

Government spending to swell as economy slows down
The Malaysian Insider
December 13, 2011
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KUALA LUMPUR, Dec 13 — The government's operating expenditure is expected to hit 98 per cent of revenue this year, up from 95 per cent last year, amid signs the economy may slow faster than expected, said RHB Research Institute today.

The research house said in its report on Malaysia's economy that the government's operating expenditure (OE) is expected to be 10.8 per cent higher than initially projected due to higher bills from subsidies, salaries and supplies and services.

File photo of Prime Minister Datuk Seri Najib Razak delivering his Budget 2012 speech in Parliament on October 7, 2011. The Budget gives details of the country's operating expenditure. — Picture by Jack Ooi

"The level of OE, in our view, is still too high for comfort and it has been hovering at near 100 per cent of revenue since 2008," said the report, adding that OE for next year is expected to remain high at 97 per cent of revenue.

It said that government debt has been creeping up gradually and the debt level is expected to rise to 53.8 per cent of GDP estimated for 2011 and is likely to touch 54.3 per cent projected for 2012, from 53.1 per cent in 2010, and noted that contingency liabilities incurred via special purpose vehicles such as Prasarana and other government agencies have yet to be included.

"If some of these companies fail, the government may have to pick up the bills," the report pointed out.

RHB said it was encouraged however that the government expects its revenue for 2011 to come in at about 10.6 per cent better than the initial forecast when the figure was first released in the 2011 Budget in October last year.

It also noted that the federal budget deficit is projected to narrow to 4.7 per cent of GDP or RM43 billion in 2012, the third consecutive year of improvement and from a deficit of 5.4 per cent of GDP or RM45.5 billion estimated for 2011.

In terms of the country's economic outlook, the report stated that the strong third-quarter growth of 5.8 per cent is not likely to be sustainable and it sees growth slowing at "a more rapid pace" to 3.6 per cent in 2012 from more than five per cent for this year.

"We expect growth to weaken back in the Q4 and decelerate in 2012, given the worsening euro debt crisis and mounting evidence of slowing growth elsewhere," said the report.

Malaysia's robust third-quarter GDP numbers were attributed to strong domestic demand and public sector spending in particular.

Bank Negara said that public sector spending had gathered momentum in the third quarter and was expected to continue in the fourth quarter.

Government economists had also earlier said their economic projections of between 5-6 per cent for 2012 were bolstered by expected continued high rubber and palm oil prices, which would help boost rural area spending.

Some economists however expect commodity prices to be hit by a global economic slowdown next year.

Petronas said in a briefing two weeks ago that it expects prices of oil, which make up a significant chunk of government revenues, to decline to US\$85-87 per barrel next year, from US\$110 currently.

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