THE EDGE MARKETS
MAKE BETTER DECISIONS

The State of the Nation: Restoring growth amid rising costs

Posted on Wednesday,03 May 2017

WHEN the Goods and Services Tax (GST) was implemented in April 2015, many businesses and professionals had hoped for higher corporate tax rate cuts and additional personal income tax relief. But they are still waiting for respite.

The 1% rate cut to 24% for the 2016 assessment year was announced in Budget 2014 and repeated in Budget 2015. It was also in Budget 2014 that the individual income tax bracket was cut by 1% to 3% from assessment year 2015, with the rate for the top bracket reduced from 26% to 24%, 24.5% and 25%.

Since then, though, the big headline tax cut only went to small and medium enterprises (SMEs) of less than RM500,000 chargeable income. The tax rate was reduced to 18% from 19% for assessment year 2017.

And instead of more tax cuts and relief, we are facing rising costs.

Most businessmen contacted by The Edge lament that they have been hard hit by rising costs, leaving them with little choice but to gradually pass the burden to consumers.

"For instance, Red Bull has increased its price [for its energy drinks]. Suntory too has announced it will increase the price [for its beverages] soon. Even Spritzer wants to increase the price [of its bottled drinks] next month. So, you can see a lot of them cannot hold on anymore," Yee Lee Corp Bhd's CEO Lim Ee Young tells The Edge.

"Most of us will try to absorb the costs, but we cannot absorb them every time," he adds.

Besides GST-related costs, businesses also have to contend with the higher foreign worker levy, higher minimum wage and rising cost of fuel, cooking oil, sugar and flour. The proposed Employment Insurance Scheme and the Tourism Tax Bill could also add to the bill.

Like most businessmen, Lim says his company has been biting the bullet by enhancing cost-efficiency measures for fear that price hikes may dampen sales.

"I don't have the solutions now. We will try more automation [perhaps], cutting our expenses, but we can't continue to save costs and not invest."

"I can see some of our figures are not doing good. Things have not come to a stage where retrenchment is necessary, but if it reaches a point where the company cannot make any profit, that [reducing the workforce] will be our worst-case scenario," he adds.

Cocoaland Holdings Bhd executive director Lau Kee Von says the company will increase the prices of its products when it incurs extra costs caused by the government measures.

However, he says the company is struggling to pass on the additional costs to consumers as it may hurt demand. “The blessing is, we have a strong export market to mitigate the impact of rising costs,” he adds.

Compared to larger entities, SMEs may have been hit harder by government measures as many have tighter cash-flow positions, more so when GST refunds take longer than expected to reach them.

“When GST was implemented, it was stated that the refunds would be made in 14 working days, but now some SMEs cannot get them even after 12 months,” says SME Association of -Malaysia president Michael Kang.

He adds that some SMEs have had to stop taking in business orders temporarily because they cannot predict when they will be able to get back their refunds.

He says uncertainties over government policies have also eaten into margins. He cites the policy over foreign labour, saying some SMEs cannot get foreign workers even after paying the fees.

While some quarters may think businesses are just trying to protect their margins, some economists and analysts are concerned that the rising costs of doing business will hamper the private sector.

“It is too much for businessmen to absorb. I don’t expect our private sector to be buoyant or dynamic in the face of continuous pressure,” says Inter-Pacific Securities research head Pong Teng Siew.

He says the government should trim the public sector to cut operating costs, but this is not happening.

“Eventually, businessmen have to transfer the additional costs to consumers. But inflation is high today, and consumers’ purchasing power has been reduced because of the weaker ringgit,” Pong adds.

Malaysia’s inflation, as measured by the Consumer Price Index (CPI), rose 5.1% in March, led by a significant increase in transport prices (+3.1%). In February, the CPI also grew 4.5% y-o-y. The ringgit has been a tad firmer against the US dollar of late, but remains at an uninspiring 4.39 last Friday.

While the policy measures are aimed at making the economy more efficient, MIER executive director Professor Emeritus Dr Zakariah Abdul Rashid says some of them may not augur well for businessmen and consumers in the short term due to the challenging enviroment.

“This may affect the economy negatively, given the high cost of living. People can no longer bear it anymore,” he says.

A MIER survey shows that the Consumer Sentiment and Business Condition Indices have been on a decline in the past five years. Although the Business Condition Index rebounded to 112.7 points in the first quarter of this year, from 81.2 points in 4Q2016, consumer sentiments still remained below the 100-point optimism threshold.

Although household debt grew at a slower rate of 5.4% to RM1.1 trillion, or 88.4% of gross domestic product in 2016 and its proportion as a percentage of GDP fell for the first time in seven years, household debt in absolute terms is still on the rise.

Zakariah also opines that the government is very much concerned about achieving the fiscal deficit target, but it is at the expense of household debt. Some balancing effort must be done.

Socio-economic Research Centre executive director Lee Heng Guie also expressed concerns over the declining private investments as businesses contend with higher operating costs.

“If the private investment growth continues to slow [in a weak single digit], it will affect the future output of the economy,” Lee says. Private investment grew at 4.4% in 2016 compared with 6.4% in 2015.

According to Lee, one of the worrying trends is that the GST collection is only going to support the government operating expenditure, which does not augur well for the country.

“The government has always been urged to curb operational expenditure, and increase the development expenditure, but it may not have the political will to do it. So, it is a challenge for the country.

“Although it has a new source of income from GST, government expenditure is still on the rise, so this new income may not be enough to support the budget. That’s why the government is looking for more ways to collect revenue, especially when oil revenue is declining,” he says.

Businessmen invest to make profit, but if operating costs continue to rise amid unfavourable economic conditions, they cannot be blamed if they become unwilling to invest further when the rates of return are poor. If confidence is not restored, a key pillar of the economy may be affected.