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Govt reduces development spending to prune deficit

MALAYSIA will miss its target to have a balanced budget by 2005, but the country is slashing development spending to the lowest level in four years

to seriously prune its deficit.

Prime Minister Datuk Seri Mahathir Mohamad said when announcing Budget 2004 last Friday that the objective of a balanced budget cannot be achieved in 2005.

He said the sharp decline of private sector activities and the worsening external environment in recent years had required the Government to come up with several stimulus packages.

"However, the Government remains committed to achieving a balanced budget in the near term by implementing fiscal consolidation," he added.

Malaysia is targetting a budget deficit of 3.3 per cent of the gross domestic product (GDP), or RM13.4 billion in 2004, the lowest level since 1999. This will be the seventh consecutive year where budgeted spending exceeds income.

This year, the country's budget deficit is estimated to touch 5.4 per cent, or RM20.8 billion, way off the mark from the targetted 3.9 per cent made during the budget tabled a year ago.

But the excessive spending is unlikely to be held against the Government, as to miss the 2005 deadline, said economists.

The economic environment is very much different now from when the target for zero deficit was made back in 2000 - "before the September 11 and the outbreak of Severe Acute Respiratory Syndrome (SARS), on the assumption that the economy will grow 7.5 per cent a year," said CIMB Securities economist Lee Heng Guie.

One way the Government is going to consolidate its fiscal stance is by pulling back on development spending. The RM29.96 billion development expenditure set aside for next year is 21 per cent lower than the estimated RM37.96 billion expenditure in 2003.

Operating expenditure however will jump 9.3 per cent next year to RM80 billion from RM73.2 billion estimated in 2003.

"Given the impending leadership transition this October and an expected General Election before January 2005, it will be difficult for the Government to pursue aggressive fiscal consolidation," said international rating agency Standard & Poor's in a press statement.

"Nevertheless, this Budget is a positive step in the process of curbing the Government's deteriorating fiscal position".

Economists said that the country's commitment to balance the books means

that a corporate tax cut - a highly anticipated measure that failed to materialise - remains unlikely at least until the deficit is sorted out.

Corporate tax makes up 30 per cent of the Government's revenue and 1 per cent cut could slash between RM880 million and RM1billion from the Government's coffers per year.

This time around the Prime Minister has avoided from committing a time-frame for the country, but economists said realistically, the Government is likely to balance its budget by 2006 the soonest.