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Newspaper	Malaysian Reserve
Date	11 January 2016

Malaysia's growth to weaken as oil prices crash, says economist

Malaysian Reserve - 11/1/2016

Country to confront tougher challenges as Malaysians face slower economic growth

by ALEXANDER WINIFRED

TMRpic

Najib *(third from left)* **looking at a mock-up of Petronas' floating liquefied natural gas facility at the Asia Oil & Gas Conference 2015. This will be the 2nd time in 2 years that Najib revises the budget to account for lower oil revenue**

MALAYSIA'S growth will weaken even if Prime Minister Datuk Seri Mohd Najib Razak does not forgo his fiscal deficit target as he "recalibrates" the fiscal budget amid a likely reduction in oil revenue, still a major source of income for the country.

Even if the government revises its deficit target up 0.2 percentage point to 3.3%, similar to what it did last year, gross domestic product (GDP) growth expectations will be shaved by 0.5% after the budget is reduced by 2.5% or RM6.7 billion, based on calculations made by Wellian Wiranto, Global Treasury economist at Oversea-Chinese Banking Corp Ltd (OCBC) in Singapore.

Annual GDP growth of 3.5% to 4.5% will be Malaysia's worst performance since 2009.

Should the government keep the deficit target unchanged and oil average at around US$35 this year, it will need to slash the budget by 3% (an estimate of RM8.01 billion), Wiranto said.

This will be the second time in two years that Najib revises the budget to account for lower oil revenue, after he cut RM5.5 billion from Budget 2015 when oil prices plunged at the end of 2014.

While the Goods and Services Tax (GST) would contribute to 17.3% of total fiscal revenue in 2016, exceeding the oil-related revenue for the first time, it is "no cure-all" as petroleum still constitutes a major source of income (14.1%) for the government, said Wiranto.

Calculations by OCBC indicate that if the budget is not revised and oil averages at US$33 (RM145.86) per barrel this year, Malaysia's 2016 budget deficit will balloon to 3.8%, the highest deficit ratio since 2013.

Missing the target so widely will be "too much of a change from the original target for even the most lax rating agencies to ignore," said Wiranto.

Last Friday, Najib announced he would be tabling a more "realistic" budget to "suit the present (economic) situation", as oil traded at 11-year lows of US$33 per barrel on concerns in the Middle East and economic turmoil in China, the world's largest consumer of most commodities.

Najib's administration will likely choose the "middle-of-the-ground", cutting expenditure to a lesser degree while increasing the deficit target, Wiranto said.

"Assuming a 3.3% new deficit target, the government would have to find ways to cut expenditure by 2.5% amounting to RM6.7 billion or so," said the economist.

For Najib, the need for subsidies and assistance for the population, along with ensuring Malaysia grows fast enough, outweigh the importance of meeting the fiscal target, prominent economist Prof Dr Hoo Ke Ping told *The Malaysian Reserve (TMR)*.

"A slightly higher budget deficit is not an issue," Hoo said.

"The government should relax the budget deficit policy strategy," said Tan Sri Dr Ramon Navaratnam, chairman of the Centre for Public Policy Studies at the Asian Strategy & Leadership Institute and a former World Bank ED.

It also needs to cut wastage of public funds by phasing out unproductive civil service staff and corruption, and allowing government-linked corporations to compete, Ramon told *TMR*.

Instead of cutting people-centric expenditure, Najib should renew his push for government-linked corporations such as Petroliam Nasional Bhd (Petronas) and Khazanah Nasional Bhd to sell non-critical assets located overseas, said the economist.

There is a strong possibility the prime minister would announce a stage-by-stage winding down of dividend payments from Petronas, which is already slated to pay RM10 billion less than the RM26 billion it paid last year, Hoo said.

Large-scale projects that will require massive borrowings, such as the Malaysia-Singapore High Speed Rail that costs about RM38.4 billion, should be delayed, said the economist.

Prominent investors such as Blackstone Group LP president Tony James and Carlyle Group LP co-founder David Rubenstein have forecasted that the US will enter recession as early as 2017 or 2018.

"This will result in a contraction for Malaysia's electronics exporters," Hoo said.

The challenge for Najib now is to ensure members of the public remain happy during a period of slower growth, even as the next general election is drawing near, Hoo added.

"Najib must start planning for the years ahead and take pre-emptive action. Whatever measures he takes this year must not just be intended for 2016, but also 2017 and 2018 (the next year to hold elections).

"We are talking about oil being low for the next three to four years," Hoo said.