



**BANK
NEGARA**

Annual Report 2008

Fiscal policy to cushion impact of slowdown

Stimulus spending, lower EPF contribution among the measures

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FISCAL policy this year is geared towards tackling the impact of the financial crisis and the slowing global economy.

This led to the release of the RM7bil Economic Stabilisation Plan last November, of which RM4.7bil is budgeted for small-scale construction and development projects including the building of low- and medium-cost houses.

The balance is for upgrading and maintenance of social infrastructure and public amenities such as roads in rural areas, schools, hospitals, police stations and army quarters.

These would be funded by the savings from the lower fuel subsidy expenses.

Other measures include the reduction in employees' contribution to EPF to 8% from 11% for

two years, extension of the repayment period for civil servants' housing loans and an increase in the limit for civil servants' car loans.

Earlier this month, recognising the need to mitigate the impact of a more pronounced global economic slowdown, the Government announced a second stimulus of RM60bil, or 9% of GDP, to be spent over the next two years.

The broad thrusts of the pump-priming programme are to limit unemployment, assist and ease the burden for both households and businesses and build long-term capacity of the economy.

Of the total RM60bil, RM15bil would be in the form of fiscal injection, RM25bil for guarantee funds, RM10bil for equity invest-

ments, RM7bil for private finance initiative and RM3bil of tax incentives.

Due to the large stimulus plan, the Government's fiscal deficit is estimated to widen to 7.6% of GDP in 2009 from 4.8% last year.

This will be financed via non-inflationary domestic sources, involving mainly the issuances of Malaysian Government Securities and Government Investment Issues.

In addition, the Government would issue a retail bond, the Government Savings Bond amounting to RM5bil, which acts as an alternative saving instrument for the public.

With ample liquidity and high domestic savings, public sector spending would not crowd out the availability of financial resources to the private sector.

Federal government finance

	RM bil		% change	
	2008p	2009B	2008p	2009B
Revenue	159.8	160.8	14.2	0.7
Total expenditure	196.3	215.9	20.0	10.0
Operating expenditure	153.5	159.2	24.7	3.7
Gross development expenditure	42.8	56.7	5.6	32.4
Loan recoveries	1.0	1.2		
Overall balance	-35.6	-53.8		
% of GDP	-4.8	-7.6		
Sources of financing:				
Net domestic borrowing	35.7	-		
Net external borrowing	-0.5	-		
Realisable assets ¹ and adjustments	0.4	-		

¹ A positive (+) sign indicates a drawdown in the accumulated realisable assets

p Preliminary

B Revised budget

note: Numbers may not add up due to rounding