



# FINANCIAL LITERACY FOR YOUTHS



Federal Budgeting: Behind the Scenes



# Federal Budgeting: Behind the Scenes

## Why does a Country Need a Budget?

Any entity that involves in inflow and outflow of money transaction needs to have a budget. A *budget* essentially refers to a plan that outlines the expenditures and income for a person or organisation. In the corporate world, every business organisation will plan a budget for their company as part of their future plans. This principle applies to federal budgets for countries as well. This is an important step for national budgeting, as the government would need to project its national income and national expenses, review financial achievements and outline new policy initiatives.

A key difference between budgets in businesses and governments lie in the way they are used. Businesses tend to utilize them as a financial control tool, while national budgets would be formed as a means of control for the country's financial and economic goals. These goals include important concerns such as unemployment, inflation rate and the economic growth. Through budgeting, governments would be able to anticipate future problems that may arise, and minimise or eliminate them. In addition, another unique feature of federal budgets would be the outlining of key achievements of the budget from the previous year, such as the economic growth rate, GDP, poverty and unemployment rate.

## Federal Budget Outline

As mentioned above, a budget is needed to determine how a country uses its financial resources effectively. This includes outlining the sources of *income* for the government, as well as *national expenditures*. Main sources of income for a government would include income tax, other direct tax, non-tax revenue and indirect tax. On the other hand, national expenditures would be divided into several areas, such as operating expenditure, development expenditure, emoluments, supplies and services, fixed charges and grants, purchase of assets and other expenditure.

Besides providing financial information, the budget also includes non-financial information, i.e. further government plans to develop the country. This is a

---

crucial step for budgeting as it is vital for the government to lay out its strategy to develop the country.

### **The Process of Federal Budgeting**

Where would you gain access to the federal budget? Before it is revealed to the general public, it has to undergo a long, tedious process of gaining input and drafting outlines before finalising it into a feasible plan for the following year.

However the planning and preparing process stretch back months before it is to be announced. The planning process includes the data received, including historical data based on the normal practice in government' departments and agencies, inputs gathered in form of suggestions or feedbacks from various parties for example experts, academician and normal citizens. After this process, they will start drafting the budget. Without these, proper output for the budget preparation wouldn't be excellent and it takes time.

This process begins with the outlining of the federal budget, where it is primarily led by the Ministry of Finance. It starts with a collective approach, where they collect the views and suggestions from citizens to gain a better sense of public opinion on the federal budget, as well as input from other ministries. Next, a draft of the federal budget is outlined by the ministry before the Finance Minister prepares to *table* the budget in the Dewan Rakyat.

When the proposed budget is announced in the Dewan Rakyat, members of parliament (MP) are required to either vote in favour or against the budget. The budget would also be up for debate; most commonly about the allocation of funds or the interests of the people or state each MP represents.

If the drafted budget fails to get an absolute majority in the Dewan Rakyat, the government must either resign or seek parliamentary dissolution; a scenario that Malaysia has not seen thus far. A key feature to note in Malaysia, is the proposal of alternative budgets by the opposition bloc since 2008, which has been presented to the Malaysian citizens on social media as an alternative to the federal budget by the government.

After the approval of the budget, it is then published to the general public. The people can view this budget on almost every available media. Examples of these include, the government's official website, the Ministry of Finance's website, the prime minister's official social media page, newspapers, and trusted sources on the internet. Caution must be taken when searching for the budget, as unreliable sources may publish inaccurate or even deliberately-imprecise budget.

Vital economic elements such as the federal budget cannot be prepared or drafted in a rush without careful examining the economic data and government's plan and policy. It could be catastrophic for the country's economy if the federal budget is not being prepared according to its timeline as it affects the government spending and how the money flows in the country.

### **Who is Involved in the Federal Budget?**

In most countries and particularly Malaysia, the Ministry of Finance is responsible in preparing the budget. To exercise this vital duty, the Ministry of Finance (i.e. its two ministers, head of departments and officers) gather the input and data from other ministries and some smaller spending agencies like the Ministry of Education and the Royal Malaysia Police (PDRM).

However, in the past few years, a more popular, collective approach has been taken by the government where they seek public opinions from citizens to gain their input on the budget. This normally includes suggestions, problems and even concerns from normal citizens regarding their daily lives. When this approach was first implemented by Prime Minister Najib Razak, people reached out to him via Twitter, an informal social media platform, to tweet their suggestions directly to the PM's Twitter account. To counteract this, the government has set up a proper platform (<https://bajet2018.najibrazak.com>) this year for the public to channel their opinions or suggestions for next year's federal budget.

By getting more parties involved in the preparation of the budget, it becomes more *inclusive*. Additional inputs and opinions from different parties would have given the government a much better feel on the planning, therefore enabling them to provide a better and more relatable federal budget for citizens.

## **When is Malaysian Federal Budget being announced**

The federal budget would be tabled in the parliament, and announced by the Finance Minister on the third Friday of October every year. The budget would then be debated and voted on by both sides of the parliament. Should it pass, the ministries and government agencies would begin preparations to execute the actions proposed in the budget before it comes into effect on 1st January the following year.

### **Conclusion**

In essence, the federal budget plays a huge role in financial planning, and ultimately, the development of a country. The drafting process undergoes rigorous and inclusive procedures involving multiple ministries and the public before it is released by the Minister of Finance to be tabled in the parliament. Once tabled, the government would be able to plan the expenditures and project the country's income, which would help them to gain better control of the country's economy.

### Contributors

Researchers – Kent Chong, Lee Yang Yer, Ismail Sheikh Ibrahim

Editor – Luanne Lai