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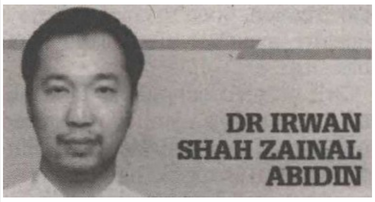
Managing the 'new normal' economy

PROGRESS: Malaysia's growth momentum for domestic demand will be sustained in 2016



DR IRWAN SHAH ZAINAL ABIDIN

THE Malaysian economy is facing challenging times. The slowdown in global growth, contraction in trade, plunge in commodity prices, especially crude oil prices, depreciation of the ringgit, narrowing current account figures, rise in cost of living, spike in household debt have forced the government to adjust and find new ways to manage these challenges.

Evidently, it is the period of adjustment to the so-called "new normal", as we are about to enter 2016.

And perhaps, it is against this backdrop that the third quarter of this year's gross domestic product (GDP) growth of 4.7 per cent should be read and interpreted accordingly.

Undoubtedly, the solution should not be shouldered only on Bank Negara's monetary tools, but the fiscal side of the equation must also play its critical role in managing this "new normal" landscape, in the quest for a dynamic economy and global economic climate.

Of late, it is apparent that domestic demand has been an anchor to the Malaysian growth story.

Although the third quarter data on aggregate demand has slowed to 4 per cent from 4.6 per cent in the second quarter, private and public investments demonstrated a rebounding trend, supporting growth from July to September.

Private investment increased to 5.5 per cent from 3.9 per cent in the previous quarter, whereas public investment has returned to growth, recording a significant jump of 1.8 per cent from a contraction of 8 per cent in the second quarter.

With more infrastructure projects in the pipeline under the 2016 Budget, and more to come under the Eleventh Malaysia Plan, it is expected that the growth momentum for domestic demand will be sustained.

On the other hand, private and public consumption decreased. Private consumption is locked at 4.1 per cent, the lowest since the second quarter of 2010.

Extra caution is needed to handle these two components of domestic demand as a fine balance is required in tapering federal and household debts, on one hand, and the need to stimulate domestic-sector activities, on the other.

The third series of the 2014 Auditor General's Report revealed that public debt stands at 54.47 per cent of GDP, a slight percentage increase.

While the household debt level, despite dropping to 7.6 per cent in the third quarter, occupies about 88 per cent of GDP, among the highest in the region.

In tackling public debt, there is a need for the government to respond to the recommendations made in the third series of the 2014 Auditor General's Report, particularly checks and balances to improvise future financial performance of ministries and in containing spending wastage.

The other way to address the federal debt is by increasing revenue via growth.

With the just concluded 27th Asean Summit and Related Summits, which culminated with signing of the Kuala Lumpur Declaration on the Establishment of the Asean Community, and the soon-to-be signed Trans-Pacific Partnership agreement, opportunities are endless in terms of leveraging trade and investment potential for Malaysia, especially in the final leg to achieve high-income nation status.

These grand initiatives will not only increase growth and revenue, but also improve current and trade accounts, productivity, innovation, and compliance with the rule of law, which will strengthen the ringgit, especially against the United States dollar.

As for household debt, more concrete measures are needed to address people's purchasing power.

Measures under the 2016 Budget — such as to increase direct handouts under 1Malaysia People's Aid (BR1M), salary adjustment of 1.6 million civil servants, expansion of the Goods and Services Tax's zero-rated items, upward revision for minimum wage, tax relief for middle-income earners and minimum pension for civil servants — are laudable towards this end.

It is high time that the wage structure is adjusted. Prime Minister Datuk Seri Najib Razak is aware of this need as he acknowledged that the middle-income group, known as M40, is paid less compared with their counterparts in other developed countries.

Hence, he is committed to increase the salaries to 40 per cent of GDP by 2020. Last year, the figure was 34 per cent of GDP.

Looking ahead, I believe that the growth target of 4 to 5 per cent for this year is within reach.

This will provide Bank Negara breathing and policy space to put Malaysia on a stronger footing with sturdy economic fundamentals, considering that next year will be another challenging year for Malaysia and the global economy.

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