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2003 deficit seen less than 4pc of GDP

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THE Malaysian Institute of Economic Research (Mier) says the 2003 Budget deficit should not be more than 4 per cent of the country's gross domestic product (GDP), with an aim of balancing it by 2005.

The Government think-tank anticipates that deficit budgets will be the norm in the next few years.

Malaysia has tabled deficit budgets since the 1998 Budget. This year's will be the sixth in a row.

"It will take a while for the Government to balance the books and we are advocating that a timetable by 2005 should be implemented," Mier's executive director Dr Mohamed Ariff told Business Times in a phone interview.

He said as the country's external debts remain low with the bulk financed through domestic borrowings, the Government will have no problems financing the 2003 Budget deficit as there is ample liquidity in the financial system.

Mohamed added that the Government will be able to take advantage of the current low borrowing cost. "Interest rates are expected to remain low due to the ample liquidity in the market ahead of a significant private sector recovery only expected towards the end of this year or early next year."

Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad said the national budget for 2003 will be in deficit again but hopefully will be contained below 6 per cent of gross domestic product.

"I don't think we will be able to achieve a balanced budget for next year, but I hope the deficit will be very much reduced compared to previously," he told reporters after chairing a pre-budget dialogue session organised by the Finance Ministry on Tuesday.

Economists said in the 2003 Budget, a deficit is in line with the current economic activity which has not yet fully recovered from the global economic slowdown.

According to them, the Government would still have to play a significant role as the prime mover of the economy as confidence in the private sector is still lacking.

"Even though I agree with the Prime Minister's argument that the private sector should start leading the way, the current weak sentiments in the business sector makes this quite difficult. As such, the Government would still have to lead the way in the near to medium term," a analyst said.

Mohamed said the Government has to continue to stimulate the economy through public expenditure such as infrastructure projects.

"The economic recovery remains fragile, as such the Government still needs to be the prime mover and the job cannot be left to the private sector," Mohamed said.

He said the Government should focus spending more resources on retraining workers for the k-economy and reinvestment on human capital.

"I expect that the 2003 Budget will have some incentives to enhance human capital. For example, the Government needs to have more programmes to help unemployed graduates," Mohamed added.

He said the 2003 Budget is also expected to incorporate incentives for certain sectors that focus on new economic businesses, with the objective of encouraging more foreign direct investments (FDI). "The businesses would likely involved information technology and value-added industries."

According to the investment fraternity, the declining trend of FDIs is a

global phenomena due to excess capacity and the global economic slowdown.

"Even China, once feared for (attracting the most) FDIs in Asia, is also experiencing a slowdown in investments. China is now grappling to digest recent years of high FDI flows," an analyst said.

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