

Government Revenue Down in First Half 2016

- *Government fiscal deficit has reached RM32.8 billion in 1H16, against the target of RM38 billion for the full year of 2016. Despite the huge deficit in 1H16, it should be noted that the Government remains steadfast with its fiscal consolidation plan particularly to achieve 3.1% budget deficit in year 2016.*
- *GST collection was down to RM7.1 billion in 2Q16 from RM10.2 billion in 1Q16, making the total GST collection for 1H16 only at RM17.2 billion. The lower GST collection could be partly due to the higher refund; as such the target of RM39 billion collections for year 2016 could prove to be difficult.*
- *We are optimistic that the government could achieve its target of 3.1% deficit to GDP ratio. With all the measures taken by the government so far to rein down its expenditures and prioritisation of development projects, we believe the fiscal is achievable. However, there is admittedly downside risk with the global trade and economy remains weak, which currently presents strong headwinds to Malaysia economy.*

Government fiscal deficit has reached RM32.8 billion in 1H16, against the target of RM38 billion for the full year of 2016. Despite the huge deficit in 1H16, it should be noted that the Government remains steadfast with its fiscal consolidation plan particularly to achieve 3.1% budget deficit in year 2016. Recall that the Government has trimmed down the budget deficit by more than half since 2009. In 2015, the deficit was shelved to 3.2%, significantly lower than the 6.7% deficit in 2009. Moving forward, we are confident that the Government will continue to commit with its fiscal consolidation target, so long as the economy does not face a quarter-on-quarter contraction. As an addition, year-to-date until July, the deficit remained RM32.9 billion, which is close to the June's year-to-date number at RM32.8 billion.

Table 1: Federal Government Finance

	RM million				YoY change		
	2013	2014	2015	1H16	2014	2015	1H16
Revenue	13,370	220,626	219,089	96,292	3.4%	0.8%	-9.8%
Operating Expenditure	11,270	219,589	216,998	109,454	3.9%	-2.9%	2.1%
Current balance	2,100	1,037	2,100	-13,162	N/A	N/A	N/A
Gross development expenditure	42,210	39,503	40,768	20,079	-6.4%	20.0%	31.0%
Less Loan recovery	1,526	1,052	1,483	488	-31.1%	-1.8%	152.8%
Net development expenditure	40,684	38,451	38,676	12,591	-5.5%	20.6%	29.4%
Overall balance	(38,584)	(37,414)	(37,193)	(32,753)	-3.0%	-0.4%	110.1%
Overall balance as % of GDP	-3.8	-3.4	-3.2	N/A	N/A	N/A	N/A

Source: BNM, CEIC, MIDFR

GST falls to the lowest level in 2Q16. GST collection was down to RM7.1 billion in 2Q16 from RM10.2 billion in 1Q16, making the total GST collection for 1H16 only at RM17.2 billion. The lower GST collection could be partly due to the higher refund; as such the target of RM39 billion collections for year 2016 could prove to be difficult. Overall consumption tax fell by 27.7%yoy in 2Q16, from RM10.8 billion in 2Q15 to RM7.8 billion in 2Q16. The total Government revenue was down by 9.8%yoy in the first half of 2016.

Despite the rebound in oil price, petroleum corporate tax remained low. Possibly due to the pullback in investment activity, corporate tax on petroleum company continue to fall below RM1 billion, at RM916 million in 2Q16 despite the rebound in oil price. For 1H16, the overall petroleum corporate tax was at RM2.9 billion, slightly lower than our forecast of RM3.4 billion. Moving forward, we are not expecting much improvement in the petroleum corporate tax, though we opine that it should have hit the bottom for now.

Government fiscal (ex-development expenditure) in deficits for the third straight quarters. – the first time since 1987. The latest data from the treasuries revealed that the Government recorded a deficit of RM4.8b in the 2Q16, marking the third successive quarters in red. The last time such event occurred was in 1987 where central government deficits spanned for 5 consecutive quarters which began in the third quarter of 1986.

Gross development expenditure surged by 31%. Government gross development expenditure surged from RM15.3 billion in 1H15 to RM20.1 billion in 1H16, mostly due to the payments made on various projects under RMK-11. Due to the high increase of development expenditure in 1H16, we are expecting that the number would be lower in 2H16, hence capping the fiscal deficit for 2H16.

We are maintaining our expectation that the Government will be able to maintain the 3.1% deficit target. We are optimistic that the government could achieve its target of 3.1% deficit to GDP ratio. With all the measures taken by the government so far to rein down its expenditures and prioritisation of development projects, we believe the fiscal is achievable. However, there is admittedly downside risk with the global trade and economy remains weak, which currently presents strong headwinds to Malaysia economy. 

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