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Govt favours gradual cut in deficit, says Nor Mohamed

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THE Government will now opt for a gradual reduction of the deficit instead of the earlier stated objective of a balanced budget by 2006.

Second Finance Minister Tan Sri Nor Mohamed Yakcop, speaking to 21 of the region's top fund managers, said the deficit had been reduced from 5.6 per cent two years ago to 5.5 per cent last year. It is expected to be reduced further to 4.5 per cent this year.

"(Prime Minister) Datuk Seri Abdullah Badawi has directed that we continue to lower the fiscal deficit through fiscal prudence.

"The deficit will grow lower and lower," he assured the fund managers at a meeting in Putrajaya yesterday.

Nor Mohamed said: "Question is, why not zero? That is the ideal situation. But we cannot do it for practical reasons."

He explained that as a developing country, Malaysia must continue to emphasise on growth of between 5 and 7 per cent annually or even higher.

"As envisaged by our previous Prime Minister, Tun Dr Mahathir Mohamad, we need good growth year in, year out to achieve developed nation status.

"For a multi-racial country like Malaysia, growth is good because we do not believe in robbing Paul to pay Peter. We want the economic pie to grow to ensure there is greater wealth to be distributed to all Malaysians. Growth is and will continue to be very important," he said.

Putting his argument in perspective, Nor Mohamed related that since 1957, when Malaysia gained independence, there was a provision that allowed the Government to borrow money from the central bank if it got into trouble.

Many other newly independent countries had the same provision.

"But even in our darkest hour, the Government did not borrow. Fiscal prudence has always been our hallmark," he said.

He added that even foreign borrowing was kept at a minimum and when the financial situation was good, the country pre-paid its loans.

As such, he said, given the Government's record on fiscal prudence and the push for growth, a quick prescription for zero deficit would result in a crunch and "will serve no purpose".

A crunch would be detrimental to growth and to the socio-economic ideals which had kept the country stable and peaceful.

"The momentum on reduction of the deficit is a given. But it will be an orderly reduction," he said.

Nor Mohamed cited the shelving of the RM14 billion double-tracking project as an example of the administration's fiscal prudence.

"We will continue with prudent policies and we will continue to have growth," he added.

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