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Budget cheer in store (HL)

KUALA LUMPUR, Thurs. - The 2002 Budget to be tabled in Parliament tomorrow should bring some cheer to many amid the gloom of a slowing global economy.

It is expected to be a broadly generous Budget, one that brings smiles to people and businesses, who are expected to benefit in the form of tax breaks - both in personal and corporate income taxes.

Tax breaks will put some extra cash in the pockets, hence encourage spending.

Hopefully, too, the sale and service taxes will be axed or suspended until the return of better days. Such measures will go some way towards boosting consumers' confidence - an important consideration to prevent the economy from stalling.

But employees' contribution to the Employees Provident Fund is not expected to be lowered further following the Government's move to reduce this from 11 per cent to nine per cent in April.

On the other hand, there is greater likelihood that the employers' contribution to the EPF (now 12 per cent) will be reduced to help ease their burden.

Civil servants can also expect some form of ex-gratia payment from the Government, a move which will help boost domestic spending.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister, is widely expected to deliver an expansionary budget, to stimulate the nation's economy and safeguard it from the global uncertainties caused by the Sept 11 terrorist attacks on the United States.

However, the general sentiment among economists is that anyone expecting a straight-forward solution from the 2002 Budget to stem the economic slowdown is likely to be disappointed.

"It will take a while before the fiscal and monetary stimulus can work its way into the real economy. "Moreover, if consumer confidence remains weak as a result of the on-going global war against terrorism, the knock-on effects of an expansionary budget may not be fully felt," one said.

Elsewhere, the tourism and hotel sectors, which have been particularly hard hit following the terror attacks, may also be given more incentives.

In addition, the property sector may receive a boost in the form of a reduction in Real Property Gains Tax to expedite the disposal of unsold properties.

Tax consultants feel that a further relaxation of the Foreign Investment Committee guidelines will also slash the property overhang.

Duties on alcohol and tobacco are expected to remain untouched.

Overall, economists believe that the thrust of the 2002 Budget will be to strengthen the country's resilience in the face of a weakening world economy, pave the way for a speedy recovery and insulate the Malaysian economy from the vulnerability of external shocks.

"As Malaysia is a trading nation, we are extremely vulnerable to external shocks, such as the US-led war against Afghanistan.

"As such, the Government will not only have to spend more but quickly to keep the country on an even keel," one economist said.

More small infrastructure projects, such as the construction of schools, low-to-medium cost houses and hospitals, may also be on the cards to boost economic activities in rural areas.

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