

**M'sia faces rising debt burden without reform**  
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Malaysia faces a rising debt burden and risks damage to its economic growth potential unless it implements tough reforms and tackles its subsidy regimes, the World Bank warned on Monday.

The bank forecast in a report presented in Kuala Lumpur that Malaysia could grow by as much as 5.7 percent this year but said that rate could fall back to as little as 4.2 percent annually if reforms were not implemented.

Prime Minister Najib Abdul Razak has pledged to restructure subsidies, introduce new taxes and tackle the country's race-based system of economic preferences, but the government recently backed off some key tax and subsidy reforms.

"A stalling of the reform momentum would however cause an incremental loss in competitiveness, translating into slower growth of 4.2 percent in the medium term and adding upward pressure on the government debt-to-GDP ratio," the bank said.

Although Malaysia's ability to finance its public sector deficit is not in doubt due to the country's strong domestic bond market, the bank warned that government debt would continue to rise.

The World Bank's baseline forecast shows that government debt will rise to close to 60 percent of gross domestic product, but warned that it could go higher without strong economic growth and the implementation of reforms such as cuts to subsidies and a new goods and services tax.

Subsidies cost Malaysia 24.5 billion ringgit (\$7.68 billion) in 2009 out of total operating spending of 160.2 billion ringgit.

Plans to cut subsidies on fuel have recently been deferred, causing investors to fret that Najib, whose government is politically weak, will not follow through on reforms.

"Malaysia's competitive position in the global market place is expected to slip and growth could fall to levels averaging at 4.2 percent over the projection horizon.

"As a result, the debt level would accelerate to close to 70 percent of GDP in 2015," the bank said.

- Reuters