

EMBARGO
until 4.00 p.m. on
23 October 1998

**(To be checked
against delivery)**

THE 1999 BUDGET SPEECH

By

**Y.A.B DATO SERI DR MAHATHIR BIN MOHAMAD
PRIME MINISTER OF MALAYSIA / MINISTER OF FINANCE I
INTRODUCING THE SUPPLY BILL (1999)
AT THE DEWAN RAKYAT
ON 23 OCTOBER 1998**

Mr. Speaker Sir,

1. I beg to move that a Bill intituled **“An Act to apply a sum from the Consolidated Fund for the service of the year 1999 and to appropriate that sum for the service of that year”** be read a second time.

INTRODUCTION

Mr. Speaker Sir,

2. The Malaysian economy is still mired in the regional financial crisis that has swept across a number of East Asian countries since the middle of 1997. Although the crisis has continued for almost 16 months, there are still no signs of stability. In the meantime, several Asian countries have fallen victim to currency speculation and volatile short-term capital flows. In fact, Hong Kong, a free market with substantial foreign reserve holdings was also not spared from pressures on its currency and stock markets. The crisis has also spread to Russia and the Latin American countries. Despite this, the international community has not shown any sense of urgency, determination and commitment to addressing this problem. The international community, including the International Monetary Fund (IMF) has established several committees and working groups ostensibly to create a new architecture for the international financial system. These were merely rhetorical sessions with no concrete solutions. In the meantime, it is obvious that more and more countries have been affected by the economic crisis. The breakdown of the global financial system may also become a reality.

3. Since the onset of the crisis more than a year ago, countries that have been affected by the turmoil like Thailand, Indonesia and South Korea have implemented a variety of macroeconomic adjustment measures and financial reforms, including measures to tighten monetary and fiscal policies as required by the IMF. These measures, according to the IMF, will restore international investor confidence in the currency and stock markets of these economies besides shielding them from systemic risks of the financial crisis. Unfortunately, investors were not convinced and speculators continued to exert pressure on the currencies and shares until the economic situation worsened. The management of the economy became more difficult and the cost of business increased. Banks' non-performing loans (NPLs) increased and companies incurred substantial losses. The Governments were also unable to collect sufficient revenue to finance expenditure.

4. Although Malaysia was not under an IMF programme, we had initially adopted an approach, which was recommended by them to crisis-affected economies. Bank Negara had increased interest rates on loans and curtailed credit. The period for classifying NPLs was reduced from six to three months on 18 October 1997. Overall credit growth was limited to 25 percent in 1997. In fact, there were also suggestions that banks facing difficulties should be immediately closed.

5. These measures which were implemented over a very short space of time were obviously detrimental to the financial markets and the economy.

6. Shortening the period for NPLs when the Ringgit and share market were fast depreciating and under repeated attacks by speculators, in a regime of high interest rates was unwise as due consideration was not given to the potential negative effects that could occur. The amount of additional loan-loss provisions that had to be made by banking institutions to comply with the 3-month NPL period and 20 percent specific provision policy was approximately RM7 billion. Therefore, the actual profit recorded was only RM169.8 million for banking institutions for the financial year 1997. There was really no reason to tighten the NPL since the banking system had more than adequate provision for bad loans.

7. When credit growth of 25 percent was set as the target for 1997, a number of financial institutions had already exceeded the target. Banks were forced to withdraw credit facilities and ceased to extend loans or new credit. This resulted in companies, entrepreneurs, businessmen and individuals facing serious cash flow problems to the extent that their businesses were severely affected and debt repayments could not be made.

8. Even though the nation's economic and financial position had obviously deteriorated, a tight monetary policy continued to be implemented by Bank Negara and those responsible for supervising the economy. They were completely taken in by the IMF, which was perceived to be the authority in economic policy.

9. Although the National Economic Action Council (NEAC) had since January 1998 proposed a variety of appropriate measures to restore economic recovery, Bank Negara was reluctant to implement them. Throughout this period, Bank Negara maintained that the banks remained healthy.

10. In normal circumstances, countries that implemented IMF measures received billions of dollars. However, we did not receive even a single sen although we implemented similar measures.

11. In the meantime, the world economic situation continued to worsen. Although the developed countries in Europe and North America have maintained that they would not experience any negative effects from the East Asian economic crisis, it is patently clear that over time, even their economic and financial positions were beginning to deteriorate.

12. In the light of this development and the reluctance of the developed countries to take action to contain the activities of currency traders, we had no alternative but to pursue our own course of action to protect our economy. We have to reiterate our belief

that “Kita boleh” (we can do it), that this is our nation and we are solely responsible. The Government and the people must unite in efforts to restore the nation’s economic health. Others will not help us.

13. Therefore, the Government felt that the nation had to try another approach, albeit, unorthodox. A thorough study was undertaken by the NEAC on alternative approaches that could save the nation.

14. It became clear that the nation’s economic and financial problems were caused by currency traders who manipulated to depreciate the Ringgit, thereby impoverishing both the nation and the people. The NEAC therefore, decided to protect our Ringgit and shares from being traded by foreign parties. By making the Ringgit an acceptable currency only in Malaysia, and preventing the re-entry of offshore Ringgit, our currency was no longer accessible to currency traders. They have, therefore, been forced to bring back the Ringgit immediately to Malaysia and that in turn, enhanced our banking liquidity. They are also unable to appreciate and depreciate the value of the Ringgit as they please. The power to determine the value of the Ringgit against foreign currencies once again reverted to the Government. As anticipated, off-shore Ringgit was brought home. Repatriation of Ringgit from abroad contributed mainly to the increase of deposit of currency notes by Malaysians of RM 1.5 billion at end September and in addition as at 8 October 1998, RM4.9 billion were deposits in external accounts held by non residents in the Malaysian banking system. As a result, our banking system had sufficient funds to provide loans.

15. In the country, the Ringgit can be used as usual. Foreign currencies can be exchanged with the Ringgit only in Malaysia. There are no problems in purchasing imported goods since there is adequate foreign exchange convertible to the Ringgit to pay for such imports. Sales of Malaysian goods to foreign countries will be settled in foreign currencies so that the country can acquire sufficient foreign exchange to pay for imported goods.

16. Meanwhile, the pressure on the stock market is being addressed by ensuring that all trading of Malaysian shares not transacted through the Kuala Lumpur Stock Exchange (KLSE) be considered invalid and will not be recognised. With this, the trading of shares in Singapore through the Central Limit Order Book or CLOB is no longer possible. It was this market which caused the sudden and drastic decline in our share prices. Rumours, which were often created and disseminated in Singapore to influence the market and which would bring down our share prices could no longer affect us. All shares must be traded in the KLSE in the name of the beneficial owners and no longer in the names of nominees. This is because trading between shareholders in the names of nominees

need not be registered with the KLSE. Their trades, however, influenced the share prices in the KLSE. With the elimination of the nominee system, the hidden trades between registered owners through the same nominee is no longer possible. Trading in shares becomes more open and transparent. Therefore, all trading of shares is brought back to Malaysia. All share trading and commissions will be undertaken and earned by Malaysians and Malaysian brokerage firms. The brokerage companies need to intensify efforts towards enhancing efficiency, strengthening their financial positions and also consider mergers. This will also contribute to increasing Government revenue.

17. As the Malaysian currency and shares of Malaysian companies could no longer be traded by foreign parties, when the Government took action to revive business and the nation's economy, currency traders and foreign investors could no longer threaten and exert pressure on the stock market to thwart Government's efforts. Consequently, several measures could be undertaken to revitalise the nation's economy.

18. Some of the early measures taken were to reduce the interest rates on loans and ease restrictions on debt repayments by banks. The period for classifying NPLs was extended from three to six months.

19. The Government encourages infrastructure development, as it will revive almost 120 industries related to producing building and other materials. Loans for purchases of vehicles and houses have also been made easier.

20. At the same time, the Government was able to establish an asset management company, Danaharta and a special-purpose vehicle, Danamodal, as well as several other funds to address the financial problems brought about by the depreciation of the Ringgit and the fall in share prices.

21. With these measures in place, there has been some revival in economic activity and there are already clear signs of a recovery. Foreign exchange reserves have increased from US\$20.2 billion at the end of August 1998 to US\$22.99 billion as at 22 October 1998, sufficient to finance 4.4 months of retained imports. This increase among others has been due to gains resulting from the strengthening of some currencies against the US dollar. Reserves are not entirely held in US dollars. A significant proportion is being held in currencies of major trading partners. This will ensure that our reserves would not decline should the US dollar depreciate as it did just recently.

22. Our international trade has also registered good performance. The trade balance for the first eight months of 1998 showed a surplus of RM32 billion.

23. Sales of passenger cars increased from 5,641 units in February to 12,338 units in September 1998. There are many more indicators to show that the economy is improving.

Mr. Speaker Sir,

24. In the meantime, the performance of the world economy was not encouraging. The collapse in value of the Russian Rouble gave rise to very negative effects for the European and Latin American economies. The collapse of the Rouble adversely affected the performance of one of the largest hedge funds, namely the Long-Term Capital Management Fund (LTCM).

25. Since hedge funds are not supervised in any way and lending to hedge funds have not been monitored, hedge funds including LTCM have been able to leverage up to 200 times its capital. In the case of LTCM, with a capital of US\$4 billion it was able to borrow US\$120 billion. Subsequently, this sum was used by LTCM to borrow US\$1 trillion, that is, one million million dollars. Almost all the giant banks of the West provided this large sum. Following the problems at LTCM, UBS, the largest bank in Europe, experienced losses of US\$700 million. There were other funds and banks that experienced losses of more than US\$1 billion.

26. Given the great likelihood that their financial system would completely collapse, the Federal Reserve Bank of the United States, compelled western banks to bail out LTCM through the granting of loans totalling US\$3.5 billion. The depositors' money was utilised to facilitate this bailout. The fact that the banks' directors who provided the money for the bailout were also investors in LTCM was not at all perceived as unethical. If Asian countries did this, they would most certainly have been accused of cronyism and the abuse of power to assist their cronies. They did not just help their cronies, but used other people's money to help themselves.

27. The collapse of LTCM will also affect other financial institutions and this may adversely affect the U.S. economy. As it is, the US dollar has fallen sharply against the Yen. The US dollar, which was previously equal to 140 Yen, had fallen to an intra-day low of 112 Yen.

28. Although the Yen has strengthened, the Japanese economy has not yet shown signs of recovery. According to Western experts, when the value of a currency strengthens, the economy should improve. However, the strengthening of the Yen has not been accompanied by a rise in the Japanese stock market. Once again, it is clear that Western experts do not really understand the factors influencing economies and markets.

29. However, Japan has tried to revive its economy using various policies. What Japan did was criticised by Western experts as 'too little too late'. At the same time, Japan is criticised because it has not assisted in the recovery of Asian economies.

30. But when Japan proposed the Asian Fund and offered US\$100 billion, the United States pressured Japan to withdraw the proposal because it undermined the power that the IMF had over the financial policies of countries in the East. Now, Japan has once again offered US\$30 billion as loans to Asian countries. We hope that the United States will not, once again, oppose it.

31. As the West can now see the possibility that they too, may face a financial crisis as a consequence of currency trading by hedge funds, they have begun to speak a little about the importance of controlling currency trading. Several meetings have been planned, including one by the Prime Minister of the United Kingdom. The IMF and World Bank have also had many discussions on the subject.

32. However, up to now, their actions have been limited to mere talk. It does not appear that they intend to regulate currency trading. We are concerned that if they impose any rules, they will be directed at saving their own economies and finances only. The interests of developing countries like Malaysia are not important to them. They only want to retain their dominance over developing countries in order to further their own political and economic position.

33. As such we cannot depend on their assistance. Our destiny is in our own hands.

34. They condemn the recent measures we introduced. They frequently ask when will we remove the controls on the trading of our currency and the restrictions imposed on the complete take-over of our banks and companies.

35. Although we believe in free markets and the free flow of capital, we have witnessed how they can abuse this freedom. We have seen their greed to the extent that they were willing to rob the poor to enrich themselves. We have also witnessed how they can destroy the world economy.

36. We will, therefore, not allow them to trade our currency as they please. As long as they do not put in place rules to effectively control the trading in currencies, we will not permit the value of our Ringgit to be determined by them. They are of the opinion that controls on currency trading cannot be long-term in nature. However, in China where currency trading has never been allowed, the economy in fact remains healthier when compared with the other Asian countries.

37. Our measures do not restrict foreign direct investment and do not also prevent the repatriation of profits. At the same time, trade between Malaysia and other countries continue to be promoted.

38. Similarly, our stock market remains open to foreign investors. The only condition is that the trading of shares must be more transparent to the public and the Government. There is no reason why the sale and purchase of shares should be kept a secret.

39. The lack of transparency in the trading of shares has resulted in several rules being broken, in particular by foreign traders in our stock market. Rightly, any party that owns more than 5 percent of shares in any one company should inform the KLSE as required by the rules on disclosure. But, because trading was kept confidential, disclosure did not take place. Even when ownership reached 33 percent, they did not make a public offer to buy the remaining shares. They also ignored the principles of the New Economic Policy.

40. Many abuses took place because KLSE rules were not enforced or enforcement was not possible.

41. The laws and regulations that are now being enforced will bring order to the stock market. This will make the KLSE stronger even though the share indices are not likely to reach the extremely high levels it did before, when share prices did not reflect asset values or the performance of companies.

42. The nation's economic growth may not be as high as in the past. This is because all our trading partners are experiencing an economic slowdown. All the countries in Asia, Europe, and North and South America are experiencing low growth. As we are a trading nation, the recession in the economies of our trading partners will obviously affect our growth adversely.

43. However, with discipline, determination and perseverance, the economy will recover in 1999. We expect that the economy will grow by one percent.

II. MEASURES FOR ECONOMIC RECOVERY

Mr. Speaker Sir,

44. Economic recovery measures are being implemented under the National Economic Recovery Plan (NERP) as formulated by the NEAC. This Plan aims at freeing the nation

from the grip of the regional financial crisis and subsequently, to place the nation's economy on a stronger footing.

a. **Recovery Of The Banking Sector**

45. The depreciation of the Ringgit and the decline in share prices has had an adverse effect on the banking sector. Many companies, including large corporations that have borrowed from the banks were unable to repay loans from their cash flows. The situation worsened when interest rates were increased and the period for NPLs shortened.

46. As the value of the banks' shares had also deteriorated, bank customers became concerned that Malaysian banks were facing problems. They then transferred their deposits to foreign banks in Malaysia or deposited their Ringgit in banks overseas.

47. All these meant that Malaysian banks were unable to provide sufficient funds to finance business activities. The percentage of NPLs rose in the meantime while the banks' capital contracted substantially.

48. To address this problem, the Government set up Danaharta that will purchase the NPLs of the banks and manage the recovery of these debts, as well as manage the recovery of affected companies. This will free the banks from the burden of debts that had prevented them from providing loans to their customers.

49. The total funding required by Danaharta to remove NPLs from the banking system has been revised from RM25 billion to RM15 billion following the improved liquidity and lower interest rates. The reclassification of NPLs would also result in a moderation in the growth of NPLs.

50. Danaharta will acquire up to RM8 billion of NPLs from 21 financial institutions by the end of 1998. In addition, Danaharta has agreed to manage the NPLs of Sime Bank Berhad with a gross value of RM6 billion. Danaharta is expected to take over NPLs at a much faster rate than anticipated when it was first set up. To promote transparency, starting from 31 December 1998, Danaharta will publish details of NPL acquisitions and disposals. Further, international best practices are applied in all areas of its activities including valuation of NPLs.

51. As the capital base of banks has been affected by the decline in share prices and NPLs, there is a need to recapitalise these banks. For this purpose, Danamodal has been established to inject capital into banks facing difficulties. From the RM16 billion

required by Danamodal, Bank Negara will provide RM3 billion as seed capital. An international investment banker, Salomon Smith Barney has been appointed to advise the management of Danamodal and determine the viability of any one particular recovery effort based on due diligence.

52. On 20 October 1998, Danamodal signed agreements with 8 banking institutions for recapitalisation through the Exchangeable Subordinated Capital Loans (ESCL) involving a sum of RM4.5 billion. This injection of capital will enhance the resilience of these institutions, increase their capacity to grant new loans and consequently speed up the economic recovery process.

53. The Corporate Debt Restructuring Committee (CDRC) was set up to assist viable Malaysian corporations from being forced into liquidation as a result of the financial crisis. This Committee will provide a conducive environment for both debtors and creditors to be more transparent in implementing the process of debt restructuring. A total of 23 companies with accumulated debts of RM5.5 billion have applied for CDRC's assistance.

54. The establishment of Danaharta, Danamodal and CDRC will assist in strengthening the banking system. However, it must be stressed that what is more important is that management of banking institutions should be more efficient, transparent and characterised by integrity. In this regard, Bank Negara will closely monitor the banking system and will not hesitate to take action against management that is negligent.

55. In the meantime, to facilitate the process of intermediation of the banking system, IMF-style prescriptions have been removed. The maximum BLR that was 12.3 percent in June 1998 declined to 8.5 percent currently. Lending rates were consequently reduced from a high of 24 percent in February to 8 to 11 percent which was the level prevailing before the crisis. The repayment of debts can now be made from resulting income or cash flows that will also assist in reducing bad debts. The loan restrictions placed on a number of sectors have also been eased and these sectors which were previously not considered as priority sectors and could not borrow, are once again active. This would certainly increase business and economic activities, enabling companies to make profits and the Government to collect taxes.

Monetary Policy

56. Malaysia has always practised liberal policies in relation to capital inflows. However, the regional financial crisis has demonstrated the high risks of such a policy. When capital reversals suddenly take place, the economy comes under severe pressure. The IMF prescription of raising interest rates and restricting credit growth, which was adopted at

the beginning of the crisis, only served to worsen the economy. At the same time, it failed to convince foreign investors to bring back their capital. Given the severity of the situation, the Government implemented radical measures to overcome the crisis.

Capital Controls

57. Although the measures taken by the Government are viewed as radical, some form of exchange control regulations have also been taken by several other countries like Germany, Switzerland, France and Australia at one point or another. Until today, Australia, France and the United States continue to impose conditions requiring that money brought in or taken out be declared. Up until 1979, Britain had restricted the amount of pound sterling that could be taken out.

58. The controls imposed by Malaysia are limited to only preventing currency traders from using their leverage to determine the value of the Ringgit to make large profits or intimidate us into not taking any action to revive our economy. Without such controls, they will bring down the value of our Ringgit and shares if we lower interest rates. On the other hand, if we do not lower interest rates, not only will companies, but also banks and the Government will encounter financial difficulties. When our financial position becomes very serious, we will have no option but to seek IMF assistance. We will then be subject to IMF's dictates.

59. Although the Government has regained control to determine the value of the Ringgit, its value must contribute to improving the competitiveness of our manufactured products overseas. As such, we have fixed the exchange rate at RM3.80 to the US dollar or RM1.00 equivalent to US 26 cents, although before the crisis, RM2.50 was equivalent to a US dollar.

60. We are aware that the restriction on the inflow and outflow of foreign currencies and the Ringgit may lead to some problems. However, we will be flexible and pragmatic. The Government is well prepared to address various problems involving the entry and exit of citizens and foreign visitors to Malaysia.

61. In specific cases, such as for education expenditure abroad, exemptions will be given if necessary.

Ensuring Healthy Credit Growth

62. The annual credit growth of the banking sector contracted from 25.9 percent at the end of December 1997 to 4.5 percent at the end of September 1998. However, new

loans approved by the banking system have been maintained at an average of RM4.5 billion per month since June 1998. The drastic reduction in credit growth is due to a number of factors including tight liquidity for a large number of banks, high interest rates and the reluctance as well as extremely cautious attitude of several banks in approving new loans. As such, to ensure economic activities have access to sufficient financing, the Government has taken several steps to promote lending. These included among others, reducing interest rates and the SRR to increase liquidity in the banking system, removing restrictions on lending and stipulating a minimum requirement for credit growth. These measures also accorded priority to lending for construction and purchase of medium and low-cost residential houses.

c. **Share Market**

63. As explained earlier, the shares of Malaysian companies have become the targets of foreign investors. They have pushed down the value of these shares to extremely low levels. The Kuala Lumpur Composite Index (KLCI) which was at 1,271.45 points on 25 February 1997, has declined to 262.70 points on 1 September 1998. More than RM600 billion was wiped out with the decline of the index. As a result, banks have called in additional margins from borrowers who have used shares as collateral. When this margin was not provided, the banks sold the pledged shares thereby further depressing the value of shares. The companies were then unable to service their loans.

64. By not recognising the trading of shares outside the KLSE and abolishing the nominee system, supervision of the stock market can be enforced. The KLSE is in better shape and with the recent measures, share prices will be more reflective of the assets and actual performance of the listed companies. This will reduce the difficulties faced by these companies.

Fiscal Policy

65. Given that the contraction in private sector activities has severely affected the performance of the nation's economy, the Government has undertaken steps to boost growth through fiscal stimulus. As such, the Government has changed its fiscal stance from a surplus to a deficit budget. The Government has increased the 1998 budget allocation by RM7 billion, in particular, to finance development projects. As a result, the Federal Government will register an overall deficit of RM9.6 billion or 3.7 percent of Gross National Product (GNP) in 1998 compared with the surpluses registered for the past five consecutive years, since 1993.

66. The Government has established a fund to finance infrastructure projects that

cannot be implemented because of difficulties in obtaining loans from banking institutions. This is aimed at reviving the construction and manufacturing sectors producing for the domestic market, in particular construction-related industries. For this purpose, the Government will change Bank Pembangunan into Bank Pembangunan dan Infrastruktur Malaysia (BPIM) with a paid-up capital of RM1 billion.

III. BENEFITS AND IMPACT OF NEW MEASURES

67. With the implementation of the measures, market sentiment on the KLSE has recovered. The KLCI increased to a more stable level that is 421.56 points on 22 October 1998.

68. The easing of monetary policy has also benefited banking institutions and the private sector through higher liquidity and lower interest rates. It will also have a positive effect on the provision of credit. Total outstanding loans channelled by the banking system which declined since February 1998, has begun to increase, by RM2.1 billion in August 1998. A large proportion of the new loans has been channelled to the manufacturing and housing sectors.

IV. CHANGING PERCEPTIONS OF THE INTERNATIONAL COMMUNITY

Mr. Speaker Sir,

69. When Malaysia suggested currency trading rules during the Annual Meetings of the IMF/World Bank in Hong Kong last year, it was dismissed outright by the international financial community. The suggestion was viewed as an attempt at self-denial and blaming others for the problems and weaknesses of the country. Since this proposal was not viewed favourably, currency traders took action to lower the value of the Ringgit and share prices, which further worsened our economy. Efforts planned by the Government at reviving the economy, for example to borrow from the international capital market for Danaharta, suffered a setback when international rating agencies purposely lowered Malaysia's credit ratings. Their actions have resulted in the escalation of Malaysia's borrowing costs in the international market and made it difficult for Malaysia to obtain external loans at reasonable costs. In addition, the media reported that apparently our economy had deteriorated so much that we would be forced to seek IMF's assistance. It seemed that countries receiving IMF's assistance were recovering.

70. Now, after more than a year since East Asia experienced a serious financial crisis,

several renowned Western economists have changed their views about the international financial system. The voices of dissatisfaction regarding the IMF - adjustment package are growing louder. In fact, there are growing doubts about the effectiveness of traditional ideas and the tight policies of the IMF. On the contrary, many of them viewed favourably the implementation of controls on short-term capital flows undertaken by Malaysia. They are also of the opinion that the measures can stimulate the nation's economy and indirectly reduce the problems of corporate sector bankruptcies and NPLs of the banking system.

71. Indeed, control on short-term capital flows has received the support of international bodies, including the United Nations Conference on Trade and Development (UNCTAD). They acknowledged that the measures implemented by Malaysia are effective to manage the uncertainty of international capital flows.

72. The Government does not intend to implement these capital controls permanently. These controls will be withdrawn once conditions in the international financial markets are normalised and the international community co-operates to undertake measures to review the structure of the global financial markets. In addition, capital control measures need to be implemented simultaneously with financial sector reforms. This is not the first time Malaysia uses exchange controls. In 1994, Malaysia implemented a number of controls to contain the negative effects of large inflows of short-term capital or "hot money" that threatened the stability of the domestic economy. When this objective was achieved, the control measures were withdrawn. As such, there is no reason why the international community should be concerned and question Malaysia's actions. In fact, Malaysia remains committed to the market mechanism and the process of orderly liberalisation.

V. CHALLENGES FACING THE MALAYSIAN ECONOMY

Mr. Speaker Sir,

73. The nation's economy is expected to recover by the end of 1998. However, there still exists risks which could lead to renewed volatility in regional financial markets, indeed the global markets, that may affect the external demand for exports and the economy. These risks include:

First: The financial crisis has spread to nearly the whole world. Malaysia's trading partners can no longer afford to buy our exports;

Second: Countries experiencing economic problems will increase trade barriers to protect their products;

Third: If this crisis continues to spread, more and more developing countries will require loans to overcome the economic crisis. This means Malaysia will be forced to compete for external loans at reasonable costs;

Fourth: The possibility of the United States experiencing a financial meltdown. This will make America a weak market;

Fifth: Japanese consumers are still not confident that their economy will recover and this has weakened demand in Japan, one of Malaysia's largest markets; and

Sixth: Hong Kong and China are also experiencing intense pressure. The Hong Kong dollar has come under severe attack from currency traders. In efforts to defend the Hong Kong dollar, the economy has been adversely affected and weakened. China also faces problems of competitiveness because of a strong Yuan.

VI. BUDGET STRATEGY 1999

Mr. Speaker Sir,

74. Based on the outlook on economic performance and risks that may emerge in 1999 as well as the challenges that need to be addressed, the 1999 Budget Strategy is aimed at:

reviving economic activities and insulating the economy from the contagion effects of the regional financial crisis to stabilise the financial market and the value of the Ringgit;

strengthening the resilience and competitiveness of the nation's economy;

restructuring the financial sector and improving governance in the private and public sectors;

strengthening further the balance of payments; and

ensuring social well being.

First Strategy: Reviving Economic Activities And Insulating The Economy From The Contagion Effects Of The Regional Financial Crisis To Stabilise The Financial Market And The Value Of The Ringgit

75. The contraction in economic activities has adversely affected the financial performance of the corporate sector, banking system, confidence in economic stability and social well being. To revitalise economic activities, the following measures will be

undertaken:

generating growth through fiscal stimulus;
reviving business activities; and
improving the efficiency of the public sector and co-operation with the private sector.

a. ***Generating Growth Through Fiscal Stimulus***

76. Fiscal stimulus is necessary to speed up economic recovery. However, the Government will ensure that the nation registers a surplus or at least a balance in its current account position. This is an important principle in prudent financial management to ensure that Government revenue is at least sufficient to finance operating expenditure. Having taken into account the need to finance development expenditure, the deficit in the Federal Government's financial position will be limited to 6 percent of GNP. This deficit will be financed from borrowings from both the domestic and international markets.

Mr. Speaker Sir,

77. I propose an amount of RM65.095 billion be appropriated for in the **1999 Budget**. This amount represents a reduction of 9.3 percent compared to the 1998 allocation. A sum of RM47.042 billion is for Operating Expenditure and RM18.053 billion for Development Expenditure. With revenue estimated at RM47.160 billion, the Federal Government overall account is expected to register a deficit of RM16.635 billion.

78. Out of the amount proposed for **Operating Expenditure**, RM24.572 billion is allocated for **Grants and Fixed Payments** such as debt service charges, pensions and gratuity payments, and contributions to statutory funds. An amount of RM13.971 billion is for **Emoluments**, RM6.189 billion for **Services and Supplies**, RM460 million is provided under **Assets** for the purchase of office equipment and facilities, and RM1.850 billion for other expenditures including tax refunds.

79. From the **Development Expenditure**, a sum of RM7.890 billion or 43.7 percent is for the **economic sector**; RM5.946 billion or 32.9 percent for the **social sector**; RM2.650 billion or 14.7 percent for the **security sector**; and RM1.067 billion or 5.9 percent for the **general services sector**. The balance of RM500 million or 2.8 percent is for the **contingency reserve**.

80. For the development expenditure, priority is given to projects that can generate economic activity, enhance efficiency and competitiveness as well as reduce the outflow

of reserves.

81. In line with the objective of stimulating the economy, **infrastructure** development is given priority. Infrastructure projects which have been privatised are given priority under the infrastructure fund include rail, port and highway projects, Putrajaya, Cyberjaya and public utilities such as sewerage, waste disposal management and water supply.

82. The Government will also provide RM4.042 billion for roads, bridges, rail, ports and civil aviation. Among the road projects that will be continued are Road Traffic Dispersal in the Federal Territory of Kuala Lumpur/Petaling Jaya and Pulau Pinang and access roads to Port Klang and Tanjung Pelepas Port. From this amount, RM390 million is allocated for roads and bridges in Sabah and RM382 million in Sarawak. Rail projects such as the extension of rail to Pulau Indah and Tanjung Pelepas as well as to the Container Terminal, Butterworth are provided a sum of RM335 million. An amount of RM353 million is provided for the construction of airports and ancillary facilities such as communications equipment and air navigation aids.

83. A sum of RM696 million is allocated for the rehabilitation and upgrading of reticulation systems throughout the country, the improvement of water supply system in industrial areas, the increase in the capacity of Kulim II Treatment Plant in Kedah, the construction of the Gemencheh Dam in Negeri Sembilan and water supply projects in Cameron Highlands and Teluk Bahang, Pulau Pinang.

84. **Rural development** will be further enhanced through agricultural productivity programmes such as the construction of agricultural infrastructure, introduction as well as the usage of new technology and training, construction of rural roads, supply of electricity and water, and redevelopment of traditional villages and growth centres. An amount of RM1.124 billion is allocated to finance these programmes including RM138 million for Sabah and RM151 million for Sarawak.

85. The Government will continue to give emphasis to the **development of human resource**. In accordance with the Government's intention of making Malaysia the centre of excellence in education, a sum of RM13.5 billion is allocated to provide and upgrade educational infrastructure and supporting facilities as well as curriculum development. Of this amount, RM8 billion is for primary and secondary education. A total of 183 new primary and secondary schools will be opened whilst another 1,217 new schools are being and will be constructed. The Government will continue to upgrade vocational schools and the construction of technical schools.

86. The intake of students into local universities will be increased from 77,600 to 84,000 students in 1999. To accommodate the increase in the number of students, academic and teaching facilities, infrastructure and accommodation for students will be upgraded. A sum of RM2.85 billion is allocated for this purpose. Among the physical projects undertaken include the construction of matriculation centres, the Medical Faculty of the International Islamic University in Pahang and the permanent campuses for University Malaysia Sabah including the branch campus in Labuan and University Malaysia Sarawak.

87. The Government will continue to provide financial assistance to students in local institutes of higher learning through the National Higher Education Fund. A sum of RM320 million will be injected into the Fund in 1999 which will benefit an estimated 24,600 students.

88. A sum of RM1.145 billion is allocated under the Ministry of Education, Ministry of Entrepreneur Development, Ministry of Human Resources and Ministry of Youth and Sports for skills training in the 79 vocational and technical schools, 16 Skills Development Training Institutes, 135 Pusat Giat MARA besides the construction of an additional 24 new skills training centres.

89. A sum of RM4.51 billion is allocated for **health and medical services** to ensure that the public will continue to enjoy efficient and quality health services. This includes the employment of additional 3,900 medical personnel and the improvement of facilities and equipment in Government hospitals and clinics, especially for the treatment of diseases such as cardiovascular diseases, cancer, diabetes and the provision of new specialist services.

90. Notwithstanding the economic slowdown, the Government remains concerned with the **housing** needs of the lower income group. Thus far, the Government has set up a number of funds namely, Housing Fund for the Hardcore Poor, Fund to Accelerate the Construction of Low-Cost Housing and the Revolving Fund for Low-Cost Housing. Through these funds, a total of 27,500 units of low-cost houses will be built during the period 1998 and 1999. In addition, the Government will provide RM783 million for the construction of quarters for public servants including teachers, members of the armed forces, police, customs and immigration, apart from low cost housing programmes implemented by the various state governments. The Syarikat Perumahan Negara was incorporated early this year with a capital of RM2 billion to provide loan facilities to developers of low-cost housing projects.

Mr. Speaker Sir,

91. The Government has allocated an amount of RM265 million to monitor environmental pollution, to conserve the country's natural resources and to improve the **environment**. Efforts will be taken towards an integrated planning approach, sustainable use and development of natural resources, conservation of water catchment areas as well as the preservation of forest reserves. In addition, the Government will further enhance its co-operation with neighbouring countries, especially ASEAN, to monitor and overcome environmental pollution such as forest fires that occurred last year.

92. For **national security and defence**, a sum of RM8.73 billion is provided for several agencies such as the police, the armed forces, prison and immigration. This includes management and operational requirements, the purchase of military equipment, construction of security infrastructure such as police stations, new prisons and military bases as well as purchase of operational equipment such as aircraft, radar, marine police boats, patrol cars and communications equipment.

b. ***Reviving Business Activities***

Mr. Speaker Sir,

93. The Government will continue to assist the low-income group, petty traders and small businessmen to increase their economic well-being through several capital assistance schemes such as the Amanah Ikhtiar Malaysia program, the Small-Scale Entrepreneur Fund (TUK) with an allocation of RM100 million and the Economic Business Group Fund (TEKUN) with an allocation of RM150 million including assistance for women entrepreneurs. Both funds are expected to assist about 12,000 petty traders and small businessmen to set up or expand their businesses. A sum of RM45 million is allocated under the loan scheme for the purchase of machinery and equipment for small-scale entrepreneurs in the rural areas.

94. To encourage local companies to be more active in international trading, as well as to enhance exports, I propose that companies granted the status of "international trading company" be given tax exemption on 70 percent of their statutory income derived from the increased value of export sales. In order to qualify for this incentive, among others, the company should be owned at least 70 percent by Malaysians and should use local facilities such as insurance, shipping and ports and should be registered with MATRADE.

95. To develop more middle-class Bumiputra entrepreneurs, the Government through its various agencies has introduced several venture capital and financing schemes. This includes an additional allocation of RM25 million for the Islamic Financing Scheme by

MARA and RM34 million for the Incubator Financing Scheme and the General Financing Scheme by Bank Pembangunan Malaysia. Apart from that, the State Economic Development Corporations, Perbadanan Usahawan Nasional Berhad and Perbadanan Nasional Berhad have also introduced similar programs.

96. The Government will further stimulate business activities through the following tax measures:

First: I propose that instruments that attract stamp duty for the refinancing of loans for business purposes be exempted from the duty. It is hoped that this exemption will reduce the cost of doing business;

Second: Presently, interest income derived by unit trusts is subject to income tax. As a measure to enhance the development of unit trusts, I propose that interest income earned by unit trusts be exempted from income tax;

Third: For the life insurance industry, I propose that income tax be imposed on actuarial surplus actually transferred to the Shareholders' Fund as compared to the present practice which is based on an accrual principle. This measure will encourage life insurance companies to retain their actuarial surpluses in the Life Fund that in the long run can be used to further develop the life insurance industry; and

Fourth: I propose that excise duty on refrigerators, television sets and air-conditioners be abolished to enable local manufacturers that produce them to compete with manufacturers from other ASEAN countries when the ASEAN Free Trade Area (AFTA) is implemented.

Improving The Efficiency Of The Public Sector And Co-operation With The Private Sector

97. The Government is deeply appreciative of the contributions of members of the public sector who have always shown their undivided support in the implementation of Government decisions and policies. In this regard, some members of the public service sacrificed by accepting cuts in their allowances of between RM14 to RM600 every month from January this year. To stimulate the growth of the nation's economy, members of the public service need to be even more hard working. A business friendly attitude in carrying out their functions and responsibilities will assist in the prompt implementation of projects and minimise bureaucratic red tape.

98. The Government is well aware of the importance of information technology and

the development of the Multimedia Super Corridor (MSC) in spearheading Malaysia into a developed nation. The development of Cyberjaya is proceeding at a rapid pace and is set to be the first 'intelligent city' in Malaysia. The participation of the Government in Cyberjaya is an important indication of the Government's commitment and support to ensure the development of Cyberjaya.

99. As of the third quarter of this year, 19 companies have been relocated in Cyberjaya and another 31 are expected to do likewise by the end of the year. As at 15 October 1998, a total of 179 companies have been approved for MSC status.

100. In line with the development of the MSC, the Government has initiated the development of a few flagships in the public sector, namely, telemedicine, electronic government, smart-schools and multipurpose cards as the basis to spur the development of the MSC. A sum of RM110 million is allocated for this purpose in 1999. In addition, another RM100 million is to be allocated to address the 'millennium bug' (Y2K) problem.

101. The Government has continuously strived to modernise and streamline the tax administration system. Towards this end, I propose that the tax assessment system based on the income derived in the preceding year be changed to the current year beginning from the year 2000. The change is aimed at increasing efficiency and responsiveness in the collection of income tax to ensure that the cash flow of the Government reflects the current performance of the economy. It is also hoped that this measure would improve the level of tax compliance since the new system will be able to relate directly to economic performance and the ability to pay. In implementing the new system, I would like to propose that the tax on income derived in 1999 be waived whilst losses incurred in that year be allowed to be carried forward.

102. In addition, I also propose that the "official assessment system" practised presently be changed to a "self-assessment system" in stages commencing in the year of assessment 2001 for companies. This measure will improve revenue collection in line with the increase in tax compliance amongst taxpayers. To implement the proposal, the Inland Revenue Board will upgrade its information system as well as intensify tax educational programs.

Second Strategy: Strengthening The Resilience And Competitiveness Of The Nation's Economy

Mr. Speaker Sir,

103. Given that the current economic crisis may continue, efforts should be intensified to strengthen the resilience and competitiveness of the economy to systemic risks that

may emerge. These efforts include strengthening the financial markets, increasing the nation's reserves, developing the capital market and reducing the nation's external loan exposure to changes in the interest and exchange rates. To increase the competitiveness of the economy, efforts will be intensified to re-train workers, increase productivity and contain the cost of doing business. The private sector, in particular, must set aside more funds for research and development (R & D).

104. I propose that 50 percent of the interest income in the 'interest in-suspense' account be not considered as income for purposes of income tax. However, such income will be taxed once it is realised as revenue to the entity. This tax treatment is granted for year of assessment 1999 and 2000. It is hoped that this measure will alleviate the financial burden on financial institutions due to increases in the NPLs.

105. The oil palm industry is currently enjoying excess profits due to high price resulting from the depreciation of the Ringgit. Therefore, it is appropriate for this industry to make additional contribution to Government revenue. Accordingly, I propose that a levy be imposed on crude palm oil when the price exceeds a threshold of RM2,000 per tonne. When the price is in the range of between RM2,000 and RM 2,050, the levy per tonne will be an amount equivalent to the price in excess of the threshold. However, when the price exceeds RM2,050 the levy is at RM50 per tonne.

Third Strategy: Restructuring The Financial Sector And Improving Governance In The Private And Public Sectors

106. In line with efforts to stabilise the financial markets, the Government has also taken steps to comprehensively restructure the financial sector. Another strategy is to strengthen the financial institutions by encouraging mergers. Towards this end, I propose that stamp duty and the real property gains tax incurred in mergers be exempted. These exemptions will be granted for mergers concluded beginning 24 October 1998 to 30 June 1999.

107. In addition, the degree of disclosure will be increased for both public and private sectors. A high-level Finance Committee comprising representatives from both the public and private sectors has drafted a framework to initiate corporate governance that will ensure prudence and transparency as well as set best practices for the financial sector.

Fourth Strategy: Strengthening Further The Balance Of Payments

108. Although in 1998, the current account of the balance of payments registered a surplus, it was due to the depreciation of the Ringgit that led to higher export prices in Ringgit terms. It was also due to a significant decline in imports following slower economic activities in the country. Recently, export performance also declined in US\$ terms, while the deficit in the services account of the balance of payments continued to increase. As such, attention has to be given to efforts at strengthening the position of the current account of the balance of payments. In line with this, the following efforts will be undertaken:

encouraging increased exports especially of manufactures and reducing imports;
enhancing the capacity of the domestic services sector to export and substitute for imported services; and
increasing promotion of Malaysia overseas.

Encouraging Exports and Reducing Imports

109. Currently, manufactured exports contribute 80 percent of the nation's overall export earnings. Efforts to encourage exports will continue to be intensified. The Government is always taking steps to reduce the cost of doing business. This will ensure that Malaysian manufactured exports will be able to compete in international markets. At the same time, urgent steps are also being taken by Government to improve the quality of services and basic infrastructure.

110. In addition, the Government has intensified agriculture sector activities to reduce imports. The active involvement of the corporate sector to undertake agriculture on a commercial basis is necessary. The Government realises that the effort to undertake large-scale food production involves high risks. Therefore, investors are more inclined to invest in commercial crops such as rubber, oil palm and cocoa. In this regard, the Government would like to encourage large enterprises to invest in food production. I propose losses incurred in the production of approved food items be allowed as a deduction from the profits of the companies in the same group for the purposes of income tax. As a start, food and feed items such as maize and cattle have been identified to qualify for this incentive because they are heavily imported. In 1997 the value of imports for maize and cattle was RM619 million and RM438 million respectively. This incentive, known as group relief, is allowed for food and feed production only and will be applicable for applications received before the end of 1999.

Developing The Services Sector

Mr. Speaker Sir,

111. The development of the services sector is not commensurate with the rapid development of the nation's trade. In particular, the development of the shipping and insurance industries has not been satisfactory although it has begun to show progress. This situation has resulted in large deficits in the services account of the balance of payments, that is, RM19.4 billion in 1998. To improve the situation, the Government has implemented various measures including measures to further develop the nation's services sector. Although in the recent past, there has been an increased utilisation of domestic port facilities, there still exists excess capacity. The nation has also spent close to RM7.5 billion over a 15-year period beginning 1986 to expand national port capacity. We will continue to implement efforts to promote the use of local ports.

112. In addition, as a means to further develop the shipping industry and also to increase the tonnage of "Malaysian Ships", I propose that the rental income from "time charter" and "voyage charter" be exempted from income tax.

Promoting Malaysia Overseas

113. To convince and attract foreign investors and traders into Malaysia more aggressive efforts will be undertaken in an integrated manner to support the economic recovery plan. A total allocation of RM143 million will be provided for the Ministry of International Trade and Industry for promotional activities. Overseas trade and investment promotion missions will be intensified including for primary commodities.

114. A sum of RM170 million is allocated for the **tourism** industry. The Government is reviewing the strategies on tourism promotion and an additional allocation will be considered. It is expected that a total of 7.2 million tourists will visit Malaysia in 1999 compared to 6.8 million in 1998. Foreign exchange earnings are expected to increase to RM14.4 billion in 1999 compared to RM12.8 billion this year.

115. To develop domestic tourism, I propose that the income derived from domestic tour packages involving at least 1,200 local tourists annually be exempted from income tax. I also propose that one Saturday per month be declared as a holiday for the public

sector. The private sector is encouraged to take a similar step.

116. The Government will continue to take steps to reduce the outflow of funds. For this purpose, I propose that tax exemption on benefits in kind in the form of free passages overseas extended to employees be capped at the maximum of RM3,000. Tax exemption for benefits extended for local travel up to three times a year will be maintained, as this will promote local tourism.

117. The country has a National Sports Complex, National Theatre, National Art Gallery and the Petronas Philharmonic Hall which are of international standard. These facilities which were constructed at a substantial cost of RM1.66 billion should be utilised throughout the year to optimise the benefits to be derived. As a means to encourage the use of these facilities, I propose the following tax incentives:

income derived by non residents performing in art and cultural shows, exhibitions, games and competitions be exempted from tax;

income derived by organisers of sports, cultural shows, art exhibitions and carnivals involving foreign participation be granted tax exemption of 50 percent;

entertainment duty for cultural performance, art exhibitions, carnivals and sports be exempted; and

companies operating in Free Industrial Zones or Licensed Manufacturing Warehouses be granted import duty and sales tax exemption on goods sold during approved sales carnivals held in the National Sports Complex, Bukit Jalil.

118. Motor racing such as 'Formula One' has been proven to be able to attract a large number of tourists. As Malaysia will be organising the 'Formula One' in 1999, this will be an opportunity to further promote our country as a tourist destination. For this purpose, I propose the following incentives:

income derived by drivers of 'Formula One' and other forms of motor racing which are internationally recognised and held in Malaysia be given tax exemption; and

income derived by organisers of 'Formula One' and other forms of motor racing which are internationally recognised and held in Malaysia be given tax exemption of 50 percent.

119. Langkawi is well known as a popular tourist destination and it has the potential to attract large first class foreign tourists such as leisure boats and yacht owners. They

could be attracted to visit Langkawi if there is a modern centre to repair and maintain their yachts and leisure boats. Towards this end, and also to make Langkawi a prominent centre for the repair and maintenance of leisure boats and yachts in ASEAN, I propose that activity in the leisure boats and yachts repair and maintenance in Langkawi be granted income tax exemption for a period of 5 years.

Fifth Strategy: Ensuring Social Well-being

120. Prolonged economic recession will affect the social well being especially of the less fortunate and disabled. The Government is very concerned about this. In this respect, the Government will ensure that the necessary allocation is provided in 1999 to maintain continued assistance to this group. Apart from this, expedient measures will be intensified to curb the increase in prices of daily household commodities so as to alleviate the burden of ordinary Malaysians.

121. A sum of RM265 million is allocated in 1999 to continue the agenda for a **caring society** through rehabilitation and shelter programmes for the needy, and the construction and upgrading of welfare homes, activity centres to promote unity and the Social Institute of Malaysia. To implement programmes for combating social ills, the Government will allocate RM118 million for short courses, counselling and interactions, workshops and fora to allow wider target group participation. The Government will provide a sum of RM75 million to expand activities relating to prevention of drug abuse and rehabilitation of addicts.

122. As a continuous effort of the Government to promote healthy life styles and reduce social ills, I propose that:

Import duty on cigarettes and other tobacco products be increased from RM138 per kilogram and RM162 per kilogram to RM180 per kilogram. For locally manufactured cigarettes, the excise duty will be increased from RM28.60 per kilogram to RM40 per kilogram;

Import duty and excise duty on all types of alcoholic beverages be increased by 20 percent from the present rates;

Gaming tax be increased from 7 percent to 8 percent, and pool betting duty be increased from between 5 percent and 11.5 percent to between 10 percent and 12 percent; and

Casino duty which is currently at between 22 percent and 25 percent be standardised to a flat rate of 25 percent.

123. The Government's effort in **eradicating poverty** will be continued through the programmes of poverty eradication of the hardcore poor, enhancing village economic activities and the rehabilitation of dilapidated houses. A sum of RM108 million is allocated under these programmes and 41,300 households are expected to benefit.

124. **Women's** participation in economic development has increased significantly. In providing women with the necessary technical skills and know-how, the public as well as private training institutes should increase their intake of women in industrial skills and latest technology training programmes to meet the needs of industry. It is important that a continuous programme on skills development be made available especially for those intending to rejoin the labour force or those keen to develop their potential. For this purpose, the Government will provide an allocation of RM50 million to assist such training programmes and to provide contribution to women organisations. The implementation of these programmes will be co-ordinated by the Department of Women Affairs (HAWA).

125. The Government will intensify its efforts to inculcate Islamic values amongst Muslims. A total of RM245 million is allocated to the Department of Islamic Development and the Prime Minister's Department in order to intensify the ummah development programme in a more integrated manner, development of family institutions and social services, co-ordination of Syariah laws as well as the development of dakwah training centres, mosques and religious schools.

126. Regarding **youth development**, the Government is concerned with the many social ills amongst our youth. A sum of RM37 million is allocated to the Ministry of Youth and Sports for various programmes including the Rakan Muda programme that has been revamped. Simultaneously, Program Kepimpinan Perdana is being introduced to develop future leaders while recreational active lifestyle and economic programmes for youths will also be continued.

127. The Government will continue its policy to assist the less fortunate. A sum of RM440 million is provided as aid for textbooks and food supplements for poor students. About 4 million students are eligible for such assistance. Apart from this, the Government has also set aside RM5 million for Orang Asli students.

128. In its effort to reduce the burden of increasing production costs of padi as well as to increase rice production, the Government will allocate RM131 million for fertiliser subsidy. For 1999, an additional allocation of RM 22 million is provided to increase the amount of fertiliser subsidy by RM50 per hectare. Besides this, the Government will continue to provide assistance in the form of guaranteed minimum price of padi as a means to increase

farmers' incomes involving an allocation of RM 410 million.

VII. ECONOMIC PROSPECTS IN 1999

Mr. Speaker Sir,

129. Malaysia's economic prospects for 1999 will be determined by the speed of implementation of economic recovery measures. The nation's economic performance will also be dependent on developments in the economies of its major trading partners and overall growth of world trade.

130. Based on these developments, Malaysia's economy is expected to register growth of one percent. Although we expect the economy to contract by 4.8 percent this year, growth of one percent is a turnaround of 5.8 percent. This projection is based on the assumption that domestic demand will improve in line with fiscal and monetary measures that have been implemented by Government. We also expect the economies of our major trading partners, in particular, East Asia, to recover and regional financial markets to stabilise.

131. Almost all the sectors of the economy, except construction, are expected to register positive growth. The manufacturing sector is expected to expand by 1 percent in 1999 following the improved performance of domestic-oriented industries, in particular, construction-related industries. Export oriented industries, particularly semi-conductor industries are expected to expand in line with high global demand. The agriculture sector is expected to expand at a rate of 3.9 percent while the mining sector is expected to grow by 1.3 percent. In line with the recovery of these major sectors, the services sector is projected to expand at a rate of 2.7 percent. The construction sector is also expected to register negative growth of 8 percent. However, this contraction is smaller compared to its contraction in 1998.

132. With the expected recovery of regional financial markets and world trade including the recovery of East Asia, Malaysia's trade account is expected to register a surplus of RM33.4 billion in 1999. However, the current account of the balance of payments is expected to register a smaller surplus of RM11 billion or 4.2 percent of GNP because of the deficit in the services account, particularly the repatriation of investment income and continued high payments for freight and insurance. Inflation is expected to be curbed at around 4 percent, consistent with a fixed exchange rate and controls on short-term capital. The rate of unemployment is also expected to be low.

VIII. CONCLUSION

Mr. Speaker Sir,

133. Since we gained independence, Malaysia has developed rapidly. This achievement is something we can be proud of. It is not easy for a multiracial country to achieve such success.

134. We have chosen a democratic system for our country, a system we have not known during colonial times. They ruled us in an authoritarian way and often used the Internal Security Act (ISA) on anyone who opposed. As such, it is very difficult for us to understand and practise democratic ways. But Malaysians have succeeded in practising it. We have successfully chosen our Government through elections. Malaysians have accepted and practised this democratic system wisely without demonstrations and crises. All parties, those who won and those who have lost have accepted election results.

135. We have overcome the racial problems that haunted us initially and we have distributed the nation's wealth through the New Economic Policy. Through this Policy, all segments of society have received their fair share.

136. The success and impact in the distribution of wealth through the New Economic Policy is evident from the fact that racial riots have not occurred during the economic crisis. Malaysians of all races live peacefully and clearly have a sense of patriotism. During the Commonwealth Games (SUKOM), Malaysians were clearly united and one in spirit as they spontaneously stood up, clapping loudly to welcome the multiracial Malaysian team as they entered the stadium. Furthermore, every time the national anthem was played, they rose and sang together without being told to do so.

137. The success of Malaysia in SUKOM is the result and proof of a strong spirit of unity and nationalism, whether it be on the part of athletes or the thousands of supporters who witnessed the competition.

138. SUKOM should have been rightly the most outstanding event to do us proud. Unfortunately, there were some quarters that attempted to show foreign visitors and media that Malaysia was not as peaceful as reflected in SUKOM.

139. The demonstrations that were held were aimed at instigating the police so that they would react firmly to enforce the law. This then gave the foreign media the opportunity

to broadcast repeatedly on television Malaysia's apparent negative points. The foreign media used the footages on the protests and demonstrations in this beloved country of ours 24 hours a day and every day.

140. The aim of the foreign media supported by certain quarters in our country is to make the world look down on us. They also aim to discourage tourists and foreign traders from coming to Malaysia. This will ensure that hotels, shops and small and big traders lose money. In that way, our economic recovery will be even more difficult to achieve and confusion may reign.

Mr. Speaker Sir,

141. This country is democratic and practises the rule of law. Our country has been peaceful because we hold steadfast to the practices of democracy and we resolve any dispute through the process of law. If we feel that the leadership of the country needs to be changed, we can do so through the elections. In this country, unlike in some other countries, the opposition party is free to stand for elections and form the government.

142. Justice in our country is implemented through a disciplined and organised judicial process. The ruling party and its leaders are not exempted from being found guilty and being punished by the courts in Malaysia. There has been an occasion when the courts declared the ruling party illegal. Leaders of the ruling party have been jailed and also sentenced to death. On the other hand, it appears as if the opposition party has special privileges. The sentences imposed on them were reduced so that they will not lose their seats.

143. As the judicial process in this country does not favour anyone but instead adheres strongly to principles, all quarters should rightly seek settlements of disputes through trial in the courts.

144. It is very unfortunate that justice is being sought by way of mob-rule, by having demonstrations and protests. Is this the kind of reformation that needs to be introduced? Are we to replace the process of law and democracy with mob-law, with anarchy, by tarnishing the image of the country? Does this represent the type of reformation that we want in our much-loved Malaysia? Are they patriots when they go to other countries to tarnish the image of their own country, to obtain support from people who look down on the nation's legal process and independence?

Mr. Speaker Sir,

145. The nation is still facing an economic crisis. The actions of currency traders and short-term investors in our stock market, rating agencies such as Moodys and Standard and Poor and the western media, clearly indicate that they would like to destroy our economy so that we will be forced to follow their dictates.

146. Loyal Malaysians will not collaborate with these people. Malaysians who collaborate with these people, who seek help from our enemies have certainly betrayed the nation.

147. We should compare these collaborators with the rakyat who have contributed to the Dana Khas Negara that to date has collected RM34.8 million. This amount is not substantial compared to the billions that will be required to revitalise the economy. But it reflects the loyalty, the sense of responsibility and the patriotism of the rakyat of Malaysia. On behalf of the Government, I would like to say "A Big Thank You".

148. Would it not be wonderful if everyone emulated this attitude? It is important that the people realise that the economy is in difficulties due to the depreciation of the Ringgit and the decline of the stock market, as well as, the large deficit in Government finances. Therefore, the Government hopes that everyone understands the need for Government to undertake some measures to strengthen its financial position. The willingness of the rakyat to sacrifice and accept these measures will hasten the process of our economic recovery.

149. Although the nation has been impoverished, we still possess the strength to stand on our own, and to defend our position to continue the struggle towards revitalising economic growth. We must be grateful that the Government is still able to provide all the rakyat's needs by ensuring that vital services like education, health, rural development and assistance to the poor are not ignored. Financial allocations for their needs have in fact been increased.

150. The Government deeply appreciates the attitude of trade unions that have understood the crisis situation confronting the nation and are prepared to co-operate with the Government to overcome all obstacles in efforts taken to restore the economy. Unlike in other countries, workers in Malaysia and their organisations do not purposely make excessive demands at this time even though they face hardships in their daily lives. Allow me to say "Thank You" to them.

Mr. Speaker Sir,

151. We have proven our capabilities. Our country is no longer like before when

foreigners did not know where we were located and assumed that we were a backward developing country. Now in terms of development and infrastructure facilities, we are almost at par with the developed countries. We have a sophisticated and beautiful international airport, the tallest skyscraper in the world, the lowest percentage of poor among developing countries and high purchasing power parity. We have been successful in providing sophisticated facilities for sports and are able to manage large scale sporting events in a manner better than the developed countries. There are many other indicators of our achievement.

152. Malaysia's role in the international fora and arena is still strong even though we are facing economic difficulties. Recently, Malaysia received the highest number of votes that is 174 out of 176 votes to become a non-permanent member of the Security Council of the United Nations for a period of two years from 1999 to 2000.

153. All these have been made possible by a multi-racial society, that is hardworking, conscientious, peace loving and respectful of the law. I am convinced with the attitude and support of the majority of the people and the approach formulated by a fair and democratic Government, our nation will be revitalised and attempts to re-colonise us will therefore fail. This Budget is one of many efforts to preserve our independence and revitalise the economy of this beloved nation of ours.

Mr. Speaker Sir,

I beg to move.