

Najib seen pushing populist budget amid election talk

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Joseph Sipalan, Reuters

Prime Minister Najib Abdul Razak is expected to put a raft of populist measures into the 2017 Budget he unveils on Friday, in a bid to assuage voters unhappy with his leadership and rising living costs.

The budget will be Najib's best opportunity to shore up support before possible early polls, but any widening of the fiscal deficit at a time the economy is cooling could risk downgrades to Malaysia's sovereign rating.

Growth has slowed in each of the last five quarters, reaching 4.0 percent in April-June as poor oil prices have squeezed South-East Asia's third-largest economy. The government's current 2016 full-year forecast is 4.0-4.5 percent.

Public debt as a percentage of gross domestic product is just short of Malaysia's 55 percent ceiling, rising from 43 percent in 2008. Its budget deficit was 5.6 percent of GDP in January-June, far above the year's 3.1 percent target.

Najib has battled urgings to step down over a scandal involving 1Malaysia Development Berhad (1MDB) scandal, removed critics from his administration and consolidated support in a state election and two by-elections this year.

The past year has been turbulent for Najib as 1MDB became the centre of a civil suit filed by US prosecutors. The fund is linked to probes in at least six countries including Switzerland and Singapore. Najib has denied any wrongdoing.

Voters and goodies

An election can wait until August 2018, but Najib - who will face his toughest poll test - may call one in the second half of 2017, a government official said.

Wellian Wiranto, economist for OCBC in Singapore, said the coming budget could be "more crucial" than previous ones.

"People always remember the last goodies they have, and the more goodies you can deliver to the political vote bank, the better," he added.

Populist measures have been a theme of Malaysian budgets since Najib became prime minister in 2009. The focus has been on cash aid to low-income families and development projects for rural regions where the ruling Barisan Nasional (BN) coalition gleans a large chunk of votes.

In the budget, Najib is likely to stick to his past formula, driven "more by political

calculations”, Wiranto said. “It’s a matter of ‘what can we do to be popular enough’.”

But the extent of government largesse will be constrained by Malaysia’s need to contain its budget deficit.

“Deterioration in fiscal discipline and broader public finances leading to higher government debt and deficit levels could be negative,” Fitch said in a statement to *Reuters*.

More of the same

Most analysts don't see much room for Najib to spend heavily as revenue from natural gas and oil Malaysia has been hurt by low global prices.

The sharp dive in global crude prices made state oil firm Petronas slash its dividend payout to the government to RM16 billion this year from last year’s RM26 billion.

Najib, who is also the finance minister, hinted at constraints last week, telling the state news agency *Bernama* “There are so many things that we need to do but one have to realise that it has to be in the context of our affordability and also that we need to rein in or at least manage our debt and fiscal deficit in a prudent way.”

Asset management firm Affin Hwang expects Najib to increase annual handouts to poor households, to possibly make tax cuts for the middle-class and to keep the Good and Services Tax rate at 6 percent.

Public housing is also expected to figure prominently in the new budget, which could allow first-time house buyers to access more of their pension funds to buy property.

Analysts also expect Najib to announce that the corporate tax rate, now 24 percent, will be cut by 1 percentage point in 2018.

What to watch for - Malaysia’s 2017 budget

Below are some items that could feature in the coming year’s budget, according to analysts’ research notes and Malaysian media reports.

Cash aid

Bank RHB foresees a RM100 (US\$24.07) hike in cash handouts for low-income households, bumping up the allocation to about RM6.6 billion next year in a bid to stimulate consumer spending. For 2016, it was increased by RM50 to RM1,000 per household.

GST

The government will likely maintain the Goods and Services Tax introduced in April 2015, at 6 percent to avoid any disruption to household expenses and cost of doing business, says asset management firm Affin Hwang.

Corporate tax

Affin Hwang thinks a 1 percentage point cut to corporate tax effective, effective in 2018, will be announced. The rate was cut by 1 percentage point this year to 24 percent.

Personal income tax

There will likely be no cut to personal income tax rates, though there may be more provisions for tax relief next year, according to Maybank Investment Bank.

Infrastructure projects

Budget 2017 will likely firm up details of major infrastructure projects that have yet to take off to maintain the momentum in the sector to support growth, says Maybank IB. These would include highways and public transport projects in the peninsula and Sabah, and a timeline for the implementation of the Kuala Lumpur-Singapore High Speed Rail project.

Subsidy cuts

Further cuts may be made to subsidies for daily necessities such as flour, cooking oil and cooking gas, according to RHB, though these will likely be at a gradual and moderate pace.

First-time housebuyers

First-time housebuyers may have more funds to use for downpayments on properties through the Employees Provident Fund (EPF), says Affin Hwang. Second Finance Minister Johari Abdul Ghani said the government is studying a proposal to increase the allocation for funds available for low-cost housing purchases under the EPF to 40 percent from 30 percent of a savings account.

RHB expects the First House Deposit Financing scheme to be extended to more buyers. It was introduced this year with an allocation of RM200 million, aimed at helping up to 30,000 first-time house buyers with downpayments.

Support for small business

A cabinet minister has said there might be more incentives for small and medium enterprises (SMEs). He said SMEs contributed 35.9 percent to GDP in 2015, and account for over 98 percent of all businesses nationwide.

Car excise duty cuts

Chinese newspaper *Sin Chew Daily* said the government is mulling an exemption for first-time car buyers from excise duties for local and imported small car models assembled in Malaysia, with projected savings of up to RM2,000.

- Reuters

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