THE PERFORMANCE OF PUBLIC DEBT SINCE THE ASIAN CRISIS:
THE CASE OF INDONESIA AND MALAYSIA
By Dr. Chandra Emirullah
UUM COLGIS
Public Lecture
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1. INTRODUCTION
- WHY PUBLIC DEBT (PD) IS IMPORTANT?:
  - GLOBAL INTERCONNECTION
  - INDONESIA & MALAYSIA: OPEN ECONOMIES
  - LEVEL OF PD: INDICATOR OF HEALTH/RISK
  - GREECE CRISIS: INDICIESPLINED FISCAL POL
  - CONTAGIOUS EFFECT

- DOMESTIC POLITICS: OPPOSITION
- INTERNATIONAL RELATIONS: IGGLI, IMF
  CONDITIONALITIES
- RECENTLY, IN THE LAST 4 YEARS
- CRISSE/ECON SHOCK MORE OFTEN
- COMING FROM ADVANCED COUNTRIES:
  • 2008 - 2009: SUB-MORTGAGE CRISIS IN USA
  • 2010-NOW: EUROPEAN PD CRISIS
  • IMPACT GREATER

- NEED TO HAVE FISCAL SPACE TO TAKE COUNTER-CYCLICAL MEASURES
- HIGH PD >>> LESS FISCAL SPACE
- NEED TO EVALUATE PERFORMANCE OF PD
- WHAT FACTORS THAT INFLUENCE IT
- DEFINITION OF PD: PUBLIC DEBT/GDP RATIO
• WHY INDONESIA AND MALAYSIA?
  • BOTH COUNTRIES SUFFERED FROM THE 1997-98 ASIAN CRISIS
  • HOWEVER, THE DEGREE WAS DIFFERENT
  • INDONESIA, THE WORST HIT, INCURRED AROUND $75 BILLION, THE BIGGEST COST
  • HAD TO GET HELP FROM IMF & WB
  • IN 1998 ECON CONTRACTED BY 13.5%

• MALAYSIA BY TAKING UNCONVENTIONAL POLICY I.E. IMPOSING CAPITAL CONTROL DID NOT SUFFER AS MUCH
• ABLE TO ESCAPE IMF CONDITIONALITIES

• NOW, FINANCIAL STABILITY BACK TO NORMAL
• BOTH COUNTRIES ACHIEVED RESPECTABLE GROWTH
• BOTH CONTINUED TO INCUR FISCAL DEFICITS, MOSTLY FINANCED BY PD AT RECORD LEVELS
• HOWEVER, IN TERM OF DEBT/GDP, INDONESIA PERFORMED BETTER

Figure 1. Public Debt Ratio, Indonesia & Malaysia (2001-2010)
• Indonesia’s PD ratio fell consistently year by year from 76% in 2001 to 27% in 2010
• Malaysia, while also on down trend but not as significant & consistent
• The yearly rate of decrease is smaller
• PD fell to 42% in 2008 but climbed sharply in 2009 to 55%

• Why a government borrows?
  • To finance public investment
  • To take counter-cyclical measures
  • To finance the cost of a war
  • To bail out public or private companies

• If not under proper control can have adverse effect

• 2. How a country can reduce its PD?
  • Fiscal consolidation to improve fiscal balance/fiscal deficit:
    • Increase revenues: intensify tax collection & expand tax base
    • Rationise expenditures: esp the current ones
    • Strengthen debt management
    • Sustain economic growth to increase GDP
• **3. INDONESIA'S EXPERIENCE**
  - THE EFFORTS TO LOWERING DEBT
  - A. FISCAL CONSOLIDATION
  - REVENUE SIDE: TAX ADMINISTRATION REFORM SINCE 2002
  - INCREASING ENFORCEMENT OF TAX COLLECTION OR VOLUNTARY PAYMENTS
  - REDUCE INCOME TAX ON THE BUSINESS SECTOR
  - RESULTED IN HIGHER TAX COMPLIANCE AND TAX YIELDS

• **EXPENDITURE SIDE**
  - THE BIGGEST SUBSIDY REDUCTION IN 2008 INCREASING FUEL PRICE BY 87%
  - IN JULY 2010 ELECTRICITY TARIFF INCREASED BY 10%

• **DEBT MANAGEMENT**
  - REDUCE EXTERNAL LOANS & RELY MORE ON GOV SECURITIES IN DOM N FORGN MARKET
  - MINIMISE COSTS & MAINTAIN RISKS AT MANAGEABLE LEVEL
  - ACCEPT ONLY LONG MATURITY LOANS & GRACE PERIOD
  - MOSTLY FROM MULTILATERAL & BILATERAL SOURCES

### Indonesia: Public Finance Indicators 2001-2010 (in % of GDP)
Source: IMF (various tables)

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• ESTABLISHMENT OF DEBT MANAGEMENT OFFICE
• INTEGRATE EXTERNAL DIRECTORATE WITH BOND DIRECTORATE
• IMPROVE DEBT STRUCTURE, PROLONG MATURITY PROFILE, ISSUE FIXED RATE SECURITIES, CONDUCT BUYBACK, DEBT SWAP
• PROMULGATE A STATE FINANCIAL LAW: BUDGET DEFICIT MAX 3%, PD RATIO 60%
• ECONOMIC GROWTH PERFORMANCE

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<th>Indonesia: Economic Growth Indicators, 2001-2010</th>
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• INDONESIA ABLE TO REGAIN ROBUST ECON GROWTH BUT NOT YET AT THE PRE-CRISIS LEVEL
• DEMAND SIDE: CONSUMPTION, BIGGEST COMPONENT OF GDP
• GOV STIMULUS PACKAGE
• EXPORT GROWTH, SUPPORTED BY HIGH COMMODITY PRICES
• FIXED INVESTMENT GREW BUT STILL SMALL COMPARED WITH PRE-CRISIS LEVEL

• THE EFFECT ON PD
• FISCAL CONSOLIDATION EFFORTS PRODUCED PRIMARY SURPLUSES AT AVERAGE 2% 2005-9
• BUDGET DEFICITS CAN BE MAINTAINED AT SUSTAINABLE LEVEL
• PD RATIO REDUCED YEAR BY YEAR TO THE PEAK OF 100% IN 1999 TO RELATIVELY LOW LEVEL (25% IN 2011)
• ALTHOUGH NOMINAL VALUE OF DEBT CONTINUED TO INCREASE, THE NOMINAL GDP INCREASED EVEN LARGER THUS PD DECREASED
• THE ROLE OF FISCAL DISCIPLINE
• INDIonesian Government consistently maintain fiscal discipline
• In 2009, fiscal stimulus package only 1.1% of GDP, half of G-20 and ASEAN peer
• Although in great need of infrastructure, govt investment spending still low

• 4. MALAYSIA'S EXPERIENCE
• FISCAL MANAGEMENT
• Fiscal management while prudent not able to produce sufficient primary surplus to reduce pd significantly
• The remaining fiscal cost of crisis: contingent liabilities & some other obligations

Malaysia: Public Finance Indicators, 2001-2010 (in % of GDP)
Source: IMF (various tables)

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- **ECONOMIC GROWTH**
  - Malaysia achieved robust econ growth of 4.6% in 1999-2003 backed by exports
  - However, global recession in 2009 exports fell significantly, fixed investment also dropped
  - As the result, econ growth contracted by 1.7% in 2009
  - The growth jumped by 6.7% in 2010 aided by stimulus measures

- **The need to continue fiscal reform**
  - Slower decrease in Malaysia PD is due to high fiscal deficit caused by growing imbalance between gov revenues and expenditures
  - Need to bring fiscal deficit to a more sustainable level

- **Revenue side, goods and service tax (GST) or the VAT need to be implemented**
  - Rationalization of tax structures
  - Expenditure side, need to reduce subsidy expenditure such as fuel

- **Conclusion**
  - Fiscal consolidation, debt management, economic growth are important factors in reducing & achieving sustainable PD
  - Fiscal deficit can be minimised if there is fiscal discipline
  - Government together with wakil-wakil rakyat in parliament can enhance it by agreeing on some kind of fiscal rule law