

Public Debt Management:
The Malaysian Experience

The Master Project submitted to the Graduate School in partial fulfillment
of the requirements for the degree Master of Science (Management),

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By

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ABSTRAK

Kajian ini berusaha untuk memahami dan menyiasat masalah hutang awam yang muncul daripada kegiatan ekonomi Malaysia. Kajian ini menggunakan pendekatan data empirikal. Disamping itu, kajian ini juga menyediakan ulasan analitikal bagi tren dan lain-lain isu yang timbul daripada bebanan hutang awam dan potensi inflasi akibat pengurusan fiskal terhadap pinjaman kerajaan Persekutuan sejak dua puluh tahun kebelakangan.

Dapatan kajian ini menunjukkan Kadar Kompaun Pertukaran Tahunan (CARG) bagi tahun 1971 hingga 1998 terhadap hutang dalam negeri adalah sebanyak 11.9 peratus manakala hutang luar negara adalah sebanyak 11.1 peratus. Ini menunjukkan hutang dalam negeri telah meningkat berbanding dengan hutang luar negara. Bebanan hutang awam turut menut-un mengikut kadar hutang / KDNK, hutang / eksport dan lain-lain ukuran yang dicadangkan sesuai dengan pinjaman awam. Bagi negara ASEAN, Malaysia menunjukkan rekod yang baik dalam pinjaman awam berbanding dengan Indonesia, Filipina dan Thailand. Malaysia merupakan negara yang kurang pro-inflasi terhadap pinjaman awam.

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.

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LIST OF ABBREVIATIONS

DD	Domestic Debt
ED	External Debt
PD	Public Debt
PDM	Public Debt Management
EDSR	External Debt Service Ratio
DSR	Debt Service ratio
CARG	Compound Annual Rate of Growth
GDP	Gross Domestic Product
GNP	Gross National Product
CPI	Consumer Price Index
GDPD	Gross Domestic Product Deflator
BNM	Bank Negara Malaysia
IMF	International Monetary Fund
FGD	Federal Government Debt
RM	Ringgit Malaysia
NEP	New Economy Policy
t	Time
NIC	Newly Industrialized Country

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

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