NEW STRAITS TIMES

'Raising balance not a tough task'

By S. Joan Santani - September 12, 2023 @ 8:21am

Malaysia will not find it too difficult to raise the remaining RM279 billion to fund the second phase of 12th Malaysia Plan (12MP), its five-year economic plan that kick started in 2021.NSTP/DANIAL SAAD

KUALA LUMPUR: Malaysia will not find it too difficult to raise the remaining RM279 billion to fund the second phase of 12th Malaysia Plan (12MP), its five-year economic plan that kick started in 2021.

The government can raise the amount through its robust bond market, besides improving its tax base and collection, and savings from subsidy rationalisation, industry observers said.

The 12MP budget had been raised by RM15 billion to RM415 billion from RM400 billion originally, Prime Minister Datuk Seri Anwar Ibrahim said when tabling the mid-term review of the 12MP in Parliament yesterday.

In the first two years, the government spent a total of RM135.9 billion including RM71.6 billion in 2022.

The government expects to accelerate the 12MP implementation by spending at least RM90 billion annually from 2023 till 2025.

"The expenditures will unlikely be a problem should the plan succeed in increasing economic activity and income levels as it would aid in increasing government revenues," independent analyst Julian Suresh Sundaram said.

Targeting more foreign direct investment and making Malaysia the hub for green energy will help to develop new industries and more cross border transactions to aid with further economic growth and raise household income levels.

Following the mid-term review, the focus on fiscal reforms can boost government revenues, Sundaram said, adding that projects that are not viable or delayed in implementation will be cancelled to save more money.

In addition, the review also called for a more transparent tendering process which has shown to save on unnecessary expenditures.

The bond market remains a very viable route to raise finances given Malaysia's deep markets and stable yields.

"The local bond market is very deep with a wide range of participants along with natural demand from asset managers and pension funds," Sundaram said.

Any indication of over expenditure or expectations of budget deficit rising further or remaining at the current high levels will see yields moving higher, making it more difficult for the government to spend.

Bond yields, however, have remained around their long-term average, indicating that the markets are confident of the government's finances.

"The budget deficit, after being steady around 2.5 per cent from 2014 to 2019, jumped to near 5.0 per cent in 2020 due to the Covid-19 pandemic," Sundaram said.

Putra Business School economic analyst Associate Prof Dr Ahmed Razman Abdul Latiff said the government will be able to raise the extra allocation of RM15 billion through the savings obtained when changing the current system of subsidies to targeted subsidies.

The current high price of oil also allows the government to possibly get a higher dividend from Petronas, in addition to the introduction of a new tax in 2024, which is a capital gain tax.

"Efforts to eradicate corruption, leakages and wastage will also be able to reduce other expenses, at the same time allowing more allocations to be used under 12MP. Since there will be potential higher revenue from oil and new tax, government will be able to maintain lower fiscal deficit even when increasing the allocation for 12MP by RM15 billion," Ahmed Razman said.

Overall, observers found the updated 12MP featured a big shift towards focusing on people rather than industries.

The plan targets the development of human capital and fostering an economy that will contribute towards increasing workforce skills targeting high tech industries, improving the start-up ecosystem, improving education in both cities and rural areas, supporting vocational education and limiting the foreign labor force to 15 per cent of the population, they said.

Nusantara Academy for Strategic Research senior fellow Dr Azmi Hassan said the prime minister was confident that domestic, private and foreign investment will come in if Asean-China free trade and Regional Comprehensive Economic Partnership are added in.

"Malaysia can be an investment hub where the flow of FDI and also DDI will be achievable and we can be attractive because we are concentrating on the economy right which is innovation, high technology and renewable energy," he said.