

Look beyond numbers to understand the budget

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Civil servant, Sarah Anniesya holds the Federal Expenditure Estimates book after the presentation of the 2025 Budget by the Prime Minister and Minister of Finance, Datuk Seri Anwar Ibrahim in the Dewan Rakyat. - NSTP/ASHRAF HAMZAH

THE annual presentation of the government budget is a blueprint for how the government plans to allocate resources to meet its goals and drive progress.

But while many people discuss the budget, few truly grasp its implications.

It's not merely a financial statement; it's the engine that powers the government's ability to achieve its goals.

At the core of any government's operations is the management of financial resources.

The budget, in its simplest form, outlines where these resources come from and how they are spent.

Whether it's paying for essential services, funding infrastructure projects or servicing debt, the budget is the foundation of how a government operates.

Two areas dominate any government budget: expenditures and revenue.

On the expenditure side, the government is responsible for running the country's operations, providing subsidies and welfare programmes, paying off loans and investing in growth projects like infrastructure.

On the revenue side, taxes are the primary source of income, but governments also rely on dividends from state-owned enterprises, borrowings, asset sales, and occasionally dipping into reserves.

It's essential to recognise that public financial management is different from managing a corporation or individual finances.

Unlike a business, the government's primary role is not to generate profits but to stimulate the economy, ensure public welfare and manage the broader economic ecosystem.

Corporate financial goals centre on profitability and growth, while individuals aim to save and invest in future security.

Governments, on the other hand, must focus on driving gross domestic product growth through investment and reinvestment in the economy.

Taxes collected are reinjected into public services and development, fuelling further growth.

Private companies thrive on efficiency, continually pushing forward or risking falling behind.

The government, however, plays a different role.

It doesn't need to turn a profit like a business: its success is measured by how well it manages public funds to foster investment, create jobs and ensure the wellbeing of citizens.

The government must also avoid overtaxing, which can reduce business profitability and slow economic growth.

A government's budget is also intertwined with borrowing and debt management.

Governments borrow to finance development projects when tax revenue alone isn't enough, but unlike companies, they don't balance their debts against assets.

Instead, they assess debt in terms of repayment capacity.

In Malaysia, government debt is mostly domestic, and its ratio to GDP serves as a key measure of fiscal health.

Although borrowing can raise concerns, it's important to acknowledge that Malaysia has leveraged debt to build assets and infrastructure that outstrip its liabilities — a success often overshadowed by political rhetoric.

Fiscal policy is another crucial aspect of the budget. Beyond debt and revenue management, the government must juggle trade, imports, exports and economic stability.

The long-term aim is sustainable growth, ensuring not only economic vitality but also the welfare of the population.

However, political interference often undermines sound economic policy, leading to short-sighted decisions that prioritise immediate political gain over long-term national prosperity.

Citizens need to remain vigilant to ensure that economic policy is driven by national interest, not political agendas.

In budget planning, governments typically operate in one of three scenarios.

In a surplus budget, the government collects more revenue than it spends, allowing savings. While ideal in theory, it's rare in practice.

In a balanced budget, revenues match expenditures, a situation more common in developed economies. Most commonly, especially in countries like Malaysia, the government runs a deficit budget, borrowing to finance expenditures that outpace revenues.

This approach has been in place since independence, allowing Malaysia to accelerate development through investments in infrastructure and public services.

Ultimately, understanding the government budget requires seeing beyond the numbers.

The 2025 Budget is marked by ambitious reforms and a record allocation of RM421 billion, aimed at addressing economic challenges and ensuring sustainable growth.

The government projects GDP growth of 4.5 per cent to 5.5 per cent, supported by a strong economic outlook and upgraded expectations for 2024.

However, despite higher revenues, the fiscal deficit is forecasted to fall only slightly to 3.8 per cent of GDP, as operating expenditures rise due to civil servant salary hikes, retirement costs and growing debt service charges.

To boost revenue, the government is introducing new taxes, including a tax on dividend income, a global minimum tax and expanded Sales and Services Tax by mid-2025.

E-invoicing will be rolled out by July 2025, with a carbon tax expected by 2026.

Development expenditure remains steady at RM86 billion, focusing on transport, education, healthcare and regional infrastructure.

Concerns persist about the lack of bold initiatives for job creation and economic stimulation, despite targeted measures to improve agricultural productivity and connectivity.

The government plans to rationalise fuel subsidies, targeting the top 15 per cent of earners by the second half of 2025, aiming to save RM8 billion annually.

While these reforms reflect a shift to fiscal sustainability, rising debt service charges and an increasing budget deficit remain challenges.

Federal government debt is projected to reach 65 per cent of GDP in 2024, with only a slight easing expected by 2025, underscoring the long road ahead for Malaysia's economic reforms to take full effect.