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# Scope for further drop in fiscal deficit

KUALA LUMPUR: The government's target of reducing the fiscal deficit further is possible as external conditions improve and tax revenue increases from stronger compliance, say economists and industry experts.

Speaking at the Business Times' post-budget roundtable dialogue, here, on Tuesday, they said after a bottoming out phase this year, positive indicators can be expected next year, including higher oil prices. The government has targeted to reduce the deficit to 3.1 per cent this year, and 3.0 per cent next year. "The government is taking a very conservative oil price per barrel (assumption) of US$45 (RM187), and that gives you the projected three per cent deficit. "There are already commentators, economists and some bankers saying that if the oil price comes in around US$50 per barrel, there is actually scope for the deficit to drop to something like 2.5-2.6 per cent," said Datuk Steven Wong, deputy chief executive of the Institute of Strategic and International Studies (Isis Malaysia).

*(From left) Isis Malaysia deputy chief executive Datuk Steven Wong, director of Universiti Utara Malaysia's Asean Research Institute of Banking and Finance Dr Irwan Shah Zainal Abidin, Malaysian Institute of Certified Public Accountants council member and tax partner at Deloitte Theresa Goh, UKM vice chancellor & professor of economics Datuk Dr Noor Azlan Ghazali and New Straits Times Press Bhd group managing director Datuk A Jalil Hamid at the Business Times' post-2017 Budget roundtable. Pic by Munira Abdul Ghani*

Higher oil prices would mean more revenue for the government. In tabling the 2017 Budget on October 21, Prime Minister and Finance Minister Datuk Seri Najib Razak said revenue collection next year is expected to expand about three per cent to RM219.7 billion. Wong said some of the measures, including allocation cutbacks to some ministries, demonstrated the government's prudent approach to managing the economy.

“Overall, the budget from a macro point of view, is not an expansionary budget. I think it’s a prudent budget and it’s what we need going into this current headwinds and the challenges that we see next year,” he added. MIDF Amanah Investment Bank Bhd chief economist Dr Kamaruddin Mohd Nor, who expects oil price to average US$50 per barrel next year, believes the deficit target is challenging but not out of reach. “If you look at the past, in the 2009 or 2010 budgets (our fiscal deficit was) at 6.4 per cent and now it’s about 3.2 per cent. That is about half. If we expect the rebound to be from next year’s onwards, it’s not impossible (to meet the target),” he said.

At the same time, the setting up of a Collection Intelligence Arrangement (CIA) announced in the budget will help improve tax compliance and collection, said Theresa Goh, Malaysian Institute of Certified Public Accountants (MICPA) council member and Tax Partner at Deloitte. “For example, someone who is registered for GST, the revenue is supposed to be RM500,000, but in the income tax file, if they only declared RM300,000 then it’s very easy for this difference to be flagged down and for IRB (Inland Revenue Board) to go after them,” she said. There is also automatic exchange of information between tax authorities in different countries, which will make it easier to trace ownership of funds held in banks overseas.
“If you are tax resident in Malaysia, that information will come back to the IRB and will find its way to the tax file and the taxpayer will have to account for the source of funds. In this way, hopefully, with all these different initiatives, the IRB would be able to collect a lot more tax,” she added. Universiti Kebangsaan Malaysia (UKM) Vice Chancellor and professor of economics Datuk Dr Noor Azlan Ghazali said the fiscal deficit basically sums up any budget — how much the government earns and how much it spends.

“But it must also be in line with a longer term plan, which not many people talk about. This is actually a budget for the second year of the 11th Malaysia Plan. Whatever you do must be in line with that. In this budget, the focus is very much on the rakyat,” he said. Dr Irwan Shah Zainal Abidin, director of the Asean Research Institute of Banking and Finance (ARIBF) at Universiti Utara Malaysia, meanwhile, said in addition to staying on course with fiscal consolidation, the 2017 Budget is also forward looking. “I am referring to TN50, the 2050 National Transformation programme. I think this is something that I like most. TN50 is about how the government wants to engage with the young generation for them to have national discourse and for them to look into what type of vision they want to see in the future," he said. Additional reporting by Cheryl Yvonne Achu, Amir Hisyam Rasid and Goh Thean Howe