

LETTER | A moderate and largely unremarkable Budget 2023

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Research for Social Advancement

LETTER | On Oct 7, Finance Minister Tengku Zafrul Abdul Aziz unveiled Budget 2023. Unfortunately, the budget was effectively rendered void just three days later due to the dissolution of Parliament, which creates uncertainty for households and businesses in the country.

Nevertheless, Refsa's views on the now defunct Budget 2023 are still relevant and form useful talking points for the post-election iteration of the budget.

Overall, Refsa's initial impressions were that it was a moderate and largely unremarkable budget. The proposed budget also tried to somewhat awkwardly balance the competing demands for short-term assistance (as well as goodies ahead of the impending elections) and growing calls for fiscal consolidation.

This led to inconsistent policy proposals like the reduction of subsidies on one hand and a two percent point cut in the income tax for the middle class on the other.

In Astro Awani's segment called "Consider This: Budget 2023 – Elections or Economics", our executive director Tan E Hun highlighted the budget had no major surprises in terms of the allocation of immediate support for vulnerable households and also no significant big-ticket reform items.

This suggests the government has not fully translated its lofty transformation plans through its budgetary measures.

At the same time, she stressed that Budget 2023's "business as usual" approach for the year ahead suggested a degree of overconfidence in households' ability to manage future disruptions, including rising interest rates and a heightened risk of recession.

In particular, Tan questioned the accompanying economic and fiscal outlook reports, which formed the bedrock of Budget 2023's context, for assuming "better employment and wage prospects", and by extension tax revenue collection in the coming year, particularly in light of the announced tax cut.

It is also important to remember that the forecast decline in the fiscal deficit to GDP ratio, which the Finance Ministry touted as proof of the government's fiscal responsibility, rested on the assumption of average nominal GDP growth at 6.4 percent in the next three years, alongside improved revenue collection as

mentioned above.

Given the impact of global headwinds, such as geopolitical tensions and crises abroad, the claim seemed fragile at best and may have to be revised in the near future.

Tan welcomed the overdue implementation of the Tax Identification Number as well as the proposal to study the introduction of a carbon tax, as Refsa had discussed in its pre-budget statement.

Meanwhile, we emphasise the budget did not pay enough attention to long-term structural changes in the labour market despite “reform” being one of the three guiding principles of the document.

For instance, reskilling and upskilling initiatives continued to be talked about as in previous budgets but it remained to be seen how Budget 2023 promised to do things differently in terms of addressing growing graduate underemployment.

In this regard, existing and new employment programmes should not just focus on hard job creation but also the quality and long-term employability of the beneficiaries as part of their key performance index.

On the subject of increased funding for TVET initiatives, we state that the programmes must be aligned with industry demands in order to create industry-ready practitioners through apprenticeship schemes, industrial placements and something alike.

Another useful strategy would be to ensure that TVET centres are region-specific, with each training centre focusing on the area's comparative advantage, such as electric and electrical in Penang.

Ultimately, despite the goodies for our youth demographic, including the RM200 e-wallet credit, the young people of this country broadly face considerable challenges in earning a living wage.

To resolve this issue, the government should develop strategies to attract high-quality foreign direct investments (and therefore increase the supply of high-skilled jobs rather than the current ecosystem dominated by low-skilled foreign workers) from multinational companies.

And we must support this by increasing the number of industry-ready STEM graduates (as there is demand in value-added sectors like electric and electrical for engineers and technicians) and strengthen our capabilities in IR4.0, among others.

Unfortunately, the original Budget 2023 did not go far enough in this area.

Moving forward, even though the budget will take a backseat in the coming weeks due to the upcoming general election, Refsa urges the incoming administration to take note of feedback from our think tank and the rest of civil society to improve the budget that will be tabled and approved for 2023.

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