

Putrajaya must revise budget in light of oil slump, says economist
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As Putrajaya responds to falling global oil prices by prioritising domestic spending and investments, a leading economist has warned that the national budget for 2015 was unsustainable if it is not revised to account for the price drop in the commodity, of which Malaysia is a net exporter.

Tan Sri Dr Kamal Salih, an adjunct professor of Economics and Development Studies at Universiti Malaya, said no amount of tax increase could compensate for Petroliam Nasional Bhd's (Petronas) lower revenue contributions to Putrajaya.

"Of course, the government has to revise the budget. The assumption of the oil price was quite high and now it must be reduced to a realistic level, especially as the price may go down for a long time," he said.

"The current budget is not sustainable now."

Budget 2015 of RM273.9 billion was tabled last October and passed by the Dewan Rakyat on November 25. It was prepared on the assumption that oil prices would hover around US\$100 (RM351) to US\$105 a barrel.

The government has moved to boost domestic consumption in 2015 by instructing all government-linked companies and statutory bodies to prioritise domestic investments and cease purchases of foreign assets.

A circular on this dated December 26, 2014, was seen by The Malaysian Insider.

Kamal also warned that plunging commodity prices, such as oil, palm oil, rubber as well as surplus trade were putting pressure on Malaysia's revenue and the creation of jobs.

"Now the job creation (rate) has dropped again. So if there is a recession due to the lowering of prices, we are going to enter a deflationary period that the government may not be able to handle."

A few days after the budget was passed, Petronas, which contributes to almost

40% of the national coffer, warned Putrajaya to tighten its belt. The national oil firm said it faced the possibility of lower earnings in light of falling crude oil prices.

Petronas president and group chief executive officer Tan Sri Shamsul Azhar Abbas said the price range of Brent crude oil at US\$70 to US\$75 may be a "new era", until the end of next year, if not for the next two years.

"If the oil price is to remain at the current level, it would mean a much lower revenue contribution (from Petronas) to the government. Lower oil price will affect the amount of tax and royalty to the government," Shamsul had said in a statement on November 28.

Petronas' pre-tax profit fell 12% to RM22.8 billion in the third quarter ending September 30, 2014, against RM25.9 billion in the previous corresponding quarter. Its revenue also slipped 1% to RM80.4 billion from RM81.4 billion last year.

Despite this, Deputy Finance Minister Datuk Chua Tee Yong told Dewan Negara on December 8 that the budget would not be revised, as the 3% fiscal deficit target in 2015 would not be affected.

He said the decline in oil revenue would be balanced by substantially reduced fuel subsidy with the implementation on December 1 of a managed float system to determine prices of RON 95 petrol and diesel.

While Malaysia may not face another 1998 financial crisis, its debts were still high and thus created "a different ballpark", said Kamal, who co-authored the United Nations' Malaysia Human Development Report released last year.

Kamal said that aside from revising the budget in terms of oil revenue, the government needed to create "pragmatic new economic policies" to address the high income and wealth inequality in Malaysia.

He said efforts to alleviate the burden of the poor through cash transfers, such as the 1Malaysia People's Aid Voucher (BR1M), were not financially sustainable for the government.

Instead, Putrajaya should "reset the economy" to create a larger middle class, he said, noting that only 20% of Malaysians made up that demographic.

He added that expanding the middle class through policies revolving minimum wage and education, for instance, would ensure inclusive growth and development, as opposed to the government's current focus of simply pursuing

a high-income status.

“We must allocate our resources better and not pursue this very pro-business capital economy orientation that the current administration prefers.

“The policies must be directed more to the vulnerable group. The government should not add to the living costs, but instead tax the more wealthy,” said Kamal.

He gave as an example the capital gains tax – a system mooted by opposition pact Pakatan Rakyat in place of the goods and services tax (GST), but shot down by Prime Minister Datuk Seri Najib Razak on the grounds that it was not business-friendly and would result in capital flight.

Kamal dismissed such an argument, noting that other countries had implemented capital gains tax without much difficulty.

“If you just favour the GST, that is being biased. Such taxes should be implemented, but what matters is that it is done without creating a disincentive. Economics is all about balancing incentives with disincentives.”

When asked if he believed the government was on the right track to improving the country, Kamal said, “I think the government is aware what needs to be done.

“The question is whether it was the political will to get it done correctly.”

He had also told The Malaysian Insider in the first part of this interview published yesterday that the government should have a national economic policy that did away with the Bumiputera agenda in favour of one that would uplift all Malaysians regardless of race. – January 3, 2015.

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