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Mixed reaction on revised fiscal deficit

by FARAH ADILLA & ALFIAN ZM TAHIR

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THE Prime Minister's (PM) economic mitigation measures had a mixed reception among commentators who welcomed some initiatives but questioned others.

Institute for Democracy and Economic Affairs CEO Wan Saiful Wan Jan said a lot of measures for sustaining economic growth are very "inward looking".

"The government's plan to intensify import-substitution services and to prioritise local vendors for government and GLC (government-linked company) procurement are worrying. There is a lot of rooms for leakages in these areas."

Wan Saiful said instead, the government should consider further

SEE P4 COL1

Govt still has room to cut development expenditure

FROM P1 Mixed reaction

cuts in operating expenditure (opex) and increase efficiency of public service delivery. Efficiency, however, would not be delivered by prioritising local vendors but instead by making procurement even more competitive.

"At a time when revenue drops, we must look for ways to maximise value for taxpayers' money. This requires the government to focus on value and quality, not the origin of the suppliers.

"There are also other ways to cut the size of the government even further. Perhaps this is a great opportunity to look at how to downsize the PM's Department, which is very big at the moment," he said.

Wan Saiful said the government's decision to revise Malaysia's fiscal deficit target up to 3.2% from 3% is quite realistic given the huge gap between the initial forecast for oil revenues and the current estimate. Measures for cutting down opex by RM5.5 billion is also on the right track, he says.

RHB Research senior economist Shafizal Shafaai said despite the revised deficit target, the government still has room to cut its development expenditure if it finds the target hard to achieve.

"The government has since 2011 not been using the entire budgeted development expenditure. In case there is a further shortfall this year, they may cut on the development expenditure," he said.

Shafizal said of the RM44.5 billion budgeted in 2014, only RM42.2 billion were used.

MIDF Amanah Investment Bank Bhd MD Datuk Mohd Najib Abdullah said the government's new target of 4.5% to 5.5% growth in gross domestic product (GDP) is "still healthy" amid the scale back in public spending announced.

"Indeed, too much negativity has been associated with the decline in oil prices as opposed to the contrary. More recognition should be given to the fact that lower oil price can also be a stimulus to private consumption as it increases the disposable income of Malaysians.

"It is certainly a boon for energy-dependent economies such as China, Japan, Korea, India and Europe, which coincidentally are important markets for Malaysian products," Najib said.

However, Bank of America Merrill Lynch economist Dr Chua Hak Bin said the bank maintains its fiscal deficit forecast of 3.8% of GDP for Malaysia for 2015, despite the measures unveiled yesterday.

"Global oil prices have plunged by more than 50% since June last year. The hit on corporate profits will reduce government revenues.

"We see oil-related fiscal revenue dwindling to just RM31 billion or 2.6% of GDP in 2015, versus RM63 billion or 5.9% of GDP in 2014. According to the PM yesterday, there will be RM10.7 billion savings this year with the new managed float mechanism for retail fuel prices," Chua said.

The Opposition meanwhile says the PM has not addressed the real problems.

PKR secretary general Rafizi Ramli said the budget revision does not tackle the weakening ringgit and that deferring the National Service Training Programme (PLKN) will not help the country much.

He said deferring the PLKN is "slashing without purpose", which has a minimal impact on the country's financial position.

"The real threat is the weak ringgit as a result of the drop in the crude oil prices. It is US$48 per barrel," Rafizi said. "His (the PM's) response does not reflect the political will and urgency to tackle the issue."

Meanwhile, PAS information chief Datuk Mahfuz Omar pointed out that the PM should have used the correct venue to table the budget revision.

He said the PM did not consult any of the Pakatan Rakyat MPs on the details of the revision. "I am afraid that the government has made those amendments by the 'roadside' and we were not invited."