

(To be checked against  
delivery)

**THE 2002 BUDGET SPEECH**

**by**

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PRIME MINISTER / MINISTER OF FINANCE MALAYSIA  
INTRODUCING THE SUPPLY BILL (2002)  
AT THE DEWAN RAKYAT**

**ON 19 OCTOBER 2001**

Mr. Speaker Sir,

I beg to move the Bill intituled “**An Act to supply a sum from the Consolidated Fund for the service of the year 2002 and to appropriate that sum for the service of that year**” be read a second time.

## **I. INTRODUCTION**

Mr. Speaker Sir,

1. We are grateful to the Almighty for enabling us to assemble here today for the tabling of the 2002 Budget. This Budget is crucial for us as we need to address the greater challenges arising from an increasingly difficult external environment.

2. World economic growth slowed down since the beginning of the year, following weak economic performance in the United States and Japan. The horrendous attack on the United States further aggravated global economic conditions with prospects of an early recovery becoming more uncertain. The attack was inhuman with thousands of lives being lost. The whole world was shocked and the effects are indeed far reaching. It not only weakened economic performance, but also threatened global political stability and security. Malaysia opposes violence. At the same time, we are also against a war to combat violence. War is not a solution as many more lives will be lost and more resources destroyed. It will also cause further sufferings. It will not eradicate terrorism, nor curb terrorist activities. Those involved are not Afghans and not many

are in Afghanistan. These terrorists reside in many countries and can launch their attacks from any location. Malaysia has fought terrorism for 42 years. While our military assaults were only confined to terrorists, we also undertook psychological warfare to win the hearts and minds of the people to neutralise their support, while eradicating the root cause of terrorism.

3. Military assaults alone will not solve the problem. War will only worsen the already weak world economy. Already we have to face war risks. Links with our trading partners may be disrupted. Costs of insurance on shipping, freight and air transportation have escalated. Global demand for products will continue to decline while costs of trading will increase.

4. The aftermath of the September 11 incident witnessed a crash in major equity markets, some unprecedented. Equity markets in the United States were the worst affected with the Dow Jones declining by double digits, to the lowest level in recent years. A day after the attack, stock markets throughout the world experienced heavy selling pressure. The Dax Index fell 8.5 per cent, marking its biggest single-day decline. The FTSE Index shed 5.7 per cent, also

reflecting the largest single-day fall since 1987. The Nikkei Index which was already at its lowest level in 17 years, declined further by 6.6 per cent to a new low. Similarly, other stock market indices, like the Hang Seng and the STI also slumped. Stock markets in Taiwan, Thailand and Kuala Lumpur which reopened on 13 September, experienced similar declines.

5. Costs of finance and insurance will surge. Investor sentiment and consumer confidence deteriorated. There was flight to quality with investors shifting their funds to other financial centres. The United States is no longer a 'safe haven'. Amidst this environment, the prospects for an early recovery are increasingly dim. Industrial economies may be faced with the possibility of recession. With the possibility of a prolonged attack on Afghanistan, global economic prospects will undoubtedly deteriorate further.

6. As an immediate response to prevent the economy from deteriorating, the United States Administration injected liquidity into the financial system and reduced interest rate to 2.5 per cent. This represented the ninth interest rate cut from the level of 6.5 per cent early this year. The United States Congress approved a 40 billion

dollar fiscal allocation for reconstruction, security and relief efforts. An additional 75 billion dollar fiscal stimulus package was also announced. The United States Administration further approved a bail-out package of 15 billion dollars to support their airlines industry. In this regard, when Malaysia restructured its companies, including our national airlines, international financial institutions, in particular the IMF and World Bank accused us of bailing out cronies. We were accused of practising nepotism and lacking in transparency in corporate governance. It is obvious that in critical situations, other countries also adopt the very measures that we undertook which were criticised. Apart from bailing out, other measures taken by Malaysia which were once condemned by the foreign media are also being implemented by these countries. The foreign media did not condemn these actions. The foreign media themselves is now not that independent anymore. The safety of the majority is more important than total freedom.

7. As an open economy with trade accounting for more than 200 per cent of GDP, the Malaysian economy has been affected by the growing difficulties in the external sector. The economy has just recovered from the financial crisis of 1997-1998. However, in the

light of the recent developments, GDP growth for 2001 which had been revised from 7 per cent to between 5 to 6 per cent in March 2001, has been further revised downwards to between 1 to 2 per cent. The Government responded immediately by putting in place measures to prevent further deterioration in the economy. As we cannot be overly dependent on external trade, growth must be led by domestic economic activities as well as by exploring new markets.

8. In line with the domestic-led growth policy, the Government announced an additional pre-emptive fiscal package of 4.3 billion ringgit on 25 September 2001. This is an addition to the earlier pre-emptive package of 3 billion ringgit which was announced in March. The package is aimed at stimulating domestic economic activities as well as alleviating the negative impact on the low-income group and the disadvantaged. It is also aimed at promoting business activities, increasing income opportunities for small entrepreneurs and assisting retail businesses. In this regard, specific small rural projects have been offered to class F *Bumiputera* and non-*Bumiputera* contractors. The package will provide skill training for retrenched workers and unemployed graduates.

9. The fiscal stimulus package will not have its intended impact of generating higher growth, if the programmes and projects under the package are not implemented immediately. The Government has, therefore, reviewed the procedures, rules and guidelines on the implementation of development projects and payments to contractors.

10. To expedite the implementation of projects, ministries and agencies have been empowered with greater delegated authority. Tender Boards at ministries have been given the authority to approve tenders up to 50 million ringgit for works procurement and 30 million ringgit for supplies and services. Their Tender Boards can also approve restricted tenders up to 5 million ringgit without Treasury approval. As for statutory bodies, the approval limit for tenders for all supplies, services and works has been raised to 100 million ringgit and up to 10 million ringgit for restricted tenders. This delegation should not result in abuses of authority, but should be accorded greater responsibility.

11. A task force has been established in the Ministry of Finance to monitor the progress as well as identify and address implementation problems to ensure that all measures under the fiscal stimulus are implemented immediately. A Flying Squad has also been established to ensure that the implementation of public and privatised projects is carried out as scheduled. In order to expedite payment, all Ministries and agencies are required to pay 50 per cent upon submission of claims. Payment of claims must be settled within 30 days from the date of submission. The Administration, including Ministers will monitor financial management without getting involved in decision making. Aggrieved parties will have recourse to the Ministers. On the other hand, Ministers must exercise care and caution in their supervisory functions to avoid accusations of favouritism.

12. Monetary policy will continue to be accommodative to complement fiscal stimulus. On 20 September, Bank Negara Malaysia reduced the 3-month intervention rate by 50 basis points to 5 per cent, aimed at stimulating business sentiment and consumer confidence. This reduction represents the first cut in more than two years and is in tandem with actions taken by other



central banks in several major industrialised countries. Following the reduction, the base lending rate of commercial banks and finance companies declined to reach historical lows of 6.4 per cent and 7.45 per cent, respectively.

## **II. ECONOMIC CHALLENGES**

Mr. Speaker Sir,

13. We have proven our ability to successfully manage our economy under all circumstances, through boom and bust. Our ability and success should provide the confidence and should drive us to mobilise efforts and respond immediately to challenges arising from the instability in the external environment. In moving forward, we have to intensify efforts to overcome obstacles that could derail our goal of achieving developed nation status.

### **Reducing Dependence on Electronics Exports**

14. Malaysia is the world's 17<sup>th</sup> largest trading nation. Electronics is the nation's main export, contributing nearly half the export

earnings of the manufacturing sector and 41 per cent of the nation's export earnings. However, more than 70 per cent of electronics components comprise imported intermediate goods. As such, the nation has not been able to maximise benefits from higher value-added activities of exports. Gross exports is expected to decline by 10.6 per cent, following the significant contraction in global demand for electronics products this year. We must, therefore, diversify the sources of exports as well as explore new markets. We cannot be overly dependent on a particular export item, especially one with a high import content. However, we should not reduce the exports of electronics. Instead, we should endeavour to increase the export of other items in order to reduce our dependence on exports of electronics.

### **Realising the Full Potential of the Services Sector**

15. The services sector is one of the main contributors to growth, accounting for 55 per cent of GDP in 2001. Nevertheless, there is scope for further improvement. The nation has modern ports and airports with the potential for becoming the hubs for cargo movement as well as attracting domestic and international

integrated express operators. Johor ports must seize the opportunities from their strategic location and proximity to Singapore to provide world-class port services. Meanwhile, the Senai airport should become the air cargo hub in the region. Given the potential of Johor ports and Senai airport, a more efficient and effective integrated transportation system must be immediately developed to link air, land and marine transportation network in the south of the Peninsular.

16. The performance of the tourism sector has been excellent. Currently, foreign tourist arrivals have recorded the highest level at more than 1 million a month. Nevertheless, concerns on the safety of air travel, particularly in the west in the wake of the September 11 attack, will affect tourist arrivals from these countries. Thus, efforts must be intensified to attract tourists from Asia, in particular from countries in the Persian Gulf and West Asia as well as India, China and ASEAN, in addition to further promoting domestic tourism. The transport, tourism and hotel industries should collaborate and participate in the Government's tourism promotional efforts.

### **Enhancing the Performance of the Agriculture Sector**

17. The nation is endowed with fertile land which can be utilised for the cultivation of crops and rearing of livestock. However, the growth of the agriculture sector has been concentrated only on a few commodities, such as rubber and oil palm. These commodities are subject to price fluctuations, thus affecting incomes, in particular, of the smallholders. We are also overly reliant on food imports, which exceeded 11 billion ringgit last year. It is, therefore, vital to diversify the agriculture sector to produce higher value-added products. Emphasis has not been given to fresh and salt water fish farming as well as rearing of cattle, goats and other livestock, such as ostrich, deer and ducks. Mixed farming has as yet not been promoted. These efforts have not been undertaken on a large scale although our strength lies in managing large agricultural estates. Smallholders have not yet merged themselves through cooperatives or companies for this purpose.

### **Increasing the Dynamism of the Private Sector**

18. The private sector has been adversely affected by the global economic slowdown. Its contribution to GDP has declined

significantly to 12.8 per cent compared to 32 per cent prior to the financial crisis. Since 1997, economic growth has been driven mainly by public sector investment. However, in the long term, economic growth cannot continue to rely solely on public sector investment through fiscal stimulus. Neither can we depend on the inflows of foreign direct investment, due to its volatility and greater competition from other countries, such as China and Latin America. The private sector has not identified its comparative advantage in areas where it can increase production.

### **Improving Competitiveness**

19. In the era of globalisation and liberalisation, the nation faces greater competition from producers in international markets, particularly with the emergence of developing countries, such as China. Several reports have indicated that the nation's competitiveness has declined in the medium term. In other words, our productivity has not increased in line with the increase in the cost of production. If this trend is not checked, Malaysia will lose its share in the international market. As a result, workers may lose their

jobs, wages will not increase and there will be no additional new job opportunities.

### **III. BUDGET STRATEGY 2002**

20. In the light of the increasingly more difficult global economic outlook and greater challenges encountered as well as the need to address domestic issues, 2002 Budget will focus on the following strategies:

- i. strengthening the nation's economic growth through increased domestic expenditure, enhancing the role of the private sector and increasing competitiveness;
- ii. diversifying sources of growth through trade and domestic industrial activities without reducing the role of foreign direct investment as well as ensuring the continued expansion of the nation's exports; and

- iii. ensuring equitable distribution of wealth between urban and rural areas, between high and low income groups and between the more developed and less developed states.

### **First Strategy: Strengthening the Nation's Economic Growth**

#### **Increasing Domestic Expenditure**

21. The more conventional way to revitalise the economy is through increasing public expenditure. For 2001, we had used this approach with a fiscal stimulus of 3 billion ringgit in March. With the worsening of the global and US economies, following the September 11 attacks, an additional expenditure of 4.3 billion ringgit was approved.

22. Money will only generate wealth if it changes hands. Suppliers of goods and services will earn profits from each transaction, while consumers will through the value of goods, realise the value of their money. The higher the frequency with which money changes hands, the greater is its contribution to the nation's growth and wealth creation.

23. Expenditure is essential in stimulating and increasing economic activities. The additional expenditure by the Government in March and after the September 11 incident will enhance the velocity of transactions of goods and services. Higher Government expenditure will enable the implementation of more projects, increase the sales of building materials while contractors and sub-contractors will receive payments and workers, wages. These payments will spur consumption of goods and services. It is clear that the stimulus package will benefit all, in terms of additional income. The Government will then benefit in terms of higher collection of tax revenue from greater business activities.

24. The Government will adopt this strategy of fiscal expansion in 2002 Budget, through higher Operating Expenditure and Development Expenditure. The fiscal stimulus will be implemented as follows:

### ***Continuing the Fiscal Stimulus***

25. I propose an amount of 100.52 billion ringgit to be allocated for the 2002 Budget, an increase of 10.4 per cent compared to the



original 2001 allocation. Of this, an amount of 66.98 billion ringgit is for Operating Expenditure and 33.54 billion ringgit is for Development Expenditure. Taking into account the revenue estimates of 73.4 billion ringgit, the overall Federal Government account is estimated to record a deficit of 5 per cent of GDP, amounting to 18.6 billion ringgit in 2002. The deficit is lower than the 22.4 billion ringgit or 6.5 per cent in 2001.

26. An amount of 33.33 billion ringgit from the Operating Expenditure is allocated for Grants and Fixed Payment obligations. This includes debt-service charges, payment of pensions and gratuities and contributions to statutory funds. An amount of 17.58 billion ringgit is for Emoluments, 12.07 billion ringgit for Services and Supplies, 1.53 billion ringgit for purchase of office equipment and facilities and 2.47 billion ringgit for other expenditure, including tax refunds.

27. Of the proposed total Development Expenditure, an amount of 13.11 billion ringgit or 39.1 per cent is allocated to the economic sector, including rural development, agriculture, infrastructure, industrial, rural electricity and water supply projects. An amount of

12.21 billion ringgit or 36.4 per cent is allocated to the social sector, that is, for education and training, health, welfare and community development as well as projects for youth and sports. In addition, 3.31 billion ringgit or 9.9 per cent is allocated for the security sector and 2.91 billion ringgit or 8.7 per cent allocated for the general administration sector. The balance of 2 billion ringgit or 5.9 per cent is for Contingencies Reserve.

### ***Encouraging Consumption***

28. The nation's income has been affected following the global economic slowdown and the negative wealth effect from the decline in share prices, thus affecting the purchasing power of the *rakyat*. To increase the disposable income of the *rakyat*, I propose that the individual income tax rate be reduced between 1 and 2 percentage points for all income bands. The maximum individual income tax rate which is currently at 29 per cent is now reduced to 28 per cent, thus harmonising with the corporate tax rate. In addition, with a view to rewarding work efforts, the chargeable income subject to the maximum tax rate be increased from more than 150 thousand ringgit to more than 250 thousand ringgit. In line with this reduction,

the income tax rate for cooperatives be reduced by 1 percentage point across the board while the income tax rate for non-residents be reduced from 29 per cent to 28 per cent. These measures will result in a revenue loss to the Government, amounting to 873 million ringgit. However, this amount will be available for consumers to spend, thereby stimulating economic activities and contributing to GDP growth.

### **Further Stimulating the Role of the Private Sector**

29. The private sector has to resume its role as the main catalyst of economic growth. In this regard, the Government will continue to offer special incentive packages as announced in the 2000 Budget to attract quality investments. To date, the Government has approved 20 projects with investments totalling 33 billion ringgit under the pre-package incentives, mainly for petrochemicals and electronics. In addition to attracting new investors, existing investors must also be encouraged to continue to reinvest in expansion projects, modernisation, automation and diversification. Therefore, I propose that the period for Reinvestment Allowance be extended from 5 to 15 years.

30. Efforts to attract investments are increasingly becoming challenging. In this respect, the Government has received many proposals to reduce corporate tax. However, the Government does not intend to reduce the corporate tax, since the rate is still competitive compared to many ASEAN, Asian and other developed countries. Malaysia does not impose tax on dividends, unlike several other countries, including Thailand, Taiwan and Japan. Furthermore, we have already provided various tax incentives to foreign and domestic investors. If all these are taken into consideration, our effective tax rate is lower.

31. Small and medium companies, which are resilient and competitive, are the backbone for supporting growth of larger industries. In order to compete in the international market, small and medium companies must participate in the Global Supply Chain Management Network for on-line and real-time procurement, production and logistics management. To use this network, small and medium companies need to utilise internet-based common order code such as RosettaNet, to communicate directly with global suppliers. A grant of 5 million ringgit is provided for the development of RosettaNet. In addition, I propose that the expenditure incurred

by multinational companies in pioneering this programme for the benefit of the small and medium-scale companies be given deduction for purposes of income tax.

32. To increase the participation of *Bumiputera* community in industrial and commercial activities, particularly in the retail sector, the Government had launched the *Projek Usahawan Bumiputera Dalam Bidang Peruncitan* or PROSPER. This scheme is aimed at assisting small *Bumiputera* entrepreneurs who lack capital, face difficulties in securing suitable premises or locations and experience management problems. Up to 8 October 2001, PROSPER has successfully trained 2,997 *Bumiputera* entrepreneurs in the retail sector. A total of 82 business proposals has been approved, of which 12 are from ex-army personnel. For 2002, an additional 250 *Bumiputera* entrepreneurs are expected to be trained. PROSPER is not a get-rich scheme but a serious scheme for long-term business undertakings that will grow if managed properly.

### **Increasing Competitiveness**

33. In the light of greater challenges of a borderless world and with our commitment towards the implementation of AFTA, the nation needs to increase its competitiveness and productivity to become a global player in the international marketplace. As a measure to reduce the cost of doing business and increase competitiveness, I propose that Industrial Building Allowance granted to approved buildings including hotels be reviewed as follows:

- i. the annual allowance be increased from 2 per cent to 3 per cent. As a result, companies can claim depreciation within a shorter time frame, that is, from 45 years to 30 years;
- ii. initial allowance of 10 per cent currently granted for capital expenditure incurred in the construction of buildings be extended to capital expenditure incurred in the acquisition of buildings; and

- iii. Industrial Building Allowance be given to all hotels.

34. As a further measure to reduce cost and increase competitiveness, I propose that import duties on 55 products which have been long protected be reduced from between 20 per cent and 105 per cent to between 10 per cent and 50 per cent. Among the products involved are aerated beverages, woven fabric, lace and blankets. I further propose that import duties on 171 products inclusive of intermediate goods such as multimedia projectors, telephone answering machines, furniture components and photographic papers be reduced from between 5 per cent and 35 per cent to between 0 per cent and 25 per cent. In addition, as a measure to reduce the cost of doing business for shipping companies in Malaysia, I propose that income received by non-residents from renting containers to shipping companies in Malaysia be exempted from income tax.

35. I further propose that the annual deduction on expenses incurred in acquiring proprietary rights such as patents, industrial designs and trade marks be increased from 10 per cent to 20 per

cent for a period of 5 years. It is hoped that this measure will accelerate the acquisition of the state-of-the-art technology.

36. To enhance productivity and competitiveness, employers must undertake to train and upgrade the skills of their workers. In this regard, the Government has set up the Human Resource Development Fund as well as provided tax incentives for training in technical and vocational fields. In addition, practical training schemes need to be encouraged as one of the avenues to increase the supply of skilled and trained manpower. Therefore, I propose that expenditure incurred by any person in providing practical training to individuals who are not their employees be given deduction for purposes of income tax.

37. The payment of bonus is an incentive to workers to increase productivity. Currently, tax deduction on bonus payments is limited to two months salary. I propose that the restriction on bonus be abolished. It is hoped that this measure will provide an opportunity to employers to offer remuneration which is commensurate with the their workers' productivity.



38. The Government hopes that trade associations will continue to play an important role, taking pro-active measures to further develop their members' activities. To assist these associations to strengthen their financial position, I propose that statutory income from subscription fee be exempted from income tax.

### ***Development of ICT and Venture Capital***

39. The national ICT agenda aims to create a knowledgeable, informed and ICT-savvy society. The Government has allocated an amount of 112.7 million ringgit to implement the Electronic Government Flagship Project, 72.3 million ringgit for Smart Schools, 20 million ringgit for Telemedicine, 86.3 million ringgit for Smart Card and 9.5 million ringgit for Integrated Application. Apart from this, an amount of 487.67 million ringgit is allocated to increase the computerisation programme in ministries and departments and 205.5 million ringgit for computerisation of schools.

40. To enhance the usage of multi-purpose smart cards, financial institutions need to provide the appropriate infrastructure including related equipment, such as loading devices and card readers. As

its implementation would require large capital outlays, I propose that smart cards and its related equipment be given sales tax exemption.

41. To further encourage the use of ICT in trade as well as establish Malaysia as an attractive business location for international trade, I propose that the tax on income derived from offshore trading through websites in Malaysia be reduced from 28 per cent to 10 per cent for a period of 5 years. I further propose that the cost incurred in the development of websites for business be granted an annual deduction of 20 per cent for a period of 5 years.

42. Following the announcement of the establishment of the 500 million ringgit Venture Capital Fund, a Government-owned company, Malaysia Venture Capital Management Berhad (MAVCAP) was set up. An amount of 100 million ringgit from the Fund will be outsourced to four local venture capital companies, while the balance of 400 million ringgit will be direct investments in venture capital companies. To date, MAVCAP has received 104 business proposals from 10 countries, including the United States, Korea, Hong Kong SAR and China, with financing requirements of 1 billion ringgit. To further augment the venture capital fund, the

Government of Japan has agreed in principle to provide a loan to MAVCAP, amounting to 1.9 billion ringgit, especially for the financing of debt ventures.

43. Another Government-owned company was established, namely Kumpulan Modal Perdana Sdn. Bhd. to manage the Venture Capital Fund for Technology Acquisition, amounting to 190 million ringgit. Of this, 114 million ringgit will be invested in the American Pacific Venture Capital Fund in the Silicon Valley and Venture Capital Joint Venture Investment in Malaysia, with the balance of 76 million ringgit for the implementation of the Advanced Microchip Design and Training Centre.

### ***Capital Market***

44. The Kuala Lumpur Stock Exchange (KLSE) has experienced significant fluctuations arising from developments in the global stock markets. As part of the efforts to ensure stability in the stock market, as highlighted in the Capital Market Masterplan, the Government has agreed to implement the circuit breaker mechanism in the stock exchange, as practised in the developed

countries. This mechanism has the capacity to halt trading activities temporarily when large declines are experienced during a trading day. These halts are based on pre-determined trigger levels. The mechanism will provide investors breathing space before resuming stock market trading activities. It is also aimed at maintaining investor and market confidence, especially in an uncertain environment.

45. To facilitate corporate restructuring, the Securities Commission has relaxed the conditions for restructuring distressed public listed companies. These measures include enlarging the pool of assets by allowing quality investment properties with stable income to be injected into these companies. In addition, the establishment of Real Estate Investment Trusts will facilitate restructuring efforts. To improve the financial position of distressed companies, the requirement of share buy-back is further relaxed. Meanwhile, listed companies with unsatisfactory financial position or with issued capital below the minimum threshold, are given an extension up to December 2002 to comply with the listing requirements of the KLSE.

**Second Strategy: Diversifying Sources of Growth**

46. To further strengthen the nation's economic fundamentals, efforts have been taken to diversify sources of growth, especially resource-based activities. Given that technology, skills and innovation are the main catalysts for future growth, we need to accelerate the shift towards a K-based economy.

***Manufacturing Sector***

47. For the manufacturing sector, we have to further develop domestic-resource based industries, mainly furniture, palm oil-based oleochemicals and rubber products as well as household electrical appliances which have high demand potential, especially from West Asia and Africa. Meanwhile, the steel and aluminum fabrication industry as well as production of machinery have to be further accelerated, particularly in meeting the demands of the local industry, and exports such as cranes, oil refinery plants, boilers and other fractionation towers for chemical and petrochemical plants.

48. Intermediate and capital goods comprise the largest component in the nation's imports. Such dependence must be

reduced. To accelerate import substitution programme, I propose that the income tax exemption available to companies involved in the production of machine tools, plastic injection machines, material handling equipment, robotic and factory automation equipment as well as parts and components be increased, that is, in respect of Pioneer Status from 70 per cent to 100 per cent and Investment Tax Allowance from 60 per cent to 100 per cent. For companies which manufacture machinery and other equipment such as fabricated cranes, the value-added criteria for the purpose of granting the 70 per cent Pioneer Status or 60 per cent Investment Tax Allowance be reduced from 30 per cent to 20 per cent.

49. Currently, domestic advertising costs for the promotion of Malaysian brands registered in the country are given double deduction for purposes of income tax. As a continuous effort to introduce and promote local brands in international markets, I propose that the advertising cost for Malaysian brand names registered overseas and professional fees paid to Malaysian brand management companies be given double deduction for purposes of income tax.

### ***Agriculture Sector***

50. The growth of the agriculture sector is largely dependent on the output of commodities. There are many new areas that could be developed, especially food and resource-based products such as rubber and timber. In the food sub-sector, including the production of meat, such as ostrich and deer, vegetables and fruits, aquaculture, fresh and salt water fish, prawns and oysters as well as ornamental fish and planting of flowers could be encouraged. Similarly, traditional herbal products have high demand potential. Efforts to expand the use of rubber-based products, including vulcanised latex and timber products should also be increased. Food products will also provide the stimulus to the food processing industry. We have the expertise and credibility to develop *halal* food which has the potential to penetrate international markets.

51. Various tax incentives have been provided to promote the agriculture sector. In 2001 Budget, tax deduction equivalent to total investment or group-relief is given to companies that invest in subsidiaries involved in food production. In addition, companies undertaking food production activities are also given 100 per cent

income tax exemption on statutory income for a period of 10 years. However, this incentive is only provided for new companies. To strengthen the agriculture sector's contribution to growth, I propose that reinvestment undertaken by existing companies be granted 100 per cent income tax exemption against the statutory income for a period of 5 years.

52. The Government has provided tax incentives in the form of 100 per cent allowance on capital expenditure to encourage food production on a large scale for export and import substitution purposes. This incentive is provided for prawn farming, floriculture and the planting of approved fruits. I propose that this incentive be extended to other agricultural projects such as vegetable and herb farming, breeding of fish including ornamental fish, cockles and oysters.

53. The poultry industry will continue to be the main component of the livestock sub-sector. While the nation has reached self-sufficiency in the supply of poultry, there is scope for further expansion in the east coast states as well as Sabah and Sarawak. To ensure self-sufficiency in poultry, I propose that the rearing of



chicken and ducks in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak be granted Pioneer Status with income tax exemption of 85 per cent or Investment Tax Allowance of 80 per cent for a period of 5 years.

54. The nation is a major producer of rubber, timber and oil palm. We must further exploit downstream resource-based activities such as vulcanised rubber and furniture which have the potential to contribute towards economic growth. Downstream activities based on rubber, rubber wood and oil palm waste can bring tremendous benefits if fully exploited. To further promote rubber, oil palm and timber-based industries as well as encourage greater investment in these areas, I propose that companies which reinvest in the production of such resource-based products be granted income tax exemption of 70 per cent or Investment Tax Allowance of 60 per cent for a period of 5 years.

### ***Services Sector***

55. In the services sector, the tourism and education sub-sectors have the potential to be further developed not only to generate

domestic economic activities but also increase foreign exchange earnings.

56. The Ministry of Culture, Arts and Tourism is allocated with a sum of 613.9 million ringgit, including 200 million ringgit for tourism promotion. To attract more tourists, additional facilities for recreational activities as well as tourism products will be provided. To encourage yachting tourism, 20 potential locations have been identified for marina development. For 2002, 5.4 million ringgit is allocated for the construction of marinas in five locations, in the west and east coasts of the Peninsular. In this context, to encourage rental services of luxury yachts and motorboats, I propose that rental income received by the company be exempted from tax for a period of 5 years. In addition, to encourage recreational activities of luxury motorcycles, I also propose that import duty on luxury motorcycles be reduced from 120 per cent to 60 per cent. In line with this reduction, I further propose that the import duty on other motorcycles be reduced from between 80 per cent and 100 per cent to 60 per cent.

57. The Government has already granted income tax exemption for foreign and local tourism business activities up to assessment year 2001. As a continuous effort to activate the tourism industry, I propose that this exemption be extended for another 5 years. In addition, to reduce the cost of car rentals to tourists, I propose that the car rental operators be granted excise duty exemption on the purchase of national cars.

58. Apart from Government efforts, the private sector must take the lead in promoting the tourism industry more aggressively. In this respect, the Government will increase the Tourism Fund from 200 million ringgit to 400 million ringgit.

59. To further promote Malaysia as a centre of excellence in education, the Government has provided several incentives to develop private institutions of higher learning. Therefore, in order to reduce the cost of providing education facilities, I propose that:

- i. all private institutions of higher learning and private language institutions be granted exemptions on import duty, excise duty and sales tax on educational

equipment, including laboratory fittings, workshops studios and language labs; and

- ii. royalty payments received by non-residents from private institutions of higher learning for franchised educational schemes be exempted from income tax.

60. To encourage industries to invest in higher value-added manufacturing activities such as logistics services, integrated market support services and also utility services centres, I propose the following tax incentives:

- i. income tax exemption of 70 per cent against statutory income for a period of 5 years;
- ii. income tax exemption of 85 per cent against statutory income for a period of 5 years for projects located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak; and
- iii. import duty and sales tax exemptions on equipment.

***Enhancing Exports***

61. To ensure that exports continue to expand, I propose that the tax incentives for exports be further enhanced as follows:

- i. Malaysian trading companies that are approved as international trading companies be granted income tax exemption equivalent to 10 per cent of the increased export value and the qualifying criteria such as value of annual sales turnover be liberalised;
- ii. income tax exemption for companies engaged in the export of services be increased from 10 per cent to 50 per cent of the increase in export value;
- iii. income tax exemption be given to organisers of international trade exhibitions which attract at least 500 foreign visitors per year;
- iv. double deduction for purposes of income tax be extended to other expenses incurred in promoting exports of goods and services, such as participation in

virtual trade shows and expenses incurred on feasibility studies for participation in overseas tenders; and

- v. single deduction for purposes of income tax be allowed on expenses incurred in registering patent overseas and on hotel accommodation provided for potential importers of Malaysian goods.

**Third Strategy: Ensuring the Equitable Distribution of Income between Urban and Rural Areas, between High and Low Income Earners as well as between the More Developed and Less Developed States**

62. Currently, there exists a wide income gap between the very rich and the very poor. We do not deny the contribution of the rich towards national development through their expenditure and investment. They create job opportunities and their consumption generates commercial activities, thereby providing income to workers and profits to businesses.

63. For the lower income group, if their purchasing power is increased, they too can equally contribute to growth. While their

income is low, their consumption is big, given the significant number of those in the low income group. As such, if their income is increased, their higher consumption will contribute to the nation's GDP. Thus, efforts must be taken to increase their income.

64. Towards this end, the Government will provide funds for training workers in modern agricultural skills. With higher competence, they can command higher wages. The Government will provide an amount of 10 million ringgit for such training programmes in relevant training centres.

65. The income of class F contractors will be increased through the implementation of more small projects in rural areas. Project management training will be provided for those who need training, to increase their efficiency and enable them to be upgraded to higher class contractors. Payment system and loan facilities for those with good track record will be established.

66. Retail business opportunities will be identified in villages and newly developed townships. Training and viable franchise businesses will be provided for those interested and who have

some capital, such as from their retirement benefits or EPF. For those who are already in business, assistance will be provided to further expand their businesses. However, it must be emphasised that commitment and diligence are important values. Those who only want to get rich quickly must not exploit these opportunities to satisfy their greed.

67. Mixed farming estates will be promoted. These estates must be managed by professionals in the appropriate fields. Trained estate workers will be employed and paid wages commensurate with their productivity and their efficiency in the use of sophisticated agricultural technology. Modern agricultural development will be encouraged in states with abundant land and with per capita income lower than the national average.

### ***Rural Development***

68. The 2002 Budget provides the biggest ever allocation of 5.34 billion ringgit to further increase the facilities and amenities in the rural areas. Among others, this includes 1.58 billion ringgit for agriculture, 378 million ringgit for land and regional development as



well as 392 million ringgit for village and community development. The allocation also includes the implementation of rural and village road projects as well as the provision of water and electricity supply.

69. By the end of the Eighth Malaysia Plan, the Government will increase the coverage of potable water supply to 99 per cent in Peninsular, 75 per cent in Sabah and Sarawak while achieving full coverage for electricity supply. For this purpose, a total of 185 million ringgit is allocated for rural water supply, particularly for interior areas in Sabah and Sarawak. A sum of 211 million ringgit will be provided for rural electricity, including installation of street lights along village roads in 16,207 villages.

70. Family health programmes in rural areas will continue to be provided through the mid-wife, village and health clinics. The services provided, such as the teleprimary care programme, will encourage the development of healthy families, including women in the reproductive age group, child development as well as health programmes for youths, the elderly and the disadvantaged. In addition, an allocation of 202 million ringgit will be provided for a total of 383 health clinics while 8 million ringgit will be provided for

13 Water Supply and Environmental Sanitation Programme (BAKAS). BAKAS will include the construction of a water supply and sanitation system as well as waste and sewerage management.

71. Rural education is also given emphasis. An allocation totalling 900 million ringgit is provided for primary and secondary schools while 100 million ringgit is allocated for 6 new matriculation colleges. A sum of 205.5 million ringgit is allocated for the construction of computer laboratories and facilities in rural schools. In addition, a total of 7,800 houses will be built with an allocation of 215 million ringgit to ensure comfortable living conditions for teachers in rural areas, which is part of the targetted 40,000 houses for teachers.

72. Education facilities in the rural areas of Sabah and Sarawak will continue to be improved. For this purpose, a sum of 180 million ringgit is allocated for the construction and upgrading of teachers' houses as well as the provision of potable water and electricity supply in schools.

73. Efforts will be focussed on reducing the poverty level of *Orang Asli*. This includes efforts to reduce school dropouts through

the Mind Development Programme and strengthening the Pre-School Education Programme through TASKA and TADIKA. Towards this end, a sum of 114.1 million ringgit is allocated for the development of *Orang Asli*, involving 412 villages.

### ***Caring Society***

74. A sum of 136.5 million ringgit under the Operating Expenditure and 57.3 million ringgit under the Development Expenditure is provided for community welfare programmes to benefit 52 welfare institutions. This includes renovation and upgrading works in order to improve their living conditions.

75. The Government will continue to focus on the needs of the poor. *Program Kesejahteraan Rakyat* that was formerly known as the *Program Pembangunan Rakyat Termiskin* will give priority to states with the highest number of poor, including Kelantan and Terengganu. For this purpose, a sum of 204.5 million ringgit is allocated under the Ministry of Rural Development. These include programmes to motivate poor families, augment their income, provide supplementary food for the hard-core poor, eradicate urban

poverty, improve agriculture and economic activities as well as for renovation of houses and community development.

76. FELDA will also provide price support assistance for palm oil and rubber settlers faced with declining commodity prices. Palm oil settlers will be given a sum of 12 ringgit per metric tonne if palm oil prices are below 900 ringgit. Rubber settlers on the other hand, will be given a sum of 15 sen per kilogramme if rubber prices are below 2 ringgit and 50 sen.

77. RISDA has allocated a sum of 3 million ringgit annually to improve the income levels of hard-core poor, provide better living conditions as well as programmes aimed at improving their work attitude and ethics to enable them to augment their income. In addition, a maximum assistance of 250 ringgit a month has been provided for each family based on the number of dependents. A total of 667 families has benefitted from this assistance, amounting to 2.5 million ringgit for the period July 1999 to December 2000.

78. The Government will provide assistance for students with hearing disabilities in institutions of higher learning by providing free

education, food and lodging as well as a monthly allowance of 300 ringgit beginning 1 January 2002. For this purpose, a sum of 403,000 ringgit has been allocated for 112 students in 2002. This assistance will reduce their financial burden as well as of their families.

79. The Government is aware of the impact of the reduction of interest rates by banking and financial institutions on those who are dependent on returns from savings, especially pensioners. To provide alternative sources of income, Bank Negara Malaysia will issue the Third Series of *Bon Simpanan Malaysia*, especially for citizens above 55 years and welfare organisations registered with the Registrar of Societies. An amount of 1 billion ringgit will be issued with a rate of return of 5 per cent, of which half would be issued based on Islamic principles.

80. Shelter is a basic need. Therefore, efforts will continue to be made to increase the number of houses, particularly low-cost housing. A sum of 943 million ringgit has been allocated for several low-cost housing projects, including 143 million ringgit loans to State Governments to implement 124 Public Low-Cost Housing projects.

An allocation of 793 million ringgit is also provided for the implementation of the Integrated *Rakyat* Housing Programme in Wilayah Persekutuan Kuala Lumpur and in other urban areas. These houses will be rented out to the lower income group. As a caring Government, we will ensure that the construction of public low-cost houses will also provide facilities, especially for the disabled.

81. The Government is also concerned about the housing problems faced by civil servants, particularly those in the Armed and Police Forces. An allocation of 1.08 billion ringgit is provided for the construction of quarters, which includes 710 million ringgit for the Armed Forces, 197 million ringgit for the Police Force and the balance of 173 million ringgit for civil servants.

82. In line with the objective of a healthy society and a prosperous nation, the Government will continue to improve health service facilities. A sum of 6.3 billion ringgit is allocated to the Ministry of Health to continue, among others, the implementation of hospitals as well as health and rural clinic projects. Among the health and medical facilities, focus will be given to improving women and

children's health, disease control, nutrition as well as providing modern equipment and facilities.

### ***Women***

83. In recognition of women's role in economic development, the Government has set up the Ministry of Women and Family Development. With the establishment of the Ministry, issues and problems relating specifically to women, including children and families will be given a more focussed attention. In this regard, Article 8(2) of the Federal Constitution has been amended to include the word 'gender' to ensure that laws and policies do not discriminate against women. The Ministry has also launched the Women Against Violence Campaign on 23 July 2001.

84. The Government is aware that the female labour force participation rate at 44.5 per cent is lower than the 60 per cent level in developed countries. Women in Malaysia are fortunate that the Government encourages and provides equal opportunities in all fields of employment, unlike in certain states, which do not encourage women to work. In fact, Saidatina Khadijah, wife of the

Prophet, was a prominent and wealthy entrepreneur during her time. Another of His wife, Saidatina 'Aisyah led troops in the Battle of Jamal. Many women provided medical services to Muslim soldiers injured during the battle. We must remember that Muslims make up only 60 percent of the population, of which half is women. If women are not allowed to contribute to the development of the Muslim community, the Muslim workforce will be reduced by 30 per cent. They are already weak and will become even weaker.

85. Greater focus will be given to specific programmes aimed at improving the quality of women's lives, particularly in rural areas, developing female entrepreneurs as well as eradicating the gender bias in all respects. The implementation of these measures reflects the Government's commitment in ensuring that equal opportunities are provided for women. A sum of 59 million ringgit has been allocated to finance programmes, specifically for women.

86. Currently, widows receiving their late husband's pensions will lose the benefit if they re-marry. I propose that they continue to receive the pension even if they re-marry. It is hoped that there will



not be many who will marry a second wife and leave their first wife because of this provision.

### ***Youth and Sports***

87. Youths are the nation's greatest asset and have the potential to contribute towards development. In this respect, the *Rakan Muda* Programme will be continued with renewed features and form part of the national agenda for the development of youths. A total of 3.5 million youths will participate in more than 35,250 activities at the national, state and district levels under this programme. Participation in the National Social Service Programme for youths which aims to cultivate self-reliance and inculcate good values will be extended to 20,000 youths. The programmes will be for students awaiting their SPM examination results. The promotion and publicity for the *Rakan Muda* Programme will be organised on an on-going basis to attract youths to participate in activities that suit their interests. A sum of 81.8 million ringgit has been allocated for these programmes.

88. The Government wishes to congratulate and record its appreciation to the national SEA Games contingent for their overwhelming success in attaining the nation's best ever SEA Games performance, with 111 gold medals. Training efforts for our national athletes will be intensified to enable them to excel in the Asian and Olympic Games.

89. Sports and recreational activities will be enhanced. As sports is for people of all ages, additional activities in the form of competitions for ordinary people will be organised. In addition, new sports activities such as extreme sports and motor sports will continue to be introduced through competitions and demonstrations. In 2002, Malaysia will host an extreme sports event at the Asian level. This new sport is aimed at attracting the interests of youths as well as to spend their time constructively and productively.

### ***Combating Social Ills***

90. We have witnessed the increase in social ills in our society. Recently, the nation has been jolted by unprecedented acts of

violence. The Kampung Medan incident has marred the unity that we have so painstakingly built up. Moral decadence among youths is a serious concern. The number of drug addicts and HIV-AIDS patients has increased. Criminals have become more violent.

91. The bitter experience of 1969 underscores the importance of fostering and preserving national unity. Programmes to create community awareness as well as build a sense of responsibility in addressing social issues will continue to be implemented. In this regard, a sum of 6.8 million ringgit has been allocated under the Ministry of National Unity and Community Development to carry out programmes under the Social Action Masterplan (PINTAS). This Plan incorporates measures to enhance cooperation and participation at all levels to ensure that every member of society leads a healthy and good quality life, free from social ills. An allocation of 7.7 million ringgit is provided for the National Social Service Programme under the Ministry of Youth and Sports to combat social ills among youths, particularly secondary school leavers.

92. A sum of 312.4 million ringgit is allocated to eradicate drug and crime-related problems. Of this, an amount of 140.4 million ringgit is for crime prevention, mainly to combat drug smuggling and abuse, besides improving treatment for drug addicts. An allocation of 282,500 ringgit is provided for voluntary organisations, such as PEMADAM and PENGASIH. A sum of 172 million ringgit is provided to accelerate crime investigation through the use of modern techniques, such as DNA profiling to trace criminals.

93. To assist voluntary non-governmental organisations to step up activities in AIDS prevention and drug abuse as well as the HOSPIS programme for treating serious cancer patients, the Government will provide a matching ringgit for ringgit grant for sums raised by these organisations, up to a maximum of 1 million ringgit. A special allocation will be provided for drug addicts affected by HIV-AIDS.

94. Public awareness on the hazards of smoking is still low among the *rakyat*. A matter of serious concern is the spread of smoking habit among school children. Recognising this, I propose that import duty on cigarettes be increased from 180 ringgit per kilogramme to 216 ringgit per kilogramme while excise duty be

increased from 40 ringgit per kilogramme to 48 ringgit per kilogramme. The Government is aware that this measure may increase smuggling activities. In this respect, a more aggressive and effective approach will be taken to ensure that smuggling activities are curbed by increasing administrative efficiency of the Customs Department and other enforcement authorities.

95. The Government acknowledges and appreciates the spirit of volunteerism and commitment shown by various voluntary organisations. In this regard, an allocation for an operating grant of 22.9 million ringgit and a development grant of 6 million ringgit are provided to 375 voluntary welfare organisations. Among the new facilities, four day-care centres for the elderly managed by NGOs are expected to commence operation by 2002. A new institution, *Kompleks Penyayang BAKTI Sungai Buloh* has been established to provide care and protection for children, the elderly and single mothers. In addition, about 10 million ringgit is allocated for voluntary organisations to provide haemodialysis services.

***Public Service Sector***

96. The Government appreciates the contribution of the civil service in spearheading development efforts. The Government is also aware that with the support and commitment of civil servants, policies and programmes for the benefit of the *rakyat* have been implemented effectively. I believe the excellence and professionalism of the civil service will continue to be enhanced, particularly in the light of greater difficulties in both the external and internal environment. This should not dampen our spirit, instead it should serve as a challenge for the civil service to strive harder towards achieving excellence. The nation needs the dedication of all civil servants. There is no need to resort to armed struggle. Our struggle is more of attaining economic achievements and upholding the nation's sovereignty. We should strengthen our resolve, redouble our efforts, inculcate trust and sincerity as well as promote an excellent work culture.

97. As a record of appreciation for the commitment and dedication of the civil service, the Government will award a bonus of half month salary or at least 1,000 ringgit for 2001. Half of the bonus will be paid in October and the other, in November. I hope the bonus will be able to meet expenses for the coming festivals as well as for those with school-going children, when schools reopen. The Government is concerned about the income of its officers and staff. As such, if its financial position permits, the Government can consider a salary increase for the civil service. The last salary revision was implemented in 1995. The Government further increased the basic salary by 10 percent in 2000. Now, only two years after the last revision, the Government has decided to once again increase salaries in 2002, by another 10 per cent, representing an increase in income of 1.2 months a year. This increase is possible given the higher Government revenue as a result of economic growth and the Government's prudent financial management. We hope this bonus payment and the salary increase together with the abolition of the limit on bonus payment by the private sector will contribute to increasing the purchasing power of the majority of the *rakyat*. I also hope that this will encourage us

to double our efforts towards increasing productivity and thereby, contributing to growth of the economy.

98. To improve the scheme of service of Medical Officers in the public sector, the rate of Overtime Allowances will be increased from 25 to 50 per cent, effective 1 October 2001. This increase is expected to further enhance the motivation of Medical Officers burdened with additional work as well as minimise wage differentials between Government Medical Officers and those in the private sector.

99. In appreciation of the contribution of volunteers in the security forces, particularly the Malaysian Armed Forces, Royal Malaysian Police and Civil Defence, the Annual Gratuity Rate for officers and personnel will be increased from 400 ringgit to 520 ringgit, representing an increase of 30 per cent, effective 1 October 2001.

100. For volunteers in the Malaysian Armed Forces, the specialist grant for officers, which has not been revised since 1958, will be increased by 100 per cent from 150 ringgit to 300 ringgit annually.



For those in other ranks, the increase is from 100 ringgit and 75 ringgit to 200 ringgit, effective 1 October 2001.

### ***Development of Islam***

101. The Government continues to uphold the understanding and knowledge of true Islam and the development of the Muslim community in this country. In this connection, the Government will continue to provide adequate allocation under *Jabatan Kemajuan Islam Malaysia* (JAKIM) to implement various development programmes for the benefit of the Muslim community. A total of 294.3 million ringgit is allocated for the implementation of programmes for the development of family institutions and the provision of social services, greater understanding and assimilation of Islam, education programmes in religious schools and *Al-Quran* and *Fardhu Ain* classes. In addition, the Government will also continue to implement several development programmes under JAKIM. These include the building and renovation of mosques and Islamic training complexes, the building of religious schools as well as the development of an information system.

102. In line with the desire of the Government to meet the required number of Muslims who are able to recite and memorise the *Al-Quran*, the capacity of *Maahad Tahfiz Darul Quran* in Kuala Kubu Bharu, Selangor will be increased when the second phase of the construction of the *Maahad Tahfiz* is completed.

103. The Government also intends to implement more programmes on the understanding of the correct teachings of Islam for students in public and private higher learning institutions, among officers and personnel in Government as well as in the private sector. Towards this end, courses will be conducted on strengthening religious beliefs, spiritual development, appreciation of Islam and human development. The objective of the Government is to establish a religiously correct Muslim community. This will only be achieved if there is no deviation by those given responsibility to teach Islam. For those who propagate teachings that are against the true teachings of Islam, such as hatred for other Muslims, rejecting brotherhood of Muslims and branding other Muslims as infidels and spreading slanders, the allocation will be terminated. The allocation provided is for purposes of propagating the knowledge of Islam and not otherwise.

***Implication of Tax Proposals***

104. The reduction and abolition of tax proposals will result in a loss of Government revenue totalling 1.2 billion ringgit. At the same time, the Government has increased expenditure as a measure to stimulate domestic economic activities. Thus, the Government must seek other sources of revenue to strengthen its financial position.

Therefore, I propose that:

- i. the threshold for the imposition of service tax for restaurants, bars, snack bars and coffee houses, private clubs and advertising companies be reduced from an annual sales turnover of 500 thousand ringgit to 300 thousand ringgit and above; and
- ii. the threshold of 300 thousand ringgit annual sales turnover for the imposition of service tax on professional services be reduced to 150 thousand ringgit.

In this respect, the Government will step up enforcement and conduct street surveys to curb tax evasion.

105. In addition, the Government has provided substantial subsidies totalling 4.4 billion ringgit, of which more than half is petroleum subsidy. To reduce the financial burden of the Government, I propose that this subsidy be reduced by increasing the retail price of diesel by 10 sen per litre. In addition, the subsidy for diesel is provided only for diesel supply for the use of land transport, Government and fishing boats. In line with this increase, I also propose the retail price of petrol be increased by 10 sen per litre. These proposals are effective from 20 October 2001.

#### **IV. ECONOMIC PROSPECTS FOR 2002**

Mr. Speaker Sir,

106. Global economic growth and world trade in 2002 are expected to remain uncertain. We are unsure whether the United States will be able to avoid an economic recession. However, we also expect that the recovery of the US economy will be delayed. The prospect for recovery of the Japanese economy is also not encouraging. Given the less favourable external environment, the nation's economic growth will be driven by domestic economic activities.

Our economic growth is expected to increase between 4 to 5 per cent in 2002 with Gross National Product (GNP) remaining high at 370 billion ringgit. All major economic sectors will continue to record growth, mainly led by the manufacturing and services sectors. The increase in the growth of the manufacturing sector is expected to be driven by the recovery in global demand for electronics while the services sector will be supported by the continued pick-up in domestic economic activities. Domestic demand at current prices is expected to increase by 5.5 per cent, mainly on account of the growth in private sector expenditure of 6.6 per cent. The public sector, however, continues to grow, albeit, at a slower rate of 3.1 per cent.

107. The economic prospects remain encouraging given the nation's strong economic fundamentals. External reserves has stabilised at a higher level of 113.7 billion ringgit or 29.9 billion US dollars as at 15 October, sufficient to finance 4.7 months of retained imports. The external trade balance recorded a surplus for 46 consecutive months since November 1997 through August this year. Gross National Savings is still at a high level at one-third of GDP. The banking system continues to strengthen with the risk-

weighted capital ratio at 12.6 per cent, which is above the international standard of 8 per cent. The level of short-term debt is low at 5.2 per cent of GDP, while the debt service ratio remains sustainable.

108. With higher GDP growth, per capita income is expected to increase by 4.7 per cent to 13,962 ringgit in 2002 compared to 13,333 ringgit in 2001. With inflation at a low level, per capita income in terms of purchasing power parity will increase by 5.1 per cent to 9,403 US dollars in 2002 from 8,944 dollars in 2001, reflecting the higher purchasing power of the *rakyat*.

109. The Government will continue to implement unconventional measures based on our own approach which have proven to be successful and effective in managing the economy. In this regard, the ringgit peg will be maintained. However, the Government will continue to monitor domestic and external developments to ensure that the value of the ringgit is consistent with the nation's macroeconomic fundamentals. Given the volatility in foreign exchange markets, the Government will ensure that the ringgit exchange rate remains stable.

110. The growing difficulties in the global economy occurred at a time when the nation is just into the first year of the Third Outline Perspective Plan and the Eighth Malaysia Plan. To achieve the long-term objective of Vision 2020 for Malaysia to become a developed nation, both Plans envisaged an average annual growth rate of 7.5 per cent. Since economic growth for 2001 and 2002 are expected to be lower, we have to redouble our efforts to accelerate growth for the remaining years of the Plans.

111. With the nation's economic fundamentals remaining strong, we are confident of achieving our growth targets. However, we must redouble our efforts towards realising this objective. Our experience during the recent financial crisis has shown that we can successfully overcome the worst recession, when economic growth contracted by 7.4 per cent in 1998. The economy was able to rebound quickly in the following years, enabling us to achieve the average growth target of 7 per cent under the Second Outline Perspective Plan.

## CONCLUSION

Mr. Speaker Sir,

112. This year's Budget is tabled amidst an extremely challenging time with increasing volatility in the external environment. While our economic fundamentals remain strong, there exists several constraints in the domestic economy that have to be overcome. We also face problems of social ills and threats to national unity. Peace and stability are the cornerstone of economic progress. Good planning and excellent development plans will come to nought, if there is no peace and harmony. Extremism has no place in our society. We have a truly democratic process. Every *rakyat* has the right to elect the government through the ballot box without resorting to violence or force of arms or creating chaos. Extremism is against the principles of all religions, more so in Islam, which promotes peace and prosperity. Islam abhors those who create chaos as in verse 77 *surah Al-Qasas* as follows:

“..... and do thou good, as Allah has been good to thee, and seek not mischief in the land, for Allah loves not those who do mischief”.



It is not mentioned in the verse that we should do good only to Muslims. As long as others are not our foes, we should do good and be fair to them.

Mr. Speaker Sir,

113. During the past four decades, the nation has achieved excellent economic progress and has been a model to the world. The progress that we have achieved has not come easy. It is also not solely attributable to our abundant natural resources. Our success has been accomplished through our planning, our policies and strategies, our efficient administration untarnished by widespread corruption, our peace and stability as well as our upholding of religious values. Of utmost importance is the *rakyat's* unwavering support and untiring efforts as well as their sacrifice. *Keranamu Malaysia.*

114. Social cohesion builds a strong nation. A society which is self-reliant, upholds noble values and practises good ethics, tolerant, caring and just as well as equipped with knowledge will propel the nation towards greater progress and achievements.

115. We pray to the Almighty to bless us with strength, resolve and perseverance to face all adversities, bestow us with courage and determination to strive for prosperity and uphold our nation's sovereignty. With the Almighty's blessings, we will be able to build a peaceful, progressive, harmonious nation, free from foreign pressure and well respected by all.

Mr. Speaker Sir,

I beg to propose.