

Cut in Govt expenditure unlikely to offset deficit

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A 15% cut in the Government's operating expenditure will not reduce the budget deficit to the expected 7%.

"We will still see a large budget deficit in the absence of operating expenditure. In fact, it would be even bigger," said Malaysian Institute of Economic Research (Mier) executive director Prof Emeritus Datuk Dr Mohammed Ariff Abdul Kareem.

Earlier, the Government said it was targeting to lower its budget deficit to below 7.6% of gross domestic product (GDP), partly by reducing its operating expenditure by 15% next year.

Ariff said he expected the budget deficit would be at 10% to 11%, even if there were a 15% cut in operating expenditure.

He said the Government's revenue could be much lower than estimated if the economy continued on the current trend, opining that it would "not be easy" to reduce the operating expenditure in one go by 15%.

In addition, the Government might have to fork out more for other expenditure, he said on the sidelines of the seminar.

"We are talking about re-modelling the economy and amending it. This is a long-term measure that requires a lot of government expenditure," Ariff said.

He said the Government needed to continue to stimulate the economy even if revenue was at a "shrinking mode" as the economy was still expected to be sluggish.

To a question, Ariff said he expected the export market to see gradual recovery in mid-2011 and post a double-digit growth in 2012.

He also hoped that the goods and services tax or value-added tax be introduced as soon as possible.

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