社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

2019 BUDGET: RESET and REBRAND

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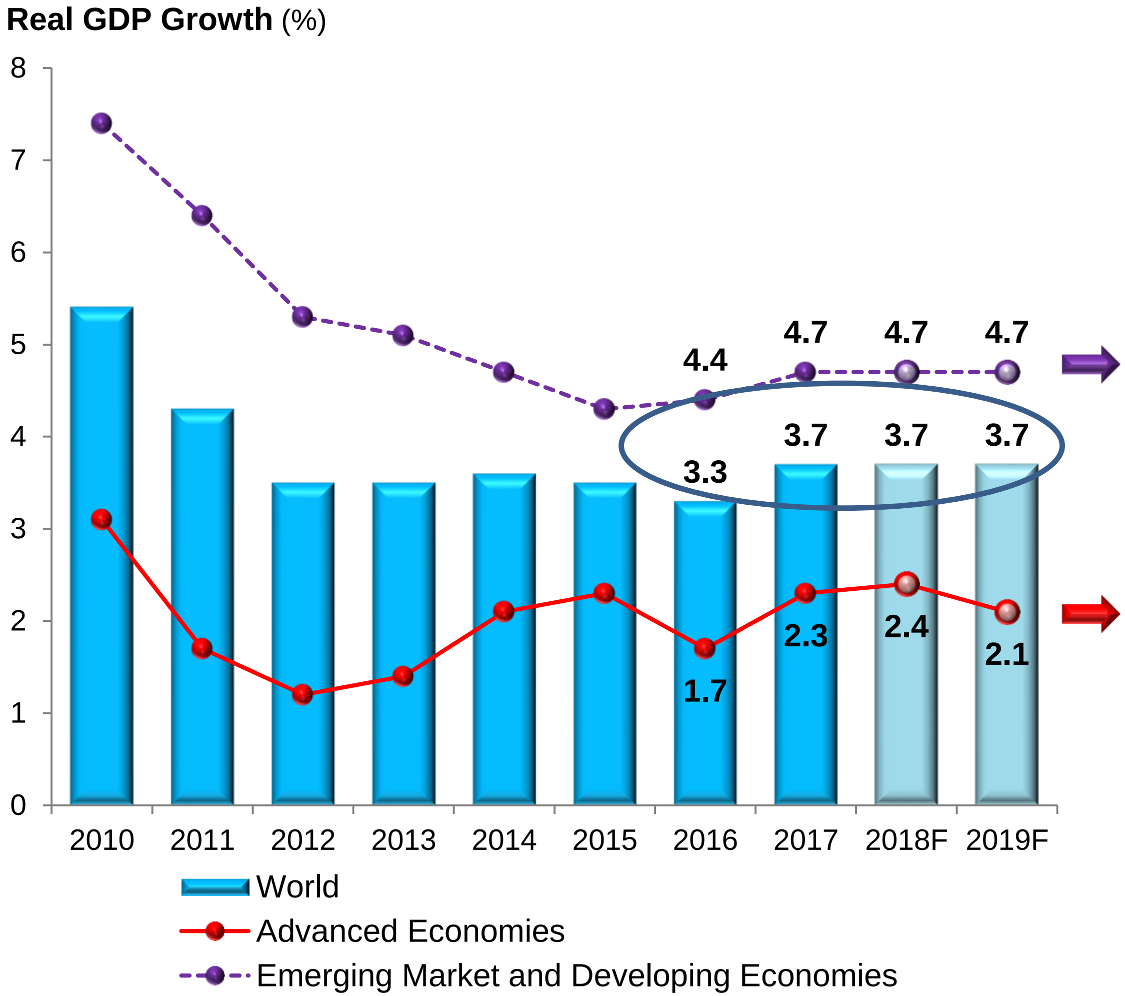
14 November 2019

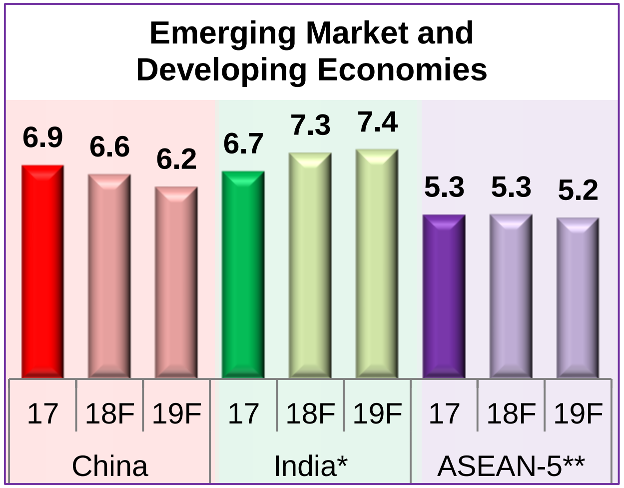
Section 1:

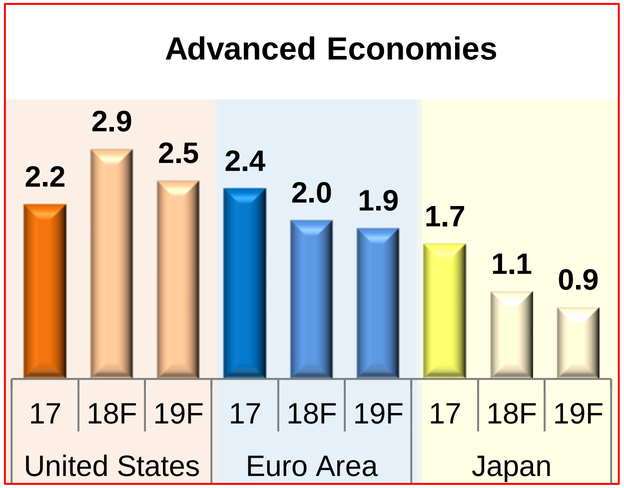
Risks to Global Growth

-Growing downside risks-

GROWTH prospects for advanced and emerging economies







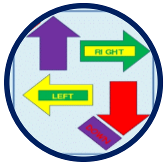
Source: Officials; IMF (WEO, October 2018)

* *Annual GDP for India is on fiscal year basis*

** *ASEAN-5: Malaysia, Indonesia, Philippines, Thailand, Vietnam*

Global economy still GROWING but MULTIPLE RISKS ahead

Global growth has **MATURED** and **PASSED ITS PEAK**. **INCREASING DOWNSIDE RISKS** to growth over next 18 months.



UNEVEN EXPANSION and **LESS SYNCHRONIZED** in advanced economies and emerging Asia.

"**FIVE RISKS**" increase **global uncertainty**:

1. TRADE WAR

4. INTENSIFIED RISKS IN EMERGING MARKETS

2. RISING US INTEREST RATES

5. POLITICAL AND GEOPOLITICAL RISKS

3. FINANCIAL VOLATILITY

Section 2

2019 Budget: Reset and Rebrand

-Restore Fiscal Health, Refocus Priorities, Reinforce Our Strengths-

New Malaysia in TRANSITION: Policy PRIORITIES

POLITICAL AND ECONOMIC POLICIES TRANSITION – adjustment and transition costs; short-term pain for long-term gains if the Government wants to be **LEANER, MEANER AND BETTER**.

First, is to **RESTORE THE RULE OF LAW AND ACCELERATE INSTITUTIONAL REFORMS** for better Government and governance.

Second, **FISCAL RECONSTRUCTION** to maintain **FISCAL DISCIPLINE AND RESPONSIBLE BUDGET** as well as debt controls through reduced waste, leakage and weed out corruption.

Third, **RESTRUCTURE THE GOVERNMENT (PUBLIC SECTOR, including GLCS)** and **INSTITUTIONS** to restore public trust; to become a more effective and responsive enabler as well as good regulator.

A SMALLER, LESS INTRUSIVE ROLE FOR GOVERNMENT, MUCH MORE CONTAINED PUBLIC SERVICE AND A BIGGER ROLE FOR THE PUBLIC-PRIVATE PARTNERSHIPS UNDER MALAYSIA INCORPORATED

CRITICAL BUDGET ISSUES AND DECISIONS

FISCAL CHALLENGES

- **Tax revenue** under pressure under SST
- **Oil revenue & PETRONAS dividends** come to rescue **BUT** not sustainable
- **Non-tax revenue** to fetch more
- **Committed expenses** unlikely to cut more
- **Legacy obligations**

ECONOMIC CONDITIONS

- ❑ **External environment** still challenging
- ❑ **Global & trade** growth revised lower in 2019
  - **Global growth:** +3.7%
  - **Trade growth:** +4.0%
- ❑ **Domestic GDP growth** has slowed; **sentiments** softened

CASE FOR FISCAL RESET / RECONSTRUCTION

- ➢ **Drastic public spending cut** would hurt economic growth
- ➢ **Prioritise & smart spending** on key sectors
- ➢ **Revenue enhancement** measures to plug deficit
- ➢ **Reset** fiscal deficit reduction path

Principles of RESTORING FISCAL HEALTH:

Fiscal transparency; Expenditure optimisation; Revenue enhancement

Competency

Accountability

Transparency

Public Finance Committee

- Strengthen fiscal administration
- "Zero-based" budgeting
- Fiscal Responsibility Act (by 2021)
- Government Procurement Act (by 2019)
- Debt Management Office (restructuring and rationalising government debt)

Tax Reform Committee

- Review the existing reliefs and incentives
- Look for sustainable revenue
- Ensure effective taxation system

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.

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

- ✓ **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.

- ✓ **Reviewing taxation to streamline and tighten tax leakages**, including the **Special Voluntary Disclosure Program**.

- ✓ 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. 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.

2019 Budget stance: Responsible, Bold and Balanced

- Reset but continued on fiscal reduction path. The Government has chosen to start on a clean slate and reset the Budget starting 2018.

- This Budget can be characterised as **a responsible and reasonably well balanced** under difficult circumstances and fiscal constraints cautious, looking to boost its revenue through additional initiatives while holding expenditure growth tight. appealed to ‘ordinary’ Malaysians and businesses by sharing the pain and gains fairly across the board.

- 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.**

2019 Budget stance: Responsible and Balanced

- 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.

- The Budget's allocations will be prioritized to **sectors (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.

- **The questions remain**: The Budget seems genuinely set to live within its means. Is the Budget sufficient to attain the targeted GDP growth of 4.9% for 2019? How sustainable is the revenue base? What are the potential risks that could derail the Budget and economy?

Section 3

2019 Budget: The Economy, Revenue and Expenditure

-Sustaining growth, Reclassification and Reordering Spending -

The economy at a glance – PERFORMANCE and PROSPECTS

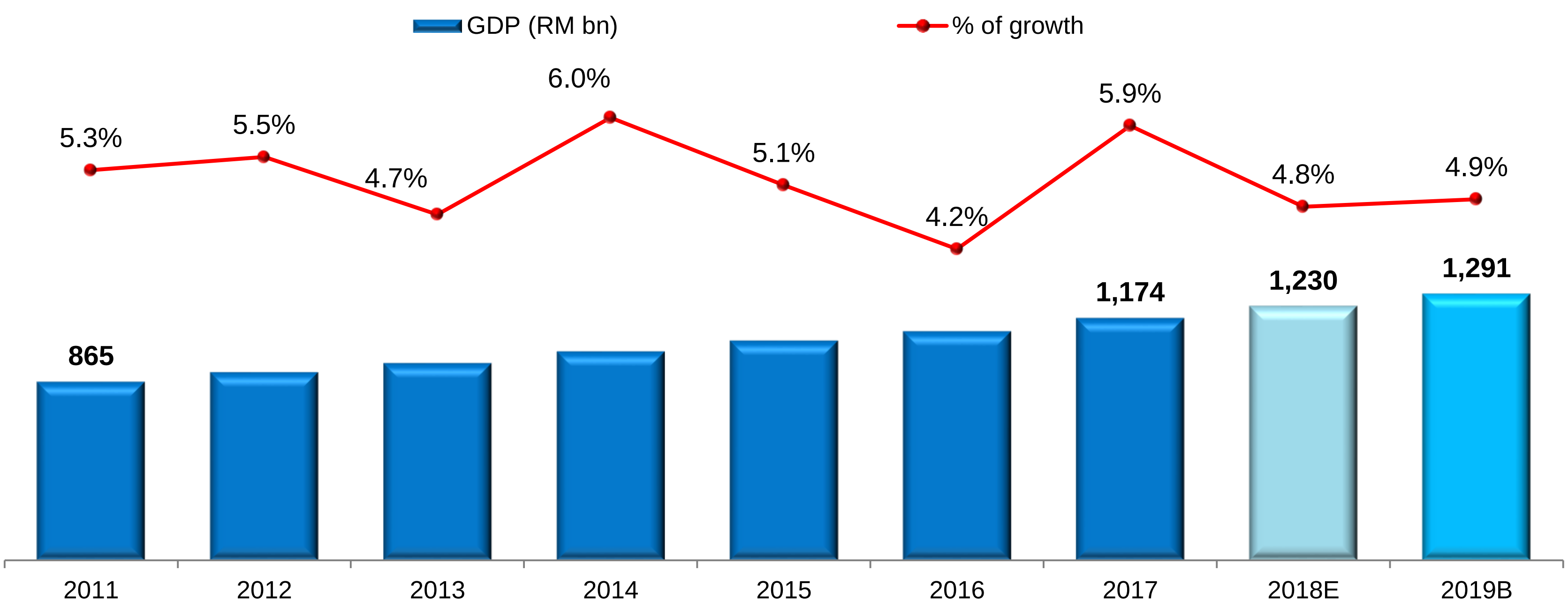
Key indicators	2017	2018E	2019B
Real GDP growth (%)^	5.9	4.8	4.9
Private consumption growth (%)^	7.0	7.2	6.8
Private investment growth (%)^	9.3	4.5	5.0
Income per capita (RM)	41,128	42,937	44,686
Unemployment (%)	3.4	3.3	3.3
Inflation (%)	3.7	1.5-2.5	2.5-3.5
Export Growth (%)	18.8	4.4	3.9
Current account 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

- **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

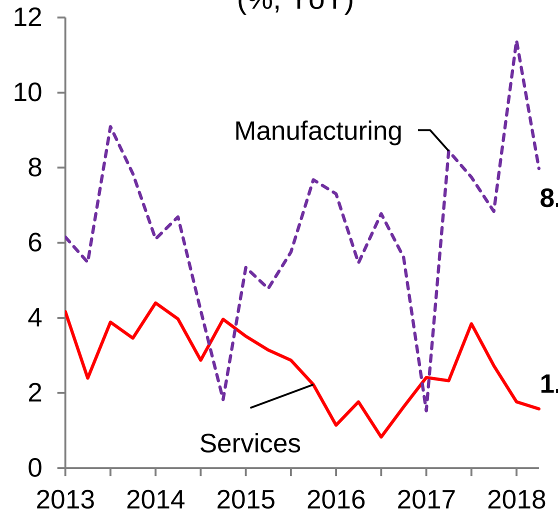
Figure in parenthesis denotes % share of GDP
Source: BNM; MOF

** less than 0.1% growth*

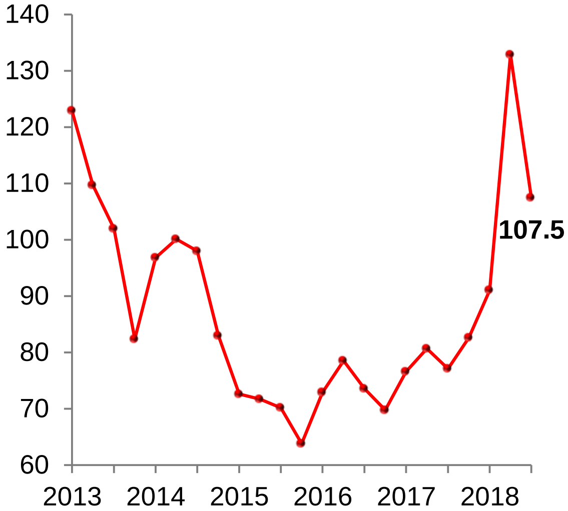
SOLID consumer spending but will it normalise?

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

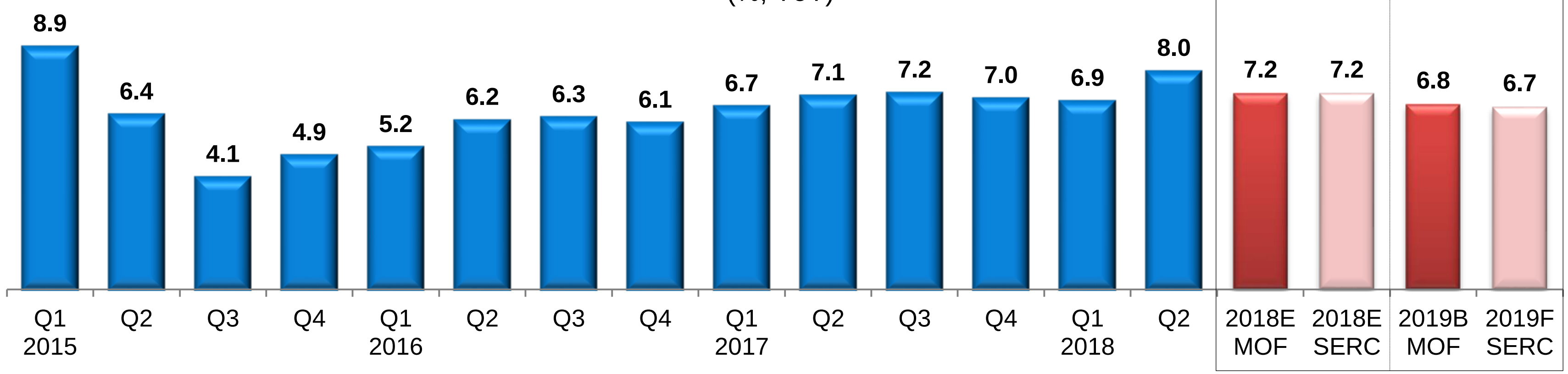
Private Sector's Employee Income
(%, YoY)



MIER Consumer Sentiments Index (CSI)



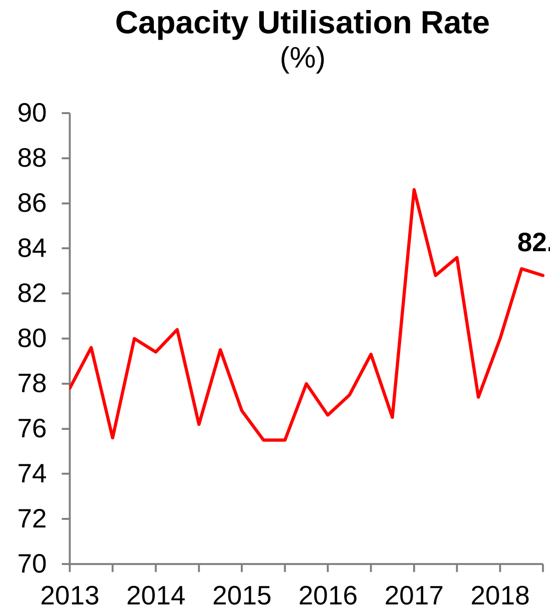
Private Consumption Growth
(%, YoY)

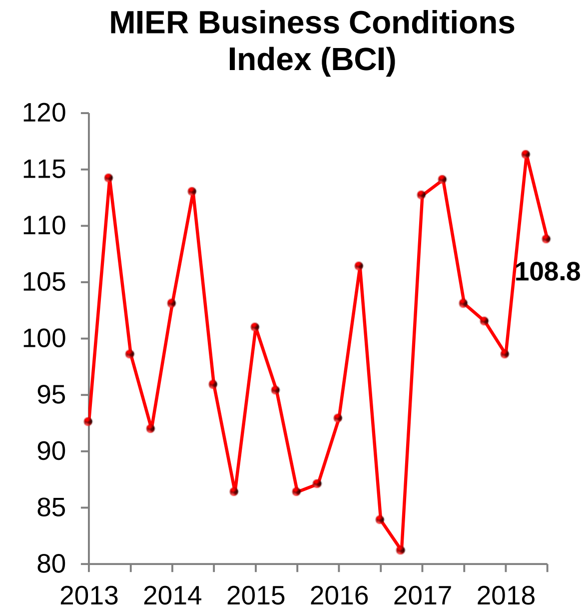


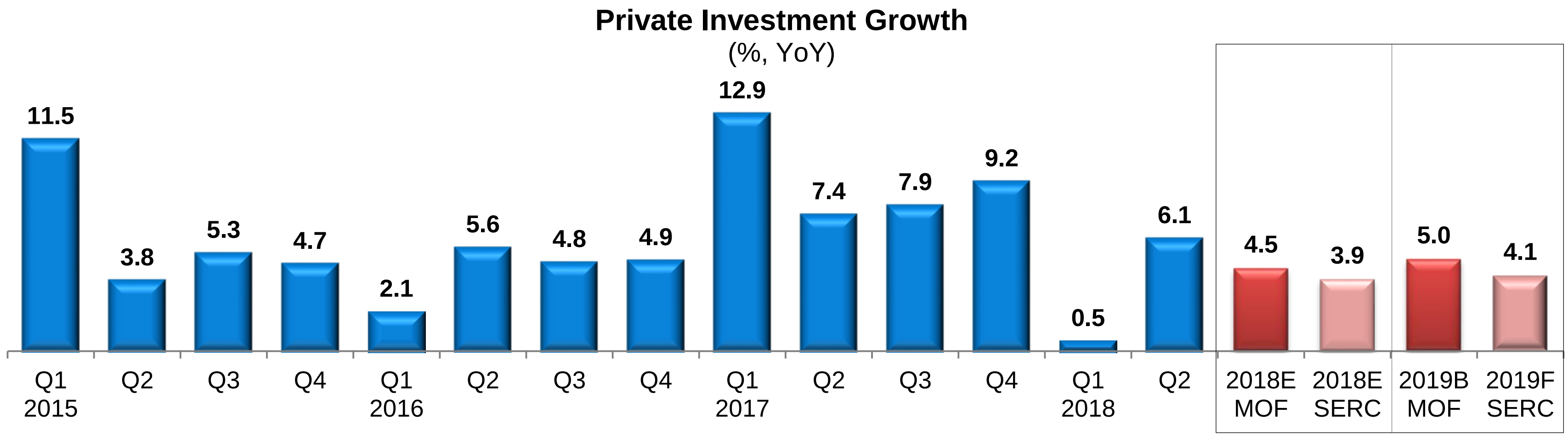
Source: Department of Statistics, Malaysia (DOSM); MIER

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







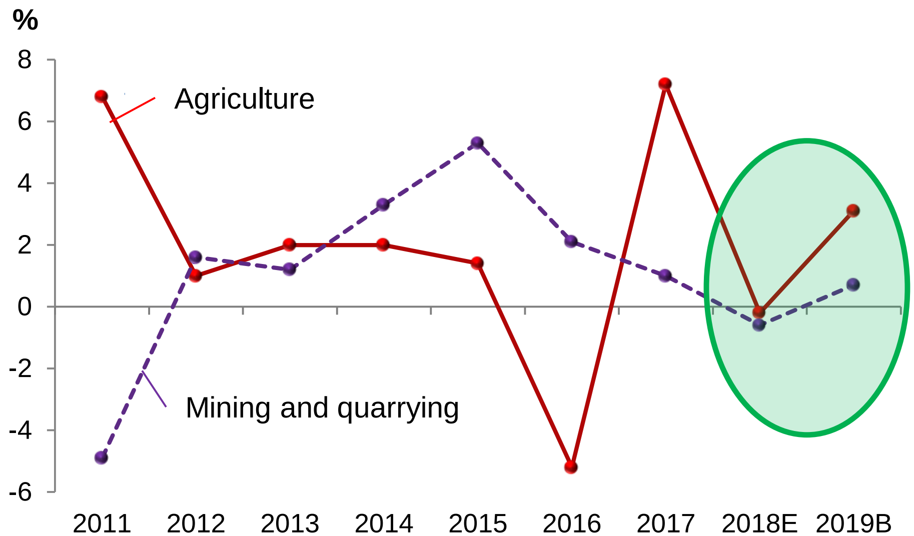
Source: DOSM; MIER

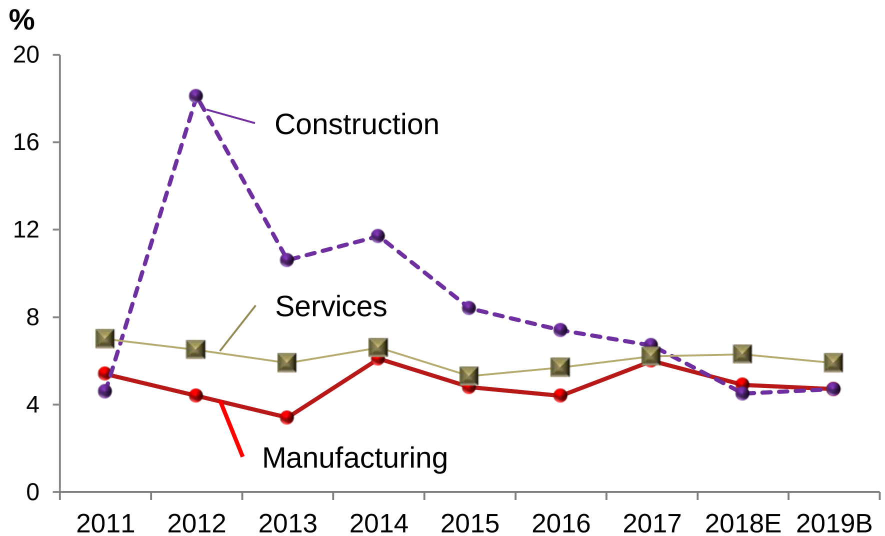
SECTORAL target at a glance

- 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.)

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

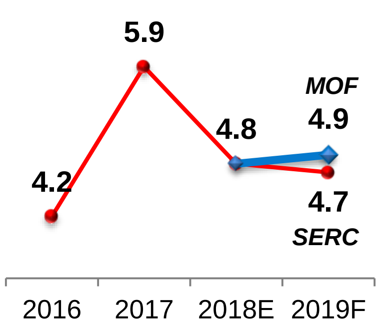
- Driven by recovery in the **production of natural gas** following the resumption of operation in Kebabangan and Kinabalu fields as well as expectation of new production from Bakong and Larak fields in the second half of 2019.
- **Crude oil and condensates** subsector is expected to decline due to production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

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

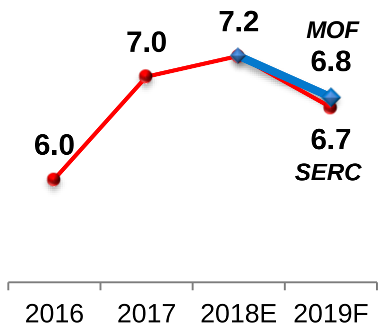
- The **civil engineering** remains as the driver of construction sector, supported by on-going projects (Pan Borneo Highway in Sabah and Sarawak; Central spine Road in East Coast, MRT2, LRT3 in Klang Valley, Deepwater Petroleum Terminal 2 at RAPID, Floating LNG 2 in Sabah and the Central Processing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

Malaysia's key ECONOMIC INDICATORS

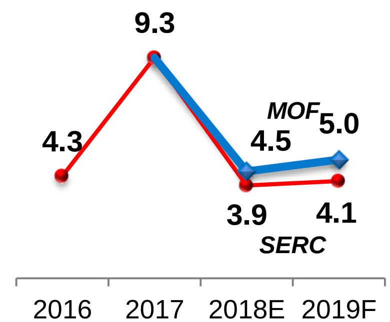
Real GDP Growth
(%)



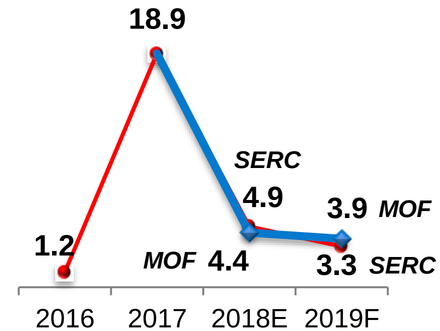
Private Consumption Growth
(%)



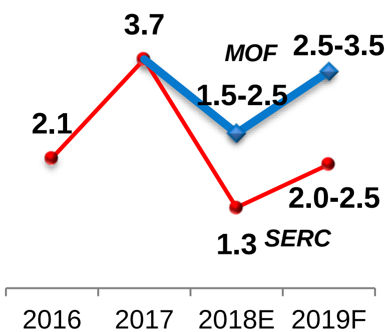
Private Investment Growth
(%)



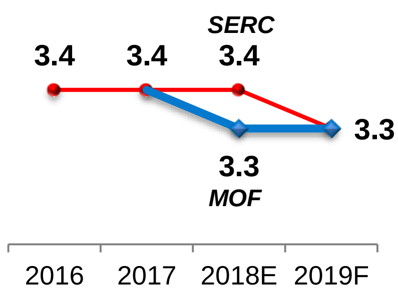
Gross Exports Growth
(%)



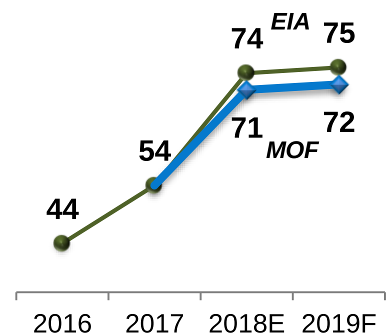
Inflation Rate
(%)



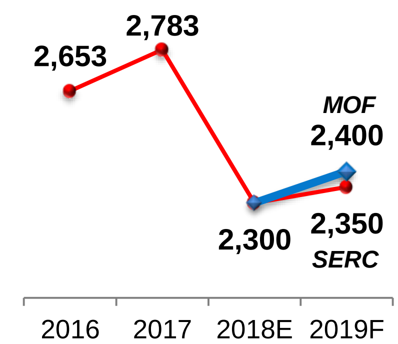
Unemployment Rate
(%)



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

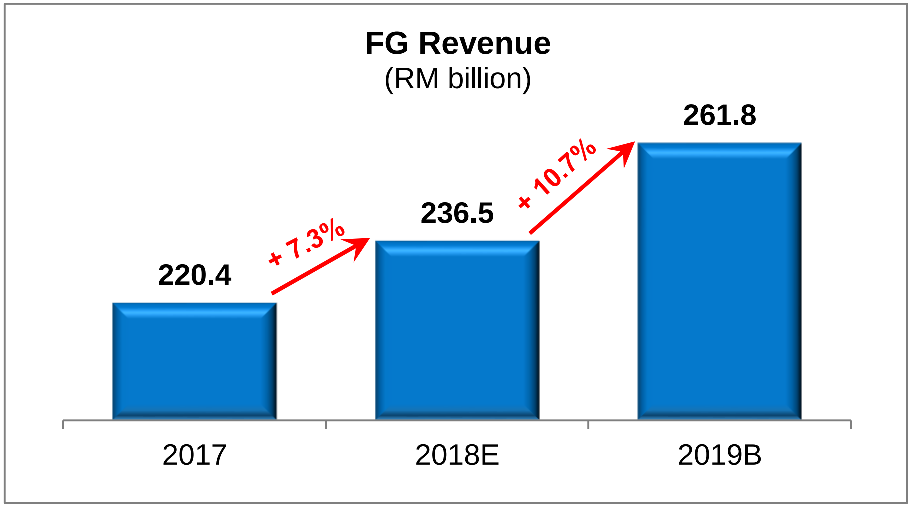
- Private sector expenditure will cushion the effects of lower public spending.
- All economic sectors are expected to register positive growth in 2019.

% 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**

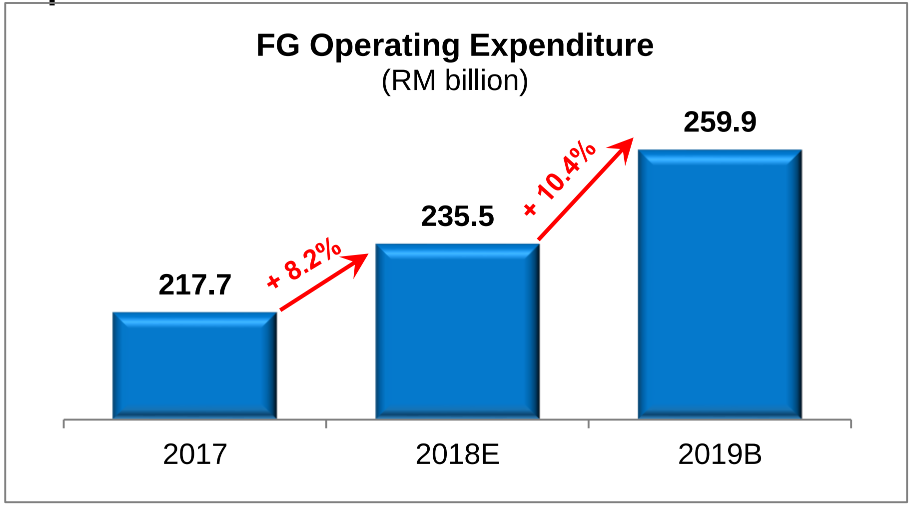
** Growth less than 0.1%*
Figure in parenthesis indicates % share to GDP in 2018
Source: DOSM; MOF

2019 Budget analysis: REVENUE and EXPENDITURE

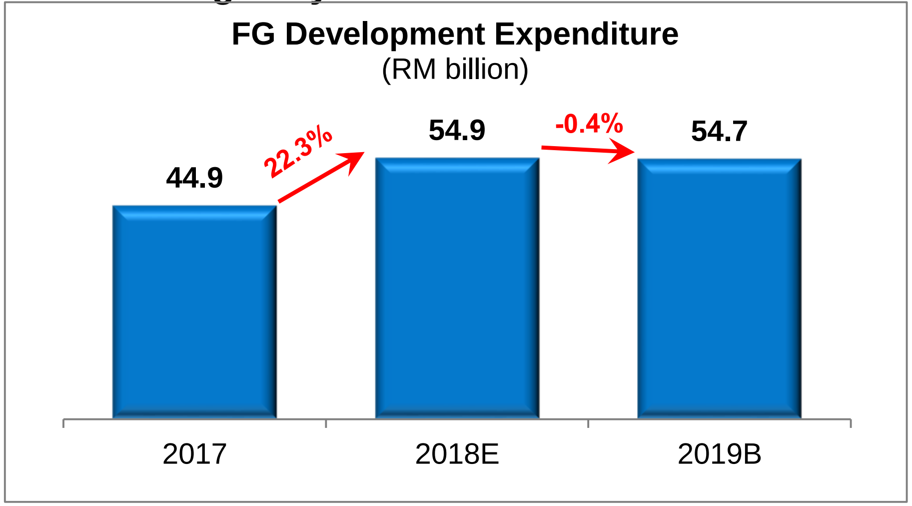
Revenue rises for three consecutive years



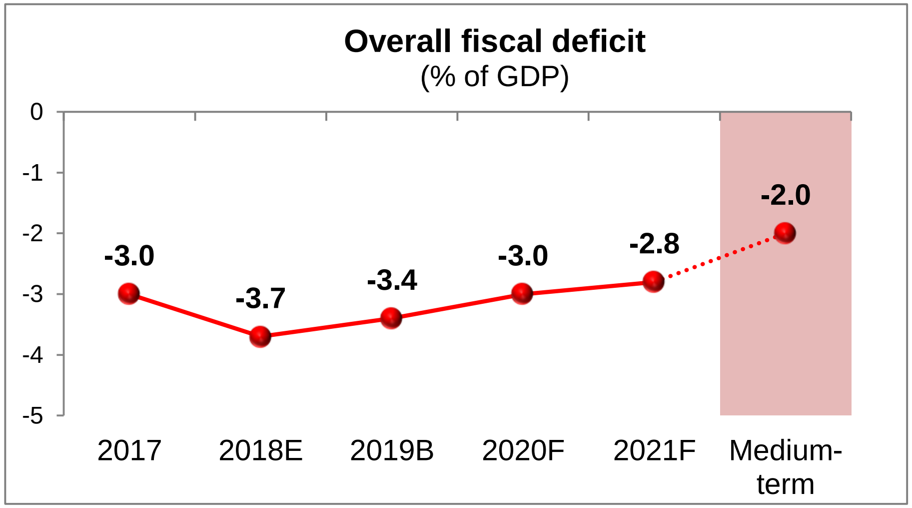
About 99.2% of revenue goes to operating expenditure



Development expenditure is budgeted to decline marginally to RM54.9bn in 2019



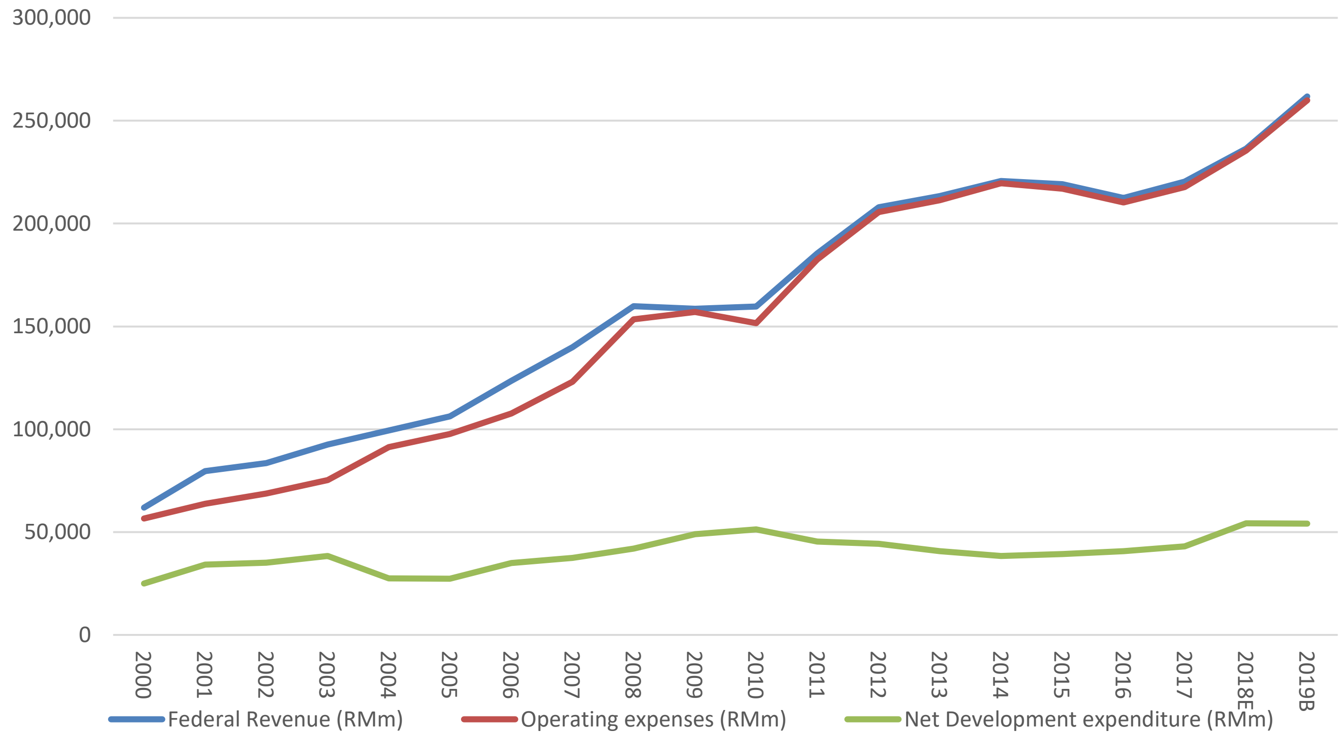
Fiscal deficit to narrow gradually



Source: MOF

SHRINKING operating surplus

- **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.



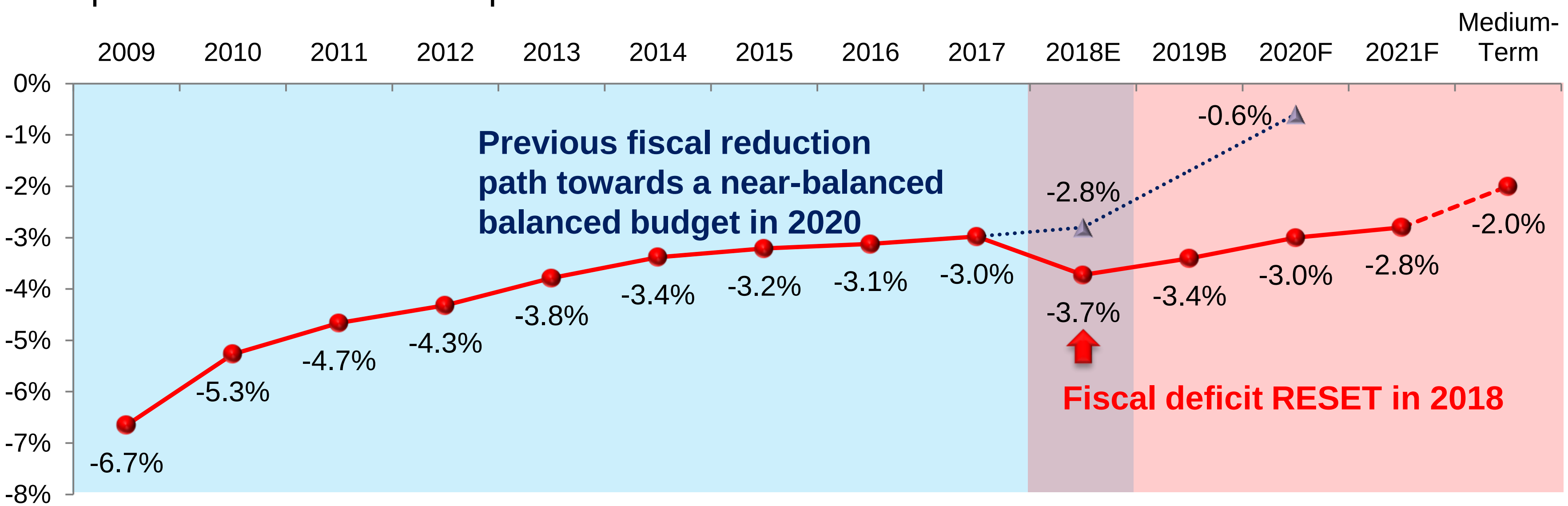
Source: MOF

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

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.*

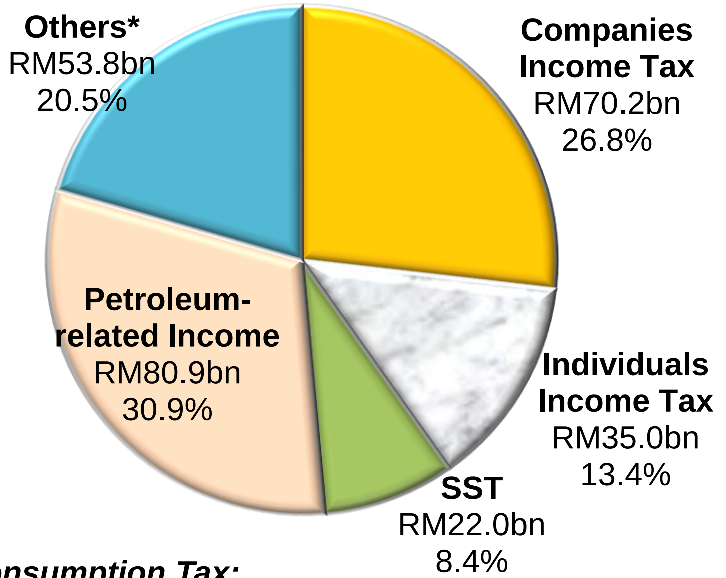
	Date of change	Grade	
		From	To
Fitch Ratings	8 November 2004	BBB+	A-
S&P Global Ratings	7 October 2003	BBB+	A-
Moody's	16 December 2004	Baa1	A3

	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

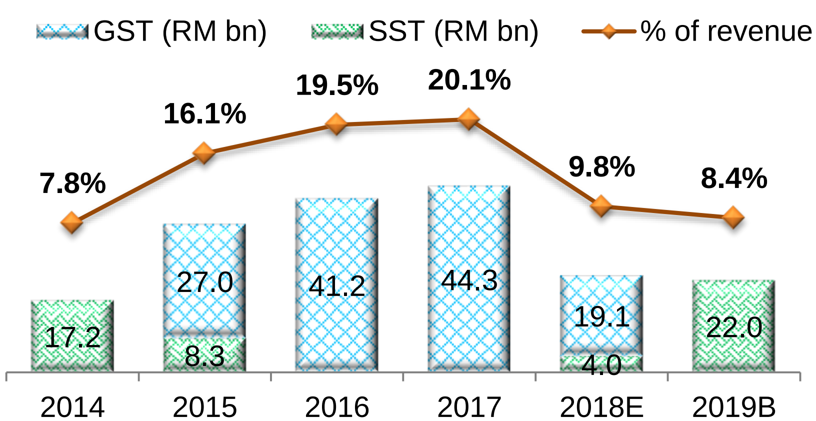
DISTRIBUTION in revenue

2019B: Where is the money coming from?

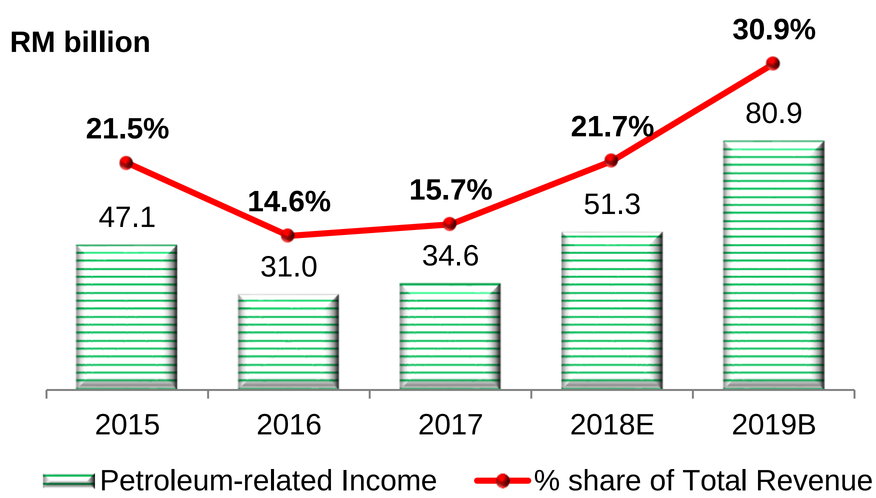


- **SST revenue** budgeted at RM22.0bn, accounted for 8.4% of total revenue (2018: RM4.0bn).
- Company income tax (-0.5% to RM70.2bn); Individual income tax (+0.4% to RM35.0bn)
- **Petroleum-related income** increased by 56.7% to RM80.9bn (of which **RM30.0bn is PETRONAS's special dividend**).
- **Oil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

Consumption Tax:



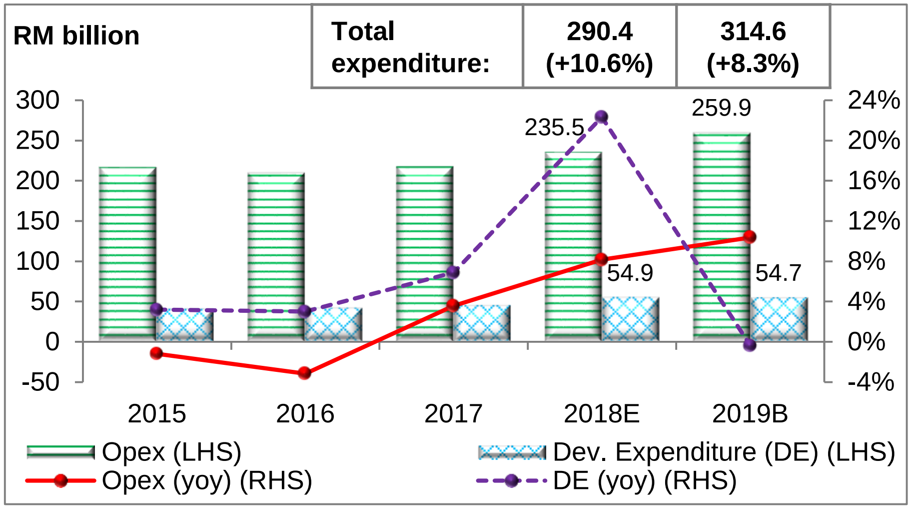
Petroleum-related Revenue:



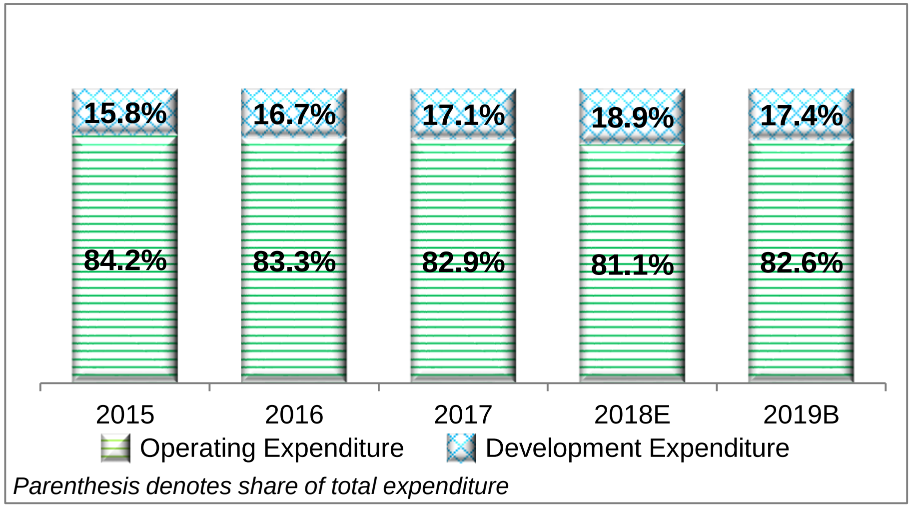
** Includes non-tax revenue, excise duty, stamp duty, etc.*
Source: MOF

Budgetary EXPENDITURE MIX

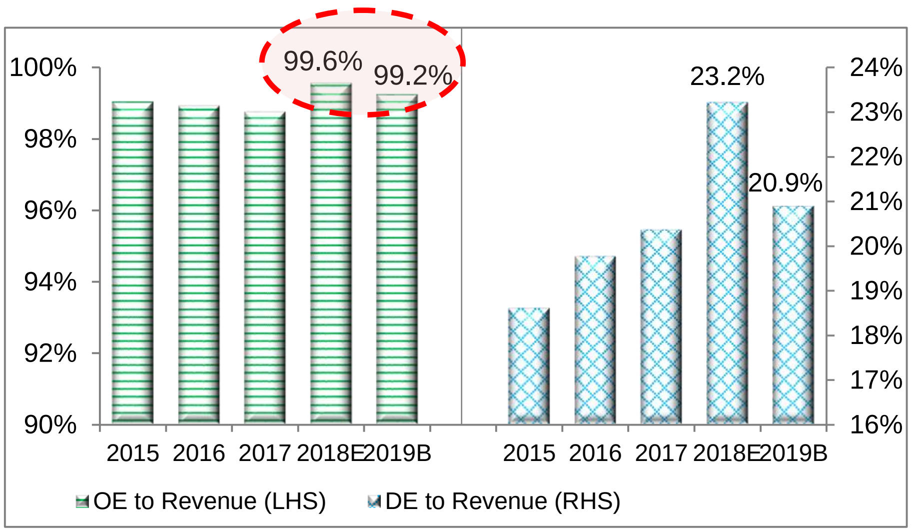
Operating expenditure rises for three years in a row since 2017



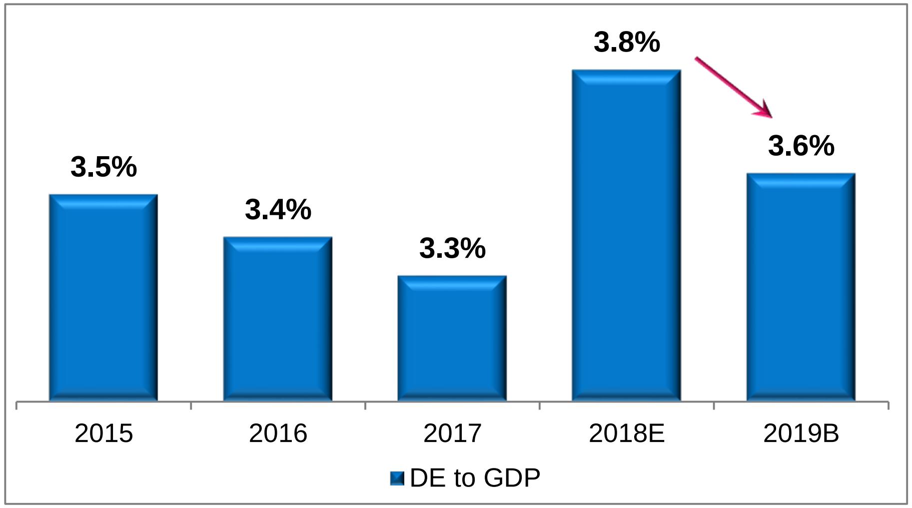
% share of development expenditure in 2019



OE and DE to revenue ratio



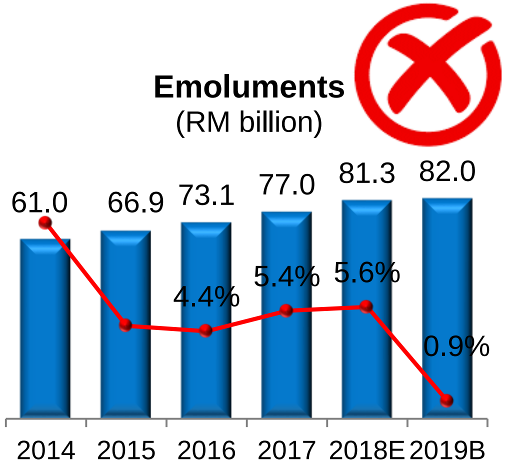
Declining share of DE to GDP in 2019

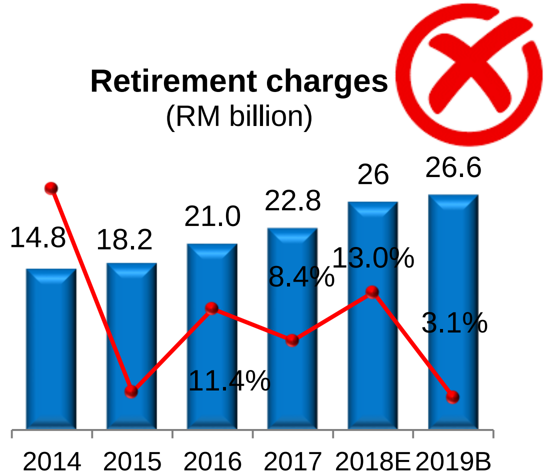


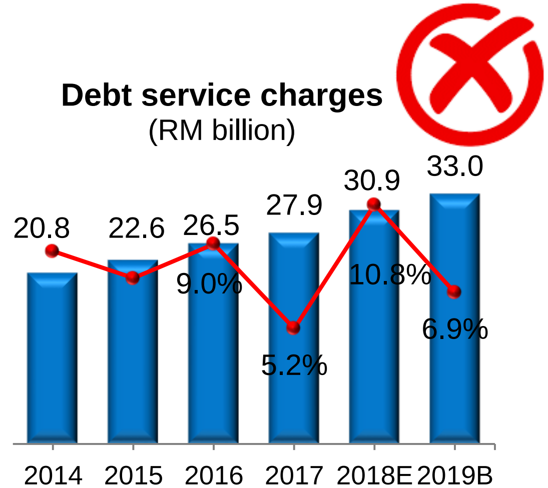
Source: MOF

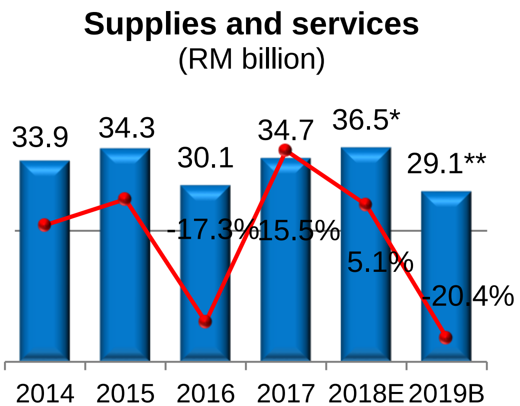
Operating expenditure analysis calls for FURTHER RESTRAINT

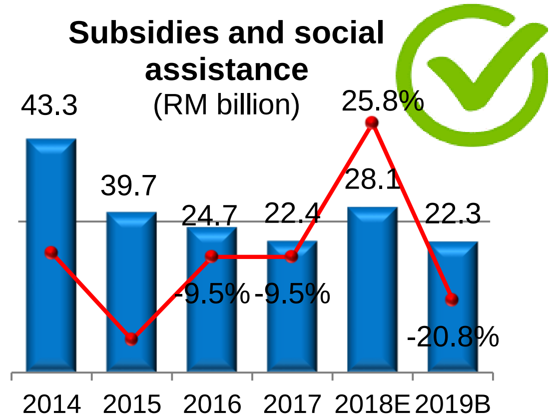
Distribution of operating expenditure by type

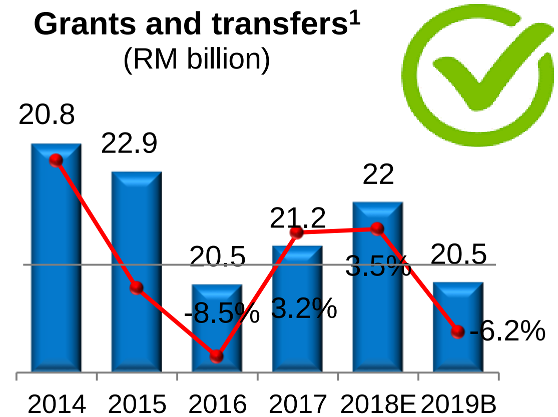








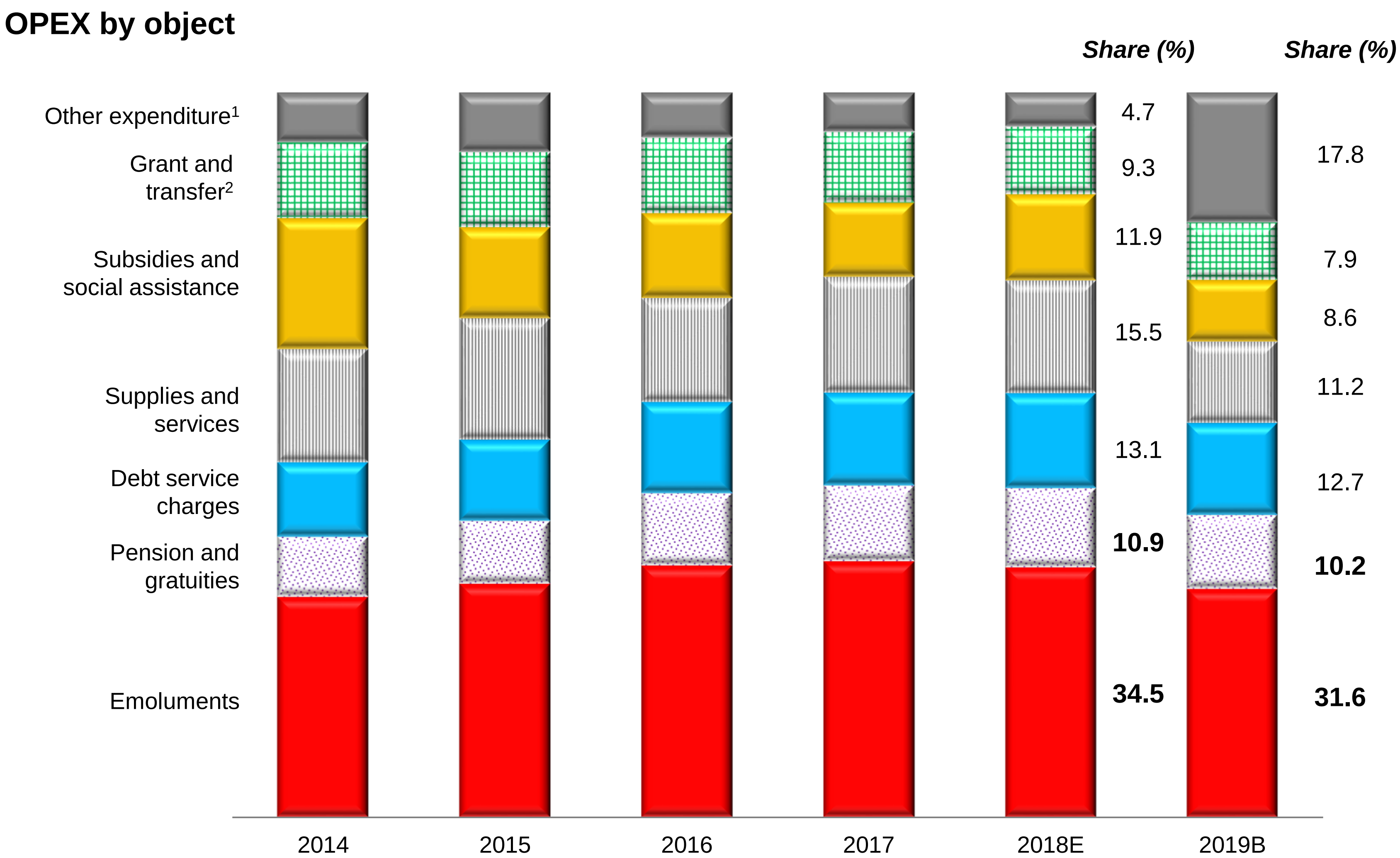




*Note: Line chart indicates changes of operating expenditure; * Higher due to RM3.8bn for hospital cleaning services, school security, asset and system maintenance. ** Reclassification of items related to capital investment from OE to DE; reprioritise of projects under zero-based budgeting; [1] Includes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



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

Source: MOF

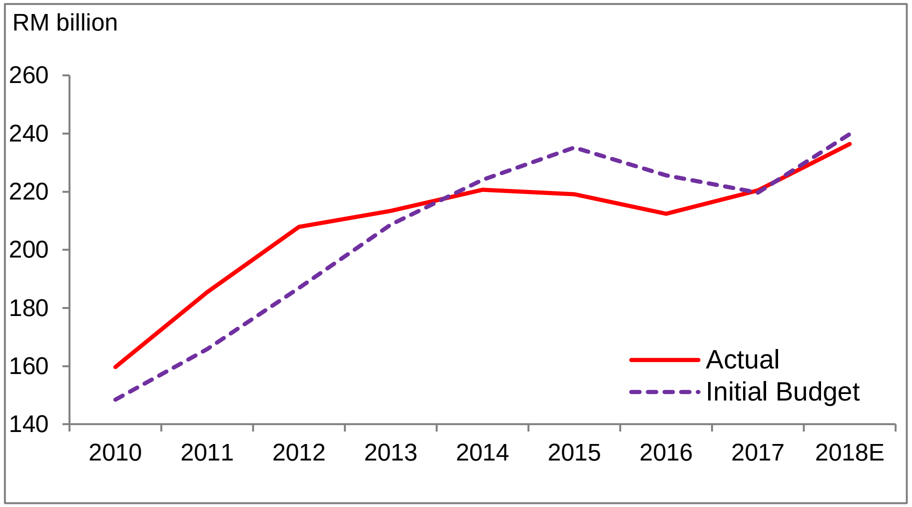
Development expenditure: SECTORAL ALLOCATION

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**

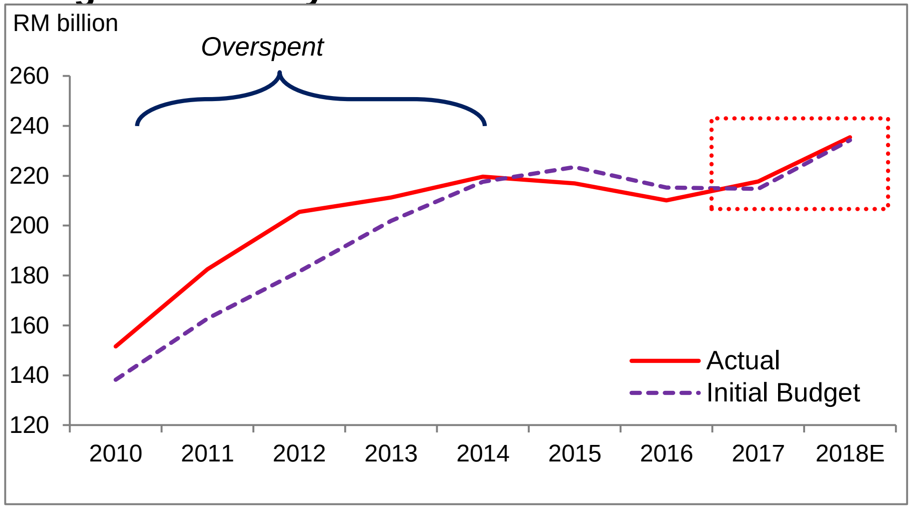
Source: MOF

Budgetary operation trends – ACTUAL VS. ESTIMATES

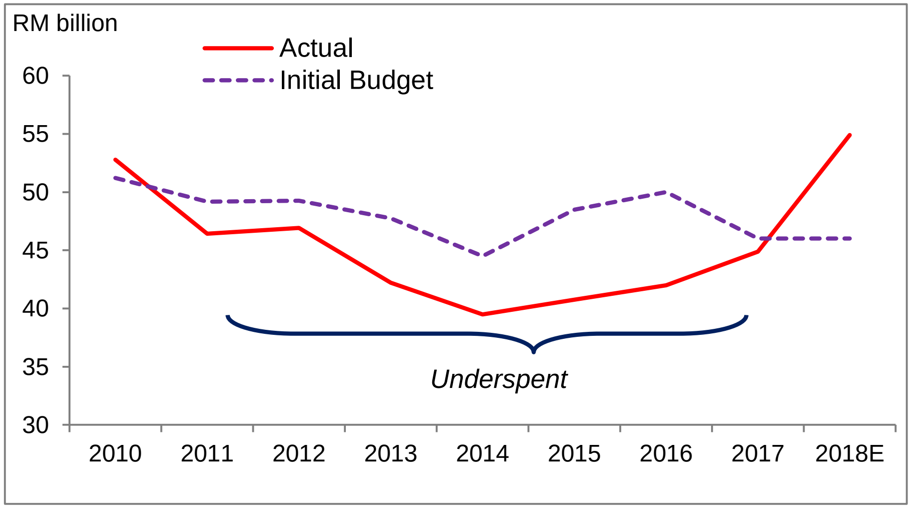
Fiscal revenue somewhat overestimated



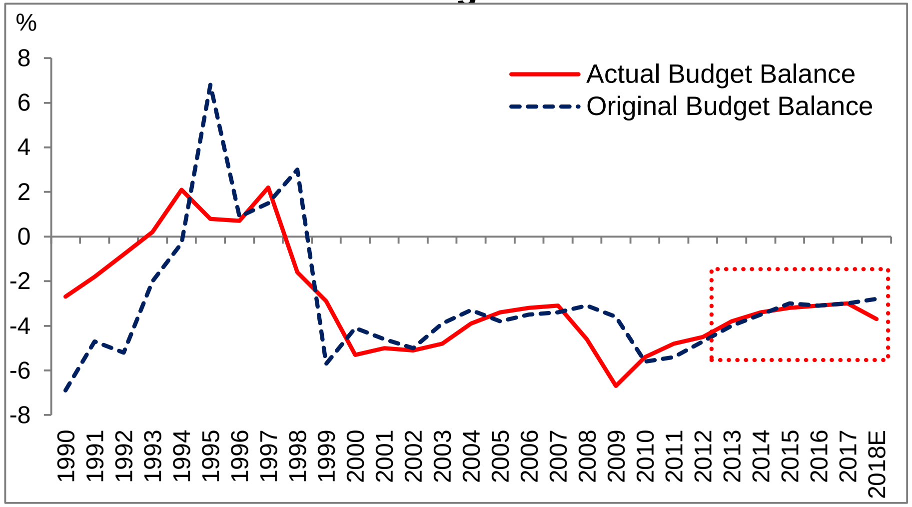
Operating expenditure matched with initial budget in recent years



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%

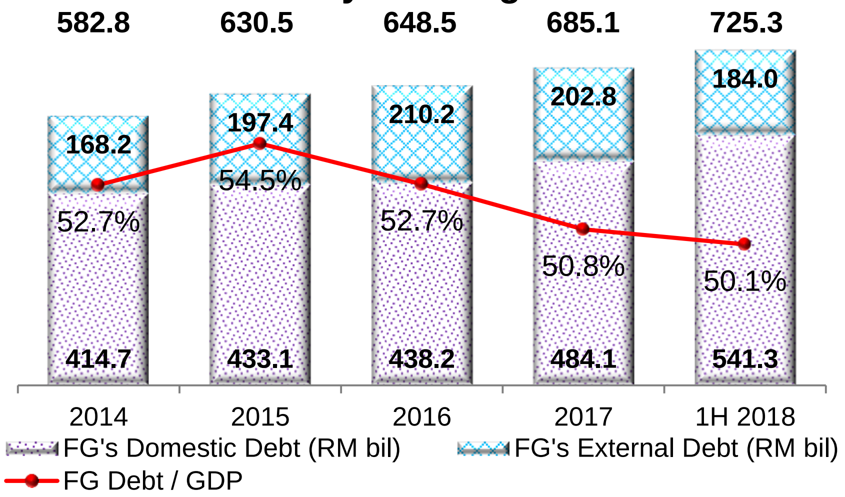


Source: MOF

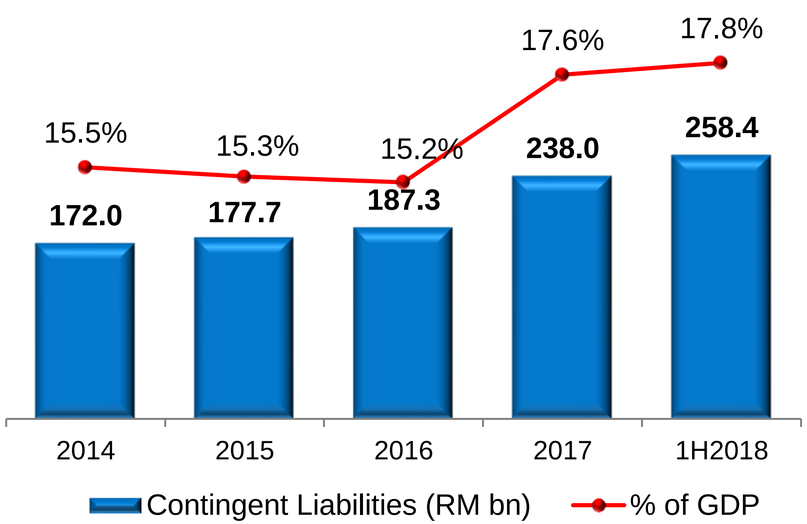
FG's total DEBT AND LIABILITIES (2018: RM1.068 trn or 74.6% of GDP; 2019: RM1.125 trn or 73.5% of GDP)

- **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

Section 4

Key tax, incentives and initiatives

Belanjawan 2019

INVIGORATING investment

Positive

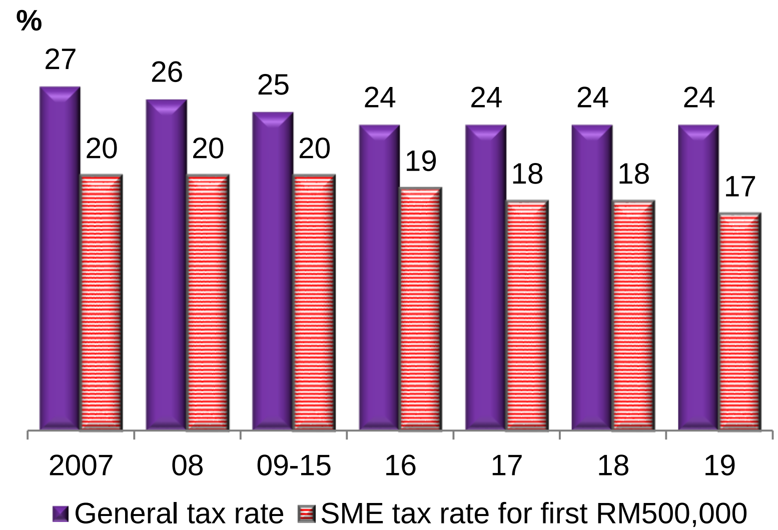
- New version of **Public-Private Partnership** and reintroduce **Malaysia Incorporated** to empower private initiative and entrepreneurship.
- To carry out a **thorough review of the over-130 types of fiscal schemes** to support investments, administered by 32 approving authorities with the intention 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.
- 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.

EMPOWERING SMEs

Positive

- **A 1% cut in corporate tax rate** to 17% for the first RM500k chargeable income.
- **RM4.5bn SMES Loan Fund** with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP).
- **RM2.0bn** is allocated for up to 70% government guarantees via a **Business Loan Guarantee Scheme** to encourage investing in automation.
- **RM2.0bn worth of credit and takaful facilities** provided by EXIM Bank to support export financing.
- **RM100m** to upgrade capabilities of SMES in **the halal industry**.
- **RM1.0bn SME Shariah-Compliant Financing Scheme** given by FIs, with the Government providing a 2% profit rate subsidy.

SMEs' contribution (2017)
- *98.5% of establishments*
- *66.0% of employment*
- *37.1% of total GDP*
- *17.3% of export*



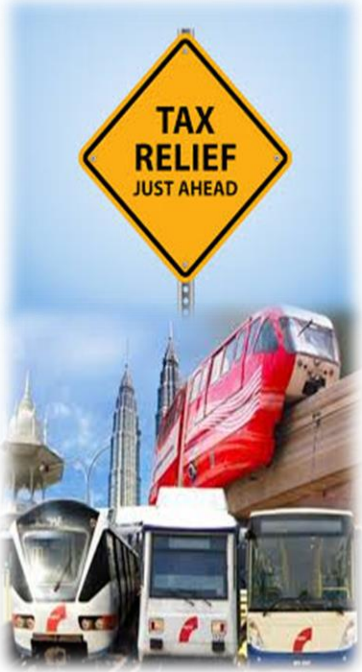
Negative

- **Minimum wage** increase to **RM1,100 per month** (+10% for PM; 19.6% for EM)
- **New tiered foreign workers' (FW) levy,** higher levy for a high proportion of FW. For **agriculture and plantation** sectors, the levy for FW serving 10 years or more, the **levy is lowered to RM3,500 from RM10,000**.

Mitigating high COST OF LIVING

Positive

- **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.



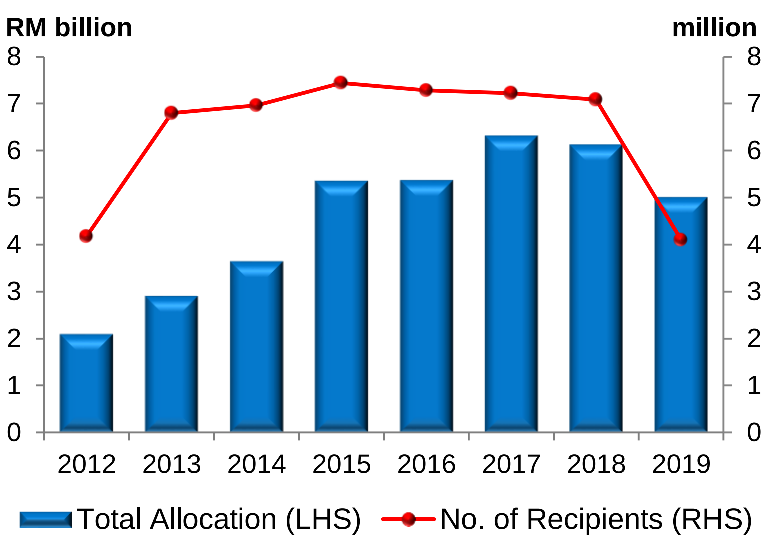
Negative

- **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.
- **Rationalization** of Bantuan Sara Hidup (BSH).

RATIONALISATION of Bantuan Sara Hidup (BSH)

- Cost of living aid continued but more **targeted at the under-served and vulnerable**. **2019B**: **Benefitting 4.1 million households costing RM5bn**; 2018:7.1 million households at RM6.1bn.
- Individual with income of less than RM2,000 per month is no longer eligible.
- 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:
≤RM2,000</td><td rowspan="2">1,000
(+50)</td></tr>
<tr><td>Household:
RM2,001-3,000</td><td>750
(↓450)</td></tr>
<tr><td>Household:
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>
<tr><td>Individual:
≤RM2,000</td><td>-</td><td>250</td><td>300
(+50)</td><td>350
(+50)</td><td>400
(+50)</td><td>450
(+50)</td><td>450
(Same)</td><td>-
(↓450)</td></tr>
</table>



Source: Various

Housing for all, especially AFFORDABLE homes

Positive

- Allocate **RM1.5bn** to ensure the availability of supply of affordable homes.
- **A RM1.0bn fund** established by Bank Negara Malaysia, to help those (**income of RM2,300 per month**) to purchase affordable **homes priced up to RM150,000**. The fund is for two years.
- For first-time home-buyers purchasing residential properties **priced up to RM500,000**, the **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.
- Launch a **National Home Ownership Campaign**, starting 1 January 2019 for 6 months, **waive all stamp duty charges** for **first time purchases of homes valued between RM300,001 and RM1.0m**. Developers will offer **a minimum price discount of 10%** for these residential properties.
- Private sector driven '**Property Crowdfunding**' platforms which will serve as an alternative source of financing for first time home buyers.

Negative

- **Raise stamp duty** to 1% from 4% for the transfer of property priced above RM1m.
- **Increase** real property gains tax (RPGT) rate.

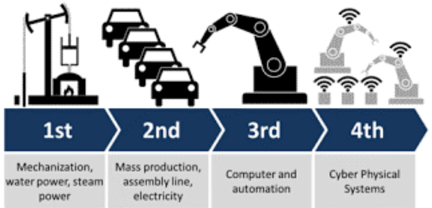
Secured the commitment **REHDA** to **lower house prices by 10%** that are not subjected to price control in new projects.

Real Property Gains Tax rates (RPGT) REVISED higher

- Presently, RPGT rates for the disposal of properties or shares in property holding companies within the first five years are between 0% and 30%.
- The rate for the disposal of properties after **the fifth and subsequent years** will be **raised by 5%**.
- **Exemption** for **low cost, low-medium cost** and **affordable housing priced below RM200,000**.

RPGT Rate	Disposal	Citizen / PR	Company	Non company / citizen / PR
No change	Within 3 years	30%	30%	30%
No change	4th year	20%	20%	30%
No change	5th year	15%	15%	30%
Pre-adjustment	After 5th year	0%	5%	5%
Post-adjustment	**After 5th year**	**5%**	**10%**	**10%**

Accelerating adoption of INDUSTRY 4.0



Positive

- 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.
- To create a **RM3.0bn 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 Industry 4.0 initiatives.
- Khazanah will **lead and develop an 80-acre development in Subang as a world class aerospace industry hub**.
- Intend to upgrade the **marketability of our graduates and the skill-level** of the Industry4.0-related workforce by providing **double tax deduction**.

Negative

- 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.

EMBRACING the digital economy

Positive

- **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.
- **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.

Boosting TOURISM industry

Positive

- **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 Penang** 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 Fun**d 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.

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

社会经济研究中心
SOCIO-ECONOMIC RESEARCH CENTRE

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谢 谢
THANK YOU

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