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How the Mid-Term Review of 12MP stacks up

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Comment

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An efficient delivery system will make it easy and more transparent for the people and businesses to deal with the government.

THE Mid-Term Review of the 12th Malaysia Plan (MTR 12MP), 2021-2025, which is the main policy document to realise the aspiration of the Madani Economy, was unveiled to take stock of the progress achieved half-way through its implementation period.

This was followed by a reassessment of the goals, enablers and game changers as well as socio-economic targets set in the original 12MP.

Since the 12MP was launched, far more has happened to the global and domestic economy than could have been reasonably anticipated.

Medium-term prospects for the global and domestic economic conditions are clouded by scarring effects from the Covid-19 pandemic, increasing economic complexities, geo-economic fragmentation and rivalries in advanced economies, as well as the ever-worsening climate change impact.

Additionally, domestic structural macroeconomic challenges need to be addressed.

These include fiscal constraints, weak private investment, low labour productivity and technology adoption, inefficiency in the implementation of development projects, and lack of effective governance in the budget resource allocation.

The plan offers a comprehensive coverage of the unity government's future directions and economic policies with the theme: Sustainable, Prosperous, High-Income, centering on institutional reforms, sustainability, inclusiveness and environmental.

It covers various areas, including economy, social and politics, incorporating the strategies and initiatives outlined in the National Energy Transition Roadmap (NETR) and New Industrial Master Plan (NIMP) 2030.

The planning document contains 17 Big Bolds and 71 Main Strategies and Initiatives (Original plan: three themes, four policy catalysts and 14 game changers) across the key enabler and three main focuses: strengthening sustainability, building a prosperous society and achieving high-income nation status.

National income per capita in current terms is projected to increase by 4.6% per annum in 2023-2025 to RM61,000 (US$14,250) in 2025. By 2030, the national income per capita is expected to reach RM85,115.

MTR 12MP is an important pillar in the journey towards a more inclusive, dynamic and competitive Malaysia by:

> raising the ceiling through creating a high-value economy, better technological content as well as attracting world-class foreign investments; and

> raising the floor through ensuring a fair and equitable distribution of income to all.

The emphasis on the enhancement of public service delivery efficiency and strengthening of efficiency in implementation and monitoring is commendable.

These strategies will be supported by two Big Bolds, namely, the Governance and Institutional Framework as well as Legislation related to Corruption, and strengthening the institutional structure of ministries and agencies as well as enhancing the role of the Special Task Force on Agency Reform to enhance efficiency of the public service delivery.

Public delivery services shape people's trust in and expectations of government. An efficient delivery system will make it easy and more transparent for the people and businesses to deal with the government.

The business community will need efficient, fast and accurate services so that the cost can be lowered and be competitive.

The ceiling of development expenditure will be raised by RM15bil to RM415bil from the original allocation's RM400bil for the 12MP.

With only RM135.9bil or 34% of total original allocation already spent in 2021-2022, and the estimated spending of RM93bil in 2023, a balance of at least RM90bil annually will be allocated in 2024-2025.

Given the fiscal constraints, resource allocation must also address the fundamental issues of effective governance of public spending and timely implementation of projects so that the economic multiplier effects will be felt.

In this regard, the government can consider the approaches involving improving the cost-effectiveness of government administration and efficiency in the implementation of projects in addition to cost savings.

Mandatory cost-effectiveness could be introduced for public sector projects, and political programmes could be evaluated ex-ante more often.

The government must institutionalise the results-oriented approaches to budgeting and management of the budget allocation for ministries, moving the focus of decision making in budgeting away from "How much allocation can the ministry get?" towards "What can the ministry achieve with this allocation?".

The Finance Ministry can use performance results to hold ministries and agencies accountable for performance as well as to improve performance.

There has been non-disclosure on details on the development budget allocations since the 10MP in 2021. This was due to the two-year rolling plan approach, which was introduced to enable a more effective review of the prioritisation of programmes and projects based on the current financial position of the government.

That said, an indicative allocation of development expenditure by the ministry and state, subjected to the annual budget's allocation, would serve as a good reference for market analysis.

Additionally, there are no indicative amount of the project value in the list of development projects and programmes mentioned in the speech.

On the fiscal sustainability governance framework, the government shows its commitment to introduce the Fiscal Responsibility Act or FRA in October's Parliament sitting and also will accelerate the drafting of the Government Procurement Act or GPA.

We hope that the government will make good on its promises without delays. These Acts have been postponed several times since mooted in 2018. The medium-term budgetary stability framework must be governed and regulated by fiscal rules.

On the targeted subsidies rationalisation, there are lack of details on how to implement it despite many proposals have been put forward.

It was disclosed that the trial run of the Central Database Hub or PADU, which combines the socio-economic information of every household in the country to streamline the implementation of targeted subsidies, will be conducted in November 2023 before being accessible to the public in January 2024 for personal information verification.

It's time to roll out the targeted subsidy rationalisation in stages and sequence it on a measured pace based on the principle of needs and income to minimise significant and wider impact on households and businesses, to be companied by giving a one-off cash assistance for the affected households.

Prices of subsidised goods and services will be gradually raised to allow manageable impact on inflation and cost of living pressure.

On the broadening of the revenue base, the plan was silent on the reintroduction of the consumption tax a la the goods and services tax (GST). Instead, the capital gains tax (CGT) will be introduced in January 2024.

This is not surprising as the proposed introduction of the CGT on non-listed shares of corporates was announced in the 2023 budget.

The CGT tax mechanism is now ready for implementation. We are concerned that the CGT would stifle startup and entrepreneurship development and there is no guaranteed that the CGT will not extend to cover other asset classes down the road.

The fiscal consolidation path continues. MTR 12MP maintained a fiscal deficit reduction target between 3% and 3.5% of gross domestic product (GDP) in 2025 from an estimated 5% of GDP in 2023 (6.2% of GDP in 2020).

This means a reduction of between 1.5% percentage points (pts) and 2% pts reduction in 2024-2025. We expect the fiscal deficit to reduce further to 4%-4.5% in the tabling of Budget 2024 on Oct 13, 2023.

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On the macro targets, the revised GDP growth target of 5% to 5.5% for 2023-2025 (5% to 6% in 2021-2025) appears on the high side. We estimate real GDP to grow by 3.8% this year, weighed by falling exports and the normalisation of consumer spending.

Hence, it means that real GDP growth would have to expand by between 4.5% and 5.8% annually in 2024-2025, which could prove challenging given the projected moderate global growth in 2024.

Both the services (5.7% per annum in 2023-2025) and manufacturing sectors (6.4% per annum in 2023-2025) will remain as the main sources of growth, while the construction sector is expected to rebound by 6.7% per annum in 2023-2025, contributed by stronger growth in the civil engineering and residential building subsectors.

The agriculture and mining and quarrying sector will grow by 2.7% and 3.1% per annum respectively in 2023-2025.

Private consumption, which has increased by 5.1% in the first half of 2023 (1H23), is projected to increase by 6.1% per annum in 2023-2025 (6.4% in 2021-2022), supported by stable labour market conditions and better income growth.

The unemployment rate is projected to improve significantly to 3.3% in 2025 from 3.9% in 2022. The projected increase in compensation of employees to GDP to 40% in 2025 from 32.4% in 2022 is challenging amid collective efforts (government, employers and employees) to improve the wages of employees.

The government will implement the progressive wage model, which is linked to the improvement of productivity and skillset enhancement, increases in the minimum wage as well as the creation of high-paying jobs from the expansion of high-value, high-growth industries.

In 2025, the percentage of skilled workers is expected to reach 35% of total employment (28.2% in 2020), followed by semi-skilled (54% versus 59.9% in 2020), and low-skill (11% versus 11.9% in 2020).

Private investment, which had grown by 4.8% in 1H23, is projected to increase by 6.4% per annum in 2023-2025 (4.9% in 2021-2022), looks feasible if we manage to attract high inflows of quality foreign direct investment and drive more domestic direct investment.

Nominal private investment would amount to RM328.4bil or 15.2% of GDP in 2025 (RM222.3bil or 15.7% of GDP in 2020).

We see positive catalysts to boost private investment coming from the catalytic projects in the NETR and the impactful high-growth, high-value industries identified in the NIMP.

The government remains committed to enhancing the investment climate and conductive business environment, including ease of doing business to make Malaysia an attractive investment destination.

Inflation is expected to increase by between 2.8% and 3.8% per annum in 2023-2025 (2.8%-3.8% in 2021-2025), attributed to the gradual implementation of a targeted subsidy, stronger domestic demand and improvement in labour market conditions.

We caution that inflation pressures could flare up given the risk of supply shocks as well as changes in domestic policies concerning price subsidy and ceiling price controls.

Business cost pressures, including employment costs could emanate from the implementation of a multi-tiered levy and the progressive wage model, along with still elevated cost of domestic and imported inputs.

Gross exports, which had expanded strongly by 25.5% in 2021-2022 and have declined by 5.9% in January-July 2023, are projected to increase by 3.7% per annum in 2023-2025. This will be supported by the expected economic recovery of major trading partners, trade expansion leveraging on the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

A conducive trade ecosystem to facilitate exports will enhance export capacity and expand market access.

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