Malaysia

OCBC Bank

Malaysia Budget 2018

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Highlights

- Budget 2018 is themed as 'Prospering an Inclusive Economy, Balancing Worldly and Spiritual Aspects For The Peace Of The People's Life, As We Head Towards TN50'. While budget allocation has increased to MYR280.2bn (up from MYR260bn in 2017), budget deficit is slated to narrow further to 2.8% as a percentage of GDP.
- A slew of good economic prints are expected for 2017 & 2018: Official growth outlook has been upgraded to 5.2 – 5.7% in 2017. Into 2018, GDP growth is penciled at 5.0 – 5.5%. Income per capita of the people rose from MYR27,819 in 2010 to MYR40,713 in 2017 and is expected to rise to MYR42,777 in 2018. International reserves stand at a healthy level of MYR428.7bn.
- A total of MYR234.2bn (83.5% of total budget) will be allocated towards operating expenses, while MYR46.1bn will be dedicated to development expenditure. Through the use of eight thrusts in the budget, the allocation are distributed to aid businesses, improve education standards, provide for quality infrastructure, promote inclusiveness and social diversity, promote digital economy, and financing a slew of perks for the civil service.
- Elsewhere, the government expects to collect MYR239.86bn in total revenue in 2018, thus having an estimated budget deficit of MYR40.4bn. However, little details are revealed as to what instrument or method the government may employ to raise revenue. Meanwhile, there are multiple GST reliefs that are to be given across sectors, while tax reliefs for different income brackets are also introduced.

A growth upgrade is music to the ears

The opening line by Prime Minister Najib: "There is no better time to share the good news and bring smiles to all" was perhaps a precursor to a slew of favourable economic prints that Malaysia has seen thus far. And many good news there is, especially in terms of recent Malaysia's robust growth to-date.

As well expected by many, official growth outlook has been upgraded to a range of 5.2 – 5.7% (up from 4.3 – 4.8%) in 2017, accounting for a strong 5.7% in 1H17. The upgraded growth outlook is above market consensus at a mere 5.2% (OCBC Malaysia growth outlook: 4.9%), which in turn suggest that key growth pillars such as exports, consumption and investment growth will continue to lift growth higher into 2H17. For that matter, exports have reached its highest level at MYR80bn in August, while private sector investments are expected to exceed MYR260bn in 2018. Moreover, income per capita of the people rose from MYR27,819 in 2010 to MYR40,713 in 2017 and is expected to rise to MYR42,777 in 2018. As for the job market, the government plans to create 3.3 million new jobs by 2020, and has so far achieved 69% of the target, or 2.2 million jobs thus far.

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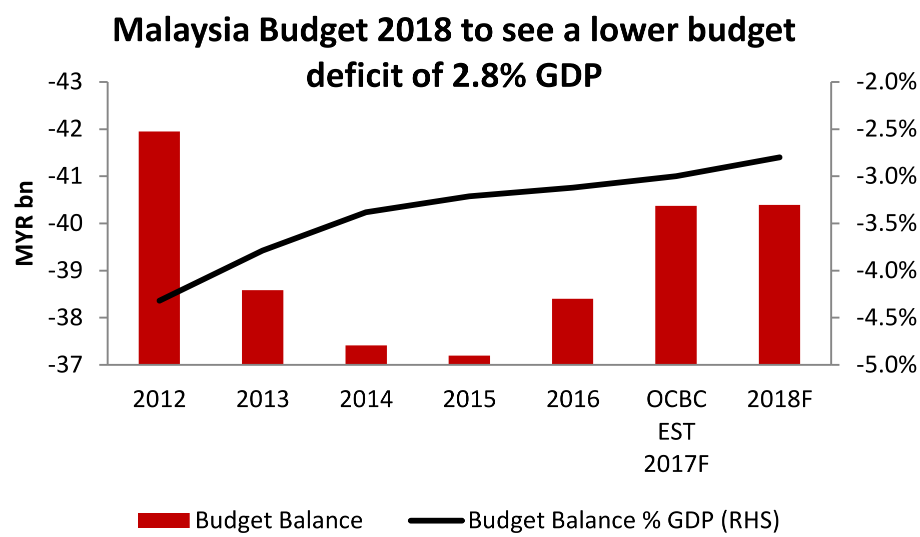
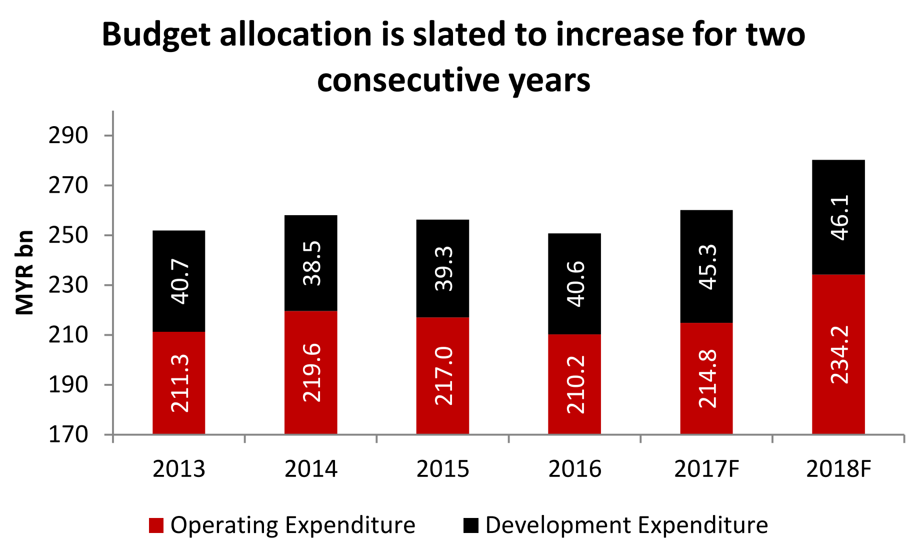
Keeping fiscally prudent

Essentially, Malaysia is expected to see a budget deficit of 3.0% in 2017 as widely expected. The government also pencils a fiscally prudent deficit of 2.8% of GDP into 2018, surprising our initial outlook for a 2.9% deficit as stated in our budget preview report. In a nutshell, the finance ministry is now allocating a higher national budget of MYR280.2bn into 2018, a 5.4% increase from 2017's MYR260bn budget: operating expenses will take up the bulk of the budget, or 83.5% (MYR234.2bn) to be exact, while the rest (MYR46.0bn) will go into development expenditure.





Source: CEIC, Malaysia Budget 2018, OCBC Bank

Under the Operating Expenditure (OE), a total of MYR79.15bn is allocated for Emolument, while MYR33.62bn is for Supplies and Services. Elsewhere, MYR119.82bn is allocated for Fixed Charges & Grants, MYR577mn for Purchase of Assets, while MYR1.08bn is for Other Expenditures. As for Development Expenditure (DE), the economic sector will receive the most at MYR26.3bn (accounting for 57.2% of total DE), while the social sector is allocated a sum of MYR11.72bn. Lastly, the security sector and the general administration will be given MYR5.2bn and MYR2.7bn, respectively.

Where is the money going to?

Looking at the budget allocation, overall spending has been allocated to many areas of the economy, including education, agricultural, tourism, business incentives and social subsidies amongst the 8 thrusts introduced by PM Najib. We strive to point out the noteworthy policies amongst the many:

First off, similar to previous budgets, there are goodies to be expected for businesses especially in the Small and Medium Enterprises. A total of MYR9.28bn has been allocated to aid the SMEs, including providing government guarantee loans to promote automation, SME financing scheme with a subsidy rate of 2.0%, as well as extending loans, grants & training programmes for SMEs. Moreover, aid to entrepreneurs will also be extended via the loan fund under the Tabung Ekonomi Kumpulan Usahawan Niaga (TEKUN) and Rural Economic Financing Scheme (SPED). Incentives totaling MYR3.64bn will also be allocated to aid the agricultural sector, especially with financial assistance of MYR2.3bn to help farmers, rubber tappers, smallholders and fishermen.

Secondly, emphasis on moving towards the TN50 aspiration has been made as well, seen from promoting and improving the quality of education. To that end, the government has allocated at least MYR16.4bn to aid education from lower education to higher learning. Meanwhile, technology-related education such as computer sciences, technology, engineering and mathematics will also be promoted as well. Also as widely expected, further study incentives under MyBrain (MYR90mn) will also be extended into 2018. Infrastructure improvements will also be made to schools, while new schools ranging from pre-schools, PERMATA centre, primary & secondary schools and vocational colleges will be constructed as well.

Thirdly, infrastructure spending on transportation will be accelerated, while a slew of infrastructure projects have been slated into 2018. For commuters, government will accelerate the construction of the MRT3 or Circle Line, expected to be completed by 2025, ahead of 2027. A total of MYR6.7bn will be allocated to the following projects:

(1) Pan-Borneo Highway: (MYR2b),
(2) Rakyat-centric project: (MYR1.1b)
(3) Development of communication infrastructure: (MYR1bn)
(4) Construction of roads in rural areas: (MYR934m)
(5) Electricity and clean water supply to rural areas: (MYR672m)
(6) Clean water supply to Sabah and Sarawak: (MYR420m)
(7) Public Infrastructure Maintenance & Basic Infrastructure Programmes: (MYR500m)
(8) Surveying and Mapping of customary land in Sabah and Sarawak: (MYR50m)

Fourthly, social policies are also introduced to promote inclusive development and raise the overall quality of life. These include the closely waited FELDA aid, in which a special incentive payment to settlers of MYR5,000 will be given, while construction of 5,000 FELDA second-generation home (MYR164mn) will be allocated as well. Elsewhere, at least MYR5.1bn will be allocated to preserving Safety and Public Order, MYR3.3bn to enhancing the Bumiputera Wellbeing Transformation Policy, and MYR1.7bn for the Wellbeing of the Chinese and Indian Community. Moreover, there will be abolishment of toll fees in Batu Tiga, Shah Alam and Sg Rasau, Selangor, Bukit Kayu Hitam, Kedah, and Johor Bahru Eastern Dispersal Link Expressway (EDL) in Johor beginning 1 Jan 2018.

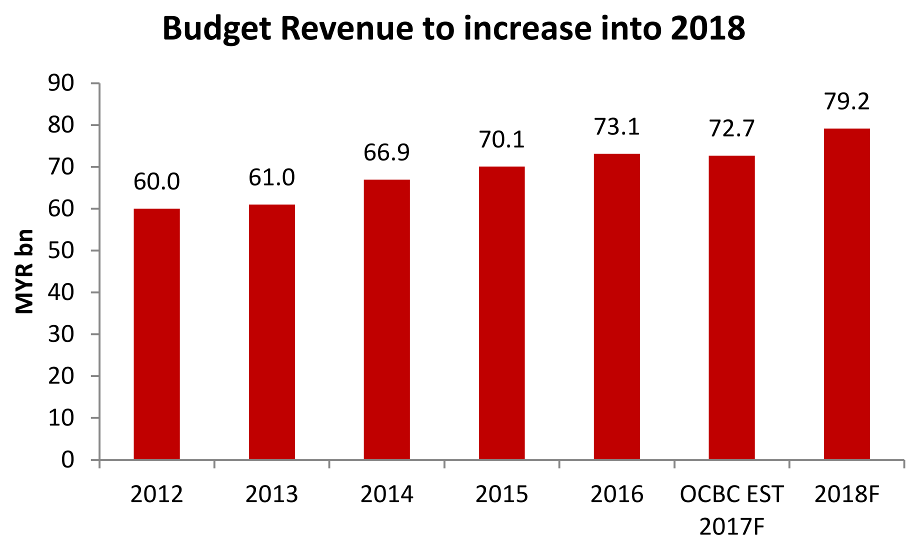
Other noteworthy implementations include raising the mandatory maternity leave for private sectors to 90 days, up from 60 days, while individual income tax exemption on income earned within 12 months for women re-entering the workforce will also be given. Other social policies will also include the allocation for the BR1M programme of MYR6.8bn which is directed to aid the middle-low income groups, while workers will see an income tax reduction of 2.0% for income bracket MYR20,001 to MYR70,000. Meanwhile, GST relief will also be extended to reading materials, cruise operators, construction of school buildings and houses of worship funded through donations, imports of oil and gas-related equipment amongst many others.

Lastly, a slew of benefits for the civil service are also seen. These includes increasing the time-based rank of second-generation for group of executives for a period of 13 years, providing retirement benefits for public servants who retire on medical reasons, as well as a generous special assistance to civil servants of MYR1,500 for existing public servants, and MYR750 for government retirees. Meanwhile, the the civil service pension rate will be raised to MYR1,000/mth, which will benefit more than 50,000 public sector retirees with at least 25 years of service period. Elsewhere, female public servants who are pregnant (5 months above) are allowed to leave earlier of an hour. The government will also seek to promote lifelong learning of public service officers by implementing Master's and PhD courses in-house.

Mother of all Budgets

Ending the budget speech with labeling Budget 2018 to be the 'Mother of all budgets', the generous budget allocation of MYR280.25bn is the largest allocation ever given in history, even surpassing the previous pre-election budget at 2013 of MYR252bn. With the many incentives to be given throughout the economy, the budget is likely to be seen as expansionary for the Malaysian economy, both in promoting investment and trade, as well as from concrete fiscal spending plans in infrastructure. Moreover, with the strong upgrade in GDP growth to 5.2 – 5.7% in 2017, and fresh GDP estimate of 5.0 – 5.5% in 2018, we believe that the better growth prospect will continue to aid in lifting both domestic and international confidence levels into 2018.

However, we are cautious about Malaysia's ability to achieve a lower budget deficit of 2.8% of GDP into 2018. Our concern stems from the lack of details over Malaysia's revenue collection plans into the next year. GST has been one of the key revenue drivers in recent years, on top of individual tax receipts. However, both revenue streams have seen tax cuts and/or tax reliefs in one form or the other, which in turn could potentially reduce tax receipts into 2018. The only hope for higher revenue receipts must stem from economic-led ones, including that of corporate tax receipts, petroleum tax receipts, stamp duties, as well as export and import duties. These receipts will invariably increase given the uptick in growth prospect into the next year. While the mainstay outlook is for Malaysia's growth to expand further into 2018, any unforeseen wildcards that could derail growth, including a sudden fall in oil prices and deterioration of investor appetite, could well worsen Malaysia's fiscal standing then.



Source: CEIC, Malaysia Budget 2018, OCBC Bank

But for now, the generous allocation given to both operating and development expenditure will surely be growth expansionary. To that end, while we keep our Malaysia's growth outlook at 4.9% in 2017, we think that our initial 4.9% growth outlook into 2018 will see significant upside risk then especially given the stimulus support from today's Mother of all Budgets.