

Budget to court voters, target lower deficit

MalaysiaKini.com

Sept 28, 2012

By Siva Sithraputhran, Reuters

Malaysia's Prime Minister Najib Razak is expected to court voters with a generous budget today ahead of a looming election, while taking steps to cut the country's fiscal deficit and tackle its rising debt burden.

Facing what could be the long-ruling coalition's closest election, Najib is expected to delay much-needed reforms to broaden Malaysia's tax base and reduce its dependence on oil revenues to at least next year while announcing measures to help poorer families struggling with rising living costs.

"This will be a budget that is mildly expansionary but fiscally responsible," a senior government official, who asked not to be identified, told reporters at a briefing yesterday.

The budget for 2013 will target a reduction in the deficit target from this year's goal of 4.7 percent, the official said, adding that the economy should expand by between 4.5 - 5 percent this year and 4.5 - 5.5 percent in 2013.

The South-East Asian country's public debt as a percentage of GDP is just short of its self-imposed ceiling of 55 percent - up from 43 percent in 2008 - while its budget deficit of 4.7 percent in the first half of 2012 is the third-biggest in Asia after Japan and India.

Fitch Ratings said in August that Malaysia's public finances were weak compared with other countries on equivalent sovereign ratings (A minus) and on a par with heavily indebted countries such as Italy and Israel.

Najib must call an election by next April and has already announced a series of handouts this year, including RM2.6 billion (US\$847 million) in cash payments to poor families, to shore up support for the long-ruling Barisan Nasional coalition.

Although the coalition is widely expected to win the election, it suffered its worst-ever performance in 2008 polls and opposition gains suggest it could face its closest-ever election this time.

"Markets may be more sensitive to the timing of the elections than on Budget 2013," Chua Hak Bin, head of emerging Asia economics at Bank of America Merrill Lynch said in a client report, noting speculation Najib will call the election for early November.

After the 2008 election, markets sold off and Malaysia saw huge capital outflows, Chua said.

Najib, who is also finance minister, is widely expected to announce further cash payments to poorer citizens, combining them with steps to ease living costs for low-

income households and public servants. That could give a further boost to the country's buoyant consumer spending.

The economy grew at a brisk annual pace of 5.4 percent in the second quarter, but many lower-income and middle-class Malaysians complain their salaries have not kept pace with rising living costs and surging house prices.

Rating agencies Standard & Poor's and Fitch recently warned of rising fiscal pressures in Malaysia that could lead to a downgrade.

The agencies want the government to introduce a goods and services tax to widen the revenue base in a country where only about 10 percent of the workforce pays income taxes and to cut fuel subsidies that are among Asia's highest. Malaysian policymakers have signalled they plan to implement those reforms, but not before the upcoming election.

"The process will move in that direction but it will be done in stages so that we will not bring about too much hardship," the official said, referring to subsidy reform.

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