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A steady course out of the storm (HL)

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PRIME Minister Datuk Seri Dr Mahathir Mohamad yesterday proposed a bold spending and tax strategy in the 1999 Budget to end the recession and improve the economy's resilience.

The strategy will create a RM16.6 billion deficit in the Government's budget but will realise a 1 per cent growth in gross domestic product in 1999 following a projected contraction of 4.8 per cent this year.

The cost of doing business will also be cheaper with various tax breaks proposed while conventional international prescriptions for crisis-hit economies are further discarded as the Government plans to continue spending on various development projects, particularly in infrastructure development.

Of the proposed RM65.1 billion proposed expenditure (against RM47.2 billion expected revenue) for his first budget as First Finance Minister, Dr Mahathir said RM18.1 billion will be for development expenditure and RM47 billion for operating expenditure.

Broadly, the budget strategy is to create an environment where economic activities can continue and be strengthened while insulated from the regional crisis.

It also aims to strengthen resilience and competitiveness of the economy, restructure the financial sector and improve public and private sector governance, the balance of payments, and ensure social well-being.

The budget's tax strategies include exempting from stamp duty instruments for refinancing of business loans to reduce the cost of doing business. Interest income earned by unit trusts is also exempted from tax.

The life insurance industry received yet another boost, with a new tax treatment given to actuarial surplus transferred to the shareholders' fund.

Meanwhile excise duty on refrigerators, television and air-conditioners will also be abolished to enable local manufacturers compete with those from other Asean countries when the Asean Free Trade Area is implemented.

Financial institutions got more breathing space in weathering the high non-performing loans (NPLs) operating environment, where 50 per cent of the interest income in their interest-in-suspense account will not be considered as income for taxation purposes as long as they are not realised as revenue.

Additional measures to encourage mergers among financial institutions, in line with efforts to restructure the financial sector were also announced. Stamp duty and real property gains tax incurred in mergers concluded from October 24 1998 to June 30 1999 will be exempted from stamp duty.

Duties for tobacco and alcoholic beverages, however, will go up. Gaming tax and casino duties will also increase.

Meanwhile, a high-level finance committee comprising representatives of both the public and private sectors has drafted a framework to initiate improved corporate governance.

To address the high food import bill, incentives were provided for large enterprises to venture into the food production business.

Attention was also directed at the RM19.4 billion deficit recorded in the services account of the balance of payments. Further to the various measures to attract more users to the local ports, rental income from time charter and voyage charter will be exempted from income tax to develop the

domestic shipping industry.

To attract foreign investors and traders to Malaysia, more promotional efforts are required. Some RM143 million will be allocated to the Ministry of International Trade and Industry for promotional activities while RM170 million will be set aside for the tourism industry.

Organisation of events that drew international tourists have also been provided incentives. These include World Formula One motor racing which Malaysia will host one of the legs.

Income derived by the racers will be tax-exempt while 50 per cent tax exemption will be given to organisers of the event and of other international motor racing events held in Malaysia.

The Government has allocated some RM265 million for 1999 to press ahead with the caring society agenda.

While there will be a deficit in the overall account, it is only 6 per cent of the gross national product and the Government will ensure a surplus or at least a balance in its current account position.

"It is an important principle in prudent financial management to ensure that Government revenue is at least sufficient to finance operating expenditure," the Prime Minister told the Dewan Rakyat.

The Government will also register a RM9.6 billion deficit in 1998 after recently increasing allocation under the 1998 Budget by RM7 billion to finance development projects.

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