Fiscal deficit to be off target

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Economists see shortfall in revenue from changes in taxation, fuel subsidies

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PETALING JAYA: The government is likely to miss its fiscal deficit target of 2.8% this year due to a shortfall in revenue from changes in the tax system and fuel subsidies, economists said.

Malaysian Rating Corp Bhd (MARC) economist Nor Zahidi Alias reckoned the overall deficit to remain at last year's level of 3% of gross domestic product (GDP) due to a reduction in revenue due to the zerorisation of the Goods and Services Tax (GST).

"Going forward, in order to continue its fiscal consolidation effort, MARC expects the government to introduce medium-term revenue-generating measures and continue to rationalise operating and development expenditures," he said in a recent report.

Meanwhile, JF Apex said other populist measures likely to be implemented including the reduction of tolls in stages, abolishment of Felda settlers' debts and deferment of repayment for higher education loans are expected to strain government coffers.

On a positive note, it said the government is striving to contain its rising operating expenditure by reducing the Cabinet size, reviewing remunerations for government-linked companies' (GLCs) top-ranked officials, cutting unnecessary political appointees in the civil workforce, and reviewing ongoing and future mega projects and their related financing terms.

The research house expected GDP growth for this year to slow down to 5.0%-5.3% following a surprisingly strong 5.9% growth recorded in 2017.

Nonetheless, UBS Investment Bank economist Alice Fulwood said she was confident the government could reduce the country's fiscal deficit to 2.8% next year as it makes greater headway in cutting wasteful spending.

The government had targeted to reduce its fiscal deficit to 2.8% in 2018, from 3% in 2017.

Nor Zahidi expects the government to issue RM100bil to RM105bil worth of securities, of which RM62.8bil will be to service maturing debt papers and RM37.2bil to RM42.2bil to finance the budget deficit.

"While the new government measures such as the zero-rating of GST and stable prices of RON95 could exert some upward pressure on Malaysia's budget deficit, the increase in government bond issuance will be capped given the new government's focus to reduce overall fiscal liability," he said.

Nor Zahidi did not rule out the possibility of continuing foreign outflows from local government bonds (govvies) in the second half of the year but at a lower magnitude.

This is because of resilient global crude oil prices, greater clarity from the current government on its medium-term fiscal plan, and expectation of improved medium-term economic fundamentals for Malaysia, he pointed out.

As at the end of the first half of 2018, total foreign holdings of local govvies amounted to RM167.6bil, down from RM186.3bil a year ago.

"Malaysia will likely experience short-term volatility in the financial market due to both external and internal factors," Nor Zahidi said.

Externally, he said, the global financial market would continue to go through a roller-coaster ride due to uncertainties with regard to the threat of the trade war and investors shying away from emerging markets.

Back home, he expected investors to still pay close attention to the sovereign rating outlook of the country as credit rating agencies seek to get greater clarity on the medium-term revenue-generating measures.

On the demand of govvies, Nor Zahidi said Malaysia could face the risk of a contagion effect if recent financial market turbulence in some emerging markets such as Argentina, Brazil and Turkey intensifies.

"Foreign demand for govvies could also be hit by global central banks' expected plans to end their post-global financial crisis stimuli by the end of the year.

"The unresolved trade spat between the US and China would continue to strengthen the demand for the dollar and safe-haven assets from developed markets, decreasing foreign demand for assets from emerging markets," he said.