

# Firm steps to

Nst 28 MAR 2001

**Statement by Prime Minister Datuk Seri Dr Mahathir Mohamad at a Press conference in Parliament House yesterday on pre-emptive measures to counter the impact of an economic slowdown in the United States.**

**W**e have successfully steered the economy out of the crisis with strong growth in GDP of 5.8 per cent in 1999 and 8.5 per cent last year. However, there is growing evidence that the US economy may experience a greater slowdown than earlier anticipated. This calls for a review of our official growth estimate of seven per cent for 2001 that we announced in the recent Budget. Growth estimates are being revised and details will be announced when Bank Negara releases its Annual Report on 28 March 2001.

The US slowdown is expected to impact adversely on our exports and growth prospects. Under these circumstances, the Government has to take pre-emptive measures to ensure that the growth momentum is sustained. Given the expected deceleration in external demand, the

Pahang and Negri Sembilan, amounting to RM1.6 billion;

- 6,600 units of housing quarters for the Malaysian Armed Forces in Kuala Lumpur, amounting to RM1.5 billion, of which RM400 million will be spent this year, and

- RM600 million in oil palm replanting subsidies and special assistance to rubber smallholders.

The Government will undertake the earlier implementation of major infrastructure and utilities projects, including the Bakun Hydro-electric Power Project and assist in the implementation of Pulau Bunting Coal Power Generation Project and Pelabuhan Tanjung Pelepas, Johor, as well as the Westport Project.

To ensure that the fiscal stimulus has immediate impact on the economy, we will closely monitor the implementation of these new projects and those already ap-

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Government will undertake the following pre-emptive measures:

#### **Increase the fiscal stimulus**

The Government will increase the fiscal stimulus by about RM3 billion in addition to the RM28.8 billion already approved under Budget 2001. This addition is expected to increase GDP growth by 1.1 percentage point. New projects that have been identified for immediate implementation include the following:

- 200 single session schools under Phase II, amounting to RM2 billion;
- 193 community colleges in all Parliamentary constituencies, of which 11 colleges will be implemented immediately, amounting to RM0.9 billion;
- four universities in Perlis, Malacca,

proved. For this purpose, a Flying Squad has been established in the Ministry of Finance.

In this regard, ministries and agencies will have to intensify their efforts in ensuring the speedy implementation of these projects. To assist ministries and agencies in expediting project implementation, the Ministry of Finance has reviewed the Government's procurement procedures. In particular, the Ministry of Finance has delegated its powers to ministries with respect to the following:

- Ministry's Tender Committee can approve tenders of up to RM30 million and up to RM50 million for selected statutory authorities and government companies;
- For restricted tenders, ministries can approve contracts not exceeding RM20

# turn wheels faster

million and for procurement based on price quotation up to RM200,000; and

- Six selected ministries can approve the procurement of capital equipment up to RM15 million.

## Promote consumption

Given the anticipated moderation in export growth in the light of a US slowdown, domestic demand has to be strengthened to drive growth.

In the 2001 Budget, higher tax rebates have already been given to the low and middle income groups, amounting to some RM434 million to encourage consumption. To further promote consumption, the following measures will be undertaken:

Temporary reduction in employees' contribution to EPF for a period of one year effective 1 April 2001. The effect of the reduction on GDP is as follows:

Rate of reduction	Increase in real GDP (percentage point)
One per cent	0.14 — 0.19
Two per cent	0.24 — 0.36
Three per cent	0.35 — 0.53

It is recommended that the employees' contribution to EPF be reduced by two per cent from 11 per cent to nine per cent.

To promote the sales of passenger cars, government employees will now be eligible for car loans every five years instead of the

present seven years. In addition, government employees will be eligible for car loans on completion of one year of service;

To encourage greater use of credit cards, the tax of RM50 on credit cards introduced in 1997 will be abolished.

## Reduce the property overhang

To help reduce excess stocks in the property market, in particular residential units, incentives provided during the Housing Campaign will be reinstated for this year with immediate effect. These incentives include the exemption of stamp duty, waiver of processing fee and higher margin of financing;

To discourage further addition in property stocks, local authorities will be directed not to approve any new construction of office and commercial space in view of the existing large property overhang; and

Changes will be made with regard to the Foreign Investment Committee's (FIC) rules and regulations pertaining to foreign equity as well as property and asset acquisition by foreigners. This is to provide a more liberal environment for foreign investors and the inflows of FDI. An announcement on the changes will be made very soon.

## Continue accommodative monetary policy

We will continue to maintain an accom-

modative monetary policy to ensure that the private sector continues to have access to funds at a reasonable cost! In this regard, financial institutions are required to achieve an annual loan growth of eight per cent. BNM will monitor closely the growth and direction of bank lending. BNM will also review the current ceiling for the purchase of shares and unit trusts.

## Promote financing of SMEs

To further improve access to financing, especially for Small and Medium Enterprises (SMEs), the size of special funds as well as the eligibility criteria will be expanded as follows:

The Food for Fund (3F) will be increased by RM300 million to RM1.3 billion;

The New Entrepreneur Fund (NEF) will be raised by RM250 million to RM1.5 billion;

The SMI Funds will be doubled to RM400 million while the eligibility criteria will be expanded to include the non-export sector;

A new Entrepreneur Rehabilitation and Development Fund (ERDF) of RM500 million will be set up incorporating rehabilitation measures such as advisory services, new contracts and financial support; and

In addition, the lending rate to borrowers for 3F will be lowered to 3.75 per cent, while that for the NEF to 5.5 per cent and SMI Fund to 5.5 per cent. Bank Negara will announce details on the additional funds.

## Promote the services sector

Measures will be undertaken to enhance incomes, revenues and foreign exchange. These include the following:

The Government will promote tourism more aggressively, particularly from Asean, West and East Asia and India;

The Malaysian Airports Holdings Bhd (MAHB) will aggressively promote the Kuala Lumpur International Airport (KLIA) as a regional hub. MAHB will study the strategies and experience of regional and other international hubs; and the Government will continue to encourage full utilisation of ports and port-related activities.

## Maintain the ringgit peg

Given the need to ensure a continued environment of predictability and certainty, the Government will also continue to maintain the ringgit peg.

In the event that the slowdown in the US economy is sharper than anticipated, the Government is prepared to undertake further measures, including bringing forward the implementation of selected projects approved under the Eighth Malaysia Plan. Government departments and agencies are, therefore, required to prepare a package of projects that can be implemented immediately if additional stimulus becomes necessary.

To complement the pre-emptive measures that the Government is implementing, the private sector must respond positively to ensure the success of the policy package. In this regard, they should aggressively enhance productivity, reduce costs and improve product and service quality in order to remain competitive.