

Preview: Record expansionary budget expected
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Prime Minister Abdullah Ahmad Badawi is tipped to unveil an expansionary budget for 2009 tomorrow, with total spending to hit a record RM190 billion, in a bid to pump prime the slowing economy and stem rising voter disenchantment with his administration and political party.
MCPX

The budget speech, to be delivered at 4pm, will be closely watched both for its economic message and because of newly sworn-in opposition leader Anwar Ibrahim, who has pledged to form a new government by Sept 16.

Anwar had promised voters one of his first tasks in Parliament would be to sit directly facing the beleaguered premier and eyeball the details of the latest financial plan for the country.

"I am expecting a bigger budget than last year, with emphasis on welfare focusing on the poor and affected," Gundy Cahyadi, an economist with Singapore-based IDEAGlobal.com told Malaysiakini.

"There will be populist measures again, this time for political survival."

budget 2007 business small sectorAbdullah had a year ago announced a RM176.9 billion budget for 2008 that analysts had described as an 'election budget' aimed at winning favour with the masses.

But the goodies it contained could not stop his ruling coalition from suffering its worst polls defeat in 50 years.

During the March general election, the Anwar-led Pakatan Rakyat opposition alliance denied Abdullah's Barisan Nasional coalition its long-held two-thirds majority in parliament.

The Pakatan won 82 of the 222 parliamentary seats, swaying non-Malay voters with a manifesto that included greater social justice and more equitable wealth distribution.

Twelve deficits in a row

Lee Heng Guie, chief economist at CIMB Bank, is projecting a RM192.5 billion budget for 2009 and a fiscal deficit of four percent of GDP.

"This projection is based on the additional RM30 billion funding that the government asked from parliament during the mid-term review of the Ninth Malaysia Plan," Lee said.

That makes next year's budget the country's biggest so far and the 12th consecutive deficit plan to be unveiled by the Barisan government.

When Abdullah took office in 2004, he had pledged to balance the budget and gradually eliminate the fiscal deficit brought about by the Asian financial crisis and the slew of mega-projects undertaken by his predecessor Dr Mahathir Mohamad.

"These are challenging times for all economies," said Dr PHS Lim, president of Malaysian Investors' Association.

"You can't blame the PM as he has to balance between growth and recession, but there is also some politics involved. You can say he is defending his political position. In the end, too much deficit is bad, we can't keep spending more than what we have."

Malaysia's fiscal deficit which hit 5.5 percent of GDP in 2000, has been reduced to the three to four percent band.

Although the official target for 2008 is 3.1 percent, almost all economists that Malaysiakini spoke to believe the final number will be higher at 3.5 to 4.0 percent of GDP.

"For 2009, I am also expecting the deficit to be around four percent," said IDEAglobal's Gundy.

"This is higher than expected and it could trigger a backlash from international rating agencies. But I don't think there will be any country downgrades. It's not good but not so drastic either."

abdullah ahmad badawi oil and gas conference 090608 01CIMB's Lee expects most of the budget to be spent on subsidies for fuel, food and project expenses jacked up by spiralling costs of building materials.

Development expenditure is expected to rise to RM51 billion compared to RM43 billion in 2008.

"I don't think there will be any mega-projects," Lee said. "The higher development expenditure is more for taking into account the sharp rise in prices of building materials."

Lower income tax, EPF

Abdullah's fifth budget is also likely to feature income tax cuts of one to two percent for the top income bracket earners, who are currently charged 28 percent.

Alternatively, the government may opt to raise the threshold for taxable income, currently at RM35,000, to help mid-level earners cope with the rising costs of living.

Abdullah, who is also finance minister, is also expected to propose voluntary lowering in the Employees' Provident Fund contribution rate, currently at 11 percent of salary to nine percent, in a bid to raise wage earners' disposable income.

Inflation hit a 27-year high of 8.5 percent in July, due largely to the June hike in petrol and diesel prices.

Abdullah, who last week trimmed pump prices by 15 sen, is not expected to announce another cut during his budget speech, though he may tinker with the subsidy formulation mechanism.

mamak restaurant fiasco 150606 foodHowever, the prime minister is likely to increase the number of food items placed under price control and provide cash rebates or financial

assistance to the country's poorest.

The property sector may also get a shot in the arm with a lowering of stamp duty or withholding tax aimed at encouraging more people, especially foreigners, to buy homes or invest in real estate investment trusts here.

'Sin' taxes in the form of higher excise duty for cigarette makers and gaming tax hikes for lottery operators may also be on the cards to help the government finance the 2009 budget.

Most economists interviewed by Malaysiakini also expect Abdullah to target lower GDP growth of 5 to 5.5 percent in 2009, in view of the slowing global economy.

The official estimate for 2008 is 5 to 6 percent, but analysts believe the full-year result will hover around 5.5 percent.

Despite intensifying price pressures, interest rates and monetary policy are expected to remain soft to help businesses weather the current bad patch and avoid triggering a sharp downturn, the analysts added.

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