

07/08/2001

Change in Budget strategy?

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WILL there be a change in the Budget strategy and direction for 2002?

The Prime Minister chaired three Pre-Budget Dialogue sessions last month and heard the proposals directly from the representatives of all the major sectors of the economy. It is therefore hoped that there will be a change in Budget strategy and direction.

From now on the Treasury officials will be heavily involved in preparing the Budget that is set to be tabled in Parliament in late October.

Once the Budget's broad strategic direction is accepted by the Minister of Finance, Treasury officials will go full swing into the detailed planning and formulation of the Budget.

It will therefore not make much difference whether there is a fulltime finance minister.

However, with the Prime Minister also holding the finance portfolio, the Budget decisions are expected to be bolder and more wide ranging, instead of being too focused on the corporate sector.

In fact the public expectations would be for Budget 2002 to be much more rakyat-oriented, as the Prime Minister is more likely to look upon the Budget as a powerful instrument to alleviate some of the major social problems facing the nation.

In preparing the Budget, the revenue and expenditure and the debt financing proposals, as well as the whole macroeconomic framework, will be professionally examined by Treasury officials together with the relevant government agencies, with not much political input.

Of course, the various Budget proposals submitted by the private sector and the NGOs will be carefully studied and taken into account, especially in framing the Budget's tax and expenditure proposals.

But in the end it is the Government which has the best overall perspective and analysis of the economy that will decide on the size and shape of the Budget.

We will find that not all the private sector proposals can be taken into account because the Government will have to try hard to reduce the Budget deficit and ensure that its domestic and foreign debt is kept under control.

Budget 2002 will be particularly interesting as it will be the first Budget after the 8th Malaysia Plan and the Outline Perspective Plan 2001-2010 were tabled in Parliament early this year. It will have to reflect these Plans as an annual rolling plan.

Our Budgets have traditionally been mainly fiscal in nature in that they are primarily concerned with taxes, operating budget and development expenditures and of course the domestic and foreign borrowing that is necessary to finance the overall budget deficits.

The Budget does not usually outline new monetary proposals which are closely guarded by Bank Negara. However, it will indicate the broad monetary stance of the Government.

Malaysian Budgets have also generally been incremental in nature, that is they have rarely been radically different from year to year or very innovative.

It is thus normal to expect more of the same. However, the strategic direction can change.

Hence, with Dr Mahathir at the helm of the Treasury, would he encourage the officials to be more innovative and for the Budget to be structurally

different? For instance, the strategy could be designed to have a more domestic orientation.

Growth and income generation could be based more on local consumption and domestic investment. This could be a logical choice for several reasons.

Firstly, foreign investment is slowing down not only in Malaysia but also in the whole Third World because the so called industrial First World is in serious economic doldrums.

How can the giant multinationals increase investment abroad when they are experiencing poor profits and weak investment growth?

Between January and May this year foreign investment applications in Malaysia's manufacturing sector amounted to RM5.72 billion compared to RM8.91 billion for the same period last year. Even then, how much of it will actually be invested on the ground?

We have to examine carefully the reasons for this severe decline. To what extent is it due to domestic and foreign factors?

How can we reduce the disincentives caused by any unattractive local conditions?

Secondly, since consumption constitutes about 55 per cent of the Gross Domestic Product, any increase in consumer spending on local goods and services will have a major favourable impact on business activity and economic growth.

Spending more on domestic goods and services also reduces the strain on the balance of payments. The current account surpluses are declining and it is unhealthy to lose more foreign exchange reserves through higher imports. In June, the trade surplus declined by 31 per cent to RM3.3 billion over June last year.

If the balance of payments continues to undergo further strain, consumer associations could organise Buy Malaysian First campaigns.

We have also to be selective in our imports especially from outside Asean as our national wellbeing comes first.

The Budget could also boost consumption and keep the cost of living low by drastically cutting all import duties down to five per cent well ahead of the Afta deadline of 2003.

Thirdly, the foreign exchange reserves need to be built up to a higher level to defend the ringgit peg.

If the external surpluses do not grow stronger, it may be helpful to raise interest rates to discourage capital outflows, encourage savings as well as maintain the high level of savings that we enjoy.

Fourthly, government investment is still slow despite the RM3 billion provided as supplementary development expenditure for this year.

There is obviously still the persistent problem of a time lag between allocation of funds to the ministries and the implementation of development projects.

Is the Government's implementation capacity still weak due to poor staffing or weak systems and procedures or for other reasons?

Ministries that underspend should be pulled up and asked to explain publicly. After all, tax payers need to know why their hard earned taxes are not spent expeditiously for the public good.

Where public officials are found to be inefficient or obstructive, they should be required to pay the price for their failures.

Priority in operating and development expenditure should be given to the alleviation of poverty both in the rural areas and especially now in the depressed urban areas.

From the recent unfortunate experiences in the Old Klang Road area, it would be clear that the relative neglect of the pockets of urban poverty can cause greater volatility and instability than the poverty in rural

areas, where at least food can be cultivated.

Fifthly, the corporate tax could be reduced to provide some relief and incentive to businessmen and also be in line with the recent falling trend in corporate taxes.

Similarly, the income tax for individuals can be adjusted downward at least marginally to underline the concern for the lower-income groups, as long as these adjustments are not too burdensome on the Budget.

But what will be even more significant would be to remove the many unnecessary constraints the business community faces.

The whole range of regulations could be reviewed and revised as many are outdated. They tend to discourage business expansion and provide opportunities for corruption.

Where the regulations are obstructive and add to implementation delays and corrupt practices - prevalent at the state government and local authority levels - they should be reduced or removed urgently.

There will be no loss of revenue and the business environment will improve substantially with fewer impediments and less corruption.

But however sound the Budget 2002 will be, the real test of good governance will be in the way the Government handles the restructuring of UEM-Renong and other privatisation projects like the Putra, LRT and Star light rail systems. Hopefully there will be greater public acceptance of the solutions. There should not be another Malaysian Airlines controversy.

When the principles of good corporate governance are scrupulously applied, market confidence will rise, even if legitimate social considerations have to be taken into account. However, all those individuals who have been unscrupulous and who have let us all down should be brought to book.

Finally, the Budget allocations for environmental enforcement measures will need to be increased to raise the credibility of and confidence in the Government's administrative capacity as well as improve the quality of the environment and the living conditions of the poor in our society.

In conclusion, the Pre-Budget 2002 Dialogue was well managed. It is now clearer that the scope for major fiscal and monetary Budget measures is limited by the shrinking revenues and foreign exchange earnings, due the US and Japanese economic decline.

However, even within these constraints there can be changes in the Budget's strategic direction that would sustain national economic resilience and at the same time favour the lower-income groups to a greater extent than before.

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