

RAM: Govt likely to miss 2016 fiscal deficit target

> Rating agency expects gap of 3.3% to gross domestic product against goal of 3.1%

PETALING JAYA: The government is likely to miss its fiscal deficit target of 3.1% of gross domestic product (GDP) for 2016, mainly due to revenue shortfalls, said RAM Ratings.

The rating agency now expects a 3.3% fiscal deficit for the year.

However, it said this is a conservative estimate as oil prices are now higher than the government's US\$30 to US\$35 per barrel assumption, and the government has the flexibility to tap into Petronas' distributable profits in excess of RM350 billion.

"Judging from its policy track record, we see a higher likelihood of increased government expenditure in 2017 in the lead-up to the general election and as global conditions remain volatile. These factors are balanced by continued economic growth which may support fiscal revenues," RAM said in its Budget 2017 commentary yesterday.

Meanwhile, Malaysian Rating Corp Bhd (MARC) is of the view that Budget 2017 will continue to focus on addressing the declining revenue, sustaining the fiscal position, supporting economic growth and assisting the rakyat in dealing with the rising cost of living.

"Due to persistent annual fiscal deficits, the government will likely maintain the deficit target at circa 3% of gross domestic product (GDP) in 2016 and 2017. If this proves to be the case, then cost-cutting measures will remain a prominent feature in Budget 2017," it said in its report "Pre-Budget 2017: Accelerating Growth, Ensuring Fiscal Prudence, Enhancing Well-being of the Rakyat".

RAM expects a marginal pace of consolidation in Budget 2017 and a likely revision of the government's medium-term

fiscal framework (2016/2018) fiscal deficit target of 2.7% of GDP.

It said the government may explore other revenue sources such as capital gains tax on investments, taxes on dividends and inheritance tax, in order to achieve its long-term fiscal balance target by 2020.

The government's debt level is expected to reach 56.1% of GDP by end-2016, exceeding the self-imposed target of 55% of GDP, which will pose a challenge for the country to reduce the debt to GDP ratio to below 45% by 2020.

Although fiscal consolidation has slowed relative to the momentum in 2009-2015, RAM said it is not expected to weigh on Malaysia's global- and national-scale sovereign credit ratings of gA2 and AAA, respectively.

MARC also noted that a slight deterioration in the government's balance sheet will not create an overly negative perception among credit rating agencies and investors in general.

RAM expects a people-friendly Budget 2017 with measures such as expansion of BR1M cash transfers, personal income tax adjustments and improving the availability of affordable housing.

Personal income tax adjustments could come in the form of a broader income bracket at a lower tax rate, lower tax rates across the income spectrum (while maintaining a progressive tax structure), and increases in types of and limits on tax deductions.

In order to boost home ownership among the middle-income group, policies to encourage private sector developers to increase the supply of affordable homes will likely see a return in the budget.

RAM said an extension of the period allowing reduced EPF contributions (that commenced in April 2016), scheduled to conclude by end-2017 is expected while an expansion of the list of GST exempt or zero-rated items will be "politically palatable".

It said while on-budget development spending may be curtailed to keep the fiscal balance manageable, off-budget sources of financing are anticipated to continue to meet development targets.

"Given the slowdown in economic activity, labour-oriented policies may be introduced. This could come in the form of expansion of support for the unemployed and increased incentives for skills retraining and job

creation," it said.

MARC highlighted that in order to sustain economic growth, private investments need to be further supported with a suggestion of extending the period for the special reinvestment allowance to at least six years.

The budget is also expected to focus on alleviating the financial burden on the middle- and lower-income group by addressing the rising cost of living. Hence, Budget 2017 is likely to include measures to curb excessive increases in prices of necessity goods.

On the housing issue, MARC said it is worth considering the possibility of allowing first-time home buyers to withdraw more than the current 30% from the Employees Provident Fund Account 2.

