

A delicate balancing act

As in previous years, expectations are running high for the upcoming national budget, which will be tabled on Oct 21. Many different parties have presented their proposals to the government on what it can do to help the rakyat and businesses operating in the country.

At this juncture, one would have noticed that over the past few years, the issues raised have been more or less the same — how to cope with the increasing cost of living (especially with marginal growth in wages and salaries) and how to contend with the rising cost of doing business. Budget 2017 will once again see these issues take centre stage.

Addressing these concerns will be challenging, however, because of the interactions between economic agents with inherently conflicting aims. In particular, businesses would always want to maximise profit to satisfy their shareholders, while households invariably yearn for stronger purchasing power through higher incomes and lower prices.

Similarly, while house buyers dream of securing as much financing as possible to purchase their dream homes, financial institutions are always looking to expand their profit margins while protecting their balance sheets by extending credit only to parties perceived as good paymasters. On the other side of the equation, property developers constantly look for ways to increase their sales by dishing out as many incentives as possible to entice potential buyers and ensure high take-up rates for their property projects.

As for the man in the street, nothing is more important than paying reasonable prices for basic consumer goods. Rising food prices are ever the hot topic of discussion, especially because our lifestyle prizes food. Food has always been a factor that draws Malaysians together, irrespective of race or religion. Indeed, makan is a common way to celebrate our many festive occasions.

Thus far this year, statistics have shown that while Malaysia's headline inflation (measured by changes in the Consumer Price Index or CPI) remained benign in the past eight months at 2.3% on average, rising food



MY
Say

BY NOR ZAHIDI ALIAS

prices continue to elicit concern. This is not surprising, as the headline inflation numbers are kept relatively benign primarily due to low petrol prices.

Indeed, low global crude oil prices have benefited consumers through low pump prices. Transport costs have actually slipped by an average of 5% in the first eight months of 2016, keeping the overall inflation rate below its long-term average. However, excluding the effects of low petrol prices, inflation numbers look slightly different. For instance, after subtracting the transport cost index, the CPI rose to a high of 4.6% in March 2016, the highest level since January 2009, before moderating slightly in recent months (average year-to-date reading: 3.7%).

At the same time, food prices have climbed by an average of 4.3% in the past eight months — almost double the headline inflation number. Much of this is attributed to rising prices of food for home consumption. Fortunately, the government has worked to ensure petrol prices remained relatively stable this year, as rapid changes in pump prices would only cause anxiety among consumers and lead to cutbacks in spending.

Household income has also been widely debated lately. Recent findings by the Khazanah Research Institute on Malaysian household income trends have deepened interest in the cost of living. The findings revealed that median wages and salaries had increased marginally between 2012 and 2014 (+1.7% in nominal terms; -0.9% in real terms), but was offset by other types of incomes (current transfers, imputed rent and so on). Without decent increases in wages and salaries — evidently the major source of household income in Malaysia — beating the ever-rising cost of living will prove to be a monumental task.

While the findings are enlightening to many of us, one has to be reminded that raising income levels would only address one side of the equation — higher incomes are meaningless if they cannot offset the price increases of basic consumer items. Therefore, the other part of the equation requires us to formulate measures that can contain price increases, especially for basic consumer items. The government could, for instance, look into measures to further enhance

food security while fine-tuning the structure of the food industry to make it more competitive. If these things are done, the man in the street would be able to enjoy life without feeling financially tight.

As for ensuring households are not overly burdened by debt, the government may continue to stipulate that housing loans are only to be given to those who can service their loan obligations in a timely manner. As such, the recent proposals to allow property developers to extend financing facilities to end buyers will likely invite close scrutiny as the government is well aware of the consequences for consumers of higher interest rates. After all, macro-prudential measures introduced by Bank Negara Malaysia since 2010 were instituted to prevent unnecessary debt burdens that cannot be shouldered comfortably by certain households.

Given that home ownership is still a hot issue for the rakyat, concerns over the mismatch between the demand and supply of affordable homes will continue to figure prominently in Budget 2017. Although some posit that the availability of affordable homes in Malaysia is not the issue, evidence seems to suggest that most of the affordable homes are not located in the areas where demand is. Therefore, measures to address the demand-supply mismatch can be expected in Budget 2017.

As much as we would like to see the government come up with measures to address the rakyat's problems this year, one has to be realistic about the constraints presented by prevailing economic conditions. Notably, a higher-than-expected decline in government revenue in the first half of this year.

Against this backdrop, measures to be presented in Budget 2017 would have been cautiously formulated to maximise the benefits for the rakyat and reduce the strain on the government's coffers. This will indeed be a delicate balancing act, one that many of us look forward to seeing. ■

Nor Zahidi Alias is chief economist at Malaysian Rating Corp Bhd. The views expressed here are his own.