

# 2012 budget deficit targeted at 4.7%

Government revenue expected to increase to RM186.9bil next year

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## Budget 2012

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THE Government's budget deficit of spending exceeding its revenue is targeted to improve to 4.7% next year compared with the current 5.4%.

With the improvement in budget deficit, government revenue is expected to increase 1.9% to RM186.9bil compared with this year's RM183.4bil.

In his budget speech, Prime Minister Datuk Seri Najib Razak said that economic growth was projected to be between 5% and 6% for 2012, with this year's growth expected at 5% to 5.5% in the wake of economic uncertainties, moderation in exports and increased inflationary pressure.

There is cautious optimism over the Government's targeted deficit under Budget 2012, with observers largely positive on efforts to keep a lid on spending. This is despite the temptation to boost spending to support domestic demand in the face of a global economic slowdown.

However, economists questioned if the lower deficit target would be achievable, as revenue expectations would largely be dependent on economic performance.

## BUDGET HIGHLIGHTS

- > FELDA Global Ventures Holding (FGVH) will be listed on Bursa Malaysia by mid-2012 to raise funds for the company to be a global conglomerate.
- > Various income tax exemptions and allowances to accelerate the development of Kuala Lumpur International Financial District (KLIFD).
- > I-VCAP, a subsidiary of Valuecap Sdn. Bhd., will provide **RM200mil** as seed monies for syariah-compliant Exchange Traded Funds.
- > **RM2bil** syariah-compliant SME Financing Fund will be established in 2012 and managed by selected Islamic banks to further strengthen the small and medium enterprises' (SME) contribution to economic growth, in addition to a **RM100mil** SME Revitalisation Fund and a **RM10mil** SME Emergency Fund to assist SMEs affected by natural disasters. 
- > A syariah-compliant **RM500mil** Commercialisation Innovation Fund to be established to enable SMEs to commercialise research products with an attractive profit margin.
- > **RM978mil** to accelerate the development in five regional corridors, including infrastructure support and industry development.
- > **RM420mil** Langkawi Five Year Tourism Development Master Plan will be launched to re-develop Pulau Langkawi. 
- > The real property gains tax (RPGT) to be reviewed. Properties held and disposed of within 2 years will be subjected to a RPGT rate of 10%.
- > My First Home Scheme limit of house prices to be raised from a maximum of **RM220,000 to RM400,000**, which will be available to house buyers through joint loans of husband and wife beginning January 2012. 
- > All new government projects worth **RM50mil** and above will undergo value management appraisal to ensure benefit to the rakyat.
- > A further liberalisation of 17 services sub-sectors has been proposed to accelerate investment. This initiative will allow up to 100% foreign equity participation in selected sub-sectors.
- > Full exemption of import duty and excise duty on hybrid cars and electric cars will continue to be given until 2013. 
- > Rural Transformation Programme (RTP) to transform rural areas to attract private investments, create employment and economic activities.
- > **RM1.1bil** to be allocated in 2012 for the development of the agricultural sector. 
- > Government will allocate **RM200mil** for the development of bumiputra entrepreneurs and contractors through the Rural and Regional Development Ministry.

for granted and the state of the economy must be monitored carefully if the Government hopes to sustain growth.

"The expected growth is somewhat optimistic because we're not fully aware of the implications of the crisis enveloping the developed economies, therefore there may be revisions to the growth targets," he pointed out.

Meanwhile, AmResearch Sdn Bhd director of economic research Manokaran Mottain said that Budget 2012 was cleverly crafted, focusing on domestic demand, price stability and private sector-led growth.

"It's not the numbers that matter... the direction of spending with further reductions, consolidation and prudent spending underlying the thrust of the budget," he said.

"While the stagnant growth in operating expenditure is much appreciated, we're happy to note that the magnitude of the planned cut in development expenditure this time around is much smaller (a cut of 0.5% from 5.2% this year).

"Any aggressive restraint in development expenditure will only jeopardise the recovery process, especially when the economy is very dependent on fiscal support," he said.

But Manokaran is doubtful whether the 2012 deficit target is achievable because external headwinds will drag growth lower. "If gross domestic product (GDP)

Singapore-based Citigroup Inc senior economist Kit Wei Zheng said: "How the deficit is going to be reduced has not been made clear. The devil is in the details. While we're encouraged that the Government does care about the deficit, we have to see whether the target is achievable." He said the target was not unreasonable and that it was a signal the Government remained committed to reducing the deficit by consoli-

dating its finances.

United Overseas Bank Ltd economist Ho Woei Chen said the deficit target would, in large part, depend on whether the Government would be able to achieve the growth target for 2012. "Growth will ensure the expected revenue of RM186.9bil, which will mean less borrowing," she said.

The implementation of the Economic Transformation

Programme (ETP) projects will help boost the economy with allocations for rural development being important for long-term growth.

Transparency International Malaysia chapter president Tan Sri Ramon Navaratnam pointed out that while the targeted lower deficit was encouraging, there was the question of whether the budgetary strain arising from the reduced deficit could be accommodated,

especially if election promises were made.

"It is expected that the real pressure of constraining the deficit will take place after the elections," he said, adding that looming economic difficulties and supplementary allocations would make the deficit target harder to achieve.

To Ramon, the surprisingly strong fundamentals and continued private investments cannot be taken

growth is to suffer amid slower-than-expected progress in economic transformation projects, the fiscal deficit ratio may turn out to be much worse than expected," he said.

He estimates a fiscal deficit equivalent to around 5.2% to 5.3% of GDP and financing to remain manageable due to ample liquidity in the system, and is conservatively forecasting a 5% GDP growth next year.

## Higher EPF contribution catches employers by surprise

EMPLOYERS were generally surprised by the proposal to raise their contributions by 1% to 13% for those earning less than RM5,000, saying it would result in additional costs amid a challenging economy.

The move to increase employers' contributions to the Employees Provident Fund (EPF) is to help those with insufficient savings to bear the cost of living upon retirement. This measure is expected to benefit 5.3 million EPF contributors.

A study shows that nearly 70% of retirees used up all their savings within 10 years of retirement.

Malaysian Employers Federation executive director Shamsuddin Bardan said the federation was caught by surprise and hoped the Government would study the effective date or reconsider the implementation of the new proposal.

"Many of our members have indicated that business is not as good as it ought to be. Many are facing cancellation of orders especially

from the United States, Europe and Japan," he said.

Shamsuddin said most employers may find it difficult to absorb the additional cost if the move was implemented, and that they might reduce their manpower.

Meanwhile, Telekom Malaysia Bhd (TM) group chief executive officer Datuk Seri Zamzamzairani Mohd Isa said TM had always been making additional EPF contributions for its employees, up to 7% above the statutory rate.

"Thus, the recommended increase to 13% will not have any impact at all on our current financials," he said.

Malaysian Rating Corp Bhd chief economist Nor Zahidi Alias said that from an employee's point of view the impact would only be felt in the long term, while it would enhance the attractiveness of the employer.

Besides additional EPF contributions, three tax deductions and exemptions were also proposed to ensure the welfare of retirees upon



**Help for retirees:** The proposed increase in employers' contributions to EPF by 1% to 13% is to help those with insufficient savings to bear the cost of living upon retirement.

reaching retirement age. The three proposals are a new tax relief of up to RM3,000 on contribution to a private retirement scheme and insurance annuity for 10 years;

tax deduction on employers' contributions to a private retirement scheme for their employees; and tax exemption on income from the private retirement fund.

In the previous budget, a tax relief of up to RM6,000 for EPF and life insurance was extended to the private pension fund, which is now known as private retirement scheme.