

# Salary increase 'will have positive effect on economy'

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**PUTRAJAYA:** The record salary hike for civil servants announced by the government yesterday will contribute 0.5 per cent to the national economic growth this year and at least another half per cent next year, Second Finance Minister Tan Sri Nor Mohamed Yakcop said yesterday.

"Our initial calculations show that for this year alone, the effect on the gross domestic product will be up to 0.5 percentage point higher than what the growth rate would be without the salary increase.

"Next year, it will be at least another half a percentage point."

He said the impact of the pay hike would be positive on the economy as it would benefit not only the 1.002 million civil servants but also five million people, after taking into account their dependents.

"From experience, government employees will spend every ringgit that is given out. This will lead to consumption-led growth and other spin-off effects, which will lead to more business and higher taxes," he told a briefing to wire agencies to explain the justification for the 7.5-35 per cent salary increase announced by Prime Minister Datuk Seri Abdullah Ahmad Badawi yesterday.

Despite the additional spending power, he said inflation is expected to remain at the forecast 2.5 per cent.

He said inflation happened only when there was capacity constraint and this was not happening now.

He added that the govern-



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*Tan Sri Nor Mohamed  
Yakcop  
Second Finance Minister*

ment would not be borrowing from the market to fund the additional RM8 billion needed for the pay hike and a 100 per cent increase in the Cost of Living Allowance (Cola) as it had sufficient funds.

"This is because the federal government's operating surplus for this year will surpass the forecast RM21.8 billion, which is more than sufficient to finance the pay hike."

Nor Mohamed said that with greater prudence and efficiency in its budget management since 2005, the government could afford to reward civil servants who have been more hard working and productive over the years.

The salary increase is also to retain good civil servants, he said.

"We feel that we can afford to do it now. We have progressively reduced our budget deficit from 5.7 per cent in 2000 to 3.5 per cent last year.

"We aim to bring the budget deficit to a sustainable level of 3.4 per cent this year and the rest of the Ninth Malaysia Plan (until 2010)."

He said this would reflect positively on Malaysia's sovereign credit rating.

Nor Mohamed said the government may register revenue higher than the RM134.8 billion projected for this year, due to higher oil revenue and

the expected better dividends from Petronas and the major government-linked companies (GLCs), all of which are expected to record higher earnings.

On oil prices increasing to US\$70 (RM240) per barrel, he said that if oil prices continued to rise, the first-round impact on Malaysia would be "very positive" due to higher oil revenue. "But a prolonged escalation in oil price will hurt the global economy and Malaysia, being a trading nation, will be affected as well."

To a question whether the salary hike would be followed by cuts in the interest charge on credit cards, he said: "It's something that the banks will have to look at. I've met the banks and we have had a long discussion (on it)."

Currently, credit cards are charged 18 per cent interest per annum.

Bernamea learnt that Nor Mohamed met chief executive officers of local and foreign banks at the Treasury last month.

On Proton, he said that the government needed a bit more time to find a technical partner for the national car maker.

On the possibility of Proton continuing to operate without a technical partner, he said: "At this point of time, we still need to find a partner for Proton."

He also said there was no bailout for Proton.

However, it needed some restructuring in terms of equity and partnership. — Bernama