

Najib's safe budget as elections loom

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NEWS ANALYSIS KUALA LUMPUR - Malaysia rolled out on Friday 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 Abdul 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."

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 discounts for first-time home owners.

However, the 212 billion ringgit (\$68.79 billion) spending plan was set to disappoint investors frustrated with lack of progress in reforms of Malaysia's subsidies and its race-based policies, analysts said.

"A majority of the big foreign investors will be unhappy with the budget if he doesn't give them anything in terms of real money," said James Chin, a professor at Monash University in Malaysia.

Najib needs strong economic growth to secure a clear mandate from voters to push through reforms considered crucial to win back foreign investors who increasingly skip Malaysia and head to other Southeast Asian economies.

Malaysia's private investment grew only 2 percent on average between 2006-2010, and was expected to be 10.8 percent of GDP this year, rising to 11.3 percent of GDP next year.

The government set aside 2.1 billion ringgit to develop rural roads and 2.7 billion ringgit to supply water and electricity in the eastern states of Sabah and Sarawak on Borneo island, ahead of upcoming state elections in Sarawak.

A general election is not due until 2013 but some analysts expect Najib to call for snap polls as early as late 2011 to capitalise on recent strong economic performance and high approval ratings.— Reuters/Bernama

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