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THE RELATIONSHIP BETWEEN INFLATION AND GOVERNMENT SPENDING IN MALAYSIA ECONOMY

Abstract: this article delves into the relationship between government spending and inflation in Malaysia, focusing on recent trends and data insights. It examines how the fiscal policies, particularly budget allocations, influence inflationary rates in Malaysia's economy. Through a review of both historical and current data, this article aims to shed light on the connection between public spending and inflation, outlining the economic impact of such fiscal choices.

Keywords: Malaysia, inflation, government spending, fiscal policy, economic impact.

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ВЗАИМОСВЯЗЬ МЕЖДУ УРОВНЕМ ИНФЛЯЦИИ И ГОСУДАРСТВЕННЫМИ РАСХОДАМИ В ЭКОНОМИКЕ МАЛАЙЗИИ

Аннотация: в этой статье рассматривается взаимосвязь между государственными расходами и инфляцией в Малайзии, особое внимание уделяется последним тенденциям и анализу данных. Изучено, как налогово-бюджетная политика, в частности бюджетные ассигнования, влияют на темпы инфляции в экономике Малайзии. Цель этой статьи - на основе анализа как исторических, так и текущих данных пролить свет на связь между государственными расходами и инфляцией, а также на экономические последствия таких бюджетных решений.

Ключевые слова: Малайзия, инфляция, государственные расходы, налогово-бюджетная политика, экономические последствия.

Malaysia, like many other economies, faces the dual challenges of fostering growth while controlling inflation. Inflation, which is typically understood as the gradual increase in prices for goods and services over time, directly affects consumer purchasing power, influences economic stability, and can lead to shifts in consumer behavior. Government spending is a key factor that can drive inflationary trends, as policies designed to spur economic activity may also push prices higher. Using data from sources such as Trading Economics, Macrotrends, and the Department of Statistics Malaysia, this article examines the interplay between government spending and inflation in Malaysia (figure 1)[1,3,5].



Figure 1 - Malaysian Inflation Rate in 1960-2024

In Malaysia, government spending has been structured to support an array of crucial sectors such as infrastructure development, educational programs, healthcare initiatives, and various subsidy schemes. The Ministry of Finance’s 2024 budget earmarked substantial funds for economic recovery and growth initiatives. However, high levels of public spending may contribute to inflation if the rise in demand outpaces the supply capabilities of the economy. This phenomenon is often referred to as demand-pull inflation, whereby excessive demand outstrips supply, thus driving up prices and contributing to a general increase in the cost of living (figure 2,3)[1,2].

| COMPONENT | RM MILLION | | | CHANGE (%) | | | SHARE (%) | | |
|---|----------------|-------------------|-------------------|-------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | 2022 | 2023 ¹ | 2024 ² | 2022 | 2023 ¹ | 2024 ² | 2022 | 2023 ¹ | 2024 ² |
| Emoluments | 87,789 | 91,273 | 95,641 | 2.3 | 4.0 | 4.8 | 30.0 | 30.4 | 31.5 |
| Retirement charges | 31,397 | 32,079 | 32,446 | 7.9 | 2.2 | 1.1 | 10.7 | 10.7 | 10.7 |
| Debt service charges | 41,269 | 46,100 | 49,800 | 8.4 | 11.7 | 8.0 | 14.1 | 15.4 | 16.4 |
| Grants and transfers to state governments | 8,122 | 8,077 | 8,747 | 7.6 | -0.6 | 8.3 | 2.8 | 2.7 | 2.9 |
| Supplies and services | 34,692 | 33,984 | 38,002 | 39.2 | -2.0 | 11.8 | 11.9 | 11.3 | 12.5 |
| Subsidies and social assistance | 67,358 | 64,228 | 52,757 | 192.3 | -4.6 | -17.9 | 23.0 | 21.4 | 17.4 |
| Asset acquisition | 767 | 911 | 1,704 | 28.8 | 18.8 | 87.0 | 0.3 | 0.3 | 0.6 |
| Refunds and write-offs | 549 | 459 | 534 | 13.9 | -16.4 | 16.3 | 0.2 | 0.2 | 0.2 |
| Grants to statutory bodies | 14,014 | 15,269 | 15,645 | 4.7 | 9.0 | 2.5 | 4.8 | 5.1 | 5.1 |
| Others | 6,736 | 7,760 | 8,524 | -20.9 | 15.2 | 9.8 | 2.2 | 2.5 | 2.7 |
| Total | 292,693 | 300,140 | 303,800 | 26.4 | 2.5 | 1.2 | 100.0 | 100.0 | 100.0 |
| % of GDP | 16.3 | 16.2 | 15.4 | | | | | | |

Figure 2 - Federal Government Operating Expenditure by Component, 2022-2024

| SECTOR | RM MILLION | | | CHANGE (%) | | | SHARE (%) | | |
|-------------------------------|---------------|-------------------|-------------------|-------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | 2022 | 2023 ¹ | 2024 ² | 2022 | 2023 ¹ | 2024 ² | 2022 | 2023 ¹ | 2024 ² |
| Economic | 39,115 | 55,035 | 45,231 | 25.0 | 40.7 | -17.8 | 54.6 | 56.7 | 50.3 |
| <i>of which:</i> | | | | | | | | | |
| Transport | 16,560 | 17,565 | 19,128 | 27.5 | 6.1 | 8.9 | 23.1 | 18.1 | 21.3 |
| Trade and industry | 2,308 | 2,749 | 3,611 | 31.4 | 19.1 | 31.4 | 3.2 | 2.8 | 4.0 |
| Energy and public utilities | 2,359 | 3,240 | 3,070 | 11.6 | 37.4 | -5.2 | 3.3 | 3.3 | 3.4 |
| Agriculture | 2,548 | 3,261 | 3,116 | 3.4 | 28.0 | -4.4 | 3.6 | 3.4 | 3.5 |
| Environment | 1,736 | 2,673 | 3,330 | 32.5 | 54.0 | 24.6 | 2.4 | 2.8 | 3.7 |
| Social | 21,132 | 26,546 | 28,320 | -6.5 | 25.6 | 6.7 | 29.5 | 27.4 | 31.5 |
| <i>of which:</i> | | | | | | | | | |
| Education and training | 10,029 | 13,557 | 14,268 | 21.9 | 35.2 | 5.2 | 14.0 | 14.0 | 15.9 |
| Health | 4,412 | 4,916 | 6,143 | -49.4 | 11.4 | 25.0 | 6.2 | 5.1 | 6.8 |
| Housing | 1,653 | 2,114 | 1,998 | 21.5 | 27.9 | -5.5 | 2.3 | 2.2 | 2.2 |
| Security | 8,210 | 11,518 | 12,554 | 9.5 | 40.3 | 9.0 | 11.5 | 11.9 | 13.9 |
| General administration | 3,117 | 3,901 | 3,895 | 8.5 | 25.1 | -0.2 | 4.4 | 4.0 | 4.3 |
| Total | 71,574 | 97,000 | 90,000 | 11.4 | 35.5 | -7.2 | 100.0 | 100.0 | 100.0 |
| % of GDP | 4.0 | 5.2 | 4.6 | | | | | | |

Figure 3 - Federal Government Operating Expenditure by Sector, 2022-2024

According to recent data from Macrotrends, Malaysia’s inflation rate in 2023 has been notably impacted by both domestic factors and global economic influences, including supply chain disruptions and currency fluctuations. The Department of Statistics Malaysia provides consumer price index (CPI) data that reveals which sectors have been most affected by inflationary pressures, notably food and transportation. Furthermore, core inflation, which excludes volatile items like food and energy, remains elevated, highlighting persistent inflation pressures in the economy. This sustained inflation highlights the need for careful fiscal and monetary policies to ensure inflation does not escalate unchecked, thereby destabilizing the economy [3,5,6].

An increase in government spending, particularly in sectors with limited supply elasticity, generally raises demand and thus contributes to inflation. Trading Economics data demonstrates a consistent upward trend in Malaysia’s government budget, reflecting a steady increase in public expenditure. The primary challenge is to balance fiscal expansion with inflation management, as unchecked spending can lead to an overheated economy [1,2].

Historical analysis provided by academic sources, such as JSTOR, indicates that Malaysia has previously encountered inflationary pressures closely associated with periods of high government spending. For example, during times when public expenditure surged, inflation rates correspondingly rose, suggesting a direct link

between government fiscal activities and inflationary outcomes. Conversely, fiscal austerity and spending reductions have, in some cases, helped to curb inflation but at the expense of slower economic growth. These historical patterns underline the importance of a measured fiscal approach. [3,4].

Given the evident connection between government spending and inflation, it is essential that Malaysia employs a balanced fiscal policy that fosters sustainable economic growth without exacerbating inflationary pressures. It would be prudent for the government to prioritize spending on investments that enhance productivity and supply chain efficiency while employing targeted subsidies to mitigate inflation impacts on essential goods. Additionally, it is advisable for the government to closely monitor core inflation, as noted by Trading Economics, to ensure that inflation remains within manageable levels [2,6].

The relationship between inflation and government spending in Malaysia is multifaceted, with fiscal policies exerting a significant influence on inflationary trends. While public expenditure is crucial for economic development, it must be managed carefully to prevent excessive inflation. By leveraging data-driven insights and adhering to a carefully calibrated fiscal policy, Malaysia can aspire to achieve sustainable growth while containing inflation within manageable limits.

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