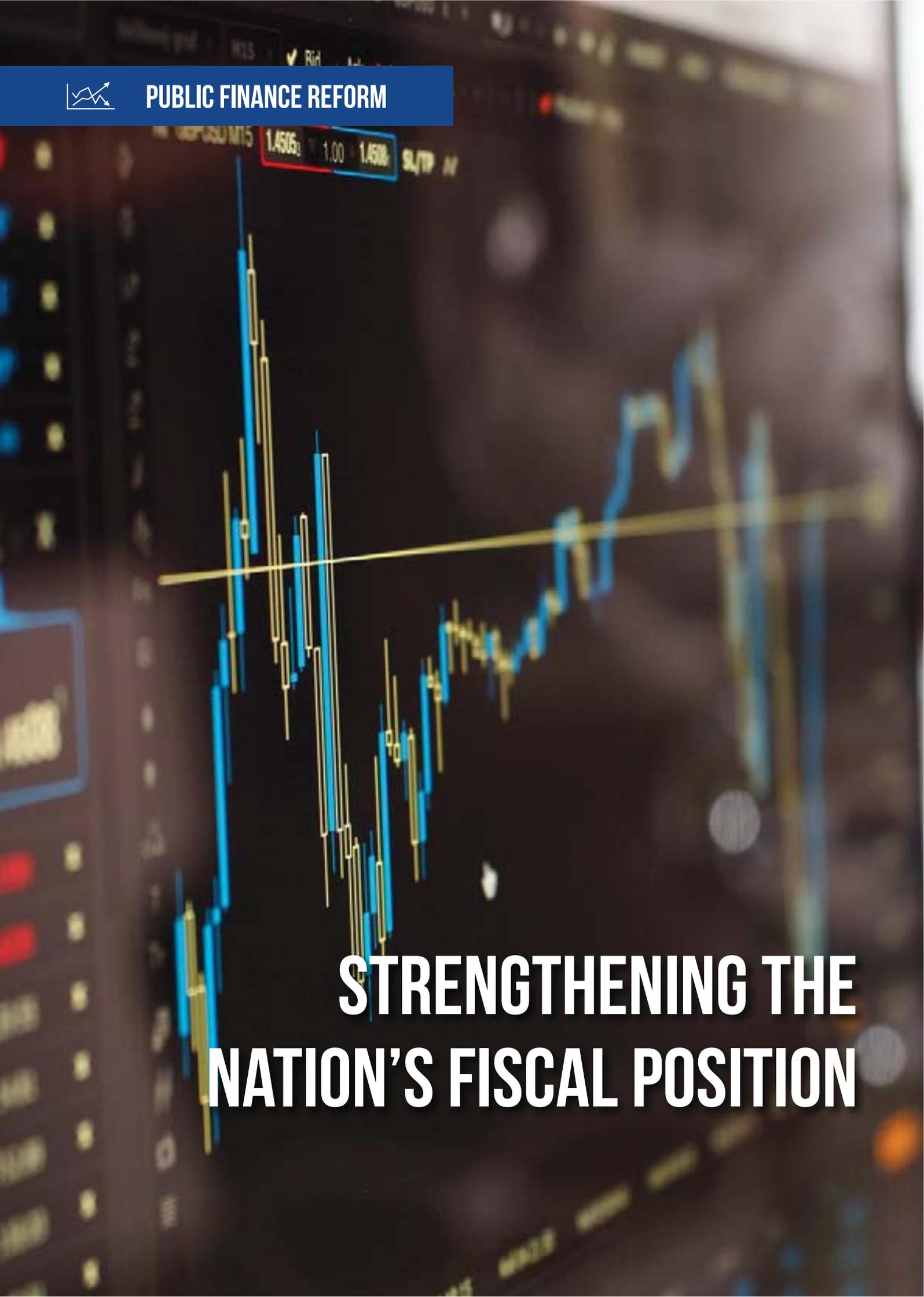




PUBLIC FINANCE REFORM

The background of the page is a blurred image of a financial market display. It features a candlestick chart with blue and yellow bars, overlaid with a yellow moving average line. The chart is set against a dark background with various data points and text, including '1.4505', '1.00', and '1.4500'.

STRENGTHENING THE NATION'S FISCAL POSITION



YB DATUK SERI JOHARI ABDUL GHANI
Minister of Finance II

The Public Finance Reform SRI is focused on exercising prudence in Government spending while increasing revenue to ensure a sustainable fiscal position. At times, this has required the introduction of difficult but necessary measures as we seek to institutionalise structural reform of the Government's finances in a disciplined manner.

Two major outcomes of this approach have been the gradual removal of subsidies to optimise public spending and the introduction of the Goods and Services Tax (GST) to enhance the efficiency and transparency of tax system. Although the rakyat were sceptical on these activities at first, these initiatives have enabled the Government to redirect allocations of non-targeted blanket subsidies towards direct targeted financial aid. This has allowed the Government to be more effective in assisting the rakyat in managing living costs, especially the bottom 40% of Malaysia's household income earners (B40) who need this support the most.

Furthermore, the GST has diversified the Government's sources of income from its previous reliance on oil and gas revenue, strengthening our resilience against external shocks. This ensures that the Government revenue and the Malaysian economy are shielded from commodity price volatility, as we have seen in recent years. In 2017, the Government's oil-related revenue, as a percentage of total revenue, declined to 15.1% from 41.3% in 2009.

As a result of these reform initiatives, Malaysia's fiscal deficit has continued to narrow from 6.7% in 2009 to 3% in 2017. Our improved fiscal position

has supported the adherence to our self-imposed debt ceiling of 55% of GDP, while we also continue to implement Outcome Based Budgeting (OBB) which replaces the Modified Budgeting System to achieve efficient and effective management of public sector programmes.

With all these measures in place, we remain confident of achieving our target of a near-balanced budget in 2020, ensuring the sustainability of public finances and resilience of Malaysia's economy for generations to come.

TARGETING A NEAR-BALANCED FISCAL POSITION FOR A SUSTAINABLE FUTURE

The Malaysian Government has come a long way in reforming its fiscal policy since 2009. The implementation of the NTP introduced a two-pronged approach to public finance reform: enhancing Government revenue and exercising expenditure optimisation to achieve a near-balanced budget in 2020.

Enhancing Government revenue

Measures to enhance Government revenue have focused on improving tax administration and compliance of direct and indirect taxes, as well as implementing the GST to allow for broader tax-based collection. These are implemented by the Ministry of Finance's (MoF) tax agencies, namely the Inland Revenue Board of Malaysia (IRBM) which collects direct taxes and the Royal Malaysian Customs Department (RMCD) which collects indirect taxes.

The challenge for these initiatives remains non-compliance to tax laws, including tax evasion and tax avoidance. Additionally, more enforcement is required to enable taxation of those involved in informal sectors, especially e-commerce, to reduce tax leakages. Furthermore, there remain companies which have not registered for GST, hindering optimal tax collection. As at the end of December 2017, a total of 462,784 business entities have registered under the GST.

In view of this, the Government has established the Collection Intelligence Arrangement (CIA) as part of continuous efforts to reduce tax evasion, avoidance and leakage. Members of CIA are the IRBM, RMCD and the Companies Commission of Malaysia. CIA provides an integrated information-sharing platform between agencies in enhancing enforcement and increasing compliance as well as addressing informal sectors of the economy.

The Government is also reviewing tax incentives to ensure the tax breaks provided achieve its intended outcome of facilitating private investment to channel money back into the economy.

Exercising expenditure optimisation

Since 2010, the Government has gradually rationalised subsidies to shift away from blanket subsidies towards providing targeted assistance. This has allowed the Government to channel aid to those most in need through activities such as Bantuan Rakyat 1Malaysia (BR1M). As at the end of 2017, more than RM26 billion in direct cash assistance under BR1M has been provided to over seven million individuals and families in the B40 bracket. These efforts are also focused on increasing inclusiveness within the Malaysian economy.

To further instil discipline in managing its finances, the Government has also put in place an administrative fiscal rule of financing operating expenditure through its revenue while borrowing is strictly to finance development expenditure. As a result, the ratio of Government debt to GDP in 2017 has improved to 50.8% from 52.7% in 2016.

The Government has continued the implementation of OBB which is in line with the Government's efforts to rationalise fiscal policy initiatives through better expenditure management and enhanced accountability to managers at all levels. The OBB provides Ministries an integrated performance framework designed to focus on outcomes and established the necessary vertical alignments of Ministries' programmes to national planning and horizontal linkages of ministries' programmes to ensure more efficient and effective management of public sector programmes. The Ministry's results framework based on the OBB Program-Activity structure was made public through the Budget 2018 announced on 27 October 2017.



MOVING FORWARD ▶▶

The continued narrowing of the fiscal deficit since 2009 bears testimony to the success of the Government's fiscal reforms. As the Government maintains its discipline and prudence in managing its finances towards achieving its targeted near-balanced budget in 2020, it will continue to prioritise rakyat-centric and high-impact programmes and projects.

This will focus on maximising outcomes, reducing leakages and enhancing value-for-money expenditure, with emphasis placed on the provision of essential services to the rakyat, particularly in the areas of healthcare, education and targeted assistance. The Government will also increasingly focus on the future generation, enhancing the rakyat's well-being and ensuring inclusiveness.

Collectively, these will further strengthen the country's economic fundamentals and resilience in line with its transformation into a high-income nation and towards the goals of Transformasi Nasional 2050 (TN50) for Malaysia to become a top-20 country in terms of economic development, social advancement and innovation.
