Dr M leaves prudent legacy, say analysts

[SUNN] 1 4 SEP 2003

KUALA LUMPLJR: When Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi takes over as the fifth premier in November, there will be few economic worries on his mind.

Prime Minister Mahathir Mohamad shuffled the cards in his farewell budget, ending six years of pump-priming to cut a towering deficit and setting the economy on a sustainable track for his successor, analysts say

The prudent Budget 2004 pins growth at 5.5% to 6%, up from 4.5% this year, and aims to shrink the deficit to 3.3% of gross domestic product from 5.4% this year through a 21% drop in development expenditure.

It is the seventh straight deficit and the government hopes to balance the books by 2006 by making the private sector the growth engine.

"Mahathir has set a sustainable growth track and reduced the burden on his successor to balance the budget," said Azrul Azwar, economist with MIDF Sisma Securities.

Therefore, Abdullah can focus on polls widely tipped to be called early next year, Azrul said.

Chew Theam Hock, tax partner at KPMG, said the restraint was understandable following a RM7.3 billion stimulus package in May

"There will be a bit of disappointment for (those) hoping for cuts in personal taxes. After all, it is his last year but it's reasonably decent and when you have limited bullets, it's best to use them sparingly"

"My concerns are that the targets are slightly tough to achieve and the corporate tax rate is increasingly unattractive, which could hurt investment," said Nizam Idris, economist with Singapore-based IDEA Global.

Malaysia's corporate tax is higher than Hongkong's 16%. Singapore's 22 %, South Korea's 24 % and Taiwan's 25%. But it is lower than 30% in China. Thailand, Indonesia and Brunei, and 32% in the Philippines.

But Mahathir said investors have received sufficient tax breaks and Malaysia wanted to cut dependence on foreign investment and build up small and medium-sized industries which make up 90% of local firms. AFP