PUBLIC DEBT MANAGEMENT :
THE MALAYSIAN EXPERIENCE

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# ABSTRACT


This study is a modest attempt at understanding and examining debt problem of the emerging economy such as Malaysia. The study is databased and empirical in approach. The study provides an analytical review of the trend and other related issues such as burden of public debt and inflationary-potential of the Federal government's borrowings under fiscal management over the years.

The study reveals that during the period 1971-1998 the compound annual rate of growth (GARG) of domestic debt of the country was 11.9 per cent, whereas that of external debt was 11.1 per cent. Domestic debt has, thus, exceeded the external debt. Though the burden of public debt is decreasing, the debt-GDP, debt-export and such other measures suggest sustainability of public borrowings. In the ASEAN setting Malaysia has shown a better record in comparison to Indonesia, Philippines and Thailand. Public debt is less pro-inflationary in Malaysia.

# CHAPTER ONE

# BACKGROUND AND PROBLEM STATEMENT

## 1.1 Introduction

Government in a developing economy, usually, adopts two major policies such as monetary policy and fiscal policy to influence the level of economic activity and in the attainment of specific macro-economic goals. Fiscal policy comprises the deliberate change in the size, form and timing of taxation, government spending, and public debt management to influence economic activity in the desired direction.

In Malaysia the government for development purposes borrows internally as well externally to meet its fiscal deficits. It constitutes public debt. All kinds of obligations of the government are included in public debt. In the set of obligations there are short-term debt, floating debt and long term debt or funded debt. Most of the developing countries including Malaysia with continuing imbalance in their current account have their increasing dependence on foreign borrowing to finance the gap in current expenditure.

Public sector debt includes debt incurred by all levels of Government Center, state and local bodies so also Government owned entities. Local Government, till recently, borrowed mostly from state Government, or from public sector financial bodies like life insurance and so on. State Government and Federal Government borrow internally as well externally to meet its fiscal deficits. Borrowed money when productively used would speed up the economic growth of the country.

Public debt has two dimensions: domestic debt and external debt. However, the Malaysian domestic and external debt problem however is not as series as the debt problem faced by other developing countries. Federal Government's debt, Debt guaranteed by the Federal Government, and Private-sector debt. In short, when a government raises loans internally or externally from banks, individuals and financial firms or world's monetary institutions or from foreign governments, it incurs a debt (liability), known as "Public Debt".

## 1.2 Conceptual Ideas

Before probing into the country's debt-problem, it is worth while to capture some conceptual ideas as under.

### 1.2.1 Definition

Public borrowing or public debt is a fiscal instrument of a vary recent origin. According to Encyclopaedia Batannicoa, pubic debt is defined as "obligations of government, particularly those evidence by securities, to pay sums to the holders at some future date. In fact it is understood that Public debt is the governments borrowing from the public".

Reddy (1997) states that Public debt sector includes debt incurred by all levels of governments, Center, State and local bodies as also government owned entities. Often, when we talk of PD-GDP ratio or fiscal deficit, we refer only to the debt of Central Government. Public debt in widen sense refers to debt incurred by center, state and local governments such as Municipalities.

Bank Negara Malaysia classifies into two categories of public debt, namely, domestic and external debt of the Federal Government. External debt refers to multilateral, bilateral and commercial debt of the Federal Government. Currently, domestic debt refers to loans and securities floated by the government.

Public debt or public borrowing is an important source of raising funds to a modern government. In fact, the instruments of public borrowings are in the form of various types of governments bonds and securities. The success of Public borrowing program very much depends on the confidence the people have in the government and its policies.