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PM makes 'proactive' cuts, says 'no crisis'

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Govt 'taking preemptive measures' with revised economic growth and deficit estimates

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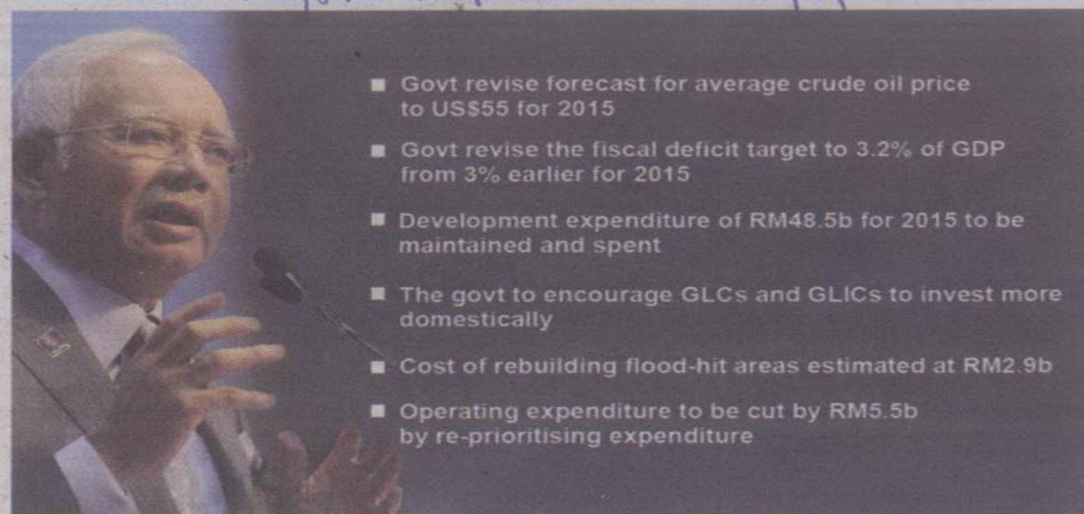

Graphic by Dayang Norazhat

PRIME Minister Datuk Seri Mohd Najib Razak said the Malaysian economy is not in crisis but revised economic growth and deficit estimates in his economic plan to mitigate the effects of falling oil prices and a weakening ringgit.

In presenting the plan yesterday, Najib announced "proactive" cost-cutting strategies to strengthen Malaysia's economic resilience and counter the effects of falling crude prices on the government, which relies on oil for 30% of its revenue.

He said Malaysia is not in crisis nor facing a recession even close to conditions that led to the big financial crisis of 1997/1998 and the 2009 European financial meltdown that forced the government to introduce heavy stimulus packages.

"We are not in crisis. Indeed, we are taking preemptive measures following the changes in the external global economic landscape, which

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are beyond our control," the prime minister said at a special economic address in Putrajaya yesterday.

Outlining the details, he said the government now targets an economic growth of between 4.5% and 5.5% this year, lower than the projected 5%-6% in Budget 2015 unveiled in October last year when oil was at US$100 (RM361) per barrel.

The budget deficit target has been adjusted to 3.2% from 3%, representing a glitch in the government's long-term aim of achieving a balanced budget by 2020 — the same year Malaysia aspires to be a developed economy.

Najib's announcement of these measures was widely anticipated following the sharp fall in oil prices. Budget 2015 was presented in October when the price of oil was US$100 per barrel compared to US$48 per barrel on Monday.

The revised budget was drafted based on the government's average price of oil at US$55 per barrel.

"Based on a crude oil price of US$100 per barrel and taking government saving measures and retail price controls into account, the government is expected to have a fiscal profit of RM3.7 billion.

However, with the current price of oil at US$55 a barrel, the government will lose RM13.8 billion in income," said Najib.

National oil company Petroliam Nasional Bhd (Petronas) warned last year that it expected to pay lower dividends of up to 37% to the government this year on falling oil prices.

The ringgit has also fallen in tandem to a low of RM3.604 to the dollar on Jan 14, the lowest since 2009.

Without the government's intervention and the cost-cuttings, the country's deficit would touch as high as 3.9% this year, said Najib. Deficit level in 2014 was 3.5%.

The measures are led by a RM5.5 billion cut in operating expenditure, which includes purchase of assets, overseas travel and allocations to government-linked companies and statutory bodies.

He said despite savings of RM10.7 billion from the implementation of the managed float mechanism for retail fuel prices, the government still faces a revenue shortfall of RM8.3 billion to implement measures laid out in Budget 2015.

At the same time, the central bank said it will maintain growth-friendly policies.

Bank Negara Malaysia (BNM) governor Tan Sri Dr Zeti Akhtar Aziz said although there is an option to crimp the benchmark interest rates to support credit growth in difficult times, Malaysia will remain accommodative to support expansion.

"From time to time, we will review our interest rates. But, at the moment, the rates are highly accommodative for growth and we are in a very strong position, with steady growth," she said.

The central bank had held borrowing costs in the two most recent policy meetings after becoming the first in South-East Asia to raise its benchmark interest rate in 2014 to 3.25%.