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BUDGET-REACTION

M'SIA STAYS ON COURSE WITH 2004 BUDGET, SAYS BT

By: Salbiah Said

SINGAPORE, Sept 18 (Bernama) -- Malaysia has taken the first step in steering its economic ship on a more prudent course with its 2004 Budget plan, says Business Times (BT) in its editorial.

After six years of pump-priming that saw the Budget move from near-balance to a deficit of 5.4 percent of Gross Domestic Product (GDP) this year, the Malaysian government has reversed course, it adds.

"Last Friday's Budget plan surprised - positively - with its prudence," it says.

The run-up to the Budget announcement, it says, had been marked by speculation that Prime Minister and Finance Minister, Datuk Seri Dr Mahathir Mohamad would mark his farewell with a bagful of goodies to reward his mostly urban political base and shore up corporate loyalists.

There were expectations that personal income tax would be slashed by as much as nine percentage points for the middle class and corporate tax rates aligned with Singapore to put the country's corporations on a more competitive footing, but as it turned out, neither materialised, says BT.

The only fiscal benefit on the corporate tax front, says the newspaper, was reserved for small and medium enterprises, which saw the threshold for chargeable income subject to the lower corporate tax rate of 20 percent announced last year raised from RM100,000 to RM500,000.

This was not surprising considering the about-turn in Kuala Lumpur's pump-priming stance, it says, noting that the huge 21 percent cut in development expenditure would not have made sense if there were heavy giveaways on the revenue side.

"Even with the cutbacks and stoic reserve over corporate and personal income tax, KL is still projecting a deficit of 3.3 percent of GDP in 2004. It would otherwise have been hard put to achieve a balanced budget anytime soon, having abandoned its aim of a balanced budget by 2005," says the editorial.

The newspaper describes the fiscal prudence as a step towards removing what had been a growing worry for financial markets over the ever-widening revenue shortfalls and how they would be financed.

"However, there will need to be a strong pick-up in the private sector as an engine of growth if Dr Mahathir is to achieve his growth projections, as well as his revenue targets," it says.

With Dr Mahathir also promising an accommodative monetary policy and the banking system flush with liquidity, interest rates are likely to remain low, boosting consumer spending, it says.

"This suggests that near-term growth targets are attainable. The bigger challenge is on the investment front. Dr Mahathir has clearly charted a steady shift away from a dependence on foreign direct investment (FDI) as an engine of growth," the editorial says.

In his Budget speech, Dr Mahathir explains that much of FDI has in any case been funded from domestic sources and there has been little technology transfer, or backward and forward linkages.

But the fact remains that domestic investment would have to pick up substantially if FDI into Malaysia is to decline sharply, it says.

"While there was no hint that this is indeed what Dr Mahathir is anticipating, the absence of headline-grabbing incentives for foreign companies - read a cut in corporate tax rates - is a cause for concern," BT says.

Dr Mahathir, says the newspaper, may have been encouraged by data that shows FDI inflows are improving, albeit at much lower levels from the boom years.

Instead, Dr Mahathir coined a new term - DLI, for domestic-led investment - to signal his new emphasis on the SME sector, it adds.

"Given that the FDI picture is unlikely to ever return to the heady days of the 1990s, because of foreign investors' love affair with China, this may arguably be defensible.

And with factories operating at high capacity, fresh investment may indeed be just round the corner," it adds.

"So, while Malaysia has taken the first steps in steering its economic ship on a more prudent course, the markets will be watching closely to see how things actually turn out - especially the extent to which Dr Mahathir's newly favoured DLI is forthcoming," says the newspaper. -- BERNAMA

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