Budget 2023 priorities in the wrong place – economists

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Geraldine Tong

While some newly announced policies in Budget 2023 are welcomed, economists say the government is channelling the additional operational expenditure on the wrong priorities.

They also questioned the handouts announced, saying the goodies are "potentially inflationary" or that the method of distribution would lead to corruption.

Speaking to Malaysiakini, here are comments from three economists on yesterday's Budget 2023 speech:

Geoffrey Williams, Malaysia University of Science and Technology professor and economist

We have seen what was predicted, a massive 12 percent increase in pre-election operational spending and a long list of handouts to various interest groups.

The extra expected revenue has almost all been allocated to extra spending and no real attempt has been made to cut the total amount of borrowing. This is therefore a development budget fully funded by debt.

Some handouts are intriguing such as RM200, or RM17 per month, for e-wallets in e-Pemula, and a new RM100 e-wallet, or RM8.30 per month, for M40 (middle 40 percent of income earners).

This is clearly aimed at introducing targeted subsidies through the e-wallet scheme for specific products, at specific shops, with a specific e-wallet. This is the worst way to handle subsidy targeting and will lead to massive transaction costs and corruption.

The increases in Bantuan Keluarga Malaysia (BKM) are worth RM74 per family per month, RM18.50 for each person. Welfare aid programmes will give RM115 per month per person and for the hardcore poor, the RM1 billion is worth RM125 per month each, which will not cover their food costs. The RM1 billion welfare fund for the elderly is worth RM23 per month.

For SMEs (small and medium enterprises), the RM45 billion in Semarak Niaga is a big allocation but is a mix of loans and conditional grants so the take-up might be low. The RM1 billion for MSMEs (micro SMEs) gives RM1,000 to possibly 1 million of the 8.5 million businesses and 1.2 million SMEs registered with SSM, so 8.7 million will miss out.

The higher education budget has finally increased but only for public universities and the extra four percent barely covers inflation. Again, private universities are ignored. The discounts for PTPTN (National Higher Education Fund) are a disaster and will reduce the collection rate at a time when they are close to their maximum allocation. This will have implications for PTPTN sustainability.

The health budget increase is very far from the RM30 billion (Health Minister) Khairy Jamaluddin was aiming for and reflects real concerns about how the Health Ministry is run in light of recent scandals.

Most appear to be allocated to builders and almost 20 percent will be funnelled to private health providers through the extra RM734 million in MySalam. This is not a large increase in operational expenditure in public health.

Despite the claims in the pre-budget statement, we do not see much by way of structural reform, freeing up the market, promoting competition, or creating a vibrant innovative economy.

There is also very little on government efficiency or governance in the public sector. There is no independent oversight of these figures, for example.

Instead of taking advantage of possible savings due to a lower Covid-19 fund and efficiency gains which could have been redistributed back to the rakyat universally, the government has expanded its own spending and issued a list of low-impact projects for its own preferred groups.

The extra RM38.7 billion in operational expenditure, for example, is worth RM1,300 for every single Malaysian or an extra RM100 per month. It could give the B60 RM2,100 per year, or RM180 per month, and the B40 could get RM3,200 per year, or RM270 per month, compared to RM74 per month under BKM.

For the development budget, the increase from RM75.6 billion to RM95.1 billion is almost all accounted for by transport projects such as MRT3 and upgrading government buildings. The second, at least, will have no impact on promoting economic growth.

Carmelo Ferlito, Center for Market Education chief executive officer

On the negative side, I see the lack of a strategy for rationalising operational expenditures and still too many "ad hoc" goodies, which are potentially inflationary.

On the bright side, I welcome tax cuts, SME grants, SME loan schemes, and the announced special scheme for FDIs (foreign direct investors). These moves are necessary and welcome.

But, in order to not further compromise the fiscal position of the government and inflationary pressures, they should be accompanied by rationalisation of operation expenditures and better tax collection enforcement, and here I do not see an adequate vision.

I also appreciate the investments to strengthen TVET (Technical and Vocational Education Training). These two measures – tax cuts and strengthening TVET – are things I have advocated for a long time and are included in my latest book, 'Assessing and Addressing Urban Poverty in Malaysia'.

The amount of money spent on operational expenditures such as civil servants' salaries and subsidies is still very high. If we do not improve revenue collections and cut spending, debt and inflation will become more serious problems, in particular in light of tax cuts.

Tax cuts are tremendously important, but they are one side of the coin. If expenditures are not effectively rationalised, then we are in trouble.

On how to do that, the government should look at the role of government as employer, developer, and mega project developer and start to rethink how goods and services can be provided without the government being the direct employer/developer.

For example, public services could be provided by private institutions and the poor, supported with vouchers, could be linked to certain types of services. This would bring rationalisation as the government usually provide goods and services in a less efficient way than the private sector.

On the other hand, there has been a lot of talk about targeted subsidies. It is the moment to move from talk to action.

Benedict Weerasena, Bait Al-Amanah research director

Initiatives to promote gender inclusion are a step in the right direction. For instance, the establishment of gender focal teams in each ministry and agency to pursue gender-conscious national programmes.

For women returning to work after a career break, the tax exemptions given for income received between 2023 to 2028 are significant, in addition to the three-month wage subsidies of between RM600 and RM750 under Socso (Social

Security Organisation) in encouraging employers to hire them.

This is crucial because the Covid-19 pandemic has set female labour force participation back by three years with younger workers and young females pushed outside of the labour force.

Also, increasing female labour force participation boosts total factor productivity gains and generates overall economic growth for the nation.

However, there are quite a number of stop-gap measures which generate benefits in the short term but reflect missed opportunities for long-term reform.

One key example is the rise in the allocation of early school aid (BAP) from RM100 to RM150 for all pupils regardless of the income level of parents next year.

The additional expenditure spent would be better reallocated to provide remedial lessons for the 'lost generation' during school closures and online lessons during the Covid-19 pandemic.

Our research has shown that Malaysia has the highest learning losses among Asian developing countries, with an alarming rate of loss of 0.95 years (11.4

months), in the pessimistic scenario.

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