Alternative Budget

Malaysia 2016

Averting a crisis

English version

PAKATAN HARAPAN

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Executive Summary

We expect 2016 to be a very challenging economic year, with the likelihood of a recession starting in Q3 due to the declining ringgit, lower consumer spending, reduced business expansion, and external pressures. Prime Minister Najib Razak lacks the political will to resolve 1MDB immediately and a prolonged confidence crisis will continue to drag the economy and ringgit down.

We believe the Barisan Nasional (BN) government will continue to pursue pump-priming via mega projects, in order to stimulate the economy. These projects will continue to be concealed as off-balance sheet items with minimal transparency and accountability. We are gravely concerned that the finance costs of these projects will escalate next year should our credit ratings plummet. While the BN government is likely to increase development expenditure, the benefits from such expenditure will not be maximized due to systemic wastage and corruption issues. We also believe the BN government will inversely pursue austerity cuts at operational levels; reducing social services and causing greater hardship to the rakyat. This austerity trend has started in late 2014 with cuts in health and education scholarships.

Fiscally, we note that the BN government may have a gain of some RM26 billion on the back of GST implementation (RM15 billion gain) and the removal of petrol subsidies (RM10.7 billion savings). However, this gain will likely be eroded by reduced petroleum revenues and lower tax contributions due to lethargic corporate results. Instead of pump-priming, the BN government should utilize any net fiscal gain to reduce the dangerous levels of debt exposure from direct and contingent liabilities, which now stands at RM800 billion (RM630 billion in government debt and RM170 billion of contingent liabilities). We are also concerned about the wide usage of “letters of support” which are not captured as contingent liabilities. Thus, we do not believe that BN’s targeted 3% deficit is achievable and we expect the deficit figures to be manipulated through supplementary budgets.

In contrast, Pakatan Harapan will take immediate and decisive action on 1MDB to regain market confidence. We will support the extension of Bank Negara Malaysia Governor Tan Sri Zeti Akhtar Aziz’s tenure for a further two years, to ensure stability in the face of looming economic trouble. We will also introduce measures to mitigate inflation caused by GST and the falling Ringgit. On revenue, we will effectively abolish GST by zero-rating all items, while continuing to pursue progressive tax policies. Fiscally, we will save up to RM30 billion by implementing structural reforms to eradicate wastage and corruption. With this fiscal gain, we will reduce PETRONAS’ dividend by RM6 billion to enable the company to build up its resilience in these challenging times. Further, businesses will be incentivized to declare minimal dividends to prevent capital flight and rewarded for re-investing in capital expenditure.

We will avoid austerity measures on social services and continue to focus on human capital developmental spending, by investing more in education, health, training, and women empowerment. Also, we will not expand or reduce the civil service. Instead, we will focus on savings via structural reforms and anti-corruption measures.

Our fiscally responsible approach will result in lower tax revenue collected but also lower operational expenditure. On the revenue side we will collect RM208 billion, RM29 billion lower than the projected BN revenue model. The rakyat and businesses will benefit from lower taxes, as having more money in the economy will boost both consumer and investor confidence levels. On expenditure, we will spend about RM238 billion, RM37 billion lower than BN. The lower spending will result from savings rather than cuts. Our budget also allocates a sustainable 70:30 ratio of operating expenditure to developmental expenditure. This approach reflects our commitment to greater fiscal discipline and making the government more productive. Overall, our policies and approach will produce a 2.48% deficit, gaining us more fiscal space to react in the event of an economic crisis in Q3 2016.

This alternative budget will also give special attention to the economic needs of Sabah, Sarawak, and rural Malaysia. We believe that the economic challenges in Sabah and Sarawak are not insurmountable, provided that good policies and political will are aligned. Rapid urban development in Peninsula Malaysia has come at the expense of natural resources from East Malaysia, and we aim to correct this imbalance through rural development policies and equitable distribution of resources. Pakatan Harapan believes that Sabahans and Sarawakians are entitled to the same living standards as West Malaysians.

On the agricultural front, we aim to help poor farmers and to incentivize rice production through a redistribution of subsidies. We also believe there are ample opportunities to improve overall yield and better land usage in this sector. The policies in this budget reflect our full commitment towards bridging the rural-urban divide and improving the lives of farmers.

BUDGET HIGHLIGHTS

Of Pakatan Harapan 2016

- Put 1MDB into administration and prosecute wrongdoers
- Separation of PM and Finance Minister portfolios
- Support extension of Bank Negara Malaysia governor Zeti's tenure by 2 years
- Effectively abolish GST by zero-rating all items to mitigate inflation
- To set up a petroleum endowment fund for East Malaysians
- Reallocate the KL - Singapore high speed rail budget to building railways in Sabah and Sarawak.
- Savings of RM 30 billion from anti-corruption measures
- Reduce PETRONAS dividend to RM20 billion
- Revamping cash transfers to be conditional on employment and school attendance
- Improve livelihood of farmers by reorganizing subsidies

Preface

This Pakatan Harapan budget serves as a counter-balance policy paper to the continued financial misadministration of the BN government in Budget 2016. Currently on the verge of a major economic slowdown, we will provide an unvarnished view about the critical state of Malaysia today and viable public policies to reinvigorate our economy.

We begin by reflecting upon the reminder of Allah SWT in the Surah Al-Hashr, verse 7:

كَيْ لا يَكُونَ دُولَةً بَيْنَ الأَغْنِيَاءِ مِنْكُمْ

"...*in order that wealth may not merely circulate between the rich and super-rich amongst you*". The verse depicts the principle of 'Socially Just and Equitable Development' in Islamic Syariah, which advocates equitable distribution of wealth and income and addresses its disparity.

The theme of inequality is weaved into this budget - inequality between the political elite and ordinary citizens; between urban and rural societies; and between Peninsula and East Malaysia. We recognize that such inequalities are symptomatic of a deeper moral deficit in our government today, and we aim to correct this through immediate and longer-term measures.

Pakatan Harapan proposes restoring market confidence and providing financial relief for the rakyat and businesses as immediate steps to alleviate current economic hardships. Medium term solutions include correcting our fiscal position to a more financially sustainable path, and protecting the bottom 40% of society by increasing developmental expenditure. We will then be in a better position to advance our agenda of good governance, democratic social and economic institutions, and a rule of law based on social justice for all.

Our detailed recommendations are based on best available data, and observations from the media and within the federal government. Timing is critical and the stakes are high. We invite policymakers from both sides of the divide to look beyond partisan lines and judge each proposal by its merits for the progress of our nation. Our hope is that decisive action will be taken in time to stave off impending economic ruin.

Pakatan Harapan
21st October 2015

Macroeconomic Overview

Malaysia's confidence crisis is expected to worsen and could lead to a recession in 2016. This is attributable not only to external economic factors, but also to internal factors that have weakened the country's ability to withstand global headwinds.

The global economy is expected to grow at an annual rate of 3.8% for 2016 compared with 3.3% in 2015. With advanced economies expected to propel global growth, it is not surprising to see the shift of investor funds back into the United States. This has resulted in the continuous strengthening of the US dollar and a slowdown in the Chinese economy.

The strengthening US dollar had in turn caused the depreciation of Asian currencies with the Malaysian Ringgit being the worst hit after depreciating by almost 30% in 2015. Recent devaluation of the Chinese Yuan has further ensured that the ringgit remains subdued at levels unseen since the 1998 financial crisis. These external uncertainties have resulted in a range of economic growth forecasts for Malaysia from 4.5% to 5.5% for 2016.

Managing our economy during these difficult times will require strong fiscal discipline, greater financial prudence and targeted spending programmes to stimulate the domestic economy to weather a slowing external environment. These aspirations are meaningless if we continue to be tainted by allegations of corruption at the highest levels, abuse of power at key institutions and lack of political will for governance reform.

As a result, investors have punished us by pulling out in excess of USD3 billion of funds, the biggest outflow since the 2008 financial crisis. Foreign direct investments have also shrunk by almost 42% for the first half of 2015 compared with the same period a year ago. The ringgit became Asia's worst performing currency in 2015, while foreign reserves dropped by USD2.2 billion in August 2015, the lowest level in 6 years, as Bank Negara Malaysia struggled to stem the ringgit's decline.

A weakening Ringgit will increase the cost of imports, which raises living costs; a problem already exacerbated by the imposition of Goods and Services Tax (GST). Such factors have dampened private consumption, as consumer sentiments have dropped to its lowest level since 2008, while nearly nine in 10 Malaysian consumers have changed their spending habits in 2015 to increase household savings[1]. We expect private consumption for 2016 to be sluggish so long as there are no serious attempts at boosting investor confidence.

Concurrently, rising living costs will push more low-income and young Malaysians into debt and bankruptcy. Malaysia currently has the highest household debt among 14 Asian economies, with the rate jumping to 88% of GDP in 2014, whereby half of it belongs to those with incomes below RM5,000 per month[2]. Further, 5,547 individuals under the age of 35 were declared bankrupt in

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[1] Nielsen, 2015
[2] Standard & Poor, August 2015

2014, double the number in 2005[3]. This is a disturbing pattern, which if left unchecked, could derail Malaysia's ambition for a high income economy.

Moreover, the higher cost of doing business is forcing companies to put expansion plans on hold. New business-loan applications in Malaysia, which is one of the key indicators of private sector growth, have started to slow significantly, in light of the declining ringgit and economic volatilities.[4]This is anticipated to lead to lower wage growth, hampering the ability of workers to cope with higher living costs, particularly in urban areas.

The vulnerable state of Malaysia's economy cannot be blamed solely on external economic factors, since poor governance and economic mismanagement have significantly weakened Malaysia's resilience to external volatilities. In particular, overspending and an addiction to debt have constrained the government's fiscal space. The lack of political will to undertake institutional reforms and eradicate corruption means that the rakyat will continue to pay for Barisan Nasional's mistakes.

There is also a grave lack of transparency with regards to the government's total debt exposure. The BN government is shifting liabilities off-budget in their bid to create the impression of an improved fiscal position. Recoverable loans, investments, and government guarantees are three key sources of off-budget items, while letters of support are not recorded as contingent liabilities. Pakatan Harapan estimates that in 2013, off-budget items totalled RM138.9 billion. If such items were added to the 2013 government debt, we would have reached a debt-to-GDP ratio of 66%; thus exceeding the self-imposed ceiling of 55% debt-to-GDP ratio.

We have identified 5 'pressure points' that are causing the current economic crisis, as illustrated in the following diagram. The details of our proposed solutions to avert a recession are set out in the relevant sections of this report.

[3] Malaysia Department of Insolvency

[4] Kok, C., Malaysian business expansion on hold on falling ringgit, economic uncertainties, The Star Online, 10 September 2015, at http://www.thestar.com.my/Business/Business-News/2015/09/10/Expansion-on-hold/?style=biz

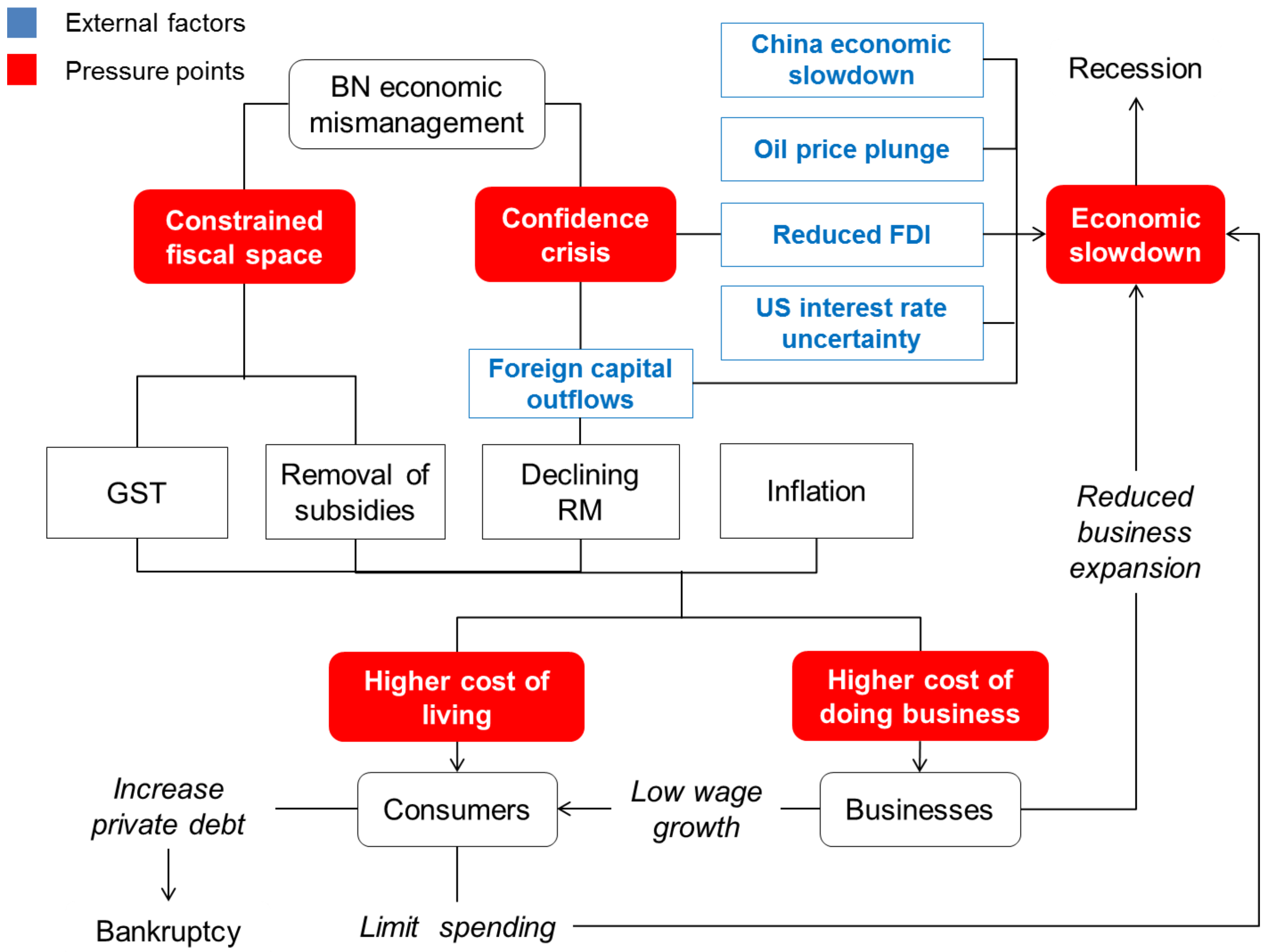

Diagram 1*: Pressure points and external factors causing the upcoming economic crisis.*

1. Pakatan Harapan's solutions to avert an economic crisis

Immediate solutions

Restore market confidence

- Place 1MDB into administration
- Locate missing funds for repatriation
- Punish all perpetrators
- Introduce institutional reforms

Confidence crisis

Provide financial relief for the rakyat

- Zero-rate all GST items
- Progressive individual income tax to reduce tax burden on lower and middle classes
- Revamp targeted subsidies for higher efficiency and transparency

Higher cost of living

Provide financial relief for businesses

- Zero-rate all GST items to improve cash flow
- Reduce petroleum dividend to strengthen PETRONAS

Higher cost of doing business

Medium-term solutions

Plug leakages and enforce fiscal discipline

- Institutional and governance reforms to eradicate corruption, wastage, and mismanagement
- Fiscal discipline by generating revenues for times of need

Constrained fiscal space

Increase developmental spending

- Increase spending on human capital development, including health, education, training, and women empowerment
- Focus on rural infrastructure to reduce the economic gap between East and West Malaysia

Economic slowdown

1.1 First solution: Restore market confidence

Robust and definitive action is needed to restore market confidence in the integrity and credibility of the Malaysian government and stop the Ringgit's dramatic decline. To this end, five corrective and preventative measures must be taken immediately.

Firstly, 1MDB must be put into administration. 1MDB not only lack a real strategic purpose for its existence, since Malaysia already has ample sovereign funds (Khazanah Nasional, PNB, EPF), but maintaining its existence will create heavy reputational and financial costs for the country. National assets will be pawned off to settle debts (e.g. 1MDB now needs to service about RM6.0 million every day for bank interests alone), when such assets can be put to more productive use.

Additionally, the serious legacy issues plaguing 1MDB are tainting Malaysia's international image as a whole; causing investors to perceive the company as a representation of our country. This inaccurate projection will continue so long as 1MDB remains operational and will lead to a credit rating downgrade for Malaysia. Hence, the sooner 1MDB is put into administration, the sooner misperceptions can be corrected and the damage repaired.

BN's debt rationalization plan for 1MDB fails to address the fundamental issues of the missing billions, regulatory oversight failure, corporate governance failure, corruption, and abuse of power. Instead, the plan appears to be an attempt to gloss over glaring irregularities by allowing Dato Sri Najib Razak to claim that all is well and that the company is on its way to reducing its debt to manageable levels. However, investor mistrust and public concerns will remain until punitive measures are taken and institutional reforms are introduced to prevent another 1MDB debacle.

Secondly, regulatory and forensic investigations must be resumed to locate the missing funds. The active obstruction of regulatory investigations into 1MDB illustrates the desperation of the Najib administration in concealing the truth. Pakatan Harapan will seek the assistance of Interpol and regulators from other countries to identify, freeze and repatriate stolen assets back to Malaysia.

Thirdly, Prime Minister Najib Razak must resign for his primary role in this matter. Whoever found to be complicit, must be charged and tried accordingly. All perpetrators, including politicians and government officials must also be brought to justice. The courts should mete out sentences that are commensurate with the scale and gravity of this crime in order to deter future offenders.

Fourthly, institutional reforms must be introduced to assure investors that another 1MDB situation can never happen again. Nations tend to fail when they have extractive political institutions that concentrate political power in the hands of a few, without constraints, checks and balances or the rule of law[5]. This leads to extractive economic institutions that create an unequal distribution of opportunities, income, and resources. As such, Pakatan Harapan is committed towards reforms to strengthen rules and institutions as checks and balance on power. Such reforms will include:

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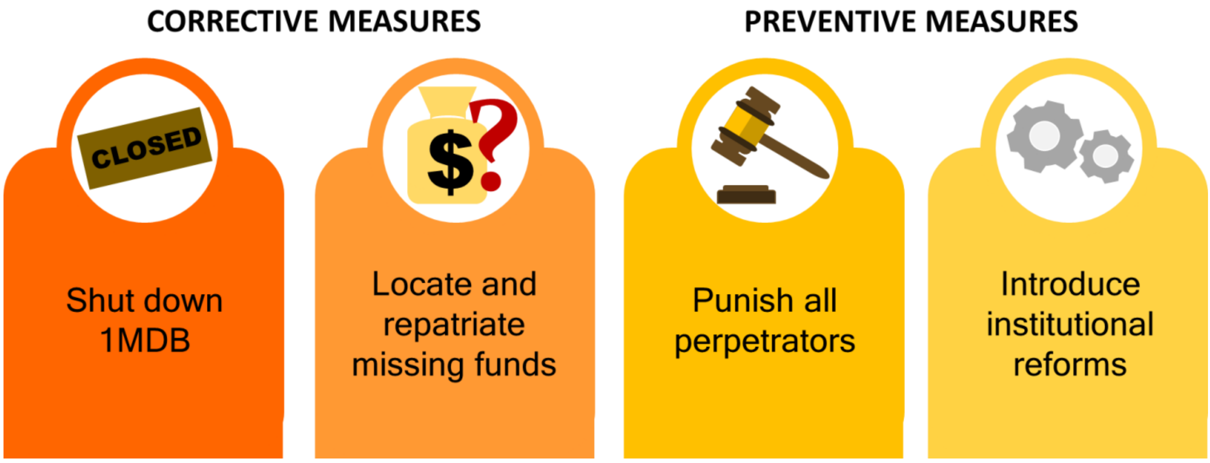
[5]Acemoglu, D.; Robinson, J.; Why Nations Fail: The Origins of Power, Prosperity, and Poverty, 1st ed, New York: Crown (2012)

- Separation of the Prime Minister and Finance Minister portfolios to prevent the excessive concentration of power in one person;
- Parliamentary oversight of sovereign wealth funds for greater accountability;
- Accountability and full independence of regulators, including the Malaysian Anti-Corruption Commission, Attorney-General, Bank Negara Malaysia, to Parliament; and
- Non-political appointment of regulators.

Lastly, Pakatan Harapan believes that the falling Ringgit and inflation must be addressed with utmost urgency. Given the current extraordinary circumstances, we believe a steady hand would be an asset to navigate us through the looming crisis. As such, we will support any move to retain Tan Sri Zeti Akhtar Aziz as Bank Negara Malaysia governor for a further two years. Her independence and impartiality in the recent handling of the 1MDB financial scandals demonstrates her professionalism in managing national monetary matters.

***Diagram 2**: Corrective and preventive measures to boost market confidence*



1.2 Second solution: Provide financial relief for the rakyat

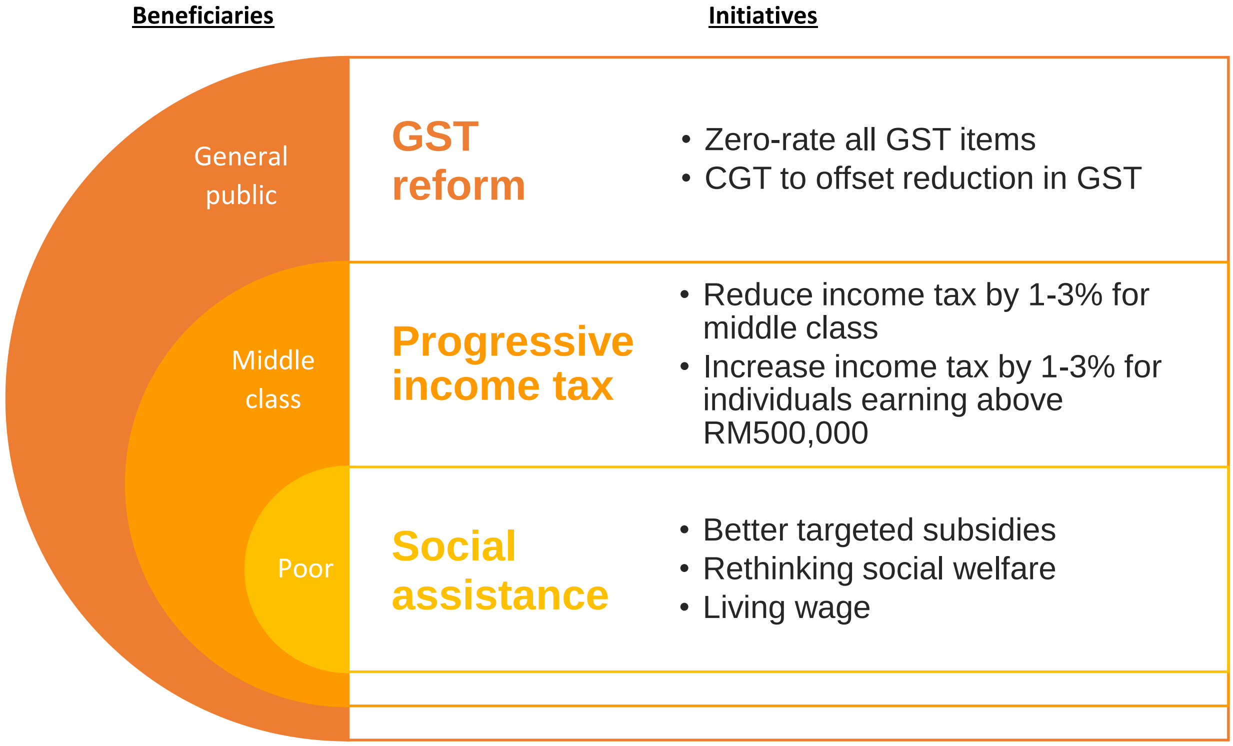


***Diagram 3**: Immediate and medium term solutions to provide financial relief for the rakyat.*

1.2.1 Effectively abolish GST

We anticipate Malaysia will face much higher inflation rate next year due to the GST and the falling ringgit. Hence, we propose immediate action by zero-rating all GST items to stabilize inflation and remove the deadweight loss of GST, as illustrated in the diagram below.

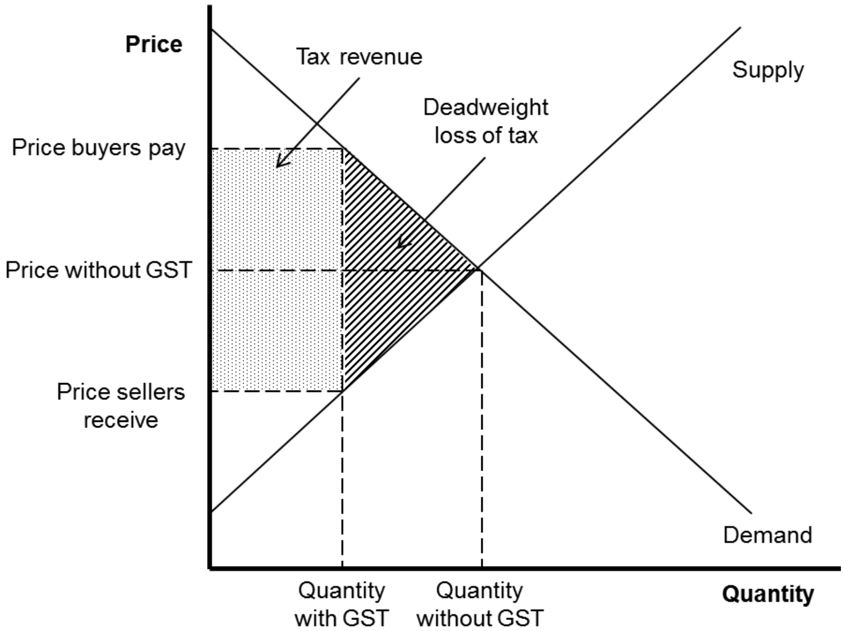


***Diagram 4**: Deadweight loss of tax caused by inflation and GST*

We believe that GST at zero-rate can be off-set by savings from stamping out wastage and corruption, as well as from the additional revenue as a result of the implementation of Capital Gains Tax. This zero-rating move does not mean that we will abandon the GST reporting system that is already in place, as the maintenance of the GST system at zero-rate will provide additional statistical economic data to assist in tax and market analysis.

In our overall fiscal model, Pakatan Harapan will see a gain of RM3.5 billion through, as well as possible savings of RM30 billion from the stamping out of wastage and corruption. Therefore, we are confident that GST at zero-rate will not severely impact the overall fiscal position of the government. In fact, 0% GST will assist the overall macroeconomic situation of the country by mitigating inflation and boosting consumer confidence.

Lastly, we note that consumers and businesses are suffering from the implementation of the GST at 6%. Consumers are being made to pay more, and often well above the 6% increase and businesses are facing cash flow crunch from an inefficient rebate system. In addition, results from several surveys we have conducted demonstrate that response from the bottom 40% of society is extremely negative. There is a clear demand to zero-rate a variety of goods, including top-up mobile phone cards, diapers, and milk powder, amongst others. By zero-rating everything for 2016, we are signalling our commitment to avert a recession.

1.2.2 Tax Reduction for Lower Middle Class

Only a dismal 17% of Malaysia’s labour force pays income tax, primarily because the remaining do not earn enough to meet the tax bracket. This is an indictment not so much on the tax office’s abilities but on the fact that the vast majority of Malaysians are underpaid.

Pakatan Harapan is committed to progressive taxation. We believe that the lower class and middle class should be provided a lower tax rate going into 2016 to assist them to weather higher inflation. In order to allow some reductions between 1% and 3% of their total taxable rate, we need to then raise 1% to 3% from the upper middle class and upper class as an offset. To this end, we have computed the following tax scenarios which are workable and more equitable to all, as set out in Table 2 below.

Table 1*: Estimates of tax revenue from the various classes of income across the entire Malaysian workforce, as of 2015*

Estimated Annual Salary		Range of Taxable Income		Salary (RM) Thresholds		Rate (%)	Tax (RM)	Probability Distribution	Estimated Workforce (people)	Current tax collection (RM)	Proposed tax rate (%)	Proposed tax collection (RM)
Min (RM)	Max (RM)	Min (RM)	Max (RM)									
0	10,000	0	2,500	first	2,500	0.0	0	0.19817	1,950,166	0	0.0	0
				following								
10,001	20,000	2,501	5,000	first								
				following	2,500	0.0	0	0.19077	1,877,320	0	0.0	0
25,001	40,000	5,001	10,000	first	5,000		0	0.17299	1,702,366	85,118,313		85,118,313
				following	5,000	1.0	50				1.0	
40,001	60,000	10,001	20,000	first	10,000		50	0.12362	1,216,532	121,653,206		121,653,206
				following	10,000	1.0	100				1.0	
60,001	85,000	20,001	35,000	first	20,000		150	0.09923	976,559	730,419,178		505,423,664
				following	15,000	5.0	750				3.5	
85,001	100,000	35,001	50,000	first	35,000		900	0.06727	661,956	990,933,877		837,293,796
				following	15,000	10.0	1,500				8.5	
100,001	130,000	50,001	70,000	first	50,000		2,400	0.05916	582,220	1,861,104,431		1,676,625,891
				following	20,000	16.0	3,200				14.5	
130,001	170,000	70,001	100,000	first	70,000		5,600	0.02817	277,261	1,741,743,163		1,741,743,163
				following	30,000	21.0	6,300				21.0	
170,001	240,000	100,001	150,000	first	100,000		11,900	0.02624	258,225	3,092,202,592		3,156,623,479
				following	50,000	24.0	12,000				24.5	
220,000	320,000	150,001	250,000	first	150,000		23,900	0.01275	125,471	2,611,315,400		2,720,120,208
				following	100,000	24.0	24,000				25.0	
320,001	470,000	250,001	400,000	first	250,000		47,900	0.01095	107,758	3,935,101,171		4,015,409,358
				following	150,000	24.5	36,750				25.0	
470,001	1,200,000	400,001	1,130,000	first	400,000		84,650	0.00968	95,224	9,522,402,652		9,667,662,424
				following	1	25.0					26.5	
1,200,000		1,130,001						0.00100	9,841	2,054,006,017		2,218,326,498
						25.0					27.0	
								Total Income Tax Collection (RM)		26,746,000,000		26,746,000,000

Computation of tax scenarios

- Lower income workers (annual salaries of RM20,000 or RM1,666/month) who are not earning sufficiently to qualify to pay income tax in 2015 will continue to not pay income tax in 2016;
- Lower middle income workers (annual salaries of between RM25,001 and RM60,000 or between RM2,083/month and RM5,000/month) who pay income tax of between RM50 and RM100 in 2015 will continue paying the same amounts in 2016;
- Middle income workers (annual salaries of between RM60,001 and RM130,000 or between RM5,000/month and RM10,833/month) who pay income tax of between RM150 and RM5,600 in 2015 to see a lower tax bill of between RM150 to RM5,300 in 2016;
- Upper middle income workers (annual salaries of between RM130,001 and RM170,000 or between RM10,833/month and RM14,166/month) who pay income tax of between RM5,600 and RM6,300 in 2015 to see the same tax bill in 2016; and
- High income workers (annual salaries of RM170,001 and above or RM14,166/month) who pay income tax of at least RM11,900 in 2015 will see a higher income tax bill of above RM11,900.

Overall, there will be no net tax gain to government revenue from such a scenario. The 1% to 3% adjustments in tax rate will allow the lower and middle class a better position to weather a tough 2016. In the meantime, we implore the upper middle and upper classes to financially assist the less privileged members of society.

For more detailed workings and computations, we have used the following data and assumptions:

- Using 2014 data obtained from the Department of Statistics[6], which indicated the median and mean monthly salaries and wages of employees were RM1,575 and RM2,231 respectively and the fact that at 95% confidence interval, the mean monthly salaries and wages was in the range of RM2,197 to RM2,264[7], we were able to compute the taxable income and the estimated population size paying income tax in each income tax bracket. We also took into account the taxable income threshold for paying tax assessment year 2014 is RM34,455.
- Based on our calculations, the standard deviation of monthly income levels for the Malaysian workforce is estimated to be approximately RM3,828.90. This high standard deviation of monthly income levels and the fact that the mean monthly income level is less than the median monthly income level highlights the high degree of positive skewness (i.e. high degree of income inequality) in the Malaysian workforce monthly income spectrum.
- For example, within the estimated annual salary of RM60,001 to RM85,000, (i.e. the taxable income bracket of RM20,001 to RM35,000), we estimate 976,559 people fall in this category, bringing the income tax collection in this group to be approximately RM730,419,178 in 2015. Our proposal lowers their tax bills from a maximum of RM750 to a maximum of RM525 in 2016.

To assist the middle class in times of increasing costs of living, we propose a decrease of tax rates of between 1-3%, with the shortfall in tax revenue to be covered by an increase of tax rates of between 1-3% for the upper class of tax payers.

[6] Salaries and Wages Survey Report Malaysia 2014, Department of Statistics
[7] Pg. 57, Salaries and Wages Survey Report Malaysia 2014, Department of Statistics

For those earning in between RM220,000 and RM320,000 annually (RM18,333/month to RM26,666/month), they are paying an effective tax rates of between 10.9% and 15.0%, after considering appropriate tax deductions. In other words, for every Ringgit earned by this class, approximately 11 to 15 sen is paid as taxes to the government. We believe that the existing tax structure is reasonable for this group.

However, we are also mindful that there are citizens earning in excess of RM40,000/month which we consider to be upper class earners, and also the super-rich at RM100,000/month. We propose to maintain the tax rate for those earning in the RM10,833/month to RM14,166/month bracket. For those in the high income group earning above RM40,000/month, we propose increasing their tax rates by 1.5% to 26.5%. After tax deductions, they are actually paying an effective tax rate of at least 18.1%. As for the super-rich earning more than RM100,000/month, we will increase the tax rate by 2% to 27%. Their effective tax rate is at least 18.7% in 2016.

1.2.3 Conditional cash transfers

We note that the government spent about RM5.0 billion on BR1M in 2015. We have read reports that the government may increase this further, which may then push the BR1M programme to an unsustainable level. If Pakatan Harapan withdraws all cash transfers in 2016, we believe that the shock withdrawal will cause greater damage than good. As an upgrade measure for 2016, we therefore propose that any cash transfers be made conditional on employment and compulsory education attendance. In the medium term, we are committed to pursuing the living wage as a more dignified solution to poverty. Once the living wage is achieved, we will gradually reduce cash transfer programs and focus only on social welfare for the very poorest.

Pakatan Harapan believes there is a need to revamp BR1M, as the current ad hoc cash handout model has a limited effect on reducing poverty. We are also aware the culture of handouts can be demeaning to recipients and demotivating to productivity. Furthermore, we are aware that the current BR1M model is subject to political patronage, wastage, and outright theft. Therefore, a more efficient, transparent and conditional system is thus needed. To that end, we propose linking cash transfers to two conditions: (a) employment; and (b) compulsory education. We firmly believe that cash transfer needs to be earned rather than merely given.

The living wage is estimated to be 66% of median wage (OECD low-pay threshold) and the current median wage is RM1,575 (+4.9% year-on-year). These numbers imply that a living wage for 2016 is RM1,200. Pakatan Harapan fully supports revising wage levels towards living wage and will make it a part of a national conversation via the National Wages Consultative Council.

The most efficient and non-political way of distribution would be to use the current EPF contribution system. Cash transfers will be paid out to low-wage workers via the employer in the form of a top-up of workers' salaries. The money from the government may come from direct transfers or tax rebate or a combination of both.

Secondly, we propose another level of cash transfers to households with school-going children earning less than RM3,000 a month. Any pay-out will be made conditional upon 90% school attendance record. This is aimed at reducing the dropout rates among students from low income families ensuring greater social mobility, while increasing household incomes.

As for those who do not qualify for the employable category, we will expand social services. These two programmes will cost around RM5.0 billion.

1.3 Third solution: Provide financial relief for businesses

In light of the higher costs of doing business and economic uncertainties, companies are currently putting business expansion plans on hold. Pakatan Harapan is concerned about the domino effect this would have on wage growth, which affects the ability of workers to cope with rising living costs, and the economic slowdown, pushing Malaysia into a deeper recession. Hence, we are proposing the following initiatives to help strengthen businesses in this difficult economic climate.

1.3.1 Tax relief for retaining profits

One of the reasons the Ringgit has taken a beating is the loss of investor confidence. We fear that companies may declare full dividend payouts to shareholders in 2016, who then may pursue capital flight and further hurt the Ringgit. In recessionary times, we believe that corporations should invest in capital expenditure or retain cash to build up their strength and boost the domestic economy.

In order to discourage capital flight and encourage companies to build up their strength, we propose a profit reinvestment scheme to take effect until the economic crisis ends. This scheme provides a **50%** tax rebate on corporate income tax if a company reinvests at least **80%** of its after-tax profit into capital expenditure. Capital expenditure will include:

- acquiring fixed, and in some cases, intangible assets;
- repairing or upgrading an existing asset so as to improve its useful life or function;
- preparing assets to be used in business;
- restoring property or adapting it to a new or different use; or
- starting or acquiring a new business.

Ultimately, we want to encourage businesses to adopt a longer term view and to ensure that shareholders do not exacerbate the capital flight situation and create unnecessary pressure on the ringgit. This scheme is illustrated in the diagram below.

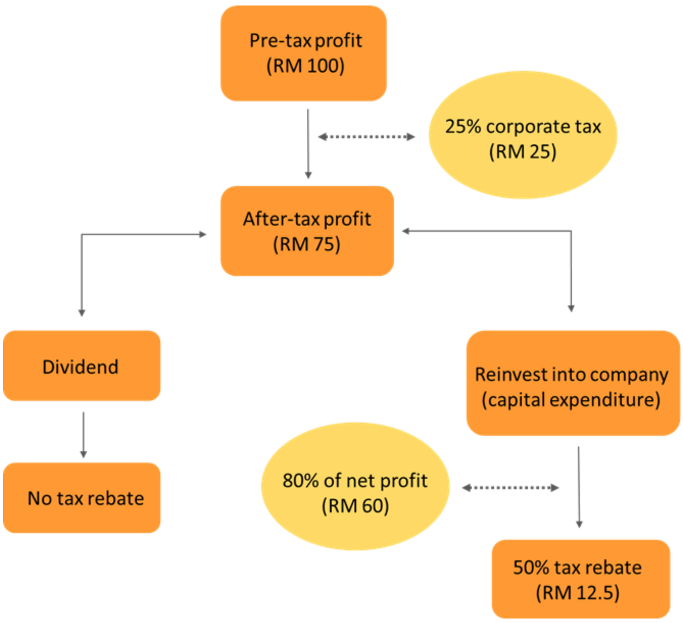


Diagram 5*: Illustration of the reinvestment incentive scheme*

1.3.2 Reduce petroleum dividend to help PETRONAS

The BN government has become over-reliant upon PETRONAS' oil and gas revenues. With over 30% of Federal revenues coming from the oil and gas sector, this over-reliance will weaken the financial position of PETRONAS. In order for PETRONAS to remain robust, it needs to invest in new oil fields, technology, and pursue research and development activities.

As depressed global crude-oil prices are expected to continue to negatively impact PETRONAS' earnings, we propose a **RM6.0 billion** reduction in dividend from PETRONAS. Instead of RM26.0 billion, we will request for a dividend pay-out of RM20.0 billion in 2016. We are mindful to preserve the golden goose, and this measure will allow PETRONAS some breathing space as it grapples with a multitude of challenges. We are aware that its Canadian liquefied natural gas project[8] is facing some difficulties, as well as the fact that only 14 of 39 of PETRONAS' oil rigs will be in operation by the end of 2015[9].

Since early 2015, all these challenges mean that PETRONAS has been facing difficulties in meeting operational and capital expenditures. It has had to tap into its cash reserves to meet its dividend commitment to the government totalling RM26.0 billion[10]. According to PETRONAS' Group Interim Financial Report[11], the company's cash and cash equivalent reserves amounted to RM126.881 billion in the second quarter of 2015, which dropped from RM133.832 billion in the first quarter of 2015[12]. In times of depressed economic conditions as demonstrated by PETRONAS' idling of 25 of 39 oil rigs[13] and its pulling out of Mauritanian operations[14] by the end of 2015, the company should be given more financial leeway for reinvestments into its operational and capital expenditure, in order to maintain its competitive edge for the longer term. This deserves urgent consideration since oil prices are expected to remain low for the rest of 2015[15] as OPEC races to maintain global market share against US shale oil producers.

Our proposal for Budget 2016 is to limit PETRONAS' dividend contribution to the government to RM20.0 billion in 2016, giving the company more financial room to breathe. We cannot afford to risk killing the country's golden goose.

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[8] Malaysia's Petronas says remains committed to Canadian LNG project, Reuters, 8 October 2015, at http://www.reuters.com/article/2015/10/09/petronas-canada-idUSL3N12918220151009
[9] Petronas lowers rig count, The Star, 17 August 2015, at http://www.thestar.com.my/Business/Business-News/2015/08/17/Petronas-lowers-rig-count/?style=biz
[10] http://www.theedgemarkets.com/my/article/petronas-tap-cash-reserves-dividend-payment
[11] http://www.petronas.com.my/investor-relations/Documents/financial-results/Financial%20Results%20Second%20Quarter%20Ended%2030%20June%202015.pdf
[12] http://www.petronas.com.my/investor-relations/Documents/financial-results/First%20Quarter%20Ended%2031%20March%202015%20(FY2015).pdf
[13] http://www.thestar.com.my/Business/Business-News/2015/08/17/Petronas-lowers-rig-count/?style=biz
[14] http://www.theedgemarkets.com/my/article/petronas-quitting-mauritania-revenue-oil-price-fall-report
[15] http://www.wsj.com/articles/opec-sees-weak-oil-prices-through-2015-1441893593

1.4 Fourth solution: Plug leakages and enforce fiscal discipline

In this section, we will explain the problem of shrinking fiscal space and why the BN government has continuously made disastrous policy decisions in tackling this issue.

1.4.1 Constrained fiscal space

The IMF defines 'fiscal space' as the "*room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy*." Years of overspending, heavy borrowings, and over-reliance on oil revenues have constrained the government's fiscal space and increased the country's vulnerability to external shocks, such as the plunge in global oil prices. These are outlined in the diagram below.

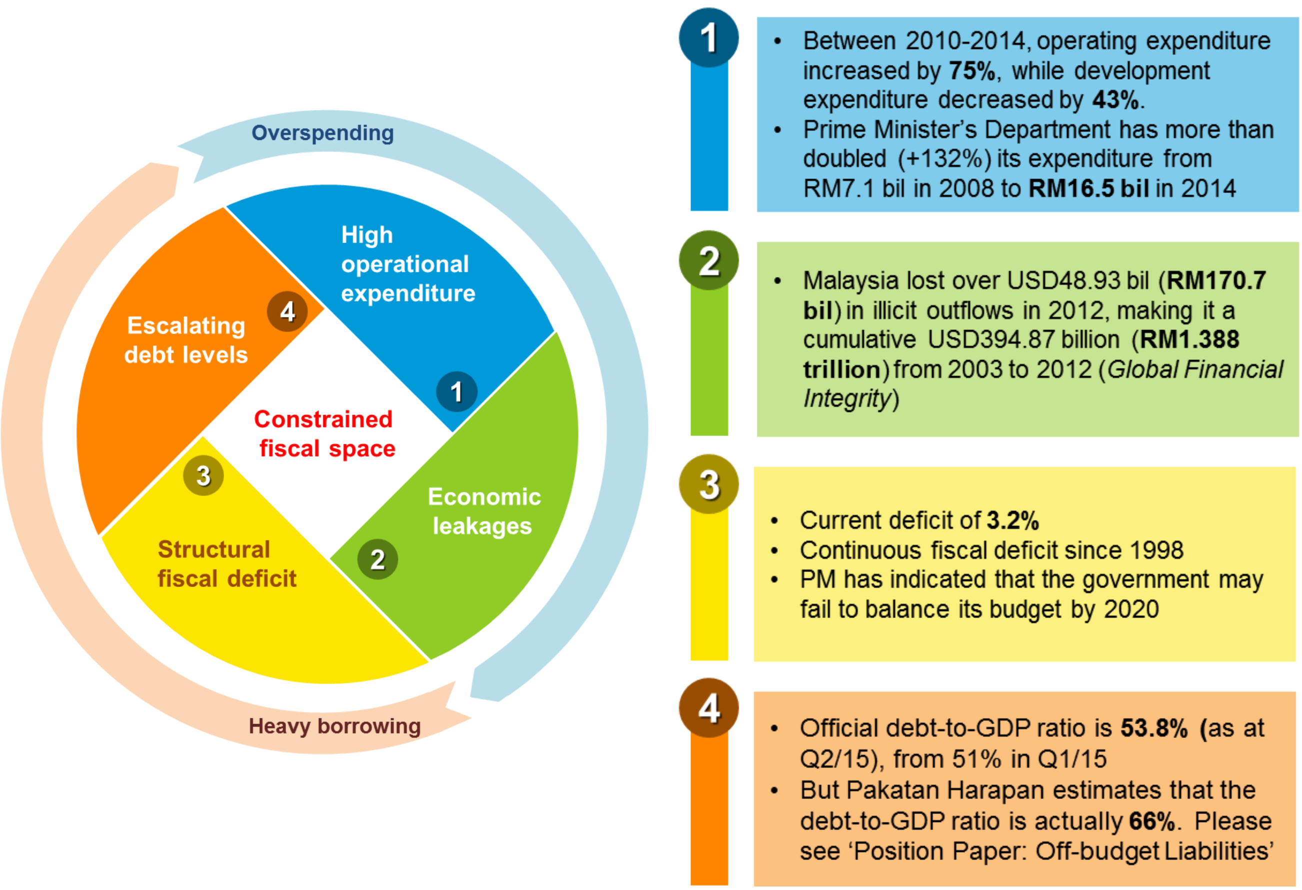


Diagram 6: *The four factors causing the government's narrowing fiscal space*

1.4.2 Policy options

While there are various policy options available to increase fiscal space, the top priority should be to plug the holes in the bucket before filling it up. Instead of improving its own financial discipline, Barisan Nasional has forced the rakyat to bear the consequence of its economic mismanagement through GST; showing a severe lack of political will for reform and an utter disregard for the economic hardships faced by the majority of Malaysians. With rampant corruption left unchecked, the likelihood remains that the additional tax revenues collected will be squandered away, just as it has been for years. Pakatan Harapan's policy options for creating fiscal space are listed below in the order of priority.

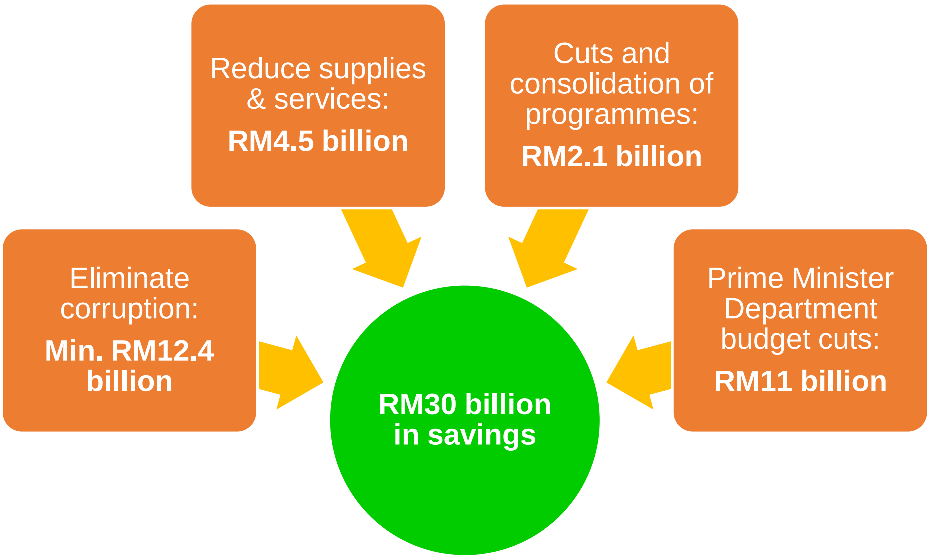
***Table 2**: Key policy options for creating fiscal space*

Key policy options for creating fiscal space	
1) Plug leakages	First and foremost, the rampant corruption and leakages under the Najib administration must be eliminated.
2) Reduce operational expenditure	Instead of reducing subsidies, the government should first reduce its non-emolument expenditure, which has ballooned by about 75% between 2010 and 2015.
3) Reduce off-budget borrowing	Pakatan Harapan believes that real efforts to stop borrowings should be significantly reduced. This is because the government's fiscal position is more tenuous that publicly portrayed, due to Barisan Nasional's tendency to shift liabilities off-budget. For further details, please refer to appendices.
4) Raise progressive taxes	Taxes should be raised only after the government has improved its own financial discipline. However, progressive, not regressive, taxation should be imposed in order to allow greater social mobility and equality.
5) Wean off oil & gas dependency	We believe that an over-reliance on oil & gas is unsustainable.
6) Corporatize GLCs	Allowing management buy-outs of GLCs will create a strong Bumiputera clan of owner-managers and bring much needed cash to reduce government debts
7) Optimize returns from asset sale	Implementing market prices to government land, e.g. land auction

1.4.3 Potential savings

Pakatan Harapan believes that removing discretionary spending, eliminating leakages and wastage and fighting corruption will result in estimated savings of **RM30.0 billion**.

***Diagram 7**: Total potential savings*



Based on our past estimations, the total Federal Government expenditure that is exposed to corruption is approximately RM124 billion in 2014. Using a conservative estimate of the rate of leakage and corruption at 10%, we project that an effective re-organisation plan and anti-corruption measures could save the country between RM30 billion to RM42 billion. For the purposes of this paper, we are using the lower conservative estimate of RM30 billion.

Significant savings are to be gained from reducing non-critical expenditure, including the following:

- RM11 billion in savings from cutting the budget of the Prime Minister's Department from RM17 billion to RM6 billion.

- RM500 million in savings from cuts on expensive and superfluous programs, such as Jabatan Hal Ehwal Khas, Birotata Negara, TalentCorp and Program Khidmat Latihan Negara.

- RM100 million in savings from consolidation of overlapping agencies, such as Unit Inovasi Khas, Agensi Inovasi Malaysia, Malaysia Industry Group for High Technology, the Malaysian Productivity Council and the Malaysian Global Innovation and Creativity Centre (MAGIC).

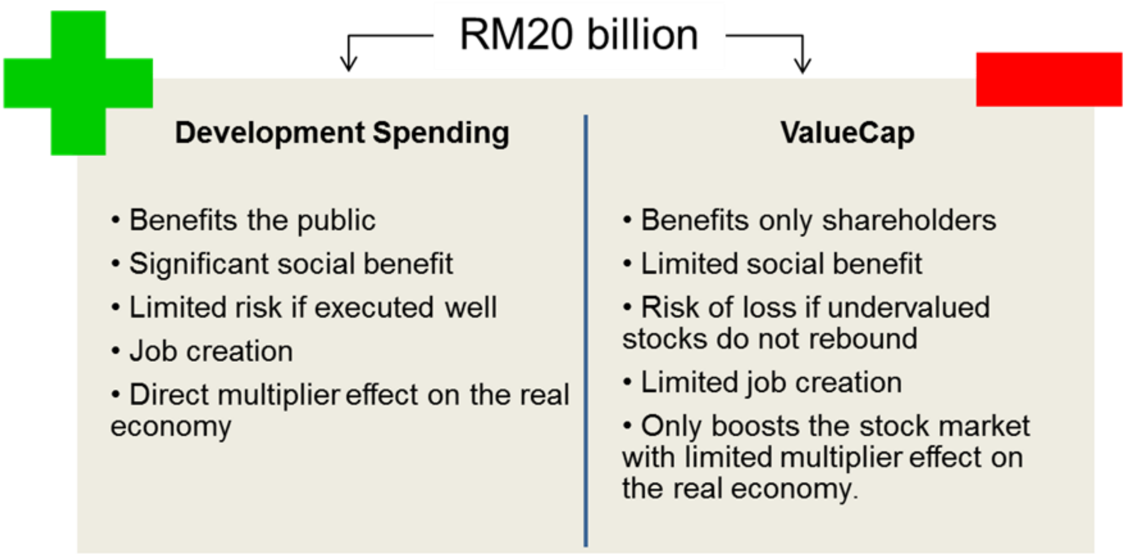
- RM1.5 billion in savings from revising the annual allocation of RM4.5 billion for programs under the National Blue Ocean Strategy, National Key Economic Areas, and National Key Results Areas.
- RM4.5 billion in savings from an estimated 10% reduction on all supplies and services through an open and transparent procurement system.

1.5 Fifth solution: Increase development spending

The BN government's proposed plan to inject RM20 billion into the stock market through ValueCap is misguided. Not only will this measure fail to benefit the majority of Malaysians who do not own shares, it also risks exposing the public to RM20 billion worth of debt should the undervalued shares fail to rebound. ValueCap's three main shareholders are Permodalan Nasional Berhad, Employees Pension Fund, and Khazanah Nasional Berhad; entities that have previously been used by BN to help flailing crony companies, such as 1MDB. In any case, the government should not be interfering in the markets to determine which stocks are undervalued; a function better left to the market itself. The government should focus on policies to boost the real economy as a whole, rather than the speculative economy.

In contrast, Pakatan Harapan proposes using the RM20 billion as a development-focused fiscal stimulus in order to boost the economy and generate social benefits. Development expenditure has a strategic role to play in stimulating the economy and boosting economic productivity. However, the 11th Malaysia Plan projects a contraction in development expenditure by 2020 of -0.4% below 2015 levels to RM47.6 billion. Pakatan Harapan will focus development spending on closing the economic divide between East Malaysia and Peninsula Malaysia. Please refer to appendices for further details.

***Diagram 8**: The RM20.0 billion which can be redeployed for more productive use*



2. Fiscal Projections

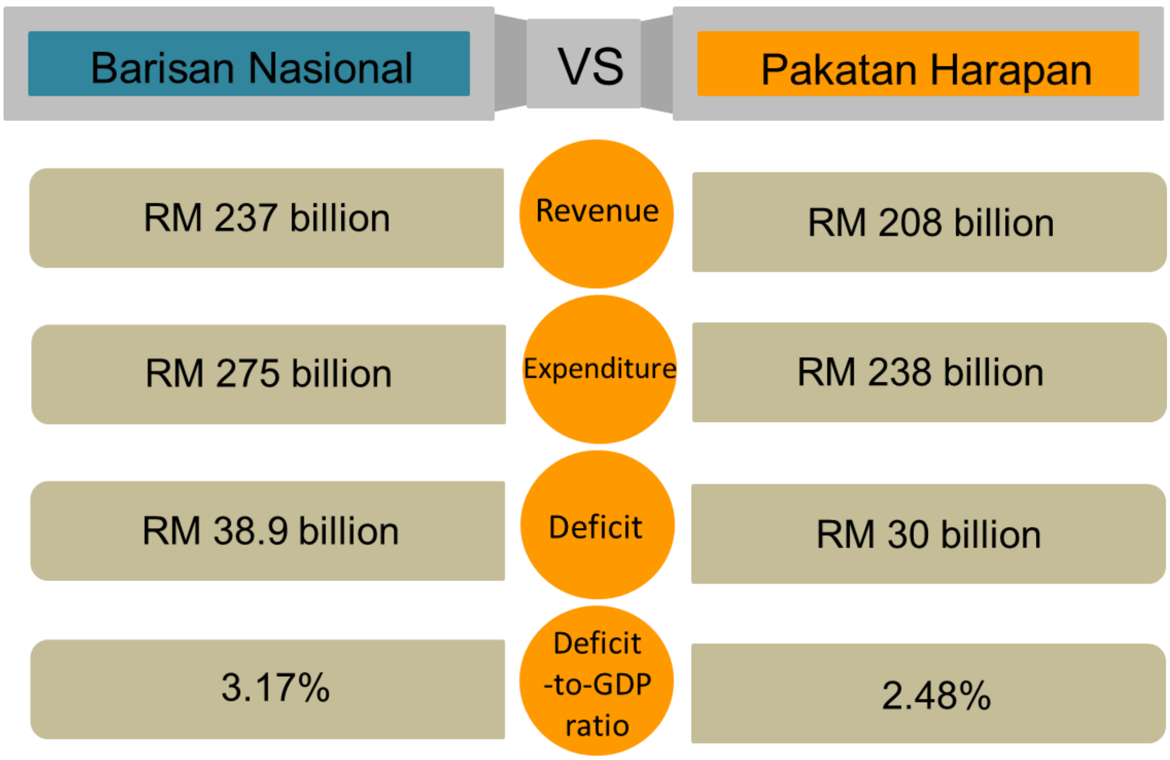
2.1 Overview

In this section, we project the revenue and expenditure numbers of both Barisan Nasional and Pakatan Harapan. In preparing these projections, we worked on best available data and observed statistical patterns from previous budgets. We used USD50 as the median price of crude oil for 2016 and factored in a drop in corporate tax revenues, based on slowing corporate results of 2015. We analysed the overall performance pattern of the Inland Revenue Department and the customs and excise departments. We then took these numbers and ran statistical and mathematical models to arrive at the following projections.

This section is an essential part of the budget as it translates our policies into working numbers. For instance, Pakatan Harapan is committed to effectively abolishing GST by zero-rating everything. This policy is then reflected in the Pakatan Harapan revenue table. Our progressive taxation policies are displayed in our revenue model, while our commitment to give PETRONAS breathing space is also accounted for.

As for 2016 expenditure, our commitment to increase human capital development is reflected in higher operational spending on health, education and human capital development. Our savings of some RM30 billion from re-organisation and anti-corruption measures are redistributed in expenditure items across all ministries. These projections are meant to demonstrate and contrast the viability of our policies and economic positions.

***Diagram 3**: Comparison between the budgets of Pakatan Harapan and Barisan Nasional*



2.2 Revenue

2.2.1 Projected Revenue: Barisan Nasional Government

Barisan Nasional Government Projected Revenue 2016: **RM236.535 billion**

Revenue sources	Estimated change from 2015 to 2016	Comments
Tax revenue	- 0.40% *RM185.36 billion (2015) to RM184.62 billion (2016)*	**Direct taxes: - 7.39%** *RM135.65 billion (2015) to RM125.63 billion (2016)* ▪ 8.13% decrease in income tax revenue, caused by 10% decrease in company income tax and 20% decrease in petroleum income tax.
		Indirect taxes: + 18.67% *RM49.71 billion (2015) to RM58.99 billion (2016)* ▪ Driven by 35.91% increase in GST revenue, from RM23.70 billion (2015) to RM32.21 billion (2016)
Non-tax revenue	+ 0.62% *RM49.31 billion (2015) to RM49.62 billion (2016)*	Revenue from licenses and permits, service fees, and rentals are expected to maintain their upward momentum from the past 5 years. This will offset a 1.10% decrease (-RM339 million) in revenues from interests and proceeds on investments. Please refer to notes on details on our estimates.
Non-revenue receipts	+ 12.0% *RM1.25 billion (2015) to RM1.40 billion (2016)*	Expected to increase as it has for the past 5 years.
Revenue from Federal Territories	+ 15.0% *RM777 million (2015) to RM894 million (2016)*	Expected to increase as it has for the past 5 years, due to increase in assessment charges.
Total revenue	- 0.07% *RM236.70 billion (2015) to RM236.54 billion (2016)*	The increase in total revenues will be driven primarily by GST (RM32.21 billion). Other key sources of revenue include company income tax (RM65.33 billion), individual income tax (RM28.42bil), and PETRONAS dividend (RM26.0 billion).

Table 4: A summary of Barisan Nasional's projected revenue changes from 2015 to 2016

Further information can be found in **Table 12** under appendices.

Key Trends and Processes

When projecting the federal government's revenue for Budget 2016, we used data from previous documents containing estimations of federal expenditure, and found a few trends for each type of income. Assuming those trends of increase or decrease happen, and taking into account prevailing economic conditions, we came up with our projections of what we believe the federal government will present in its Budget 2016, 23 October 2015. The key trends and processes are listed below.

Tax Revenue	
Direct Taxes	
Income Taxes	▪ Individual income taxes have been steadily increasing by a mean and median of 7.34% and 7.04% annually respectively since 2010, and based on this historical pattern, we forecast an increase of 7.04% for 2016, providing the government RM28.422 billion of revenue from individual income taxes. ▪ Based on a slowing business landscape and decreasing sales from a substantial proportion of MNCs and SMEs, we forecast a decrease of company income tax by 10% in 2016, providing RM65.330 billion of revenue. ▪ Petroleum income tax is expected to decrease. Based on our calculations and data sourced from PETRONAS' annual and quarter reports 2015, we expect a decrease of petroleum income tax, dropping from RM25.60 billion in 2015 to RM20.48 billion in 2016. This estimation is based on the idling of more than half of PETRONAS' oil rigs by the end of 2015. Further details of our estimation are set out in the appendix. ▪ In August 2015, Petronas announced that they are closing 25 rigs and maintaining 14 rigs only. We assume that the 25 rigs are non-profitable at the current crude oil prices, and that operations for existing rigs will be increased to make up for the non-operation of the 25 rigs. A net deficit is expected to occur, thus affecting the overall profitability of Petronas and resulting in a 25% decline in income ▪ Withholding tax has been steadily increasing by a mean and median of 11.7% and 6.48% annually respectively since 2010, and based on this historical pattern, we forecast an increase of 6.48% in 2016, providing RM2.426 billion of government revenue. ▪ Cooperative income tax has been increasing by a mean and median of 1.37% and 1.85% annually respectively since 2010, and based on past patterns, we forecast an increase of 1.50% in 2016, providing RM369 million to government resources.

Other Direct Taxes	▪ Stamp duty has exhibited a mean and median increase of 10.2% to 11.7% annually respectively since 2010, and taking into account the slowing property market, we forecast a reduced rate of increase of 6.5% in 2016 (or RM7,723 billion). The number of property transactions is expected to decrease but the value of each transaction should be increasing. ▪ Real Property Gains Tax is expected to decrease by 15% from 2015, due to the decreasing number of property sub-sales, to RM756 million in 2016, from RM897 million in 2015.
Indirect Taxes	
Export Duty	▪ Export duty of crude oil is expected to take a hit due to falling oil prices. Although PETRONAS has decreased its oil rig count from 39 to 14 by end of 2015, it's likely the remaining (more economical) oil rigs are expected to run 24/7, to compensate for the drop in production volume. We estimate export duty from crude oil to drop by 20% from RM2.057 billion in 2015 to RM1.646 billion in 2016. ▪ Export duty on palm oil is expected to marginally increase from RM171 million in 2015 to RM175 million in 2016.
Import Duty	We expect the import duties for spirits and malt liquor, tobacco, cigarettes, and cigars, and CKD and CBU vehicles to sustain its upward momentum by 0.85%, 18.0%, and 2% respectively resulting in RM82.0 million, RM33.0 million, and RM533.0 million respectively.
Excise Duty	We extrapolated the excise duties for spirits and malt liquor, tobacco, cigarettes, and cigars, and motor vehicles to increase by -2%, 3.5%, and 6.8% respectively (resulting in RM1.402 billion, RM3.974 billion, and RM9.016 billion respectively) as exhibited by historical growth patterns since 2010.
Sales Tax	We expect a marginal increase of 5.71% from RM2.734 billion in 2015 to RM2.890 billion in 2016.
Service Tax	We expect a marginal increase of 3.68% from RM1.874 billion in 2015 to RM1.943 billion in 2016.
Levy	We expect a small increase of 1.3% from goods vehicles, from RM150 million in 2015 to RM152million in 2016.
Miscellaneous Indirect Taxes	Based on historical growth rates of mean and median of 1.33% and 1.53% respectively, we expect an increase of 1.4% from RM2.677 billion in 2015 to RM2.715 billion in 2016.
Goods and Services Tax (GST)	We expect the Royal Customs of Malaysia to collect RM32.210 billion from GST in 2016, based on their forecasts.

Non-Tax Revenue	
Licences and Permits	Petroleum royalty, motor vehicle licences, and levies on foreign workers are expected to maintain their historical increase mean of -2.00%, 3.98%, and 2% respectively.
Service Fees, Sales of Goods, and Rentals	All are expected to maintain their historical increase mean of 6.60%, -0.70%, and 7.0% respectively.
Interests and Proceeds on Investments	▪ PETRONAS has made a dividend commitment of RM26.0 billion to the federal government ▪ Bank Negara dividends are expected to drop to RM1.7 billion, based on historical mean trends ▪ Khazanah Dividends are expected to drop to RM450 million, based on historical trends
Fines and Penalties	Expected to increase by 1.5% (or RM17.0 million), based on historical trends.
Other non-tax revenue	Forecasted to increase by 11.0% or RM243.0 million based on historical trends.
Non-Revenue Receipts	▪ We forecast this to increase by a conservative 12% to RM1.401 billion, based on historical mean and median increases of 30.1% and 34.9%. ▪ Such a increase will be due to refunds on civil service expenditure and inter-departmental credits which have been allocated but not used. We understand that the Federal Government has frozen the hiring of civil servants, and is considering the reduction of civil services due to the retirement age of 60. Thus, we compute a savings of 3-5%, which is multiplied by 4 since senior civil servants generally cost more.
Revenue from Federal Territories	We forecast this to increase by 15% based on historical patterns. As Federal Territories have increased quit rent in 2015, we expect quit rent to increase accordingly in 2016.

2.2.2 Projected Revenue: Pakatan Harapan

Pakatan Harapan Projected Revenue 2016: **RM208.27 billion**

Revenue sources	Estimated change from 2015 to 2016	Comments
Tax revenue	- 12.41% *RM185.36 billion (2015) to RM162.36 billion (2016)*	**Direct taxes: - 0.06%** *RM135.65 billion (2015) to RM135.57 billion (2016)* • Higher income tax for high income earners is expected to raise individual income tax revenues by 17.74% (+RM4.71 billion). • Tax rebates for companies is expected to decrease corporate income tax revenue by 10% (-RM7.26 billion). • Petroleum income tax is expected to decrease by 20% (-RM5.12 billion), due to falling oil prices. • CGT is expected to raise RM3.50 billion in 2016.
		Indirect taxes: - 46.12% *RM49.71billion (2015) to RM26.78 billion (2016)* • We will zero-rate the GST rate to spur mass consumption. This will lead to a total GST write-off of RM32 billion (100% decrease from 2015).
Non-tax revenue	- 11.55% *RM49.31 billion (2015) to RM43.62 billion (2016)*	We will lower the PETRONAS dividend from RM26.0 billion to RM20.0 billion (23.08% decrease). This will help PETRONAS improve its financial position to endure the oil and gas crisis.
Non-revenue receipts	+ 12.0% *RM1.25 billion (2015) to RM1.40 billion (2016)*	Expected to increase as it has for the past 5 years
Revenue from Federal Territories	+ 15.0% *RM777 million (2015) to RM894 million (2016)*	Expected to increase as it has for the past 5 years, due to increase in assessment charges
Total revenue	- 12.01% *RM236.70 billion (2015) to RM208.27 billion (2016)*	Our proposed total revenue is less than Barisan Nasional's, mainly due to: • zero-rating of GST; and • reduction of PETRONAS dividend by RM6.0 billion.

***Table 5**: Summary of Pakatan Harapan's budget from 2015 to 2016*

Further information can be found in Table 13 under appendices.

Key Trends and Processes

When projecting the Pakatan Harapan revenue for Budget 2016, we maintained some 85% of the earlier analysis and projections of the Barisan Nasional government revenue. We then looked at the five major revenue policy differences and adjusted the projected numbers accordingly. The five policy differentiations are as follows:

- Implementation of a progressive income tax structure;
- Provide tax incentives to companies to help them weather the current economic storm;
- We estimate the introduction of CGT on share transactions to successfully raise RM3.5 billion in 2016;
- Effectively abolish GST by zero-rating all goods and services to mitigate inflation and spur domestic demand; and
- We are committed to a lower PETRONAS dividend of RM20.0 billion.

2.3 Expenditure

2.3.1 Projected Expenditure: Barisan Nasional Government

Year	Est. Expenditure (RM million)	Change	
		RM million	%
2010	191,499		
2011	213,987	22,488	11.74
2012	232,833	18,846	8.81
2013	251,667	18,834	8.09
2014	264,151	12,484	4.96
2015	273,940	9,789	3.71
2016*	275,432	1,492	0.54

Table 6: *Estimated Barisan Nasional's federal expenditure for Budget 2016*

Based on our observations of government expenditure increases from year to year[16], a trend that stands out is the decreasing rate of increase of government expenditure. The median and mean growth rates of federal expenditure are 8.09% and 7.46% respectively. However, if the pattern of decreasing rate of increase continues and the rate of increase will be 3.5% in 2016, our linear and initial estimate of federal expenditure will be approximately RM 283.0 billion.

However, we note that the government has been on an austerity drive at the operational level since mid-2015, based on news reports about budget cuts in the Ministry of Health and Ministry of Education[17]. One specific example is the budget cut of University Malaya Medical Centre by RM20.27 million. Based on our enquiry to several federal legislators, we have encountered directives that government ministries and departments are expected to reduce their operational expenditures by 5-10%. If the government continues the ongoing operational austerity drive, we estimate the total government expenditure to be approximately **RM273 billion**.

A few trends are expected to be consistent in 2016 as with previous government budgets:

- Operating expenditure remains expected to take up the lion's share of the budget at 79.36% at the expense of the development budget.
- With the estimated federal revenue to be at RM237 billion, the estimated deficit should be RM38.9 billion, or 3.2%[18] of estimated GDP[19]. This is slightly short of the Ministry of Finance's target as of 4 October 2015, which is a 3% deficit in 2016 as compared to 3.2% in 2015 and 4.5% in 2014.

Our estimations of federal government expenditure by object are as follows:

[16] http://www.treasury.gov.my/index.php?option=com_content&view=category&id=447&Itemid=2473&lang=ms
[17] http://www.themalaysianinsider.com/malaysia/article/ummc-budget-slashed-by-rm20.27-million-says-muhyiddin
[18] http://www.thestar.com.my/News/Nation/2015/10/02/Larger-budget-with-prudent-measures-in-2016-Increase-in-development-expenditure-aimed-at-spurring-do/
[19] Malaysia's GDP growth expected to weaken to 4.5% in 2016, says Moody's (http://www.theedgemarkets.com/my/article/malaysias-gdp-growth-weaken-45-2016-says-moodys)

a) Emoluments

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for emoluments are 9.32% and 8.64% respectively
- We expect a decrease of 1% due to the ongoing austerity drive, freeze on hiring of new civil servants, and retirement of old high earning civil servants.
- According to a few national school principals who we met, new teachers have to wait between 6 to 12 months after training to be posted to a school, which might be caused by insufficient funds from the Ministry of Education.

b) Supplies and services

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for supplies and services are 13.33% and 8.60% respectively.
- We expect a growth of 1% from 2015 to 2016 as ministries and government agencies have been instructed to embark on budget cuts, and the bulk of these cuts should happen in this category of expenditure.
- A few examples would be from the Ministry of Education, where schools are restricted from participating in national and international tournaments, and students and teachers who are keen to do so to fund the trip themselves.[20]

c) Assets

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for assets are 35.81% and 3.55% respectively.
- We expect a slight reduction of 5% from 2015 to 2016, due to the ongoing austerity drive.

d) Fixed charges and grants

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for fixed charges and grants are 20.16%% and 24.13% respectively.
- We expect a slight reduction of 5% from 2015 to 2016 as the government emphasizes more prudent management of administration costs.

e) Other expenditures

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for other expenditures are 10.18% and 11.20% respectively.
- We expect a minor reduction of 5% from 2015 to 2016, due to the ongoing austerity drive.

f) Direct grants

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for direct grants are -0.40% and -1.70% respectively.
- We expect an increase of 13% as the government is planning an increase of development funds, the majority of which are allocated in this category.

g) Loans

- Based on historical growth patterns from 2010 to 2015, the mean and median increases for loans are 3.81% and 3.74% respectively.
- We expect a modest growth rate of 2% due to the austerity drive.

h) Contingency reserves

We expect the government to maintain the contingency reserve at RM2 billion in Budget 2016

[20]http://www.themalaysianinsider.com/sideviews/article/cost-cutting-and-the-ministry-of-education-saleh-mohammed

***Table 7**: Summary of BN government expenditures according to objects, with estimates of federal revenue, budget deficits, and estimated GDP*

Year	2013		2014		2015		2016* (BN)	
Estimates by Object	RM million	%	RM million	%	RM million	%	RM million	%
Estimates of Operating Expenditure								
Emoluments	58,556	23.27	63,614	24.08	65,652	23.97	64,995	23.60
Supplies and Services	33,720	13.40	36,621	13.86	38,099	13.91	25,526	9.27
Assets	1,010	0.40	1,407	0.53	1,457	0.53	1,384	0.50
Fixed Charges and Grants	107,420	42.68	114,505	43.35	116,417	42.50	116,417	42.27
Other Expenditures	1,212	0.48	1,504	0.57	1,815	0.66	1,724	0.63
Total Operating Expenditure	**201,917**	**80.23**	**217,651**	**82.40**	**223,440**	**81.57**	**210,047**	**76.26**
Estimates of Development Expenditure								
Direct Grant	45,337	18.01	41,513	15.72	45,614	16.65	60,210	21.86
Loans	2,412	0.96	2,987	1.13	2,886	1.05	3,175	1.15
Contingencies Reserve	2,000	0.79	2,000	0.76	2,000	0.73	2,000	0.73
Total Development Expenditure	**49,749**	**19.77**	**46,500**	**17.60**	**50,500**	**18.43**	**65,385**	**23.74**
Total Estimated Expenditure	**251,666**	**100.0**	**264,151**	**100.0**	**273,940**	**100.0**	**275,432**	**100.0**
Estimates of Revenue	213,369		225,844		236,699		236,535	
Budget Deficit (RM million, % of GDP)	-38,297	-3.88	-38,307	-3.55	-37,241	-3.17	-38,897	-3.17
GDP (2005 Prices)	986,733							
GDP (Current Prices)			1,078,176		1,175,703		1,228,610	

2.3.2 Projected Expenditure: Pakatan Harapan

Pakatan Harapan's estimated expenditure budget for 2016 is RM238.75 billion, which is significantly smaller than the BN government budget. This is not due to austerity measures, but rather the result of some RM30 billion of savings from reorganization and anti-corruption drives.

We also note that the current global oil prices have resulted in the removal of subsidies for fuel. This has resulted in RM11.0 billion of savings. Taken together with the RM30.0 billion of savings despite a 10.04% drop in absolute terms, we have in actual fact an additional RM13.5 billion for developmental spending on human capital especially on health, education, training, and women empowerment policies.

Our expenditure policy is not premised on austerity measures, but on an investment in the future talent of this nation. We believe that, in order to become a developed nation, education and training must come first. Likewise, our focus on health spending recognises that in order for the bottom 40% of society to break out of the poverty cycle, they first must be healthy. A healthy worker, despite a low education level, will be able to pursue a living wage and invest in his children. Health has been identified by the United Nations as the most important factor in poverty eradication.

The foundation of our expenditure policy is the implementation of more effective checks and balances to ensure that procurement policies are transparent and that spending by the appropriate ministries are fully accountable. Frivolous mega projects will not be pursued in this Budget, and fiscal discipline will be maintained.

The following are our estimations and calculations of federal government expenditure:

a) Emoluments

- We are expecting a decrease of 1% due to the ongoing austerity drive, freeze on hiring of new civil servants, and retirement of high earning civil servants.
- Other spending like professional development, training, and grants for students to compete in overseas competitions will be reinstated.

b) Supplies and services

- We expect a massive cut of RM18.123 billion or 52.43% from the abolishment of fuel subsidies, and savings from anti-corruption drives.
- A few examples would be the merging of overlapping government agencies and loose procurement policies.

c) Assets

- We expect a slight reduction of RM351.0 million or 24.07% from anti-corruption measures.

d) Fixed charges and grants

- Pakatan Harapan's budget for this category of expenditure is RM29.687 billion lower (or 25.50%) than Barisan Nasional's budget as a result of savings from anti-corruption measures.

e) Other expenditures

- We forecast our budget to be RM436.0 million (or 24.05%) lower due to the tightening procurement policy.

f) Direct grant

- We expect a decrease of RM23.327 billion (or 51.14%) to be generated from savings from anti-corruption drives.

g) Loans

- We forecast this category of expenses to be the same as Barisan Nasional's based on historical trends of increase.

h) Contingencies reserve

- We forecast this category of expenses to be the same as Barisan Nasional's.

Table 8: Summary of PH proposed expenditures according to objects, with estimates of federal revenue, budget deficits, and estimated GDP

Year	2013		2014		2015		2016* (PH)	
Estimates by Object	RM million	%	RM million	%	RM million	%	RM million	%
Estimates of Operating Expenditure								
Emoluments	58,556	23.27	63,614	24.08	65,652	23.97	64,995	27.22
Supplies and Services	33,720	13.40	36,621	13.86	38,099	13.91	15,124	6.33
Assets	1,010	0.40	1,407	0.53	1,457	0.53	1,106	0.46
Fixed Charges and Grants	107,420	42.68	114,505	43.35	116,417	42.50	85,231	35.70
Other Expenditures	1,212	0.48	1,504	0.57	1,815	0.66	1,379	0.58
Total Operating Expenditure	**201,917**	**80.23**	**217,651**	**82.40**	**223,440**	**81.57**	**167,835**	**70.30**
Estimates of Development Expenditure								
Direct Grant	45,337	18.01	41,513	15.72	45,614	16.65	65,741	27.54
Loans	2,412	0.96	2,987	1.13	2,886	1.05	3,175	1.33
Contingencies Reserve	2,000	0.79	2,000	0.76	2,000	0.73	2,000	0.84
Total Development Expenditure	**49,749**	**19.77**	**46,500**	**17.60**	**50,500**	**18.43**	**70,916**	**29.70**
Total Estimated Expenditure	**251,666**	**100.0**	**264,151**	**100.0**	**273,940**	**100.0**	**238,750**	**100.0**
Estimates of Revenue	213,369		225,844		236,699		208,268	
Budget Deficit (RM million, % of GDP)	-38,297	-3.88	-38,307	-3.55	-37,241	-3.17	-30,482	-2.48
GDP (2005 Prices)	986,733							
GDP (Current Prices)			1,078,176		1,175,703		1,228,610	

3. Position Papers

3.1 Policies for Sabah & Sarawak

Despite having access to vast amounts of natural resources including oil and gas, timber and land, Sabah and Sarawak still lag behind Peninsular Malaysia on almost all development indicators. Every year, the federal budget announces various plans and allocations for East Malaysia and yet, the gap between both sides of the country continues to grow unabated.

Pakatan Harapan's budget is different in that it will allocate a larger share of the federal budget to East Malaysia for as long as the development gap between East and Peninsular Malaysia exists. Our proposed policies include the following:

a) Resource endowment fund for Sabah and Sarawak

- The 20% oil and gas royalty demand will be materialised under the Pakatan Harapan government. We will set aside half of the 20% royalty to set up a resource fund that is modelled after the Alaskan Permanent Fund and the Norwegian Pension Fund.
- The funds, tentatively named the Sabah Endowment Fund and Sarawak Endowment Fund, will be divided into two portions – a cash dividend portion and a long term investment portion.
- This fund will pay out a cash dividend every year to every single Sabah and Sarawak born resident regardless of age, income, race and gender. This dividend is pegged to the investment returns from this fund.
- For the investment portion, each resident of Sabah and Sarawak will be able to make withdrawals based on a range of needs including for education and medical expenditure.
- This fund is designed to allow every Sabahan and Sarawakian to directly enjoy the benefits of their oil and gas reserves, while ensure intergenerational equity so that the returns from such resources can still be enjoyed by future generations even after natural reserves have been depleted.

b) Improve business and procurement processes to increase efficiency and reduce cost

- Infrastructure development projects are exceptionally costly and slow to implement in Sabah and Sarawak due to non-transparent tender processes and protected markets.
- Pakatan Harapan will introduce transparent and open tender procurement practices, just as it has in Penang, to encourage competition and eliminate leakages. This will result in savings that can be channeled towards building more roads.
- We will also liberalize the construction and related sectors to increase competition and reduce prices. For example, the cement industry is currently monopolised by Cahaya Mata Sarawak (CMS) which is a politically linked company.
- We estimate that adopting best practices in ensuring transparency and accountability will enable the Pan Borneo Highway network (from Kuching to Tawau) to be completed by 2025; 3 years in advance of Barisan Nasional's target.

c) Increase spending on secondary cities/towns in Sabah and Sarawak

- While cities are important drivers of growth in Sabah and Sarawak, they have suffered from years of underspending and infrastructure neglect. Pakatan Harapan will pump in at least

RM1 billion of spending on secondary cities and towns such as Sibu, Bintulu, Miri and Sri Aman in Sarawak and in Tawau, Sandakan, Keningau and Tenom in Sabah.

- We will focus spending on inter-city and inter-town transportation, industry cluster development, and urban regeneration, in order to increase the economic vibrancy and liveability of these places.

d) Cancelling the high speed rail (HSR) from KL to Singapore and using these funds to build a rail transportation network from Kuching to Tawau

- The high speed rail (HSR) project from KL to Singapore will largely benefit residents who are working in the Klang Valley and in Singapore and with some spill over effect along some of the stops for the HSR. East Malaysia would once again be left out.
- Given the already excellent transportation links between KL and Singapore (rail, bus, highways and flights), we feel that the HSR is not necessary at this point in time.
- We would instead divert the estimated RM35 billion for the HSR to build a railway network (which currently does not exist) from Kuching to Tawau via Kota Kinabalu. This would increase connectivity between the cities and towns in East Malaysia, and in turn generate multiplier effects on economic development.

e) Special scholarship fund for East Malaysia

- We propose setting up a RM1 billion scholarship fund for East Malaysia’s brightest students to study in top local and foreign universities on the condition that these individuals return to Sabah/Sarawak to work after graduating.
- This will not only boost human capital development in East Malaysia, but also help to stem the brain drain from both states.

f) Redressing Native Land Rights

- There are more than 250 native land right litigation cases in the courts of Sarawak and the Court of Appeal and Federal Court in Putrajaya. While land matters are strictly state jurisdictions, huge judicial resources are needed to address these court cases and these are partially borne by the federal government.
- Pakatan Harapan will set aside a sum of RM20 million for the AG Chambers to look into setting up a comprehensive land tribunal system to settle all outstanding legal disputes involving native land titles. In addition, we will work with the state governments to develop immediate and long term solutions to weaknesses in the current land administration system that accords little recognition or protection of indigenous rights.

g) Reallocate Accessibility Fund under MCMC to increase internet and mobile penetration in East Malaysia

- Every year, the Malaysia Communications and Multimedia Commission (MCMC) collects an estimated RM1.5 billion from the telecommunication operators as part of the Universal Service Provision (USP) Fund which is supposed to be utilised for narrowing the connectivity gap of mobile and internet services between urban and rural areas.
- Instead, MCMC has used some of these funds in order to purchase more than a million netbooks at hugely inflated costs.
- We would reallocate these funds to achieve its original purpose of improving mobile and internet connectivity in between the urban and rural areas with an added emphasis on rural areas in East Malaysia.

3.2 Agriculture

3.2.1 Background

Despite the hefty allocation under the Federal Budget every year, Malaysia's agricultural sector has fallen far behind other sectors in the economy. This is due to glaring and recurring mismanagement of the sector. Malaysia's agricultural planning is directed through a series of 5-year plans, developed using a top-down approach with minimal consultation with local industry, local communities, and even local scientists. Time and again, the Malaysian politicians and bureaucrats have presented rosy forecasts and gained attention through ceremonial events to announce projects that never materialize or eventually fail through mismanagement.

Examples of such projects include:

- Malaysian Herbal Corporation formed in 2001 with much fanfare. It was considered as the driver and 'flag-bearer' for the industry. The corporation undertook many initiatives, with the staff travelling widely and luxuriously around the world. Today, the Malaysian Herbal Corporation is now defunct.
- Malaysian Biotechnology Corporation (MBC), along with various state funded biotechnology companies such as Melaka Biotech, J-Biotech in Johor, K-Biocorp in Kedah, and Kelantan Biotech, were all well-funded with hundreds of millions of Ringgit in grants, but have little, if anything to show for it.
- Technology Park Malaysia (TPM), which built biotech labs around the country in places like Perlis, lies mostly empty. The East Coast Economic Regional Development Council has set up herbal parks in Pahang and Terengganu that are now inactive.
- FELDA opened up the FELDA Herbal Corporation that is now replaced with another attempt at developing biotechnology through Felda Wellness.
- The Malaysian-MIT partnership was hailed as an example of a 'smart partnership'. This cost Malaysian taxpayers USD20 Million, but has failed to deliver tangible results to date.

3.2.2 Rice Policy Reforms

For the 2015 Budget, BN had allocated RM 2.2 billion for a total of six subsidy programmes as a means to support the rice agriculture sector. However, instead of directing these programmes to the more deserving rural paddy farming households and the general rice-consuming Malaysians, the largest direct beneficiary was the privately-owned Padiberas Nasional Berhad (BERNAS).

This fact is troubling. The income levels of paddy farming households have always remain worryingly close to the poverty line, particularly those in the northern states of Kedah and Kelantan; a common paddy farmer working on one hectare plot in Kedah, for instance, earns no more than RM1000 per month[21]. The following chart illustrates the geographic distribution of full-time paddy farmers in Malaysia, whereby approximately 78% primarily reside in Kedah, Kelantan, and Sarawak.

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[21]Parlimen Malaysia, Pemberitahu Pertanyaan Dewan Rakyat (Bertulis) Soalan. 269, Daripada Dr. Ong Kian Ming [Serdang] kepada Menteri Pertanian dan Industri Asas Tani, Parlimen Ketiga belas, Penggal Ketiga, Mesyuarat Kedua.

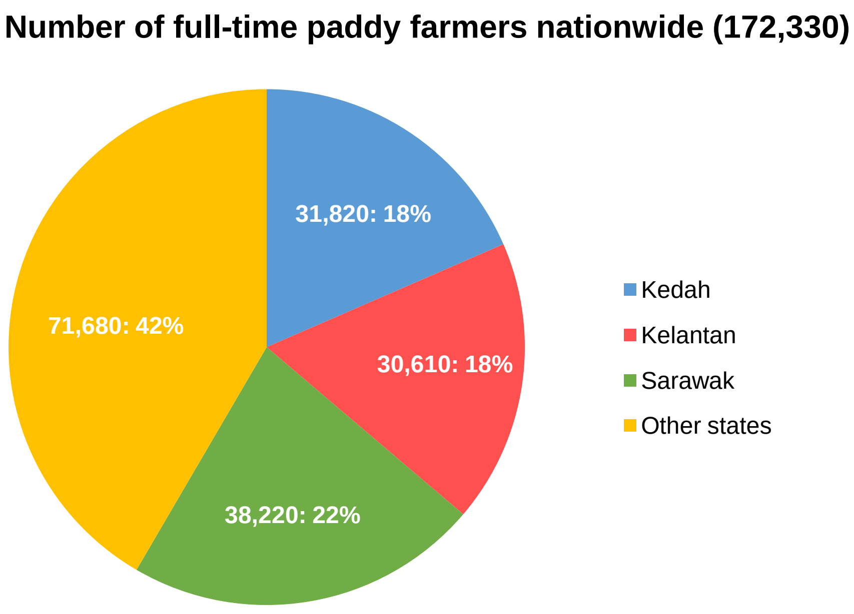

***Diagram 9**: Number of full-time paddy farmers around Malaysia in 2015.*

This problem faced by paddy farmers is further aggravated by punishing economic returns, which lead not only to rural poverty, but also to the waning interests of the young and educated in the agriculture sector. The subsequent consequences are thus inevitable – only the under-educated and ageing are left to sustain the rice agriculture sector, continuing to impede our goals to increase yield and productivity in paddy production towards higher self-sufficiency levels and national food security in the long run.

It is hence paramount that the rice agriculture sector continues to receive the support it requires, but the ambiguous, obsolete subsidy programmes must first be comprehensively remodelled. Fundamentally, the focus should be to improve the livelihood of paddy farmers. Subsidy schemes should also incorporate a transparency guarantee so as to overcome the current problem of millions being paid to a mere handful of suppliers delivering substandard goods to farmers and consumers. We therefore propose two key policy reforms which are as follows:

a) Abolish subsidies for rice millers

Pakatan Harapan proposes abolishing the Rice Price Subsidy (Subsidi Harga Beras, RPS). Introduced in 2008, the RPS was launched with the objective of controlling the supply of rice at an affordable price catered for the low income domestic market in order to combat the sudden 300% surge in price of rice commodities.

Under the RPS, a number of rice millers were paid huge subsidies to produce a lower quality type of rice called Super Tempatan, ST15 (with 15% being broken rice content, as opposed to the market standard of rice comprising of no more than 5% broken rice), who in turn sold them at a controlled price ranging from RM1.65 to RM1.80 a kilogramme. Despite the decrease and stabilization of the price of rice since the 2008 crisis, the Barisan Nasional government still maintained the RPS at RM528.0 mil in the year 2015 alone.

Unsurprisingly, this scheme had its defects and limitations. The Auditor General had been forced to step in and declare that the Ministry of Agriculture and Agro-based Industries and BERNAS had failed to ensure the benefits of ST15 actually reached its intended group, stating in the 2011 Auditor General's report that "there was no proper mechanism to ensure that the target group benefited from this programme." The AG's finding rang true – while the ST15 rice is indeed very cheap and affordable, the product is scarcely available on shelves for the lower income groups despite the huge yearly half a billion subsidy. On the other hand, the price of ordinary rice (of higher quality than ST15) in markets nationwide is around RM 2.60 to RM 2.80 a kilogramme. This is still very affordable for all Malaysians, including poorer households.

b) Transfer subsidies to farmers

Terminating the defective RPS Scheme will allow its funds to be utilized for other more urgent purposes. As aforementioned, the increment of the livelihood and income of paddy farmers from producing paddy is of crucial concern.

Since 1991, farmers have been receiving RM248.10 from the government for every metric tonne of paddy produced under the Paddy Price Subsidy scheme (PPS). Perplexingly, this scheme has not changed ever since. In 2015, only RM480 million was allocated for the PPS, meaning that an average farmer would have to produce 10 tonnes a year to receive a meagre amount of RM2, 400 from the PPS.

We propose to improve the PPS by increasing the subsidy by 50% to RM380 a metric tonne. This will create a much stronger incentive for farmers to produce more yields, thereby increasing the local rice production and ensuring a stronger food security by reducing the need for imports.

The net financial impact of rejecting the RPS and improving the PPS by 50% is neutral. By realigning subsidies and incentives to reflect better defined economic and social goals, the Pakatan Harapan government will be able to significantly improve the livelihood of 300, 000 full-time and part-time paddy farmers, especially those who have been suffering under poor agricultural development in the northern Peninsular states, such as Kedah and Kelantan, as well as in Sarawak and Sabah.

3.3 Off-balance sheet liabilities

There are many government expenditure and debt items which occur outside the budget balance sheet ('off-balance sheet' items) but which the government is paying and/or will have to pay for (at least partially) in the future. The challenge is to estimate how much of these 'off-balance sheet' items should be declared as part of the budget and how it will impact the government's annual expenditure. There are three possible sources of 'off-balance sheet' items, as follows:

a) Recoverable Loans

These are soft loans made by the government to state governments, local authorities, statutory bodies, companies and individuals. While these are counted as assets, some of these loans should be recognized as non-performing / under-performing and should be written-off as an expense. For example, the outstanding government loan to Indah Water Konsortium (IWK) stood at RM2 billion in 2013. IWK made a loss of RM213 million in FY 2013 and did not repay any of its arrears on its loans from the Federal government. The total outstanding recoverable loans in 2013 were **RM92.6 billion**.

Particulars	Loans Charged to			Outstanding Balance as at	
	Development Fund	Consolidated Revenue Account	Other Trust Account	2013	2012
Borrower	RM	RM	RM	RM	RM
Total State Governments	14,779,146,843	109,852,382	1,051,500,409	15,940,499,634	15,796,571,501
Total Local Authorities	405,262,533	52,454,860	–	457,717,393	519,747,254
Total Statutory Bodies	10,187,912,370	446,766,260	2,923,596,492	13,558,275,121	14,073,212,232
Total Co-operatives	6,120,210	6,353,644	165,798,050	178,271,904	197,473,124
Total Companies	12,812,873,630	2,399,444,712	7,611,699,402	22,824,017,744	25,508,607,827
Total Individuals	–	–	36,460,363,861	36,460,363,861	36,565,906,580
Total Miscellaneous	1,672,742,556	–	1,455,300,000	3,128,042,556	2,952,195,602
TOTAL RECOVERABLE LOANS	39,864,058,142	3,014,871,858	49,668,258,215	92,547,188,214	95,613,714,119

From the RM92.6 bil, we assume a 50% total loan write-off amounting to **RM6.6 billion**, as follows:

Entities	Outstanding arrears as at 2013 year end (RM)	Assumed 50% write-off (RM)
Companies, statutory bodies & other agencies	8.6 billion	4.3 billion
Housing loans	895.3 million	448 million
Port Klang Authority	3.8 billion	1.9 billion
Total	13.3 billion	**6.6 billion**

b) Investments

This refers to the issuing of debt for development expenditure via special purpose vehicles (SPVs) which are 100% government owned and which do not have their own sources of revenue other than government grants. The debts of such SPVs are not even listed under contingent liabilities / statutory guarantees. Key examples would be Pembinaan BLT Sdn Bhd and Pembinaan PFI Sdn Bhd. As of

2013, Pembinaan BLT had outstanding liabilities of RM7.6 billion, while Pembinaan PFI had outstanding liabilities of RM26.6 billion. This leads to a total outstanding liability of **RM34.2 billion**.

c) Government Guarantees

Debts guaranteed by the government stood at RM175.81 billion in Q2/2015, up RM12.9 billion or 7.9% year by year.[22] The figure is approximately 30% more than the RM133.35 billion of Q2/2012, representing an average annual growth of 9.65% in the past 3 years.

Government guarantees include Depositors Guarantees (KWSP, BSN, Tabung Haji), statutory bodies (FELDA & PTPTN) and companies (1MDB). There are loan guarantees of RM157 billion as at the end of 2013. Not all RM157 billion of these loan guarantees will lead to government write-offs since many of these companies have revenue generation capacity to pay off their debts, such as Khazanah, PLUS, and TNB.

Simultaneously, there are also loan guarantees issued by SPVs to pay off capital expenditure for large scale infrastructure projects which clearly cannot be covered by operational revenue, e.g. LRT & MRT projects. If these were considered government expenditure, then they would be classified as development expenditure and included in the official government debt.

Also, some loans clearly need to be written off (at least partially) as a result of non-payment / financial distress of the company / body in question e.g. PTPTN, 1MDB, SRC International. Finally, there are debts owned by some of the listed companies which are not officially guaranteed by the Federal government but for which there is an implicit support (or letter of support) for the totality of the companies' debt. 1MDB would be a good example. Our assumptions are as follows:

- PTPTN: Assume 50% write-off of loan guarantee amount which comes up to RM14.6 billion at 2013 year end
- 1MDB: Assume 50% write-off of RM50 billion in loans which comes up to RM25 billion
- SRC International – Assume 100% write-off of RM4 billion
- Classify 100% of the debt of SPVs for infrastructure projects as government debt: RM43.4 billion
- Classify 100% of the MAS related debt as government debt: RM11.1 billion

Therefore, Pakatan Harapan's initial assessment of Government Guarantees which would be categorized as government debt gives a total of **RM98.1 billion**.

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[22] Bank Negara Malaysia

As such, the total estimate of 'off budget' items which should be reclassified as government debt is **RM138.9 billion**, as outlined below.

Off-budget item	RM (billion)
Recoverable Loans	6.6
"Investments"	34.2
Government Guarantees	98.1
Total	**138.9**

If such items were added to the 2013 year end government debt, we would have reached a debt-to-GDP ratio of **66%** and a budget deficit of **6.2%**, as set out below.

- Total government debt was RM539 billion at the end of 2013
- Including RM138.9 billion, total government debt would have increased to RM677.9 billion
- Nominal GDP in 2013: RM1,109 billion
- Without the off budget items, debt-to-GDP ratio would be 53%
- With the off budget items, debt-to-GDP ratio would be 67%
- In 2013, RM22.2 billion or 11% of the federal budget was spent on debt servicing at an interest rate of 4.11%.
- With an additional RM138.9 billion in debt, this would add RM5.7 billion to the 2013 budget deficit or an additional 2.3%.

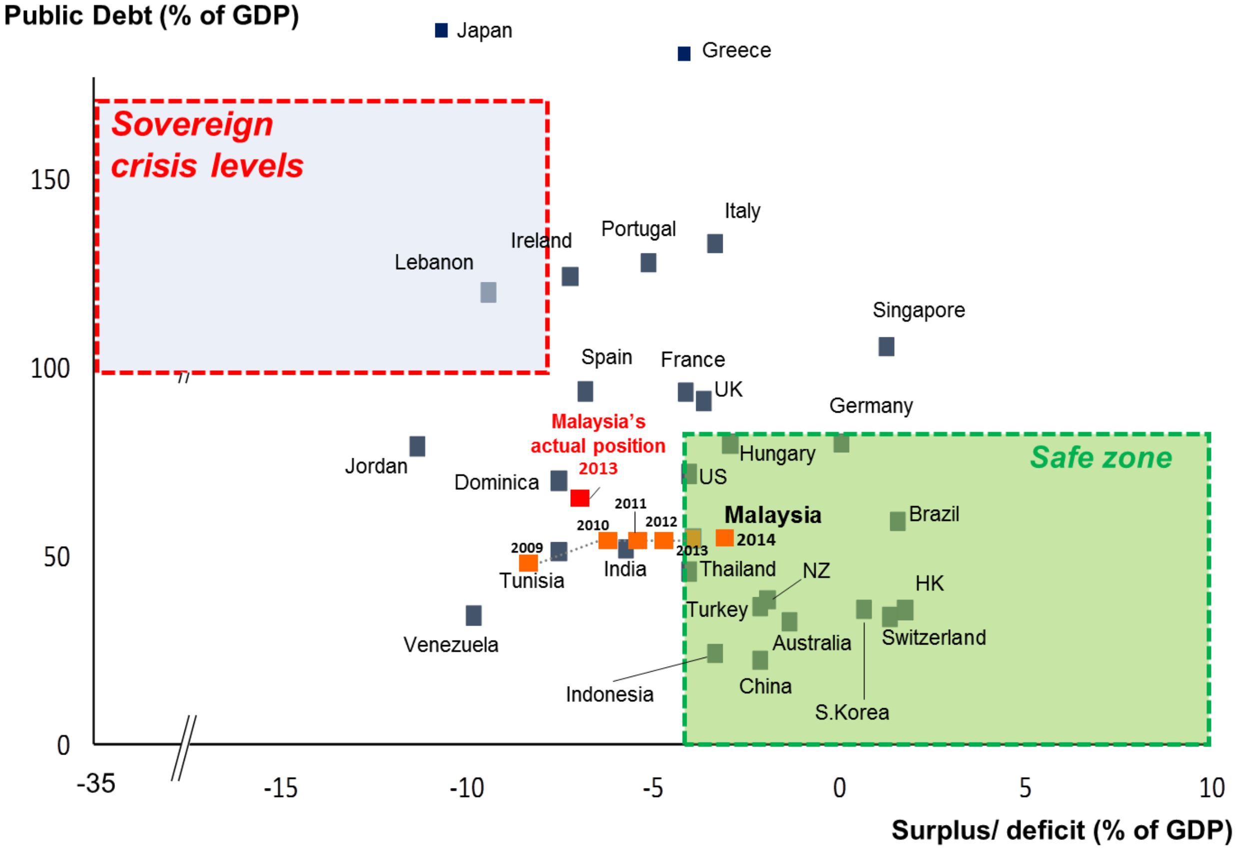
Moving forward, we foresee a significant increase in the amount of contingent liabilities especially given the large scale infrastructure projects which are current being financed using special purpose vehicles (SPVs) which are issuing government backed debt. This would include:

- An estimated RM36 billion for the MRT Line 1[23]
- An estimated RM30 billion for the MRT Line 2[24]
- An estimated RM11.5 billion for the LRT Line 3[25]
- An estimated RM40 billion for the High Speed Railway from KL to Singapore[26]

The above items alone will add another RM118 billion to the total debt of the federal government and push the real government debt to GDP ratio to well over **70%**. This would mean that, contrary to PEMANDU's claims, Malaysia is not actually in "Safe Zone" in 2013 and is in fact moving away from this Zone as a result of the increasing contingent liabilities.

[23] Only RM6.5 billion of bonds issued by Dana Infra was included in the 2013 statement of guarantees of the federal government
[24] http://www.themalaysianinsider.com/malaysia/article/mrt-says-line-2-to-cost-over-rm30-billion
[25] http://www.themalaysianinsider.com/malaysia/article/mrcb-george-kents-win-with-rm11.5-billion-bid-for-lrt3-shocking-say-industr
[26] http://www.straitstimes.com/singapore/transport/singapore-kl-high-speed-rail-a-game-changer-but-how-much-will-tickets-cost

PEMANDU claims that Malaysia is moving closer to the "Safe Zone" (2013). But if off-budget items were to be included, Malaysia's fiscal position would be different



Note : Figures are for 2012
Source : MOF, BNM, Economist Intelligence Unit, BCG analysis, CIA World Factbook

***Diagram 10**: Malaysia's actual public debt/deficit position*

Appendices

***Table 11**: Estimated oil revenues for 2016*

	2012	2013	2014	2015*	2016**
Brent annual average (USD/bbl)	112	108.6	99	55	48
Fed Govt revenue (RM billion)	207.9	213.4	225.8	221.4	221
Petronas Revenue (RM billion)	291.2	317.3	329.1	264.8	220
Petronas PBT (RM billion)	89.7	94.3	77.7	63.6	52.8
Petronas Dividend (RM billion)	28	27	29	26	20
Petronas Tax (RM billion)	38.3	33.3	32.5	26.69	22.18
Petronas Cash Payments (RM billion)	12.5	12	12.6	10.06	8.36
Petronas Export duty (RM billion)	1.2	1.1	1.2	1.06	0.88
Petronas Total Contribution to Federal (RM billion)	80	73.4	75.30	63.81	51.42

Note:

* 2015 figures based latest news

** 2016 figures based on market intelligence

***Table 12**: Estimations of Barisan Nasional's revenue figures*

	2012		2013		2014*		2015*		2016*		2015-2016 Change	
	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%
1 TAX REVENUE	**151,643**	**72.9**	**155,951**	**73.1**	**171,770**	**76.1**	**185,358**	**78.3**	**184,622**	**78.1**	**-736**	**-0.40**
DIRECT TAXES	**116,937**	**56.2**	**120,523**	**56.5**	**133,148**	**59.0**	**135,646**	**57.3**	**125,628**	**53.1**	**-10,018**	**-7.39**
1.1 INCOME TAXES	110,662	53.2	113,300	53.1	125,235	55.5	127,405	53.8	117,053	49.5	-10,352	-8.13
Individual Income Tax	22,977	11.1	23,055	10.8	26,746	11.8	26,553	11.2	28,422	12.0	1,869	7.04
Company Income Tax	51,288	24.7	58,175	27.3	67,679	30.0	72,589	30.7	65,330	27.6	-7,259	-10.00
Petroleum Income Tax	33,934	16.3	29,753	13.9	28,275	12.5	25,600	10.8	20,480	8.7	-5,120	-20.00
Withholding Tax	2,097	1.0	2,008	0.9	2,174	1.0	2,276	1.0	2,426	1.0	150	6.58
Cooperatives Income Tax	345	0.2	286	0.1	340	0.2	364	0.2	369	0.2	5	1.50
Others	21	0.0	23	0.0	21	0.0	23	0.0	25	0.0	2	8.50
1.2 OTHER DIRECT TAXES	6,275	3.0	7,223	3.4	7,913	3.5	8,241	3.5	8,575	3.6	334	4.05
Stamp Duty	5,595	2.7	6,364	3.0	6,993	3.1	7,252	3.1	7,723	3.3	471	6.50
Real Property Gains Tax	608	0.3	785	0.4	833	0.4	897	0.4	756	0.3	-141	-15.72
Others	72	0.0	74	0.0	87	0.0	92	0.0	96	0.0	4	4.10
INDIRECT TAXES	**34,706**	**16.7**	**35,428**	**16.6**	**38,622**	**17.1**	**49,712**	**21.0**	**58,994**	**24.9**	**9,282**	**18.67**
1.3 EXPORT DUTY	1,968	0.9	1,930	0.9	2,105	0.9	2,231	0.9	1,824	0.8	-407	-18.25
Crude Oil	1,928	0.9	1,632	0.8	1,943	0.9	2,057	0.9	1,646	0.7	-411	-20.00
Palm Oil	34	0.0	285	0.1	160	0.1	171	0.1	175	0.1	4	2.34
Others	6	0.0	13	0.0	2	0.0	3	0.0	3	0.0	0	5.00
1.4 IMPORT DUTY	2,282	1.1	2,524	1.2	2,502	1.1	2,629	1.1	2,865	1.2	236	8.97
Spirits and Malt Liquor	79	0.0	81	0.0	75	0.0	81	0.0	82	0.0	1	0.85
Tobacco, Cigarettes, and Cigars	35	0.0	114	0.1	26	0.0	28	0.0	33	0.0	5	18.00
CKD and CBU Vehicles	754	0.4	466	0.2	497	0.2	523	0.2	533	0.2	10	2.00
Others	1,414	0.7	1,863	0.9	1,904	0.8	1,997	0.8	2,217	0.9	220	11.00
1.5 EXCISE DUTY	12,187	5.9	12,193	5.7	13,442	6.0	13,717	5.8	14,396	6.1	679	4.95
Spirits and Malt Liquor	1,417	0.7	1,520	0.7	1,480	0.7	1,431	0.6	1,402	0.6	-29	-2.00
Tobacco, Cigarettes, and Cigars	3,281	1.6	3,275	1.5	3,953	1.8	3,840	1.6	3,974	1.7	134	3.50
Motor Vehicles	7,085	3.4	7,390	3.5	8,005	3.5	8,442	3.6	9,016	3.8	574	6.80
Others	404	0.2	8	0.0	4	0.0	4	0.0	3	0.0	-1	-30.00
1.6 SALES TAX	9,496	4.6	10,068	4.7	10,986	4.9	2,734	1.2	2,890	1.2	156	5.71
1.7 SERVICE TAX	5,583	2.7	5,944	2.8	6,780	3.0	1,874	0.8	1,943	0.8	69	3.68
1.8 LEVY	552	0.3	172	0.1	180	0.1	150	0.1	152	0.1	2	1.30
Oil Palm Fruit	388	0.2	7	0.0	58	0.0	0	0.0	0	0.0	0	
Goods Vehicles	164	0.1	165	0.1	122	0.1	150	0.1	152	0.1	2	1.30
1.9 MISCELLANEOUS INDIRECT TAXES	2,638	1.3	2,597	1.2	2,627	1.2	2,677	1.1	2,715	1.1	38	1.43
1.10 GOODS AND SERVICES TAX (GST)							23,700	10.0	32,210	13.6	8,510	35.91
2 NON-TAX REVENUE	**54,909**	**26.4**	**54,450**	**25.5**	**52,277**	**23.1**	**49,313**	**20.8**	**49,618**	**21.0**	**305**	**0.62**
2.1 LICENCES AND PERMITs	13,570	6.5	13,418	6.3	13,049	5.8	13,143	5.6	13,427	5.7	284	2.16
Petroleum Royalty	6,423	3.1	6,186	2.9	5,705	2.5	5,543	2.3	5,432	2.3	-111	-2.00
Motor Vehicle Licences	2,283	1.1	2,407	1.1	2,417	1.1	2,508	1.1	2,608	1.1	100	3.98
Levy on Foreign Workers	2,618	1.3	2,423	1.1	2,523	1.1	2,579	1.1	2,824	1.2	245	9.50
Others	2,246	1.1	2,402	1.1	2,404	1.1	2,513	1.1	2,563	1.1	50	2.00
2.2 SERVICE FEES	1,218	0.6	1,262	0.6	1,233	0.5	1,304	0.6	1,390	0.6	86	6.60
2.3 SALES OF GOODS	637	0.3	1,222	0.6	1,139	0.5	574	0.2	570	0.2	-4	-0.70
2.4 RENTALS	177	0.1	176	0.1	207	0.1	250	0.1	268	0.1	18	7.00
2.5 INTERESTS & PROCEEDS ON INVESTMENTS	36,736	17.7	35,306	16.5	33,565	14.9	30,693	13.0	30,354	12.8	-339	-1.10
PETRONAS Dividend	26,260	12.6	27,000	12.7	29,000	12.8	26,000	11.0	26,000	11.0	0	0.00
Bank Negara Malaysia Dividend	2,000	1.0	1,500	0.7	1,500	0.7	2,000	0.8	1,700	0.7	-300	-15.00
Khazanah Dividend	3,000	1.4	851	0.4	750	0.3	500	0.2	450	0.2	-50	-10.00
Others	5,476	2.6	5,955	2.8	2,315	1.0	2,193	0.9	2,204	0.9	11	0.50
2.6 FINES AND PENALTIES	1,007	0.5	1,078	0.5	1,064	0.5	1,136	0.5	1,153	0.5	17	1.50
2.7 OTHER NON-TAX REVENUE	1,564	0.8	1,988	0.9	2,020	0.9	2,213	0.9	2,456	1.0	243	11.00
3 NON-REVENUE RECEIPTS	**877**	**0.4**	**1,590**	**0.7**	**1,152**	**0.5**	**1,251**	**0.5**	**1,401**	**0.6**	**150**	**12.00**
4 REVENUE FROM FEDERAL TERRITORIES	**483**	**0.2**	**1,378**	**0.6**	**645**	**0.3**	**777**	**0.3**	**894**	**0.4**	**117**	**15.00**
TOTAL REVENUE	**207,912**	**100.0**	**213,369**	**100.0**	**225,844**	**100.0**	**236,699**	**100.0**	**236,535**	**100.0**	**-164**	**-0.07**

***Table* 13**: Pakatan Harapan's proposed federal revenue figures

	2012		2013		2014*		2015*		2016*		2015-2016 Change	
	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%	(RM Mil.)	%
1 TAX REVENUE	**151,643**	**72.9**	**155,951**	**73.1**	**171,770**	**76.1**	**185,358**	**78.3**	**162,355**	**78.0**	**-23,003**	**-12.41**
DIRECT TAXES	**116,937**	**56.2**	**120,523**	**56.5**	**133,148**	**59.0**	**135,646**	**57.3**	**135,571**	**65.1**	**-75**	**-0.06**
1.1 INCOME TAXES	110,662	53.2	113,300	53.1	125,235	55.5	127,405	53.8	123,399	59.3	**-4,006**	**-3.14**
Individual Income Tax	22,977	11.1	23,055	10.8	26,746	11.8	26,553	11.2	31,265	15.0	**4,712**	**17.74**
Company Income Tax	51,288	24.7	58,175	27.3	67,679	30.0	72,589	30.7	68,830	33.0	**-3,759**	**-5.18**
Petroleum Income Tax	33,934	16.3	29,753	13.9	28,275	12.5	25,600	10.8	20,480	9.8	**-5,120**	**-20.00**
Withholding Tax	2,097	1.0	2,008	0.9	2,174	1.0	2,276	1.0	2,430	1.2	**154**	**6.78**
Cooperatives Income Tax	345	0.2	286	0.1	340	0.2	364	0.2	369	0.2	**5**	**1.50**
Others	21	0.0	23	0.0	21	0.0	23	0.0	25	0.0	**2**	**8.50**
1.2 OTHER DIRECT TAXES	6,275	3.0	7,223	3.4	7,913	3.5	8,241	3.5	12,171	5.8	**3,930**	**47.69**
Stamp Duty	5,595	2.7	6,364	3.0	6,993	3.1	7,252	3.1	7,723	3.7	**471**	**6.50**
Real Property Gains Tax	608	0.3	785	0.4	833	0.4	897	0.4	852	0.4	**-45**	**-5.02**
Capital Gains Tax									**3,500**	**1.7**	**3,500**	
Others	72	0.0	74	0.0	87	0.0	92	0.0	96	0.0	**4**	**4.10**
INDIRECT TAXES	**34,706**	**16.7**	**35,428**	**16.6**	**38,622**	**17.1**	**49,712**	**21.0**	**26,784**	**12.9**	**-22,928**	**-46.12**
1.3 EXPORT DUTY	1,968	0.9	1,930	0.9	2,105	0.9	2,231	0.9	1,824	0.9	**-407**	**-18.25**
Crude Oil	1,928	0.9	1,632	0.8	1,943	0.9	2,057	0.9	1,646	0.8	**-411**	**-20.00**
Palm Oil	34	0.0	285	0.1	160	0.1	171	0.1	175	0.1	**4**	**2.34**
Others	6	0.0	13	0.0	2	0.0	3	0.0	3	0.0	**0**	**5.00**
1.4 IMPORT DUTY	2,282	1.1	2,524	1.2	2,502	1.1	2,629	1.1	2,865	1.4	**236**	**8.97**
Spirits and Malt Liquor	79	0.0	81	0.0	75	0.0	81	0.0	82	0.0	**1**	**0.85**
Tobacco, Cigarettes, and Cigars	35	0.0	114	0.1	26	0.0	28	0.0	33	0.0	**5**	**18.00**
CKD and CBU Vehicles	754	0.4	466	0.2	497	0.2	523	0.2	533	0.3	**10**	**2.00**
Others	1,414	0.7	1,863	0.9	1,904	0.8	1,997	0.8	2,217	1.1	**220**	**11.00**
1.5 EXCISE DUTY	12,187	5.9	12,193	5.7	13,442	6.0	13,717	5.8	14,396	6.9	**679**	**4.95**
Spirits and Malt Liquor	1,417	0.7	1,520	0.7	1,480	0.7	1,431	0.6	1,402	0.7	**-29**	**-2.00**
Tobacco, Cigarettes, and Cigars	3,281	1.6	3,275	1.5	3,953	1.8	3,840	1.6	3,974	1.9	**134**	**3.50**
Motor Vehicles	7,085	3.4	7,390	3.5	8,005	3.5	8,442	3.6	9,016	4.3	**574**	**6.80**
Others	404	0.2	8	0.0	4	0.0	4	0.0	3	0.0	**-1**	**-30.00**
1.6 SALES TAX	9,496	4.6	10,068	4.7	10,986	4.9	2,734	1.2	2,890	1.4	**156**	**5.71**
1.7 SERVICE TAX	5,583	2.7	5,944	2.8	6,780	3.0	1,874	0.8	1,943	0.9	**69**	**3.68**
1.8 LEVY	552	0.3	172	0.1	180	0.1	150	0.1	152	0.1	**2**	**1.30**
Oil Palm Fruit	388	0.2	7	0.0	58	0.0	0	0.0	0	0.0	**0**	**0.00**
Goods Vehicles	164	0.1	165	0.1	122	0.1	150	0.1	152	0.1	**2**	**1.30**
1.9 MISCELLANEOUS INDIRECT TAXES	2,638	1.3	2,597	1.2	2,627	1.2	2,677	1.1	2,715	1.3	**38**	**1.43**
1.10 GOODS AND SERVICES TAX (GST)							23,700	10.0	0	0.0	**-23,700**	**-100.00**
2 NON-TAX REVENUE	**54,909**	**26.4**	**54,450**	**25.5**	**52,277**	**23.1**	**49,313**	**20.8**	**43,618**	**20.9**	**-5,695**	**-11.55**
2.1 LICENCES AND PERMITs	13,570	6.5	13,418	6.3	13,049	5.8	13,143	5.6	13,427	6.4	**284**	**2.16**
Petroleum Royalty	6,423	3.1	6,186	2.9	5,705	2.5	5,543	2.3	5,432	2.6	**-111**	**-2.00**
Motor Vehicle Licences	2,283	1.1	2,407	1.1	2,417	1.1	2,508	1.1	2,608	1.3	**100**	**3.98**
Levy on Foreign Workers	2,618	1.3	2,423	1.1	2,523	1.1	2,579	1.1	2,824	1.4	**245**	**9.50**
Others	2,246	1.1	2,402	1.1	2,404	1.1	2,513	1.1	2,563	1.2	**50**	**2.00**
2.2 SERVICE FEES	1,218	0.6	1,262	0.6	1,233	0.5	1,304	0.6	1,390	0.7	**86**	**6.60**
2.3 SALES OF GOODS	637	0.3	1,222	0.6	1,139	0.5	574	0.2	570	0.3	**-4**	**-0.70**
2.4 RENTALS	177	0.1	176	0.1	207	0.1	250	0.1	268	0.1	**18**	**7.00**
2.5 INTERESTS & PROCEEDS ON INVESTMENTS	36,736	17.7	35,306	16.5	33,565	14.9	30,693	13.0	24,354	11.7	**-6,339**	**-20.65**
PETRONAS Dividend	26,260	12.6	27,000	12.7	29,000	12.8	26,000	11.0	20,000	9.6	**-6,000**	**-23.08**
Bank Negara Malaysia Dividend	2,000	1.0	1,500	0.7	1,500	0.7	2,000	0.8	1,700	0.8	**-300**	**-15.00**
Khazanah Dividend	3,000	1.4	851	0.4	750	0.3	500	0.2	450	0.2	**-50**	**-10.00**
Others	5,476	2.6	5,955	2.8	2,315	1.0	2,193	0.9	2,204	1.1	**11**	**0.50**
2.6 FINES AND PENALTIES	1,007	0.5	1,078	0.5	1,064	0.5	1,136	0.5	1,153	0.6	**17**	**1.50**
2.7 OTHER NON-TAX REVENUE	1,564	0.8	1,988	0.9	2,020	0.9	2,213	0.9	2,456	1.2	**243**	**11.00**
3 NON-REVENUE RECEIPTS	**877**	**0.4**	**1,590**	**0.7**	**1,152**	**0.5**	**1,251**	**0.5**	**1,401**	**0.7**	**150**	**12.00**
4 REVENUE FROM FEDERAL TERRITORIES	**483**	**0.2**	**1,378**	**0.6**	**645**	**0.3**	**777**	**0.3**	**894**	**0.4**	**117**	**15.00**
TOTAL REVENUE	**207,912**	**100.0**	**213,369**	**100.0**	**225,844**	**100.0**	**236,699**	**100.0**	**208,268**	**100.0**	**-28,431**	**-12.01**