SECTION 1

Fiscal Policy Overview

99 OVERVIEW

100 RESUMING FISCAL REFORMS AGENDA

100 FISCAL POSITION IN 2023

101 OUTLOOK FOR 2024

102 MEDIUM-TERM FISCAL FRAMEWORK, 2024 – 2026

103 CONCLUSION

SECTION 1

Fiscal Policy Overview

Overview

A supportive and responsive fiscal policy is imperative in stimulating economic growth, achieving national development agenda and safeguarding the well-being of the rakyat. While pursuing these fundamental objectives, it is important for the Government to ensure the fiscal position remains sound and sustainable in the medium and long term. An effective fiscal policy requires a proactive and more holistic approach of fiscal management, encompassing prudent measures, credible institutional and governance structure, as well as transparent reporting. Therefore, the Government's fiscal policy is aimed at strengthening public finances and rebuilding fiscal buffers for long-term fiscal sustainability.

In February 2023, the Government has re-tabled the Budget 2023 following the dissolution of Parliament prior to its approval in 2022. The Budget reflects the principle of accountability and pure value system capable of confronting current challenges including global economic uncertainties. Subsequently, in July 2023, the Government unveiled the Ekonomi MADANI, a comprehensive economic framework aimed at enhancing economic growth and elevating the standard of living for the rakyat. This framework is expected to bring about significant improvements in the economy by addressing key economic challenges and leveraging opportunities for growth. The success of this framework will be measured by seven key performance indicators (KPIs) to be achieved within the next decade. The KPIs include, among others, achieving fiscal resilience and sustainability with a fiscal deficit-to-GDP ratio targeted at 3% or less. In addition, the Government has also launched the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP 2030), and the Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan) to further attract investments, spur industrial development, and subsequently boost the nation's competitiveness.

Despite global economic challenges, the resilient domestic economy and stable commodity prices have contributed to an increase in revenue collection. However, operating expenditure also increased, particularly emoluments, debt service charges as well as supplies and services. In addition, the Government continues to provide substantial subsidies for petroleum products, electricity, and basic necessity items to mitigate the rising cost of living especially for vulnerable groups. Concurrently, the Government is finalising its targeted subsidy mechanism plan to reduce leakages and wastages. Meanwhile, the acceleration of programmes and projects post-pandemic has resulted in higher development spending, particularly in the economic sector. Overall, the fiscal deficit in the first eight months of 2023 improved to record RM46.8 billion compared with RM51.9 billion in the corresponding period of 2022, attributed to better revenue collection performance, coupled with rigorous expenditure management.

Resuming Fiscal Reforms Agenda

The Government remains committed to pursuing fiscal reforms agenda and ensuring long-term fiscal sustainability in the post-pandemic era. Efforts will be intensified to further accelerate the pace of fiscal consolidation towards achieving the fiscal deficit target of 3% of GDP in the medium term as outlined under the Ekonomi MADANI framework. In this regard, the Government will resume fiscal reform initiatives to strengthen its finances by broadening the revenue base, optimising expenditure management, reducing risk exposure and enhancing fiscal governance.

The formulation of the Medium-Term Revenue Strategy reinforces the Government's commitment to enhance revenue mobilisation and broadening tax base in fulfilling the expenditure needs towards achieving socio-economic objectives. A comprehensive review of the taxation system will be undertaken comprising tax policy and administration as well as legal framework. This initiative will ensure sustainable revenue generation and provide ample fiscal space to implement programmes and projects for the benefit of the rakyat. Hence, the initiative will drive the rebuilding of fiscal buffers against the backdrop of an uncertain global outlook. Meanwhile, the Government will continue to conduct public expenditure reviews to improve the efficiency and outcomes of spending, particularly on subsidies, emoluments, health, education as well as supplies and services. These five components constitute the bulk of total operating expenditure. Hence, striking a balance between optimising spending and increasing revenue is crucial in pursuing the national development agenda while achieving long-term fiscal sustainability.

In 2018, the Government announced its plan to formulate the Fiscal Responsibility Act (FRA) as one of the fiscal legislative reforms to fortify the public finance framework. Nevertheless, the unforeseen challenges posed by the COVID-19 crisis have forced the Government to shift its focus towards addressing the pandemic and facilitating the economic recovery, thus postponing the introduction of FRA. The Government is set to recommence its fiscal reforms agenda as the economy has recovered and returned to pre-pandemic level. The agenda includes the tabling of FRA in 2023 as outlined in the Budget 2023; implementation of subsidy rationalisation; strengthening taxation framework; and formulating the Government Procurement Act (GPA). The FRA aims at enhancing governance, accountability and transparency of the Government's fiscal management. In addition, the FRA also mandates the publication of several new reports such as the mid-year expenditure performance, tax expenditure and fiscal risk statements. Meanwhile, the GPA which is expected to be tabled in 2024 will further enhance good governance in public procurement towards achieving the best value for money and efficient spending. Ultimately, the resumption of the fiscal reforms will further improve the Government's accountability in managing public money and ensuring a sound fiscal position.

Fiscal Position in 2023

Despite moderate economic growth due to external uncertainties and prolonged geopolitical tensions, the Government's fiscal position is expected to remain strong. The fiscal stance remains responsive in providing sufficient fiscal support to ensure the rakyat's well-being is safeguarded and economic reform continues to be undertaken without jeopardising the fiscal consolidation plan. The first eight months of 2023 saw a strong fiscal performance, particularly in revenue collection supported by continuous economic growth momentum and stable commodity prices. This positive trend is expected to continue in the remaining months of the year, with an estimated higher direct tax collection.

TABLE 1.1. *Federal Government Financial Position, 2022 – 2024*

	RM MILLION			CHANGE (%)			SHARE OF GDP (%)		
	2022	2023[3]	2024[4]	2022	2023[3]	2024[4]	2022	2023[3]	2024[4]
Revenue	294,357	303,200	307,600	*25.9*	*3.0*	*1.5*	*16.4*	*16.4*	*15.6*
Operating expenditure	292,693	300,140	303,800	*26.4*	*2.5*	*1.2*	*16.3*	*16.2*	*15.4*
Current balance	**1,664**	**3,060**	**3,800**	-	-	-	***0.1***	***0.2***	***0.2***
Gross development expenditure	71,574	97,000	90,000	*11.4*	*35.5*	*-7.2*	*4.0*	*5.2*	*4.5*
Less: Loan recovery	1,407	700	800	*41.8*	*-50.2*	*14.3*	-	-	-
Net development expenditure	70,167	96,300	89,200	*10.9*	*37.2*	*-7.4*	*4.0*	*5.2*	*4.5*
COVID-19 Fund[1]	30,979	-	-	*-17.9*	-	-	*1.7*	-	-
Overall balance	**-99,482**	**-93,240**	**-85,400**	-	-	-	***-5.6***	***-5.0***	***-4.3***
Primary balance[2]	**-58,213**	**-47,140**	**-35,600**	-	-	-	***-3.2***	***-2.5***	***-1.8***

[1] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plans
[2] Excluding debt service charges
[3] Revised estimates
[4] Budget estimates, excluding 2024 Budget measures
Source: Ministry of Finance, Malaysia

The Government revenue projection has been revised upward by 4% or RM11.7 billion to RM303.2 billion or 16.4% of GDP, compared with the initial estimates of RM291.5 billion. Tax revenue remains as the main contributor supported by higher collection of income taxes, continous auditing activities and Budget 2023 tax measures implementation. Additionally, the non-tax revenue is also estimated to increase contributed by licenses and permits particularly from petroleum royalties.

The total expenditure is also revised upwards by 2.8% to RM397.1 billion, surpassing the initial estimates of RM386.1 billion. The operating expenditure (OE) is estimated to increase by 3.8% or RM11 billion to register RM300.1 billion mainly to finance additional subsidy requirements; measures under the Ekonomi MADANI framework; and expenditure for supplies and services. In contrast, the development expenditure (DE) is projected to remain at RM97 billion or 5.2% of GDP, which is allocated for programmes and projects under the Twelfth Plan, along with financial commitments including the redemption of the 1Malaysia Development Berhad (1MDB) bond.

The anticipated favourable revenue collection provides room for the Government to mobilise its resources to finance additional expenditures. Thus, the fiscal deficit is estimated to remain at 5% of GDP as targeted in the Budget 2023. The primary balance, after excluding debt service charges, is expected to record a deficit of 2.5% of GDP.

Outlook for 2024

The Federal Government's revenue collection in 2024 is estimated to increase further to RM307.6 billion or 15.6% of GDP driven by higher tax collection. Tax revenue continues to be the major contributor and is expected to grow by 6.4% to RM243.6 billion, attributed to expansion economic activities, higher company profitability and better employment conditions. Meanwhile, the non-tax revenue is projected to decrease to RM64 billion mainly due to lower dividend from PETRONAS, reflecting reduced dependency on petroleum-related revenue. In addition, several measures will be implemented, which include the introduction of capital gains tax for disposal of unlisted shares by companies and implementation of e-invoicing.

The total expenditure is projected to be lower at RM393.8 billion or 19.9% of GDP, particularly attributed to the lower financial commitment resulted from the absence of 1MDB bond redemption. The OE allocation is expected to record RM303.8 billion or 15.4% of GDP, while the DE allocation is projected at RM90 billion or 4.5%. The Government will also undertake the subsidy rationalisation programme in which the savings will be partly channelled to enhance the social safety net programme. Meanwhile, the Twelfth Plan programmes and projects such as the construction of highways and railways, flood mitigation programme, health facilities and educational institutions will be accelerated to bolster economic activities.

Overall, in line with anticipated higher revenue and lower expenditure, the fiscal deficit level is expected to reduce further to 4.3% of GDP and remain on the consolidation path. This, in turn will provide ample fiscal space to cushion against global uncertainties and reduce debt burden in the long term. Consequently, the primary balance is estimated to record a lower deficit of 1.8% of GDP.

Medium-Term Fiscal Framework 2024 – 2026

The Medium-Term Fiscal Framework (MTFF) reflects the latest projections for revenue and expenditure as well as macroeconomic assumptions for the period of 2024 – 2026. The MTFF has been revised with underlying assumptions of real GDP growth and crude oil prices averaging at 4.8% and USD80 per barrel, respectively, as well as stable domestic crude oil production of 530,000 barrels per day. In addition, several policy measures and reform initiatives have been incorporated into the MTFF, including revenue mobilisation and expenditure rationalisation.

In the medium-term, total revenue is projected at RM986.9 billion or 15.6% of GDP, mainly contributed by non-petroleum revenue which is forecast at RM816.3 billion or 12.9% of GDP. Petroleum-related revenue is estimated at RM170.6 billion or 2.7% of GDP. Meanwhile, the total expenditure indicative ceiling is estimated at RM1,206.2 billion or 19.1% of GDP with OE allocation projected at RM927.1 billion or 14.7% of GDP, while DE at RM279 billion or 4.4% of GDP. Overall, the fiscal deficit is expected to consolidate further with the overall balance averaging at 3.5% of GDP.

TABLE 1.2. *Medium-Term Fiscal Framework (MTFF), 2024 – 2026*

	2024 – 2026	
	RM BILLION	% OF GDP
Revenue	986.9	15.6
Non-petroleum	816.2	12.9
Petroleum-related	170.7	2.7
Operating expenditure	927.2	14.7
Current balance	**59.7**	**0.9**
Gross development expenditure	279.0	4.4
Less: Loan recovery	1.8	0.0
Net development expenditure	277.2	*4.4*
Overall balance	**-217.5**	**-3.5**
Primary balance	**-58.0**	**-0.9**
Underlying assumptions:		
Average real GDP growth (%)	4.8	
Average nominal GDP growth (%)	6.7	
Average crude oil price (USD per barrel)	80	
Average oil production (barrels per day)	530,000	

Note: MTFF estimates, excluding Budget 2024 measures
Source: Ministry of Finance, Malaysia

Conclusion

The Government will continue its countercyclical and supportive fiscal policy to propel the socio-economic agenda towards becoming a progressive and successful nation. Concurrently, advancing fiscal policy framework through the enhancement of revenue mobilisation, improvement in spending efficiency and fostering good governance will further strengthen the resilience of public finances. The pace of fiscal consolidation will be gradually accelerated to achieve the deficit target of 3% of GDP in the medium term. Moving forward, the Government remains committed to pursuing prudent fiscal policy and sound public finances towards transforming Malaysia into a progressive and renowned nation in line with the Ekonomi MADANI aspirations.

FIGURE 1.1. *Federal Government Overall and Primary Balance*

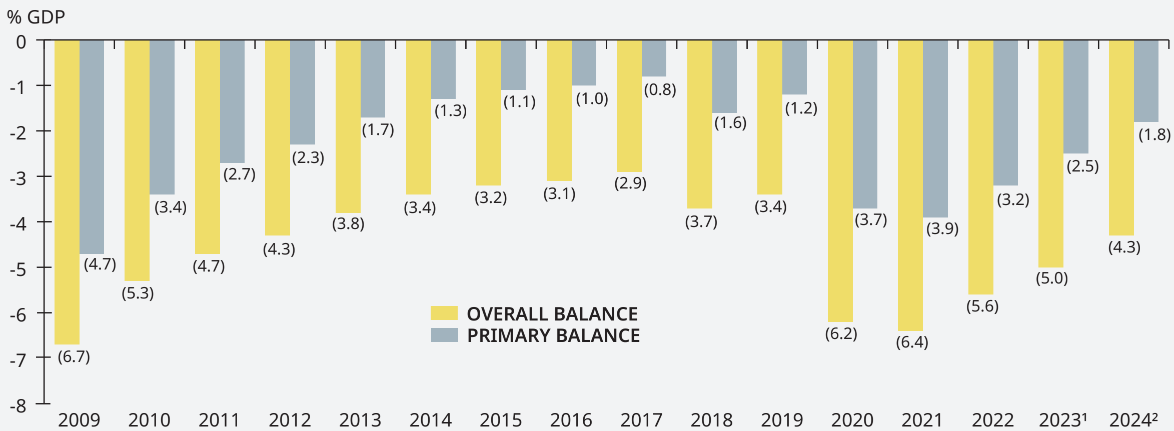


FIGURE 1.2. *Federal Government Revenue, Operating Expenditure and Current Balance*

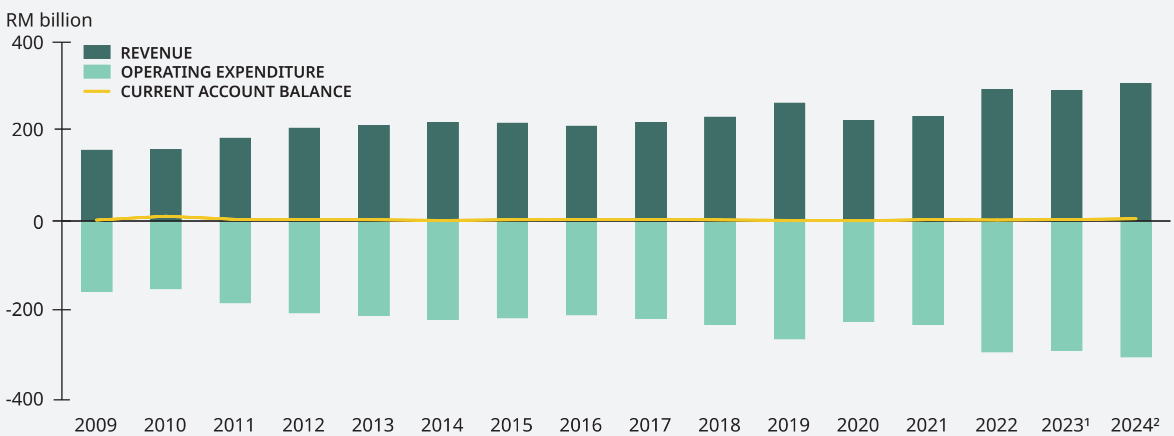
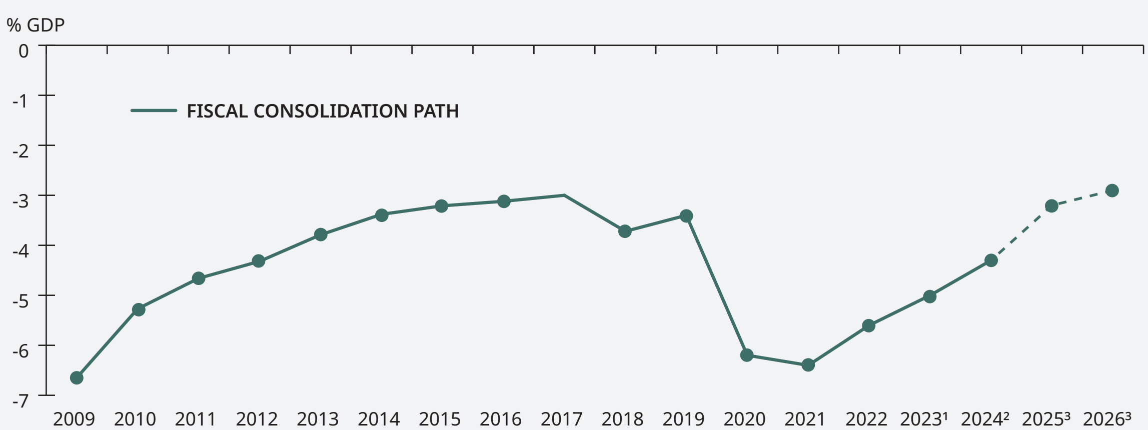


FIGURE 1.3. *Federal Government MTFF Overall Balance*



[1] Revised estimate
[2] Budget estimate, excluding Budget 2024 measures
[3] Forecast
Source: Ministry of Finance, Malaysia