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Budget 2022: PM Ismail Sabri set to raise development spending as Putrajaya aims to ramp up recovery drive

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A Malaysian flag is pictured at Dataran Merdeka in Kuala Lumpur September 15, 2021. — Picture by Yusof Mat Isa

KUALA LUMPUR, Oct 29 — The federal government could unveil an expansionary budget to jumpstart an economy beset by a pandemic and undo nearly two years worth of damage, with analysts predicting record spending to create more jobs, support key industries and raise living standards.

Prime Minister Datuk Seri Ismail Sabri Yaakob would likely announce a sizable increase in development spending compared to this year's record allocation, as his government seeks to sustain many of the Covid-19 relief measures.

In the run up to his maiden spending plan, Ismail pledged to continue cash aid and other forms of assistance to low-income households and pump liquidity into small and medium enterprises. These programmes have been the centerpiece of the ruling coalition's pandemic response, and Ismail is expected to retain them as key drivers for recovery efforts under Budget 2022.

Estimated total development spending could reach RM110 billion, according to a forecast by UOB senior economist Julia Goh and economist Loke Siew Ting, an 11.6 per cent increase with RM75 billion carved out for development expenditure and RM35 billion for the Covid Fund.

Goh noted some of the figures were already pledged under the 12th Malaysian Plan (12MP).

"We expect expansionary policies which include RM32.5 billion for Covid-19 Fund, development expenditure of RM76.1 billion (including rehabilitation plan), continued targeted cash handouts and financial aid particularly for micro, small and medium enterprises (MSMEs)," the two said in their Budget 2022 outlook.

"These initiatives will be aligned with the 12th Malaysia Plan (12MP, 2021- 2025) and Sustainable Development Goals (SDG) that sets the medium-to-long term path for the country."

These policies may include additional relief measures and retention of subsidies for fuel, cooking oil, liquefied gas, wages, and electricity bills. Goh and Loke believe Putrajaya could also expand aid for basic necessities to include free data plans to enable online learning for poor students.

But these expenses would still be smaller compared to the amount that will go into the government's plans to "rehabilitate" agencies in financial problems and restart mega infrastructure projects that had been slowed down by the Covid-19 crisis.

Datuk Seri Mustapa Muhammed, the minister overseeing the Economic Planning Unit, was reported saying some parts of the rehabilitation drive, announced under the 12MP, will be funded by the 2022 Budget.

"The 11.6 per cent increase in DE for 2022 reflects allocations for the rehabilitation of government agencies, unutilised funds from 2021 due to slow project execution amid the movement restrictions, and commencement of ongoing mega projects," the UOB outlook said.

"Major public sector projects that will be undertaken include the East Coast Rail Link (ECRL, to be completed in 2026), Johor Bahru-Singapore Rapid Transit System (RTS, to begin by end-2021), and Pan Borneo Highway".

Total government expenditure is projected to rise 2.9 per cent to RM338.1 billion in 2022 from RM328.4 billion for this year although a higher revenue collection, estimated to be RM230 billion, may offset the impact, according to UOB's forecast.

The same forecast expects operating expenditure to reflect the rise in fixed expenses namely emoluments, pension and gratuities. Putrajaya is also expected to pay more for debt service charges as it looks to raise borrowing. UOB said the expenses could take up nearly two-thirds of the budget.

Most analysts have settled for a 5 to 6 per cent growth forecast for 2022 on the back of optimism that economic activities will resume fully as the government is set to inoculate at least 90 per cent of the population by this year, easing the transition towards the endemic phase.

Ismail Sabri pledged to increase the National Covid Fund, with a large chunk to be channeled into a stronger public healthcare system prepared for future waves of infection. The additional fund will also be used to stock up on vaccines.

Denise Cheok, economist at Moody's Analytics, expects Putrajaya to maximise the borrowing limit with the fiscal deficit to stand 6.5 per cent of GDP as Ismail is set to raise spending for next year.

"We expect the statutory debt ceiling to be raised 65 per cent, and the fiscal deficit to come in at about 6.5 per cent of GDP. Budget 2022 is expected to remain expansionary, with the main intent to tide the economy over the tail end of the pandemic," he told *Malay Mail*.

Among areas of focus will be reviving domestic tourism. But Cheok said policymakers will eventually have to "pivot" towards longer term goals to unlock new growth opportunities.

"Although domestic travel restrictions have been relaxed, tourism-related industries are still far from pre-pandemic levels after a year and a half of inactivity," he said.

"However, the Malaysian government will need to eventually address its rising deficit, and also pivot towards longer term goals such as digitisation and climate change."