

Najib woos voters with Budget handouts
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KUALA LUMPUR, Sept 28 — Prime Minister Datuk Seri Najib Razak courted voters with one-off perks today in his last budget before a national election, while reassuring markets by pledging to cut the country's fiscal deficit and tackle a rising debt burden.

Najib, facing a tough election he must call by April, dished out RM500 payments to all low-income families, RM100 each to 5.4 million schoolchildren and handed a 1.5 month bonus to the country's civil servants among other steps.

"This Budget will focus on improving the quality of life of the people, ensuring sustainable growth, spending prudently and reducing the fiscal deficit," Najib, who is also finance minister, said in his address to parliament.

Rating agencies Standard & Poor's and Fitch recently warned of rising fiscal pressures in Malaysia that could lead to a downgrade. The country's public debt as a percentage of GDP is just short of its self-imposed ceiling of 55 per cent — up from 43 per cent in 2008 — while its expected budget deficit of 4.5 per cent in 2012 is among Asia's biggest.

To address those concerns, Najib pledged the deficit would fall to 4.0 per cent of GDP in 2013.

The government, which has run a budget deficit every year since the 1997 Asian financial crisis, sees the deficit shrinking on better tax collection and slightly higher economic growth of 4.5-5.5 per cent in 2013 from 4.5-5 per cent this year.

As expected, Najib did not announce major structural reforms that analysts say are crucial to putting Malaysia's public finances on a more sustainable footing and reducing its heavy dependence on oil revenues.

Azrul Azwar Ahmad Tajudin, Bank Islam chief economist, said the government had not made clear how it would achieve such a steep fall in the deficit next year.

"The government can afford the giveaways, but this budget lacks the fiscal reforms that many quarters have been clamouring for, especially the global rating agencies," he said.

State oil giant Petronas contributes up to 45 per cent of the government's revenues. Fuel subsidies to ease driving costs for Malaysians have more than doubled in the past three years as oil prices have risen sharply.

The government says it wants to introduce a goods and services tax to widen the revenue base in a country where only about 10 per cent of the workforce pays income taxes and to cut the fuel subsidies that are among Asia's highest.

Najib said more time is needed to prepare the public for such unpopular steps.

"The government will not shirk from taking the right action although it is challenging," he said, referring to tax reform.

After a sharp rise in subsidy costs this year, the annual report said that government assistance on staples such as fuel, sugar and flour should fall to RM37.6 billion in 2013 from RM42.4 billion this year.

The prime minister announced a cut in sugar subsidies by 20 sen per kilogram, aimed at tackling rising diabetes rates. The government had increased subsidies by the same amount earlier this year.

Najib presented the budget with a close eye on the election that is shaping up as the closest in the country's history.

Underlining the political nature of the budget, Najib ended his speech with a fierce attack on the opposition, saying it was "sowing seeds of conflict and hate" in the multiracial nation.

His government has announced a series of targeted handouts to lower-income Malaysians and civil servants since last year's budget, but polls have yet to show a convincing bounce for Najib or his coalition.

The economy grew at a brisk annual pace of 5.4 per cent in the second quarter, but many lower-income and middle-class Malaysians complain their salaries have not kept pace with rising living costs and surging house prices.

In a nod to those concerns, Najib announced a rise of 5 percentage points in the capital gains tax on property and pledged RM1.9 billion to build 123,000 affordable houses.

He also trimmed income taxes for poorer Malaysians by 1 percentage point, announced a fresh RM250 cash handout for unmarried low-income Malaysians, and pledged RM1.5 billion to stabilise the price of cooking oil.

He said the government would cut students' outstanding loans by up to 20 per cent — stealing the thunder from an opposition pledge to ease student debts.

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