



PREFACE



**MINISTER OF FINANCE
MALAYSIA**

The COVID-19 pandemic continues to impact countries around the world, where the emergence of highly-transmissible variants caused protracted health and economic crises. But, global economic recovery is beginning to pick up, driven by accelerated vaccination in developed economies and record high fiscal support. However, the recovery has been uneven, as obstacles to mass vaccination continue to weigh heavily on many emerging markets and developing economies. While advanced economies are recovering, many of the world's poorest countries are lagging behind, and much work remains to be done to reverse the pandemic's staggering human and economic costs.

Closer to home, since the onset of the COVID-19 pandemic, the Government has implemented eight stimulus and assistance packages totalling RM530 billion, where RM225 billion has been announced this year. Having benefitted more than 20 million people and 2.4 million businesses, these packages, which are complemented by the 2021 Budget measures, aided growth throughout the first half of 2021, with GDP increasing by 7.1% compared to a contraction of 8.4% during the same period last year.

Despite ongoing challenges on SOP compliance, targeted containment measures and teething issues on reopening of borders and physical mobility, the outlook for the second half of 2021 remains positive, sustained by the gradual reopening of economic and social sectors. As more states transition into Phases 3 and 4 under the National Recovery Plan, and the National COVID-19 Immunisation Programme (PICK) being expanded to cover teenagers and younger children, we are paving the way for a safe and systematic resumption of our education sector, as well as more economic and social activities. These developments, supported by the ongoing aid and support measures, will further support our recovery prospects to register growth at between 3% and 4% this year.

Going into 2022, we will remain agile and flexible in providing the necessary fiscal support to people and businesses in getting back on their feet to ensure a sustainable recovery. Fiscal policy will remain expansionary, and properly curated to nurture shoots of recovery and sustain growth in the face of ongoing uncertainties and COVID-19 resurgence risks. Due to additional stimulus packages announced to support the economy, the fiscal deficit in 2021 has been officially revised to 6.5% to GDP. As a result, the Government has also raised the statutory debt level to 65% to GDP in October 2021 to facilitate the implementation of existing stimulus and the 2022 Budget measures, which will help us achieve the objectives in the Twelfth Malaysia Plan, 2021-2025 (12MP).

In terms of funding resources, utilising the investment returns from the National Trust Fund (KWAN) to expedite PICK was both timely and appropriate. Moving forward, the Government is committed to replenish KWAN and resume its fiscal consolidation path in line with economic recovery, with realistic but firm debt reduction targets to ensure fiscal sustainability in the medium to long term.

Reiterating the commitment made in the first Pre-Budget Statement issued in August, the Medium-Term Fiscal Framework will guide the pace of fiscal consolidation, while improving revenue capacity, spending efficiency and debt affordability. Concurrently, fiscal reforms to improve discipline and governance will be pursued, with the Fiscal Responsibility Act (FRA) expected to be introduced in 2022. Moreover, through the adoption of the Medium-Term Revenue Strategy, strategies to broaden the tax base, strengthen the tax system, and review tax incentives will be implemented, while public expenditure will be reviewed on a regular basis to optimise spending.

Moving forward, as much as the Government's short-term policies are important to drive our socioeconomic recovery in 2022, it is equally critical that we strengthen our economic foundation with longer-term institutional and fiscal reforms for rebuilding our resilience, so that we are better prepared to face any similar eventuality in future. As such, the 2022 Budget will continue to prioritise our people and economic sectors affected by the pandemic, particularly by creating job opportunities and ensuring targeted assistance is available for vulnerable groups. The 2022 Budget will also build the foundations for reforms detailed in the 12MP.

Concurrently, in achieving our digital ambitions in line with the Fourth Industrial Revolution (4IR), the Government will prioritise strengthening the nation's digital capacity and capabilities, while also equipping our workforce with the right skill sets. This will entail enhancing our digital backbone to support internet connectivity as well as capitalising on 5G technology. Further, reforms outlined in initiatives such as the National Investment Aspirations (NIA) and the PERKUKUH Pelaburan Rakyat, will also feed into our plans aligned to the Sustainable Development Goals (SDGs) and the 12MP for medium- and long-term sustainable economic growth, improved socioeconomic inclusion and enhanced environmental sustainability.

On economic outlook, our GDP is expected to grow between 5.5% and 6.5% in 2022, driven by the reopening of more economic and social sectors, as well as increased external demand from major trading partners. Other factors that will support Malaysia's economic growth include higher commodity prices, as well as the implementation of infrastructure projects with a high multiplier effect. These will further strengthen our economic fundamentals, which have remained resilient even during these difficult times, underpinned by the economy's increasing sophistication, depth and diversity.

The Government will ensure that the country recovers from the pandemic crisis without incurring long-term economic damage but it is equally critical for all Malaysians to embrace the *Keluarga Malaysia* spirit in working together to overcome any future challenges. Through the proverbial rain and dark clouds, with our collective efforts, we can now see the sun shining down on our beloved nation for better days ahead to help us emerge stronger and more united as a nation, *Insyaa-Allah*.



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