

Malaysia Budget 2010: *Looking for Prudent yet Expansive Budget*

23 October 2009

The budget deficit for Malaysia in 2010 is estimated at -5.6% of GDP, down from the predicted 7.4% deficit this year with lower deficit position mainly due to spending cuts. The government proposed a total of MYR191.5bn, down 11.2% than the revised 2009's allocation of MYR215.7bn. Operating expenditure will be reduced to approximately 14% from last year's figures while development spending will also be cut by 4.5% to MYR50.6bn.

The move towards improving fiscal discipline is laudable, especially since the Malaysian economy is expected to see a less severe contraction of 3.0% yoy this year, and should recover to grow by 2-3% in 2010. Our growth forecast currently stands at -2.3% for 2009 and to grow by 3.0% in 2010. Inflation is also expected to return to its long-term trend of 2.4% next year and due to technical deflation, we continue to expect a below-trend inflation of 1.5% this year.

Monetary policy is expected to "remain supportive of growth", hence we do not expect any pre-emptive tightening in the form of rate hikes to the current OPR rate of 2% in the first half of 2010. Nevertheless, we remain cautious on possible upward pressures in the oil and commodity prices, compelling the BNM to start contemplating normalizing interest rates in the second half of next year, especially if other regional central banks like MAS, BOK, BI have embarked on their monetary policy tightening.

Malaysia	GDP Forecast		Inflation Forecast		Policy Rate Forecast		Currency Forecast	
	2009	2010	2009	2010	2009	2010	2009	2010
	-2.3	3.0	1.5	2.4	2.00	2.75	3.4441	3.3823

Source: OCBC BANK

Generally, we view the government's intention to reduce their deficit position to be welcomed by the market participants and this would be bond-positive as the supply for the government securities are no longer expected to blow out of proportion. Secondly, the lowering of personal income tax is expected to bode well for growth, as this would dampen the impact from the global economic contraction that has hit the Malaysian export market significantly. However, the removal of food and fuel subsidies may offset the impact from the lower personal income tax.

The Budget's focus on private investment (especially attracting FDI and privatizing companies under MOF) is a good economic initiative to strengthen the growth drivers for the medium-term. However, the deferral of the GST implementation (yet again) is probably an acknowledgement that the socio-economic price is too great for now. Instead, trimming fuel subsidies and cutting operating and discretionary expenses will have to suffice for now, and may be perceived as not "radical" enough to get the fiscal house in order. Market will be awaiting further clarity on the implementation details, for instance the timing and quantum of fuel subsidy cuts.

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From the revenue perspective, the uplift is expected to come from shifting the tax assessment system for petroleum upstream activities to be changed from the preceding year assessment system to the current year assessment system, as well as rising palm oil output (given Malaysia is the world's second largest producer and palm oil prices have been climbing due to the drought in the world's largest producer Argentina).

The fact that only MYR 8.2b from the planned MYR 67b two stimulus plans have been disbursed at end-September suggests that progress is slow, and the bulk of the economic boost will only come in following quarters.

Both the domestic bond and stock markets saw relatively muted gains ahead of the budget announcement. This is despite anticipation of a still-expansionary fiscal policy, and rallies across regional equity bourses due to improved risk appetite. As there were no major surprises in the 2010 budget, market reaction in the near term may remain mild.

Overall, expect the impact on the MYR to be minimal while domestic bonds will be cheered with the domestic borrowing slated to drop to MYR40.5bn from MYR56.9bn this year. On the ringgit, our previous postulation of a topping out of the MYR-SGD has panned out as expected with the cross seen continuing to consolidate within a 0.4050-0.4150 range with the budget announcement also not expected to introduce any significant tilt to the USD-MYR, leaving the pair to continue to track the regional pairs.

4.2 — KEWANGAN KERAJAAN PERSEKUTUAN

RM juta

4.2 — FEDERAL GOVERNMENT FINANCE

RM million

	2006	2007	2008	2009 ³	2010 ⁴
Hasil Revenue	123,546	139,885	159,793	162,100	148,446
(% perubahan) (% change)	16.2	13.2	14.2	1.4	-8.4
Perbelanjaan Mengurus¹ Operating Expenditure¹	107,694	123,084	153,499	160,170	138,279
(% perubahan) (% change)	10.2	14.3	24.7	4.3	-13.7
Lebihan/Defisit Semasa <i>Current Surplus/Deficit</i>	15,852	16,801	6,294	1,930	10,167
Perbelanjaan Pembangunan Kasar Gross Development Expenditure	35,807	40,564	42,847	53,563	51,220
(% perubahan) (% change)	17.3	13.3	5.6	25.0	-4.4
Perbelanjaan Langsung <i>Direct Expenditure</i>	33,514	37,923	40,240	49,144	46,963
(% perubahan) (% change)	15.6	13.2	6.1	22.1	-4.4
Pinjaman Kasar <i>Gross Lending</i>	2,293	2,642	2,607	4,419	4,257
Tolak Terimaan Balik Pinjaman <i>Minus Loan Recovery</i>	846	3,105	959	518	571
Perbelanjaan Pembangunan Bersih Net Development Expenditure	34,961	37,459	41,889	53,045	50,649
(% perubahan) (% change)	28.1	7.1	11.8	26.6	-4.5
Defisit/Lebihan Keseluruhan Overall Deficit/Surplus	-19,109	-20,658	-35,594	-51,115	-40,482
Peratusan Kepada KDNK <i>Percent of GDP</i>	-3.3	-3.2	-4.8	-7.4	-5.6
Sumber Pembiayaan Sources of Financing					
Pinjaman Bersih Luar Negeri <i>Net External Borrowings</i>	-3,054	-4,314	-473	-6,418	118
Pinjaman Bersih Dalam Negeri <i>Net Domestic Borrowings</i>	17,750	25,800	35,654	56,900	40,500
Perubahan Harta ² <i>Change in Assets²</i>	4,413	-828	414	633	-136

¹ Tidak termasuk pindahan antara akaun seperti Kumpulan wang Pembangunan.

² (+) bererti penggunaan harta.

³ Anggaran disemak.

⁴ Anggaran Bajet.

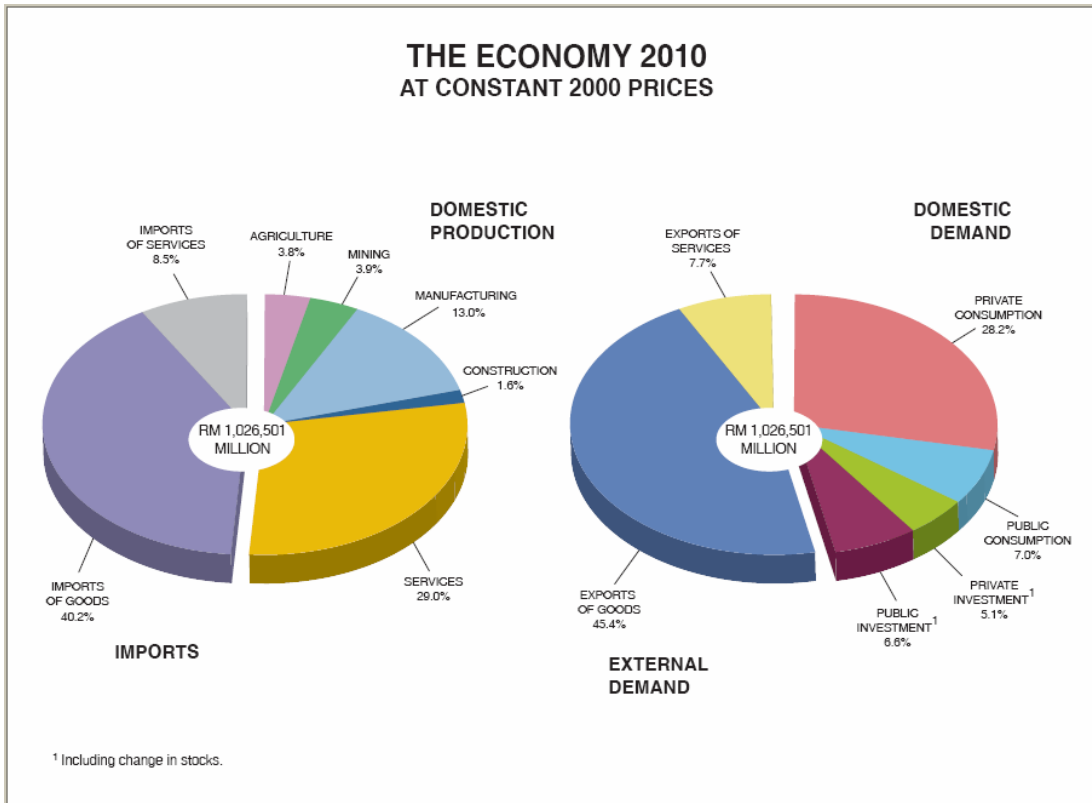
¹ Excludes intra-account transfer such as Development Fund.

² (+) indicates a drawdown of assets.

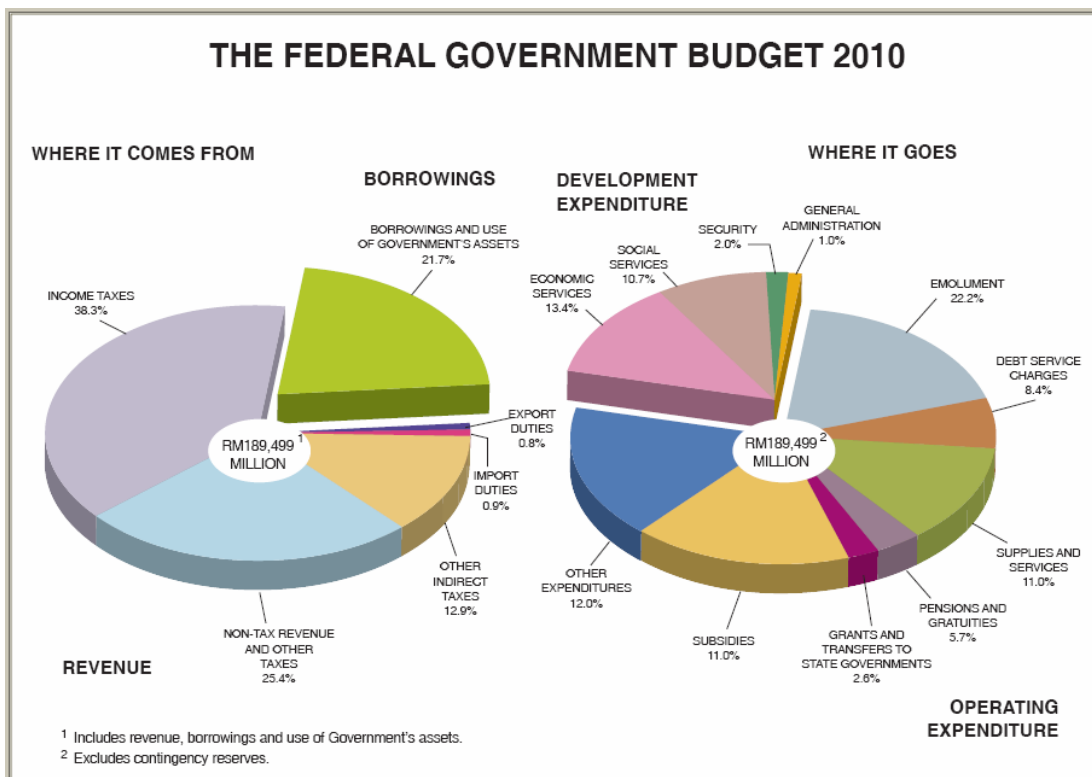
³ Revised estimate.

⁴ Budget estimate.

Source: Ministry of Finance, Malaysia



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