More measures to tighten belt?

By HARDEV KAUR

MALAYSIANS can expect more belt tightening measures in the 1986 budget in view of difficult economic conditions. The economy this year is only projected to grow at 5.2 per cent against the forecast of 6.7 per cent in the 1985 budget.

With prices of most of Malaysia's export commodities on the decline, the government's revenue is said to be trailing behind. Not only have the prices of natural rubber, palm oil, timber and petroleum fallen short of the projected level, but also exports of manufactured goods.

As Prime Minister Datuk Seri Dr Mahathir Mohamad said in Nassau, where he was attending the Commonwealth Heads of Government meeting, it will be an austere budget.

Last year, export duties accounted for some nine per cent of total federal government revenue while direct taxes such as income tax, export tax and royalty on petroleum acounted for some 86 per cent of revenue. Other sources of revenue include import taxes, sales tax, excise duty and road tax.

But with the drop in commodity prices and the slow growth of the economy, revenue to the government has been drastically reduced.

There are very few bright spots and one of them is Liquified Natural Gas (LNG). Bank Negara figures show that during the first quarter of this year LNG exports registered strong growth, increasing by an annual rate of 90.5 per cent to $629 million.

The price of natural rubber has fallen to an eight-year low and even though it has improved slightly it is still below the Treasury's forecast of 240 cents a kg. The price of crude palm oil has fallen to just $670 a tonne, from $1,211 a tonne at the beginning of the year. This is also below the forecast of $1,000 a tonne.

In 1984, the primary commodities sector contributed about 20 per cent of gross national product and about 44 per cent of total export earnings. In absolute terms, export earnings from this sector (excluding petroleum and gas) was estimated at $15.8 billion in 1984, compared with $13.9 billion in 1983.

Even the price of petroleum has softened. With the glut in the oil market Malaysia has had to cut back its production by 40,000 barrels a day since the beginning of this year thereby forgoing revenue of $900 million. This, however, does not take into account the revenue that will have accrued to the government from export tax and royalty. In addition, Petronas cut its oil price by between 50 and US 75 cents US a barrel from July 1, which means additional revenue of about $300 million forgone by the government.

The government is hard-pressed to find the revenue. With the world economy not performing very well and with some 50 per cent of Malaysia's GNP dependent on exports there will have to be rationalisation of the domestic economy. Perhaps a boost, with increase in import duty on selected luxury items, for the Buy Malaysian campaign will be timely in reducing foreign exchange outflow.

Public sector financial position is expected to remain tight as existing taxes are not projected to increase significantly, although efforts to reduce tax evasion may be intensified.

The budget will have to ensure that government investments do not have

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high import content and can generate highest possible rate of return within the shortest possible time.

With the world economic situation still not looking up, the government will have to check increases in unemployment. Job generation of each investment will be an important criteria in resource allocation.

Drastic expenditure cuts seem to be on the line. In fact, the government has shelved two projects under its heavy industries programme. They are the clinker grinding mill and a copper and copper alloy semi-finished products plant, both of which were to be located in Kelantan.

Trade and Industry Minister Tengku Razaleigh Hamzah told *Business Times* that the government is "cutting expenditure where we can. We are cutting everything except salaries." Some allowances of senior civil servants have been cut, such as travelling allowance.

The government's austerity drive initiated some three years ago is expected to continue. In terms of budgetary expenditure, federal government development expenditure was reduced by an average of about 10.5 per cent annually since 1982 through 1984. The operating expenditure was also brought under control, with annual increases of only about 5.9 per cent in the last two years.