SECTION 1

Fiscal Policy Overview

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Overview

An effective fiscal policy that strikes the right balance between growth considerations and fiscal sustainability is crucial for Malaysia to achieve macroeconomic stability and sound public finances. Therefore, the fiscal stance needs to be more flexible and operate on the efficacy of tax and expenditure measures in charting the nation's development path. This is particularly important at a time when Malaysia is facing the impact of the unprecedented COVID-19 pandemic that has severely affected economies and trade globally. Thus, a comprehensive countercyclical fiscal policy is even more imperative to address the crisis immediately while building economic resilience in the medium-term.

The pandemic has forced most countries, including Malaysia, to impose movement restrictions or lockdowns to prevent wider outbreaks. Malaysia's Movement Control Order (MCO) was enforced on 18 March 2020 to protect the lives of the rakyat. As saving lives was given the top priority, the MCO was carried out at the expense of the economy. With most economic sectors closed for nearly three months, many businesses were in financial distress and at risk of closing down. This resulted in higher retrenchment, which subsequently impacted the livelihood of the rakyat. To cushion the adverse impact of the pandemic on the domestic economy, the Government announced a series of economic stimulus packages and recovery plan initially worth RM295 billion or 20% of Gross Domestic Product (GDP). These initiatives, namely the Economic Stimulus Package (PRE), Prihatin Rakyat Economic Stimulus Package (PRIHATIN), Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) and the National Economic Recovery Plan (PENJANA), reflects the Government's proactive policy intervention in its effort to mitigate the impact of the crisis at the different stages of recovery.

TABLE 1.1. *Federal Government Financial Position, 2019 – 2021*

	RM MILLION			CHANGE (%)			SHARE OF GDP (%)		
	2019	2020[3]	2021[4]	2019	2020[3]	2021[4]	2019	2020[3]	2021[4]
Revenue	264,415	227,270	236,900	*13.5*	*-14.0*	*4.2*	*17.5*	*15.8*	*15.1*
Operating expenditure	263,343	226,720	236,540	*14.0*	*-13.9*	*4.3*	*17.4*	*15.8*	*15.1*
Current balance	**1,072**	**550**	**360**				***0.1***	***0.0***	***0.0***
Gross development expenditure	54,173	50,000	69,000	*-3.4*	*-7.7*	*38.0*	*3.6*	*3.5*	*4.4*
Less: Loan recovery	1,603	1,000	800	*103.4*	*-37.6*	*-20.0*	*0.1*	*0.1*	*0.1*
Net development expenditure	52,570	49,000	68,200	*-4.9*	*-6.8*	*39.2*	*3.5*	*3.4*	*4.3*
COVID-19 Fund[1]	-	38,000	17,000			*-55.3*		*2.6*	*1.1*
Overall balance	**-51,498**	**-86,450**	**-84,840**				***-3.4***	***-6.0***	***-5.4***
Primary balance[2]	**-18,565**	**-51,505**	**-45,840**				***-1.2***	***-3.6***	***-2.9***

[1] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan
[2] Excluding debt service charges
[3] Revised estimate
[4] Budget estimate, excluding 2021 Budget measures
Source: Ministry of Finance, Malaysia

The PRIHATIN package amounting to RM250 billion, which include PRE, were introduced to protect the economy, people and businesses. Meanwhile, to further support affected small and medium businesses, the Government has announced PRIHATIN SME+ amounting to RM10 billion. On 5 June 2020, the PENJANA package was launched with an allocation of RM35 billion focusing on empowering the rakyat, propelling businesses and stimulating the economy. The economic stimulus packages and recovery plan involved a direct fiscal injection from the Government amounting to RM45 billion or 3.1% of GDP and will be financed via domestic borrowing. The Government has also established a dedicated trust fund, the COVID-19 Fund, to consolidate, execute and monitor all fiscal measures under the economic stimulus packages.

In addition, on 23 September 2020, the Government announced an additional RM10 billion under the KITA PRIHATIN package to further enhance existing measures under the PRIHATIN and PENJANA packages. Most of the measures introduced in the economic stimulus packages and recovery plan are short-term in nature, thus, are expected to have a minimal impact on the Government's fiscal position in the medium- and long-term.

Fiscal Challenges During COVID-19 Pandemic

The COVID-19 crisis has brought about greater challenges in managing public finances and heightened fiscal risk exposure. Among others, the major risk factors include a protracted economic downturn, a prolonged pandemic period and lower crude oil prices. These will result in lesser revenue collection, while higher expenditure is needed to pump-prime the economy through countercyclical measures. Consequently, these challenges will increase the debt level and may temporarily disrupt the medium-term fiscal consolidation path.

In the past decade, the Government has successfully consolidated its fiscal deficit. From a high of 6.7% of GDP in 2009 following the Global Financial Crisis, its fiscal deficit was halved to 2.9% in 2017. This was a result of concerted fiscal reform initiatives including revenue diversification and enhancement, spending optimisation and effective debt management. These reforms provided additional fiscal space that enabled the Government to manoeuver during emergency periods. The achievement provides evidence of the ability of the Government to resume fiscal consolidation, strengthen public finances and manage debt level in the coming years.

FEATURE ARTICLE

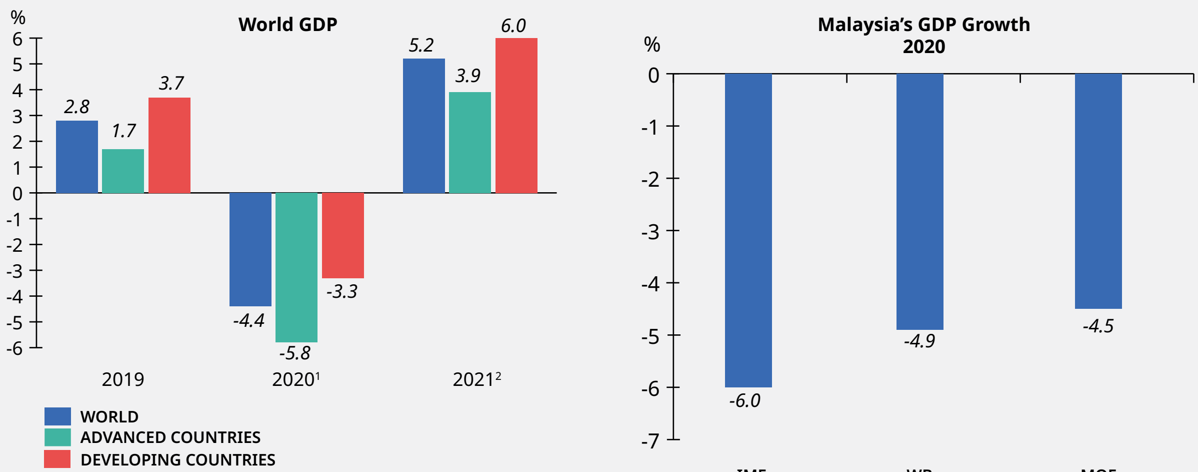
Fiscal Stance in Supporting the Economy - Policy Response to COVID-19 crisis

Introduction

The Corona Virus Disease 2019 (COVID-19) outbreak has triggered a global health crisis, which in turn paralysed economic growth worldwide. To date, the World Health Organisation reported that the virus has spread to most countries globally, infecting over 27 million people with total death surpassing 1 million. The unprecedented crisis has necessitated affected countries to impose containment measures, such as lockdowns and quarantines, to curb the spread of the virus. In addressing the pandemic, both health and economic dimensions were given due consideration in Malaysia. Based on a systematic approach, Malaysia imposed the Movement Control Order (MCO) from 18 March 2020 until 3 May 2020 and the Conditional Movement Control Order (CMCO) from 4 May 2020 until 9 June 2020 to flatten the COVID-19 curve. Once this was achieved, the economy was gradually opened with the Recovery Movement Control Order (RMCO) from 10 June 2020 until end of the year. As a result, Malaysia has been generally successful in containing the spread of COVID-19 pandemic, keeping the fatality rate at about 1% of total positive cases.

While the MCO has managed to control the outbreak, trade and economic activities were severely impacted, thus affecting businesses' cashflows and household incomes. The International Monetary Fund (IMF)[1] projects the global economy to decline by 4.4% from an initial estimate of 3.3%, while Malaysia's GDP to contract by 6%. The negative impact of COVID-19 requires a prompt policy response by the Government to protect vulnerable groups and stimulate the economy. In this case, the Government has been decisive in balancing between saving lives and protecting the livelihood of the rakyat and the economy.

FIGURE 1. *World Economic Outlook*



[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Bank and Ministry of Finance, Malaysia

Malaysia's Fiscal Policy Response to Past Economic Crises

In times of crisis, government intervention is imperative in softening the impact through fiscal and monetary policies. In this regard, most countries will undertake countercyclical measures to cushion the impact and support economic growth. Historically, Malaysia has proven its capability to manoeuvre various crises which have affected its economy. During the Asian Financial Crisis in 1997/1998, the Government was able to introduce an economic stimulus package to revitalise the domestic economy without excessive borrowing on the back of five consecutive years of fiscal surplus prior to the crisis. A total of RM7 billion or 2.5% of GDP was injected into the economy as a countercyclical measure. The overall balance in 1998 recorded a deficit of 1.8% of GDP from a surplus of 2.4% in the previous year.

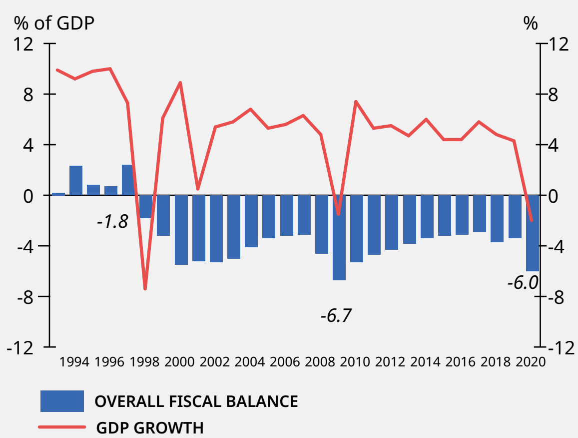
Malaysia was affected by the slow-down in the global growth following another crisis namely the Global Electronics Downturn and the 11 September attack in 2000/2001. The Government then implemented pump-priming measures amounting to RM7.3 billion or 2.1% of GDP to cushion the impact of the crisis. In 2003, the Severe Acute Respiratory Syndrome (SARS) outbreak and the Iraq War affected the world economic recovery. The adverse events forced the Government to implement another round of pre-emptive package amounting to RM7.3 billion or 2% of GDP. Two series of economic stimulus packages in 2003 further increased the deficit level to around 5% of GDP. However, with the swift implementation of stimulus packages, the economy recovered strongly with an annual average growth rate of 6% during the period of 2003–2007. More importantly, the Government subsequently embarked on a fiscal consolidation path and successfully reduced the fiscal deficit to 3.1% of GDP in 2007.

[1] World Economic Outlook, October 2020: A Long and Difficult Ascent

In the wake of the 2008/2009 Global Financial Crisis, the fiscal policy reassumed a leading role in stabilising the impact of the global slow-down on the domestic economy. The Government introduced two stimulus packages amounting to RM67 billion or 9.4% of GDP. The packages focused on protecting jobs, providing skills training and re-training, facilitating private sector activities as well as easing the burden of vulnerable groups. As a result, the fiscal deficit surged to 6.7% of GDP at the end of 2009. Post-crisis, the Government resumed its consolidation path and successfully reduced the fiscal deficit to 2.9% of GDP in 2017.

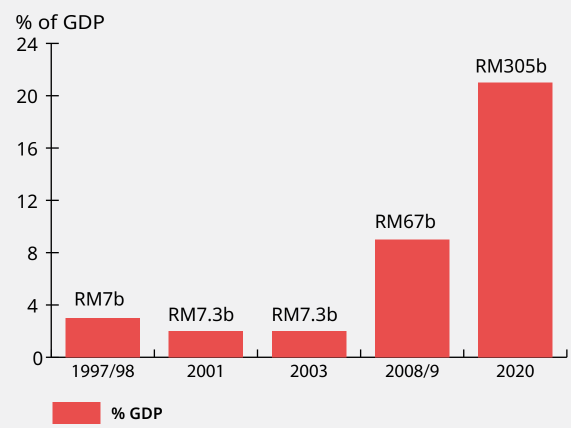
In managing various economic crises during the 1998–2009 period, the Government has extensively leveraged on fiscal policy tools, supported by monetary policy and administrative measures, to safeguard the nation's economy and ensuring the well-being of the rakyat. In total, the countercyclical fiscal measures has registered approximately RM88 billion or 12% of GDP. This portrayed the nation's ability to weather crises which enabled it to emerge stronger, supported by sound economic fundamentals and effective institutional capacity.

FIGURE 2. *Federal Government Financial Position and GDP Growth, 1993 – 2020*



Source: Ministry of Finance, Malaysia

FIGURE 3. *Fiscal Stimulus Packages*



The 2020 COVID-19 Crisis and Stimulus Packages

Entering the new decade of 2011–2020, the Government continued to implement fiscal reforms through bold public finances management initiatives. Among the measures implemented include broadening and diversifying the revenue base as well as instituting expenditure rationalisation and prudent debt management. These efforts have provided fiscal flexibility for the Government to mitigate the COVID-19 crisis, which has affected the rakyat and economy extensively.

In addressing the current crisis in 2020, the Government has introduced the 6R strategy: Resolve, Resilient, Restart, Recovery, Revitalise and Reform. The Government remains focused on completing the various stages of the strategy through the implementation of several economic stimulus packages and recovery plan, namely the Economic Stimulus Package (PRE), PRIHATIN Rakyat Economic Stimulus Package (PRIHATIN), Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+), National Economic Recovery Plan (PENJANA) and KITA PRIHATIN.

In March, the Government introduced the PRIHATIN stimulus package which include PRE, with a total size of RM250 billion with a direct fiscal injection of RM25 billion, which focuses on supporting and protecting people's livelihood as well as easing business cashflows. Assistance under PRIHATIN includes direct cash assistance to households and funds for businesses. Other measures include an allocation for healthcare services and a 6-month loan repayment moratorium for individuals and businesses, especially SMEs.

The *Bantuan Prihatin Nasional* (BPN), a one-off cash assistance to ease the burden of the people, is expected to benefit about 10 million recipients with an allocation of RM11.2 billion. In addition, the Wage Subsidy Programme (WSP) was introduced to assist employers in retaining their workers. The programme is expected to benefit 3.3 million employees. An additional allocation of RM1.5 billion is channelled for healthcare support and purchase of medical apparatus to curb the spread of the COVID-19. The Government also introduced i-Lestari, an initiative worth RM40 billion by the Employees' Provident Fund (EPF), which allows contributors to withdraw up to RM500 a month from their retirement fund. Banking institutions have also offered a 6-month moratorium on bank loans repayment worth RM100 billion to companies, SMEs and individuals to ease the cash flow burden. In addition, on 6 April 2020, the PRIHATIN plus package was launched to further support the SMEs businesses with a direct fiscal injection of RM10 billion. The package include enhancement of the WSP and introduction of PRIHATIN Special Grants (GKP) for SMEs.

On 5 June 2020, the Government unveiled PENJANA, a short-term economic recovery plan worth RM35 billion with a direct fiscal injection of RM10 billion. The PENJANA package focuses on three thrusts, namely empower the people, propel businesses and stimulate the economy. In empowering the people, various measures have been formulated to protect jobs and promote employment. Among others, the Government has provided allocations for hiring, reskilling and training as well as enhance the WSP to ensure businesses are ready to restart their operations.

Under the second thrust, the focus is towards sustaining business operations as well as enhancing productivity and competitiveness in the new normal environment. The measures include financial support to businesses through various schemes, such as SME and micro-financing, tourism financing and Bumiputera Relief Financing. In addition, to ease the financial burden, a tax incentive is provided for COVID-19 related expenses and remission of penalties related to late tax payments.

The third thrust, which aims to stimulate the economy will emphasise efforts to accelerate the economic recovery process. The tourism sector, the most affected by the COVID-19 pandemic, will be provided with systematic support through various tax incentives and financial assistance to enable the sector to adapt and expand in the new normal. Incentives are also provided for the property and automotive subsectors to help stimulate and boost activities in these subsectors. In addition, the incentives will provide financial relief to home and passenger car buyers.

On 23 September 2020, the Government announced an additional RM10 billion to further enhance existing measures, namely the BPN, GKP and a more targeted WSP under KITA PRIHATIN package. The package involved an additional allocation of RM7 billion for BPN, RM2.4 billion for wage subsidy and RM600 million for the SMEs Special Grant. This allocation will be partly financed through borrowing.

In all, the COVID-19 crisis has forced the Government to implement policy intervention with an extensive fiscal stimulus and economic recovery plan. These countercyclical measures are imperative to cushion the impact of the crisis as well as stimulate the economy and enhance the recovery process. The economic stimulus packages and recovery plan amounting to around 20% of GDP was injected into the economy The direct fiscal injection reflects higher spending by the Government to cushion the impact of the COVID-19 crisis.

TABLE 1: *2020 Economic Stimulus Packages and Recovery Plan*

PACKAGE	TOTAL VALUE		DIRECT FISCAL INJECTION	
	RM BILLION	% OF GDP	RM BILLION	% OF GDP
PRIHATIN	**250.0**	***17.4***	**25.0**	***1.7***
PRE	*19.7*	*1.4*	*3.2*	*0.2*
PRIHATIN	*230.3*	*16.0*	*21.8*	*1.5*
PRIHATIN SME+	**10.0**	***0.7***	**10.0**	***0.7***
PENJANA	**35.0**	***2.4***	**10.0**	***0.7***
SUB TOTAL	**295.0**	***20.5***	**45.0**	***3.1***
KITA PRIHATIN	10.0	*0.7*	10.0	*0.7*
TOTAL	**305.0**	***21.2***	**55.0**	***3.8***

Note: Additional spending exceeding RM45 billion of the COVID-19 Fund will be tabled to the Parliament
Source: Ministry of Finance, Malaysia

Impact of the Economic Stimulus Packages and Recovery Plan

The restriction movement imposed by the Government has caused major disruptions to economic activities in the second quarter of 2020. However, the economy is expected to gradually recover in the latter half of the year due to the Government's capability to contain COVID-19 cases. This has enabled the Government to lift the movement restrictions gradually and reopen more sectors. Fiscal policy measures, coupled with the accommodative monetary policy introduced by the Government at the same time, has reduced the severity of COVID-19 pandemic on the Malaysian economy. The implementation of stimulus packages and recovery plan is expected to boost aggregate demand and sustain employment. The PRIHATIN and PENJANA measures are estimated to improve the GDP growth by over 4.0 percentage points and contribute 3.5 percentage points to employment growth.

In the 2020 Budget, the Government targeted a fiscal deficit of 3.2% of GDP. However, with the additional fiscal injection for economic stimulus packages and recovery plan, lower GDP estimate and lower crude oil prices, the fiscal deficit is expected to rise to 6% of GDP. The expected higher deficit is based on the assumption of a lower average crude oil price of USD40 per barrel compared with the original estimate of USD62, revenue forgone in the form of tax incentives partly cushioned by additional dividends and special payments, expenditure savings and recalibration of existing allocations. Nevertheless, all measures in the PRIHATIN and PENJANA packages are short-term in nature, thus, they will not burden the Government's finances in the medium term. The Government will resume its fiscal consolidation path with a lower deficit averaging 4.5% of GDP over the medium term. The expected lower deficit will create sufficient fiscal space and ensure that the Government's fiscal position and debt level remain manageable and sustainable.

Formulation of the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 Act

The COVID-19 crisis requires an extraordinary fiscal policy response to address the crisis effectively. It is vital to provide a temporary reprieve from fiscal discipline in view of the more pressing need to ease the burden of the people, facilitate the businesses and revitalise the economy. Therefore, the Government formulated a new Act to ensure the financing and implementation of PRIHATIN and PENJANA packages are still carried out within existing legislations.

The Act, which is known as the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 Act, was passed by the Parliament on 21 September 2020 and will remain in force until 31 December 2022. The Act allows the Government to obtain additional borrowing to finance measures under the economic stimulus packages and recovery plan. Under this Act, the statutory limit of the Federal Government's outstanding debt has been temporarily lifted from 55% to 60% of GDP.

Parallel with the enactment of the Act, the Government has also established a trust fund known as the COVID-19 Fund. Under the new Act, proceeds from borrowings are allowed to be transferred into this specific Fund to finance programmes under the PRIHATIN and PENJANA packages. The establishment of the Fund will ensure a swift and effective roll-out of the initiatives under the stimulus packages. The initiatives are also monitored by the Implementation and Coordination of National Agencies on the Economic Stimulus Unit (LAKSANA), a unit under the Ministry of Finance. LAKSANA is tasked in ensuring effective and efficient implementation of all initiatives across all ministries and Government agencies.

Conclusion

The COVID-19 pandemic has posed a serious threat to human health and caused a severe shock to the global economy. Most countries have introduced stimulus packages and recovery plans to mitigate the impact of the pandemic. Generally, governments need to strike a balance between saving lives and protecting the livelihood of the people as well as supporting the economy. As for Malaysia, fiscal policy interventions and an accommodative monetary policy are crucial in protecting its people as well as the economy which has been built and developed over the past six decades. Hence, compliance with fiscal discipline has been given a temporary reprieve given the pressing need to manage the crisis. The Government is committed to resume its fiscal consolidation in the medium-term once the crisis ends, and continue to implement fiscal reforms to ensure long-term fiscal sustainability.

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Fiscal Position in 2020

The revenue performance is expected to be negatively affected amid slower domestic economic activities and lower crude oil prices assumption due to the COVID-19 pandemic. The revenue shortfall, estimated at around 20% from the budget estimates, will be cushioned by additional dividends and a special contribution from Government's entities, such as Petroliam Nasional Berhad (PETRONAS), Khazanah Nasional Berhad (KHAZANAH) and Retirement Fund (Incorporated) (KWAP). Total revenue is revised to be lower at RM227.3 billion or 15.8% of GDP as compared to the budget estimates at RM244.5 billion.

In contrast, total expenditure is expected to increase by 6% or RM17.7 billion to RM314.7 billion compared to initial estimates of RM297 billion. The net increase is due to the fiscal stimulus injection of RM38 billion off-set by savings of RM20.3 billion from the revision of existing programmes and projects, as well as the shortfall in spending from budget estimates. Total savings from operating expenditure (OE) is anticipated at RM9.3 billion, which include fuel subsidies, supplies and services and grants to statutory bodies. The balance of RM11 billion is from the expected shortfall in development expenditure (DE) following the revision and rescheduling of several projects due to the MCO.

The OE is estimated to be rationalised by 5.9% to RM226.7 billion from original estimates at RM241 billion, mainly due to savings and reclassification of development-related items. The DE is expected to decrease by 11% to RM50 billion from budget estimates of RM56 billion after taking into account spending shortfalls and the reclassification of several development-related items from OE. The spending for the stimulus packages and recovery plan under the newly created COVID-19 Fund will be based on an estimated disbursement at RM38 billion with the balance will be carried over the following years.

Overall, the Federal Government's fiscal deficit is expected to increase to 6% of GDP, reflected by the pump-priming measures and lower GDP estimate and revenue collection. Consequently, excluding debt service charges, the primary balance is estimated to record a higher deficit of 3.6% of GDP.

Outlook for 2021

During the transitional year of 2021 from crisis to recovery, the Government will continue to focus on the recovery measures to revitalise the economy, support business activities and protect the well-being of the rakyat. The Government will shift from broad-based support to a more targeted fiscal support with measures directed towards fulfilling the essential needs of the rakyat, retaining employment and ensuring continuity of businesses. In addition, the 2021 Budget, which marks the beginning of the Twelfth Malaysia Plan, 2021-2025 (12MP) period will chart the nation's development path in the new normal. Allocations will be channelled towards more targeted programmes and projects with high multiplier impact to ensure value-for-money. The Government will continue to invest in public infrastructure projects to support the economy and stimulate growth in these challenging times.

The Federal Government's revenue is forecast at RM236.9 billion or 15.1% of GDP in 2021. The higher revenue projection is based on the expected increase in tax revenue collection to RM174.4 billion, and the estimated non-tax revenue of RM62.5 billion. Total expenditure is estimated at RM322.5 billion or 20.5% of GDP. OE is budgeted at RM236.5 billion and DE at RM69 billion, while the remaining RM17 billion is for COVID-19 Fund disbursement. The OE is mainly for emoluments, debt service charges as well as supplies and services. The DE allocation will be mainly steered towards accelerating impactful public infrastructure projects, primarily for transport and connectivity, such as Mass Rapid Transit 2 (MRT2), Pan Borneo Highway and National Fiberisation and Connectivity Plan (NFCP) as well as for education and training, particularly in the reconstruction of dilapidated schools. In addition, the Government will provide a sizeable allocation to ensure better quality healthcare and accessibility to health services for ongoing projects including the construction of pathology laboratories and procurement of medical equipment. The implementation of programmes and projects will continue to be aligned with the nation-building agenda that is based on sustainable development.

The Government will ensure a swift implementation of the economic stimulus packages and recovery plan under the COVID-19 Fund. Among programmes and projects under the Fund include the Wage Subsidies Programme, consolidation of cash assistance programmes under the *Bantuan Prihatin Nasional* (BPN), small-scale infrastructure projects, as well as food security programme.

Despite taking into account additional economic stimulus package, the 2021 fiscal deficit is expected to reduce to 5.4% of GDP with the primary deficit estimated at 2.9%. Nevertheless, the Government is committed to gradually consolidate its deficit level in the medium-term and resume its fiscal consolidation trajectory without disrupting the momentum of economic recovery and long-term development agenda.

Medium-Term Fiscal Framework 2021-2023

The Medium-Term Fiscal Framework (MTFF) provides a macro-fiscal projection over three years. The set targets for revenue and expenditure will serve as guidance for the Government's medium-term fiscal path. Hence, the MTFF is an important tool for fiscal policy management, which promotes fiscal discipline, ensures appropriate resource allocation and forecast beyond the annual planning horizon.

The 2021 – 2023 MTFF is based on the updated macroeconomic and fiscal assumptions after taking into account the impact of the COVID-19 crisis. The revised MTFF assumptions include real GDP growth of between 4.5% and 5.5% (nominal GDP growth: 5.5% and 6.5%), crude oil prices between USD45 and USD55 per barrel and crude oil production of 580,000 barrels per day.

In the medium-term period, total revenue is expected to reach RM731 billion or 14.7% of GDP, contributed mainly from non-petroleum revenue which is forecast at RM609.7 billion or 12.3% of GDP. Petroleum-related revenue is projected at RM121.3 billion or 2.4% of GDP. The Government will enhance its revenue by exploring new sources, widening the revenue base, improving tax administration and adopting the Medium-Term Revenue Strategy (MTRS).

TABLE 1.2. *Medium-Term Fiscal Framework (MTFF), 2021 – 2023*

	2021 – 2023	
	RM BILLION	**SHARE OF GDP (%)**
Revenue	731.0	*14.7*
Non-petroleum	609.7	*12.3*
Petroleum-related	121.3	*2.4*
Operating expenditure	730.3	*14.7*
Current balance	**0.7**	***0.0***
Gross development expenditure	212.5	*4.3*
Less: Loan recovery	2.0	*0.1*
Net development expenditure	210.5	*4.2*
COVID-19 Fund[1]	17.0	*0.3*
Overall balance	**-226.8**	***-4.5***
Primary balance	**-102.8**	***-2.1***
Underlying assumptions:		
Real GDP growth (%)	4.5 - 5.5	
Nominal GDP growth (%)	5.5 - 6.5	
Crude oil price (USD per barrel)	45 - 55	
Oil production (barrels per day)	580,000	

[1] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan

Note: MTFF estimate, excluding budget measures

The total indicative ceiling for the three-year expenditure, including COVID-19 Fund allocation, is estimated at RM959.8 billion or 19.3% of GDP. OE allocation is projected at RM730.3 billion or 14.7% of GDP, while DE at RM212.5 billion or 4.3% of GDP. The indicative ceiling will provide broad guidance to ministries and agencies in their budget planning in ensuring a more targeted and disciplined in fiscal management.

Thus, the overall fiscal deficit is targeted to average 4.5% of GDP for the three years while the Federal Government debt is expected to increase, albeit at a manageable level. During the MTFF period, the Government will continue to support economic recovery and build capacity towards a more resilient and sustained economic growth. The fiscal stance will complement these initiatives while observing sound public finances and continuing fiscal reform initiatives.

INFORMATION BOX

An Update On Fiscal Responsibility Act

Introduction

The Fiscal Responsibility Act (FRA) is identified as one of the reform initiatives to strengthen fiscal institutions through enhancement of fiscal discipline, spending effectiveness and public finance transparency. The main purpose of the law is to secure sound public finance while ensuring medium- and long-term fiscal sustainability as well as to support economic stability in the country. In the 2019 Budget, the Government has announced the commitment to legislate the FRA in 2021.

The FRA will be formulated based on international best practices of fiscal responsibility legislations (FRLs). Many countries have enacted a specific law to govern public finances including Australia, Brazil, Chile, Ireland, New Zealand, Thailand and the United Kingdom. Among good principles and practices of responsible fiscal management include establishment of fiscal rules, reduction of public debt to a prudent level, maintaining operating surplus and net worth, managing fiscal risks, and maintaining a predictable and stable tax rate.

FIGURE 1. *Examples of good and responsible fiscal management principles and practice*

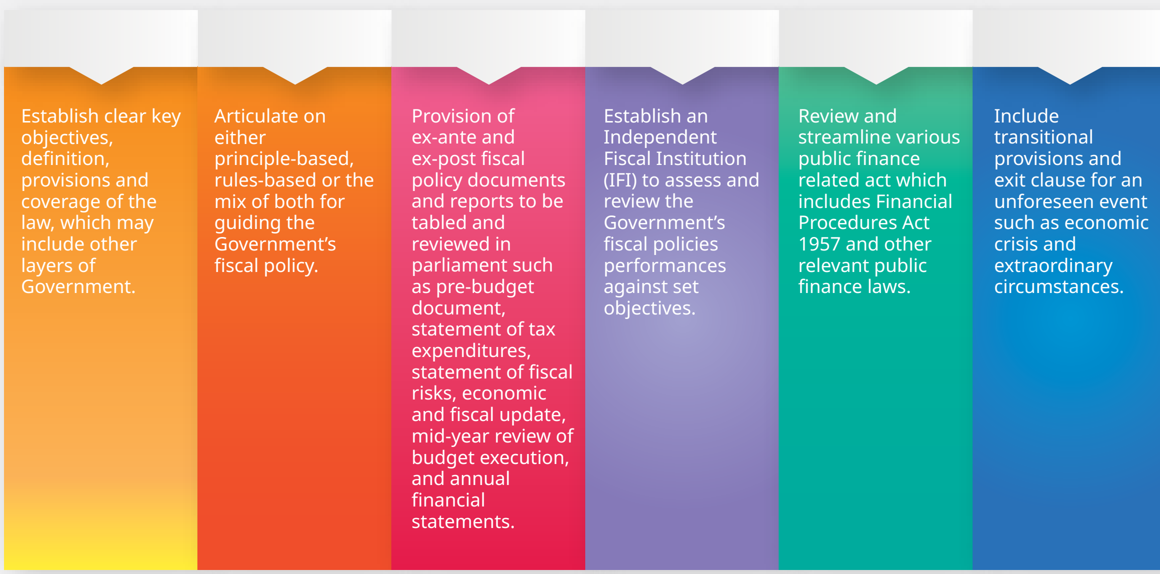
Source: Manual of Fiscal Transparency, International Monetary Fund (IMF)

Current Status

Beginning 2019, a Steering Committee was established with the main objective to guide and direct the development of FRA. The members of Steering Committee consist of representatives from the Ministry of Finance (MOF), Attorney General's Chambers, National Audit Department, Economic Planning Unit, Bank Negara Malaysia and Accountant General's Department of Malaysia. The Steering Committee is responsible for providing guidance on analysis and assessment related to the FRA as well as propose a legislation draft. The committee deliberated on policy issues, which includes elements and framework of the FRA as well as transparency and accountability.

MOF has also engaged with the International Monetary Fund (IMF) for technical assistance on FRA. A knowledge-sharing workshop was conducted by the IMF in February 2020 to identify suitable international best practices that could be applied in Malaysia. The IMF team had also met with the Public Accounts Committee (PAC) of Parliament to get their views on the FRA.

FIGURE 2. *Key FRA elements for considerations*



Conclusion

The FRA is one of the key elements of the fiscal reforms initiatives which will provide the impetus towards a more disciplined and prudent public finance management. As the Government aspires to enhance its fiscal governance and transparency to be in line with international best practices, the formulation of the FRA is imperative. Currently, the Government is engaging and discussing with key domestic and international agencies to explore various options in the formulation of the FRA.

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Conclusion

The Government will continue to fulfil its utmost responsibility to safeguard the nation's interests, particularly during times of adversity. In addressing unprecedented challenges which impacted the economy and the people, the Government has acted swiftly by implementing countercyclical measures with the series of economic stimulus packages and recovery plan. The immediate fiscal policy response is critical to ensure the economy has the ability and capacity to quickly rebound post-recovery. Concurrently, fiscal reform initiatives are also in place. These initiatives, namely the formulation of the Fiscal Responsibility Act, development of the MTRS and medium-term budgeting framework, are undertaken to further enhance sustainability and accountability by the Government in pursuing sound public finances.

FIGURE 1.1. *Federal Government Overall and Primary Balance*

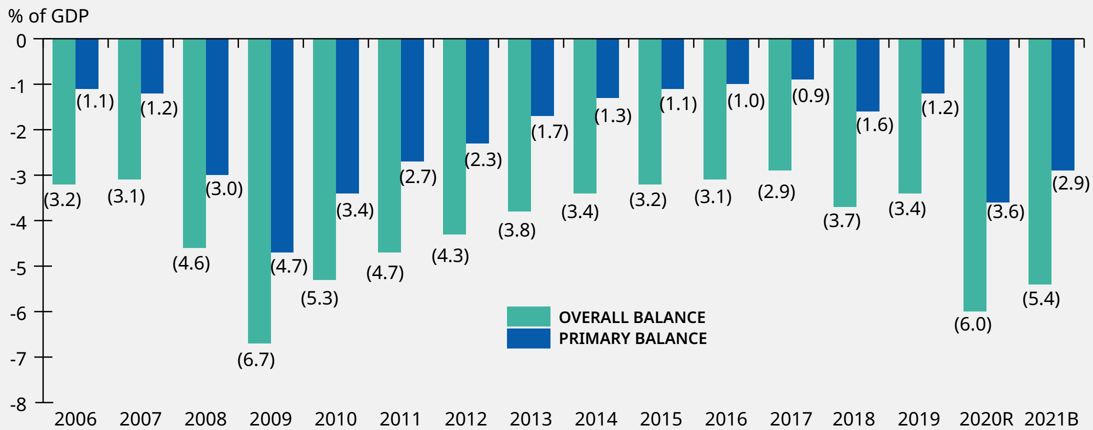


FIGURE 1.2. *Federal Government Revenue, Operating Expenditure and Current Balance*

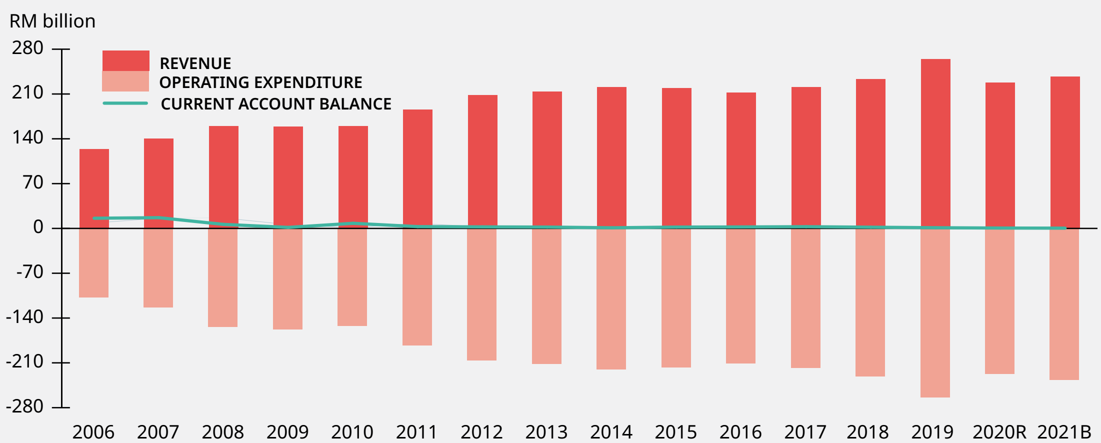
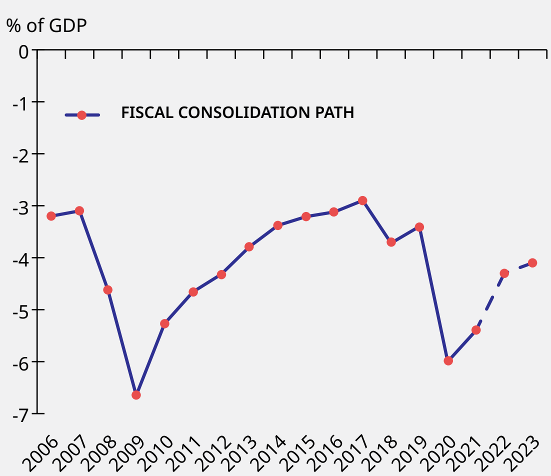


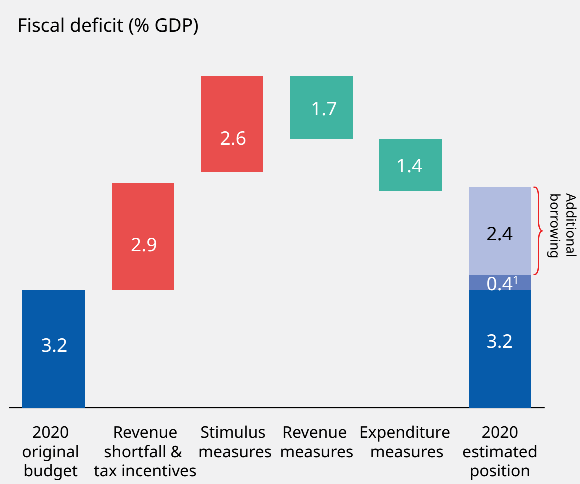
FIGURE 1.3. *Federal Government MTFF Overall Balance*



Note: 2020: Revised estimate
2021: Budget estimate, excluding 2021 Budget measures

Source: Ministry of Finance, Malaysia

FIGURE 1.4. *Revised Fiscal Position in 2020*



[1]Reflecting lower nominal GDP