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REACTION-BANKING

2003 BUDGET WILL NOT EXERT ANY PRESSURE ON INTEREST RATE

KUALA LUMPUR, Sept 20 (Bernama) -- The Association of Finance Companies of Malaysia does not expect the 2003 Budget to exert any pressure on interest rates in view of the current excess liquidity in the economy.

It also does not expect the Budget to cause any "crowd-out" effect or displacement of private investment, said the association's chairman Datuk Tay Ah Lek.

Commenting on the Budget, which was unveiled by Prime Minister Datuk Seri Dr Mahathir Mohamad today, Tay said that although it was a deficit budget it was still prudent.

The implementation of a deficit budget of 3.9 percent of gross national product (GNP) would generate economic activity and maintain macroeconomic stability, he said in a press statement following the Budget announcement.

"The deficit is not a concern as it is due to the development budget. Furthermore, this type of deficit is considered productive as it enhances the productive capacity of economy," he said.

Tay said the current account of the government is expected to remain in a large surplus of around RM18 billion, which is higher than this year's surplus.

He said the ratio of the government's debt to GNP is expected to remain low and manageable.

Tay also said financing the deficit was not an issue given the government's healthy financial position.

"Furthermore, the national savings is high and the liquidity is ample. The source of financing for the deficit that is through domestic borrowing is non-inflationary," he said.

For Malayan Banking Bhd's (Maybank) president and chief executive officer Datuk Amirsham A. Aziz, the 2003 Budget's strategy to shift the engine of growth to the private sector was an appropriate policy stance especially after several years of expansionary fiscal policy.

In fact the proposal to have a lower corporate tax rate for small and medium scale industries (SMIs) would further boost the development of local businesses and spur domestic investment, he said.

Dr Mahathir has proposed that the corporate tax rate of SMIs with a paid-up capital of RM2.5 million be slashed to 20 percent on chargeable incomes up to RM100,000 from the present 28 percent.

Amirsham said Maybank on its part would provide sufficient resources to make the strategic shift a success.

Meanwhile, Association of Banks in Malaysia chairman Dr Rozali Mohamed Ali said that incentives given in the 2003 Budget particularly on SMIs and selected sectors of the economy would create more viable projects for banks to finance aggressively.

He said demand for loans in the banking sector in the first half of the year had been relatively weak notwithstanding the all time low interest rates.

This was due to uncertainty in the international economy and the fragile recovery that was observed then, he said.

Rozali said the association also lauded the measure to allow expenditure incurred on issuance of Islamic Private Debt Securities (IPDS) as a deduction for income tax purposes for a period of five years.

He said the move was in a right direction to develop Malaysia as one of the centres for Islamic funding.

When presenting the Budget, Dr Mahathir said the incentive was proposed to promote IPDS based on the principles of "mudharabah", "musyarakah" and "ijarah", as such securities were preferred by investors from Middle East.

Southern Finance Bhd, meanwhile, remained upbeat over the automative industry prospect as 2003 Budget contained strategy to stimulate consumer confidence.

Its chief executive officer Abdul Rahim Mohd Zin said factors like the civil servants bonus, increase of per capita income by five percent to RM14,000 as well as the GDP growth would help to stimulate consumer confidence.

Dr Mahathir brought cheer to the nation's almost one million civil servants with the announcement of a one-month bonus or a minimum of RM1,200 for their hard work and dedication.

The prime minister also announced that the Malaysian economy would grow by an encouraging 6.0 to 6.5 percent next year.

Abdul Rahim said that despite no change to import duty, the car industry will continue to grow with these factors influencing the need for a better lifestyle.

With this, the purchase of both national and non-national cars would upsurge even though the country is preparing for AFTA in 2005, he said.

Abdul Rahim said Southern Finance would continue to support the automotive industry with strategic and innovative programmes for the market. -- BERNAMA

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