



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

JP Morgan's KL Investors' Day

Challenging Transition for New Malaysia

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Key Messages



RISKS TO GLOBAL ECONOMY STILL LURK



MALAYSIA ECONOMY GROWING, RISKS AHEAD



2019 BUDGET: LEAN BUT GROWTH SUPPORTIVE

Section 1:

Global environment –

Growing but risks are rising



Global economy still **GROWING** but **MULTIPLE RISKS** ahead



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



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

“FIVE RISKS” increase global uncertainty:



TRADE WAR



RISING US INTEREST RATES



FINANCIAL VOLATILITY



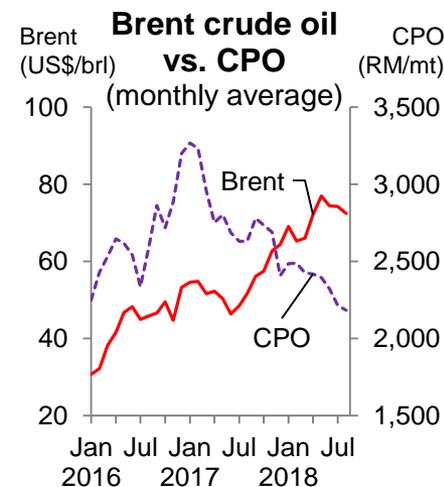
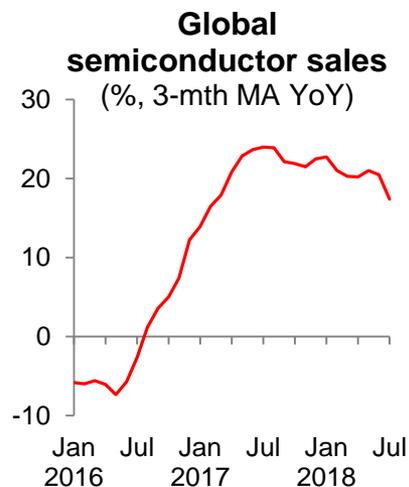
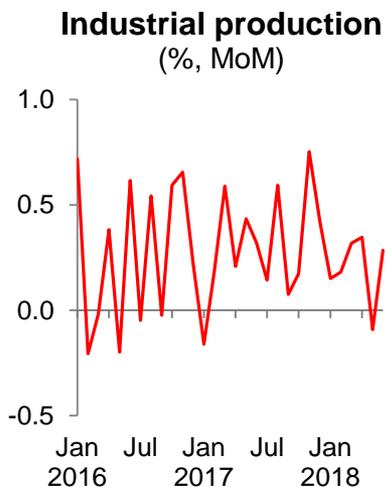
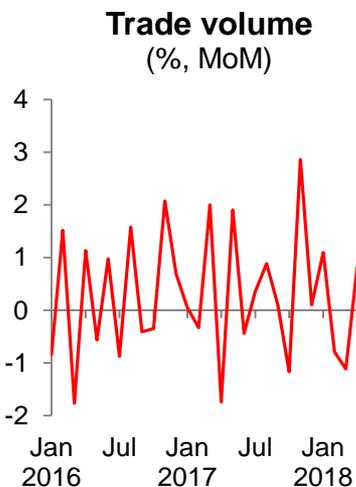
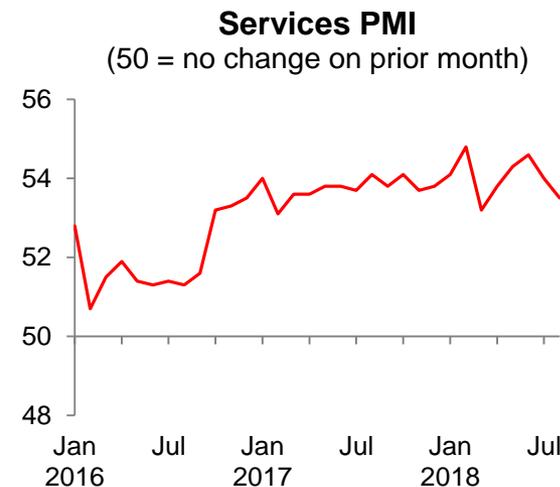
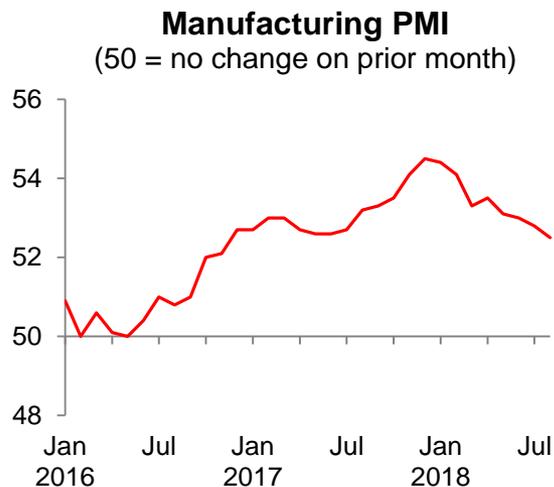
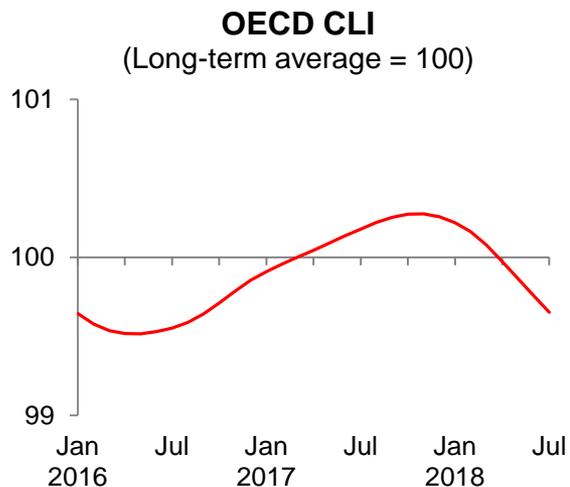
INTENSIFIED RISKS IN EMERGING MARKETS



POLITICAL AND GEOPOLITICAL RISKS



Global indicators point to PEAKING & EASING global growth



Jan-Aug 2018 Brent crude oil: US\$71/brl
CPO: RM2,363/mt

Source: OECD; Markit; CPB; SIA; EIA; MPOB

Next **GLOBAL RECESSION** – What will trigger and when?

First, US's **FISCAL-STIMULUS EFFECTS** running out of steam.

Second, with inflation rising above target **PUSHING THE FEDERAL FUNDS RATE TO AT LEAST 3.5%** by 2020. By then, other central banks would have normalized interest rates; reduce global liquidity and put upward pressure on interest rates and the US dollar.

Third, the Trump administration's **ESCALATING TRADE SPATS** with China and other trading partners, leading to slower growth and higher inflation.

Fourth, other countries will retaliate against US protectionism. **CHINA'S GROWTH** will be challenged by continued deleveraging; highly vulnerable emerging markets will be significantly pressured by capital reversals.

Fifth, **GLOBAL EQUITY MARKETS ARE GETTING FROTHY**. US P/E ratio is 50% above historical average, steep market valuations, government bonds are too expensive. Global debt has hit another high (US\$247 trillion or exceeding 318% GDP at end-Mar). Some of the US\$3.7 trillion in debt taken on in the ten years since the 2008-09 Global Financial Crisis.

THE EXPANSION IS NINE YEARS OLD. AN ILL-TIMED END OF FISCAL STIMULUS, CORPORATE DEBT BUBBLE AND THE TRADE WAR ARE THE POWERFIRES THAT COULD MOST EASILY END IT



Section 2:

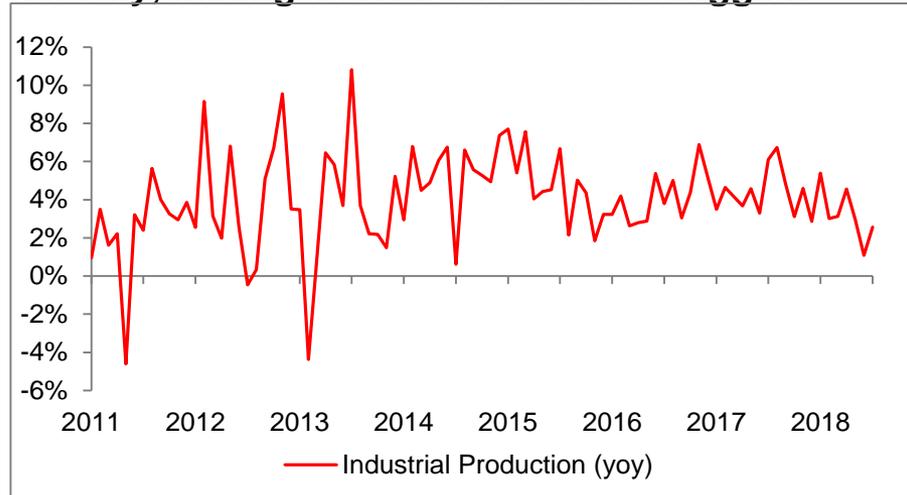
Domestic economic conditions:

Challenging Transition for New Malaysia

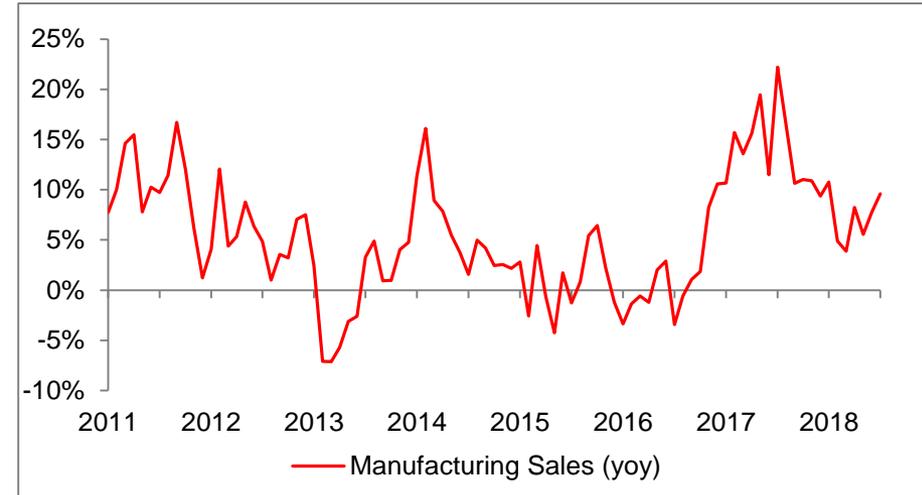


Malaysia: ACTIVITY INDICATORS remain on track

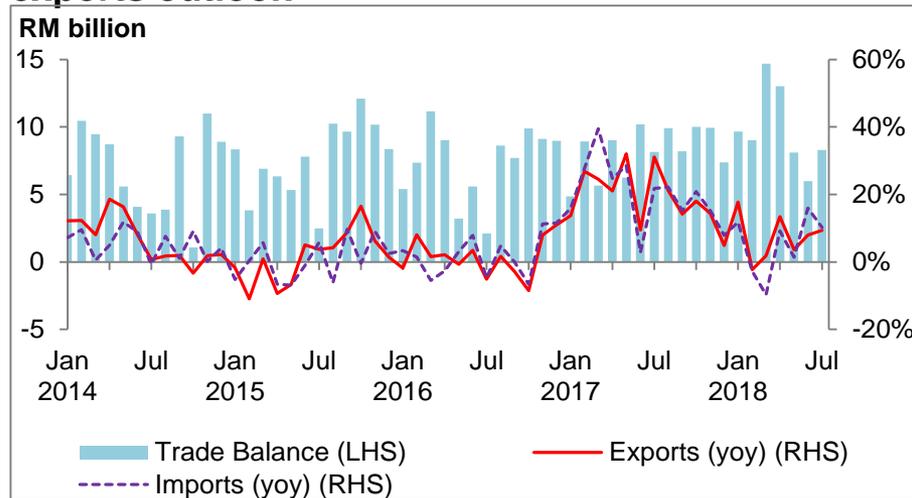
Manufacturing production continues to grow steadily; mining activities remained sluggish



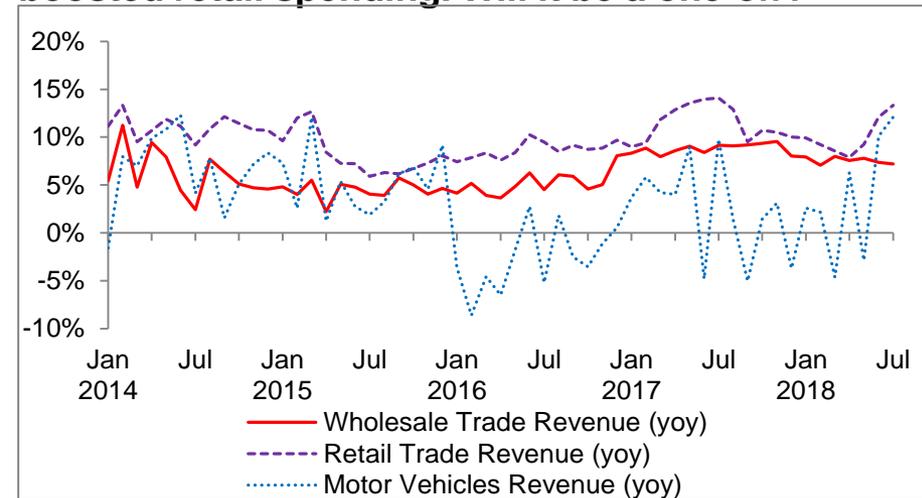
Manufacturing sales growth is regaining traction



Uncertainties on trade war could temper exports outlook



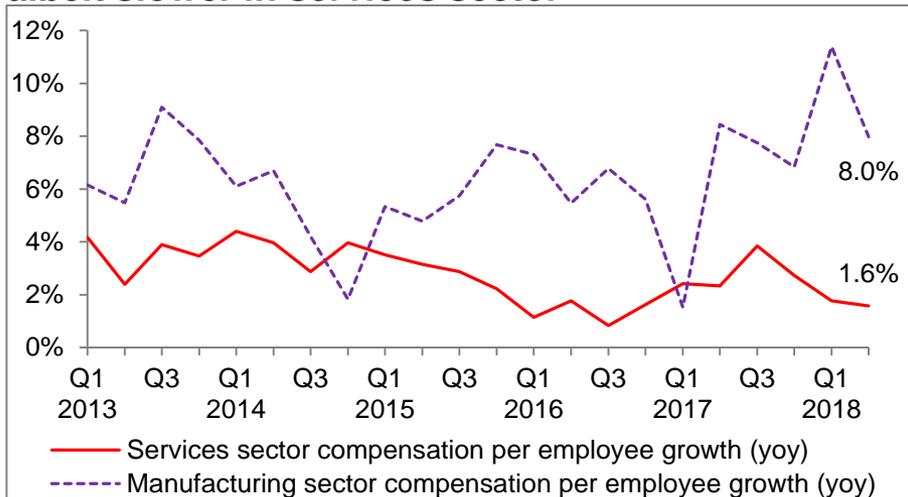
Three months tax holiday (zero-rated GST) boosted retail spending. Will it be a one-off?



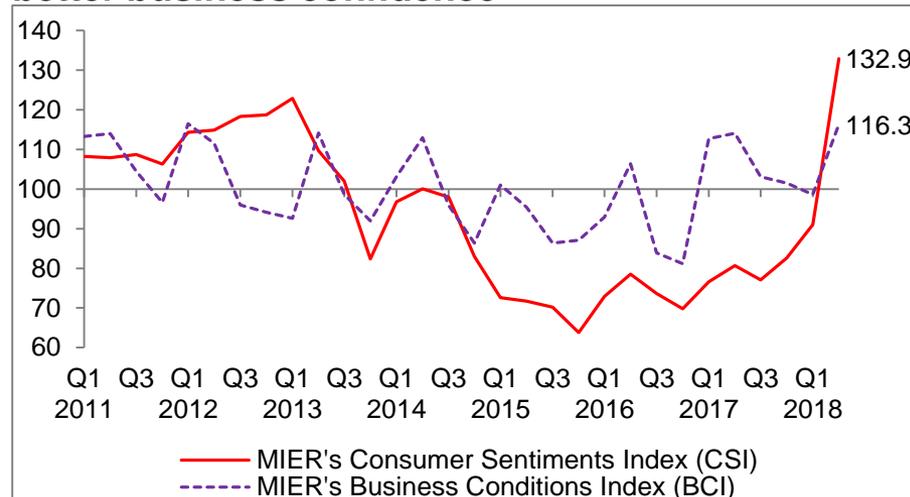
Source: DOSM

Consumption RESILIENCE; IMPROVED investment sentiment

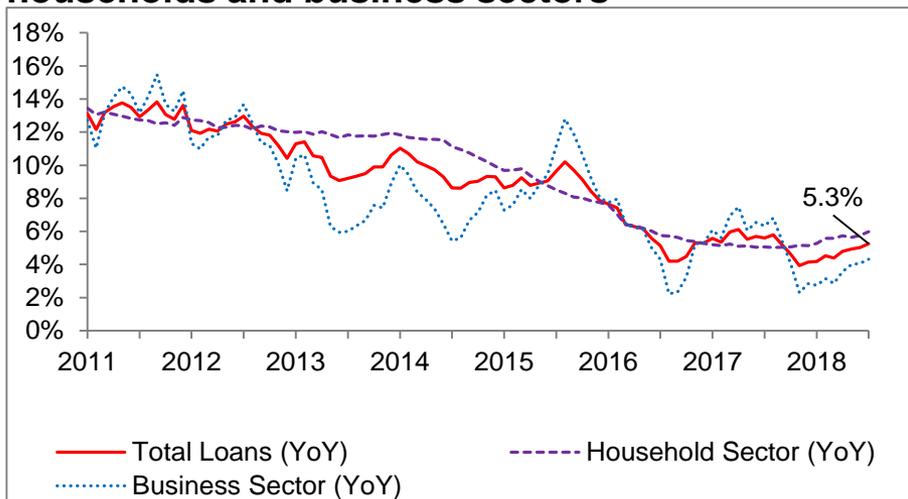
Growing salaries and wages in private sector, albeit slower in services sector



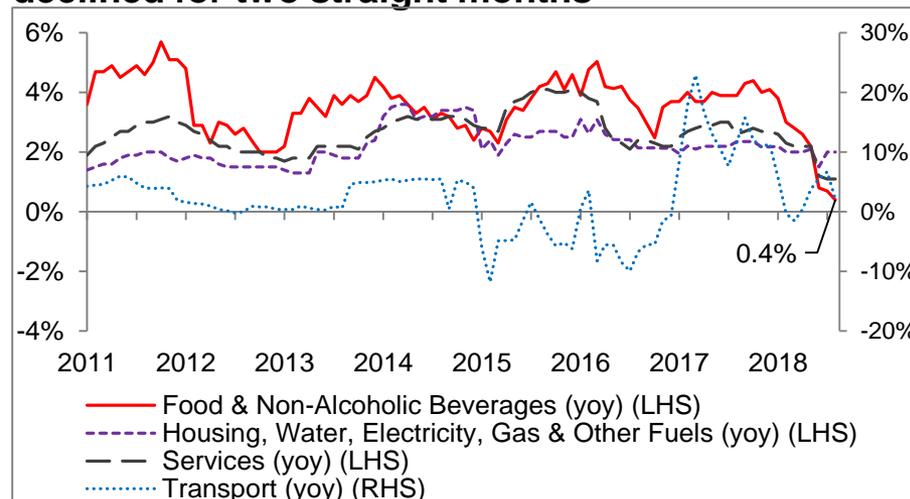
Consumer sentiments surged to 21-year high; better business confidence



Higher loan growth since April, lifted by both households and business sectors



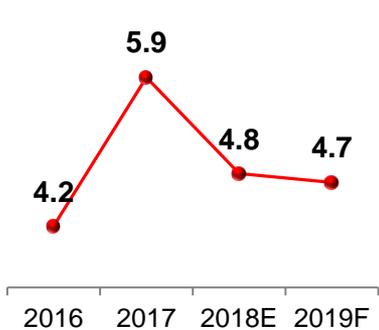
Marginal increase in food prices, core CPI has declined for two straight months



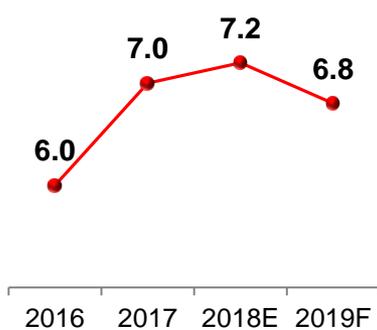
Source: DOSM; MIER; BNM

Malaysia's key ECONOMIC INDICATORS

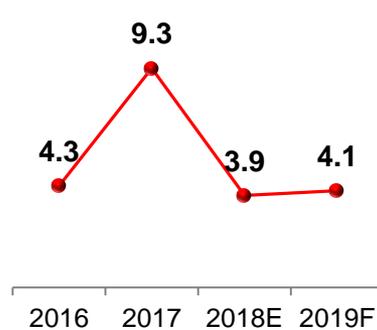
Real GDP growth (%)



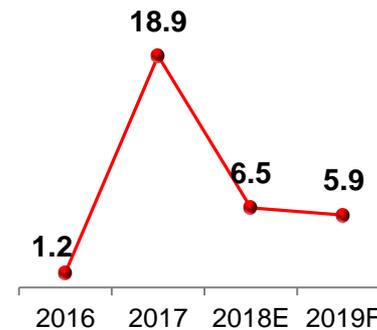
Private consumption growth (%)



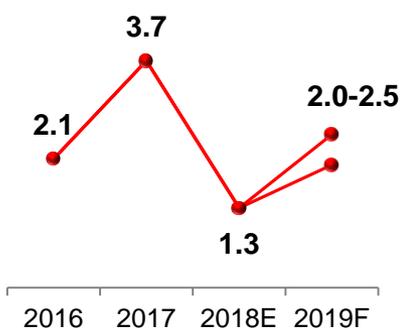
Private investment growth (%)



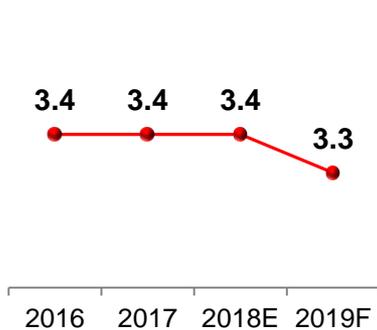
Gross export growth (%)



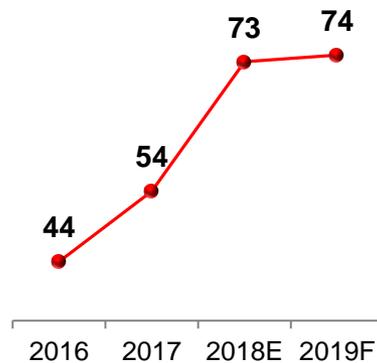
Inflation rate (%)



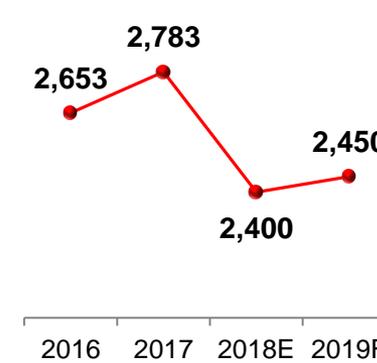
Unemployment rate (%)



Brent crude oil price (US\$/barrel)



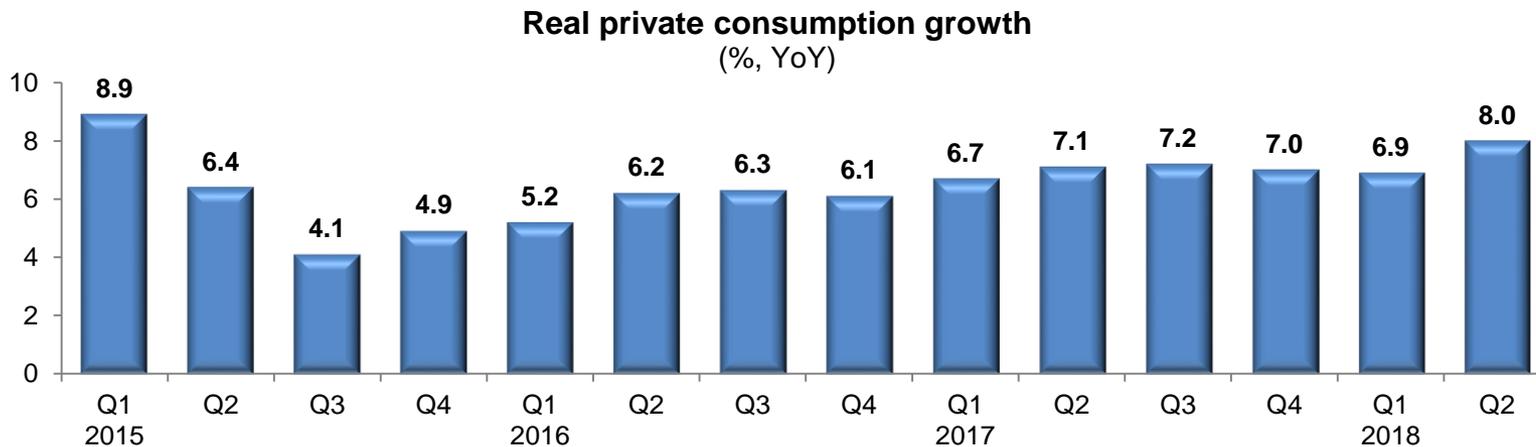
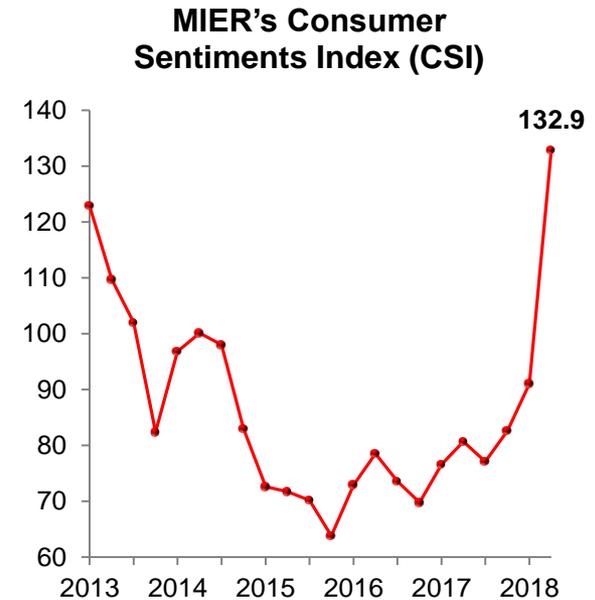
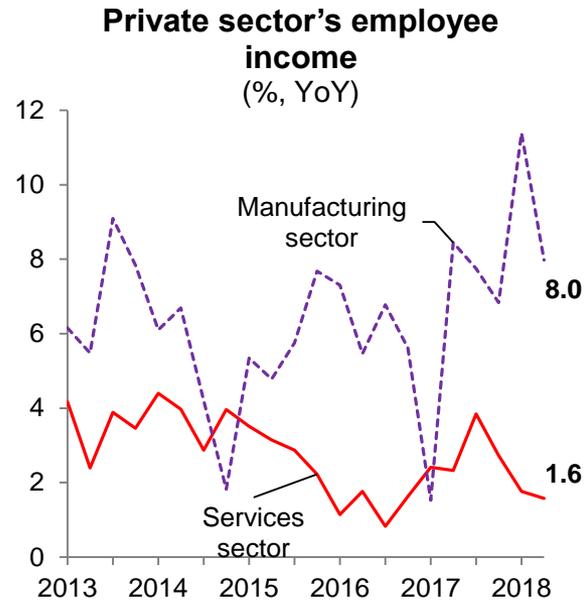
Crude palm oil price (RM/tonne)



Source: DOSM; BNM; EIA; MPOB; SERC

SOLID consumer spending but will it normalise?

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

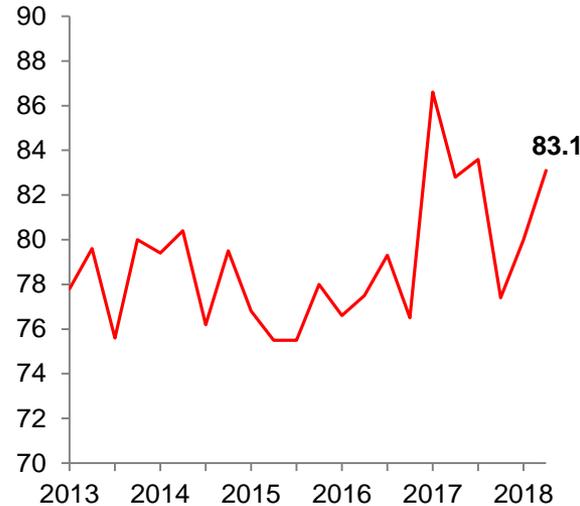


Source: DOSM; MIER

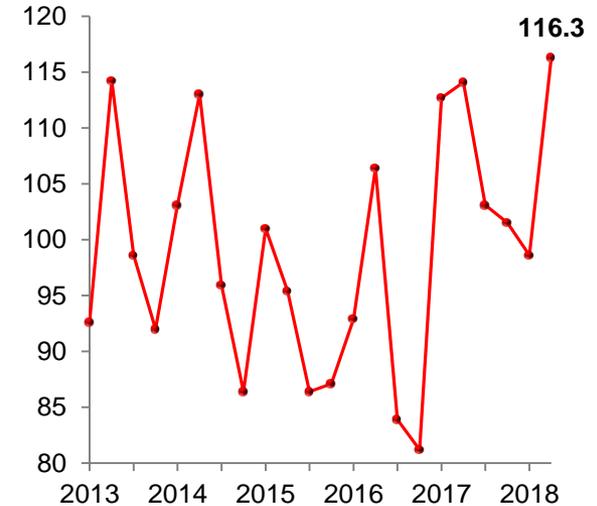
Private investment **BOUNCES** back but **CAUTIOUS**

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

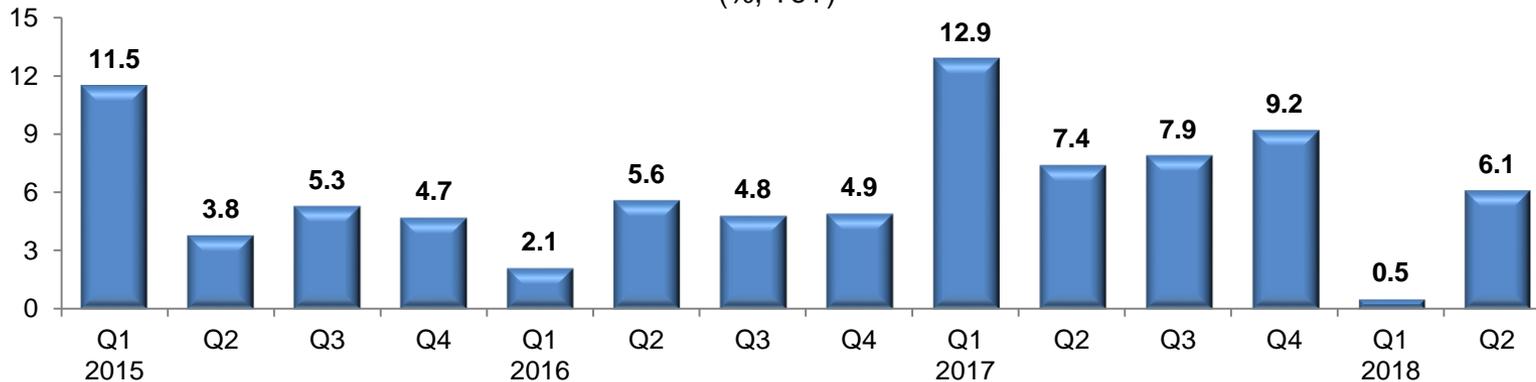
Capacity utilisation rate (%)



MIER's Business Conditions Index (BCI)



Real private investment growth (% YoY)



Source: DOSM; MIER

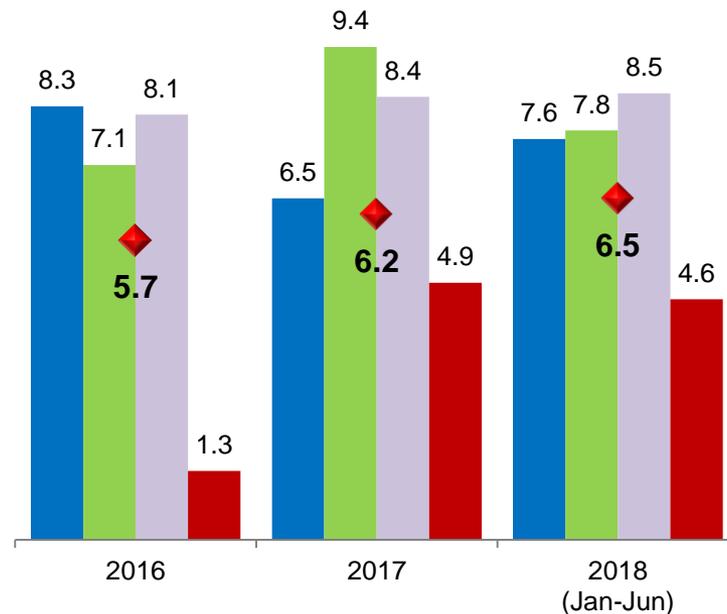
SERVICES sector is driving the economy

Services sector (2018E: 6.4%; 2019F: 5.8%)

% share of GDP in 2017:  54.5%

- Continued growth, albeit slower in most sub-sectors.
- Strong consumer spending will somewhat normalise following the 3-month “tax holiday” and the reintroduction of SST on 1 Sep.
- **Supporting factors:** Tourism activities; strong consumer sentiments; steady growth in income healthy labour market conditions and continued trade activities.
- **Pressing factors:** Potential review of fuel subsidy and cash-aid.

Services sub-sectors growth
(%, YoY)



◆ Overall services sector

Major sub-sectors:

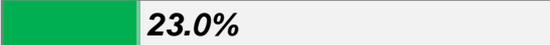
-  Wholesale [12.5%]
-  Retail [12.1%]
-  Information and communication [11.1%]
-  Finance [9.2%]

[] indicates % of total services GDP in 2017

Source: DOSM

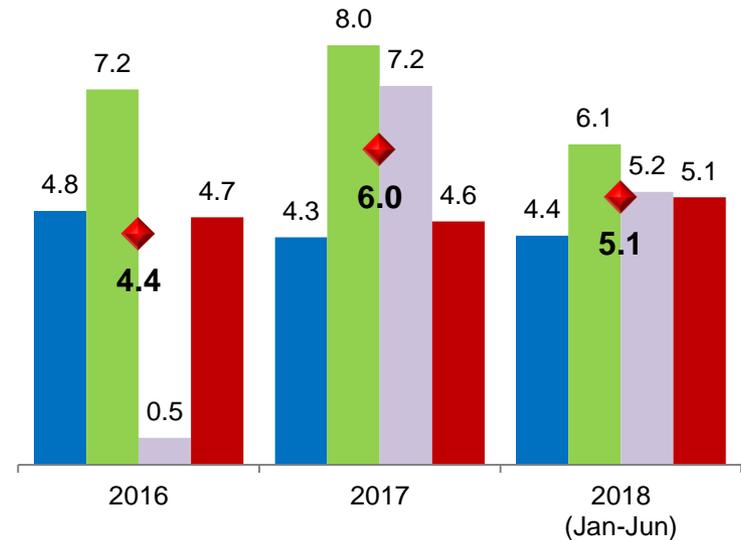
MANUFACTURING sector braces the escalation trade war

Manufacturing sector (2018E: 4.8%; 2019F: 4.5%)

% share of GDP in 2017:  23.0%

- Growth in electronics and electrical products and consumer-related clusters have moderated.
- Lack of short-term catalysts.
- **Supporting factors:** Diversion of orders arising from the deepening trade spats between the US and China, high global oil prices.
- **Pressing factors:** Slower semiconductor sales; supply chains disruption; slower domestic construction activities dampening demand of construction-related materials.

Manufacturing sub-sectors growth
(%, YoY)



◆ Overall manufacturing sector

Major sub-sectors:

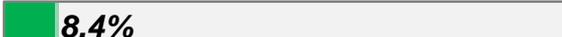
-  Primary-related cluster [36.8%]
-  E&E cluster [27.9%]
-  Consumer-related cluster [22.9%]
-  Construction-related cluster [12.4%]

Source: DOSM

[] indicates % of total manufacturing GDP in 2017

MINING to rebound from a contraction

Mining sector (2018E: -1.0%; 2019F: 0.5%)

% share of GDP in 2017:  8.4%

- Crude oil prices surge on no formal agreement to increase production; supply disruptions due to sanction on Iran; cut in Venezuela's production.
- Gas leak incident in January 2018. PETRONAS is still waiting for approval from the authority to resume operations.
- **Supporting factors:** Rising crude oil prices; the resumption of production of LNG.
- **Pressing factors:** Declining oil prices on strong US dollar, tighter liquidity conditions and concerns over slower global economic growth.



◆ Overall mining sector

Industrial production index components:

 Crude oil and condensate [48.6%]

 LNG [51.4%]

Source: BNM

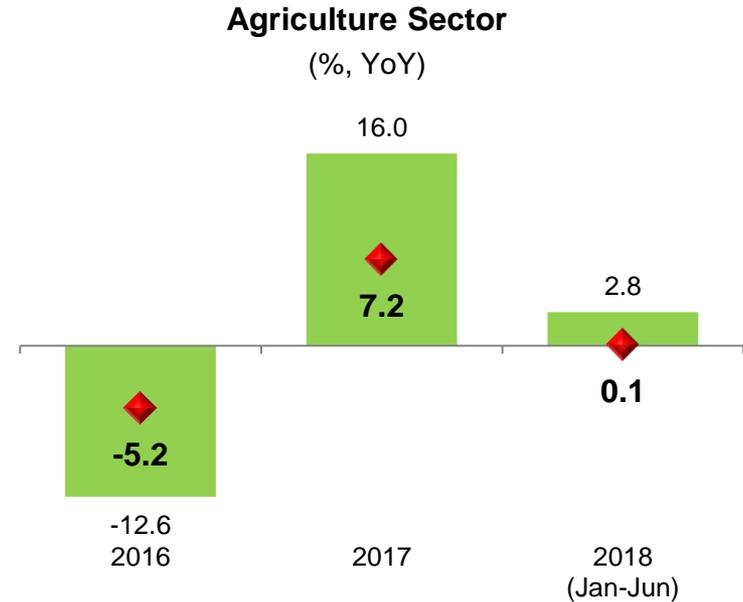
[] indicates weight of mining indices in 2015

AGRICULTURE sector lacks of short-term catalysts

Agriculture sector (2018F: -0.4%; 2019F: 2.0%)

% share of GDP in 2017: **8.2%**

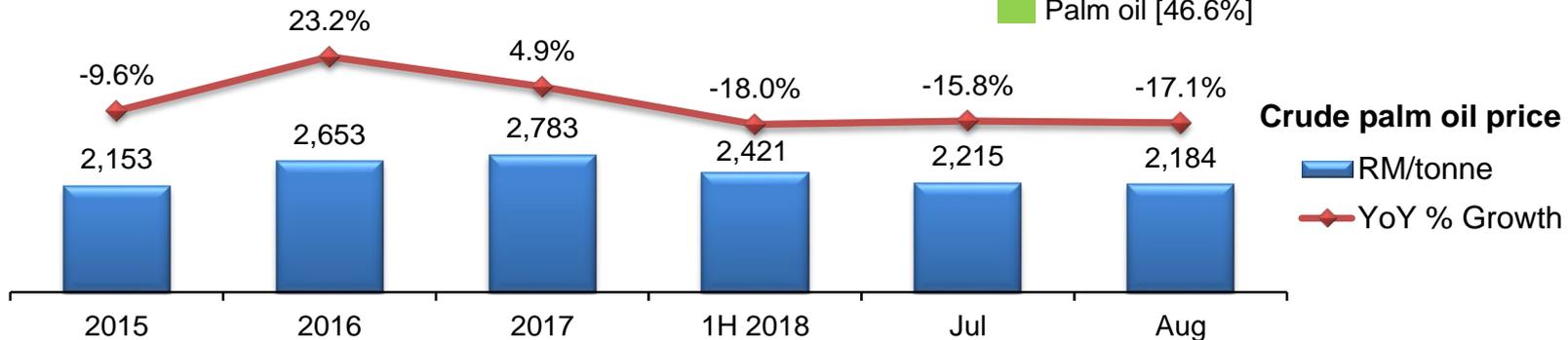
- High stocks level and declining CPO prices dampened the CPO outlook.
- **Supporting factors:** Zero export tax on crude palm oil in September 2018; weak ringgit
- **Pressing factors:** India announced a higher import tariffs at 44% on palm oil; EU had proposed to ban of using palm oil as biodiesel by 2021



◆ Overall agriculture sector

Major sub-sector:

■ Palm oil [46.6%]



Source: BNM

[] indicates % of total agriculture GDP in 2017

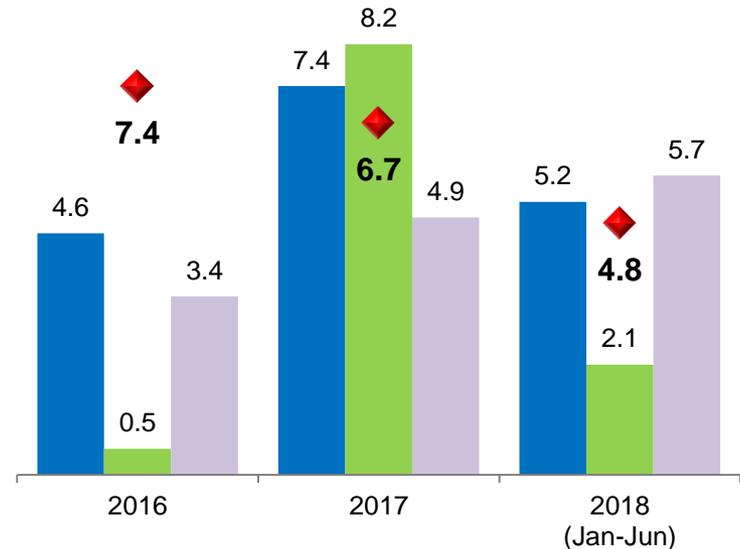
CONSTRUCTION momentum tapers on projects deferment

Construction sector (2018E: 4.5%; 2019F: 4.0%)

% share of GDP in 2017:  4.6%

- Post-GE14, several mega projects have been reviewed and some have been put on hold.
- **Supporting factors:** On-going projects (e.g. RAPID, MRT2 and LRT3) will partially offset the impact from deferred projects; some building materials (e.g. cement, sand and iron) were EXEMPTED under SST2.0.
- **Pressing factors:** The deferment of mega projects (e.g. ECRL, MRT3 and HSR) had been deferred; spillover effects to commercial and residential projects as would require longer time to build and re-marketing.

Construction Sector
(%, YoY)



◆ Overall construction sector

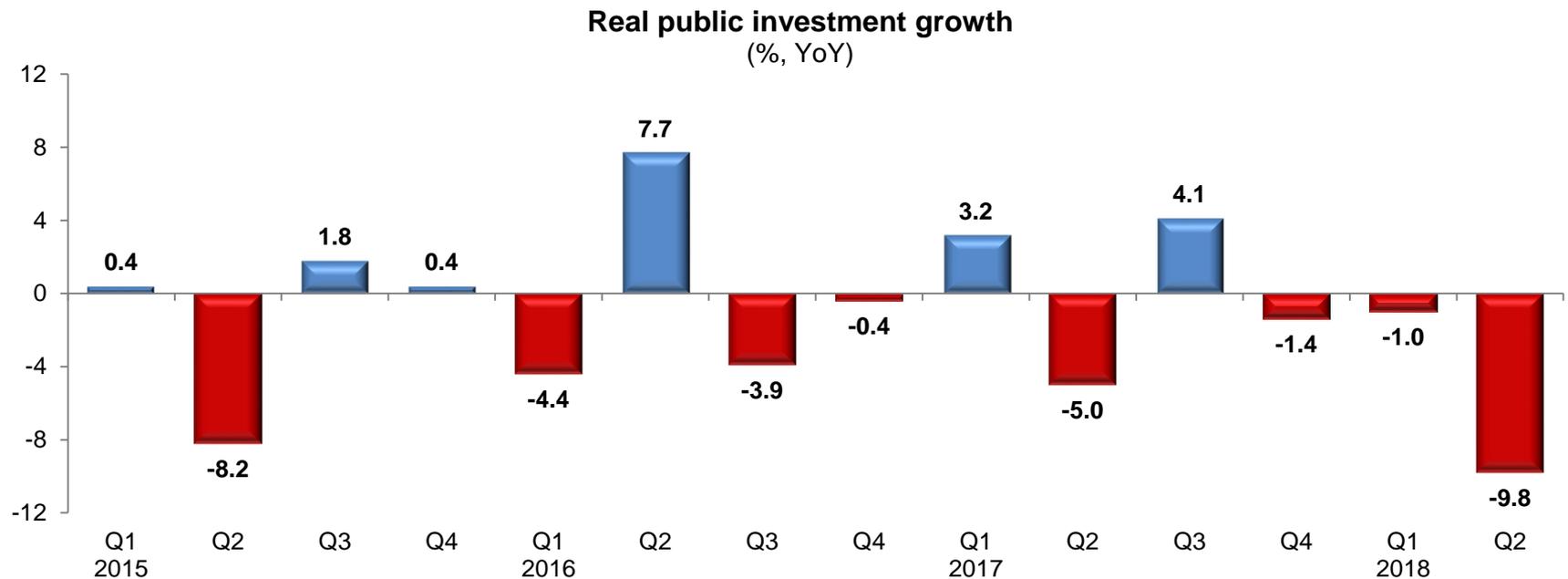
Industrial production index components:

-  Production of other articles of concrete, cement and plaster
-  Production of basic iron and steel products
-  Production of construction-related products

Source: BNM

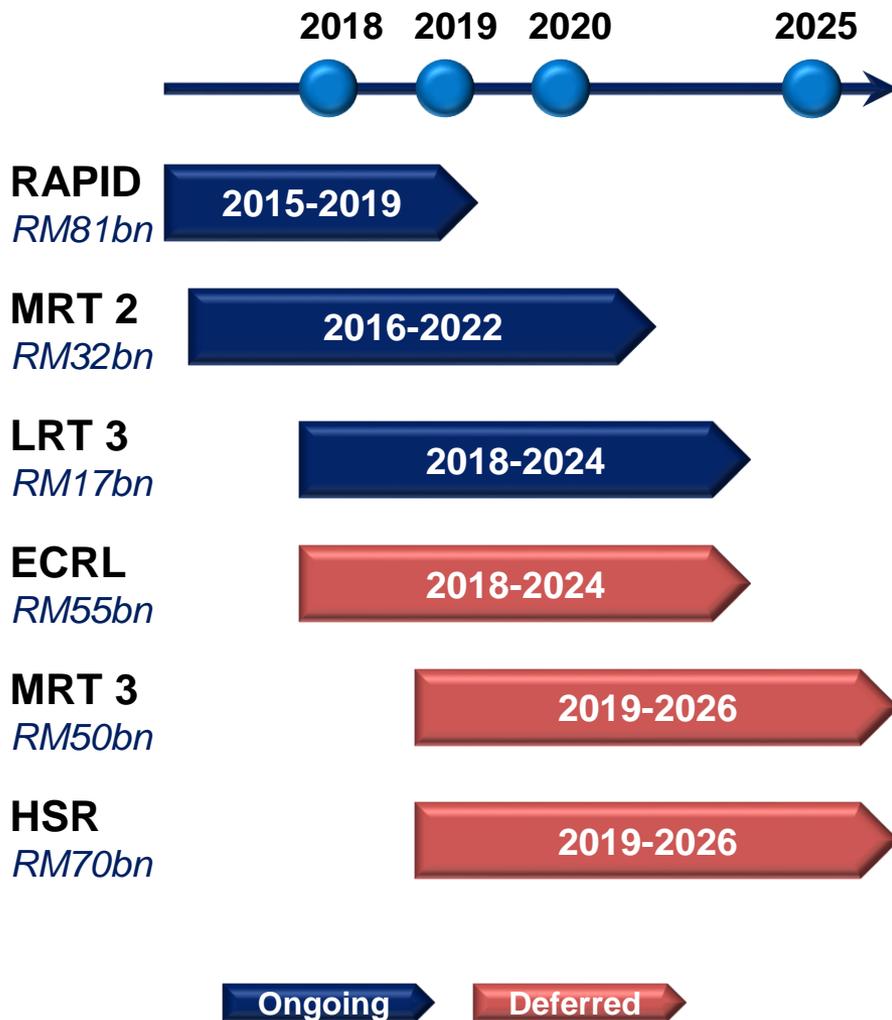
Public investment turning from support to DRAG

- **PUBLIC INVESTMENT CONTRACTED SHARPLY** (-9.8% yoy in 2Q vs. -1.0% in 1Q).
- Rationalisation of development expenditure means moderate public investment growth.
- Further consolidation of development expenditure in 2019.



Source: DOSM

DEFERRED OR CANCELLED mega projects: manageable impact



On-going projects help mitigating the impact on growth:



In early stages of construction or have yet to commence



Spreading effects (contained impact in single year) due to long period of development



Depend on the localisation vs. imported of construction related materials and services

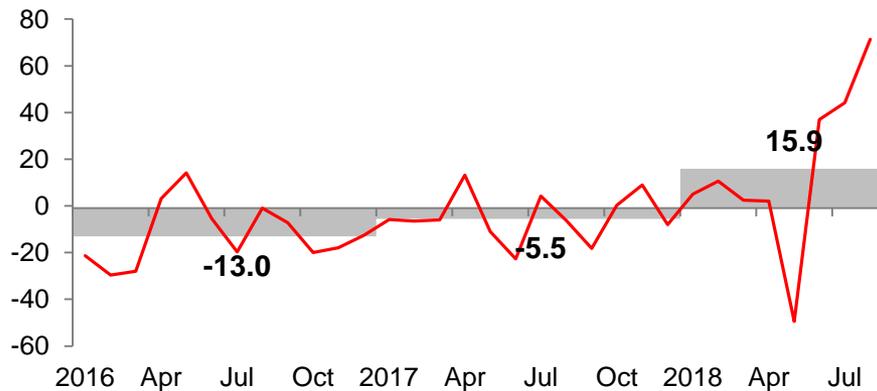


Manageable impact on domestic employment

BUSINESS LOAN growth – Bottoming out

- Business loan growth picked up since April, backed by higher loans demand for working capital.
- Loan disbursement for working capital purposes jumped by 17.8% in June and 17.9% in July respectively.
- Commercial car sales registered a record high growth rate of 71.3% yoy in August.

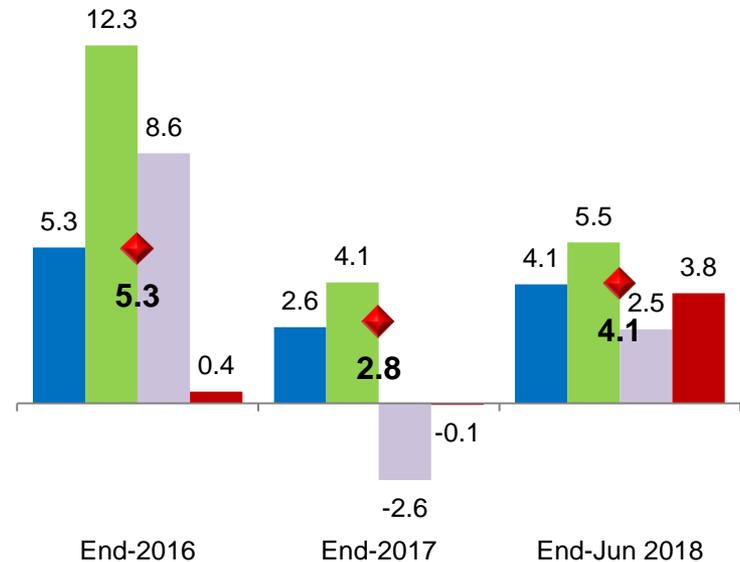
Commercial vehicle sales growth
(%, YoY)



Note: Shaded area indicates annual growth

Source: BNM; MAA

Business Loan Outstanding Growth
(%, YoY)



◆ Overall business loan outstanding [42.7%]

Major sectors excluding household:

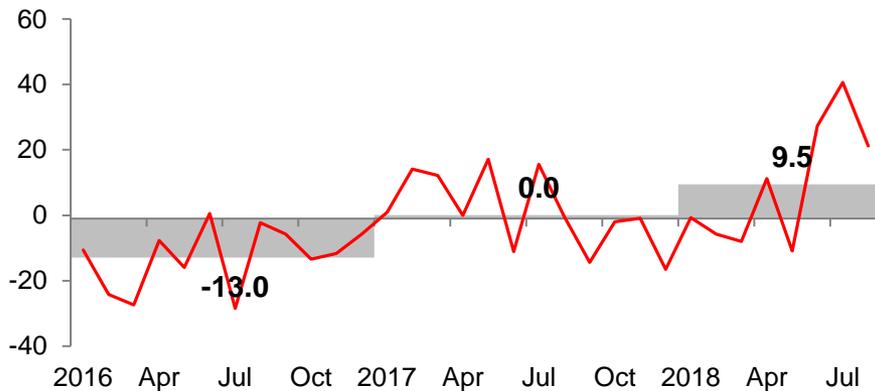
- Wholesale, retail, restaurants and hotels [7.3%]
- Real estate [7.2%]
- Financing, insurance and business services [6.7%]
- Manufacturing (including agro-based) [6.5%]

[] indicates % of total loan outstanding in 2017

HOUSEHOLD LOAN growth – Gaining traction

- New household borrowings remained of high quality.
- Majority of the household debt (64.5%) are secured by properties and principal-guaranteed investments.
- Loan disbursements shot up for purchase of passenger cars in June (16.7%) and July (44.8%).

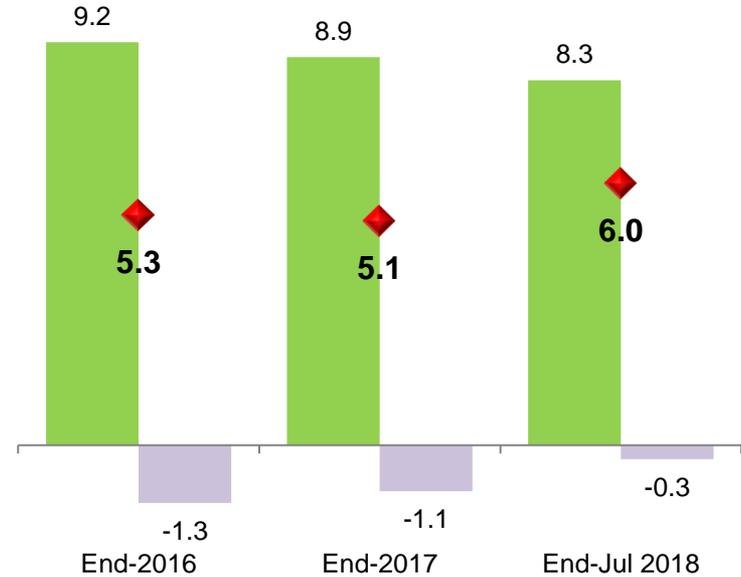
Passenger car sales growth
(%, YoY)



Note: Shaded area indicates annual growth

Source: BNM; MAA

Household Loan Outstanding Growth
(%, YoY)



◆ Overall household loan outstanding [57.4%]

Main loan purposes:

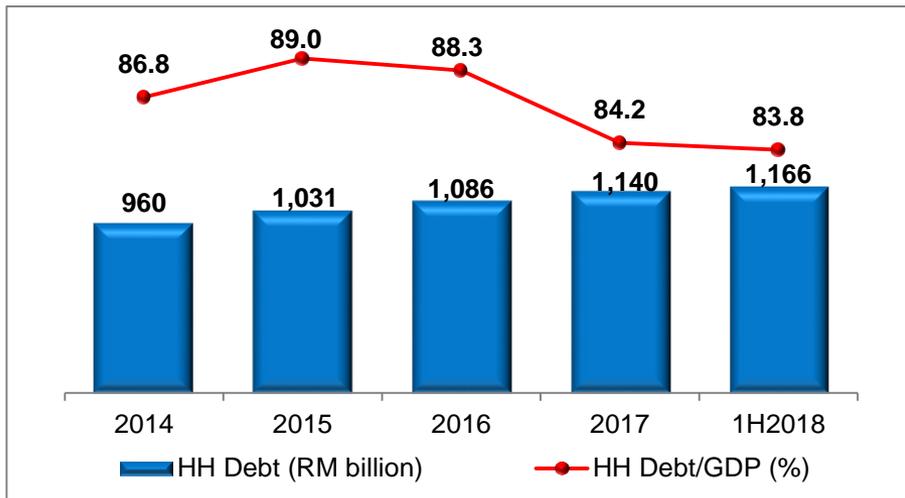
■ Purchase of residential property [32.8%]

■ Purchase of passenger cars [10.1%]

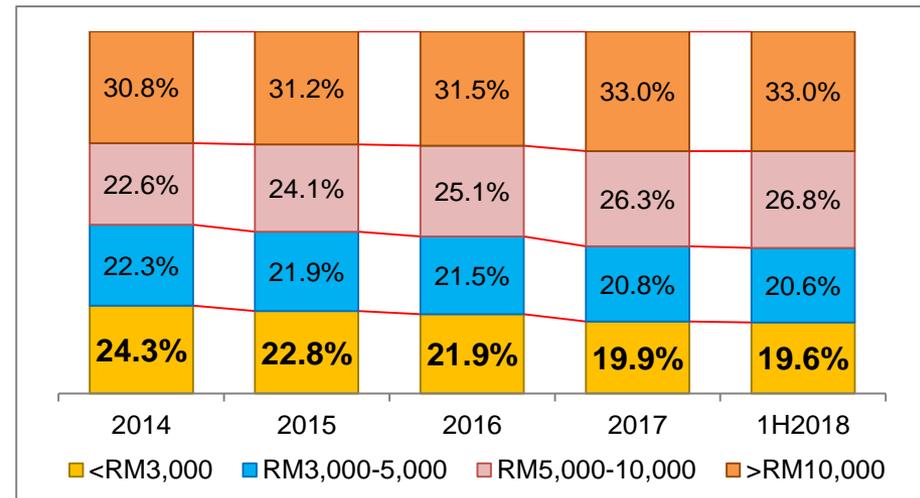
[] indicates % of total loan outstanding in 2017

HOUSEHOLD DEBT (HHD) at a glance

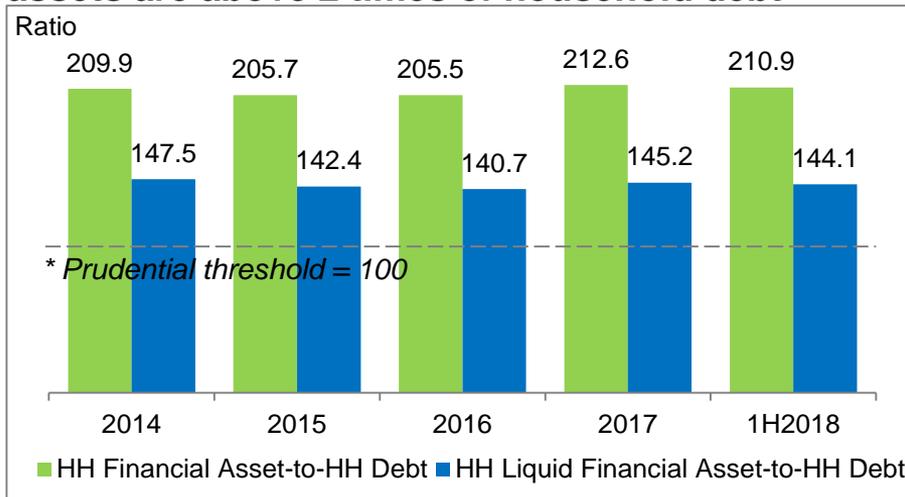
Household debt to GDP ratio eases



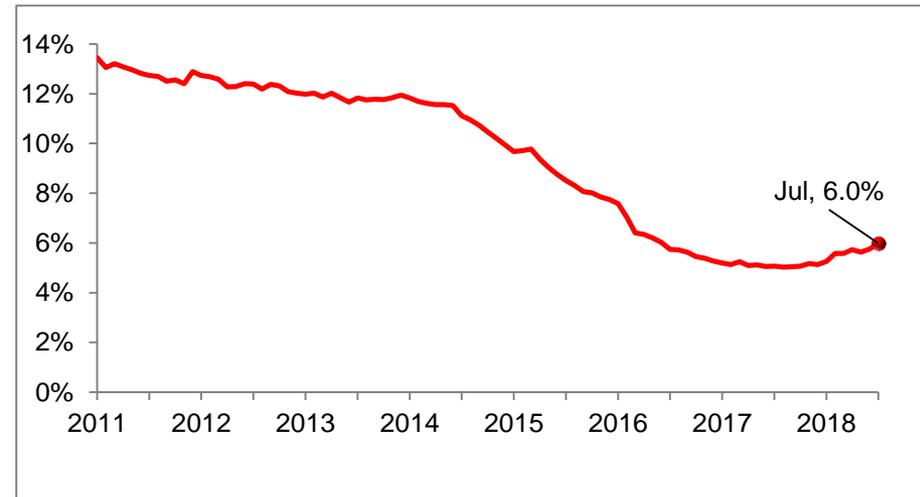
Household debt by income group



Healthy households' balance sheet: Financial assets are above 2 times of household debt



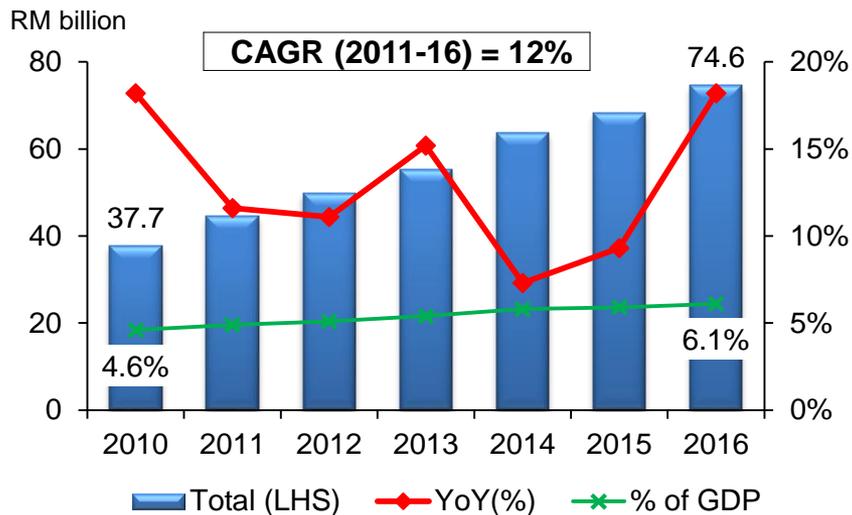
Household loans rise moderately



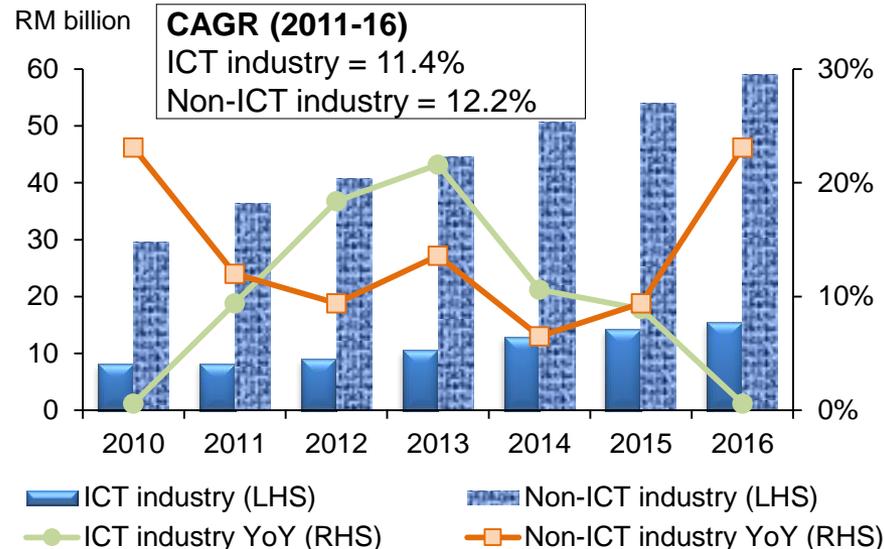
Source: BNM

BOOMING Malaysia's E-commerce

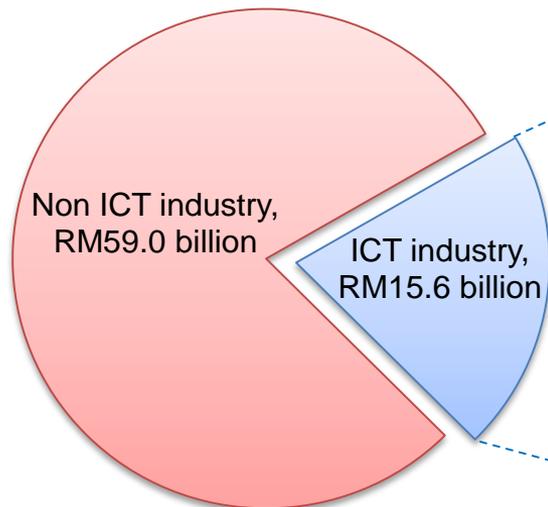
Malaysia's E-commerce is growing steadily



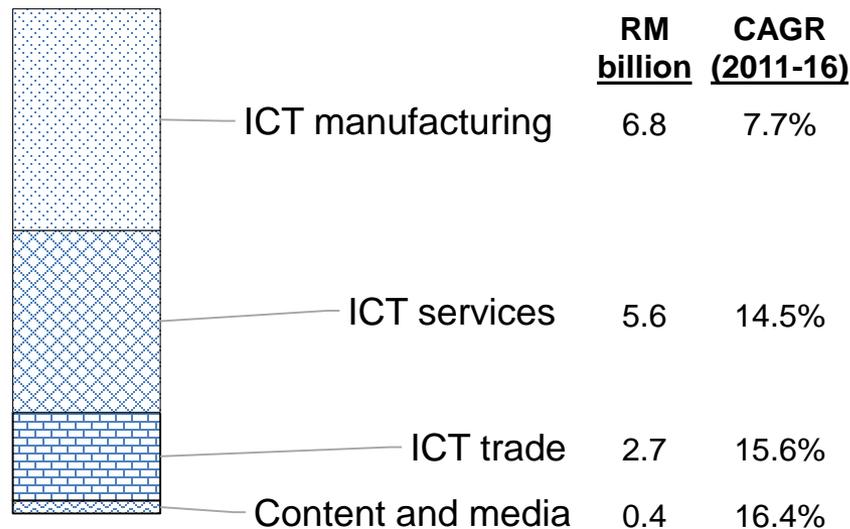
Non-ICT industry drives the Malaysia's E-commerce



E-commerce gross value added (2016)



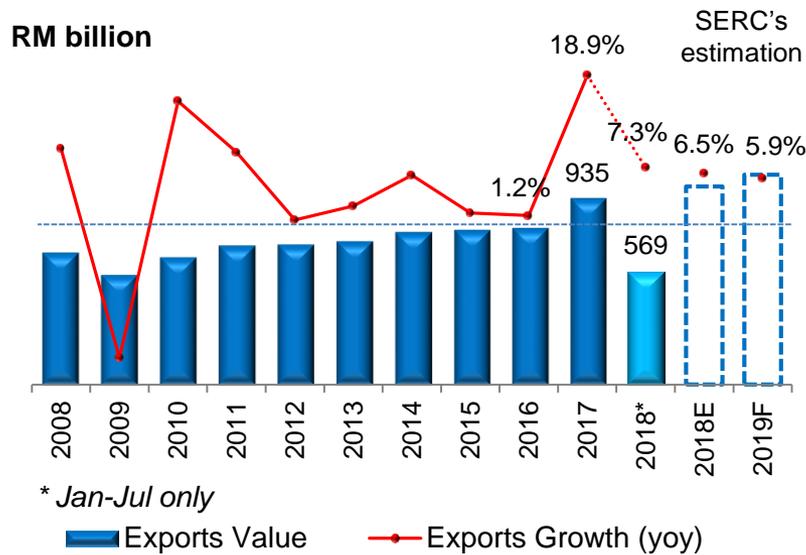
By sector



Source: DOSM

Exports in 2H18 and 2019 will be more CHALLENGING

Exports continue growing ...



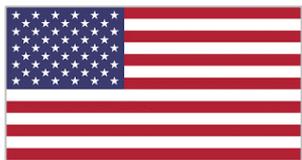
Broad-based expansion, except CPO & LNG

Major export products in 2018 (Jan-Jul) [% share]	Value (RM billion)	Growth (% yoy)
E&E products [37.5%]	213.5	12.6
Petroleum products [7.8%]	44.4	3.3
Chemical & chemical products [5.6%]	31.8	18.1
Manufactures of metal [4.7%]	27.0	29.8
Machinery, equipment & parts [4.3%]	24.3	1.4
Palm oil [4.1%]	23.1	-14.0
LNG [3.7%]	21.1	-10.2
Crude petroleum [3.6%]	20.7	25.6
Optical & scientific equipment [3.6%]	20.2	12.3

- **PRESSING FACTORS:** 1) Exceptionally high export levels averaging RM80.6 billion per month in 2H2017; 2) Moderate pace of global semiconductor sales (estimated 12-16% this year vs. 21.6% in 2017); 3) Softer CPO prices; and 4) Trade tensions between the US and its major trading partners.
- **Export growth estimates:** 6.5% in 2018 and 5.9% for 2019.

Source: DOSM

US-CHINA'S TRADE NUMBERS at a glance



Total Exports in 2017: US\$1,546bn
 - To China: US\$130bn (Share: 8.4%)

Total Imports in 2017: US\$2,342bn
 - From China: US\$505bn (Share: 21.6%)

**Trade deficit with China:
 US\$375bn**



Total Exports in 2017: US\$2,264bn
 - To US: US\$430bn (Share: 19.0%)

Total Imports in 2017: US\$1,841bn
 - From US: US\$154bn (Share: 8.4%)

**Trade surplus with US:
 US\$276bn**



Trade war timeline

First Stage

US imposed tariffs on US\$50bn worth of China's imports and retaliated by China with same amount:
 (i) US\$34bn effective on 6 July; and
 (ii) US\$16bn effective on 23 Aug

Second Stage

US announced tariffs of 10% on additional US\$200bn worth of China's products, effective 24 Sep (will up to 25% comes 2019) and retaliated by China at 5-10% tariffs on additional US\$60bn worth of US's products

	US's tariffs on US\$250bn of Chinese goods	China's tariffs on US\$110bn of US's goods
Share of US's total imports	10.7%	
Share of US's total exports		7.1%
Share of imports from China	49.5%	
Share of exports to China		84.7%
	US's tariffs on US\$250bn of Chinese goods	China's tariffs on US\$110bn of US's goods
Share of China's total imports		6.0%
Share of China's total exports	11.0%	
Share of imports from US		71.5%
Share of exports to US	58.2%	

Source: US Census Bureau; China Customs

TRADE WAR gets ugly; when will it end?

- **First, SPILLOVER EFFECTS.** Impact felt not only in the countries involved but across the value chains that span several countries;
- **Second, ESCALATION.** Trade flows would be impaired and global growth would be undermined; and
- **Third, UNCERTAINTY.** Dampen business confidence and unsettle financial markets.

(Percentage point)	Impact from trade channel	Impact from investment channel
Impact of US tariffs to China	-0.04	
Impact of China tariffs to US		-0.06
Asia excl. China	-0.01 to -0.03	
Global growth	-0.02	-0.03
Global trade	-0.02	-0.04

IMPACT on Malaysia: Estimated a marginal decline of 0.05-0.15 ppt in GDP growth

Trade disputes **ADVERSELY AFFECT THE US MORE THAN CHINA**, due to higher value-added sourced domestically (US: ~82%; China: ~64%)

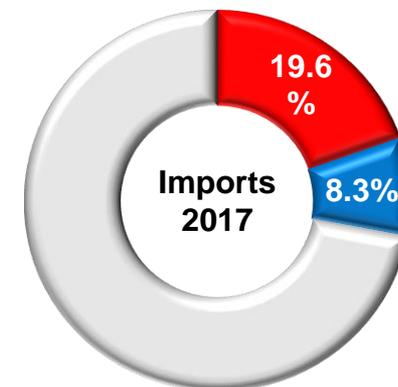
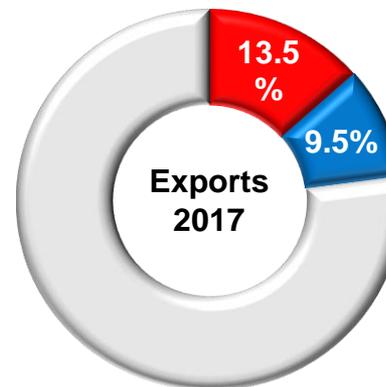
High integration of EA-8 economies in China's production value chain, particularly E&E products (~18% share of value-added)

- **LOWER PROFIT** from exporters
- **DETERIORATION** in financial conditions
- **DAMPENED** business sentiments and investment activities

Source: BNM

Malaysia's exports to the US and CHINA

Ranking	Exports	Imports
	2	1
	3	3



 China  United States

Major export products to China in 2017	RM mil	% share*
E&E products	50,386	39.9
- <i>Semiconductor</i>	36,332	28.8
Chemical & related products (excl. non-primary plastics)	14,449	11.5
Petroleum products	13,312	10.6
Liquefied Natural Gas	5,798	4.6
Manufactures of metal	4,529	3.6
Palm Oil	4,027	3.2
Total	126,150	

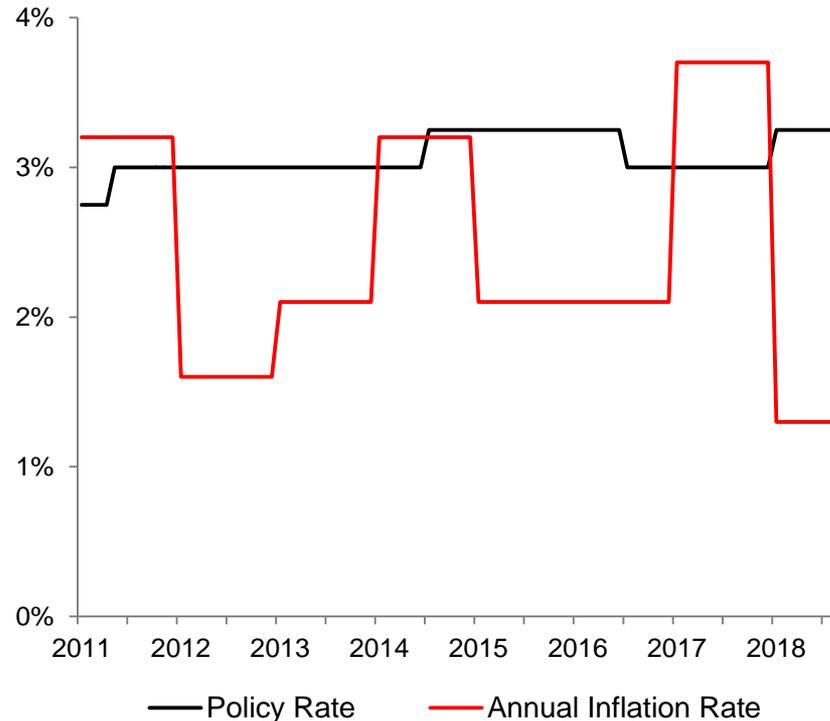
Major export products to United States in 2017	RM mil	% share*
E&E products	49,148	55.4
- <i>Semiconductor</i>	16,034	18.1
Optical & scientific equipment	5,562	6.3
Rubber gloves	5,502	6.2
Furniture & parts	3,604	4.1
Machinery, equipment & parts	3,271	3.7
Chemical & related products (excl. non-primary plastics)	3,243	3.7
Total	88,693	

Source: DOS, Malaysia

* % share to total exports to respective country

Monetary policy remains **ACCOMMODATIVE** (**OPR at 3.25% at end-2018; 3.25-3.50% at end-2019**)

Overnight policy rate (OPR) vs. Annual inflation rate



- **HEADLINE INFLATION:** Underlying inflation remains low in 2018 due to transitory effect from 3-mth tax holiday and fuel subsidy. This transitory effect is expected to lapse in 2H19. Inflation outlook hinges on SST and the continued fuel subsidy. (2018E: 1.3%; 2019F: 2.0-2.5%).
- **GROWTH OUTLOOK:** The hurdle rate for BNM to consider cutting interest rate is when GDP growth slows to around 4.0% (GDP estimates 2018E: 4.8%; 2019F: 4.7%).
- **WILL THE WEAK RINGGIT OUTLOOK AND HIGHER US INTEREST RATES** constrain Bank Negara Malaysia's monetary policy?

Note: Average inflation rate for 2018 accounts from January to August.
Source: BNM; DOSM

The ringgit is **UNDER PRESSURE** (end-2018: **RM4.15-4.20**; **1Q19: 4.05-4.10**; **2Q: 4.05-4.10**; **3Q: 4.00-4.05**; **4Q: 3.95-4.00**)

- **FACTORS WEIGH ON RINGGIT:** New political and policies transition; trade war; capital reversals; surging US Treasury yields; the expectation of further US interest rate hikes; contagion fear in emerging markets and a revived strength of the dollar.
- **COUNTERACT STRENGTH** to support the ringgit: Strong fundamentals, the clarity of policies, the fiscal and debt path as well as the affirmation of Malaysia's sovereign ratings.

Ringgit's movement against the USD

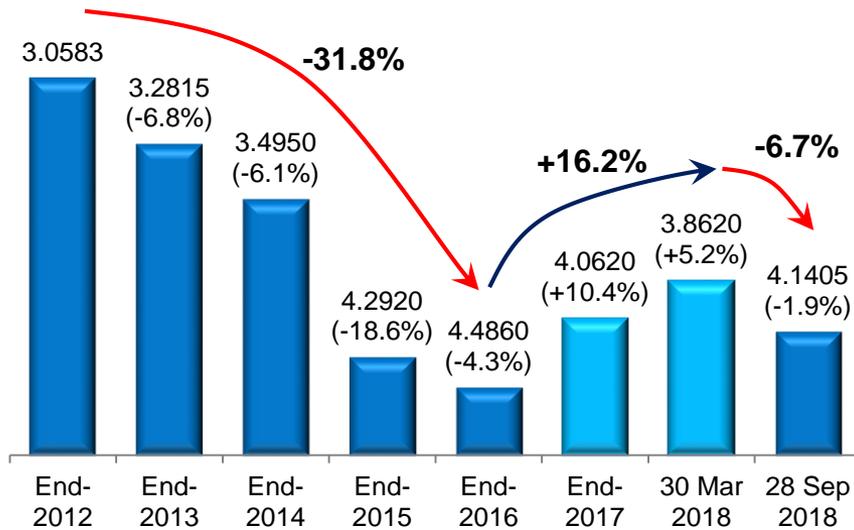
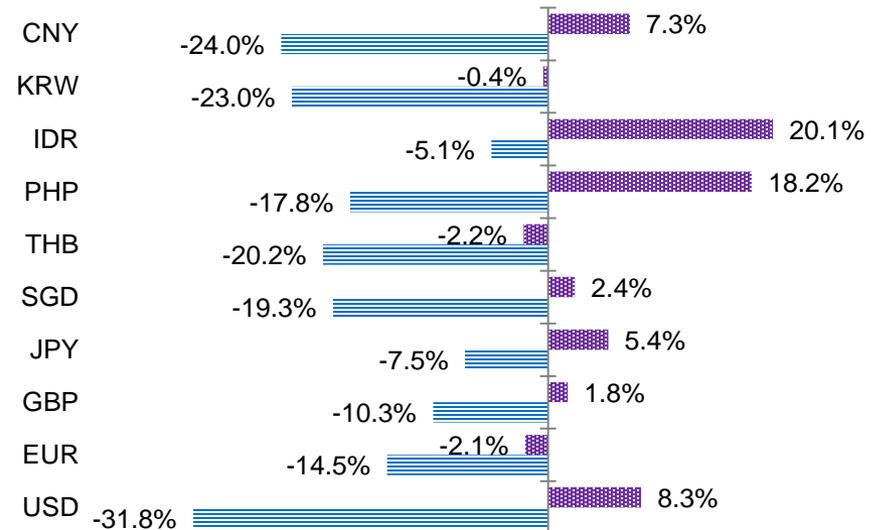


Figure in parenthesis denotes changes from end of previous year
Source: BNM (end-period; rates at 12:00)

Ringgit's movement against regional currencies

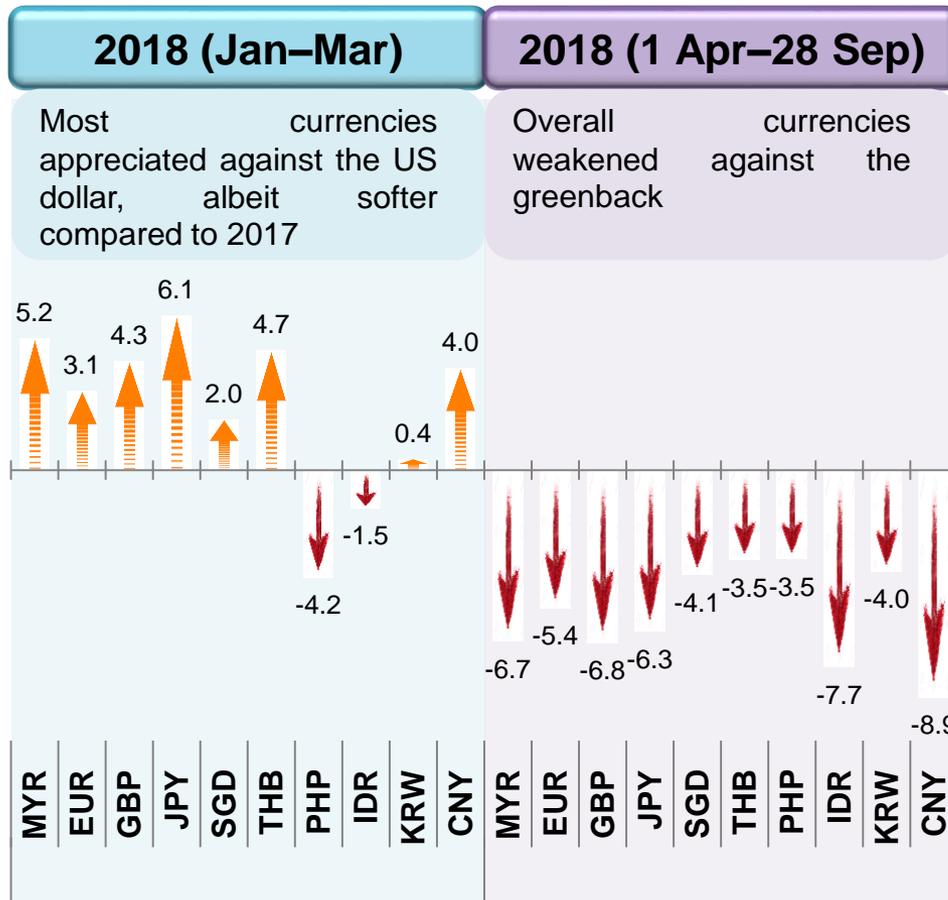


End-2016 to 28 Sep 2018 (purple bar)
End-2012 to End-2016 (blue bar)

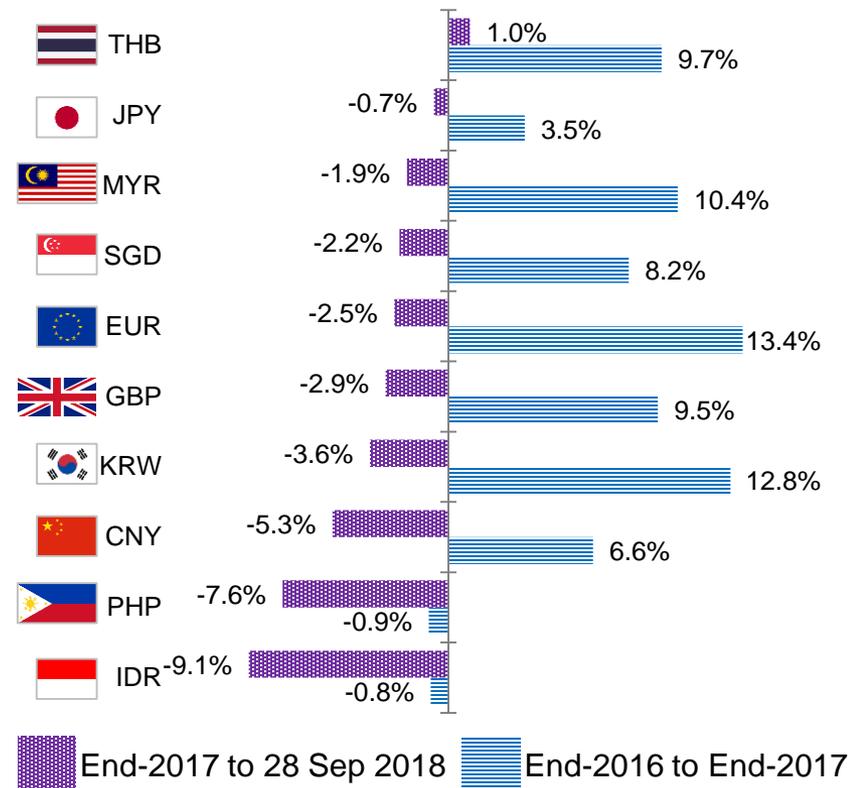
Regional currencies SUCCUMBED to strong US dollar

- The US dollar index strengthened by 6.8% against a basket of foreign currencies (measured in real effective exchange rate (REER)) in the first eight months of 2018.

Major and regional currencies vs. the US dollar* (%)



Ringgit performs better than its regional peers year-to-date

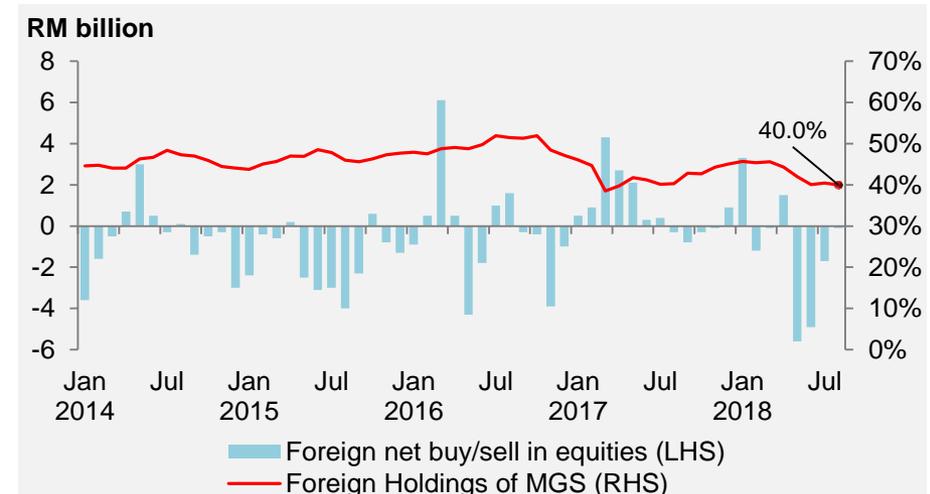
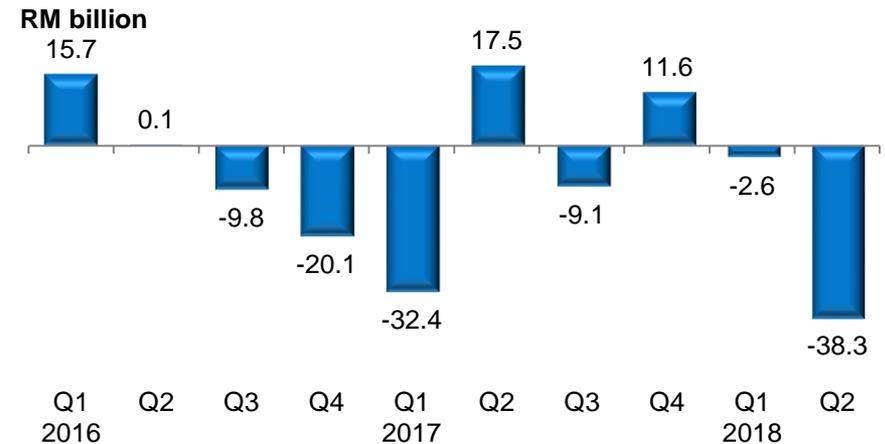


Source: BNM (end-period; rates at 12:00) * Calculation based on cross-rate

Malaysia: **OUTFLOWS** in both debt and equity markets

- **EXTERNAL FACTORS:** Prospects of higher US interest rates; strong US dollar; uncertainties on global trade tensions; pressure on emerging markets triggered contagion risk
- **DOMESTIC FACTORS:** Post GE14 political and domestic policies transition
- In April-June, foreigners net sold RM24.3 billion of ringgit-denominated debt securities. Despite net buying occurred in July (+RM4.0 billion), it reverted to net selling in August (-RM2.4 billion)
- Post GE14's 32 consecutive days of net selling of equities by foreigners have moderated in July and August. **Some net foreign buying interests have returned in September.**

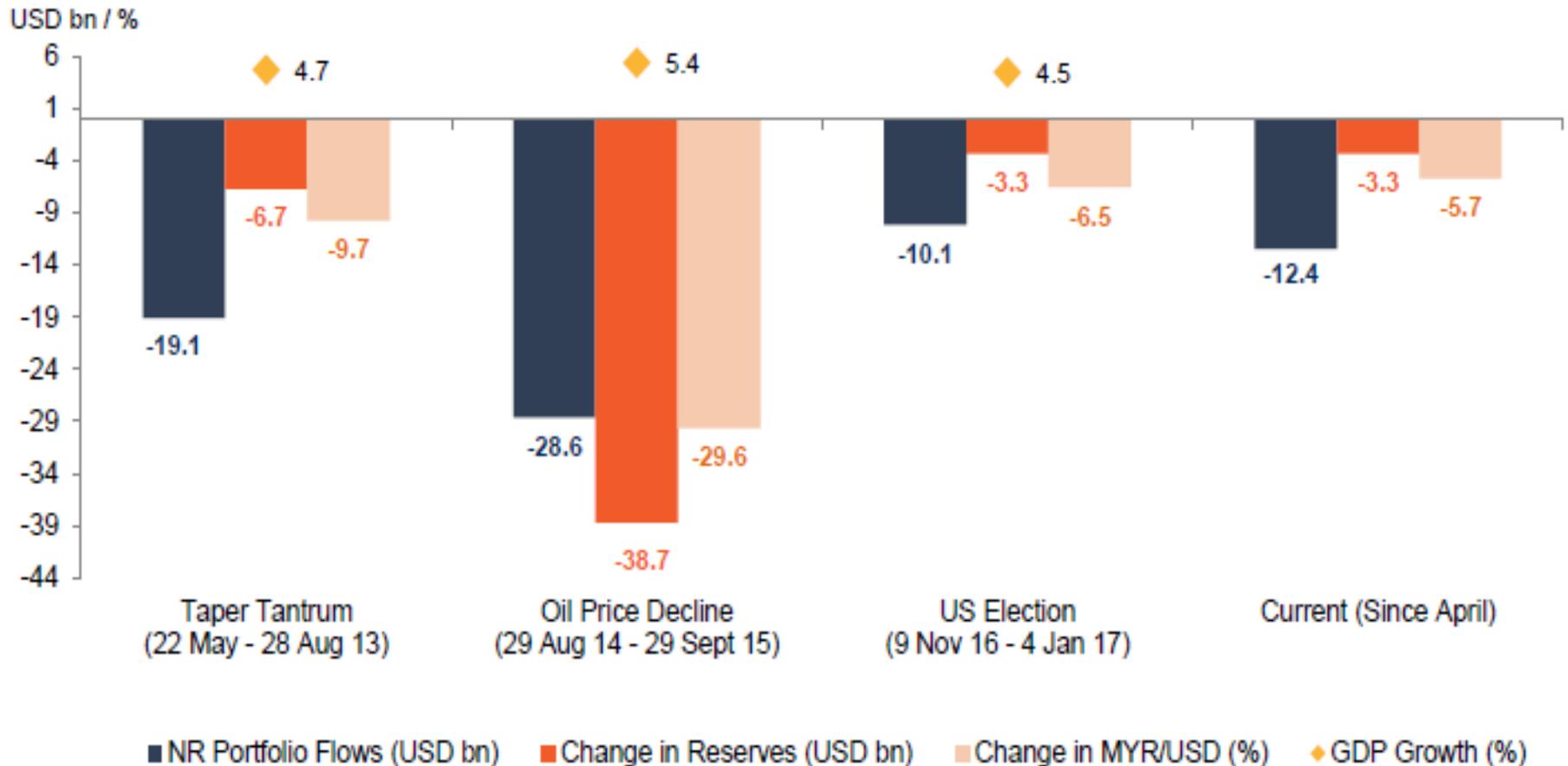
Net portfolio investment: Largest outflows since 3Q 2008



Source: BNM; Bursa Malaysia

Malaysia has experienced **SIZEABLE** capital reversals

NR Portfolio Flows, Reserves, Ringgit Performance and GDP Growth during Outflow Periods



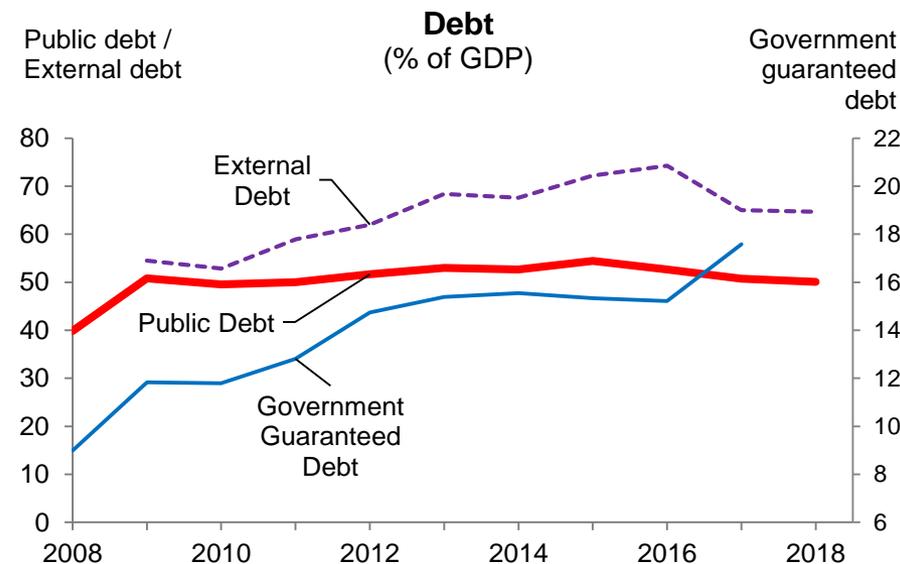
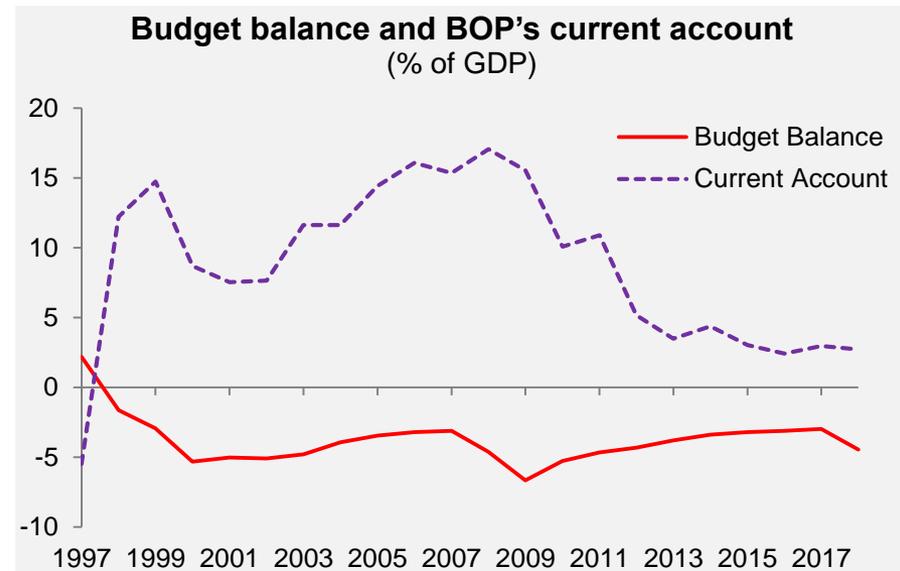
Note: Current data for reserves is at end-July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018

Source: BNM

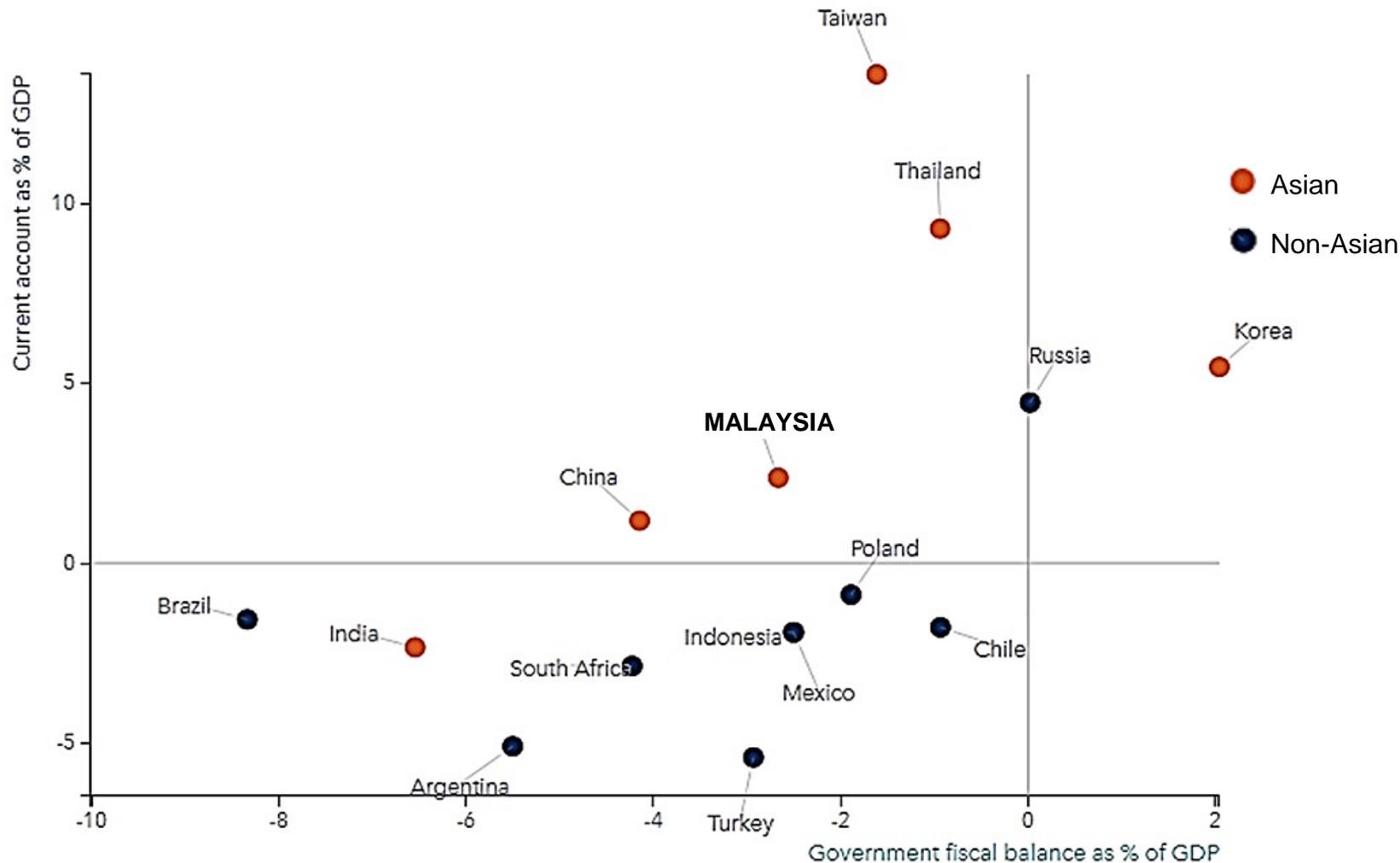
How Malaysia is 'DIFFERENT' from other emerging economies at risk?

- **NOT** at risk of **TWIN DEFICITS**.
- **MANAGEABLE EXTERNAL DEBT** (end-June: RM936.5 billion or 64.7% of GDP) in terms of **CURRENCY AND MATURITY PROFILES**.
 - ❑ Close to one-third of total external debt is denominated in ringgit (31.2%)
 - ❑ 68.8% of total external debt in foreign currencies (End-2017: 51% in USD, 34.3% in ringgit, 2% in Japanese yen and others (12%))
 - ❑ 52% is medium- to long-term tenure while the balance of 48% is short-term debt
- **0.9x FOREIGN RESERVES TO SHORT-TERM EXTERNAL DEBT COVERAGE**. Banks and corporations held 75% of Malaysia's external assets totaling RM1.3 trillion at end-2Q18.

Source: BNM

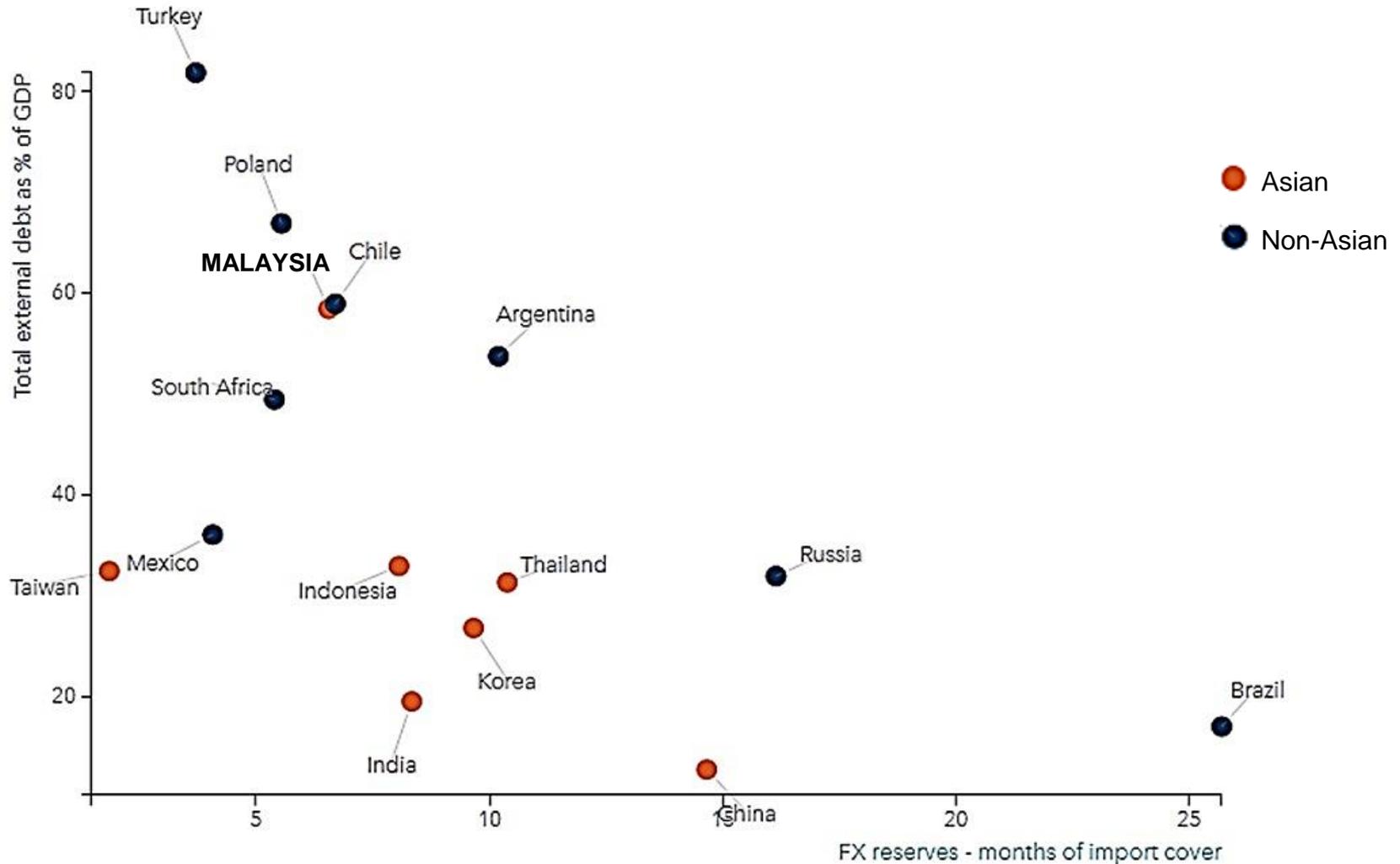


Malaysia's avoidance of TWIN DEFICITS are credit positive



Source: BlackRock Investment Institute (23 Aug 2018)

Manageable EXTERNAL DEBT and strong RESERVES buffer



Source: BlackRock Investment Institute (23 Aug 2018)

New Malaysia in TRANSITION: Policy PRIORITIES



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



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



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



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

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

2019 Budget: LEAN and MEAN but SUPPORTIVE



Putting the **BIG BUDGET NUMBERS** in perspective, it's high time to ask this administration how to make the Federal Budget lean in times of facing slowing economic growth and increasing global risks.



RM1.0873 trillion debt and liabilities or 80.3% of GDP and unbroken 21 consecutive years of fiscal deficit since 1998.



Revenue shortfall of RM23 billion from SST.



Fuel subsidy to stabilise retail price of RON95; **cost of living aid** (BSH).



GST refunds of RM19.2 billion and the **refunds of excess income tax and real property gains tax** of RM16.05 billion.

FISCAL RECONSTRUCTION measures:

- ✓ Reduction of Cabinet Ministers' salaries by 10%
- ✓ Termination of the contracts of 17,000 political appointees
- ✓ Sets limit of 10 special officers for each Cabinet member
- ✓ Deferment or cancellation of estimated RM175 billion worth of mega public infrastructure projects (ECRL, MRT3 and HSR)

AUSTERITY can unleash CONFIDENCE

- ❑ If plans for fiscal and debt consolidation are **CREDIBLE AND INVOLVE STRUCTURAL REFORMS**, there is every chance growth can resume even as cuts or rationalization of public spending take hold.
- ❑ The fiscal condition that we are in now is **NOT ABOUT ACUTE AUSTERITY** in spending but **MORE OF RATIONALIZING OR REPRIORITIZING** the capital expenditure and operating spending.
- ❑ **COST SAVINGS AND EXPENDITURE EFFICIENCY** derived from the value for money projects mean wider economic and multiplier impact on the economy, rakyat and businesses.
- ❑ **SPENDING SPLURGES** reduce growth and austerity drives raise growth.
- ❑ A **DISCIPLINED AND FINANCIALLY PRUDENCE** government not only impacts positively on private sector's expectations but also unleashes confidence.
- ❑ A **LEAN AND GOOD GOVERNING** government with **SOUND FISCAL CONDITIONS** strengthen confidence as the private sector expects lower future taxes. This works to raise disposable income and boost asset values, which become the engine for a sustainable economic and investment expansion.



2019 Budget: TOUGH balancing act



A **RESPONSIBLE YET DISCIPLINE BUDGET** that can smoothen out the impact of expenditure rationalization on the economy.



Some **NECESSARY YET UNPOPULAR FISCAL RESTORATION MEASURES** and **NEW TAXES** to help plugging the large financing gap in the Budget.

SPENDING CUTS OR REFORMS in both **UNPRODUCTIVE** and **OVER-INFLATED** cost of operating and development expenditures.

The **ZERO-BASED BUDGETING METHOD** for its ministries and departments to reduce wastage and unnecessary spending.



REVIEW COST OF LIVING AID (BSH) to make them conditional and be prioritized for the truly underserved and vulnerable groups; **REVIEW THE FUEL SUBSIDY PROGRAM ELIGIBILITY** (household income and engine capacity); **HEALTHCARE** for B40; **SODA TAX** to discourage unhealthy diets; some **DISPOSABLE OF GOVERNMENT'S ASSETS** may be on the cards.

2019 Budget: Proposed measures and initiatives



SPURRING AND SUSTAINING QUALITY PRIVATE INVESTMENT

- ✓ **AN INDEPENDENT PANEL** – review of cost of doing business, streamline regulatory practices and compliance cost
- ✓ **E-SERVICES AND E-PROCUREMENT** -competitive and transparent tendering
- ✓ **INCLUSIVENESS OF GLC** – liberalize 30% of the procurement for non-bumiputra
- ✓ Extension of **REINVESTMENT ALLOWANCE; ACCELERATED CAPITAL ALLOWANCE (AUTOMATION)**
- ✓ **RE-PLOUGH FOREIGN WORKERS' LEVY** to **INDUSTRIAL ADJUSTMENT FUND** to support automation and technology upgrading
- ✓ **REVIEW OF APPROVED PERMITS (APs)** to avoid rent seeking



BOOST EXPORTS POTENTIAL AND CAPACITY EXPANSION

- ✓ **MARKET DEVELOPMENT GRANT** (increase from RM200k to RM500k)
- ✓ Grants for **EXPORT PROMOTION PROGRAMS** (branding, packaging and international marketing)
- ✓ **COST-EFFICIENT** transportation, logistics and ports
- ✓ **TRADE FACILITATION AND CUSTOM CLEARANCE** (simplifying documents, streamlining procedures; market intelligence)
- ✓ **R&D FUNDING** to encourage original equipment manufacturer (OEM), own design manufacturer (ODM) and original brand manufacturer (OBM).

2019 Budget: Proposed measures and initiatives (cont.)



EASE COST OF LIVING

- ✓ **TAX RELIEF** for rental; tuition fees for primary and secondary; separate tax relief for EPF contribution and life insurance
- ✓ Discount food card at eateries operated by GLCs
- ✓ Incentivized retailers to adopt best practice (Fair price label)
- ✓ **REINTRODUCE RM100 MONTHLY PASS** for unlimited LRT and bus rides; peak hour discounts for daily commuters
- ✓ Incentivize “**RENT-to-Own**” housing programs
- ✓ Strict price surveillance and enforcement



UPSKILLING OF WORKFORCE & JOBS CREATION

- ✓ Incentivise companies to increase female labour participation; **FLEXI-WORKING HOURS**; **CHILD-CARE CENTRE**
- ✓ **TAX ALLOWANCE** for hiring of unemployed youths; more collaboration between learning institutions and private sector
- ✓ Encourage private sector to participate in SL1M
- ✓ Review the **EFFECTIVENESS OF TVET**
- ✓ Encourage start-up

SECTORS FOCUS



Tourism



Agriculture



E-commerce



Healthcare



IR4.0



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谢谢
THANK YOU

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