

FISCAL POLICY COMMITTEE MEETING

'Fiscal reform necessary to revitalise economy'

KUALA LUMPUR: Fiscal reform is a challenging yet necessary measure to reinvigorate the economy, which has remained stagnant for more than 20 years, said Datuk Seri Anwar Ibrahim.

In a Facebook post, the prime minister disclosed the crux of his meeting with the Fiscal Policy Committee (FPC) on Tuesday to discuss Malaysia's economic scenario and its fiscal projection.

He said the government needed to implement fiscal reform to ensure a sustainable and robust foundation to propel the country towards a high-income economy based on human values.

"With tax revenue accounting for only 11.8 percent of the GDP, the government has limited space to invest in people-centric development and provide necessary assistance to vulnerable and needy groups.

"Fiscal reform will focus on targeting subsidies and expanding the revenue base to create fiscal space that can be allocated to improving the people's welfare," he added.

The government will also address the issue of debt addiction to restore foreign investor confidence, he said.

The FPC members had unanimously agreed to strengthen the Debt Management Office to enhance government debt management and streamline the role of the Investor Relations Office under the Finance Ministry.

When contacted by the *New Straits Times*, economists echoed the importance of fiscal reform and proposed careful implementation and citizen-impact considerations.

Malaysian Economic Association deputy president Dr. Yeah Kim Leng said the thrust of fiscal reform was to expand the government's revenue base so that spending could increase in tandem with

growing needs.

Key milestones of the fiscal reform, he said, could be indicated through the fuel subsidy rationalisation and the service-point increase in service tax.

"With higher revenue mobilisation, we can expect increases in social spending which will uplift the livelihood and well-being of the citizens without raising the country's debt level," Yeah said.

"(But) the public must understand that full economic restructuring will likely pick up pace over the next two years."

Economist Professor Dr. Geoffrey Williams highlighted the positive impact of new frameworks like the Fiscal Responsibility Act and the Medium-Term Fiscal Framework on fiscal policy discipline.

"The framework enhances government policy and boosts confidence in economic management."

He said while working on tax reforms, the government must also look at new taxes (e-payments) that are not just income or consumption-based (SST versus GST).

"A 1 per cent e-payments tax can raise RM15 billion per annum (based on Bank Negara Malaysia's estimated value of such payments) and is very broad-based."

On the nature of these reforms, Malaysian Institute of Economic Research senior fellow Dr. Shankaran Nambiar said drastic shifts could present immediate challenges for the average citizen.

"The goal of enlarging fiscal space and reducing reliance on debt (by the government) is clear.

"However, careful monitoring and behavioural considerations in the reform process are needed to avoid past experiences, like those encountered with the GST (goods and services tax) implementation due to vested interests and administrative shortcomings."