

Budget 2012 Fails To Live Up To The PM's Reform Pledges In NEM, GTP And ETP

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The expectations were high for a pre-election budget where Najib Abdul Razak will stamp his "reformist" credentials. It is for the Prime Minister to put into action the various reform pledges made in his cornerstone policy blueprints – the New Economic Model (NEM), Government Transformation Programme (GTP) and the Economic Transformation Programme (ETP).

However, the announcement of the budget left much to be desired as little has changed beyond tweaking the budget of the previous financial year. Instead what is perhaps the most worrying is that Malaysians are like the proverbial frog in the hot soup – where the frog does not realise the soup is slowly but surely reaching the boiling point.

We may not yet be facing the crisis of Greek proportions, but Budget 2012 is doing very little to avert such eventuality, leaving the Malaysian economy nakedly exposed to the inevitability.

Federal Government Debt

Our Federal Government debt has increased rapidly from RM242 billion in 2004 to RM363 billion in 2009 and RM456 billion in 2011. That represents a marked 88.4% increase in debt over the past 7 years. It is also an increase of 25.6% or nearly RM100 billion over 2 years.

The increase in debt has increased the pressure on reigning in our budget deficit as our annual debt service commitments have increased to RM20.5 billion next year from only half the amount 5 years ago in 2007.

While our federal government debt to GDP ratio is still at a moderate 53.8%, a far cry from Greece's 117%, we are not far from Spain's 64% or Ireland's 67%, both of whom are facing economic turbulence of their own.

Our debt levels will only worsen in the next few years as we embark on record levels of infrastructure spending such as the RM53 billion Klang Valley MRT project which is expected to be funded entirely on debt.

Wages and Pensions

At the same time, our public sector expenditure is increasingly mirroring that of the European countries with ballooning civil service obligations. The budgeted expenditure for wages and pensions for 2012 is a whopping RM64.1 billion, an increase of RM6.2 billion or 10.8% budgeted for 2011. The increase is even more worrying when contrasted against the budgeted RM36.9 billion 2007, a 73.7% increase in just 5 years.

The GTP had promised a more efficient and cost effective government and civil service. What we are seeing from the Budget is only on which is indebting our children, entrenching our structural problems and very weak expenditure controls.

Economic Growth

Despite the Governments efforts in the ETP, our manufacturing and export statistics paint a starkly different picture.

Our export sector grew a miserly 2.7% in 2011 against 13.2% in 2010. However, we should be further alarmed by the fact that the growth was a result of increased contributions from exports of rubber, paper, textiles, clothes and shoes which grew in excess of 15%, and the petroleum products by 9.3%. Our electrical and electronics sector, which constitutes 26.4% of our total exports industry shrunk by 4.9% in 2011.

From the above indicators, there appears to be a shift away from higher value-added export sectors to the primary products industry such as rubber, wood, textiles and crude oil. This is the exact reverse of what we are trying to achieve via the ETP.

Budget deficit

Based on the Economic Report, we are expected to meet our deficit target of 5.4% for this year only because our revenues had grown beyond the expected in the 2010 budget due to very strong commodity prices. The Government has managed to collect RM21.1 billion of extra revenue on top of the originally budget RM165.8 billion. If not for the unexpected increase in government revenue, our budget deficit would have been a shocking 7.9%.

The Government is planning a 4.7% deficit for 2012, a figure which doesn't give hope that the 2.5% deficit target promised by Najib can be met by 2015. Even then, based on poor expenditure controls and the habitual ad hoc expenditure patterns of past BN governments, even meeting the 4.7% target will be a challenge, especially if commodity prices were to fall below expectations next year.

Optimistic projections

Finally, despite having achieved on 4.2% growth in the first half of 2011, and a slowing global economy in the face of another potential economic crisis, the Government has retained its unrealistic growth assumptions of 5.0 to 5.5%. To meet the target, Malaysia's economy will have to grow by at least 5.7% in the 2nd half of the year, which is highly optimistic to say the least.

The Federal Government's unrealistic expectations coupled with a budget which failed to demonstrate substantive reforms and political will for change makes the 2012 budget a highly disappointing and puts in serious doubt our ability to become a high income nation as aspired in Najib's New Economic Model.

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