

Election budget may curb gains in cutting deficit, economists say
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KUALA LUMPUR, Sept 26 — Datuk Seri Najib Razak's bid to boost voter support for his Barisan Nasional (BN) coalition ahead of polls may see more handouts to the lower-income groups and civil servants that will likely take a toll on Malaysia's tackling of its chronic budget deficit, Bloomberg reported today.

Citing eight economists it had polled recently ahead of the 2013 Budget announcement this Friday, the international business wire service reported that Malaysia will likely post a deficit estimated at 4.3 per cent of its gross domestic product (GDP) — going over the four per cent line for the sixth year despite the government's 4.7 per cent gap last year.

"This will likely be another populist budget and the last spending spree before elections are called," Chua Hak Bin, an economist at Bank of America Merrill Lynch in Singapore, was cited as saying.

"Measures to seriously tackle the fiscal deficit and rising public debt will likely be absent. Fiscal reforms will have to come next year, after the general election," the economist who has covered Malaysia for more than 10 years told Bloomberg.

Citigroup Incorporated estimates that Budget 2013 will likely grow to RM259 billion compared to last year's RM232.8 billion, Bloomberg reported, after the government proposed to raise its previous budget by RM13.4 billion in June.

While Malaysia's economy had been largely propped up by domestic spending, which has helped cushion the impact from the downturn in Europe and the US, the "medium-term" implication for Southeast Asia's third-largest economy is that it may see a slide in the current-account surplus even as "a continuing absence of structural fiscal reforms" remains a concern, Aninda Mitra, a Singapore-based economist at Australia & New Zealand Banking Group Ltd, told Bloomberg.

International ratings agencies such as Standard & Poor's and Fitch Ratings have recommended tighter public finances after the Najib administration raised government spending in the last two years to boost growth even though the cost to protect Malaysia's sovereign debt from non-payment has more than halved since last year's budget, according to Bloomberg.

It reported Malaysia's five-year credit default swaps fell to 91 from 213 on October 3, 2011, citing data provider CMA that compiles prices quoted by dealers in the privately negotiated market.

The prime minister is expected to hold off enforcing a goods and services tax (GST) until next year, United Overseas Bank Ltd told Bloomberg, even as other financial experts weighed in on Najib's likely populist measures for the 2013 Budget.

Citigroup told Bloomberg that the prime minister may announce more measures to make housing more affordable and highlight large construction projects underway.

Another economist at CIMB Investment bank, Lee Heng Guie, told Bloomberg Najib may also announce another round of RM500 cash handouts to low-income families and a half-month bonus for civil servants.

Last year, Najib had promised to raise the salaries for Malaysia's 1.3 million-strong civil service by as much as 13 per cent, and handed out RM500 to households earning less than RM3,000 a month.

Najib, who stepped into office in April 2009 after his predecessor Tun Abdullah Ahmad Badawi resigned, is seeking a personal mandate in the next elections amid sliding ratings.

According to independent pollster Merdeka Center, the PM's personal approval score dipped four percentage points in the last survey in May from 69 per cent to 65 per cent in February, following a repeat in April of last year's violent clashes between police and civil society demonstrators lobbying for the electoral roll to be cleaned up.

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