

Najib sticks to policy tinkering over wow factor
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ANALYSIS, Oct 8 — Prime Minister Datuk Seri Najib Razak has continued his pace of policy tweaks and minor reforms over big sweeping changes in his third budget since taking office despite the ambitious theme of “national transformation policy.”

After a week of heightened expectations that the budget will transform the nation and lower the cost of living, the budget speech delivered yesterday lacked any “Wow” factor in terms of deep structural reforms but instead contained a series of selective liberalisations, incentives and cash grants to target groups.

The Malaysian economy currently suffers from chronic distortions and inefficiencies which result in higher prices but these largely went unaddressed in the budget which appeared to try and minimise changes to the status quo.

Direct cash assistance, continued subsidies and expansion of government backed budget shops were the favoured tool to help with the cost of living rather than lowering prices through reduced taxes and widespread liberalisation of business and import licenses to boost competition.

While 17 services subsectors were liberalised in terms of foreign equity, the major ones including the oil and gas sectors, retail sectors and financial sectors were not. Foreign banks for example still face enormous restrictions in the scope of services they can provide and in terms of the number of branches they can open.

In terms of the long term transformation agenda, the main issue could be that Malaysia traditionally prefers quantitative rather than qualitative measures. While there were tax incentives and cash allowances for primary and secondary schools, none of them appeared strategic enough to boost the quality of the country’s education institutions into the top tier in the world.

Najib deftly pulled off a nice touch however by announcing tax incentives for contributions to all places of religious worship and all types of schools which should help him score significant points with Malaysia’s religious and ethnic minorities.

There were also little to no widespread fiscal reforms and incentives for Malaysian businesses to become more efficient and price competitive apart from the 17 services subsectors.

The most significant measure in the budget was the introduction of an exit system for underperformance in the civil service which could eventually shrink the government’s wage bill and boost government productivity and effectiveness although the budget expenditure for salaries rose from RM49.9 billion in 2011 to RM52 billion in 2012.

“A flexible remuneration system will be introduced to retain or terminate civil servants based on performance,” said Najib.

The prime minister also managed to keep on the path of deficit reduction by committing to cut the budget deficit to 4.7 per cent from 5.4 per cent.

The twin constraints of a looming general election and an uncertain global economic environment would have no doubt weighed in on the decision to eschew sweeping reforms.

The use of the word "durian runtuh" for Felda settlers, a traditional vote bank for the ruling coalition, as a result of the listing of FELDA Global Ventures Holding by mid-2012 also appeared aimed at reminding Felda settlers to vote for Barisan Nasional if they wanted their financial windfall.

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