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Malaysia PM plans record budget

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Abdullah Badawi, Malaysia's embattled prime minister, plans to increase government spending by nearly 6 per cent next year as he seeks to regain popularity and fend off an opposition challenge to topple his administration.

But there are worries that the increased spending may pose economic risks, including stoking inflation, which is already at a 27-year high.

Mr Abdullah, who is also finance minister, has proposed a record M$208bn ($61.3bn) budget for 2009, including benefits for lower income groups and tax cuts for the middle class, in an effort to keep growth above 5 percent.

Infrastructure spending will rise sharply in Sabah and Sarawak in an effort to persuade disgruntled government members of parliament from the Borneo states not to support an opposition no-confidence motion against Mr Abdullah.

The opposition, led by Anwar Ibrahim, criticises the spending proposals as "populist" and says the government is depending on oil revenues to finance the spending increase even though the country's energy reserves are set to decline.

The extra spending is expected to make it impossible for Mr Abdullah to fulfil an earlier promise to cut Malaysia's budget deficit from 4.8 per cent in 2008 to 3 per cent of gross domestic product by 2010. He estimated a 3.6 per cent budget deficit for 2009.

Mr Abdullah last month partly reversed a 40 per cent rise in retail fuel prices ordered in June to curb the budget deficit.

The price rise was unpopular and contributed to Malaysia's 8.5 per cent inflation rate in July. "It is unlikely that energy subsidies will be cut further in coming months," said Nikhilesh Bhattacharyya at Moody's Economy.com.

Some commentators said that Mr Abdullah may be using the budget to set the stage for a snap election to counter a no-confidence motion. "I wil not permit the mandate given by the people to be seized from the [government], which won the last elections…based on democratic principles," he warned.

But an inflation rate fuelled by an expansionary budget could backfire on the government, with opinion polls saying price rises are seen as the most important issue facing the country.

The central bank is being criticised for not raising interest rates to curb inflation, provoking questions about its independence. Morgan Stanley, the investment bank, describes it as “one of the least hawkish central banks” in south-east Asia.

The central bank last week decided to let the benchmark rate remain at 3.5 per cent, where it has been since April 2006. Zeti Akhtar Aziz, the central bank governor, said the economy was slowing and would limit future inflationary pressures.

The governor said she was not under political pressure to keep rates on hold and the central bank earlier denied market rumours that Ms Zeti was threatening to quit.

But the cloudy economic situation is undermining investor confidence, with the Kuala Lumpur stock exchange share index falling by nearly 30 percent this year, making it one of south-east Asia’s worst performers.

Source: Financial Times Limited 2008