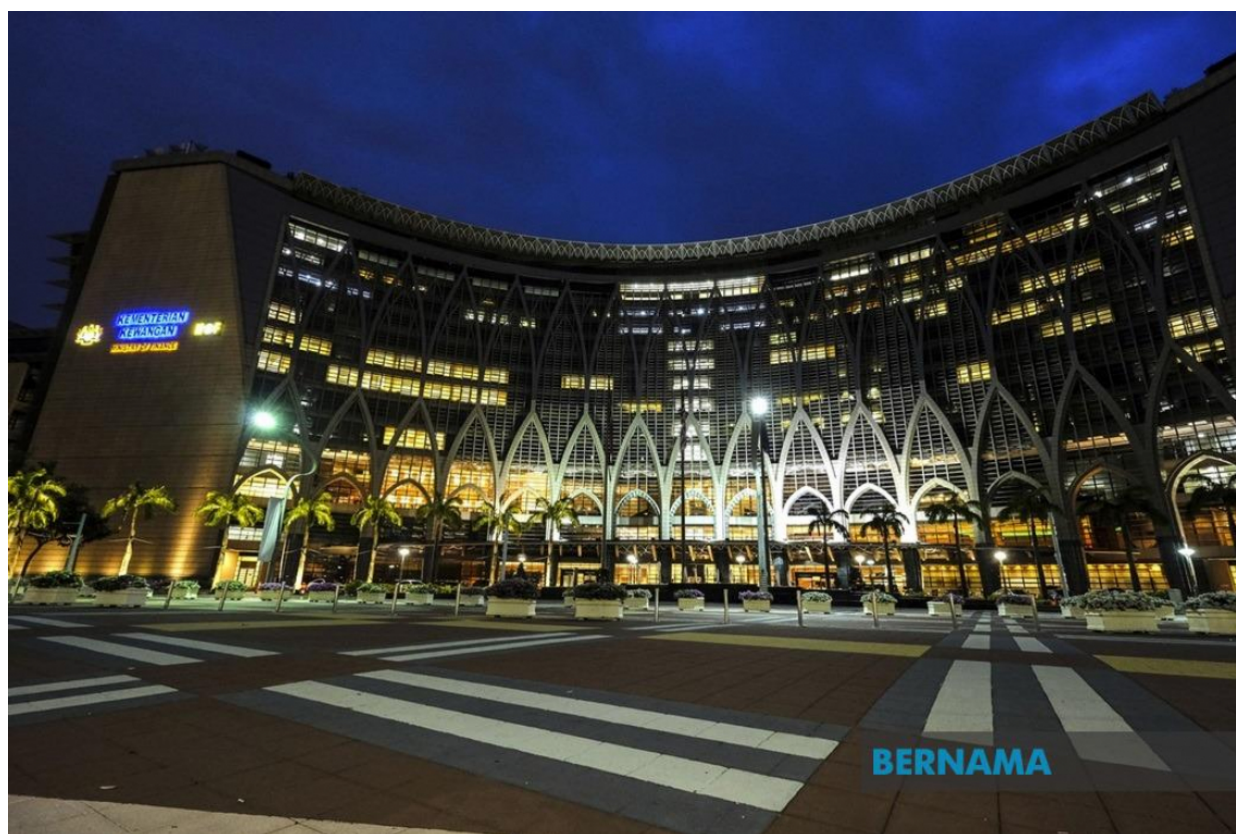




PRESS CITATIONS

Deficit target revised to 6 pct of GDP, statutory debt still below Parliament-approved limit – MOF

PRESS CITATIONS | 27 MAY 2021



KUALA LUMPUR, May 27 – The government has revised the deficit target to six per cent from 5.4 per cent of Gross Domestic Product (GDP) for 2021, having factored in continuing measures from 2020 economic stimulus packages, as well as the PERMAI and PEMERKASA packages launched in the first quarter of this year.

Consequently, the federal government's statutory debt is also estimated to increase from 58 per cent in 2020, to 58.5 per cent by end-2021.

"This is still below the statutory limit of 60 per cent, which was approved by Parliament in August 2020. The country's debt profile remains favourable with more than 90 per cent of government debt denominated in ringgit, supported by ample domestic liquidity and long maturity issuances which supported funding flexibility," the Ministry of Finance said in a statement after The Fiscal Policy Committee (FPC) meeting chaired by Prime Minister Tan Sri Muhyiddin Yassin today.

Among others, the committee also discussed reform initiatives, including the Fiscal Responsibility Act framework a.

one of the measures to enhance management, governance and accountability in public finances.

“The government's current priority is to protect lives from the threat of COVID-19, while also ensuring the country's economic recovery agenda is on track, underscored by the principles of prudent financial management,” it said.

Enhanced efforts towards fiscal consolidation measures will be implemented in phases in the medium to longer term, when our economy is firmly on its recovery and growth trajectory.

“This strategy will ensure that we meet short-term fiscal requirements as well as achieve long-term fiscal and economic sustainability by, among others, spurring high-impact quality investments and diversifying our revenue base,” according to the statement.

“The government is confident its fiscal strategy will ensure that economic growth prospects remain strong in the medium to longer term to fulfil the country's development agenda and achieve our Shared Prosperity Vision.”

The committee discussed the current and medium-term federal government fiscal position as well as public finance reform initiatives. The committee members include the Minister of Finance, Minister in the Prime Minister's Department (Economy), the Chief Secretary to the Government, the secretary-general of the Treasury, the director-general of the Economic Planning Unit, Prime Minister's Department and the governor of Bank Negara Malaysia.

In general, global economy and trade are expected to improve in 2021 in line with the recovery in advanced economies. Growth is expected to be supported by additional fiscal measures of advanced nations, particularly the US, as well as accelerated delivery of vaccines and immunisation programmes all over the world. The Business Confidence Index for most major economies have also improved, reflecting increased confidence towards economic recovery and a robust business performance in the near term.

The external spillover effect from the recovery in global demand, including the continued increase in trade activities have contributed to Malaysia's economic recovery.

This is evident through the GDP performance for the first quarter of 2021 (1Q21) which contracted at a smaller rate of 0.5 per cent on a year-on-year basis compared to the 3.4 per cent contraction in the fourth quarter of 2020. This was also contributed by the recovery in GDP growth in March 2021, which increased 6 per cent year-on-year, the highest in the past 12 months.

“Notwithstanding, the government remains vigilant on the downside risks due to uncertainties in both the domestic and global economic environment that could affect the country's economic growth. These include the prolonged outbreak of COVID-19 due to new variants which has spread globally; COVID-19 vaccines' supply disruption which may hamper efforts to achieve herd immunity; worldwide commodity supply shocks as well as volatility in the global financial markets,” the statement said.

Domestically, the implementation of the National COVID-19 Immunisation Programme, more targeted COVID-19 containment measures as well as economic stimulus packages and Budget 2021 measures that are still ongoing are expected to support the economic growth for this year.

Despite risk tilted to the downside due to implementation of the Movement Control Order 3.0 (MCO 3.0), GDP for 2021 is expected to grow between 6.0 per cent and 7.5 per cent, in line with projections by the IMF (6.5 per cent), World Bank (6.0 per cent) and the Asian Development Bank (6.0 per cent).

The MCO 3.0 impact to growth is estimated to not exceed one percentage point, premised on a more balanced strategy that restricts contact-intensive sectors, while allowing other sectors – which contribute more than 90 per cent of GDP – to operate.

In addition, Malaysia's economic performance will be supported by the growth of our major trading partners such as Singapore, China and the US which expanded by 0.2 per cent, 18.3 per cent and 0.4 per cent respectively, in 1Q21.

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