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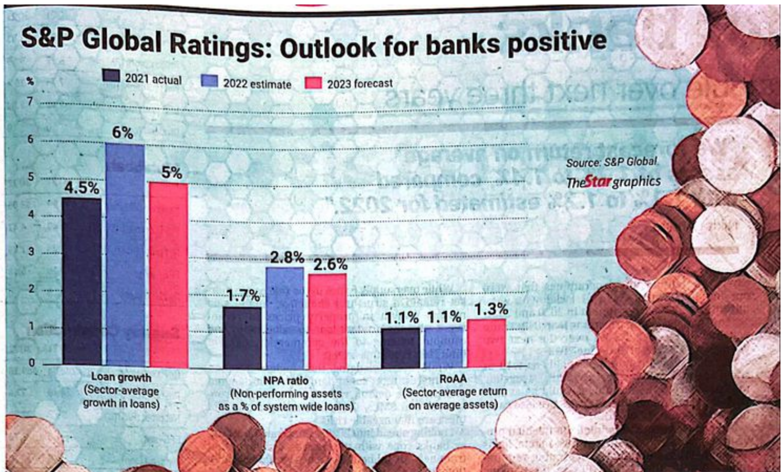
Agile policies for sustainability



Malaysia's economic growth as well as solid capitalisation and provisioning buffers over the next three years will offset any potential asset quality pressures in the banking sector, according to S&P Global Ratings. > See page 2

StarBiz Special

Agile policies for sustainability

Ecnomists' to-do list for incoming government

ECONOMY

By THOMAS HUONG
huong@thestar.com.my

KUALA LUMPUR: Reducing economic inequality, improving household purchasing power, delivering better public services and subsidy rationalisation should be given priority post the 15th General Election (GE15), according to economists and fund managers.

"We need credibility in economic policy focused on sustainable growth, low inflation and helping recovery in incomes, businesses and savings.

"The handouts under Budget 2023 should be scrapped and focus should be on a stable, low-inflation trajectory coordinated with the interest rates set by the central bank.

"We should not see expansionary fiscal policy forcing higher inflation and higher interest rates," said Malaysia University of Science and Technology economics prof Geoffrey Williams.

He pointed out that the new government should also address the issue of 96% of Malaysians having insufficient savings after retirement.

"We need a universal basic pension and full pension reform. This must extend to social protection, so we need a universal basic income.

"There must be policy review councils for pensions and social protection, higher education funding, economic development, health reform, small and medium enterprise (SME) and business development, investment competitiveness and tax reform," he told *StarBiz*.

"This demand strategy will need to be coupled with supply-side efforts to raise domestic production of food and substitutes for expensive imports."
Dr Yeah Kim Leng

Bank Islam Malaysia Bhd chief economist Firdaos Rosli said the incoming government should be centrist in terms of policies, as "this would make us more agile to changes in the external environment,"

"It is okay to be centre-right in our political ideology but centre-left in economic policies," he said.

He pointed out that key reforms such as the Fiscal Responsibility Act, subsidy rationalisation and goods and services tax (GST) were postponed amid political expediency.

"What will be our basis for growth? Is it going to be a welfare state or a market-driven economy? We have to be very clear about where we want to be," he said.

Sunway University economics professor Dr Yeah Kim Leng said the priority should include a big investment push to sustain economic growth, accelerate income and increase the number of jobs.

"This demand strategy will need to be coupled with supply-side efforts to raise domestic production of food and substitutes for expensive imports," he said.

He added that social protection for those scarred by the prolonged pandemic should also be enhanced.

Yeah pointed out that subsidies, especially for fuel, should be rolled back while efforts to broaden the tax base and diversified revenue sources could be intensified to reverse the government's deteriorating fiscal position due to the pandemic.

"The rebalancing will involve inflicting some pain on those that are able to shoulder the needed tax increases as well as the higher fuel and food prices arising from the more targeted subsidy schemes," he said.

Meanwhile, Universiti Tun Abdul Razak economist Dr Barjoyai Bardai said the new government would need to control the rise in the cost of living.

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Raising household income to increase consumption

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"It needs to make sure that prices, especially for the basic necessities, will not go up and reduce real wages. Secondly, it must have a policy to increase income. The country has been doing well economically, but the problem continues to be income inequality," Barjoyai said.

"The basic economics principle is to increase household income, so effective demand will rise and that will increase consumption and production. The result is rapid economic growth from private consumption and higher production volume. This strategy will be sustainable," he said.

Meanwhile, a fund manager said the issue of inflation and improving households' purchasing power should be addressed as they have a direct impact on positive economic growth in terms of higher domestic consumption.

There is an urgent need to expedite the process of hiring foreign workers for the labour-intensive construction, manufacturing, plantation and services sectors.

"Improving the fiscal position by reintroducing the GST but at a lower rate than 6%, developing a competitive business tax regime and reducing the cost of doing business through lower regulatory costs to attract foreign direct investments should also be considered," he said.

The fund manager also noted that the current full subsidy mechanism has restricted the capital allocation into other more important areas such as research and development, healthcare, education, defence and technology.

"There is a need to achieve fiscal balance via targeted subsidy measures, although this will create an economic burden for the general population in the shorter term. A narrowing fiscal deficit will help to strengthen the ringgit which serves as a buffer to the reduction in subsidies," he said.

Centre for Market Education CEO Dr Carmelo Ferlito said the priority should be in promoting sustainable economic growth – which means growth rooted in private investment, savings and government-spending cuts.

"Only in this way can purchasing power be restored and eventually a strategy on income inequality can be implemented based on more opportunities for everybody," said Ferlito.

On improving the delivery of public services, he said the system should change in the direction of services provided at market prices.

"The low and middle-income groups should enjoy price reductions according to their income. Such a system would be supportive of the poor. The higher resources collected from the ones who can afford market prices would support discounts for the low-income groups," he said.

Inspired by the UK's "direct payments" system, he said vouchers could be supplied to service beneficiaries.

"Private providers can claim the voucher amount from the government," said Ferlito.

He cited feedback from the UK where beneficiaries of direct payments feel that their quality of life has improved.

"The British experience demonstrated that directly provided services are more expensive than those purchased through the direct payments scheme, with the latter costing 20% to 40% less," said Ferlito.