Good to Have

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Malaysia's government released its 12th 5-year plan

- In what was his first centre-piece initiative since taking over the premiership last month, Malaysia's PM Ismail Sabri laid out the 12th Malaysia Plan ("12MP") in the parliament yesterday. It was meant to be a grand strategic plan to shepherd the country into becoming a high-income nation by 2025.
- At a broad level, the plan is a sensible one, detailing a vision of pushing for growth through a massive pick-up in development spending – from building basic infrastructure such as roads and rails to ramping up high-tech industries such as aerospace and electrical and electronic manufacturing.
- A good plan would remain just that without a concomitant solid execution, however. And, to boost the chances of success, the government will have its work cut out in what remains an uncertain global and domestic economic situation. Moreover, balancing the need for a large increase in expenditure even as it aims to lower budget deficit would require an uptick in revenue that might see the re-introduction of the necessary-but-unpopular GST.

This and That Number

As Benjamin Franklin said, "*If you fail to plan, you are planning to fail*." Viewed from that perspective, the fact that Malaysia's government managed to finalize its new 5-year plan in the form of the 12MP is in itself a good thing, especially considering that it has only taken office a month ago.

Grouped under three themes, four "catalytic policy enablers" and as many as 14 "game changers", the report came at a door-stopping 532 pages long. When it comes down to it all, however, one set of numbers that would ultimately matter the most is the growth target of 4.5-5.5% for the duration of the plan, which is 2021-2025.

Broadly speaking, growth in the 2016-2020 period that was covered by the previous plan ("11MP") averaged 4.9%, if we ignore the -5.7% growth of 2020. Hence, the growth target for the new plan could be arithmetically achievable if things go back to normal. However, how the year 2021 itself has been playing out – with Covid-19 resurgence pushing growth expectation low to 3.6% on our end – it would take a much more rapid growth of 5.35% for the remainder of the 2021-2025 period for the target to be reached. Not unachievable, but it will require a lot of stars to be aligned.

Development Spree

While some of these 'stars' are well outside the government's direct control, not least the potential re-occurrence of Covid-19 waves, the 12MP appears to lean a lot more on things that the government can affect. Indeed, one feature of the 12MP that stands out to us is the marked uptick in development spending. Compared to the MYR248bn that was spent for development in the 11MP, the new plan calls for as much as MYR400bn, a whopping 53.8% increase. Now, given that the 2021 development expenditure is targeted to be at MYR68.2bn, that leaves the rest of the years to see an average of MYR83bn per annum of spending – an even higher annual uptick.

Indicators	11MP Performance *(2016-2020)*	12MP Targets *(2021-2025)*
GDP growth, per annum	2.70%	4.5%-5.5%
Development Expenditure	RM248bn	RM400bn *(+53.8%)*
GNI per capita, end period	RM42,503	RM57,882 *(+36.2%)*
Labour productivity growth, per annum	1.10%	3.60%
Compensation of employees, end period (% of GDP)	37.20%	40%
Average monthly household income, end period	RM7,160	RM10,065 *(+40.6%)*
Malaysian Wellbeing Index growth, per annum	0.50%	1.20%

Source: OCBC, The Edge, Economic Planning Unit.

Within this space, some of the big-ticket items that were cited include the long-touted projects such as the East Coast Rail Link (ECRL) that curves through the eastern coast lines of the peninsular Malaysia to connect them to the Klang Valley and Rapid Transit System (RTS) to link Johor Bahru and Singapore. Elsewhere, the 12MP mentioned projects such as the West Coast Expressway running through Selangor and Perak.

However, the geographical focus of the development plan will undoubtedly be on some of the less-developed states such as the northern peninsular states of Kelantan and Terengganu and Sabah and Sarawak in the eastern party of the country, which would command half of the stipulated MYR400bn in spending. While such an initiative will be right in line with the need to improve the balance of growth and inclusion across the country, the fact that these states are vote-rich areas that would be crucial in any upcoming election will not be missed, as well.

Another area of focus for the development expenditure would be to fund a government's rehabilitation programmes "for several agencies that are facing issues", according to the Economics minister, Datuk Seri Mustapa Mohamed who oversaw the 12MP formulation. These would include Felda (an agency handling the resettlement of rural poor into newly developed areas) and the Lembaga Tabung Haji (a Muslim pilgrimage fund). The former agency, for instance, has been mired in financial difficulties that necessitated the issuance of a government-guaranteed sukuk to help out.

Going Green

Overall, while it is hard to focus on specific areas in an expansive plan, other key thrusts of note to us would include the formal adoption of a pledge for Malaysia to "become a carbon neutral country by 2050 at the earliest". In his speech, the PM noted that while the country only contributes 0.7% of global greenhouse gas emissions, the government remains committed to reduce its greenhouse gas emission intensity of GDP by 45% by 2030.

As it stands, the pledge for carbon neutrality by Malaysia is the most ambitious in ASEAN. Singapore, for instance, is targeting net zero emissions "as soon as viable" in the second half of the century. While Indonesia has moved forward its target by 10 years, the new deadline is 2060, still 10 years after the 2050 deadline that Malaysia has in mind.

To achieve that aim, Malaysia is said to be planning for the inclusion of economic instruments such as carbon pricing and carbon tax, even though no timeline or details was offered. Similarly, the PM had also pledged that there will be no more new coal-fired power plants as part of a comprehensive National Energy Policy, even though details are similarly lacking.

Finding Funding

The big plans laid out in the 12MP are pointing towards large expenditure items in the years ahead for the government. Curiously, the same 12MP also put forth an ambitious fiscal consolidation goal of reducing budget deficit to 3.0-3.5% of GDP by 2025, compared to a likely outturn of close to 7.0% this year. Arithmetically speaking, to push the deficit lower at a time when spending is slated to go up means that the government has inadvertently pencilled in a higher intake of revenues during the period.

While some of this revenue uptick may be seen from some new initiatives including a reported capital gains and windfall tax on sectors that have done well during the pandemic such as the gloves manufacturers, they are but one-off measures and unlikely to move the needle considerably and sustainably.

Hence, we may well see the government inching towards a formal re-adoption of Goods and Services Tax during the period, to set the stage for a firmer revenue platform for the years ahead. However, given the near-term challenges of the economic slowdown, it is unlikely to come to fruition in the next two years or so, considering how the measure remains a politically tricky one in normal times but especially so in any election period that must occur by mid-2023.

This would then push any substantial fiscal consolidation towards the end of the 12MP period. Hence, going into the tabling of the Budget 2022 on October 29th, we remain of the view that the fiscal stance will remain an expansive one, even if the government may start with a relatively contained fiscal deficit target of around 5-5.5% of GDP.

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