CENTRE FOR PUBLIC POLICY STUDIES
Asian Strategy & Leadership Institute
1718 Jalan Ledang, Off Jalan Tuanku Abdul Halim
50480 Kuala Lumpur

Tel • 03-2093 5393
Fax • 03-2093 3078
Email • cpps@cpps.org.my
URL• www.cpps.org.my

MEDIA RELEASE
28 October 2017

CPPS' RESPONSE TO BUDGET 2018

The Centre for Public Policy Studies (CPPS), overall, commends the initiatives undertaken in the Malaysian Budget 2018 for its tacit intent of preparing Malaysia for the long-haul, that is to become a nation that will significantly reduce its dependence on oil revenues by allocating significant investment in its best assets – its people. Much emphasis has been given on human capital development, SME development, start-ups, and in generally, planting the seeds of entrepreneurialism in the hope that some of these elements will go on to become major players on the world stage in terms of business and enabling the in-flow of revenue through more diverse means. However, despite the fact that this is an "election budget", greater prudency and fiscal management is strongly advised for the nation's long-term sustainability.

Budget 2018 allocated a total of RM 280.25 billion, a RM 20 billion increase from Budget 2017. 84% (RM 234 billion) was allocated to operating expenditure with only 16% for development. The ratio has become increasingly imbalanced, as the proportion was 72% to 27% in 2010. The government should approach operating expenditure with care as emoluments will increase unsustainably without reforming the civil service.

Income tax rates were reduced by 2% for three income brackets in the range of RM 20,001 to RM 70,000. This will save between RM 300 to RM 1,000, adding up to a total of RM 1.5 billion given by the government to the people. However, it is a blanket tax cut which primarily benefits the upper and middle class as only those earning upwards of RM 70,000 annually would be able to enjoy the full RM 1,000 tax cut, a similar amount being given out by BR1M. According to the Department of Statistics Malaysia (DOSM), median personal income is RM 20,436 per annum, implying that the bottom half of salaried workers do not benefit from tax cuts. This policy is poorly designed, mistargeted and deemed regressive as RM 1.5 billion will be channelled to the upper half of Malaysians instead of the bottom half.

The abolishment of 5 tolls across Selangor, Kedah and Johor is welcomed as roads should be a public provision for the people and is a good step in the right direction. Nevertheless, paying compensation to the concessionaires will incur a huge expense and the government should instead look into re-negotiating the toll contracts signed for the construction of Malaysia's highways.

In Budget 2018, the government allocated RM 2.2 billion to boost home ownership and build affordable housing. This is a commendable move to address dire shortage in the supply of affordable homes as the private developers have not demonstrated sufficient competency in fulfilling this demand. However, the government extended the step-up financing programme, introduced by PR1MA, to private developers which exposes home-buyers to higher risks. Step-up financing requires a high degree of regulation because it involves steep leveraging and could lead to bankruptcy if people are not financially responsible. The potential option of withdrawing from EPF accounts is a threat to long-term social security. This policy should be rolled back as it could be easily abused by private developers to issue predatory loans. With the vast amounts of money and individual liabilities involved, this could lead to a household debt crisis.

Education

Budget 2018 provides far-sighted strategies to enable those with less access, such as the B40 and Orang Asli groups, to have an opportunity to be educated and in doing so, enabling them to contribute back to society in the long-term.

The increase of research grants for public universities to RM400 million is a move back in the right direction, enabling the academic community to carry out R&D initiatives. However, it is unclear if enough has been done regarding the operating grants which affect remuneration for the academia which in turn could affect their intellectual outputs should they be forced to manage alternative income sources, depending on their field of research.

Added allocation towards the arts is refreshing, but a wider strategy is required to encourage the promotion of the arts on a wider scale. Universities and colleges should be encouraged to promote the arts, which is an often neglected yet a highly important social aspect of human interest development and living.

Bumiputera Empowerment

The empowerment of Bumiputera across various sectors continues to be a priority of the government in this budget. Over RM3.5 billion will be spent on enhancing Bumiputera economic participation through scholarships, increased equity ownership, accessible loans for Bumiputera SMEs, and strengthened entrepreneurship opportunities. The continued commitment to native customary rights and land ownership in Sabah and Sarawak is also encouraging. However, while affirmative action policies for low-income Bumiputera are necessary for the economic progress of a significant proportion of the population, long-term dependence on such protective policies are unsustainable and will place further strain on national unity.

B40 & M40

The government maintains its commitment to alleviating the B40 to match the rising costs of living, but more needs to be done to control price inflation of basic household demands.

Due to the much-anticipated General Election which is likely to occur in the first quarter of 2018, the concept behind the continuation of cash-handouts and other financial benefits for both the B40 and M40 is understandable, but may not be sustainable in the long-run. Despite expectations, it is interesting to note that BR1M, the main “sweetener” for the people, was not increased for the first time in seven years.

Youth Sidelined

It was disappointing that despite public concern about youth unemployment, there was not a strong focus on youth in Budget 2018. No mention was made about the worrying rise of graduate unemployment or the basic income of fresh graduates in Malaysia. Instead, Budget 2018 focused on boosting certain government initiatives designed to help increase graduate employability like the 1Malaysia Training Scheme (SL1M), increasing intake to 25,000 graduates in 2018 and allocating RM40,000 to the Open Interview Programme. Private government-linked companies (GLCs) are required to allocate 1% of project value to SL1M. In addition, a full RM2.5 billion, the highest ever sum given for higher education and training scholarships, has been allocated for MARA scholarships, and RM200,000 for the MARA Graduate Employability Training Scheme (GETS) which is good news for Bumiputera students but is not inclusive.

Healthcare

Funding for healthcare has risen by an average of 6.8% over the last five years and in this budget, nearly RM27 billion has been allocated to improve healthcare in the country. As a percentage of GDP, however, it remains below the average for upper middle-income countries. The continued investment in clinics and hospitals as well as the focus on haemodialysis, cancer and rare diseases is welcomed. It is also encouraging to see increased funding for the development of Malaysia's medical tourism industry. However, there is still no long-term strategy to cope with demographic transitions such as an ageing population and rapid urbanisation. This is exacerbated by the rising cost of private healthcare which is not exempt from GST. Therefore, the ongoing regulatory challenge will be balancing public and private sector delivery and ensuring an equitable two-tier healthcare system.

Defence & Security

The budget shows a good reaction towards growing fears of terrorisms by the increase in the allocation to counter terrorism efforts. The RM250 million provisions to enhance– Eastern Sabah Security Command (**ESSCOM**) l further strengthen security in Sabah, at the same time help to eradicate fears of kidnapping and to return confidence, bringing much needed tourism revenues and foreign investments back into the state. However, it is unclear if there are long-term plans to strengthen Malaysia's security forces in light of developments in the South China Sea.

Sustainability

Overall, Budget 2018 lack solid policies to promote sustainability, especially in relation to the lack of concrete strategies to work towards the UN's Stainable Development Goals (SDGs). Though some schemes and programmes are introduced, none seem to encourage the adoption and internalisation of sustainability practices and policies in the public nor the private sector. More concrete allocations should have been highlighted for the use of sustainable methods in various sectors by giving incentive or tax breaks.

Miscellaneous

Budget 2018 also lacks mention of strategies to accommodate and adapt to the Fourth Industrial Revolution. Though it is good that there is reemphasis on STEM fields, added focus on much needed skills, such as big-data analysis, skills to supplement automation and in general, filling the gaps and seeking replacement skill sets for Malaysians whose jobs that may one day become obsolete. At this trajectory, Malaysian will merely be consumers of the Fourth Industrial Revolution, rather than masters of it, which is not an ideal position.

- ENDS –

These are the opinions of researchers at the Centre for Public Policy Studies.

For enquiries, please contact: Mr Voon Zhen YI, Manager, Programme & Research, CPPS at voon@asli.com.my / HP: +6012 265 4772