

Malaysia's responses to inflation



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The ongoing subsidy rationalisation and the introduction of the Goods and Services Tax (GST) in Malaysia inevitably led to a spike in inflation. In response to the growing concern among Malaysians over the rising cost of living, the Addressing the Rising Cost of Living National Key Result Area (COL NKRA) was introduced in July 2011 to help ease the burden of the country's working and middle class.

The COL NKRA seeks to provide immediate relief to the average Malaysians in two ways: first, by offering immediate cash assistance such as Bantuan Rakyat 1Malaysia (BR1M) scheme to the needy citizens, and second, by introducing Government-led programmes such as the introduction of Klinik 1Malaysia, Kedai Rakyat 1Malaysia and Menu Rakyat 1 Malaysia to deliver basic necessities at a price that is more affordable to all Malaysians.

With the implementation of a 6% GST rate in 2015, the Malaysian government tries to counteract the rise in the cost of living by lowering the personal income tax rates by one to three percentage points from the year of assessment 2015. To ease the inflationary pressures, basic food items, water supply, the first 200 units of electricity per month for domestic users, transportation services, government services, education services, health services, sale, purchase and rental of residential properties will also be exempted from GST. Apart from that, the Malaysian government has also enforced the Price Control and Anti-Profiteering Act since 2011 to ensure that businesses do not take advantage of the GST implementation to jack up prices excessively for unreasonably high profit.

With the property prices in Malaysia rising too rapidly towards overheating levels, the Malaysian government has stepped in and introduced various “cooling” measures under Budget 2014 to prevent the overheated housing market from further ramping up the overall inflation level in Malaysia. In an effort to curb unhealthy property speculation and stabilise the inflation of housing prices, the Malaysian government has increased the Real Property Gains Tax (RPGT) from 15% to 30% for disposal of property within the first 3 years of holding. In addition, other cooling measures such as the removal of the developer interest bearing scheme (DIBS), increased affordable housing initiatives by the government as well as higher price threshold for foreign buyers will also help to curb excessive speculation and inflation in the property market.

Success or failure of the government actions

The COL NKRA initiative has successfully delivered a number of remarkable outcomes since its implementation. The Bantuan Rakyat 1 Malaysia (BR1M) scheme was introduced to compensate the poor whose lives are most affected by the implementation of subsidy rationalisation and GST. Under the BR1M scheme, the government offered a one-off financial aid of RM500 to Malaysians with a household income of less than RM3, 000 a month regardless of age, race or demographic. Based on the Household Income Survey 2009/10 conducted by the Department of Statistics, the actual recipients of BR1M scheme were 22. 91% higher than the target. This has enabled the government to help alleviate the burden on low-income earners caused by the rising cost of living. Moreover, the implementation of COL NKRA has effectively improved the lives of the poor through the provision of

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affordable options for medical treatment and necessities. For example, the establishment of Klinik 1 Malaysia offers affordable and virtually costless treatment at a charge of RM1; with senior citizens receive treatment for free.

Nevertheless, some economists and analysts believe that BR1M initiative is not sustainable and potentially creating a culture of government dependency. According to Associate Professor Dr Fatimah Kari, an economist from the University of Malaya Centre for Poverty and Development Studies, the BR1M cash handouts scheme would not bring a significant impact to households and it did not provide a holistic approach to eradicate poverty in the long term. Similar opinions were shared by other economists and politicians who urged the government to refine the assistance programme to ensure it meets its objective of cushioning the impact from the rising cost of living.

According to Dr Mahathir, BR1M scheme is costly to the country as our government is now facing deficits and huge debts. As the government has promised to gradually increase the amount of BR1M from RM500 to RM1200 in five years, the government spending would escalate significantly. Hence, unless the government further reduces the subsidies for other necessities, the BR1M distribution would only worsen the government's financial position in the long term. Likewise, MIER executive director Zakariah Abdul Rashid has also pointed out that the provision of BR1M provides minimal economic multiplier effects on the real side of the economy, except pushing consumer prices to higher levels due to the mismatch between income growth and productivity. For this reason, it is not difficult to understand why the Malaysian's inflation rate accelerated to a 32-month high of 3.5 percent in

February 2014 despite several measures has been taken by the government to control the country's inflation.

The new property cooling measures announced in Budget 2014 has proved to successfully slow down the sales volume and the appreciation of house price in Malaysia. According to Kuwait Finance House Research (KFHR), some recent new launches in Iskandar Malaysia, especially the high-rise properties have seen a slowdown in their overall sales progress. One example is the soft launch of Medini Signature at Medini North, which was developed by WCT Bhd. The Tower 1 was launched in July 2013 at an average of RM630 psf and is 80% sold. In contrast, Tower 2 is launched a month later in August but is only 20% sold due to the imposition of new cooling measures since October 2013.

However, according to REHDA President Datuk Seri Michael KC Yam, the increase in RPGT may have little impact in curbing speculative activity in the property market. The rise in RPGT may instead backfire and lead to an unintended effect of slowing down the supply growth when the demand is high. This would in turn exacerbate price hike over the longer term. Apart from that, the imposition of GST on nearly all materials required to construct homes would further increase the cost of construction substantially and thereby the property prices. For this reason, it is not uncommon to learn that the property prices in Malaysia continue to climb steadily in 2014 despite various cooling measures has been introduced in Budget 2014. With the prices of property soar beyond affordability, more and more average Malaysians are not able to afford homes, especially the first-time home buyers who are trying to start a family.

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