

**OP-ED by INSAP Chairman, Datuk Dr Pamela Yong**

## **BUDGET 2025: CHARTING A COURSE THROUGH GLOBAL HEADWINDS**

As the Minister of Finance prepares to table Budget 2025 this Friday, the nation stands at a critical crossroads. The upcoming fiscal blueprint arrives amid persistent inflation, geopolitical tensions, and shifting trade dynamics, presenting both challenges and opportunities for our economy.

As a key player in global trade, Malaysia must navigate these turbulent waters while addressing domestic imperatives: the rising cost of living, growing household debt, and the need for greater public revenue. The high national debt, increasing bankruptcies and high unemployment numbers, especially among youth – calls for an urgent review of Malaysia's economic fundamentals to lift the country out of the situation.

INSAP has previously raised concerns about the rising cost of living contributing to a broader social issue: the erosion of the middle class. As the economic divide widens, the backbone of any economy—the middle class—finds itself shrinking. This has long-term implications for economic stability and social cohesion, as a diminished middle class leads to reduced consumer spending and lower overall economic participation. The situation calls for a more practical approach from policymakers. It is not enough to celebrate macroeconomic stability and improvements when microeconomic conditions tell a story of hardship and struggle.

Hence there are key priorities that should be part of the Budget 2025 framework:

1. **The Time for GST to Return:** Reintroducing GST could simplify Malaysia's tax system and generate RM20-30 billion annually. Despite political resistance, many believe now is the time to reconsider it for greater revenue stability.
2. **Investing in the Future of Malaysia:** Budget 2025 should focus on healthcare, education, and green technology to drive economic growth. Investments in healthcare and technical education will improve livelihoods and align with future industry needs.
3. **Malaysia to Capture World's Attention with ASEAN:** As ASEAN chair in 2025, Malaysia has a strategic opportunity to lead regional integration and sustainable development, leveraging its green economy initiatives.
4. **Support for MSMEs:** MSMEs need enhanced support through digitalization, technical assistance, and outcome-based financing. Integrating informal workers into social protection schemes will foster inclusive growth. Healthcare access for workers is also crucial

### **The Time for GST To Return**

A pressing consideration for our national budget is the urgency to expand our revenue base. Although the Goods and Services Tax (GST) might not be reintroduced as soon as next year, the time has come for a serious debate on its return.

The current Sales and Service Tax (SST) system, while politically palatable to some, has proven less efficient in revenue collection and prone to leakages.

Since its reintroduction after the 2018 general election, the SST has resulted in the need for the government to introduce various other taxes - such as low-value goods tax, capital gain tax - resulting in multiple layers of taxation that ultimately increase costs for consumers and end users. The talk in town that the government is even mulling possibly introducing new taxes (inheritance tax, unhealthy tax, high value goods tax, carbon pricing tax and artificial intelligence tax) were enough to trigger shivers among the business community and industry groups, as if the current tax system is not complicated enough.

In contrast, a consumption-based GST, set at a reasonable rate with appropriate exemptions for essential goods, could generate an estimated RM20-30 billion in additional annual revenue, with the potential to grow each year. A broader tax base would, in turn, create essential fiscal space for developmental spending, thus easing our reliance on the unpredictable oil and gas revenues.

While we must intensify efforts to expand our revenue base, we also need to address the rising cost of living. This persistent issue demands immediate attention and sustainable solutions beyond the usual short-term relief measures.

In the same spirit, Budget 2025 should outline a clear roadmap for removal of blanket subsidy, concentrating on supporting deserving families and individuals. No one should be left out. The pressing question is, in rationalising subsidies, how would the government ensure income earners with higher income threshold but have to support large families or dependents would not be shortchanged of their rights to subsidies?

At the same time, since its launch in March, PADU has yet to effectively prove its role or justify the expenditure of taxpayers' money. PADU faced another wave of criticism when the government rationalised the diesel subsidy this year. Recipients of the diesel subsidy were asked to fill in their details (yet again) in a new data portal. What then is the role of PADU as an integrated data centre if people still need to provide their data on multiple platforms?

## **Investing in the Future of Malaysia**

Our dream of transitioning towards a high-income, high-technology economy demands bold moves. The budget should ignite private investment in strategic sectors such as green technology, digital infrastructure, and advanced manufacturing.

Tax incentives and grants must be strategically given to foster innovation and attract quality investments that create skilled jobs. Meanwhile, human capital development warrants special attention. Our education system requires fundamental reforms to cultivate talent that aligns with future industry needs; it is no longer a one-size-fits-all approach.

Technical and vocational education should be reimagined, with greater industry involvement in curriculum design and delivery. Reskilling initiatives must be scaled up to help workers adapt to technological disruption. Beyond technology, education and human capital, the green transition presents both imperatives and opportunities that demand substantial budgetary attention.

Climate change poses existential risks to Malaysia, but it also opens new economic frontiers. Therefore, Budget 2025 must accelerate our green economy transition with a more robust approach.

Putrajaya should allocate significant resources to renewable energy projects, particularly in the solar and biomass sectors where Malaysia holds competitive advantages. A green investment fund, potentially sized at RM5 billion, could catalyse private sector participation in sustainable infrastructure projects.

Apart from the monetary aspect, the green economy transformation should also extend beyond energy to include circular economy initiatives, sustainable agriculture, and green manufacturing. Additionally, tax incentives for green technology adoption, coupled with grants for R&D in environmental solutions, could position Malaysia as a regional hub for sustainable industries.

INSAP took note of feedback from the meeting with the Minister of Finance II, Datuk Seri Amir Hamzah Azizan on 18 September on the Ministry's priorities and also the minister's commitment to see a better social safety network in the country, and a better delivery of healthcare services in the country.

### **Malaysia to Capture World's Attention with ASEAN**

As Malaysia assumes ASEAN chairmanship in 2025, the budget must allocate sufficient resources to ensure we can effectively lead the regional agenda.

Our turn at the rotating chairmanship this year is not merely a diplomatic exercise, but a strategic opportunity to shape regional economic integration and advance our national interests in managing the South China Sea's dispute.

The convergence of our green economy aspirations and ASEAN chairmanship responsibilities creates unique opportunities.

Malaysia can leverage its chairmanship to champion regional cooperation in sustainable development, positioning itself as a leader in the green economy transition while fostering collaborative approaches to climate change mitigation and adaptation across Southeast Asia.

### **Support Micro, Small, Medium Enterprises (MSME)**

As global supply chains reconfigure and trade patterns evolve, Malaysia must seize the opportunity to position itself advantageously. This calls for upgraded infrastructure, streamlined regulations, and enhanced trade facilitation for Micro, Small and Medium Enterprise (MSME).

We must target strategic industries where Malaysia can carve out competitive advantages.

Therefore, our MSMEs, the backbone of our economy, require support to boost productivity and scale up. Beyond the usual financing, they need technical assistance to digitalise operations, access new markets, and move up value chains.

Budget 2025 should fortify existing MSME support mechanisms and introduce innovative instruments like outcome-based funding.

The informal sector, like *e-hailing* for instance, deserves our attention too. Initiatives to integrate informal workers into social protection schemes and create pathways to formalisation can enhance economic resilience and foster inclusive growth.

## **In Essence**

Looking ahead, Malaysia needs a longer-term fiscal framework that provides stability while maintaining flexibility in responding to external shocks.

Budget 2025 should outline steps toward medium-term fiscal consolidation while protecting critical investments in human capital and infrastructure.

Success will ultimately depend on execution. The budget must include a clear implementation framework with specific timelines, responsibilities, and performance indicators. Regular monitoring and course correction will also be essential.

The reintroduction of GST, coupled with comprehensive cost-of-living measures and a clear debt reduction strategy, would signal our serious commitment to fiscal sustainability while protecting vulnerable segments of society.

As Parliament debates this crucial budget, partisan considerations should be set aside in favour of the national interest. Malaysia's economic transformation requires sustained commitment across political cycles.

The challenges are formidable, but Malaysia has demonstrated remarkable resilience before. With the right policy mix and unwavering implementation, Budget 2025 can help chart a course toward sustainable, inclusive growth in an increasingly complex global environment.

The time for bold, responsible leadership is now.

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