



ECONOMIC & PUBLIC FINANCE CONFERENCE

KEY GLOBAL CHALLENGES TO PUBLIC FINANCE IN DEVELOPING ECONOMIES



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Presentation Outline

1

Overview

- Malaysia GDP and Fiscal Position

2

Key Global Challenges in Public Finance

- Slower global economic growth
- High reliance on Government fund
- Low tax revenue
- High public debt
- Increasing ageing population
- Effect of climate change

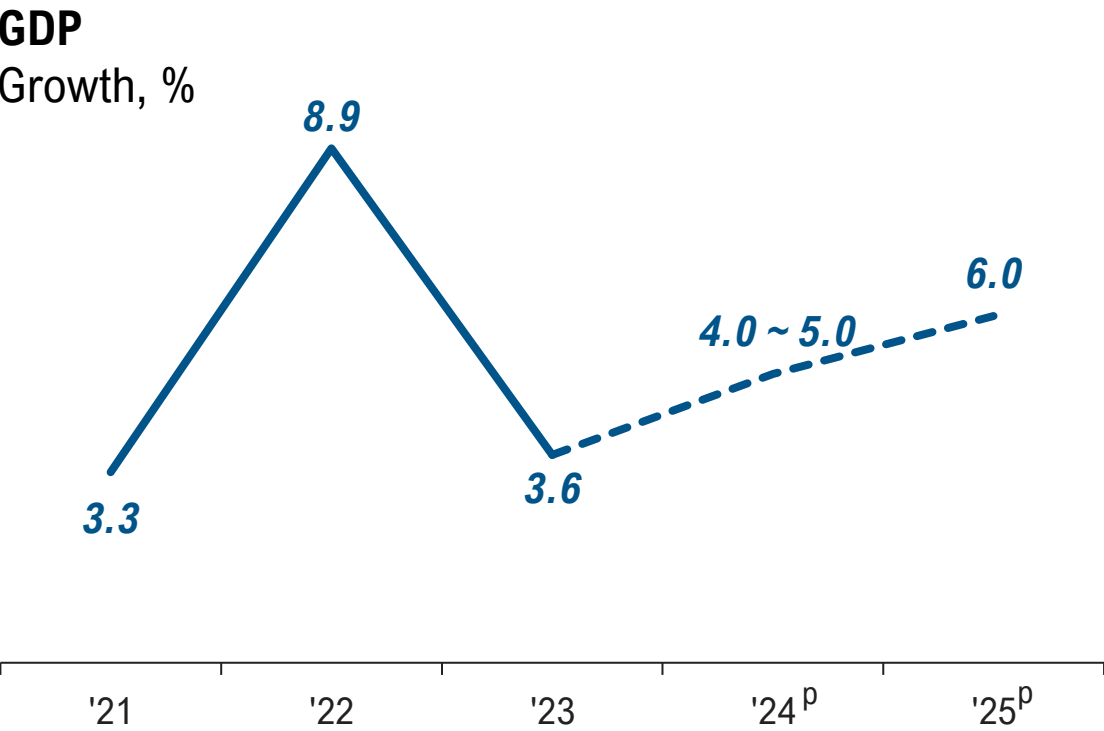
3

Way Forward in Addressing Public Finance in Developing Economies

4

Conclusion

Malaysian economy grew by 3.6% in 2023...



Note: ^p projected
Source: Department of Statistic Malaysia (DOSM) and Bank Negara Malaysia & Ministry of Economy projection

GDP performance (Q1 '24)

Driven by services and construction sectors

Sector	Growth (%)	Share to GDP (%)
Agriculture	1.6	5.9
Mining	5.7	6.6
Construction	11.9	3.9
Manufacturing	1.9	23.1
Services	4.7	59.3
GDP	4.2	100.0

Exclude import duties

Driven by both private and public sector expenditure

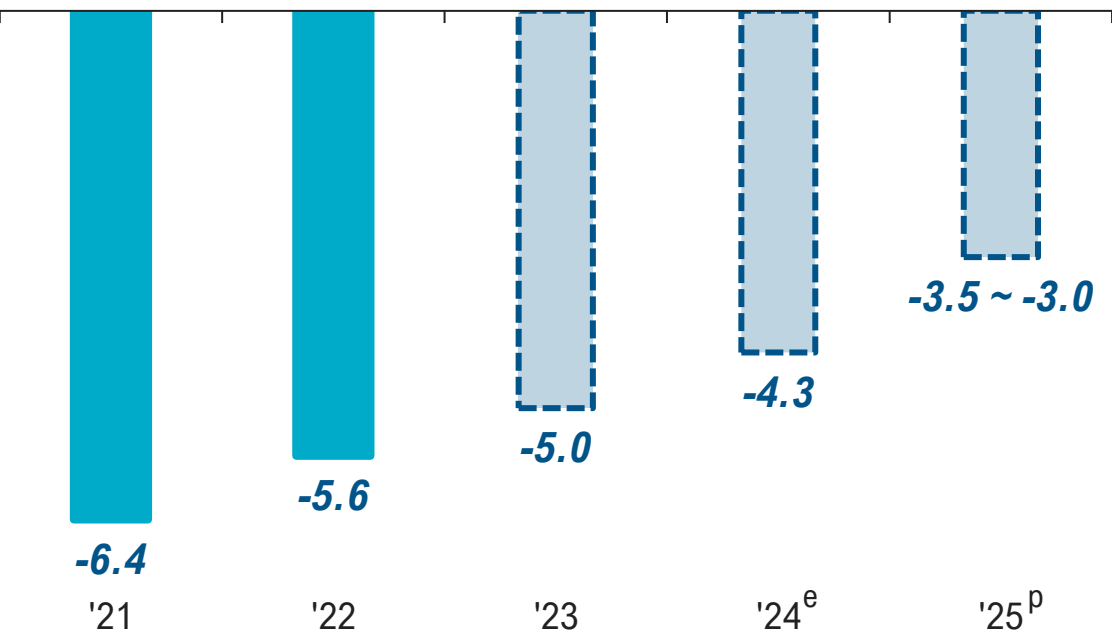
Expenditure	Growth (%)	Share to GDP (%)
Private Consumption	4.7	61.9
Public Consumption	7.3	12.3
Private Investment	9.2	17.1
Public Investment	11.5	4.2
Net Exports	-24.5	4.2
GDP	4.2	100.0

Exclude change in stocks

GDP growth is targeted between 4.0% to 5.0% in 2024, supported by favourable labour market condition as well as continued improvement in tourism activities

Fiscal deficit reduced to -5.0% in 2023...

Overall Deficit
to GDP, %



Note: ^e estimated ^p projected
Source: Ministry of Finance and Ministry of Economy

Items	RM billion		
	2022	2023	2024
Revenue	294.3	315.0	307.6
Operating Expenditure	292.6	311.3	303.8
Current Balance	1.6	3.7	3.8
Development Expenditure	71.5	96.1	90.0
COVID-19 Fund	30.9	-	-
Overall Balance (Deficit)	-99.4	-91.4	-85.3

Fiscal consolidation measures will further improve the fiscal deficit in 2024 and 2025

Effective public finance management is essential for creating a stable, equitable, and prosperous society

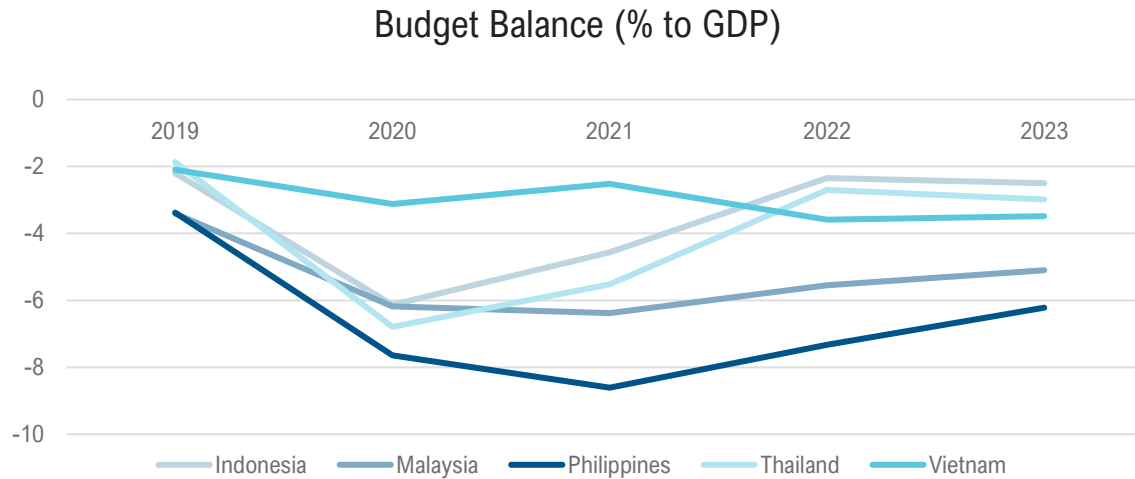
Why Public Finance Matters?

- Shaping the economic and social development of countries to:
 - accelerate economic growth by funding socioeconomic programmes and projects, promoting investments, and providing essential public services
 - support social development through social welfare programmes, poverty alleviation initiatives, and subsidies to targeted groups within the society

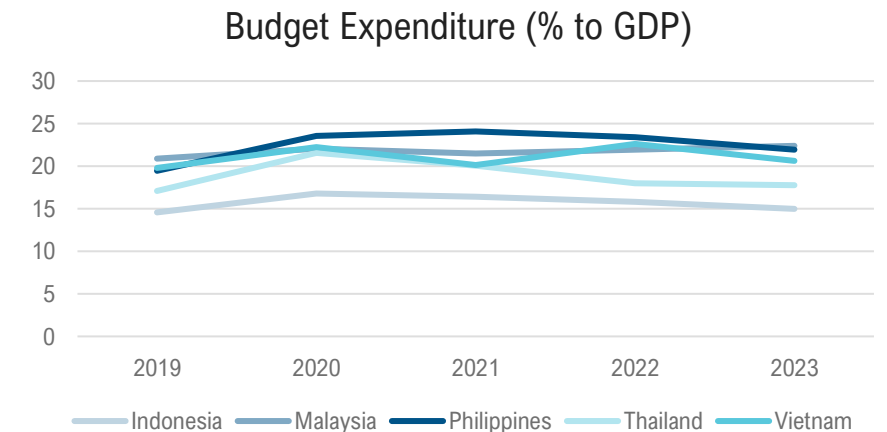
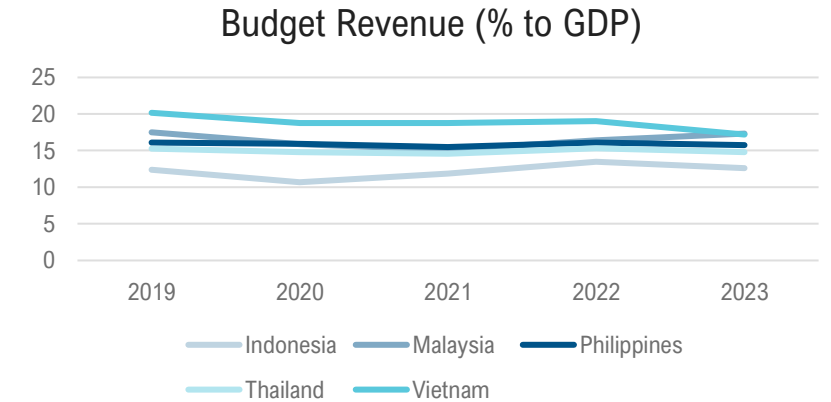
Public Finance in Malaysia

- Robust economic growth driven by private sectors and recorded fiscal surplus from 1993 to 1997
- The Asian Financial crisis, Global Financial crisis and COVID-19 pandemic, resulted in higher public spending and fiscal deficit
- Operating expenditure (OE) : highest component on the emoluments (30.4%), followed by subsidies and social assistance (21.4%)
- Development expenditure (DE) : highest spending on the economic sector (56.7%) and social sector (27.4%)

Public finance in developing economies



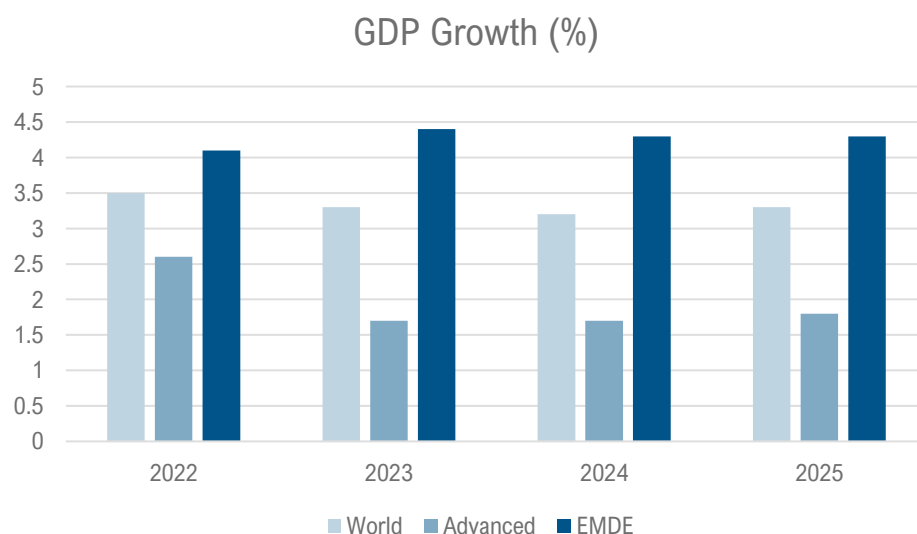
- ASEAN-5 countries showed negative budget balance since 2019.
- COVID-19 pandemic worsened the budget balance in 2020 until 2021 due to higher public expenditure and lower budget revenue, but has improved since 2022



Public finance in developing economies were impacted by the pandemic COVID-19 in 2020 worsening the budget balance.

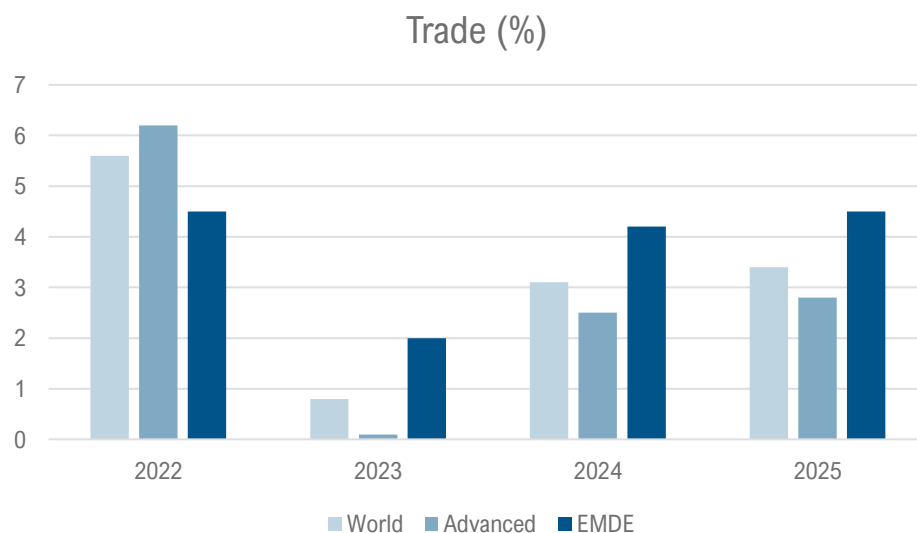
Key Global Challenges

Slower global economic and trade growth, 2022-2025



- Slower global growth in 2023 to 2025 as compared to 2022 due to:

- Restrictive monetary policy and geopolitical risk
- Withdrawal of fiscal support post COVID-19
- Low productivity growth



- Slower trade growth in 2023 to 2025 as compared to 2022 due to:

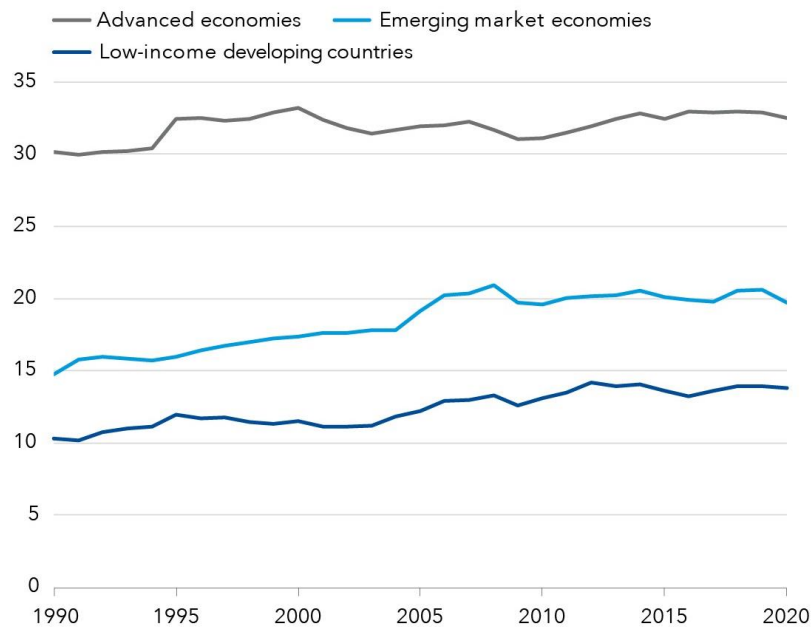
- Lower global economic growth
- Trade tension between China and US
- Low spending on technology products

Developing economies: dependency on public finance

- Developing economies still need to allocate high public expenditure for socioeconomic development and economic growth:
 - Education training (15.9% of total DE).
 - Transportation (21.3% of total DE).
 - Security (13.9% of total DE).

Emerging economies tax revenue is lower compared to advanced economies

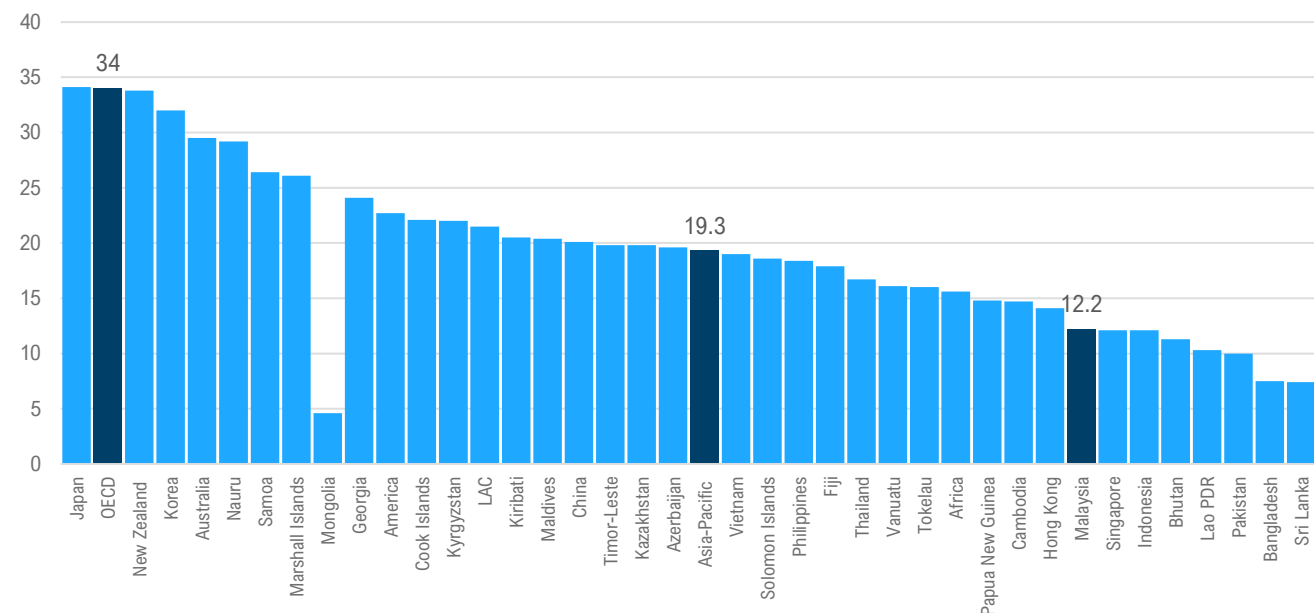
Tax Revenues Across All Countries
(percentage of GDP)



Source: IMF

- Tax revenues are moderating
- Smaller tax base and inefficient tax collection mechanism
- Malaysia tax-to-GDP ratio was 12.2% in 2022, below the Asia-Pacific as well as OECD countries

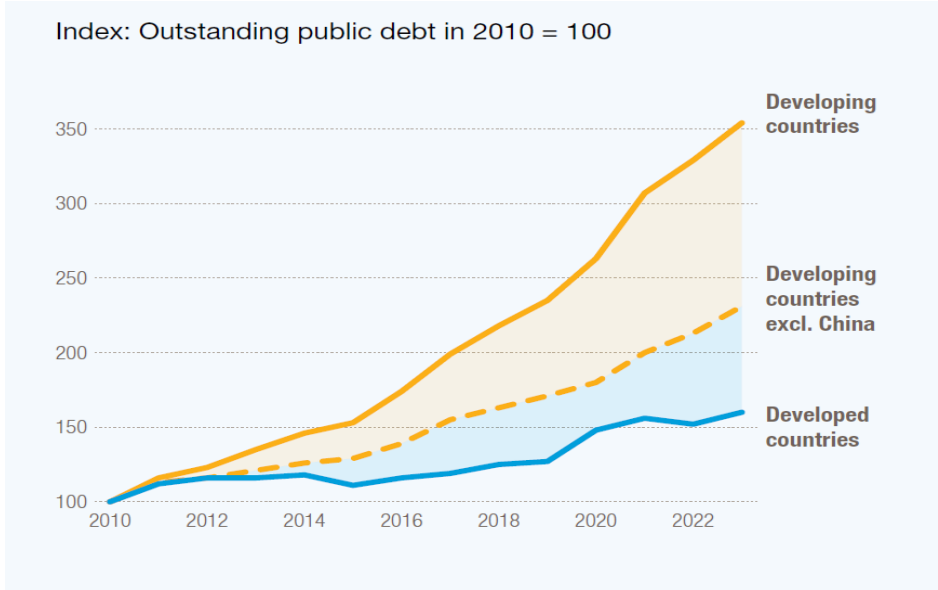
Tax-to-GDP Ratio Compared To Other Asian And Pacific Economies And Regional Averages, 2022



Source: OECD

Global public debt has doubled since 2010, reaching US\$97 trillion in 2023

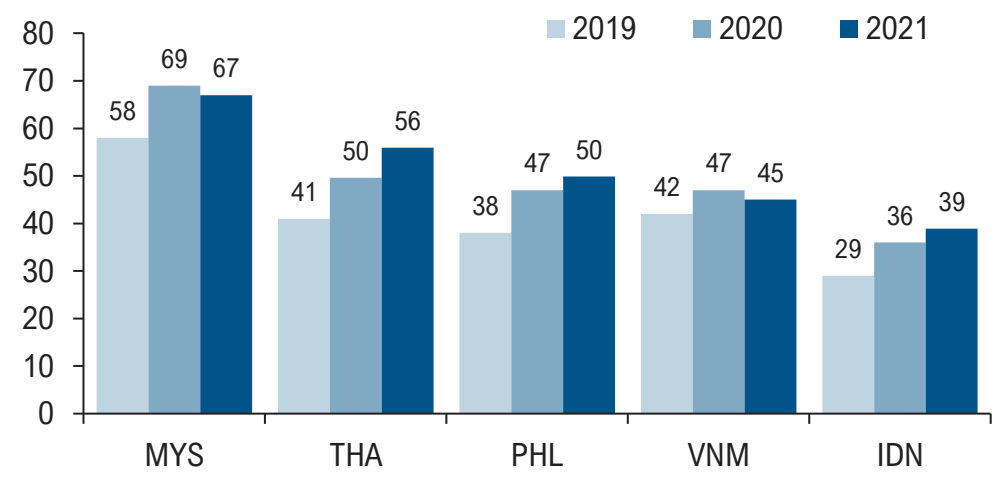
Global Debt (percentage of GDP)



Source: IMF WEO April 2021

- For developing economies, almost 50% of the world's population live in countries that spend more on debt interest payments than on education or health

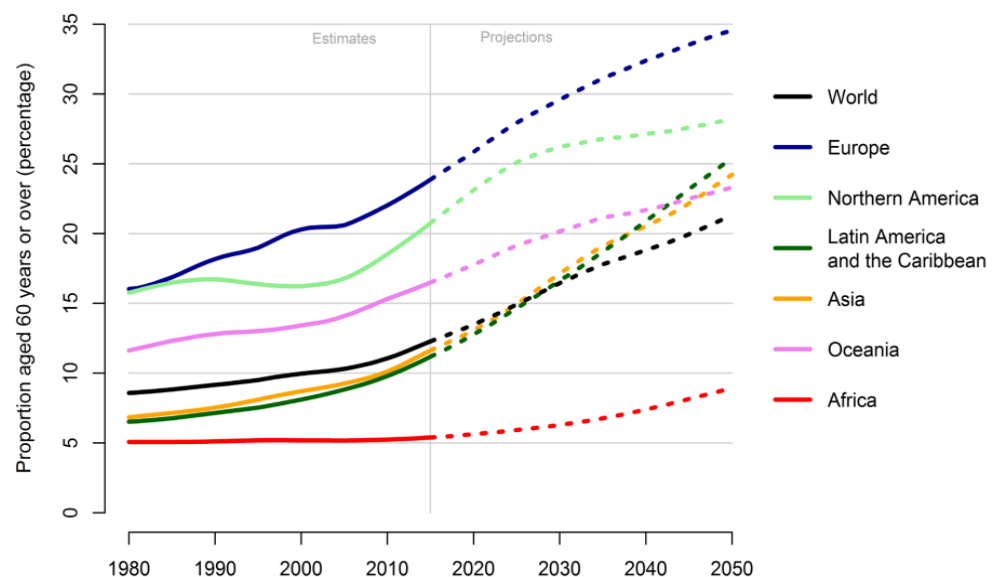
Rising Government Debt - ASEAN



- The increase in public debt reflects the extraordinary measures taken to mitigate the impact of the COVID-19 pandemic on economies and societies
- Malaysia has the highest public debt among regional peers

The proportion of people aged 60 and above is projected to reach 20% of total world population grow by 2050

Percentage of Population Aged 60 Years or Over by Region, 1980 - 2050



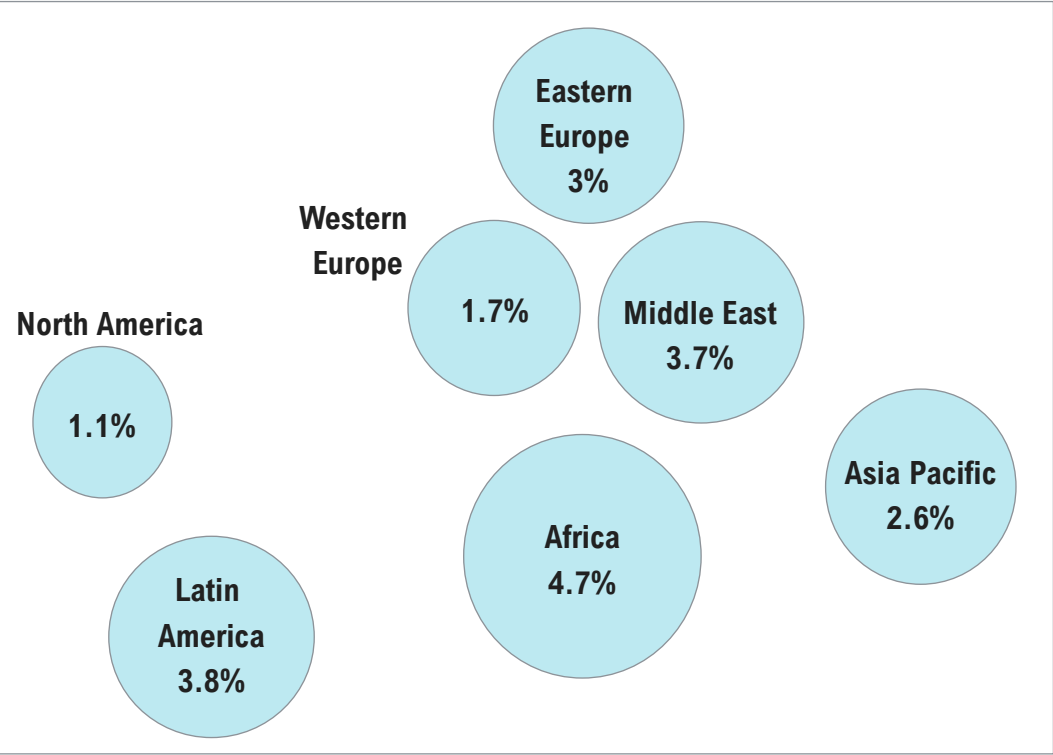
Source: United Nations 2015

- Increased ageing population will increase government spending in healthcare, long-term care and social assistance.
- The ageing population will cause lower labour productivity and lower tax revenue.
- Public health and long-term care expenditure is expected to increase by 2.2 percentage points of GDP between 2021 and 2060 for OECD countries.
- In 2022, the share of the Malaysian population aged over 65 years was at 7.2 percent.

Climate change management requires huge funding

Economic impacts of climate change

Average real GDP loss by 2050



Source: Economist Intelligence Unit

- Global cost of climate change damage is estimated to be USD38.0 trillion by 2050
- The impacts of climate change on government finances range from direct and immediate (e.g., disaster relief) to indirect and long term (e.g., sovereign creditworthiness)
- Malaysia needs to increase its total investment of RM 375 billion in renewable energy transition to achieve carbon neutrality by 2050.
- Malaysia to achieve net-zero emission by 2050 in 2024.
- Impact of climate change to Malaysia costing RM 8 billion in damage or 0.13% of GDP in two decades.

Improving public finance for better fiscal position in developing countries

Enhance tax administration effectiveness

- Reforming ineffective tax expenditures.
- Implementing digital transformation of tax administration.

Reduce public expenditures

- Reviewing public programmes.
- Reforming public spending on social assistance and welfare.

Improve debt management

- Implementing comprehensive approach (fiscal disciplines and stimulating economic growth).
- Increasing GDP growth.

Increase revenues sources

- Widening the revenue base and increasing tax collection.
- Balancing economic and social development goals.

Conclusion

Developing economies need to strengthen its public finance by ensuring efficient tax administration, effective public spending and prudent public debt management.

A strong public finance would enable countries to address global challenges as well as ensure sustainable economic growth and improve wellbeing

**THANK
YOU**