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**OPENING REMARKS BY
THE HONOURABLE RAFIZI RAMLI
MINISTER OF ECONOMY**

**LAUNCH OF THE 28th MALAYSIA ECONOMIC MONITOR:
RAISING THE TIDE, LIFTING ALL BOATS**

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SIME DARBY CONVENTION CENTRE, KUALA LUMPUR**

Central message:

- **Targeted subsidies redirected to social assistance could reduce poverty rates (by 2.0 to 5.6 points, according to World Bank's simulation) and income inequality.**
- **In 2024, the central database hub (PADU) will be launched to implement targeted subsidies, social assistance, GovTech and others. This sequencing method would create the forward momentum for enduring reforms.**
- **The government must have courage to stay on course with structural reforms and not let uncertainty and unpopularity get in the way.**

- **YBhg. Dato' Nor Azmie Diron, *Secretary General, Ministry of Economy***
- **YBhg. Datuk Johan Mahmood Merican, *Secretary General of Treasury, Ministry of Finance***
- **YBhg. Dato' Luqman Bin Ahmad, *Deputy Secretary General (Macro), Ministry of Economy***
- **YBhg. Dato' Shahrol Anuwar bin Sarman, *National Budget Director, Ministry of Finance Malaysia***
- **Dr. Yasuhiko Matsuda, *Country Manager for World Bank Malaysia Office***

Distinguished guests, ladies and gentlemen.

When this government first came to Putrajaya almost a year ago, one of the most repeated questions asked was “*What will this government do?*” Many asked for plans, blueprints, roadmaps, and announcements to get a sense of where our economy is headed for the next few years. After all, this is a government that was built on reformist credentials over the last two decades, with a track record of new and bold ideas, and perhaps the best collection of people with technocratic abilities.

2. As we hit our 11th month mark, the picture has started to form. Not only have we rolled out cornerstone documents, like the Ekonomi Madani framework and the National Energy Transition Roadmap, but we have also made critical decisions with implementation plans earlier than scheduled.

3. Most credible economists would agree with the big items that we have set out to do. The reforms we have set are driven by a progressive view of the future, that we could no longer rely on a low-wage, low-value structure that is burdened by blanket subsidies and a low revenue base. Instead, we would have to restructure the economic system to be more in line with high-income countries, and create new growth areas to increase productivity and income.

Major economic levers of subsidies, transfers, wages, and taxes must be progressive in nature to create the best outcomes.

4. For a country with low revenue and persistent poverty and inequality rates, a blanket subsidy and social assistance model is simply too regressive. The blanket subsidy model eats up the already-limited social spending budgets. At the same time, broad-based social assistance programs are often received by richer households that do not need them, and they dilute the value of these programs for the needy.

5. That is why in 2024, the government will introduce the targeted subsidies system that will help free up the much-needed fiscal space for the government, while also reducing poverty and inequality at the same time. Conceptually this is very appealing because **by redirecting high-priced subsidy items to an expanded social assistance — at no extra cost — this could reduce poverty by 2.0 to 5.6 points**, according to the World Bank's simulation (MEM, Oct 2023). **Direct transfers are also estimated to be four times more cost effective at reducing inequality than subsidies.** This is on top of the fiscal savings that will be accumulated for other more efficient uses.

6. Only through doing this could the poverty and inequality rates that stayed largely unchanged (or even increased) for the past 10 years finally start to decline again.

7. At the same time, we are keenly aware that the wage problem must be addressed by any responsible government. When the median wage of RM2,600 per month is only RM11 above the poverty line (RM2,589 per month) and half of all Malaysian workers earn only slightly more than the minimum wage, we cannot take a wait-and-see approach any longer.

8. Leaving it to the market to self-correct may exacerbate both income inequality and the CE ratio (compensation of employees to GDP). Today, the Gini index of income inequality is worse than most in Asean, recently transitioned high income countries, and OECD countries. Our CE ratio has also fallen for the past 2 years, putting us behind countries like Japan, South Korea, and Philippines.

9. **On this front, the government has committed to implementing the progressive wage policy that will be voluntary, incentive-based, and**

productivity-linked. This is the only wage model that satisfies the main stakeholders of the employers and employees, as it rewards rather than penalises employers, and it keeps a close eye on the productivity increases of workers, which we make a condition for this policy.

10. However, more important than the “*What*” in reforms is the “*How*”. Most policymakers who have committed themselves to reforms will ask the basic question of “What is the most optimal method of sequencing?” This is a question of political economy that goes beyond the textbook theories of economics.

11. It explains why one of the most successful reforms in history — Australia in the 1980s — were sequenced in a way that defied conventional wisdom. The prevailing economic thinking was to start with reforms to correct domestic inefficiencies before exposing the economy to international competitive pressures. In other words, to reform the labour market before liberalising trade and the financial and exchange market. But Australia started with the latter, and somehow it worked to create enduring structural reforms.

12. That sequencing method was a conscious decision to create political momentum and constrain the scope of backsliding. By opening up the borders, Australia exposed their internal inefficiencies to international standards, and generated enough political pressure for reforms in the utility and labour market.

13. **That is the thinking behind the Ministry of Economy’s painstaking 12-month effort to create a centralised database (PADU) with a granular view of households.** For subsidy retargeting to work, we ought to identify households by their income, location, and commitments, to get a view of their net disposable incomes in order to calculate how much to give in subsidies.

14. But PADU is also about social assistance so that we ensure that the right recipients receive the right amount, and we avoid the problems of benefits dilution and unfair distribution. On top of that, a central database with administrative data also opens up opportunities for GovTech, Digital ID, and product-building as we build forward momentum from this method of sequencing.

15. Beyond the “*What*” and “*How*” — the final ingredient for structural reforms is the “*Who*”. Who shall succeed in carrying tough reforms through? It is

generally accepted that a government that has political leadership, technocratic abilities, and popular support is more likely to push through large-scale reforms. That much is obvious.

16. **For me, the most important quality is courage.** The courage to imagine an economy vastly different from the present, the courage to propose robust policies that are not business-as-usual, and the courage to stay on course in spite of political cost and public backlash.

17. It is understandable why courage in reforms is the rarest commodity. Structural reforms are an inherently adverse political calculus because they frontload the costs to the reformers. Like most things that are worth pursuing, the benefits only come much later. In the short election cycles, politicians are afraid of doing something unpopular only for their successors to enjoy. It is easier to take a cautious approach to secure your next term, but that is also the reason why our economy is where it is today.

18. We took the easy road of introducing blanket subsidies to keep prices artificially low, and adding even more subsidies when the people got angry. We did not take the harder, but necessary, road of building the national database, biting the bullet to introduce a targeted subsidy system, and looking at the other side of the equation: Wages.

19. After all that is said and done, this government shall be the first government to commit to these once-in-a-generation, politically risky, and difficult structural reforms. They will test our courage and perseverance, but I am confident that we will stay on course towards the end.

20. What we will need are people, who understand what we are trying to do, to work with us and build the necessary momentum for these reforms to endure. We should not let uncertainty and unpopularity stand in the way of robust policies; we must take a stand, hold true to our beliefs, and never waver. That is the only guarantee for enduring reforms.

Thank you very much for your time and congratulations on another successful launch of the Malaysia Economic Monitor (MEM) reports.

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Minister of Economy
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