

INSAP BUDGET 2025 COMMENTARY

Is The Cost-of-Living Worrying Even When Our Economy Is Improving?

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PMX will present Budget 2025 this Friday, and the cost of living should be in the spotlight. Malaysia is a country where low cost of living has been a long-standing government priority. This has led to decades' worth of price controls and food and energy subsidies, ones that other developing countries were either unable to introduce or subsequently had to reform or abandon.

In order to keep price stable, however, may also have had the unfortunate result of keeping nominal income growth low. So long as inflation is kept low, real incomes allow household enjoy more take home pay. The relationship between keeping prices low and accepting sub-standard incomes is highly plausible but inadequately examined. Of course, Malaysia's population and consumption of price-controlled and subsidised items have not remained static.

In 2024, there were 34.1 million citizens compared with 33.4 million last year based on Current Population Estimates 2024 by the Department of Statistics Malaysia (DOSM).¹ The demand for essential items and the distortive effects of price controls and the subsidy bill have, unsurprisingly, significantly increased.

Moving Towards High-Income Nation, Not Low-Cost Nation

The Department of Statistics' latest report on the Household Income and Basic Amenities Survey saw Malaysian households' income rising by more than six per cent annually between 2014 and 2022. Median monthly household income grew from RM4,585 in 2014 to RM6,338 in 2022 and mean monthly household income improved to RM8,479 in 2022 from RM6,141 in 2014, the report revealed.²

June 2024, inflation rate at 2.0 per cent compared to last year at 1.5 per cent³, it could be argued that the income of Malaysians rose faster than prices. If so, why does it seem like the opposite? Some would argue that the mismatch between the two is due to human frailty in observing reality.

There is a difference between perceived and official measures of inflation. While the Consumer Price Index (CPI) tracks the price changes of a basket of goods and services, people are more likely to recall price changes of products they buy frequently and to recall a significant jump in prices.

Positive cash flows play a crucial role in strengthening the national economy, as they reflect healthy economic activity at various levels, households, businesses, and the government.

For the upcoming Budget 2025, the government should be more focused on improving and revising the mechanism of *Sumbangan Tunai Rahmah* (STR) as *Rakyat* needs better cash

¹ <https://www.thestar.com.my/news/nation/2024/07/31/malaysia039s-population-estimated-at-341mil-in-2024>

² <https://open.dosm.gov.my/dashboard/household-income-expenditure>

³ <https://open.dosm.gov.my/dashboard/consumer-prices>

transfers. This will help to increase household income and purchasing power, as the government has implemented subsidies rationalizations and electricity tariff adjustments previously. Higher purchasing power not only can boost demands for goods and services but also can allow savings in banks, mutual funds, or real estate, fostering wealth accumulation.

Moreover, increase injecting allocation and promoting affordable housing projects to increase the availability of low-cost housing and offer tax incentives to developers building affordable housing units. These implement rent control measures to prevent excessive rent hikes in urban areas. The government needs to prevent planning on long-term housing loans as it will increase the households' debts.

As the rises of the costs of living, the government also should focus on revitalizing and evaluating the *Tabung Bantuan Perubatan* (TBP) system, and make the application more transparent. This will help to ease and reduce the out-of-pocket healthcare expenditures, especially for families that in need and those who require pricey surgical operations.

Hence, moving towards higher income is essential for sustaining economic growth, improving employment, ensuring government stability, and building resilience against financial shocks. A steady flow of income and investment at all levels forms the backbone of a prosperous national economy.