# Non-debt driven growth imperative

**TEMPTATION:** Lure of taking huge loans to spur the economy is too strong to resist, writes *Sathish Govind*

***With easy money**, many countries have **increased their debts** as they provide for economic growth.* **Reuters pic**

THE loudest sound coming from markets around the world is the global economy straining under a pile of debt.

The world economy has been on a borrowing binge since the financial crisis of 2008, adding approximately US$60 trillion (RM240 trillion) since 2007, bringing the worldwide debt to US$200 trillion, or three times the size of the entire global economy.

McKinsey Global Institute said that as of the middle of last year, the world's debt stood at US$204 trillion or 50 per cent higher than it was in 2007 immediately before the crisis, and US$121 trillion higher than 2000. Private debt in emerging economies between 2007 was 75 per cent of the gross domestic product (GDP), but last year, it had risen to 125 per cent of GDP.

Private debt in China and Brazil are twice that of their GDPs.

Factors that fuelled global debt contagion was robust GDP growth rates, booming real-estate markets, liberalisation of financial markets over the last three decades, the savings glut in emerging economies and declining interest rates.

With easy money, many countries have increased their debts as it provides for economic growth, which begs the question if we should be concerned about this.

Debt allows for growth which, in return, fuels the propensity to borrow. But growth through credit has its limits. When debts reach optimal levels, growth would be lacklustre.

High public debt represents a burden to the economy as the government would have to raise taxes, which would adversely affect public and private investments, thus economic growth.

In Malaysia, public sector deficit was eight to nine per cent of the GDP last year, up from six per cent in 2014, which is projected to grow this year and the next.

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# Privatisation is the solution to clear what we owe

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External debt currently stands at 65 per cent of the GDP, with the public sector accounting for 38 per cent. Corporate debt is 70 per cent of the GDP, while household stands at 89 per cent of the GDP.

According to Khazanah Research Institute's fourth publication of the *The State of Households II*, it noted that Malaysians might be borrowing too much and not saving enough.

Most of the household debts were undertaken to finance house purchases, where housing loans had expanded by 11 per cent between 2014 and last year.

The report also said there was a concern that many would not have saved enough for a 20-year period after retirement as they had taken too much debt.

This was further exacerbated by a finding that said life expectancy was now 77.4 years on the average for women and 72.5 years for men, up from 65.5 and 61.6, respectively, for both genders in 1970.

All the above provide compelling reasons as to why one should move out of debt financing. Malaysia has long understood the perils of "living on borrowed time" and embarked on policies that attract domestic and foreign investments.

The results are gratifying.

For the whole of last year, the Malaysian Investment Development Authority said the total approved investments last year was RM186.7 billion for manufacturing, services and the primary sector, versus RM235.9 billion previously.

Of this, 80.7 per cent, or RM150.6 billion, was contributed by domestic investments while the rest were from foreign sources.

In the first quarter of this year, Malaysia recorded RM37.3 billion of approved investments in the services, manufacturing and primary sector, with domestic investments comprising the bulk. These investments involved 1,271 projects, and will create 39,990 job opportunities. Domestic investments totalled RM24.5 billion, or 65.7 per cent, of the total approved investments.

Malaysia may be able to expedite its growth traction and move out of the clutches of debt by considering a second round of privatisation, taking a leaf from countries, such as China and Italy.

China is attempting to conduct a fresh round of privatisation of state-owned enterprises (SOE's) as part of its efforts to squeeze cash out of debt-ridden entities.

Thousands of poorly performing national and regional SOE were liquidated while stronger companies were restructured or partially listed on the stock market.

In Italy, the government is also planning to sell up to 40 per cent stake in Poste Italiane, the country's postal service, and raise €3.9 billion (RM17.75 billion) in proceeds.

The initial public offering is expected to have a price range of €6 and €7.5 a share, giving the company an equity value of €9.8 billion.

Malaysia, which had embarked on a privatisation plan in the early 1980s, should perhaps think of a second wave of privatisation.

By getting some of the SOEs privatised, it will ensure that their efficiencies improve, hence, driving up profits. If state-owned monopolies are privatised, policies to allow more firms to enter the industry must be encouraged to improve competitiveness and efficiency.

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