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Najib on the state of the economy

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The government is tightening its belt a bit in anticipation of a shortfall in revenue as a result of declining crude oil prices. Consequently, it trimmed its gross domestic product (GDP) growth forecast to between 4.5% and 5.5% from between 5% and 6%.

However, Prime Minister Datuk Seri Najib Razak reiterated that the government will not compromise on national development planning to enhance the productive capacity of the economy. Also, it will not neglect the welfare of the people, particularly the low-income group.

In announcing the revised national budget last week, he said the forecast of oil prices averaging US$100 per barrel in the original budget is no longer realistic, given that Brent crude prices have dropped to US$48.77 per barrel. Hence, the government slashed its forecast for the average baseline oil price by almost half to US$55 per barrel.

In view of declining oil revenue, the government decided to revise the fiscal deficit target of 3% of GDP set earlier to 3.2%.

"It should be noted that Budget 2015 was formulated based on strong economic fundamentals in 2014. Therefore, the fiscal deficit was forecast to drop to 3% of GDP in 2015 from 3.5% in 2014.

"However, the external situation has changed lately and we are impacted directly as Malaysia is among the largest trading nations in the world," Najib said.

According to him, at the forecast crude price of US$55 per barrel, there will be a revenue shortfall of RM13.8 billion. "If we compare the revised figures with Budget 2015, tabled in October last year, despite the 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 accommodate the budget measures."

He stressed that without any fiscal measures, the deficit will increase to 3.9% of GDP.

To ease concerns about the domestic economy, Najib said the country is neither in a recession nor in a crisis like that experienced in 1997/98 and 2008/09, which warranted stimulus packages.

He pointed out that the country's current account balance is expected to remain in surplus.

Najib, who is an economics major, also claimed that the financial markets are still orderly and resilient. "Although the ringgit has depreciated, it is expected to stabilise over time to reflect the strong economic fundamentals. The government is confident that the exchange rate will adjust [itself] to reflect this."

He explained that the fluctuation in the ringgit exchange rate is due to developments in the global economy. Hence, the ringgit is not the only currency to have weakened against the US dollar. Almost all currencies have softened against the greenback since September 2014.

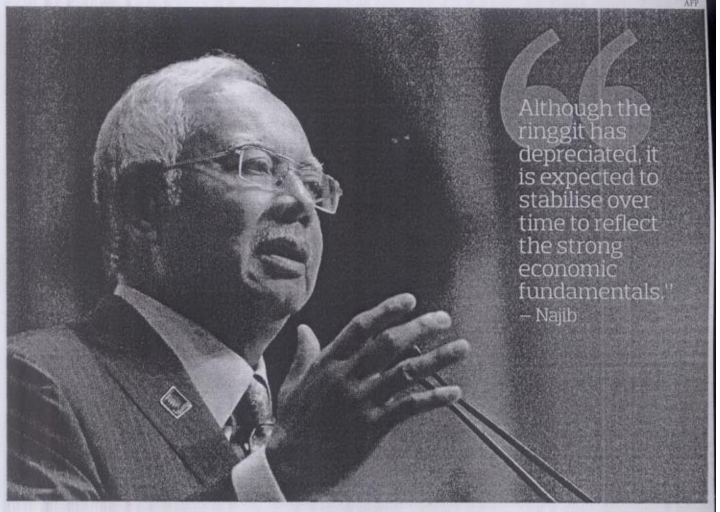
But it is worth noting that the ringgit is the worst-performing currency in the region, having depreciated 14.09% since last September.

Indeed, the local currency has declined further since the revised budget was unveiled — from 3.5695 on Jan 20 to 3.6 on Jan 23.

Najib has given the assurance that the government will continue with fiscal reforms and consolidation to achieve the targeted GDP growth. It will cut its operating expenditure by RM5.5 billion by reducing overseas travel, functions and the use of professional services, which is expected to save some RM1.6 billion.

The prime minister added that the government will also be able to save RM3.2 billion through its review of transfers and grants to statutory bodies, government-linked companies (GLCs) and government trust funds.

Other expenditure rationalisation measures include the deferment of the 2015 National Service programme, which is expected to save the government RM400 million, and the rescheduling of the purchase of non-critical assets, which will result in savings of RM300 million.



While operating expenditure cuts are underway, the government is expecting to collect an additional RM1 billion via the Goods and Services Tax this year, given the increase in the number of companies registered for the tax.

The government will also seek additional dividends of RM400 million from GLCs, government-linked investment firms and government entities.

Meanwhile, it will maintain the RM48.5 billion development expenditure, which came as a surprise to many economists who had expected it to be the first item on the chopping board.

This sum is for development programmes such as "projects for the people economy", the mass rapid transit project and the Kuala Lumpur-Singapore high-speed rail project.

To achieve the GDP growth target of between 4.5% and 5.5%, the government is looking at ensuring a balanced, inclusive and sustainable economic growth by boosting the export of goods and services, enhancing private consumption and accelerating private investment.

It seeks to increase exports by actively promoting import-substitution services and intensifying export promotion programmes in 46 countries.

Other measures include beefing up the tourism industry and the waiver of visa fees for tourists, including those from China.

However, whether the various stakeholders are convinced of these measures is altogether a separate matter. E