

Economists uneasy over sugary Budget
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By Lee Wei Lian

KUALA LUMPUR, Oct 10 — Economists said today that the 2012 Budget risks committing Malaysia to the path of unsustainable spending at a time when the global economic outlook remains uncertain.

Bank of America director of global research Chua Hak Bin noted that both Malaysia's public and household debt levels were at worrying levels, and said the government appeared to be kicking the debt can further down the road by not addressing it in the Budget.

"Will debt dynamics increase and will Malaysia face a year of reckoning?" he asked at the post-Budget dialogue organised by the Malaysian Economic Association and University of Malaya here.

Chua said there was a chance government revenues would be hit by a recession, which would make it harder to meet the commitment to trim the deficit to 4.7 per cent next year from 5.4 per cent now.

"The deficit is extremely sensitive to the state of the economy," he pointed out.

The economist also said that despite plans by the Najib administration for the private sector to drive the economy, his analysis showed that the bulk of investment so far has been from the government, government-linked corporations (GLCs) and Petronas.

"The private sector has not kicked in [meaningfully]," he said.

Marie-Aimee Tourres, a senior research fellow at the faculty of economics and administration at the University of Malaya, said that the Budget's "goodie strategy" was not linked to any productivity commitment.

"A lot of tax collection (projections) is based on optimistic growth, which may not have taken into account the deteriorating global situation," she said.

Tourres said that the Budget was good in a way that it was a "socialist type budget" where "a lot is given but little is asked", but added that the sustainability of such an approach was a concern.

"I can only worry about the end cost," she said. "It is common that what is supposed to be a one-off (handout) becomes permanent and long term."

She added that the allocation of RM2.1 billion by Amanah Ikhtiar Malaysia according to race appeared to contradict the 1 Malaysia concept.

The 2012 Budget was supposedly formulated to address rising cost of living, with salary hikes for civil servants and cash grants to select groups, including RM500 payments to those earning below RM3,000, as well as billions in blanket subsidies.

The structural issue of distortions and inefficiencies in the economy that result in lack of

competition and subsequently high prices was left largely unaddressed.

As a percentage of gross domestic product (GDP), Malaysia's household debt increased from 66.7 per cent in 2004 to 76 per cent in 2009, which is uncomfortably close to the levels seen in the US prior to the 2008 financial crisis.

It is also the second-highest level of household debt in Asia, after South Korea.

Malaysia's public debt, meanwhile, stood at about 54 per cent of GDP in 2010.

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