

PM unveils biggest Budget ever
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Prime Minister Abdullah Ahmad Badawi today unveiled a RM207.9 billion budget for 2009, the country's biggest spending plan ever, aimed at returning spending power to the people hit by escalating costs, and to shore up his dwindling popularity.
MCPX

Abdullah's plan included a one-month bonus or at least RM1,000 to all civil servants, income tax rebates and a slew of cuts in import duties and sales tax on food and agro-based products. Electricity charges for those use RM20 and below per month would be waived.

Faced with calls to resign from within his own ruling Umno party and the threat of a no-confidence motion from newly sworn-in opposition leader Anwar Ibrahim, the 68-year-old Abdullah is seen by analysts to be making a last ditch bid to cling to power.

"It is a populist budget to deflect the growing popularity of Anwar," David Cohen, director of Singapore-based research house Action Economics told Malaysiakini.

"Abdullah is obviously under pressure as witness the rollback in the fuel prices last week."

Budget debate in October

Anwar, a former deputy prime minister and finance minister, has vowed to form a new government by Sept 16.

His Pakatan Rakyat alliance now holds 82 out of 222 seats but the charismatic leader is confident his official return to parliament a day ago can spur defections from Abdullah's Barisan Nasional coalition.

If Anwar succeeds, he may invalidate all or part of Abdullah's budget, which needs formal approval from parliament.

The Budget debate is slated to begin on Oct 12 when parliament resumes its sittings after a six-week break beginning today.

"Anwar can, if he wishes, make any amendments he thinks are necessary. We don't know what alterations he will make, but for example he has mentioned before the RM10 billion extra allocation for the growth corridor projects that Abdullah asked for in the mid-term review," said political and economics analyst Khoo Kay Peng.

"That he has said he would review on the basis we do not need any new mega-projects at this point in time."

Pakatan's populist policies slammed

Abdullah, in his speech, too took a shot at his rivals.

"The Barisan Nasional government will continue to manage the economy responsibly. The opposition, on the other hand, continues to make populist claims, which, if implemented would undermine the government's financial position and bequeath a bankrupt nation to the next generation," Abdullah said.

Meanwhile, share prices rose in thin trading today, buoyed by overseas gains and also in anticipation of the pro-growth budget. The KLCI closed up 16 points at 1,086.46.

"I think most people already expect a budget that won't have many negative points," said Lee Heng Guie, chief economist at CIMB Bank.

"So this is one factor that helped the market to rise and also because overseas markets were good last night. But the overall mood is still cautious because there is still uncertainty."

Growth slower, deficit balloons

Abdullah, who last year projected a fiscal deficit of 3.1 percent of GDP for 2008, today revised the estimate to 4.8 percent of GDP. For 2009, he estimates a fiscal deficit of 3.6 percent.

Development expenditure for 2009 was set at RM53.7 billion, up 20.2 percent from 2008, while operating expenses detailed at RM154.2 billion.

CIMB's Lee said the size of the 2009 budget at RM207.9 billion exceeded his expectations of RM192.5 billion, but added that the difference was not unduly large.

"Given the tough macro situation, they may have little choice but to spend more now. Whether it's the right choice depends on how they fine-tune the deficit going forward," Lee said.

Some analysts also warned the spending spree could further spur inflation and cautioned against improper implementation.

"Although, the idea is to share wealth, if inflation is not controlled, it will erode the income of the low and middle income groups," said Ramon Navaratnam, prominent economist and president of Transparency International.

"Such a record expansionary budget with huge funds is theoretically a good thing, given the urgent need to generate growth in the face of economic slowdown," Tricia Yeoh, director at Centre of Public Policy Research.

"However, it can only be considered a thoroughly good thing if we can be assured that the money will be channelled in the right direction, without any unnecessary leakages," she added.

The prime minister also estimated GDP growth of 5.4 percent for 2009 and 5.7 percent for 2008. The previous official growth rate projection for 2008 was 5 to 6 percent. Abdullah did not shed light on interest rate or monetary policy.

Rich and poor get tax cuts

In a bid to give wage earners more disposable income, Abdullah increased the income tax rebate for workers earning below RM35,000 per annum.

Those who earned between RM35,000 to RM50,000 would get a one percentage point reduction in marginal tax rate from 13 percent to 12 percent.

The highest earners of above RM250,000 would get similar relief from 28 percent to 27 percent.

To encourage the savings habit, employee contribution to the Employment Provident Fund would stay at 11 percent of salary. Withholding tax, currently 5 percent, would be abolished on banks' fixed deposits exceeding RM100,000.

Hike in some sin taxes

'Sin' taxes on cigarettes would be raised by 3 cents per stick to 18 cents from 15 cents per stick previously. Smokers are expected to pay up to 60 sen extra for a 20-pack.

But there would not be any hike in gambling or alcohol taxes.

Meanwhile, stamp duty for houses worth RM250,000 and below would be reduced by 50 percent.

Abdullah, who recently reduced fuel prices by 15 cents or 5.6 percent, did not announce further reduction in pump prices. However, he reduced the road tax on private passenger vehicles with diesel engine to the same level as those with petrol engines.

The premier also announced a slew of reductions in import duty and sales tax for food and agro-based materials like fertilisers. However, he did not increase the number of food items under price control.