



KEYNOTE ADDRESS

**YB DATO' WIRA HAJI AMIRUDDIN BIN HAJI HAMZAH
DEPUTY MINISTER OF FINANCE, MALAYSIA**

**MALAYSIA TAX POLICY FORUM:
"STRENGTHENING MALAYSIA'S FISCAL FUTURE"**

**9 JANUARY 2020
THE EVERLY HOTEL PUTRAJAYA**

[READ BY YBHG. DATO' SRI DR. SABIN SAMITAH]

Mr. Cheah Chyuan Yong
Chairman
International Strategy Institute (ISI)

Distinguished guests,

Ladies and gentlemen,

Assalamualaikum Warahmatullahi Wabarakatuh and a very good morning.

A. OPENING

1. Allow me to convey the regards and regrets of Yang Berhormat Dato' Wira Haji Amiruddin Haji Hamzah, Deputy Finance Minister of Malaysia who is unable to join us today due to some unforeseen circumstances.
2. Please allow me to read the speech on his behalf.
3. Firstly, I would like to thank the host, the International Strategy Institute (ISI), for inviting me and many other important stakeholders to the inaugural Malaysia Tax Policy Forum.
4. Dialogue and open exchange of ideas is always important in a democracy and more so when it relates to taxation. It is that one thing that is so clear to everyone, yet, it remains elusive to most. Albert Einstein once said that "*the hardest thing in the world to understand is the income tax*".

5. More importantly, the issue of taxation is a hotly debated topic among Malaysians. It is my sincere hope that this forum today will be able to address some of the pressing issues and offer pragmatic solution that will be fair to all. Be it on the ideal taxation rate or increasing efficiency of the tax collection system, I thank you for being part of the dialogue.

6. I also hope this address today will offer the necessary update on what the Government has set out to do in the short to medium term, and get all parties on the same page in strengthening the country's fiscal future.

B. THE FISCAL OUTLOOK

Ladies and gentlemen,

7. Fiscal policy is indeed a critical instrument that affects a nation's stability, growth and income distribution. The Rakyat expects the Government to ensure value-for-money public spending, a fair and efficient tax system, and transparent and accountable management of public sector resources.

8. At the same time, the Government is expected to strengthen its finances by enhancing its revenue base and optimising expenditure, thus creating adequate fiscal space for counter-cyclical measures to stimulate the economy and ensure debt sustainability.
9. Despite the weight of servicing the nearly RM1.1 trillion of debt and liabilities inherited from the previous administration, this Government remains committed to gradual fiscal consolidation. The Government recorded a fiscal deficit of 3.7 percent of GDP in 2018 and is on track to meet the targeted deficit of 3.4 percent in 2019.
10. In the previous Budget, the Government had announced a fiscal deficit target of 3.0 percent for 2020. However, heightened risks of a global economic slowdown and the unexpected expenditure needed to rescue troubled institutions inherited requires pre-emptive fiscal measures.
11. To sustain economic growth, the Government will be adopting a mildly expansionary budget, with a revised target of 3.2 percent fiscal deficit in 2020. We expect the fiscal deficit to reduce further, on average at 2.8 percent of GDP over the medium term.

C. THE ROLE OF TAXATION

Distinguished guests, ladies and gentlemen,

12. There is an urgent need for a strong capacity to tax in order to carry out the policies that we have outlined, as taxation provides a stable and adjustable source of revenue that can be mobilised if needed. It is also a central element in determining the ability of a country to repay its debt.
13. In enhancing Government revenue, the Government expects to collect RM244.5 billion in revenue in 2020, an increase of RM11.2 billion from 2019, after excluding the one-off Petronas special dividend of RM30 billion.
14. Despite the healthy increase in tax revenue, we still collect significantly lower taxes than some other countries. For 2017, Malaysia's tax revenue relative to GDP was only 13.1%. This is considerably lower as compared to countries such as Vietnam, Chile, Poland and South Korea which had tax-to-GDP ratios of 19.0%, 17.4%, 16.8% and 15.4% respectively.

15. As a response to this, the Government set up a Tax Reform Committee (TRC) to carry out a comprehensive review of the Malaysian tax system including tax incentives and exploring new sources of sustainable revenue. Chief among the task of the committee is to narrow the tax gap and improve tax efficiency in order to increase tax buoyancy.

16. Beginning January 2021, the Government will introduce a Tax Identification Number, or TIN, for business or individual income earners aged 18 and above. Among the objectives of this initiative is to ensure no taxpayers fail to fulfil their tax obligations, while providing justice to those who have long been responsible in paying their taxes.

17. In order to implement this initiative smoothly, engagement sessions with stakeholders will commence this year.

Ladies and gentlemen,

18. The Government is also undertaking a more rigorous expenditure optimisation exercise with the emphasis on avoiding wastage and leakages while at the same time ensuring programmes and projects continue to support growth.

19. Among the top priority measures are streamlining the functions of ministries and agencies; scaling down and ceasing of projects with low priority and low multiplier effect to the economy; and improving Government procurement policy, including a review of clause and term of contracts to enhance efficiency and effectiveness of contract management.
20. In addition, the Government has established the Public Finance Committee which is chaired by the Finance Minister and consists of the Minister of Economic Affairs, Governor of Bank Negara Malaysia and senior Government officials.
21. This committee shall report its fiscal related findings and propose measures to the Fiscal Policy Committee (FPC) to further discussion on matters related to national development agenda.

D. THE GOVERNMENT'S FISCAL STANCE

Ladies and gentlemen,

22. The Government's fiscal stance will continue to be expansionary given the nation's high level of domestic savings.

23. Due to the high liquidity in the domestic financial market, there is ample room for the private sector to increase their investment without the Government's borrowings crowding out the market. And in turn, domestic investors will benefit from the Government's debt issuance by earning a stable return.
24. The Government's overall investment policy shall remain investor-friendly particularly towards private investment with high value-added activity. Thus, the emphasis will be given on the quality and outcome of spending rather than the quantity and output.
25. The Government is confident that the fiscal stance is appropriate to support the economic and development agenda of the nation and will continue to strive for higher global competitiveness, economic resilience and improved wellbeing of the people.
26. To support with the Government's fiscal stance, the Medium-Term Fiscal Framework (MTFF) was introduced to provide guidance and outlines for three-year fiscal projection, along with required key policy initiatives based on the medium-term macroeconomic assumptions.

27. The Framework provides indicative expenditure ceilings for the Government during the period, which encourages proper planning of programmes and projects beyond the annual planning horizon to achieve specific goals in line with the fiscal consolidation path.
28. The Framework will serve as a scenario planning tool to strike a balance between macroeconomic stability and fiscal sustainability. The Framework portrays a realistic fiscal outlook and will be an indicator of the Government's fiscal discipline. This also provides clarity to the private sector on the Government's fiscal policy in the medium-term.

E. POLICY REFORM IN MALAYSIA

Ladies and gentlemen,

29. Let me reiterate that this Government is a reform-minded Government. In moving forward, the Government is determined to undertake fiscal reforms proactively. This is important for the Government to strengthen its fiscal position while sustaining economic growth.

30. Benchmarked against international experience, effective fiscal reforms while sustaining economic growth is more likely to occur when reforms are introduced on both revenue and spending, rather than only on one of these aspects.
31. Focus should be emphasised on reviewing Government expenditure to unlock greater efficiencies without jeopardising the effectiveness of Government spending.
32. Therefore, the Government has focused its fiscal reforms across the three main areas of strengthening fiscal governance, increasing the efficiency of Government revenue collection and ensuring Government expenditure is effective.
33. Firstly, a reform of fiscal governance incorporates responsible fiscal principles, medium-term targets and high standards of fiscal reporting to give clarity on policy direction. However, fiscal governance in the form of legislation will be more effective, particularly in ensuring compliance, as opposed to governance in the administrative form.

34. The second key area of reform is to enhance the efficiency of revenue generation. This includes a comprehensive review of the tax system and collection. Although Malaysia's tax revenue as a share to GDP is comparable to ASEAN countries, less than 20 percent of the 14 million workforce and 1.1 million business establishments are paying income or corporate tax.
35. The third key area of fiscal reform is aimed at the effectiveness of Government spending. This shall involve the re-engineering of the public delivery system, providing subsidies and social assistance which are more targeted, improving the cost structures of projects, and undertaking development projects on a needs basis. The aim is to continue the delivery of Government services, while achieving its objectives at a lower cost due to savings generated by the increase in efficiency and productivity.

F. CLOSING

Distinguished guests, ladies and gentlemen,

36. Indeed, taxes and public spending are powerful means to ensure that countries share the growth dividend among its people. Fiscal policy should also help people fully participate in and adapt to a changing economy.
37. Better access to education, jobs and health services, as well as social insurance, can make it easier for people to spring back from a job loss or illness.
38. Apart from ensuring fiscal transparency, the Government will continue to pursue institutional reforms, maintain political stability, manage the reduction of debts and liabilities, instil good governance and ensure sustainable economic growth that will raise Malaysian productivity and competitiveness.

39. On that note, let me thank you all again for being a part of this forum and I wish that the participants will draw new insights and perspectives, forge new networks and collaborations as well as strengthen their resolve in carrying out this important mission to further strengthen Malaysia's fiscal future.

Thank you.

YB Dato' Wira Haji Amiruddin Haji Hamzah
Deputy Finance Minister of Malaysia
09 January 2020