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Fine-tuning stimulus measures (HL)

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KUALA LUMPUR, Thurs. - The 1999 Budget to be unveiled tomorrow will fine-tune the stimulus measures already in place to aid the recovery of an economy hit by foreign exchange manipulation and the Asian regional contagion.

This maiden Budget of Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad is unlikely to spring surprises on Malaysians.

It is Dr Mahathir's "prescription" for the financial flu and will aim to pull the economy away from a 4.8 per cent contraction this year towards a Gross Domestic Product growth of one per cent next year.

Economists and analysts generally expect a Budget that is moderately expansionary with a deficit of several per cent of the Gross National Product.

A deficit Budget is unavoidable due to falling revenue, especially with plunging corporate earnings reported lately. The last recession in the mid-1980s saw larger Budget deficits, with the worst exceeding 15 per cent of GNP.

The measures being adopted under the National Economic Recovery Plan are expected to be formalised in the Budget, especially those relating to spurring economic activities.

Further policy directions are expected to rejuvenate the housing and construction sector. Industry players hope for measures like larger Employees Provident Fund withdrawals for home-owners, lower stamp duties and even a revised real property gains tax structure.

As the thrust of current policies have been towards an infrastructure-led recovery of the economy, there will be measures to spur such activities.

There may be institutional changes within the Government machinery to reflect fresh emphasis on infrastructure.

To balance up this loss in revenue, the Government has to increase taxes for other items.

The so-called "sin tax" on cigarettes, alcoholic beverages and gaming have been largely untouched during the surplus years.

They are likely to be increased but are unlikely to unnecessarily burden consumers or punishing enough to stop them from continuing their habits.

The Government is also likely to raise duties on exports of prime earners like rubber and palm oil and palm products.

Again, industry players expect substantial increases but they would not affect the competitiveness of Malaysian exports.

Though the Government is expected to generate domestic demand through infrastructure expenditure, banking analysts look towards a more liquid financial system as the way to crank up the economy.

Such measures are already in place with interest rates stabilising at lower levels, thanks to Bank Negara's low intervention rate in the local money market.

Loans growth may not be as robust as the central bank hopes, said a banker, because the high interest-rate regime in the first-half of the year saw more individuals and corporations coughing up cash and digging into reserves to retire loans.

"A lot more repayments were seen in April to June and these have been booked in before the order to increase lending was given," said a banker who felt the eight per cent loans growth target could only be met if there

is a sudden upsurge in lending activities coupled with less repayments.

On equity, analysts do not expect the Budget to impose further strains on the share market. As such, a tax on gains in contra trading may not materialise.

"The Budget strategy must be to strengthen investor confidence, especially domestic retail players, and bring back liquidity into the market. Any new tax will stifle interest," said a merchant banker.

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