

National debt to equal GDP by 2019 if Putrajaya remains spendthrift, say economists

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KUALA LUMPUR, Jan 10 — Malaysia's national debt will hit 100 per cent of the Gross Domestic Product (GDP) by 2019 should Putrajaya continue to borrow more than it earns, economists say.

Malaysian Institute of Economic Research (MIER) distinguished fellow Mohd Ariff Abdul Kareem warned that the federal government revenue was growing too slowly to keep up with its borrowings, which hit 53.1 per cent of GDP in 2010.

He said while the current size of government debt relative to GDP was not troubling, the pace of its growth in recent years was cause for concern.

Debt-to-GDP ratio jumped from 41.4 per cent in 2008 to 53.1 per cent in 2010 while government debt grew 14.6 per cent in 2008 and 18.3 per cent in 2009, far outpacing the country's GDP growth, Ariff noted.

"If nothing is done to reverse the current trends in government expenditures and revenues, extrapolation suggests that Malaysia's national debt will explode to 100 per cent of GDP by 2019.

"Should the debt growth gather speed, this can happen sooner," he told The Malaysian Insider via e-mail.

Ariff (picture) pointed out that while government spending on fiscal stimulus packages in the face of global financial crises has mostly translated into infrastructure development, there was a need to trim fat from the bloated civil service, which formed a significant chunk of Putrajaya's operating expenditure.

He said emoluments to Malaysia's civil service — the largest per capita in the Asia-Pacific according to the OECD — have risen from 23.3 per cent of the operating budget in 2007 to 33.1 per cent in 2010, rising to 41.6 per cent in 2010 if pensions were included.

This was a major financial burden on the government, as were the cost overruns, wastages and leakages exposed annually by the Auditor-General, the professor for international finance at the International Centre for Education in Islamic Finance (INCEIF) said.

"There is certainly a need to rein in government operating expenditure, which must include a downsizing of the bloated civil service, to bring government procurements under greater scrutiny with increased transparency and accountability and to undertake serious tax reforms to raise more revenue," Ariff added.

RAM Holdings Bhd chief economist Dr Yeah Kim Leng said there needs to be political will on the part of Putrajaya to execute its Government Transformation Plan (GTP), which is partly aimed at stopping the fiscal deficit from rising further.

"We must follow it religiously because [the fiscal deficit] is currently the main vulnerability of Malaysia's economy," he said.

Yeah said Malaysia would be on the right track to keeping its fiscal deficit in check in the medium to long term if Putrajaya remained committed to this plan but cautioned that this was premised on an annual GDP growth of five to six per cent.

This was because any slowdown in the economy would lead to lower wages and higher unemployment, which would in turn negatively impact tax revenues, he said.

"There is a close correlation between growth and government revenue," he said, noting that for every one per cent decrease in GDP growth, tax collection will drop by 0.8 per cent.

"During a slowdown we can expect government fiscal deficit to actually widen."

Yeah added that the government does not have long to consolidate its fiscal position as income from the oil and gas sector, which makes up about 40 per cent of total government revenue, was expected to fall over the next five to 10 years as Malaysia's oil reserves dwindle.

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