

Pre-polls largesse seen fuelling surging economy

MalaysiaKini.com

Aug 16, 2012

By Siva Sithraputhran, Reuters

A surge in investment that propelled surprisingly strong growth in Malaysia's economy in the second quarter showed the government had opened spending taps with an election looming that could be the closest in the country's history.

Malaysia's gross domestic product grew at an annual pace of 5.4 percent in the second quarter, buoyed by robust domestic demand and a steep 26.1 percent rise in investments made by the public and private sectors.

Idris Jala, who heads the agency implementing the US\$444 billion Economic Transformation Programme (ETP) to lift Malaysia to high-income status by 2020, told Reuters the numbers clearly reflect private sector confidence.

"Market conditions are conducive for businesses to continue to invest in Malaysia," he said, citing a 42 percent year-on-year rise in loans disbursed for use as working capital.

But much of the rise in private sector investment was related to the launch of big government-linked infrastructure and oil and gas projects, some of them connected to ETP.

Malaysia's central bank cited some key projects for the rise in investments, including the Legoland theme park project in southern Johor state costing RM700 million (US\$225 million) whose main shareholder is a unit of state investment arm Khazanah Nasional Bhd. A RM3 billion regasification plant contract included in the second quarter was awarded by largely state-owned Petronas Gas Bhd.

The strong spending seems likely to continue into 2013 as Prime Minister Najib Abdul Razak looks to shore up support after his Barisan Nasional coalition slumped to its worst election performance in 2008, losing its two-thirds parliamentary majority.

"They want to get the projects out in case the outcome of the election doesn't favour them," said one local economist who declined to be identified.

Najib, who has until April 2013 to call elections, has announced a series of giveaways which have swelled government spending. Fiscal sweeteners this year have included pay rises for civil servants and cash payments for students.

Cash handouts to low-income households earlier this year accounted for RM2.6 billion (US\$821 million) alone. Najib's budget speech scheduled for Sept 28 is expected to bring more giveaways, including another cash handout to those on low incomes.

Rising debt burden

Kenanga, a local research house, likened the investment spending to a "large stimulus effect", adding that big infrastructure projects would be in full swing from the second half onwards as a large chunk of funding is disbursed ahead of elections.

Credit ratings agency Fitch said last week that Malaysia was facing rising fiscal pressures but was unlikely to address them until after the elections. A strong element of government-linked stimulus has driven growth for the last four quarters, said Fitch analyst Philip McNicholas.

"If the external environment deteriorates, it could dampen overall growth and cause further deterioration in public debt ratios," he said.

Malaysia's national debt rose to 53.4 percent of GDP at the end of the first quarter, just under the 55 percent ceiling, and has climbed steadily from about 40 percent in 2008.

Another gauge of output, gross national income, which strips out profits repatriated by foreign companies, rose by a more muted 2.8 percent in the second quarter.

Data from Malaysia's statistics department shows that gross domestic product figures are on a different path from gross national income, with GDP growth outstripping GNI in each quarter since the third quarter of last year.

Copyright © 1999-2012 Mkini Dotcom Sdn. Bhd

Source: <http://www.malaysiakini.com/news/206554>