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Country's fiscal debt in focus

StarBiz Special

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Experts predict govt to lower deficit to GDP ratio

ECONOMY

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PETALING JAYA: The new Budget 2023 to be tabled on Friday is expected to see a smaller budget deficit and economists believe closer inspection and scrutiny on spending plans will help keep a lid on expenses.

Maybank Investment Bank (MIB) Research is expecting the government to lower its budget deficit through to approximately RM95bil or 5% of gross domestic product (GDP), against the RM99.1bil (5.5% of GDP) target outlined in the original Budget 2023 tabled on Oct 7 last year, while re-emphasising its commitment to further reduce the deficit to 3.5% by 2025.

The budget had to be retabled as there was no allocation to debate and vote on the original Budget 2023, since the Parliament was dissolved three days after its unveiling to make way for the 15th General Election (GE15).

"The Budget 2023 retabling will focus on prudence in spending, addressing the long-standing issue of wastage, leakages, lack of transparency and accountability that led to poor management and outcome in government procurements and development projects," said Maybank Investment Bank (MIB) Research.

It said there is a likelihood that the Finance Ministry, headed by Prime Minister Datuk Seri Anwar Ibrahim, may put forth the proposal for a Government Procurement Act (GPA) to improve governance in public spending and contracts, especially via open tender as well as compulsory audit and accountability in large-value procurement or contracts.

The research firm added that government revenue for 2022 increased by 25.9% to RM294.3bil, while total expenditure rose by a slower-than-expected 13% to RM375.6bil, underpinned by the positive impact of faster economic growth as the country fully reopened last, in contrast to the lockdowns-wrecked 2020 and 2021.

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>
> Maybank Investment Bank Research

Separately, it said, "To note, a mini-Budget 2023 of RM163.7bil, equivalent to 44% of the originally proposed Budget 2023 allocation of RM372.3bil was approved at the special post-GE15 Parliament sitting in December, involving RM107.7bil for operating expenditure and RM56bil for development expenditure."

Although the Prime Minister has said he would be revealing a new Budget 2023, but judging by the "people friendly" nature of the mini-budget.

It included goodies such as the expediting of the first phase disbursement of cash handout to lower income groups – now re-branded Sumbangan Tunai Rahmah – to January 2023, the research outfit is anticipating that other remaining key populist measures outlined in the original Budget 2023 would be largely retained.

"In particular, we see the current government proceeding with the proposed two-percentage point cuts in the personal income tax rates for the middle-income taxpayers – to 11% from 13% for taxable income of RM50,001 to RM70,001 and to 19% from 21% for taxable income of RM70,001 to RM100,000

This is estimated to provide tax savings, thus boosting disposable income by between RM400 and RM1,000 per beneficiary taxpayers," predicted MIB Research.

On a more important note, it believes fuel subsidies will be maintained for another year amid the uproar by individuals and businesses over costs of living and of conducting business, as well as over the stubborn inflation rate, especially that of food.

The research house said even after factoring in lower crude oil prices year-to-date compared to last year, the gaps between the subsidised and market prices of the RON95 and diesel are still significant.

For example, the unsubsidised price of RON95 and diesel – based on stations in Perlis who are implementing an initiative to stem petrol smuggling – is at RM3.22 and RM3.45 per litre respectively.

While the move to stem smuggling may be expanded to cover petrol kiosks in other states with international borders after April, with subsidies these fuels are still sold approximately 60% lower than their respective non-subsidised prices of RM2.05 and RM2.15 per litre.

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Windfall FY23 expected for PETRONAS as crude prices remain elevated

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On this much-discussed issue, MIB Research added, "We estimated that every 10 sen per litre increase in RON95 and diesel prices will lift the inflation rate by 0.3 percentage point.

"Furthermore, with global crude oil price still at an elevated level, 2023 should be another windfall financial year for Petroliam Nasional Bhd (PETRONAS), who can therefore afford to provide the government with another year, the fifth to be exact, of special dividend on top of the originally budgeted dividend of RM35bil for this year.

As it is, PETRONAS has RM93bil net cash pile as of Sept 2022."

The research outfit further noted that with a lower year-to-date oil price of US$84 (RM372.16) per barrel against last year's average of US$99 per barrel, it would imply the government could reduce more subsidy costs.

This is after having estimated that every US$10 (RM44.30) drop in crude oil prices would lower annual RON95 and diesel subsidy costs by RM6.1bil.

Economics professor at the Malaysia University of Science and Technology Geoffrey Williams resonated with the prediction for the government to decrease the budget deficit, calling it a "wholly realistic" ambition, provided spending does not rise much beyond inflation and revenues are close to last year's levels.

He said, "The Prime Minister raised this issue (of debt and deficit) to highlight the need for fiscal prudence and tightening up spending to reduce waste.

"On the revenues side, improving the efficiency of collection is important before changes are made in taxes."

Meanwhile, chief executive of Centre for Market Education Dr Carmelo Ferlito said it is still difficult to know what to expect in terms of economic policies beyond the budget.

More notably, he told *StarBiz*, "I think what the country really needs in terms of changes in operation expenditures goes much beyond the scope of the budget.

"The changes should be the outcome of a more radical reform, which would be eventually reflected in a future budget.

"The government is doing well to at least look at not spending money in wasteful ways."

On the matter of reducing subsidies, Ferlito further opined that since implementation remains the primary challenge, the best way to approach this issue is to begin somewhere and commence gradual execution.

He concurred that the recent fuel smuggling prevention move and power tariff hike for major multinational corporations by the government are positive starting steps in terms of lowering subsidy costs.

But he cautioned that such moves need to take in the consideration of negative consequences that may arise, as there are "no solu-