社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

Malaysia Budget 2018

Preparing for future: Investing in economic growth and innovation

27 October 2017

Agenda

- 2018 Budget orientation
- Budget 2018: Revenue and spending priorities
- Budget 2018 highlights
- Analysis of key tax, incentives and initiatives
- Commentary and conclusion

2018 Budget orientation: Growth-oriented and people-centric

- **The Budget 2018** comes at a time when both world and domestic economies are gaining traction amid lingering risks of policy uncertainties in advanced economies, the **Budget agenda will set the pace for continuing economic growth** by **empowering the private sector** whilst **preparing for the future through digitalization and innovation transformation**.
- It is **pro-growth fiscal consolidation**, **making impact where it matters** whilst ensuring the optimal deployment of public resources and preserving fiscal stability.
- The Budget is **anchored on short-and medium-term initiatives and priorities** to stimulate domestic investment, ease rising cost of living pressures, tackle housing affordability, shaping for the digitalised future and innovation transformation, enhance human capital and skills as well as create opportunities for the youth, including entrepreneurship.
- 2018 Budget deficit marks the unbroken twenty one years of fiscal deficit since 1998. **A fiscal deficit target of RM39.8bn or -2.8% of GDP is set for 2018** (estimated deficit of RM39.9bn; -3.0% of GDP in 2017), representing nine consecutive years of narrowing deficit trend since 2010 (-5.4% of GDP).
- **Budget's total expenditure allocation** is budgeted to **rise by 5.4% to RM280.2bn** or **19.4% of GDP in 2018** as against estimated 2017's RM265.9bn or 19.8% of GDP (vs. original 2017 Budget of RM260.8bn; 19.7%).

2018 Budget operations at a glance

- **Federal revenue** is projected to **increase by 6.4% to RM239.9bn** in 2018 (+6.1% to RM225.3bn in 2017). **GST collection** will increase by 5.5% to RM43.8bn in 2018 (RM41.5bn in 2017). **Oil price forecast** for 2018 is US$52 per barrel vs. 2017's US$50.
- **Operating expenditure (OE)** is budgeted to **rise further by 6.5% to RM234.2bn** for two successive years (83.6% of total expenditure) vs 2017E: +4.6% to RM219.9bn or 82.7% of total.
- This reflects the lack of fiscal's commitment to restrain operating expenditure in keeping keep pace with revenue growth. Close to 98% of total revenue goes to operating expenditure. **Operating surplus** has been shrinking to an average of RM3.6bn per year in 2008-2018 from an average of RM13.9bn per year in 2001-2007.
- The **rise in OE** comes from **emoluments** (+0.4% to RM79.1bn or 33.8% of total OE), followed by **subsidies and social assistance** (+15.0% to RM26.5bn; 11.3%), **supplies and services** (+3.0% to RM33.6bn; 14.4%), **debt service charges** (+7.0% to RM30.9bn; 13.2%) and **retirement charges** (+3.8% to RM24.6bn; 10.5%).
- **Development expenditure (DE)** remains stable at **RM46.0bn or 16.4% of total expenditure** (+9.4% to RM46.0bn in 2017; 17.3% of total). Development expenditure made up an average 18.4% share of total in 2010-16.
- The **economic and social sectors** receiving large amount of DE allocation: **transport** (RM10.5bn or 22.8% of total DE), **education and training** (RM5.3bn; 11.4%), **trade and industry** (RM4.1bn; 9.0%), and **security** (RM5.2bn; 11.3%).

The economy at a glance – performance and prospects

Key indicators	2016	2017E	2018B
Real GDP growth (%)^	4.2	5.2-5.7	5.0-5.5
Real private consumption growth (%)^	6.0	6.9	6.8
Real private investment growth (%)^	4.3	9.3	8.9
Income per capita (RM)	37,791	40,713	42,777
Unemployment (%)	3.4	3.4	3.3
Inflation (%)	2.1	3.0-4.0	2.5-3.5
Export Growth (%)	1.2	16.6	3.4
Current account balance			
RM million	29,023	32,313	32,940
% of GDP	2.4	2.4	2.3
Budget deficit			
RM million	38,401	39,887	39,790
% of GDP	3.1	3.0	2.8
Federal government debt			
RM million	648,475	685,056*	-
% of GDP	52.7	50.9	-

Source: MOF's Economic Report 2017-18
^ 2010=100
** As at end-June 2017*

- **Still respectable economic growth.** The Ministry of Finance (MOF) expects the economy to grow by **5.2-5.7% (mid-point: 5.4%) in 2017 and 5.0-5.5% (mid-point: 5.2%) in 2018** respectively (**SERC**: 5.5% in 2017 and 5.1% in 2018 respectively).
- **Domestic demand remains the key driver**. **Private consumption** growth (6.8% in 2018 vs. 6.9% in 2017) will be supported by improved income and stable employment. Amid high cost of living and increased prices, consumer spending has been far more resilient. The cut in personal income tax rates, yearly cash handouts and special payment for civil servants and retirees are expected to raise consumption.
- **Private investment growth continues.** Private investment is projected to increase by 8.9% in 2018 (2017E: 9.3%). Investors' sentiment could turn cautious amid lingering uncertainties ahead of GE14.

Where is the growth coming from?

Services (2018F: 5.8%, 2017E: 5.9%); % share of GDP: 54.5

- Steady domestic spending, higher tourist arrivals, logistic services and financial services.
- Higher growth in wholesale and retail trade, F&B, information and communication, transport and storage as well as finance and insurance subsectors.

Manufacturing (2018F: 5.3%, 2017E: 5.5%); % share of GDP: 23.0

- Export-oriented industries: sustained demand for electronics and electrical products, refined petroleum and wood products.
- Domestic-market oriented: construction-related building materials, food products and transport equipment.

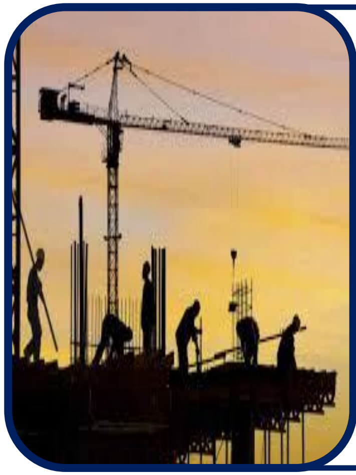
Agriculture (2018F: 2.4%, 2017E: 5.6%); % share of GDP: 8.1

- Slower rise in CPO production (+2.5% to 20.5 million tonnes; CPO price: RM2,750/tonne vs. 2017's +15.5% to 20 million tonnes; CPO price: RM2,700/tonne), rubber output (+2.9% to 720,000 tonnes vs 2017's +3.9% to 700,000 tonnes).
- Livestock, fruits and vegetables.

Where is the growth coming from?

Mining (2018F: 0.9%, 2017E: 0.5%); % share of GDP: 8.4

- Higher natural gas output on higher demand (China, Japan, Korea and Taiwan), the completion of North Malay Basin Full Field Development Phase 1 and RGT2 in Pengerang.
- Oil production will decline due to Malaysia's commitment to output cuts till 1Q 2018.
- Brent price to average US$52 per barrel in 2018 vs US$50 per barrel in 2017.



Construction (2018F: 7.5%, 2017E: 7.6%); % share of GDP: 4.6

- On-going civil engineering infrastructure projects such ECRL, MRT SSP line, Electrified Double Track Gemas-Johore Bahru, SPE, Pan Borneo Highway and Bokor Central Processing Platform.
- Residential and affordable housing programmes.
- Slow growth in commercial development due to property overhang.

Sources of GDP growth: Demand and supply side

- Strong growth momentum; broad-based growth; resilient private sector activity

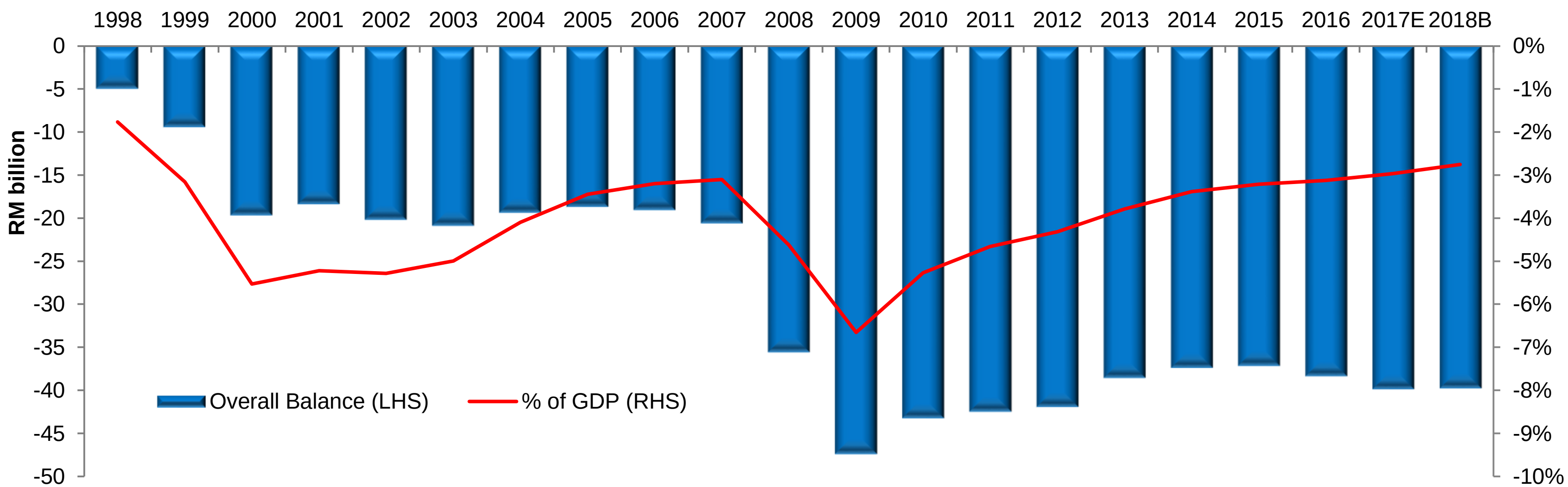
% change, 2010=100	**2015**	**2016**	**2017 1H**	**2017*E* (MOF)**	**2017*E* (SERC)**	**2018*B* (MOF)**	**2018*F* (SERC)**
GDP by demand component							
Private consumption (53.9%)	6.0	6.0	6.9	6.9	6.8	6.8	6.2
Private investment (17.5%)	6.3	4.3	10.0	9.3	9.2	8.9	8.3
Public consumption (12.7%)	4.4	0.9	5.3	2.7	5.1	1.3	4.0
Public investment (8.4%)	-1.1	-0.5	-0.9	3.7	1.2	-3.1	2.0
Exports of goods and services (72.2%)	0.3	1.1	9.7	8.0	9.9	2.3	6.7
Imports of goods and services (64.7%)	0.8	1.1	11.8	9.9	11.7	2.5	7.8
GDP by economic sector							
Agriculture (8.1%)	1.3	-5.1	7.1	5.6	6.0	2.4	4.0
Mining & quarrying (8.4%)	5.3	2.2	0.9	0.5	1.0	0.9	1.5
Manufacturing (23.0%)	4.9	4.4	5.8	5.5	5.7	5.3	5.5
Construction (4.6%)	8.2	7.4	7.4	7.6	8.0	7.5	9.0
Services (54.5%)	5.1	5.6	6.1	5.9	5.9	5.8	5.6
Overall GDP	**5.0**	**4.2**	**5.7**	**5.2-5.7**	**5.5**	**5.0-5.5**	**5.1**

Source: DOS, Malaysia; MOF's Economic Report 2017-18; SERC
Parenthesis indicates % share to GDP in 2017E by MOF

Fiscal consolidation continues; fiscal deficit target at 2.8% GDP

- **Federal revenue** is projected to rise by 6.4% to RM239.9bn in 2018 (6.1% in 2017) for two consecutive years.
- **Total expenditure** (operating expenditure (OE) plus development expenditure (DE)) will increase by 5.4% to RM280.2bn in 2018 (+5.4% to RM265.9bn in 2017).
- **Higher OE** (83.6% of total): a 6.5% rise to RM234.3bn in 2018 (+4.6% in 2017) while DE remains stable at RM46.0bn (2017E: +9.4% to RM46.0bn).
- **Overall fiscal deficit** will improve marginally to -2.8% of GDP in 2018 from -3.0% of GDP in 2017, marking the ninth year of narrowing deficit since 2010.

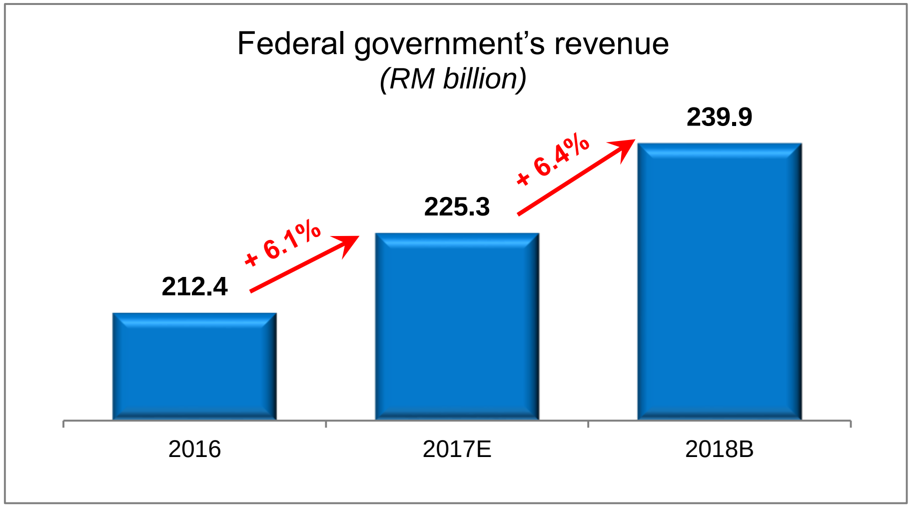
Narrowing budget deficit to GDP ratio since 2010



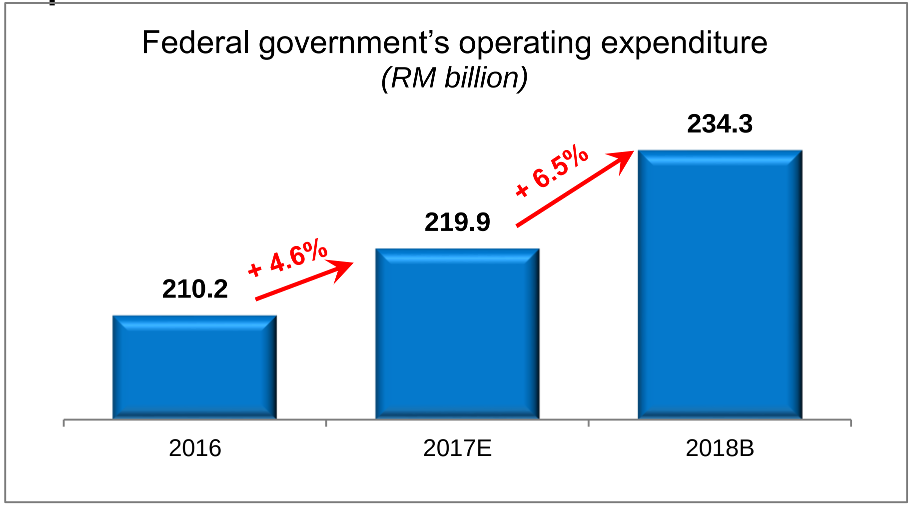
Source: Bank Negara Malaysia, MOF's Economic Report 2017-18

2018 Budget analysis: A mildly expansionary

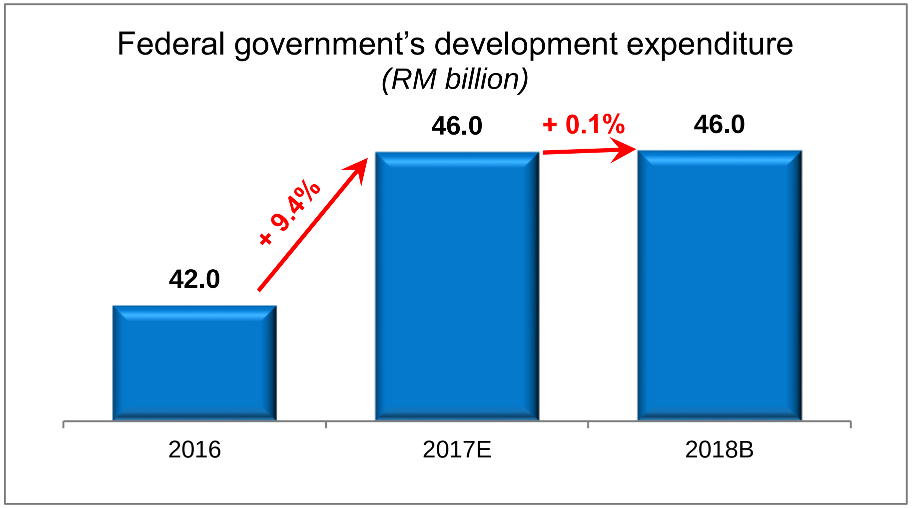
Revenue rises for two consecutive years



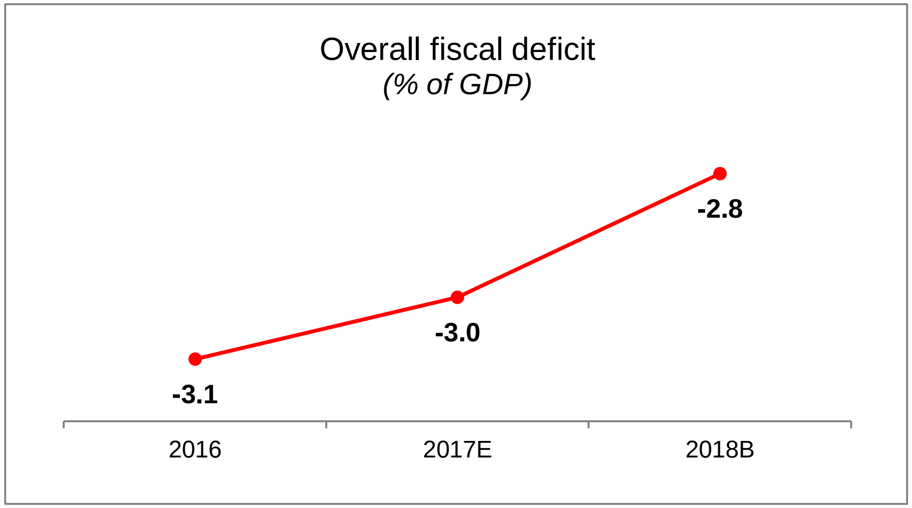
About 98% of revenue goes to operating expenditure



Stable development expenditure



Continued small reduction in fiscal deficit

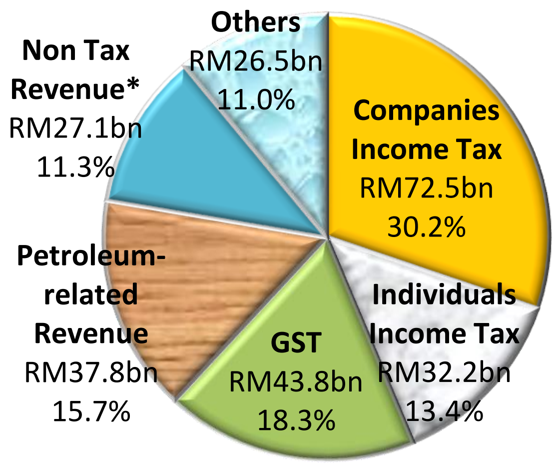


Source: MOF (Economic Report 2017-18)

Distribution in revenue: GST a stable contributor

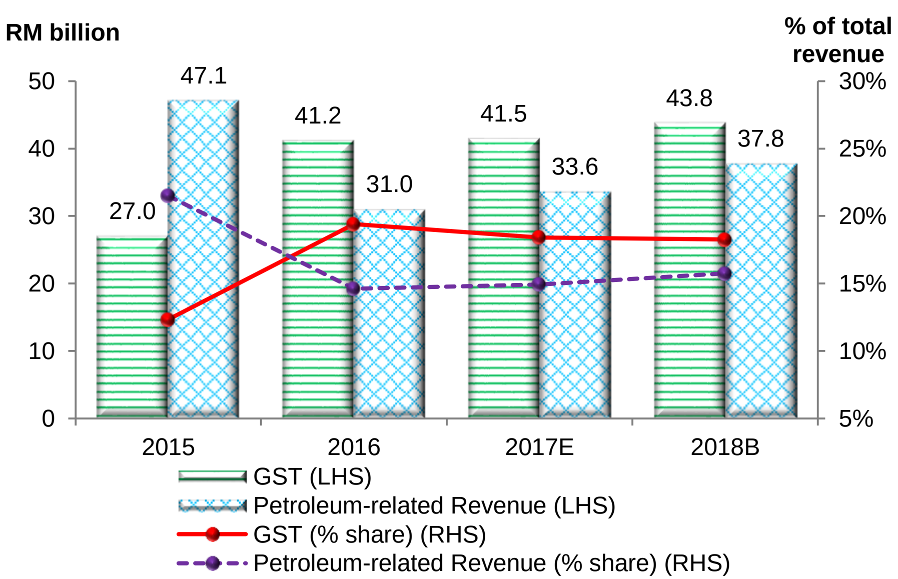
- **GST collection** is budgeted to **rise by 5.5% to RM43.8bn** or 18.3% of total revenue in 2018 (estimated RM41.5bn in 2017; RM41.2bn in 2016 and RM27.0bn in 2015).
- Corporate income tax (+6.9% to RM72.5bn); individuals (+7.1% to RM32.2bn) and petroleum income tax (+4.6% to RM11.4bn).
- Among measures to enhance tax compliance are to **carry out regular audit** and **tax investigation**s to increase tax compliance; the **installation of GST Electronic Information System** (GST EIS) on 1 July 2017 at point of sales to capture real time transactions; and **a Collection Intelligence Arrangemen**t (CIA) by the Inland Revenue Board, Royal Malaysia Customs Department, and Companies Commission of Malaysia to reduce tax evasion.

2018B: Where is the money coming from?



** Dividend from Petronas and income from MTJA are recorded in petroleum-related revenue*

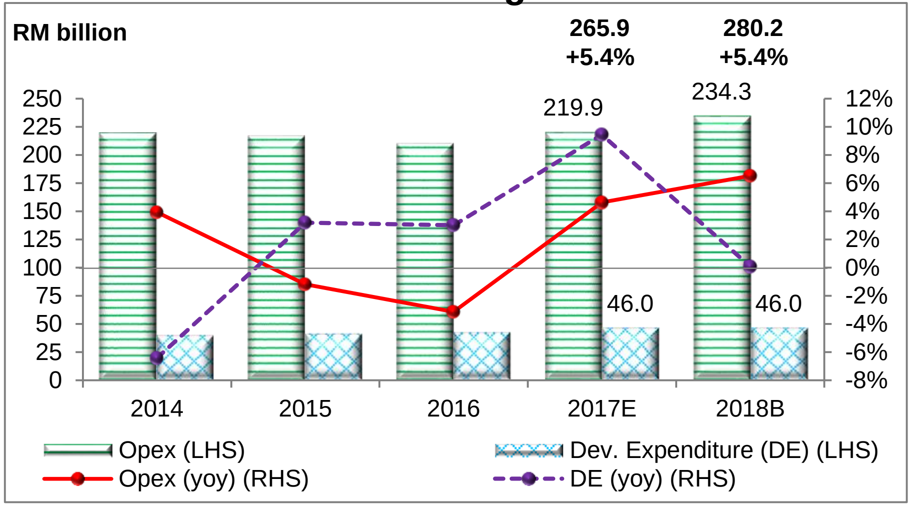
GST vs. petroleum-related revenue



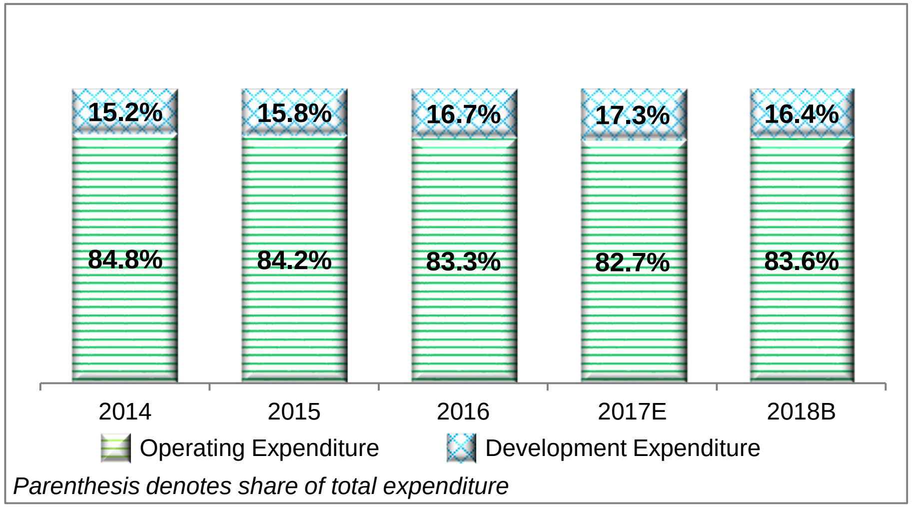
Source: MOF's Economic Report 2017-18

Budgetary expenditure mix

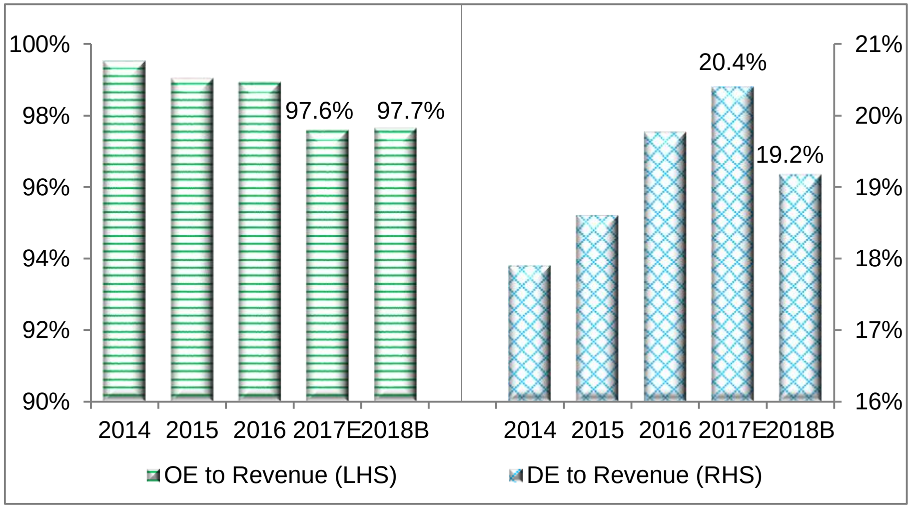
Operating expenditure rises for two years in a row in 2017-18 after declining in 2015-16



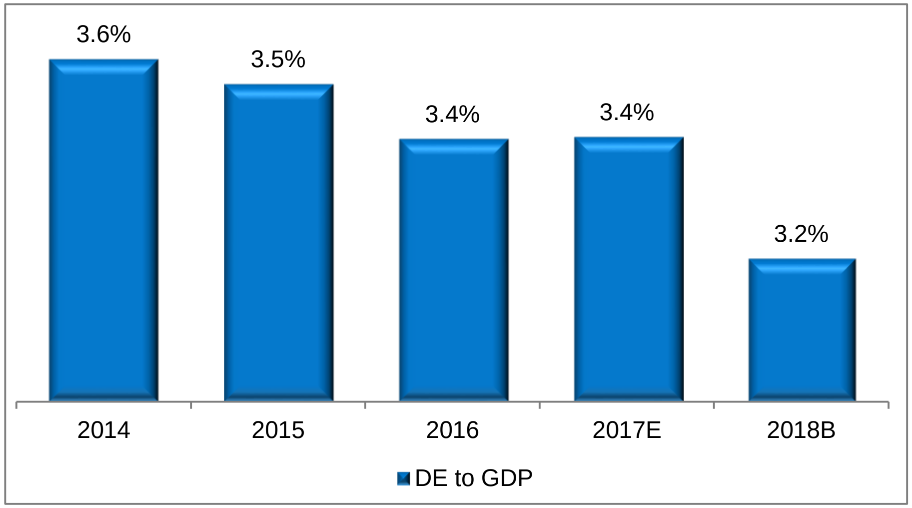
% share of development expenditure slip in 2018



OE and DE to revenue ratio



Declining share of DE to GDP

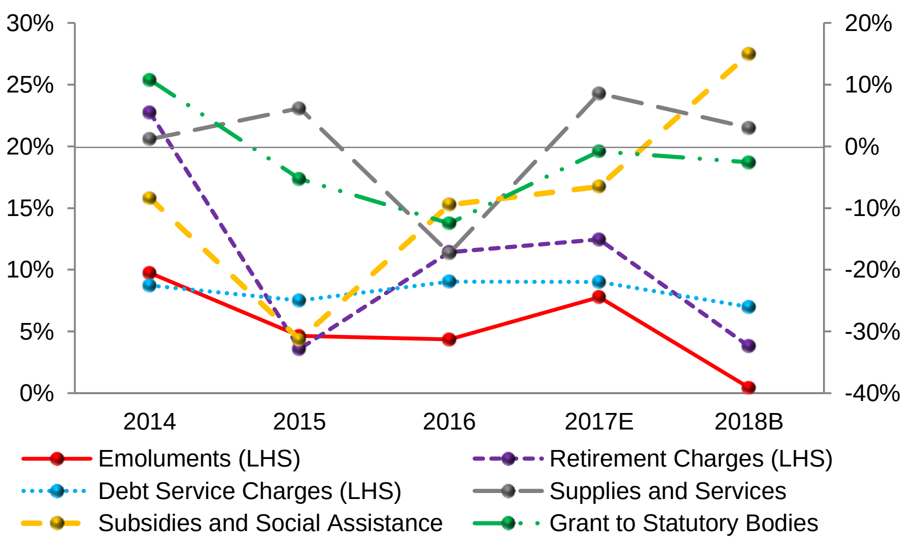


Source: MOF's Economic Report 2017-18

Operating expenditure analysis calls for further restrain

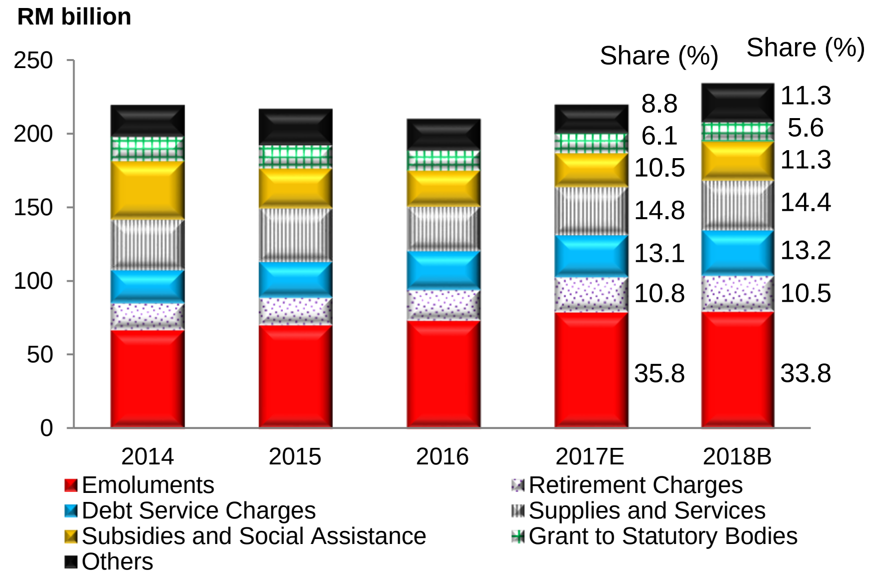
- The **shrinking operating surplus** to an average of RM3.6bn per year in 2008-2018 from an average of RM13.9bn per year in 2001-2007 underscores the **lack of fiscal commitment to restrain operating expenditure**.
- This calls for keeping a **lean and efficient civil service**, supported by E-government; the phased implementation from a defined benefit **to a defined contribution of public pension**; stringent enforcement of **competitive tendering of public supplies and services**; **plugging leakages and wastage**; **reprioritizing of expenditure** in non core areas and a **review of grants to statutory bodies**.

Growth of operating expenditure by type (% yoy)



Source: MOF (Economic Report 2017-18)

Distribution of operating expenditure by type



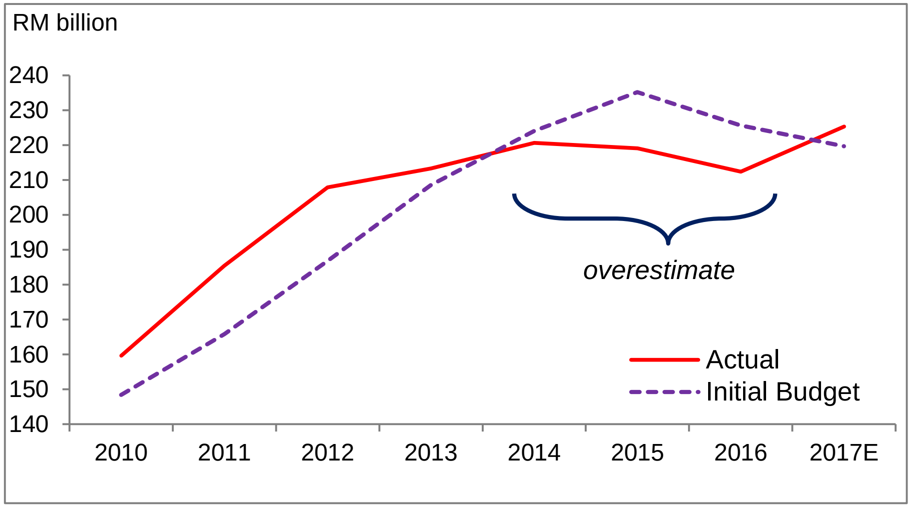
Development expenditure: Sectoral allocation

By Sector	2016	2017*E*	2018*B*	2016	2017*E*	2018*B*	2016	2017*E*	2018*B*
	RM million			% YoY			% Share		
Economic	**25,113**	**25,897**	**26,342**	**7.8%**	**3.1%**	**1.7%**	**59.8%**	**56.3%**	**57.3%**
Agriculture and rural development	2,902	2,416	2,523	-6.5%	-16.7%	4.4%	6.9%	5.3%	5.5%
Public utilities and energy	2,927	2,514	2,746	-19.5%	-14.1%	9.2%	7.0%	5.5%	6.0%
Trade and industry	4,841	4,830	4,149	-14.1%	-0.2%	-14.1%	11.5%	10.5%	9.0%
Transport	7,827	10,749	10,479	16.9%	37.3%	-2.5%	18.6%	23.4%	22.8%
Others	6,616	5,388	6,445	57.0%	-18.6%	19.6%	15.8%	11.7%	14.0%
Social	**10,429**	**12,119**	**11,720**	**-6.6%**	**16.2%**	**-3.3%**	**24.8%**	**26.4%**	**25.5%**
Education and Training	3,727	5,904	5,256	-21.7%	58.4%	-11.0%	8.9%	12.8%	11.4%
Health	1,495	1,532	1,910	3.7%	2.5%	24.7%	3.6%	3.3%	4.2%
Housing	2,238	870	1,167	11.5%	-61.1%	34.1%	5.3%	1.9%	2.5%
Others	2,969	3,813	3,387	0.6%	28.4%	-11.2%	7.1%	8.3%	7.4%
Security	**4,832**	**5,286**	**5,214**	**1.6%**	**9.4%**	**-1.4%**	**11.5%**	**11.5%**	**11.3%**
Defence	3,945	4,250	3,842	-3.3%	7.7%	-9.6%	9.4%	9.2%	8.4%
Internal Security	887	1036	1372	31.2%	16.8%	32.4%	2.1%	2.3%	3.0%
General Administration	**1,621**	**2,660**	**2,724**	**3.4%**	**64.1%**	**2.4%**	**3.9%**	**5.8%**	**5.9%**
Total	**41,995**	**45,962**	**46,000**	**3.0%**	**9.4%**	**0.1%**	**100.0%**	**100.0%**	**100.0%**

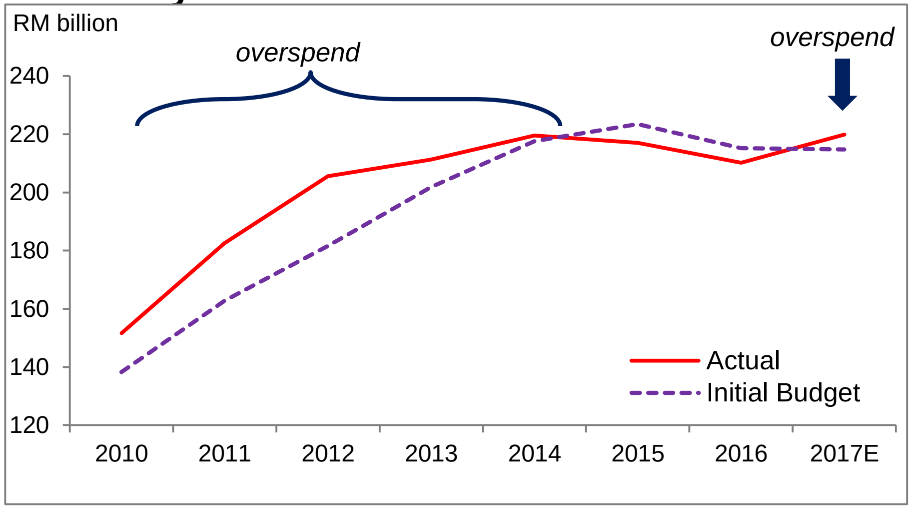
Source: MOF's Economic Report 2017-18

Budgetary operation trends – Actual vs. estimates

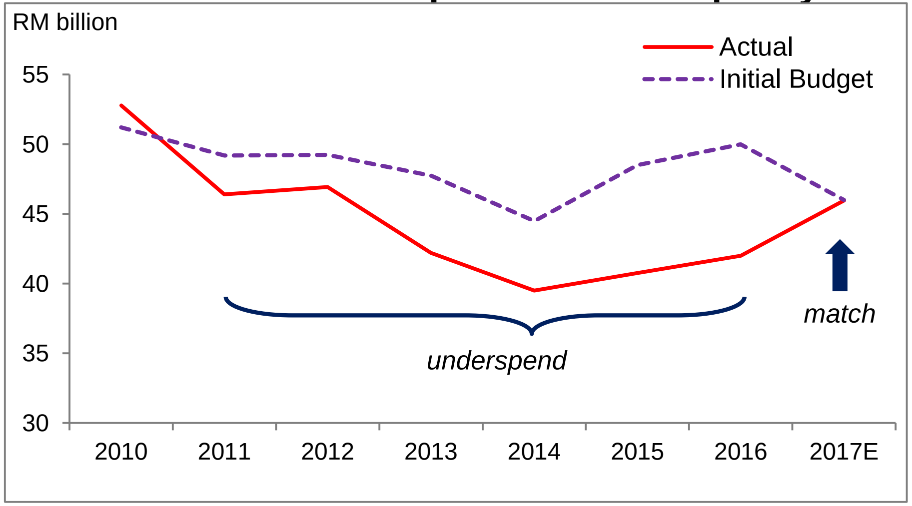
Federal revenue tends to be overestimated



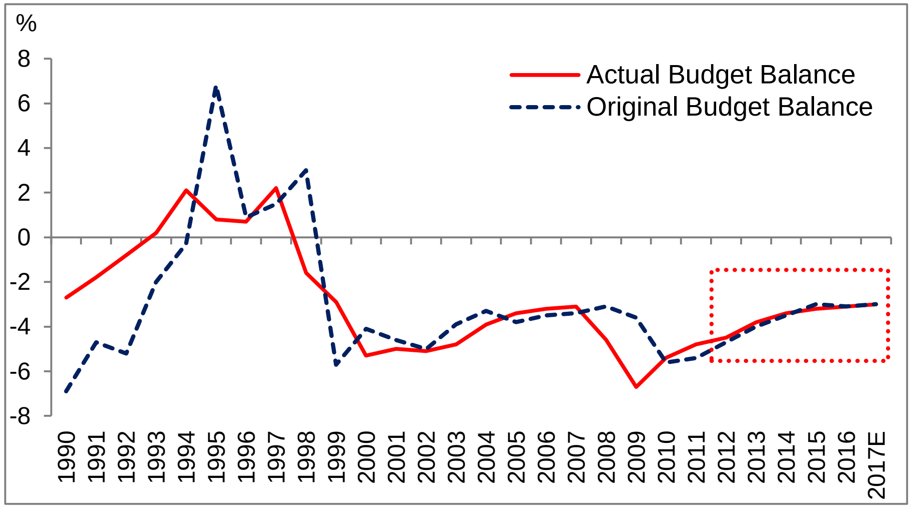
Operating expenditure mostly overspend until in recent years



Development expenditure mostly incurred shortfall due to weak implementation capacity



Budget deficit target mostly met

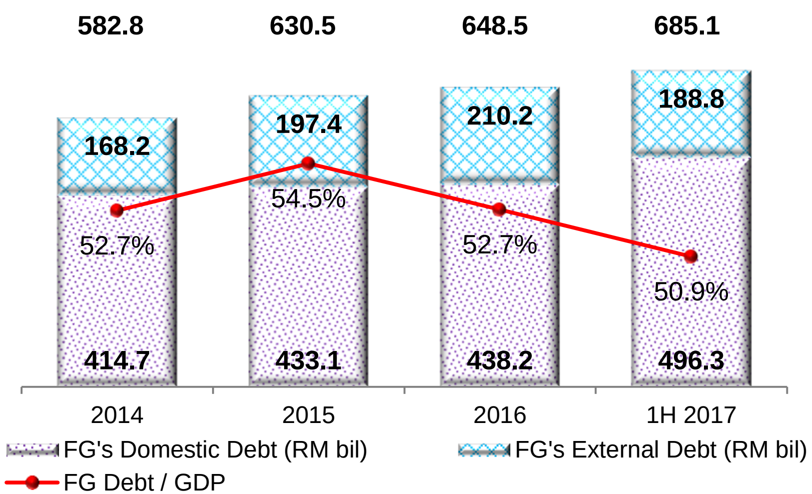


Source: MOF (Economic Report 2017-18; Economic Data)

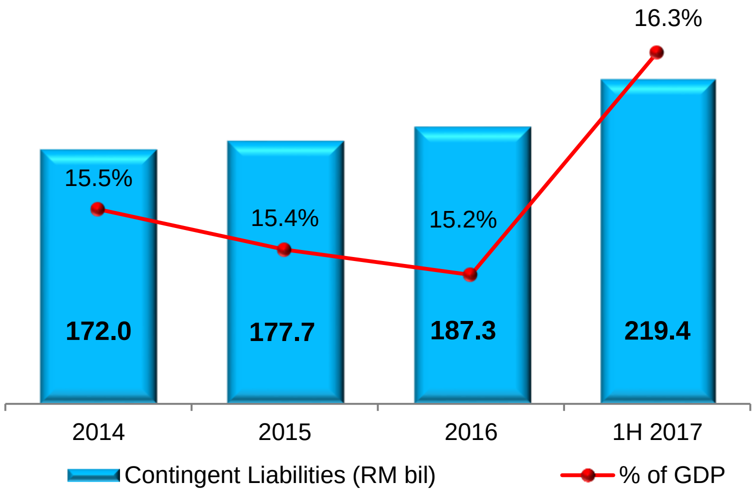
Federal government debt is capped below 55% of GDP

- **Federal government's debt stood** at **RM685.1bn at end-June 2017**, a rise of 5.6% from RM648.5bn at end-2016. **Debt to GDP ratio stood at 50.9% at end-June 2017** (2016: 52.7% of GDP).
- **Federal government's contingent liabilities** (government guarantees) stood at **RM219.4bn or 16.3% of GDP at end-June 2017** (2016: RM187.3bn; 15.2% of GDP).
- Continued active monitoring and management of government guarantees to contain fiscal risk as well as maintain debt sustainability.
- More selective and stringent evaluation process and robust risk assessment.

FG debt to GDP ratio improves due to the transfer of Treasury Housing Loan



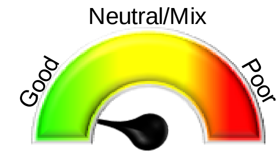
Government guarantees debt on the rise



Source: BNM; MOF (Economic Report 2017-18)

Key tax, incentives and initiatives in 2018 Budget

Invigorating investment



Proposals/initiatives

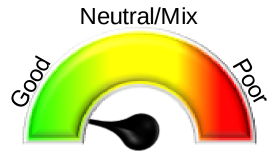
- RM1.0bn allocated for five main corridors
- Develop the South Perak Region comprising Proton City, Educity and Youth City in Tanjung Malim and Bukit Kayu Hitam Duty-Free Trade
- Construction of port and industrial park in Tok Bali, Kelantan; access road to Baleh Dam, Sarawak
- Extend the Principal Hub tax incentive until 31 December 2020
- Allocate RM200m to the high-impact strategic fund under MIDA
- Participate in the implementation of OECD's Base Erosion and Profit shifting Plan of Action (BEPS) and the Automatic Exchange of Information (AEI) starting September 2018

Our view

These measures are expected to sustain both public and private investment, which are now in a ratio of 30:70. Policy certainty and investment-friendly regulations are key to make Malaysian an attractive investment location. Over 100 countries and jurisdictions are in BEPS framework to tackle tax avoidance through artificially shift profits to low or no-tax locations. Malaysia's participation in BEPS and AEI would enhance the country's tax jurisdiction transparency to foreign investors and hence, provides better informed information about tax administration and jurisdiction.

Who is affected: Place Malaysia as a preferred investment destination. Drawing high-impact investment on industries related to petroleum, logistics, aerospace, rail, robotics and automation, and export-oriented industries.

Enhancing small and medium enterprises (SMEs)



Proposals/initiatives

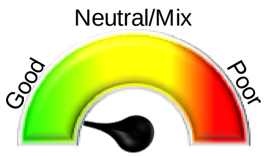
- RM7.0bn allocation under Syarikat Jaminan Pembiayaan Perniagaan (SJPP). RM5.0bn for working capital and RM2.0bn with 70% guaranteed by the Government for services sector (Services Sector Guarantee Scheme), including Industry Revolution (IR4.0)
- RM1.0bn as loans with 70% government guarantees to enable SMEs to automate production processes and reduce employment of foreign workers
- Increase RM1.0bn to the Shariah-complaint SME Financing Scheme with a fund size of RM2.5bn. A 2% subsidy on profit earned to ease costs of financing
- RM200m allocated to SMEs for training programs, grants, and soft loans under the SME Corp
- RM500m micro financing allocated to TEKUN
- RM200m to Amanah Ikhtiar Malaysia's (AIM) Fund to support woman entrepreneurs, bringing total fund size to RM2.7bn
- RM80m allocated under the Rural Economic Planning Scheme through Bank Rakyat and SME to fund Bumiputera entrepreneurs
- RM50m to KOJADI and RM30m to 1Malaysia Hawkers and Petty Traders Foundation
- RM555m allocated for Bumiputera entrepreneurship enhancement program

Our view

SMEs account for 98.5% of total establishments; 65% of total employment; 36.6% of total GDP and 18% of exports. By 2020, the target is 41% of GDP. SMEs must scale up their technological capabilities and enhance products' quality and price competitiveness to compete in global market place. It is vital to enhance awareness about these financial facilities to SMEs.

Who is affected: SMEs and woman entrepreneurs

Accelerating exports



Proposals/initiatives

- RM150m provided to MATRADE, MIDA and SME Corp to implement promotional programs and expand export markets, including Market Development Grant
- RM1bn insurance coverage credit facilities & RM200m credit financing facilities provided by EXIM Bank to SME exporters
- RM100m loans with 70% government guarantees to automate production of local furniture for exports

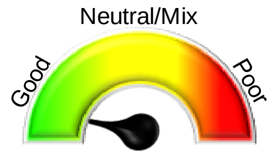
Our view

Malaysia’s exports have turned from a drag to driver of economic growth, thanks to a broad-based recovery in global demand for electronics and electronical products, commodities, petroleum products, chemicals and chemical products. Weak ringgit, stabilizing oil prices and strong crude palm oil prices also aided the gain in exports. The Treasury projects Malaysia’s exports to grow by 3.4% in 2018 compared to estimated 16.6% in 2017, largely due to the normalization of high-base effect.

The provision of market development grant and credit facilities are expected to facilitate Malaysian companies to export more and seek new exports markets, including countries perceived with market risk. As such, it is vital to enhance awareness about these supporting measures whilst making ease of administration/procedures to enhance accessibility to SMEs

Who is affected: Large and SMEs exporters and furniture exporters

Boosting agriculture sector



Proposals/initiatives

RM6.5bn provided to assist farmers, fishermen, smallholders and rubber tappers. Among the programs include:

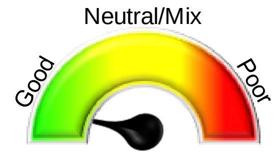
- RM2.3bn to provide assistance and incentive such as fertilisers and input
- RM500m to improve irrigation infrastructure and plantation roads
- RM200m for rubber replanting and infrastructure to increase latex production
- RM140m to developing and replanting and marketing of oil palm
- RM200m for the agriculture program (corn, coconut, durian and culinary industry)
- RM50m for replanting of new varieties of coconuts (CARECA and MATAG) benefitting 10,000 smallholders
- RM150m financial assistance (RM200 for 3 months) to paddy farmers prior to paddy harvesting season

Our view

This biggest ever allocation if implemented efficiently will help to raise the income of smallholders, who have been bearing high cost of fertilizers and other farm related costs. The development of high value add and price margin agricultural produces could generate more value-added processing for the manufacturing and services sectors.

Who is affected: Agriculture sector (paddy, rubber, fishery, oil palm, dairy industry, corn, coconut, durian and culinary industry) and smallholders

Boosting tourism industry



Proposals/initiatives

- 2020 is declared as the Visit Malaysia Year, coinciding with the hosting of major international events (APEC, WCIT & CHOGM)
- RM2bn soft loan is allocated to SME Tourism Fund to provide soft loan with an interest subsidy of 2% to tour operators
- RM1bn soft loan under the Tourism Infrastructure Development Fund
- RM500m to upgrade infrastructure facilities, promote homestay and eco-tourism
- Expand eVisa regional hub to facilitate visa application (expatriates, foreign students, Malaysia My Second home (MM2H))
- Extend tax incentives for investments in new 4- and 5-star hotels and tour operators till Dec 2020
- RM30m to Malaysian Healthcare Travel Council (MHTC) to promote medical tourism
- Pulau Pangkor will be tax free island (excluding alcohol and cars)

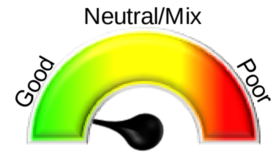
Our view

Tourism accounted for 14.8% of GDP and generated 3.2m employment. In 2016, Malaysia recorded 26.8m tourist arrivals with revenue of RM81.2bn, lower than ETP's target of 30.5m tourist arrivals and RM103bn tourist revenue.

While the allocation helps to promote the tourism industry, the promotion agencies and tour operators must step up efforts to harness Malaysia's tourism potential given our rich diversity strength. ASEAN member countries should coordinate their promotional efforts to market ASEAN in the world tourist map as a preferred vacation location in order to achieve the targeted 28 million tourist arrivals in 2018.

Who is affected: Tour operators, hotel and homestay operators, private hospitals, retail industry

Harnessing health-tourism



Proposals/initiatives

- RM30m to Malaysian Healthcare Travel Council (MHTC) to promote medical tourism
- Promote Malaysia as the Asian Hub for fertility treatment, including IVF and cardiology. The e-visa will be extended to specialized medical services and high value healthcare packages
- Introduce Flagship Medical Tourism Hospital Program
- Extend the investment tax allowance (ITA) of 100% for medical tourism until 31 Dec 2020
- Provide double tax deduction on expenses incurred in obtaining certification from healthcare services accreditation bodies
- Increase the special tourism healthcare incentive from 50% to 100% of the incremental value of exports, for private healthcare services, beginning YA 2018 to 2020

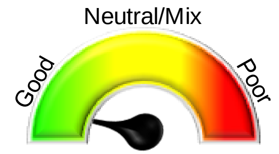
Our view

Medical tourism has the greatest potential as revenue earner. Medical tourism has been growing steadily as travelers from Indonesia, India, China, Japan, the UK, Australis and Middle Eastern countries sought treatments in cardiology, orthopedics, oncology, neurology, dental and fertility treatments, cosmetic surgery and rehabilitation services.

Healthcare travelers rose from 643,000 in 2011 to 859,000 in 2015 and generated revenue of RM914m in 2015, marking an average increase of 14.2% pa from RM537m in 2011. If took into account other related medical revenue (food, accommodation, shopping), healthcare tourism contributed between RM3bn and RM4bn in 2015.

Who is affected: Private healthcare services, tour operators, hotels and retail industry

Driving logistic sector



Proposals / initiatives

- East Coast Rail Link (ECRL) project connects Port Klang to Pengkalan Kubor, Kelantan will begin construction in January 2018; RM100m is allocated to provide alternative road to Port Klang to smoothen the transportation network
- MRT2 Line from Sungai Buloh – Serdang – Putrajaya – estimated construction cost:RM32bn
- MRT3 (Circle Line) to be completed by 2025; LRT3 (Bandar Utama-Johan Setia, Klang) to be completed by Feb 2021; High Speed Rail (HSR) to be completed by 2026
- HSR from Kuala Lumpur to Singapore to complete by 2026
- West Coast Highway (Banting-Taiping) is under construction – estimated cost:RM5bn
- RM230m for Central Spine Road (Raub-Bentong; Gua Musang, Kelantan-Kampung Relong, Pahang)
- RM6.5bn allocated to infrastructure in the rural areas, incl. RM2bn for Pan Borneo Highway, RM1bn for communication and broadband facilities in East Malaysia
- RM3bn allocated to Transportation Development Fund to procure vessels as well as develop aerospace technology industry and rail
- RM1bn allocated to Public Transportation Fund
- RM95m to upgrade and construct jetties as well as dredge river estuaries
- RM45m to develop a biometric control system to monitor the bus drivers
- RM55m to subsidise train services in rural areas, from Tumpat to Gua Musang

Driving logistic sector (cont.)

Proposals/initiatives

- Upgrade Pulau Pinang International Airport and Langkawi International Airport; construct a new airport in Mukah as well as expansion of airports in Kota Bharu and Sandakan
- Conduct a feasibility study on the construction of a new airport in Pulau Tioman and bridge connecting Labuan with the mainland in Sabah
- Toll collection abolishment at Batu Tiga and Sungai Rasau in Selangor, Bukit Kayu Hitam in Kedah and Eastern Dispersal Link (EDL) in Johor

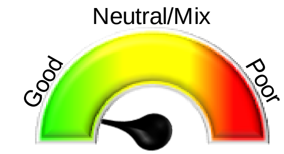
Our view

The enhanced accessibility and connectivity will expand Malaysia's productive capacity in terms of raising efficiency and easing cost of operations related to transportation. This in turn will enhance the cost of doing competitiveness. Some of the major infrastructure projects have courted controversial in terms of cost and viability, which requires thorough costs-benefits analysis.

The alternative road to Port Klang and abolishment of toll collection would result in logistics costs savings, especially for frequenting to and from Port Klang. On the abolishment of four tolls collection, Minister of Finance II commented that the Government may have to provide cash compensation or extend other tolls concessionaires owned by PLUS. As such, the extension of other existing tolls should be reasonable and not burdening the rakyat.

Who is affected: Positive for investment, businesses, services, manufacturing (building materials), construction, logistics players, consumers and transport companies

Strengthening financial and capital markets



Proposals/initiatives

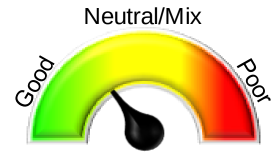
- RM1.5bn is allocated under SJPP using intellectual property as an instrument of financial collateral with up to 80% financing guarantee
- Stamp duty exemption on sales and purchase of Exchange-traded Fund (ETF) and structured warrants for 3 years, effective Jan 2018
- Introduce Alternative Trading System to enable efficient and significant transactions
- RM1bn is provided by major institutional investors for investment in venture capital in main selected sectors, coordinated by SC
- Expand income tax exemption to include management and performance fees received by venture capital management company w.e.f YA2018 to 2020
- Reduce the minimum investment in venture companies to 50% from 70% w.e.f YA 2018 to 2020
- Relief on tax imposed on companies or individuals investing in venture capital companies equivalent to the amount of investment, limited to a maximum of RM20m annually
- Extension of income tax exemption incentive equivalent to the amount of investment made by an angel investor in venture companies till Dec 2020
- Income tax exemption for recipient of the special Green SRI Sukuk grant totaling RM6m
- Income tax exemption on income from management fee to be expanded to approved conventional SRI fund managers w.e.f YA2018 to 2020

Our view

The stamp duty exemption could stimulate the trading activities for these two financial products. However, it should be monitored closely, particularly the structured warrants is a high risk financial product. The Alternative Trading system will boost the vibrancy of domestic equity market.

Who is affected: Start-up, venture capitalists, retail investors, Bursa Malaysia, broking securities, and fund management

Easing cost of doing business



Proposals/initiatives

- Salary payment for foreign workers (excl. domestic helpers) has to go through local banks
- Cruise operator are given relief from paying GST on handling services provided by port operators w.e.f 2018 to 2020
- Construction of school buildings and house of worship, funded through donations are given GST relief for construction contracts signed from Apr 2017
- Imports of big ticket items such as aircraft and ships by airline and shipping companies, and importing of oil rigs or floating structure by oil and gas industry are given GST relief effective Jan 2018
- Extend tax incentives for hiring the disabled to include those affected by accident / critical illness

Our view

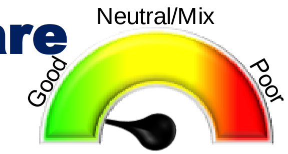
On mandatory salary payment of foreign workers (FW) through local bank accounts, while the measure is to monitor the flows of foreign workers' remittances as well as promote e-payment as Malaysia is moving towards a cashless society, the following issues should be given due consideration before implementation:

a) Given that the number of illegal workers grossly outnumbered the legal ones, the legalizing and regulating foreign workers are pre-requisites for successful implementation of the payment system.

b) Should it be made mandatory as FW have every right to manage their wages. Other issues include the accessibility of banking facilities in remote areas; concerns about cash management efficiency of ATMs; additional expenses incurred for workers and employers; and impractical for micro or small establishments.

Who is affected: Builders/developers, oil and gas companies as well as shipping companies

Mitigating rising cost of living and enhancing welfare



Proposals/initiatives

- Allocation of RM6.8bn for BR1M to benefit 7 million recipients
- Individual income tax rates reduction of 2ppt for tax bracket between RM20,000 and RM70,000 effective YA2018, translating into estimated additional RM1.5bn of disposable income
- RM3.9bn subsidies for goods and transport incl. cooking gas, flour, cooking oil, electricity and toll
- RM5,000 special incentive to more than 112,000 FELDA settlers (estimated RM560m)
- Zero-rated GST for reading materials effective Jan 2018
- RM603m allowance for senior citizen (RM350 per month for 144,000 senior citizens)
- Special payment of RM1,500 to all civil servants and RM750 to government retirees
- Minimum pension of RM1,000 per month from current RM820, benefitting more than 50,000 retirees with at least 25 years of service w.e.f January 2018

Our view

The cut in personal income tax rate will benefit 2.3m tax payers, especially in the M40 group. It will result in annual tax savings between RM300-1,000, and help to raise disposable income and consume discretionary. The reduction also means 261,000 payers are no longer subjected to income tax. The expected revenue loss from the tax cuts are RM1.5bn. Cash handouts, tax cuts and special payment for the public servants are expected to support consumption.

Cooking oil stabilization scheme (COSS), flour subsidy, electricity subsidy and toll compensation budgeted at RM720m, RM45m, RM140m and RM440m respectively in 2018, but not allocated in 2017, indicating that the subsidy rationalisation is being challenged.

Who is affected: B40 and M40 households, 2.3m civil servants and retirees, and the retail industry

Beneficiaries of personal income tax rate cut

- While the income tax cuts specifically targeting M40 group, it also benefits high income earners.
- With the proposed tax cut, the threshold of not paying income tax has now increased to RM28,333 from RM25,000, and with personal tax rebate of RM400, this relieves 261,000 tax payers from subjecting to income tax.
- Overall, the tax savings would amount to between RM300 and RM1,000 for those having annual chargeable income between RM20,000 and RM70,000.

Chargeable Income Group (RM)	Current Maximum Tax Rate (%)	Tax Payable (up to RM)	Proposed Maximum Tax Rate (%)	Tax Payable (up to RM)	Tax Savings (up to RM)	Tax Savings (%)
0 - 5,000	0	0	0	0	-	-
5,001 - 20,000*	1	0	1	0	-	-
20,001 - 35,000*	5	500	3	200	300	60.0%
35,001 - 50,000	10	2,400	8	1,800	600	25.0%
50,001 - 70,000	16	5,600	14	4,600	1,000	17.9%
70,001 - 100,000	21	11,900	21	10,900	1,000	8.4%
100,001 - 250,000	24	47,900	24	46,900	1,000	2.1%
250,001 - 400,000	24.5	84,650	24.5	83,650	1,000	1.2%
400,001 - 600,000	25	134,650	25	133,650	1,000	0.7%
600,001 - 1,000,000	26	238,650	26	237,650	1,000	0.4%
1,000,001 & above	28		28			

Mainly M40

** RM400 tax rebate granted for chargeable income not more than RM35,000*

BR1M cash handouts at a glance

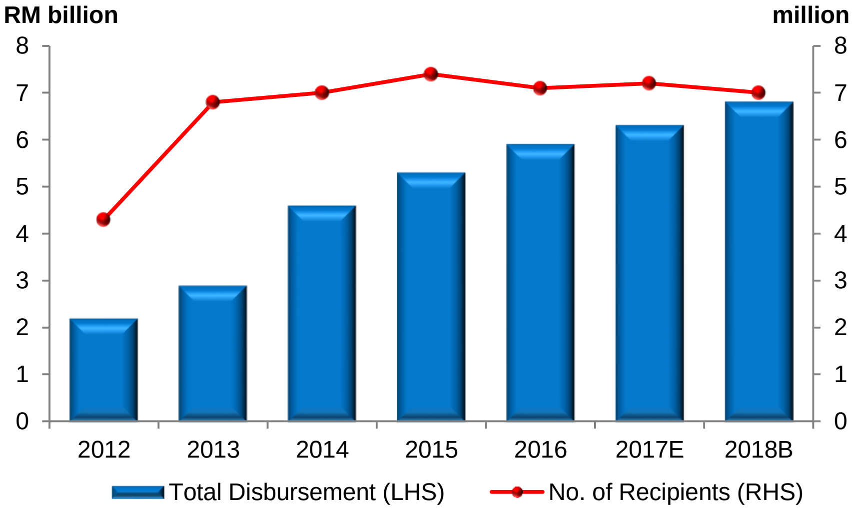
- BR1M was first implemented in 2012 and the disbursement amount has increased to a budgeted of RM6.8 billion in 2018 from RM2.2 billion in 2012, with the number of recipients benefitting from the cash handouts jumped from 4.3 million recipients in 2012 to estimated 7 million in 2018.
- The cash handouts have been increasing every year since 2013. For the first time in 2018, the amount will remain unchanged for all with a maximum of RM1,200 as promised in Barisan Nasional's manifesto.

BR1M cash handouts remained unchanged in 2018

Income segments per month	2012	2013	2014	2015	2016	2017	2018
Household: < RM3,000	500	500	650	950	1,000	1,200	1,200
Household: between RM3,000 to 4,000	-	-	450	750	800	900	900
Individual: <RM2,000	-	250	300	350	400	450	450
Participant in e-Kasih database: <RM1,000	-	-	-	-	1,050	1,200	1,200
Bereavement scheme / i-BR1M Takaful	-	-	1,000	1,000	1,000	1,000	1,000

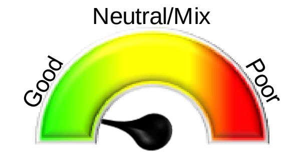
Source: Various budget speech and Economic Reports

Higher disbursements with reducing number of recipients



** 2017E is as at end-Aug as indicated in Economic Report 2017-18, while 2018B as per budget speech for Budget 2018*

Healthcare



Proposals/initiatives

RM27bn allocation to provide quality healthcare services, including:

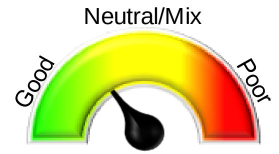
- RM2.5bn for medical supplies;
- RM1.6bn for consumable and medical support items;
- RM1.4bn for upgrading and maintaining healthcare facilities, medical equipment and ambulances
- RM100m is allocated to upgrade hospitals and clinics
- RM50m for haemodialysis assistance; an additional RM40m for the Medical Aid Fund
- RM50m is allocated for Voluntary Health Insurance Scheme
- RM1bn to construct two blocks of women and children wards at Tengku Ampuan Afzan Hospital and Putrajaya Hospital
- RM500m to construct a Cancer centre at Sungai Petani with a capacity of 200 beds
- RM500m to build a dedicated block for a specialist clinic and new ward at Pulau Pinang Hospital with a capacity of 300 beds
- RM380m to build international forensic medical service centre at Kuala Lumpur Hospital

Our view

Rising medical costs and healthcare services warrant a comprehensive assessment of the National Healthcare Scheme to make sure the low-and middle-income households are not deprived of better and affordable healthcare services. Medical insurance and healthcare equipment should be exempted from GST.

Who is affected: Households, public and private healthcare services, and medical tourism

Housing affordability



Proposals/initiatives

- RM2.2bn allocation for homeownership under various programme (PHP, PR1MA, PPA1M, etc.)
- Step-up financing scheme be extended to private housing developers to encourage the construction of more affordable homes
- Extend stamp duty exemption for loan agreement and letter of consent to transfer on abandoned housing projects to 2020
- 50% tax exemption on rental income received by resident individuals up to RM2,000 per month to promote rental of residential homes w.e.f YA2018-2020
- GST exempt supply on management and maintenance services supplied by housing developers effective Jan 2018

Our view

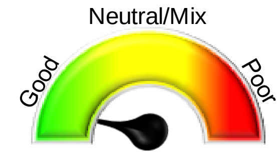
B40 and M40 households will benefit from the homeownership program. RM1.5bn allocation to PR1MA if disburses efficiently will help to expedite construction of 500,000 PR1MA units by 2020. This may contribute to correcting the imbalances in stocks and prices.

Based on median household income of RM5,228, the threshold for house prices considered as affordable is about RM300,000.[1] The homes priced at around RM500,000 is definitely beyond the affordability of close to half of Malaysian households, especially in Klang Valley and Johor Bahru. While tax exemption on rental income encourages residents to own property, it also helps to alleviate the burden of house owners by renting out their properties at reasonable rental to those who have yet to own houses

Who is affected: Private housing developers who plan to construct affordable housing, and house owners who rent out their properties

[1] Based on 5-5.5% interest, 35 years tenure, 30% income spent on loan, and other monthly commitment of RM300

Human capital and talent development



Proposals/initiatives

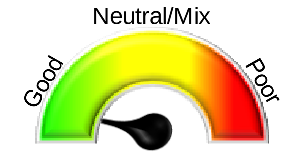
- RM250m allocated to education for TN50 generation (including setting up Science, Technology, Engineering and Mathematics (STEM) centre; enhance computer science module including coding program; RM190m to upgrade 2,000 classes into a 21st Century Smart Classrooms)
- RM2.2bn for scholarships, RM400m for IPTA's R&D grants and RM90m for MyBrain program
- Private companies awarded with government contracts are mandated to allocate 1% of project value to SL1M
- RM1bn to implement various sports initiatives
- RM4.9bn to implement the Technical and Vocational Education Training (TVET) Malaysia Masterplan
- Require at least 30% participation of woman as board of directors in GLCs and GLICs as well as statutory bodies by end-2018
- Personal income tax exemption of 12 months consecutive salary for women returning to workforce after taking a career break for at least two years
- RM2.5bn allocation for a period of two years to upgrade and refurbish 2,000 dilapidated schools through Industrial Building System (IBS). RM500m to schools in Peninsular Malaysia, and RM1bn for Sarawak and Sabah.

Our view

Investment in education in the disciplines of science, technology, engineering and mathematics as well as various co-skilling programs is a positive sign that the Government is continuing to enhance our people skills sets. This is vital to meet the demand for skilled and multi-skilled employees in the age of digital technologies. Increased budget in the (TVET) will increase the supply of local skilled workers, enhance productivity and reduce the dependency on the foreign workers. That said, there is lack of coherent plans to address the rising youth and graduates unemployment.

Who is affected: Women, local workforce and youth, university students

Industrial Revolution 4.0, Digital economy & DFTZ



Proposals/initiatives

The Government will implement the Malaysia Digital Policy

- RM100m to expand eRezeki, eUsahawan and eLadang programme under MDEC
- RM245m matching grant under Domestic Investment Strategic Fund to upgrade Smart Manufacturing facilities
- Extend Accelerated Capital Allowance (ACA) of 200% on automation equipment as well as for manufacturing and manufacturing-related services sectors till 2020
- Capital Allowance for ICT equipment, computer software packages, consultations fees (new), licensing fee (new), and incidental fee (new) related to software development from 2008 till 2020
- RM83.5m to construct infrastructure for the 1st phase of Digital Free Trade Zone (DFTZ) in Aeropolis
- Increase the *de minimis* or minimum value for imports to RM800 from RM500 to establish Malaysia as the regional e-commerce hub
- RM100m loans with 70% government guarantees to automate production of local furniture for exports

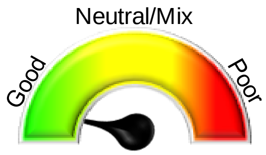
Our view

While most manufacturers are aware of the Industry Revolution 4.0 concept, but only 30% have started to invest and leverage on modern technology. This calls for our industries, especially SMEs to scale up their technological capabilities in digitalized future. The Government and relevant agencies must step up efforts to elevate the reliability and speed of broadband network, which is seen not only a deterrent to the advancement of digital economy, e-commerce but also widen the digital gap in sub-urban or rural areas.

The ACA of 100% and Automation Equipment Allowance (AEA) of 100%, which is provided on the first RM10m qualifying capital expenditure incurred bodes well for embracing IR 4.0.

Who is affected: All industries, especially for SMEs. By end-2017, 1,500 SMEs will participate in the DFTZ and another 8,000 by end-2018

Promoting sustainable development



Proposals/initiatives

- RM5bn for Green Technology Financing Scheme to promote investment in green technology industry
- RM1bn for Non-Revenue Water Program to reduce loss of water
- RM1.3bn for construction Off-River Storage as an alternative water resources
- RM517m for flood mitigation programs

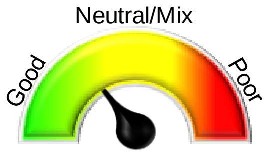
Our view

In terms of ranking in Environmental Performance Index (EPI), Malaysia has dropped to 63rd position in 2016 from 51st in 2014. It is therefore crucial for Malaysia to make more efforts in preserving environmental and promoting sustainable development. The RM5bn allocation for Green Technology Financing Scheme is in line with the National Green Technology Policy (NGTP), focusing on areas such as renewable energy, green building, water and waste management as well as transportation sector.

Who is affected: Eco-green businesses, fund management

Enhancement of public delivery services, including GLCs

Proposals/initiatives



- Introduce second time-based promotion for support staff after 13 years
- Increase special leaves for education officers from 7 to 10 days a year
- Unrecorded leaves to public servants up to 7 days throughout service for umrah
- Additional working hour from 9.00am to 6.00pm
- Flexible Working Hour of one day a week for Medical Specialists (Grade UD54 and above) who have served a minimum of four years (gazetted)
- RM3bn for procuring and maintaining of defence assets
- RM720m for construction of headquarters, police stations & purchase of firearms
- RM270m for upgrading of ICT system, 1PDRMnet and communication system
- RM490m for Malaysia Maritime Enforcement Agency
- RM250m to enhance safety and security control under ESSCOM
- RM50m to enhance armaments for counter-terrorism activities
- RM250m for strengthening the roles of RELA including uniform
- RM40m for upgrading hospitals, polyclinics and armed forces veteran hospitals
- In-house Masters and PhD programmes
- Establishment of one-stop centre incorporating agencies such JobsMalaysia, SL1M, SOCSO, HRDF and TERAJU in UTC

Enhancement of public delivery services, including GLCs

Proposals/initiatives

- Re-establish Socio-Economic Research Institute (SERI) under Prime Minister’s Office and upgrade Institute of Ethnic Studies, KITA-UKM
- Increase distribution of profits to GLCs employees
- Introduction of flexible benefits for GLCs employees – convert leaves entitlement to cash rewards
- Additional flexible working arrangement in GLCs
- Childcare centre in GLC’s main offices and ease of working hours for pregnant women
- Increase training investment and education assistance for GLC employee’s children
- Require at least 30% participation of woman as board of directors in GLCs and GLICs as well as statutory bodies by end-2018

Our view

The Budget’s proposed special payments of RM1,500 for civil servants and RM750 for retirees are below the Congress of Union of Employees in the Public and Civil Services’ (CUEPACS) expectation for an 1.5 months bonus and salary increment. Instead, the Government proposes to enhance non monetary benefits by providing perks such as cash award in lieu of accumulated leave, special leave for education, maternity leave, etc. in rewarding their loyalty and providing efficient and effective public service delivery.

As for now, the Government lacks the political will to keep a lean and efficient civil service. Public servants now standing at 1.6 million or 11.1% of total employment, taking a lion payment of emoluments (2018B:RM79.1bn or 33.8% of total operating expenditure) and retirement charges (RM24.6bn; 10.5%).

Who is affected: Civil servants, woman and GLCs employees

2018 Budget: Overall commentary and conclusion

Overall Budget stance

- It is a **pro-growth Budget for sustaining economic growth and building for future**. The Budget laid the groundworks for a much needed boost to Malaysia's productivity and innovation by investing in the pillars and drivers of quality growth such as digitalization, e-commerce, skills, entrepreneurship and infrastructure.
- Clearly, the **Budget has to find a fine balance between short-term priorities and longer-term needs**. Targeted interventions in the form of cash handouts, financial assistance, and tax cuts were needed to ease cost of living pressures, address housing affordability, accessibility of public transport.
- Medium-to longer term, it was welcome to see **proposed investments to build accessibility and connectivity** (rails, ports, airports and broadband networks), incentives to **draw domestic investment in new areas of growth** (medical tourism, digital economy, logistic, Halal industry, e-commerce), as well as **incentivize SMEs to adopt Industrial Revolution 4.0**.
- The Government has clearly signaled that it aims to re-position Malaysia for **the future by building an innovative and connected economy**. Our companies must develop and build deep digital capabilities, embrace innovation and scale up to compete in global marketplace.
- **Investment in human capital formation and skills enhancement** with the proposals of providing cross-skilling, upskilling and reskilling programs is a welcome emphasis, to prepare and equip our young people for the future world of work with the relevant skills and knowledge put our workforce and academic pathways on more equal terms.

2018 Budget: Overall commentary and conclusion

Economic growth and budgetary operations

- The Ministry of Finance's **economic growth estimates of 5.2-5.7% this year and 5.0-5.5% for 2018 are in line with our estimate**s (2017E: 5.5%, 2018F:5.1%). What could cause these estimates off tangent are: i) unsustainable global growth inflicted by the impact of the Fed's interest rate hikes and shrinking of balance sheet; and ii) consumer spending succumbs to rising cost of living while private investment lost growth traction due to increased cost of doing business and ahead of the GE14.
- Going by the pace of fiscal consolidation, **it is unlikely to meet a near-balanced fiscal target (-0.6% of GDP) by 2020**. Hence, the fiscal stability program must be continued when the economy is a position of strength.
- While maintaining pro-growth fiscal consolidation, making impact where it matters in terms of sectoral allocation has never been more relevant. As such, the **Government should resolve to curtail leakages and wastage spending as well as curb excessive growth in non-core and recurrent areas**. Prioritizing of expenditure is a must. A system of financial control on budgetary allocations to ensure expenditure is not incurred in excess of the budget allocation.
- **Federal Government's contingent liabilities** (RM219.4bn or 16.3% of GDP at end-June 2017 (RM187.3bn or 15.2% of GDP at end-2016) and **Malaysia's external deb**t (RM877.5bn or 65.2% of GDP at end-June 2017; end-2016: RM916.1bn; 74.5%) must be closely monitored.

2018 Budget: Overall commentary and conclusion

Economic growth and budgetary operations

- For operating expenditure, the elephant in the public spending war room was what to do about the two big areas of spending – **emoluments and retirement charges**. How long will it be before they become unsustainable?
- While the Budget gives recognition to 1.6 million public servants or 11.1% of total employment, it is rightfully to deliver an efficient public delivery service while keeping a lean size, supported by the E-Government services. Expedite the full-fledge E-government services mean better productivity and processes efficiency as well as an optimal size of civil service. Public sector's agility to cope with future changes alongside a focus on delivering better.
- Between 2011-17, emoluments grew by 7.8% pa, pushing its share of total revenue to 35.8% of total operating expenditure in 2017 from 27.5% in 2011. In 2018, the budgeted emolument is RM79.1 billion, excluding the special payment of RM1,500 to public servants and RM750 to pensioners, which may cost about RM3 billion.
- Other expenditure restraint measures are the phased implementation from a defined-benefit to a defined-contribution of public sector pension (retirement charges increased by 10.8% pa to reach 10.8% of total operating expenses in 2017 from 7.4% in 2011. The retirement charges are budgeted to rise by 3.8% to RM24.6 billion in 2018); continued stringent enforcement of competitive tendering of public supplies and services; reprioritizing of expenditure in non-core areas and a review of grants to statutory bodies.

2018 Budget: Overall commentary and conclusion

Budget initiatives and measures

- Overall, the proposed measures and initiatives are expected to **support the growing economy, elevate the cost competitiveness via better accessibility and connectivity as well as draw investment into high impact industries,** namely petroleum, logistics, aerospace, rail, robotics and automation, and export-oriented industries.
- The **services sector**, which contributed 54.5% of GDP; 17.6% of total exports of goods and services, and 8.8 million employment is given a wide range of incentives and non tax initiatives to accelerate the expansion of sub-sectors, namely **tourism, medical and healthcare tourism.**
- A substantial allocation of the Budget is given to the **SMEs to scale up their technological advancement, embrace Industry Revolution 4.0, automate production processes** as well as to **strengthen exports capability**, including expanding export markets.
- **Affordable houses remain in focus**. With the households' income growth not catching up in pace with house prices, making median home prices unaffordable to the low-and medium-income home buyers, both the public and private sectors must increase more supply of affordable homes. The Government should consider measures to lower the cost of construction, including a review of charges, namely high capital contribution and compliance costs that developers have to bear when developing a project; and a wider adoption of IBS.
- **Higher budget allocation for the healthcare sector** is deemed necessary to provide better and affordable healthcare services. Besides encouraging more involvement of private healthcare services, a feasible study on a National Healthcare Scheme could be considered.

2018 Budget: Overall commentary and conclusion

What's missing from the Budget 2018

- The 2018 Budget is short of announcing a roadmap to lower the corporate income tax rate so as to align Malaysia's tax structure with its regional peers. The worldwide trend is to move towards a simpler and more competitive tax rate. Even the advanced countries are jumping on the bandwagon to lower their corporate tax rates. This shows a growing consensus against the disruptive and detrimental impact of excessive direct taxation.
- In Budget 2017, the company income tax rate was reduced by 1% to 4%, based on percentage increases in chargeable income (between 5% and 29%, or more) compared with the immediate previous year of assessment. This new tax rate structure applies for the years of assessment 2017 and 2018. However, the incremental impact is less effective.

Appendix

(Extracted from the 2018 Budget Touchpoints)

Thrusts	Key measures and initiatives
Invigorating Investment, Trade and Industries	1. High-impact Investment • Emphasising high impact investment: petroleum-related industries, logistics, aerospace, rail and robotics • Promoting economic growth and create job opportunities in 5 main corridors including: Southern Perak Region, Bukit Kayu Hitam Duty-Free Zone, Kedah; Tok Bali Industrial Park, Kelantan and Baleh Dam, Sarawak: (RM1b) • High-impact strategic fund under MIDA: (RM200m) • The period of Tax Incentive for Principal Hub to be extended to 31 December 2020 2. Strengthening Small and Medium Enterprises (SMEs) • Skim Jaminan Pembiayaan Perniagaan for working capital and services sector: (RM7b) • Government Guarantee loans under SJPP to enable SMEs to automate production: (RM1b) • Shariah-compliant SME Financing Scheme with subsidy rate of 2%: (RM1b) • Soft loans, grants and training programmes for SME under SME Corp: (RM200m) • Development of halal industries and products under various agencies: (RM82m) 3. Micro Financing • Loan fund under Tabung Ekonomi Kumpulan Usahawan Niaga (TEKUN): (RM500m) • Amanah Ikhtiar Malaysia (AIM): (RM200m) • Rural Economic Financing Scheme (SPED) for rural Bumiputera entrepreneurs: (RM80m) 4. Accelerating Exports • Expand export market and promotion: (RM150m) • Insurance coverage credit facility for SME exporters: (RM1b) • Loans to enhance automation of local furniture production for export: (RM100m) 5. Invigorating Agricultural Sector • Financial assistance to farmers, rubber tappers, smallholders and fishermen: (RM2.3b) • Upgrade plantation roads and improve irrigation infrastructure: (RM500m) • Developing and replanting for oil palm: (RM140m) • Agricultural programmes as new sources of income: (RM200m) • Coconut replanting (CARECA and MATAG) by cluster: (RM50m) • Financial assistance of RM200 for 3 months prior to paddy harvesting season: (RM150m) • Rubber replanting programme and infrastructure to increase production of latex: (RM200m) 6. Revitalise Tourism Industry • Visit Malaysia Year 2020; • SME Tourism Fund with interest subsidy of 2%: (RM2b) • Tourism Infrastructure Development Fund: (RM1b) • Tourism promotion and development programme: (RM500m) • Expand eVisa Regional Hub; • Tax incentive for investment in new 4-star and 5-star hotels extended for 2 years; and • Tax incentive for tour operating companies extended to 31 December 2020.

Thrusts	Key measures and initiatives
Invigorating Investment, Trade and Industries (cont.)	7. Healthcare Tourism Industry: Malaysian Healthcare Travel Council (RM30m) • Create a high value healthcare packages as Asian Hub for Fertility Treatment and Cardiology; • Flagship Medical Tourism Programme especially for private hospitals; • Investment Tax Allowance for medical tourism extended until 31 December 2020; • Double tax deduction on expenditure incurred for dental and ambulatory services; and • Increase special tourism healthcare incentive from 50% to 100%. 8. Driving Logistics Sector • ECRL Project connecting Port Klang to Pengkalan Kubor; • MRT2 Project Sungai Buluh-Serdang-Putrajaya (52km): (RM32b) • High Speed Rail Project connecting Kuala Lumpur – Singapore (350km); • Central Spine Road Project: (RM230m) • Pangkor Island to be recognised as Duty-Free Island; • Special Border Economic Zone in Bukit Kayu Hitam; • Transportation Development Fund: (RM3b) • Public Transportation Fund for working capital and procurement of buses and taxis: (RM1b) • Biometric control system to monitor express bus drivers: (RM45m) • Subsidy for rural train transport services (Tumpat-Gua Musang): (RM55m) • Upgrade of Pulau Pinang and Langkawi International Airports: • Upgrade of airports at Sultan Ismail Petra, Mukah and Sandakan 9. Strengthening Capital Market • Intellectual property as an instrument of financial guarantee for business financing: (RM1.5b) • Duty Stamp exemption for contract note of Exchange-Traded Fund and Structured Warrants for 3 years • Relief on tax imposed on venture capital companies equivalent to the amount of investment • Tax deduction for angel investors in venture capital • Income tax exemption for Sukuk Green SRI social grant receiver • Income tax exemption on management fee extended to conventional SRI fund managers • Beginning 2018, Bank Negara Malaysia will monitor salary payment through local bank accounts for foreign workers, excluding domestic helpers
Moving Towards TN50 Aspiration	10. Childcare Centre and Welfare Facilities for Persons with Disabilities (PWDs)Intellectual property as an instrument of financial guarantee for business financing: (RM1.5b) • Duty Stamp exemption for contract note of Exchange-Traded Fund and Structured Warrants for 3 years • Relief on tax imposed on venture capital companies equivalent to the amount of investment • Tax deduction for angel investors in venture capital • Income tax exemption for Sukuk Green SRI social grant receiver • Income tax exemption on management fee extended to conventional SRI fund managers • Beginning 2018, Bank Negara Malaysia will monitor salary payment through local bank accounts for foreign workers, excluding domestic helpers

Thrusts	Key measures and initiatives
Moving Towards TN50 Aspiration (cont.)	11. Inculcating Savings Culture for TN50 GenerationDuty Stamp exemption for contract note of Exchange-Traded Fund and Structured Warrants for 3 years • Malaysian Children Trust Fund 2050 (ADAM50) of RM200 through PNB's Unit Trust Scheme for child born from 1 January 2018 – 2022 12. Education for TN50 Generation (RM250 million) • Establishment of Science, Technology, Engineering, and Mathematics (STEM) centre; • Enhance computer science module including Coding programme • Introduction of 21st Century Smart classrooms to enhance creative-based learning and innovative thinking: (RM190m) 13. Intensifying Higher Education • Scholarships: (RM2.2b) • Research and Development Grants to Higher Education Institutions: (RM400m) • Book Voucher Assistance of RM250 • Further study for postgraduate levels under MyBrain: (RM90m) 14. TN50 Talent and Career • Apprenticeship Programme and open interviews under SL1M: (RM40m) • Private companies which have successfully secured a Government contract are required to allocate 1% of the contract value to the SL1M Programme • Establishment of one-stop centre incorporating agencies such JobsMalaysia, SL1M, SOCSO, HRDF and TERAJU in UTC • Introduction of National Leaders Circle Programme to fill important posts 15. Social Enterprise • Matching grant to finance social enterprise: (RM50m) 16. Sports Development • FitMalaysia, National Sports Day, training for athletes, grassroots programme and National Football Development Programme through KBS: (RM1b) • 14 new sports complexes nationwide: (RM112m) • Bukit Jalil Sports School: (RM20m)
Empowering Education, Skills and Trainings, and Talent Development	17. Improvement and Maintenance of Schools • Construction of pre-schools, PERMATA centre, primary & secondary schools and vocational colleges as well as matriculation centres: (RM654m) • Special Fund for school upgrading and maintenance: (RM550m) • Rebuild and upgrade 2,000 dilapidated schools using IBS: (RM2.5b) 18. School Assistance • Food assistance, textbooks, capita grant assistance and Federal scholarships: (RM2.9b) • Schooling assistance of RM100 per student: (RM328m)

Thrusts	Key measures and initiatives
Empowering Education, Skills and Trainings, and Talent Development (cont.)	19. Higher Education Funding – PTPTN loan repayment • 20% discount for full settlement of outstanding debt • 10% discount for repayment of at least 50% of outstanding debt in single payment • 10% discount for repayment via salary deduction • Increase total maximum loan for students from B40 families: (RM200m) • Extend grace period for repayment of loan from 6 to 12 months 20. 1Malaysia Education Saving Scheme (SSP1M) • Matching grant up to RM500 contributors: (RM250m) • Individual tax relief for SSP1M for the next 3 years 21. Technical and Vocational Education Training (TVET) • All TVET Institutions under 7 Ministries be merged and known as TVET Malaysia; • Malaysia TVET Masterplan: (RM4.9b) • TVET Outstanding Student Scholarships: (RM4.5m) 22. Establishment of National Rail Centre of Excellence (NRCOE) • Aims to oversee and coordinate quality assurance and accreditation as well as education and training of national rail • MRL in partnership with Public Higher Education Institutions to train 3,000 rail industry professionals
Driving Inclusive Development	23. Providing Quality Infrastructure for the Rakyat • Pan-Borneo Highway: (RM2b) • Rakyat-centric project: (RM1.1b) • Development of communication infrastructure: (RM1b) • Construction of roads in rural areas: (RM934m) • Electricity and clean water supply to rural areas: (RM672m) • Clean water supply to Sabah and Sarawak: (RM420m) • Public Infrastructure Maintenance & Basic Infrastructure Programmes: (RM500m) • Surveying and Mapping of customary land in Sabah and Sarawak: (RM50m) 24. National Blue Ocean Shift (NBOS) • Construction of new UTC, Blue Ocean Entrepreneur Township, Mobile CTC, Entrepreneurship programme, Global Entrepreneurship Community as well as inclusive and vibrant Social Entrepreneurs: (RM300m) 25. Welfare of FELDA settlers • Special Incentive payment to settlers of RM5,000; • Cess money will be reimbursed for replanting scheme from rubber to oil palm: (RM43m) • Oil palm replanting programme: (RM60m) • Construction of 5,000 FELDA Second Generation home: (RM164m) • Upgrading of roads, water supply system and street lights in FELDA: (RM200m)

Thrusts	Key measures and initiatives
Driving Inclusive Development (cont.)	26. Safety and Public Order • Procuring and maintaining of defence assets: (RM3b) • Construction of headquarters, police stations & purchase of firearms: (RM720m) • Upgrading of ICT system, 1PDRMnet and communication system: (RM270m) • 1Malaysia Civil Service Housing Programme-PDRM (PPA1M PDRM): (10,000units) • Malaysia Maritime Enforcement Agency: (RM490m) • Enhance safety and security control under ESSCOM: (RM250m) • Enhance armaments for counter-terrorism activities: (RM50m) • Strengthening the roles of RELA including uniform: (RM250m) • Armed Forces Family Housing (RKAT) Blueprint: (6,000 unit) • Upgrading hospitals, polyclinics and armed forces veteran hospitals: (RM40m) 27. Bumiputera Wellbeing Transformation Policy • Higher education scholarships and training programmes under MARA: (RM2.5b) • Peneraju Professional, Peneraju Skills and Peneraju Tunas programmes: (RM90m) • MARA Graduate Employability Training Scheme (GETS): (RM200m) • Bumiputera entrepreneurship enhancement programmes: • PUNB Entrepreneurship and Business Premise Programme: (RM200m) • Vendor capacity development, TUBE, SUPERB, and Anjakan Usahawan scheme: (RM155m) • Express Contract Financing Scheme and Mudah Jaya Financing: (RM200m) 28. Wellbeing of the Chinese and Indian Community • SME loans through Koperasi Jayadiri Malaysia Berhad (KOJADI): (RM50m) • 1Malaysia Hawkers and Petty Traders Foundation for Chinese community: (RM30m) • Development of Chinese New Villages and house restoration: (RM75m) • Indian Community Entrepreneur Development Scheme (SPUMI) under TEKUN • Special distribution of 1Malaysia Unit Trust additional units for Indian community: (RM1.5b) • Increase the number of intake of Indian community to IPTA and Public Service 7% 29. Orang Asli • Community Food Assistance Programme to 5,000 Orang Asli students: (RM50m) • Education assistance of RM3,000 to parents for payment fees and cost of living for enrolment to IPTA • Orang Asli Settlement Integrated Programme; (RM60m) 30. Women and Family Wellbeing • 2018 as Women Empowerment Year • Requirement of at least 30% participation of women as Board of Directors in GLCs, GLICs and Statutory Bodies by end of 2018 • Mandatory maternity leave for private sectors be increased from 60 to 90 days • PEAK Entrepreneur Programme under MyWin Academy: (RM20m) • Individual income tax exemption on income earned within 12 months for women re-entry into workforce at least 2 years after work break

Thrusts	Key measures and initiatives
Prioritising the Wellbeing of Rakyat and Providing Opportunities to Generate Income	31. Generate Income for Rakyat • eRezeki, eUsahawan dan eLadang programme: (RM100m) • Easy loans for Food Truck 1Malaysia (FT1M) through Bank Rakyat with interest rate of 2%: (RM120m) • 1AZAM Programme to increase revenue: (RM60m) • Three-wheel Motorcycle Programme, mobilepreneur and MyAGROSIS programme: (RM25m) • E-hailing application for registered taxi driver to purchase new taxi: (grant RM5,000) • BR1M Programme: (RM6.8b) • Subsidised goods, transportation, electricity an tolls: (RM3.9b) • Provide 50 Kedai Rakyat 1Malaysia (KR1M) by selling 5 basic necessities at lower prices: rice, sugar, oil, flour & gas cooking as well as other 50 SKU • Standardise prices for basic necessities for Sabah and Sarawak: (RM90m) • Develop Agrobazaar Malaysia with lower selling price of agro products: (RM20m) • LKIM and FAMA programme to ensure reasonable food stock: (RM50m) • Abolish toll collections starting from 1 January 2018 at Batu Tiga and Sungai Rasau, Selangor, Bukit Kayu Hitam, Kedah and Eastern Dispersal Link, Johor. 32. Reduction in Income Tax Rates • Reduction in individual income tax rates: ○ RM20,001-35,000: 5% to 3%; ○ RM35,001-50,000: 10% to 8%; and ○ RM50,001-70,000: 16% to 14%; • Increase disposable income between RM300-RM1,000 while 261,000 do not have to pay tax 33. 1Malaysia Retirement Scheme • Increase contribution to 1Malaysia Retirement Scheme (SP1M) to 15% maximum RM250 annually for 5 years from 2018-2022 34. Foreign Domestic Helper • Allow employers to hire foreign domestic helper directly without agent 35. Housing

PROJECTS	UNIT	AGENCIES
People's Housing Programme (PPR)	17,300	JPN
Rumah Mesra Rakyat	3,000	SPNB
PR1MA	210,000	PR1MA
PPA1M	25,000	JPN
MyBNHomes	600	NSU
MyDeposit & MyHomes	2,000	JPN

- Maintenance and refurbishment of houses including 1Malaysia Maintenance Fund: (RM200m)
- Stamp duty exemption for loan agreement and letter of consent to transfer
- Tax exemption on rental of 50% for rent up to RM2,000

Thrusts	Key measures and initiatives
Prioritising the Wellbeing of Rakyat and Providing Opportunities to Generate Income (cont.)	36. Health • Medical supplies, consumables and medical support: (RM4.1b) • Upgrade and maintenance of healthcare facilities, medical equipment and ambulance and operation theatre for Muar, Banting and Balik Pulau hospitals: (RM1.4b) • Cardiology & cardiothoracic services at Kuala Terengganu and Alor Setar hospitals; • Upgrade of hospitals and clinics including wiring systems: (RM100m) • Haemodialysis assistance and Medical Aid Fund: (RM90m) • Support medical cost for rare diseases treatment and Komuniti Sihat Perkasa Negara programme: (RM40m) • Construction of women and children wards at Tengku Ampuan Afzan Hospital and Putrajaya Hospital: (RM1b) • Construction of Cancer Centre at Sungai Petani Hospital capacity 200 beds – (RM500m) • Construction of a specialist clinic and new ward at Pulau Pinang Hospital: (RM500m) • Construction of Forensic Medical Centre at Kuala Lumpur Hospital: (RM380m) • Voluntary Health Insurance Scheme (VHIS): (RM50m) 37. Goods and Services Tax (GST) • Services provided by local authorities will not be subjected to GST; • Reading materials comprising all types of magazines and comics will be zero-rated; • GST relief for cruise operators; • Full GST relief for services of construction of school buildings and houses of worships funded through donations; • GST relief for imports of oil and gas-related equipment under lease agreement; • GST relief for imports of big ticket items such as aircraft and ship by airlines and shipping companies; and • Management and maintenance services of stratified residential buildings are not subjected to GST.
Fortifying the Fourth Industrial Revolution and Digital Economy	38. Matching Grant • Matching Grant under Domestic Investment Strategic Fund to enhance smart manufacturing facilities: (RM245m) 39. Futurise Centre • Strengthening the futurise centre in Cyberjaya as a one-stop centre for corporates and universities to develop prototype products 40. Tax Incentives • Extend the incentive period for Accelerated Capital Allowance on automation equipment 2018-2020 • Accelerated Capital Allowance Incentive up to 200% for manufacturing and manufacturing-related-services sectors • Capital Allowance Incentive for ICT equipment beginning 2018-2020

Thrusts	Key measures and initiatives
Fortifying the Fourth Industrial Revolution and Digital Economy (cont.)	41. Sustainable Development • Green Technology Financing Scheme to promote investment in green technology industry: (RM5b) • Non-Revenue Water Programme to reduce loss of water: (RM1.4b) • Construction Off-River Storage as an alternative water resources; (RM1.3b) • Flood mitigation programmes: (RM517m) 42. Digital Free Trade Zone (DFTZ) • Construction first phase of DFTZ in Aeropolis, KLIA: (RM83.5m) • Increase de minimis value or minimum value for imports from RM500 - RM800. 43. Regulatory Sandbox • Create a conducive ecosystem for commercialised innovation in all commissions
Enhancing Efficiency and Delivery of Government-Linked Companies and Public Service	44. GLCs Employees • Increase distribution of profits to employees • Introduction of flexible benefits – convert leaves entitlement to cash rewards • Additional flexible working arrangement • Introduce umrah leaves holiday • Childcare centre in GLC's main offices and ease of working hours for pregnant women • Increase training investment and education assistance for employee's children 45. Prioritise the Welfare of Senior Citizens, People with Disabilities and Children • Increase allowance for senior citizens to RM350 per month: (RM603m) • Increasing allowance for working and unemployed PWDs as well as caretakers of PWDs by RM50 per month: (RM100m) • Assistance to children from poor families: (RM245m) 46. Public Sector Home Financing Board (LPPSA) • LPPSA financing on real estate developed on waqf land • Legal fee-related to sales and purchase agreement included as part of financing by LPPSA • LPPSA joint-loan for husband and wife or children (all applicants must be public servants) • Allow joint-home financing between husband and wife or children, with a condition at least one of the applicants is a public servant.

Thrusts	Key measures and initiatives
Balancing between the Par Excellence of Worldly and Hereafter	47. SERI and KITA-UKM • Re-establish Socio-Economic Research Institute under Prime Minister's Office and upgrade Institute of Ethnic Studies, KITA-UKM 48. Enhancing Public Service Efficiency • Introduce second time-based promotion for support staff after 13 years • Provide retirement benefit to public servants who retire on medical reasons • Allow Cash Award in lieu of Accumulated Leave (GCR) of more than 150 days to taken during the retirement year • Increase special leaves for education officers from 7 to 10 days a year • Unrecorded leaves to public servants up to 7 days throughout service for umrah • Additional working hour from 9.00am to 6.00pm • Flexible Working Hour of one day a week for Medical Specialists (Grade UD54 and above) who have served a minimum of four years (gazetted) • Allow women with five months pregnant onwards (and husband) to leave work an hour earlier. (Provided both working in the same location) • Increase total maternity leave from 300 to 360 days subject to a maximum of 90 days a year • In-house Masters and PhD programmes • Set minimum pension of RM1,000 per month • Extend the medical facilities to parents of retirees • Special Assistance to Civil Servants of RM1,500 49. Neighbourhood and Community • Special Assistance of RM1,500 to Village Heads and Tok Batin • 1Malaysia Residents Community Grant (KP1M) up to RM10,000 to registered resident associations: (RM40m) • Community training programme in 50 Rakyat Housing Programme (PPR) areas: (RM40m) 50. Uphold the Greatness of Islam and the Integrity of the Rakyat • Upgrade and maintaining wiring system in all registered Tahfiz schools by GiatMara: (RM50m) • Skills training scheme at selected GiatMara to be introduced to tahfiz schools • Monthly allowance for imam, bilal, KAFA and takmir teachers: (RM588m) • One-off payment amounting to RM1,500, will be given to imam, bilal, KAFA and takmir teachers as well as tok siak: (RM100m)

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