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<td>Saleem, Saleena; Anuar, Amalina</td>
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Najib’s Mother of All Budgets: Gearing Up For 14th General Election

By Saleena Saleem and Amalina Anuar

Synopsis

The Najib government’s Budget for 2018 is widely seen as a feel-good package geared for the upcoming general election. This contrasts with the opposition coalition’s emphasis on good governance in its Alternative Budget. Which will win the public vote?

Commentary

THE MALAYSIAN Budget for 2018 is the last prior to the upcoming general election, which the UMNO-led federal government has confirmed will be held within 180 days. As such, the budget represents the government’s last opportunity to demonstrate to the electorate how it intends to address the bread-and-butter issues that are topmost concerns for a sizeable portion of the Malaysian population.

Given this objective, Prime Minister Najib Razak’s self-declared “mother of all budgets” has been loaded with vote-getting goodies. This has the potential to help the incumbent government win votes, though how well it fares will depend on a variety factors.

Feel-Good Budget Ahead of Polls

First, the budget was not overly expansionary in anticipation of the upcoming elections. Instead, it balanced fiscal prudence by maintaining a targeted downward budget deficit of 2.8%. By comparison, the expected budget deficit for this year is 3%. There are plans and budget allocations that appeared to mitigate some of the impact from rising costs.
These include personal income tax reductions, abolition of toll collections on four major highways, Goods and Services Tax (GST) exemptions on certain items such as increase in affordable housing and the continuation of the 1Malaysia People's Aid (BR1M) welfare programme.

This approach satisfied international credit rating agencies, which have so far maintained a stable outlook for the Malaysian economy. It also helped to bolster a positive perception amongst market watchers that the government remains fiscally responsible with an eye toward long-term growth, even as it seeks to be responsive to the people’s needs in an election year.

Second, the International Monetary Fund and the World Bank have projected a modest global economic recovery and a rebound in oil prices in 2018. These factors will help bolster Malaysia’s economic growth that is anticipated at 5 to 5%. This may then increase the government’s revenues and help offset losses stemming from the planned personal income tax cuts.

**Growing Foreign Capital Inflow**

The growing optimism in the Malaysian economy has already drawn foreign capital inflows of nearly eight billion ringgit to Malaysian bonds in September. Coupled with the government’s demonstrated fiscal responsibility in the 2018 budget, foreign investor confidence will likely improve.

Third, the low and middle income groups bore the brunt of the economic downturn for the past three years, but these groups will get to directly benefit from the budget provisions such as the income tax cuts, as well as from a projected economic improvement in 2018.

Given the difficulties endured by the low and middle income groups over the past three years, these benefits provide immediate relief to a large segment of the electorate. The relief is projected to improve domestic consumer sentiment and public confidence, which had been on a downward trend since 2015.

The combined effect is to contribute to a feel-good factor that will be pivotal for the incumbent government as voters go to the polls. The government will certainly leverage on this sentiment to reinforce the message that better times lie ahead. It will claim to have successfully steered the country through economic difficulties while maintaining unpopular but necessary economic policies such as the GST and abolition of subsidies.

**1MDB and Economic Austerity Measures**

To be sure, the government could not remove these unpopular policies, even though these were akin to austerity-inducing measures that worsened the impact of the economic downturn on low and middle income groups.

This was primarily because the downturn, marked by massive foreign capital outflows, the stock market fall and the ringgit’s sharp depreciation, had surfaced the debt
The government had to refrain from seeking more credit to avoid a downgrade by credit agencies, so it needed the revenues from the GST, even if it imposed pain on the people. If this pain is mitigated with the timely feel-good sentiment, it will be to the government’s advantage.

**Pakatan Harapan’s Alternative Budget**

On the other side of the political divide, Pakatan Harapan’s (PH) Alternative Budget — now in its third iteration — remained focused on the opposition’s electoral campaign issues of good governance and bread-and-butter grievances.

Even though PH’s alternative budget is peppered with populist promises such the abolition of the GST and the reinstatement of fuel subsidies, as well as a pivot to supporting BR1M, it may have a harder task in generating the same feel-good sentiment necessary for an electoral win. There are three reasons:

First, the incumbent government may have already stolen some of the opposition’s thunder by pre-emptively zero-rating additional items and administering personal income tax relief.

Second, PH’s proposal to abolish GST may alienate market actors that prefer policy stability. Coupled with the proposal to eliminate highway tolls, it also raises serious questions for voters on how PH plans to raise revenue and implement their policies.

To date, PH’s rationalisation of potential revenue sources remain vague. For example, while PH’s emphasis on anti-corruption measures as part of its good governance initiative to prevent unnecessary costs of doing business is important, it is nevertheless not a method of revenue creation. Hence, PH’s anticipated revenue from good governance measures may not necessarily be forthcoming, dampening the opposition’s ability to create public confidence and a feel-good sentiment around its fiscal governing capabilities.

Third, and perhaps most importantly, these ambiguities in PH’s vision of the Malaysian economy can create public misunderstanding and apprehension on its Alternative Budget and by extension, the opposition’s electoral campaign on the whole. If so, PH’s emphasis on good governance may not yield its desired returns.

**A Possible Win for Barisan Nasional?**

If material concerns remain foremost in voters’ minds, a feel-good budget may stack yet another card in Barisan Nasional’s (BN) favour. Pre-election polls have indicated that compared to good governance, bread-and-butter issues are more pertinent to voters.

Nevertheless, it remains to be seen if economic considerations will be a major factor in the constituencies and marginal districts that matter most during the 14th General
Election, given the salience of other intersecting issues such as religion, race, and inequality.

Saleena Saleem is an Associate Research Fellow and Amalina Anuar a Student Research Assistant at the Malaysia Programme, at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore.