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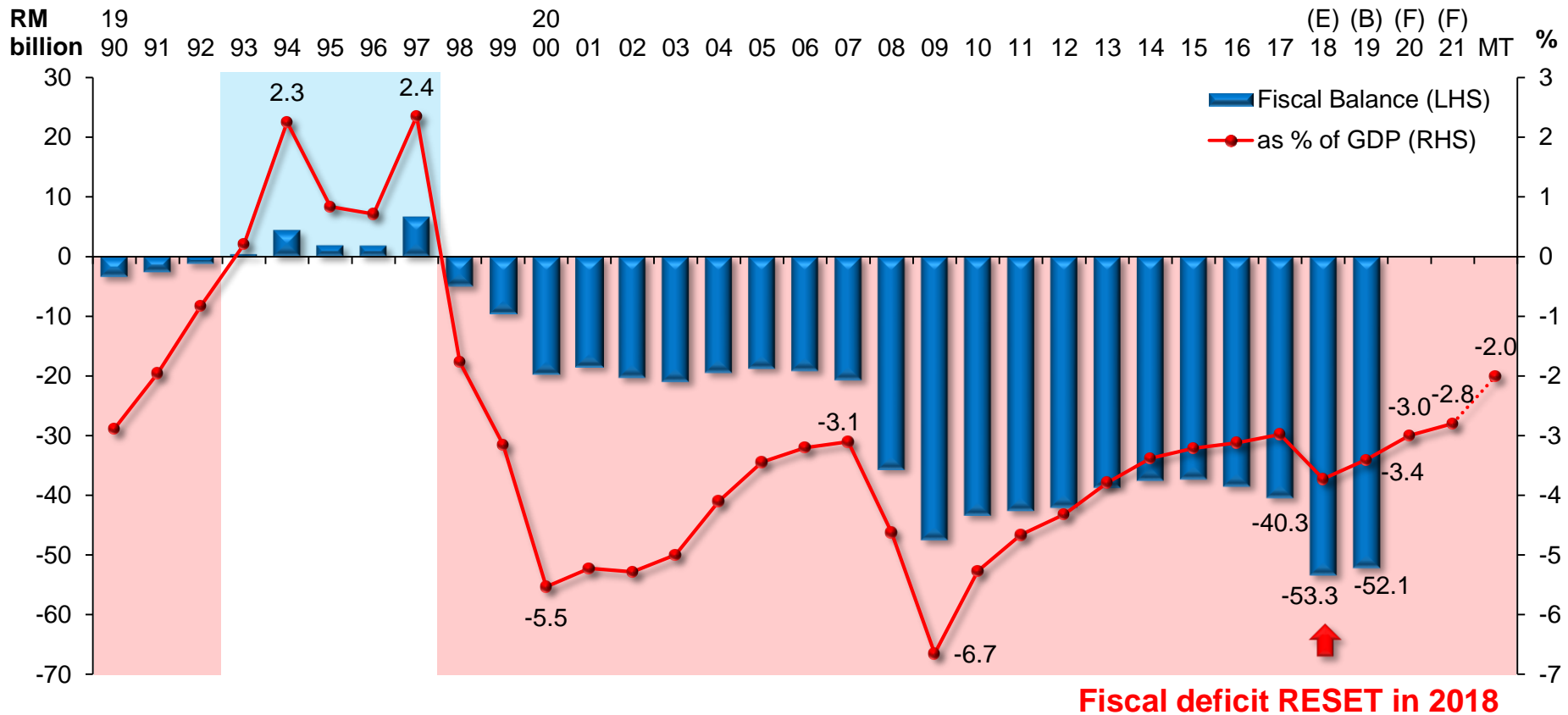
Roundtable on the Malaysian Economy

FISCAL REFORMS FOR CREDIBILITY AND GROWTH

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Executive Director, SERC
28 January 2019

An unbroken FISCAL DEFICIT since 1998

- **Eight successive years of fiscal reduction path since 2009 was reset in 2018**
- **Restoring fiscal health remains a priority**
- **Set reasonable timeline returning the budget to balance to rebuild fiscal space**



Source: BNM, MOF

Fiscal deficit RESET in 2018

Medium-Term Fiscal Framework (MTFF)

	2019-2021	
	Total (RM billion)	Share of GDP (%)
Revenue	767.9	15.7
Non-petroleum	584.0	12.0
Petroleum-related	183.9	3.7
Operating expenditure	754.9	15.5
Current balance	13.0	0.2
Gross development expenditure	164.7	3.4
Less: Loan recovery	1.9	0.1
Net development expenditure	162.8	3.3
Overall balance	-149.8	-3.1
Underlying assumptions		
<i>Real GDP growth (%)</i>	4.5-5.5	
<i>Nominal GDP growth (%)</i>	6.8-8.2	
<i>Crude oil price (USD per barrel)</i>	60-70	
<i>Oil production (barrels per day)</i>	600,000	

Note: MTFF estimate, excluding budget measures

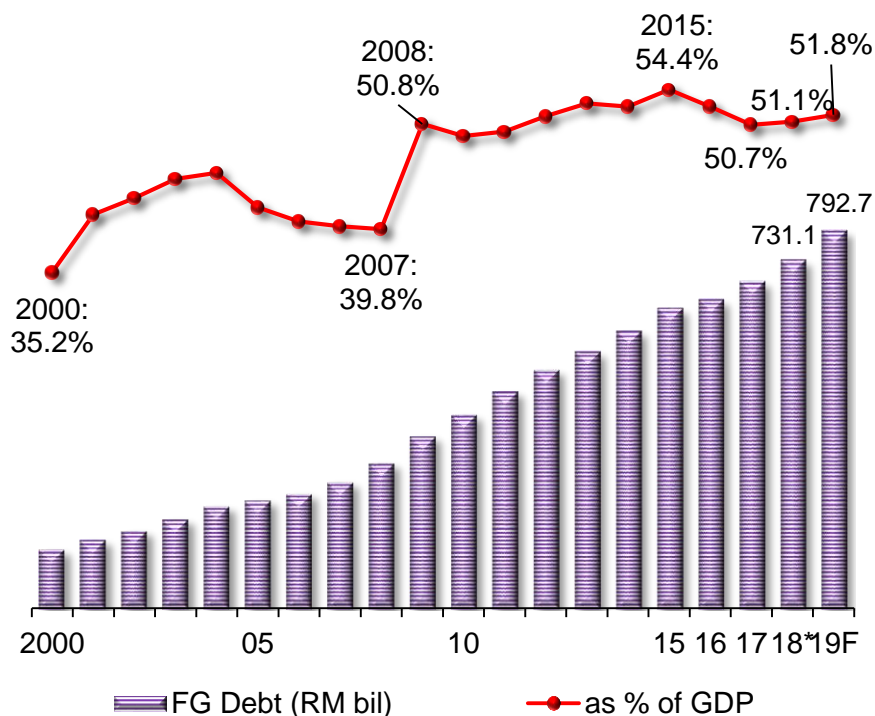
Source: MOF

PUBLIC DEBT & LIABILITIES on the radar screen

(2019F: 73.5% of GDP; 2018E: 74.6%; 2017: 80.3%)

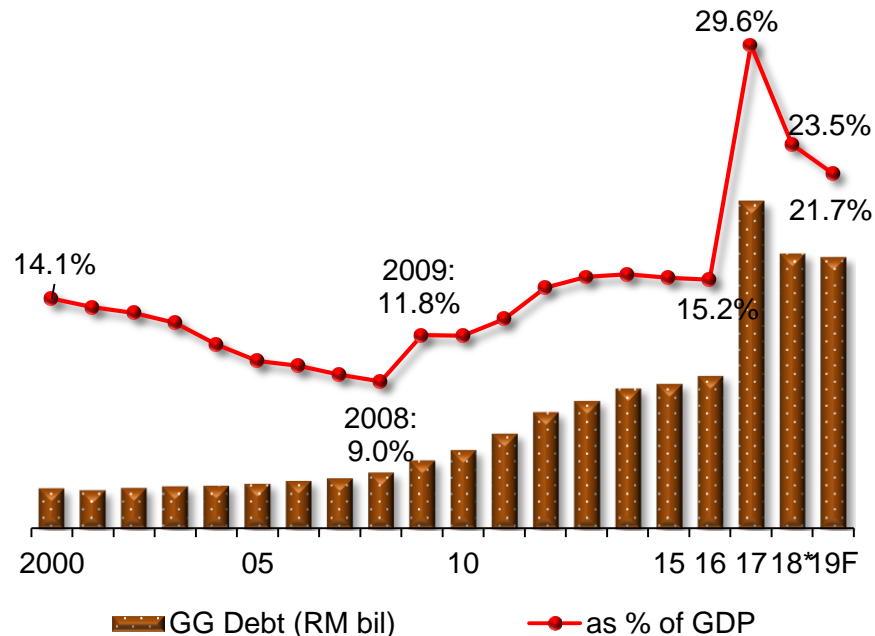
- Debt service charges % of total revenue: 9.8% in 2010; 12.6% in 2019B
- Debt service charges % of total OE: 10.3% in 2010; 12.7% in 2019B

FG debt climbed steadily though capped below the self-imposed 55% of GDP



* As of end-Sep 2018 only

Government-guaranteed** debt grew rapidly since 2009



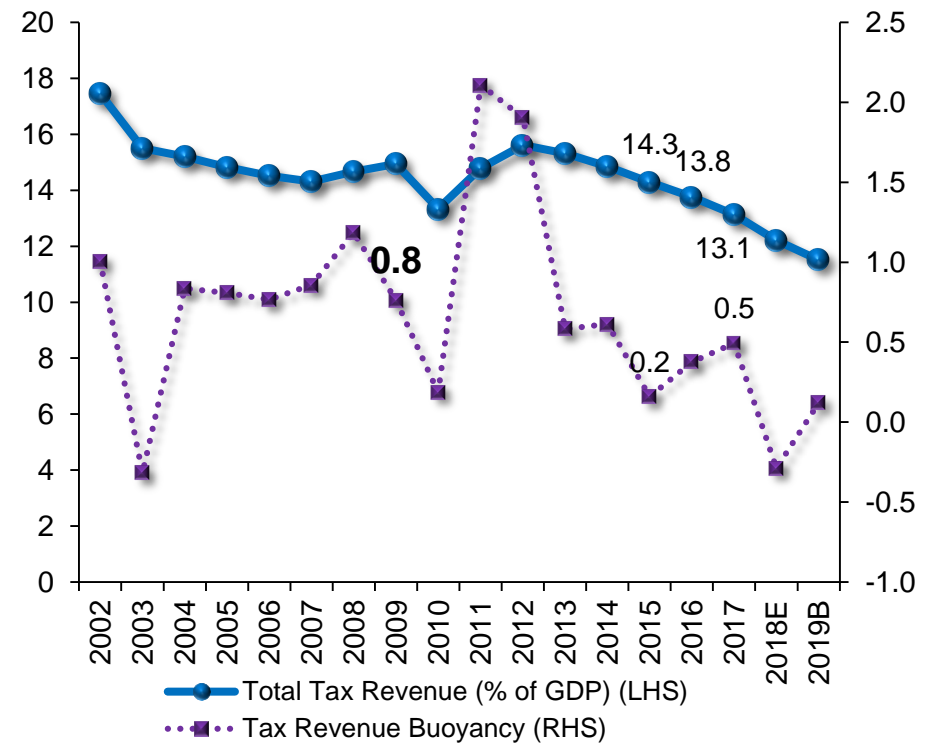
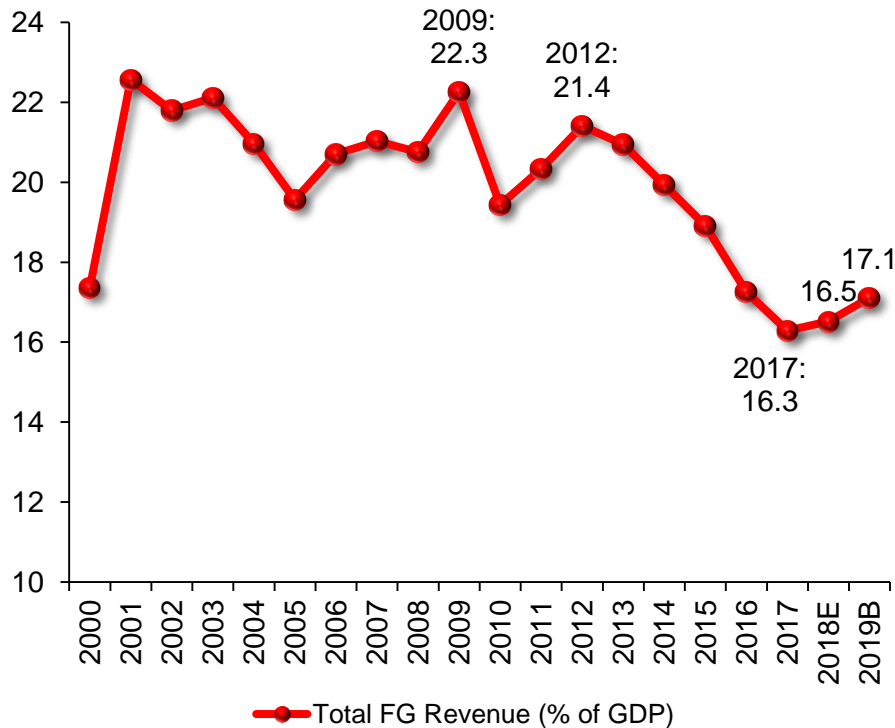
* As of end-June 2018 only

** For 2017-2019, it includes liabilities from Public Private Partnership (PPP)

Source: BNM, MOF

Declining REVENUE BUOYANCY calls for tax reforms

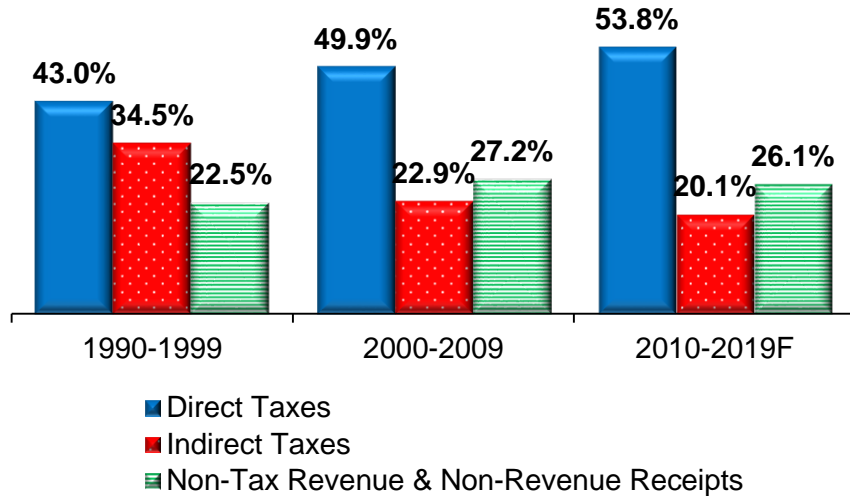
- Declining **revenue-to-GDP** trend is noticeable since 2009
- **Tax revenue buoyancy** (responsiveness of tax revenue to GDP growth) has been trending lower from 2.1 in 2011 to 0.5 in 2017



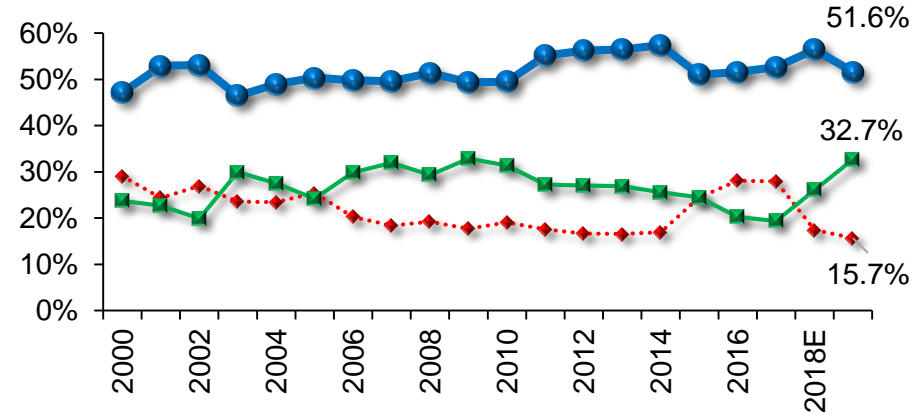
Source: BNM, MOF

TAX REVENUE accounted for about 67-80% of total revenue

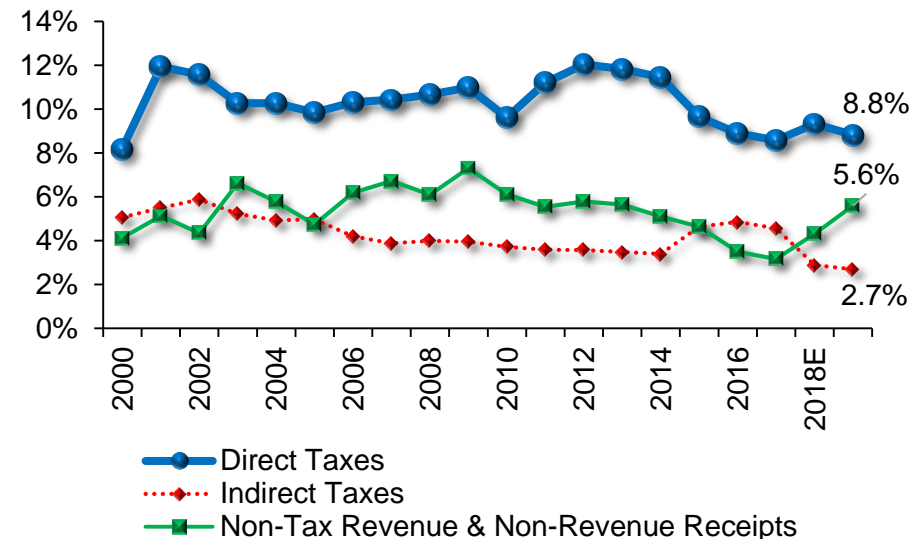
Source of Revenue as % of Total Revenue



Source of Revenue as % of Total Revenue



Source of Revenue as % of GDP



The Tax Gap

Malaysia's tax gap is about 20% vs. 10-15% in developed economies

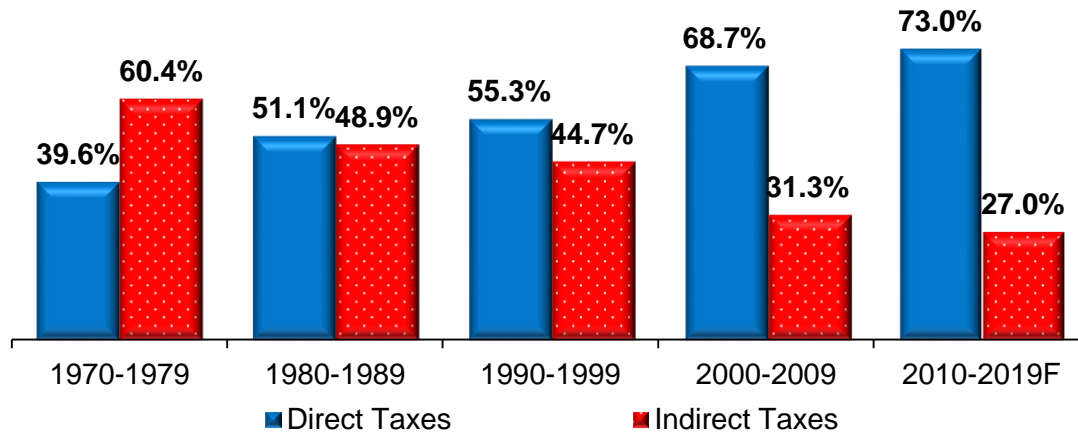
Shadow economy (2017E: 22.9% of GDP), tax evasion, tax leakages

Source: BNM, MOF

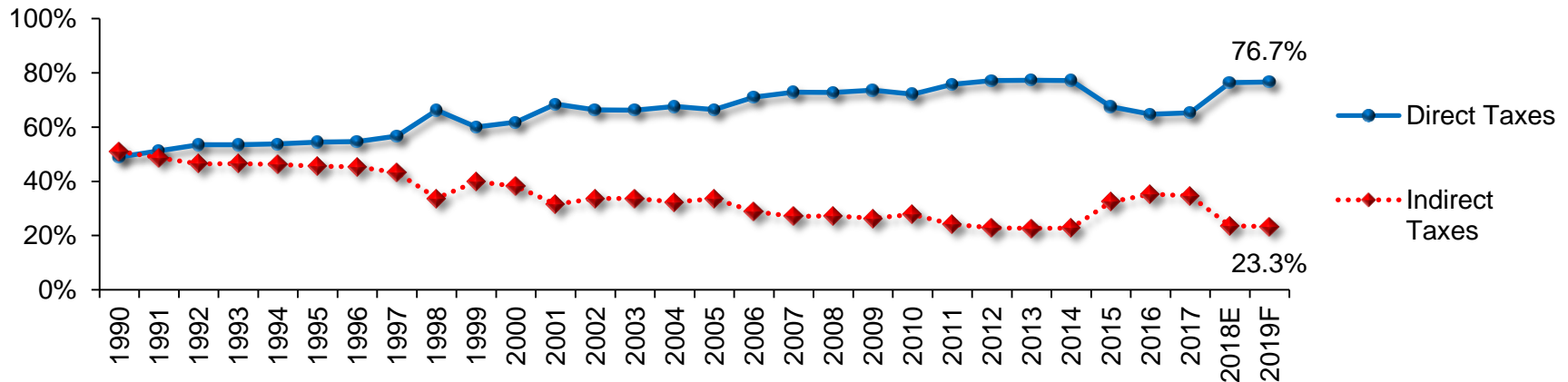
Shifting the balance from DIRECT to INDIRECT taxes

- It's clear the current trend to raise an increasing proportion of tax revenue from consumption taxes is a relatively cost-effective way to raise revenues

Source of Tax Revenue as % of Total Tax Revenue



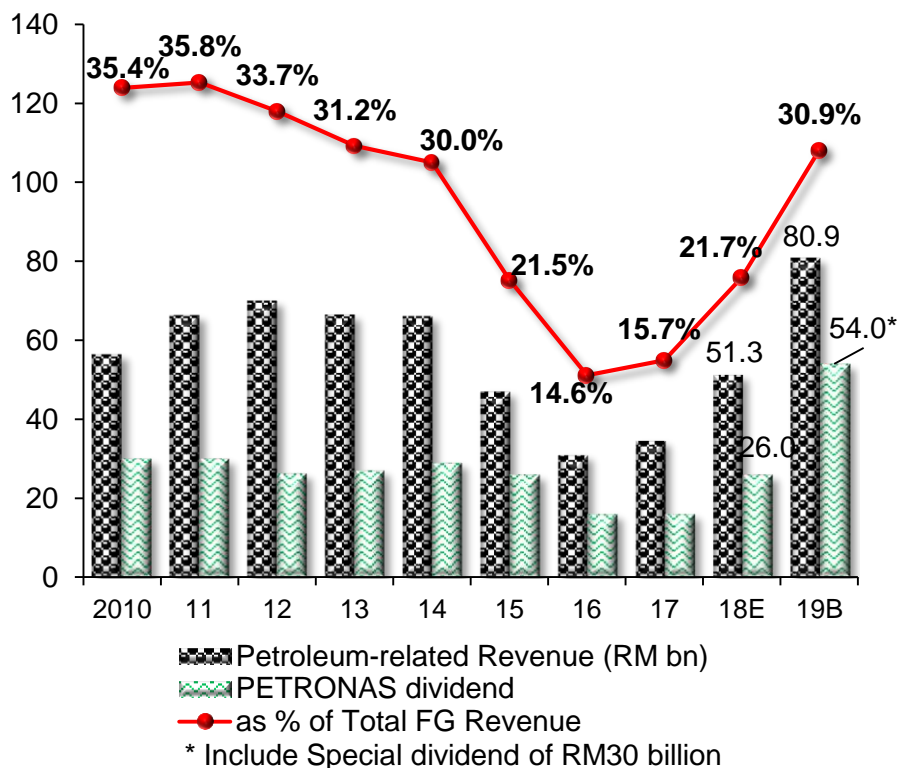
Source of Tax Revenue as % of Total Tax Revenue



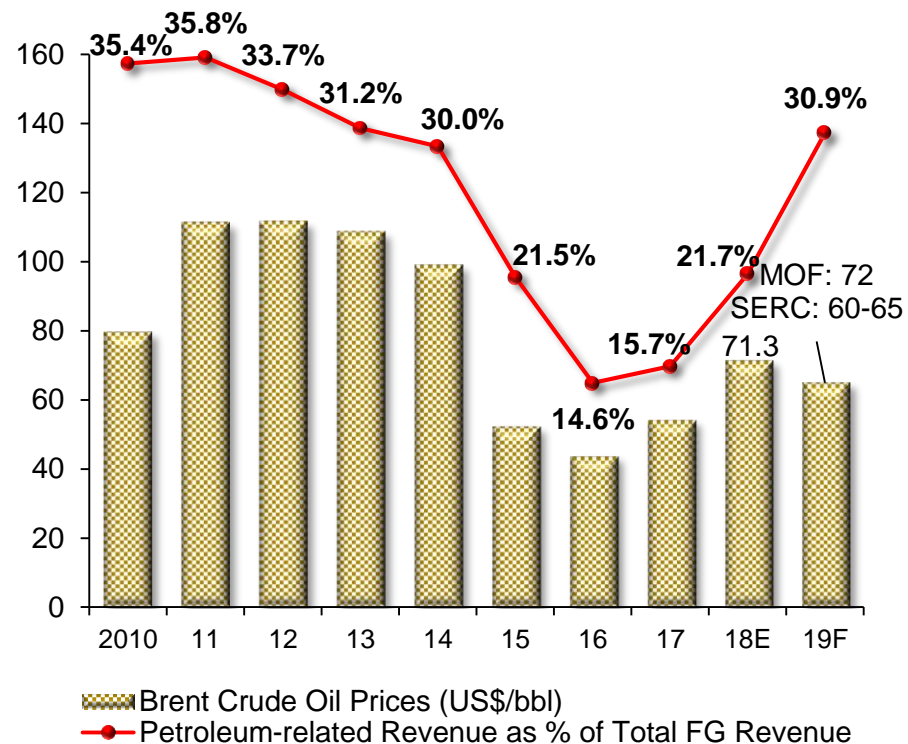
Source: BNM, MOF

Dependency on OIL-RELATED REVENUE

PETRONAS' dividend contribution



Petroleum-related revenue

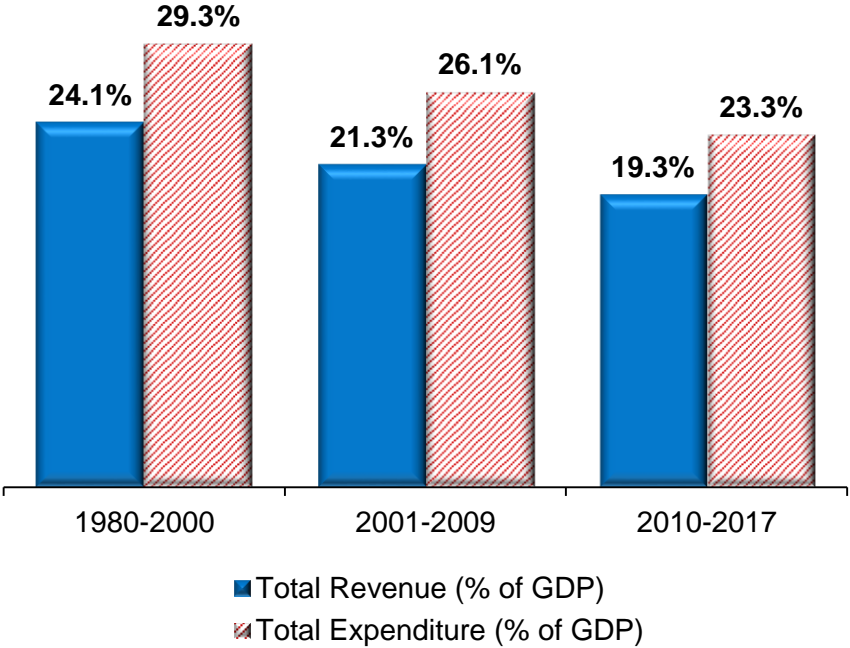
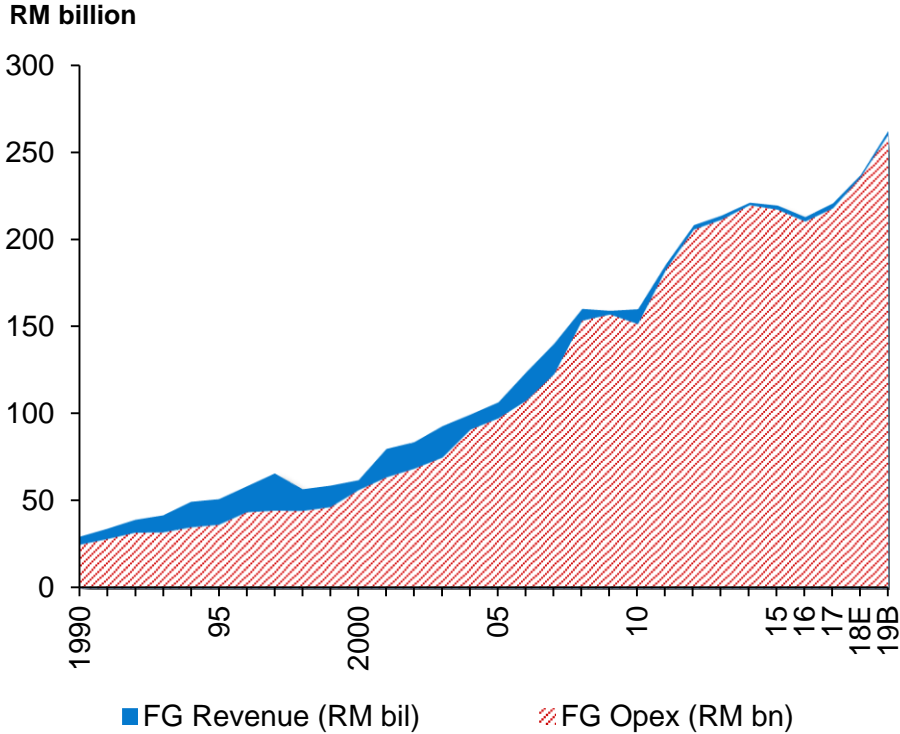


Source: MOF; EIA; SERC

OPERATING EXPENDITURE accounts for 99.6% of revenue in 2018E (2019B: 99.2%)

OPEX accounted for at least 95.0% of total revenue since 2008

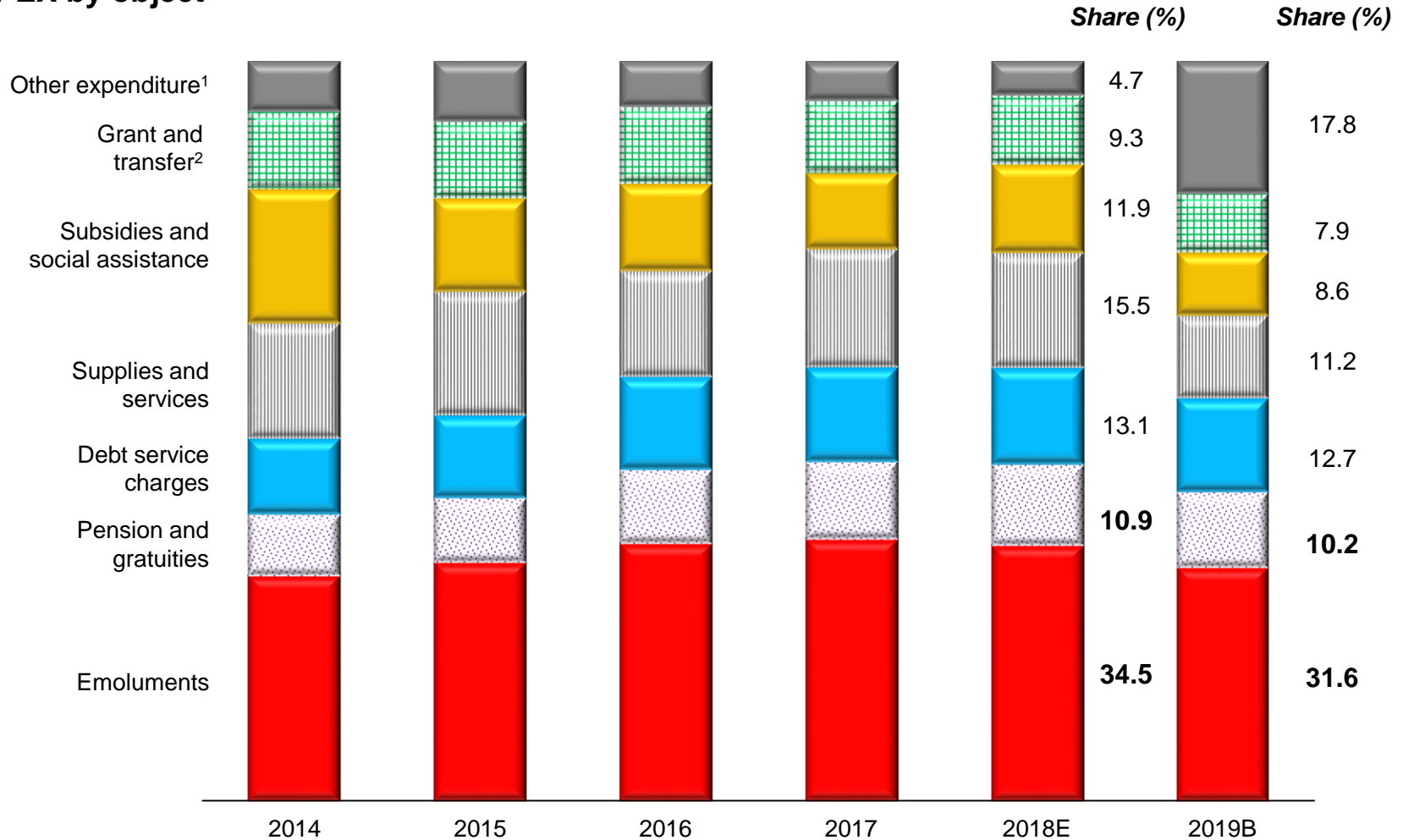
Revenue and expenditure to GDP ratio trend



Source: BNM, MOF

54.5% goes to EMOLUMENTS, PENSION & DEBT SERVICING

OPEX by object



¹ Include assets acquisition, refunds and write-offs, grants to statutory funds and etc.

² Include grants and transfers to state governments and grants to statutory bodies.

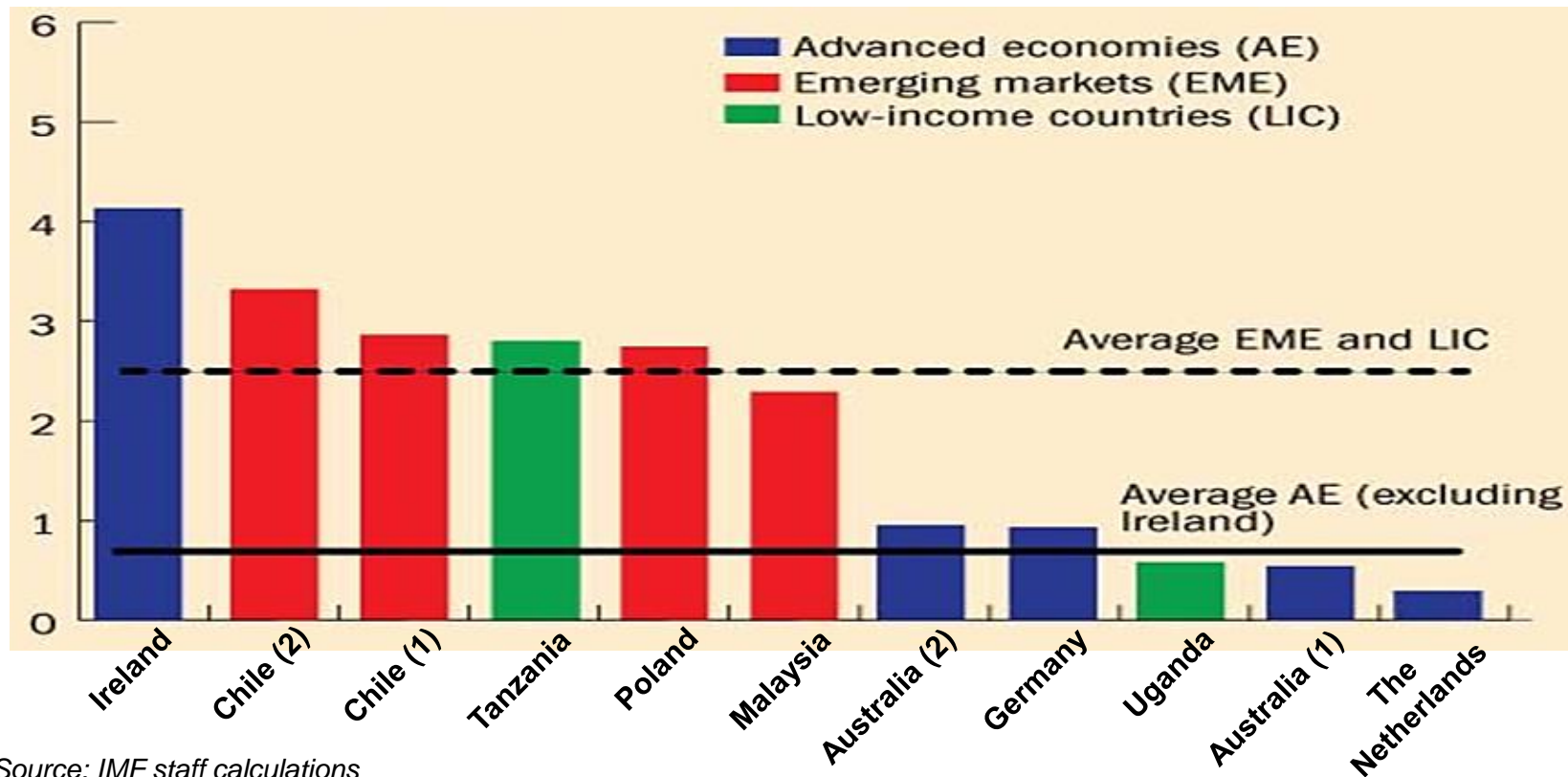
Source: MOF

FISCAL POLICY augmented by structural reforms can make a difference

Growth increases following fiscal reforms

In most countries studied, average growth was substantially higher during the decade following fiscal reforms.

(Estimated growth gain in percent, GDP per capita)



Source: IMF staff calculations

¹ 10-year averages; 5-year averages for Germany and Poland

² Chile (1) refers to the first reform episode (1974); Chile (2) to the second reform episode (1985); and Australia (2) to the second reform episode (1998)

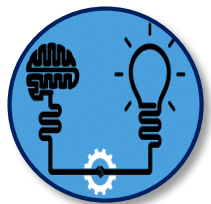
FISCAL REFORMS complement structural reforms to enhance growth dividend



GENERATE EMPLOYMENT AND REWARD PRODUCTIVITY: Promote employment and increase the contribution of labour to growth. Lower tax rate incentivises labour productivity and increases net disposable income. Social safety net and targeted assistance programs for specific groups.



INFLUENCE INVESTMENT DECISIONS. Streamline tax incentives and lower corporate income tax structure encourages investment. Taxing all capital income would dampen investment as it reduces profitability and savings for corporates and individuals.



SPUR INNOVATION. Carefully designed tax credits and deductions as well as R&D investment tax allowances can promote investment in new technologies and high value added creation industry.



INCLUSIVENESS. Fiscal policy can be used as a policy tool improving access to education, healthcare and social benefit programs.

Fiscal REVENUE enhancement

- ❑ **Sustainable** revenue base (tax less on employment and business income; more on consumption)
- ❑ Plugging **tax leakages, tax evasion; shadow economy** (2017: 22.9% of GDP (RM298 billion); **tax gap** is about 20% vs 10-15% in developed economies)
- ❑ **Tax Reform Committee. Tax reforms** (Fair, Effective and Simpler)
- ❑ **New sources** of revenue –



Environmental



Sharing economy



Digital economy

EXPENDITURE rationalisation and optimisation



Subsidy rationalisation and financial assistance based on the principles of **needs and income** (Targeted). Conditional cash transfers program.

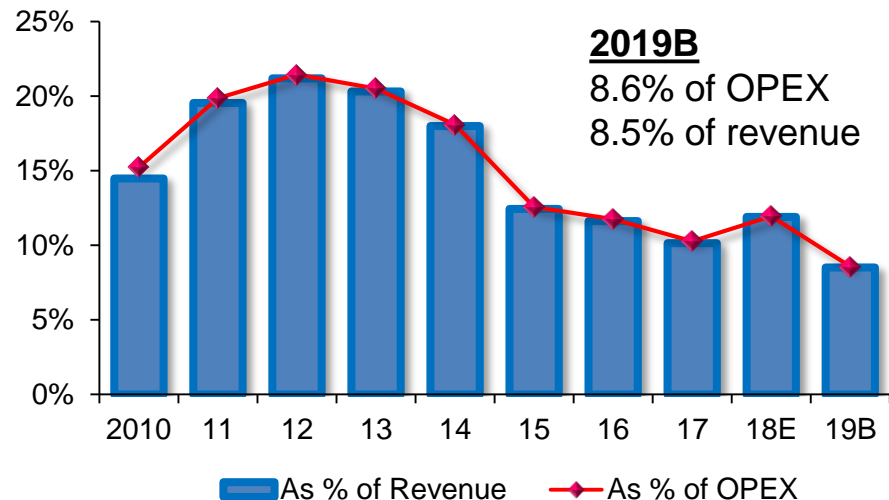


Pension reforms and right-sizing of civil services

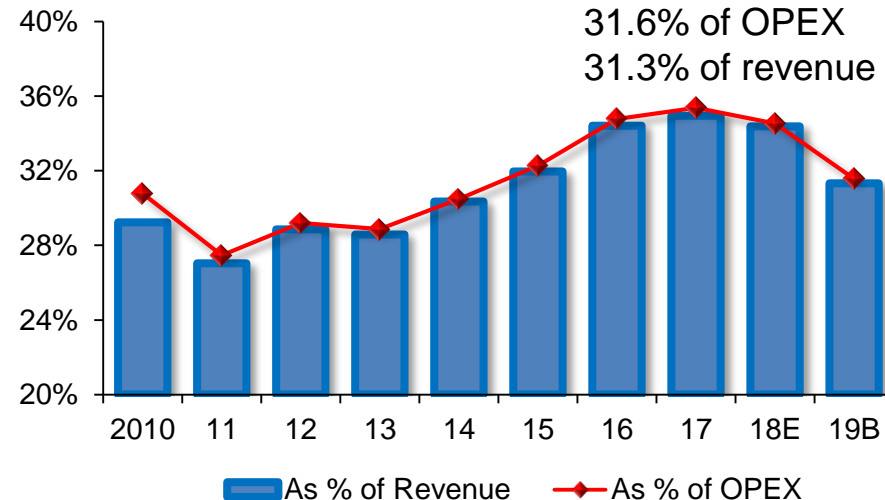


Open tender system and transparency to optimise expenditure

Subsidies and Social Assistance



Emoluments



Source: BNM

INSTITUTIONAL reforms & DEBT containment

- ❑ The principles of **Competency, Accountability and Transparency (CAT)** will be adopted across all levels of the Government
- ❑ Adopt “**zero-based budgeting**” exercise to improve effectiveness, efficiency and high cost-savings
- ❑ To table a **Fiscal Responsibility Act by 2021** to avoid reckless mega spending that would incur massive debt
- ❑ To table a **new Government Procurement Act in 2019** to ensure competitive open tender and no more direct negotiations
- ❑ To ensure full disclosure of the debt and liabilities via converting the current cash basis accounting to **an accrual basis by 2021**
- ❑ Set up a **Debt and Liabilities Management office** responsible for reviewing and managing the government and its agencies’ current debt and future debt and liabilities



Debt and Liability Management Committee



AG
Chambers



Economic
Adviser to PM



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Suruhanjaya Sekuriti
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谢谢
THANK YOU

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