

MALAYSIA

With Fuel Price Hike, Government Can Hit its Deficit 2014 Targets

The government has set a target of reducing its budget deficit from 4.0% in 2013 to 3.5% in 2014 and a further 3.0% in 2015. There have been rumours that the Government is not keeping pace with its 2014 target. The latest fuel price hike shows that the Government means business in tackling its deficit.

Budget 2015 to be unveiled on October 10: The financial markets are in full anticipation over Budget 2015, which will be unveiled on October 10. It will be the last budget under the 10th Malaysia Plan, and it will also be the budget in a year when the Goods and Services Tax will be introduced.

Rumour is that the deficit for 2014 will be more than the targeted 3.5%: The Federal Government deficit in the first half of the year was RM19.05b. Based on 1H14 nominal GDP of RM519.7b, this translates into a deficit of 3.7%, which outpaced the target of 3.5% set for 2014.

The main cause for the seemingly faster-paced deficit is actually a shortfall in revenue. Revenue achieved for 1H2014 accounted for only 45.4% of the projected revenue for 2014 (see Table 1). However, operating expenditure was 49.1% of the amount budgeted (see Table 2).

Table 1: Federal Government 2014 Budget v 1H2014 Revenue

	2014 (Budget)	1H14	% of Budget
Tax Revenue	171,970	74,897	43.6
<i>Direct tax</i>	133,148	57,665	43.3
Companies	65,729	21,003	32.0
Petroleum Income Tax	28,275	11,953	42.3
Individual	28,746	20,159	70.1
Others	10,398	4,550	43.8
<i>Indirect tax</i>	38,822	17,232	44.4
Excise duty	13,442	8,170	44.6
Sales tax	10,986	7,652	43.2
Others	14,394	1,410	45.2
Non Tax Revenue	52,124	26,950	51.7
Licences and permit	13,149	3,908	29.7
Investment Income	32,066	15,907	49.6
Others	6,909	7,134	103.3
TOTAL REVENUE	224,094	101,847	45.4

Source: BNM, MIDFR

Table 2: Federal Government Operating & Development Expenditure Budget 2014 v 1H2014 Spent

	2014 (Budget)	1H14 (Spent)	% of Budget
Emoluments	63,610	33,300	52.4
Pension and gratuities	15,667	8,912	56.9
Debt services charges	23,186	10,802	46.6
Supplies and services	36,623	13,170	36.0
Subsidies	39,408	18,181	46.1
Others	39,158	22,557	57.6
TOTAL OPEX	217,652	106,923	49.1
Defence and security	3,363	860.8	25.60
<i>(Economic services)</i>	<i>28,843</i>	<i>9,635.3</i>	<i>33.41</i>
Agriculture and rural development	3,105	1,049.8	33.81
Trade and industry	5,830	2,574.8	44.16
Transport	8,672	2,996.7	34.56
Others	11,236	3,014.0	26.82
<i>(Social services)</i>	<i>10,577</i>	<i>3,385.6</i>	<i>32.01</i>
Education	4,695	2,148.7	45.76
Health	1,707	379.3	22.22
Housing	1,047	308.7	29.48
Social and community services	3,128	549.0	17.55
General administration	1,110	436.2	39.29
TOTAL DEVEX	43,893	14,317.9	32.62
Less: Loan Loss Recoveries		342.7	
TOTAL DEVEX		13,975.18	

Source: BNM, MIDFR

But it could be an issue of timing. The seemingly low revenue collection could be due to timing issues. As with previous financial years, government revenue collection tend to be higher in the second half of the year. In particular, the collection of companies' taxation tend to be the highest in the fourth quarter. In 2013, 47% of companies taxation was collected in the quarter. Before 2013, the figure was higher than 60%.

Increase in fuel price will help mitigate concerns about the Government not hitting the target. The government has set a budget deficit target of 3.5% for 2014. The reduction in fuel subsidies is expected to mitigate concerns on an expansive deficit for 2014. The fuel subsidies cut will save the government an expected RM1bil. In view that the government is pacing its spending as budgeted, and if revenue collection is on target, we expect the government to meet its target budget deficit of 3.5% in 2014.

The hike in fuel price unlikely to be the last. The recent fuel price hike shows the Federal government is committed to achieve its deficit target of 3.5% for 2014 and 3.0% for 2015. The new price of RON95 at RM2.30/l is still 28 sen below the (unsubsidized) market price of RM2.58/l. We believe that in the future, the price of fuel in Malaysia will be floated. However, this will only take place once the mechanism to channel the subsidy to the targeted users is fully in place. Meanwhile, the GST is expected to bring into the government coffers an additional RM3.8b to RM4.5b. The bottomline is that the government's finance is improving.



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