

Gov't defends pay hike as budget deficit rises
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The government defended a record rise in pay and allowances for its one million civil servants that has fuelled expectations of an early general election.

Prime Minister Abdullah Ahmad Badawi announced pay rises of up to 35 percent on Monday in a move that will cost an additional RM8 billion annually, with analysts warning it may strain the country's deficit.

But Second Finance Minister Nor Mohamed Yakcop said today the rise would boost Malaysia's gross domestic product (GDP), currently forecast at 6.0 percent for 2007.

"It will be half a percent higher than what it would have been if the salary increase had not been implemented," Nor Mohamed told AFP.

Nor Mohamed said the rise for civil servants would have flow-on benefits, spurring public and private consumption.

He denied the rise had been announced ahead of an expected early general election. A poll is due in early 2009, but analysts say it will be held before then.

"This is done in the context of improving the quality of life, it's not related to any election," he said.

Gov't deficit rises

Budget deficit 2002-7	
Year	% of GDP
2002	5.6
2003	5.3
2004	4.5
2005	3.8
2006	3.5
2007	3.4 (revised 4.1)

Azlan Zamhari / Malaysiakini

Nor Mohamed dismissed fears the pay rises would strain Malaysia's budget deficit, saying the government was confident of maintaining the deficit at a projected 3.4 percent of GDP in 2007.

Analysts, however, said on Tuesday the additional expenditure would strain the country's deficit.

OSK Research economist Sia Ket Ee said the budget deficit for 2007 would now amount to RM24.2 billion, or 4.1 percent of GDP.

"The new level of deficit, in terms of percentage of GDP, will reverse the declining (deficit) trend after eight consecutive years of budget consolidation since 1999," he said.

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