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REACTION-DEFICIT

5.0 PCT DEFICIT WILL NOT CREATE IMBALANCE IN THE ECONOMY

KUALA LUMPUR, Oct 19 (Bernama) -- The estimated deficit of five percent of Gross Domestic Product (GDP), is not expected to adversely affect the government's financial position or create any imbalance in the Malaysian economy.

Chairman of the Association of Finance Companies in Malaysia Datuk Tay Ah Lek said the 2002 Budget is prudent as the government continues to maintain a healthy current account surplus.

Prime Minister Datuk Seri Dr Mahathir Mohamad, when tabling the budget in the Dewan Rakyat here today, said that the federal government is estimated to record a deficit of 5.0 percent of GDP, amounting to RM18.6 billion in 2002.

The deficit is lower than the RM22.4 billion or 6.5 percent in 2001.

Tay said in a statement here today that the government's debt remained low and furthermore, the deficit could be easily financed through domestic and non-inflationary sources.

"The government has room for the fiscal maneuver because of the strong economic fundamentals such as low inflation, low external debt, high national savings and healthy external reserves," he added.

Tay also said that the budget is expected to boost private investment in the manufacturing, services and agricultural sectors, and is not expected to crowd out any private investment as liquidity in the economy will remain ample.

Because of the ample liquidity, the budget is not expected to affect interest rates which will continue to remain low and stable.

Dr Mahathir, who is also the Finance Minister has proposed various incentives to be given to the manufacturing, agriculture and the services sectors including allowing lengthening of the period for reinvestment, reduced import duties on some intermediate goods, income tax exemption for import substitution industries, tax incentives on agricultural projects, and reduced tax rate on income derived from offshore trading using websites in Malaysia.

Tay said that the incentives given to the manufacturing, agriculture and services sectors would have a positive impact on Malaysia's international competitiveness through a significant reduction of cost of doing business in Malaysia.

"It will further encourage investment by existing businesses and at the same time, attract new foreign direct investment to Malaysia," he added.

As the domestic economy strengthens further, it will also enhance the performance of the banking and financing sector in Malaysia in terms of high loan growth and improved asset quality.

Meanwhile, vice-president of the Malay Chamber of Commerce Malaysia Datuk Syed Amin Al-Jefri said the move to give incentives to the service sector, in particular, can help put strong footing for some of the Small and Medium size industries (SMIs).

"The chamber is confident that all the issues proposed in the 2002 Budget can spur a long-term growth for the industries and the nation's economy as the whole," Syed Amin said.

He said that the budget is friendly not only to businesses but that consumers would also gain from the individual income tax cut, salary increase for civil servants and income tax cut for co-operatives and non-residents as announced in the budget.

"We expect this to boost economic activity," he added. -- BERNAMA
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