

Gov't expects solid growth, lower deficit in 2013

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Malaysia's government expects strong domestic demand to support the economy next year, offsetting a weaker export sector and helping the country to sharply reduce a budget deficit that ranks behind only Japan and India in Asia.

The annual economic report for 2013 released on Friday forecast improved economic growth, lower government spending and a narrower budget deficit as the government prepares for a closely-fought election which must be held by early next year.

The report's release coincides with Prime Minister Najib Abdul Razak's announcement of the budget for 2013, which a senior official said on Thursday would be slightly expansionary while remaining "fiscally responsible."

The government expects the economy to grow by 4.5 to 5.5 percent in 2013, slightly better than the 4.5 to 5.0 percent growth projected for 2012, according to the report.

The stronger growth is expected to boost revenues and allow the country to lower its budget deficit to 4.0 percent of GDP in 2013 from a revised shortfall of 4.5 percent this year. The government had previously forecast a 4.7 percent gap for 2012.

"The conduct of fiscal policy will continue to be challenging as fiscal resources have competing needs and goals," the report said, adding that the government is committed to reducing the budget deficit to 3 percent of GDP by 2015.

Total federal government spending is expected to fall by 1.1 percent to 249.7 billion ringgit (\$81 billion) in 2013 from 252.4 billion ringgit in 2012 as discretionary spending is trimmed, the report said.

The Southeast 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.

Rating agencies Standard & Poor's and Fitch recently warned of rising fiscal pressures in Malaysia that could lead to a downgrade. They want the country widen its tax base, reduce its dependence on oil revenue and cut back on fuel subsidies.

Najib is not expected to announce those major structural reforms on Friday, but the annual report said that subsidy spending on staples such as fuel, sugar and flour should fall to 37.6 billion ringgit in 2013 from 42.4 billion ringgit in 2012.

Government revenue for 2012 is expected to reach 207.2 billion ringgit, surpassing an

earlier target of 187 billion ringgit. In 2013, revenue is projected to rise marginally to 208.7 billion ringgit.

The government forecasts domestic demand will grow by 5.6 percent in 2013 following a 9.4 percent jump this year, with private sector investment and consumption partly making up for a smaller increase in government spending.

Private investment is expected to surge 13.3 percent in 2013 after rising 11.7 percent in 2012 but government investment is seen growing just 4.2 percent after expanding by 15.9 percent in 2012. Public consumption is projected to fall by 1.2 percent in 2013 after increasing by 11.3 percent in 2012, report said.

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