

Najib's dilemma: Budget cuts or votes
Malaysiakini.com
Mar 15, 2010

The government is to delay introducing laws to bring in a goods and services tax, signalling the end of fiscal reforms until after the next elections.

Over the past three weeks, the government has postponed electricity price rises and ended plans to hike subsidised petrol prices, part of measures planned to reduce a budget deficit that stands at a 20-year high.

najib and budgetPrime Minister Najib Razak took office last year pledging to liberalise the economy and reduce the deficit after the government that has now ruled this Southeast Asian country for 52 years changed premier following its biggest-ever losses in the general elections in 2008.

"They will have to wait for Najib to get a big mandate from the election before he can continue to really push through the reforms," said James Chin, a politics professor at Monash University in Kuala Lumpur.

The next general election does not have to be held until 2013, but could come as early as 2011 to coincide with elections in the state of Sarawak, a government stronghold that supplies 30 of the ruling BN coalition's 137 lawmakers.

The goods and services tax (GST) would have replaced an existing sales tax from 2011 and generated around RM8.8 billion in revenues annually. Legislation was due to be presented in the current parliamentary session.

"The bill will not be tabled this session as the government needs more time to engage with the public for feedback," a top Finance Ministry official told Reuters.

Policy flip-flop

Najib vowed last year to reform public finances in order to cut the budget deficit to 5.6 percent of gross domestic product in 2010 from 7.4 percent of GDP in 2009 and pledged to tackle a subsidy regime that accounted for 15 percent of all federal government spending in 2009.

Savings from food and fuel subsidies amounted to RM3.6 billion this year alone under Najib's budget plans announced in October last year.

A return to economic growth this year, seen at 5 percent versus a 1.7 percent contraction in 2009, has reduced pressure on an unpopular government to push through with reforms.

"The question is which of these they want to secure - a balanced budget or an election victory," said Azrul Azwar Ahmad Tajudin, chief economist at Bank Islam in Kuala Lumpur.

"This is a policy flip-flop. Back-peddalling will always send the wrong signals to the market and to foreign investors," he said.

Malaysia has seen its status as a favoured destination for foreign direct investment erode in recent years and recorded US\$7.5 billion (RM24.9 billion) of outflows in 2009, according to government data released last week.

Net portfolio inflows were roughly balanced in 2009, in sharp contrast to neighbouring Indonesia which attracted a net US\$10.1 billion in the same year thanks to economic reforms.

- Reuters

Copyright © 1999-2007 Mkini Dotcom Sdn. Bhd.
Source : <http://www.malaysiakini.com/news/126528>