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Budget to stimulate economy (HL)

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KUALA LUMPUR, Fri. - Prime Minister Datuk Seri Dr Mahathir Mohamad today presented an expansionary Budget whose main thrust is to stimulate domestic demand and pull the country out of its first recession in 13 years.

To streamline the tax administration system, he announced a tax exemption on next year's income for all taxpayers.

In his maiden Budget as the First Finance Minister, Dr Mahathir put infrastructure development on top of the list in efforts to stimulate the economy.

Projects which have been privatised and are given priority under the infrastructure fund include rail, port and highway projects, Putrajaya, Cyberjaya and public utilities such as sewerage and waste disposal management and water supply.

The tax administration system would be streamlined in that the assessment system based on the income derived in the preceding year would be changed to the current year beginning from the year 2000.

In implementing the new system, Dr Mahathir proposed that the tax on income derived in 1999 be waived while losses incurred in that year be allowed to be carried forward.

Generous tax relief was offered to the finance and manufacturing sectors.

Incentives were also given to promote local tourism, including a proposal that one Saturday a month be declared a holiday for public servants.

Dr Mahathir in announcing this, hoped private companies would do the same.

He said the Government and the people must unite to restore the nation's economic health.

The West and institutions such as the International Monetary Fund and the World Bank could not be depended upon to help Malaysia.

"Our destiny is in our own hands," he added.

The economy is expected to grow by one per cent next year following a contraction of 4.8 per cent this year.

This projection is based on the assumption that domestic demand will improve in line with fiscal and monetary measures that have been implemented by the Government.

To boost growth through fiscal stimulus, the Government is budgeting for a deficit of RM16.635 billion - its second straight deficit after five consecutive years of surplus.

The Government is budgeting for a total expenditure of RM65.095 billion, which is 9.3 per cent less than this year's allocation.

Of the amount, RM47.042 billion is for operating expenses and RM18.053 billion for development.

The Budget strategy seeks to:

- * revive economic activities and insulate the economy from the contagion effects of the regional financial crisis to stabilise the financial market and the value of the ringgit;

- * strengthen the resilience and competitiveness of the nation's economy;

- * restructure the financial sector and improve governance in the private and public sectors;

- * strengthen further the balance of payments; and,

* ensure the social well-being of the people.

The Government will stimulate business activities through such measures as exemption of stamp duty on instruments for the refinancing of loans for business purposes.

The excise duty on refrigerators, television sets and air-conditioners will be abolished.

The interest income derived by unit trusts is to be exempted from income tax.

To encourage local companies to be more active in international trading and to enhance exports, those granted the status of "international trading company" will be given tax exemption on 70 per cent of their income derived from the increased value of export sales.

For financial institutions, it is proposed that 50 per cent of the interest income in the "interest in suspense" account not be considered as income for purposes of income tax until such income is realised as revenue. This tax treatment is granted for year of assessment 1999 and 2000.

Incentives are also given for food cultivation.

The "sin tax" on cigarettes and tobacco products, alcohol and gaming will be raised.

There will be an excess profit tax on the export of crude palm oil which, as it is denominated in US dollars overseas, has benefited from the sharp depreciation of the ringgit.

Despite the economic slowdown, the Government will continue with its programme to build and upgrade educational facilities and provide adequate health and medical services to the people.

Another priority is building houses for the poor.

The agenda for a caring society will continue through rehabilitation programmes for the needy and the construction and upgrading of welfare homes and activities to promote unity.

Efforts will be stepped up to eradicate poverty among the hardcore poor.

Dr Mahathir said it was important that the people realise the economy is in difficulty due to the depreciation of the ringgit, the decline of the stock market and the large deficit in government finances.

"Therefore, the Government hopes that everyone understands the need for the Government to undertake some measures to strengthen its financial position," he said.

"The willingness of the rakyat to sacrifice and accept these measures will hasten the process of our economic recovery."