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The government strikes back

THE announcement of the economic stimulus package on May 21 by Prime Minister Datuk Seri Dr Mahathir Mohamad was timely. The package is more important in its confidence-boosting elements than the direct measures spelt out to reduce the impact of SARS on certain sectors - as the former indirectly has a multiplier effect on the latter. It was reported that the RM7.3 billion package is above most analysts' expectations - and its effects should flow into the economy quickly.

Most economists have noted that the indirect impacts arising from the loss of business confidence and consumer spending have outpaced the real hit to the local economy. As expected, the package does not just concentrate on the SARS-hit sectors but outlines all-round strategies to rebuild consumer sentiment and business confidence.

The package contains 90 measures covering a broad spectrum of the economy. It is a four-pronged strategy to encourage private consumption, to ease the burden of SARS-stricken industries, to promote the inflow of FDIs and to tap new growth areas. Some of the main measures to help industries hit by SARS and those aimed at encouraging spending and rebuilding consumer confidence are listed below.

Tax rebates and incentives for tourism-related sub-sectors:

- * A 5% discount in monthly electricity bill for hotel operators from June 1 to Dec 31, 2003.
- * A reduction of 50% in six-month road tax for taxis.
- * An exemption of service tax for hotels and restaurants from June 1 to Dec 31, 2003.
- * The abolishment of service tax on complimentary rooms in hotels beginning June 1, 2003.
- * A RM1.0 billion Special Relief Guarantee Facility to help tourism sector operators. Financial institutions are also advised to restructure and reschedule loans of workers in the tourism industry who have taken pay cuts.
- * A monthly critical allowance of RM400 for doctors and RM200 for other medical staff handling SARS, backdated to April 2003, until SARS is over.
- * 50% cut in rentals for duty-free shops and other outlets at Malaysian airports.
- * A RM100 million grant to local authorities to maintain public cleanliness.

As was the case in Singapore and Hong Kong, the above measures deal mainly with tourism-related businesses, namely tour operators, hotels and taxis. This move will reduce their costs and tide them over the current tough operating environment.

A number of retail shops and restaurants in Hong Kong have closed down due to a drastic drop in revenue. The above measures are thus proactive steps to prevent the same situation from happening in Malaysia if the SARS outbreak turns out to be a prolonged affair. The rationale is to prevent a hike in unemployment, a situation that will further weigh on low consumer confidence and create a dampening effect on the economy. It is also aimed at promoting local tourism and attracting the return of tourists from other countries.