



PRESS RELEASE

Fiscal Policy Committee: Economic Rebound Ahead And Focus On Fiscal Sustainability In Medium Term

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MEDIA STATEMENT

MINISTER OF FINANCE MINISTRY OF FINANCE MALAYSIA

The Fiscal Policy Committee (FPC) met for the second time this year to discuss Malaysia's current economic conditions as well as the fiscal situation, medium-term fiscal projections, and debt position of the Government. The meeting was chaired by YAB Prime Minister, Dato' Sri Ismail Sabri bin Yaakob, and 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, and the Governor of Bank Negara Malaysia.

Prospects for economic recovery in the near term appear more favourable, supported by the National Recovery Plan's (NRP) systematic re-opening of various economic sectors, including social activities such as dining-in and tourism. Furthermore, the timely implementation of the various stimulus and assistance packages has provided additional impetus to economic recovery, as evidenced by improvements in economic indicators such as:

- a. **A strong rebound in the monthly GDP growth, from a decline of 28.8% in April 2020, to surges of 40.1%**

- and 19.8% in April and May 2021, respectively.** However, GDP growth in June fell by 4.4% due to the impact of the MCO 3.0 which began in mid-May, and Phase 1 of the NRP in early June;
- b. A recovery in the labour market, with the **unemployment rate improving to 4.8% in July 2021, from a high of 5.3% in May 2020;**
 - c. **Increased manufacturing sector sales by 0.6% to RM119.8 billion in July 2021,** compared to a 33% reduction in April 2020;
 - d. **External trade expansion, with exports expanding by 18.4% to RM95.6 billion in August 2021, while imports improved by 12.5% to RM74.2 billion;** and
 - e. **Increase in the Leading Index by 0.5% in July 2021,** after a 6.0% drop in April 2020, **which indicates a gradual economic recovery in the near-term and improved economic prospects by 2022.**

As a small and open economy, Malaysia's recovery is highly dependent on the global economic recovery, particularly that of our major trading partners. As such, Malaysia's 2022 growth is expected to rebound in line with the recovery in the global economy and trade throughout the second half of 2021 and next year, particularly as more countries step up their vaccination efforts. Furthermore, **the continued implementation of economic and fiscal stimulus measures will also support Malaysia's economic growth, which is expected to remain strong at 6.0% and 5.8% according to the IMF and the World Bank, respectively.**

In terms of Malaysia's 2021 fiscal position, the Government has raised the deficit target to range between 6.5% to 7% to GDP from the initial target of 5.4%, taking into account additional fiscal injections in four assistance packages announced this year, namely PERMAI, PEMERKASA, PEMERKASA Plus and PEMULIH, totalling RM225 billion or 14.8% of GDP. These packages reflect the Government efforts to continue supporting affected groups while also nurturing economic recovery.

The Committee also discussed the Government's fiscal outlook for the coming year, as well as its medium-term fiscal trajectory. The Government's fiscal policy will continue to be centred on providing constant support in promoting a sustainable economic recovery and the smooth implementation of the recently announced Twelfth Malaysia Plan, 2021-2025. **Of immediate priority is restoring the nation's potential growth capacity to allow communities and businesses to adjust to new norms, as well as to invest for future growth and better job opportunities.** Given the need for spending flexibility during this unprecedented pandemic crisis, the Government will table a motion during the current Parliamentary sitting to raise its statutory debt limit from 60% to 65% of GDP.

The Government remains committed to fiscal consolidation in the medium term as outlined in the 12MP, with a deficit target of 3.5% of GDP by 2025. To achieve this, the committee also deliberated on the application of a variety of fiscal tools to balance the Government's spending needs with fiscal sustainability. These measures include improving revenue collection, enhancing spending efficiency and managing debt more prudently. To achieve long-term macroeconomic and fiscal stability, the Committee agreed that medium-term fiscal consolidation will have to be more robust than previously planned, while keeping pace with expected economic recovery.

Premised on the principle of transparency and accountability, the Government has also released its inaugural Pre-Budget Statement, as well as four public consultation papers on procurement, direct cash assistance, tax incentives, and the Fiscal Responsibility Act for public feedback. So far, the Government has received over 1,000 feedback and comments, which will be duly considered. The Ministry of Finance is currently consulting with and gathering inputs from various stakeholders in preparation for Budget 2022, scheduled to be tabled in Parliament on 29 October 2021

In the spirit of *Keluarga Malaysia*, the Government is committed to assist all rakyat during the pandemic crisis, pursue a safe and systematic exit from the crisis as outlined in the NRP, and foster a sustainable recovery under the upcoming Budget 2022. These efforts will also be aligned with the Twelfth Malaysia Plan's medium-term macroeconomic strategies, designed to catalyse an inclusive and sustainable growth for all Malaysians.

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