

Putrajaya must cut spending to avoid derailing deficit reduction, says ratings agency
Malaysian Insider
Oct 20, 2015

The government will have to address the issue of its shrinking coffers in Budget 2016, as the entire impact of the 60% plunge in oil prices will be reflected in its full-year financial position, said Malaysian Rating Corp Bhd (MARC).

"Revenue from the goods and services tax (GST), if it meets the government's forecast, may help reduce the fall in the overall government revenue in 2016. The challenge for the government, then, would be identifying expenditure cuts to avoid derailing fiscal consolidation efforts in place until 2020," the ratings agency said in its economic research report led by its chief economist Nor Zahidi Alias, which was released today.

MARC noted that while Fitch Ratings had on June 30 revised its outlook on Malaysia's sovereign rating to "stable", from "negative", the government should continue to undertake budget-strengthening measures, in order to meet its target of balancing the budget by 2020.

"In particular, addressing the problem of "leakages" as highlighted every year in the Auditor-General's annual reports, should be continued," it added.

MARC also said Budget 2016, to be tabled by Prime Minister Datuk Seri Najib Razak on Friday, should continue to focus on alleviating the financial burden on the lower and middle-income groups by addressing the rising cost of living, which continues to accelerate, despite meager increases in consumer and home prices in recent times.

"In particular, the implementation of GST in April, and continued subsidy rationalisation, have exerted upward pressure on the cost of living.

"Despite the moderation in residential home prices in recent quarters (Malaysian House Price Index for first quarter of 2015 of 4.1%, compared with 10.7% in 2014), prices remain elevated and continue to hurt consumers' pockets. As such, efforts to increase supply of affordable homes under various government programmes, should be accelerated," MARC said.

The agency is of the view that measures to increase the stamp duty rate for third properties onwards, could further reduce speculative activities.

It also urged the government to review property developers' practice of giving rebates that essentially enable buyers to secure properties, with 100% financing.

"Such incentive schemes, while helping home buyers with their downpayments, will cause home prices to rise at a more rapid pace, as the cost of the rebates are normally factored in the selling price of the property," MARC said.

To ease the cost of healthcare in Malaysia, the agency opined all medicines be classified as zero-rated, instead of 4,000 currently, to help people cope with the basic healthcare cost and higher living cost.

MARC said this was necessary as the Pharmaceutical Association of Malaysia estimated total expenditure on medication per year to increase by RM180 million, with the implementation of the GST.

It reiterated that a more liquid secondary market is needed to reduce liquidity risk premiums, which would in turn encourage issuers of bonds rated A and below, to enter the primary market.

"This would help address the lackluster bond origination activity in this segment. We are also of the view that the government should allocate funds to invest in investment-grade bonds that are rated A and below.

"A fund management unit can also be set up to manage the fund and be monitored by government institutions with a proven track record, such as Khazanah Nasional Bhd," said MARC. – The Edge Markets, October 20, 2015.

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