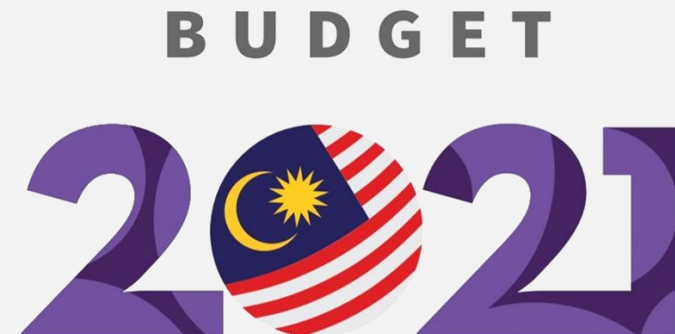




**社会经济研究中心**  
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**RESEARCH CENTRE**

**Ministry of Finance Economic Report and**  
**National Budget 2021**

**- Targeted Fiscal Booster Dose -**

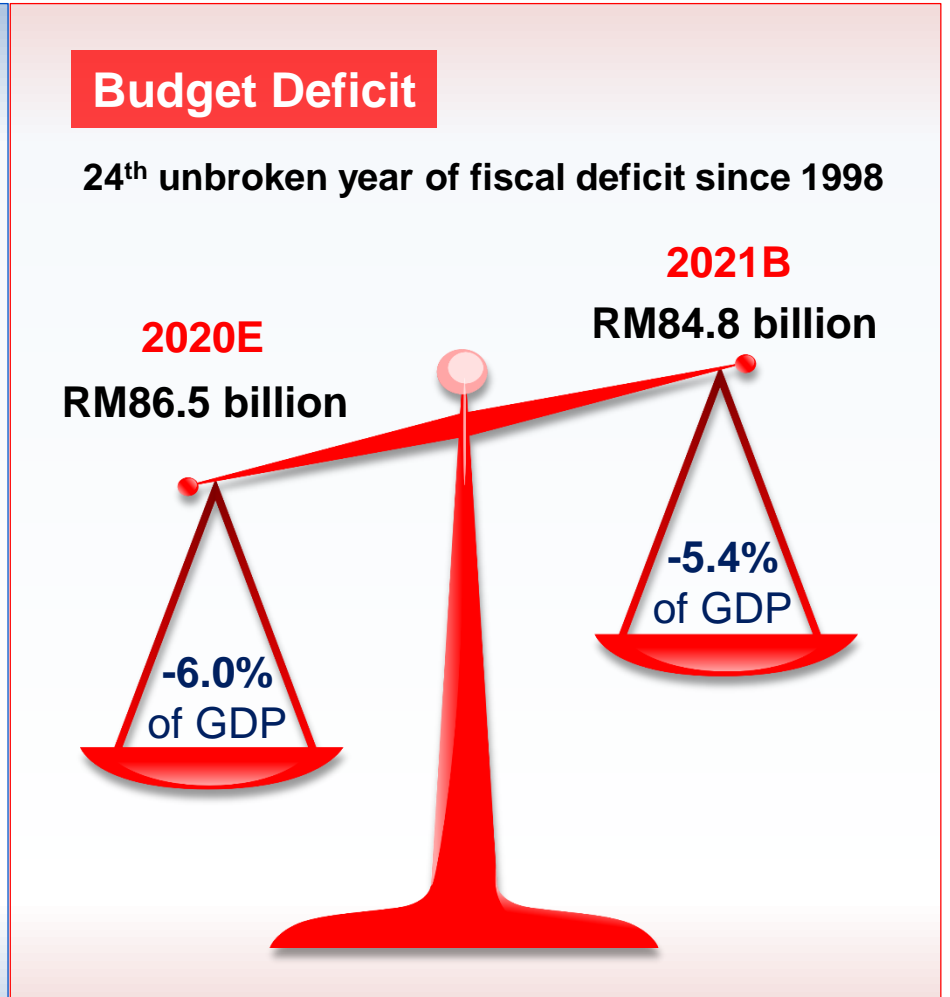
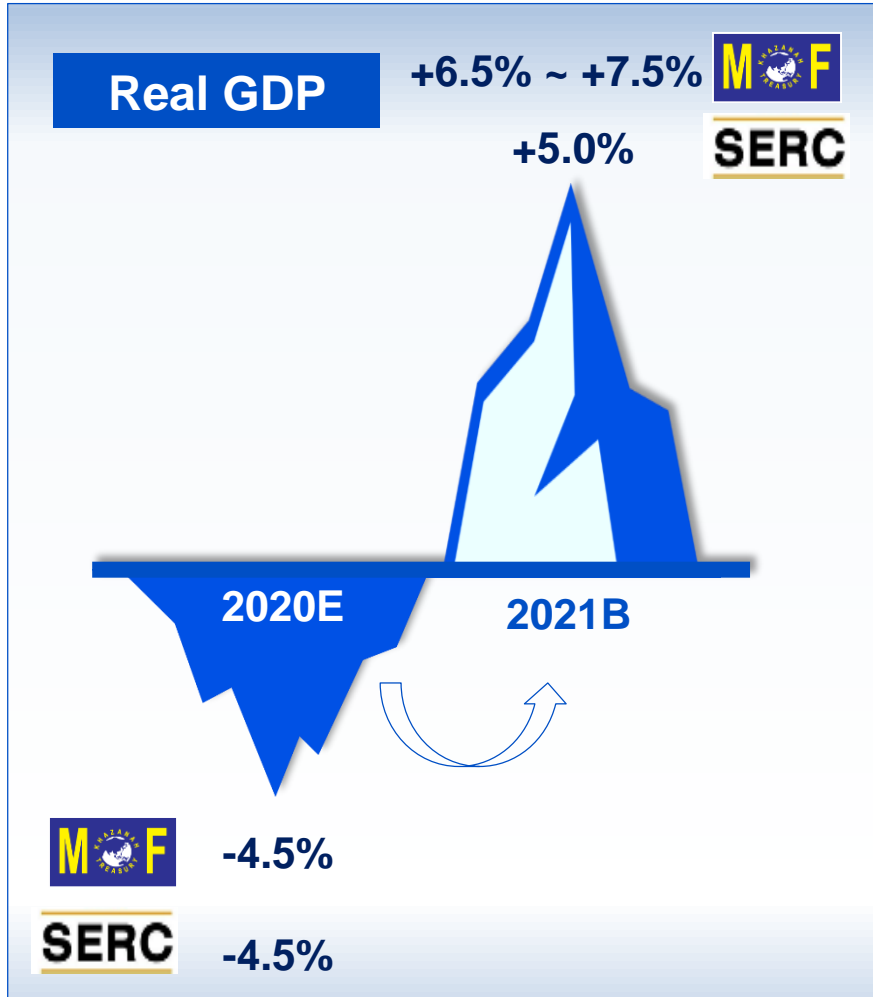


# 2021 Budget and Economic Prospects

- The Budget seeks to protect public health and revitalize the economy while reforming for better economic resilience.
- The economy is poised to recover firmly in 2021. However, the outlook hinges on two major factors:
  - i. *The successful containment of the pandemic; and*
  - ii. *A sustained recovery in external demand*

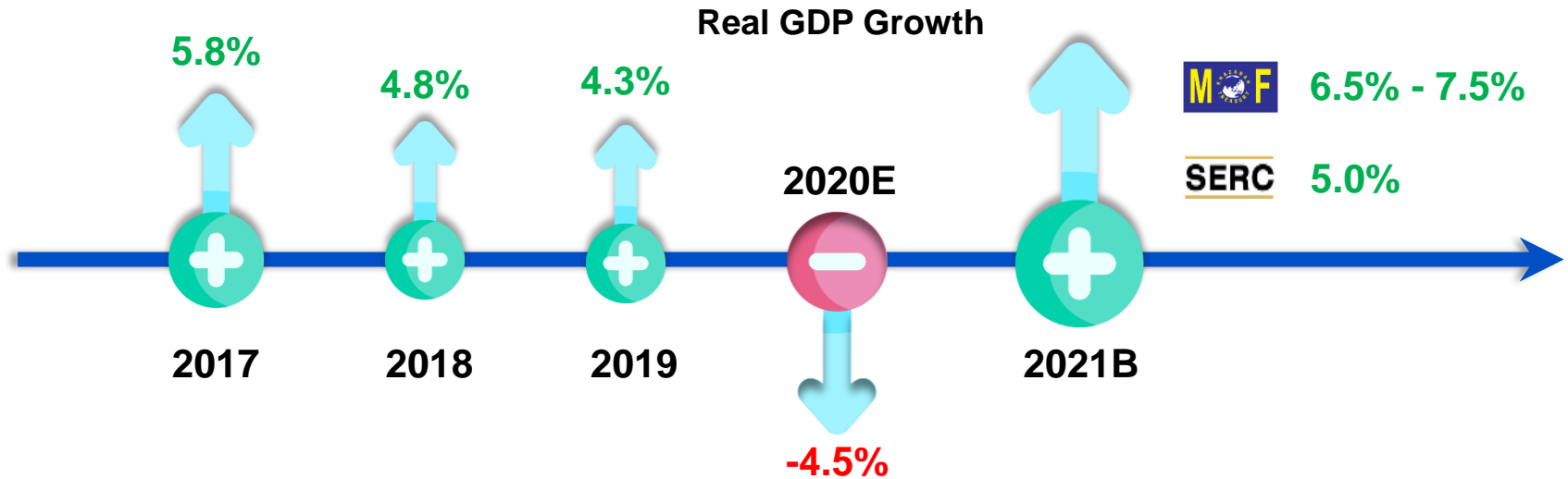


## Revitalizing and Reforming for Future-Proofing Malaysia



MOF=Ministry of Finance

# The Malaysian economy is poised for a strong rebound in 2021

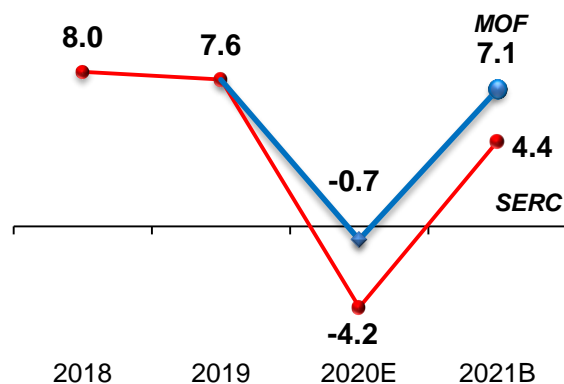


- After contracting sharply by 8.3% in 1H 2020, Ministry of Finance (MOF) expects the economy to improve gradually in 2H 2020 to **record a smaller contraction of 4.5% in 2020**. The estimate lies between Bank Negara Malaysia's estimated between -3.5% and -5.5% in 2020.
- **In 2021**, the economy is projected to **rebound strongly to grow between 6.5% and 7.5%** (BNM: 5.5% to 8.0%), supported by the anticipated improvement in global trade, consumer sentiments and business confidence.
- SERC has resisted the temptation of presenting a robust GDP estimate, **putting it at 5.0% (baseline) and 6.5% (best case) for 2021**.
- We remain wary about the virus development and the strength of recovery in advanced economies as well as the effectiveness of the Budget's capital spending in 2021 amid domestic political development.
- It is better to have a conservative assumption, and be pleasantly surprised on the upside.

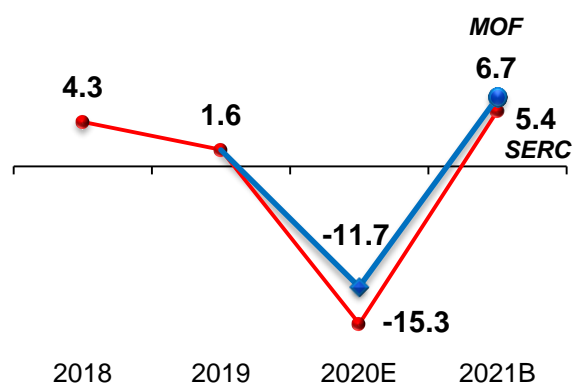
Source: DOSM; MOF

# Domestic demand spearheading the recovery

Private Consumption Growth %



Private Investment Growth %



Source: DOSM; MOF

## Private Consumption (61.2% share of GDP in 2021B)

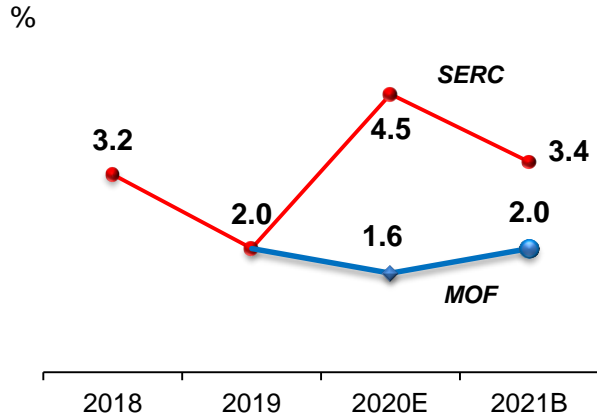
- Cash transfers, loan moratorium, EPF's i-Lestari monthly withdrawal, etc. are expected to cushion consumer spending.
- Private consumption which contracted by 6.0% in 1H 2020 will improve gradually in 2H to decline marginally by 0.7% in 2020.
- **In 2021, a strong rebound in private consumption (+7.1%),** supported by higher disposable income, improved export earnings, low interest rate and extension of financial relief.
- **Risks: Slow and uneven job recovery, households rebuild savings.**

## Private Investment (15.5% share of GDP in 2021B)

- After slumping by 11.7% in 2020 (1H 2020: -15.2%), **private investment is expected to turnaround by 6.7% in 2021,** lifted by various investment supportive and tax incentives to facilitate business operations and revive private investment activities. The spill-over effects from the Budget's capital investment also helps to support investment.
- **SERC cautions about the timely implementation of public projects; quick disbursement of funds as well as ensuring stable political environment to boost investors' confidence.**

# Domestic demand spearheading the recovery (cont.)

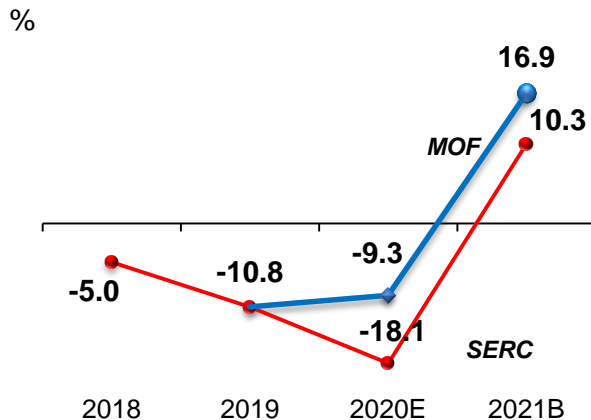
## Public Consumption Growth



## Public Consumption (12.4% share of GDP in 2021B)

- Public consumption is expected to **expand by 2.0% in 2021**, slightly higher than 1.6% growth in 2020.
- This reflects the continued improvement in public delivery services and optimising spending.
- **Emoluments**, the largest component of operating expenditure (35.7% share) **is estimated to increase by 2.3% to RM84.5 billion in 2021**, mainly for the provision of annual salary increments for civil servants.

## Public Investment Growth



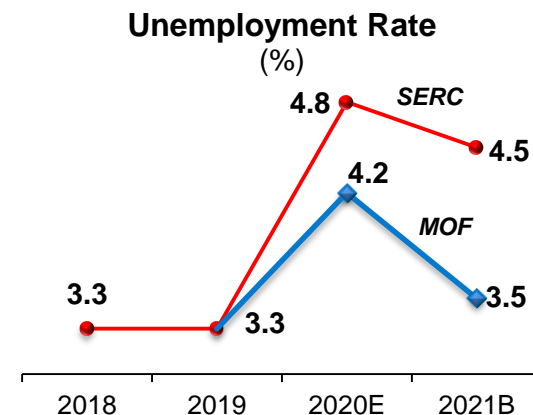
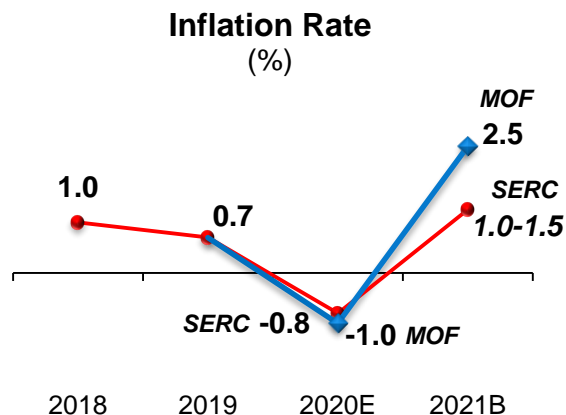
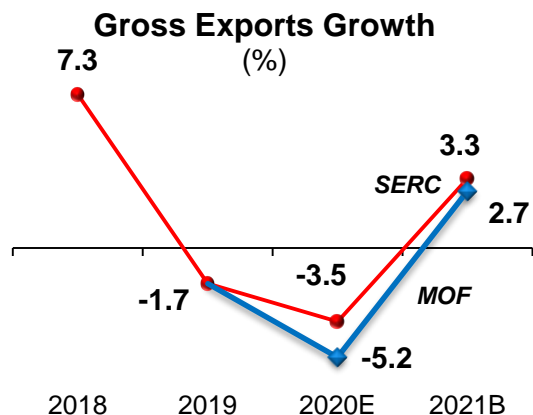
## Public Investment (6.5% share of GDP in 2021B)

- **Public investment is projected to expand by a double-digit growth of 16.9% in 2021** (estimated -9.3% in 2020).
- Factors underpinning the robust public investment are higher development averaging around RM59 billion in 2020-2021; the implementation of small-scale projects, infrastructure, the National Fiberalisation and Connectivity Plan (NDCP). Major projects: Airport expansion, construction of hospitals, MRT2, LRT3, RTS, Pan Borneo Highway, Klang Valley Double Track Phase 1, and capital spending by public corporations.
- **SERC warns the risk of projects' implementation delay.**

Source: DOSM; MOF

# Exports, prices and labour market condition

Source: DOSM; MOF



## Export



**2021B: 2.7%**

**2020E: -5.2%**

- **Gross exports** are expected to rebound by 2.7% in 2021, benefitting from the recovery in global trade and supply chains.
- The gathering pace of economic recovery of Malaysia's major trading partners in 2H 2020 and 2021 would help to lift export growth and support the economy.

## Inflation Rate



**2021B: 2.5%**

**2020E: -1.0%**

- Inflation is expected to normalise at 2.5% in 2021 in tandem with better economic growth and higher crude oil prices.
- **Benign inflationary pressure allows continued monetary accommodation** to support stronger economic revival.

## Unemployment Rate

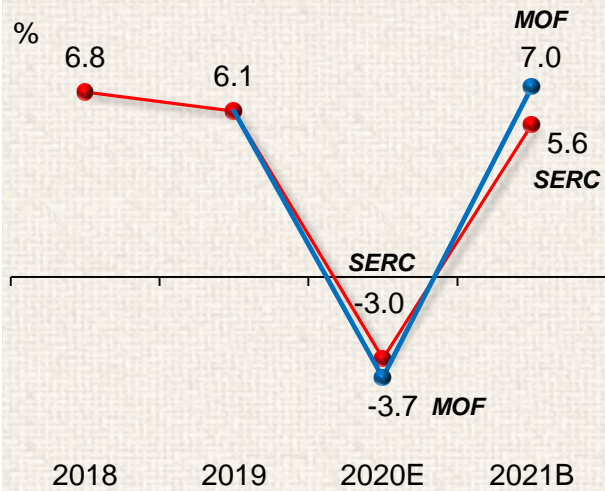


**2021B: 3.5%**

**2020E: 4.2%**

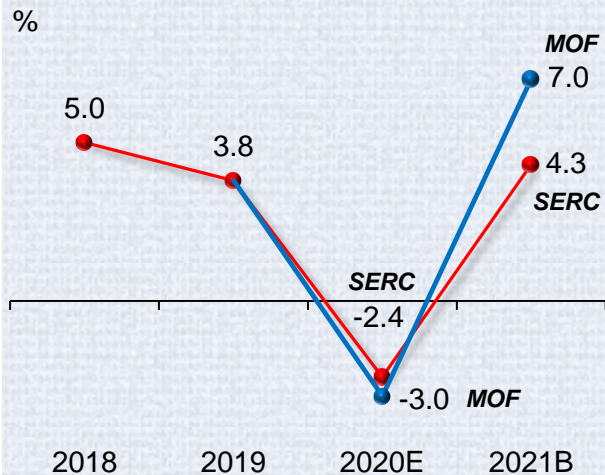
- Labour market is expected to recover gradually in 2021, in tandem with better economic growth and a turnaround in investment activities.
- SERC cautions that the unemployment is a lagging indicator and may take a longer while returning to pre-pandemic levels (3.3%-3.4%).

# All economic sectors register positive growth in 2021



## Services (58.2% share of GDP in 2021B)

- The sector is projected to contract by 3.7% in 2020 before rebounding by 7.0% in 2021.
- Higher disposable income and e-commerce will boost demand for retail and wholesale segments (food, motor vehicles).
- Information and communication subsector will be supported by the 5G spectrum network, the expansion of digitalization and e-learning.
- The finance and insurance will improve, thanks to the normalization of loan repayment and increased loan demand.



## Manufacturing (22.6% share of GDP in 2021B)

- The sector is forecast to expand by 7.0% in 2021, a marked turnaround from a decline of 3.0% in 2020.
- The E&E segment will accelerate with the digital transformation and virtual business communication, which spur demand for wireless technology, memory and micro chips.
- Demand of consumer-related products will benefit from improved disposable income. Major infrastructure and affordable housing projects will support construction related products.

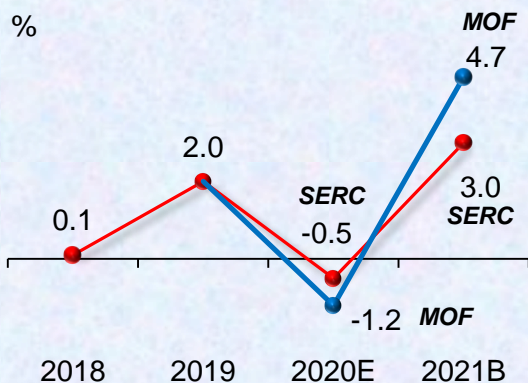
Source: DOSM; MOF



# All economic sectors register positive growth in 2021 (cont.)



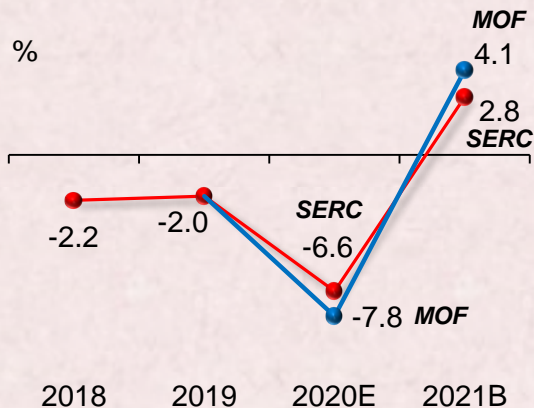
## Agriculture (7.2% share of GDP in 2021B)



- The sector is anticipated to rebound by 4.7% in 2021 (-1.2% in 2020).
- Higher production of palm oil and rubber as well as increased production of livestock and other agriculture and fishing.



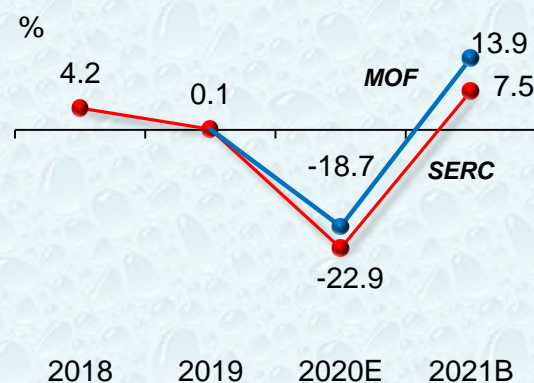
## Mining and Quarrying (6.7% share of GDP in 2021B)



- The sector, which had contracted by 7.8% in 2020, is projected to increase by 4.1% in 2021.
- Supported by a recovery in global demand for crude oil and liquefied natural gas (LNG).
- Brent crude price is expected to improve to average US\$42/bbl in 2021 (US\$40/bbl in 2020).



## Construction (4.2% share of GDP in 2021B)

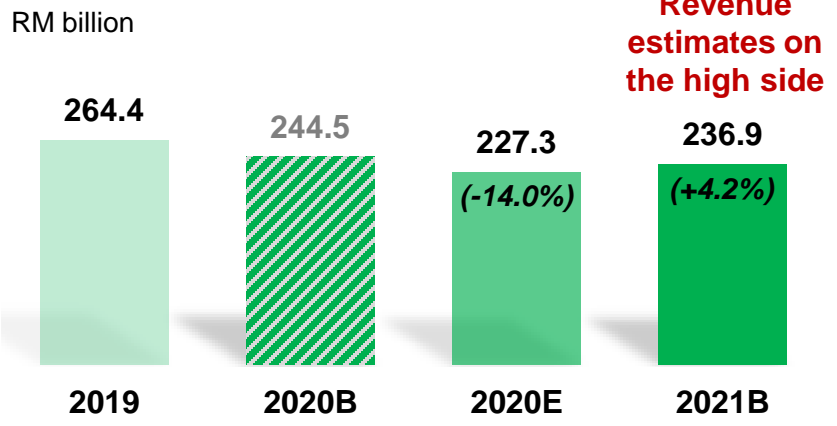


- After crashing by 18.7% in 2020, the sector is set to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects and affordable housing projects.
- MRT2, LRT3, West Coast Expressway, Bayan Lepas Light Rail Transit, Pan Borneo and Coastal Highways in Sarawak. Utility projects include the Langat 2 Water Treatment Plant, Baleh Hydroelectric Dam and Sarawak Water Supply Grid Programme (Phase I).

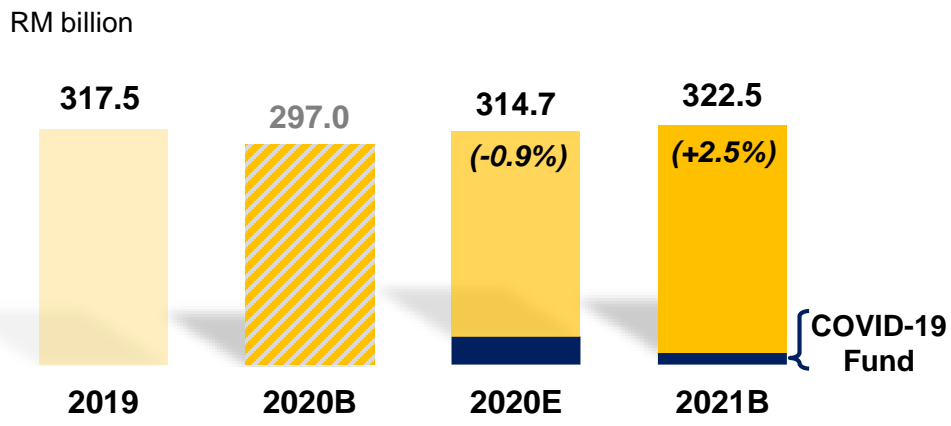
Source: DOSM; MOF

# 2021 Budgetary operations snapshot

## TOTAL REVENUE

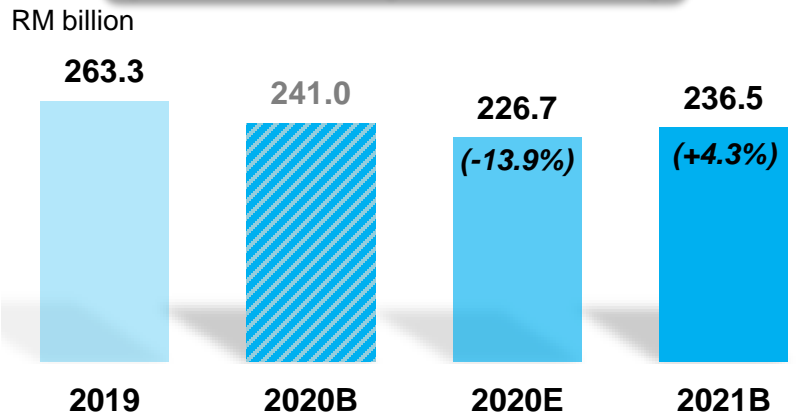


## TOTAL EXPENDITURE\*

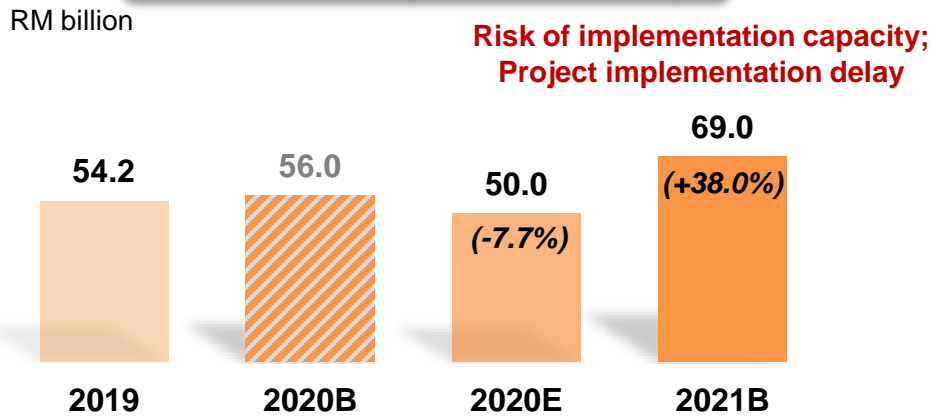


\* 2020E and 2021B consist of RM38bn and RM17bn of COVID-19 Fund respectively.

## OPERATING EXPENDITURE (73.3% of total expenditure in 2021)



## DEVELOPMENT EXPENDITURE (21.4% of total expenditure in 2021)

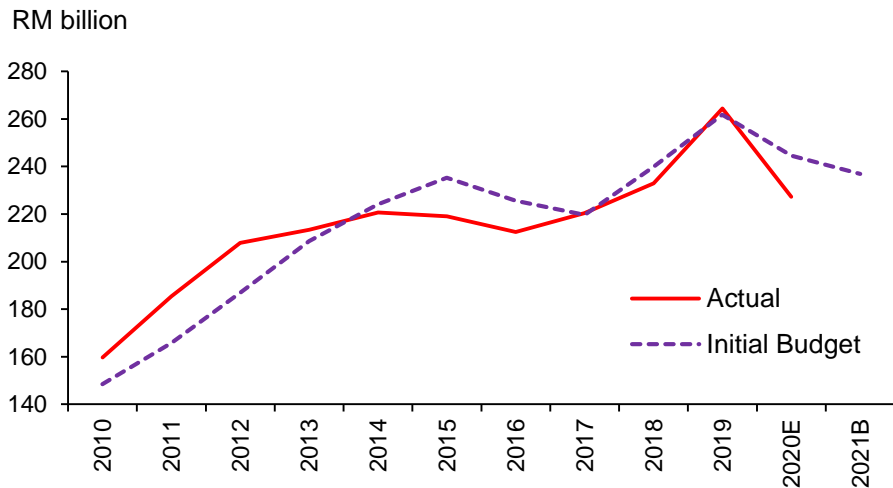


2020B refers to initial budget estimates in 2020 Budget  
2020E refers to revised estimates in 2021 Budget

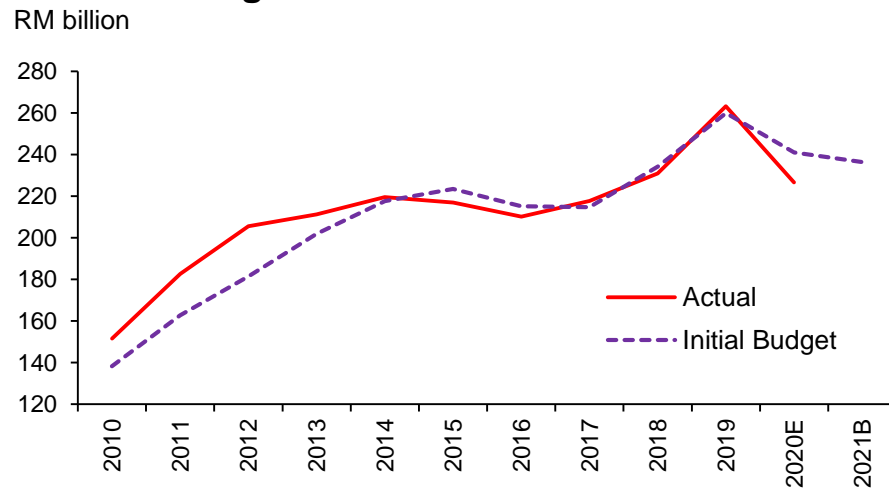
Source: MOF

# Budgetary operation trends – Actual vs. estimates

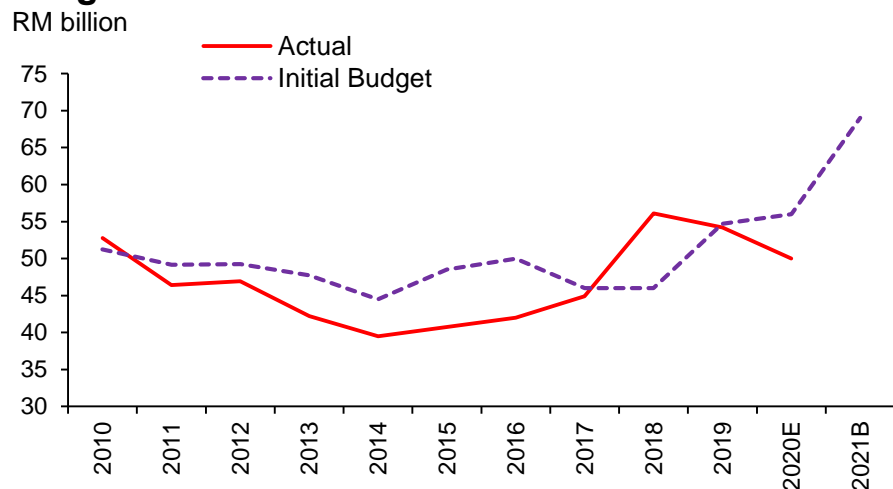
## Federal revenue broadly over-estimated



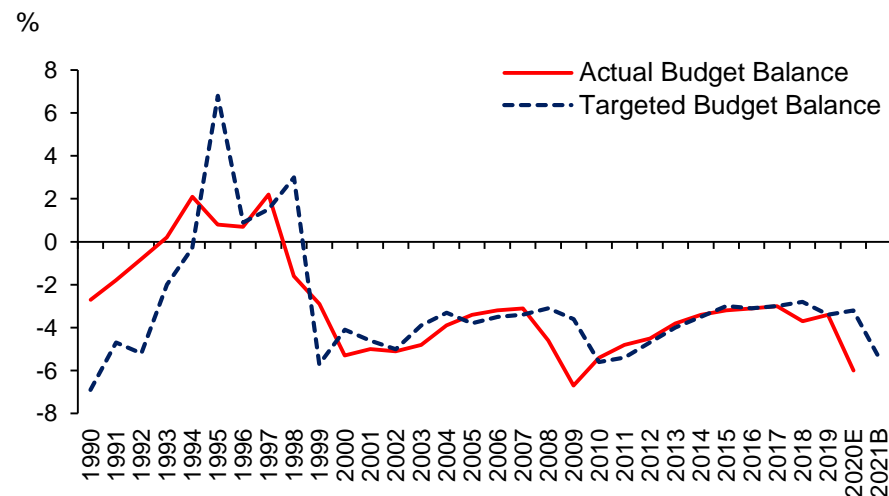
## Actual operating expenditure generally matched Budget estimate



## Development expenditure mostly fell short of Budget's allocation



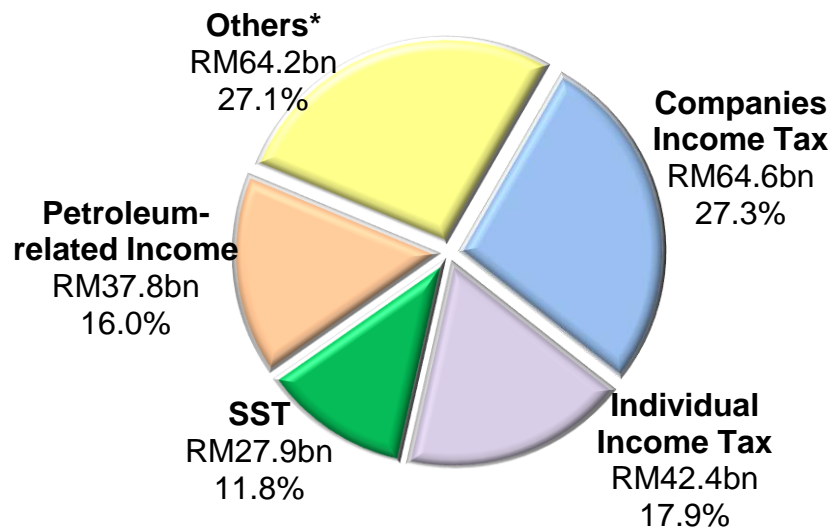
## Fiscal deficit generally met target



Source: MOF

# Distribution in revenue

## 2021B: Where the money comes from?



- **Federal revenue is projected to increase by 4.2% to RM236.9 billion** in 2021 (-14.0% in 2020), benefiting from strong economic growth. This estimate is on the high side.
- **Petroleum-related revenue is forecast to decline by 26.8% to RM37.8 billion in 2021** (RM50.0 billion in 2020). Its share to total revenue will decline to **16.0% in 2021** (22.0% in 2020).
- **PETRONAS dividend will be lowered at RM18 billion in 2021** (RM34 billion in 2020). Bank Negara Malaysia's dividend remains at RM3.5 billion; KWAP will provide a special payment of RM5 billion; and RM1 billion from Khazanah.

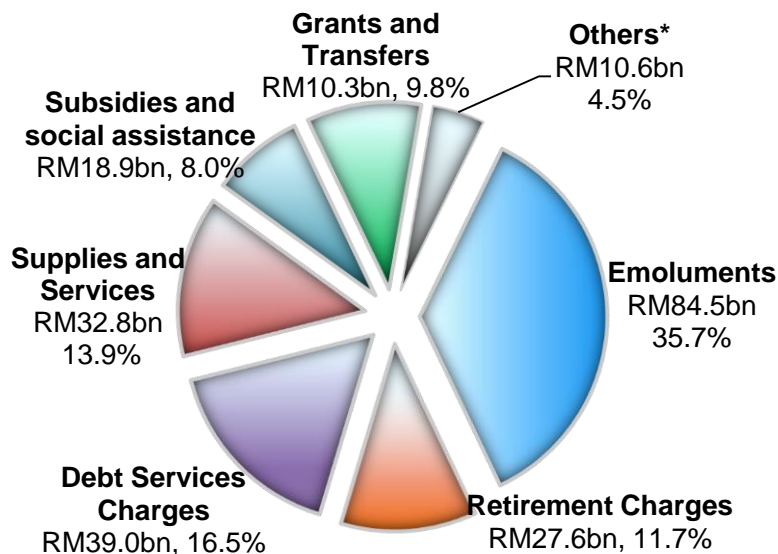
Major components of total revenue	2020E (RM billion)	Share (%)	2021B (RM billion)	Share (%)	Change (%)
<b>Direct Taxes</b>	<b>115,105</b>	<b>50.6</b>	<b>131,870</b>	<b>55.7</b>	<b>+14.6</b>
Companies Income Taxes	59,385	26.1	64,596	27.3	+8.8
Individuals Income Taxes	35,906	15.8	42,439	17.9	+18.2
<b>Indirect Taxes</b>	<b>38,155</b>	<b>16.8</b>	<b>42,500</b>	<b>17.9</b>	<b>+11.4</b>
SST	24,533	10.8	27,900	11.8	+13.7
<b>Non-tax revenue and non-revenue receipts</b>	<b>74,010</b>	<b>32.6</b>	<b>62,530</b>	<b>26.4</b>	<b>-15.5</b>
<b>Total</b>	<b>227,270</b>		<b>236,900</b>		<b>+4.2</b>

Source: MOF

\* Includes non-tax revenue, excise duty, stamp duty, etc.

# Distribution in operating expenditure (OE)

## 2021B: Where the money goes?



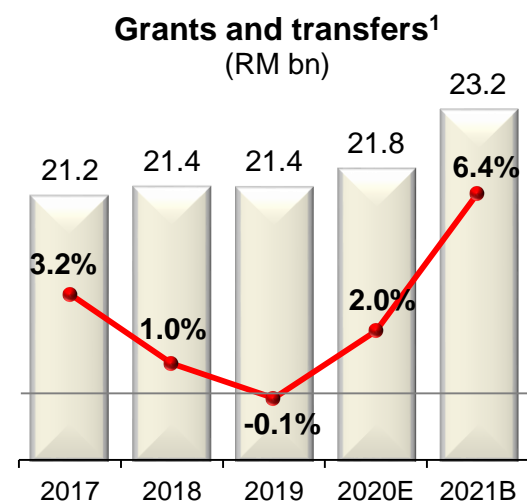
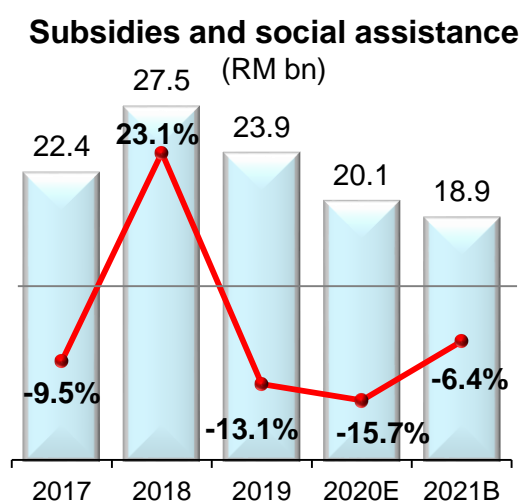
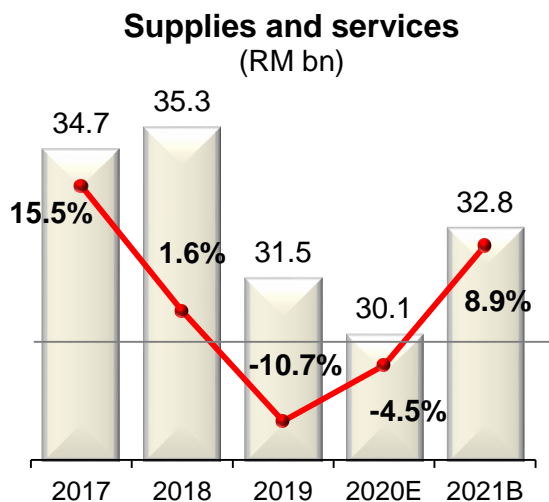
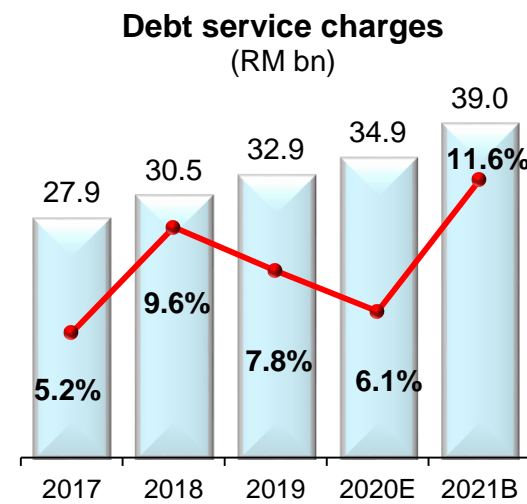
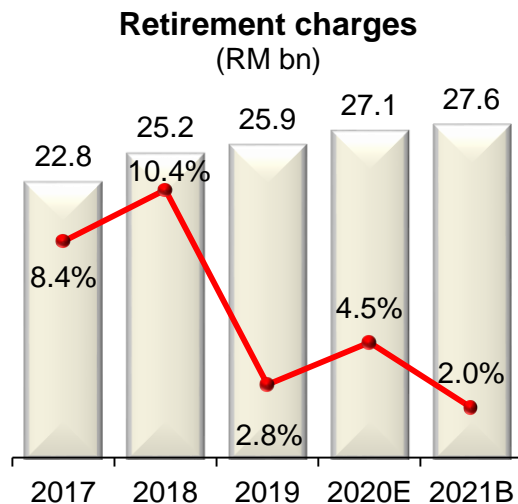
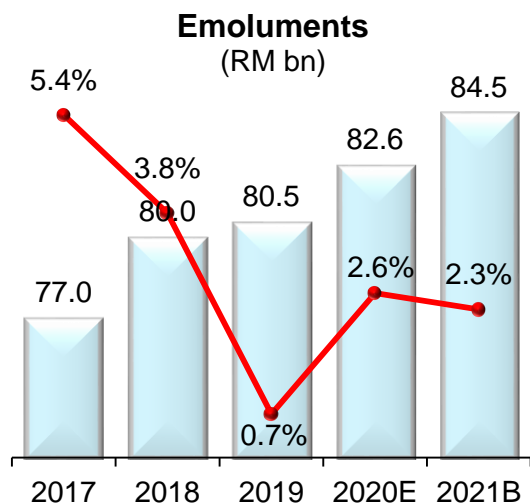
- OE is expected to increase by 4.3% to RM236.5 billion in 2021 (-13.9% in 2020).
- Emoluments remain as the largest component, constituting 35.7% (RM84.5 billion), followed by debt service charges (RM39.0 billion @ 16.5% of total OE) and supplies and services (RM32.8 billion @ 13.9%).
- Subsidies and social assistance is expected to decline by 6.4% to RM18.9 billion due to consolidation of cash assistance programmes.

Major components of operating expenditure	2020E (RM billion)	Share (%)	2021B (RM billion)	Share (%)	Change (%)
Emoluments	82.6	36.4	84.5	35.7	+2.3
Retirement charges	27.1	11.9	27.6	11.7	+2.0
Debt service charges	34.9	15.4	39.0	16.5	+11.6
Supplies and services	30.1	13.3	32.7	13.9	+8.9
Subsidies and social assistance	20.1	8.9	18.9	8.0	-6.4
Grants and transfers	21.8	9.6	23.2	9.8	+6.4
<b>Total</b>	<b>226,720</b>		<b>236,540</b>		<b>+4.3%</b>

Source: MOF

\* Includes asset acquisition, refunds and write-offs, grants to Statutory Funds, etc.

# Distribution in operating expenditure by type



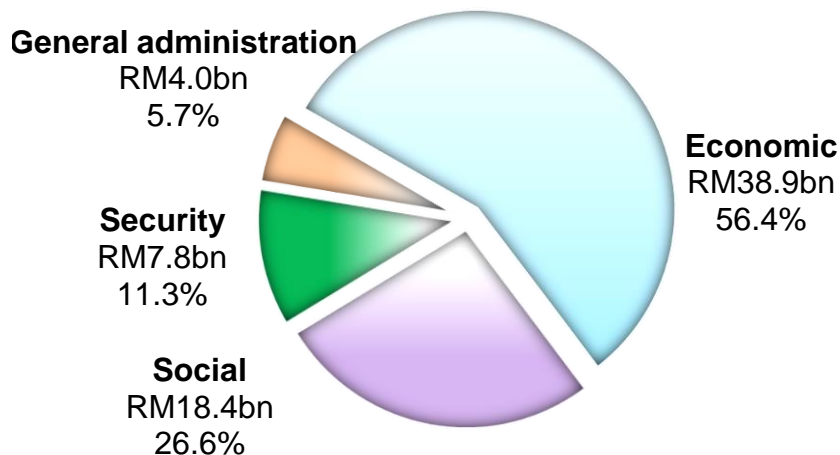
Note: Line chart indicates an annual rate of change in component of operating expenditure; straight line indicates 0%

<sup>1</sup> Includes grants and transfers to state governments and grants to statutory bodies

Source: MOF

# Distribution in development expenditure (DE)

## 2021B: Where the money goes?



- DE is expected to increase by 38.0% to RM69.0 billion in 2021 (-7.7% in 2020), mainly channel to programs and projects with high multiplier impact to promote economic growth and investment in areas of education, healthcare, housing, transportation and public utilities, trade and industry.
- Projects under economic sector include upgrading, expansion and maintenance of highways, roads, railways, bridges, ports and airports.

Major components of gross development expenditure	2020E (RM billion)	Share (%)	2021B (RM billion)	Share (%)	Change (%)
<b>Economic</b>	<b>28.5</b>	<b>57.1</b>	<b>38.9</b>	<b>56.4</b>	<b>+36.3</b>
Transport	10.2	20.4	15.0	21.8	+47.5
Energy & public utilities	3.6	7.2	3.3	4.8	-7.1
Trade and industry	2.4	4.9	3.1	4.5	+28.0
Agriculture & rural development	3.0	6.0	2.9	4.2	-4.0
<b>Social</b>	<b>13.1</b>	<b>26.1</b>	<b>18.4</b>	<b>26.7</b>	<b>+40.7</b>
Education and training	5.9	11.7	8.9	12.9	+51.1
Health	2.9	5.8	4.7	6.8	+63.9
<b>Total</b>	<b>50,000</b>		<b>69,000</b>		<b>+38.0</b>

Source: MOF

# List of major projects and programs

## Transport sector RM15.0bn

### Upgrading, expansion and maintenance of infrastructure



Mass Rapid Transit 2 (MRT2)



Light Rail Transit 3



Bayan Lepas Light Rail Transit



Electrified Double Track Gemas – Johor Bahru



West Coast Expressway (WCE)



Coastal Highways in Sarawak



Pan Borneo Highway



Klang Valley Double Track 1



Rapid Transit System (RTS)



Kuantan Port Expansion



Expansion of Airport in Sandakan

## Energy and public utility RM3.3bn

### Construction of:

- Langat 2 Water Treatment Plant
- Baleh Hydroelectric Dam
- Sarawak Water Supply Grid Programme



## Communications sector RM600 million



### National Fiberisation and Connectivity Plan (NFCP)

## Health sector RM4.7bn

### Procurement of medical service vehicles and equipment



### Construction of:

- Serdang Hospital Cardiology Centre
- Putrajaya Hospital Endocrine Complex
- Lawas Hospital

### Upgrading of:

- Kajang Hospital
- Tawau Hospital

Source: MOF





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**THANK YOU**

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