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Federal debt to rise past RM1.7 tril by 2030, 13MP fiscal pointers show

THE STATE OF THE NATION A WEEKLY UPDATE

Federal debt to rise past RM1.7 tril by 2030, 13MP fiscal pointers show

BY CINDY YEAP

Federal government debt is set to surge past RM1.7 trillion by 2030 from RM1.3 trillion currently. However, Malaysia's debt-to-GDP ratio could still decline to around 60% from over 64% currently — provided the economy grows faster than 4.5% annually through 2030, propelling the country towards high-income status as envisioned in the 13th Malaysia Plan (13MP).

That is according to our back-of-the-envelope calculations based on fiscal and economic data pointers appended to the 13MP unveiled on July 31. Apart from climbing the exports value chain, the 13MP also emphasises artificial intelligence (AI), bolstering the creative or orange economy as well as the development of geriatric-related skills and social enterprises to help expand the old-age safety net.

The growing debt should come as no surprise despite Putrajaya's narrative that new debt accumulation was lower than previously, as was the case in 2024 versus 2023.

Prime Minister Datuk Seri Anwar Ibrahim admitted as much when tabling the country's latest five-year plan in parliament, when he said: "Upon assuming office, the Madani government inherited a towering national debt exceeding RM1 trillion. The fact remains that as long as the national budget remains in deficit, the national debt will continue to rise.

"What options does the government have? We are compelled to act, with both courage and caution, to rectify past excesses without compromising the well-being of the majority. It is like pulling a strand of hair from a pile of flour — the hair remains unbroken, and the flour remains undisturbed," he added in Malay, explaining how the Madani government he leads had committed from the onset to phased fiscal reforms by increasing revenue and optimising expenditure — including by retargeting subsidies — to ultimately reduce new borrowings in the national budget.

According to the 13MP, Malaysia's fiscal deficit is set to fall to below 3% of GDP by 2030, from the projected 3.8% of GDP this year and 4.1% of GDP in 2024.

This is as mandated by the Fiscal Responsibility Act 2023. However, by our calculations, this is slower than what was previously indicated in the 2025 to 2027 medium-term fiscal framework, which expected the budget deficit to average 3.5% over the three-year period. That old projection would have required the budget deficit to fall to 3.5% next year and 3.2% in 2027.

Under the 13MP guidance for 2026 to 2030, Malaysia's fiscal deficit is expected to narrow to 3.5% by 2027 with the average deficit from 2025 to 2027 estimated at 3.7% of GDP, *The Edge*'s calculations show.

The 13MP does not specify a timeline for achieving a balanced budget — a goal that would require either substantial revenue increases or deep spending cuts. This appears unlikely, especially with Phase 2 of the civil service pay hike set to begin in January 2026, even though the expanded sales and service tax is projected to generate an additional RM10 billion in revenue that year. It remains to be seen how much savings is expected from the upcoming retargeting of RON95 petrol, which Anwar had promised to reduce to RM1.99 per litre from the current RM2.05 per litre for Malaysians, while raising pump prices for foreigners.

No mention of zero-deficit

An aspirational "near-balanced" budget was mentioned in the 11th Malaysia Plan (2016 to 2020) that worked towards bringing down the fiscal deficit to below 3% of GDP by 2020.

Due to the Covid-19 pandemic that required massive stimulus spending while collecting less revenue, however, Malaysia's fiscal deficit was 6.2% of GDP in 2020 and 6.4% of GDP in 2021.

While the country did not manage to reduce its fiscal deficit to between 3% and 3.5% of GDP as targeted under the 12th Malaysia Plan (2021-2025), the fiscal deficit has been gradually brought down to 5.5% in 2022, 5% in 2023 and 4.1% in 2024 despite Putrajaya announcing record-sized budgets every year since 2021.

Although Malaysia's debt pile is projected to edge higher over the next five years under the 13MP, it is mathematically possible to reduce the debt-to-GDP ratio to 60% by 2030 — provided the economy grows as forecast.

Politicians would be happy to know that our back-of-the-envelope calculations show it is also possible to keep announcing slightly bigger national budgets every year between 2026 and 2030 — if the economy grows 4.5% to 5.5% a year as projected during the covered period.

That means Malaysia's economy will likely need to grow faster next year, hopefully with fewer leakages plus enhanced tax compliance and efficiency.

Malaysia's previous 2025 GDP growth projection of 4.5% to 5.5% — coincidentally the same as the initial target under the 12MP before being revised to 5% to 6% in the mid-term review — still suggests the economy could grow faster this year compared to the 5.1% recorded in 2024.

Bank Negara Malaysia had on July 28 revised lower the country's 2025 economic growth projection to between 4% and 4.8%, which is still higher than consensus projections, that have been closer to 4% soon after US President Donald Trump slapped a 24% reciprocal tariff on Malaysian exports on April 2 before raising it to 25% in a letter dated July 7.

On Aug 1, Malaysia's reciprocal tariff was reduced to 19% — on a par with Indonesia, Thailand, the Philippines and Cambodia; higher than Japan and South Korea's 15%, but lower than Vietnam and Taiwan's 20%, India and Brunei's 25%, and Laos and Myanmar's 40%. Singapore, which has a trade surplus with the US, maintains a tariff of 10%.

GEAR-uP, private sector boost to DevEx

Any number cruncher knows Malaysia must act swiftly to create the fiscal space needed to expand its social safety net, especially as the nation transitions into an aged society over the next 15 years.

Yet, Anwar's delicate choice of metaphor of retrieving hair from flour can perhaps only be explained by the tough political situation where decades of divisive Malaysian politics have shaped the majority of those who want to stay in power and the electorate.

As a result, the path of least resistance chosen is one where debt-to-GDP is kept afloat at a level that can still be deemed sustainable as a proportion of GDP, even as necessary reforms are made at a pace that does not disturb the flour too much.

The RM430 billion development expenditure pencilled in for the 13MP, which works out to RM86 billion a year, is largely within expectations, being the size tabled for Budget 2025 and slightly above the RM84 billion actually spent in 2024. The RM96 billion development expenditure in 2023 is not a like-for-like comparison as it included US$3 billion for the repayment of 1Malaysia Development Bhd (1MDB) debt.

Given the still-tight fiscal space, Anwar pointed out that the government's RM430 billion development expenditure allocation is further boosted by the RM120 billion commitment from government-linked investment companies (GLICs) under the Government-Linked Companies Empowerment and Reform (GEAR-uP) initiative. Coupled with RM61 billion from public-private partnerships (PPPs) or Private Finance Initiatives (PFIs) under guidelines from the Prime Minister's Department, Anwar said development spending under the 13MP is closer to RM611 billion.

Most economists see the 13MP as practical. CGS International economist Nazmi Idrus was a tad bolder in his 13MP note headlined "Take it with a grain of salt".

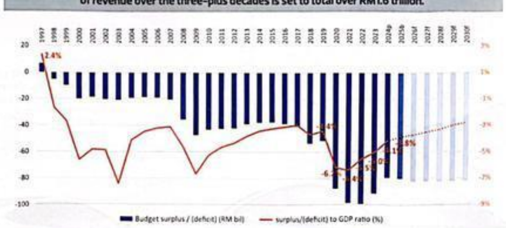
"We think the 13MP strikes the right balance between priorities of various economic players while providing enough clarity for investors to see Malaysia's medium-term potential. That said, these five-year plans are reflections of the government's wish lists, one that is made without a strategy for execution, in our view. As such, these goals, however lofty, seem to take on an aspirational tone rather than a commitment to implement within the time frame," Nazmi wrote in the note co-authored with Mas Aida Che Mansor, which noted initiatives like the implementation of a foreign worker levy "have been recycled several times".

"Furthermore, we see the 13MP rollout happening in the heat of a shifting geopolitical landscape. As new trade deals are signed, it is yet to be seen whether Malaysia can sail through it economically or if it needs a policy overhaul. Regardless, the 13MP paves the way for a new direction for the annual budget. We expect the Budget 2026 tabling in October to include elements of the 13MP, including possibly milder development expenditure growth, as well as greater emphasis on the new focus sectors," added Nazmi, who did not change CGS' 2025 GDP forecast of 4.2%.

Can the Anwar-led Madani government beat expectations and deliver what it aspires to in the 13MP and more?

MINISTRY OF FINANCE, MINISTRY OF ECONOMY (13TH MALAYSIA PLAN), THE EDGE ESTIMATES

Malaysia is set to see at least 33 years of budget deficits from 1997, with the 13MP expecting the budget deficit to fall just below 3% in 2030. Total federal government expenditure in excess of revenue over the three-plus decades is set to total over RM1.6 trillion.



Direct federal government debt, which has doubled from RM502 billion at end-2012 to RM1.25 trillion at end-2024, is likely to exceed RM1.7 trillion by 2030 going by fiscal estimates in the 13MP. Headline debt to GDP, however, could decline from 64.1% of GDP in 2024 to 60% by 2030 if the economy grows as projected between 2026 and 2030.