

BUDGET TALK

Amid rising concerns about increasing fuel prices and inflation, what does Budget 2006 have in store for us?

By P Ishun Ahmad

INFLATIONARY pressure will remain high if fuel, a basic commodity to many industries and consumers, remains costly. Prices of goods and services have risen substantially since the government started to raise fuel prices due to skyrocketing world prices late last year. This has led to an uproar among consumers as they are feeling the pinch of higher prices.

This is further compounded by employers' drive to cut costs, thereby limiting salary increases that could otherwise help offset the burden of rising living costs.

Another major problem is the expectation of rising inflation from all quarters like companies, traders, industries and consumers. This expectation has been fuelled by a number of hikes in the price of fuel lately. And talk of further increases in the future has only led to a boomerang effect, leading to a chain reaction in price increases from industries to the consumer.

This dissatisfaction led to the abrupt announcement on the reduction of the road tax and a commitment to delay increases in highway toll rates until after 2006 and the price of fuel until the end of the year by the government. The announcement, made weeks before the 2006 Budget, was seen by many as timely and as a precursor to more concrete and immediate measures to tackle inflation in Budget 2006. With these measures, it was hoped that inflationary pressures could be contained, leading to a revival of consumer confidence and a boost to domestic demand and the economy in general.

However, according to SJ Asset

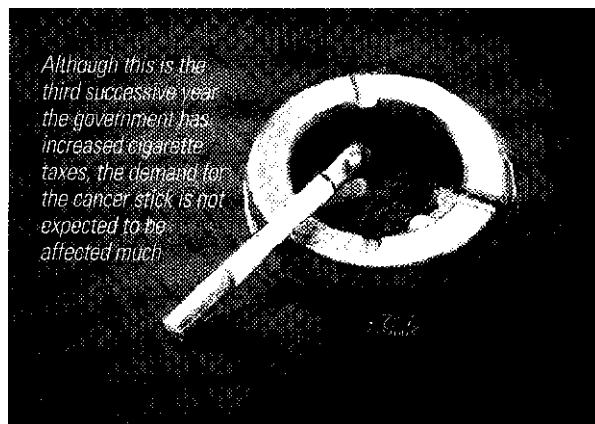
Management Sdn Bhd's chief investment officer Meor Khairi Bazid, the Budget did not have any strong immediate measures to fight inflation. 'Judging from the Budget, it looks like the government does not view inflation very seriously. People worry about runaway inflation causing prices to spiral out of control and seriously hurting people's purchasing power and eroding their income,' he adds.

Meor says Budget 2006's silence on fuel subsidies likely suggests further increases in the future. 'The silence raises more questions than answers while raising suspicion that a price hike is in the offing if fuel prices remain high in 2006. It would seem that the government is hoping to raise fuel prices next year and further cut down subsidies,' adds Meor.

Increases in fuel prices, a very likely event as world prices are widely expected to remain high throughout 2006, will further ignite inflationary pressures. 'What was missing in the Budget is a contingency plan to counter the possibility of oil prices rising to US\$ 80 per barrel. I suppose the plan is for a supplementary budget if such a need arises,' explains Meor.

He expects and hopes that the much-needed boost to kick-start the economy would come from the Ninth Malaysia Plan, slated to be tabled in Parliament in April 2006.

Meanwhile, RAM Consultancy Services Sdn Bhd's chief economist Dr Yeah Kim Leng says Budget 2006 does address inflationary issues. Although lacking



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immediate measures, he notes that this is adequately compensated by medium and long-term ones like reducing the cost of doing business, setting up a National Agriculture Food Corporation with an initial fund of RM500 million, increasing the Fund for Food by RM300 million and offering group relief to companies within a group.

The group relief allows 50% of a company's current year losses to be offset against the profits of other companies in the group. It also includes steps taken to further promote small and medium-sized enterprises (SME), a vital component of the economy. These measures, says Yeah, will help boost business efficiency and costs, with results expected in the next few years.

Yeah adds that measures taken to promote the use of alternative fuel like bio-diesel and natural gas will also help to contain inflation through a lower dependence on petrol and diesel.

As anticipated, the government continues to increase cigarette and liquor taxes. This time around, cigarette and liquor taxes were increased by 13% and 9% respectively. As a result, smokers will have to pay 50 sen more for a pack of 20

cigarettes. This increase was widely expected and came as no surprise. However, it will further fuel inflationary pressures.

This is the third successive year that the government has increased these taxes to offset higher expenditure and help reduce its budget deficit. The budget planned an expenditure of RM136.8 billion, an increase of 5% from 2005. The demand for cigarettes, however, is not expected to be affected much as smokers are not likely to change their smoking habits.

As for the beer and stout market, the increase in taxes comes at a time when prices are already at one of the highest levels in the region.

Dubbed a caring budget, Budget 2006 is heavily weighted for better development and a higher quality of life for the people. It, however, failed to provide stimulus or so-called 'goodies' to various sectors like manufacturing, steel, shipping, retail as well as the export sector.

Analysts say this could be due to the government's view that these sectors are doing fine and the attention should be channelled to sectors like biotechnology and agriculture.

Another point to note is that the Budget has no strong measures to boost the country's competitiveness and exports that have slackened in 2005.

The strategies in the Budget also need some fine-tuning in terms of wanting to boost the economy on one hand while asking the masses to save and be thrifty in light of rising inflation on the other. The logic is that for the economy to grow, people need to spend more for companies to grow, and thus, improve economic activity.

In a nutshell, the most pressing issue that the Budget needed to tackle was investors' and consumers' waning confidence in the health of the economy, as reflected in the drop in the gross domestic product (GDP) figure to 4.1% in the second quarter of this year.

More importantly, inflation needs to be tackled seriously so as not to further hurt consumer confidence and domestic demand. It has, so far, stunted the country's growth momentum. The longer the problem is left unchecked, the harder it will be to rectify it. **mb**