SERC's COMMENTARY ON THE BUDGET 2016 RECALIBRATION

Overview

The revised Budget 2016 which was announced on 28 January 2016 was aimed to optimize the country's expenditure whilst facing slower economic growth. Besides facing macroeconomics slowdown, the recalibration of the national budget 2016 was necessary in order to lower than anticipated government revenue resulting from the slump in global crude oil prices. The earlier budget which was tabled in October 2015 was planned on the basis of crude oil at USD48, while current prices have slumped in the range of USD30s. The sliding oil prices have resulted in country's revenue being reduced by fall by RM7 to RM9 billion compared to the estimated revenue with the crude oil price at USD48 per barrel.

To ensure a more realistic sustained economic growth at between 4% to 4.5% per annum and the government's earlier commitment to maintaining fiscal deficit at 3.1%, while preserving the people's welfare, the Prime Minister announced 11 measures:

1. Reduction in EPF Contribution Rate

EPF contributions by employees to be reduced by 3% from March 2016 until December 2017. Employer's share contribution rate remains status-quo.

Technically, the reduction in contribution will increase the disposable income of individuals to cope with the high cost of living, hence, help to spur domestic demand. This is expected to increase private sector spending by RM8bil.

<u>SERC Comments:</u>

Similar reduction measure was also implemented during 2001 and 2009 to mitigate the cost of living.[1] While this measure may be necessary to pent-up the domestic demand, contributors are given the choice to maintain their contribution rate in the interest of savings for retirement. It is very likely that those from the lower income bracket would make use of this reduction to ease their daily financial burden, but this would later on impact their retirement

[1] Contribution rate was lowered to 9% from 11% in 2001 and 2003 for a duration of 1 year; and from 11% to 8% in 2009 for a period 2 years (source: KWSP).

savings, should the statutory rate of 8% be maintained post December 2017.[2] *From Table 1, the extra disposable income is less than RM100 per month for those earning RM3,000 or less.*

Table 1: Net Salary effective from March 2016

Gross Salary (RM/month)	Net Salary (with 11%)	Net Salary (with 8%)	Difference: Additional Disposal Income	Savings Forgone in EPF (excl. dividends) (Mar '16 – Dec 17)
2,000	1,765	1,825	60	1,320
2,500	2,210	2,285	75	1,650
3,000	2,647	2,737	90	1,980
3,500	3,067	3,172	105	2,310
4,000	3,437	3,557	120	2,640
4,500	3,832	3,967	135	2,970
5,000	4,222	4,372	150	3,300
5,500	4,587	4,752	165	3,630
6,000	4,952	5,132	180	3,960

Source: SERC's calculation

Our analysis shows that an employee with a monthly income of RM3,000 would have forgone a contribution and dividend savings of about RM2,030 during this effective period, should a 6% dividend is being declared. Except for those with a monthly income of RM6,000 and above, the chargeable income for income tax calculation will be slightly higher with lower EPF contribution. Depending on the tax reliefs entitled, the additional income tax payable would be fairly small, i.e. not exceeding RM100, particularly for those within the RM4,000–5000 income bracket.

While it is the government intention to boost consumer spending, the question that arises is how big the multiplier would be created by the 3% cut in EPF contribution on the overall Malaysian economy. Definitely not all the 6.65 million active EPF members will opt for the 3% cut, thus the targeted RM8 billion private spending may not likely be realized.[3]

[2] EPF recommended a savings of min RM196,000 by 55 years old to sustain until 75 years old. However, currently only 23% of its member achieve this.

[3] The estimated number of active EPF members was 6.74 million in September 2015, while total contribution by members was 57.17 billion in 2014. The RM8 billion can be derived based on an annual members' contribution of 61 billion in 2015.

2. Tax relief of up to RM2,000 to tax payers with income RM8,000 a month or lower for the year assessment of 2015

SERC Comments:

Similar special tax relief of RM 2,000 was also given for the taxation year 2013. Despite the government having to forgo the revenue from individual income tax of RM350 million, the relief will ease the burden of some 2 million taxpayers affected by the higher cost of living.

Some administrative cost savings by LHDN can be expected as some individuals from the lowest income bracket would be eased from tax payments with this relief. An individual with an income of RM3,000[4] subjected to an income tax of RM200 would be no longer eligible for tax payment with this relief for YA2015. For an individual with RM8,000 income and based on a maximum 21% tax rate[5], an individual will save up to RM420 in tax payment for YA 2015.

3. To mitigate the pressure of higher cost of living faced by the Rakyat, six additional assistance measures will be provided:

(i) To liberalize the APs for eight (8) agricultural products, including coffee beans and meats (e.g. buffalo, beef and mutton), but still subject to quality and safety requirement.

(ii) Federal Agricultural Marketing Authority (FAMA) to initiate MyFarm Outlets that sell agricultural produce (e.g. fish, poultry, meat, vegetables and fruits) at prices between 5% and 20% less than market prices. The first outlet will be opened in March 2016 and to be expanded nationwide to 10 locations this year.

(iii) The Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) to identify additional fair price shops. The target is to increase fair price shops from current 640 to 1,000 shops within this year.

(iv) MDTCC to step up their enforcement to contain non-ethical profiteering by businessmen.

(v) To incentivize the higher production of rice and to safeguard the livelihood of paddy farmers, an additional cash payment of RM50 per

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[4] Assume an unmarried individual with personal and maximum KWSP/Insurance reliefs only.

[5] Assuming the maximum tax rate for an individual earning up to RM8,000.

tonne of cleaned paddy will be given, in addition to the implementation of paddy grading system.

(v) For the hardcore poor affected by the increase in the cost of living, MyBeras programme involving the supply of 20kg of rice every month until December 2016 will be distributed to registered poor households.

SERC Comments:

In addition to the above measures, there will be no changes to the cash aid BR1M (Bantuan Rakyat 1Malaysia). Cash payments of BR1M will be paid accordingly as announced during Budget 2016 in October, i.e. RM1,050 for e-Kasih registrants earning <RM1,000; RM1,000 for households earning <RM3,000 per month; RM800 for those earning between RM3,001 – RM4,000; and RM400 for single individuals with monthly income under RM1,000.

The eight agricultural products liberalized for a limited period effective from 28 January 2016 include raw coffee beans, beef, buffalo meat, mutton, live buffalo/cow, live sheep/goat, pork and suckling pig.[6] However, the liberalization of Approved Permits (APs) for agricultural products including coffee beans, buffalo meat, beef and mutton may not be sufficient to contain the price pressures on daily household products.

Notwithstanding that import licensing for agricultural products may be necessary for biosafety, quarantine and inspection purposes, licensing controls which are intended to restrict quantity or value of imports of products (e.g. round cabbage, poultry, rice flour, milk and dairy products) or to protect local agriculture and industry should either be abolished or phased out to help bring costs down so that consumers can enjoy these products from higher number of suppliers at more competitive prices.

4. Housing

(i) For all new housing projects, the government mandated that all houses priced up to RM300,000 be limited to first-time house buyers only.

[6] Information retrieved from Ministry of Agriculture website http://www.moa.gov.my/bajet-moa-2016

(ii) As a step to boost the property market, the government via the Integrated House Ownership Expo Roadshows will offer more than 100,000 housing units under programmes like the National Housing Department (JPN), 1Malaysia People Housing Programme (PR1MA), Syarikat Perumahan Negara Berhad (SPNB), and Perumahan Penjawat Awam 1Malaysia (PPA1M).

(iii) Effective 1 March 2016, the government would offer a financing package at 4% through Bank Simpanan Nasional and Bank Rakyat for houses under the People's Housing Programme (PR1MA). This would involve a total fund of RM400 million, beginning March 1.

<u>SERC Comments:</u>

The policy to restrict should help first-time house buyers to purchase affordable houses by reducing competition from those who have already own properties. This would benefit those potential buyers seeking properties in cities like KL, Selangor, Penang and Johor. However, this policy does not address the demand-supply concern especially property units which are priced RM300,000 or less which are difficult to sell in other states, if only first-time buyers are allowed to participate. As illustrated in Table 2 below, except for KL, Selangor, and Penang, the average price of most terraced houses in Peninsular Malaysia is still below RM300,000.

Table 2: Average Terraced House Prices by State

State	Average Price	State	Average Price
Kuala Lumpur	718.755	Negeri Sembilan	196,750
Selangor	469,250	Perak	182,721
Penang	368,849	Melaka	170,827
Johor	243,509	Kelantan	165,883
Pahang	204,180	Kedah	164,234
Terengganu	217,647	Perlis	156,324

Source: Valuation and Property Services Department, extracted from The Edge, Feb 8, 2016.

ACCCIM called for the Government to commence essential infrastructure projects immediately as keep the economy going and at the same time urging the government to take measures to sustain the private-sector-led property development and construction sector that support more than 140 sub-sectors.

The revised Budget 2016 measures have not addressed the woes of the private sector developers as property end-financing are getting more stringent with the *fall in crude oil price and the high threshold for foreign property ownership are not attractive to foreigners despite weakening Ringgit.*

As such, ACCCIM recommends the Government to reduce the foreign ownership threshold, more accommodative bank financing and revive the developer interest bearing scheme (DIBS) to avert the overhang in the Malaysian property market.

5. Reskilling and up-skilling

A 30% of the Human Resource Development Fund (HRDF) will be utilized to increase the competency of workers, i.e. re-skill and upskill training, including those who are retrenched.

<u>SERC's Comments:</u>

The initiative was already announced during the Budget 2016 where 30% of the HRDF budget will be channeled for training programmes in Sabah and Sarawak. It is timely that this measure be immediately taken to strengthen the development of human capital which is essential for a knowledge-driven industrial economy. The Government must ensure that this fund is used efficiently and effectively, with training programmes being consulted and in line with private sector needs, including earning the industry-credentials.

Based on HRDF Annual Report 2014, the balance of General Reserve I fund[7] as at 31 December 2014 was RM21.75 mil, with accumulated trust fund amounting to RM75.98 mil. In view of such huge non-utilized fund, the government could also consider delaying the implementation of employment insurance, SIP (Skim Insuran Pekerja). This huge accumulated fund can be mobilized for the purpose of unemployment insurance should the economy

[7] General Reserve I fund is related to accumulated employers' levy for companies who have been deregistered due to cessation of business and forfeiture of levy for employers who do not conduct training for their workers for a period of five years. The employers ceased to be eligible to receive any financial assistance or other benefits once they have been deregistered. However, these funds will be transferred back to the Employers' Fund account if the employer is re-registered within a period of two years from the date of deregistration.

Meanwhile, as of December 2015, the accumulated levy collected under 1MalaysiaGRIP is RM86.3 million with only RM15.2 million being utilized. The unutilized balance, as at December 2015, stands at RM71.1 million. (Note: Since June 2015, 30% of the total levy payment by each of PSMB registered employers has been placed in an individual "1MalaysiaGRIP employers" account) *circumstances necessitate the need for it, without having to mandate a contribution from employers now.*

6. Increase Tax Collection

To address the shortfall in revenue, the government aimed to enhance the efficiency and increase the tax collection by:

(i) Increase compliance and auditing efforts on tax evaders;

(ii) Relaxation on the penalty on taxpayers to entice them to come forward settle their tax arrears before 31 December 2016;

(iii) For the case of tax-free islands, the selling channels of cigarettes and liquors limited to duty-free outlets licensed by the Royal Malaysian Customs Department (RMCD). This would help to reduce leakages resulted in a revenue loss of nearly RM1 billion.

(iv) Tightening of free duty treatment on imported vehicles in duty-free islands;

(v) The Government will elevate the revenue from the telecommunication spectrum through a redistribution and bidding process;

(vi) To invigorate economic activity, several strategic land areas owned by the Government will be developed through a bidding process.

SERC's Comments:

The intensification of audits, enforcement of penalties, and efficient collection of past debts can induce tax compliance and raise the collected revenue. On addressing tax evasion, the enforcement authority should shift its approach to be more service-oriented (i.e. promote awareness, providing information and advisory assistance) and moral suasion in order to increase tax compliance.

The decision to redistribute and open bidding for telecommunication spectrum could be well-embraced to promote greater competitive pricing and equitable distribution, while generating an avenue for revenue for the government. Although the details of the fees for reallocated spectrum have yet to be disclosed, the spectrum reallocation for a fee for a period of 15 years could have a negative implication on existing telecommunication players as they are expected to incur additional costs for capex. The redeployment of spectrum in

900MHz band, on the other hand, bring opportunity for smaller players such as U-Mobile.

Subsequent to the budget recalibration, MCMC announced on 1 February 2016 that Maxis and Celcom will be allocated 2x10MHz each, lower than what they are presently allotted as shown in Table 3. Digi which has only 4 MHz of the 900MHz band will be allocated 2x5 MHz, while U-Mobile will gain 2x5MHz. The spectrum fee has not been announced, but MCMC plans to issue the spectrum assignment fee by August 2016, and expects full implementation of the 900MHz and 1800MHz by 1 January 2017 and 1 July 2017 respectively.

While the government's initial announcement was open bidding, the recent announcement indicates more likely a reallocation exercise rather than an open bidding with fees amount being announced later. MCMC will address other bandwidths, i.e. 700MHz, 2300MHz and 2500MHz by end 2016. Until then, time will tell whether the optimal usage of these bandwidths will be "open bidding" or allocation basis.

Table 3: Spectrum Ownership

	900 MHz band		1800 MHz band	
	Current	New allocation	Current	New allocation
Maxis	2x16MHz	2 x 10MHz	2x25MHz	2x20MHz
Celcom	2x17MHz	2 x 10MHz	2x25MHz	2x20MHz
Digi	4 MHz	2 x 5 MHz	2x25MHz	2x20MHz
U-Mobile	-	2 x 5 MHz	-	2x15MHz

Source: Malaysian Communication and Multimedia Commission (MCMC); Bursa Malaysia

7. Foreign Workers Management

(i) The Government will streamline the management system of foreign workers, with levies being classified into two categories, excluding foreign maids.

(ii) To implement the Rehiring Programme to legalize foreign workers currently without valid work permits.

SERC's Comments:

Recruitment of foreign workers (FW) is now subject to two categories of levies: RM2,500 for manufacturing, construction and services sector, and RM1,500 for plantation and agriculture sectors. The steep hike will have a detrimental effect on business costs and expected to impact the industry tremendously due to the current economic challenges, rising cost and lower revenues.

At the same time, such hefty increase may not bode well with the government's initiative to reduce the number of illegal workers in the country. High levies will encourage employers and foreign workers to resort to the illegal channel. SMEs which are already under tremendous pressure, would find that a more gradual increase in the levy quantum over a predetermined duration more practical if the government is serious about managing the FW in the country, or sending signals to businesses that they must find ways to reduce the FW dependency.

Table 4: Impact of the Foreign Workers Levy Hike

Sector	Previous rate	New rate	Increase (%)	Number of Foreign Workers (PLKS)	Differences in Revenue from FW levy
Manufacturing	1,250	2,500	100%	760,104	950,130,000
Construction	1,250	2,500	100%	440,339	550,423,750
Services Services - resort	1,850 1,250	2,500 2,500	35% 100%	292,021	189,813,650
Plantation	590	1,500	154%	305,404	277,917,640
Agriculture	410	1,500	266%	194,603	212,117,270
Total 5-sectors*				1,992,471	2,180,402,310

* *The balance being domestic workers. Domestic workers are not affected by this announcement.*
Source: Ministry of Home Affairs

On the re-hiring/legalizing programme, this is a good act by the Government to acknowledge the reality of workforce required by the industry. While this is a move to weed out the use of illegals workers, this exercise also addresses the urgency for the Government to ascertain the number of illegal workers in the country for security purposes. Moreover, based on a conservative number of 2-3 million illegals workers to be re-hired, the government would likely to collect at least RM2.5 billion from such rehiring exercise. Having said that, the goal of implementing the reemployment programme should not be overshadowed by the collection levy, but is a necessary first step in managing the inflow of foreign *workers to support the country's economic activities without threatening the national security and safety.*

8. Practice of Prudency

The Government will be more prudent in its spending, particularly on supplies and services. The government will also continue to rationalize the provision of grants to Government Trust Funds, federal statutory bodies and GLCs; as well as to restructure entities, including companies limited by guarantee (CLBG) and statutory bodies.

BR1M and welfare assistance programmes will continue to be implemented, while maintaining the current rate of the Goods and Services Tax (GST).

SERC's Comments:

The Government did not state how it is going to cut its operational budget of RM215.2 billion allocated in October last year, but it is important for the Government to exercise prudent in its operating expenditures to achieve the desired fiscal deficit target without jeopardizing the developmental budget. Development budget has now been reduced to 19.5% when compared to 27.8% in 2010.

This is also in line with ACCCIM's recommendation that the public sector should follow the step undertaken by the private sector to conduct cost-cutting exercise, and practice prudent in the spending on the supplies and services to avoid further wastages as reported annually in the Auditor-General's Report.

The negative is that emoluments (including pension payments) which remain the largest component of the operating expenditure (about 41.8%) is not expected to shrink any further due to the government obligations of annual increment for civil servants scheduled in July, and that the Government has no plans to wean the services of any civil servants including those appointed on contractual basis.

As a long term strategy, the government should consider cutting the huge civil service, particularly those that causing inessential bureaucracy and operating expenditures. While outsourcing some of the public services may trim down the government spending, outsourcing to private companies should not come with exorbitant charges that result in higher cost of doing business.

9. Development Budget

The government is committed to focus on priority projects and programmes that are Rakyat-centric, with high multiplier effect, and less imports. Projects to be of priority include construction of affordable houses, hospitals, schools, roads and public transport as well as security. Meanwhile, non-physical projects and projects that are still under study will be rescheduled. The Government expects to reduce its cash flow commitments up to RM5 billion, without affecting the overall economy.

SERC's Comments:

The development budget will be reduced to RM45 billion from RM50 billion in 2016. No disruption of major infrastructure projects such as Mass Rapid Transit (MRT), Light Railway Transit (LRT), Pan-Borneo Highway, Vision Valley, and High Speed Rail (HSR), which can create employment and elevate domestic demand. What is required is the awarding the essential infrastructure works without undue delay to pump-priming the domestic economy, while rescheduling or delay projects that are still under study.

Table 5: Infrastructure & Major Domestic Investment Projects 2015

Projects announced in October 2015	Estimated investment (RM)
1. Transports & Logistics	900 mil
– Jalan Tun Razak Traffic Dispersal Project	
– Construct/Upgrade airports: Mukah, Kuantan, Kota Bahru	42 mil
– MRT II 52 km project (2016-2022)	28 bil
– LRT3 36 km project (2016-2020)	10 bil
– Rapid Transit Bus (BRT) & BRT Kota Kinabalu	2.5 bil
– High speed rail (HSR Singapore-KL)	Under negotiation
– Sarawak Pan-Borneo Highway (1,090 km)	16.1bil
2. Rural Area	
– Build & upgrade rural roads nationwide	1.4 bil
– Rural Electrification project	878 mil
– Upgrade roads in FELDA settlements	200 mil
3. Cities Development	
– Malaysian Vision Valley 108,000 ha project (Nilai-Port Dickson)	5 bil (2016)
– Cyber City Centre (2016-2020)	11 bil
– Rubber City, Kedah	320 mil
– Samalaju Industrial Park, Sarawak	142 mil
– Refinery and Petrochemical Integrated Development project (RAPID) Complex, Pengerang	18 bil

Source: Collated from Budget Speech, 23 Oct 2015

10. Benefits for SMEs and Start-Ups

Allocation to the development financial institutions (DFIs) and Government venture capital funds will be increased by RM6 billion to facilitate financing to SMEs and start-ups.

<u>SERC's Comments</u>

The question here is whether the challenging market environment and the additional allocation will entice the start-ups or timely to nurture the SMES. Entrepreneurs and potential entrepreneurs have taken a very conservative approach in line with the challenging times faced by many industries and large enterprises.

Conceivably, financing existing SMEs that are facing cash flow issues during this challenging period would be more of priority, while preparing SMEs to move ahead to capitalize on the opportunities of AEC, TPPA, etc. could be further strengthened via other multi-pronged strategies which include tax incentives and reliefs.

11. Reducing Income Disparity

The GLCs are urged to implement initiatives to reduce the income gap between senior management and workers, to be monitored by the Economic Planning Unit.

<u>SERC's Comments</u>

The B40 share of total household income increased marginally from 14.5% in 2009 to 14.8% in 2012, and further rose to 16.8% in 2014 although the income disparity Gini coefficients have declined from 0.441 to 0.431 and 0.401 during the same period.

Some initiatives that are being taken to help narrow the income gap include strengthening the social support mechanisms (via BR1M, income tax reliefs provisions, tax rebate, etc.) and the imposition of higher personal income tax rate of 26% and 28% from a maximum 25% previously.

Over and above, improving the income gap requires the adoption of a multi-faceted approach that includes non-income interventions that can improve individual workers performance. Workers' performance at various levels is determined by productivity, competency and their responsiveness *(attitude). GLCs can enhance or continue to support workers in improving their access to education, improving their employment-related skills, support skill training that earns industry credentials, and facilitates mobility to areas whether better learning-on-the-job or career advancement exist.*

Instituting a salary cap can keep the gap from widening and such efforts are not new in developed countries. The ratio of CEO pay to the median salary of workers are normally used as a guideline for top executives' salary. For instance, the ratio of large Japanese companies was 67 times during 2012; UK was 84 times; Germany 147; France 104 and Spain 127.

Other Strengthening Measures

1. Tourism Sector

(i) Acknowledging that the tourism industry can help boost the domestic economy, the Government will facilitate the entry of foreign tourists by expediting the implementation of e-Visa to several countries identified earlier.

(ii) Tourists from China do not require a visa to visit Malaysia or Visa Free, commencing from 1 March to 31 December 2016, subject to specific conditions for a period of stay not exceeding 15 days.

SERC's Comments

The Government should be commended for accepting ACCCIM's recommendation to allow Chinese tourist to visit Malaysia visa-free for short stay. This move will spur our domestic tourism and boost up the demand for domestic goods and the retailing sector as the Government estimated that the number of Chinese tourists will increase from 1.3 million to 8 million in the next 5 years.[8]

By promoting tourism, the benefits can also be spilled over to other auxiliary businesses such as hotels, shopping malls, food and beverages outlets, and entertainment and transportation sectors. Perhaps due consideration should be given to implementing the visa free entry for a longer duration, if not on a permanent basis, as a national strategy to boost the tourism industry and generate foreign exchange income.

[8] According to the DPM (date), the revenue from Chinese tourists is expected to reach RM22.1 billion with 8 million arrivals in the next five years

2. Education Sector

Despite the shortfall in government revenue, the Government is committed to:

(i) Sponsorship of Public Service Department (PSD)

- National Scholarship Programme for 20 top SPM students to pursue study at renowned universities globally.
- Special Engineering Programme for 200 students to Japan, Korea, Germany and France.
- Bursary Graduate Programme for 744 students to pursue undergraduate studies in public universities and private institutions of higher learning in the country; and
- ew intake of 8,000 students will be awarded scholarships to pursue undergraduate studies in the country.

(ii) National Higher Education Fund (PTPTN))

- Continue to allocate RM5 billion to PTPTN to finance the undergraduates.

(iii) Investment in Human Capital

- MyBrain15, Academic Training Scheme for Bumiputera (SLAB) and Academic Training Scheme of Public Higher Education Institutions (SLAI) programmes will be continued.
- The Government has agreed to the increase of 15,000 new students for the MyMaster programme, 5,000 for MyPhD, and 300 for SLAI from the current total of 25,000. These programmes will be given an additional allocation of RM300 million.

3. Strengthening Exports

As exports remain a critical contributor to our GDP, the Government can strengthen our exports by participation in free trade agreements (FTAs) such as the ASEAN Economic Community (AEC), Trans-Pacific Partnership Agreement (TPPA) as well as the forthcoming Regional Comprehensive Economic Partnership (RCEP).

To enhance our export presence globally,

(i) To penetrate international markets, MATRADE and SME Corp will intensify the mid-tier and Go-Export programmes.

(ii) To enhance the credit guarantee facility for trade, EXIM Bank will increase its funds for financing by RM500 million.

4. Debt Restructuring

Assistance to borrowers facing difficulties in managing their loan or debt obligations are extended via:

(i) For Individuals - The Credit Counselling and Debt Management Agency (AKPK) under BNM will be providing free services to assist borrowers with difficulties in managing their debt obligations through restructuring their existing loans.

(ii) For SMEs – A negotiation mechanism through the Small Debt Resolution Scheme (SDRC) and the Corporate Debt Restructuring Committee (CDRC) under BNM will be extended in this period.

CONCLUSION

While there are no overwhelming positives or negatives in the recalibrated budget, the above measures will ensure that the earlier forecasted GDP growth of 4-4.5% can be attained, and the fiscal deficit and national debt level is within the target of 3.1% and 55% of GDP, respectively. On monetary policy, the recent announcement by Bank Negara Malaysia (BNM) on a reduction in statutory reserve requirement (SRR) from 4% to 3.5% also ensure that there is sufficient liquidity in the financial system. While Rakyat-centric actions to address the cost of living issue and to boost domestic consumption were commended, economic measures to shield against challenging macroeconomic conditions and driving private sector performance are equally important under such circumstances. The government must also be more committed to being prudent in its operating expenditures without compromising the quality in its service delivery.

Although the Government has reiterated that the Malaysian economy is not in recession, the recalibrated budget did not touch on the long term strategy should there be a prolonged decline in oil prices and tougher external headwinds. Earlier Goldman Sachs and Morgan Stanley have cut their oil price outlook to as low as USD10 a barrel, although noted that USD30-USD35 range would be prevailing. As a conclusion, senior officials from the Ministry of Finance has not ruled out the possibility of another round of budget revision should oil prices fall below USD25 per barrel.

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