TARIKH : 18 JANUARI 2023

AKHBAR : NEW STRAITS TIMES

MUKA SURAT : 18

'Comfortable but at upper limit'

NATIONAL DEBT LEVEL

'COMFORTABLE BUT AT UPPER LIMIT'

Risk of additional financial burden low as govt's debt is mostly ringgit denominated

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MALAYSIA'S debt level, at about 80 per cent of its gross domestic product (GDP), has hit "the upper limit" but is within a "comfortable level", said economists.

A comfortable debt level for a country should be in the range of 60 to 80 per cent of its GDP, they added.

Prime Minister Datuk Seri Anwar Ibrahim disclosed yesterday that the national debt, including liabilities, stood at RM1.5 trillion last year and that it should be addressed urgently.

"The problem with our debt is it has touched RM1.2 trillion and if you include liabilities, it is RM1.5 trillion. We have to accept this reality. We cannot feel complacent, living with the culture of contentment as if there is no problem," said Anwar during a 2023 Budget dialogue.

Putra Business School Assoc Prof Dr Ahmed Razman Abdul Latiff said the International Monetary Fund deemed a national debt of 70 per cent of GDP as acceptable.

"But some countries that have exceeded 100 per cent, such as Japan and Singapore, are also considered as stable.

"In our case, the majority of the government's debt is ringgit denominated and will not be exposed to foreign currency fluctuations that can result in additional financial burden," he told the *New Straits Times*.

Sunway University Economics professor Dr Yeah Kim Leng said the comfortable debt level for emerging economies had been found to be at around 60 to 80 per cent of GDP.

Developed countries can exceed 100 per cent but they are more susceptible to financial crises, especially a sovereign debt crisis.

"It must be noted that developing countries have experienced a sovereign debt crisis at levels below the suggested range."

However, Yeah said Malaysia's debt level having hit the upper limit would mean increased vulnerabilities to a sovereign debt crisis and reduced capacity to support the economy in the event of an economic shock.

"More generally, the higher the fiscal deficit and debt level, the more panicky foreign investors become. A panic will trigger capital flight and cause 'sudden stops' that drain the country's foreign reserves."

He said fortunately, an estimated 97.5 per cent of the government's total debt was denominated in ringgit.

"For domestic debt denominated in ringgit, there is zero default risk as the government can continue to issue new debt securities to repay old ones. However, it is an unsustainable process, especially if the country's economic fundamentals such as growth, inflation and balance of payments were to deteriorate.

"In short, the current level is not alarming but concerning, especially if no actions are taken to curb excessive and unproductive public spending and stamp out leakages and wastages."

Yeah said international rating agencies had mostly affirmed Malaysia's sovereign credit rating at "A-".

Hence, he said Malaysia's creditworthiness remained strong despite the deterioration in its fiscal metrics compared to similarly rated countries.

Prime Minister Datuk Seri Anwar Ibrahim says Malaysia's debt, including liabilities, has reached RM1.5 trillion up to last year. EPA PIC