

Political and fiscal realities of Budget 2016

Free Malaysia Today

October 21, 2015

By FMT Reporters

Political needs call for increased spending but economic realities mean less revenue available, says Financial Times.

KUALA LUMPUR: With the tabling of Budget 2016 looming in two days' time, Prime Minister Najib Razak appears torn between political and fiscal exigencies, the Financial Times (FT) reports.

A faltering economy exacerbated by allegations of mismanagement levelled at sovereign fund 1Malaysia Development Berhad (1MDB) means that Najib is facing pressures to increase public spending.

On the economic front, however, Najib is facing pressure to curb spending in the wake of slowing growth and depressed energy prices.

Petroleum revenues, in particular, have declined a staggering 40 percent, negating the impact of increased revenue collected via the Goods and Services Tax.

The drop in oil prices has seen Petronas, which paid the government a dividend of RM29 billion in 2014, reduce this year's pay-out to RM26 billion.

The prospect of a further drop may see the government collecting even less next year, FT claims, as the dividend payment, which is expected to exceed the company's annual profits this year, becomes more and more unsustainable.

To allay pressures felt on the political front, Najib has hinted at bigger cash handouts being given to poorer Malaysian households next year.

His government has also committed itself to improving infrastructure in rural areas, including commencing the construction of the much delayed toll-free Pan-Borneo Highway.

The pressure to spend is expected to persist until the 14th general elections, expected in 2018.

Najib is also facing a slump in Malaysia's credit rating if fiscal reforms are scaled back.

One such threat to the country's rating appears to be that the fiscal deficit projected for 2015 of 3.2 per cent of the Gross Domestic Product (GDP) may be unsustainable, FT suggests.

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Source: <http://www.freemalaysiatoday.com/category/nation/2015/10/21/political-and-fiscal-realities-of-budget-2016/>