

ABSTRACT

The objective of this paper is to investigate the sustainability of Malaysia's fiscal policy. We conduct the analysis in two major segments. The first segment looks at the longer-term risk of fiscal sustainability and adopted the Present Value Budget Constraint approach in conducting the empirical test. The second segment looks at the medium term risk through a set of fiscal sustainability indicators. The purpose of this study is to assess whether the past fiscal policy in Malaysia is sustainable in the long run and whether there is a medium term risk that investors may take an unfavourable view of the country's fiscal position. We conclude that Malaysia's fiscal policy is not sustainable in the long run but the medium term risk of corrective adjustment is not imminent. It is also determined that the Malaysia's Government must keep its overall fiscal deficit at 1.6% and primary deficit at 0.3% respectively in order to stabilize the debt-to-GDP ratio.