



PRESS RELEASE

Government's Temporary Debt Increase Due To Helping Rakyat & Businesses: Fiscal Discipline And Consolidation To Follow Once Economy Recovers

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There have been many questions on Malaysia's government debt lately, including how it is defined, how it has increased and whether the current statutory debt limit should be revised given the various stimulus packages launched in the past one year.

2. Firstly, Federal Government debt consists of all types of debt, both domestic and external¹ :

a) **Domestic debts** are those governed by the *Loan (Local) Act 1959*, *Government Funding Act 1983* and *Treasury Bills (Local) Act 1946*. These Acts cover the Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGI) and Malaysian Islamic Treasury Bills (MITB) as well as Malaysia Treasury Bills (MTB)². Outside these Acts, domestic debt also includes Sukuk Perumahan Kerajaan, which are pre-2016 public housing loans, forming only around 3% of the total Government debt. Since 2016, *Lembaga Pembiayaan Perumahan Sektor Awam* (LPPSA) has been responsible for financing all housing loans by civil servants.

b) **External debts** or offshore borrowings are those meant for projects (such as JICA or IDB loans) and market loans (such as global sukuk or Samurai bonds). The *External Loans Act 1963* has also imposed a limit on these at RM35 billion, which is strictly adhered to.

3. Prior to COVID-19, the 55% of GDP cap was a Government self-imposed limit applied to both domestic and external debts. However, when **COVID-19 struck, the country needed more fiscal flexibility to save lives and livelihoods. As such, Parliament approved the *Temporary Measures for Government Financing [Coronavirus Disease 2019 (COVID-19)] Act 2020 (COVID-19 Act)* to increase the limit to 60% of GDP for MGS, MGII and MITB. This Act was passed with the support of almost all MPs in Parliament then. This has enabled the Government to disburse more direct aid to the B40 and micro SMEs, saving jobs through wage subsidies and supporting businesses.** At the same time, the higher debt ceiling will also allow the Government some buffer, particularly in directing additional aid to the rakyat who are worst affected.

4. When the Ministry of Finance (MOF) reported that, as at end-2020, the statutory debt was RM820.7 billion or 58.0% of GDP, and was projected to reach 58.5% in 2021, the Government **was referring to the legal definition which includes MGS, MGII and MITB (as defined and provided for in the COVID-19 Act)**. When the offshore and other borrowings are included, then the total Federal Government debt totals up to RM879.6 billion or 62.2% of GDP.

5. Nonetheless, the limits of each type of debt under its governing statute continues to be adhered to in ensuring fiscal discipline. All these measures have been clarified with, and accepted by international ratings agencies and analysts.

6. **In other words, both definitions are correct, but refer to different components of debt. Nonetheless, the Government has always been consistent, in Parliament or to the media, in explaining that whenever statutory debt is referred to, it is always made up of MGS, MGII and MITB.** Furthermore, such transparency is also reflected in the annual Fiscal Outlook report.

Debt is Necessary to Save Jobs and Support Businesses:

7. The COVID-19 crisis has witnessed unprecedented action by governments around the world leading to substantial increases in fiscal deficit and government debt. According to the IMF³, **as much as USD14.0 trillion was deployed by governments to protect lives and livelihoods, resulting in a total government debt stock that is approximately 100% of global GDP, significantly higher compared to pre-COVID19 projections of 84% in October 2019.** With over 1,600 social programmes launched by governments all over the world last year, the IMF also projects that average overall deficits as a share of GDP in 2020 are projected at 13.3% for advanced economies, 10.3% for emerging market and middle-income economies, and 5.7% for low-income developing countries.

8. **Malaysia's swift and proactive policy response - through four economic stimulus packages amounting to RM305 billion – helped reduce unemployment from 5.3% in May 2020 to 4.9% in January 2021, and successfully placed nearly 200,000 jobs in the formal sector via SOCSO's *PenjanaKerjaya 2.0*. The Government has also saved 2.7 million jobs by channelling more than RM14.4 billion of wage subsidies to more than 330,000 employers. The *Geran Khas Prihatin* provided a lifeline for at least 900,000 micro SMEs.** As a result, the fiscal deficit increased to 6.2% of GDP in 2020, albeit lower than the average deficit for emerging market and middle-income economies of 10.3%, as well as lower than the 6.7% deficit recorded at the height of the Global Financial Crisis in 2009.

9. This year, apart from the RM322.5-billion Budget 2021, the Government also launched the RM15-billion PERMAI Assistance Package and the RM20-billion PEMERKASA programme. Collectively, these have supported and will continue to support the lives and livelihoods of the rakyat, ensure continuity of businesses as well as facilitate economic growth. More crucially, RM5.0 billion has been allocated towards the National COVID19 Immunisation Programme to achieve the herd immunity target by December 2021, three months ahead of the initial schedule.

10. All these efforts have necessitated additional debt, which has helped save jobs and businesses, and cushioned COVID-19's impact to our economy, limiting its contraction to 5.6% for 2020. This is better than several countries such as the UK at -9.9%, Philippines at -9.5%, the EU at -6.2%, and Thailand at -6.1%.

What Really Matters: The Ability to Meet Our Debt Obligation

11. Ultimately, the most crucial factor is how the Government can meet its debt obligation. Key to this is our economic growth. Recently, the economy has begun seeing green shoots of recovery, attributed to effective policy measures. Malaysia's export sector remains robust, expanding in line with the revival of global trade. A rebounding global economy also means higher commodity prices, a key part of the nation's trade. With the gradual reopening of the economy, domestic consumption will be revitalised. Organisations such as the World Bank and the IMF are forecasting an economic rebound for Malaysia in 2021, at 5.6 to 6.7%, and 6.5% respectively. Coupled with the systematic roll-out of the National COVID-19 Immunisation Programme, targeted forward measures and strict adherence to SOPs, Malaysia's economy is firmly moving towards recovery and revitalisation this year.

12. In the medium to longer term, the Government remains committed to fiscal consolidation via the Medium-Term Revenue Strategy and Medium-Term Fiscal Framework. The proposed Fiscal Responsibility Act4 will comprehensively review and strengthen the medium-term fiscal framework by, among others, reprioritising spending, improving our tax framework, tightening enforcement and minimising leakages.

13. The Government is currently focused on jump-starting the economy, as well as addressing structural issues for socio-economic growth and resilience. If more debt is required to support the rakyat and businesses, rest assured that its management is underscored by a firm and transparent commitment to fiscal discipline.

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