



Najib opts for safe 2011 budget as polls beckon
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The government rolled out a 2011 budget that skipped structural reforms demanded by investors and relied on infrastructure spending and raising incomes to fuel economic growth ahead of polls expected next year.

Prime Minister Najib Razak presented a budget plan that targets a 2.8 percent rise in spending and aims to shrink the deficit to 5.4 percent of gross domestic product next year from 5.6 percent this year thanks to sustained strong growth.

According to the plan, Southeast Asia's third-largest economy is expected to grow 5-6 percent in 2011 after a 7 percent expansion this year and a 1.7 percent contraction in 2009.

"The trend of external trade is increasingly challenging, while there is heightened competition to attract foreign investment," Najib told parliament.

"To rise to these challenges, the private sector must be dynamic, creative and innovative to drive economic growth."

Malaysia need to reverse a sharp decline in foreign direct investment, which fell 81 percent to RM4.43 billion in 2009 from RM23.47 billion in 2008.

Neighbouring Southeast Asian economies including Singapore, Thailand and Indonesia have outshone Malaysia with much higher inflows.

But analysts said the budget was more likely to please voters than investors.

The plan raised the service tax to 6 percent from 5 percent, but sweetened it with a slew of measures targetting consumers, such as a five-year freeze on highway tolls, tax waivers on mobile phones and designer goods and stamp duty.

However, the RM212 billion spending plan was seen as a sign of lack of progress in reforms of Malaysia's subsidised

"A majority of the big foreign investors will be unimpressed with them anything in terms of real money," said Janine Chan, a former minister in Kuala Lumpur.

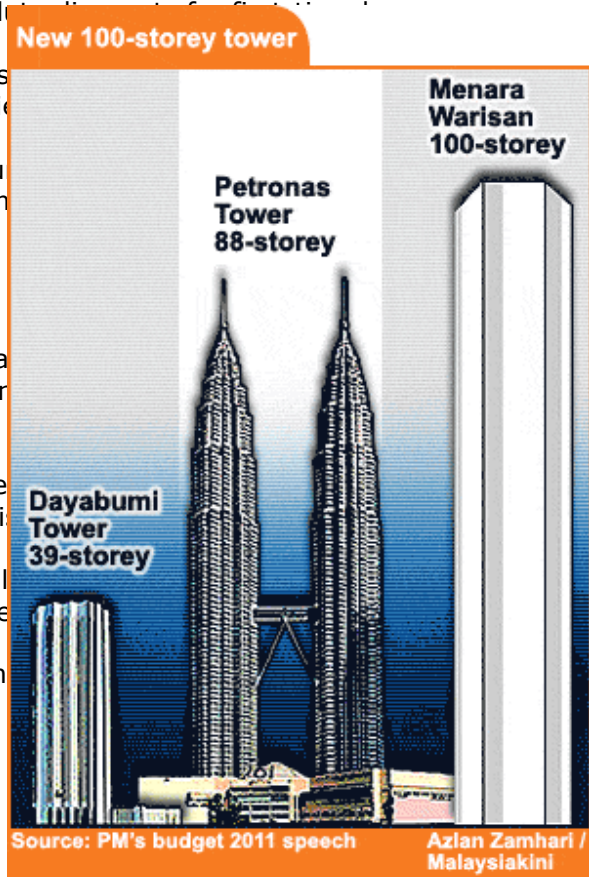
Najib needs clear mandate

Najib needs strong economic growth to secure a mandate for reforms considered crucial to win back foreign investment and head to other Southeast Asian economies.

Malaysia's private investment grew only 2 percent in 2009, expected to be 10.8 percent of GDP this year, rising to 12.5 percent in 2011.

The government set aside RM2.1 billion to develop water and electricity in Sabah and Sarawak, ahead of the 2013 election.

A general election is not due until 2013 but some





as early as late 2011 to capitalise on recent strong economic performance and high approval ratings.

The government's plan assumed a 5 percent cut in its subsidy bill next year, but was light on details on how it would achieve what analysts say is crucial to improve Malaysia's economic competitiveness.

Malaysia subsidises items ranging from fuel to flour and sugar and subsidy costs would total RM23.7 billion or 4 percent of GDP next year, down from 4.6 percent of GDP this year.

"We are not dreamers. We are realists," Najib told parliament.

"We want to build a nation where every person will be able to enjoy the benefits of development."

Anwar: Not a responsible budget

Opposition leader Anwar Ibrahim criticised the budget as a naked appeal for votes that failed to deal with the deficit, which will shrink only slightly.

"It is clearly not a responsible budget," Anwar told *AFP*. "The focus on mega-projects will only benefit his cronies," he said of the premier.

Malaysia recently announced ambitious plans to double private investment over the next 10 years, and to propel annual growth to an average of 6 percent to meet its goal of achieving developed-nation status by 2020.

Najib said that to attract foreign funds, government-linked companies - who have been blamed for suppressing competition - would divest their holdings in listed companies, increasing "liquidity and trading velocity in the market".

There will be some major share offerings, including a sale of state energy firm Petronas' chemicals arm, which is estimated to be worth RM12 billion.

Among the infrastructure projects, a government investment arm is to develop a 100-storey tower to be completed by 2015 at a cost of RM5 billion.

It will be the tallest in Malaysia, exceeding the landmark Petronas Twin Towers.

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