills. By that definition, our debt to GDP as at end of 2015 was only at 48.3%*
- *Despite the possibility of an upward increase of the debt ceiling limit in the event of a recession, we opine that the debt to GDP level should not be seen as an important indicator of fiscal sustainability. Historically, Malaysia had increase its debt ceiling level a few times and not even once our sovereign credit rating was downgraded because of it.*

Malaysia public debt to GDP level is expected to improve in 2016. In a recent statement, Malaysia Ministry of Finance stated that Malaysia's public debt to GDP is expected to decline from 54.5% in 2015 to 53.0% in 2016 due to the fiscal consolidation process and transfer part of the civil servants housing debt to transfer part of it to the Public Sector Housing Financing Agency. Although the amount of transfer is not known to the public, it needs to be reminded that those assets are income generating, high-quality assets with low probability of default. The action was in fact part of Malaysia Incorporated plan, and is not done in order to reduce our debt level.

The 55% debt ceiling level is not mentioned in any act. In contrast to the US, Malaysia's 55% debt ceiling level is in actual fact not a mandatory. The debt limit is not governed by any act and is in fact a self-imposed debt limit set by the Ministry of Finance. In other word, no parliamentary approval is needed should there is a need for Government to raise their debt above the 55% level. As such, there will be not be a situation where our government needs to be 'shut down' due to the inability to finance its operation, as the Ministry of Finance is free to revise the debt limit as it see fits. There was a misunderstanding by the public that exceeding the 55% level limit would theoretically cause Government to be declared bankrupt, that is not true.

Our actual 'limit' is still far from breaching its threshold level. In fact, it should be noted that the 55% limit should only include Malaysia Government Securities (MGS), Government Investment Issues (GII) and Islamic treasury bills (MITB). By that definition, our debt level as at end of 2015 was only at 48.3% to GDP, which is still far from the 55% debt ceiling limit. The summary of the Government debt level limit are as follows:

Table 1: Government Debt Limit

Type of Loans	Limit	As at End of 2015
MGS + GII + MITB	55% to GDP	48.3%
Foreign Borrowing	RM35 billion	RM21.5 billion
Treasury Bills	RM10 billion	RM3.0 billion

Source: BNM, CEIC, MIDFR

As such, even if the Government exceeds its public debt to GDP level of 55%, sovereign credit downgrade is unlikely. Despite the Government is on track of reducing its debt level from 54.5% to 53.0% this year, one risk remains i.e. if the nominal GDP grows much slower or even contract this year due to a recession. Although we do not think that the nominal GDP will contract this year, as long as the Government is able to keep its fiscal deficit at 3.1% to GDP, the total amount of MGS, GII and MITB combined is still unlikely to breach the 55% debt ceiling level.

Too much attention has been given to the public debt to GDP level; the more important question is the sustainability of Malaysia fiscal position. Malaysia's debt limit was set at 40% in April 2003, revised to 45% in June 2008 and subsequently 55% in July 2009. There was not even once when our sovereign credit rating was affected due to the increase in debt ceiling limit. We opine that the market and the public in general has been giving too much attention on the public debt to GDP level, without understanding the sustainability of the fiscal policy itself. Despite rebuttal from the public, we strongly believe that the implementation of Goods and Services Tax (GST) and to reduce our reliance from oil revenue is positive for Malaysia's long term fiscal sustainability.

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