A budget that tiptoes around difficult issues

ALTERNATIVE views

BY M SHANMUGAM

Budget 2024 is not about making major changes to tax laws. It is more about preparing the country for a tough year ahead that will be fraught with difficult moments.

Compounding the problem for Malaysia is the need to meet the expectations of ratings agencies, which want to see growth, a diversified revenue base away from dependence on oil money and the consolidation of public finances to pre-pandemic levels.

Prior to the pandemic, the federal government's fiscal deficit as a percentage of gross domestic product (GDP) was projected to be 3.2% while the debt-to-GDP ratio was 52.7% as at June 2019.

All three international ratings agencies — Fitch, Moody's and Standard & Poor's — want to see Malaysia revert to the path of tighter spending, which is a huge task for the current government.

If the current government tightens the purse strings in a similar manner to what the Pakatan Harapan 1.0 administration did between 2018 and early 2000, it would cost Prime Minister Datuk Seri Anwar Ibrahim his seat at the helm of Putrajaya.

Anwar, who is also the finance minister, has to be careful not to pull back too much on spending and, at the same time, cut down on excesses to reduce the overall fiscal deficit position.

Towards this end, the government unveiled an expansionary budget of RM393.8 billion for 2024. Anwar did not cut down on spending, contrary to expectations.

The bigger budget also comes as the global economy is on shaky ground following the rapid tightening of monetary policy in the US.

Since March 2022, the US Federal Reserve has raised interest rates from almost 0% to recent levels of between 5% and 5.25%. Despite the rapid rise in rates, the Federal Reserve is still short of hitting its inflation target of 2%, prompting speculation that there will be another rate hike by the end of the year.

The rapid rise in interest rates has caused the short-term two-year US Treasury papers to command a higher yield compared to the 10-year papers. By convention, the yields on two-year papers should be lower than longer-dated debt papers because they carry lower risk.

But the converse is happening, suggesting that there is a higher economic risk in the short term compared to the long term. The situation, which is called a prolonged inverted yield curve, almost always ends in a recession.

The bigger budget is probably in anticipation of a slowdown or recession next year, hence the gradual fiscal consolidation.

Federal government budget deficit as a percentage of GDP is down to 4.3%, which is an improvement compared to 5% in 2023 but still far from the desired level of 3%. Federal government debt to GDP is 62% this year, still above the 55% threshold that is considered acceptable.

Under the Public Finance and Fiscal Responsibility Act (PFFR Act) that was passed in parliament two weeks ago, the federal government is to keep the deficit at less than 3%, which is likely to be achieved after 2026, a move that should see debt ratios also moderate.

Shrinking current account surplus

Of the RM393.8 billion budget, some RM90 billion has been set aside for development. It is less than the RM97 billion set aside last year. However, the development budget for 2023 included a US$3 billion bond repayment incurred by the beleaguered 1Malaysia Development Bhd.

In a nutshell, Anwar is spending. However, there are no mega projects.

Many were expecting the budget to talk about the High-Speed Rail and the Mass Rapid Transit (MRT) circular line project. However, what the budget offered were additional amounts for ongoing projects.

The Light Rail Transit (LRT) 3 project, Penang LRT, flood mitigation projects and Sabah portion of the Pan Borneo Highway are among the major projects that will receive allocations. All these projects have already started and been taken into account in the computation of the economic growth for next year.

Even if Anwar had wanted to, Malaysia cannot afford to have mega projects.

The weaker ringgit, the high federal government debt relative to GDP and uncertain global economy will not bode well for Malaysia when it comes to undertaking mega projects.

A point to note is the shrinking current account surplus. It was 4.3% of gross national income (GNI) in 2020 and has been decreasing, reaching 1.6% this year, probably caused by the weaker ringgit and slower global trade.

If Malaysia were to undertake mega projects that involve imports of machinery and other items, the current account surplus will only suffer, especially if global trade does not improve.

Malaysia cannot afford a deterioration of its current account, which used to have a healthy surplus of more than 4%. It already has a deficit in its budget, and a deficit in the trade balance would result in it having a "double deficit" and would spell trouble with the rating agencies.

Realistic subsidy rationalisation

Subsidy rationalisation was very much discussed in the run-up to the budget. For starters, the subsidies for eggs and chicken will be removed while the fleet card system is to be brought back to control the consumption of diesel.

As for electricity, the subsidy for some commercial segments and households had already been removed in July this year.

These are the low-hanging fruits. There are more than 15 subsidy items in the government expenditure estimates. The biggest subsidy is for petroleum products followed by direct cash assistance, which amounts to RM35.8 billion. It makes up 67% of the total amount of RM52.8 billion that has been set aside for subsidies and social assistance for next year.

Don't let higher salaries be only a government-led initiative

MY Say

BY AZAM ARIS

There were mixed comments on my last column, "Don't spend more than you earn" (Issue 1493, Oct 9). Some job market entrants said it would be doable while others indicated that the salary level for many, including fresh graduates, is too low to have a decent living standard, especially if one resides in the Klang Valley.

Yes, it is difficult, but not spending more than you earn is something you have to do and it is not a choice if you do not want to enter a perpetual state of debt. It is achievable if you spend within your means and concentrate on the needs rather than the wants.

When I entered working life as a journalist in December 1984 after finishing my internship with the *Business Times*, then the country's only financial daily, under the New Straits Times Press (NSTP) group, my starting salary was RM530. Upon confirmation, my next increment, the offer letter said, would be on Jan 1, 1986, with the salary revised to RM570.

This was based on the entry salary for a cadet reporter with the Higher School Certificate, or today's equivalent, Sijil Tinggi Persekolahan Malaysia (STPM). Once I got my final results, as a journalism major at the then Institut Teknologi Mara (now Universiti Teknologi Mara), my salary plus transport allowance amounted to about RM1,300.

So, how did I survive then? First, I moved out from my parents' house in Shah Alam — poor public transport at that time made it not practical to commute — to be near my workplace in NSTP's Balai Berita in Bangsar.

I saved on transport and commuting time but now I had to pay rent. Together with friends, we rented a house in Lorong Tempinis Kanan in Bangsar's Lucky Garden. Using a shortcut through a small squatters' area, the office was just a 15-minute walk away.

Bangsar was an expensive place to rent then and still is now, but I saved further by sharing a room with a friend instead of having a room of my own. This meant placing savings over privacy. As the office was near, a car was not a necessity for the first few years of my working life. Thus, I saved a lot by not having to pay for petrol and monthly instalments for a car.

Since the NSTP group at that time published four dailies and a stable of magazines, there were many times that I would carpool when covering assignments as a journalist.

Living close to the office also meant that I could start my day early. Most assignments in Kuala Lumpur and Petaling Jaya could be covered by the efficient and cheap minibus system, which cost only 50 sen one way. Today, Kuala Lumpur and its suburbs, including Petaling Jaya and Subang Jaya, are better linked via the various public transport systems. This means one can still save on rent by staying further away from the central business district.

After paying for rent, transport and food, giving money to my parents, and setting aside monthly savings, I could still go out with friends for bowling and movies. The end-year bonus would take care of the wants and branded items like clothes and shoes. If one manages his or her finances well and knows how to prioritise things, insya-Allah, one can get through the month without many hiccups.

But I do agree that the entry salary for graduates is low. Today, 39 years after I entered working life, many graduates are still being paid between RM1,800 and RM2,500 as their starting salary. This is very low indeed and the cost of living has increased tremendously, especially in the Klang Valley. And this range is also not far from the current minimum salary of RM1,500.

Last week, Minister of Human Resources V Sivakumar said in a written reply to the Dewan Rakyat that about one-third of engineers received a starting salary of less than RM2,000 a month, quoting a 2021 study by the Board of Engineers Malaysia (BEM). This is appalling.

He said the ministry encouraged companies hiring engineers to set the starting salary between RM2,500 and RM3,500, or even higher, depending on the employers' capability. He said the point of reference can be the Treasury circular on consultant services, which states RM3,335 is the maximum basic salary for consultant engineers.

It is not as if the country has enough engineers or there is an oversupply situation. This cannot be the case too if the nation wants to climb higher up the value chain to further strengthen its economy. If a company requires an engineer, surely its operation is higher value-added and it is in a business that is likely to have better margins and returns. This should allow the company to provide pay that is commensurate with the qualification of a graduate.

To attract higher value-added industries and investments notably from foreign investors, the nation must produce more graduates in the science, technology, engineering and mathematics (STEM) fields. It is encouraging to note that after declining for a while, enrolment among

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Economy Minister Rafizi Ramli will oversee the targeted subsidy for petrol, which is expected to start early next year. According to the minister, a trial run has already started, involving one million households.

The targeted subsidy is not based on the metrics of household income alone. It involves many other elements such as location of dwelling, number of children and number of vehicles.

Ensuring that no one is left out of the targeted subsidy scheme would be the biggest challenge for the Anwar government. A successful run of the targeted scheme should reduce the subsidy bill and leave more room for fiscal consolidation, a move that will appease the rating agencies. E

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upper secondary students for STEM subjects has increased over the past two years, up to 45.73% from 40.95% in 2021. If salaries remain low, it could discourage students from going into the STEM fields, thus putting us at a disadvantage when trying to attract foreign investors.

On the subject of low salaries, Prime Minister Datuk Seri Anwar Ibrahim in the same week said he had received complaints from workers in the private sector who claimed that their wages had not increased even though their employers had reported a profit of RM400 million.

Anwar urged the private sector to emulate the government — that while it is experiencing financial constraints, it managed to review the public service remuneration scheme and provide an incentive of RM2,000 to civil servants in Grade 56 and below in Budget 2024. Companies must find ways to increase their workers' salaries, especially if they make a good profit.

To improve the overall salary further and that of graduates, some suggest that the minimum wage of RM1,500, which was only fixed last year, be increased to RM2,000. This is based on the fact that about two million of the country's 16.5 million workforce are earning less than RM2,000 and most Malaysian blue-collar workers reach a maximum salary of only RM3,500 in their careers.

Bank Negara Malaysia, in a study that goes as far back as 2017, had proposed a living wage of RM2,700 for a single person living in an urban area, RM4,500 for couples without children and RM6,500 for couples with two children.

Obviously, the question of higher productivity comes to the fore when one discusses higher salaries, but like the entry pay of engineers and the Bank Negara study showed, employers must also consider whether their staff are getting a decent living pay and not just look at profit maximisation.

Employers who view higher wages purely as a cost factor should also see that they can in fact result in higher productivity. A study by Harvard Business Review of Amazon's pay hike above the minimum wage in the US showed that it did eventually connect with elevated workplace productivity and result in an improved profit for the company.

There has been talk too about the country moving towards a progressive wage model, where salaries rise annually and the gap between the lowest and highest pay is narrowed, but the details have not been finalised yet.

In the meantime, companies that can afford to pay their staff, including fresh graduates, higher should do so. Don't let it be just a government-led initiative. E

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Brazil and Malaysia: Biofuels for a common future

MY Say

BY MAURO VIEIRA

The world faces the pressing need to collectively reduce emissions as we ensure energy access to our populations in a context of growing demand. The task is far too complex and urgent, and the only way to address it is through cooperation. We need to bring major players and stakeholders together — governments, private actors, academia. We need to act together and for that, we need to think together.

Brazil has been travelling the biofuels road for nearly five decades, and I believe we have a story to tell, an experience to share. It is a story that can play a role and be helpful in the world's collective effort towards a prosperous, low-carbon future.

> "The Brazilian experience demonstrates that modern and sustainable biofuels can be a competitive solution."

Brazil has a renewed willingness to further cooperation and dialogue with Asean member countries on this topic. The recently established Brazil-Asean Sectoral Dialogue Partnership offers promising frameworks for strengthening our ties, including in the bioenergy sector.

At the multilateral level, Brazil also engages in key initiatives such as the Global Bioenergy Partnership (GBEP) and the Biofuture Platform, which help secure a place for bioenergy in the global debate about energy transitions. We are proud to be the first country to lead the Biofuture Platform, which is now part of the Clean Energy Ministerial.

Brazil — along with Argentina, Bangladesh, India, Italy, Mauritius, Singapore, the United Arab Emirates and the US — is a founding member of the Global Biofuels Alliance (GBA), launched during the G20 Summit in New Delhi in September. I believe this initiative can significantly contribute to the development of a global biofuels market. Countries from the Global South could play a major role in this promising market. I encourage Asean countries to consider joining the GBA.

There is no single solution when it comes to energy transition. Brazil believes that each country should be able to choose the technological pathways that best fit their national priorities and realities in their efforts to decarbonise the energy sector and to move towards a low-carbon or carbon-neutral economy.

In Brazil, more than 85% of the electricity mix and 48% of overall energy correspond to a wide variety of clean and renewable sources. These results have been achieved with locally adapted technologies, taking advantage of our national realities.

I am proud to say Brazil's energy policymakers never overlooked bioenergy. On the contrary, modern, sustainable bioenergy is the most important clean energy source in our country, corresponding to nearly one-third of the total energy supply. The Brazilian experience demonstrates that modern and sustainable biofuels can be a competitive solution. Thanks to biofuels, Brazil avoided burning 2.5 billion barrels of oil over these five decades. Thanks to biofuels, Brazil is the second largest creator of green jobs in the world.

In our experience, the production and use of biofuels depend heavily on an enabling environment — in other words, it depends on public policy. Through an innovative and one-of-a-kind bioenergy programme called RENOVABIO, Brazil has adopted a legal framework that created the conditions for emission reduction targets and the trading of carbon credits to mitigate emissions in the mobility sector. We now plan to expand this programme to second-generation biofuels, such as sustainable aviation fuels, biomethane, biodiesel, green diesel and aviation biokerosene.

I hope that an exchange of national experiences can contribute to increasing production and use of biofuels in Southeast Asia. We are geographically far apart, but we do share a number of social, economic and environmental characteristics. Thanks to these commonalities, I trust our biofuels story can be of interest to Malaysia. Like Brazil, Malaysia also recognises the importance of building a comprehensive, sustainable, smart and large-scale bioenergy strategy.

During our upcoming G20 presidency and as hosts of the Clean Energy Ministerial next year, Brazil will continue to shed light on this debate. Bioenergy is especially important to developing countries as it helps to create high-quality jobs, reduce greenhouse gas emissions, bring development to rural areas and increase energy security.

As pointed out by the International Renewable Energy Agency and the International Energy Agency (IEA), without scaling up our use of bioenergy, the world will not reach its climate goals. From our vantage point, the IEA's call for the world to triple its modern bioenergy supply until 2050 is feasible, as long as proper policies, frameworks, technology, finance and good practices are put in place.

Brazil looks forward to working with Malaysia on those issues. E

Ambassador Mauro Vieira is the Minister of Foreign Affairs of Brazil