

Some Perspectives on Malaysian Fiscal Deficits and Debt

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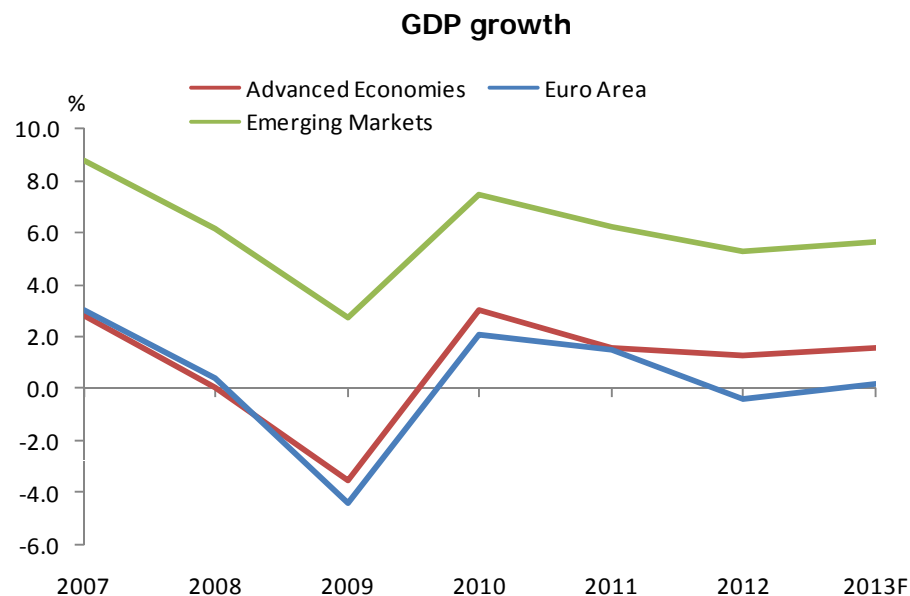
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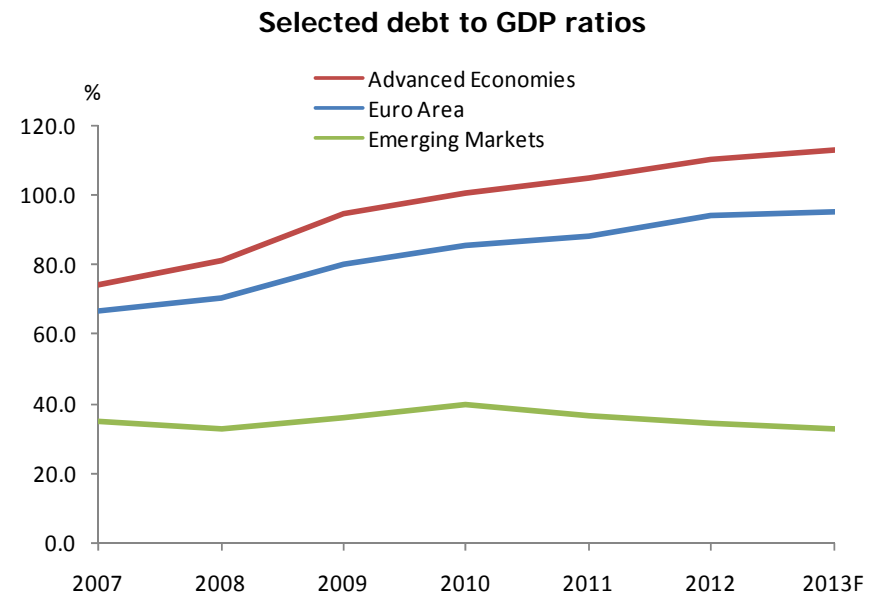
Outlook 2013: Cloudy with chances of hailstorms



- Advanced economies under debt cloud, emerging markets losing momentum
- Fiscal policy constrained – consolidation and austerity weighing on growth
- Unconventional monetary policy measures – quantitative easing, OMT



Source: IMF

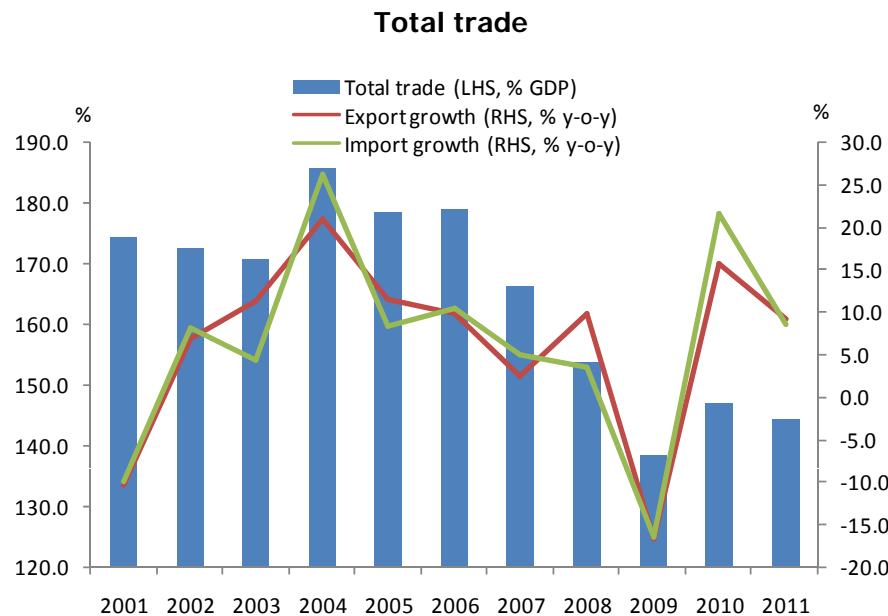


Source: IMF

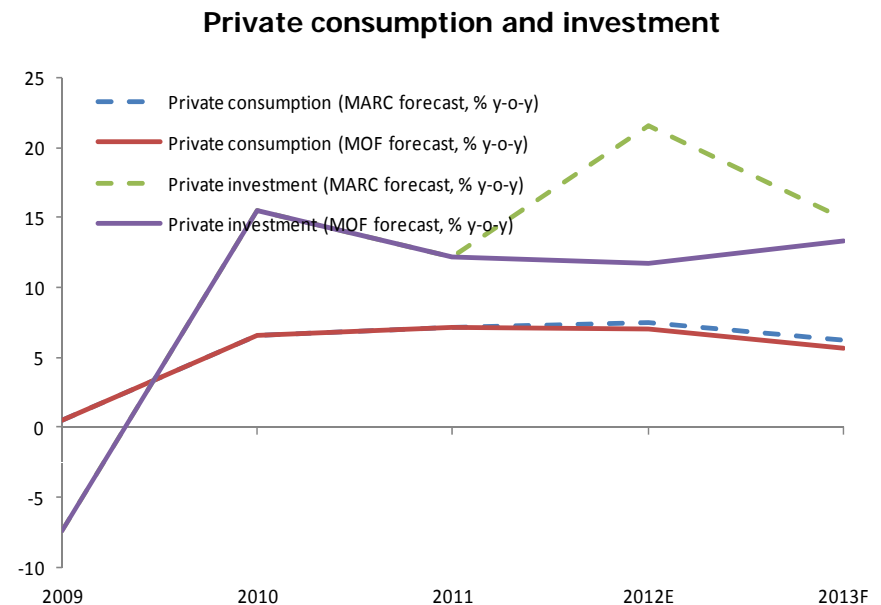
Malaysia : Growth prospects



- Heavily exposed to external sector
- Growth this year has been dependent on public and private investment
- Will this continue? Yes but with qualifiers



Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

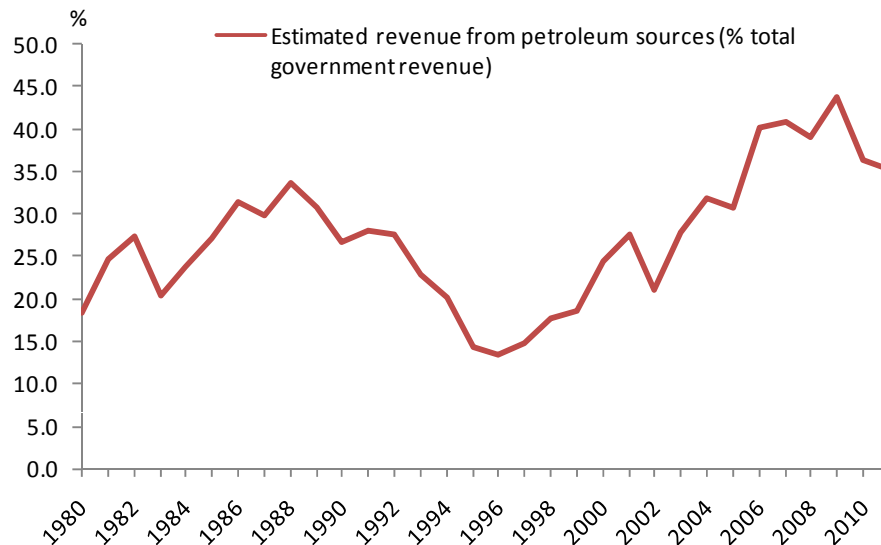
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Malaysia : Policy options



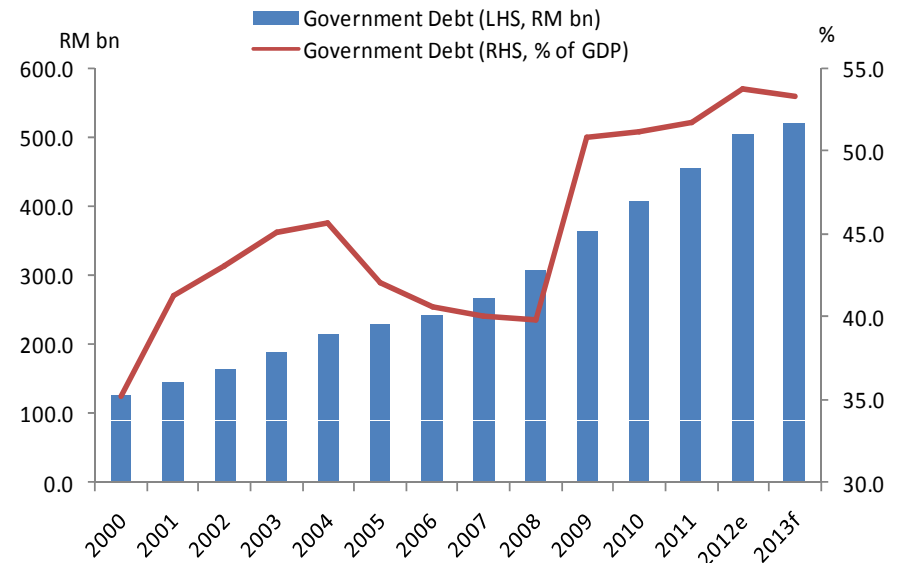
- Fiscal policy constrained by self-imposed 55% debt ceiling and desire for fiscal consolidation
- Oil-dependency and narrow tax base
- Is there space for fiscal action? Again, yes

Revenue from oil & gas (% total revenue)



Source: Bank Negara Malaysia, MARC Economic Research

Federal government debt



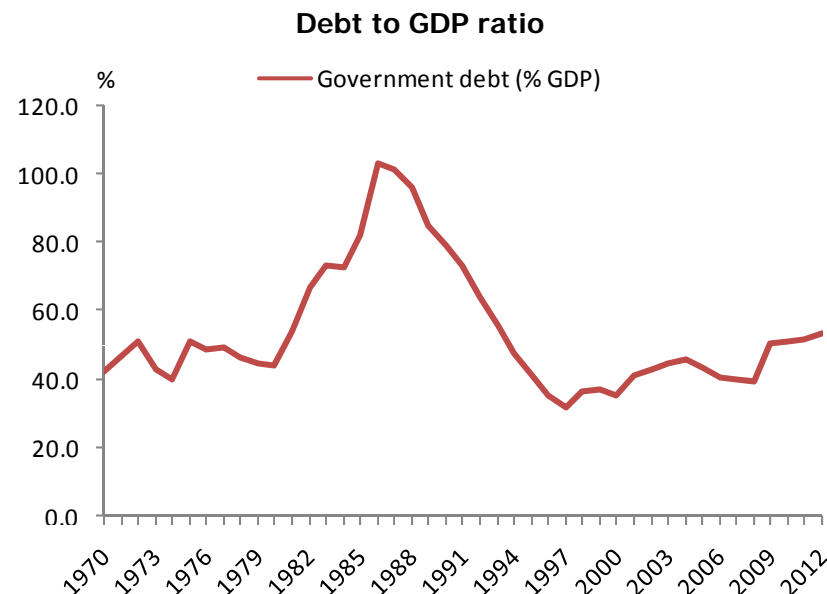
Source: Bank Negara Malaysia

- Not a binary choice of yes or no, but a continuum between monetary and fiscal policy options
- Monetary policy is fiscal policy by other means; fiscal policy is monetary policy by other means
- Within defined goal of full employment, non inflationary growth, there is not necessarily an optimum policy mix – circumstances matter
- Faster fiscal consolidation can be achieved, but with corresponding looser monetary policy
- Household and corporate debt implications – government debt will be replaced by household and corporate debt

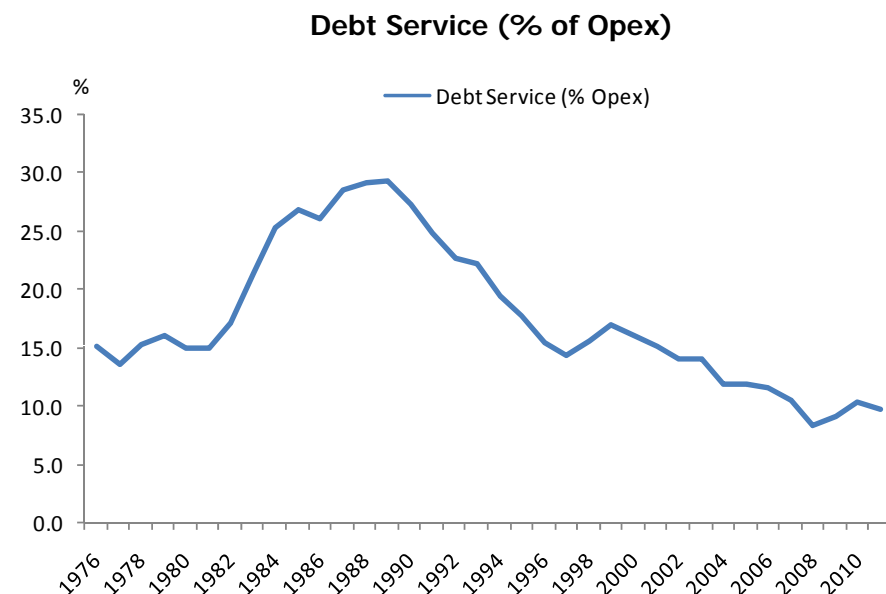
Malaysia: Historical perspectives



- In historical terms, current debt ratios are not high – the peak was in 1987
- The current ratio debt to GDP ratio is near the historical long term average
- Debt service is at all time lows as ratio to government operating expenditure



Source: Bank Negara Malaysia, MARC Economic Research



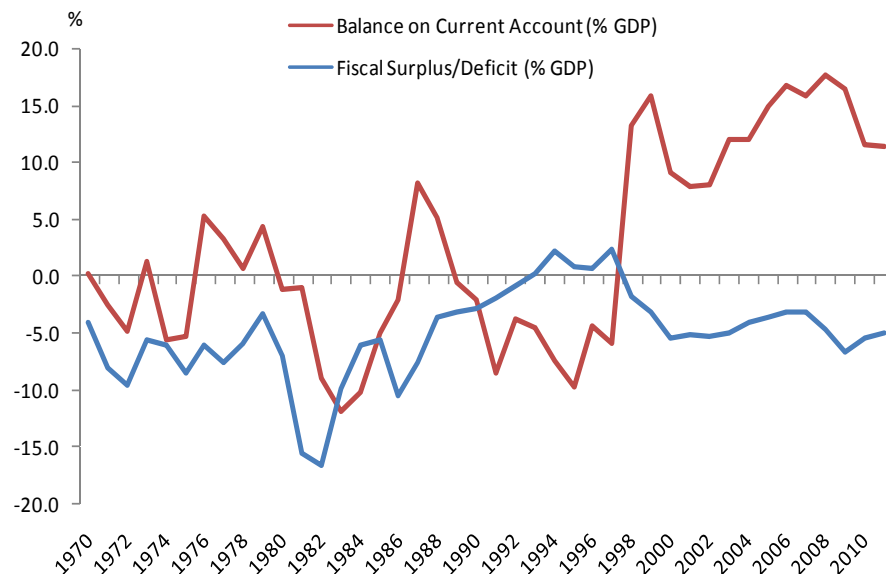
Source: Bank Negara Malaysia, MARC Economic Research

Malaysia: Historical perspectives



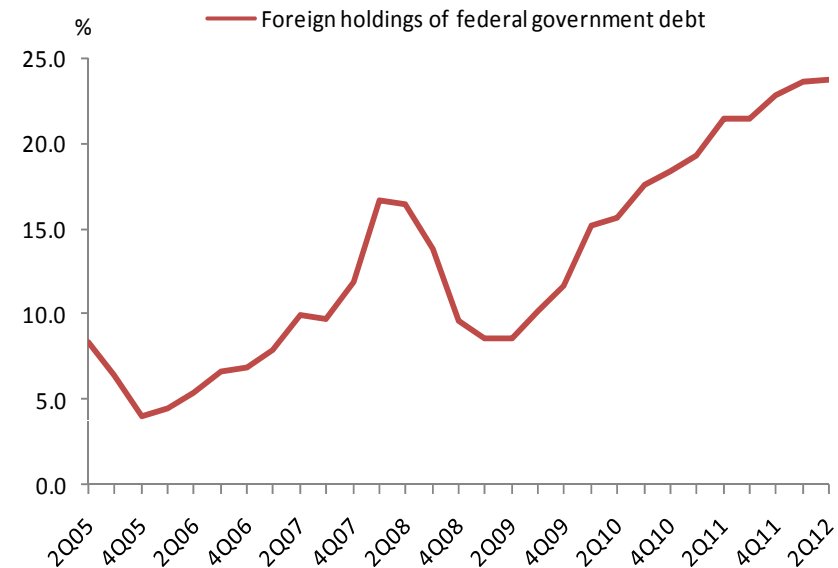
- Debt is domestically financed – no implication for future generations
- The current account is in surplus: private saving = public dis-saving
- Net debt is low (public holdings)
- The only fly in the ointment – foreign holdings of domestic debt

Current account balance and fiscal surplus/deficit (% GDP)



Source: Bank Negara Malaysia, MARC Economic Research

Foreign Holdings of Government Debt (% total)



Source: Bank Negara Malaysia, MARC Economic Research

- 1997-98 incentivised companies to deleverage – gearing ratios for PLCs have dropped in the last 15 years
 - 90% of Malaysia's national savings is corporate, only approximately 2% is household discretionary savings
- Reduced corporate borrowing (investment) means a potential shortfall in national consumption and investment
- Two factors filling the gap – household borrowing and government borrowing
 - Higher government and household debt are symptomatic of high corporate savings

- Macro stability perspective:
 - Investment expected to pick up – time to consolidate fiscal spending? Clues from the current account
 - Issue of household debt: looser monetary policy setting = higher private debt, higher asset price and consumer inflation, riskier investment profile
 - Oil price trajectory critically important, and has implications for both revenue and expenditure
- What doesn't matter:
 - Statutory and administrative debt limits
 - Debt ratio to GDP

No comparison with Europe



- Borrowing is not domestic – effectively, all Euro borrowings are foreign currency borrowings
- Policy inconsistency – monetary policy weighted towards bigger economies, and thus incompatible with settings required by smaller countries
- That leads to – adjustments in debt, prices and output requires deflationary policies, not standard response of reflation and currency devaluation/depreciation
- Individual crisis countries are different, not the same – Spain and Ireland (housing bubbles and bank rescues), Greece and Portugal (uncompetitive, low productivity, expensive welfare states), Italy (debt overhang from the 1970s-80s). Contrast with productivity of Germany.
- Bottom line: Euro style sovereign debt crisis unlikely in Malaysia, situation more akin to Singapore and Japan

Thank You