KERATAN AKHBAR

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AKHBAR : THE STAR

MUKA SURAT : 12

Sustaining domestic economic growth

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BUDGET 2023 will be retabled on Feb 24. In our opinion, the new budget will be recalibrated to reflect the aspiration of the new unity government.

The budget is expected to remain skewed towards "somewhat" expansionary considering that the global economy is entering a soft patch period.

Apart from sustaining the momentum of the domestic economy, this shall also benefit the low-income households and the micro, small and medium enterprises or MSMEs.

Therefore, the people-friendly measures are expected to be maintained to ensure sustainable domestic demand in view of slower external trades.

Reallocation from development expenditure allocated in the original budget towards providing support to SMEs may also be possible.

Furthermore, the Goods and Services Tax is unlikely to be reintroduced soon. This is good news for both households and businesses, who are still coping the elevated prices.

We see the government championing the environmental, social and governance agenda as the country aims towards zero carbon emission by 2050.

In the earlier budget that was announced last October, this agenda was clearly expressed via measures such as the High Technology and Green Facility Fund, Dana Impak and Green Technology financing scheme.

It remains to be seen if there will be new projects that could catalyse the construction industry and the economy in general.

However, clarity regarding the projects funding, costs, and timeline will certainly be welcomed by the market.

Steps to promote electric vehicle (EV) growth in the country has been gaining traction as Malaysia aims to attract more EV investments to meet the national target of 15% total industry volume (TIV) for EVs and hybrid vehicles by 2030, and 38% TIV by 2040, as well as the goal to have 10,000 public charging stations by 2025.

Speedy adoption: EV users charging their cars in Cyberjaya. Steps to promote EV growth in the country has been gaining traction.

This strategy is in line with the zero-carbon emission target.

On another note, it remains to be seen if the multi-tiered levy on foreign workers that was announced previously will be retained.

The additional cost to corporations, especially those who are highly dependent on foreign workers is likely to shrink profit margins, hence creating the potential for a cost pass-through to consumers.

Concerns about escalated public debt and widening budget deficit have been gaining traction over the last two years as the country had to revise its debt ceiling higher.

Currently, the debt ceiling is at 65% of the gross domestic product (GDP).

Nonetheless, the strong GDP rebound in 2022 had helped to improve the two key fiscal metrics.

Public debt-to-GDP ratio improved from 63.4% in 2021 to 60.4% in 2022 and fiscal deficit-to-GDP ratio narrowed from 6.4% in 2021 to 5.6% in 2022. This also signifies the importance of sustaining the growth momentum going forward.

For the record, the widening of deficit and higher public debts in recent years were driven by the need to pump prime the economy during recessions.

History has shown that the fiscal deficit widened, and public debt increased when Malaysia faced with economic recessions.

This underscores the role of expansionary fiscal policy in supporting the economy during difficult times.

Now that the economy had turned stronger relative to where we were two years ago, the gradual narrowing of the fiscal deficit and reduction of the public debt is certainly welcomed as that reflects the government's commitment of a balanced budget in the long run.

Restoring fiscal flexibility and lowering debt levels are important to ensure that fiscal pump-priming can continue in the events of any significant domestic economic slowdown in future.

Government support via fiscal spending in any recessions is expected to persist as what history has suggested during the 1985 to 1986 commodity price shock, 1997 to 1998 Asian Financial Crisis, 2008 to 2009 Global Financial Crisis, and the Covid-19 pandemic recently.

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