SECTION 4

# Debt Management

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## Overview

The world is facing unprecedented challenges from the COVID-19 pandemic that has severely affected lives, which in turn disrupted economic activities and social well-being. With a sharp drop in global output, massive fiscal responses have been deployed to support household income and businesses cash flows, as governments implemented movement restriction measures to flatten the infection curve. The International Monetary Fund (IMF)[1] has estimated global fiscal stimulus packages amounting to USD11.7 trillion or nearly 12% of global Gross Domestic Product (GDP). Additional stimulus are in the pipeline due to the resurgence of the COVID-19 infections.

In the first nine months of 2020, the US and Japan have approved fiscal packages worth USD3 trillion and USD1.7 trillion, respectively, to stimulate their ailing economy. Likewise, the UK and South Korea have allocated USD678 billion and USD220 billion, respectively, for disease prevention, supporting household's income, providing loans and guarantees for businesses, and stimulating domestic economies. Similarly, regional countries such as Singapore have announced stimulus packages of USD70 billion, Thailand USD64 billion and Indonesia USD42 billion. Overall, the global public debt, which averaged around 80% of GDP in the past five years, is expected to exceed the 100% mark, the highest level in recorded history.

On the domestic front, the Government implemented the Movement Control Order (MCO) beginning March 2020 and gradually eased the restrictions to resume economic activities, as the rate of infection was contained. The crisis has led the Government to introduce four economic stimulus packages and recovery plan worth RM295 billion comprising fiscal and non-fiscal measures, the largest in history, to ensure the safety of the rakyat and the resilience of the economy during the COVID-19 crisis. Of the total, direct fiscal injection amounted to RM45 billion or 3% of GDP. In order to provide fiscal space and ensure smooth execution of measures under these stimulus packages, the Government has temporarily increased the statutory debt limit under the Loan (Local) Act 1959 [Act 637] and the Government Funding Act 1983 [Act 275], from 55% to 60% of GDP until end-2022. Subsequently, on 23 September 2020, the Government announced an additional RM10 billion to further enhance existing measures, namely the *Bantuan Prihatin Nasional* (BPN), PRIHATIN Special Grants and the Wage Subsidy Programme.

## Financing

In the 2020 Budget, the Government initially targeted a fiscal deficit of 3.2% of GDP. However, the fiscal deficit is anticipated to widen to 6% of GDP due to the implementation of economic stimulus packages and recovery plan as well as lower GDP estimate and global crude oil prices in 2020. Consequently, the Federal Government **total gross borrowings** are expected to increase by 31.5% from the original estimate to record RM181.5 billion or 12.6% of GDP.

[1] IMF October 2020 Fiscal Monitor.

Nevertheless, sufficient liquidity in the domestic market has enabled the Government to swiftly raise its borrowings and is well-positioned to manage the cash flow requirements. Enhancement are being made in terms of borrowing operations to reduce the number of outstanding papers and enlarge issuance sizes by reopening benchmark papers. In addition, short-term bill auctions and sizes will be increased for liquidity purposes and meet investor preference.

Of the total gross borrowings, RM94.7 billion will be utilised for principal repayments while RM86.5 billion for deficit financing. The principal repayments comprise maturing Malaysian Government Securities (MGS) of RM30.7 billion, Malaysian Government Investment Issues (MGII) totalling RM40 billion, Treasury bills amounting to RM21 billion, Government Housing Sukuk (SPK) of RM2.7 billion and offshore loans totalling RM333 million.

**TABLE 4.1.** *Federal Government Financing 2019 – 2020*

| | RM MILLION | | SHARE (%) | |
|---|---|---|---|---|
| | **2019** | **2020[3]** | **2019** | **2020[3]** |
| **Gross borrowings** | **134,782** | **181,496** | ***100.0*** | ***100.0*** |
| **Domestic** | **127,478** | **181,466** | ***94.6*** | ***99.98*** |
| MGS | 57,200 | 73,000 | *42.5* | *40.2* |
| MGII[1] | 58,500 | 76,466 | *43.4* | *42.1* |
| Treasury bills | 11,778 | 32,000 | *8.7* | *17.6* |
| **Offshore** | **7,304** | **30** | ***5.4*** | ***0.02*** |
| Market loans | 7,170 | - | *5.3* | - |
| Project loans | 134 | 30 | *0.1* | *0.02* |
| **Repayments** | **83,050** | **94,748** | ***100.0*** | ***100.0*** |
| Domestic | 82,723 | 94,415 | *99.6* | *99.6* |
| Offshore | 327 | 333 | *0.4* | *0.4* |
| **Net borrowings** | **51,732** | **86,748** | - | - |
| Domestic | 44,755 | 87,051 | - | - |
| Offshore | 6,977 | -303 | - | - |
| **Change in assets[2]** | **-234** | **-298** | - | - |
| **Total deficit financing** | **51,498** | **86,450** | - | - |

[1] Including Sukuk Prihatin in 2020
[2] (+) indicates a drawdown of assets; (-) indicates accumulation of assets
[3] Estimate
Source: Ministry of Finance, Malaysia

**Domestic borrowings** will remain as the primary source of funding, estimated at RM181.5 billion or 99.9% of total gross borrowings, while the balance of RM30 million will be drawn down from offshore project loans. Almost the entire financing operations, including to finance stimulus packages are raised via domestic sources to minimise foreign exchange risk exposure. In 2020, the issuance of MGS is expected to register RM73 billion or 40.2% of total gross borrowings, while MGII at RM76.5 billion or 42.1%. Additionally, Treasury bills of RM32 billion, which was raised for cash and liquidity management, has doubled compared to the average issuance over the past five years.

Malaysia's debt instrument portfolio has a wide range of maturities, which helps to meet different types of investors' needs and provides the Government with flexible funding options. The Government regularly issue papers with the selection of tenures, ranging from 3- to 30-year to ensure a well-spread maturity profile. Meanwhile, new issuances with 7-, 10- and 30-year tenure are issued to develop the benchmark yield curve, while selected papers are reopened to promote market liquidity. Composition of the Government borrowing profile is well-distributed with issuances of short- and medium-term papers are balanced with long-term issuances. Maturities of short-term papers (less than a year) are expected to account for 17.6% of total issuance. In comparison, issuances with a tenure ranging from 3- to 7-year are anticipated to register 32.6% of total domestic borrowings. Issuances of papers exceeding the 10-year tenure are estimated to comprise almost 50% of total issuances in 2020 (2019: 57%). Higher short-term papers are expected to be issued in 2020 to match market preference and investor risk appetite, given the uncertainties of the COVID-19 crisis in the longer term. Nevertheless, the Federal Government debt management objective in the medium term will still be aimed at minimising its funding cost with reasonable risk exposure.

In terms of borrowing operations, public auctions will remain as the Government's primary method of issuance. In 2020, the issuance process via auctions constitutes 90% of total issuances. The Government auction calendar incorporates new key features for enhanced liquidity and balanced issuances in line with investor demand, by increasing reopenings of benchmark papers with 88% reopening from 34 auctions in 2020 compared to 63% from 32 auctions in 2019. This has resulted in larger outstanding issuance sizes to further boost trading liquidity as well as narrow the bid-ask spreads and facilitate index-tracking activities.

Meanwhile, the Monetary Policy Committee (MPC) has reduced the Overnight Policy Rate (OPR) cumulatively by 125 basis points (bps) to 1.75% in the first nine months of 2020. Bank Negara Malaysia (BNM) has also announced new initiatives to ensure adequate market liquidity. Among the measures include a decrease in the Statutory Reserve Requirement (SRR) ratio by 100 bps to 2.00% in March and additional SRR flexibility given to Principal Dealers by recognising MGS and MGII as part of SRR compliance in May 2020. These measures have provided additional liquidity around RM46 billion into the banking system to support financial intermediation activities and subsequently contributing to lower yields.

The Government received a total bid of RM229.1 billion for market issuances of RM102.3 billion during the first three quarters, representing a bid-to-cover (BTC) ratio of 2.24 times. The bid amount was higher despite the domestic economic slowdown during the movement control period from March to June 2020. This indicates the Government's ability to manage surging borrowing needs to finance stimulus packages via short- and medium-term debt instruments. The demand for short- and medium-term papers (less than 10-year) was slightly higher as reflected by the BTC ratio of 2.39 times compared to long-term papers (10-year and above) at 2.13 times. This has been a general trend globally, where countries increased their short-term issuances temporarily during periods of uncertainties.

Consequently, monetary measures have also contributed to lower coupon rates. As at end-September 2020, the indicative coupon rate for the 3-year MGS was around 2%, while the 5-year and the 10-year papers at 2.25% and 2.68%, respectively. Lower interest rates also led the Government to secure the cheaper cost of financing and further support the Government's borrowing activities. Overall, the Government cost of borrowing has significantly reduced from 4.066% in 2016 to 3.041% as at end-September 2020.

In the secondary market, yields for all tenures saw a slight increase in mid-March following the announcement and implementation of the MCO. Subsequently, market yields started to decline since April until towards end-September in line with the four consecutive OPR cuts and decrease in the SRR ratio. Since the beginning of the year until end-September 2020, yields on the 3- and 5-year MGS were significantly lower by 101 and 94 bps, respectively. Likewise, the 10-year MGS yields were lower by 64 bps to record 2.68%.

The MGS yield curve shifted further downward, declining at an average of 66 bps as at end-September 2020 compared to end-2019. Short-term MGS yield spread decreased the most, within the range of 87 to 99 bps, while longer tenured securities narrowed between 30 to 63 bps, against the backdrop of capital flow volatility and risk aversion. Thus, the 10-year/3-year MGS yield spread widened from 32 to 68 bps, and 10-year/20-year from 45 to 71 bps, pushing the yield curve much steeper.

The domestic government debt market recorded net foreign fund outflows of RM16.6 billion during the first quarter of 2020 over concerns about domestic uncertainties due to change in Government, the economic impact of COVID-19 pandemic and fears of a global recession. However, foreign holdings showed a positive trend in the second quarter with a net inflow of RM11.4 billion, the highest net inflow since last quarter of 2019 (RM14.4 billion). The positive trend was attributed to increased global liquidity, stabilising oil prices, investors' confidence in economic stimulus, resumption of economic activities and accommodative monetary policy. Thus, the total net foreign inflow for the first nine months of 2020 reached RM6.7 billion with foreign demand for MGS registered a net inflow of RM5.3 billion. Likewise, Treasury bills recorded a net inflow of RM2.3 billion, compared to a net outflow of RM1.1 billion in the corresponding period in 2019, reflecting investor's preference towards short-term papers in managing their portfolios.

As for Shariah-compliant instruments, the Government sukuk issuance is expected to increase by 49% in 2020. The issuance of MGII is expected to account for 42.1% of total gross borrowings, while Malaysia Islamic Treasury Bills (MITB) at 10.5%. Spreads between the Government's conventional and sukuk yields have been on a narrowing trend since the beginning of 2020, with yields on MGII declining at a faster pace compared to its MGS equivalent. As at end-September 2020, 5- and 10-year yields on MGII were about 3 bps and 4 bps lower, respectively, than the corresponding MGS yields of the same tenure. Furthermore, bidding interests of MGII papers recorded higher BTC ratio at 2.37 times compared to MGS at 2.13 times. Strong demand for Shariah-compliant government papers was eminent due to lower sukuk issuances by the private sector in the domestic market. The current market dynamics have supported the Government's strategy of maintaining a balance between conventional and Islamic issuances, while also emphasising on cost-effectiveness and meeting investors' demand.

On 22 September 2020, the Federal Government completed the issuance of Sukuk Prihatin with a maturity period of 2-year at an annual coupon rate of 2%. This issuance provides the platform for retails and corporates to also contribute to financing the measures to mitigate the COVID-19 crisis. The Sukuk was oversubscribed by 1.3 times at RM666.4 million, from the initial offering of RM500 million. Proceeds from the issuance will be channelled to the COVID-19 Fund, which was established to finance economic stimulus packages and recovery plan.

**Gross offshore borrowings** in 2020 are expected to be minimal due to the absence of new market issuances. The drawdown of an existing bilateral project loan is expected to be at RM30 million from the Japan International Cooperation Agency to finance its technical cooperation programme with a public university.

# Federal Government Debt

The Federal Government debt is governed under several legislations, namely the Federal Constitution, Financial Procedure Act 1957 [Act 61] and specific Acts which are related to borrowings and debt. In terms of domestic instruments, conventional papers, which comprise of MGS and Malaysia Treasury Bills (MTB), are regulated under the Act 637 and the Treasury Bills (Local) Act 1946 [Act 188], respectively. Similarly, the Islamic papers, namely MGII and MITB, are administered under Act 275. Meanwhile, Federal Government offshore borrowings is governed under the External Loan Act 1963 [Act 403]. These Acts provide a guideline on issuances, utilisation of proceeds and outstanding debt ceiling, which also serve as fiscal rules and discipline in ensuring more prudent and sustainable debt management.

During the Global Financial Crisis, the Government revised its statutory debt limit from 45% of GDP in 2008 to 55% in 2009 to accommodate the implementation of fiscal stimulus measures. Subsequently, the debt-to-GDP ratio remained manageable below the statutory limit in the past decade through gradual fiscal consolidation efforts. In the 2020 Budget, Federal Government debt was initially estimated to hover around 53% of GDP, with the targeted fiscal deficit at 3.2% of GDP. However, the COVID-19 pandemic has led the Government to introduce fiscal stimulus packages as a countercyclical measure in ensuring the well-being of the rakyat and resilience of the economy. Hence, the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 was passed by the Parliament, which

**TABLE 4.2.** *Debt Legislative and Administrative Guidelines*

| RULES | ACTS |
|---|---|
| Purpose of borrowings is to finance development expenditure & COVID-19 Fund<br><br>Current balance must always in a surplus to ensure operating expenditure is financed by revenue | **Loan (Local) Act 1959**<br><br>**Government Funding Act 1983**<br><br>**Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020** |
| Domestic debt ceiling (MGS, MGII, MITB) not exceeding 60% of GDP<br><br>[End-September 2020: 56.6% of GDP] | **Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020** |
| MTB ceiling not exceeding RM10 billion<br><br>[End-September 2020: RM6.5 billion] | **Treasury Bills (Local) Act 1946** |
| Offshore borrowing ceiling not exceeding RM35 billion<br><br>[End-September 2020: RM29.3 billion] | **External Loans Act 1963** |
| Limit of debt service charges (DSC) ≤ 15% of revenue<br><br>[2020: RM34.9 billion (15.4% of revenue)] | **Administrative Guideline**<br><br>**Federal Constitution Article 98 (1)(b) -** Allocation for debt service charges are charged items |

allows the Government to further increase its debt statutory limit from 55% of GDP to 60%. Consequently, the new limit provides the fiscal space required for the implementation of economic stimulus packages and recovery plan.

As at end-September 2020, the Federal Government debt registered RM874.3 billion or 60.7% of GDP. The debt comprises 96.7% of ringgit-denominated securities and the balance in foreign currency, reflecting ample domestic liquidity supported by a developed domestic debt market and robust institutional investors. This allows the Federal Government to raise its financing needs domestically, thus reducing the exposure to foreign exchange risk. In terms of statutory limit applied to MGS, MGII and MITB, the debt-to-GDP ratio stood at 56.6%, due to the downward revision of 2020 GDP estimates compared to the initial estimates in the 2020 Budget.

**Domestic debt** increased to RM845 billion as at end-September 2020 (end-2019: RM764.2 billion) comprising MGS which amounted to RM436.6 billion and MGII totalling RM360.3 billion. The MGS remained as the primary debt instrument at 49.9% of total Federal Government debt followed by MGII with a sizeable share of 41.2%. The Government is committed to promoting Shariah-compliant financing to enhance the vibrancy of the Islamic financial market and strengthening its position as the leading global hub for Islamic finance.

Treasury bills, namely MTB and MITB, are short-dated securities with maturity ranging between 90 to 365 days. These instruments are issued periodically at a discount through competitive auction to finance cash flow requirement. As at end-September 2020, outstanding Treasury bills stood at RM24 billion, representing 2.8% of total Federal Government debt, with MTB constitutes RM6.5 billion while MITB stood at RM17.5 billion. In addition, SPK was issued by the Government to finance the civil servant’s housing loan. This instrument was issued before the establishment of the Public Sector Home Financing Board (LPPSA), which is a self-funding entity. As at end-September 2020, the remaining balance of SPK stood at RM24.1 billion or 2.8% from total Federal Government debt.

INFORMATION BOX

## Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 Act

### Introduction

Malaysia has a comprehensive set of fiscal rules and discipline based on the current legal framework in the Federal Constitution, Financial Procedure Act 1957 [Act 61] and debt-related Acts. Apart from rules set out by law, Malaysia also self-imposes administrative rules as part of its fiscal framework. In normal circumstances, these fiscal rules and discipline serve as a tool that guides the Government in ensuring prudent public finance management, which is in line with international standards and best practices. Nevertheless, in time of a crisis, selected exemptions to the rules and discipline or specific exit clause may be necessary to enable countercyclical measures in rejuvenating the economy.

### International Best Practices

Good fiscal policy framework allows flexibility to fiscal rules, particularly during economic crises. This could be in the form of an exit clause where urgent and sizeable responses are required in emergency situations. This flexibility allows governments to temporarily suspend fiscal rules, such as raising the debt levels and expenditure beyond threshold limits or targets in implementing stimulus measures. However, based on international best practices in such a situation, an exit clause should have the following features:

i. A well-defined triggering event that allows for exemptions from fiscal rules;
ii. A distinctive level of authority that can activate the exit clause, for example, a Ruler's decree, Parliament, cabinet or minister;
iii. A clear timeline to resume to the fiscal rules;
iv. A good control system and governance during the exemption period; and
v. An effective communication strategy on the implementation of the measures.

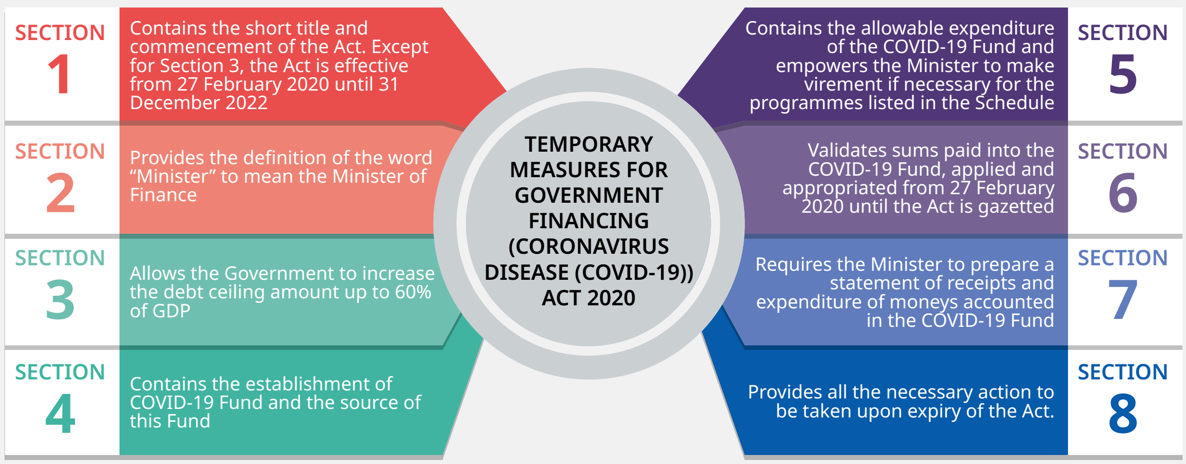
It was based on these best practices and engagement with various stakeholders that the Malaysian Government introduced a new act, the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 Act. The COVID-19 Act provides for the fiscal flexibility that the Government needed to execute measures in addressing the devastating socioeconomic impact of the COVID-19 pandemic urgently and effectively. The Act was passed by the House of Representatives on 24 August 2020 and approved by the Senate on 21 September 2020.

### Features of the COVID-19 Act

The COVID-19 Act was formulated to provide temporary measures for the Government to reduce the impact from the COVID-19 pandemic by:

i. increasing the debt ceiling amount raised under both the Loan (Local) Act 1959 [Act 637] and Government Funding Act 1983 [Act 275] from 55% up to 60% of Gross Domestic Product (GDP);
ii. establishing a dedicated trust fund, namely the COVID-19 Fund, with a fiscal injection of RM45 billion;
iii. allowing proceeds from borrowing under Act 637 and Act 275 to finance the COVID-19 Fund; and
iv. allowing the monies allocated in COVID-19 Fund to be applied and appropriated for the purpose of economic stimulus packages and recovery plan.

**FIGURE 1.** *Summary of the Act*




In general, the Act was drafted based on five main pillars as follows:

i. **Legal Framework**

The Malaysian legal framework was strictly observed and in accordance with the Federal Constitution, Act 61, Act 637 and Act 275.

ii. **Outcome**

The programmes and projects under the Schedule of the Act are fiscal measures under the PRIHATIN and PENJANA packages. The measures are expected to have a large multiplier effect and immediate impact on the economy in the short- and medium-term. Nearly 90% of the measures under the Schedule represents direct assistance and support to the rakyat and businesses as well as health and medical-related expenses to overcome the COVID-19 pandemic.

iii. **Affordability**

The size of stimulus packages and the recovery plan was based on the ability of the Government to bear the additional financial obligation in funding the fiscal injection. Furthermore, the increased debt limit is temporary and only effective within three years until 31 December 2022. This provides for an adequate timeframe for the Government to resume its fiscal consolidation path and return to the previous debt threshold.

iv. **Transparency**

Specific programmes and projects, together with the allocated amount, are listed in the Schedule of the Act. The Act also requires the Government to prepare annual statements of receipt and expenditure which will be presented to Parliament. Thus, this expenditure will be incorporated in the Government fiscal position as a budgeted expenditure and not as an off-budget item.

v. **Good Governance**

Spending made under this Act can only be applied to the programmes and projects listed in the Schedule. Nevertheless, it is within the powers of the Minister of Finance to re-appropriate the amount within the existing programme in the schedule subject to not exceeding the total amount of RM45 billion, if necessary. Any additional programmes or increase in the total amount will require amendments of the Act which can only be approved by Parliament.

### Conclusion

In a crisis situation, a responsible government must be proactive and agile by providing the fiscal space needed to implement measures in protecting the safety and ensuring the well-being of its rakyat. The formulation of the COVID-19 Act signifies the Government's effort in addressing the devastating socioeconomic impact of the COVID-19 pandemic within the legal framework with added flexibility and good governance in place. As the Act is temporary in nature, the Government will resume its fiscal consolidation path once the economy recovers to ensure the long-term sustainability of public finance.

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Parlimen Malaysia. *Penyata Rasmi Parlimen Dewan Rakyat Parlimen Keempat Belas Penggal Ketiga Mesyuarat Kedua*.

**Offshore borrowings,** which comprises market securities and project loans, remained stable at RM29.3 billion, well below the statutory limit of RM35 billion. The composition of foreign-denominated borrowings was mainly in US dollar (54.6%) and yen (44.8%). In terms of instruments, market securities which consist of global sukuk and Samurai bond stood at RM23.9 billion. Meanwhile, outstanding project loans via existing bilateral and multilateral financing arrangement registered RM5.4 billion to fund programmes and projects for universities, sewerage plants and water transfer infrastructure.

In terms of Federal Government debt maturity profile, the share of long-tenured papers has gradually increased as compared to short-term papers, leveraging the competitive yields and investors' preference. The uncertainties surrounding the COVID-19 pandemic has shifted investors' preference towards short-tenured instruments. As at end-September 2020, the share of short-term papers with a remaining maturity of five years and below has increased to 39% (end-2019: 37.5%). Nevertheless, the share of long-tenured papers of above 15 years slightly enlarged to 17.1% (end-2019: 15.9%), thus the average time to maturity is expected to lengthen to 8.6 years in 2020 (2019: 8.1 years).

Debt service charges remain manageable at RM34.9 billion or 15.4% of total revenue in 2020, despite being higher than the initial estimate of 14.3% during the 2020 Budget. The increase in the ratio was due to the anticipated drop in revenue collection given the COVID-19 pandemic and lower crude oil prices. Financing costs for domestic debt instruments are expected to contribute the largest share at 97.7% while the balance is for offshore borrowings. The weighted average interest rate[2] on outstanding domestic market debt

[2] Calculation of weighted average interest rate only covers MGS, MGII and Treasury bills.

**TABLE 4.3.** *Federal Government Debt by Instrument*
*2019 – 2020*

| COMPONENT | RM MILLION | | SHARE (%) | | SHARE OF GDP (%) | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[2] | 2019 | 2020[2] | 2019 | 2020[2] |
| **Domestic debt** | **764,233** | **845,026** | ***96.4*** | ***96.7*** | ***50.6*** | ***58.7*** |
| Treasury bills | 4,500 | 24,000 | *0.6* | *2.8* | *0.3* | *1.7* |
| MGS | 394,133 | 436,660 | *49.7* | *49.9* | *26.1* | *30.3* |
| MGII[1] | 338,800 | 360,266 | *42.7* | *41.2* | *22.4* | *25.0* |
| SPK | 26,800 | 24,100 | *3.4* | *2.8* | *1.8* | *1.7* |
| **Offshore borrowing** | **28,765** | **29,250** | ***3.6*** | ***3.3*** | ***1.9*** | ***2.0*** |
| Market loans | 23,347 | 23,895 | *2.9* | *2.7* | *1.5* | *1.6* |
| Project loans | 5,418 | 5,355 | *0.7* | *0.6* | *0.4* | *0.4* |
| **Total** | **792,998** | **874,276** | ***100.0*** | ***100.0*** | ***52.5*** | ***60.7*** |
| *Memorandum item:* Non-resident holdings of ringgit-denominated debt securities | 186,493 | 193,212 | *24.4* | *22.9* | *12.3* | *13.4* |

[1] Including Sukuk Prihatin in 2020
[2] End-September 2020
Source: Ministry of Finance, Malaysia

**TABLE 4.4.** *Federal Government Debt by Holder*
*2019 – 2020*

| COMPONENT | RM MILLION | | SHARE (%) | | SHARE OF GDP (%) | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[3] | 2019 | 2020[3] | 2019 | 2020[3] |
| **Resident** | **582,483** | **647,793** | ***73.5*** | ***75.8*** | ***38.6*** | ***45.0*** |
| Employees Provident Fund | 233,223 | 230,159 | *29.4* | *26.9* | *15.4* | *16.0* |
| Retirement Fund (Incorporated) | 24,894 | 24,259 | *3.1* | *2.8* | *1.6* | *1.7* |
| Insurance companies | 35,494 | 36,418 | *4.5* | *4.3* | *2.4* | *2.5* |
| Banking institutions | 229,465 | 295,494 | *28.9* | *34.6* | *15.2* | *20.5* |
| Development financial institutions | 18,852 | 12,690 | *2.4* | *1.5* | *1.3* | *0.9* |
| Others[1] | 40,555 | 48,773 | *5.2* | *5.7* | *2.7* | *3.4* |
| **Non-resident** | **210,515** | **206,275** | ***26.5*** | ***24.2*** | ***13.9*** | ***14.3*** |
| Fund manager | 81,407 | 72,192 | *10.2* | *8.5* | *5.4* | *5.0* |
| Central bank, supranational and sovereigns | 55,396 | 63,693 | *7.0* | *7.5* | *3.7* | *4.4* |
| Banking institutions | 26,029 | 25,920 | *3.3* | *3.0* | *1.7* | *1.8* |
| Pension funds | 33,820 | 30,732 | *4.2* | *3.6* | *2.2* | *2.1* |
| Insurance companies | 6,207 | 6,359 | *0.8* | *0.7* | *0.4* | *0.5* |
| Others[2] | 7,656 | 7,379 | *1.0* | *0.9* | *0.5* | *0.5* |
| **Total** | **792,998** | **854,068** | ***100.0*** | ***100.0*** | ***52.5*** | ***59.3*** |

[1] Includes other non-bank financial institutions, statutory bodies, nominees and trustee companies, co-operatives, securities placed by institutional investors at the central bank and unclassified items
[2] Include nominees/custodians, individuals, non-financial corporations, multilateral and bilateral institutions as well as unidentified sectors
[3] End-June 2020
Source: Ministry of Finance, Malaysia

instruments is at 4.030%, slightly less than 4.097% in 2019, given the low interest rate environment and ample liquidity in the market.

As at end-June 2020, the Federal Government debt holders are divided into residents and non-residents with holdings amounting to RM647.8 billion or 75.8% of total outstanding debt and RM206.3 billion or 24.2%, respectively. Large and long-term institutions continue to be the main investors with the Employees Provident Fund as the single largest domestic holder at 26.9%, followed by insurance companies (4.3%) and Retirement Fund (Incorporated) (2.8%). Meanwhile, the share of financial sector holdings, which include banking institution and development financial institutions, increased from 31.3% in 2019 to 36.1% of total debt. The remaining 5.7% consists of non-bank financial institutions, statutory bodies, nominees, trustee companies, co-operatives and securities.

Despite the unprecedented crisis that impacted the global economy, non-resident holdings remain substantial at RM206.3 billion or 24.2% from the total Federal Government debt. Long-term and institutional investors continue to represent sizeable holdings at 12.7% (RM108.2 billion), while the balance of 11.5% (RM98.1 billion) consists of fund managers and banking institutions. Additionally, support from non-resident in MGS holdings remained stable, constituting 37.3% of total MGS outstanding (end-2019: 41.6%).

FEATURE ARTICLE

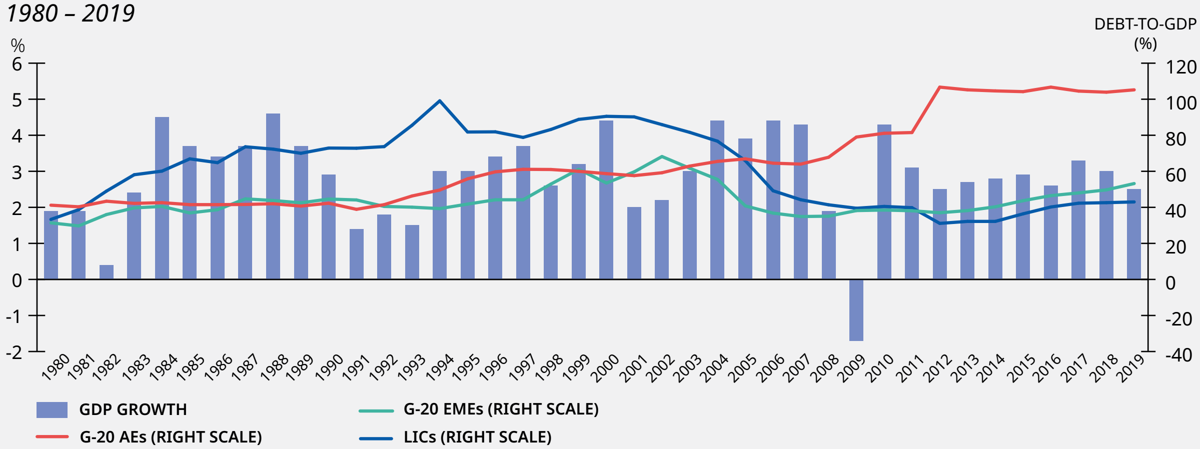
## Managing Debt in Times of Crisis and Post-Recovery

### Introduction

The global economy has experienced significant development over the past four decades, spurred by increased globalisation, the advancement of technology, trade liberalisation and financial market integration. Leveraging the openness of the economy, Malaysia has benefited from this global progression, which transformed the nation from an agriculture-based to an industrialised and services-oriented economy. The country is able to prosper, driven by structural reforms through the implementation of various strategic initiatives in the medium- and long-term economic development plans.

The fiscal policy and debt management have always been supportive in enabling Malaysia to thrive in this dynamic environment, guided by fiscal discipline and managed in a flexible and pragmatic manner. Likewise, the agile and accommodative monetary policy has laid a strong foundation for the economy. These combinations have provided macroeconomic stability to the nation.

**FIGURE 1.** *Global GDP Growth and Debt 1980 – 2019*




Source: World Bank and International Monetary Fund (IMF)

## Episodes of Crisis and Policy Response

There was at least one episode of crisis in each decade, which led to a period of volatility, causing global economic recession and financial market disruption. The magnitude of each economic downturn varies across countries and regions, which has forced countries to take aggressive measures to address the impact of each crisis. The most prominent policy response encompasses the launching of fiscal stimulus packages, easing of monetary policies, bailing out banks and businesses as well as reforming financial regulatory systems. Substantial fiscal stimulus has been deployed during the recovery phase to boost growth and employment. As a result, these policy responses have led to soaring global public debt in 2019 at around 80% of Gross Domestic Product (GDP), compared to an average of 50% during the period of 1980s, mainly by advanced economies.

As a small and open economy, Malaysia is vulnerable to the global economic cycle. Like many other nations, Malaysia was exposed to these crises, and each episode is unique, affecting different sectors of the economy variably. The crises have substantially impacted the Government's fiscal position and debt level, where the Government has been at the forefront in dealing with these challenges.

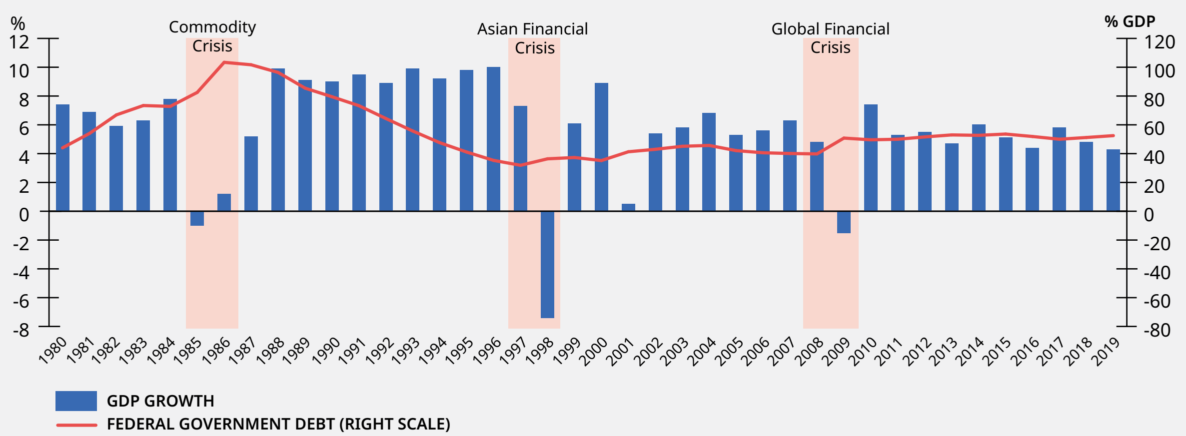
### a. Commodity Crisis – 1985/86

In the period leading up to the mid-1980s, Malaysia was still highly dependent on mining and agriculture commodities, which caused the economy to be vulnerable to changes in global demand for the commodities. In 1985, the nation fell into a recession with the real GDP contracting by 1%, following a record slump in world commodity trade. The overall export price index plummeted by 30% between 1984 and 1986, reflecting a significant drop in tin and palm oil prices. Subsequently, the unemployment rate rose from 5.6% in 1985 to 7.4% in 1986. As a result, the Federal Government deficit level rose to 10.3% of GDP.

### b. Asian Financial Crisis – 1997/98

Likewise, the 1997/98 Asian Financial Crisis had severely affected the Malaysian economy with the real GDP plunging to -7.4% in 1998 from 7.3% in 1997. Aggregate domestic demand declined in 1998 for the first time since 1986, owing to a significant reduction in private investments. Foreign capital investment also fell at an alarming rate, as funds flowed out of the country. In addition, there was speculative short-selling of the ringgit, causing the value to drop to its lowest level of RM4.90 against the USD in January 1998. The stock market also

**FIGURE 2.** *Malaysia's Growth and Federal Government Debt 1980 – 2019*




Source: Ministry of Finance, Malaysia

experienced the worst drop by almost 80% within a span of 18 months, where the index dropped to 263 points in September 1998 from approximately 1,272 points in February 1997.

The National Economic Action Council was formed to immediately formulate the national economic recovery plan. Subsequently, monetary measures were instituted in the form of capital controls and pegging of the ringgit at RM3.80 against the US dollar. The policy rate was also lowered for nine times from a high of 11% in 1998 to 5.5% in 1999. To rejuvenate the economy, the Government embarked on an expansionary fiscal policy with the unveiling of a fiscal stimulus package worth RM2 billion in July 1998. One of the strategies to further support the economy includes, the setting up of Pengurusan Danaharta Nasional Berhad to purchase the non-performing loans from financial institutions and maximise asset recovery value. In addition, strategic projects to reinvigorate investments were accelerated, involving the development of Putrajaya and the Multimedia Super Corridor (MSC). Thus, the countercyclical fiscal response turned from 5-consecutive years of budget surplus to a fiscal deficit of 1.8% in 1998 and 3.2% in 1999.

**c. Global Financial Crisis – 2008/09**

The 2008/09 Global Financial Crisis was triggered by the subprime mortgage in the US housing market, which nearly paralysed the global financial system. Malaysia's GDP contracted by 1.5% in 2009 while international reserves which peaked at RM410 billion in June 2008, plummeted to RM320 billion at the height of the crisis by the end-2008. Furthermore, share prices fell by 45% within the first 10 months of 2008, where the massive exodus of short-term capital flows took place, while exports also fell by 45% between July 2008 and January 2009.

Nevertheless, the Government entered the crisis from a much better position compared to the Asian financial crisis. This has enabled the Government to introduce two vigorous stimulus packages worth RM67 billion at around 10% of GDP. The funds provided by the stimulus package were allocated to projects that have high and immediate multiplier impacts on the economy. The implementation of policy measures, however, had caused a marked increase in the deficit level, with the fiscal deficit peaked at 6.7% of GDP in 2009. Simultaneously, between November 2008 and February 2009, the Monetary Policy Committee (MPC) lowered the Overnight Policy Rate (OPR) three consecutive times totalling 150 basis points to a low of 2.00%. Likewise, the Statutory Reserve Requirement (SRR) was reduced by 200 basis points to 1.00%. In addition, the Government formed Danajamin Nasional Berhad to promote the private sector to raise funds from the bond and sukuk market.

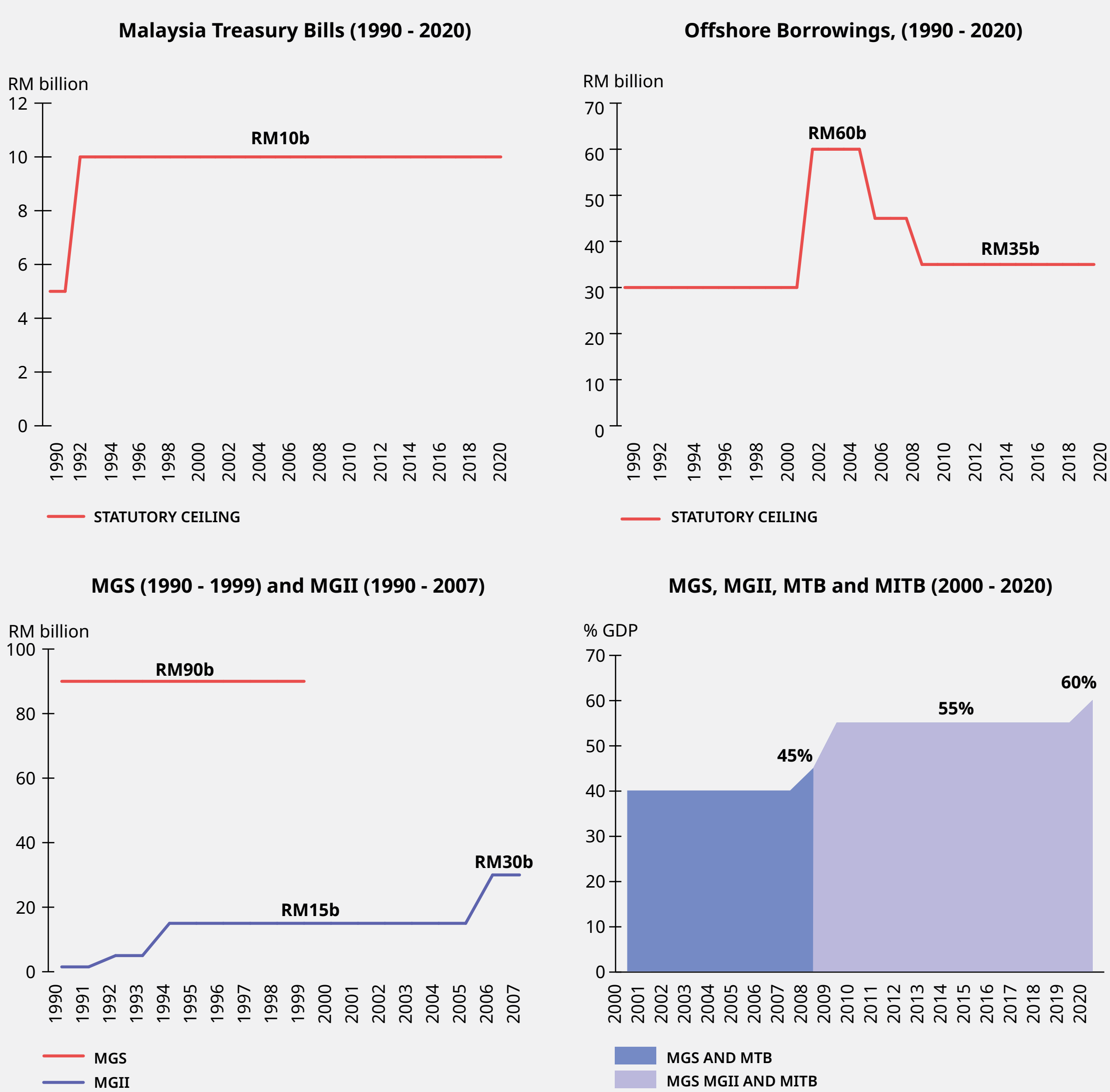
**Debt Policy Transition**

The Government's effort to undertake stimulus measures with sizeable fiscal injection during the crises had caused a notable increase in borrowings and interest payments, which subsequently elevated the debt level. The Federal Government debt level had increased from RM23.4 billion (44% of GDP) in 1980 to RM74 billion (103.4%) in 1986. This was due to a higher fiscal deficit of 10.3% of GDP during the crisis period. Furthermore, the composition of the offshore debt was significant at RM28.3 billion or 38.3% of total Federal Government debt in 1986, with bulk of the debt in the US dollar and yen constituting 80.5% of total offshore debt. Thus, the large risk exposure to foreign currency had further increased the debt level following the appreciation of the US dollar and yen against the ringgit since the Plaza Accord in 1985.

The Federal Government debt was consolidated from the peak of 103.4% of GDP in 1986 to 31.9% in 1997 on the back of robust growth and bold economic policy reforms, including privatisation and market-friendly initiatives. The shift in emphasis towards a private sector-driven growth also contributed to a conducive business environment, which in turn resulted in five consecutive years of fiscal surpluses. However, after the Asian Financial Crisis, the debt level rose to allow for pump-priming measures. While debt consolidation efforts resumed post-Asian Financial Crisis, the progress was hampered as the Government embarked on another round of fiscal stimulus measures during the 2008/09 Global Financial Crisis. The additional borrowings to finance the fiscal stimulus were primarily funded via domestic borrowings as there was ample liquidity in Malaysia debt and capital market. Overall, there is a noticeable trend of gradual debt consolidation in the medium term once the economy returns to its growth trajectory, reflecting the Government's ability to reinstate fiscal discipline post-crisis.

Given the urgent need to implement stimulus measures, the Government has to review its debt rules accordingly, to provide adequate fiscal space in supporting the economy. The Federal Government debt management was guided by several constitutional provisions. Regulations under these Acts which impose limits on the borrowings by the Federal Government, were revised several times through the amendments to the Act and statutory borrowing ceiling order.

**FIGURE 3.** *Federal Government Statutory Debt Ceiling*



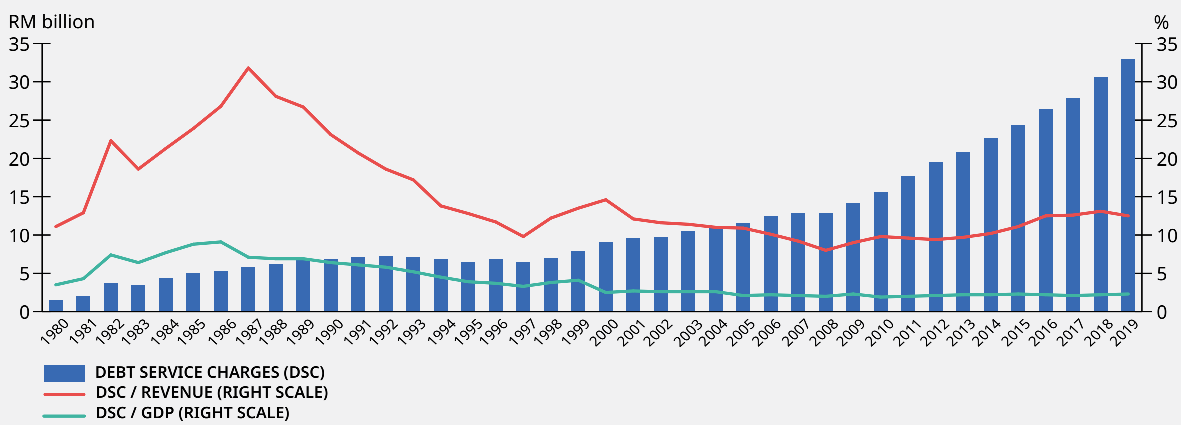

Source: Ministry of Finance and Attorney General Chambers, Malaysia

The debt limit rule is applied independently to domestic and external debt. The debt is raised through conventional market instruments, namely Malaysian Government Securities (MGS) for long-term papers, while Malaysian Treasury Bills (MTB) for short-term securities. The Shariah-compliant equivalents are Malaysian Government Investment Issues (MGII) and Malaysian Islamic Treasury Bills (MITB). MGS and MTB are issued under the Loan (Local) Act 1959 [Act 637] and the Treasury Bills (Local) Act 1946 [Act 188], respectively, while both MGII and MITB are issued under the Government Funding Act 1983 [Act 275].

In the beginning of 1980s, MGS and MGII was capped at RM15 billion and RM1 billion, respectively. However, the limit of MGII threshold was increased to RM15 billion in mid-1990s. Prior to the Global Financial Crisis, the Government revised the debt threshold by combining the outstanding debt of MGS, MGII and MITB under Act 637 and Act 275 to 45% of GDP in June 2008 and was further revised up to 55% beginning July 2009. Meanwhile, Act 188 limits the current maximum amount of outstanding Treasury bills at RM10 billion.

In addition, the Federal Government is also allowed to borrow in foreign-denominated currencies. Offshore borrowings, which was initially capped at RM30 billion in 1985, was revised upward to RM60 billion in 2002. However, the limit was scaled down to RM45 billion in 2006 and further reduced to RM35 billion during the Global Financial Crisis. The changes made to the debt policy combination was primarily to accommodate the fiscal injection requirement while facilitating the development of a deep and liquid domestic market. Furthermore, being less reliant on offshore borrowings have led to the reduction in both refinancing risk and exposure to foreign exchange risk.

**FIGURE 4.** *Debt Service Charges 1980 – 2019*




Source: Ministry of Finance, Malaysia

In addition to the debt limit legislation, other debt indicators observed are debt service charges (DSC) as a ratio to revenue and GDP, which indicates debt affordability. The DSC ratio to revenue and GDP increased significantly in 1987 to 31.8% and 7.1%, respectively, post-1985/86 Commodity Crisis. The same trend was observed during the Asian Financial Crisis, where the ratios increased from 11.7% and 3.7% in 1996 to 13.5% and 4.1% in 1999, respectively. The trend was in line with the increase in the Federal Government debt level and slower revenue performance in times of crisis. Nevertheless, the DSC to revenue ratio has reduced to around 10% post-Global Financial Crisis due to steady revenue performance as the Government embarked on revenue diversification initiative. The reduction demonstrates that the increase in the ratio was temporary and the level is quickly reduced to below the administrative limit of 15% to revenue, once the crisis ebbed and economic growth resumed. Furthermore, the DSC to GDP ratio has also stabilised, averaging 2% in the past decade.

**COVID-19 Crisis and Policy Response**

The COVID-19 pandemic has severely affected the global trade and economy, as it threatened the lives of people due to its rapid spread. As of mid-October 2020, the spread of the virus has affected more than 200 countries, exceeding 37 million confirmed cases with a mortality rate of around 3%. The crisis, the worst since the 1930s Great Depression, has challenged all policymakers and industry players to prepare for a new normal and impose strict policy measures to contain the spread and flatten the infection curve.

The International Monetary Fund (IMF) has estimated a total fiscal injection of USD11.7 trillion or nearly 12% of global GDP by sovereigns across the globe. Most countries have further eased the fiscal rules and activated their exit clause. Meanwhile, Malaysia has introduced stimulus packages and economic recovery plan worth RM295 billion comprising fiscal and non-fiscal measures around 20% of GDP, with direct fiscal injection of RM45 billion. Simultaneously, the Parliament has passed an act on temporary measures for Government financing of COVID-19 in September 2020. The act among others stipulates to temporarily increase the combined outstanding debt of MGS, MGII and MITB limit from 55% to 60% of GDP and to establish a dedicated trust fund to implement all the stimulus measures within three years. The upward revision of the debt limit has provided fiscal space for the Government to fund the stimulus packages and implement economic recovery measures. Subsequently, on 23 September 2020, the Government announced an additional RM10 billion to further enhance existing measures, namely the *Bantuan Prihatin Nasional* (BPN), PRIHATIN Special Grants and the Wage Subsidy Programme.

In addition, the OPR was reduced by a cumulative 125 basis points to 1.75% by the MPC in the first nine months of 2020. This OPR reduction has provided additional policy stimulus to accelerate the pace of recovery while reduce the future cost of borrowing to the Government. Other monetary measures include financial relief, regulatory and supervisory measures, and adjustments to the SRR in March and May 2020. In particular, the adjustments to the SRR and flexibility to banking institutions to use MGS and MGII to fully meet the SRR compliance were part of the continuous efforts to ensure sufficient liquidity to support financial intermediation activities.

**Way Forward**

It is the utmost priority of a responsible government to protect the economy and the well-being of the rakyat, particularly during the times of adversity. Thus, the execution of stimulus packages and recovery measures will be rigorously pursued and monitored, despite the adverse impact on the Government fiscal and debt position. The Government is determined to rejuvenate the economy to ensure the nation return to a sustainable growth trajectory and fulfil the 2030 Shared Prosperity Vision.

Nonetheless, while the nation is in a transition towards a new normal era, the reform agenda will be reinforced in charting a more sustainable and sound public finance. This includes, among others, introducing fiscal responsibility legislation, enhancing the revenue base, instituting good governance and accelerating digitalisation. These initiatives will be accommodative towards regaining the growth momentum and aid the Government to resume its consolidation efforts once the economy recovers. In addition, the availability of world-class infrastructure, dynamic and talented workforce as well as a proactive public service, will further complement the reform agenda. This is evident through Malaysia being ranked at 12th out of 190 economies in the World Bank Doing Business 2020 report, demonstrating the Government's competitiveness and business-friendly economic policies.

### Conclusion

The pragmatic fiscal policy is vital in supporting the nation's growth and more importantly, in times of economic uncertainty and health crisis. The Government has demonstrated flexibility and dynamism in providing sufficient fiscal space for countercyclical measures, and ready to increase the financing requirements to further accommodate economic recovery. However, it is necessary to strike a balance in providing adequate fiscal support while achieving long-term sustainability. Thus, the debt rule revision is temporary, reflecting a firm commitment to fiscal consolidation in the medium term. As evidenced in the past crisis, the Government is fully committed towards the reform agenda in ensuring sound public finances and effective debt management.

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## External Debt

The external debt coverage includes public and private sector offshore borrowings, non-resident holdings of ringgit-denominated securities, non-resident deposits and other external debt. As at end-June 2020, external debt increased to RM1 trillion or 69.7% of GDP. Overall, the increase was mainly contributed by the net issuance of international bonds and notes from public enterprises and private sectors. However, the increase was partially offset by withdrawal from non-resident holdings of domestic debt securities and deposits.

The largest component of external debt is offshore borrowings, which increased to RM624.3 billion, with a share of 62.2%. The medium- and long-term offshore borrowings accounted for RM383.2 billion, while short-term debt registered RM241.1 billion. The increase was mainly contributed by higher non-financial corporation borrowings, primarily for foreign assets acquisition and intragroup borrowings among banks and non-banking private sector.

The other component of external debt is non-resident holdings and deposits, which represents ringgit-denominated external debt and deposits in domestic banking institutions. This component comprised RM295.4 billion or around 30% of the total external debt, which among others include non-resident holdings of government papers which stood at RM181.2 billion or 22% of total Federal Government domestic debt. Thus, the foreign holdings are not exposed to the valuation effects from the movements of ringgit.

In general, Malaysia's external debt position remains manageable. The external debt with medium- and long-term tenure accounted for 58.7% of total external debt, indicating a low refinancing risk. Furthermore, the availability of sizeable external assets is able to cushion the impact from external risks, demonstrating the nation's financial resilience.

**TABLE 4.5.** *External Debt*
*2019 – 2020*

| COMPONENT | RM MILLION | | SHARE (%) | | SHARE OF GDP (%) | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[3] | 2019 | 2020[3] | 2019 | 2020[3] |
| **Offshore borrowing** | **560,708** | **624,334** | ***59.3*** | ***62.2*** | ***37.2*** | ***43.3*** |
| Medium-and long-term debt | 344,322 | 383,169 | *36.4* | *38.2* | *22.9* | *26.6* |
| Public sector | 128,743 | 154,413 | *13.6* | *15.4* | *8.6* | *10.7* |
| Federal Government | 24,021 | 25,077 | *2.5* | *2.5* | *1.6* | *1.7* |
| Public corporations | 104,722 | 129,336 | *11.1* | *12.9* | *7.0* | *9.0* |
| Private sector | 215,579 | 228,756 | *22.8* | *22.8* | *14.3* | *15.9* |
| Short-term debt | 216,386 | 241,166 | *22.9* | *24.0* | *14.3* | *16.7* |
| **Non-resident holdings of ringgit-denominated debt securities** | **201,015** | **196,632** | ***21.3*** | ***19.6*** | ***13.3*** | ***13.7*** |
| Medium-and long-term debt | 193,270 | 186,748 | *20.5* | *18.6* | *12.8* | *13.0* |
| Federal Government | 182,151 | 176,001 | *19.3* | *17.5* | *12.1* | *12.2* |
| Others[1] | 11,119 | 10,747 | *1.2* | *1.1* | *0.7* | *0.8* |
| Short-term debt | 7,745 | 9,884 | *0.8* | *1.0* | *0.5* | *0.7* |
| **Non-resident deposits** | **102,928** | **98,821** | ***10.9*** | ***9.9*** | ***6.8*** | ***6.9*** |
| **Others[2]** | **80,767** | **83,168** | ***8.5*** | ***8.3*** | ***5.3*** | ***5.8*** |
| **Total** | **945,419** | **1,002,956** | ***100.0*** | ***100.0*** | ***62.6*** | ***69.7*** |

[1] Include private sector and public corporations
[2] Comprise trade credits, IMF allocation of Special Drawing Rights and miscellaneous
[3] End-June 2020
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

**TABLE 4.6.** *Public Sector Debt*
*2019 – 2020*

| COMPONENT | RM MILLION | | SHARE (%) | | SHARE OF GDP (%) | |
|---|---|---|---|---|---|---|
| | 2019 | 2020[1] | 2019 | 2020[1] | 2019 | 2020[1] |
| **Federal Government** | **792,998** | **854,068** | ***69.8*** | ***69.4*** | ***52.5*** | ***59.3*** |
| Domestic | 764,233 | 824,033 | *67.3* | *67.0* | *50.6* | *57.2* |
| Offshore | 28,765 | 30,035 | *2.5* | *2.4* | *1.9* | *2.1* |
| **Statutory bodies** | **70,510** | **75,710** | ***6.2*** | ***6.2*** | ***4.7*** | ***5.3*** |
| Domestic | 70,510 | 75,710 | *6.2* | *6.2* | *4.7* | *5.3* |
| *of which:* Guaranteed | 70,510 | 75,710 | *6.2* | *6.2* | *4.7* | *5.3* |
| Offshore | - | - | - | - | - | - |
| **Non-financial public corporations** | **272,992** | **300,458** | ***24.0*** | ***24.4*** | ***18.0*** | ***20.9*** |
| Domestic | 171,873 | 176,744 | *15.1* | *14.4* | *11.3* | *12.3* |
| *of which:* Guaranteed | 171,873 | 176,744 | *15.1* | *14.4* | *11.3* | *12.3* |
| Offshore | 101,119 | 123,714 | *8.9* | *10.0* | *6.7* | *8.6* |
| *of which:* Guaranteed | 23,395 | 24,565 | *2.1* | *2.0* | *1.5* | *1.7* |
| **Total** | **1,136,500** | **1,230,236** | ***100.0*** | ***100.0*** | ***75.2*** | ***85.5*** |

[1] End-June 2020
Source: Ministry of Finance, Malaysia

## Public Sector Debt

Public sector debt represents consolidated debts of the Federal Government, state governments, Non-Financial Public Corporations (NFPCs) and sovereign-guaranteed debt of statutory bodies. As at end-June 2020, public sector debt increased to RM1.2 trillion or 85.5% of GDP due to higher Federal Government fiscal deficit to finance the COVID-19 pandemic stimulus measures. The largest component in the public sector debt is Federal Government debt of RM854.1 billion or 69.4% of the total, followed by liabilities from NFPCs (24.4%) and statutory bodies (6.2%).

Statutory bodies guaranteed debt rose to RM75.7 billion, mainly attributed to additional sukuk issuances by LPPSA to finance public sector employees' housing loans. In addition, NFPCs' debt has also increased to RM300.4 billion, which include additional funding facilities drawdown to finance the capital expenditure in relation to the development of the mass rapid transit (MRT) project as well as investments in oil and gas sector.

## Outlook for 2021

Against the backdrop of the uncertain economic environment in 2021, gross borrowing requirements are expected to remain substantial at around 11% of GDP. The Government will continue to finance stimulus measures during the transition phase in 2021, to fully support the economic recovery, emphasising on ensuring the well-being of the rakyat, protecting businesses and revitalising economic activities. At the same time, the Government will remain committed to prudent debt management strategies over the medium term, while adhering to the stipulated debt rules.

The Government will focus on ringgit-denominated issuance, leveraging the ample domestic liquidity, which aimed at maintaining a well-functioning market for government securities, while reducing cost and minimise foreign exchange risk exposure. In addition, the Government is prepared to weather future uncertainties supported by adequate monetary space, deep domestic capital market as well as effective COVID-19 containment measures that are essential in building up investors' confidence. These conditions will further support long-term funding requirements, ensure a balanced debt maturity profile and meet investors' demand for government papers.

The COVID-19 pandemic has led to one of history's most challenging global humanitarian and health crises. Swift actions have been undertaken to protect lives, support businesses and strengthen the nation's economy. As a result of the increase in borrowing needs to support growth, the overall Federal Government debt is projected to increase to around 61% of GDP, with the statutory debt to remain around 58% in 2021. Nevertheless, most of the measures taken to stimulate growth are short-term in nature and does not fundamentally change the principles of debt management.

Moving forward, the Government is committed to continuing the debt consolidation path in the medium term once the economy recovers from the current crisis. In addition, the Government will further strengthen the function of the Debt Management Office to improve its institutional structure, enhance debt management operation and governance, and ultimately reducing the Federal Government debt to a manageable level. At the same time, the commitment to enhance data collection and periodic reporting will further support debt sustainability in the longer term.

## Conclusion

The effect of the COVID-19 pandemic on public finances reinforces the need to improve debt management and sustainability. The Government will strike a balance between addressing development needs and consolidating the debt-to-GDP level once the crisis subsides. Achieving this balance requires adhering to a sound medium-term fiscal framework, enhancing revenue base, improving the efficiency of spending, and facilitating private sector activities through structural reforms and improvements in governance. In developing debt strategies, the Government continue to emphasise keeping funding costs low, mitigating rollover risk and supporting well-functioning markets.

**FIGURE 4.1.** *Issuance by Maturity*

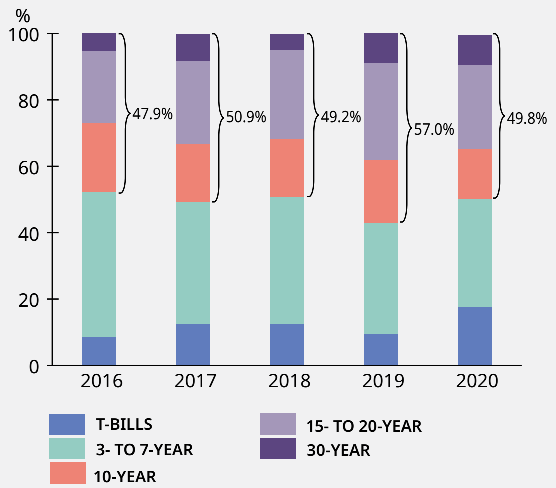



**FIGURE 4.2.** *BTC Ratios of MGS and MGII*

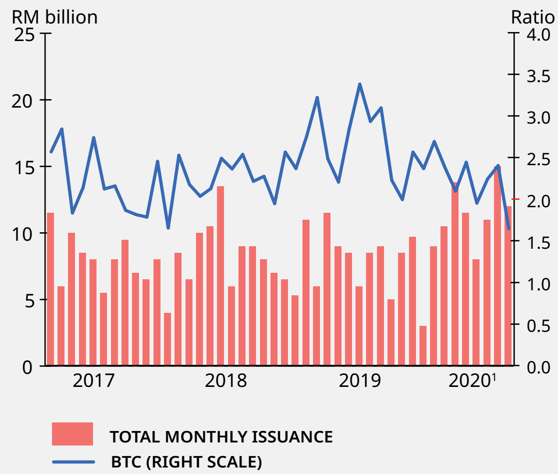



**FIGURE 4.3.** *MGS Benchmark Yield Curve*

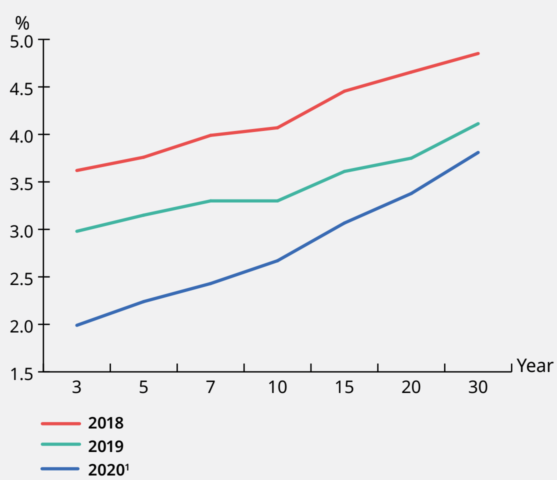



**FIGURE 4.4.** *MGS Indicative Yields*

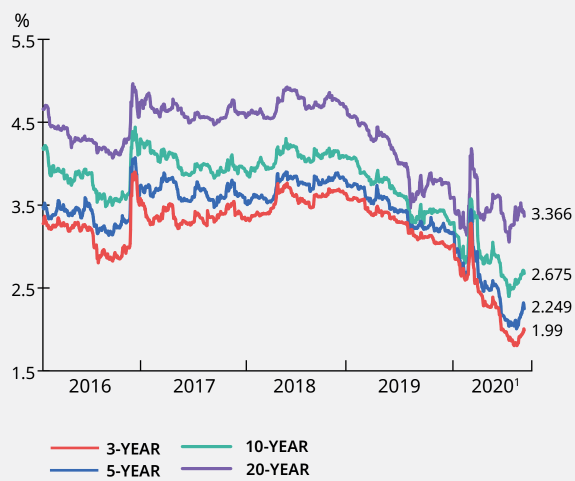
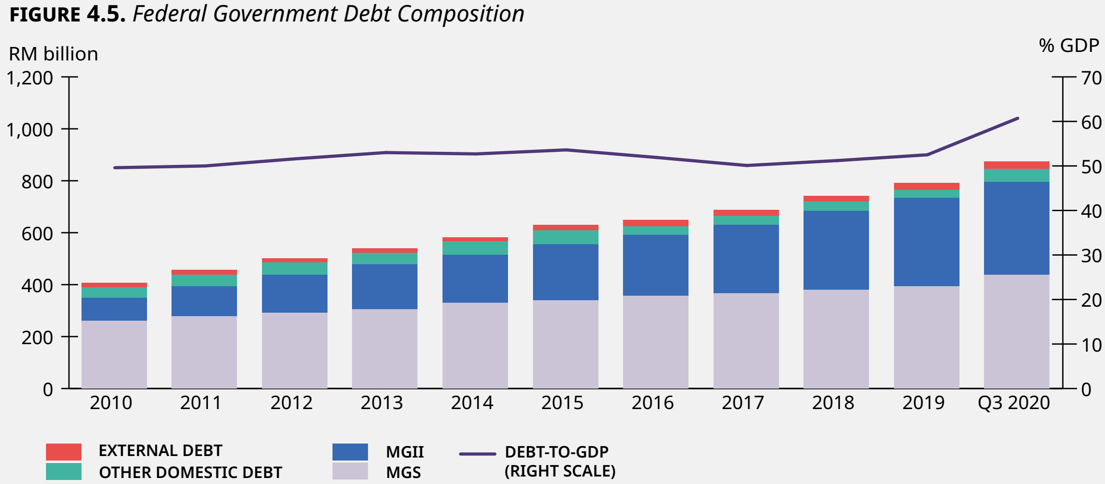



**FIGURE 4.5.** *Federal Government Debt Composition*




[1]End-September 2020

Source: Ministry of Finance, Malaysia, Bank Negara Malaysia and Bloomberg

**FIGURE 4.6.** *Federal Government Debt by Holder, End-June 2020*

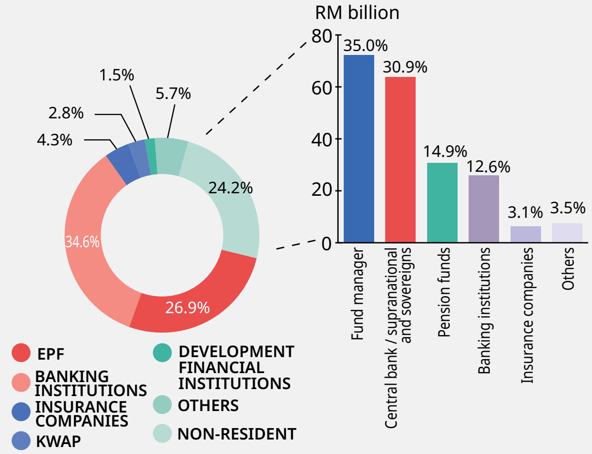



**FIGURE 4.7.** *Non-Resident Holdings of Ringgit-Denominated Debt Securities*

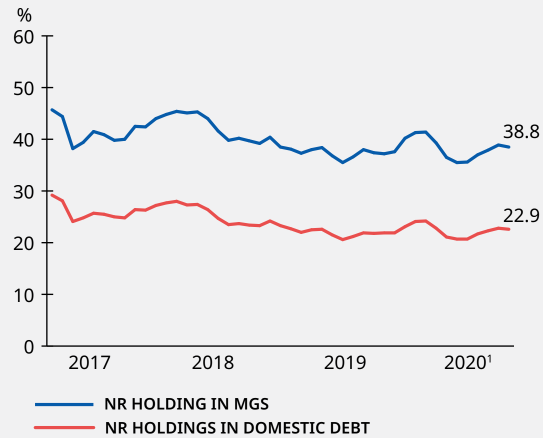



**FIGURE 4.8.** *Federal Government Debt by Remaining Maturity*

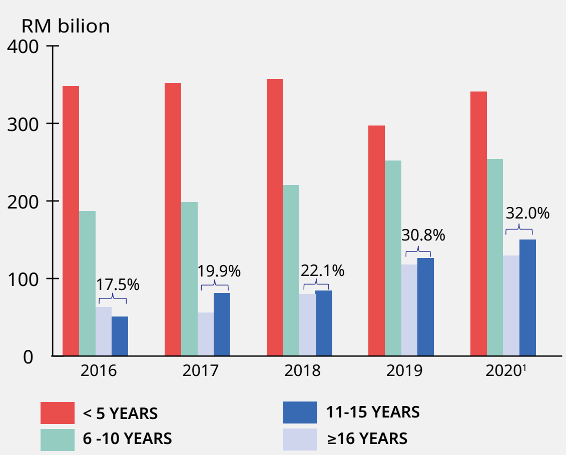



**FIGURE 4.9.** *Debt Service Charges*

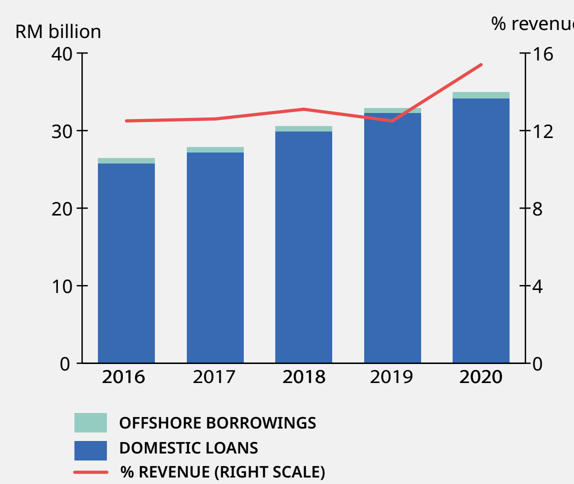
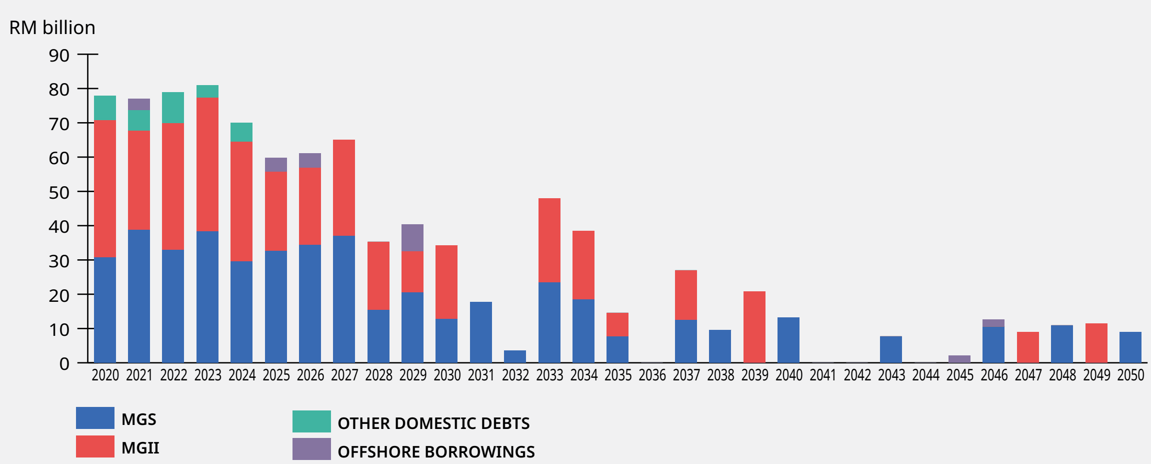



**FIGURE 4.10.** *Debt Maturity Profile*




[1]End-September 2020
Source: Ministry of Finance, Malaysia