社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

FEDERAL BUDGET 2017 – WHAT IT MEANS FOR THE ECONOMY AND BUSINESSES

SERC

AGENDA

- **Economic prospects for 2017**

- **2017 Budget**
  - Federal revenue - Where does the money come from?
  - Federal spending - Where does the money go to?

- **Key measures and implications**

- **Conclusion**

THE ECONOMY – PERFORMANCE & PROSPECTS

Key indicators	2015	2016E	2017B
Real GDP growth (%)^	5.0	4.0–4.5	4.0–5.0
Private consumption growth (%)^	6.0	6.1	6.3
Private investment growth (%)^	6.4	5.3	5.8
Income per capita (RM)	36,078	37,812	39,699
Unemployment (%)	3.1	3.3	3.2
Inflation (%)	2.1	2.0–2.5	2.0–3.0
Export Growth (%)	1.6	1.1	2.7
Current account balance			
RM million	34,658	16,428	14,771
% of GDP	3.0	1.3	1.1
Budget deficit			
RM million	37,194	38,727	40,344
% of GDP	3.2	3.1	3.0
Federal government debt			
RM million	630,540	655,745*	-
% of GDP	54.5	53.2	-

Source: MOF's Economic Report 2016-17
^ Constant 2010 prices
** Data as at end-June 2016*

- **2017's GDP growth estimate appears on the high side**. Ministry of Finance (MOF) expects the economy to grow by 4.0%-4.5% in 2016 and 4.0%-5.0% in 2017 (SERC: 4.2% in 2016 and 4.3% in 2017).
- **Domestic demand** remains the key driver. Private sector expenditure is projected to increase higher (6.3% in 2017 vs. 6.1% in 2016).
- **Weak external sector**. Exports are estimated to grow by 2.7% in 2017 (1.1% in 2016).
- **Fiscal consolidation continues**. Fiscal deficit will reduce to -3.0% of GDP in 2017 (-3.1% of GDP in 2016). This marks the eighth straight year of narrowing deficit since 2010.
- **Moderate inflation outlook**. Headline inflation is projected to rise by 2.0-3.0% in 2017 (estimated 2.0%-2.5% in 2016).

GDP GROWTH BY DEMAND AND SUPPLY SIDE

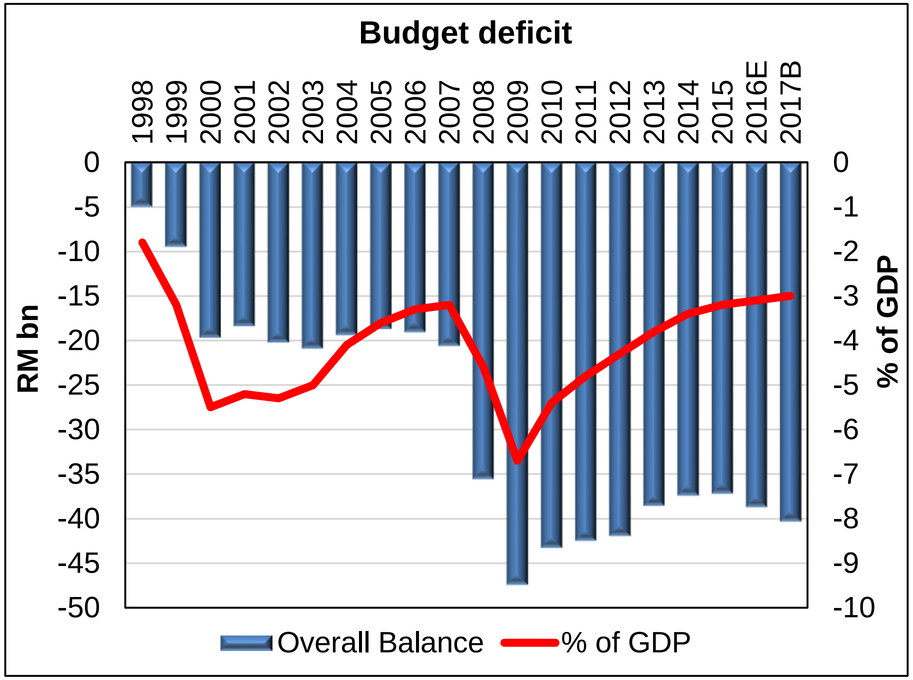
- In 2017, economic growth will be anchored by domestic demand, especially private sector expenditure.
- All economic sectors are expected to register positive growth.

(% change, 2010=100)	% of GDP in 2017	2014	2015	2016E (MOF)	2016E (SERC)	2017B (MOF)	2017F (SERC)
GDP by demand component							
Private consumption	54.2	7.0	6.0	6.1	5.6	6.3	5.3
Public consumption	12.4	4.3	4.4	0.2	5.0	0.4	0.9
Private investment	17.2	11.1	6.4	5.3	4.5	5.8	5.4
Public investment	8.4	-4.7	-1.0	1.7	1.5	1.1	2.2
Exports of goods and services	69.0	5.0	0.6	0.7	0.8	2.5	1.3
Imports of goods and services	61.3	4.0	1.2	1.4	1.8	2.6	2.2
GDP by economic sector							
Agriculture	8.0	2.1	1.2	-3.3	-2.0	1.5	1.0
Mining & quarrying	8.4	3.5	4.7	1.1	1.8	1.4	2.0
Manufacturing	22.8	6.2	4.9	4.0	4.2	4.1	4.2
Construction	4.7	11.7	8.2	8.7	8.5	8.3	8.8
Services	54.8	6.6	5.1	5.6	5.2	5.7	5.0
Overall GDP	**100.0**	**6.0**	**5.0**	**4.0-4.5**	**4.2**	**4.0-5.0**	**4.3**

Source: MOF's Economic Report 2016-17; SERC

FISCAL CONSOLIDATION CONTINUES

- **Federal revenue** is projected to rise by 3.4% to RM219.7bn in 2017 (-3.0% in 2016).
- **Total expenditure (**operating expenditure (OE) plus development expenditure (DE)) will increase 3.4% to RM260.8bn in 2017 (-2.2% to RM252.1bn in 2016).
- **Higher OE** (82.4% of total) growth estimate of 3.7% in 2017 (-4.5% in 2016) does not reflect continued restraint. DE rises 2.2% to RM46.0bn (2016: +10.4% to RM45.0bn).
- **Overall fiscal deficit** will improve marginally (-3.0% GDP in 2017 vs.-3.1% GDP in 2016).
- There are tangible risks of not meeting 2017's fiscal deficit target if revenue projections fail to deliver and no further cuts in still high operating expenditure.



Source: MOF's Economic Report 2016-17

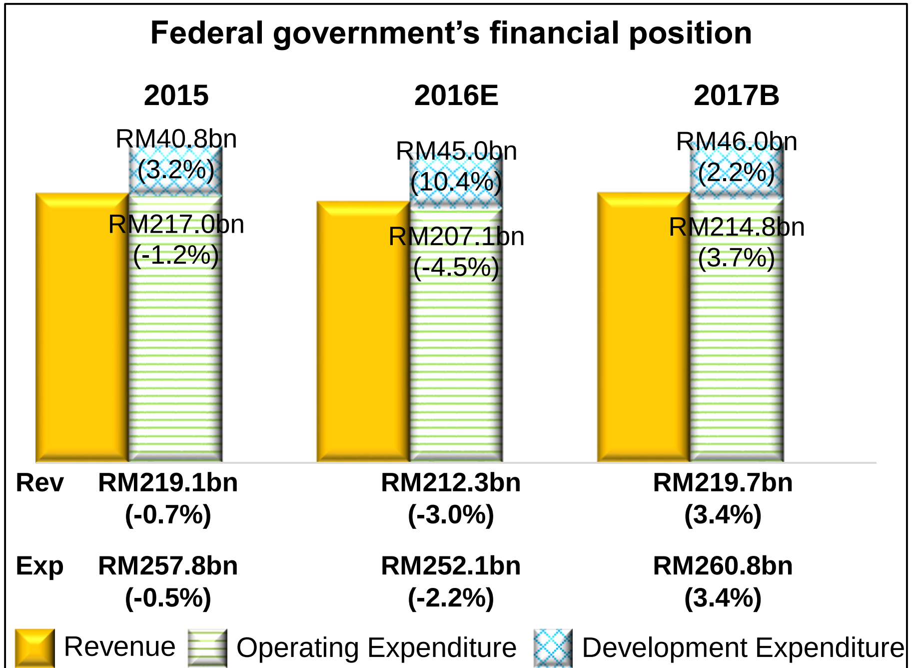
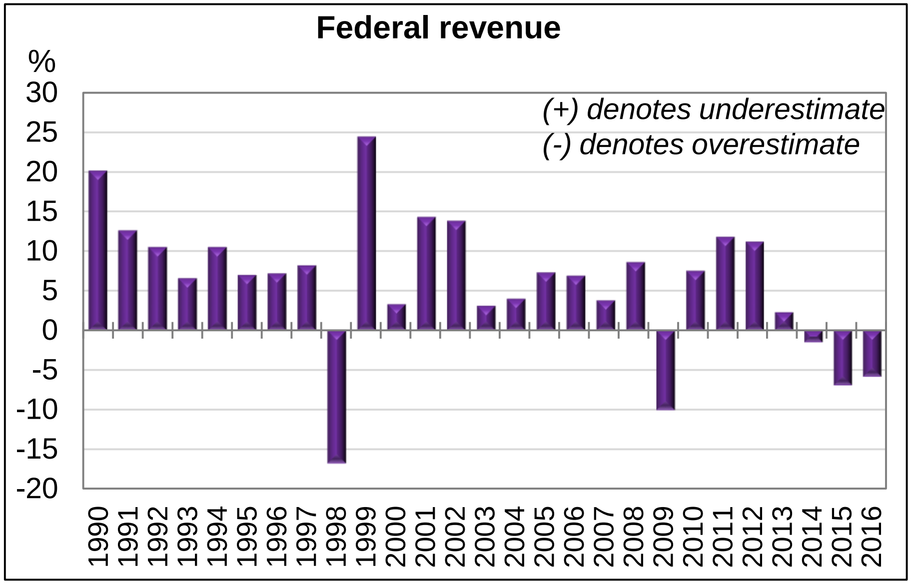
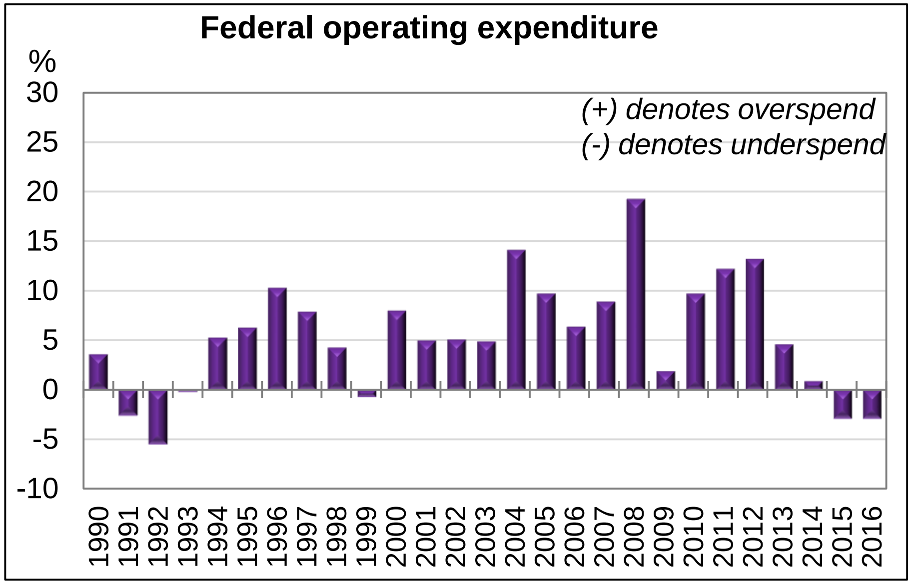
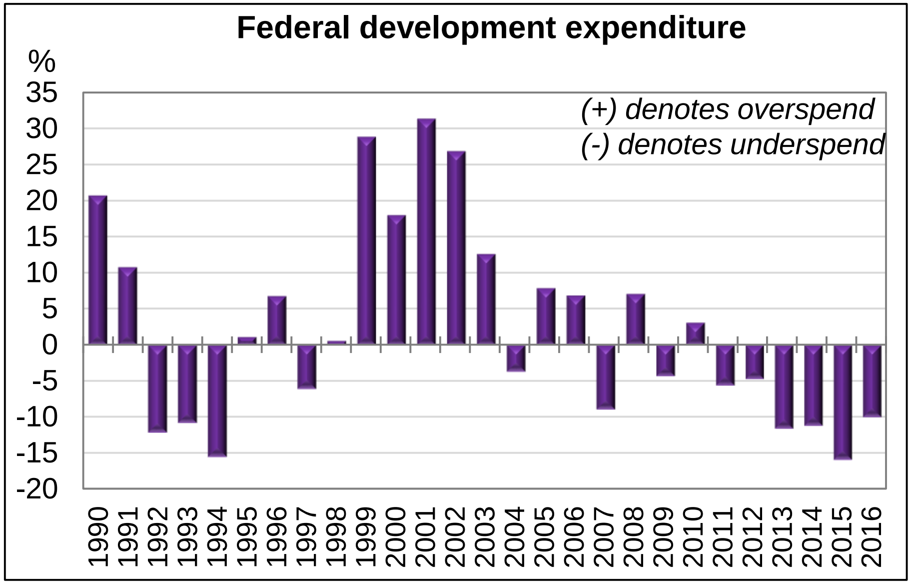


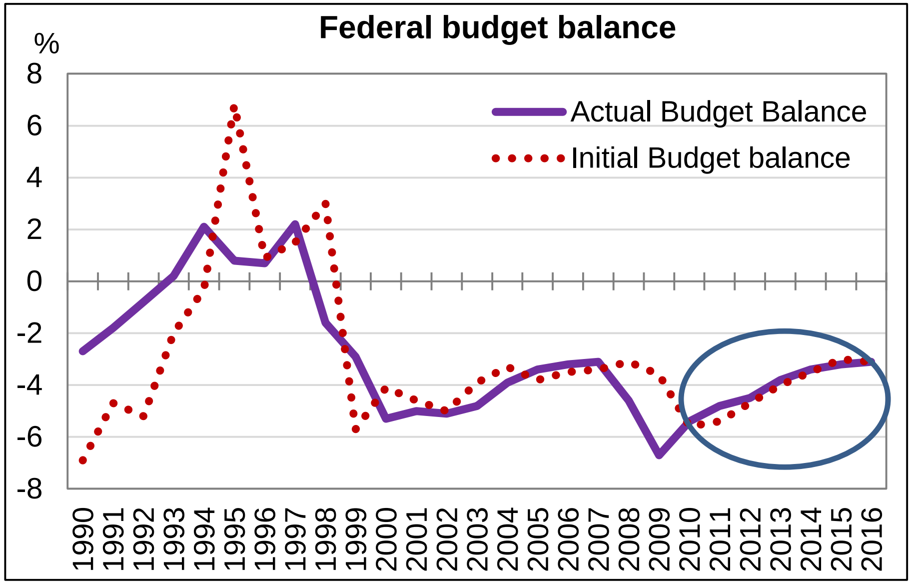
Figure in parenthesis denotes annual change

BUGDETARY OPERATION TRENDS - ACTUAL vs. ESTIMATES



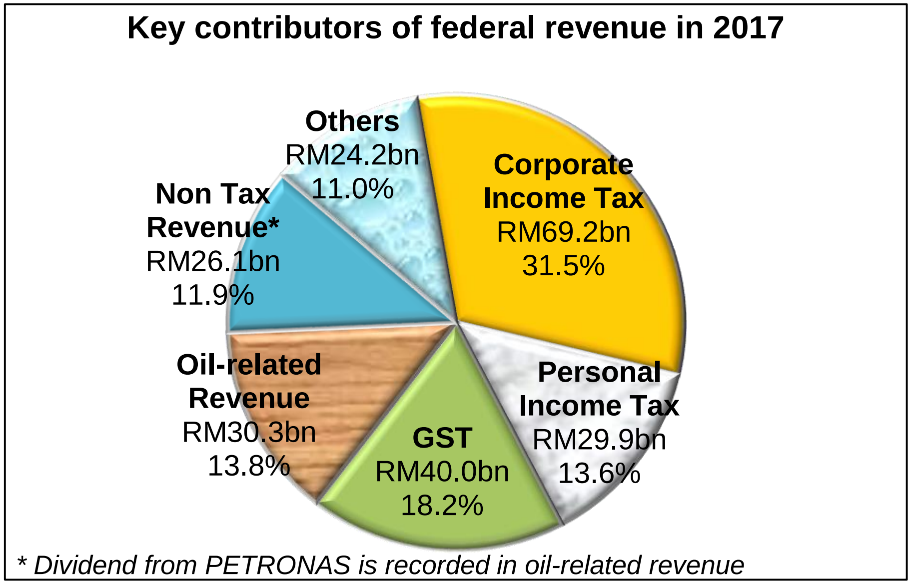




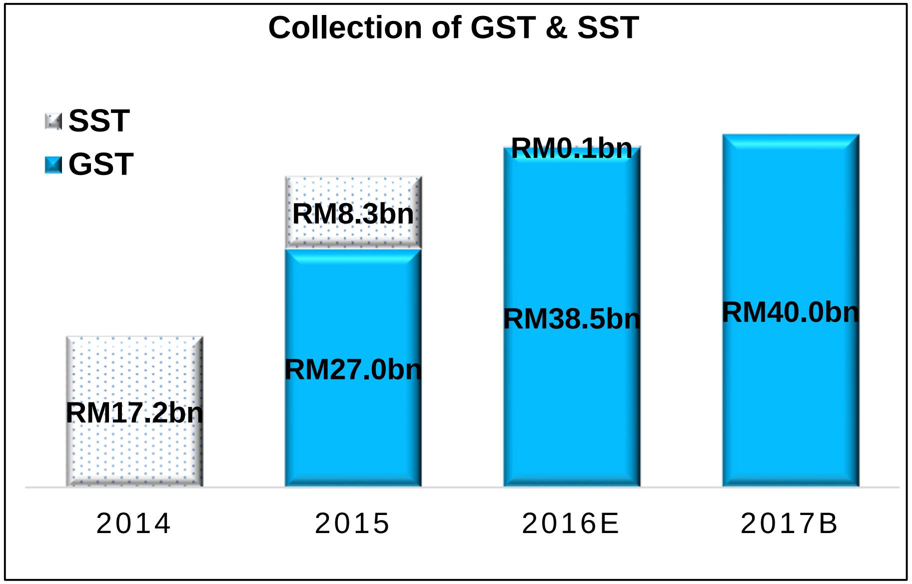


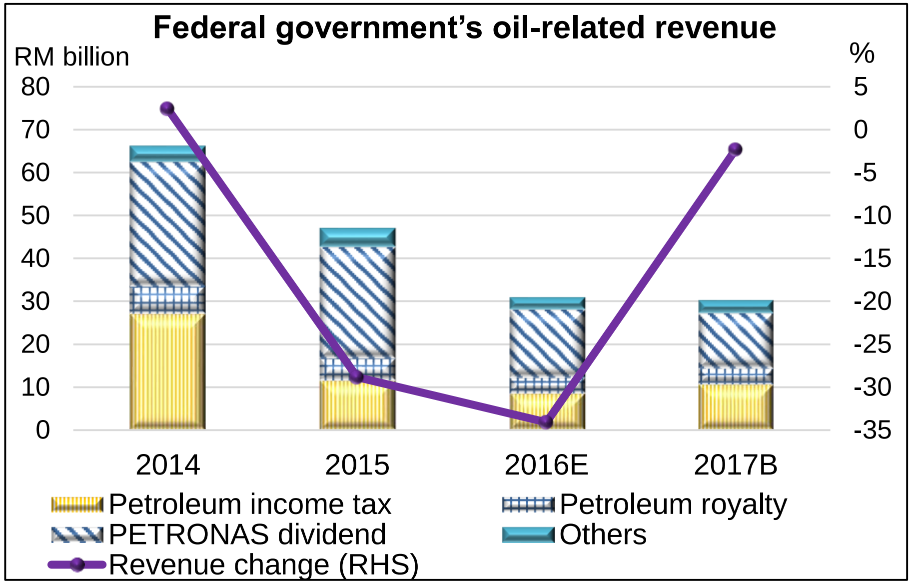
Source: MOF's Economic Report 2016-17

WHERE DOES THE MONEY COME FROM?



- Revenue projections are on the high side, especially corporate income tax revenue given the moderate improvement in economic growth.
- Oil-related revenue is estimated at RM30.3bn or 13.8% of total revenue in 2017 (RM31.0bn in 2016). Of the total, PETRONAS dividend is RM13.0bn (RM16.0bn in 2016).
- GST revenue is projected rise by 3.9% or RM1.5bn to RM40.0bn in 2017 (2016: RM38.5bn; 2015: RM27.0bn).



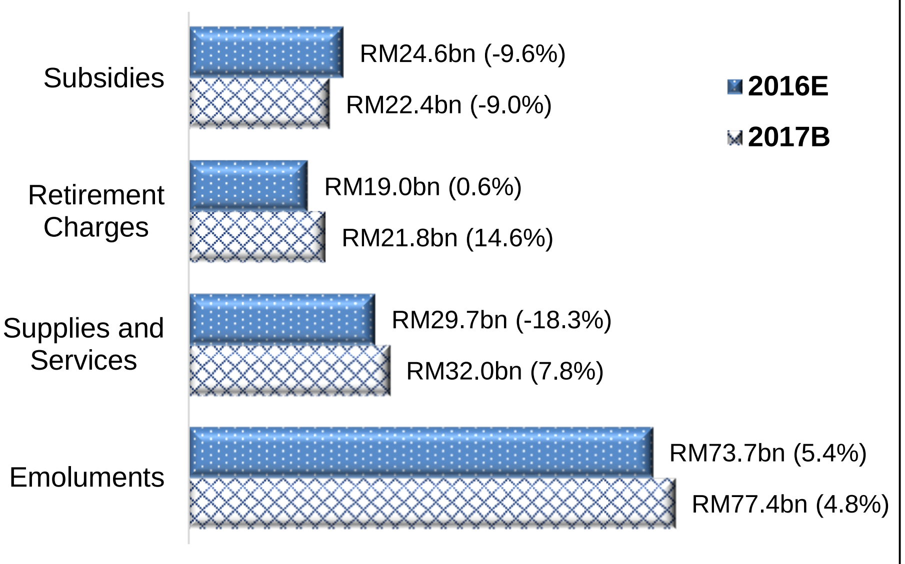


Source: MOF's Economic Report 2016-17

- Higher operating expenditure growth (3.7% in 2017) raises concerns about the commitment towards restraining spending.
- Need strong political will to right size the civil services (1.6m persons or 11.3% of total employment), pension reforms and optimize supplies and services.

Major Components	% Share of OPEX in 2016	% Share of OPEX in 2017
Emoluments	35.7	36.0
Supplies and services	14.3	14.9
Subsidies	11.9	10.4
Retirement Charges	9.2	10.1

Changes of the major components



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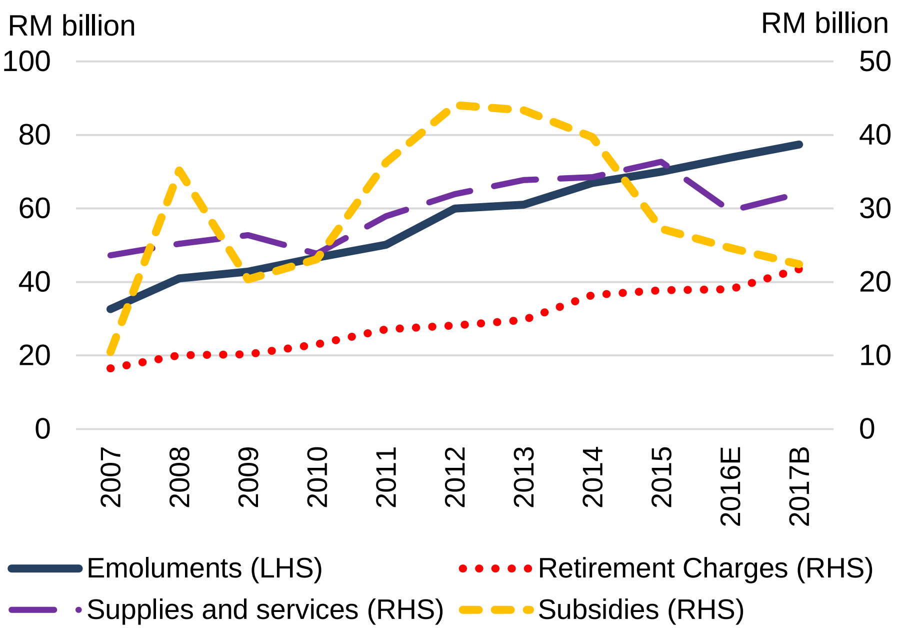
Historical spending for the major components



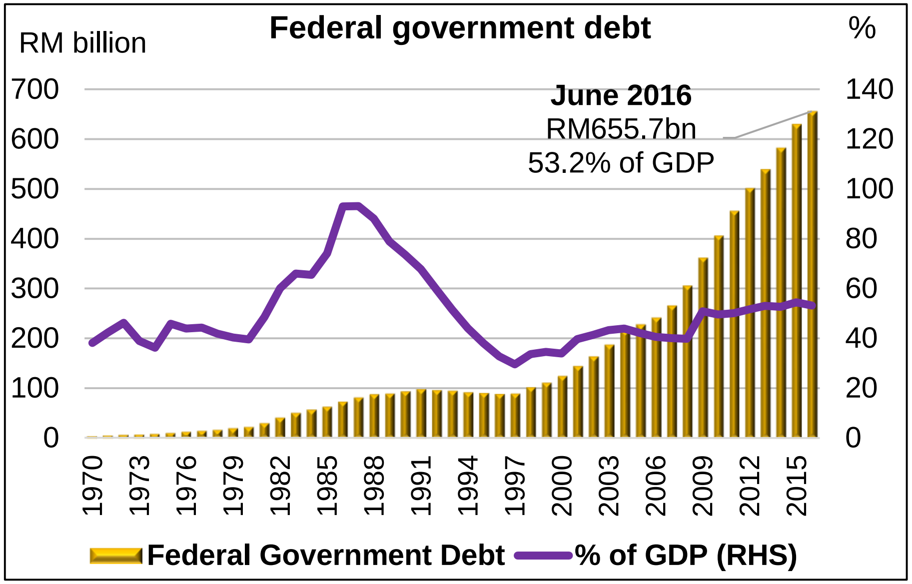
Source: MOF's Economic Report 2016-17

DEVELOPMENT EXPENDITURE TOUCHPOINTS

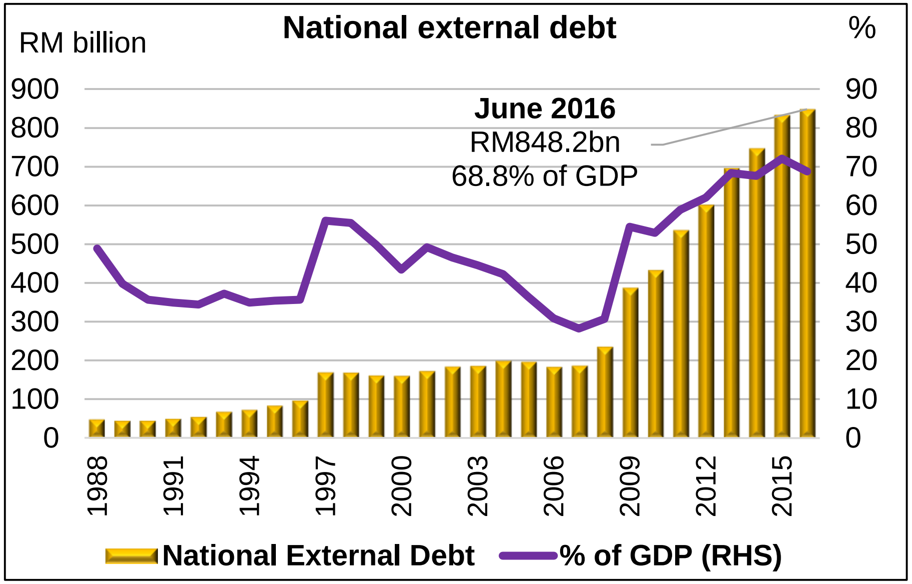
By Sector	2015	2016E	2017B	2015	2016E	2017B	2015	2016E	2017B
	RM million			% YoY			% Share		
Economic	23,286	27,623	25,862	-0.2	18.6	-6.4	57.1	61.4	56.2
Agriculture and rural development	3,105	2,877	2,416	8.0	-7.3	-16.0	7.6	6.4	5.3
Public utilities and energy	3,637	3,270	2,582	4.4	-10.1	-21.0	8.9	7.3	5.6
Trade and industry	5,638	5,996	4,927	20.3	6.3	-17.8	13.8	13.3	10.7
Transport	6,693	8,419	10,599	-7.9	25.8	25.9	16.4	18.7	23.0
Other	4,213	7,060	5,339	-16.1	67.6	-24.4	10.3	15.7	11.6
Social	11,161	10,812	12,180	6.4	-3.1	12.7	27.4	24.0	26.5
Education and Training	4,758	3,874	5,904	-3.4	-18.6	52.4	11.7	8.6	12.8
Health	1,442	1,481	1,532	4.1	2.7	3.4	3.5	3.3	3.3
Other	4,961	5,457	4,745	18.8	10.0	-13.0	12.2	12.1	10.3
Security	4,754	5,041	5,286	9.7	6.0	4.9	11.7	11.2	11.5
Defence	4,078	4,140	4,251	8.7	1.5	2.7	10.0	9.2	9.2
Internal Security	676	901	1,036	16.4	33.3	15.0	1.7	2.0	2.3
General Administration	1,567	1,524	2,671	16.6	-2.7	75.3	3.8	3.4	5.8
Total	**40,768**	**45,000**	**46,000**	**3.2**	**10.4**	**2.2**	**100**	**100**	**100**

Source: MOF's Economic Report 2016-17

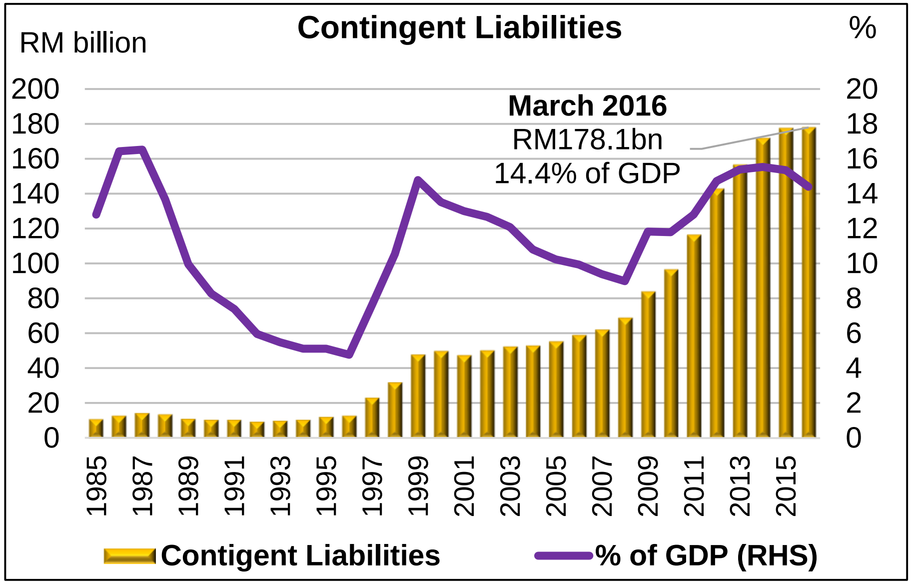
FEDERAL GOVERNMENT DEBT TRENDS



- Federal government debt of 53.2% of GDP at end-June 2016 is a moderately lower than its self-imposed ratio of 55.0% of GDP.
- Rising federal government's contingent liabilities warrant close monitoring.



Source: Bank Negara Malaysia



Source: IMF's DSBB; Bank Negara Malaysia

- A balanced budget without compromising fiscal stability.
- Mildly expansionary. Total expenditure will rise 3.4% to RM260.8bn in 2017 (-2.2% to RM252.1bn in 2016).
- A wide ranging of tax measures and initiatives to support domestic demand, sustain private investment, enhance skills as well as drive digital technologies.
- People-centric measures, programs and projects such as housing, transport, education and health taking precedence.
- **2017 Budget's key thrusts**:
  - ❑ Sustaining economic growth and private investment
  - ❑ Mitigating the rising cost of living
  - ❑ Improving well-being of Rakyat
  - ❑ Addressing housing affordability
  - ❑ Human capital development (upskilling, reskilling and entrepreneurship training)
  - ❑ Connected economy
  - ❑ Capital market development

REDUCING THE CORPORATE TAX RATE

- Reduction of income tax rates by between 1 and 4% based on percentage increase in chargeable income compared to immediate previous year of assessment. This new tax rate structure applies for YA2017 and YA2018.

- Double gains for SMEs – i) a reduction of tax rate by 1% from 19% to 18% on the first chargeable income of RM500,000 w.e.f YA2017; and ii) enjoy the staggered reduction of income tax rates on chargeable income more than RM500,000, based on the incremental growth in chargeable income.

Impact

- To enhance competitiveness, reduce cost of doing business and boost earnings growth.
- To reward companies deliver higher chargeable income amid current challenging economic conditions.
- Sectors that are expected to deliver strong earnings growth are auto, commodities, construction, transport and services.

Percentage increase in chargeable income over previous year	% point reduction	Corporate income tax rate payable
Less than 5%	-	24%
5% - < 10%	1%	23%
10% - < 15%	2%	22%
15% - < 20%	3%	21%
20% and above	4%	20%

IMPACT OF ILLUSTRATIVE TAX CUTS

- Lower effective tax rate.
- SMEs enjoy greater savings, thanks to the combined impact of tax changes.

Extra savings of RM5,000

Year of Assessment	Chargeable income (RM)	Taxation (RM)	Saving (RM)	Effective tax rate	SME taxation (RM)	SME saving (RM)	Effective tax rate for SME
2016	1,000,000	240,000	-	24.00%	215,000	25,000	21.50%
2017	1,000,000 (no change)	240,000	-	24.00%	210,000	30,000	21.00%
	1,050,000 (5% increase)	251,500	500	23.95%	221,500	30,500	21.10%
	1,100,000 (10% increase)	262,000	2,000	23.82%	232,000	32,000	21.09%
	1,150,000 (15% increase)	271,500	4,500	23.61%	241,500	34,500	21.00%
	1,200,000 (20% increase)	280,000	8,000	23.33%	250,000	38,000	20.83%

(i) RM1,000,000 x 24% = RM240,000
(ii) RM200,000 x 20% = RM40,000

(i) RM500,000 x 18% = RM90,000
(ii) RM500,000 x 24% = RM120,000
(iii) RM200,000 x 20% = RM40,000

ENHANCING CONSUMER SPENDING

1. Boost consumption

- Higher BR1M by RM50-100 to RM450-1,200 totaling RM6.8bn to benefit 7m households.
- Higher loan limits for housing, computer & smartphones and motorcycles for 1.6m civil servants.
- Lifestyle tax relief up to RM2,500 per year.
- Higher allowances for special interests group.

Lifestyle tax relief is for purchase of newspaper, smartphone, internet subscription and gym membership. This helps to spur discretionary spending on consumer items.

Private consumption is estimated to rise by 6.3% in 2017 (6.1% in 2016) on relatively stable labour market and income growth amid cautious sentiment.

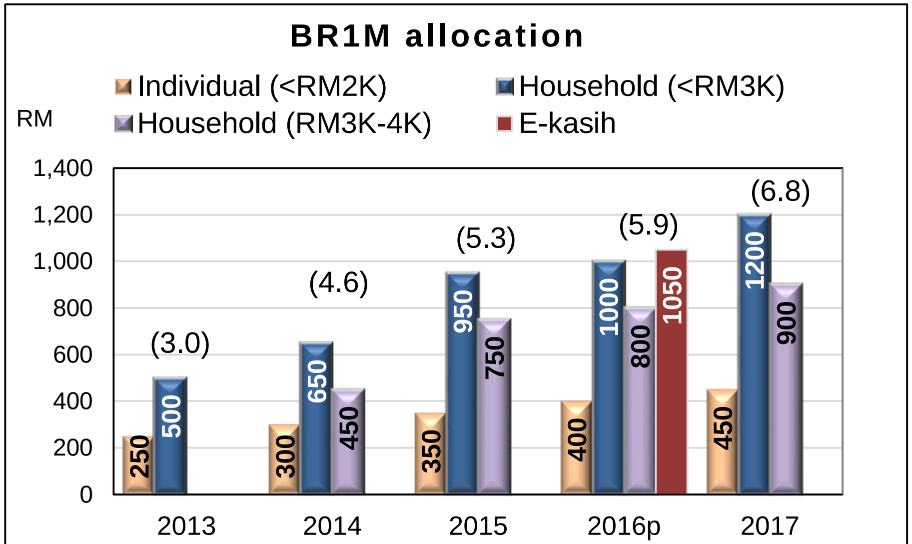


Figure in parentheses denotes number of recipient in million

Source: Various budget speeches; Hansard

2017 BR1M:

a) Households earning a monthly income of <RM3,000 would be increased from RM1,000 to RM1,200;

b) Households earning between RM3,000 to RM4,000 would be increased from RM800 to RM900; and

c) Single individuals earning <RM2,000 will be entitled to RM450 from RM400

ENHANCING CONSUMER SPENDING

Private consumption is estimated to rise by 6.3% in 2017 (6.1% in 2016) on relatively stable labour market and income growth amid cautious sentiment.

2. Raise income opportunities

- RM100m for 300,000 participants of e-Usahawan and e-Rezeki programs.
- RM100m to nurture 3,000 young entrepreneurs.
- B40 BR1M recipients to become UBER drivers. Use BR1M payment as down payment for purchase of Proton Iriz, in addition to the RM4,000 rebate.
- Expand Mobilepreneur program, targeting 3,000 participants using motorcycles and implement Agropreneur program to produce 3,000 young entrepreneurs involved in the production of high-value agricultural products.

3. Mitigate rising cost of living

- No GST rate hike in 2017.
- RM10bn for fuel subsidies including cooking gas (RM1.6bn), toll charges, public transport; electricity (RM124m).
- Special assistance of RM500 to civil servants and RM250 for Government retirees.
- Monthly RM300 socio-economic assistance to 120,000 senior citizens.
- Student debit card worth RM250 each for 1.3m students.
- Broadband prices to decline by up to 50% within the next 2 years.

ADDRESSING HOUSING AFFORDABILITY

- **Enhance first home buyers' affordability**
  - PR1MA's step-up end-financing scheme in collaboration with BNM, EPF, and 4 banks (Maybank, CIMB, AmBank and RHB).
  - Allocate a facility of up to RM2bn to end finance PR1MA's housing purchase
  - Mortgage loans financing between 90% and 100%
- **Stamp duty exemption on instrument of transfer and loan agreement** for first home ownership during 1 Jan 2017 to 31 Dec 2018
  - 100% exemption for houses priced up to RM300,000
  - For houses exceeding RM300,000 up to RM500,000, 100% exemption for first RM300,000 while the balance at 2%

Impact

- The measures are aimed to enhance the first home buyers' affordability via easier end-financing.
- But, the loan approvals should not compromise credit-worthiness of borrowers amid rising indebtedness.

Stamp duty increase

- Stamp duty on transfer of new properties above RM1m to be increased from 3% to 4% effective from 1 Jan 2018.
- Limited impact on high-end properties as they made up only 4% of the total transaction volume in 1H16.
- This helps to get some stamp duty revenue as the transactions of residential properties worth RM1m or higher accounted for 25% of total transaction value.

INCREASING SUPPLY OF AFFORDABLE HOUSING

- RM134m to build new 9,850 PPR houses, and RM576m to complete building 11,250 PPR houses for sale between RM35,000 – RM42,000 each unit.
- RM200m is allocated to help build 5,000 unit My Beautiful New Home for B40.
- The government's vacant lands at strategic locations will be given to GLCs and PR1MA to build 30,000 houses for sale between RM150,000 to RM300,000.
- Build 10,000 houses in urban areas to be rented out to youths (up to a maximum of 5 years) at below market rates.
- RM200m allocation to build 5,000 units of SPNB's People's Friendly Home with a subsidy of RM20,000 per unit.
- Allocation for Second-Generation House infrastructure development: FELDA (RM200m); FELCRA (RM100m) & RISDA (RM100m).

Impact

- Positive for construction sector and building materials
- Good execution is the key

Affordable Homes

Allocation
> RM1.1bn

9,850 PPR houses
11,250 PPR houses for sale
5,000 My Beautiful Home

> 30,000 PR1MA units

5,000 units Rumah Mesra Rakyat

10,000 units in urban area

Total = > 71,100 units

ACCELERATING SME AND ENTREPRENEURSHIP

- RM75m for programmes under SME Master Plan.
- Guarantee up to RM15bn provided under SJPP (Syarikat Jaminan Pembiayaan Perniagaan) extended until 2025.
- Allocation of RM100m for 5 years to boost export-oriented SMEs.
  - 2% rebate on interest rate for SME borrowers under SJPP scheme; limited to accumulated RM1bn funding.
- Export promotion programs to local SMEs by MATRADE, MIDA and SME Corp with an allocation of RM130m.
- RM200m from WCGS (Working Capital Guarantee Scheme) fund to drive startups.
- SME loans and micro-financing.
- Declare 2017 as Startup & SME Promotion Year.

Impact

- SME makes up 97% of all businesses; 36% of GDP; 65% of total employment and 18% of total exports.
- These measures, together with the income tax rate cut are expected to boost the contribution of SME sector to the economy.
- Moving ahead, the proposed consolidation of various funds and financial assistance schemes should enhance the utilization rate and awareness of the various incentives making available to the SME sector.

SME loans & micro-financing

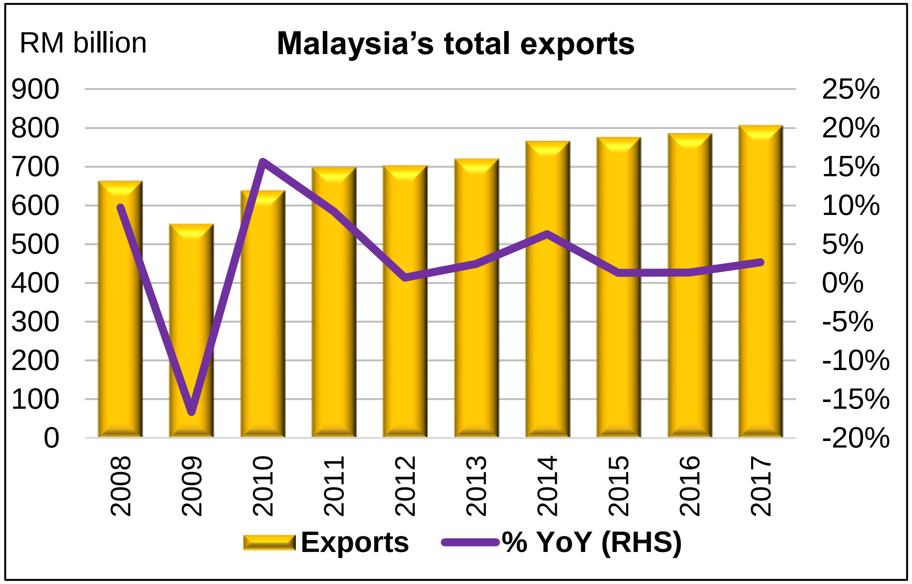
- RM50m via Kojadi
- RM20m under Malaysian Chinese Women Entrepreneurship Foundation
- RM20m for 1Malaysia Hawkers and Petty Traders Foundation

EXPORT PROMOTION

- RM130m through National Export Promotion Fund for export promotion programmes by MATRADE, MIDA and SME Corp.
- RM200m financing and insurance credit facilities with coverage valued up to RM1bn for SMEs.
- RM286m to increase production of commodities, i.e. palm oil, rubber, cocoa and pepper.
- RM50m for research to enhance quality of palm oil products; and RM30m grant to smallholders for oil palm replanting.

Impact

- Export growth has been languishing in recent years in line with the lethargic global trade and weak commodity prices.
- Malaysia's total exports are expected to rise by 2.7% to RM806.5bn in 2017 (+1.1% in 2016).
- These measures are expected to have a small impact given the still uneven pace of global demand



Source: Bank Negara Malaysia; MOF Economic Report 2016/17

- MDEC to implement programs such as e-commerce ecosystem and Digital Maker Movement as well as the introduction of new location category as Malaysia Digital Hub.
- Introduce the first Digital Free Zone in the world to facilitate international e-commerce and invigorate internet-based innovation.
- W.e.f 1 Jan 2017, fixed line broadband service providers will offer services at a higher speed for the same price.
- Fixed line broadband prices to decline by 50% within the next 2 years.
- The MCMC will provide RM1bn to ensure the coverage and quality of broadband nationwide reaches up to 20 megabytes per second.

Impact

- Hardware infrastructure and high mobile-internet adoption are not enough.
- Need a supportive policy environment and ecosystem to strengthen the analog foundations of digital economy.
- Digital innovations can only be an accelerator of growth to reap significant economic dividends when used in the right way.

The connected economy: Where we stand?

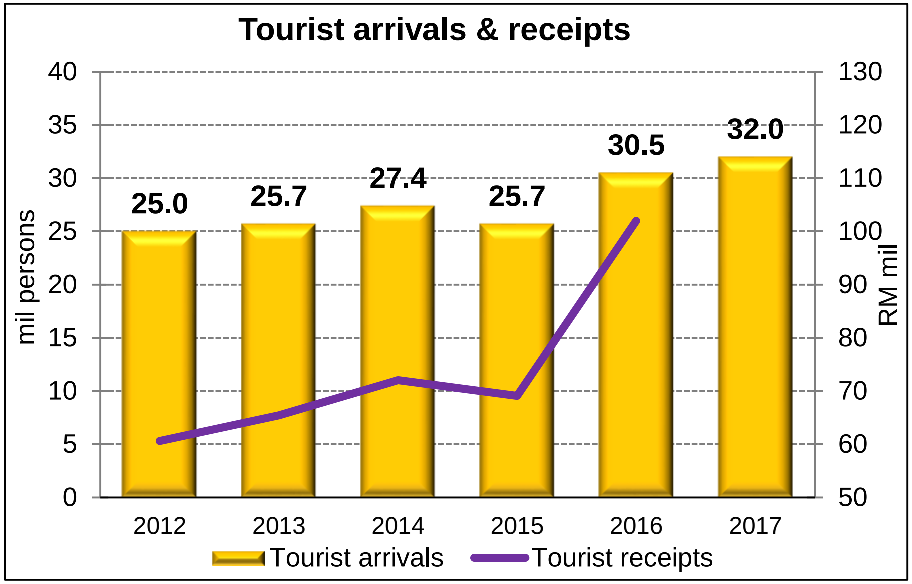
- Malaysia has about 21m internet users.
- The mobile penetration rate has reached 143.8% of the population.
- As of 2015, 77.3% of households have accessed to broadband services.

BOOSTING TOURISM SECTOR

- For 4- and 5-star hotel operators, current pioneer status exemption of 70%/100% & investment tax allowance of 60%/100% on capex to be extended to 31 December 2018.
- Tax deduction up to RM700,000 from RM500,00 for private sector's sponsorship in arts, cultural, and heritage performance and shows.
- Allocate RM400m for clean air and ecotourism initiatives.
- Visiting ASEAN@50 Year Campaign in conjunction with the 50th anniversary of ASEAN.
- Host for the 2017 SEA and Para ASEAN Games.
- E-Visa to be extended to Balkan region and South Asia to help achieve target of 32m tourist arrivals in 2017.

Impact

- South Asia is an important source of tourists to Malaysia, which accounted for 4.2% (or 1.1m visitors) of total tourists in 2015.
- The impact of eVisa for Chinese tourists have been very encouraging, which saw a jump of more than 30% yoy in Chinese tourists arrival in 1H16.



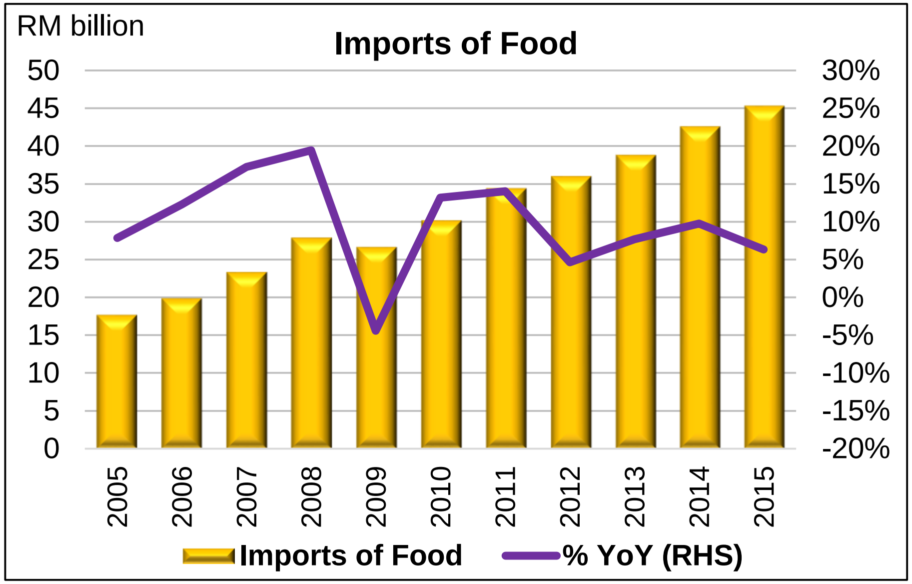
Source: Tourism Malaysia

FOOD PRODUCTION

- Allocate RM1.3bn to increase food production at competitive price
- Develop agricultural infrastructure
- Distribution of necessary goods program such as MyFarmOutlets and Agrobazaar Rakyat 1Malaysia premise
- Encourage the development of dairy industry as well as madu kelulut and coconut
- Reduce imported animal feed and promote corn plantation
- RM1.3bn to subsidise paddy price, seeds and fertilisers including hill paddy
- Allocate RM250m to implement the purchase of floor price as an incentive to registered rubber smallholders

Impact

- Malaysia is still heavily reliant on imports to feed the population, with food import bill hitting RM45.3bn in 2015.
- The measures would help to reduce the food deficit and uplift national food security.



Source: Department of Statistics, Malaysia

CAPITAL MARKET DEVELOPMENT

- Introduce Small and Mid-Cap PLC Research Scheme to conduct research on 300 companies.
- The Government Linked Companies to allocate RM3bn to fund managers licensed under the Securities Commission to invest in potential small and mid-cap stocks.
- Establish Capital Market Research Institute with initial funding of RM75m provided through Capital Market Development Fund.
- Extend the income tax exemption period to Islamic banking and Takaful business entities conducting foreign currencies activities through the International Currency Business Unit (ICBU) till YA2020 as well as stamp duty exemption on instruments of such activities.
- One-off increase in Private Retirement Scheme (PRS) incentive to RM1,000 from RM500 for PRS youth contributors.

Impact

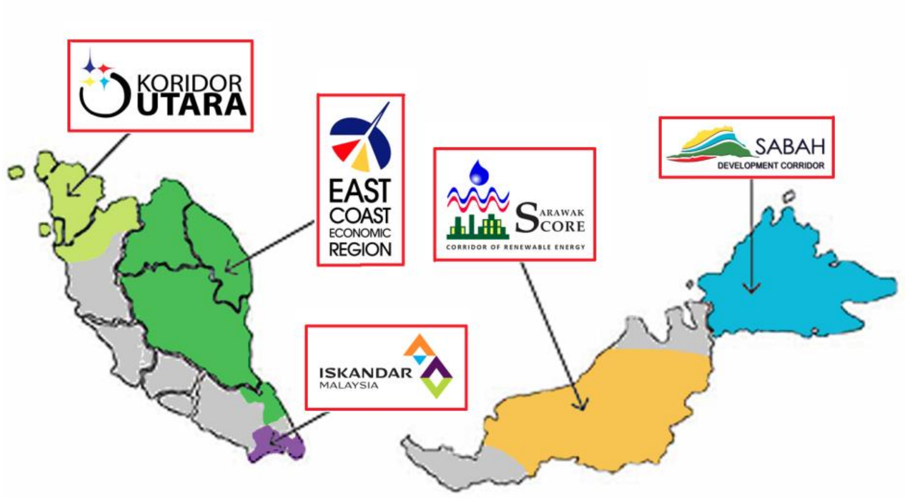
- The stock market is an important source of long-term finance for funding corporate growth.
- These measures help to boost awareness and interests in the trading of small-and mid-cap companies.
- More importantly, these companies must be well managed, backed by strong balance sheet with cash, strong earnings growth and attractive valuation as well as liquidity in the shares.

INFRASTRUCTURE SPENDING

- New 600km East Coast Rail Line connecting Klang Valley to East Coast, costing RM55bn.
  - Connects Port Klang, ITT Gombak, Bentong, Mentakab, Kuantan, Kemaman, Kerteh, Kuala Terengganu, Kota Bharu ends in Tumpat
- RM2.1bn for development of five economic corridors, namely Iskandar Malaysia, NCER, ECER, SDC, and SCORE.
- Accelerate the implementation of Pan Borneo Highway.
- Allocation of RM100m to restore East Coast railway line along Gua Musang – Tumpat that was destroyed during flood.
- RM1.2bn for building village roads and RM4.6bn allocated to maintain state roads.
- Allocation of RM1.1bn for 19 train sets to increase the trip frequency of ETS.

Impact

- Infrastructure spending would create positive multiplier and spillover effects on construction, manufacturing, services and banking sectors.
- Linkage with east coast will facilitate the development of port and industrial park in Kuantan, especially for reaping the potential benefits under China's Belt and Road Initiative.



HUMAN CAPITAL AND SKILLS CAPACITY BUILDING

- Allocation of RM4.6bn to TVET institutions.
- To optimize the government's assets, nine unused Teachers' Training Institutes will be transformed into polytechnics and vocational colleges.
- Allocation of RM270m to upgrade educational equipment in TVET institutions.
- Allocation of RM50m to extend the 1Malaysia Training Scheme (SL1M) program by GLCs to 20,000 graduates in 2017.
- Double deduction incentive for company hiring intern extended till YA2019, with the scope expanding to vocational students.
- Each UTC will be provided with a Job Centre to match job seekers and potential employers.

Impact

- Further facilitate the TVET program as emphasized in 11th Malaysia Plan.
- Encourage companies to contribute towards the employability of local graduates through an early exposure to the working environment.

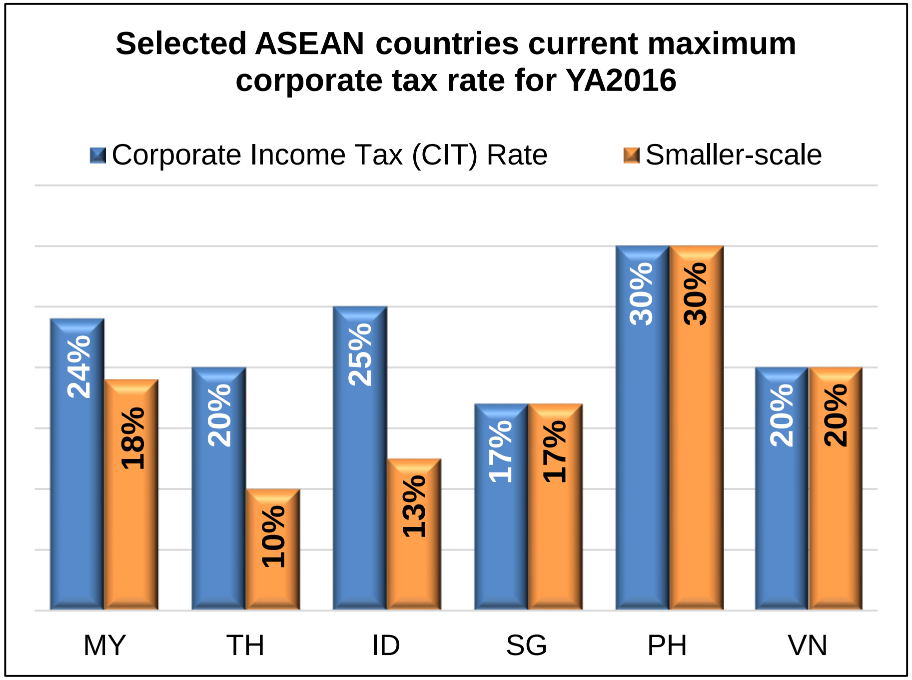
Other relevant measures

- 10%-15% discounts on PTPTN given to one-off full and half settlement, and through salary deduction or direct debit to provide sustainable financing for the future generation.
- Child care and breastfeeding equipment relief to ease the burden for working parent and encourage women back to the work field.

WHAT WE THINK ABOUT THE BUDGET

- It is another year of **tough balancing act**.
- The projected **revenue growth of 3.4%** to RM219.7bn in 2017 (estimated -3.0% in 2016), which **is on the high side**, is being pressurized by higher operating expenditure (+3.7% to RM214.8bn).
- The need to **restrain operating spending to secure stronger operating surplus**, which saw the surplus shrinking substantially from an average of RM12.8bn per year in 2000-2007 to RM3.3bn per year in 2008-2015. Operating surplus is estimated to reach RM5.5bn in 2016 and RM4.9bn in 2017.
- The Budget **lacks the political boldness to trim operating expenditure**, especially the bloated emoluments (RM77.4bn or 36.0% of total operating expenditure in 2017), retirement charges (10.1%) as well as supplies and services (14.9%).
- Rely on subsidies rationalization (10.4%) alone is not sufficient. Keep **a lean and performance-driven civil services** and implement **radical public pension reforms** based on defined-contribution to ensure long-term fiscal sustainability.
- It looks increasingly **unlikely to meet** the target of achieving **a near balanced budget of -0.6% of GDP by 2020**, which was based on crude oil price assumption of US$70 per barrel.
- If oil price continues to stay low, either GST rate may have to be raised or aggressive spending cuts would be needed to keep the books balanced.

- The reduction of corporate income tax rate based on an incremental growth in chargeable income is a welcome move to motivate businesses growing revenue.
- But, ultimately **a competitive tax rate** is the key factor to sustain the viability of business and spur investment.
- A step towards the transparency and clarity of tax structure, the government should **unveil a roadmap to lower the current corporate income tax rate** of 24% closer to regional levels.



Source: Various

WHAT WE THINK ABOUT THE BUDGET

- The yearly **cash handouts (BR1M)** have risen from **a mere RM2.0bn when it was introduced in 2012 to RM6.8bn in 2017 Budget** (estimated RM5.9bn in 2016). In 2012-15, BR1M payments amounted to RM13.7bn.
- **Is BR1M a rational public policy?** We know that handouts are popular but they are not effective in changing behavior and mindsets. They provide only temporary relief but do not address root causes. Targeting the poor and well-deserved households is justified as they suffered the most from higher cost of living.
- The **fiscal sustainability issues** require **a comprehensive review of the social safety net programs** based on well-deserving households, design and implementation choices as well as making the safety net programs conditional, tying them to upskilling and training.
- We need a **supportive policy environment and ecosystem to strengthen the analog foundations of digital economy**. These include smart (standardized, measurable, actionable, reliable and timely) regulations to foster strong competition policy in the telecom and internet market, more public-private partnerships, developing adaptive workers' skills and ensuring that the institutions supporting digital and connected ecosystem are accountable.
- While the transformative potential of digital technologies is big, they are not a shortcut to economic value creation. **Digital innovations** can only be **an accelerator of growth** to reap significant economic dividends **when used in the right way**.

CONCLUSION

- Broadly, the tax incentives, measures and initiatives announced in the 2017 Budget are expected to have **a moderate positive impact on the economy** and **capital market** over the medium-term.
- **Growth prospects remain positive yet challenging**. The Ministry of Finance's forecast of real GDP growth of 4.0-5.0% for 2017 appears on the high side, 4.0-4.5% is a more realistic target (2016E:4.0-4.5%).
- **Risks to outlook** could come from lingering **external uncertainties** (financial market volatility induced by higher US interest rate, unresolved issues related to Brexit, China's economic rebalancing) as well as the **strength of domestic demand**.
- **Effective implementation** of the Budget's programs and projects are crucial.
- Higher allocation with poor spending efficiency in terms of wastage and leakages, and worse still, mismanagement of public funds and corruption, the intended fiscal multiplier impact will be muted.
- So, it is **not about how much money is allocated and spent**, but **how well the allocated money is spent**.
- The **biggest winners** are **bottom 40 households** and **1.6m civil servants**.
- **Sector winners** are **SME, tourism, agriculture, construction, auto and consumer**. The telecommunication sector is the key loser.

Thrusts	Key measures and initiatives
Sustaining economic growth and private investment	• Reduction of corporate income tax rate between 1 and 4 percentage points based on the increase in chargeable income (between less than 5% and 20% and above) for YA2017-18 • Reduction of corporate income tax rate by 1 percentage point from 19% to 18% on chargeable income up to RM500,000 for SME from YA2017 • RM522m for MIDA to promote investment in chemicals, electrical products and electronics as well as R&D activities • Extend double taxation promotion on operating expenditure borne by anchor companies for the Vendor Development Program until 31 December 2020 • RM400m for clean air and ecotourism initiatives; pioneer status promotion and Investment Tax allowance for new 4 and 5 star hotels extended to 31 Dec 2018; increase in tax deduction from RM500,000 to RM700,000 to encourage sponsorship by private sector in local and foreign arts, culture and heritage shows and performances • E-Visa to be extended to Balkan region and South Asia to help achieve target of 32m tourist arrivals in 2017 • RM200m from the Working Capital Guarantee Scheme (WCGS) Fund will be allocated to startups • New East Coast Rail Line project costing RM55bn to be implemented • Pan Borneo Highway project to be accelerated • Allocation of RM2.1bn for infrastructure and socioeconomic development in five economic corridors (Iskandar Malaysia, NCER, ECER, SDC, SCORE) • People Centric projects continued through Private Finance Initiative with allocation of RM10bn • Allocation of RM100m to restore East Coast railway line along Gua Musang – Tumpat that was destroyed during flood • RM1.2bn for building village roads and RM4.6bn allocated to maintain state roads
Mitigate rising cost of living as well as improving income opportunities for Bottom 40 (B40) households	• Higher BR1M cash handouts of between RM450 and RM1,200 or an increase of between RM50-RM150 with an allocation of RM6.8bn to benefit 7m recipients • Lifestyle tax relief up to RM2,500 yearly effective in 2017 to purchase reading materials, computers, sports equipment, smartphones, tablets, internet subscription and gym memberships • Broadband prices to decline by up to 50% within the next 2 years • No GST rate hike for 2017 • Public servants to receive a special assistance payment of RM500 and special RM250 payment for retirees in early 2017 • Allocate RM275m to i) expand the MySuria Programme for the installation of solar panels in more than 1,600 housing units; ii) expand mobilepreneur program, targeting 3,000 participants using motorcycles; iii) implement agropreneur program to produce 3,000 young entrepreneurs involved in the production of high-value agricultural products; and iv) revitalize eUsahawan and eRezeki programs under the Malaysia Digital Economy Corporation (MDEC)

APPENDIX (cont.)

Thrusts	Key measures and initiatives
Enhance first home buyers' affordability; increase the supply of affordable housing as well as support housing infrastructure	• Provide government's vacant lands at strategic locations to GLCs and Perumahan Rakyat 1Malaysia (PR1MA) to build more than 30,000 houses priced between RM150,000 and RM300,000 • Build around 10,000 houses in urban areas for rental at a rate lower than market (up to a maximum of five years) to eligible youth • Build 5,000 units of People's Friendly Home with the government subsidizing up to RM20,000 per unit. Syarikat Perumahan Negara Berhad will be allocated RM200m • Easy financing scheme to provide 90-100% financing for affordable housing (PR1MA) with lower loan rejection rate in collaboration with Maybank, CIMB, AmBank, RHB, EPF and BNM to be implemented on Jan 2017. • Stamp duty exemption of 100% from 50% up to RM300,000 for first time home buyers for home purchases valued up to RM500,000 from Jan 2017 to Dec 2018 • Build 9,850 houses under People's Housing Program (PPR) with an allocation of RM134m • A total of 11,250 PPR houses are being built with an allocation of RM576m. These PPR houses will be sold between RM35,000 and RM42,000, markedly below the actual construction cost of between RM120,000 and RM160,000
Small and medium-term industries (SME)	• Reduction of corporate income tax rate by 1 percentage point from 19% to 18% on chargeable income up to RM500,000 for SME from YA2017 • Reduction of corporate income tax rate between 1 and 4 percentage points based on the increase in chargeable income (between less than 5% and 20% and above) for YA2017-18 • Export promotion programs to local SMEs by MATRADE, MIDA and SME Corp with allocation of RM130m • Loan financing totaling RM200m and insurance credit facilities with coverage valued up to RM1bn will be provided by EXIM Bank to SMEs • Allocate RM75m to implement programs under SME Master Plan • Provide guarantee up to RM15bn under the various schemes of Syarikat Jaminan Pembiayaan Perniagaan (SJPP) to be extended until 2015 • Provide 2% rebate on interest rates charged to SME borrowers under the SJPP scheme. This is limited to a total accumulated funding of RM1bn, which involves an allocation of RM100m for a period of 5 years

Thrusts	Key measures and initiatives
Increase food production and enhance agricultural exports	• Allocate RM1.3bn to increase food production at competitive price • Develop agricultural infrastructure • Distribution of necessary goods program such as MyFarmOutlets, agrobazzar and Rakyat 1Malaysia premise • Encourage the development of dairy industry aa well as madu kelulut and coconut • RM286m to increase exports of palm oil, rubber, cocoa and pepper • RM50m to conduct scientific research to enhance the quality of palm oil products • A grant of RM30m for the replanting of palm oil by smallholders. A sum of RM20m to upgrade estate roads to facilitate palm oil smallholders • RM1.3bn to subsidise paddy price, seeds and fertilisers including hill paddy • Allocate RM250m to implement the purchase of floor price as an incentive to registered rubber smallholders • Allocate of RM100m to implement Agropreneur program (production of high-value agricultural products) to produce 3,000 young entrepreneurs
Invigorate domestic capital market and develop Islamic financial instrument	• Small and Mid-Cap PLC Research Scheme will be introduced to conduct research on 300 companies • Government Linked Companies to allocate RM3bn to fund managers licensed under the Securities Commission to invest in potential small and mid-cap stocks • Establish Capital Market Research Institute with initial funding of RM75m provided through Capital Market Development Fund with initial funding of RM75m
Digital economy	• Allocate RM162m to MDEC to implement programs such as e-commerce ecosystem and Digital Maker Movement as well as the introduction of new location category as Malaysia Digital Hub • Introduce the first Digital Free Zone in the world to facilitate international e-commerce and invigorate internet-based innovation • W.e.f 1 Jan 2017, fixed line broadband service providers will offer services at a higher speed for the same price • Broadband prices to decline by up to 50% within the next 2 years • Launch an initiative for Ethernet broadband services in public universities to be increased to a maximum 100 gigabytes per second • The Malaysian Communications and Multimedia Commission (MCMC) will provide RM1bn to ensure the coverage and quality of broadband nationwide reaches up to 20 megabytes per second
Human capital development as well as enhance graduates employability	• Allocation of RM4.6bn to TVET institutions • To optimize the government's assets, nine unused Teachers' Training Institutes will be transformed into polytechnics and vocational colleges • Allocation of RM270m to upgrade educational equipment in TVET institutions • Allocation of RM50m to extend the 1Malaysia Training Scheme (SL1M) program by GLCs to 20,000 graduates in 2017

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