

PERSPECTIVE

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How Malaysia's GE15 Outcome Will Affect the Revision of Budget 2023

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Malaysia Prime Minister Ismail Sabri Yaakob (C) of the United Malays National Organisation (UMNO) waves to supporters upon arriving at the nomination centre in Bera, in Malaysia's Pahang state on 5 November 2022. STRINGER/AFP.

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EXECUTIVE SUMMARY

- Malaysia's federal budget for 2023, which was tabled by the Barisan Nasional-led government, will need to be revised and re-tabled in the parliament after the country's 15th general election.
- Barisan Nasional has proposed, in its election manifesto, a significant expansion in the coverage of income support for poor households (B40), which will essentially guarantee a minimum monthly income of RM2,208 (which is the poverty line income).
- In addition, Barisan Nasional has also promised free university education for all students from low-income families (B40) and guaranteed loans for all university students from middle-class families (M40). Barisan Nasional has also promised free childcare services for all children aged six years and below.
- Perikatan Nasional, in its election manifesto, has pledged to adopt all proposals made in the Budget 2023 tabled before the elections, with some further improvements.
- As Pakatan Harapan has a more conservative and detailed manifesto, it will likely adopt a more gradual approach to revising the Budget 2023 if it comes to power after the elections.

INTRODUCTION

Malaysia's Minister of Finance tabled the country's 2023 federal budget in parliament on 7 October 2022. Three days later, the Prime Minister, Datuk Seri Ismail Sabri, officially announced the dissolution of parliament, paving the way for the country's 15th general election (GE15). As a result, the country's budget for 2023 will have to be re-tabled after the election on 19 November 2022.¹

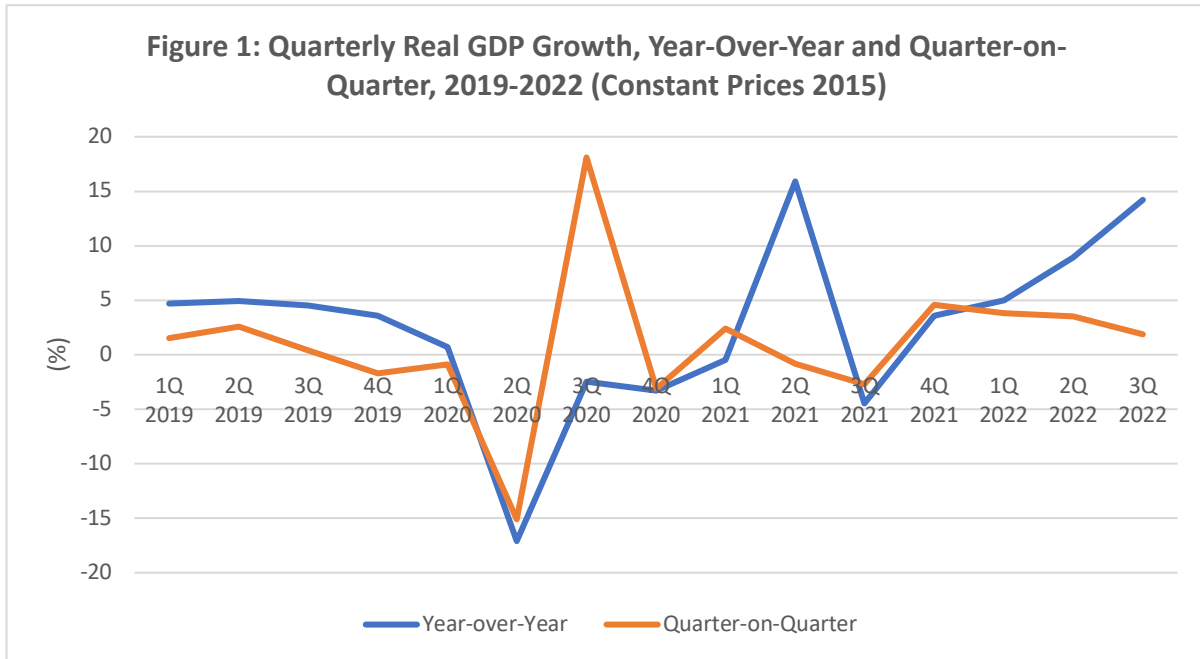
Since the winning political coalition in the GE15 will have the sole prerogative of revising the Budget 2023, that process will be driven by campaign promises made by its candidates, and in the statements that appear in their party's election manifestos.

But how, exactly, will the election promises impact the revision of the Budget 2023? To answer this question, this paper first examines the current state of the economy in order to identify some of the key challenges. This then leads to an assessment of how the Budget 2023 (tabled in October 2022) and the election promises in GE15 were shaped by the state of the economy, and how the revised Budget 2023 will in turn be affected by those promises.

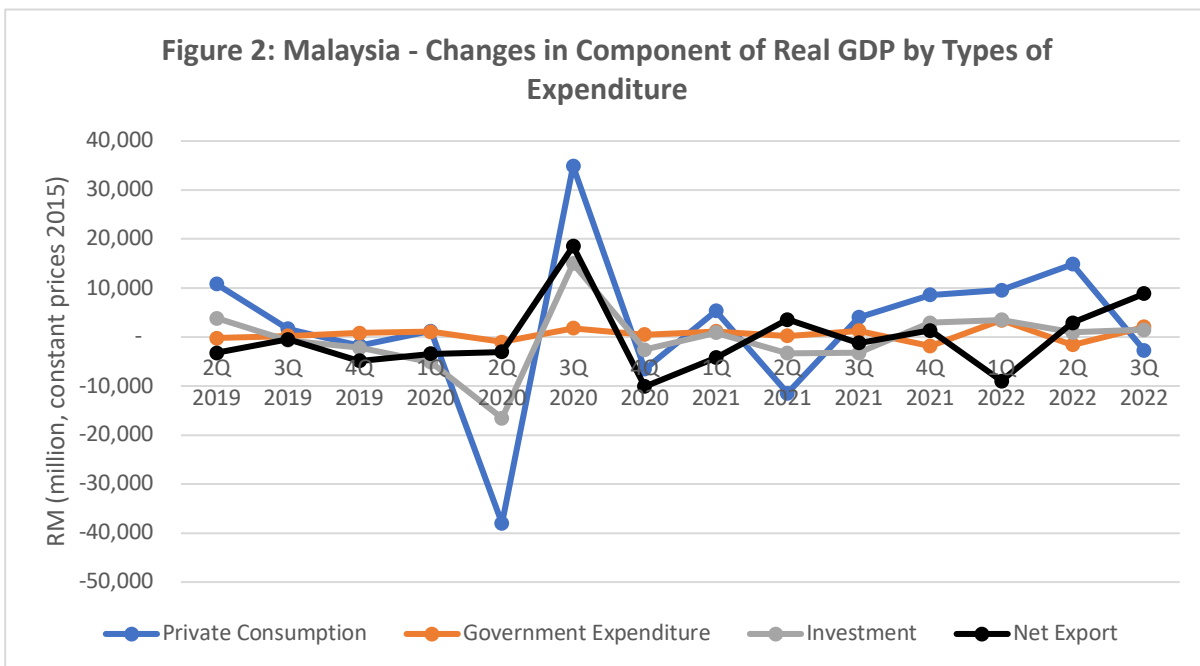
WHAT ECONOMIC PROBLEMS SHOULD THE BUDGET ADDRESS?

Budget 2023 is essentially a fiscal policy instrument that mobilises government expenditures and taxes with the goals of stabilising the economy in the short-term and supporting long-term economic growth. As fiscal policies change the flow and utilisation of resources within an economy, they also affect the distribution of income and wealth (i.e. inequality). Knowledge about the current state of the economy is important as it determines how the budget will be oriented, what stabilisation goals to pursue, and which instruments to use for those purposes.

Based on the latest available statistics, the Malaysian economy has been growing moderately in the nine months of 2022 (**Figure 1**). The year-over-year (YOY) growth rate (comparing Q3-2022 with Q3-2021) was 14.1 percent. This huge rebound is primarily due to, and should be seen in relation to, the lower growth rate achieved in Q3-2021. The quarter-on-quarter (QOQ) growth rate showed that the country's economic growth has slowed down progressively since Q1-2022 (**Figure 1**), due primarily to a decline in private consumption but which was fortuitously and partially offset by a robust recovery in net exports (**Figure 2**).

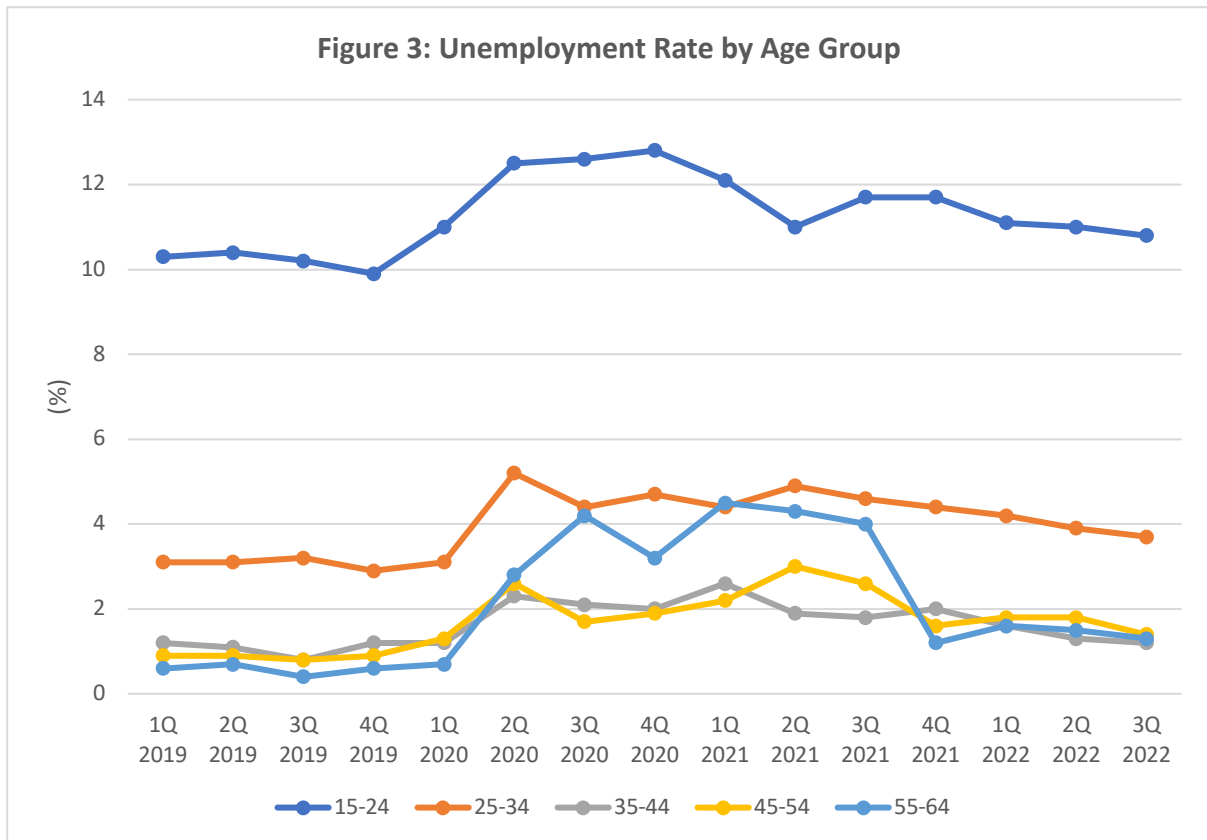


Source, Department of Statistics, Malaysia



Source, Department of Statistics, Malaysia

Data on unemployment indicate that the labour market has recovered since 4Q-2021 but unemployment remains slightly higher than pre-Covid historical trends. Unemployment continues to be high amongst youths which account for a significant share of the labour force (**Figure 3**). The shares of the labour force for the age groups 15-24 and 25-34 are around 15 percent and 37 percent, respectively.



Source, Department of Statistics, Malaysia

A more pressing short-term problem is inflation. Compared to 2021, inflation has been creeping up since early 2022 (**Table 1**). Inflation is particularly high for food and beverage as well as transport. Given that the Malaysian economy is still operating under full employment, the inflationary pressures are likely to have emanated from abroad rather than being due to higher government expenditures and the recovery in private consumption. These pressures include a number of factors, such as the depreciating exchange rate (by 13 percent since January 2022) and input prices (fuel, fertilizers, wheat) due to the war in Ukraine.

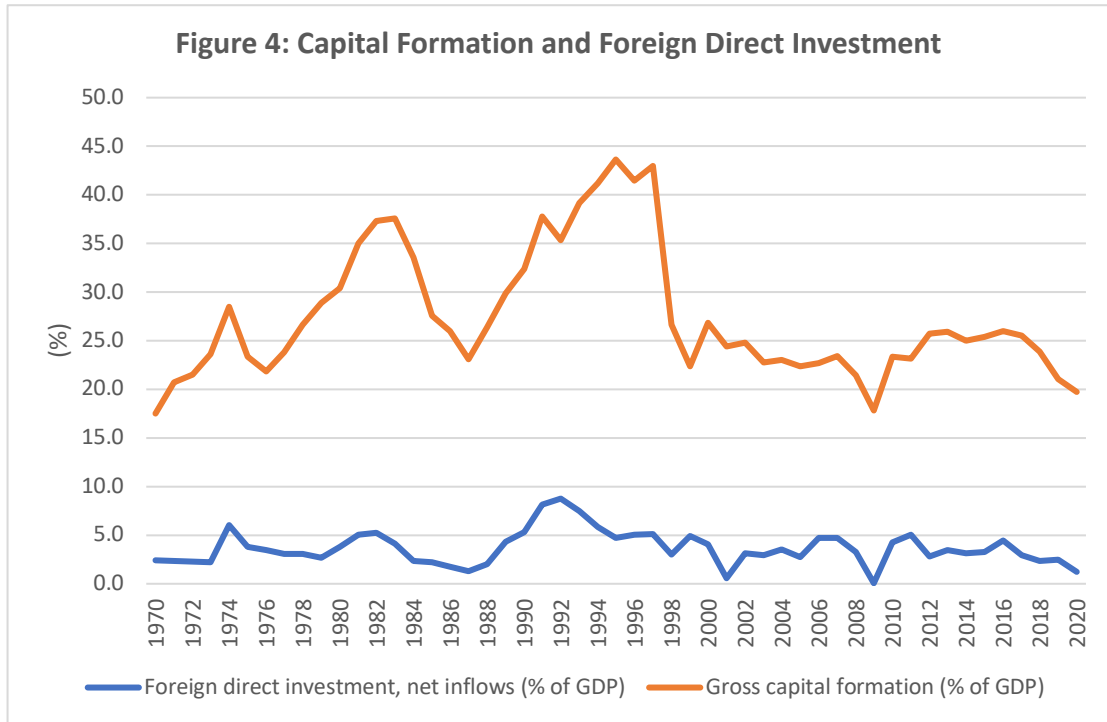
Table 1: Inflation in Malaysia (percentage change, year on year)

Month in 2022	Total	Food & Non-Alcoholic Beverages	Alcoholic Beverages & Tobacco	Clothing & Footwear	Housing, Water, Electricity, Gas & Other Fuels	Furnishings, Household Equipment & Routine Household Maintenance	Health	Transport	Communication	Recreation Services & Culture	Education	Restaurants & Hotels	Miscellaneous Goods & Services	CPI Without Fuel
JAN	2.3	3.6	0.4	-0.3	0.7	3.1	0.3	6.0	0	1.2	0.7	2.1	0.6	1.7
FEB	2.2	3.7	0.4	-0.2	0.8	3.2	0.5	3.9	0	1.6	0.7	2.6	1.1	1.9
MAC	2.2	4.0	0.5	-0.3	0.9	3.0	0.2	2.6	0.0	1.1	0.9	2.9	1.9	2.0
APR	2.3	4.1	0.5	-0.2	0.8	2.7	0.2	3.0	0	1.3	1	3.2	1.8	2.2
MEI	2.8	5.2	0.4	0	1.2	2.9	0.4	3.9	0	1.8	1	3.7	1.9	2.7
JUN	3.4	6.1	0.4	0.2	1.2	3.4	0.6	5.4	0	2.2	1.1	5	2.2	3.2
JUL	4.4	6.9	0.6	0.3	3.8	4	0.8	5.6	0	2.5	1.2	5.8	2.1	4.2
OGO	4.7	7.2	0.7	0.3	4.1	4.3	0.9	5.2	0	2.7	1.2	6.4	2.4	4.6
SEP	4.5	6.8	0.7	0.4	4	4.4	1	5.3	0	3.1	1.3	6.9	2.4	4.6

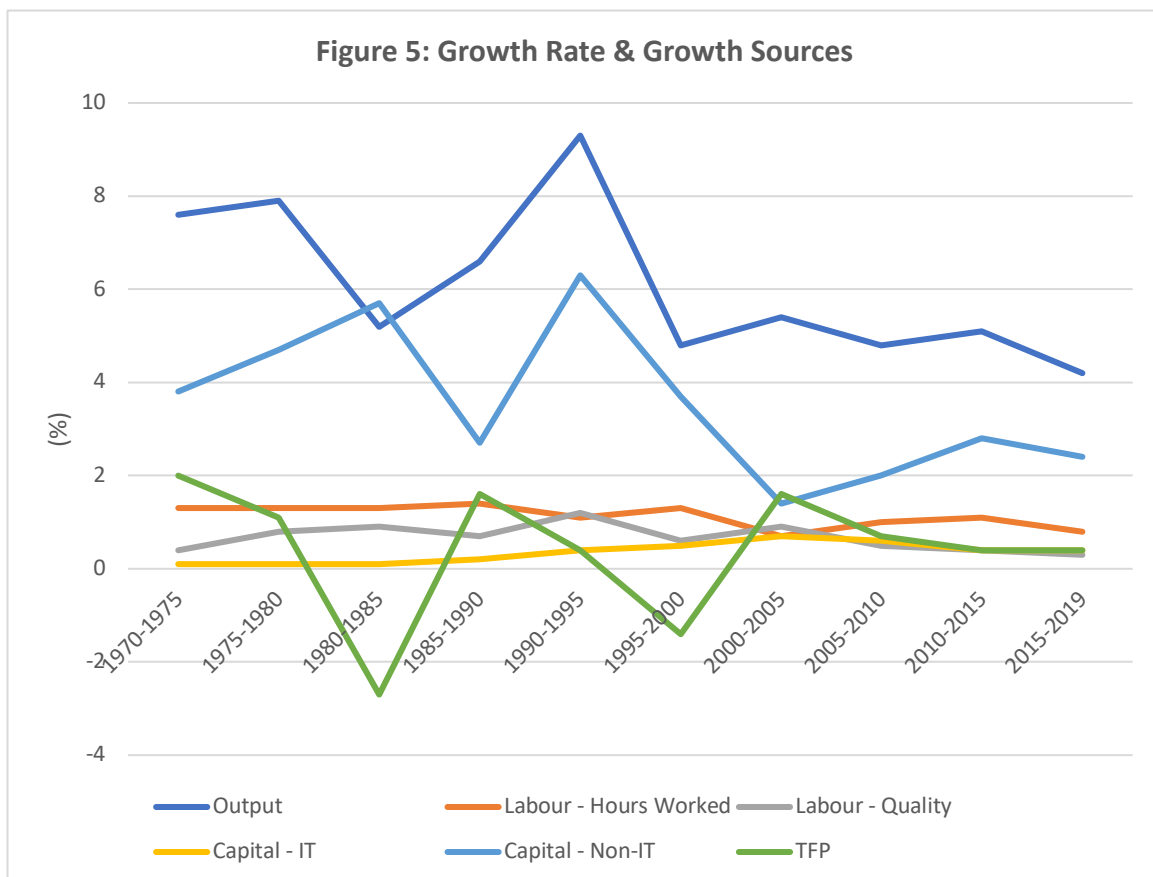
Source, Department of Statistics, Malaysia

Long-term growth in terms of expansion of productive capacities is driven by expansion in labour force, investments (capital formation) and innovation. The share of investment in national income has been relatively low in the past 20 years (since 2000) (**Figure 4**), due to a significant decline in domestic investment during the period. Foreign direct investment (as a percentage of GDP) has also fallen in recent years (2016-2020). The drop in the contribution of capital accumulation to growth can be seen from the decomposition of the sources of growth (**Figure 5**).

From the above discussions, inflation is identified as the key immediate area of policy concern. This is also reflected in the recent survey by Merdeka Center in which inflation showed itself to be the top concern amongst voters in the country (31% of voters surveyed). Another more long-term area in need of attention is investment. In the same survey, “enhancing economic growth” ranked fifth among top concerns (12 percent of voters surveyed). In the next section, the policy response to these challenges is examined within the context of the Budget 2023 (tabled in October) and the election manifestos of major political coalitions.



Source: World Bank



Source: Asia Productivity Organization

BUDGET 2023 AND ELECTION PROMISES: KEY ECONOMIC ELEMENTS

How will Budget 2023 be revised after the election? An understanding of this requires an evaluation of the political context. The government that tabled Budget 2023 in May 2022 was a Barisan Nasional (BN)-led coalition supported by three other parties, namely Gabungan Parti Sarawak (GPS), Bersatu and PAS. In GE15, BN has opted not to contest against GPS in Sarawak (hence indicating both will be political allies after GE15). However, Bersatu and PAS (both part of Perikatan Nasional, PN) will contest against BN in Peninsular Malaysia. Given these political configurations, it is perhaps appropriate to examine some of the key proposals in Budget 2023 to see whether these have changed in BN's election promises. These proposals are then compared to the promises made in the election manifestos of Perikatan Nasional (PN) and Pakatan Harapan (PH).

Cost of Living and Poverty Eradication

A key proposal in Budget 2023 is the provision of monthly income support for poor households (B40). A significant amount of one-off cash transfer was also proposed in Budget 2023 under the Bantuan Keluarga Malaysia (BKM) scheme (**Table 1**). In its election manifesto, BN proposed the implementation of the "Assistive Basic Income" (ABI) scheme. This scheme is even more ambitious than Budget 2023 as it entails providing monthly income support to all poor households in such a way as to guarantee a basic monthly income of RM2,208 (which is the poverty line income implemented in July 2020). This is a significant expansion in income support that goes beyond previous programmes that had mainly focused on one-off cash transfers (**Table 2**). It represents a large escalation of cash transfers to poor households.² Implementation of the ABI will likely entail consolidation of both the monthly income assistance scheme (administered by the Department of Social Welfare), and the BKM scheme. The cost of the Assistive Basic Income scheme is likely to be significant and may require a recalibration of the re-tabled Budget.

In its manifesto, BN has also promised to provide free national childcare services for children aged six and below. This promise significantly extends the support proposed in Budget 2023 which entailed provision of childcare fee subsidy for households with per capita income below RM800 (applicable to children in registered childcare centres). PN has also promised free childcare services, but only for poor households. PH has proposed childcare subsidies for B40 and M40 households. In addition, to ensure that all young children have access to nutritious food, PH has promised to provide monthly payments to parents of new-born children until they are six years old.

Two other election promises made by BN will significantly impact the cost of living of households with children in universities. First, BN has promised free higher education for all students from B40 families. Second, for M40 households, the BN has promised that all students from this income group will be guaranteed higher education loans (PTPTN). Implementation of these promises, which were not contained in the October Budget 2023, entails the availability of significant financial resources.

In PN's election manifesto, it promises not only to keep all the initiatives in Budget 2023 that were tabled in October, but improve upon them. This implies that the income support schemes in Budget 2023 will be implemented. It is plausible that if key parties in PN such as PAS and Bersatu end up joining BN, the more ambitious income support scheme advocated by BN will be implemented.

Table 1: Income-Related Proposals Under Budget 2023 (October 2022 version) and BN's GE15 Manifesto

Area	Budget 2023	BN Manifesto
Income Support	Monthly income assistance to B40 households Eligibility: RM1,169 (FPLI) Households: 450,000 Cost: RM2.5 billion	Monthly income assistance to B40 households – Assistive Basic Income Eligibility: RM2,208 (PLI) Households: 400,000 Cost: Unknown
Income Support	Bantuan Keluarga Malaysia (BKM) 2023 Recipients: 8.7 million individuals Cost: RM7.8 billion	
Reduction in Income Tax	Income tax rate for resident individuals is reduced by 2% for the chargeable income band between more than RM50,000 to RM100,000 Income tax rate of 25% for the chargeable income band between RM250,000 to RM600,000 Cost: RM800 million	Income tax rate for resident individuals reduced by 2% for the chargeable income band between more than RM50,000 to RM100,000

Source: Compiled by author

Table 2: Past Income Support Schemes Involving Cash Transfers

Programme	Eligibility (Household Monthly Income) and Payment	Recipients (number)	Estimated Cost
Bantuan Sara Hidup (BSH, 2019)	RM2,000 and below: RM1,000 RM2,001-RM3,000: RM750 RM3,001-RM4,000: RM500	3.9 million households	RM5 billion
Bantuan Sara Hidup (BSH, 2020)	Same as BSH (2019) and extended to cover new groups: Single individuals aged above 40 years old earning less than RM2,000 per month: RM300	4.3 million households	RM5 billion
Bantuan Prihatin Rakyat (BPR, 2021)	Less than RM2,500 with up to 1 child: RM1,200 Less than RM2,500 with 2 or more children: RM1,800 Income RM2,501 to RM4,000 with up to 1 child: RM800 Income RM2,501 to RM4,000 with 2 or more children: RM1,200 Income RM4,001 to RM5,000 with up to 1 child: RM500 Income RM4,001 to RM5,000 with 2 or more children: RM750 Single individuals earning RM2,500 and below: RM350 ringgit (min. 21 years)	8.6 million individuals	RM7 billion
Bantuan Keluarga Malaysia (BKM, 2022)	Income less than RM2,500 per month with three or more children: RM2,000 Income of single parent household up to RM5,000: Additional RM500 Senior citizen households: RM300	9.6 million individuals	RM8.2 billion
Bantuan Keluarga Malaysia (BKM, Budget 2023 in Oct 2022)	Income less than RM2,500 per month with up to four children: RM1,000-RM2,000 Income less than RM2,500 per month with five children or more: RM2,500 Income between RM2,500 to RM5,000: RM500 to RM1,250 (depending on the number of children)	8.7 million	RM7.8 billion

Source: Compiled by author

The PH manifesto also puts cost of living as a point in its election promise. Its promise for income support via cash transfer is fairly conservative – it calls for the continuation of the Bantuan Sara Hidup (BSH) programme (currently, the BKM).³ It has also proposed to tackle the cost of living issue through longer-term structural measures such as the elimination of

cartels, incentivising food production and reduction of highway tolls (more specifically, that of the North-South Expressway). PH has also proposed the use of microcredit financing to eradicate poverty – an approach currently present in Budget 2023. Urban poverty is an important area of focus for PH. In its manifesto, PH has emphasized the need for affordable housing and better access to health services in urban areas. The former will entail support for the Program Perumahan Rakyat (People’s Housing Program) in Budget 2023.

Sustaining Economic Growth

Beyond the immediate bread-and-butter issues related to cost of living, sustaining economic growth is clearly an important challenge. The Merdeka Center survey also highlighted this as an important concern amongst voters. However, it is a more difficult issue to address within election manifestos. In the Budget 2023 that was presented in October, the problem is primarily addressed in terms of the government adopting an expansionary fiscal policy (alternatively, a budget deficit in which the government’s expenditures exceed the revenue it collects). This approach, however, is constrained by the government’s attempt to also undertake fiscal consolidation.

Barring a downturn in net exports, sustained economic recovery will likely require stronger consumption growth. The Budget 2023 announced in October proposes a reduction in income tax rate by two percent for the middle-class (M40). This proposal has been retained in the BN’s manifesto. Presented in Budget 2023 and in BN’s manifesto regarding addressing the cost-of-living issue (via increasing disposable income), such a measure can boost private consumption expenditure.⁴ Given PN’s blanket adoption of the October Budget proposals, it implicitly supports this policy in its manifesto. On the other hand, the PH’s manifesto is silent on this issue. This is not surprising as it lacks the incumbency advantage in policy formulation.

The Budget 2023 tabled in October provides an array of financial support and tax incentives for businesses including micro, small and medium-sized enterprises (MSMEs) and strategic investment funding. As all the manifestos generally do not provide detailed proposals to support businesses and due to time constraint, most of the programmes are not likely to be revised significantly. PN’s election manifesto does not suggest a radical revision. However, if PH succeeds in gaining control of the government after the election, new programmes and projects could be added. These include the gazetting of a few Free Trade Zones in Sabah and the establishment of a one-stop digitalisation centre for MSMEs.

CONCLUSION

Malaysia’s budget for 2023 tabled by the Barisan Nasional (BN)-led government in October 2022, will need to be revised and re-tabled after the 15th general election (GE15). Though BN has retained some key elements of the original Budget 2023, it has proposed in its election manifesto a more significant expansion in income support which entails a guaranteed monthly income above the poverty line. In addition, the BN manifesto also promises free university education for all students from B40 families, guaranteed education loans for students from M40 households and free childcare services for children aged 6 years and below. In its election

manifesto, Perikatan Nasional – which contains two major parties that supported the BN-led government before GE15 – has vowed to adopt all proposals in the Budget 2023 tabled earlier. In turn, Pakatan Harapan has produced a comprehensive election manifesto but one that is more fiscally conservative than BN’s manifesto.

If BN returns to power, Budget 2023 may need to be re-calibrated significantly due to the additional resources required to support the programmes promised in its election manifesto. If PH regains a foothold in Putrajaya, however, Budget 2023 will probably be revised more gradually. PN, which in the recent past has supported BN, is likely to revise Budget 2023 even less if it comes to power but it may end up supporting BN’s manifesto proposals if key members of the coalition re-join a BN-led government after the election.

ENDNOTES

¹ The announcement of the intent to table the Budget 2023 (officially known as the Supply Bill 2023) was first read in (the lower house of) the parliament on 5 October 2023. The second reading which contained key details of the budget was done in the parliament on 7 October. The Budget 2023 was supposed to have been debated from 11 October 2022 to 23 November 2022.

² Based on information from the Department of Social Welfare, the monthly income support from the Federal government is a minimum of RM100 per person and a maximum of RM350 per household. See:

<https://www.jkm.gov.my/jkm/index.php?r=portal/contentmenu&id=SnBhRGJjYVdIc1lodEJsZE51ekxtUT09>

³ The BSH was a term used by the PH government when it was in power. The BSH was actually revised and renamed subsequently, first as Bantuan Prihatin Rakyat and later as Bantuan Keluarga Malaysia.

⁴ The consolidation of income tax rate for the chargeable income band between RM250,000 to RM600,000 entails a slight increase in the tax rate for those with chargeable income between RM250,000 and 400,000 which is currently at 24.5 percent. The impact of this change in tax rate is likely to be minimal.

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