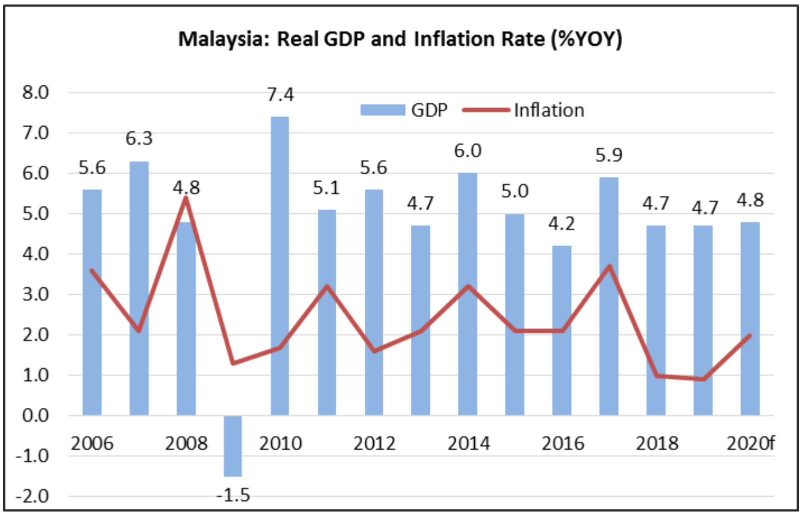
2020 Budget: Pump-priming budget to promote growth

We see no major surprises from the latest MOF projections which reaffirmed that the Malaysian economy is on a steady growth path. Sustained real GDP growth forecasts of 4.7% and 4.8% for this and next year came in largely in line with our house view of 4.7% and 4.6% for 2019 and 2020 respectively. Even though the 2020 growth forecast is a tad more optimistic than ours, we believe it is still realistic barring escalation of external risks. The private sector will remain firmly in the driver seat, aided by revival in investment, hence helping offset the negative drag from net exports. Against such challenging macro backdrop, the government is proposing to maintain an expansionary budget to pump-prime economic growth. It is hopeful that the increase in development expenditure (equivalent to ~0.2% of GDP) to RM56.0bn, and targeted Budget measures to boost consumption, business investment, and infrastructure projects, would help achieve the 4.8% growth target even though this would be at the expense of slower pace of fiscal consolidation (3.2% of GDP vs initial target of 3.0%). However, this should not raise any credit rating concern as the deficit target of 3.4% of GDP for 2019 remains firmly on track, and that the government remains committed towards trimming its fiscal shortfall to 2.8% of GDP through 2020-2022 under the Medium Term Fiscal Framework (MTFF). Steady global crude oil prices (MOF's 2020 assumption at $62/ barrel vs YTD 2019: $64) is expected to help sustain government revenue pending measures to broaden and restructure its tax base, providing the government more policy flexibility in managing its finances and growth agenda.

We believe the steady growth trajectory, commitment towards continued fiscal reform will be positive for the MYR outlook in the longer term, but gains could be capped by USD strength leading to a USDMYR range of 4.15-4.25 next year. In the MYR bond space, we are projecting a higher gross MGS/GII supply in 2020, circa RM125bn taking into account sizeable maturity redemptions next year worth circa RM73bn (2019: RM69bn), whilst this year's gross issuance has been revised up slightly by RM2bn to RM115bn.

2019-2020 Growth Prospects



Source: MOF Economic Outlook 2020

Steady growth outlook at 4.7% and 4.8% for 2019 and 2020 respectively

- In its latest Economic Outlook 2020 Report released in conjunction with the tabling of 2020 Budget, **the Ministry of Finance expects growth in the Malaysian economy to pick up slightly to 4.8% in 2020**, after sustaining an estimated 4.7% YOY growth in 2019. **We believe these growth projections are realistic, with the 2019 estimate matching ours at 4.7% and the 2020 forecast coming in just marginally higher than our house view of 4.6% for 2020.** Recall that earlier in March this year, BNM was forecasting growth in the range of 4.3-4.8% with a mid-point forecast of 4.7% for 2019. The latest MOF forecasts are also within the revised growth target (4.5-5.5%) under the 11MP, and is in line with the 2020-2022 Medium Term Fiscal Framework (MTFF) growth assumption of 4.5-5.0%. **That said, there continue to be downside risks to these growth projections should external risks escalate leading to bigger than expected adverse spillover effects on the domestic economy.**

Domestic demand will continue to anchor growth as net exports falters amid a bigger turnaround in imports

- **Little changed from the past, domestic demand will remain the main engine spearheading growth in 2020.** Domestic demand is expected to increase at a quicker pace of 4.8% YOY in 2020 (2019e: +4.0%), underpinned by sustained growth in private consumption (+6.9% vs +6.8% YOY) and recovery in investment (+1.3% vs -1.4% YOY), which will be mainly private sector-driven (+2.1% vs +1.5% YOY) as the public sector continued to see a minute 0.6% YOY decline in investment in 2020 (2019e: -8.1% YOY). Meanwhile, **underpinning the MOF's slight uptick in 2020 growth outlook also includes expectation for a gradual pick-up in the external sector,** assuming recovery in global trade activities as US-China tension abates as well as anticipated recovery in demand for electronics. Exports is expected to turn around and grow 1.4% YOY in 2020 (2019e: -0.4% YOY) but paled in comparison to the bigger rebound in imports growth to 1.9% YOY (2019e: -2.1% YOY), hence the drag on net exports (-2.7% vs +14.5% YOY).

Higher inflation of 2.0% expected for 2020

- **Inflation is expected to pick up for the first time in three years, to 2.0% YOY in 2020,** from 0.9% YOY in 2019. Kick-off of the targeted fuel subsidy mechanism in Peninsular Malaysia effective 1-Jan-2020, and low base effect are expected to shore up CPI next year, but we opine the pace and quantum of the pick-up would depend on movement in global oil prices and the pace of adjustment in RON95 back to market prices. **Our own in house forecasts also showed similar trend albeit at milder estimates of 0.7% and 1.4% YOY for 2019 and 2020 respectively.**

Unemployment rate to hold steady at 3.3% in 2019-2020

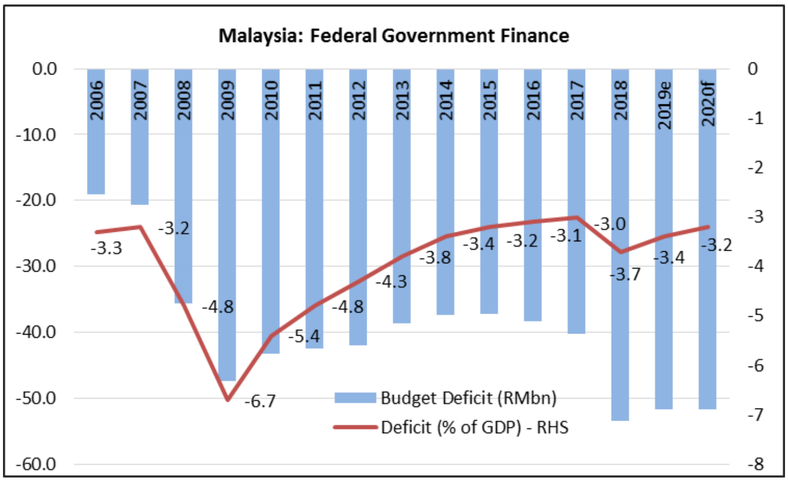
- **Unemployment rate is expected to remain steady and healthy at 3.3% through 2019-2020** supported by more job opportunities in the economy. Both the labour force and employment are expected to sustain steady increases of 1.9% YOY in 2019 and 2020, reflecting a steady job market.

Sharply lower current account surplus in 2020 as a result of lower surplus in goods account and wider deficits in services and income accounts

- **Current account surplus is expected to narrow considerably by a third g RM29.0bn or 1.9% of GNI in 2020** (2019e: RM43.4bn of 2.9% of GNI), dragged by lower surpluses in the goods account (-RM7.5bn) on the back of quicker imports growth vis-à-vis exports growth. In addition, the services account is expected to see bigger deficit of RM4.0bn due to dependence on foreign transport & trade related services and higher imports of construction and professional services, which is expected to offset anticipated higher inflows from tourism amid VM2020 and APEC meeting. Bigger deficit in the income account (-RM2.9bn) as a result of higher repatriations of profits and dividends by MNCs operating in Malaysia and higher net outflow in foreign worker remittances is also expected to contribute to the smaller surplus in the current account.

Prioritizing growth over fiscal position…budget deficit to narrow at a slower pace to 3.2% of GDP in 2020

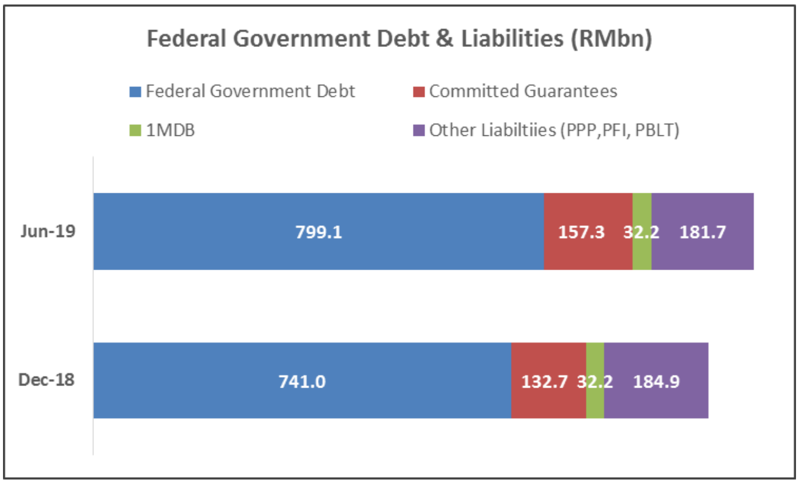
- On the fiscal front, MOF remains mindful of striking a fine balance between promoting sustainable growth and reining in fiscal deficit. The government is forecasting lower operating expenditure by 8.1% YOY corresponding to the 7.1% YOY decline in revenue in the absence of once-off Petronas special dividend. **Acknowledging mounting external risks and the need to prioritize the growth agenda, the government has decided to raise its development expenditure by 4.3% YOY to RM56.0bn in 2020 (2019: -4.3% YOY), representing 0.2% of GDP, thus resulting in a slightly higher than initially targeted budget deficit of 3.2% of GDP. We believe this should not raise any fiscal or rating concern** as we believe the government remains committed to fiscal consolidation, narrowing the gap further from 3.4% of GDP in 2019 and 3.7% of GDP in 2018. Indeed, the budget deficit is expected to stand flattish at RM51.7bn in 2020 (2019e: RM51.8bn). **Barring unforeseen macro and financial market shocks, we believe the average fiscal deficit target of 2.8% over the three years from 2020-2022 under the Medium Term Fiscal Framework (MTFF) remains on track.**



Source: MOF Fiscal Outlook 2020

Government debt to GDP inched up to 52.7%; debt and liabilities also edged higher to 77.1% of GDP at end-June

- **Total federal government debt has risen by 7.8% to RM799.1bn as at end-Jun 2019 representing 52.7% of GDP** (Dec-18: RM741.0bn; 51.2% of GDP), but **still** below the self-imposed debt ceiling of 55%. **Including liabilities and other debt exposure, total debt also increased by 7.3% to RM1.17 trillion as at end-Jun 2019, representing 77.1% of GDP**. As at end-Dec 2018, total debt and liabilities stood at RM1.09 trillion (75.4% of GDP), missing the earlier target of 74.6% of GDP but was evidently below 80.3% as at end-2017. The bulk of the debt (96%) is Ringgit-denominated borrowings, with the remaining 4% from offshore borrowings (mainly USD) suggesting minimal exposure to foreign currency risk.



Source: MOF Fiscal Outlook 2020

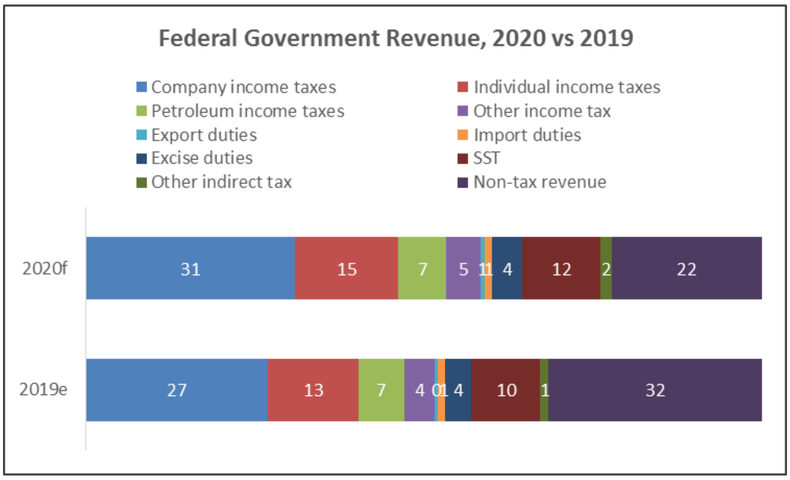
Key Take-away from the 2020 Budget

- Riding on the budget theme of **"Driving Growth and Equitable Outcomes Towards Shared Prosperity "**, the budget measures for 2020 focus on four main areas to help the nation towards achieving its Shared Prosperity Vision 2030. For now, the four main thrusts that the 2020 Budget focuses on are **(1) driving economic growth in the new economy and digital era; (2) investing in Malaysians; levelling up human capital; (3) creating a united, inclusive and equitable society; and (4) revitalization of public institutions and finances.**

- **Another expansionary budget as widely expected to spur growth.** The government is providing a **higher budget allocation of RM297bn for 2020, representing a 7.0% or RM19.5bn increase** from the RM277.5bn allocation in 2019 Budget. Sectors which are receiving higher allocations are transport, public utilities, agriculture, and healthcare.

Ex-Petronas special dividend, government revenue is forecasted to increase 4.8% YOY in 2020, thanks to faster increases in both direct and indirect taxes

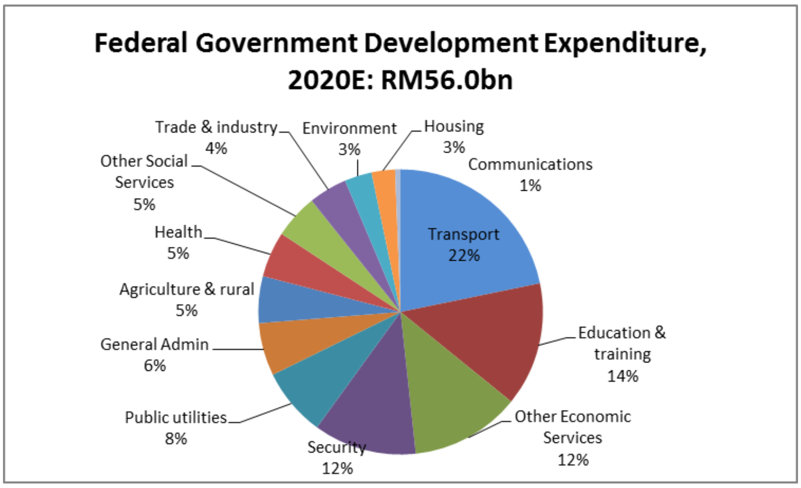
- **Federal government revenue is expected decline 7.1% YOY to RM244.5bn in 2020 (2019: +13.1% YOY), marking its first decline in four years due to the once-off special dividend by Petronas in 2019**. Excluding the RM30bn special Petronas dividend, government revenue is projected to increase by 4.8% YOY indeed, driven by the faster 5.2% YOY growth in direct taxes (income taxes/ stamp duty/ RPGT) and 6.5% YOY increase in indirect taxes (SST). **SST collection is projected to increase by 5.6% YOY to RM28.3bn in 2020** capitalizing on higher consumption and tourist arrivals. Meanwhile, the revenue estimate for 2019 has been revised slightly higher by 0.6% to RM263.3bn (previous RM261.8bn) to account for the higher SST collection of RM26.8bn, which is 21.8% higher than the RM22.0bn initially budgeted, and slightly lower non-tax revenue. **Building on a lower (and realistic) oil price assumption of US$62/ barrel for 2020 (2019: $63/ barrel; revised from $72/ barrel), petroleum-related revenue is estimated to be 1.4% YOY lower at RM50.5bn, accounting for 20.7% of total government revenue** (2019: RM51.2bn or 21.9% of total ex-special dividend).



Source: MOF Fiscal Outlook 2020

Lowering opex by 8.1% YOY to RM241.0bn but upping DE by 4.3% YOY to RM56.0bn

- Mirroring the drop in total revenue in the absence of one-off Petronas special dividend, the government is **trimming operating expenditure by 8.1% YOY to RM241.0bn** (2019: +13.6% YOY), mainly via a massive 80% (RM35.5bn) cut in other spending that includes grants to statutory funds, public corporations, international organizations, insurance claims and gratuities. **On the contrary, the government is raising its development expenditure by RM2.3bn or 4.3% YOY to RM56.0bn in 2020** (2019: -4.3% YOY), recognizing the need to fiscal pump-prime to sustain growth in the wake of looming external challenges. **Transport, education, and security remained the top three recipients,** accounting for 22%, 14% and 12% of total development expenditure in 2020.



Source: MOF Fiscal Outlook 2020

- Zooming in on budget measures, t**he government will continue to allocate RM5.0bn cash assistance under Bantuan Sara Hidup (BSH) to the B40 group.** On top of the existing 3.9m household, **the government will expand the scope to include 1.1m single individuals aged above 40 years old, as well as all disabled persons aged 18 years old and above, with monthly income of less than RM2k. These two new categories of BSH recipients will receive RM300 each annually.** To recap, currently, every household with monthly income of RM2,000 and below will receive RM1,000; households with month income of RM2,001 to RM3,000 will receive RM750, while those households earning between RM3,001 to RM4,000 monthly will receive RM500.

This is expected to help sustain private consumption as this segment of the household usually has the highest propensity to consume.

- **To lessen the burden of the rakyat,** on top of the Targeted Subsidy Programme (PSP) announced earlier this week involving only BSH recipients in Peninsular Malaysia who met the pre-determined criterias, **it is announced that all other motorists who are not BSH recipients will receive a special Kad95 to allow them to enjoy fuel subsidies at a discount of 30sen/ liter for RON95, up to 100 liters per month for cars and up to 40 liters per month for motorcycles.** This is equivalent to RM30/ month for cars and RM12/ month for motorcycles as per the entitlement enjoyed by BSH recipients.

- **On housing,** we noted there are continuous efforts to boost home ownership and promote affordable housing. **The government has also relaxed its rulings on foreign ownership of high rise properties in urban areas, reducing the threshold from RM1.0m currently to RM600k,** to help reduce the overhang in this segment. After all the hypes on RPGT, **the RPGT for disposal of properties after 5 years remained unchanged at 5%, and the government is merely tweaking its base year on asset acquisition from Jan 2000 to Jan 2013.** It is estimated that RPGT collection totaled RM1.6bn this year and is expected to increase to RM1.7bn in 2020.

- **In the capital markets, the current tax deductions on the cost of issuance and additional deductions on sukuk issuance costs under the principle of Wakalah will be extended for 5 years** until year of assessment 2025. On top of this, To further promote Islamic fund and Sustainable and Responsible Investment (SRI) fund management activity, the **tax exemption for fund management companies managing Shariah compliant funds and SRI funds, and the tax deduction on the cost of issuing SRI Sukuk will also be extended for another 3 years** until year of assessment 2023.

- **By and large, we believe this is a thoughtful budget covering various facets of the Malaysian consumers and business and even geographically including East Malaysia. Segments which stand tall to benefit include the B40 population, SMEs, E&E, basic utilities, property and construction. As mentioned, this is a growth-centric budget, but the government is mindful of not jeopardizing the country's fiscal consolidation objective in the longer tem.**

Please refer to Appendix III for more details on budget measures

Implications on USDMYR outlook

- We expect the latest budget to have **little implication on USDMYR in the immediate term.** The pair is still likely to trade within recent ranges of 4.17-4.20 while making occasional attempts to break 4.20, much depend on USD movement which in turn hinges on US-China trade headlines, and to some extent, the Fed interest rate outlook.

- Over the longer term, resilient domestic fundamentals is expected to continue support the MYR. While MYR could come under some pressure amid expectation of a firmer USD, we are expecting **MYR to firm up towards 4.15-4.20 in the 2H of 2020**.

Implications on MYR bonds market

- **Gross MGS/GII supply is expected to be at circa RM1115.0 in 2019, from earlier projected circa RM113.5bn**; a slight revision in view of the non-switching of auction-related activities and non-rollover of SPK bond maturity into government-guaranteed bonds despite the slightly lower deficit balance of RM51.8bn (original RM52.1bn). Hence net supply will possibly weigh on the curve with another RM16.5b to go for the remaining five (5) auctions for the year 2019.

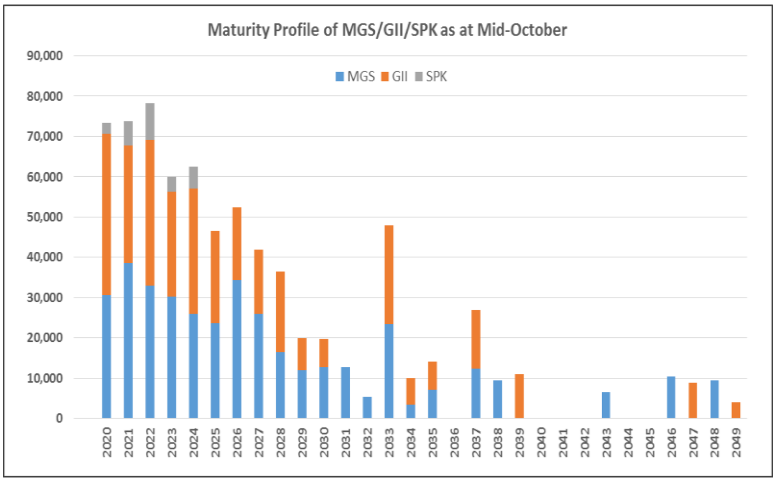
RM (Billion)	2018	2019e	2020f
MGS/GII Maturities	62.8	69.0	73.4
Net Govt Bond Supply (MGS/GII)	53.3	51.8	51.7
Gross Supply (MGS+GII+Samurai)	116.1	120.8	125.1
Gross Supply (MGS+GII only)	116.1	115.1	125.1

Source: MOF Fiscal Outlook Report 2019/2020; BPAM, HLBB Global Markets Research

- Federal Government's funding needs of RM120.8b for 2019 is **majority-funded onshore up to RM115.1b by both MGS/GII (with balance funded by the Samurai bond issuance in March 2019)** in the ratio of almost 50:50 with the balance by other instruments eg Bills given that there are no scheduled USD Government of Malaysia (GoM) sovereign debt/sukuk maturing this year.

- **We project MGS/GII issuances for 2020 at 125.1b likely to be distributed on a ratio of about 60:40 and skew towards the mid-longer end of the curve** taking into account high level of maturities from 2020-2026. Hence much of the anticipated issuances may hinge on a combination of 10Y, and 15-20Y tenures. We anticipate a busy issuance period beginning 1Q20 to reduce the impact of outflows taking into account some RM11.0bn of maturities.

- **Going into 2020, based on scheduled MGS/GII maturities, there are sizeable maturity windows in the middle of the year i.e. 2Q and 3Q.** Given the subsequent comparative appeal of the MYR bond yields due to its safe-appeal status, strong institutional support (especially local) and ample liquidity, we expect funds from maturing MGS/GII to potentially revert back as reinvestments into the govvies space.



Source: BPAM/ Bloomberg, HLBB Global Markets Research

Quarter	2020	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB			
	MAR	MGS 3/20	11,000	11,000
	APR	GII 4/20	10,500	
2	MAY	GII 5/20	11,000	
	JUN	GII 6/20	5,500	27,000
	JUL	MGS 7/20	7,973	
3	AUG	SPK 8/20, GII 8/20	12,700	20,673
	SEP			
	OCT	MGS 10/20	11,742	
4	NOV	MGS 11/20	3,000	14,742
	DEC			
Total	Total		73,415	73,415

*Maturities seen as horizontal bell-curve with 50% or bulk of maturities around the middle of the year.

Source: BPAM/ Bloomberg, HLBB Global Markets Research

Appendix I

Aggregate Demand

Gross Domestic Product by Expenditure Components 2015 Constant Prices (Percentage Change)

	2018	2019e	2020f	Factors Affecting Growth
Public Consumption	3.3	2.0	1.5	• Public consumption to moderate in line with fiscal consolidation path as the government undertakes rigorous expenditure optimization exercise.
Private Consumption	8.0	6.8	6.9	• Moderate expansion due to base effect following GST removal in 2H18, supported by upward revision to minimum wage, cash transfer, income tax refund, lower borrowing cost • Major events namely VMY2020 and APEC meeting to provide additional boost.
Public Investment	-5.0	-8.1	-0.6	• Supported by higher public corporations' capex. • Acceleration of projects towards the tail-end of the Eleventh Malaysia Plan alongside revival of strategic projects.
Private Investment	4.3	1.5	2.1	• Investment to pick up in 2H19 and 2020 amidst improving investors' sentiment with the resumption of strategic projects. • Tax refund to provide an additional impetus
Exports of goods and non-factor services	2.2	-0.4	1.4	• Following a lacklustre 2019, exports are expected to benefit from improving global trade activities and uptick in the E&E cycle. • Firmer demand for both E&E and non E&E products • Modest rise in agriculture exports • Higher LNG shipment but moderating crude exports.
Imports of goods and non-factor services	1.3	-2.1	1.9	• Turnaround in imports due to higher purchase of intermediate, capital and consumption goods amidst expansion in the manufacturing industry and more vigorous investment activities.
GDP	**4.7**	**4.7**	**4.8**	

Note: e = Estimate, f= Forecast
Source: MOF Economic Outlook 2020

Aggregate Supply

Gross Domestic Product by Industrial Origin (Percentage Change)

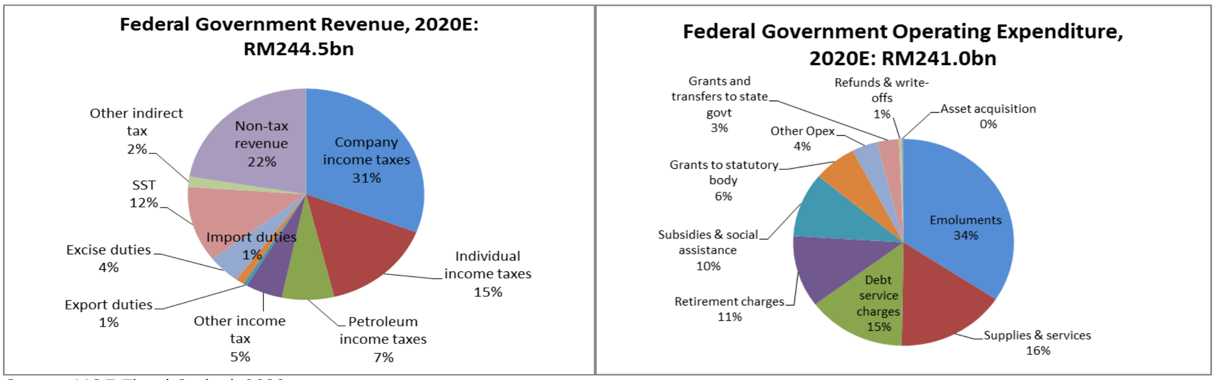
Sector	2018	2019e	2020f	Factors Affecting Growth
Agriculture	0.1	4.3	3.4	• Higher output in plantation, livestock and other subsectors. • Foresee higher CPO exports, benefiting from India's tariff cut and higher demand from China, Singapore and US.
Mining & Quarrying	-2.6	0.6	0.3	• Supported by stable gas production due to strong domestic demand from the petrochemical industry and rising shipment of LNG to China, Japan and South Korea. • Modest increase in crude oil driven by various projects.
Manufacturing	5.0	4.0	4.1	• Moderation to persist before picking up momentum in 2H20 alongside upturn in global electronics demand. • To benefit from the changes in the global electronics supply chain following the US-China trade dispute.
Construction	4.2	1.7	3.7	• Civil engineering segment to be boosted by investment in infrastructure works; acting as buffer for the softer residential and commercial property segment. • Building of affordable homes by the government and the reinvigoration of the National Housing Policy are expected to boost the residential subsector.
Services	6.8	6.1	6.2	• Expect household spending to continue support services sector alongside rapid expansion of the digital economy and launch of Visit Malaysia 2020. • Primary contributions from wholesale & retail trade, finance & insurance, information & communication, food & beverages and accommodation. • Slowdown expected in trade & manufacturing related services.
GDP	**4.7**	**4.7**	**4.8**	

Note: e = Estimate, f= Forecast
Source: MOF Economic Outlook 2020

Federal Government Finance (RM million)

	2016	2017	2018	2019 ③	2020 ④
Revenue	212,421	220,406	232,882	263,300	244,530
% change	-3.0	3.8	5.7	13.1	-7.1
Operating Expenditure①	210,173	217,695	230,960	262,260	241,020
% change	-3.1	3.6	6.1	13.6	-8.1
Current Surplus/Deficit	2,248	2,711	1,922	1040	3,520
Gross Development Expenditure	41,995	44,884	56,095	53,700	56,000
% change	3.0	6.9	25.0	-4.3	4.3
Direct Expenditure	40,052	42,277	54,405	51,681	53,468
% change	3.8	5.6	28.7	-5.0	3.5
Gross Lending	1,943	2,607	1,690	2,019	2,532
Minus Loan Recoveries	1,346	1,852	788	900	766
Net Development Expenditure	40,649	43,032	55,307	52,800	55,234
% Change	3.5	5.9	28.5	-4.5	4.6
Overall deficit	**-38,401**	**-40,321**	**-53,385**	**-51,760**	**-51,724**
% of GDP	**-3.1**	**-3.0**	**-3.7**	**-3.4**	**-3.2**
Sources of Finance					
Net External Borrowing	834	-342	-320	7,197	-
Net Domestic Borrowing	37,859	40,750	54,427	44,688	-
Change in assets②	-292	-87	-722	-125	-

Note: ① Excludes intra account transfers such as Development Fund
② Indicates a draw down of assets
③ Revised estimate
④Budget estimate
Source: MOF Fiscal Outlook 2020



Source: MOF Fiscal Outlook 2020

Balance of Payments (RM Billion)

	2015	2016	2017	2018	2019e	2020f
Balance on Goods	109.22	102.05	116.78	119.18	130.95	123.41
Balance on Services	-20.63	-18.92	-22.86	-17.73	-21.05	-25.0
Primary Income	-32.11	-34.59	-38.66	-51.59	-45.29	-50.0
Secondary Income	-21.33	-18.63	-17.30	-19.28	-21.2	-19.4
Balance on Current Account	**35.16**	**29.91**	**38.30**	**30.59**	**43.41**	**28.97**
Capital Account	-1.14	0.10	-0.03	-0.09	-	-
Financial Account	-55.35	-0.25	-4.73	18.61	-	-
Direct Investment	*-1.81*	*13.79*	*16.17*	*11.34*	-	-
Portfolio Investment	*-26.12*	*-14.20*	*40.41*	*34.63*	-	-
Financial derivatives	*-0.66*	*-0.80*	*-0.20*	*0.97*	-	-
Other Investment	*-26.76*	*0.96*	*-5.35*	*50.70*	-	-
Errors & Omissions	-32.22	-23.90	-17.13	-41.35	-	-
Overall Balance	-53.55	5.86	16.41	7.76	-	-

Note: p=preliminary; f=forecast
Source: MOF Economic Outlook 2020

Appendix II: GDP and Inflation of Selected Economies

Selected Industrial Countries: Major Economic Indicator

	2014	2015	2016	2017	2018	2019e	2020f
Real GDP Growth (%)							
World	3.4	3.2	3.2	3.8	3.6	3.2	3.5
Advanced Countries	1.8	2.1	1.7	2.3	2.2	1.9	1.7
United States	2.4	2.6	1.5	2.3	2.9	2.6	1.9
Japan	-0.1	0.5	1.0	1.7	0.8	0.9	0.4
Euro area	0.9	2.0	1.8	2.3	1.9	1.3	1.6
Germany	1.6	1.5	1.9	2.2	1.4	0.7	1.7
United Kingdom	3.0	2.2	1.8	1.8	1.4	1.3	1.4
Inflation Rate (%)							
Advanced Countries	1.4	0.3	0.8	1.7	2.0	1.6	2.0
United States	1.6	0.1	1.3	2.1	2.4	2.0	2.7
Japan	2.7	0.8	-0.1	0.5	1.0	1.1	1.5
Euro area	0.4	0.1	0.2	1.5	1.9	1.4	1.6
Germany	0.8	0.1	0.4	1.7	1.9	1.3	1.7
United Kingdom	1.5	0.1	0.7	2.7	2.5	1.8	2.0

e - estimate *f - forecast*
Source: IMF and national authorities

ASEAN: Gross Domestic Product and Inflation

	2014	2015	2016	2017	2018	2019e	2020f
Real GDP Growth (%)							
Indonesia	5.0	4.8	5.0	5.1	5.2	5.2	5.2
Malaysia	**6.0**	**5.0**	**4.2**	**5.9**	**4.7**	**4.7**	**4.8**
Philippines	6.1	5.9	6.9	6.7	6.2	6.5	6.6
Singapore	2.9	2.0	2.0	3.6	3.2	2.3	2.4
Thailand	0.9	2.8	3.2	3.9	4.1	3.5	3.5
Inflation Rate (%)							
Indonesia	6.4	6.4	3.5	3.8	3.2	3.3	3.6
Malaysia	**3.2**	**2.1**	**2.1**	**3.7**	**1.0**	**0.9**	**2.0**
Philippines	4.2	1.4	1.8	2.9	5.2	3.8	3.3
Singapore	1.0	-0.5	-0.5	0.6	0.4	1.3	1.4
Thailand	1.9	-0.9	0.2	0.7	1.1	1.0	1.3

e - estimate *f – forecast*
Source: IMF and various sources

Appendix III: Key budget measures

Investment:

i) RM1 billion worth of customised packaged investment incentives annually over 5 years to attract targeted Fortune 500 companies and global unicorns.
ii) RM1 billion in customised packaged investment incentives annually over 5 years for local firms.
iii) RM10m for MITI to focus on expediting approval of investments, post-approval investment monitoring and realisation
iv) RM1 billion 1:5 matching guarantee for dedicated private equity funds to invest in Malaysian consortiums.

Tax breaks:

i) 10Y tax exemption to E&E companies investing in selected knowledge-based services
ii) Special Investment Tax Allowance to encourage companies in E&E sector that have exhausted the Reinvestment Allowance to further reinvest in Malaysia.
iii) Tax incentives given to venture capital and angel investors will be extended until the year 2023
iv) The current tax deductions on the cost of issuance and additional deductions on sukuk issuance costs under the principle of Wakalah will be extended for 5 years until year of assessment 2025.
v) To further promote Islamic fund and Sustainable and Responsible Investment (SRI) fund management activity, the tax exemption for fund management companies managing Shariah compliant funds and SRI funds, and the tax deduction on the cost of issuing SRI Sukuk will be extended for another 3 years until year of assessment 2023.
vi) Donations exempted from tax increased from RM5,000 to RM10,000 & now 20,000 in 2020
vii) Donations to sports activities & national projects increased from cap of 7% to 10% of aggregate income
viii) Taxable income > RM2.0m per year taxed at 30% expected to impact 2,000 top income earners

Transportation:

i) RM50m allocation for the repair and maintenance of roads leading to Port Klang.
ii) Feasibility studies on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles, with both projects estimated to cost RM8.3 billion.
iii) RM450m for 500 electric buses for public transport in certain cities
iv) RM85m upgrade for CIQ, JB causeway
v) 18% toll reduction for PLUS users soon
vi) Toll rates for cars at Second Penang Bridge reduced from RM8.50 to RM7.00
vii) Acquisition costs of $ highways ie Sprint, Smart, Kesas & LDP will not require deve
viii) Petrol subsidies extended also to non-BSH recipients up to RM0.30 per litre up to 100 litres; total RM2.2b for 8m motorists.

Healthcare

Allocation increased from RM28.7b to RM30.6b for construction and upgrade of hospitals and dental clinics, quarters, medical equipment, vaccination, ambulances, ICT services

Trade:

i) The Royal Malaysian Customs Department (RMCD) will introduce a deferred payment facility to expedite the clearance process of cross border transactions.
ii) Strengthen trade with Thailand via Kota Perdana Special Border Economic Zone (SBEZ) at Bukit Kayu Hitam, allocate additional RM50m to stimulate public-private partnership or the project, on top of the development of a Truck Depot announced in 2019.

Digital Infrastructure:

(i) Implementing the National Fiberisation & Connectivity Plan (NFCP) over the next 5 years worth RM21.6bn,
(ii) MCMC will allocate RM250m to leverage on various technologies, including via satellite broadband connectivity.
(iii) RM210m to accelerate the deployment of new digital infrastructure.
(iv) RM50m to introduce a 5G Ecosystem Development Grant
(v) RM25m to set up a contestable matching grant fund to spur more pilot projects.
(vi) RM550m to provide Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies to automate their business processes.
(vii) RM70m to build up to 14 one-stop Digital Enhancement Centres in all states to facilitate access to financing and capacity building of our businesses, especially SME
(viii) RM20m to Cradle Fund for the provision of training and grants to seed companies.
(ix) RM10m to MDEC to train micro-digital entrepreneurs and technologists to leverage on e-Marketplaces and social media platforms to sell their products
(x) RM20m for eSports in 2020

(i) RM450m digital stimulus run by Khazanah by offering a one-time RM30 digital stimulus to qualified Malaysians aged 18 and above with annual income less than RM100,000. 15m Malaysians to benefit. (for e-wallet)
(ii) To offer accelerated Capital Allowance and automation equipment capital allowance for manufacturing sector and services sector. To encourage automation and to increase company's productivity

Bank funding for Businesses

(iii) SME Bank will introduce two new funds where the Government will provide an annual interest subsidy of 2% to reduce borrowing costs, targeting women entrepreneurs, bumiputra SMEs
(iv) RM10m to the Ministry of Entrepreneur Development to develop and enhance and tap into (global) Halal market.
(v) Increase the ceiling per company for the Market Development Grant (MDG) initiative by Malaysia External Trade Development Corporation (MATRADE) from the current RM200,000 to RM300,000 yearly.
(vi) RM50m to encourage SMEs to engage in more export promotion activities.
(vii) Additional RM50m to My Co-Investment Fund (MyCIF) under the Securities Commission Malaysia to help finance the underserved SMEs
(viii) RM445m to Bumiputra Entrepreneurial development
(ix) RM20m under TEKUN Nasional's Skim Pembangunan Usahawan Masyarakat India (SPUMI) to Indian entrepreneurs.

Green/ Renewables
(i) To migrate the current power purchase system towards a wholesale market in the future. Renewable energy suppliers will also be able to compete directly in the retail market. The more transparent and competitive electricity market will ensure a lower cost of electricity for Malaysian consumers.
(ii) GITA and Green Income Tax Exemption (GITE) incentives will be extended to 2023.

Agriculture
(i) Increased the allocation to the Ministry of Agriculture from RM4.4 billion in 2019 to RM4.9 billion in 2020 aims at increasing/enhancing incomes of farmers.
(ii) RM550m palm oil replanting loan fund for smallholders.
(iii) RM27m to support Malaysian Palm Oil Board's (MPOB) efforts to market palm oil internationally and counter anti-palm oil campaigns
(iv) Enhance implementation of biodiesel, with the B20 biodiesel for the transport sector to be implemented by the end of 2020. This is expected to increase palm oil demand by 500,000 tonnes per annum.
(v) RM100m for Rubber Production Incentive in 2020 to enhance the income of smallholders faced with low rubber prices.
(vi) RM810m for the welfare of FELDA community, as follows:
(vii) RM738m for RISDA and Federal Land Consolidation and Rehabilitation Authority (FELCRA)

R&D
(i) Set up a Research Management Agency (RM10mil)
(ii) RM11 million for initiatives by the MOE in collaboration with Ministry of Environment, Science, Technology and Climate Change (MESTECC) STI and STEM

Tourism
(i) Allocate 50% of tourism tax to respective State Governments to support efforts in conjunction with Visit Malaysia 2020.
(ii) RM1.1 billion to the Ministry of Tourism, Arts and Culture,
(iii) Malaysia Year of Healthcare Travel 2020 - allocate RM25m to the Malaysian Healthcare Tourism Council (MHTC).
(iv) To facilitate the visa application process, licensed travel agents under the Ministry of Tourism, Arts and Culture (MoTAC) are allowed to submit group application for up to 100 people per transaction through the eNTRI and eVISA system.

Security
(i) MINDEF gets RM15.6b (2019:RM13.9b)

Talent and workforce management
(i) Malaysians @Work initiative that will cost RM 6.5b over 5 years and create an additional 350k jobs and reduce foreign workers dependency by more than 130k.
(ii) An additional RM30m in 2020 to provide more TASKAs
(iii) To review the Employment Act 1955, which includes the following (increase maternity leave from 60 days to 90 days effective 2021,: Extend the eligibility to overtime from those earning less RM2,000 to those earning less than RM4,000 per month;
(iv) To increase the minimum wage rate only in major cities to RM1,200 per month effective 2020.

(v) The Employees Provident Fund (EPF) will extend coverage to contract workers, for those under Contract for Services and Professionals.
(vi) The current Self-Employment Social Security Scheme by the Social Security Organisation (SOCSO) will be expanded to enable contributions by other self-employed groups across 18 key sectors.
(vii) RM20m in 2020 for i-Suri program to further extend the benefits under i-Suri via social safety coverage under SOCSO.

Education
(i) MOE continues to receive the largest allocation increasing from RM60.2 billion in 2019 to RM64.1 billion in 2020.
(ii) the Government will increase the allocation for school maintenance and upgrading works from RM652m as announced in Budget 2019 to RM735m in 2020,
(iii) RM783 million in 2020 on repairing dilapidated schools, particularly for schools in Sabah and Sarawak.
(iv) RM23 million to ensure school facilities are disabled friendly
(v) Increase allocation for TVET from RM5.7 billion in 2019 to RM5.9 billion in 2020 on TVET
(vi) The total allocation for education institutions under MARA for 2020 amounts to RM1.3 billion, with a further RM2 billion allocated for student loans benefitting 50,000 students.
(vii) RM192 million for professional certification programmes under Yayasan Peneraju.
(viii) Educational opportunities provided for low-income bumiputras especially from rural areas to study in MRSM MARA and UniKL - RM1.2b allocation to MARA & another RM2.0b as loans for 50,000 students

Housing
(i) Concerted efforts to continue promoting Home ownership campaign inc Rent-to-own for purchase up to RM500,000 home.
(ii) Property cap for foreigners reduced to RM600k in 2020 from RM1.0m for purchase of high rise properties in urban area
(iii) RPGT base year of asset acquisition moved forward from Jan 2000 to Jan 2013
(iv) RM100m for repair & refurbishment of low/medium cost strata housing.
(v) RM15m for safe city lighting

Environment
(i) RM594mm to prevent flash floods; build retention ponds: RM100m disaster fund for farmers
(ii) RM48m to preserve forests & 15m for endangered species
(iii) RM20m for forest rangers

Rural Development
(i) Allocation increase from RM9.7b to RM10.9b. To reduce the divide between urban & rural via allocation of RM587m for rural water supply project (Sabah & Sarawak: RM470m). RM500m for rural electricity supply to 30,000 residents especially in Sabah & Sarawak.
(ii) Rural roads and linkages allocated Rm1.0b (Sabah & Sarawak: RM560m)

Major infrastructure projects
(i) Commitment to continue Pan Borneo Highway @ reduced cost of RM29b (reduction of RM1.2b)
(ii) Road construction & maintenance allocation for all states - RM4.85b under MARRIS programme
(iii) RTS between Johor & Singapore

Subsidies
(i) RM5.0b for Bantuan Sara Hidup (BSH)- i.e RM300 for those >40yrs & earning < RM2,000 per month & disabled persons >18yrs & earning < RM2,000 per month.

Social services
(i) Allocation of RM80m for 67 institutions under Dept of Social Welfare
(ii) Allocation of RM25m under Food Bank programme esp for B40
(iii) Allocation of RM20m for independent learning centres, mentally handicapped and kindergartens
(iv) Allocation for RM4.5m for homeless Malaysians
(v) Allocation of RM20m to expand skills of prison inmates
(vi) Allocation of Rm10m to Msian Global Innovation & Creativity Centre
(vii) Allocation of RM57m + RM83m for Orang Asli
(viii) Allocation of RM100m to MITRA (Msian Indian Transformation Unit)
(ix) Allocation of RM175m for Tokyo Olympics 2020 & Hanoi Sea Games 2021; RM45m for soccer development; RM10m for women in sports
(x) Allocation of RM138m for YOUTH POWER CLUB & volunteerism
(xi) Allocation increased form RM7.7b to RM8.0b for Bumi insitutions
(xii) Allocation for Islamic affairs under PM’s dept increased to RM 1.3b (2019: RM1.2b

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