from 10th on the AT Kearney's 2013 FDI Confidence Index in June – a situation CIMB Research attributed to investor expectations of fiscal consolidation measures ahead as well as a weaker mandate given to the ruling coalition. This came after FDI inflows dropped 17.4% to US$10.1 bil in 2012.

According to the Statistics Department, the level of Malaysia's net international investment position reverted to net debtor position as of December last year. The value of Malaysia's liabilities exceeded assets abroad by RM14.7 bil while assets outpaced liabilities by RM36.7 bil as at end of 2011.

Although Najib announced that net FDI was higher at RM18.2 bil in the first half of 2013 compared with RM15.9 bil during the same period last year, there was no mention of policy improvements to sustain such interest besides providing basic infrastructure and implementing high-impact projects.

The good news is that private investments-to-GDP ratio is at its 15-year high of about 18% since the Asian financial crisis in 1998, says Yeah.

"We are seeing a double-digit growth in private investments, such as in the oil and gas, petrochemicals, electronics, and infrastructure or real estate sectors," he says.

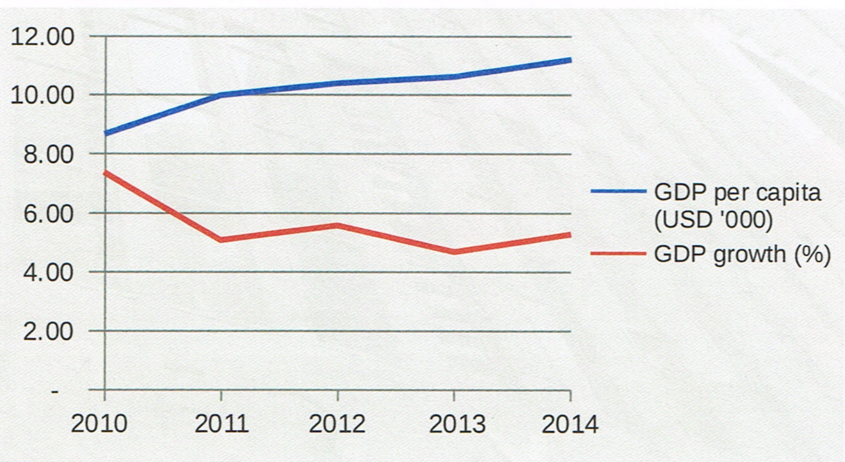
This might provide the push Malaysia needs to grow the economy in 2014.

Malaysia's GDP and public spending (2010-2014)

	GDP per capita (USD '000)	GDP growth (%)	Government revenue (RM bil)	Government expenditure (RM bil)	Operating expenditure (RM bil)	Development expenditure (RM bil)
2010	8.66	7.4	159.6	204.4	151.6	52.8
2011	9.98	5.1	185.4	229.0	182.6	46.4
2012	10.39	5.6	207.9	252.4	205.5	46.9
2013	10.62	4.7	220.4	261.3	216.2	45.1
2014	11.21	5.3	224.1	262.2	217.7	44.5

Notes:
1. GDP Growth for 2013 and 2014 are estimated to be 4.0% - 5.0% (2013) and 5.0% - 5.5% (2014)
2. All numbers for 2014 are estimates

Source: Economic Report 2013/2014



Gradual consolidation

While there is clearly a market desire for more aggressive cut on government operating expenditure, doing so within a global economic climate that is still soft might create a knockback effect that will slow down domestic demand and GDP growth.

As the government employs about 10% of the 12.4 million workforce, slashing the civil service strength by 20% will cut off a large portion of the nation's consumers, says a research analyst.

"These are people who spend, and in any economy, we need to induce people to spend for the economy to hum," the analyst says.

RAM Holdings' Yeah says that the gradual reduction of operating expenditure may be appropriate with the global economy that is still soft.

However, he hopes that if the private sector picks up more strongly next year, the government should exercise flexibility and cut back more.

"It boils down to the government's commitment to fiscal discipline and spending efficacy, which also includes rightsizing the civil service and plugging leakages," he says.

Yeah says a lower government debt-to-GDP percentage would provide a bigger buffer for the economy

This year, the government has passed two supplementary supply bills valued at a total of RM27 bil to cover the shortfall in its 2012 budget (RM13 bil) and cover unplanned overspending this year (RM14 bil).

It is therefore important for the government to stick to its spending plan as rating agencies will be monitoring closely Malaysia's fiscal health over the next year.

"The government's restatement of its commitment to lowering the federal government deficit, and introduction of the GST, are potentially constructive steps," says Fitch Ratings in a widely-covered report.

"But a track record of budget management remains key to limiting further credit pressure on the sovereign rating," it says. FocusM

▸ See page 30 – Singaporeans to stay the course in Iskandar despite curbs

Fuel subsidies are expected to be slashed in 2014 as part of the government's subsidy rationalisation plan