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MAHATHIR-POLICIES

MONETARY, FISCAL POLICIES TO PREVENT RESURGENCE OF PRICE PRESSURES

KUALA LUMPUR, April 22 (Bernama) -- Monetary and fiscal policies for the remaining period of the Seventh Malaysia Plan (7MP) for this year and the next will be tailored to prevent the resurgence of price pressures, said Prime Minister Datuk Seri Dr Mahathir Mohamad today.

Simultaneously, the government will ensure that growth continues to be promoted, he said when tabling a motion on the the Mid-Term Review of the 7MP at the Dewan Rakyat here.

In macroeconomic management, he said the government would focus on efforts to facilitate growth, contain inflationary pressures, improve further the external position, eliminate resource gaps and sustain prudence fiscal balance.

"Efforts to strengthen the external position will focus on increasing exports and reducing the deficit in the services account by aggressively promoting the sub-sectors of tourism, education and port services," he said.

Dr Mahathir said the public sector would take on a stimulative role while continuing to maintain fiscal prudence together with corporate governance.

"We will continue to undertake deficit budgeting at a manageable level and revert to a surplus position once the economy strengthens," he said.

Dr Mahathir said public sector expenditure would be mainly directed at projects which have a short gestation period, which would contribute towards increasing exports and reducing imports.

In addition, it would also be directed mainly at projects that generate demand for domestic goods and services as well as encourage and support projects targeted at the low-income group and poor households, he said.

In this respect, the federal government's development allocation will be increased by RM22 billion to RM89.5 billion from RM67.5 billion.

Of the total allocation, 48.2 percent will be distributed to the economic sector, 30.9 percent to the social sector, 12.8 percent to security and 8.1 percent to the general administration.

"Overall, the development allocation recommended is sustainable at 16.3 percent of GNP in current terms and 17.6 percent in real terms, which is lower than under the Sixth Malaysia Plan, reflecting our commitment to further downsize the public sector," said Dr Mahathir.

The prime minister said since the implementation of the privatisation programme in 1983, a total of 434 projects have been privatised, of which 68 were privatised during the 7MP review period of 1996-1997.

He said the government saved RM129.1 billion in capital expenditure through privatisation, besides gaining proceeds from sale of assets and equity amounting to RM21.5 billion.

In addition, more than 105,000 public sector employees were transferred to the private sector, he said, adding that these employees benefited directly from increased wages and incomes.

Dr Mahathir said privatised entities currently account for 29.3 percent of the Kuala Lumpur Stock Exchange's market capitalisation, indicating a significant contribution to the enlargement of the capital market.

He also pointed out that the privatisation of Tenaga Nasional Bhd and Telekom Malaysia Bhd have together contributed RM4.7 billion in terms of corporate tax, enabling the government to finance development projects.

Privatisation had enhanced Bumiputera participation, vendor development

programme, technology transfers and, research and development, he said.

He added that consumers also benefited from the availability of more efficient and higher quality public amenities with minimal increase in cost.

On the thrust of consolidating the financial sector for the rest of the 7MP period, Dr Mahathir said Bank Negara would further strengthen the regulatory and supervisory framework of the banking system.

He said an early warning system would be developed to provide ample advance warning on the status of individual financial institutions to enable pre-emptive measures to be taken to avert bank failures and contain associated risks.

The prime minister also disclosed that a comprehensive plan, which includes formulating new strategies for the next millennium, is being drawn up for Islamic banking.

"New guidelines and targets for Islamic banking will be introduced, including further development of Islamic banking units in existing banking institutions," he said.

Efforts would also be taken to encourage the growth of Islamic capital market, particularly those in Islamic equities, private debt securities and fund management activities.

The bond market would be developed to provide an additional sources of investment financing while reducing the concentration of risks in the banking system, he added.

Dr Mahathir said that as of April 20, 1999, Pengurusan Danaharta Nasional Bhd had acquired gross non-performing loans (NPLs) amounting to RM12.6 billion as well as managed gross NPLs including interest-in-suspense totalling RM11.6 billion.

Danamodal Nasional Bhd, meanwhile, had injected a total of RM6.4 billion to recapitalise 10 banking institutions in the form of exchangeable subordinated capital loans (ESCL), he added.

On reviving growth in the manufacturing sector, Dr Mahathir said the government would introduce measures and incentives that would help boost investors' confidence, further promote re-investment and encourage export diversification.

He said the government would heighten industrial expansion and diversification to make up for the negative GDP growth and low domestic capital formation in 1998 and more importantly, make it as a source of new wealth creation through new growth industries and advanced technologies.

Resource-based export-oriented industries will be accorded greater importance, he said.

The prime minister said special focus would be given to increasing productivity and intensifying downstream activities with attention given to production of new and improved products in the resource-based industries.

Dr Mahathir said new and existing industries would be encouraged to be more efficient in upgrading their technologies and processes to manufacture higher-end products, quality parts and components as well as improving their supply reliability.

"In this regard, industries are encouraged to adopt the ISO 9000 and the Environment Management Standards or the ISO 14001 (repeat ISO14001) series," he said.

He said EXIM Bank of Malaysia, with its RM4 billion funding facilities, would be the major vehicle in providing trade financing for the manufacturing sector.

Dr Mahathir said the SMI sector would be encouraged to merge or integrate activities to attain economies of scale, diversify their market base and penetrate global market.

The government, he added, would facilitate and expedite the greater

involvement of SMIs in the export market through Malaysia External Trade Development Corporation (MATRADE) and Small and Medium Industries Development Corporation (SMIDEC).

Acknowledging the importance of effective implementation of policies for economic recovery, he said the government would strengthen the capacity, efficiency and effectiveness of government agencies.

This would allow them to effectively meet the challenges and implement projects according to schedule and prevent delays that would invariably affect the recovery process and attainment of national development objectives.

Government communication channels would be further strengthened and information technology fully utilised to ensure effective implementation and co-ordination of policies, programmes and projects to realise the objectives of national development, he said.

Dr Mahathir also said the role of the National Economic Action Council (NEAC) would continue to be paramount as a consultative body to the Cabinet to deal with the economic problems and restore the economy.

On projecting Malaysia's gross domestic product, he said it was expected to grow by one percent this year and five percent next year.

"This optimistic scenario is based on positive developments shown in the aggregate demand, expected growth in the sectoral output, surplus in the balance of payment and sufficient aggregate savings to meet investment requirements," explained Dr Mahathir.

Turning to the world's economy, he said it was forecast to grow at an average of 2.3 percent for the 1999-2000 period. -- BERNAMA

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