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Having inherited a concerning amount of government debt and obligations from its predecessor, Malaysia's newly elected political party faces a tough balancing act between being fiscally responsible and meeting its ambitious goals for socioeconomic reforms. This article explores the friction between these two objectives by analyzing the fiscal policies proposed and implemented by the new administration as well as future improvements needed for long-term prosperity in public finance.

Introduction

Shortly after Dr. Mahathir Mohamad claimed victory as Prime Minister in Malaysia's fourteenth general election on May 9, 2018, the new Finance Minister, Lim Guan Eng, disclosed that the country's total estimated liabilities amounted to over RM1 trillion ($251 billion), 80.3% of GDP, at the end of 2017 (Shukry and Jamrisko). These figures presented a much higher fiscal burden than the former Prime Minister, Najib Razak, and his Barisan Nasional (BN) government had led the world to believe. Moreover, the campaign promises made by Mahathir and his Pakatan Harapan (PH) government to lower the cost of living, along with the public's high expectations that the administration carry out urgent reforms, exacerbated the burden of servicing the trillion-ringgit debt. The PH government pledged to remedy the troubled public finance sector with the principles of competency, accountability, and transparency (CAT) (Ministry of Finance, 2018b).

In this article I examine the conflicts between the government's initiatives to meet the public sector's debt obligations and enhance fiscal competitiveness, and its determination to jumpstart institutional reforms and improve the socioeconomic well-being of its citizens. I first provide clarifying information on the status of Malaysia's government debt in 2018. After a discussion of the fiscal policies introduced by the PH government in 2018 and their credit impacts, I elaborate on the Ministry of Finance's short-term financing solutions. Finally, I offer some analysis on several key areas for the Malaysian government to focus on in the long run in order to keep its obligations sustainable and move toward fiscal consolidation.

Composition of Malaysia's Government Debt and Liabilities

Table 1 outlines the total debt and liabilities borne by the government of Malaysia

Table 1
Federal Government Debt and Liabilities

	RM Billion		Share of GDP (%)	
	12/31/17	6/30/18	12/31/17	6/30/18
Federal government debt	686.8	725.2	50.7	50.7
Committed government guarantees	102.1	117.5	7.5	8.2
PPP and similar liabilities	260.1	184.9	19.2	12.9
1MDB (net debt)	38.3	38.3	2.8	2.7
Total	1087.3	1065.9	80.3	74.5

Source: Ministry of Finance, 2018c.

on June 30, 2018, divided into four categories. Malaysia holds an A– sovereign credit rating as of the writing of this paper. However, its federal government debt-to-GDP ratio of 50.7% is significantly higher than the median of other countries that are rated A– , estimated at 40.9% for 2018 (Shah). Nevertheless, the domesticity as well as the maturity profile of Malaysia's federal government debt limited the risk exposure. First, 97.1% of federal government debt was dominated in ringgit, shielding the government from foreign exchange risks. Additionally, large domestic institutional investors, whose investments tend to be stable and long term, held almost two-thirds of all government securities. As a result, risks associated with shifting demands from foreign investors, who held 28% of government issuance at mid-year 2018, can be better monitored and controlled. Furthermore, 54.5% of debt papers outstanding at June 30, 2018, had a remaining maturity period over 5 years, thereby curtailing immediate threats associated with refinancing (Ministry of Finance, 2018c).

Government guarantees and public-private partnership (PPP) lease payments are not direct debt obligations but contingent liabilities to the government. Employment of these off-balance sheet arrangements in lieu of direct borrowings is intended to alleviate the government's financial and administrative burden. Government guarantees are awarded to statutory bodies, government-linked companies, and state government bodies and their subsidiaries (Ministry of Finance, 2018c). They hold the government responsible for payment in the event that the borrower defaults. Government guarantees incentivize the aforementioned entities to take on public projects by protecting them against insolvency risks. In addition, with the government as an intermediary guaranteeing the loan, the lending institutions, gaining comfort from reduced counterparty risks, tend to offer lower coupon rates to the borrowing entities, thus lowering borrowers' cost of capital. The BN government, however, did not exercise discretion in granting loan guarantees. From 2008 to 2017, government guarantees increased by nearly 250% from RM69.2 billion to RM238 billion, while federal government debt only increased by 124%. Because government guarantees are contingent liabilities, the government is not liable for repayment of the debt it guaranteed unless the primary debtor defaults. However, citing prudent debt management as the reason, the PH government included RM117.5 billion of committed government guarantees (i.e., roughly 50% of all government guarantees), on June 30, 2018, as its obligations, even though the debt had not defaulted. In the case of committed government guarantees, the government partially subsidizes borrowing entities (typically public infrastructure projects) for their cash flow needs to service debt when their own income is not sufficient, typically during construction and early stages of operation (Ministry of Finance, 2018c).

Given the statutory limits on federal government debt (i.e., Malaysia set a self-imposed ceiling of federal government debt at 55% of GDP) and the expanding government guarantees, the previous BN government engineered "aberrant contracts" with the less scrutinized PPP mechanism to present a misleadingly prosperous fiscal picture. The PPP lease payments include rental, maintenance, and other charges for a variety of construction projects, such as schools, hospitals, police stations, and roads. As an example, Tony Pua, a special officer to the current Finance Minister, reported that the BN government had intended to award a contract that would pay RM1.5 billion to a private company to build a polytechnical university, when paying for the contract with direct expenditure would have only cost the government RM0.5 billion ("Malaysia Committed to …"). Similar approaches (i.e., choosing to utilize PPP instead of government debt or guarantees, albeit more costly) created a false perception that the BN government managed to sustain fast-paced economic and infrastructure development while reducing the debt-to-GDP ratio at the same time. Moreover, many of the contracts under PPP were poorly negotiated in terms of both the amount and the timing of payments. In his budget speech for the year 2019, new Finance Minister Lim disclosed that for projects such as the Trans-Sabah Gas Pipeline and Multi-Product Pipeline, RM8.3 billion out of the total contractual costs of RM9.6 billion was already paid, even though only less than 10% of the projects had been completed. As of December 2017, similar lease payments for PPP projects and other liabilities, hidden entirely from the BN federal budgets, accumulated to RM260.1 billion. Since the PH government took control in May 2018 and started reviewing, renegotiating, and postponing some of these infrastructure contracts, PPP and related liabilities have deflated substantially, to RM184.9 billion at the end of June 2018 (Ministry of Finance, 2018c).

The government singled out net debt from 1Malaysia Development Berhad (1MDB), a state-owned investment company established to attract foreign investments, as its own category (see Table 1) in reporting government debt and liabilities exposures. Funds borrowed by 1MDB were embezzled by corrupt officials under the Najib administration for their personal indulgence. Finance Minister Lim indicated in the 2019 budget that the government would be liable to pay up to RM43.9 billion to settle the 1MDB debt.

In summary, Malaysia's debt and obligations remained elevated despite the significant progress made during the first half of 2018. More importantly, the debt and liabilities exposure served as a warning sign for the new administration to recalibrate and reform its fiscal sector. Economic growth in 2018 and 2019 likely faces some contraction, especially since Malaysia's open economy left it particularly vulnerable amidst the escalating trade war between the US and China, along with rising volatility in global financial markets. In fact, in October 2018, the World Bank adjusted Malaysia's estimated 2018 GDP growth down to 4.9% from an earlier prediction of 5.4% (Tan, "World Bank…"). A comprehensive review of Malaysia's fiscal challenges and solutions is imperative to alleviate the risk of a heightened debt load that would restrain economic development. In addition to these concerns, it is worth noting that political motives are inherent in PH's disclosure and discussion of its financials. Such political motives include further damaging the political image of BN and Najib as well as citing debt obligations as the reason for delaying urgent reforms. Consequently, although the improvements made so far are impressive, it is necessary to evaluate the government's statements and projections with a healthy sense of skepticism and a critical mind going forward.

Developments and Conditions that Could Further Increase Debt

The government's debt and liability (see Table 1) as of June 30, 2018, highlighted the imprudent and opaque fiscal management of the previous BN administration. While it is commendable that the new PH government is committed to greater transparency in public finance, many of its policies and actions since taking office, primarily aimed at fulfilling campaign promises, could increase its fiscal burden and thus lead to further deterioration in the government's debt profile.

Change in Consumption Tax

The PH administration campaigned on abolishing the 6% goods and services tax (GST) introduced in 2015. The GST was highly unpopular among Malaysians, and the promise to do away with it was one of the most consequential decisions that led to PH's victory. In June 2018, PH honored its promises and abolished the GST. A revised version of the sales and services tax (SST), which had been in place prior to the GST, was reinstituted in September 2018. The adverse effect on Malaysia's fiscal position stemming from the GST abolition is threefold: loss in government revenue, costly enforcement, and narrowed revenue base. First, the new SST is applicable to a much smaller range of consumer goods and services, because it covers only 38% of the market basket for computing the Consumer Price Index, in comparison to 60% under the GST, leading to loss in government revenue. The shortfall in government revenue in 2018 caused by both the switch and the 3-month tax holiday between the two tax regimes amounted to RM21 billion (Shah). As a result, Malaysia is estimated to record government revenue at 15.7% of GDP in 2019, which would be 30% lower than its peak figure in 2012 and much lower than the average figure for emerging markets and developing countries (27.5% of GDP) (World Bank, 2018b). Second, collecting and enforcing the SST require substantially more budgetary allocation from the government to the Inland Revenue Board of Malaysia. Under the SST, rates imposed on goods vary between 5% and 10%, whereas the GST was levied at a fixed rate of 6%. Consequently, classification issues prevail, making it costly for businesses to comply with and for regulators to audit. The exemption of 5,433 items from the SST (compared with 544 items under the GST) worsens the classification issue, especially because the items on the exemption list were being updated on an ongoing basis (Augustin, "Economist..."). Moreover, the GST, as a type of value-added tax, was a system fundamentally superior to the SST, as it was levied at multiple stages of production or distribution, thus minimizing tax avoidance issues related to transfer pricing and vertical integration. The loopholes in the SST system will foreseeably lead to more regulatory challenges that are costly to resolve. Third, abolishing the GST increased the government's relative reliance on oil-based revenues, which led Malaysia's fiscal profile to be increasingly vulnerable to the volatility of oil prices: 30.9% of estimated federal government revenue in 2019 is projected to come from petroleum-related sources, compared to 15.7% in 2017 (Shah). With the GST gone, compensatory fiscal measures to sustain and broaden the government revenue base should be a priority in order to keep government debt manageable.

Heightened Operating Spending

Since 2008, more than 95% of government revenue every year has been channeled toward operating expenditure (OPEX) (Yeap). The narrow operating surplus of less than 5% has led the government to incur higher levels of debt and liabilities to support development expenditure. The consolidated revenue account, which funds OPEX of the government, saw a drastic contraction from RM11.86 billion at the end of 2017 to RM450 million at the end of April 2018 (Zainuddin). The strain on liquidity may force the government to seek financing under unfavorable terms in cases of external shock, thereby further worsening the debt profile. Two sectors of OPEX spending, civil servant compensations and subsidies, are particularly concerning. Malaysia's ratio of civil servants to population is one of the highest in the world at 1 to 19, compared to that of Singapore at 1 to 71 (Augustin, "Pension...")—34.5% of forecasted 2019 federal government expenditure will be allocated to civil servant salaries and pensions (Ministry of Finance, 2018a).

OPEX increased by 8.2% in 2018, largely due to PH's efforts to increase socioeconomic welfare, specifically with fuel subsidies (Shah). The PH government allocated RM3 billion for the second half of 2018 for price stabilization measures on petrol and diesel. Similar to the abolishment of the GST, reintroducing a fuel subsidy aimed at realizing PH's campaign promises to reduce costs of living, although at the expense of potentially increasing government debt and relying more on the revenues from the oil and gas industry. With global crude oil prices on the rise, the government was subsidizing 30 sen (approximately $0.08) on every liter of petroleum consumed by Malaysian citizens in 2018 ("PH Fulfils..."). During 2019, a target subsidy, which applies exclusively to Malaysians who own only one car with low engine capacity, would commence to replace the initial blanket subsidy (Ministry of Finance, 2018a). The implementation of the target subsidy, if successful, would lessen PH's fiscal burden on the path to reduce the cost of living for those in need.

Near-term Operating and Financing Strategies

Debt Issuance and Asset Monetization

A combination of bond issuance and asset monetization will be undertaken by the Ministry of Finance to address the short-term financing challenges highlighted by the trillion-ringgit government obligations (Tan, "Short-term…"). Despite the widely publicized political and fiscal challenges, investors showed confidence and strong demand in Malaysia's public debt instruments in 2018. In fact, during the first 9 months of 2018, the issuance of RM81 billion of traditional sovereign debt instruments, namely Malaysian Government Securities and Malaysian Treasury Bills, was oversubscribed by 129% (Ministry of Finance, 2018c). Nevertheless, considering that Malaysia's debt-to-GDP ratio was almost 10 percentage points higher than its rating peers in 2018, the government needs to exercise extreme caution regarding sovereign debt issuance going forward to mitigate the risks associated with a credit downgrade.

The government could address such risks by capitalizing on the opportunities brought forth by Islamic bonds, known as sukuk, which are debt instruments structured in accordance with Islamic laws that ban interest and speculation. Instead of coupon payments, sukuk payouts are leases or joint ventures derived from the tangible asset underlying the bonds. At the end of March 2018, 40% of government debt was composed of domestic Islamic bonds (known as Malaysian Government Investment Issues) denominated in ringgit, a percentage almost triple that at the end of 2008 (13.9%). According to Moody's Investors Service, Islamic government debt instruments are less volatile than traditional ones, partially because domestic investors held around 95% of these instruments as of June 2018. The growing popularity of Islamic bonds for funding budget deficits adds diversity to the government's borrowing profile, which in turn lowers its liquidity risks (Shah and Guzman).

Asset monetization refers to selling and leasing non-critical physical assets held by the government. Given proper procedures (e.g., independent valuation and open bidding), asset monetization can generate significant revenue to service the debt. Independent valuations of government-held assets are necessary to identify the ones that are non-strategic and the ones with poor returns. Open bidding will ensure prevention of abuse and maximization of proceeds. Furthermore, the government will seek to generate cash flow by reducing its equity ownership in non-strategic companies, which will simultaneously reduce the public sector's interest in the financial markets, thus giving rise to a more robust private sector. According to a sensitivity analysis done with sovereign wealth fund Khazanah Nasional Berhad, the fund can raise RM4 billion by selling off 5% of its holdings in industries including but not limited to financial services, health care, and creative and media companies (Khazanah Nasional Berhad; Zainuddin). In its 2019 budget, the government outlined an initial step for asset monetization that entails setting up an Airport Real Estate Investment Trust and subsequently selling off a 30% stake to private investing institutions in hopes of raising RM4 billion.

Reviewing Infrastructure Spending

In an effort to rationalize debt obligations incurred for developmental expenditures, soon after the 2018 election, the PH government started a thorough review of ongoing infrastructure projects to weigh the cost and benefits as well as the urgency of each project. In 2018, the government canceled two gas pipeline projects, the Multi-Product Pipeline and the Trans-Sabah Pipeline, saving approximately RM15 billion (Ministry of Finance, 2018a). It also suspended and postponed a number of other capital projects, including the RM81 billion East Coast Rail Link and the RM60 billion Mass Rapid Transit 3 project, seeking renegotiation of these contracts with respective vendors in terms of the amount and timing of payments. According to the World Bank, the contraction in PPP and other liabilities from 19.2% to 12.9% of GDP between December 2017 and June 2018 (see Table 1) resulted from canceling and postponing these transportation projects. Several projects that were deemed to have high economic multiplier effects will proceed under newly negotiated, more favorable terms. For instance, the RM5.2 billion Klang Valley Double Tracking project, which will rehabilitate 42 km of track to ensure the safety and reliability of the train services, will be re-tendered and is expected to continue with substantial cost savings (Land Public Transport Commission). Additionally, assertive actions taken by the Prime Minister and the Finance Minister to renegotiate or even completely shut down a number of massive infrastructure contracts entered into by the previous administration with foreign entities have attracted a lot of attention internationally, especially with regard to the Singapore–Kuala Lumpur high-speed rail and two major projects contracted by Chinese companies (see article by Hernandez in this volume).

Other Creative Approaches

The government also employed some less conventional strategies to address the near-term fiscal challenges. On May 30, 2018, with the election results pushing patriotic spirits in Malaysia to an all-time high, Finance Minister Lim launched a crowdfunding initiative called Tabung Harapan Malaysia ("Malaysia Hope Fund") to enlist public assistance to reduce government liabilities (Ministry of Finance, 2018d). As of the fund's closing on December 31, 2018, it had raised more than RM200 million ("Tabung…"). The government announced a Special Voluntary Disclosure Program to encourage Malaysian taxpayers to disclose previously undeclared income. Under existing laws, tax evasion is subject to penalties ranging from 80% to 300% on the undeclared income tax payable. The Special Voluntary Disclosure Program granted taxpayers a reduced penalty of 10% on their tax payable if they came forward between November 3, 2018, and March 31, 2019, and 15% if they declared from April to June 2019. This program bridged the government's short-term needs for cash and long-term goal to increase tax compliance. The Inland Revenue Board reportedly aimed to collect RM10 billion in tax revenue through this program (Surendran and Chua).

Long-term Fiscal and Institutional Reform

In November 2018, Lim redesigned the government's blueprint to achieve fiscal consolidation. Malaysia aims to reduce the budget deficit to 3.4% of the GDP in 2019, 3% in 2020, and 2.8% in 2021 after taking into consideration the existing debt repayment burdens, decelerating economic growth, and global trade tensions (Ministry of Finance, 2018a). The government's projections are considered ambitious by Moody's given the current fiscal policies (Shah). Consequently, re-calibrating key expenditure items, broadening revenue sources, and restructuring the public finance sector are imperative steps to mitigate the risks of recurrent debt and fiscal challenges.

Rationalizing Operating Expenditure

Rationalizing government spending, especially administrative and subsidy allocations, is imperative on the path of reducing government debt and eventually achieving a balanced budget. As previously discussed, narrow operating surpluses at around 5% have persisted in the past decade. Out of the OPEX budgeted for 2019, civil servant salaries once again made up the largest portion of total expenditure (26%), whereas retirement charges accounted for another 8.4%. Downsizing and potentially retiring government branches and programs with overlapping functions will lead to substantial savings in personnel expenses, which could then be channeled toward either retiring part of the debt or paying for social welfare programs. As an example of overlapping governmental programs that could be consolidated, under the New Economic Policy in the 1970s, the government created a series of agencies to spur regional economic development. Then, in early 2000, a new set of five regional agencies was established with a similar mandate: to attract investment and address the uneven development across the country. Although there is evidence that both sets of agencies created economic opportunities for the respective regions, their functions are not distinct enough to justify the two separate systems. Consequently, those agencies presumably can be consolidated into one more structurally efficient system without the federal government incurring twice the administrative expenses (Murniati).

A review of current subsidy mechanisms also is essential to ensure their effectiveness. For instance, research has shown that convoluted agricultural subsidy schemes in Malaysia's paddy and rice sector adversely impacted productivity while creating a heavier fiscal burden. Specifically, subsidized fertilizers, especially chemical ones, have led to deteriorating land and soil productivity. Moreover, under the current framework, subsidized agricultural inputs often are misplaced into the hands of unproductive farmers with few essential resources (e.g., land and labor) (Kari). Moving ahead, the government should work with private research institutions to weigh the costs and benefits of its current subsidy programs in an effort to optimize spending. The PH government approached the 2019 budget with zero-based budgeting, which entails rationalization of every expense item rather than simply modifying last year's budget, a first step in the right direction.

Exploring New and Sustainable Revenue Sources

Government revenue in Malaysia has suffered a steep and prolonged decline since 2012. As mentioned previously, general government revenue as a percentage of GDP saw a 30% reduction between 2012 and 2019, when the emerging market and middle-income countries in Asia recorded a 4% increase on average (World Bank, 2018b). Despite the strain in revenue, the PH government introduced several initiatives to boost the private sector and to encourage innovation, in addition to fulfilling promises from the PH manifesto, such as reducing road tolls and subsidizing households earning less than RM4,000 per month. The government did announce several new tax initiatives, including increasing casino duties to 35%, introducing levies on sugary drinks, and hiking tax rates on real estate gains, all in an attempt to broaden government revenue sources and scale down the reliance on oil-based revenues (Ministry of Finance, 2018a). However, these new tax measures are not sufficient in scope to cover the RM21 billion shortfall of lost GST revenue stream and to allow the PH administration to fulfill their promises at the same time. As a result, the government is turning to its wholly state-owned oil giant, Petronas, for a cash injection. With a special dividend of RM30 billion in addition to a RM24 billion regular dividend to be paid to the government in 2019, Petronas will be funding 17.2% of government expenditure in 2019 ("Malaysia's Oil…").

Even with the cash injection from Petronas, Malaysia's fiscal revenue in 2019 is projected to be only 18% of GDP, compared to 27.5% for emerging markets and developing economies (World Bank, 2018b). Although introducing a new tax is likely an unpopular move from a political perspective, the low fiscal revenue and the reliance on the oil and gas sector need to be addressed as major constraints of future economic development in Malaysia. Generically speaking, there are two directions a government can go in establishing a new tax regime that also creates social benefits: "taxing the rich" and "taxing the bad." For Malaysia, "taxing the rich" would manifest as either the introduction of a capital gains tax on equity investments or an inheritance tax, each entirely absent from the tax code as of the writing of this article. Inheritance tax is bound to receive significant backlash, because it is conceptually un-Islamic (i.e., the government would effectively become an heir to its citizens' assets) (Salman). Introducing a capital gains tax is conducive to facilitating the distribution of wealth amongst income classes, although it would conceivably affect foreign investments to Malaysia in an undesirable way. Alternatively, while Malaysia has some of the typical sin taxes in place, such as taxes on sugary drinks, gambling, alcohol, and cigarettes, a carbon tax presents another opportunity. Taxing carbon emissions would be beneficial to both environmental sustainability and the development of Malaysia's alternate energy sector (see article by Gu in this volume), although it would hurt the interests of the country's wealthiest and most powerful individuals and organizations, the most notable of which is Petronas. Developing a new revenue source will unavoidably damage public enthusiasm for the PH administration, but to maintain a healthy fiscal stance despite the cyclical swings in global commodity prices, post-GST Malaysia needs to establish structured, sustainable revenue measures on its way to fiscal consolidation.

Reshaping Public Finance

For the PH government to realize its promise of CAT governance, systemic dysfunctions deeply rooted in the public finance sector need to be corrected. For instance, the government budgeted 12% of its total expenditure in 2018 and 9.2% in 2019 on procurement, of which 30% can be saved if leakages and wastage caused by factors ranging from inefficiency and human error to nepotism, cronyism, and corruption (e.g., regarding the process of granting government guarantees) are cut (Amarthalingam). If transparency and accountability are better instilled in the government procurement process, taxpayers would be more likely to comply with collections knowing that their contributions will be put to good use, such as for structural improvements in the education, social, or economic sectors, rather than ending up in corrupt officials' pockets. Research from the International Monetary Fund concluded that compared to countries perceived as "relatively highly corrupt," countries that are "relatively less corrupt" have on average a tax-to-GDP ratio that is 12 percentage points higher (Baum et al.). In the long run, faith in government conduct will raise tax revenues and reduce enforcement costs. Finance Minister Lim stated that the government intended to draft a Government Procurement Act in 2019, although he has not committed to a date for the introduction of the act (Ministry of Finance, 2018a). In addition to addressing institutional failure and misconduct in public finance, enhancing governmental financial reporting and disclosure are prerequisites to CAT governance. Malaysia plans to convert government accounting to be accrual based in 2021 (Ministry of Finance, 2018a), which is more reflective of the economic events underlying transactions than the cash-based accounting that is currently employed. If the government were able to fine-tune its accounting policy to be in line with global standards, comparability with other nations would be enhanced, a plus for gaining better access to foreign capital markets and attracting foreign investments.

All in all, to fulfill their political narrative of resolving legacy issues left behind by the BN administration and to liberate Malaysia from being a "global kleptocracy at its worst" (United States Department of Justice), current leaders of Malaysia will have to assiduously design and execute institutional reforms in public finance with patience and commitment.

Conclusion

As of June 2018, total debt and liabilities of the government of Malaysia stood at RM1.07 trillion, or 74.5% of the GDP, down from 80.3% of GDP at the end of 2017. Although the new PH administration made headway in debt consolidation in the two months after coming into power, fiscal constraints remain a key challenge for Malaysia. The accumulation of Malaysia's debt obligations accentuated many institutional issues the PH administration inherited from its predecessor and will hinder its ability to carry out much needed reforms in public finance and beyond. Policies enacted by PH to fulfill campaign promises, in particular the abolition of the GST and subsidization of fuel, further complicated the fiscal challenges. As of the writing of this article, PH and Finance Minister Lim have made promising progress in both disclosing and addressing the issues brought forth by the government debt with various strategies, including debt issuance, monetizing assets, and reducing developmental expenditures. I especially applaud PH's commitment to CAT governance, as it strengthens public trust and business confidence.

However, several fiscal challenges, such as elevated expenditures on civil servants, lack of structured revenue sources, and leakages in government procurement processes, are likely to persist in the near term. Some of the institutional challenges, notably related to corruption in Malaysia's political culture, transcend the boundaries of government debt and public finance and will take much time and commitment to overcome. The silver lining is that foreign investors' reactions to the government's pledge of good governance in 2018 have been overwhelmingly positive. Rating agencies have maintained a stable outlook on government debt instruments despite the turmoil in politics (Shah and Diron). I believe Malaysia's current leaders, in addition to taking timely actions to be more fiscally responsible, have succeeded in educating their citizens to be more cognizant of the constraints and risks brought forth by government debt. Whether the PH administration will be able to strike a balance between maintaining fiscal sustainability and carrying out highly anticipated, much needed reforms for its people will depend largely on its ability to manage public expectations.

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