

PM slashes spending in Budget 2010

Malaysiakini.com

Oct 23, 2009

Prime Minister Najib Razak slashed government spending in the 2010 budget, moving to rein in a fiscal deficit swollen by stimulus measures aimed at pushing the economy out of recession.

In his maiden budget, Najib promised an ambitious cut in the budget deficit in 2010 from its highest level in more than 20 years, although he provided few clues as to how the reductions would be realised.

The main spending cuts would come from reduced "operating expenditure" (-13.7 percent), lower food and fuel subsidies (-14.7), a sensitive political issue for an unpopular government, and less money for development spending (-4.5 percent).

Najib also said an extensive fuel subsidy system, extremely popular with the public but a drain on national coffers, would be revamped next year but did not give details of the cuts.

He said the economy would shrink by 3.0 percent this year, less than a 4.0-5.0 percent contraction tipped earlier, but that it could bounce back and post modest growth of 2.0-3.0 percent in 2010.

"Major indicators suggest the economy is on track to recovery," said Najib, who is also finance minister, adding that "Malaysia's economic fundamentals remain resilient, despite the more challenging environment in 2009."

But he said the downturn, which hit Malaysia's export-dependent economy hard, showed it needed to address its long-term competitiveness and shift to a new model "based on innovation, creativity and value-added activities".

"We are now at a critical juncture, either to remain trapped in a middle-income group or advance to a high-income economy," he said.

Najib said Malaysia needed to strengthen domestic demand, lose its reliance on cheap imported labour, and introduce liberalisation measures to enhance competitiveness.

Ambitious spending cuts

The 2010 budget allocation totalled RM191.5 billion - 11.2 percent lower than the revised allocation of RM215.7 billion for 2009.

"This allocation reflects prudence in government spending and gives priority to value-for-money," said Najib, adding that the cuts would not harm public sector delivery.

Operating expenditure will be slashed by 13.7 percent to RM138.3 billion in an unprecedentedly large cut, helping reduce the fiscal deficit from 7.4 percent this year to 5.6 percent next year - much lower than expected.

Wan Suhaimi Saidie, an economist with Kenanga Investment Bank, was cautious about the ambitious move to rein in spending.

"It's a big surprise for me because, in spite of the economic recovery, the government is already consolidating its fiscal deficit by substantially cutting down the operating expenditure as well as reducing development spending," he told *AFP*.

"My view is that (the cut) will affect the efficiency of the government machinery. My view is that the maximum you can cut is 5.0 percent."

Others were sceptical the target could be met.

"It is good that we see now the government seems serious to address the budget deficit issue," said Azrul Anwar Ahmad Tajudin, senior economist at Bank Islam.

"But the problem is whether we can achieve it or not. It's too huge a reduction," he told *Reuters*.

Opposition leader Anwar Ibrahim applauded the move to cut costs but said he doubted whether it would be achieved, and that the budget did not address rampant corruption which was one of the causes of overspending.

"I have no qualms about the stated pronouncement on the attempt to ensure Malaysia becomes more competitive and reduces waste, but actions speak louder," he said.

New petrol subsidy system

Najib said the government, which was hit with severe criticism over past cuts to petrol subsidies, would implement a "fuel subsidy management system" in early 2010 but gave no further details.

There were promises of lower taxes with 1 percentage point to be lopped off the top 27 percent income tax rate and a vague commitment to study a goods and services tax (GST), which economists say is need to expand the tax net.

According to Najib, the government is "at the final stage" of a study into implementing a long-considered GST to replace the current tax and services tax.

"The purpose of this study is to ensure that if the GST needs to be implemented to stabilise government finances, it will not burden the people," he said.

Average consumer price inflation is predicted at 1.0 percent this year, slower than the forecast of 1.5-2.0 percent by the central bank in March.

Exports are expected to shrink 19.2 percent in 2009, but could rebound to record 5.1 percent growth in 2010, it said.

In his two-hour speech, Najib said emphasis will also be placed on human capital and improving the public sector's efficiency.

"In approach I would not see any major departure in his (Najib's) approach to previous prime ministers," said political analyst Khoo Kay Peng.

"We see the usual tiny populist giveaways alongside catching-up measures."

SALIENT POINTS

Quick facts

- Malaysia economy to grow 2-3 percent in 2010.
- Per capita income to increase by 2.5 percent to RM24,661.

- Budget 2010 allocations totalled RM191.5 billion, of which RM138.3 billion is for operating expenditure and RM53.2 billion for development expenditure.
- Federal government revenue in 2010 to decline by 8.4 percent to RM148.8 billion.
- Budget deficit at 5.6 percent of GDP compared with 7.4 percent in 2009.

Taxation

- Maximum income tax rate (those earning more than RM100,000 a year) to be further reduced to 26 percent from 27 percent effective from the 2010 year of assessment.
- Personal tax relief will be increased to RM9,000 from RM8,000 effective from the 2010 year of assessment.
- Individual taxpayers to be given tax relief on broadband subscription fee up to RM500 a year from 2010 to 2012.
- Income tax for 2010 based on income derived from 2009 will be allowed to be paid in instalments in five years.
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- Employees EPF contributions will be raised again to 11 percent on a voluntary basis with immediate effect. However, from Jan 1, 2011 employees' EPF contribution will revert to 11 percent.
- The government proposes existing personal tax relief of RM6,000 for EPF contributions and life insurance premiums be raised to RM7,000.
- Civil servants are eligible to apply for computer loans once in every three years and up to a maximum of RM5,000 from the government once in every five years.
- A five percent tax to be imposed on gains from disposal of real property from Jan 1, 2010.

Credit cards

- There will be no more free credit cards which are currently being used extensively. The number increased from more than two million in 1997 to 11 million as of August 2009, excluding 285,000 charge cards.
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- To promote prudent spending, a service tax of RM50 a year will be imposed on each principal credit card and charge card, including those issued free of charge.
- There will also be service tax of RM25 a year imposed on each supplementary card.

Fuel subsidies

- To ensure fuel subsidies only benefit targeted groups, the government will implement a fuel subsidy management system in early 2010.

Goods and Services tax

- Government is in the final stage of completing a study on imposing Goods and Services Tax (GST). The rate will be lower than the current sales and service tax.

Approved Permits (AP)

- RM10,000 to be imposed for each AP to open AP holders effective Jan 1, 2010. A portion of the collection will be channelled to the bumiputera development fund in the automotive sector.

Permanent residency

- Simplify permanent residency (PR) applications for those who possess high talents, expatriates will be issued visas within 14 days while male expatriates who marry locals will be automatically conferred PR status.

KEY BUDGET ALLOCATIONS

Infrastructure

- Government to allocate RM9 billion to finance infrastructure projects, with RM4.7 billion for road and bridge projects, RM2.6 billion for water supply and sewerage services, RM899 million for rail facilities, RM820 million for ports and sea services and RM276 million for airport projects.
- RM3.7 billion set aside to beef up the security forces, including providing modern and sophisticated equipment for the relevant agencies.
- TNB to spend RM5 billion to implement electricity generation, transmission and distribution projects in 2010.
- Public-private collaborations to include an integrated immigration, customs and quarantine complex in Bukit Kayu Hitam, construction of six UiTM campuses and the development of Matrade centre.
- RM3.5 billion for infrastructure and basic amenities and training programmes and socio-economic projects to support implementation of private sector projects.

Corporate social responsibility

- 1Malaysia Development Bhd (1MDB) will establish a corporate social responsibility fund totalling RM100 million as a start to finance community activities.

Tourism

- Government to allocate RM899 million to intensify tourism industry.
- Tax incentives for healthcare service providers who offer services to foreign health tourists with income tax exemptions of 100 percent on the value of increased exports from 50 percent previously.

Health

- RM14.8 billion is allocated to manage, build and upgrade hospitals and clinics.

Agriculture

- Allocate RM137 million to upgrade and improve drainage and irrigation infrastructures in paddy fields involving 180,000 farmers.
- RM70 million to build the Paya Peda Dam Project in Terengganu to increase water supply capacity to paddy irrigation scheme in Besut.
- RM82 million to modernise aquaculture industry and conduct entrepreneurship training scheme for aquaculture breeders with focus on production of fish fry and ornamental fish.
- RM149 million to develop food farming industry such as fruits, vegetables, organic farming, herbs, seaweeds and swiftlet nests.
- RM58 million to develop basic infrastructures for livestock farms and establish supply chains for beef and mutton production.
- A consortium comprising Felda, Felcra and Risda will be established by the end of 2009, with a paid-up capital of RM300 million and with each agency contributing RM100 million.
- Government to provide subsidies, incentives and assistance amounting to some RM2 billion to farmers and fishermen to safeguard their interests.

Small and medium enterprises

- To consolidate 79 SME funds to 33 to simplify access to SME financing to be coordinated by SME Corp.
- An allocation of RM350 million to SME Corp, with RM200 million set aside for SME soft loans, RM100 million for capacity enhancement and the balance for branding and promotion.
- Financial institutions to approve micro-financing in six days and disbursement in four

days.

- To allocate RM538 million for implementation of various SME programmes, with RM281 million to state economic development corporations, RM200 million to Tekun and RM57 million for purchase of business premises and infrastructures.

Green technology

- Government to sanction RM20 million to intensify green awareness activities and practise environment-friendly lifestyle.
- Develop Putrajaya and Cyberjaya as pioneer townships in GreenTechnology as a showcase for the development of other townships.
- Establish a RM1.5 billion fund to promote green technology, with a maximum RM50 million financing for suppliers and RM10 million for consumer companies.
- Applications for financing through the National Green Technology Centre to commence on Jan 1, 2010 and 140 companies are to benefit.

Construction

- Building owners obtaining GBI Certificates from tomorrow until Dec 31, 2014 are to be given income tax exemption equivalent to additional capital expenditure. Stamp duty exemption to buyers of buildings with GBI Certificates from tomorrow till Dec 31, 2014.

Regional corridors

- Government will ensure that the five regional corridors - launched during former premier Abdullah Ahmad Badawi's tenure - will be developed according to schedule.

Crime

- Target set to reduce crime index by five percent, including street crimes such as snatch theft and robberies by 20 percent by the end of 2010. Among the measures that will be taken is to increase police presence by providing stations in 50 crime hotspots.

Hardcore poverty

- Government committee to achieve target of zero hardcore poverty in 2010. Five thousand poor households registered with eKasih and 4,000 Orang Asli households to receive aid. Skills training programmes and income generating programmes will be provided. Federal welfare assistance to be distributed on the 1st of each month.
- RM141 million to be allocated for 'Program Lonjakan Mega' scheme to alleviate 5,600 families from hardcore poverty.

Finance

- Double deduction on expenditure incurred in promoting Malaysia as an international financial centre.
- Deduction on expenditure incurred to set up Islamic stockbroking companies.
- To introduce a basic insurance and takaful scheme for motor insurance protection by mid-2010.
- To expand micro insurance and takaful coverage for small-scale businessmen to benefit from coverage ranging from RM10,000 to RM20,000 with a premium as low as RM20 per month.
- Stock market to be further liberalised to enhance efficiency. Liberalise commission-sharing arrangements between stockbrokers and remisiers by allowing flexible brokerage sharing at a minimum rate of 40 percent for remisiers and to have commission-sharing fully liberalised effective January 1, 2011.
- Allowing 100 percent foreign equity participation in corporate finance and financial

planning companies.

- Current tax incentives to develop financial services, particularly Islamic finance, extended to 2015. Twenty percent stamp duty exemption on Islamic financing instruments.
- Tax exemption on banking profits derived from overseas operations.
- Effective Jan 1, 2010, government agrees to allow agencies to retain 50 percent of rentals received while the remaining 50 percent will be remitted to the government as revenue.
- Maximum tax rate for cooperatives will be reduced to 26 percent while the fixed tax rate for non-resident individuals will be cut to 26 percent.

Human resources

- Income tax on employment income of Malaysians and foreign knowledge workers residing and working in Iskandar Malaysia will be set at 15 percent compared with the maximum 26 percent for the rest of the country.
- Government to launch a scheme in January 2010 that enables EPF contributors to utilise current and future savings in Account 2 to promote house ownership.
- The government to establish the 1Malaysia Retirement Scheme to be administrated by EPF.

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