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Malaysia's Ismail Sabri readies 1st budget of 'endemic COVID' era

KUALA LUMPUR -- Malaysian Prime Minister Ismail Sabri Yaakob's government will propose its first budget on Friday, attempting to chart a path for economic recovery in 2022 as the country begins to treat COVID-19 as an endemic disease.

Unlike last year, when predecessor Muhyiddin Yassin's budget proposal was overshadowed by speculation on whether his premiership would survive the vote, Ismail Sabri brings his plan to parliament amid a historic cease-fire with the opposition -- expected to help secure the bill's passage and strengthen the prime minister's grip.

Nevertheless, after about two years of damaging movement restrictions and thousands of small business closures, the government faces a challenge in getting the country back to work.

After becoming prime minister in August, in the wake of years of near-constant political turmoil, Ismail Sabri struck a deal with opposition parties led by Anwar Ibrahim that stipulates a consultation process on every new law the government proposes, in exchange for support. Oh Ei Sun, a senior fellow at the Singapore Institute of International Affairs, told Nikkei Asia that the arrangement -- which also upgraded Anwar's role to ministerial status -- would play a crucial part in ensuring the budget clears the lower house.

"As the pact dictates that there would be prior budgetary consultation with the opposition, it is expected that the budget would be passed with only minor tweaks here and there," he said.

According to the Finance Ministry, the 2022 budget will emphasize rebuilding the resilience and capacity of the nation's public health system; enhancing digital and technological infrastructure, especially within the education sector; and facilitating a transition to high-productivity industrial sectors based on automation and advanced skills, while ensuring quality job creation.

The last point, job creation, should be the primary focus, former Finance Minister Johari Abdul Ghani told Nikkei. Malaysia's unemployment rate stood at 4.6% in August. Among the jobless, 53.8% had been unemployed for less than three months, while 9% were suffering long-term unemployment of more than a year, according to the Statistics Department.

After 2.4 million infections, almost 29,000 deaths, long lockdowns and a border closure, Johari said, "the COVID-19 pandemic has battered the country's economy."

But the country also sees an opportunity to move into a new era of living with the virus, thanks to one of Southeast Asia's fastest inoculation programs. Seventy-four percent of the total population is fully vaccinated, and the government recently announced Pfizer booster shots for front-liners, seniors and people who received China's Sinovac shot. Cautiously, Malaysia is moving toward a travel reopening.

Now, Johari said, the government should help the private sector prosper by issuing incentives for investors to create more jobs, benefiting the people and the country. "Whatever new things that the government wants to do," he said, "have to be private-sector driven.

The Singapore Institute's Oh concurred that Malaysia is fast becoming less attractive to foreign and local investors, compared with regional peers like Singapore, Indonesia and Thailand. The country has to "identify its competitive advantages and roll out the incentives and facilities to lure back these investors," he said.

Malaysia's central bank in August downgraded the country's full-year gross domestic product target to 3%-4% growth, from the initial 6% to 7.5% range.

National Science University analyst Sivamurugan Pandian said the government should pay special attention to the growing ranks of low-income earning citizens, the group hit hardest by the economic downturn.

"This budget will have to focus on the decrease in the middle class and expansion of the bottom [-earning] 40%, which now might have become 60%," he said. Sivamurugan added that health care, education and jobs also require attention.

The government should also keep an eye on the ballooning debt and fiscal deficit, Johari said. "Debt has been mounting to more than 1 trillion ringgit ($241 billion) [accumulated to date], and interest payments alone have exceeded 40 billion ringgit, which is more than 16% of the revenue," he warned.

Malaysia's fiscal deficit is projected to reach 7% of GDP this year. The government aims to cut that to 3%-3.5% by 2025.

In a research note, UOB Bank economists Julia Goh and Loke Siew Ting estimated the federal government's fiscal deficit would be 6.5% of GDP next year. They also expect the 2022 budget to be expansionary, worth as much as 338.1 billion ringgit and almost 5% larger than the 2021 edition.

The 2022 budget will be tabled by Finance Minister Tengku Zafrul Abdul Aziz on Friday for parliament deliberations, followed by a primary vote on Nov. 18.

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