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BUDGET-PEOPLE

PEOPLE OF MALAYSIA TOO HAVE PART TO PLAY IN ECONOMIC RECOVERY

KUALA LUMPUR, Oct 27 (Bernama) -- An international tax consulting firm says that the people of Malaysia have a part to play in the country's economic recovery besides the government and the private sector.

Commenting on the 1999 Budget, KPMG Tax Services Sdn Bhd said economic recovery which is the thrust of the budget unveiled by Prime Minister and First Finance Minister Datuk Dr Mahathir Mohamad is a collective effort by all.

Unlike the good times when employees switched jobs frequently and demanded higher wages, they can contribute by developing their work skills diligently and accepting remuneration levels in line with the current situation.

"The thing to do, amidst the pain and suffering, is to pick out the mistakes and weaknesses which the crisis has uncovered and take remedial measures to correct these weaknesses, whether at individual, corporate or country level, and come out of the whole affair stronger than ever."

"The pain and suffering would then at least have paid a dividend," the firm said in its "Malaysian Taxletter" on the 1999 budget proposals issued here today.

In achieving this, KPMG said, the government made a farsighted commitment in the 1999 Budget which contained concrete proposals in monetary measures that will go a long way towards restoring economic health.

However, what is being missed is an expected general cut in income tax rates envisaged to provide multi-faceted benefits in restoring disposable income and purchasing power in the hands of the people.

The lower income tax rates will also spur new investment expenditure in domestic demand which experienced a crash in the economic downturn with drop in car sales and weakened retail and real property sectors, the firm said.

Heightened investment expenditure, KPMG explained, will prevail as the rate of return on investment increases and improve the competitiveness of Malaysian businesses in the world markets.

Foreign Direct Investments (FDI) would come back and partly restore the lost confidence which the country was forced to endure due to other factors of increased labour costs and falling corporate earnings.

Another benefit of lower income tax rates is more money will be placed in the hands of individuals and corporations to induce spending activities or reduce personal and corporate debts which are presently inordinate when measured to the country's Gross Domestic Product (GDP).

In revealing this, KPMG also said expenditure should be prioritised. Only when a highly focused approach to spending efficiency is adopted can the economy recover speedily.

This is to ensure, the expenditure brings maximum benefits to the country at the least cost possible in view of scarce funds available, KPMG said adding further: "quality of expenditure should be high as wastes during this difficult time would be unforgivable."

The recent Budget proposals has made provisions for increased fiscal expenditures necessary to jump start a stalled economy leaving a budget deficit of 3.7 percent of the Gross National Product (GNP) next year as opposed to a surplus of 2.5 percent in 1998.

The Budget gave the private sector a breather and much help but the

economic sector must do its part to avoid adverse consequence for lenders and itself, the firm said.

It suggested financial institutions assist their clients in making adequate project evaluations before extending funds to the private sector.

KPMG said the management of financial institutions shoulder a larger responsibility to the country as well as shareholders, adding that banks cannot be allowed to fail as in that event tax payers money would be used to protect the financial system.

Meanwhile, international institutions should look into the existing global financial systems and implement measures to strengthen the system and deal with weaknesses which have been exposed.

KPMG feels that the global financial regulation regime should be reviewed as it is clear certain cogs in the system are wobbly.

The economic powers, namely the United States, European Union and Japan must do their utmost to help their more unfortunate neighbours as all countries in this world are neighbours.

A 'beggar thy neighbours' approach was against the direct interest of the first world countries as evidently clear that the longer the economic crisis prolongs the greater the extent of the contagion effect reaching their own shores, KPMG said.

In explaining this, KPMG added, the first world banks, investment funds, hedge funds, manufacturers, farmers, businesses and its people are among the few facing losses due to the destruction of wealth and loss of income.

The era of globalisation and international interdependence, prosperity and pain are felt across the globe which was deepest and most widespread in Asia.

It was perceived initially as an Asian problem and concentrated on fault-finding but has now been recognised as a global concern spreading to America and Europe.

At this point in time, KPMG said arguments and fault-finding cannot be a priority, instead focus should be on finding solutions for an economic recovery worldwide. -- BERNAMA

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