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Anwar-Budget

1998 BUDGET -- THE PARTY IS OVER

By: Azman Ujang

KUALA LUMPUR, Oct 12 (Bernama) -- For the last six years, Datuk Seri Anwar Ibrahim has been the envy of most finance ministers, riding as he did on the crest of Malaysia's continuous 8 per cent economic growth.

Except for some "difficult" words he likes to introduce to spice his annual budget speech, Anwar's budget is always plain sailing, a straight-forward balancing act and offers little surprises.

He is normally generous, dishing out the goodies like cutting slightly corporate and income taxes, giving more money for projects to benefit the poor and the low-income group.

And for the 850,000 civil servants, a month's bonus was given for the last two years.

But when he unveils his seventh budget on Friday, he cannot afford to repeat this, lock, stock and barrel.

In fact, the message that he will ring out this time around will have to be this -- the party is over.

In Hong Kong for the World Bank and International Monetary Fund meeting last month, he promised to "put our house in order", a theme he repeated over the past week in various speeches.

The rate at which the wheels of fortunes of Malaysia's "tiger" economy have been spinning in the last three months has indeed been awesome and almost totally unexpected.

The germs of the devaluation of the Thai currency in July have spread so quickly to Malaysia and other countries in the region, giving them no chance to go for cover against the onslaught of speculative attacks by currency speculators that followed.

The attacks sent the value of the ringgit falling by over 20 per cent against the US dollar and the stock market was even worse off.

Here and there, the authorities tried to contend with the contagion effects of the Thai crisis as everyone watched almost helplessly the currency and stock market turmoil.

Malaysia and Malaysians are now poorer by at least 20 per cent and the country's rate of progress has been set back by 10 years, according to Prime Minister Datuk Seri Dr Mahathir Mohamad.

Against this backdrop, Anwar's budget on Friday is expected to be equipped with a host of measures to strengthen the economy and restore confidence in the marketplace, said economic analysts.

"The budget is the single most important thing and most timely weapon the government has at its disposal to address the problems in the light of the currency crisis," said an analyst.

A two per cent or about RM84 million across-the-board cut in government operating budget has been announced but over and above this, further belt-tightening moves to trim the fat are also in the offing, he said.

But these are not meant to make life difficult for government ministries and departments as the engines of public sector development. Rather, they have got to get used to spending less without sacrificing efficiency and productivity.

Also, the message has gone out to Malaysians to exercise financial discipline.

The recent 2 per cent cut in government spendings must have come as quite a cultural shock, judging by the many appeals received by the Treasury from ministries and departments that they be allowed to proceed

with things like holding seminars in posh hotels.

Anwar said earlier this week that such appeals would not be entertained. For example, a department wanting to organise a seminar is not allowed to hold it in a five-star hotel anymore but instead a government-owned conference hall would do.

Malaysia's civil servants, especially those in the higher echelons are a pampered lot even by the American, British or Singapore standards, especially when it comes to the supply of official cars.

A few hundred senior civil servants get to be chauffeur-driven in the latest Mercedes Benz models, a privilege not even enjoyed by senior Singapore Cabinet Ministers, or even the Prime Minister of India.

So the government has decided to provide only Proton Perdana to them, a fair bargain in these times of economic woes.

Dr Mahathir, who more often than not is driven around in a Proton Perdana, said yesterday that going Proton should be the practice not only because of the austerity drive but even after the economy recovers.

Another analyst said Anwar is also expected to come out with a wide-ranging package to curb imports, especially of luxury items and less necessary goods, as well as to encourage the imports of goods from countries whose currencies did not appreciate as much as the US dollar or British pound sterling against the ringgit.

This is to check the current account deficit, which amounted to RM13 billion last year or 5.5 per cent of the gross national product (GNP), one of the potential problem spots in an economy that otherwise boasts of strong fundamentals.

If times are hard in the public sector, things are equally so in the corporate world, what with the market capitalisation of companies listed on the Kuala Lumpur Stock Exchange wiped out to the tune of at least RM500 billion this year alone.

"The days of the corporations paying one year's or even 18 months' bonus to their employees are over,..." said an analyst.

It's not known yet whether there are companies going bust during the stock market upheaval but many are believed to be facing difficulties.

The chief executive officer of a publicly listed company said he expects the 1998 Budget to be "reasonably tough" in order to address the economic problems, but added that it should not be "unduly tough".

"It should not be unduly tough because we have also to think about our growth rates," he said.

He said although there is a surplus in terms of government income over expenditure, this surplus has to be seen to be more solid.

Although the freeze or postponement of several mega projects already announced will help, the analyst feared that this might lead to capacity constraints in some infrastructure facilities.

The focus should also be on putting a lid to consumption patterns in the country, which he said have been excessive. For example, consumers must brace for the tough times ahead by being even more price conscious, and curbing compulsive buying at supermarkets and departmental stores.

"For us in the private sector which has seen a phenomenal boom in the last decade, we may have reached a very critical watershed," the CEO said.

But he said things have started to look up in the last few days, especially with the ringgit showing signs of climbing back on improved sentiment.

The ringgit, which reached its historical low of 3.41 to the dollar in early October, recovered to 3.03 on Friday.

In the last four days of this week alone, the ringgit has recovered by about 50 per cent compared with early October.

"This is a fantastic recovery. So Dr Mahathir is right when he says

that we should not despair and panic. The recovery may well be on track," he said.

A chief forex dealer with a leading bank said the ringgit can be expected to climb back strongly in the first quarter of next year.

"I expect it to reach the 2.7 level by then", the dealer said. At the beginning of the year, the ringgit was at 2.52, its "traditional" level.

Dr Mahathir said yesterday a strategy is being worked out to lift the country out of its present economic problems but he cannot reveal it yet.

But come Friday, a major part of this strategy will have been put in place. -- BERNAMA

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