

11MP is a house of cards
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MP SPEAKS I have highlighted earlier that Prime Minister Najib Abdul Razak's 11th Malaysia Plan (11MP) was fundamentally flawed because it was built on misguided assumptions on household income, employment data and other economic indicators.

Dr Lee Hwok Aun, an economist from Universiti Malaya, also pointed out flaws in the government's GDP growth goal and GNI projection.

11MP will be fueled by more government spending

Government spending is expected to increase in the period of the 11MP. In the pipeline are mega projects such as highways including the Pan-Borneo Highway, transit systems, flood mitigation projects, housing projects, and other infrastructures such as a regional sewage facility in Perak, the Pengerang O & G project, etc.

Government services as an economic activity is projected to grow at the rate of 6.3 percent from 2016 to 2020. In 2010, government services was 7.8 percent of the GDP. The figure rose up to 8.8 percent in 2014 and is estimated to hit 9.0 percent in 2020.

While the prime minister projected a 5-6 percent GDP growth in the coming five years, civil service emolument is expected to grow at the rate of 6.7 percent. This is another indication of the bigger government we can expect in 11MP.

However, will all these be feasible?

They will only be feasible if government revenue is strong and the government of course projected a higher revenue in 11MP. However, such a projection is totally unrealistic due to three factors: reduced profit for Petronas, lower Goods and Services Tax (GST) collection and lower income tax than projected.

Reduced profit for Petronas

As the oil and gas industry faces a historic slowdown, Petronas recorded a 39 percent lower net profit in the first quarter of this year compared to 2014. The government is expecting a 10 percent reduction in Petronas dividend this year. Although sizeable, the reduction is unrealistic if Petronas continues to suffer a 40-50 percent reduction in profit towards the end of the year due to the halving of benchmark crude price.

In April this year, Petronas had started cost reduction exercise with its contractors which included a salary reduction of up to 20 percent. If the situation persists and the government is still squeezing high dividend from Petronas, the company may soon has to downsize its own operational staff.

GST collection will not be optimum

Due to the shock of introducing GST at 6 percent, consumer consumption slowed down in the months following April. Analyst reports estimated a slowdown between 20-50 percent after GST was implemented. As such, the government has to be prepared for a less than optimum collection of GST revenue.

With the weaker ringgit, and higher prices in certain consumer market, consumption will also be affected. Again, this will contribute towards a lower GST revenue than projected.

The only way the government can get around this is to encourage a debt-financed spending behaviour in the consumer market which will be detrimental to the people given the already soaring household debt.

Income tax projection is unrealistic

Finally, the government is also projecting a higher direct tax revenue from 49.5 percent of revenue in 2010 to 62.9 percent of revenue in 2020. This would mean increased in company tax and personal income tax collection.

With an average monthly income today of RM2,000 and 50 percent of Malaysian workers earning below RM1,500 monthly (Department of Statistics, August 2014), such projection of income tax collection is unrealistic when taxable income begins above RM4,000.

In order to squeeze the most out of the current tax base, the government may resort to massive witch-hunting for tax evictors. The fear is of course the victimisation of small companies and the working class.

11MP is totally unrealistic by projecting higher output

It is obvious that 11MP is a house built of cards. The government is projecting a higher output to the economy despite lower input. Not only he has failed to inspire Malaysians to be excited about this crucial five-year plan which will steer us in this final mile towards Vision 2020, Prime Minister Najib is offering Malaysians a false hope, or worse, a big lie in the Eleventh Malaysia Plan.