Key Note Speech for REHDA CEO Series
By YB Lim Guan Eng, Finance Minister of Malaysia
24 September 2018
Sunway Putra Hotel, Kuala Lumpur

YBhg Datuk Jeffrey Ng Tiong Lip, Chairman of REHDA Institute

YBhg Dato' Ir. Soam Heng Choon, President of REHDA Malaysia

REHDA Institute Board of Trustees and REHDA National Council Members

Distinguished speakers,

Ladies and gentlemen,

1. I would like to thank the organizer for inviting me to speak here today on the economic outlook of Malaysia and some thoughts on what we are going to do to address legacy challenges faced by the new government.

2. Coupled with fiscal challenges, we are also facing global headwinds. The biggest challenge is the rising protectionism between the US and China. Malaysian trade performance will not be rosy as it was in 2017. Malaysia exports grew 7.8% year-on-year in the first 7 months of this year. Malaysia is closely integrated into the world's supply chain. We will not be spared from the ripples from the ongoing disputes among our largest trading partners. After all, the size of total external trade for Malaysia was 136% of the 2017 GDP.

3. Over the short term, the trade war may offer Malaysia some unique opportunities. We have received interesting inquiries from Chinese and US companies in making Malaysia as a safe harbour amid the trade war.

4. The likelihood of the trade war continuing after the US midterm election in November is real as it has the support of both US parties. Yet, Malaysia has a resilient economy. The performance of the ringgit backs this assertion. There is no denying that the Malaysian ringgit has depreciated but it has weakened by only 1.7% year-to-date up to September 20 2018. In contrast, the Australian dollar, the Chinese renminbi, the Indonesian rupiah, the Philippine peso and the Singaporean dollar have dropped more than the Malaysian ringgit. This means the ringgit has been one of the best performing currencies in the region so far this year.

Currencies	YTD change as of September 20 2018
Philippine peso	20.5%
Indonesian rupiah	9.8%
Australian dollar	7.9%
Chinese renminbi	4.8%
Singaporean dollar	2.3%
Malaysian ringgit	**1.7%**
Japanese yen	-0.2%

Ladies and gentlemen,

5. Expansion of Malaysian domestic demand will remain encouraging. The lessening of tax burden on consumers through the switching of GST to SST should spur consumption growth higher than during the GST era. The change lightens the consumers' tax burden as the government expects the SST to collect RM23 billion tax revenue less compared to the GST in 2019. In other words, the government is returning the same amount to the market and is raising the well-being of the *rakyat* who suffered rapid rise in living costs under the GST. The return is a gift to the people by the government. The tax policy change, which is a tax cut, is an economic stimulus injected directly into the economy, which would also add liquidity in the market.

6. The cost of doing business and living costs rose when the previous government failed to repay the RM35.4 billion GST and income tax

refunds. Unfortunately, this problem will have to be borne by the new government. We will return RM35.4 billion refunds money to the taxpayers beginning next year and this will fuel consumption and GDP growth further.

7. With the tax burden reduction, the government is widening the window for the private sector to drive the Malaysian economy, and increase the opportunity for greater collaboration between the public and the private sector, with participation between the professionals and civil society. This is the 4P partnership that seeks a collaborative approach to build an entrepreneurial state with participation from public sector, private sector, professionals and people.

8. When we talk about public-private partnership (PPP), the arrangement is supposed to reduce public expenditure, not increase it. However the last government had abused the partnership to raise spending instead by backloading expenditure. While the last government only recorded RM63 billion as PPP spending, the truth is the figure is larger at RM201 billion as maintenance charges were included when it should not in the contract. This is not PPP.

9. A more equal and transparent PPP will have a role keeping public expenditure more effective as the Federal Government rationalises its spending and investment by cutting fat and leakages. Public facilities can be provided with limited cost through a true public-private partnership where the government provides the initial capital and the private sector supplies the rest to complete and maintain the facilities. In Penang, the state government invested 40% in a stadium and the rest along with the maintenance of the facility was funded by the private sector. The partnership is especially important as the government seeks to straighten up its finances and address its RM1,087 billion debt and liabilities that include 1MDB debt.

10. The mounting debt has forced the government to be extra prudent in spending this year. We are forced cut uncritical low-multiplier spending to keep government finance healthy without burdening the *rakyat*.

11. We have instituted wider competitive open tender process for government procurement to combat corrupt practices, save money and allow the government to spend on the *rakyat*, instead giving money an undeserved small circle of cronies.

12. The government have been making good progress in cutting fat. For example, the Federal Government has reduced the cost of the LRT3 project by RM15 billion or 47% from RM31.7 billion to RM16.6 billion by applying several cost-saving measures, including removing an unnecessary underground portion of the project. This shows how much fat there was in the project.

13. The RM9.4 billion SSER pipelines have also been cancelled, where 88% payments have been made despite little progress on the sites. Other megaprojects are under review including the ECRL.

14. Some critics have accused the government of being hostile to foreign businesses. This could not be any further from the truth. We welcome foreign direct investment (FDI) from any country as long as it brings tangible benefits to the *rakyat* and does not burden the government. We want high-quality FDI flowing into Malaysia creating high-quality jobs for the *rakyat*, in line with the objective of achieving high-quality growth shared among Malaysians. We do not need mindless growth just to raise the GDP growth that is not felt by the people.

15. To ensure the economic well-being of the people, Malaysians must be involved in these investments. Jobs must be made available to our workers and not reserved for foreigners. Homes must be built for Malaysians too and not reserved for foreigners. Foreigners buying homes in Malaysia are not the issue here, but townships built exclusively for foreigners are.

Ladies and gentlemen,

16. Lastly, since this is a developers' event, I would like to highlight the government's aspiration of enabling more Malaysians to own a home. To fulfil this goal, we have taken the bold step of exempting construction services from SST. I hope developers would pass on the expected saving from the exemption to home buyers in the form of reduced home prices. If this does not happen, then the government may have to rethink the exemption given and find new ways to make home affordable, especially to first time home buyers.

17. The government is also addressing worker shortage problem in various industries, including in construction by allowing experienced foreign workers whom have been working in Malaysia for 10 years to extend their stay by up to a maximum of additional 3 years, with annual levy of RM10,000 to be paid. After further consultation with the industry, I would like to announce the levy would be split 20-80 between the employer and the foreign worker. This leeway would help reduce the need to recruit new inexperienced foreign workers who would require additional on-the-job training that adds to construction cost. In the long run, the government hopes to reduce reliance of foreign workers but no abrupt changes will happen so that market does not suffer a shock.

18. There are challenges in making greater homeownership a reality among Malaysians. Building new supply of low and mid-cost housing alone will not be enough as strict lending and high deposit requirements keep take-up rate of low and mid-cost housing supply low despite high demand for it. While official data suggests only 20%-30% applicants failed in their home loan applications in 2017, unofficial calculations suggest the number could be as high as 60%-70% instead. For low-cost home buyers, many of them do not even have the documentation to apply for loans and they are not included in the official data. Both the government and the private sector should come up with a creative way to overcome this

financial barrier to homeownership, without adding too much burden on prospective first time buyers.

19. The government has already requested Bank Negara Malaysia to reassess its strict lending guidelines. While the government is sensitive to concerns over rising household debt, we believe not all debt is bad. Debt backed by a decent home priced right should make home-related debt sustainable.

20. Additionally, Malaysian income has to grow and catch-up with the general home prices. According to the National Property Information Centre (NAPIC), the House Price index rose 6.5% in 2017, a slowdown from 7.1% in the previous year. While Malaysian median income did grow faster at 8.0% YoY than house prices in 2017, it is not fast enough. Prices of residential properties are already out of reach for many Malaysians, especially those belonging to the low-income group. Malaysian income levels just need to grow faster.

21. Income rise should be accompanied with productivity growth. But the government takes note that there are other factors like bargaining power between employers and employees that affect income growth. This is especially so when workers' compensation in Malaysia is lower than in a number of countries. Data from the Department of Statistics show Malaysian workers on average received a salary of only 35% of GDP in 2016. This figure includes wages, bonuses and all other incomes. In contrast, workers in China, Singapore and the US enjoyed a higher share of 57%, 42% and 43% respectively. These are the benchmarks we should be targeting for Malaysian workers in the near future and raising the workers' share is part of the high-quality growth agenda the government is pursuing to raise the well-being of the *rakyat*.

Ladies and Gentlemen,

22. The fundamentals of the Malaysian economy are strong and forms the bedrock of our reforms. Despite our fiscal challenges, the monetary sector

is stable and even the Kuala Lumpur Composite Index has been one of the best performing stock markets in the region. With the ongoing reforms taking, the Federal Government is convinced that the only way is up. A stronger set of institutions free from abuses will instil greater confidence in the economy and help bring about high-quality growth and raise Malaysian wages.

23. The government would need the support of all Malaysians to make the reforms a success. I hope you would get onboard with the government's plans.

Thank you.

YB Lim Guan Eng
Minister of Finance Malaysia