

Saudi scandal no match for M'sian economic risk to Najib

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Prime Minister Najib Abdul Razak has so far weathered a scandal over a murky US\$681 million "personal donation" from the Saudi royal family as he turns his focus to a potentially bigger threat to his hold on power - the economy.

After seven months and a series of probes involving the attorney-general's office and anti-graft agency, investigators say they found no evidence of wrongdoing by the premier, who received the money in the months before a closely-fought 2013 general election.

Najib has maintained the funds were not used for private benefit, with US\$620 million later returned to the Saudi donors, though there has not been a clear explanation as to what the rest was spent on or where that money is now. He has retained the support of the bulk of the ruling party's powerful division chiefs.

"Najib has survived all the attacks on him," said Ooi Kee Beng, deputy director of the Iseas-Yusof Ishak Institute, a research centre in Singapore for South-East Asian issues. "He's actually in a spot where he can't really be challenged."

Calling the imbroglio an "unnecessary distraction" for Malaysia, Najib yesterday pledged to prioritise efforts to halt a slowdown in growth. A sputtering economy is the most serious risk to voter enthusiasm among ethnic Malays in rural areas, a group that has for decades been the backbone of his party.

The prize for Najib is winning an election that must be held by 2018. To do that he must prevent a further erosion of support that saw the ruling coalition - in power since Independence in 1957 - lose the popular vote for the first time at the last election, mostly as non-Malays deserted it.

Fending off efforts by some within his own party, including former premier Dr Mahathir Mohamad, to get him out, Najib has fired detractors and curbed dissent to preserve his grip on power. He'll need that influence to carry out further reforms in order to reach the goal of making Malaysia a developed economy by the end of this decade.

The backing of divisional chiefs in his ruling Umno may wane if they believe there is a risk of losing further ground in the next election with Najib at the helm. Voters could shift toward the opposition if they feel the economic slowdown, accompanied by rising costs and lower subsidies, is impacting their daily lives.

Austerity path

Investor confidence in Malaysia has already been battered by plunging crude prices and the

political upheaval. Najib, who has often relied on handouts to the poor to preserve support, needs to keep voters appeased while staying on an austerity path that will satisfy credit-rating companies.

Gross domestic product is forecasted by the government to increase four to five percent in 2016, after an estimated expansion of as much as 5.5 percent last year. The economy grew at the slowest pace in more than two years in the three months through September from a year earlier.

"He wants to slow down the pace of fiscal consolidation because he knows that growth is slowing down as well, so he doesn't want to exacerbate that," said Euben Paracuelles, an economist at Nomura Holdings Inc in Singapore. "He will try and manage the pace of fiscal consolidation without kind of losing sight of the overall medium-term agenda, which is to reach a certain point to have a balanced budget later on."

The prime minister is expected to announce a revision to growth forecasts and cuts to operating expenditure on Thursday to keep the fiscal deficit for 2016 for Asia's only major net oil exporter in check. Moody's Investors Service lowered its credit-rating outlook for Malaysia this month, citing an external environment that has crimped government revenue.

Still, economists say spending cuts would weigh on expansion, with Malaysia's exporters facing headwinds from a China slowdown and a weakening yuan. Businesses are asking the government to defer a plan for a higher minimum wage from July, while Malaysians are still feeling the inflationary impact of a nationwide consumption levy implemented last year.

A key consumer confidence gauge fell to a record low last quarter, and households are turning more negative in their financial outlook for the first half of 2016, the Malaysian Institute of Economic Research said today.

"The economy is very much affected by the world economy and there's not much to be done beyond the government trying to apply certain measures to help with people's livelihoods," said Oh Ei Sun, an analyst at the S Rajaratnam School of International Studies in Singapore and Najib's political secretary from 2009 to 2011. "There is very little they can do to stimulate the economy."

Not all agree that Najib remains the right person to lead the coalition to the next elections.

"It's an issue of a crisis of confidence in the economy," said Terence Gomez, a professor at Universiti Malaya. "What this means for the party is they will now have to think about what to do with a prime minister that is discredited, who doesn't inspire confidence and the implications on the party as they look forward to the impending general election."

- Bloomberg

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