Malaysia Outlook

OCBC Bank

Key Points of the Mid-Term Review of the 11th Malaysia Plan

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Highlights

- **Government targets GDP growth to be at 4.5% - 5.5% for 2018 -2020.**
- **The fiscal deficit is targeted to be at 3.0% of GDP in 2020.**
- **The development expenditure ceiling has been reduced from RM260bn to RM220bn.**
- **The government is exploring imposing taxes on online transactions.**
- **Government to establish a systematic, comprehensive and financing governance mechanism and debt management system, such as those found in Indonesia and Thailand.**
- **State-owned enterprises will play a more strategic development role whilst any market distortions arising from the existence of these firms will be addressed.**

The government has just tabled the mid-term review of the 11th Malaysia Plan which has incorporated the targets and aspirations of Pakatan Harapan. The plan will comprise of six pillars that would focus on areas such as reforming governance, enhancing inclusive development and wellbeing, pursuing balanced regional development, empowering human capital, promoting green growth and enhancing productivity and competitiveness. Overall, directionally, the plan is targeting to spread out growth more among the different states and various socioeconomic groups whilst at the same time ensuring stronger management of the government's fiscal position.

Economically, the government has revised several key target numbers that would be more in line with the current global and domestic situation. GDP is now targeted to expand between 4.5% to 5.5% over the remaining period of the plan from 2018 – 2020 and also at that same range overall for 2016 – 2020. This doesn't come as a surprise given concerns of a global slowdown and much needed government consolidation. After all, the IMF had already cut its forecast for global growth for 2018 – 2019 by 0.2 percentage points to 3.7% yoy. The fiscal deficit is also targeted to be at 3.0% of GDP in 2020 which probably reflects the government's need to still undertake inclusive growth related policies.

The government is reducing the ceiling for the development expenditure from RM260bn to RM220bn. The plan has highlighted this as a necessity given the abolishment of the GST this year and the volatile crude oil price. The government has mentioned that further private sector involvement in driving the economy will alleviate the impact of the reduced investment from the public sector.

On the revenue side, the government highlighted multiple ways to raise revenue and most notably made mention of exploring imposing taxes on online transactions. The plan also said that more initiatives to improve tax compliance will be undertaken to improve collection through both direct and indirect taxes. Meanwhile, non-tax revenue will be enhanced, among others, by maximising the cost recovery of government assets, where more agencies will be empowered to improve the utilisation rate of assets. The government reasons this as a way to reduce dependency on oil-related revenues.

The government will also consolidate operating expenditure in the remaining period of the plan. This will be done through undertaking measures such as reforming government agencies, strengthening procurement process of all supplies and services including through open tenders as well as restructuring debt. Programs will also be reprioritised whilst the management of development projects will also be reviewed, in particular the governance structure of project appraisal and selection, to reduce the risk of delays and cost overruns.

At this point in time, it is still difficult to pass any judgement on the effectiveness of the fiscal measures until more details are released. In particular, we are awaiting the release of budget 2019 on the 2nd November 2018 which would most likely shed more light on the government revenue and expenditure measures.

The government will be looking to establish a systematic, comprehensive and transparent financing governance mechanism and debt management system, such as those found in Indonesia and Thailand. It is still not fully clear what exactly the Malaysian government intends to introduce at this point. For Thailand's case, the public debt management act requires the set-up of a public debt policy and supervision committee consisting of the Finance Minister as the chairperson. The law also defines that public debt includes those both being directly borrowed and guaranteed by the Finance Ministry. The Thai Ministry of Finance has a debt ceiling at 60% of GDP. The Thai government is also mandated by other legislation to prepare a medium term-term fiscal framework. As a note, the mid-term review of the Malaysia plan also mention of the need to look at government commitment beyond just debt as it says that Federal Government debt, contingent liabilities and commitments made under public-private partnership projects stood at 80.3% of GDP in 2017, higher than the 50.8% of GDP reported as Federal Government debt.

On the item of state-owned enterprises (SOEs), it appears that the government is aiming to prevent the existence of such companies from creating market distortions whilst ensuring that they mainly play a strategic role in national development. The plan mentions that a special ministerial committee will be set up to review policies and concessions with regard to monopolistic arrangements of these entities to ensure greater market efficiency. At the same time, a national policy and governance framework will be formulated to align SOEs and other monopoly entities with the broader national development agenda. These entities will be encouraged to promote innovation and technology adoption in line with the 4IR to boost productivity as well as create greater market opportunities for domestic industries through export-driven and global growth strategies.

Overall, the plan definitely has a lot laid out over the next two years to reform the development direction of Malaysia. The new government definitely has an ambitious agenda here and it will be interesting to see the further pending details that will come out regarding many of their proposed initiatives and programs.

Table 1: Key Economic Target Numbers & Prospects in Mid-Term Review of the 11th Malaysia Plan

Area	Original Target and Prospects	Revised Target and Prospects
GDP Growth 2016 – 2020	5.0 – 6.0	4.5 – 5.5%
GDP Growth 2018 – 2020	N/A	4.5 – 5.5%
Fiscal Deficit in 2020	Balanced	3.0% of GDP
Current Account Surplus in 2020	RM46.5bn	RM39.9bn
Unemployment rate in 2020	2.8%	Below 3.5%
Average Growth of Real Public Investment 2016 – 2020	2.7%	-0.6%

Source: Mid-Term Review of the 11th Malaysia Plan