

**Country weighed down by RM455bil debt**  
**Malaysiakini.com**  
**October 08,2011**

Federal debt went up 11.9 percent to a stunning RM455.75 billion this year, pushing up estimated interest rate payment for 2012 up by RM1.94 billion.

According to the Economic Report 2010/2011, the bulk of the increase came from domestic debt, "mainly due to higher borrowings to meet financing requirements".

The report notes that at that rate, federal debt stands at 53.8 percent of the GDP, up by a minor rise of 0.7 percent compared with 2011.

"Through the debt level has been trending upwards in recent years, debt servicing capacity remains affordable and within prudent limits.

"The government will ensure that debt service charges remain at 10.1 percent of revenue (compared 9.8 percent in 2010) will remain manageable and not impinge on productive spending programmes," the report said.

NONEIt added that fiscal rules will be "rigorously observed" so that debt will not exceed more than 55 percent of GDP with debt servicing costs maintained below 15 percent.

Leading the way in the debt load up in 2011 was the issuance of RM28.39 billion worth of new government investment issues (GII).

Also contributing to the hike in government debt are securities, up by 6.4 percent or RM16.72 billion this year.

External debts make up a smaller portion of the government debts, with market loans higher by around RM 745 million in 2011 compared with last year, and project loans down by 2.8 percent or RM 7.2 billion this year.

The rise in securities contributes to the largest portion of the expected rise in interest payments for 2012, which the Estimated Federal Expenditure report for 2012 estimates to be an astounding RM20.45 billion.

Debt servicing of securities is up by RM1.2 billion, or 10.47 percent, to a mind numbing RM12.79 billion.

Securities are marketable debt instruments issued by the government to raise funds from the capital market,

They were issued in 1970s and 1980s to meet public sector development expenditure and used to sustain the budget deficit and prepayment of external loans starting the 1990s.

It was followed by interest paid to the Employees Provident Fund (EPF) which at an estimated RM2.04 billion is up by 14.68 percent.

Heavy on the interest bill at RM4.94 billion is payment for government issued investment, expected to rise by RM751.17 million compared with the figures for 2011.

Household debts high

The Economic Report 2010/2011 also notes that the total household debt this year stood at an astounding RM524.9 billion, leaping by 12.7 percent compared with last year.

This means that debts held by households stand at a worrying 77.2 percent of GDP at the end of July 2011, although the report contends that this is "manageable".

NONE"The households debt level remained manageable as more than half of the debt comprised asset-backed loans for residential properties (at 45 percent) and vehicles (at 19.2 percent).

A likely cause for concern is credit card spending which the report said "continued to expand" in 2011, with transactions rising 11.8 percent to RM50.3 billion in the first seven months of the year.

At the same time, the move to impose credit card service tax, announced in Budget 2010, resulted in a decline in credit card distribution.

"(The) total credit cards in circulation has been on the decline, recording 8.3 million cards as at end-July 2011. This represented a 26% decline from the level recorded in Oct 2009," it read.

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