

BUDGET 2024

16 OCTOBER 2023

MACROECONOMIC OUTLOOK

- Budget 2024 with the theme of “**Economic Reforms, Empowering the People**” has 3 key thrusts, namely (1) delivering reforms to enhance governance and public delivery system, (2) transforming the economy and businesses, and (3) elevating the wellbeing of the *rakyat*.
- One of the largest budget** ever tabled by the govt, Budget 2024 amounted to RM393.8 bil is well within our in-house expectation with an **expansion of 2.0% from Budget 2023** (RM386.1 bil). Nonetheless, this is a **contractionary budget (-0.8%) if compared to the revised 2023 expenditure** of RM397.1 bil which included the USD3 bil payment for maturing 1MDB bond.
- Our 2024 in-house macroeconomic forecasts were in line with govt’s projections, namely:
 - GDP growth at 4.0% to 5.0% range – exact match to SME Bank**
 - Inflation rate at 2.1% to 3.6%** (SME Bank: 2.5% - 3.5%) – **indicates some uncertainty** as the rate can be lower or higher than this year’s estimate (2.5% - 3.0%) depending on the impact of targeted subsidy, fluctuations in Ringgit as well as supply-related factors.
 - Upper limit of govt’s inflation forecast also bodes well with a **higher and more optimistic target of commodity prices – Brent oil average price at USD85 /bbl** (SME Bank: USD75 – USD85 /bbl) while those of CPO at RM4k to RM4.5k /mt.
- Targeted subsidy mechanism will be implemented in phases next year** though RON95 was not specifically mentioned in the Budget. For a start, **diesel subsidies will be rationalised** where selected users such as **freight operators will continue to enjoy** the subsidy while others will need to pay higher prices.
- Taking cue from govt’s inflation forecast, **we foresee a managed float of retail fuel prices** instead of a free-float as the latter can easily overshoot the inflation projection especially with higher price expectation for Brent.

Fig. 1: GDP breakdown by expenditure and industry

	Share (%)	Change (% YoY)		
	2023	2022	2023e	2024f
Domestic demand	94.0	9.2	4.9	5.3
Private expenditure	76.6	10.3	5.3	5.6
Consumption	61.2	11.2	5.6	5.7
Investment	15.4	7.2	4.3	5.4
Public expenditure	17.4	4.7	2.8	4.1
Consumption	12.9	4.5	1.0	2.6
Investment	4.6	5.3	8.2	8.3
External sector	5.3	-1.0	1.1	5.5
Exports	67.3	14.5	-6.2	4.1
Imports	62.0	15.9	-6.8	3.9
Services	59.3	10.9	5.5	5.6
Manufacturing	23.5	8.1	1.4	4.2
Agriculture	6.3	0.1	0.6	1.2
Mining	6.1	2.6	-0.8	2.7
Construction	3.6	5.0	6.3	6.8
Total GDP	100.0	8.7	~4.0	4.0-5.0

- GDP performance will continue to be propelled by **domestic demand** where strong public investment growth is anticipated, in tandem with objectives outlined in the RMK12’s MTR, NIMP and NETR.
- While **construction** sector is expected to clock in the highest growth rate at 6.8%, services sector will steer economic growth, supported by **solid performance in wholesale & retail trade, ICT, finance & insurance and utilities sub-sectors**.
- However, **services sector will be affected by the increase of service tax to 8%** (currently 6%) and expansion of tax scope to the logistics, brokerages, underwriting and karaoke services (the increase excludes F&B & telco sub-sectors).
- The increase in service tax suggests that **GST maybe out of the picture** at this juncture **while sales tax may be next in line**.

Private Consumption	Private Investment	Public Expenditure	External Demand
<ul style="list-style-type: none"> • RM1k – RM2k incentive to civil servants (\leq grade 56) and pensioners • Increase and extension of cash transfers - Rahmah Cash Aid (STR) & Sumbangan Asas Rahmah (SARA) • Increase and extension of tax relief (sports equipment, childcare, self development) • Continuous improvement in the labour market (2024f unemployment rate: 3.4% vs 2023e: 3.5%) • Growing trend in social commerce 	<ul style="list-style-type: none"> • Realisation of approved investments by MIDA, mainly in the E&E, transport equipment, as well as ICT subsectors • Supportive of govt's strategies in attracting high-tech & high-value investments (NETR & NIMP) • Various funds and incentives for MSMEs to support adoption of digitalisation and automation • Focus on private-public partnership model (Penang LRT) 	<ul style="list-style-type: none"> • Higher spending on emoluments • Large-scale projects – Central Spine Road, ECRL, RTS, SSLR Phase 2 • Significant projects - flood mitigation, public housing, new schools, expansion of Samajaya High-Tech Park Sarawak and Tok Bali Industrial Park Kelantan • Allocation for Sabah & Sarawak - rural area development, road construction & maintenance 	<ul style="list-style-type: none"> • Better performance in global trade (2024f WTO trade: 3.3% vs 2023e: 0.8%) • Steady demand for semiconductor due to upcycle trend in E&E (2024f WSTS semiconductor: 11.8% vs 2023e: -10.3%) • NIMP to propel high-impact sectors (E&E and aerospace) • Improved prospects in commodity sector • Ratification of trade agreements (RCEP and CPTPP)

FISCAL POSITION
































- Govt remains **committed to fiscal discipline** as fiscal deficit is expected to improve further to 4.3% of GDP by end-2024 (2023e: 5.0% of GDP) in line with an anticipation of higher revenue (+1.5% YoY to RM307.6 bil) and lower DE (-7.2% YoY to RM90 bil) as well as the denominator factor i.e. higher nominal GDP of 6.0% – 7.0% YoY.
- Despite lower DE (due to the absence of 1MDB bond redemption next year), **statutory debt is forecasted to clock in higher at 64% of GDP** by end-2024 (2023e: 62% of GDP).
- Nonetheless, it **remains below the statutory debt limit of 65% of GDP** and expected to **improve in the medium term** in line with the passing of **Fiscal Responsibility Act** a few days before the budget. Major targets include a lower debt ceiling of 60% of GDP and DE of at least 3% of GDP (2024f: 4.5%).
- Major contribution to revenue will come from tax collection (+6.4% YoY to RM243.6 bil) including both:
 - ❑ direct tax – implementation of **capital gains tax for unlisted share disposal** by local companies
 - ❑ indirect tax – implementation of **luxury goods tax, increase in service tax and excise duty rate for sugary drinks**.
- However, non-tax revenue is expected to decline 13.8% YoY to RM64 bil due to lower proceeds from investment income where **annual dividend from PETRONAS is projected to be lower** despite higher price forecast of Brent crude oil. This reflects **reduced dependency on petroleum-related revenue** (-11.5% YoY to RM61.8 bil), emphasising the govt's commitment to diversify its revenue streams.

Fig 2: Fed. Govt Fiscal Position	2022		2023e		Budget 2024		2024 - 2026	
	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP
Revenue	294.4	16.4	303.2	16.4	307.6	15.6	986.9	15.6
(-) OE	292.7	16.3	300.1	16.2	303.8	15.4	927.2	14.7
(-) DE	71.6	4.0	97.0	5.2	90.0	4.5	279.0	4.4
(+) Loan Recovery	1.4	-	0.7	-	0.8	-	1.8	0.0
(-) Covid-19 Fund	30.9	1.7	-	-	-	-	-	-
Overall Balance	-99.5	-5.6	-93.2	-5.0	-85.4	-4.3	-217.5	-3.5

FISCAL POSITION (cont.)

- **DE expenditure for economic sector declined** by 17.8% YoY to RM45.2 bil in 2024, where its share to total DE went down significantly to 50.3% (2020 - 2023e range of 54.6% - 56.7%). **Nonetheless, highest priority was given to the transportation sub-sector** at 21.3% share (2023e: 18.1%). Notable new projects include additional lanes for PLUS highway Yong Peng Utara – Sedenak Phase 2, road upgrade in Kelantan and Sabah.
- Meanwhile, social DE as well as security increased by +6.7% YoY and +9.0% YoY, respectively, where its share rose to 31.5% and 13.9% (2023e: 27.4% & 11.9%), respectively. Under social DE, **education & training received the highest allocation (15.9% share)** mainly to construct new schools and improve existing facilities. This is followed by **health (6.8%)**, to construct and upgrade health facilities and procure healthcare equipment.
- As for **OE, allocation is +1.2% YoY higher** than in 2023e predominantly due to emoluments and retirement charges following **incentive payment for civil servants, key public sector posts and pensioners**. Debt service charges also increased in line with higher debt.
- Meanwhile, **subsidies & social assistance contracted sharply** by 17.9% YoY on the back of **subsidy rationalisation plan** – share to OE declined to 17.4% (2023e: 21.4%). Nonetheless, govt remains generous with STR and SARA handouts.














Overall, Budget 2024 is viewed to be positive and supportive for MSMEs














Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
SME	Financing / Grants / Program		
	1. SJPP guarantee funds for SMEs involved in green economy, technology & halal  	20,000	
	2. BNM – fund to support MSMEs including for sustainability practices and food security 	8,000	
	3. FELDA and FELCRA - to boost agricommodity activities 	2,400	
	4. GLC & GLIC – fund to encourage start-ups including Bumiputera SMEs in HGVH fields	1,500	
	5. BSN micro financing for business capital, equipment & premises purchase, marketing	1,400	
	6. BNM - fund to increase productivity through digitalisation and automation	900	
	7. Financing to encourage women and youth participation in business	720	
	8. TEKUN - financing to Batik & craft entrepreneurs, Orang Asli, Bumiputera Sabah Sarawak, Indian	330	
	9. Introducing the MYStartup platform as a single window	200	
	10.. Enhancement of sales, inventory and digital accounting systems through grants	100	
	11. Amanah Ikhtiar Malaysia (AIM) - helps single mothers and the poor through small business	100	
	12. Incentive for 'Program Tanam Semula Sawit' via grants and financing 	100	
	13. RISDA and FELCRA – for farmland optimization through production of food crops and livestock 	90	
	14. BSN - micro-disabled entrepreneurs, a special financing facility	50	
	15. 4k units of new commercial space throughout the local authority area	50	
	16. BSN special financing for micro disabled entrepreneurs	45	
	17. Shop Malaysia Online – encourage small food business from home 	40	
	18. Enhancing the role of Digital Economic Centers to support small business	25	
	19. i - Tekad Social Finance Program - matching grant for micro entrepreneurs	25	
	20. Implementation of a pilot project on the use of stimulant gas for small rubber farmers 	10	
	21. Cleaning/upgrading of 10k stalls and small stalls 	10	

Positive Neutral Negative

SECTORAL SPOTLIGHT

- SMEs in the **construction sector** is set to benefit from gov't's commitment in providing better amenities and infrastructures for the *rakyat* with lots of **maintenance and upgrade works** for buildings and dilapidated facilities at schools, low and middle cost public houses, roads & bridges and streetlights for village roads etc.
- While this budget may seem to **lack new mega projects** (no updates on MRT3 & HSR) given the gov't's fiscal constrain, there are still some notable projects i.e. flood mitigation projects, LRT Penang, SSLR Phase 2 and revival of five axed LRT3 stations which will boost the construction sector.
- **Services sector** especially **Wholesale & Retail** sector will likely be impacted by **unfavourable measures** announced below – painful to MSMEs as they are highly concentrated in the services sector (around 89% of total firms). However, various **incentives & cash handouts may cushion the adverse impact**:
 - ❑ **Higher service tax of 8%** (current: 6%) as well as widening of tax scope will generally **limit consumers' demand for broad-based services** as services accounted for 50.8% weight of total CPI basket – F&B and telco (exempted from the increase) stood at 2.3% and 4.1%, respectively. Services inflation averaged higher at 3.6% YoY for the first 8 month of the year (8M 2022: 2.3%).
 - ❑ **High Value Goods (Luxury Goods) Tax** at a rate of 5% - 10% will affect related stores such as jewelry and branded watches in which **many SMEs are involved** (>60% of Penang Goldsmith association members are SMEs). Nonetheless, SMEs in other retail segment may stand to benefit if the money allocated for such expenses are being channeled to other goods.
 - ❑ **Targeted diesel subsidy** (exempted for courier & logistic sectors) will **add cost to businesses**. To note, expansion of the service tax scope to logistics companies will have a **ripple effect through logistics costs** as these additional costs are likely to be **passed on to consumers**.
 - ❑ STR, SARA, incentive to civil servants, key public sector posts & pensioners and *Inisiatif Pendapatan Rakyat*, among others are likely to increase **household disposable income** which may spur consumer spending in the retail segment.
- **Tourism sector** will continue to recover (tourist arrival from Jan-May 2023 stood at 68.3% of 2019 pre-pandemic level) supported by various promotional activities (e.g Visit Malaysia 2026, Muslim-friendly tourism) as well as Multiple Entry Visa for tourists and maintenance & conservation of tourist attraction locations.
- The top 3 categories of tourist spending in Malaysia are shopping (34% of total), accommodation (24%) and F&B (13%). While the exclusion of service tax hike for F&B and exemption of foreign tourist from the luxury goods tax are good for a continuous recovery in the tourism sector, the **accommodation sub-sector will be hit by the higher service tax**.
- **ESG** related sectors spanning over the **manufacturing, transportation, automotive and energy sectors** are expected to benefit from gov't's continuous focus in the field of sustainable and renewable energy, in line with global trend. Extensive allocations, various tax incentives and tax deductions announced serve to promote the transition towards adoption of clean energy, reduction of carbon emissions and mitigation of climate change:
 - ❑ RM200 bil financing funds in total for industries shifting to low carbon economy
 - ❑ RM2 bil allocation for NETR
 - ❑ **Rebate up to RM2.4k for EV motorbike purchase** for individuals earning ≤RM120k /annum
 - ❑ Extension of individual income tax relief of up to RM2.5k on expenses related to EV charging facilities for 4 years until 2027
 - ❑ Extension of income tax deduction of up to RM300k on EV rental cost for 2 years until 2027 – an **alternative to EV purchases** which require high initial capital and long-term financial commitment
 - ❑ Public transportation network to include 150 electric buses
 - ❑ RM170k allocation for Electric Vehicles (EVs) as official cars for the Federal Administration
 - ❑ Installation of solar panels on gov't buildings in Putrajaya














Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Tourism 	Financing / Grants / Program		
	1. Promotion and marketing activities	350	Positive
	1.1 Visit Malaysia 2026 Campaign	80	Positive
	1.2 Collaboration with industries to attract domestic and foreign tourist	n/a	Positive
	1.3 Assistance to >200 activists for organizing cultural activities	n/a	Positive
	1.4 Charter flight matching grant for international flights to Malaysia	n/a	Positive
	2. Tourist Area		
	2.1 Preservation and Conservation of heritage buildings 	80	Positive
	2.2 Allocation to state government for conservation of tourist attractions	20	Positive
	3. The offer of a Multiple Entry Visa is aimed at encouraging the entry of tourists and investors	n/a	Positive
	4. Relaxing the existing conditions for the Malaysia My Second Home (MM2H) application 	n/a	Positive
	Tax/Incentives		
	1. Full exemption of entertainment duty for local artist's stage performance	n/a	Positive
	2. Rationalisation of diesel prices by phases 	n/a	Negative
	3. Reduction to 5% of entertainment duty for theme parks and recreation centres	n/a	Positive
4. Reduction to 10% of entertainment duty for stage performances.	n/a	Positive	
5. Special income tax ranging from 0 to 10 percent for film production companies, foreign film actors, and film crews conducting film shoots in Malaysia has been introduced	n/a	Positive	
6. Exemption of luxury goods tax of 5% - 10% for foreign tourists	n/a	Positive	
7. Service tax to increase to 8% 	n/a	Negative	
8. Improvement of the visa-on-arrival, social visit pass and multiple-entry visa facilities to encourage the influx of tourists and investors 	n/a	Positive	
ICT 	Financing / Grants / Program		
	1. Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) - guarantee funds for SMEs involved in the green economy, technology and halal 	20,000	Positive
	2. BNM-allocation provided to encourage SME companies to increase business productivity through automation and digitisation 	900	Positive
	3. R&D funds under MOSTI and MOHE 	510	Positive
Retail 	Financing / Grants / Program		
	1. Sumbangan Tunai Rahmah (STR) allocation increased 25%	10,000	Positive
	2. Payung Rahmah Programme	200	Neutral
	Tax/Incentives		
	1. Tax - Purchase of sports equipment and activities limited to RM1,000	n/a	Positive
	2. Increase excise duty rate for sugary drinks to RM0.50/ litre from RM0.40 	n/a	Negative
	3. Imposing excise duty on chewing tobacco products at a rate of 5% plus 	n/a	Negative
	4. Introducing luxury goods tax at a rate of 5% to 10%	n/a	Negative

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Real Estate	Tax/Incentives		
	1. Housing Credit Guarantee Scheme	2,470	
	2. Stamp duty flat rate 4% imposed on transfer of ownership by non-citizens	n/a	
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Manufacturing	Financing / Grants / Program		
	1. Allocating funds (up to 10 percent of the NIMP investment) to drive the NIMP mission	200	
	2. Program Pengukuhan Francais to increase exports	10	
	3. Initiating the development of a high-technology industrial zone in Kerian, Northern Perak	n/a	
	Tax/Incentives		
	1. Facilitating the approval of employment passes for strategic investors in key sectors	n/a	
	2. Long-term social visit pass for international students to cater skilled workforce	n/a	
	3. Transformation of Pengerang Integrated Petroleum Complex into chemical & petrochemical hub by providing special tax rate/ investment tax allowance	n/a	
	4. Implementation of global minimum tax by 2025	n/a	
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Automotive	Financing/Grants/Programs		
	1. Rebate for e-bike buyers up to RM2,400 for annual income below than RM120k 	n/a	
	Tax/Incentives		
	1. Rationalisation of diesel price by stages	n/a	
	2. Extend corporate income tax allowance up to RM300k on non-commercial EV rental 	n/a	
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Construction	Financing / Grants / Program		
	1. Transport infrastructure projects		
	1.1 Sarawak Pan Borneo Highway - Phase 1B	15,700	
	1.2 Penang LRT under Public-Private Partnership model	10,000	
	1.3 Sarawak-Sabah Link Road (SSLR) - Phase 2	7,400	
	1.4 Widen PLUS highway to 6 lanes (Sedenak - Simpang Renggam)	931	
	2. Flood Mitigation Plan		
	2.1 33 High Priority Flood Mitigation Projects	11,800	
	2.2 Flood preparations - The National Disaster Management Agency (NADMA)	300	
	3. Construction, maintenance and repair assets		
	3.1 Construction of 5 LRT3 stations	4,700	
	3.2 Water supply issue in Kelantan and Sabah	1,100	
	3.3 Elevator maintenance projects and government quarters	261	
	3.4 Development of New Projects like:		
	a) Construction of 26 new schools in Sabah, Sarawak, Pahang, Perak and Kedah 	2,500	
	b) Universiti Sains Islam Malaysia (USIM) Teaching Hospital Complex 	938	
	c) Raja Perempuan Zainab II Hospital, Kelantan (Additional Pathology) 	175	
	d) 5 new health clinics 	150	
	e) Build Emergency and Trauma Dept at Sultan Abdul Aziz Shah Hospital 	n/a	
	f) Construction of Sultanah Aminah Hospital 2, Johor Bahru 	n/a	
	g) Development of a Cancer Institute (Sarawak) 	n/a	

Positive

Neutral








Negative

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Construction 	Financing / Grants / Program (cont..)		
	3.5 Maintenance of federal roads and bridges	2,800	
	3.6 Provide water supply and electricity	939	
	3.7 Rehabilitation of 400 dilapidated clinics 	300	
	3.8 Allocation to maintain public toilets	150	
	3.9 Installation of 60k units of villages street lights	134	
Aerospace 	Financing/Grant/Program		
	1. Education loans for 12k trainees under The Skills Development Fund Corporation TVET training fund 	180	
	2. Educational institutions under MARA to focus on upskilling and reskilling local Bumiputera trainees in high growth fields. 	n/a	
	Tax/Incentives		
	1. Providing investment tax incentives (tiered reinvestment allowance (70% / 100%))	n/a	
Halal 	Financing / Grants / Program		
	1. Halal Industry Master Plan 2030 - for halal SMEs under a halal integrated platform 	n/a	
	2. Shorten the period of processing halal certification to 30 days from 51 days	n/a	
Education 	Financing / Grants / Program		
	1. TVET education allocation	6,800	
	2. Upskilling by Pembangunan Sumber Manusia Berhad (HRD Corp)	1,600	
	3. Upgrading of buildings and infrastructure in 450 schools including Sabah & Sarawak 	930	
	4. Maintenance and repair of institute infrastructure	300	
	5. Replace and expand Wi-Fi accessibility in all public universities	250	
	6. Construction of two tahfiz school at Kuala Lumpur and Negeri Sembilan 	220	
	7. The Skills Development Fund Corporation (PTPK) with the TVET Training Fund	180	
	8. 18 new special education blocks will be built in Kedah ,Penang and Perlis. 	180	
	9. Maintenance and upgradation of infrastructure of Islamic educational institutions	150	
	10. Maintain and upgrade school computer labs for STEM learning	100	
	11. A total of 10 new NURSERY and TASKA 	31	
	12. Upgrade the KEMAS Early Childhood Education premises. 	20	
	13. Establishment of the country's first artificial intelligence study center at Universiti Teknologi Malaysia	20	
	14. Encourage vulnerable communities to follow Lifelong Learning Programs	5	
	15. Implementation of the MADANI Community Empowerment Program and the Disabled Community Rehabilitation Program in each public university	1	
	16. Social development for financing the education of the poor.	n/a	
17. BNM and Islamic financial institutions - risk sharing between investors in SDG-based investments and elements of social investment for social development of the poor.	n/a		

Positive

Neutral

Negative

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Education 	Financing / Grants / Program (cont..)		
	Tax/Incentives		
	1. PTPTN: 10% -15% discount on half/full settlement in one payment or opt for salary deduction/ scheduled direct debit	n/a	
	2. Special contribution RM700 as token of appreciation to 70k takmir educators	n/a	
	3. Extension of tax-relief up to RM 2k for self-improving courses till 2026	n/a	
	4. Tax deduction up to 10% of aggregate income if contribute to fund educational program	n/a	
ESG 	Financing / Grants / Program		
	1. Financing funds for industries shifting to low carbon economy	200,000	
	2. Public Transport: Resuming construction of 5 LRT3 stations	4,700	
	3. National Energy Transition Roadmap (NETR) extension until 31 Dec 2024	2,000	
	4. Issuance of biodiversity sukuk for reforestation to generate carbon credits	1,000	
	5. Public Transport: Acquisition of 150 electric busses and construction of 3 depots 	600	
	6. EV: Investment in 180 charging stations by TNB, Gentari and Tesla Malaysia 	170	
	7. Solar: Net Energy Metering Extension and "zero capital cost" subscription model	n/a	
	8. Solar : TNB & Gentari - solar panel installation on govt buildings in Putrajaya	n/a	
	9. EVs as the official cars for the Federal Administration 	n/a	
Tax/ Incentives			
1. Income tax relief extended for individuals spending >RM2.5k on EV charging facilities for an additional 4 years and tax deduction for EV rental expenses for an extra 2 years.  	n/a		

Positive

Neutral

Negative

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