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Parliament-Deficit (winding up)

EPF IDENTIFIED AS MAIN SOURCE TO FINANCE BUDGET DEFICIT

KUALA LUMPUR, Nov 9 (Bernama) -- The government has identified the Employees Provident Fund (EPF) as the main internal source for financing the 1999 budget deficit, Second Finance Minister Datuk Mustapa Mohamed said today.

It would not be utilising financing from the banking system so as to enable the private sector secure sufficient funding for economic activities, he said winding up debate in the Dewan Rakyat on the Supply Bill 1999.

"The EPF which can collect RM1 billion in monthly contributions has been identified as the main internal source," he said.

Two-thirds of the required deficit financing would come from domestic sources and the remaining one third, from external sources, he said.

When Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad tabled the 1999 federal budget in the House last Oct 23, he projected a deficit of RM16.635 billion for next year.

At the same time, the government was negotiating for external loans from multi-lateral agencies and certain governments, he said.

With the economy expected to recover next year, federal revenue was also projected to increase thus consolidating the government's financial standing, he said.

External debts remained negligible at RM11.9 billion as at end of 1998 or 4.6 per cent of Gross National Products with the federal government's debt servicing ratio (DSR) being only at 0.9 per cent.

"If the external debts of the private sector and non-financial public industries are taken into account the external DSR is only 7.2 per cent which is still much smaller than world DSR of 20 per cent. As such we can still borrow," Mustapa said.

On concerns over the use of public EPF contributions, Mustapa said the EPF had generally been the main client of Malaysian Government Securities as allowed under the EPF Act.

Mustapa said the investments were long-term and secure with guaranteed returns.

Mustapa said although the EPF had set a minimum 50 per cent investment in the MGS, so far it had only invested only 28 per cent since the government saw no need to borrow during the economic boom of past years.

Moreover the EPF investment in the stock market was to diversify its equity holdings besides going after long-term returns, he said.

"Stock acquisition will be based on a company's resilience and potentials. The government will ensure that investments by the EPF are constantly in order and safeguard depositors' interests," he said.

Mustapa said EPF's equity holdings accounted for only 18 per cent of its entire investments.

He also remarked on the proposal that employers' EPF contribution be reduced from 12 to 10 per cent and that employers also contribute for workers earning less than RM1,000 a month.

Presently the employer contributes 12 per cent of the worker's wage and the employee 11 per cent.

"In other countries the worker's contribution is substantial. The government feels it's justified for the worker and employer to continue contributing monthly to the EPF according to the present rate fixed by the EPF Act," he said.

Mustapa said the projected one per cent Gross Domestic Product (GDP) growth for 1999 was based on, among other things, projected 4.6 per cent growth in world trade next year as against 3.7 per cent in the current year besides national economic recovery measures.

The government was aware of the uncertainty of the international economy and a prolonged financial crisis would only affect the performance of Malaysia's trading partners and subsequently, Malaysian exports.

"On the other hand, if the global financial market could be stabilised much sooner couple with improved economic performance of Malaysia's trading partners, the demand for Malaysian exports may possibly soar surpassing earlier projections.

"As such GDP growth for 1999 may very well exceed one per cent," he added.

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