

19/10/2001

## 2002 Budget will boost confidence

Hardev Kaur

THE 2002 Budget to be tabled in Parliament today will see more measures to strengthen the domestic economy, boost consumer confidence and cushion the economy from the slowing world economy and global trade.

Prime Minister Datuk Seri Dr Mahathir Mohamad, in presenting the Budget, is expected to outline incentives for infrastructure projects, welfare, training and retraining of the unemployed and tourism promotion.

These measures, in addition to the policy announcements, will aim to generate business and income opportunities, assist the poor, cushion the impact of external economic slowdown and facilitate private sector growth by reducing red tape and bureaucracy.

Dr Mahathir, who is also Finance Minister, will outline the impact of the Sept 11 attack in the US and the US-led military action in Afghanistan on Malaysia and the economy.

The world economic scenario has worsened since Sept 11. And even before that the US, the world's largest economy, was already on the verge of recession. Even before the attacks, economists had forecast an annualised drop of about one per cent in US GDP. Now by all accounts it is in recession and is expected to contract.

Consumer spending and confidence, which has been the bastion of the economy and pillar which supported the US economy for the last 10 years, has been dealt a blow by the attacks. According to the Conference Board its Consumer Confidence Index plummeted in September registering the largest monthly decline since October 1990.

The United Nations is the latest organisation to slice its forecast for world economic growth. Its latest forecast trims global growth this year by a full percentage point to 1.4 per cent from the previous 2.4 per cent. This, according to a UN official means a US\$350 billion (RM1,330 billion) shortfall compared to the earlier forecast, for the US\$35 trillion world economy.

For Asia, the forecast is that Asia's Gross Domestic Product will be sliced by 2.4 percentage points and is now seen as growing at a rate of 1.7 per cent - excluding Japan and China - this year. This is equivalent to about US\$50 billion in lost economic activity.

Japan's economy is expected to shrink by 0.5 per cent. China remains the only economy that is forecast to register a robust growth of 7.5 per cent.

World trade is also badly hit and is expected to finish the current year at a level unchanged from the previous year. Even next year it is expected to register a growth of five per cent against the earlier expectation of 6.5 per cent.

Malaysia, which is an open economy and has been dependent on trade from the early days, is already experiencing a decline in demand for its goods and a fall in exports as markets in its major trading partners slow and others go into recession.

In view of this, the budget is expected to look to domestic sources of demand and growth and employ fiscal policy measures. Domestic investments and increased consumer spending will be among measures outlined in the 2002 Budget.

In the face of the fast deteriorating external environment, Dr Mahathir had announced a RM4.3 billion stimulus package which was in addition to the RM3 billion announced in August.

Malaysia is not alone with its increased domestic focus. In the

aftermath of the Sept 11 attacks and the rapidly slowing world economy many countries have announced stimulus packages for their economies while others have also resorted to bailouts.

In addition to a US\$15 billion bailout for the airlines, the US Congress has approved US\$100 billion. Singapore, which registered its worst ever quarter with a minus 5.6 per cent contraction in the third quarter, unveiled a S\$11.3 billion stimulus package and Hong Kong unveiled a HK\$15 billion package.

However, Malaysia's economic fundamentals remain strong and inflation is low. With the high savings rate and ample liquidity in the system, financing a deficit budget will not pose a problem. The country's foreign reserves at US\$29.7 billion are sufficient to finance 4.6 months of retained imports and 6.2 times the short-term external debt.

With the external environment weakening and the global economy slowing down, and by some accounts in recession, the 2002 Budget will be expansionary. It will aim to strengthen domestic demand, encourage domestic spending, promote domestic growth, enhance competitiveness and increase productivity.

With greater focus and importance of the domestic economy the policies to strengthen the domestic economy will have to be targeted at sectors which offer the best rate of return and biggest "bang for the buck". Every ringgit allocated and spent must yield the best returns and benefits on the home front.

To achieve this, it is essential that various government departments and agencies speed up the disbursement, cut red tape and bureaucratic procedures. The stimulus packages and budget allocation will achieve nothing if the funds remain locked in bureaucratic red tape.

The focus on infrastructure projects in the rural areas, including education and medical facilities, is essential. Japan's former Vice-Finance Minister for International Affairs, Eisuke Sakakibara, says Malaysia's efforts to develop infrastructure around the country will help in generating economic activities domestically. "In Malaysia's case public investment could be an effective tool to cushion external slowdown."

In an interview in Langkawi, he said infrastructure investment helps generate domestic demand and Malaysia should try to substitute some of the decline in the external demand with domestic demand.

"There is a genuine infrastructure demand in your country. In rural Japan we do not need any more roads. You need them."

The 2002 Budget is expected to follow through with the stimulus package announced and incentives for infrastructure projects, welfare, training and retraining of the unemployed and tourism promotion. Some of the projects have been targeted in the RM4.3 billion stimulus package unveiled last month. More details will emerge later today.

While taxes and duties are usually what the general public looks to most in the annual budget, the annual plan also sets out the direction and spells out the policies and focus and direction of the economy.

This direction and emphasis on economic planning is just as important for the planners.