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History of Malaysian budget

By Azanis Shahila Aman, Asila Jalil - September 14, 2024 @ 8:01am

The national annual budget, one of the major news events every year, includes the government's estimates of revenue and spending and may outline new policy initiatives. NSTP/MOHD FADLI HAMZAH

KUALA LUMPUR: The national annual budget, one of the major news events every year, includes the government's estimates of revenue and spending and may outline new policy initiatives.

Revenue estimates outlined in the budget are raised through the taxation system, with government spending representing a sizable chunk of the overall economy.

Besides presenting the government's expected revenues and expenditures, the federal budget also usually serves as a political statement of the government's intentions and priorities.

Presentation of the Budget in Malaysia

Previously, the national budget had been presented by Datuk Seri Anwar Ibrahim, Tengku Datuk Seri Zafrul Abdul Aziz, Lim Guan Eng, Datuk Seri Najib Razak, Tun

Abdullah Ahmad Badawi, Tun Dr Mahathir Mohamad, Tun Daim Zainuddin, Tengku Razaleigh Hamzah and Tun Tan Swee Sin.

The 1960 Budget - one of the earliest available on record - offers some interesting insights.

Tabled by Tun Tan Siew Sin, it was his first budget as finance minister. He would hold the post for 15 years until 1974. He was succeeded by Tun Hussein Onn.

For 1960, the government budgeted RM888 million for ordinary expenditure, and RM874 million revenue, resulting in a deficit of RM14 million.

In 2023, Anwar tabled the largest federal budget to date, totalling RM386.14 billion as part of efforts to sustain growth and raise social protection against economic headwinds.

Since independence, all the presented budgets have been deficit budgets, except during the period between 1993 and 1997, which was considered the golden era of Malaysia's economy, with an average annual growth rate of 8.75 per cent and full employment.

As a country still in the process of strengthening its domestic market, Malaysia's economy is strongly influenced by global economic trends, especially in trading partner countries that shape the demand for Malaysian exports of goods.

Tracking Malaysia's Development Expenditure in Federal Budgets

Development expenditure (DE) dropped from 2009 until 2018. The share that DE took of the total budget had fallen from 27.8 per cent in 2010 to a paltry 17 per cent in 2018 Budget.

However, starting from 2021 (Covid-19 period), DE had risen 38 per cent higher than preceding year 2020 at RM50 billion, as projects were deferred during the Movement Control Order period.

According to the Ministry of Finance's (MoF) Economic Outlook 2021 report, DE at that time will go to programmes and projects with high-multiplier impact to promote economic growth and support the livelihood of the rakyat.

2025 Budget Focus: Investment and Job Creation

The upcoming 2025 Budget, scheduled to be tabled in Parliament on Oct 18, may include notable changes in government spending.

IDEAS Malaysia economist and assistant research manager Doris Liew said a significant shift could be a reduction in subsidy allocations, particularly following the removal of the diesel subsidy.

The government is also expected to underscore three key areas in 2025 Budget. One of it would be increased investment in high growth, high value manufacturing sectors to drive economic expansion and job creation.

"Second, enhanced funding for technical and vocational education and training (TVET) programmes to equip the workforce with the skills needed for the future economy. Third, greater emphasis on public-private partnership in sectors such as healthcare, transportation, and the environment to leverage private sector expertise and resources," she told Business Times.

With these targeted areas, Liew saw the Economy Ministry and Human Resources Ministry may receive bigger allocations to meet the government's aspirations.

Universiti Putra Malaysia Social and Development Sciences department head Associate Prof Nik Ahmad Sufian Burhan said as the government focuses on economic reform and addressing global economic challenges, 2025 Budget may see increased investment in sustainable development, as well as an emphasis on digital transformation and green energy, all of which are aligned with global economic trends.

"The government is likely to continue combining growth objectives with fiscal prudence, particularly in light of the constraints posed by a global economic slowdown."

Is Bigger Always Better?

The most highlighted topic with regards to the federal budget is its size. More allocations is expected to translate into better economic growth.

The 2024 Budget, the second budget under the Madani government, was the largest allocation in the country's history with RM393.8 billion.

Prior to that, the revised 2023 Budget saw an allocation of RM388.1 billion while the first tabling of 2023 Budget under the previous government stood at RM373.3 billion.

Liew said the size of the budget itself is not inherently good or bad as the more urgent issues lie in how the expenditures are funded.

"Persistent fiscal deficits, driven by insufficient revenue to cover costs, have led to a government debt that reached 62 per cent in 2023.

"This year, 16.4 per cent of government expenditure is projected to be allocated to debt servicing, up from 14.1 per cent in 2022. A large budget without a corresponding plan to increase revenue raises concerns on fiscal sustainability," she said.

Meanwhile, Nik Ahmad Sufian said Malaysia's growing budget indicates the government's desire to address economic and social difficulties, but also raises questions about sustainability and debt management.

"Malaysia's 2024 Budget size shows its desire to recover from the economic effects of global challenges, but it also demands careful oversight to prevent waste and ensure that spending results in real economic benefits.

"As a result, Malaysia's huge budget in 2024, while intended to solve current needs of the economy, must be closely monitored to avoid long-term financial issues," he said.

Debt Consolidation Is Crucial

Nik Ahmad Sufian said the government has attempted to reduce its deficit, which is projected to decrease to 4.3 per cent of GDP by 2024, down from 5.0 per cent in 2023.

While this is a positive trend, the high amount of government debt necessitates cautious management to avoid long-term financial issues.

"To preserve long-term fiscal health, ongoing attention is required to manage and reduce the deficit over time, as prolonged deficits may constrain future government expenditure and necessitates greater taxes or spending cuts," he said.

While the government debt reached 62 per cent in 2023, Liew noted a significant portion or 60.4 per cent is domestic debt, with only 1.6 per cent comprising offshore borrowing.

This domestic-centric debt structure provides Malaysia greater control over monetary and fiscal policies. It also reduces external influences like interest rate hikes or capital outflows.

"It mitigates sovereign creditor risk and limits foreign intervention in domestic economic affairs. Nevertheless, debt consolidation remains crucial for efficient resource allocation. Reducing debt burdens can free up funds for other developmental priorities," Liew added.