社会经济研究中心

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SERC

Budget 2019

Restoring Fiscal Health

Refocus Priorities

Reinforce Strengths

2019 Budget stance: Responsible and Balanced

- **A Bold and Balanced Budget**. As widely expected, the Minister of Finance presented a **RESPONSIBLE, BALANCED and GROWTH SUPPORTIVE BUDGET for 2019**. It's about **rebuilding trust in the Government, restoring fiscal health and prospering the people**. It contains no major negative surprises, especially the much speculated inheritance tax and capital gains tax on share transactions. Soda tax was introduced to promote a healthy lifestyle.

- **Between choices and trade-offs**. We understand the Government have to make choices and trade-offs to manage the medium-term fiscal challenges and limitations. It is indeed a tough and challenging political balancing act for the Minister of Finance to craft a responsive budget without impairing growth and worsening the fiscal deficit.

- **Budget's priorities and policy responses**. Despite facing a tough balancing act, the Budget will continue to provide targeted fiscal support to businesses and households while sustaining economic growth and stimulate private investment.

- The Budget's allocations will be prioritized to **sectors (education, tourism, transport & housing)** where it they are needed the most. In particular, there are policies and initiatives to promote **entrepreneurship, ensuring domestic SMEs and businesses are digitalized & ICT adoption** and our workforce are skilled and adaptive to embrace the Industry 4.0 (IR4.0), which are crucial to the future of the economy.

SERC's comments

- *The Minister of Finance managed to pull off a* ***responsible and reasonably well balanced Budget*** *under difficult circumstances and fiscal constraints. It brings together welcome measures and initiatives as well as reform elements that reflect a more governing and accountable of the way that the Ministry of Finance budgets and operates as an effective spending and taxing body.*

- *With no major negative surprises, we regard this Budget, at best,* ***as growth, private investment and businesses supportive****. It is also* ***an inclusive budget*** *in terms of strengthening the social safety net for vulnerable groups, especially for B40 income households.*

- *Faced with increasing downside risks to global growth and lingering concerns over domestic policy uncertainty, the Budget* ***did not drastically seeking to curtail public spending*** *while ensuring that spending is targeted at productive sectors that will not impair economic growth.*

2019 Budget: FISCAL OUTLOOK and KEY OUTCOMES

- **High budget deficits. 2018's budget deficit** was revised higher to **3.7% of GDP** (RM53.3bn) from -2.8% or RM39.8bn previously budgeted in the 2018 Budget. **For 2019 Budget**, the deficit is projected to come down to **3.4% of GDP at RM52.1bn**, which is line with market expectations (between -3.5% and -3.7% of GDP). This marks the first departure from the previous trend of steady fiscal deficit reduction since 2019, which had narrowed from -6.7% of GDP in 2009 to -3.0% of GDP in 2017.

- **The factors causing the FISCAL SLIPPAGE** are:

  a) The **disruption of revenue** (an estimated **revenue shortfall of RM21.0bn**) caused by the replacement of the Goods and Services Tax (GST) with the Sale and Services Tax (SST);

  b) The **GST and income tax refunds** amounting to **RM3.9bn or 0.3% of GDP in 2018** and **RM37.0bn or 2.4% of GDP in 2019**; and

  c) Restating of off-budget items and unbudgeted expenses as well as **reclassification of capital expenditure in operating expenditure to development expenditure**. These include RM1.0bn interest servicing cost of 1MDB debts, RM1.3bn in compensation for the acquisition of Eastern Dispersal Link in Johor, Light Rail Transit Line 3 (LRT3) project and Electrified Double Track Project (EDPT) costing RM2.4bn, and an allocation for RM9.5bn for sewerage infrastructure, repairs and maintenance.

2019 Budget: FISCAL OUTLOOK and KEY OUTCOMES (cont'd)

- **Robust revenue collection. Federal revenue** is projected to **increase at double-digit rate of 10.7% to RM261.8bn** in 2019 (+7.3% to RM236.5bn in 2018) due to a **special dividend of RM30bn from Petronas**. If the special dividend of RM30bn is excluded, Federal revenue is projected to **decline by 2.0%** to RM231.8bn in 2019. **Oil price assumption** for 2019B is US$72 per barrel vs. US$71 per barrel in 2018.

  - **Direct taxes** (-1.2% to RM135.1bn in 2019 or 51.6% of total revenue)
  - **Indirect taxes** (-0.3% to RM41.1bn in 2019 or 15.7% of total revenue)
  - **Petroleum-related revenue** (RM80.9bn or 30.9% of total revenue in 2019; RM51.3bn or 21.7% of total revenue in 2018). **PETRONAS dividends**: RM54bn in 2019B; RM26bn in 2018.
  - **Non-tax revenue** (+38.7% to RM85.7bn in 2019 or 32.7% of total revenue)

2019 Budget: FISCAL OUTLOOK and KEY OUTCOMES (cont'd)

- **Equally high operating expenditure (OE)**. Growth in **operating expenditure** will rise strongly by **10.4% to RM259.9bn in 2019** as against +8.2% to RM235.5bn in 2018. This is to account for the GST and income tax refunds totaling RM37.0bn in 2019 (RM3.9bn in 2018).
- **99.2% of total revenue goes to operating expenditure**. **Operating surplus** is projected to improve moderately to **RM2.0bn in 2019** (2018E: RM1.0bn). Owing to higher commitments, operating surplus has been shrinking to an **average of RM3.1bn per year in 2008-2017** from an average of **RM13.9bn per year in 2001-2007**.
- **Higher OE growth** is attributable to:

Increase in operating expenditure:

- **Emoluments**: +0.9% to RM82.0bn; 31.6% of total OE
- **Retirement charges**: +3.1% to RM26.6bn; 10.2% of total OE
- **Debt service charges**:+6.9% to RM33.0bn; 12.7% of total OE

Decline in operating expenditure:

- **Supplies and services**:-20.4% to RM29.1bn in 2019; 11.2% of total OE. The decline is due to the reclassification of capital expenditure in operating expenditure to development expenditure
- **Subsidies and social assistance**: -20.8% to RM22.3bn; 8.6% of total OE. This is due to the rationalization of subsidy and expenditure.

2019 Budget: FISCAL OUTLOOK and KEY OUTCOMES (cont'd)

- **On development expenditure (DE), the estimated gross DE for 2018 was revised substantially higher by RM8.9bn to RM54.9bn,** reflecting additional requirement for LRT3 project, housing and Electrified Double Tracking Project, the Government Integrated Radio Network (GIRN), highways and sewerage projects as well as the reclassification of development related items from OE.

- **For 2019B**, **gross DE** is budgeted to **decline by 0.4% to RM54.7bn** or **17.4% of total expenditure** (2018:+22.3% to RM54.9bn; 18.7% of total). Development expenditure made up an average 18.3% share of total in 2010-17. The allocation of DE will go to the following sectors:
  - **Economic sector** (RM29.2bn or 53.4% of total DE)
    - **Transport** (RM13.4bn or 24.5%)
    - **Trade and Industry** (RM5.7bn or 10.5%)
    - **Energy and public utilities** (RM4.6bn or 8.4%)
    - **Agriculture and rural development** (RM2.3bn or 4.2%)
    - **Environment** (RM2.1bn or 3.9%)
  - **Social** (RM15.1bn or 27.8% of total DE)
    - **Education and training** (RM8.3bn or 15.2%)
    - **Housing** (RM1.7bn or 3.0%)
    - **Health** (RM2.3bn or 4.1%)
  - **Security** (RM7.1bn or 12.9%)

SERC's comments

- *On a first glance, this Budget **reset the fiscal consolidation path** as it decided to make a one-off expenditure adjustment (GST and income tax refunds), additional provisions and some reclassifications of expenditure between operating and development expenditure. The spending adjustment is made possible by an extraordinary contribution of a special dividend from Petronas totaling RM30.0bn in 2019 in addition to yearly dividend of RM26.0bn.*

- *Indeed, the **overall budget deficit estimated 3.7% of GDP in 2018 and 3.4% of GDP in 2019** reflects a **push back in the deficit reduction track**, which will not be achieved before 2025, at the earliest.*

- ***A clear plan to return to budgetary balance is important to rebuild fiscal buffer**. Shrinking the deficit can avoid ever-increasing debt and debt service charges. It's obviously realistically to defer the timeline for returning to budgetary balance given the unforeseen circumstances. Drastic cut in spending as well as the rationalization of spending at time of increasing external risks would impair domestic growth.*

- *That said, some **tough political decisions** are needed to **rationalize public services and revamp the huge commitment of public sector pension scheme**.*

SERC's comments (cont'd)

- *Although the Budget does not seek to immediately implement significant areas of tax reform, the Minister of Finance has highlighted the following **initiatives and measures** that will be implemented to **align expenditure with revenue** towards the strengthening of public finance and debt management.*

Fiscal and Debt management

- ❑ *The principles of **Competency, Accountability and Transparency (CAT)** will be adopted across all levels of the Government.*
- ❑ *Adopt "**zero-based budgeting"** exercise to improve effectiveness, efficiency and high cost-savings.*
- ❑ *To table a **Fiscal Responsibility Act** by 2021 to avoid reckless mega spending that would incur massive debt.*
- ❑ *To table a new **Government Procurement Act** next year to ensure competitive open tender and no more direct negotiations.*
- ❑ *To ensure **full disclosure of the debt and liabilities** via converting the current cash basis accounting to **an accrual basis** by 2021.*
- ❑ *To set up a **Debt Management office** responsible for reviewing and managing the government and its agencies' current debt and future debt and liabilities.*

SERC's comments (cont'd)

Enhancing revenue

- ***Reviewing taxation*** *to streamline and tighten tax leakages, including the Special Voluntary Disclosure Program.*
- *To* ***reduce government's stakes in non-strategic companies*** *and utilise the proceeds to pare down debt.*
- *The real* ***Public Private Partnership (PPP) model for public projects based on land swap transactions would be implemented*** *using an open tender mechanism and not direct negotiations.*
- *To* ***plan scheduled and staggered land sales*** *via auction to the highest bidders, based on conditions imposed on the land.*
- *To* ***privatise infrastructure assets****, the Government intends to set up the world's first "Airport Real Estate Investment Trust (REIT)".*
- *The Royal Malaysian Customs will* ***step up enforcement against cigarette smuggling*** *to recoup large tax revenue losses.*

The economy at a glance – PERFORMANCE and PROSPECTS

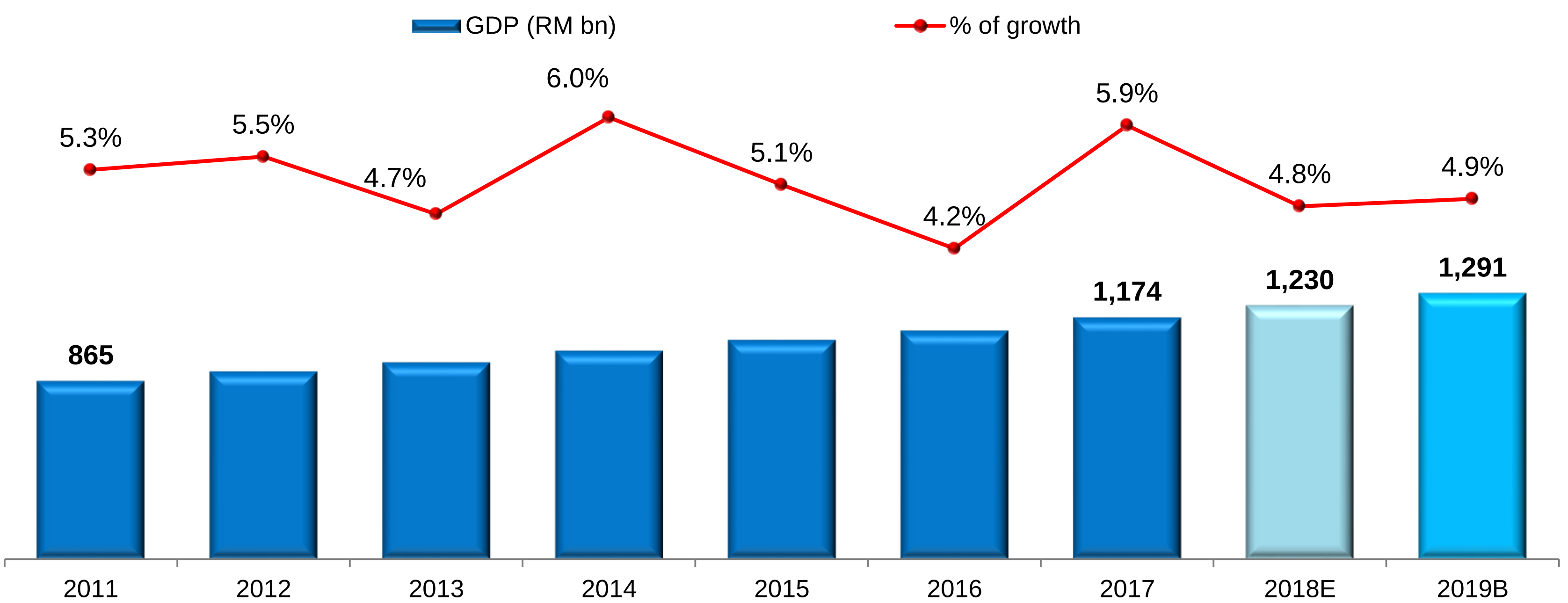
Key indicators	2017	2018E	2019B
Real GDP growth (%)^	5.9	4.8	4.9
Private consumption growth (%)^	7.0	7.2	6.8
Private investment growth (%)^	9.3	4.5	5.0
Income per capita (RM)	41,128	42,937	44,686
Unemployment (%)	3.4	3.3	3.3
Inflation (%)	3.7	1.5-2.5	2.5-3.5
Export Growth (%)	18.8	4.4	3.9
Current account balance			
RM million	40,275	38,591	33,995
% of GDP	3.0	2.7	2.2
Budget deficit			
RM million	40,321	53,327	52,080
% of GDP	3.0	3.7	3.4
Federal government debt			
RM million	686,837	725,241*	792,703
% of GDP	50.7	50.7	51.8
Contingent liabilities			
RM million	238,191	258,392*	332,078
% of GDP	17.6	18.1	21.7

Source: Ministry of Finance (MOF)
^ 2010=100
** As at end-June 2018*

- **Sustaining economic growth**. The Malaysian economy is estimated to **grow by 4.8% in 2018 and 4.9% in 2019** respectively, supported by domestic demand and moderate external demand (SERC's estimates: 4.8% in 2018 and 4.7% in 2019 respectively).
- **Downside risks to growth** come from rising trade conflict, capital flows volatility, oil prices and geopolitical risks.
- **Domestic demand anchors overall growth**. **Consumer spending** growth still respectable (6.8% in 2019 vs. 7.2% in 2018) backed by stable employment and improved income. **Private investment** growth improved to 5.0% in 2019 from 4.5% in 2018. *SERC remains cautious amid external uncertainties and wary about domestic policy implications*.
- **Public sector's consolidation continues** as it rationalises its spending, focusing on cost savings and value for money projects and programs to support the economy.

GDP growth OUTLOOK: 4.8% in 2018 and 4.9% in 2019

- Not surprisingly, the economic outlook presented in the 2019 Budget was **revised lower to 4.8% this year** (from 5.0%-5.5% previously). A slight improvement in growth to **4.9% for 2019**.
- With stable global growth estimated 3.7% in 2019 (3.7% in 2018) amid more downside risks, the projected GDP growth for 2019 will be supported by **continued expansion of domestic demand**, with the private sector taking the driver seat. The rationalisation of government's expenditure will continue. **Gross exports** are expected to grow slower (3.9% in 2019 vs. 4.4% in 2018).



Source: Bank Negara Malaysia (BNM); MOF

RESILIENT domestic demand (5.0% in 2018; 4.8% in 2019)

- **Sustained private sector spending** (6.5% in 2018 and 6.4% in 2019) while public sector expenditure is projected to decline by 0.9% in 2019 (-0.1% in 2018) due to lower investment by public corporations.
- **Public investment is projected to decline further by 5.4% in 2019** (estimated -1.5% in 2018), dragged down by lower capital spending of public corporations. The on-going oil and gas projects, highway, utilities and transport as well as telecommunication projects are expected to cushion a sharper decline in public investment.

Growth rate, %		2011	2012	2013	2014	2015	2016	2017	2018 1H	2018E	2019B
Private	Consumption (*56.9%*)	6.9	8.3	7.2	7.0	6.0	6.0	7.0	7.4	7.2	6.8
	Investment (*17.8%*)	9.5	21.4	12.8	11.1	6.3	4.3	9.3	3.4	4.5	5.0
Public	Consumption (*11.4%*)	14.2	5.4	5.8	4.4	4.5	0.9	5.4	1.8	1.0	1.8
	Investment (*6.8%*)	2.6	15.9	1.8	-4.7	-1.1	-0.5	0.1	-5.2	-1.5	-5.4
Goods and services	Exports (*67.3%*)	4.2	-1.7	0.3	5.0	0.3	1.3	9.4	2.9	2.0	1.6
	Imports (*60.2%*)	6.3	2.9	1.7	4.0	0.8	1.3	10.9	0.0*	1.4	1.8

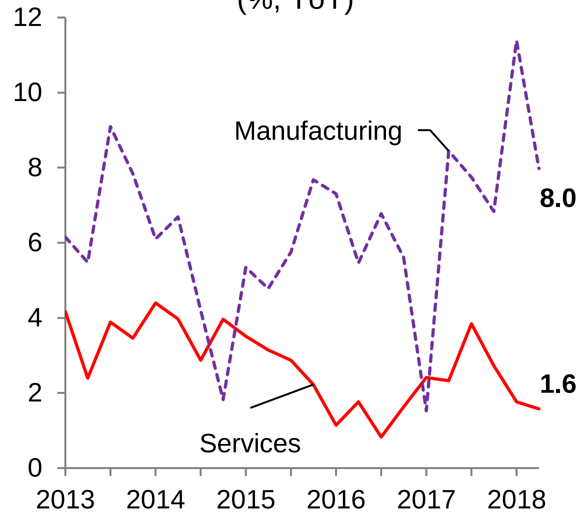
Figure in parenthesis denotes % share of GDP
Source: BNM; MOF

** less than 0.1% growth*

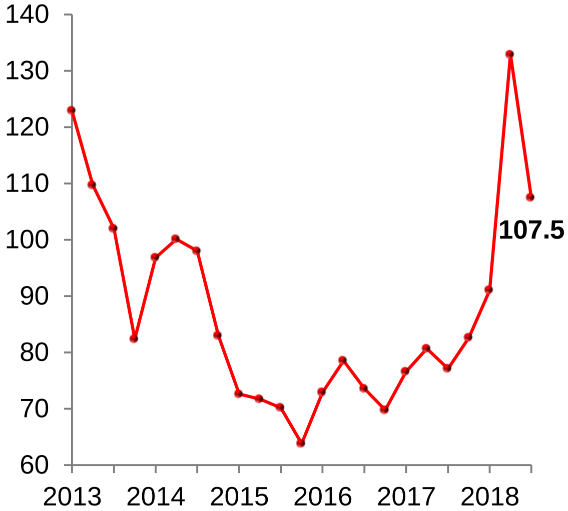
SOLID consumer spending but will it normalise?

- **FUNDAMENTAL DRIVERS**: income growth and labour market conditions
- Household spending will **NORMALIZE** post 3-mth zerorised GST tax holiday and the introduction of **SST** on 1 Sep
- Potential **DAMPENING FACTORS**: review of fuel subsidy and cost of living aid

Private Sector's Employee Income
(%, YoY)



MIER Consumer Sentiments Index (CSI)

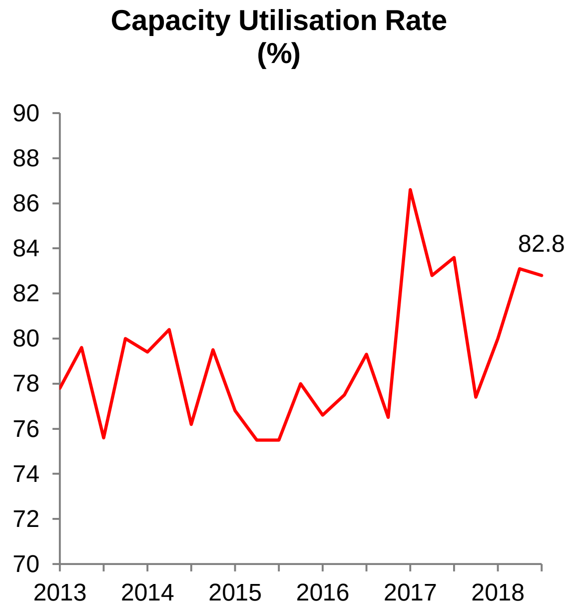


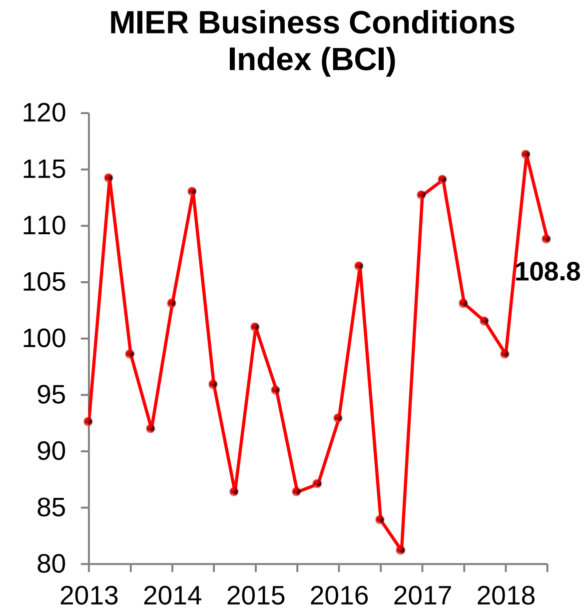
Private Consumption Growth
(%, YoY)

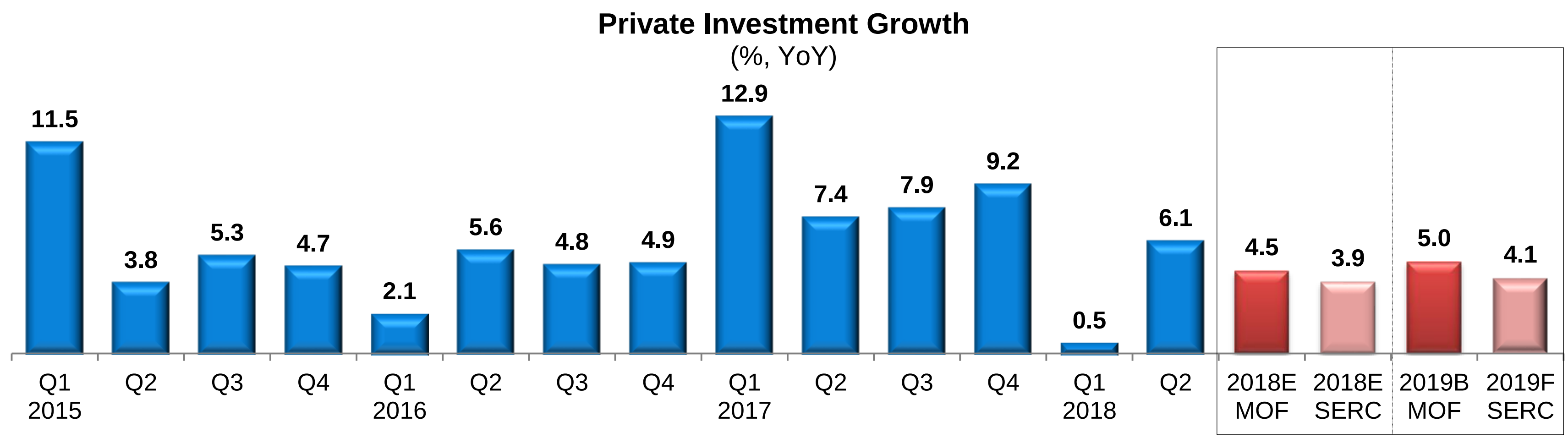
Source: Department of Statistics, Malaysia (DOSM); MIER

Private investment BOUNCES back but CAUTIOUS

- Private investment **BOUNCED BACK** to 6.1% yoy in 2Q (0.5% in 1Q)
- **CAUTIOUS** about external environment; new government's policy implications
- 2019 Budget to **BOOST** private investment in tourism, manufacturing, IR 4.0 and e-commerce







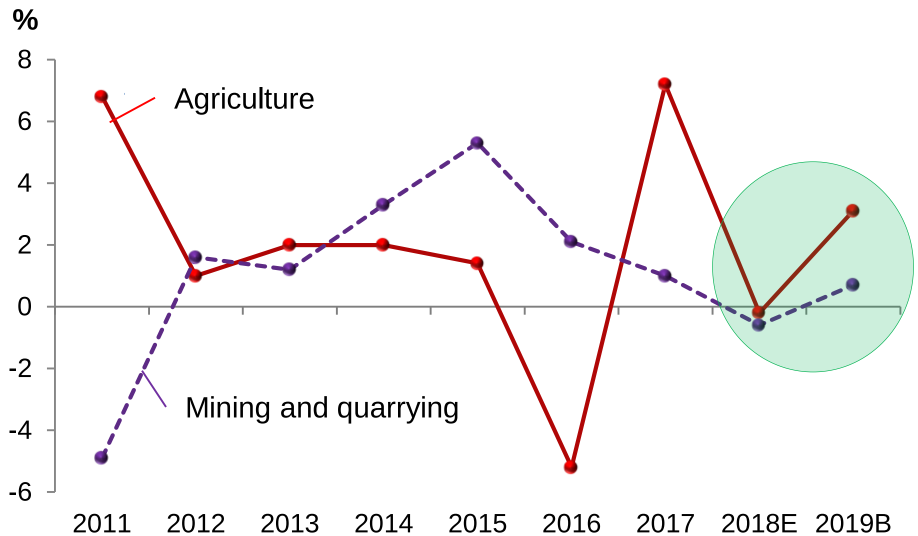
Source: DOSM; MIER

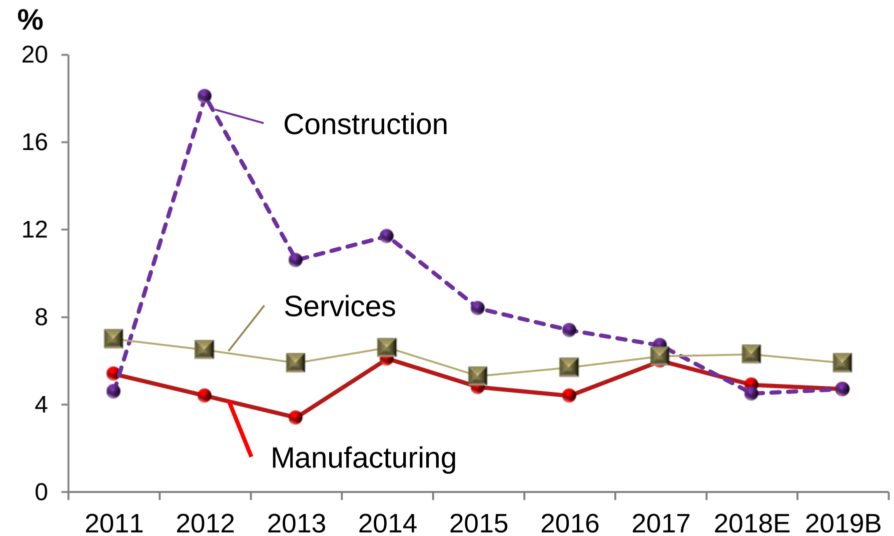
SECTORAL target at a glance

- Both the **services and manufacturing** sectors continued to drive overall growth.
- The **agriculture and mining sectors** are expected to **rebound in 2019.** Growth in the construction sector will remain moderate.

	Agriculture	Mining and Quarrying	Manufacturing	Construction	Services
2017	7.2% (8.2%)	1.0% (8.4%)	6.0% (23.0%)	6.7% (4.6%)	6.2% (54.5%)
2018E	-0.2% (7.8%)	-0.6% (8.0%)	4.9% (23.0%)	4.5% (4.5%)	6.3% (55.3%)
2019B	3.1% (7.6%) ↑	0.7% (7.6%) ↑	4.7% (23.0%) ↓	4.7% (4.5%) ↑	5.9% (55.8%) ↓

Figure in parenthesis denotes % share of GDP





Source: BNM; MOF

Where is the GROWTH coming from?

Services (2018E: 6.3%, 2019B: 5.9%)
% share of GDP in 2019F: 55.8%

- Supported by **consumption** and **domestic tourism**.
- Strong demand for **ICT, transport and finance**.

Manufacturing (2018E: 4.9%, 2019B: 4.7%)
% share of GDP in 2019B: 23.0%

- Continuous expansion in **electronics and electrical products** (wearable gadgets and smart home applications).
- Domestic-oriented industries (**food based and construction-related building materials**).

Agriculture (2018E: -0.2%, 2019B: 3.1%)
% share of GDP in 2019B: 7.6%

- **Higher output of palm oil** (2019: 20,500 tonnes vs. 19,800 tonnes in 2018). **CPO average prices** at RM2,400 per tonne in 2019 vs. RM2,300 in 2018.
- Improved output of rubber and food commodities as well as livestock.

Where is the GROWTH coming from? (cont'd)

Mining (2018E: -0.6%, 2019B: 0.7%)
% share of GDP in 2019B: 7.6%

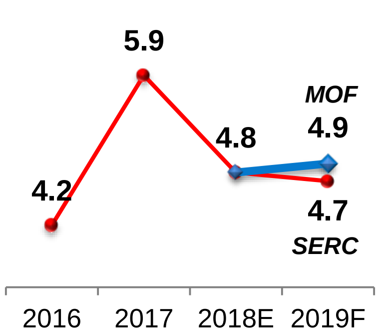
- Driven by recovery in the **production of natural gas** following the resumption of operation in Kebabangan and Kinabalu fields as well as expectation of new production from Bakong and Larak fields in the second half of 2019.
- **Crude oil and condensates** subsector is expected to decline due to production constraints in Sabah Gumusut Kakap and Malikai fields.

Construction (2018E: 4.5%, 2019B: 4.7%)
% share of GDP in 2019B: 4.5%

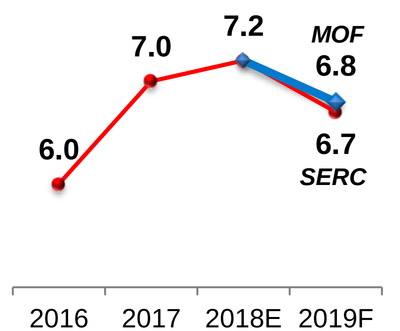
- The **civil engineering** remains as the driver of construction sector, supported by on-going projects (Pan Borneo Highway in Sabah and Sarawak; Central spine Road in East Coast, MRT2, LRT3 in Klang Valley, Deepwater Petroleum Terminal 2 at RAPID, Floating LNG 2 in Sabah and the Central Processing Platform in Bokor, Sarawak.
- Slower growth of **residential subsector and non-residential subsectors**.

Malaysia's key ECONOMIC INDICATORS

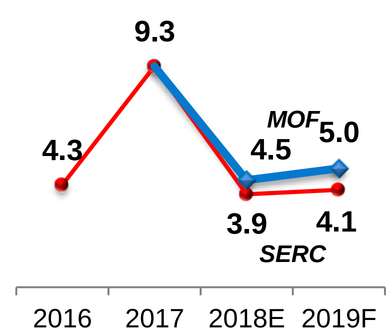
Real GDP Growth
(%)



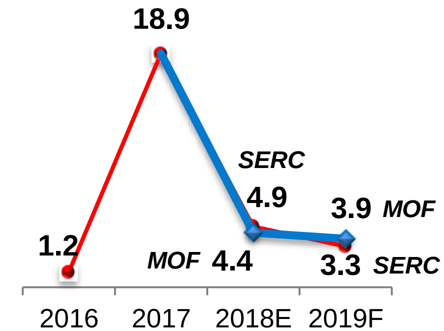
Private Consumption Growth
(%)



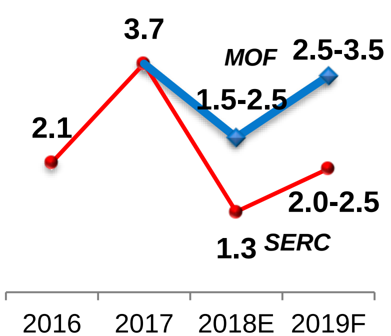
Private Investment Growth
(%)



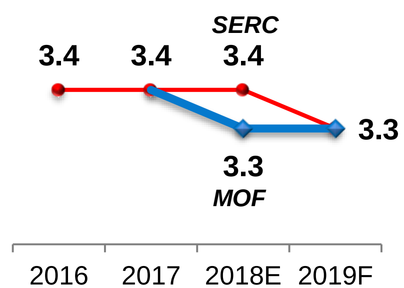
Gross Exports Growth
(%)



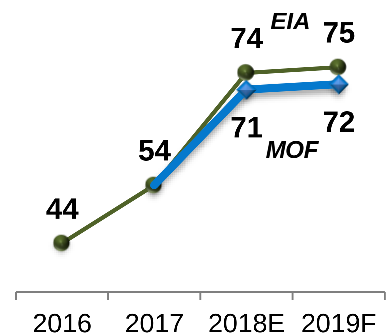
Inflation Rate
(%)



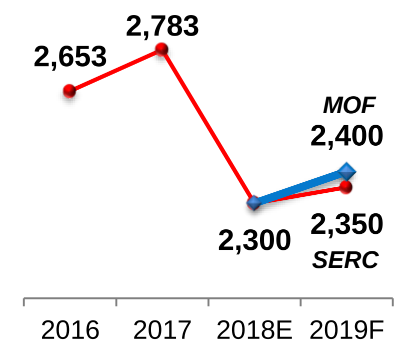
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)



Crude Palm Oil Prices
(RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC

Sources of GDP growth: DEMAND and SUPPLY side

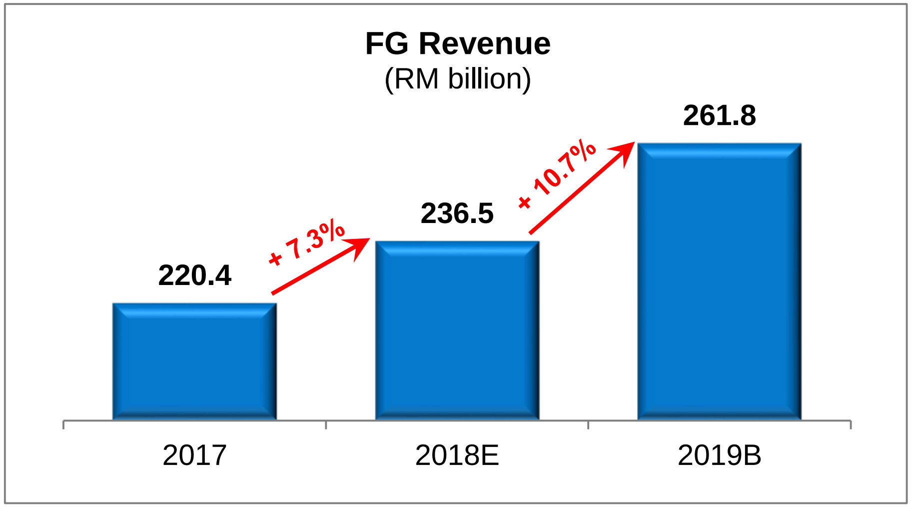
- Private sector expenditure will cushion the effects of lower public spending.
- All economic sectors are expected to register positive growth in 2019.

% growth, 2010=100	2016	2017	2018 1H	2018E (MOF)	2018E (SERC)	2019B (MOF)	2019F (SERC)
GDP by demand component							
Private consumption (55.0%)	6.0	7.0	7.4	7.2	7.2	6.8	6.7
Private investment (17.3%)	4.3	9.3	3.4	4.5	3.9	5.0	4.1
Public consumption (12.5%)	0.9	5.4	1.8	1.0	1.8	1.8	0.7
Public investment (7.5%)	-0.5	0.1	-5.2	-1.5	-1.5	-5.4	-4.8
Exports of goods and services (70.9%)	1.3	9.4	2.9	2.0	2.5	1.6	2.0
Imports of goods and services (63.0%)	1.3	10.9	0.0*	1.4	2.6	1.8	2.3
GDP by economic sector							
Agriculture (7.8%)	-5.2	7.2	0.1	-0.2	-0.4	3.1	2.0
Mining & quarrying (8.0%)	2.1	1.0	-1.0	-0.6	-1.0	0.7	0.5
Manufacturing (23.0%)	4.4	6.0	5.1	4.9	4.8	4.7	4.5
Construction (4.5%)	7.4	6.7	4.9	4.5	4.5	4.7	4.4
Services (55.3%)	5.7	6.2	6.5	6.3	6.4	5.9	5.8
Overall GDP	**4.2**	**5.9**	**4.9**	**4.8**	**4.8**	**4.9**	**4.7**

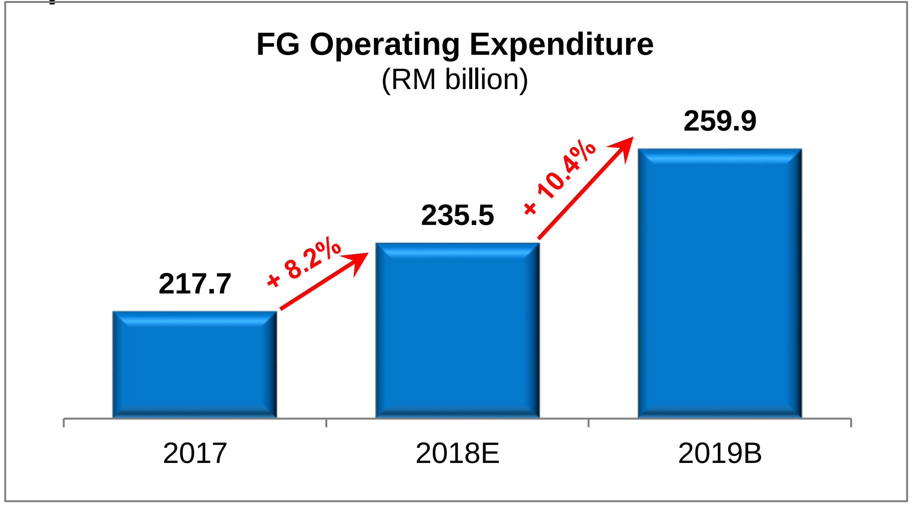
** Growth less than 0.1%*
Figure in parenthesis indicates % share to GDP in 2018
Source: DOSM; MOF

2019 Budget analysis: REVENUE and EXPENDITURE

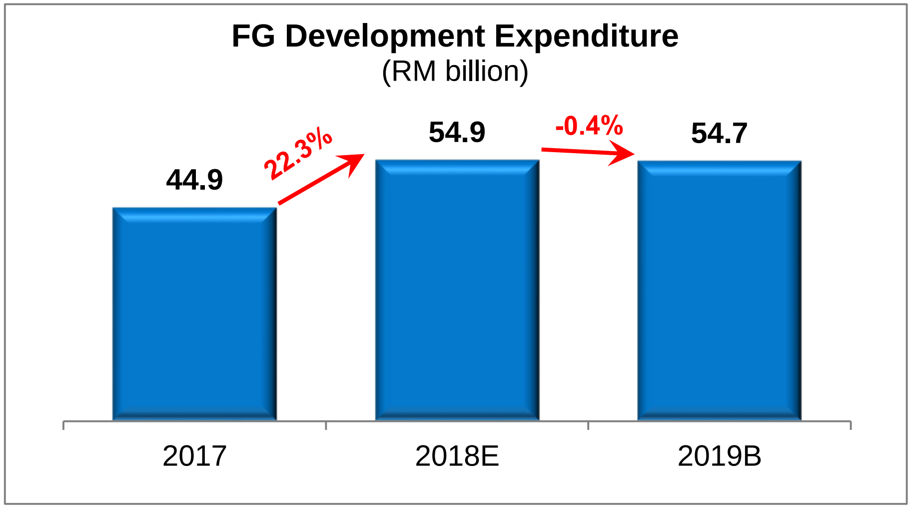
Revenue rises for three consecutive years



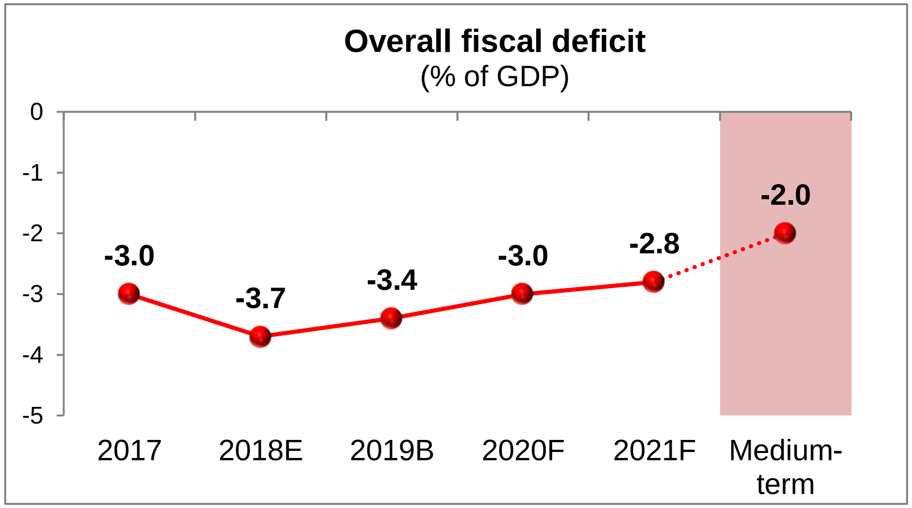
About 99.2% of revenue goes to operating expenditure



Development expenditure declined marginally to RM54.9bn in 2019



Fiscal deficit to narrow gradually



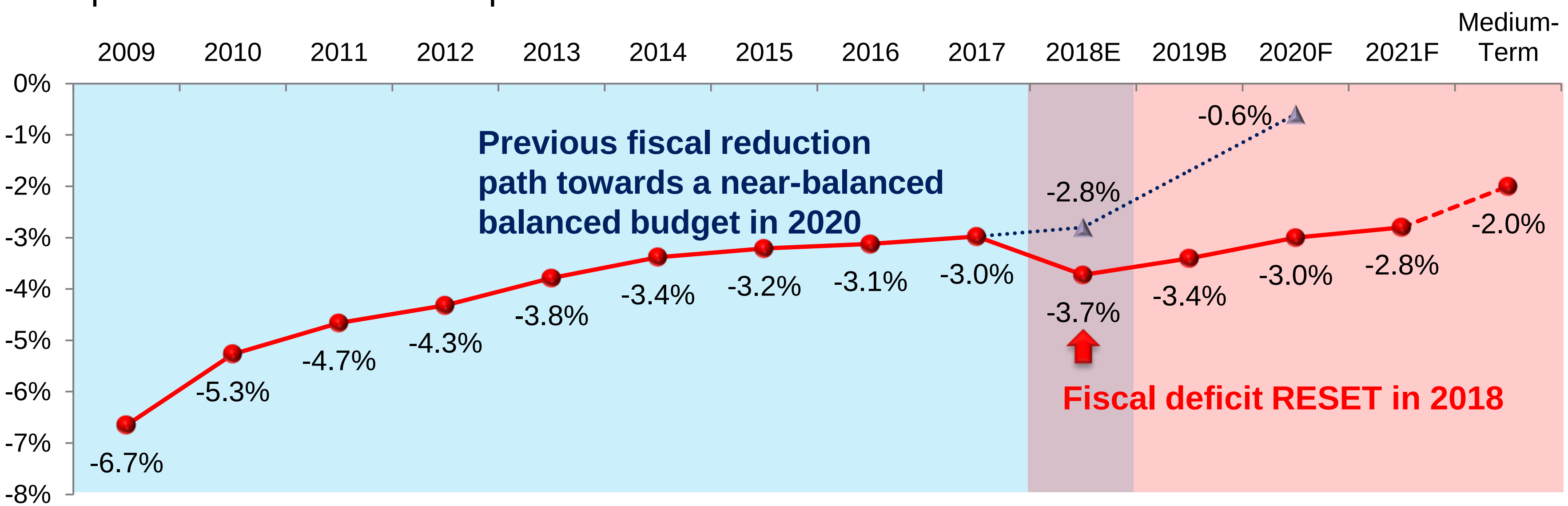
Source: MOF

Fiscal deficit RESET on a clean slate

- **Overall fiscal deficit** is reset higher to **-3.7 % of GDP in 2018** (from -2.8% previously) due to:
    a) Shortfall in revenue
    b) The GST and income tax refunds (RM3.9bn or 0.3% of GDP in 2018 and RM37.0bn or 2.4% of GDP in 2019); and
    c) Restating of off-budget items and unbudgeted expenses as well as reclassification of capital expenditure in operating expenditure to development expenditure.

- Fiscal deficit to GDP ratio will come down **to -3.4% in 2019, narrowing further to -3.0% in 2020** and **-2.8% in 2021.**

- **Restoring fiscal health** remains a priority. A **timeline returning the budget to balance** is important to rebuild fiscal space.



Source: BNM, MOF

Medium-Term Fiscal Framework (MTFF)

	2019-2021	
	Total *(RM billion)*	Share of GDP *(%)*
Revenue	767.9	*15.7*
Non-petroleum	584.0	*12.0*
Petroleum-related	183.9	*3.7*
Operating expenditure	754.9	*15.5*
Current balance	**13.0**	***0.2***
Gross development expenditure	164.7	*3.4*
Less: Loan recovery	1.9	*0.1*
Net development expenditure	162.8	*3.3*
Overall balance	**-149.8**	***-3.1***
Underlying assumptions		
Real GDP growth (%)	4.5-5.5	
Nominal GDP growth (%)	6.8-8.2	
Crude oil price (USD per barrel)	60-70	
Oil production (barrels per day)	600,000	

Note: MTFF estimate, excluding budget measures
Source: MOF

Will Malaysia's sovereign rating at RISK?

- **Fitch Ratings** – *Malaysia's **public debt is high** "relative to rating peers", and **a further increase in debt** over the medium-term could have a rating impact.*
- **S&P Global Ratings** – *A heavier reliance on **commodity-based revenues** presents an additional risk to Malaysia's fiscal accounts*.
- **Moody's** – *Wider deficits and a heightened reliance on **volatile oil-related revenues**.*
- **Impact on Malaysia's sovereign rating**: *a low likelihood of a rating downgrade. A downgrade could be triggered by any one of a series of factors: slowing economic growth prospects, deteriorating external debt, political instability or lack of fiscal reforms.*

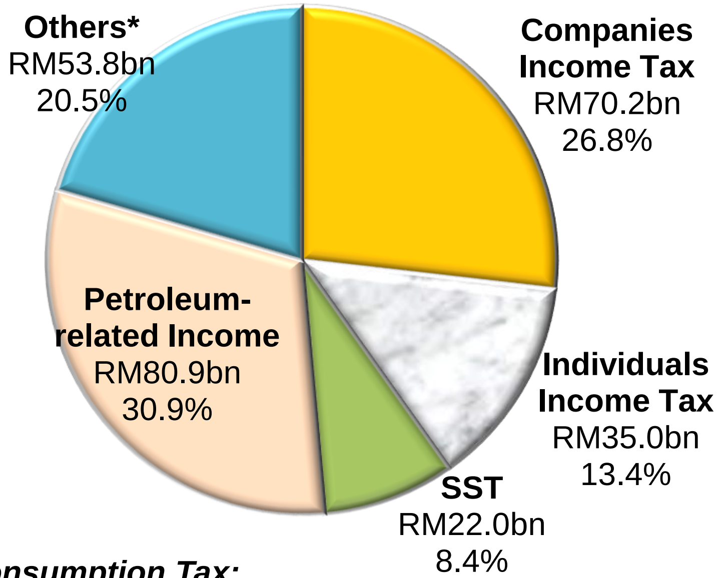
	Date of change	Grade	
		From	To
Fitch Ratings	8 November 2004	BBB+	A-
S&P Global Ratings	7 October 2003	BBB+	A-
Moody's	16 December 2004	Baa1	A3

	Date of change	Outlook	
		From	To
Fitch Ratings	30 June 2015	Negative	Stable
S&P Global Ratings	15 May 2008	Positive	Stable
Moody's	11 January 2016	Positive	Stable

Source: Fitch; S&P; Moody's; Trading Economics

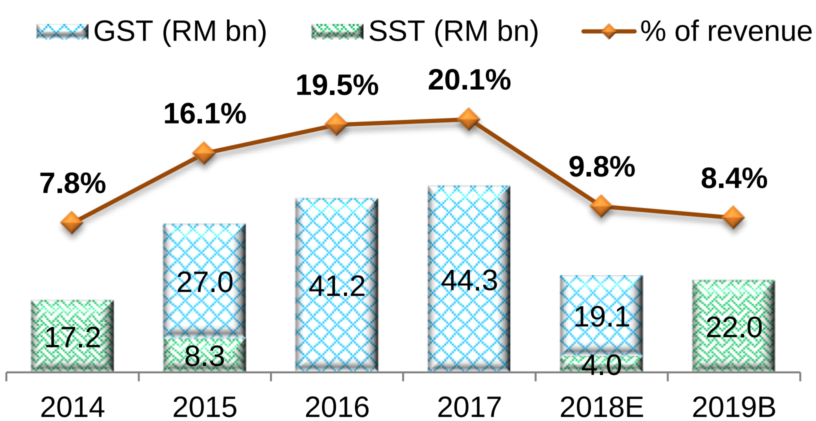
DISTRIBUTION in revenue

2019B: Where is the money coming from?

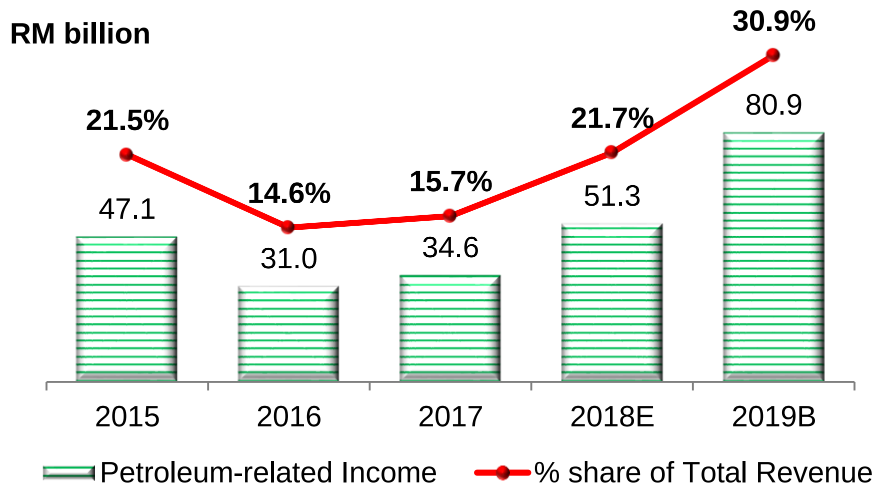


- **SST revenue** budgeted at RM22.0bn, accounted for 8.4% of total revenue (2018: RM4.0bn).
- Company income tax (-0.5% to RM70.2bn); Individual income tax (+0.4% to RM35.0bn)
- **Petroleum-related income** increased by 56.7% to RM80.9bn (of which **RM30.0bn is PETRONAS's special dividend**).
- **Oil price assumption**: US$71/bbl in 2018 and US$72/bbl in 2019.

Consumption Tax:



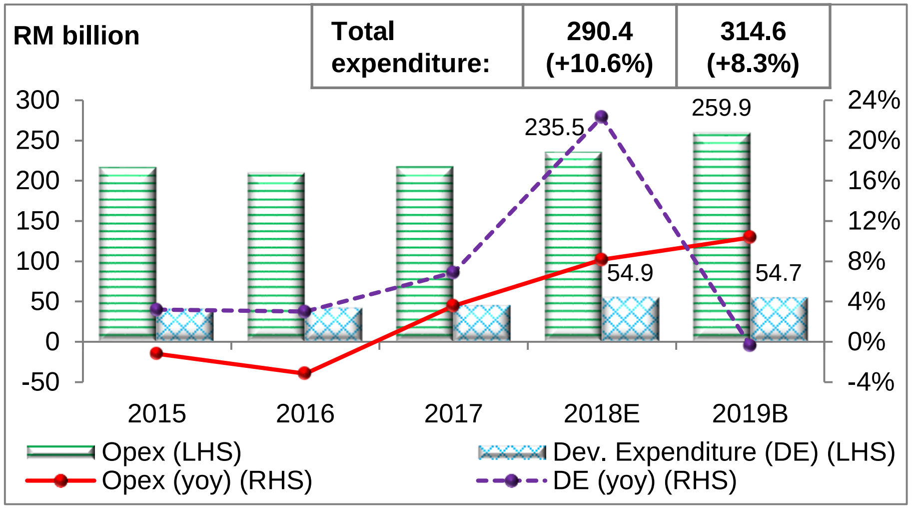
Petroleum-related Revenue:



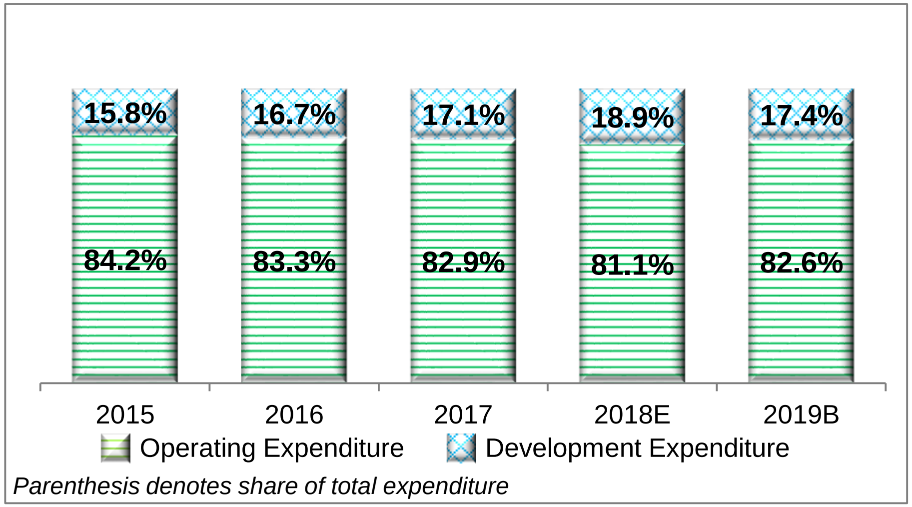
** Includes non-tax revenue, excise duty, stamp duty, etc.*
Source: MOF

Budgetary EXPENDITURE MIX

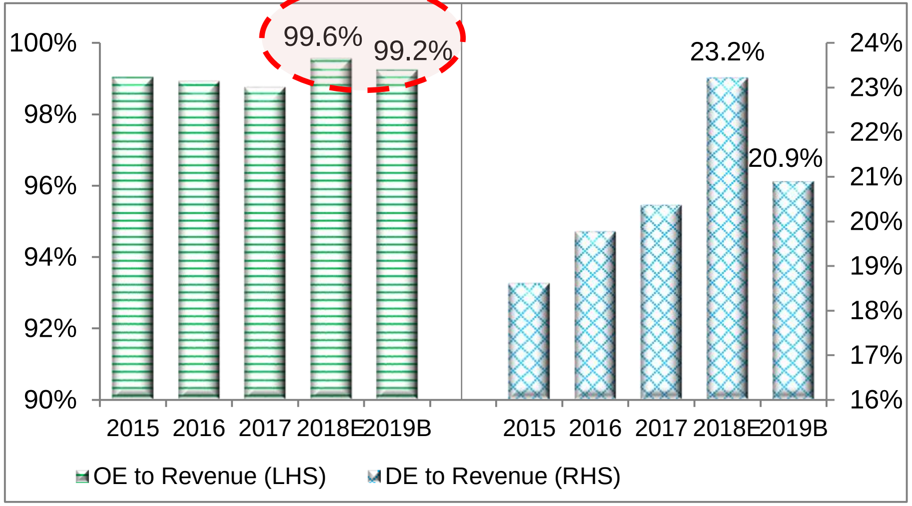
Operating expenditure rises for three years in a row since 2017



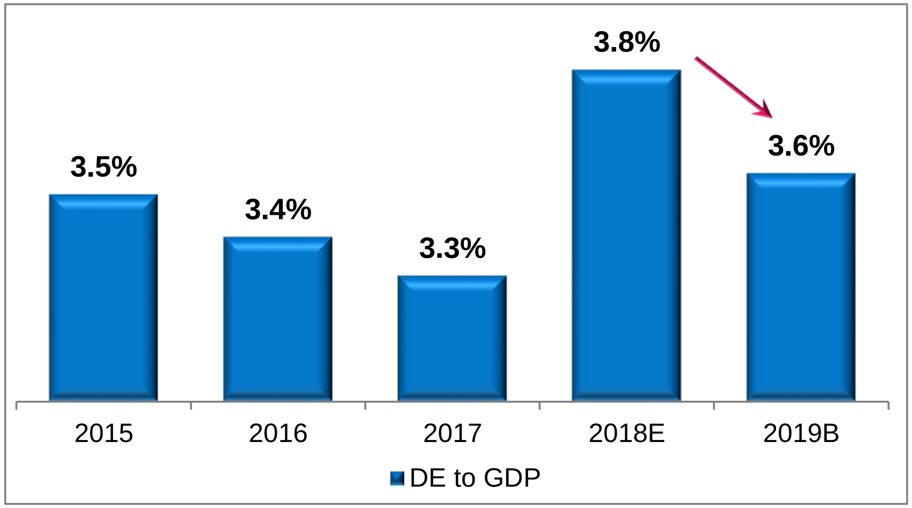
% share of development expenditure slip in 2019



OE and DE to revenue ratio



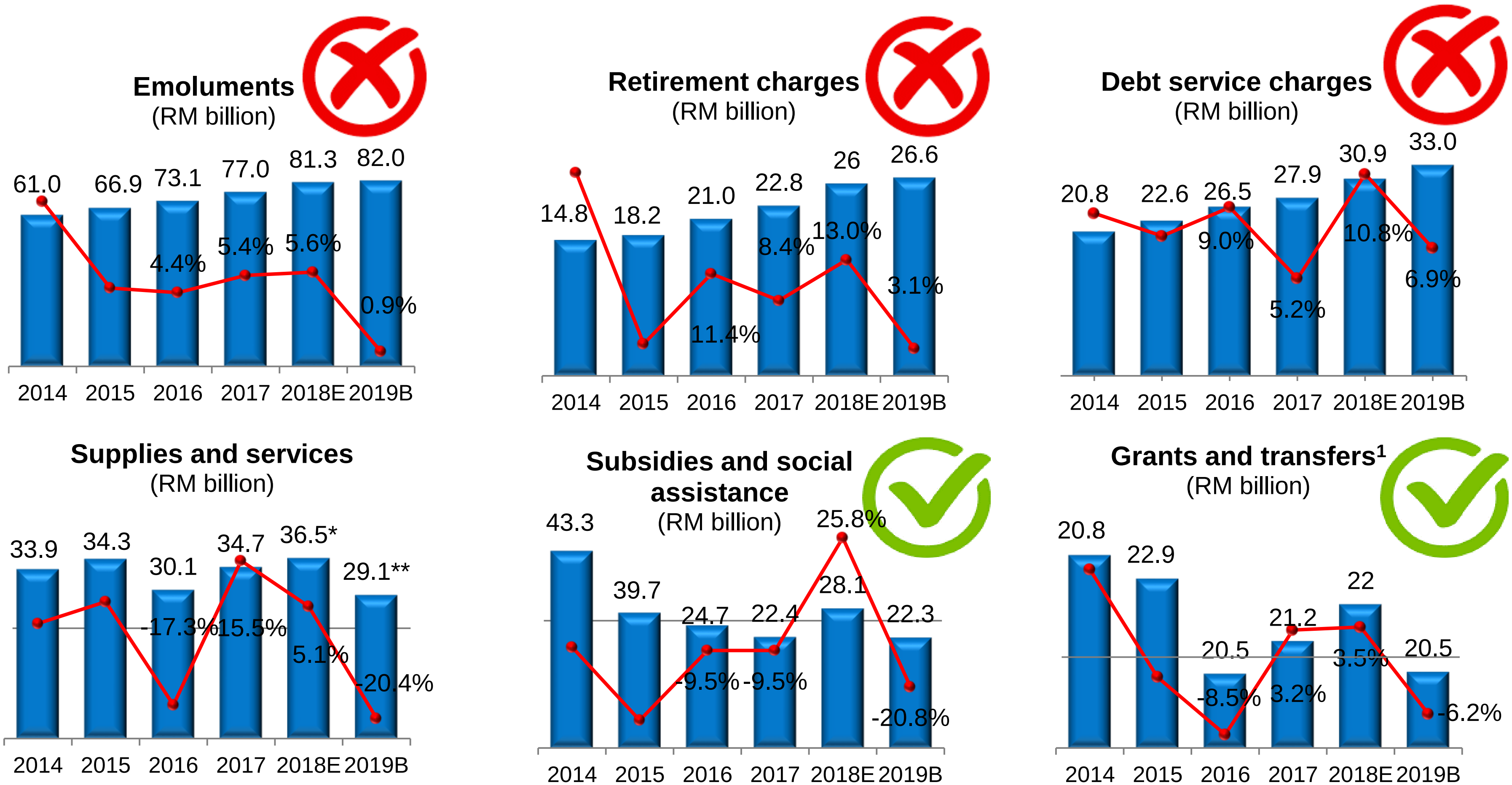
Declining share of DE to GDP in 2019



Source: MOF

Operating expenditure analysis calls for FURTHER RESTRAINT

Distribution of operating expenditure by type

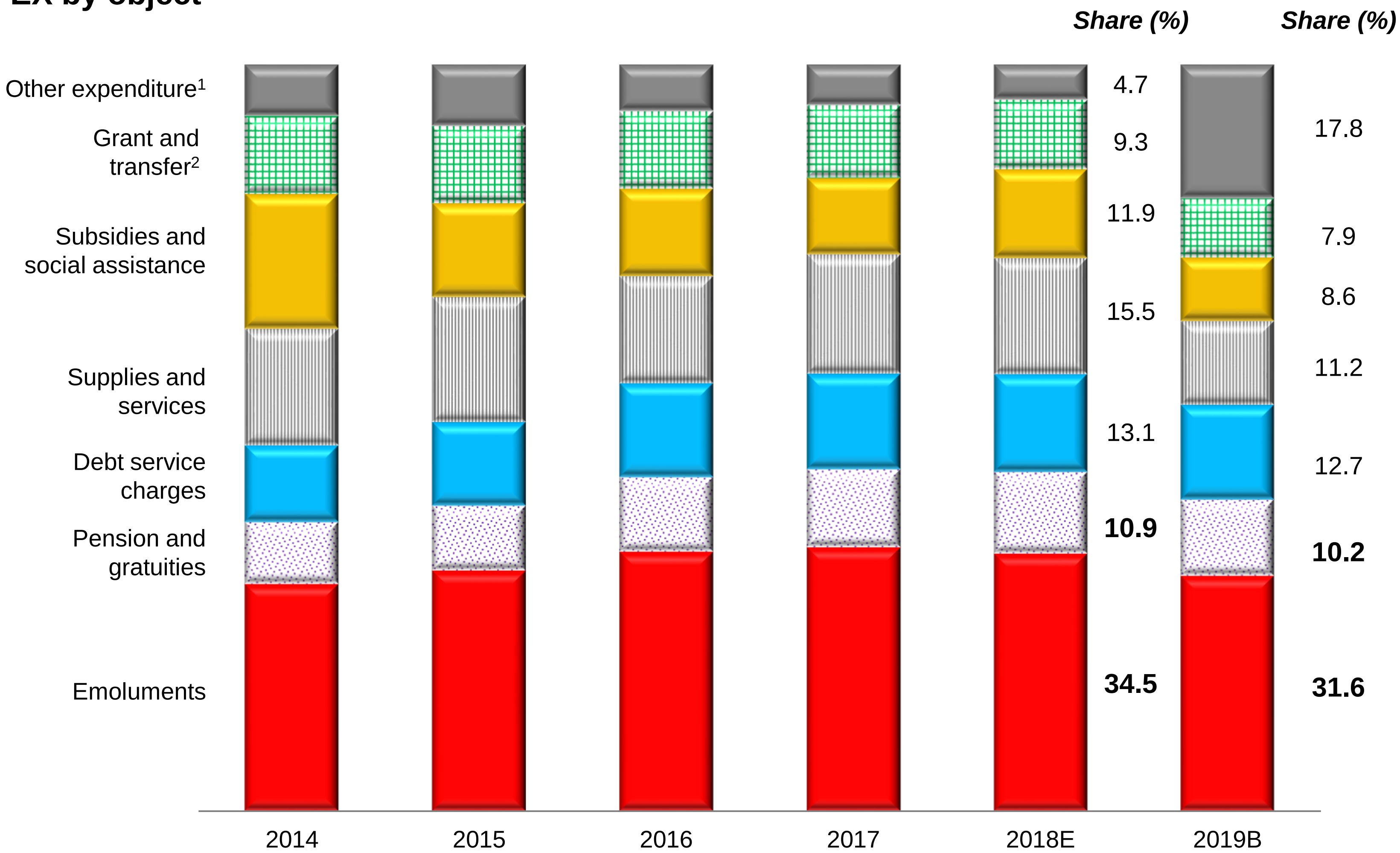


*Note: Line chart indicates changes of operating expenditure; * Higher due to RM3.8bn for hospital cleaning services, school security, asset and system maintenance. ** Reclassification of items related to capital investment from OE to DE; reprioritise of projects under zero-based budgeting; [1] Includes grants and transfers to state governments and grants to statutory bodies; the line indicated as 0%*

Source: MOF

47% contributed by EMOLUMENTS and RETIREMENT charges

OPEX by object



[1] Includes assets acquisition, refunds and write-offs, grants to statutory funds and etc.
[2] Includes grants and transfers to state governments and grants to statutory bodies.

Source: MOF

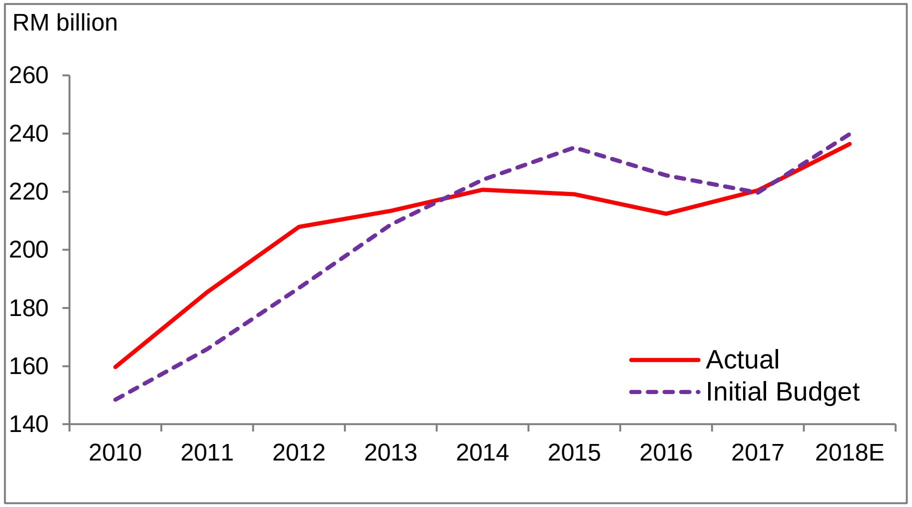
Development expenditure: SECTORAL ALLOCATION

By Sector	2017	2018E	2019B	2017	2018E	2019B	2017	2018E	2019B
	RM million			% YoY			% Share		
Economic	**24,186**	**33,025**	**29,235**	**-3.7**	**36.5**	**-11.5**	**53.9**	**60.2**	**53.4**
Agriculture and rural development	2,219	2,191	2,278	-23.5	-1.2	3.9	4.9	4.0	4.2
Energy and public utilities	2,475	3,379	4,589	-15.4	36.5	35.8	5.5	6.2	8.4
Trade and industry	3,800	6,686	5,721	-21.5	75.9	-14.4	8.5	12.2	10.5
Transport	10,429	15,501	13,388	33.2	48.6	-13.6	23.2	28.2	24.5
Environment	2,061	1,725	2,134	-12.1	-16.3	23.7	4.6	3.1	3.9
Others	3,202	3,543	1,125	-25.0	10.6	-68.2	7.1	6.5	2.1
Social	**12,425**	**14,507**	**15,183**	**19.1**	**16.8**	**4.7**	**27.7**	**26.4**	**27.8**
Education and Training	6,306	7,307	8,287	69.2	15.9	13.4	14.0	13.3	15.2
Health	1,470	1,897	2,257	-1.7	29.1	19.0	3.3	3.5	4.1
Housing	785	1,144	1,852	-64.9	45.8	44.4	1.7	2.1	3.0
Others	3,864	4,159	2,987	30.1	7.6	-28.1	8.7	7.5	5.5
Security	**5,334**	**5,338**	**7,082**	**10.4**	**0.1**	**32.7**	**11.9**	**9.7**	**12.9**
Defence	4,315	3,649	3,737	9.4	-15.4	2.4	9.6	6.6	6.8
Internal Security	1,019	1,689	3,345	14.9	65.8	98.0	2.3	3.1	6.1
General Administration	**2,939**	**2,030**	**3,200**	**81.4**	**-30.9**	**57.6**	**6.5**	**3.7**	**5.9**
Total	**44,884**	**54,900**	**54,700**	**6.9**	**22.3**	**-0.4**	**100.0**	**100.0**	**100.0**

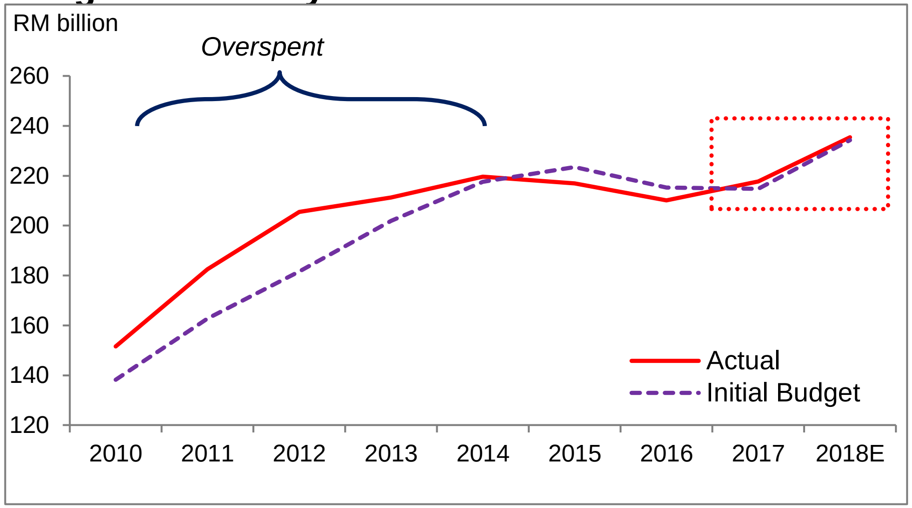
Source: MOF

Budgetary operation trends – ACTUAL VS. ESTIMATES

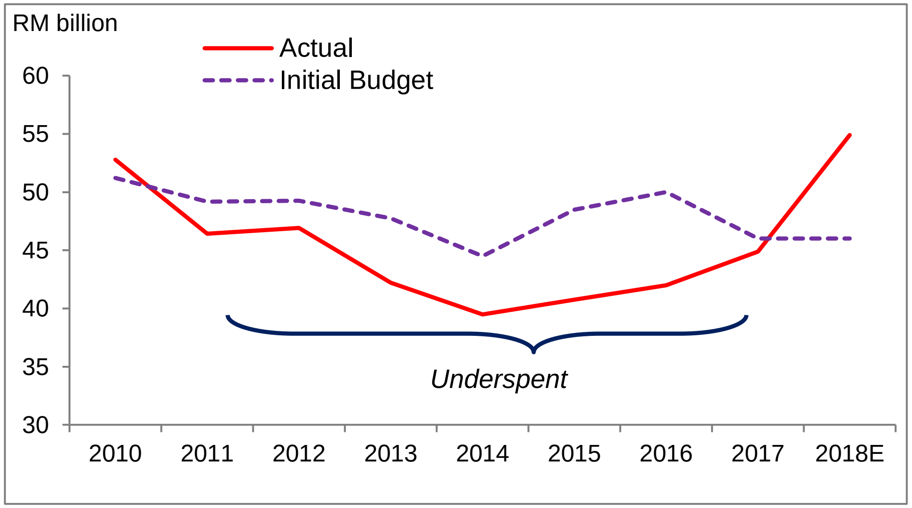
Fiscal revenue somewhat overestimated



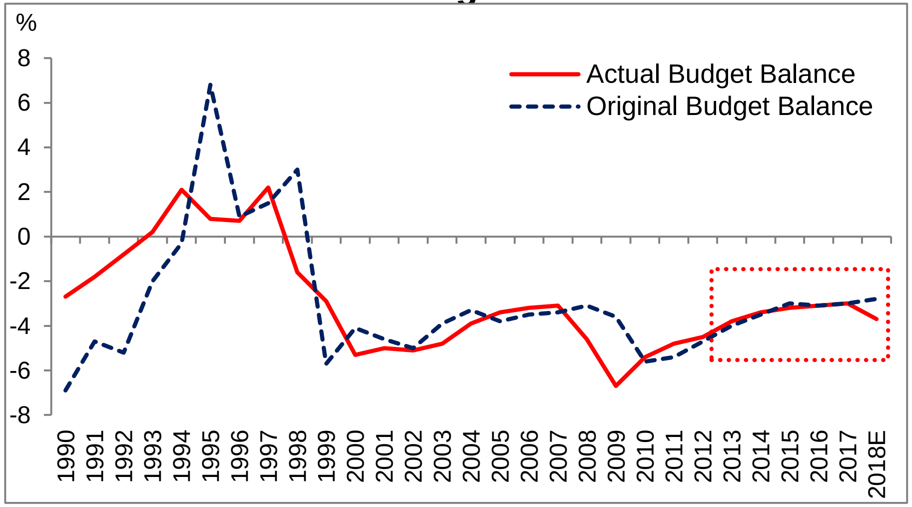
Operating expenditure matched with initial budget in recent years



Increase in DE due to LRT3, housing, Electrified Double Track rail and reclassification of OE to DE



Larger fiscal deficit gap in 2018, worsening from -2.8% of GDP in initial budget to -3.7%

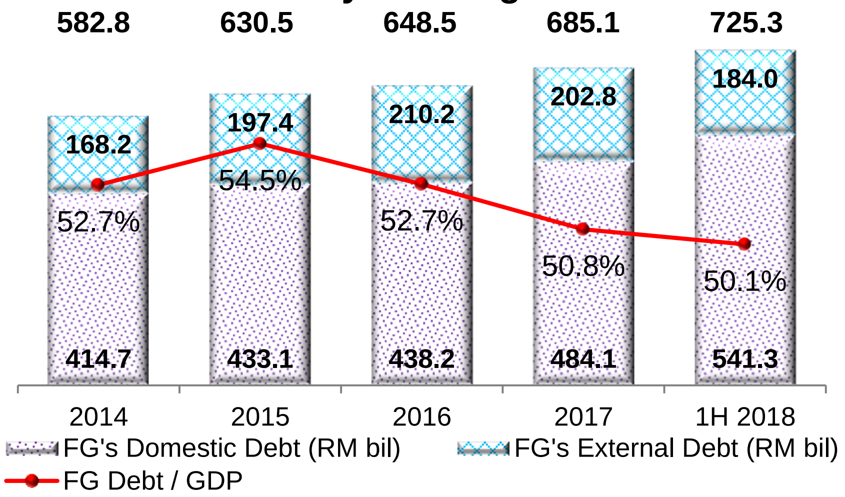


Source: MOF

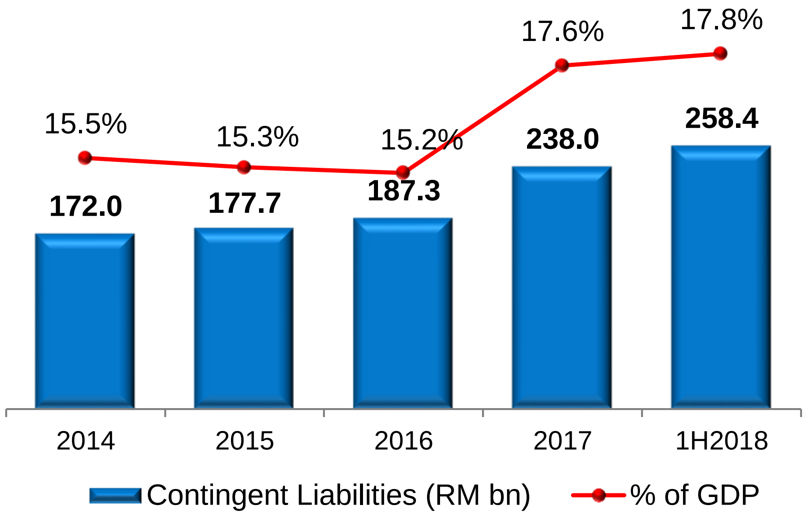
FG's total DEBT AND LIABILITIES (2018: RM1.068 trn or 74.6% of GDP; 2019: RM1.125 trn or 73.5% of GDP)

- **Federal government's debt stood** at **RM725.3bn at end-June 2018**, a rise of 5.9% from RM685.1bn at end-2017. **Debt to GDP ratio stood at 50.1% at end-June 2018** (2017: 50.8% of GDP).
- **Federal government's contingent liabilities** (government guarantees) stood at **RM258.4bn or 17.8% of GDP at end-June 2018** (2017: RM**238.2**bn; **17.6**% of GDP).
- The **Federal Government debt, contingent liabilities and commitment made under public-private partnership (PPP) projects** stood at **RM1.057 trillion** or **80.3% to GDP as at end-2017**.

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



Government guarantees debt on the rise



Source: BNM; MOF

Key tax, incentives and initiatives in 2019 Budget

Strengthening FISCAL AND DEBT management

Proposals/initiatives

- Adopt '**zero-based budgeting**" exercise to ensure spending is justified by objectives; review alternative scenarios to achieve the same objectives and all discretionary spending is planned from zero.
- To table a **Fiscal Responsibility Act by 2021** to avoid reckless mega spending that entails mega debts.
- To table a **new Government Procurement Act in 2019** to ensure transparency and competition in procurement while punishing abuse of power, negligence and corruption.
- To ensure **full disclosure of the debt and liabilities** via converting the current cash basis accounting to an **accrual basis by 2021**.
- To set up a **Debt Management office** responsible for reviewing and managing the government and its agencies' current debt and future debt and liabilities.
- **Review existing debts and future debt commitments**. These include a review of the new and planned projects. The project will be re-tendered via an open tender exercise. RM19bn contracts which were awarded via direct negotiations or limited tenders will be reviewed and can continue provided that there is a 10% reduction on the construction cost.
- Take all necessary actions to recover funds lost and stolen from 1MDB.

Our view

We believe that these measures would ensure a fiscally responsible decision making process, with an optimization of expenditure to avoid wastages and leakages while at the same time ensuring the debt is being contained and rationalized to a sustainable level.

Impact: Overall debt and liabilities to GDP will reduce from RM1.057 trillion (80.3% of GDP) at end-2017 to RM1.037 trillion (74.6% of GDP) at end-2018 and will decline to RM1.094 trillion or 73.5% of GDP at end-2019.

Enhancement of government REVENUE

Proposals/initiatives

- To **reduce stakes in these non-strategic companies** and utilise the proceeds to pare down debt.
- The real **Public Private Partnership** (PPP) model for public projects based on land swap transactions would be implemented using an open tender mechanism and not direct negotiations.
- Plan **scheduled and staggered land sales** via auction to the highest bidders, based on conditions imposed on the land.
- Set up the **world's first "Airport Real Estate Investment Trust (REIT)"** to privatise infrastructure assets, hoping to raise RM4bn from selling a 30% stake of the REIT to private investing institutions. Investors will gain an invaluable opportunity to invest in top quality infrastructure assets. Other projects could also benefit from similar funding and investment structures such as hospitals, or rail infrastructure.
- The Royal Malaysian Customs will **step up enforcement against cigarette smuggling**, hoping to recover at least RM1.0bn in tax losses.

Our view

The above initiatives are expected to help raising revenue though it is crucial to ensure sustainable sources of revenue to strengthen fiscal sustainability. The Tax Reform Committee is tasked to undertake a comprehensive review of tax system aimed at broadening the tax base and reducing tax gap.

Impact:

Based on this new model, twenty-four PPP projects such as schools, army camps, police and fire stations as well as affordable housing worth RM5.2bn will be implemented. The Government expects to gain an excess of RM800m over the cost of the public works from the land sales.

Reviewing TAXATION

Proposals/initiatives

- Grant **exemptions for specific business-to-business Service Tax** for registered Service Tax entities, starting 1 January 2019, to further improve the efficiency and effectiveness of the SST.
- Introduce **a credit system for Sales Tax deduction starting 1 January 2019**, to assist the problems faced by small manufacturers who purchase their products from importers instead of other registered manufacturers.
- **Imported services will be subjected to Service Tax** so as to ensure that our local service providers such as architecture, graphic design, Information Technologies (IT) and engineering design services are not unfairly disadvantaged against their foreign competitors starting 1 January 2019.
- For **online services imported by consumers**, the foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the transactions with effect from 1 January 2020.
- To launch a **Special Voluntary Disclosure Program** to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts.
  a) The Special Voluntary Disclosure Program will be offered from **3 November 2018 until 30 June 2019** where taxpayers will receive **reduced penalty rates**.
  b) If disclosure of unreported income is made from **3 November 2018 until 31 March 2019**, the penalty will be **10%** of the tax-payable.
  c) If disclosure is made from **1 April 2019 until 30 June 2019**, the penalty will be **15%** of the tax-payable. After the **program ends on 30 June 2019**, the penalty rates will range from **80% to the maximum of 300%** as provided for in the existing tax laws.

Reviewing TAXATION (cont'd)

Proposals/initiatives

- To review the existing reliefs and incentives under the various tax acts to make them relevant and cut down leakages. Starting January 2019, IRB will place a **time limit on the carrying forward of losses and allowances for tax reliefs to a maximum of 7 years**. This would apply to unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses.

Our view

- The specific B2B Service tax and sales tax and a credit system for Sales tax are expected to prevent the increase in the cost of doing business as a result of compounded taxation and protect the competitiveness of our local service industry. The imposition of Services tax on imported services and foreign services providers not only help to generate revenue but also provide a level playing field between the offline and online businesses.
- The Special Voluntary Disclosure Program is expected to see the repatriation of revenue to the Treasury's coffer. A Global Financial Integrity (GFI) report has estimated that Malaysia lost up to about US$431bn (RM1.8 trillion) in illicit outflows between 2005 and 2014. The Washington DC based think tank estimated illicit financial outflows from Malaysia at around 6-10% of the value of Malaysia's trade of US$443.2bn in 2014 between US$26.6bn and US$44.3bn.

Who is affected:

Positive for small manufacturers and SMEs

Invigorating INVESTMENT

Proposals/initiatives

- To conduct a **thorough review of over-130 types of fiscal schemes** to support investments, administered by 32 approving authorities with the intention to expire incentives which are no longer relevant or are duplicated.
- To **enhance Labuan's competitiveness** by removing restrictions on trade in Malaysian Ringgit, transactions between Labuan and Malaysian residents as well as maintaining the current tax rate of 3%. However, the tax ceiling of RM20,000 under the Labuan Business Activity Tax Act 1990 will be removed.
- The Ministry of Finance (MoF) and Ministry of International Trade and Industry (MITI) will form a joint task force jointly chaired by both Ministers to **drive regulatory reform, particularly in the areas of improving trade processes and tax administration**.
- To improve the existing incentives by **charging a concessionary 10% income tax rate** on the overall statutory income related to Principal Hub activities for a period of 5 years.
- The MoF will set up a **Special Task Force to evaluate the role and functions of statutory bodies and companies** owned by Ministry of Finance, Inc. to reduce duplication of functions and involvement in areas where the private sector is efficient and competent.

Our view

The above measures and initiatives underscore the Government's commitment to enhance competitiveness and ease of doing business in Malaysia. We believe that the streamlining of regulatory and compliance costs; the removal of impediments and redefining the role of government in business along with the institutional and economic reforms would increase domestic investment and FDIs.

Who is affected: Place Malaysia as a preferred investment destination. Drawing investments into high impact and technology sectors.

Enhancing small-and medium-enterprises (SMEs)

Proposals/initiatives

- To implement a **SME financing fund** by commercial financing institutions of RM4.5bn with a 60% guaranteed by Syarikat Jaminan Pembiayaan Perniagaan Bhd.
- **Reduce the corporate income tax rate from 18% to 17%** for taxable income of up to RM500,000 and SMEs with less than RM2.5m in paid up capital.
- To encourage exports through financing by EXIM Bank by making available **RM2.0bn worth of credit and takaful facilities** to the SME exports.
- **RM2.0bn** will be made available under the **Business Financing Guaranteed Scheme** to enable SMEs to invest in automation and modernization.
- Allocate RM100m to upgrade the **capability of the SMEs in the halal industry** via various programs in order to increase exports and to make Malaysia a global halal hub by 2020.
- **A RM1.0bn SME Syariah Compliant Financing Scheme** is made available via Islamic financial institutions with a subsidy of 2% profit rate provided by the Government.
- RM200m under Permodalan Usahawan Malaysia Berhad for the wholesale and retail industry, as well as for the purchase of business premises to be rented to Bumiputera SMEs. RM100m to TEKUN to finance small entrepreneurs.
- The Malaysia Productivity Corporation will undertake the **Readiness Assessment program** to assist 500 small medium enterprises (SMEs) to switch to Industry 4.0 technology.
- Allocate RM20m to initiate a ‘Buy Malaysian First’ campaign to support local products and services.
- Introduce **a credit system for Sales Tax deduction** starting 1 January 2019, to assist the problems faced by small manufacturers who purchase their products from importers instead of other registered manufacturers.

Enhancing small-and medium-enterprises (SMEs) (cont'd)

Our view

While the 1% pt reduction on the first RM500,000 chargeable income could save up to RM5,000, SMEs still face increasing cost of doing business, including regulatory and compliance costs. Hence, it is suggested that the Government can consider to raise the threshold level to say, RM1m from the current RM500,000 to enjoy the lower preferential tax rate of 17%.

The credit system introduced for sales tax deduction would help to ease cost of doing business and cash flow pressure. The various incentives and funds, especially to encourage SMEs investing in automation is a step in the right direction. 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.

On a negative note, the surprise increase of minimum wage to RM1,100 per month, which is higher than the announcement of RM1,050 issued by Prime Minister's office on 5 September would add on more cost of employment for SMEs. With the proposed new rate, this would result in an increase of RM100 or 10% increase from RM1,000 previously for Peninsula Malaysia and RM180 or 19.6% from RM920 for East Malaysia.

The tiered-levy model should be reviewed periodically every 3 to 5 years according to the economic and business environment as well as labour market conditions. The tiered-levy model must be mutually acceptable market-based mechanism by both Malaysian Manpower Council and Joint Consultative Committee.

Who is affected: SMEs and financial institutions

Affordable HOUSING

Proposals/initiatives

- An allocation of nearly **RM1.5bn for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA and Syarikat Perumahan Nasional Bhd** to ensure the availability of supply of affordable homes.
- A **RM1.0bn fund will be established by Bank Negara Malaysia to assist the first –time house buyer** with lower income group earning not more than RM2,300 per month to help them to purchase affordable homes priced up to RM150,000. The fund will be made available from 1 January 2019 at participating financial institutions (AmBank, CIMB, Maybank, RHB and BSN) through a concessionary financing rate as low as only 3.5% per annum. The RM1.0bn fund is available for two years or until the allocation is exhausted.
- Provide **exemption of stamp duty up to RM300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020**. This is for **first-time home-buyers purchasing residential properties priced up to RM500,000.**
- Allocate RM25 million to Cagamas Berhad to provide mortgage guarantees to enable **first-time home-buyers with household income of RM5,000 or less**, to obtain higher financing from financial institutions, inclusive of down payment support. These measures are expected to give between 7% and 11% cost savings to the house buyers, before taking into consideration any promotional discounts which may be offered by the property developers.
- The **Public Sector Housing Financing Board** will extend the **loan repayment period from 30 to 35 years for the first loan, and from 25 to 30 years for the second loan of civil servants' housing loans**.
- To allocate **RM400m for the upgrading, repair and maintenance of government housing qua**rters of the police, armed forces and teachers to improve the living conditions and ensure their fitness for occupation.

Affordable HOUSING (cont'd)

Proposals/initiatives (cont'd)

- Secured the commitment from the **Real Estate Housing Developers Association (REHDA)** to provide **a 10% reduction in the price of houses** that are not subjected to price control in new projects.
- For a **limited time of 6 months only**, starting 1 January 2019, **waive all stamp duty charges for first time purchases of homes valued between RM300,001 and RM1.0m**. This will be part of a National Home Ownership Campaign, where in return, developers will **offer a minimum price discount of 10%** for these residential properties.
- To approve private sector driven '**Property Crowdfunding**' platforms as an alternative source of financing for first time home buyers. These exchange platforms will be regulated by the Securities Commission under the peer-to-peer financing framework.

Our view

- The above initiatives and measures are expected to help first-time house buyers to own a house at affordable prices, and a minimum price discount of 10% and the waiver of stamp duty charges will help to clear the unsold inventory of RM22.0bn worth of residential properties at end-March 2018, a 65% increase from RM13.3bn.
- Nevertheless, there were proposed measures to increase in real property gains (RPGT) tax rates for disposals of properties or shares in property holding companies after the fifth year as follows: (a) from 5% to 10% for companies and foreigners; and (b) from 0% to 5% for Malaysian individuals. However, low cost, low-medium cost and affordable housing with prices below RM200,000 will be exempted. In addition, the stamp duty on the transfer of property valued at more than RM1.0m will increase from 3% to 4%. Higher RPGT would dampen buyers' sentiments and negative to the already slowing property market.

Value-adding AGRICULTURE sector

Proposals/initiatives

- To implement the **Biodiesel B10 program** for the transport sector and B7 for the industrial sector in 2019.
- RM30m to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification.
- To increase the utilisation of local rubber as a new raw material for various industrial products.
- RM100m to assist smallholders to build roads at ports and industrial areas in stages.
- RM50m to provide Rubber Production Incentive to protect the effects of the fall in rubber prices for smallholders.
- RM47m for Research and Development to increase the productivity of seeds, grains and fruits.
- RM18m to incentivise the automation of the agro food industry.
- RM52m to implement agricultural and agro food industry, and entrepreneurship training for youths.

Our view

Palm oil and rubber are the two export-oriented commodities not only contribute significantly to our economy but also provide a key source of income for the smallholders. The 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 added 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

- **RM100m in matching grants** to the private sector for running promotional and marketing campaigns overseas to increase the number of visitors to the country.
- **Tax exemption facility to be given to duty-free shops at Swettenham Port in Penan**g to further promote cruise tourism
- To make **Pulau Pangkor a duty-free island** while **Langkawi's status as a duty-free island** will be further expanded.
- To share 50% of the proceeds on tourism tax, estimated at RM50m, with states.
- Provide **RM500m loan facilities via the SME Tourism Fund** with SME Bank at a 2% interest subsidy to assist handicraft makers and homestay operators.
- RM20m for the Malaysia Healthcare Tourism Council (MHTC) to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism.
- Khazanah Nasional Berhad will lead the public-private partnership to redevelopment and restoration of the **Sultan Abdul Samad building** in Kuala Lumpur into an arts, cultural and heritage hub.
- To impose a departure levy for all outbound travellers by air starting 1 June 2019. The proposed rate is 2-tiered, RM20 for outbound travellers to ASEAN countries and RM40 to countries other than ASEAN to encourage domestic tourism.

Boosting TOURISM industry (cont'd)

Our view

The tourism industry is a key contributor to our services sector (14.9% of GDP or RM201.4bn in 2017). Hence, collaborations between the promotional agencies and private tour operators covering all aspects (hospitality, logistics, sight-seeing, shopping, tour guides as well as the simplification of visa and immigration) must be coordinated and well implemented to achieve the Ministry of Tourism's target of 30 million foreign tourists contributing RM100 billion by 2020.

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

Lubricating LOGISTIC and TRANSPORTATION sector

Proposals / initiatives

- **RM2.46bn for upgrading and restoration works for railway tracks** to upgrade the country's transport infrastructure.
- RM25m to develop a truck depot to catalyse development in Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah.
- Intend to convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse increased shipping and logistics activities in Port Klang. The new FTZ will serve as a natural extension to Port Klang Free Zone. The land will be developed through a joint venture or solely by the private sector.
- **LRT3 project** will continue with a reduced budget from RM31.6bn to RM16.6bn.
- **MRT2 project** will continue with a savings of 22.4%, from estimated cost of RM39.3bn to RM30.5bn.
- RM10m to upgrade the Autogate Malaysia Automated Clearance System and M-Bike for both the Causeway and the Second Link to Singapore to ease congestion.

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 competitive cost of doing business. Some of major infrastructure projects under review or suspended pending further negotiations have courted controversial in terms of cost and viability, which requires thorough costs-benefits analysis.

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

Embracing the DIGITAL economy

Proposals/initiatives

- **Venture capital funds** managed by Government agencies (Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn. Bhd) will be streamline to make them more efficient in delivering capital to companies in various stages of financing needs.
- **A RM2.0bn Government-Linked Investment Funds** to assist strategic sectors and new growth areas.
- RM50m to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing.
- RM170m raised through crowdfunding platforms to assist more than 450 companies across a broad cross-section of sectors.
- Capital Market and Services Order to introduce a new framework to approve and monitor **digital forex activities and token market will be gazetted in 2019**.
- To launch the **National Fibre Connectivity Plan in 2019** with an allocation of RM1.0bn to develop our broadband infrastructure to ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas within 5 years to achieve world class infrastructure at affordable prices. The Government has also enforced the **Mandatory Standards for Access Pricing** (MSAP) which will result in fixed broadband prices to be reduced by at least 25% by the end of 2018.

Our view

The provision of sufficient funding and supportive digitalisation ecosystem would facilitate the development and adoption of newer technologies. The reliability and speed of connectivity is vital to catalyse a digitalised economy. We need infrastructure that is high in capacity, reliable, resilient, secure, affordable and fast to support the demand.

Who is affected: Telcos, venture capitalists, crowdsource funders

Accelerating adoption of INDUSTRY 4.0

Proposals/initiatives

- To **allocate RM210m from 2019 to 2021 to assist the first 500 SMEs** to carry out the Readiness Assessment to migrate to Industry4.0 platforms via Malaysia Productivity Corporation.
- To provide **RM2.0m in the Knowledge Resource for Science and Technology Excellence** (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources. In 2019, the Government will make available 250 facilities and 1,200 scientific equipment and research data for the private sector to access and share. In addition, it will start a Researcher-Mapping program to place at least 100 researchers at our research facilities with the private sector, with the cost borne by the Government.
- To create a **RM3.0bn Industry Digitalisation Transformation Fund** with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad to accelerate the adoption of smart technology consisting of driving automation, robotics and artificial intelligence in the industry.
- MIDA will continue to provide **matching grants through its High Impact Fund (HIF) with a specific emphasis of Industry4.0 initiatives**. This includes activities such as Research & Development, initiatives to obtain international certification and standards, modernizing and upgrading of facilities and tools and licensing or purchase of new or high technology.
- **Khazanah** will lead and **develop an 80-acre development in Subang as a world class aerospace industry hub**. Khazanah will also work with all relevant agencies, especially MARA to produce high-skilled workers to meet the demands of the industry.

Accelerating adoption of INDUSTRY 4.0 (cont'd)

Proposals/initiatives

- Intend to **upgrade the marketability of our graduates and the skill-level** of the Industry4.0-related workforce by providing double tax deduction:
  a) For scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology;
  b) For company expenses related to participation in the National Dual Training Scheme for Industry4.0 and other related programmes approved by the Ministry of Human Resources, or the Malaysia Investment Development Authority; and
  c) For company expenses in carrying out structured training programmes for students in the fields of engineering and technology which are approved by the Ministry of Human Resources.

Our view

A systematic roadmap with adequate policies and institutions support, technological as well as human capital development is pivotal to make Malaysian companies and industries ICT ready to handle new technologies and embrace IR4.0.

Who is affected: SMEs, workforce

FINANCIAL and CAPITAL MARKET development

Proposals/initiatives

- To extend the **double tax deduction policy** for additional expenditure incurred when issuing sukuk under the principles of Ijarah and Wakalah, as well as for additional expenditure incurred by the companies issuing retail bonds or sukuk. Both these policies will be made available for 3 years commencing in 2019 as the year of assessment.
- To set up a **Special Committee on Islamic Finance** led by the Ministry of Finance, comprising members from Bank Negara Malaysia and Securities Commission.
- The Japanese Government offers to guarantee **JPY200 billion of 10-year Samurai bonds, or approximately RM7.4bn** via Japan Bank of International Cooperation at an **indicative coupon of 0.65%**. This JPY200bn Samurai Bond will be **issued before March 2019**.

Our view

This would help to promote Malaysia as the hub and pioneer of the bond and sukuk markets. The ultra-low interest rate yen loan helps to repay some of more expensive foreign currencies-denominated loans, resulting in interest savings. However, it is subjected to foreign exchange risk if the ringgit weakens against the Japanese yen. As at end-2017, 68.8% of total external debt denominated in foreign currencies (51% in USD, 34.3% in ringgit, 2% in Japanese yen and others (12%)).

Who is affected: Federal Government's external debt and debt service charges, Islamic capital markets

Enhancing HEALTHCARE and WELFARE protection

Proposals/initiatives

- **Full implementation of the Employment Insurance System** (EIS) starting 1 Jan 2019. The Social Security Organisation (SOCSO) will pay compensation to those who have lost their jobs. EIS will provide advice and help find new jobs at the SOCSO offices.
- **B40 Health Protection Fund** to provide free protection against Top 4 critical illness for up to RM8,000 and 14 days of hospitalisation, as well as income cover at RM50 per day starting 1 Jan 2019. Hospitalisation income of RM700 pa is also available. Great Eastern Life Insurance to contribute the initial seed funding of RM2.0bn to this fund, which will be managed by Bank Negara Malaysia.
- To **waive stamp duties for all Perlindungan Tenang Insurance** products for two years beginning 1 Jan 2019 – this is to make available affordable insurance products.
- **Combined tax relief for EPF contributions and life insurance or takaful deductions** will be separated into **RM4,000 for EPF contributions and RM3,000 for takaful or life insurance premiums.** For civil servants under the pension scheme, the tax deduction will be up to RM7,000.
- An allocation of RM29.0bn for the Ministry of Health – this includes an allocation of RM10.8bn for medicine and upgrade of services.
- RM100m is to be allocated to the Health Ministry to pilot a nationwide health screening programme: Health Protection Scheme (PEKA).
- RM20m to be allocated to make way for free mammogram screening, human papillomavirus vaccination, and pap smear tests.

Enhancing HEALTHCARE and WELFARE protection

Proposals/initiatives

- RM50m is to be allocated to treat rare diseases and provide more haemodialysis treatments and Enhanced Primary Healthcare.
- Public-Private Partnership programs as an investment in healthcare facilities while the private sector will invest to deliver quality services.
- **Sugar-sweetened beverages to be added to the list of manufactured goods subject to excise duties** – at MYR0.40 per litre – to be implemented on 1 Apr 2019 for nonalcoholic beverages containing added sugars of more than 5gm per 100ml drink and juices containing added sugars of more than 12gm per 100ml drink.
- Limiting the number of locations where smoking will be allowed from 1 Jan 2019.
- **RM5.9bn to be allocated to the Defence and Home Affairs Ministries** to strengthen national security.

Our view:

The B40 Health Protection Fund and Tenang Insurance would help to relieve high cost of healthcare. To promote a healthy lifestyle, a new soda tax has been introduced in addressing overweight or obese issue as well as a "Smoke-free Malaysia" 2045 goal has been set. Ministry of Health, which receives the second largest of Budget allocation (RM26.5bn for operating expenditure and RM2.2bn for development expenditure) will continue to provide the affordable and efficient healthcare service to the public.

Who is affected: Healthcare, beverages industry, workforce, SMEs

Mitigate RISING COST OF LIVING

Proposals/initiatives

- Separate **tax relief for EPF contributions (RM4,000)** and **takaful or life insurance deductions (RM3,000)**. This raises total relief to RM7,000 from RM6,000.
- *B40 Health Protection Fund* to provide free protection against Top 4 critical illness up to RM8,000 and 14 days hospitalization as well as income cover at RM50 per day.
- Raise **tax relief for National Education Saving Scheme** from RM6,000 to RM8,000.
- **Minimum wage** will be raised to **RM1,100 per month**.
- **Freeze toll hike in intra-city toll**; **abolish tolls for motorcycles** for the First and Second Penang Bridges as well as the Johore Second Link.
- A **RM100 transport pass on the Rapid KL rail and bus network**. A RM50 monthly pass will be made available just for Rapid KL bus services only.
- RM150m to equalize prices of critical goods.
- RM80m in the form of **subsidy of RM40 per month electricity usage** for poor and hardcore poor households.
- Managed float of RON95 retail price. **Targeted fuel subsidy** for car owners of 1,500 cc and below at RM0.30 per litre for 100 litres and 40 litres for motorcycle owners with 125cc and below.
- **Bantuan Sara Hidup** (cost of living aid) will continue with rationalization to make it more targeted.

Mitigate RISING COST OF LIVING (cont'd)

- For **every child 18 years old and below or is disabled** in the family, there will be an additional top-up of **RM120 per child** of up to a maximum of four children.

<table>
<tr><th>Monthly income</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>e-Kasih:
≤RM1,000</td><td rowspan="3">500</td><td rowspan="3">500
(Same)</td><td rowspan="3">650
(+150)</td><td rowspan="3">950
(+300)</td><td>1,050
(+100)</td><td rowspan="3">1,200
(+150-200)</td><td rowspan="3">1,200
(Same)</td><td rowspan="2">1,000
(↓200)</td></tr>
<tr><td>Houshold:
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(+50)</td></tr>
<tr><td>Household:
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(↓450)</td></tr>
<tr><td>Houshold:
RM3,001-4,000</td><td>-</td><td>-</td><td>450</td><td>750
(+300)</td><td>800
(+50)</td><td>900
(+100)</td><td>900
(Same)</td><td>500
(↓400)</td></tr>
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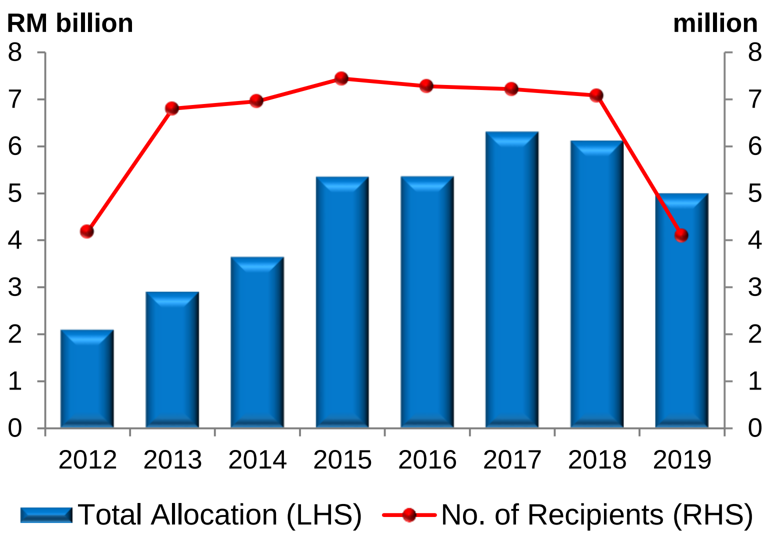
(+50)</td><td>350
(+50)</td><td>400
(+50)</td><td>450
(+50)</td><td>450
(Same)</td><td>-
(↓450)</td></tr>
</table>



Our view

The Budget continues to address the cost of living issues, including strengthening the social safety net for low and middle-low income groups. The cost of living aid and targeted fuel subsidy are expected to ease the burden of rising cost of living, especially for those urban poor. While the sustainability of BSH would require a strong fiscal management, the cash handouts can be enhanced by linking it to some conditionalities such as education and skill enhancement programs, and gradually weaning off the cash handouts and subsidy mentality or put in place an exit mechanism. Only the under-served and vulnerable groups as well as hard core poor be given more support of social assistance.

Who is affected: BSH will benefit 4.1m households. Electricity usage subsidy or poor and hardcore poor households will benefiting 185,000 accounts

Education for a BETTER FUTURE

Proposals/initiatives

- Allocate **RM2.9bn** to help **students from lower income group.**
- RM652 million for the purposes of **upgrading of schools.**
- **Donations to national and public institutions** of higher learning registered with the Ministry of Education to upgrade infrastructure will **be tax-exempted starting 1 Jan 2019.**
- RM100m **to re-construction of dilapidated schools** throughout the country.
- RM206m for development and provision of training programs in Polytechnics and Community Colleges.
- RM30m the Training and Vocational Education and Training (TVET) Prestige Fund.
- RM400m research funds for institutions of higher learning via a contestable fund and RM30m will be disbursed in the form of matching grants via the Malaysia Partnerships and Alliances in Research (MyPAIR) program.
- **RM3.8bn scholarships and lending to all Malaysians** via various Ministries and Agencies.
- RM17.5m over the next 5 years to Malaysia Professional Accountancy Centre (MyPAC) to produce 600 qualified Bumiputeras accountants.
- Allocate RM210m as part of the Bumiputera Empowerment Agenda to strengthen education and human capital development programs via Program Peneraju Tunas, Program Peneraju Skil dan Program Peneraju Profesional which will be managed by Yayasan Peneraju Pendidikan Bumiputera.
- RM20m to raise youth competency via a TVET sponsored Bootcamp program.
- An allocation of RM70m to PATRIOT program, which will be introduced for youths aged 15 to 30 involving 70,000 participants a year.
- Allocate RM100 million to prepare our athletes for the Tokyo Olympics 2020.
- Allocate RM10 million for E-Sports to Malaysia Digital Economy Corporation (MDEC) as a recognition of the industry’s increasingly popularity among the younger generation involving software engineers and gaming developers.

Education for a BETTER FUTURE (cont'd)

Proposals/initiatives

- To ensure the sustainability of the **National Higher Education Fund (PTPTN)**, the following initiatives were proposed:
  a) Introduce a loan repayment schedule through deductions of between 2% and 15% from the borrower's salary, based on their monthly income rate and is only applicable to borrowers earning more than RM1,000 a month;
  b) Tax exemption to be given to companies that assist its staff to settle their PTPTN loan for the year ending 2019;
  c) Individual tax relief for all additional savings deposited in the PTPTN National Education Savings Scheme (SSPN) from RM6,000 to RM8,000;
  d) Discounts on the loan will be given to students from B40 households who have obtained first class honours; and
  e) Writing off the debt of those who are 60 years old and above with monthly income less than RM4,000, benefiting up to 350 debtors and costing RM4.2m.

Our view

The education sector remains the single largest recipient of the 2019's Budget allocation at RM60.2bn or 19.1% of the total allocation. The enhancement of TVET program with the collaboration between the leaning institutions and industry will increase and strengthen the skillset of local workers, enhance productivity and reduce the dependency on foreign workers over time.

Who is affected: Local workforce, youth, diploma students and university graduates

Improving EMPLOYMENT and EMPLOYABILITY

Proposals/initiatives

- HRDF will allocate **RM20m "Apprenticeship" and "Graduate Enhancement Programme** for Employability" (GENERATE) to provide skills to school-leavers as well as to increase the marketability of our graduates from the institutions of higher-learning, benefitting at least 4,000 youths.
- To encourage the hiring of those **above the age of 60** who want to work, the employer's EPF contributions will be **reduced from 6% to 4%** while **the employee's contribution is to be zeroed effective 1 Jan 2019**.
- Provision of an additional tax deductions to employers who employ senior citizens up to a monthly salary of RM4,000.
- Provision of an additional tax deductions to employers who **hire former convicts** up to a monthly salary of RM4,000.
- Fully implementing the **Employment Insurance System** (SIP) beginning January next year
- **Minimum wage** will increase to RM1,100 nationwide starting Jan 1, 2019
- Require public-listed companies in Malaysia to **publicly disclose key pay metrics each year in their annual report to reduce wage disparity**.
- **Review labour laws** to improve labour market, ensure workers' well-being and prevent discrimination by employers.

Our view

These measures are expected to help improve the employability of youth and graduates as well as enhance the participation of retirees in workforce, who are an asset to the organization given their experience and knowledge.

Who is affected: Youth, students, senior citizens

EMPOWERING WOMEN in the workforce

Proposals/initiatives

- Allocate RM10m to set up another 50 childcare facilities in Government buildings to ease the burden of working mothers.
- Allocate RM45m for the setting up of **EPF i-SURI contribution scheme for housewives**, where husbands can contribute to their wives' retirement savings. Husbands can contribute at least RM5 monthly and the government will contribute RM40 monthly.
- To raise **women participation to 30% at leadership and decision-making levels** in companies and organisations.
- Encourage **higher women participation among the public listed companies as only 23.2%** of the appointed Board of Directors are women today among the top 100 largest companies on Bursa Malaysia.
- Encourage the private sector to emulate the Government by ensuring the objective of 30% women participation in the Board of Directors is achieved by 2020.

Our view

Our current women participation rate in the labour force is only 53.5% in 2017 compared to 77.7% for men. 60% or 2.6m women cited housework as the reason why they did not join the labour force. SERC's research study found that gender-biased in workplace also contributed to the low participation rate of women. According to a report recently published by Khazanah Research Institute, raising women's employment level by 30% would raise Malaysia's GDP by around 7 to 12%. Hence, it is imperative to formulate policies to encourage women participation in the workforce.

Who is affected: Women, housewives

Ensuring BALANCED DEVELOPMENT

Proposals/initiatives

- RM926m to **build and upgrade roads and bridges** in rural regions.
- RM694m and RM738m to **supply electricity and water** respectively to rural and remote regions.
- RM85m to New Villages for the purposes of upgrading and maintaining basic infrastructure such as roads, community halls and open spaces.
- RM100m for the Indian community, including technical and skills training to improve the career advancement opportunities of the Indian youths.
- RM100m for Orang Asli communities via the construction and upgrading of infrastructure for the supply of water, relocation, education, welfare and economic development
- RM926 million allocated to build and upgrade roads including in rural areas and bridges.
- **Pan Borneo Highway project in Sabah and Sarawak to continue**, subject to cost rationalisation study.
- **Development expenditure allocation** of **RM5.0bn to Sabah** and **RM4.3bn for Sarawak.**
- For **FELDA developments**, RM100m to upgrade roads, RM160m to carry out water supply projects and RM35m for buildings and basic infrastructure such as street lights.

Our view

We believe that the national development agenda must allocate adequate resources to ensure balanced development throughout the country, especially in the rural regions will narrow the economic development gap and income disparity between the rich and poor states.

Who is affected: Construction sector, rural community, Sabah and Sarawak states

ENVIRONMENT and ENERGY for the future

Proposals/initiatives

- Allocate RM60m to the state governments to protect and expand existing natural reserves.
- To list the **Forest Research Institute Malaysia (FRIM) Forest Park in Selangor, and Royal Belum Perak** as UNESCO World Heritage Sites.
- RM5m for micro-grants to implement programs with the cooperation from United Nations Development Program (UNDP), to manage and protect the environment in Orang Asli and Orang Asal communities.
- **Pioneer Status incentive of 70% or investment allowance of 60%** for 5 years to be granted to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer.
- **RM2.0bn Green Technology Financing Scheme** (GTFS) made available at selected commercial banks where the Government will subsidise the interest cost by 2% for the first 5 years.
- **RM1.0bn Sustainable Development Financing Fund** provided by Bank Pembangunan Malaysia Berhad to support the Agenda 2030 for Sustainable Development as well as the 17 Sustainable Development Goals (SDG) under the United Nations Development Program.
- To expand **the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets** in the MyHijau directory to encourage the use of green energy.

Our view

The Government is obligated to take all necessary measures to protect our environment and encourage green initiatives amongst industries and users, both as a responsibility to and a gift to our future generations. The well development and protected of green environment, including forest parks will stimulate eco-tourism, attracting both local and foreign tourists, and hence helping to boost economic activities.

Who is affected: Tourism, environmental and green-related industries

Others

Proposals/initiatives

Taxes on gaming

- Casino license will be increased from RM120 million to RM150 million annually.
- Casino duty will also be increased to 35% on gross collection.
- Machine dealer's license will be raised from RM10,000 to RM50,000 annually.
- Gaming machine duties to be increased from 20% to 30% on gross collection.

Cash assistance for civil servants

- A one-off payment of RM500 for civil servants Grade 54 and below;
- A special payment of RM250 for government pensioners; and
- RM500 one-off payment for eligible pensioners receiving less than RM1,000 monthly.

Our view

The taxes imposed on the gaming industry will contribute to the Treasury's coffer in time of facing revenue constraints though it will significantly dampen the sector's earning.

Who is affected: Gaming and casino industries, civil servants, beverage industry

Who are the LOSERS? WINNERS?

ICT

B40

Medical care

SMEs

First-time home buyer and developers

Rubber smallholders

Tourism

Beverages industry

Gaming

Property investors & developers

Appendix

FOCUS 1: IMPLEMENTING INSTITUTIONAL REFORMS

(Extracted from 2019 Budget Speech)

Strategy	Key measures and initiatives
1. Strengthen Fiscal Administration	• Implement a 'zero-based budgeting' exercise • Table a Fiscal Responsibility Act by 2021 to avoid reckless mega spending that entails mega debts • Table a new Government Procurement Act next year to govern procurement processes to ensure transparency and competition, while punishing abuse of power, negligence and corruption
2. Restructuring and Rationalising Government Debt	• Set up a Debt Management Office responsible for reviewing and managing the government and its agencies' current and future debt and liabilities • Review future debt commitments that include recurring operational leases amounting to tens of billions of ringgit • Take all necessary actions to recover funds lost and stolen from 1MDB • Track and publish not only direct Federal Government debt ratios, but also provide necessary transparency to disclose total debt and liabilities
3. Raising Government Revenue	**Leveraging Assets** • Reduce stake in non-strategic companies and utilise the proceeds to pare down debt • Public Private Partnership (PPP) model for public projects based on land swap transactions would be implemented using an open tender mechanism and not direct negotiations • Plan scheduled and staggered land sales via auction to the highest bidders, based on conditions imposed on the land to maximise revenue for the Government • Set up the world's first "Airport Real Estate Investment Trust (REIT)" to privatise infrastructure assets **Reviewing Taxation** • Grant exemptions for specific business-to-business Service Tax for registered Service Tax entities to prevent the increase in cost of doing business as a result of compounded taxation and protect the competitiveness of local service industry • Introduce a credit system for Sales Tax deduction starting 1 January 2019 to assist problems faced by small manufacturers who purchase their products from importers instead of other registered manufacturers • Tax Reform Committee was set up in September 2018 to identify and propose improvements and additional measures to create a more progressive and effective taxation system. Amongst the tax reforms proposed are: o Imported services will be subjected to Service Tax starting 1 January 2019 o Service Tax will be imposed on online services imported by any Malaysian business which will be required to account for and pay the Service Tax with effect from 1 January 2019 o Foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the online services (e.g. downloaded software, music, video or digital advertising) imported by consumers with effect from 1 January 2020

Strategy	Key measures and initiatives
3. Raising Government Revenue (cont.)	**Reviewing Taxation (cont.)** ○ Launch a Special Voluntary Disclosure Program (will be offered from 3 November 2018 until 30 June 2019) to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts ○ IRB will scrutinise and investigate unexplained extraordinary wealth ○ Review the existing reliefs and incentives under various tax acts to make them relevant and cut down leakages ○ Place a time limit on the carrying forward of losses and allowances for tax reliefs to a maximum of 7 years, apply to unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses ○ Carry out a thorough review of over-130 types of fiscal schemes to support investments, administered by 32 approving authorities with the intention to expire incentives which are no longer relevant or are duplicitous ○ Step up enforcement against cigarette smuggling ○ Impose a departure levy for all outbound travellers by air starting 1 June 2019 ○ Real Property Gains Tax rates will be revised for disposals of properties or shares in property holding companies after fifth year ○ Stamp duty on transfer of property valued at more than RM1m will increase from 3% to 4% ○ Tax exemption granted for interest earned on wholesale money market funds will cease beginning 1 January 2019 ○ Continue to enhance Labuan's competitiveness by removing restrictions on trade in Malaysian Ringgit, transactions between Labuan and Malaysian residents as well as maintaining the current tax rate of 3% ○ Tax ceiling of RM20,000 under Labuan Business Activity Tax Act 1990 will be removed ○ Taxes, fees and levy on the Gaming Industry to be increased

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy	Key measures and initiatives
4. Ensuring Welfare and Quality of Life	• Continue the Government support for B40 households via the "Bantuan Sara Hidup" (BSH) cash grants with an additional top-up of RM120 per child (up to a maximum of four children); 4.1m households will continue to receive financial assistance totalling RM5bn • Put in place an EPF i-SURI contribution scheme for housewives under e-Kasih programme with an allocation of RM45m • Each car (1,500cc and below) and motorcycle (125cc or less) owner will enjoy up to 100 litres and 40 litres of RON95 petrol per month with a subsidy of RM0.30 per litre (depending on market price) with 4m car owners and 2.6m motorcycle owners (owners with multiple cars are not entitled) will benefit from the sum of RM2bn for 2019; others will pay prices for fuel determined on a weekly basis based on Automatic Price Mechanism (APM) • Allocate RM150m to equalise prices of critical goods to minimise the price differences between urban and rural areas • Allocate RM20m to adopt latest technology and techniques which more efficient and effective in price monitoring • Electricity subsidy policy more targeted to e-Kasih registrants, increase electricity subsidy to RM40 per month benefiting 185,000 accounts, with allocation of RM80m in 2019 • Allocate RM10m to identify and collaborate with NGOs and social enterprises to support their efforts in uplifting the underprivileged and marginalised communities • Income tax deductions will be provided for contributions from any parties to any social enterprise subject to a maximum of 10% of aggregate income of a company or 7% of aggregate income for a person other than a company

Strategy	Key measures and initiatives
5. Improving Employment and Employability	• HRDF will allocate RM20m in matching grants for "Apprenticeship" and "Graduate Enhancement Programme for Employability (GENERATE) " which will benefit at least 4,000 youths • For employee above age of 60, employer portion of EPF contributions be cut to 4% from current 6% effective 1 January 2019; current mandatory employee contribution be zeroed; provide additional tax deduction to employers who employ this group up to a monthly salary of RM4,000 • Provide an additional tax deduction for companies who employ ex-convicts up to a monthly salary of RM4,000 each • Provide a one-off RM500 assistance to pensioners who are receiving pensions of less than RM1,000 per month • Allocate RM10m per annum to make available healthcare service for parents of government's 'contract of service' officers • Allow 201,600 non-Muslims government officers for up to 7 days of Unrecorded Leave throughout duration of service for the purposes of performing religious pilgrimage and functions • Minimum wage shall be raised to RM1,100 per month for whole Malaysia starting 1 January 2019 • Require public-listed companies in Malaysia to publicly disclose key pay metrics each year in their annual report • Review labour laws to improve labour market, workers welfare and ban discriminatory practices by employers; expedite resolution of industrial disputes between employers and employees by setting up Industrial Appeals Court
6. Enhancing Health & Social Welfare Protection	• Assist those who have lost employment with full implementation of the Employment Insurance System (EIS) starting 1 January 2019 • Pilot a national B40 Health Protection Fund to provide free protection against top 4 critical illness for up to RM8,000 and up to 14 days of hospitalisation income cover at RM50 per day starting 1 January 2019 • Waive stamp duty for all Tenang Insurance products for two years beginning 1 January 2019 • Combined tax relief for EPF contribution and life insurance or takaful deduction will be separated into RM4,000 for EPF contribution and RM3,000 for takaful or life insurance premiums; tax deduction will be raised up to RM7,000 for civil servants under pension scheme • Allocate nearly RM29bn for Ministry of Health • Health Ministry will pilot a nationwide health screening programme, Skim Perlindungan Kesihatan (PEKA) for 800,000 individuals aged 50 and above in B40 households at a cost of RM100m • Allocate RM20m to provide free mammogram screening, PVHPV vaccination as well as pap smear tests for 70,000 women • Allocate RM50m for specific purpose of treating rare diseases, Hepatitis C virus, stunted growth among children, providing more haemodialysis treatments and Enhanced Primary Healthcare (EnPHC) • Widen Public-Private Partnership programs where Government will invest in healthcare facilities while private sector will invest in operations and maintenance to deliver best quality of service to the people • 'Sugar sweetened beverages' subject to excise duty of RM0.40 per litre to be implemented on 1 April 2019 • Set 2045 as the year to achieve "Smoke-free Malaysia" • Allocate development expenditure of RM5.9bn to Ministry of Defence and Ministry of Home Affairs

Strategy	Key measures and initiatives
7. Raising Real Disposable Income	**Housing for All** • Continue to support the construction and completion of affordable homes with an allocation of nearly RM1.5bn for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA and Syarikat Perumahan Nasional Bhd • RM1bn fund will be established by Bank Negara Malaysia to help the lower income group earning not more than RM2,300 per month to own a house for the first-time to purchase affordable homes priced up to RM150,000 with financing rate as low as 3.5% per annum (fund available for two years or until the allocation is exhausted) • For first-time home-buyers purchasing residential properties priced up to RM500,000, stamp duty to be exempted up to RM300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020 • Allocate RM25m to Cagamas Berhad for first-time home-buyers with household income of RM5,000 or less to provide mortgage guarantees to enable borrowers to obtain higher financing from financial institutions, inclusive of down payment support • Public Sector Housing Financing Board will extend the loan repayment period from 30 to 35 years for first loan, and from 25 to 30 years for second loan for civil servants • Allocate RM400m for the upgrading, repair and maintenance of government housing quarters of the police, armed forces and teachers • 10% reduction in price of houses that are not subjected to price control in new projects • Waive all stamp duty charges for unsold properties priced between RM300,001 and RM1m for 6 months, starting 1 January 2019 • Approve private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first time home buyers **Encouraging Public Transport Adoption** • Allocate RM240m to introduce a RM100 unlimited public transport pass on RapidKL rail and bus network and RM50 monthly pass for RapidKL bus services on 1 January 2019; the campaign will be expanded to other bus companies at a subsequent stage • Syarikat Prasarana Bhd will seek to improve its bus network by fully utilising and optimising its current fleet • Kuala Lumpur City Council, will allocate RM20m next year to provide additional free GoKL free bus services • RM500m for a Public Transport Loan Fund with 2% interest subsidy via Bank Pembangunan Malaysia available to taxi and bus companies as well as other public transport operators • Freeze toll hikes on all intra-city tolls around the country for 2019 that will cost approximately RM700m • Abolish toll for motorcycles for the First and Second Penang Bridge, Second Link in Johor, costing approximately RM20m per annum effective 1 January 2019 • RM10m to upgrade Autogate Malaysia Automated Clearance System and M-Bike

Strategy	Key measures and initiatives
8. Education for a Better Future	• RM2.9bn will be provided to help students from lower income groups in terms of food, text books and cash assistance • Allocate RM652m for upgrading of schools • All donations to national schools and public institutions of higher learning (IPTA) registered with Ministry of Education for upgrading and infrastructure will be tax exempted starting 1 January 2019; for other schools and institutions of higher learning will be evaluated on a case-by-case basis • Allocate RM100m towards the re-construction of dilapidated schools • Allocate RM206m towards development and provision of training programs in Polytechnics and Community Colleges • Introduce a RM30m Technical and Vocational Education and Training (TVET) Prestige Fund • Allocation of RM20m to raise youth competency via a TVET sponsored Bootcamp • Research funds amounting to RM400m allocated will be allocated to institutions of higher learning via a contestable fund • RM30m will be disbursed in the form of matching grants via the Malaysia Partnerships and Alliances in Research (MyPAIR) program • Provide scholarships and lending to all Malaysians with a total allocation of RM3.8bn, of which RM2bn is allocated to provide scholarship for Bumiputeras under sponsorship of MARA • Allocate RM17.5m over the next 5 years to Malaysia Professional Accountancy Centre (MyPAC) to produce 600 qualified Bumiputeras accountants • Allocate RM210m as part of the Bumiputera Empowerment Agenda • Introduce progressive loan repayment schedule ranging from 2-15% of PTPTN borrowers' monthly income depending on income level, apply to those monthly income at least RM1,000 • Tax relief for companies that help settle all the remaining loans of their employees for the year ending 2019 • Individual tax relief for additional savings deposited in PTPTN National Education Savings Scheme (SSPN) from RM6,000 to RM8,000 • Discounts on loan will be given to students from B40 households who have successfully obtained first class honours • Writing off the debt of those who are 60 years old and above with monthly income less than RM4,000, benefiting up to 350 debtors and costing RM4.2m • A new program, PATRIOT will be introduced for youths aged 15-30 involving 70,000 participants a year with an allocation of RM70m • Allocate RM100m to prepare athletes for Tokyo Olympics 2020 • Allocate RM10m for E-Sports to Malaysia Digital Economy Corporation (MDEC) **Upholding Islam** • Allocate RM1.2bn in 2019 for Islamic affairs; RM150m to carry out programmes such as building mosque and surau across the country, "Khaira Ummah" initiative to train more professionals among the huffaz and religious learning modules using *braille*

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy	Key measures and initiatives
9. Unleashing the Power of the New Economy	**Embracing the Digital Economy** • The many venture capital funds managed by Government agencies will be streamlined and made more efficient in delivering capital to companies in various stages of financing needs • Government-Linked Investment Funds will allocate RM2bn in matching funds to co-invest with private equity and venture capital funds, which focus on strategic sectors and new growth areas. • Allocate RM50m to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing • Capital Markets and Services (Prescription of Securities) Guidelines will be gazetted in first quarter of 2019 to set up a new regulatory framework to approve and monitor Digital Coin and Token Exchanges • Extend double tax deduction policy for additional expenditure incurred when issuing sukuk under the principles of Ijarah and Wakalah, and additional expenditure incurred by the companies issuing retail bonds or sukuk for 3 assessment years commencing in 2019 • Set up a Special Committee on Islamic Finance • Continue Film In Malaysia Incentive (FIMI) with an allocation of RM30m; Khazanah Nasional Berhad will provide an allocation of RM100m for FIMI specifically applicable to film production at Pinewood studio in Iskandar Johor • Launch National Fibre Connectivity Plan in 2019 with an allocation of RM1bn **Accelerating Adoption of Industry 4.0** • Allocate RM210m from 2019 to 2021 to support the transition and migration to Industry4.0 • Assist first 500 SMEs to carry out Readiness Assessment to migrate to Industry4.0 platforms via Malaysia Productivity Corporation • Provide RM2m in the Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources • Make 250 facilities and 1,200 scientific equipment and research data available for the private sector to access and share in 2019 • Start a Researcher-Mapping program to place at least 100 researchers at research facilities with the private sector, with the cost borne by the Government • Allocate RM2bn under Business Loan Guarantee Scheme (SJPP) to incentivise SMEs to invest in automation and modernisation, where the Government will provide guarantees of up to 70% • Create a RM3bn Industry Digitalisation Transformation Fund with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad • MIDA will continue to provide matching grants through its High Impact Fund (HIF) with a specific emphasis of Industry4.0 initiatives • Khazanah will lead and develop an 80-acre development in Subang as a world class aerospace industry hub • Khazanah will work with all relevant agencies, especially MARA to produce high-skilled workers to meet the demands of industry • Provide double tax deduction for company expenses in related to upgrading the marketability of graduates and skill-level of Industry4.0-related workforce

Strategy	Key measures and initiatives
10. Seizing Opportunities in the Face of Global Challenges	• MoF and MITI will form a joint task force to drive regulatory reform, particularly in the areas of improving trade processes and tax administration • Improve existing incentives by charging a concessionary 10% income tax rate on overall statutory income related to Principal Hub activities for a period of 5 years **Strengthening Small Medium Enterprises (SME)** • RM4.5bn SME Loan Fund via commercial financial institutions with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP), including RM1bn for Bumiputera SMEs • Corporate income tax rate for taxable income up to RM500,000 and SMEs with less than RM2.5m in paid up capital will be reduced from 18% to 17% • Encourage exports through financing by EXIM Bank by making available RM2bn worth of credit and takaful facilities to the SME exports • Allocate RM100m to upgrade capability of SMEs in halal industry via various programs • RM1bn SME Syariah Compliant Financing Scheme made available via Islamic financial institutions where Government will provide a subsidy of 2% profit rate • Permodalan Usahawan Malaysia Berhad will make available RM200m for wholesale and retail industry, as well as for the purchase of business premises to be rented to Bumiputera SMEs • RM100m is allocated to TEKUN to finance small entrepreneurs • Allocate RM20m to initiate ‘Buy Malaysian First’ campaign to support local products and services • Implement new tiered levy system where levies charged will be higher for employers with a higher percentage of foreign workers • Reduce the extension levy for foreign workers in agriculture and plantation industry who have served for 10 years or more from RM10,000 to RM3,500 per worker per annum **Lubricating the Logistics and Transportation Sector** • Allocate RM2.46bn for upgrading and restoration works for railway tracks to upgrade the country’s transport infrastructure • Support development and growth of Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah as a strategic trading and logistic hub between Malaysia and Thailand with RM25m allocation to develop a truck depot to catalyse development • Convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse increased shipping and logistics activities in Port Klang **Value-adding Commodities** • Implement Biodiesel B10 program for the transportation sector and B7 for the industrial sector in 2019 • Allocate RM30m to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification • Committed to increase utilisation of local rubber as a new raw material for various industrial products; targets the use of Cuplumb Modified Bitumen (CMB) to build roads at ports and industrial areas in stages with an allocation of RM100m • Provide Rubber Production Incentive with an allocation of RM50m to protect the effects of the fall in rubber prices (below RM2.20 per kilogram) for smallholders • Allocate RM47m for Research and Development to increase productivity of seeds, grains and fruits • Allocate RM18m to incentivise automation of agrofood industry • Allocate RM52m to implement agricultural and agrofood industry, as well as entrepreneurship training for youths

Strategy	Key measures and initiatives
10. Seizing Opportunities in the Face of Global Challenges (cont.)	**Boosting Tourism** • Pay specific attention to achieve the Ministry of Tourism's target of 30m foreign tourists contributing RM100bn by 2020 • Allocate RM100m in matching grants to private sector for running promotional and marketing campaigns overseas to increase number of visitors to the country • Provide tax free incentives to Penang's Swettenham Pier in the form of duty-free shops to cater to its booming cruise tourism; develop tourism potential of Pulau Pangkor by declaring it as a duty free island; duty-free island status of Pulau Langkawi has been enhanced and will be further expanded • Share 50% of the proceeds on tourism tax, estimated RM50m with the states • Make available RM500m worth of loan facilities via the SME Tourism Fund with SME Bank at 2% interest subsidy • Khazanah Nasional Berhad will lead the public-private partnership to redevelopment and restoration of the Sultan Abdul Samad building in Kuala Lumpur into an arts, cultural and heritage hub • Allocate RM20m for Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in a year to collaborate with reputable private hospitals to enable branding of Malaysia as a destination of choice for medical tourism
11. Redefining the Role of Government in Business	• Set up a Special Task Force to evaluate role and functions of statutory bodies and companies owned by Ministry of Finance, Inc. • Focus expenditure and investments only in strategic sectors and areas where markets are unable to meet the needs of the people, especially in Research and Development
12. Ensuring Equitable and Sustainable Economic Growth	**Ensuring Balanced Development** • Allocate RM926m to build and upgrade roads and bridges which are part of the main village access roads • Allocate RM694m and RM738m to supply electricity and water respectively to rural and remote regions • Allocate RM85m to New Villages for the purposes of upgrading and maintaining basic infrastructure • Allocate RM100m to support Indian community • Allocate RM100m to strengthen development of orang asli communities • Allocate RM20m to residents associations registered with Registrar of Societies to carry out community, security and neighbourhood activities • For FELDA developments, allocate RM100m to upgrade roads, RM160m to carry out water supply projects and RM35m for buildings and basic infrastructure • Development expenditure of RM5,009m has been allocated to Sabah and RM4,346m has been allocated for Sarawak • Continue to implement Pan Borneo Highway encompassing Sabah and Sarawak, subject to a cost rationalisation exercise **Women in the Workforce** • Allocate RM10m to set up another 50 childcare facilities in Government buildings to ease the burden of working mothers; continue to encourage and incentivise private sector to follow suit • Encourage higher women participation among the public listed companies; call upon the private sector to emulate the Government by ensuring the objective of 30% women participation in the Board of Directors is achieved by 2020

Strategy	Key measures and initiatives
12. Ensuring Equitable and Sustainable Economic Growth (cont.)	**Environment and Energy for the Future** • Allocate RM60m to help fund specific projects by the state governments to protect and expand existing natural reserves • Take steps to list Forest Research Institute Malaysia (FRIM) Forest Park in Selangor and Royal Belum Perak as UNESCO World Heritage Sites • Allocate RM5m for micro-grants to implement programs with the cooperation from United Nations Development Program (UNDP) to manage and protect environment in Orang Asli and Orang Asal communities • Pioneer Status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer • RM2bn Green Technology Financing Scheme (GTFS) made available at selected commercial banks where the Government will subsidise the interest cost by 2% for first 5 years • Bank Pembangunan Malaysia Berhad will provide a Sustainable Development Financing Fund of RM1bn to support the Agenda 2030 for Sustainable Development as well as the 17 Sustainable Development Goals (SDG) under United Nations Development Programme, while Government will provide a subsidised interest rate of 2% as an incentive • Expand list of green assets which qualifies for Green Technology Investment Allowance (GITA) from 9 assets to 40 assets in MyHijau directory
Miscellaneous	• Allocate RM286.8m for Malaysian Anti-Corruption Commission operating expenses • A bonus of RM500 for civil servants serving at grades 54 and below; a bonus of RM250 will be paid for government pensioners; the bonus payments will be made by end of December 2018, which will cost RM1bn • Japanese Government to guarantee JPY200bn or approximately RM7.4bn of 10-year Samurai bonds via Japan Bank of International Cooperation at an indicative coupon of 0.65%, which will be issued before March 2019

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