



Budget: BUDGET 2022 DEEP DIVE

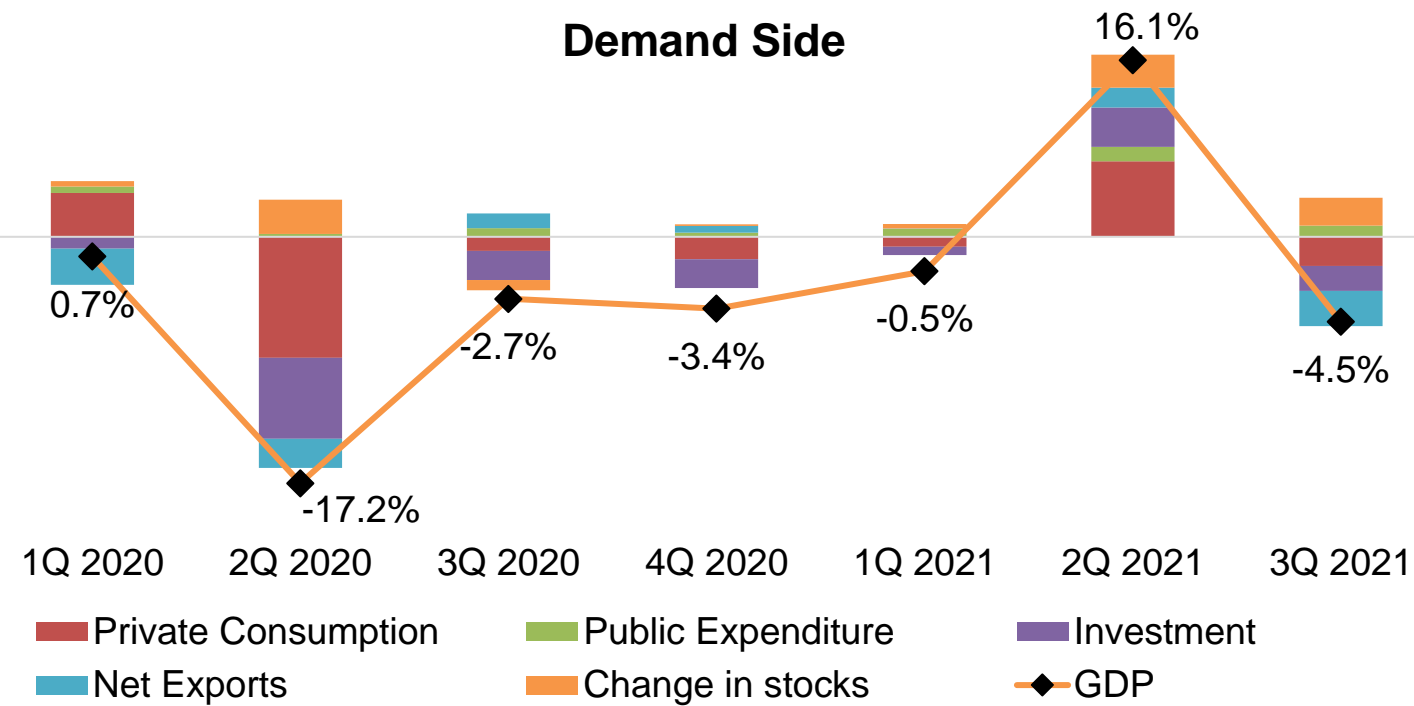
Prepared by:
Lynette Lee
Toh Wei Liang

SMEBank-SCEA@smebank.com.my
(603) 2615 2020

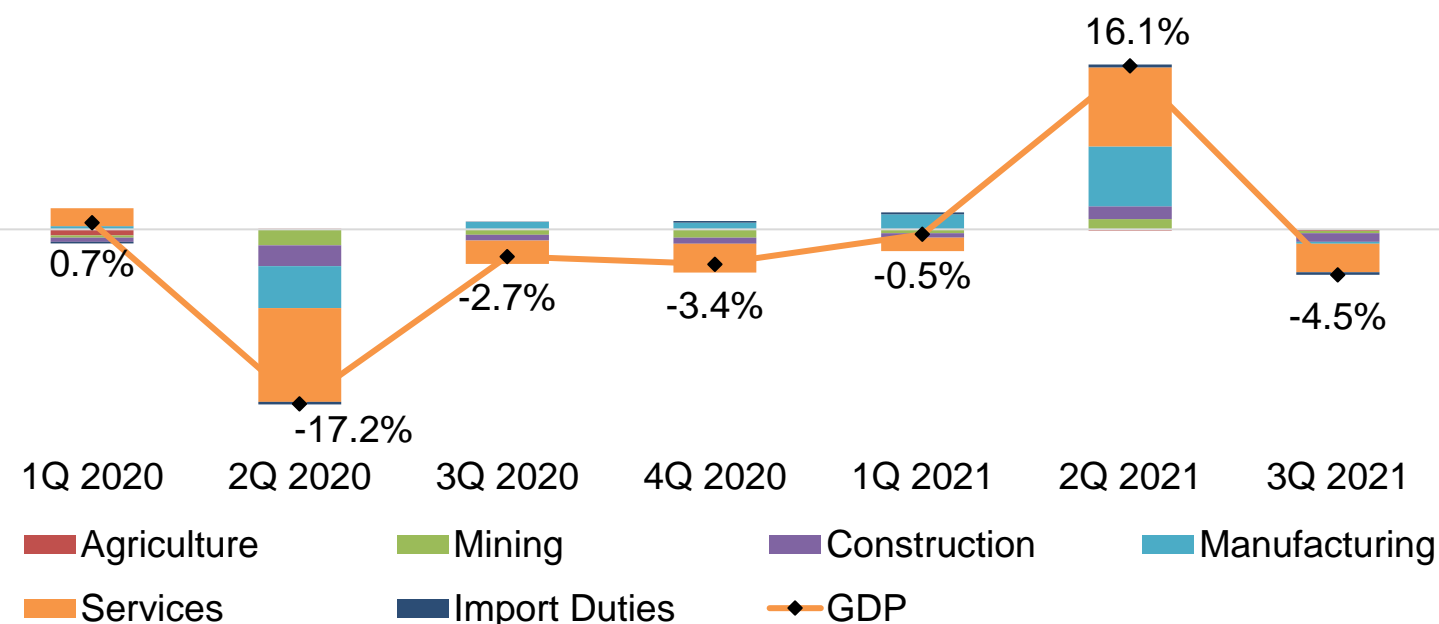


3Q 2021's GDP growth below market expectations

Demand Side



Supply Side



- **GDP growth contracted 4.5% y-o-y in 3Q 2021**, worse than the market expectation of -2.6%.
- The decline was due to a broad-based slowdown in all sectors, weak private consumption and investment amid **the re-instatement of MCO 3.0 or FMCO in June 2021** where only essential activities were allowed to operate at 60% capacity.
- That said, as more states progressed to less stringent phases under the National Recovery Plan by end-3Q 2021, economic activities have since gradually recovered.
- On the demand front,
 - **Private consumption** declined -4.2%. Travel and non-essential components experienced contraction, evinced by the plunge in transport (-36.7%), retail spending on clothing & footwear (-10.6%) and services like restaurants & hotels (-11.2%).
 - **Net exports** plummeted -37.5%, its lowest level since 2Q 2020. **Exports growth slowed sharply to 5.1%** (2Q: 37.4%) given widespread lockdowns and supply chain disruptions among trading partners.
- On the supply front,
 - **The manufacturing sector** dipped marginally by -0.8% as only factories that produce essential goods and products were allowed to operate.
 - The decline in **the services sector** (-4.9%) was attributed to weaker consumer-related activities amid mobility restrictions. Inter-state travel restrictions also impacted tourism-related services like accommodation (-52.0%) compared to the same period last year.

BNM reaffirmed its 2021 GDP projection at 3%–4% and 2022 GDP forecast between 5.5% - 6.5%. It remains optimistic on the recovery trend and growth momentum for 2022 amid better labour market conditions. The central bank will be mindful of global financial market volatility arising from adjustments of monetary policies in advanced economies.



Forecasts and Budget 2022: Economic Outlook

Internal forecasts

Indicator	2019	2020	2021f	2022f
Real GDP (% y-o-y)	4.3	-5.6	3.0 to 4.0	5.5 to 6.5
OPR (% y-o-y)	3.00	1.75	1.75	2.00
CPI (% y-o-y)	0.7	-1.1	2.0 to 3.0	1.5 to 2.5
Unemployment (%)	3.3	4.5	4.0 to 5.0	3.5 to 4.5
MYR/USD (average)	4.14	4.20	4.15 - 4.25	3.90 - 4.30
Brent crude oil (USD/bbl)	64.6	41.6	65.0 – 75.0	62.0 – 80.0



GDP growth (% y-o-y)

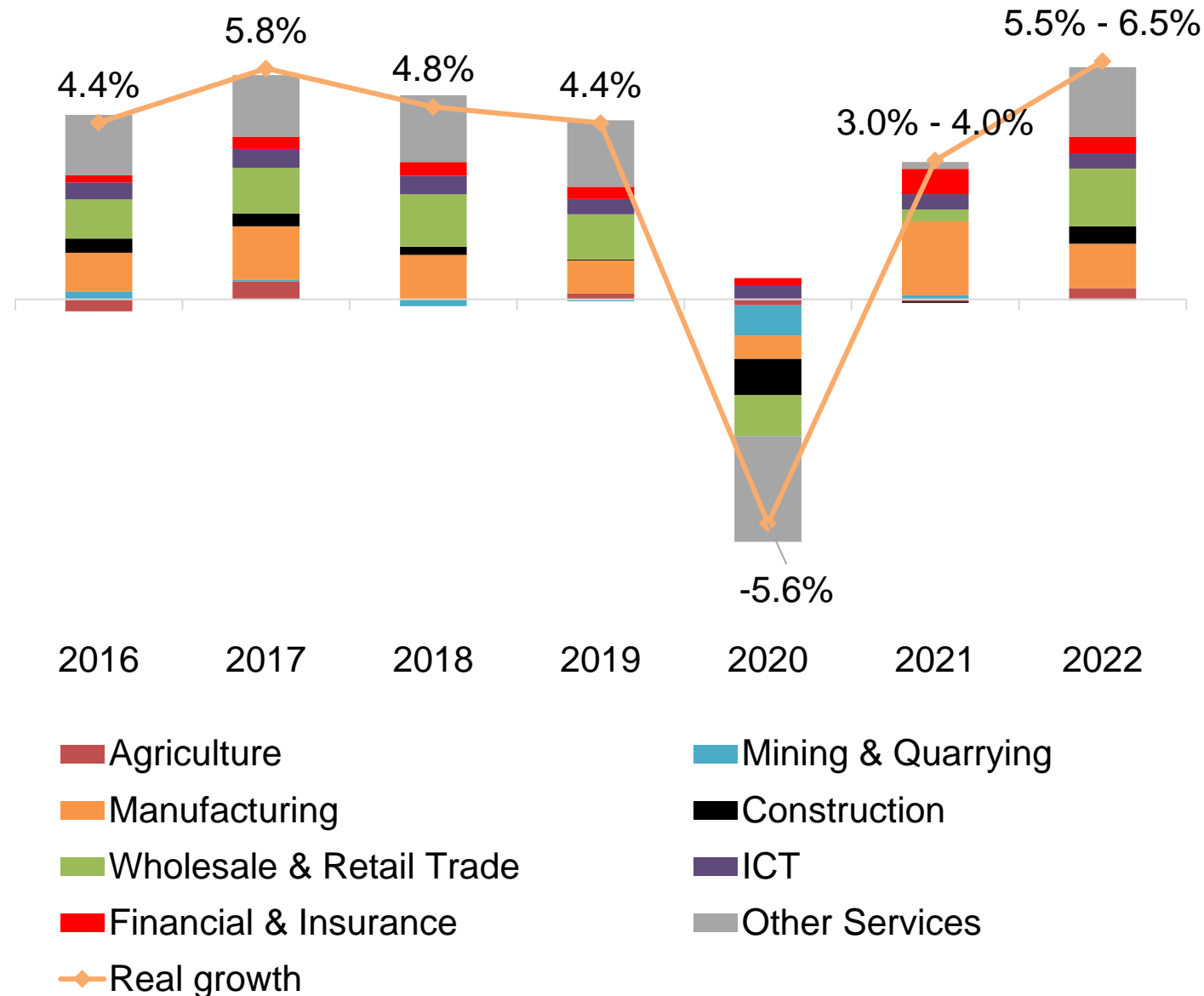
GDP Growth (%)	% share 2021 GDP	2020	2021e	2022f
Domestic Demand	93.4	-5.8	3.1	6.6
Private Expenditure	75.2	-6.0	3.5	6.4
Consumption	59.8	-4.3	4.1	7.3
Investment	15.4	-11.9	1.4	2.6
Public Expenditure	18.3	-4.7	1.6	7.3
Consumption	13.3	3.9	3.0	1.1
Investment	5.0	-21.3	-1.9	24.1
External Sector	6.6	-13.0	4.8	6.8
Exports	68.3	-8.9	15.9	4.2
Imports	61.7	-8.4	16.2	3.9
Overall	100.0	-5.6	3.0 - 4.0	5.5 - 6.5

- Malaysia's Budget 2022 is viewed to be timely and supportive of economic recovery. The budget allocation of **RM332.1 bil (+3% from Budget 2021) is the largest** ever recorded, focusing on **reviving the socio-economic** segment and **spurring post-pandemic recovery to rebuild economic resilience**.
- One-fourth of the budget goes to (1) Ministry of Education (RM52.6 bil) and (2) Ministry of Health (RM32.4 bil).
- In line with our current growth projections, the government **forecasts a 5.5%-6.5% growth for 2022** (2021 estimate: 3.0%-4.0%).
- Notably, the government foresees a **solid 24% growth in public investments** on account of large-scale transportation projects as well as development allocations for Sabah (RM5.2 bil) and Sarawak (RM4.6 bil).
- Looking ahead, sturdy global trade growth and improvements in supply chains will benefit Malaysia's **export-oriented industries**.



Budget 2022: Economic Outlook

GDP growth



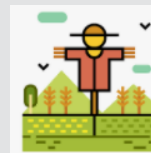
- The **services sector** is expected to **expand 7% in 2022**, benefitting from the pent-up demand, given increased business and consumer confidence as Malaysia is entering endemicity.



- For the **tourism industry**, the government forecast a **robust 28.9% rebound**, given the resurgence of tourists arrivals and domestic tourism.



- Thanks to the steady performance of both export- and domestic-oriented industries, the **manufacturing sector is expected to grow 4.7% in 2022**. The **robust global demand for E&E products** will continue to fuel Malaysia's manufacturing sector.



- The **agriculture sector is projected to increase 3.9%**, mainly supported by the **commodity** segment. The **oil palm** subsector will likely see higher output of CPO due to:
 - (1) the expected relaxation of foreign workers restrictions during 2H 2022
 - (2) the continuation of the B20 biodiesel programme for the transport sector
 - (3) higher demand of CPO from India and China

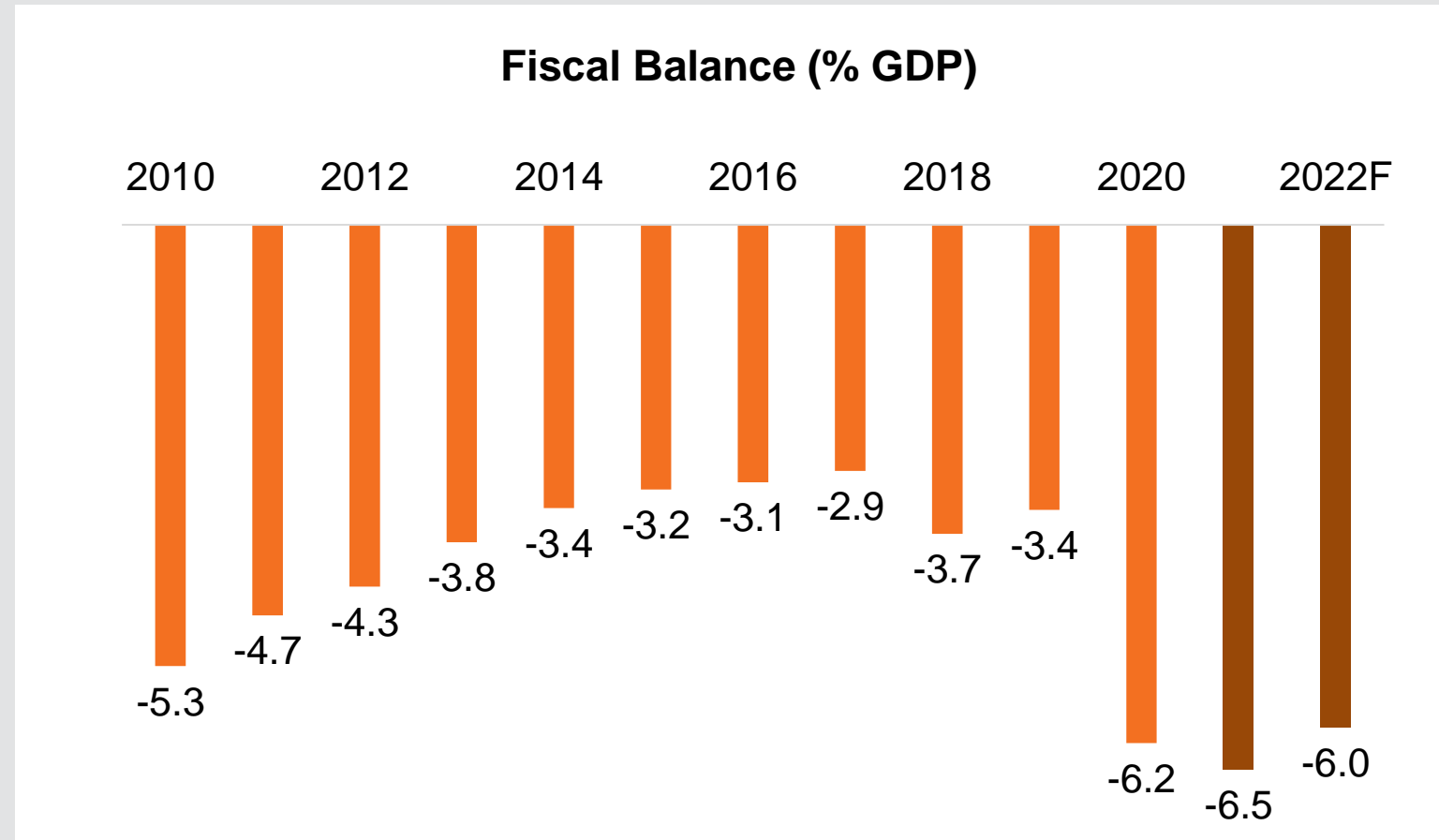
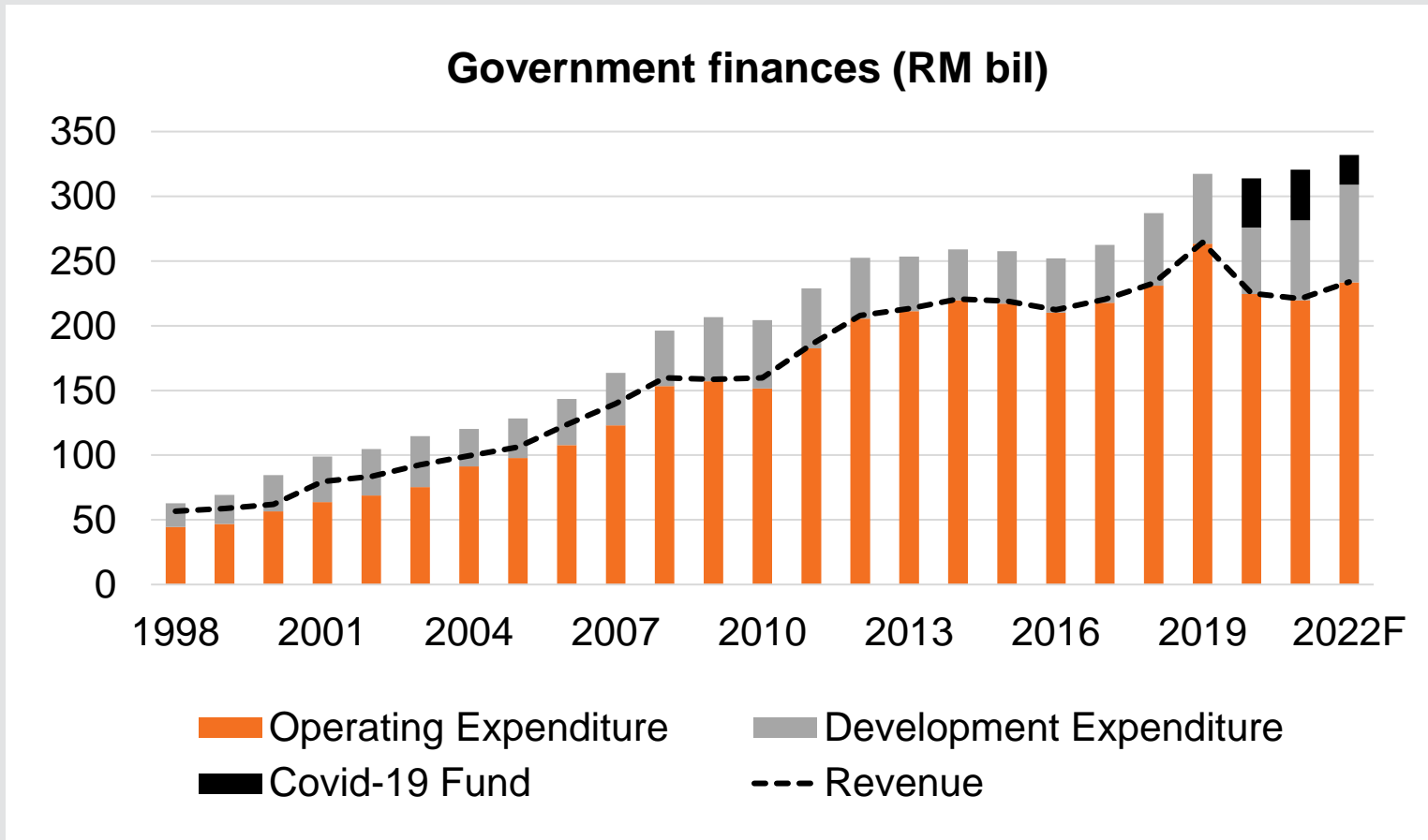


- Given lower crude oil and condensates production due to the scheduled **shut down of O&G plants for maintenance**, the **mining sector is forecast to decline marginally by 0.3%**.

- That said, **natural gas output is expected to increase**, underpinned by the production from **new gas fields in Sabah** and **high demand** from major trading partners, especially China and Japan.

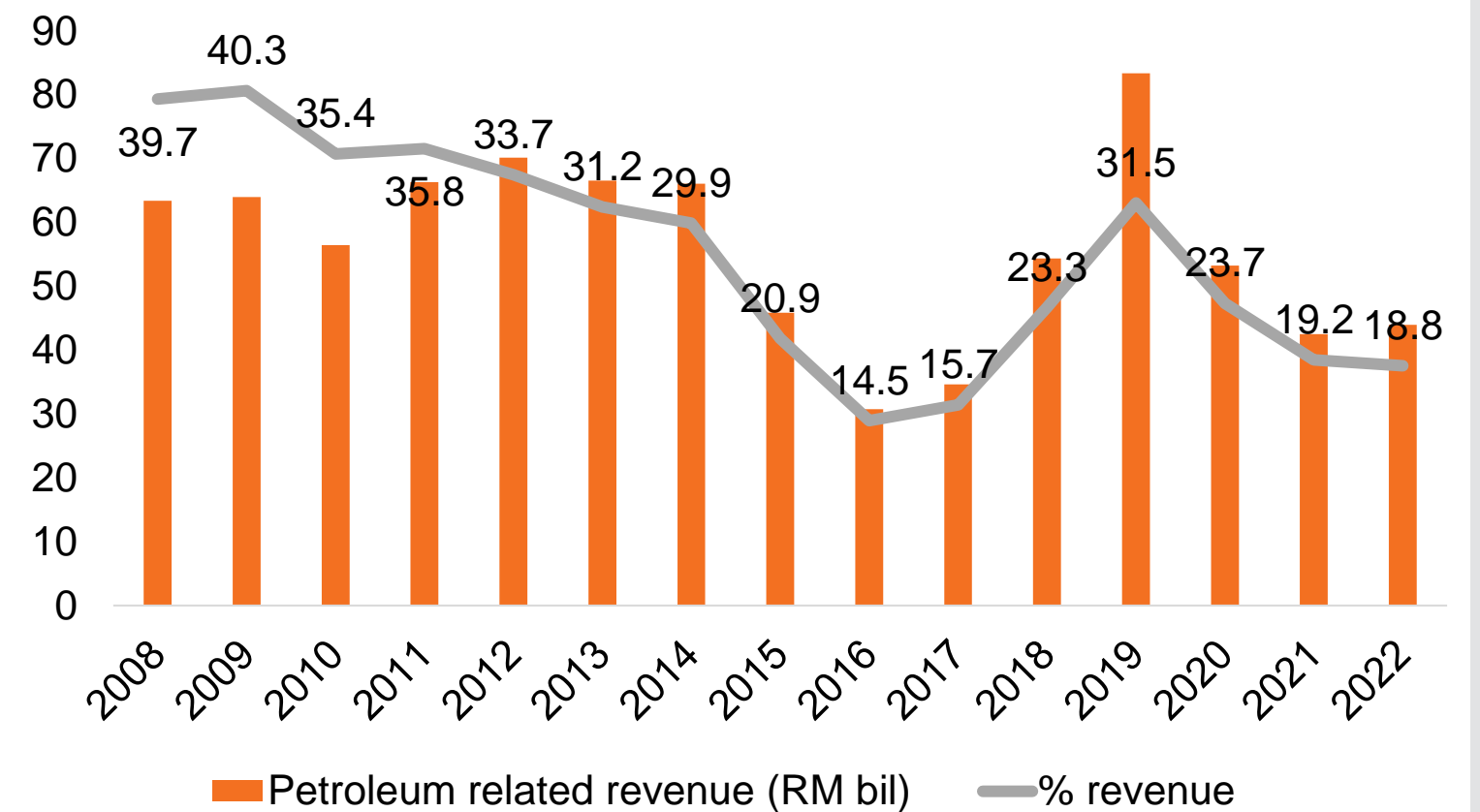
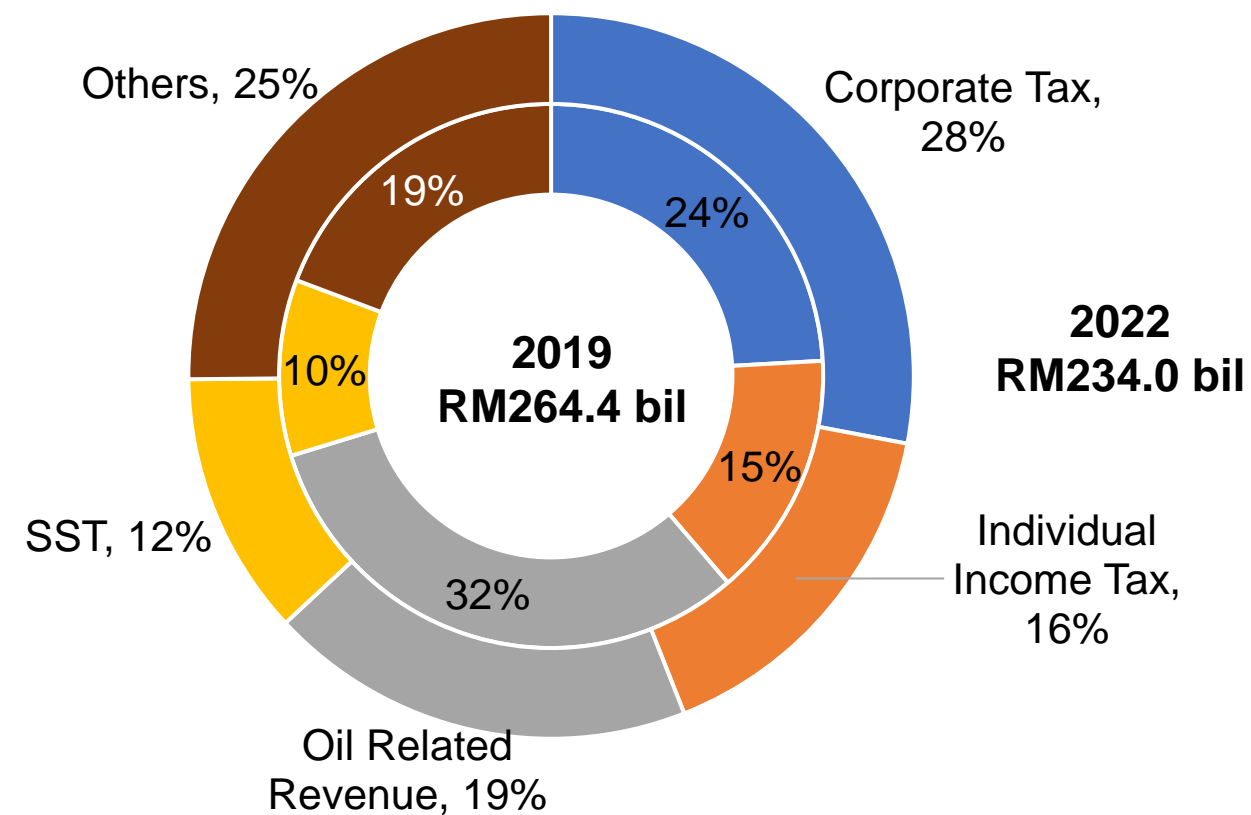
Budget 2022: Fiscal Position

- Out of RM332.1 bil budgeted allocation: **OPEX=70.3%, DEVEX=22.8% and Covid-19 fund=6.9%**.
- Considering revenue growth (+5.9%) and steadfast economic recovery in 2022, **fiscal deficit is expected to moderate to 6% of GDP**.
- The fiscal consolidation trajectory is expected to be gradual, with the overall fiscal deficit averaging at **5% of GDP for over the 2022 – 2024 Medium-Term Fiscal Framework (MTFF)** period. The MTFF is the government’s 3-year budgetary guidance.
- According to the **12th Malaysia Plan**, the government targets an eventual **fiscal deficit of between -3.5% and -3.0% of GDP in 2025**. We are of the view that the **2025 fiscal deficit target is optimistic**, unless the pandemic is under control, growth trajectory remains robust and fiscal revenue base broadens.



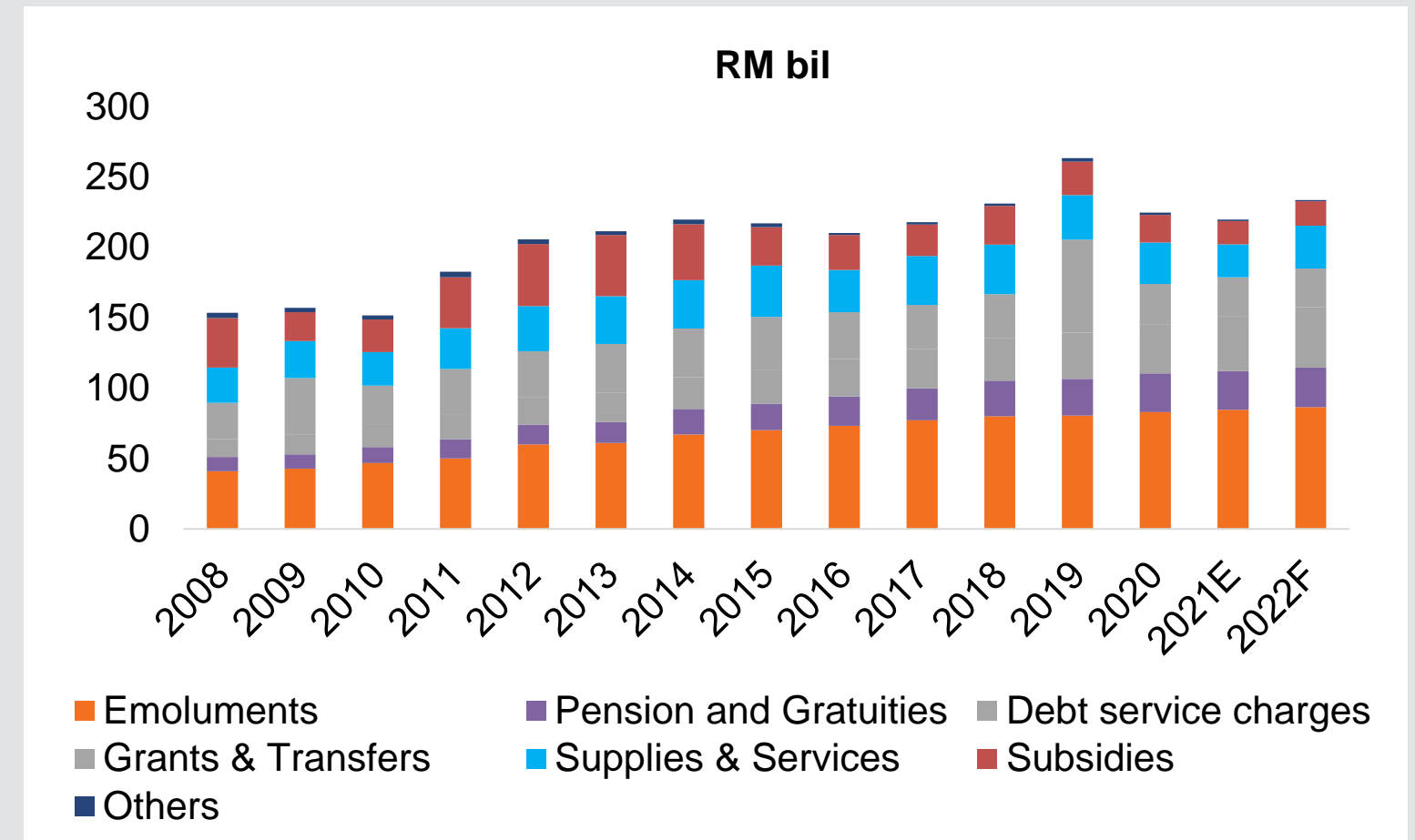
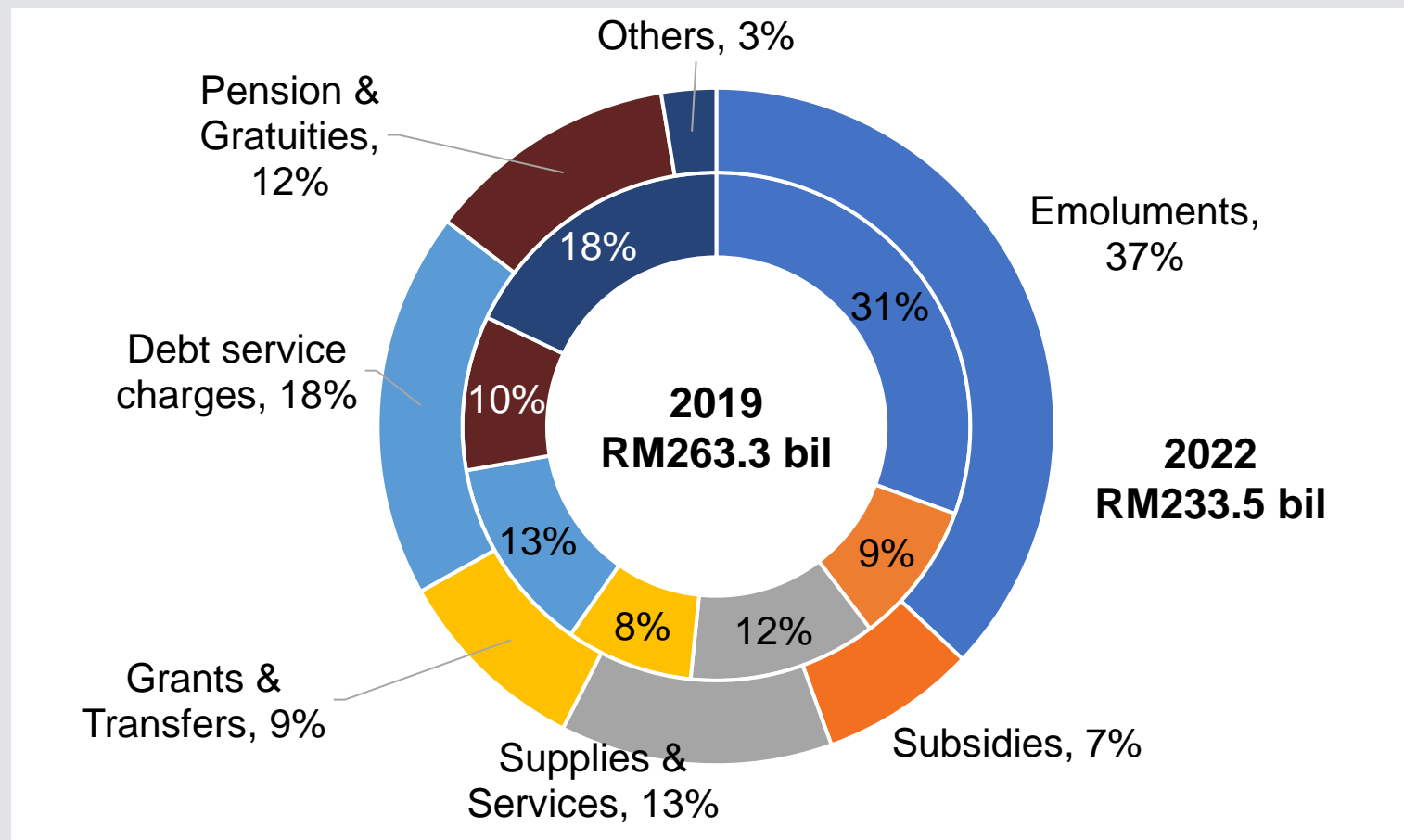
Budget 2022: Fiscal Revenue

- The federal government **revenue is projected to increase by 5.9% to RM234 bil** amid the introduction of one-off special corporate tax and increased tax compliance.
- Tax revenue remains the major contributor to total revenue, consisting of 73.2% of the total share. The **one-off corporate tax dubbed “Cukai Makmur”** is expected to be one of the contributors to the higher revenue, **at least RM3 bil (1.3% of total revenue)**.
- Some other **new revenue sources** are (1) excise duties on drinks containing sugar and liquid vapes, (2) sales tax on e-commerce items <RM500, and (3) services tax on delivery services except for food and beverage deliveries and logistics services.
- The share of petroleum-related revenue is estimated to fall further to 18.8%, reflecting better revenue diversification.



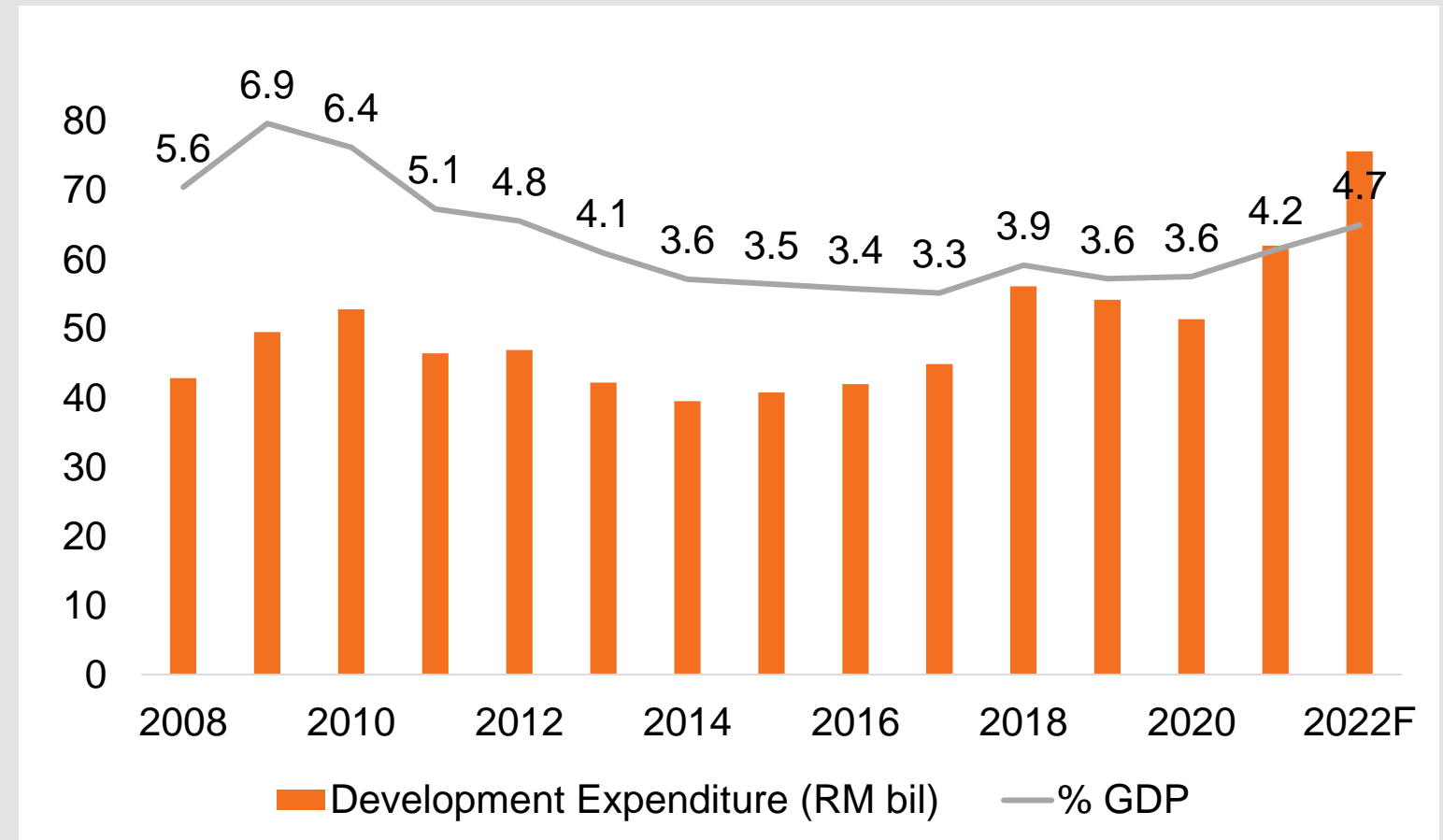
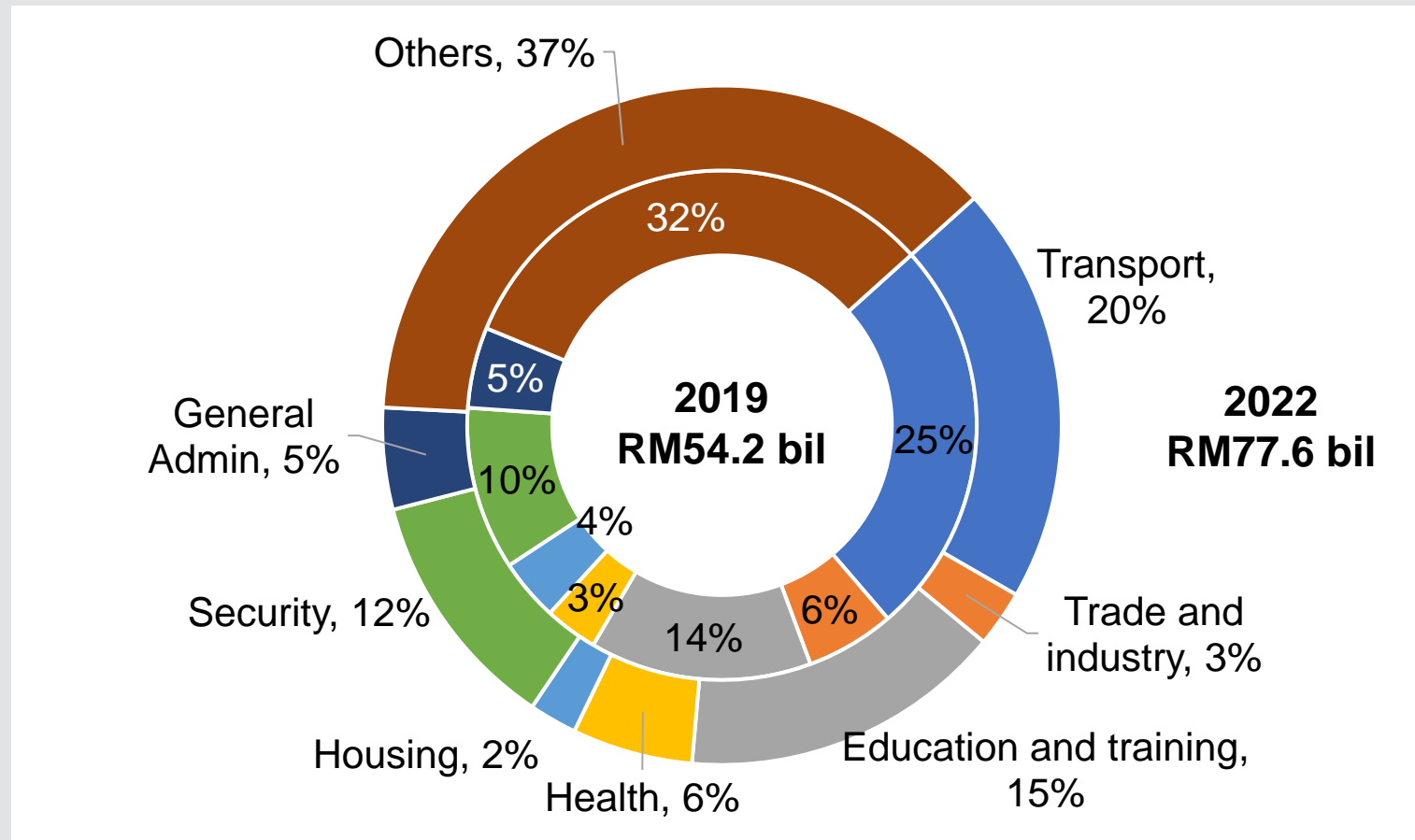
Budget 2022: Operating Expenditure

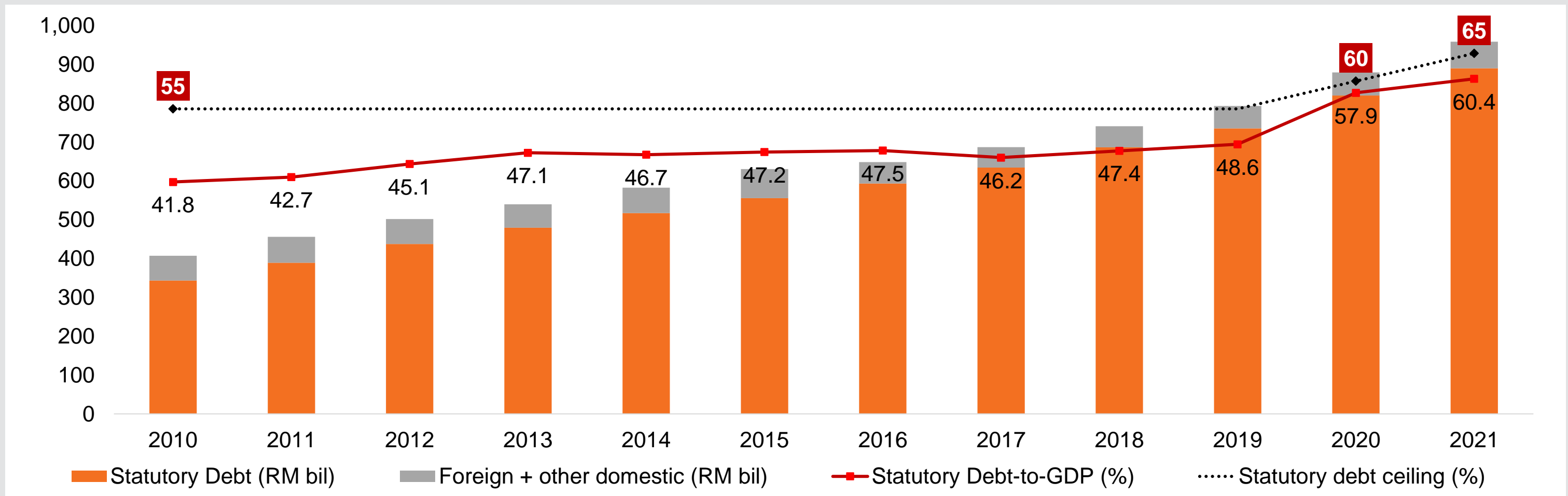
- **The operating expenditure (OE) allocation for 2022 is budgeted at RM233.5 bil (14.3% to GDP), 6.3% higher compared with the 2021 revised allocation of RM219.6 bil despite lower revenue projection.**
- Because of higher provision for social assistance, the allocation for subsidies is expected to rise 3.9% to RM17.4 bil.
- A total of **RM43.1 bil will be allocated for debt service charges** in 2022. The debt service charges ratio to OE is higher at an estimated 18.5%, in line with the use of debt instrument to finance expansionary budget.
- As the debt service charges ratio has already breached the 15.0% self-imposed limit, the government is expected to have a strong commitment to reduce it in the medium term.



Budget 2022: Development Expenditure







- **The development expenditure (DE) is forecast to stand at RM77.6 bil.** It jumped 21.9% from 2021's revised DE due to the RM7 bil downward revision in this year's estimated DE to RM62 bil, given the slow progress and deferment of projects during the MCOs.
- Allocation for the **education and training (+47.3%) and transport (+19.2%) sectors** accounted for 36.5% of total DE.
- Education and training subsector receives the biggest share, particularly for **TVET, research grants** and the **construction and expansion of educational institutions.**
- For transport subsector, the budgeted amount will flow to high-multiplier impacts projects, such as the continuation of existing mega infrastructure projects and expansion of Kuantan Port, Pahang and Sandakan Airport.







- As at end-June 2021, the government debt stood at RM958.4 bil (63.3% of GDP).
- Statutory debt - the Malaysian Government Securities (MGS), Government Investment Instrument (GII), and Malaysian Islamic Treasury Bonds (MITB) - constituted 58.8% of GDP (below the new statutory debt threshold of 65.0%).
- The increase in statutory debt limit to 65.0% of GDP from 60.0% had widened fiscal space/buffer, we expect that government debt will remain on an increasing trend in the near term to support economic recovery.
- The MOF projects the overall government debt to hit 66% to GDP by end-2022, while the statutory debt to come in at 63.4%.

Budget 2022: Key points/incentives

Sector	Allocation/Tax	Amount	Impact
Aerospace	Matching grant for Bumiputera SMEs	RM100 mil	✓
Agriculture 	The effective price cap for palm oil windfall tax is increased by RM500 to RM3,000 per tonne in Peninsular Malaysia and RM3,500 in Sabah and Sarawak.	N/A	✓
	Subsidies, incentives for farming and fisheries industries	RM1.7 bil	✓
Automotive 	Full exemption on import, excise duties and sales tax for electric vehicles	N/A	✓
	Govt to extend 100% sales tax waiver on CKD passenger vehicles and 50% sales tax exemption on CBU passenger vehicles, including MPVs and SUVs, until 30 June 2022	N/A	✓
Construction 	Affordable housing projects for the low-income earners	RM1.5 bil	✓
ICT 	Enhance digital connectivity in 47 industrial areas and 630 schools, especially those in rural areas	RM700 mil	✓
Manufacturing 	Excise duty on chocolate or cocoa, malt, coffee, and tea-based premix drinks containing sugar	N/A	✗
	Smart automation matching grants	RM100 mil	✓
Real estate 	Real property gains tax removed for house sales from sixth year onwards	N/A	✓
	Special tax exemption for building/commercial unit owners who give at least 30% rental discount	N/A	✓
	Housing credit guarantee scheme to assist those without steady income	RM2.0 bil	✓
	Adoption of sustainable and low-carbon practices	RM1.0 bil	✓

Budget 2022: Key points/incentives

Sector	Allocation/Tax	Amount	Impact
Tourism 	Special individual income tax relief for domestic tourism expenses of up to RM1,000 will be extended until end of 2022.	N/A	✓
	Matching grants for repair of 738 budget hotels that are registered under MOTAC as well as for registered home stay owners	RM30 mil	✓
	Maintenance of tourism infrastructure, including the Sultan Abdul Samad Building and Lembah Bujang in Kedah.	RM50 mil	✓
	Matching grants to companies to organise arts and culture-related programmes	RM50 mil	✓
	Incentive funds for activities to promote domestic tourism	RM60 mil	✓
	Targeted wage subsidies for employers who have seen their income reduced by at least 30%	RM600 mil	✓
	Special assistance to over 20,000 registered tour operators	RM85 mil	✓
Retail 	Sales tax to be imposed on low-value items sourced overseas that are sold by online sellers and sent to Malaysia via air courier	N/A	✗
	Services tax to be imposed on delivery services provided by service providers including e-commerce platforms, except for food and beverage deliveries and logistics services	N/A	✗
	eStart cashless transaction scheme to be introduced, which will see one-off RM150 deposited into e-wallets of those aged between 18 and 20	N/A	✓
	Shop Malaysia Online and Go-eCommerce Onboarding	RM250 mil	✓
	Special RM2,500 tax relief for purchase of handphones, computers and tablets	N/A	✓

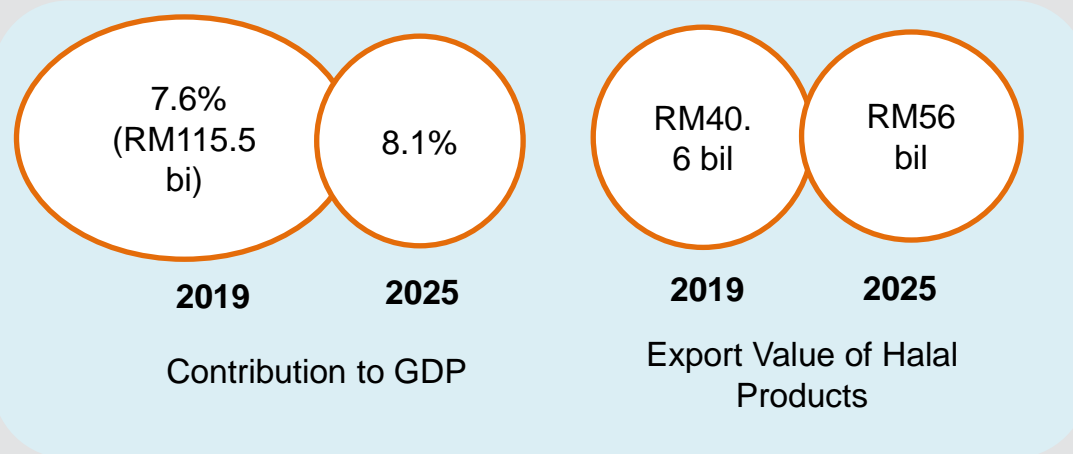
Additional highlights of Budget 2022 & 12th Malaysia Plan (2021 – 2025)

Focus area	Allocation/Tax	Amount	Impact
	Adoption of sustainable and low-carbon practices	RM1.0 bil	✓
	Bank Pembangunan Malaysia will offer a RESET Scheme (Rehabilitation and Support Through Equity) & Bank Negara Malaysia will provide a Business Recapitalisation Fund	RM1.0 bil	✓
	SME Digitalisation Grant Scheme	RM200 mil	✓
	Matching method through equity and quasi-equity investments via funds by SME Bank in collaboration with the Bumiputera Agenda Steering Unit & Bank Simpanan Nasional Bhd	RM600 mil	✓
	SMEs allowed to postpone income tax instalments for six months until 30 June 2022	N/A	✓

Halal Industry



- The total contribution of **the halal industry to GDP in 2019 was 7.6%**, valued at RM115.5 bil. (69.3% - manufacturing; 30.7% - services).
- The industry grew by an **average of 5.5% per annum** during the 2016 to 2019 period. The **value of halal exports increased marginally by 0.8% per annum**, from RM39.4 bil to RM40.6 bil during the 2016 to 2019 period.
- Cumulative investments in the 22 existing halal parks amounted to RM2.8 billion in 2020, out of which 55% were FDI.
- A total of **2,225 new companies** received halal certification. These companies created an additional **160,337 job opportunities**.



- Challenges:**
- (1) Lack the capacity to produce high value-added products & services
 - (2) Lack of technology adoption, low strategic investment, shortage of talent as well as inadequate halal-related R&D
 - (3) Limited halal MSMEs business networking, lack of global entrepreneurial mindset
 - (4) Rising competition from increasing number of foreign players with halal certification & increasing number of halal certification bodies

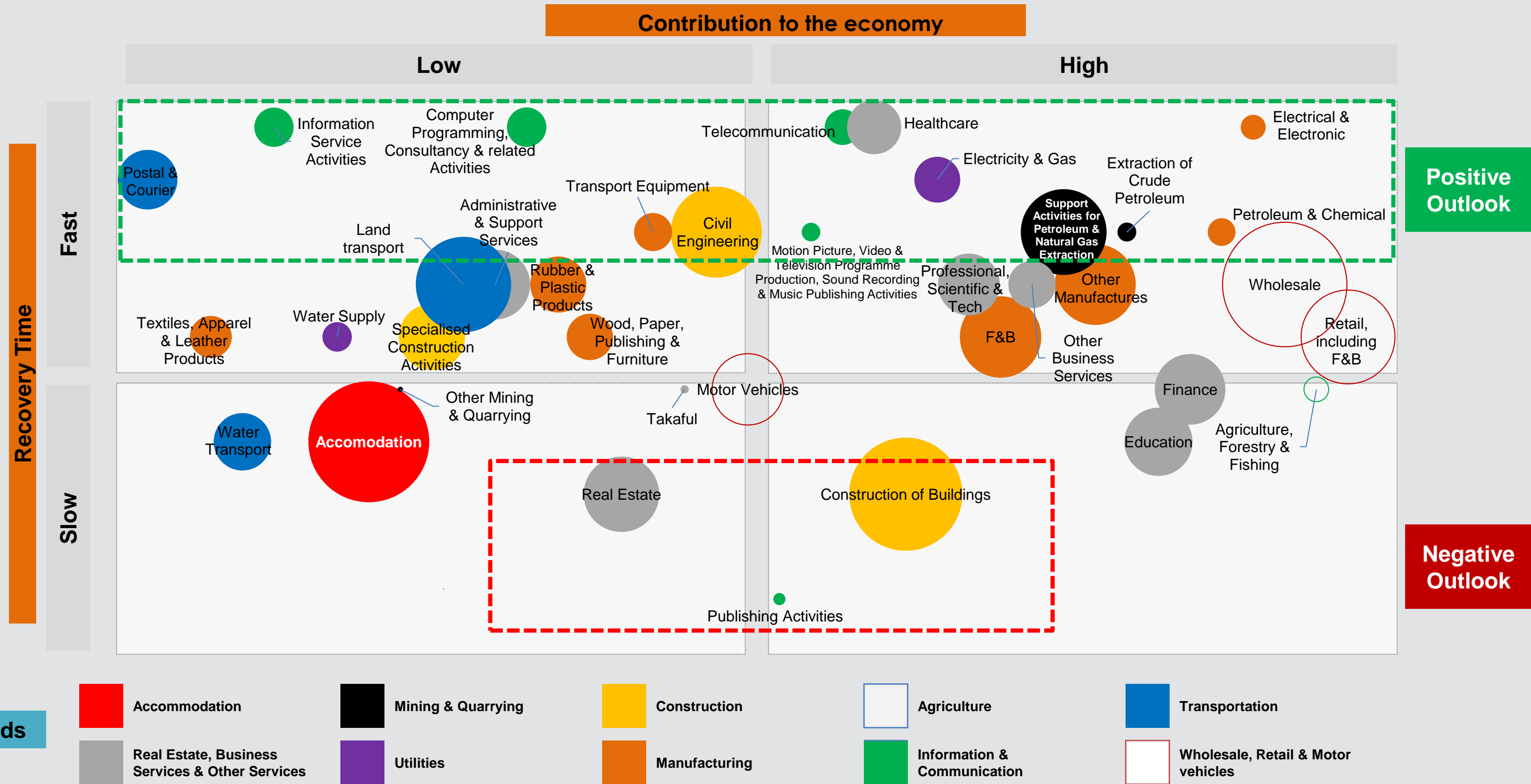


Strategies

- (1) Development of halal talent
- (2) Establish halal professional recognition
- (3) Accelerate Halal Industry Masterplan 2030 development to enhance competitiveness
- (4) Positioning Malaysia as a global halal hub



Budget 2022 supportive of recovery in pandemic hit sectors and future growth



To summarise and conclude the sectoral deep dives...

Accommodation

- **Outlook:** **Stable**
- **Key takeaway:** To benefit from the reopening of the economy. However, a full recovery will only happen when international travel restrictions are completely lifted, likely towards end-2022 or 2023.

Healthcare

- **Outlook:** **Positive**
- **Key takeaway:** Demand for healthcare services is expected to rise given the ageing demographic and protracted war against the Covid-19 virus.

Civil Engineering (Construction)

- Outlook: **Positive**
- **Key takeaway:** Public investment will complement the economic recovery in 2022. This sector will play a key role due to its high multiplier effect.

Electricity & Gas (Utilities)

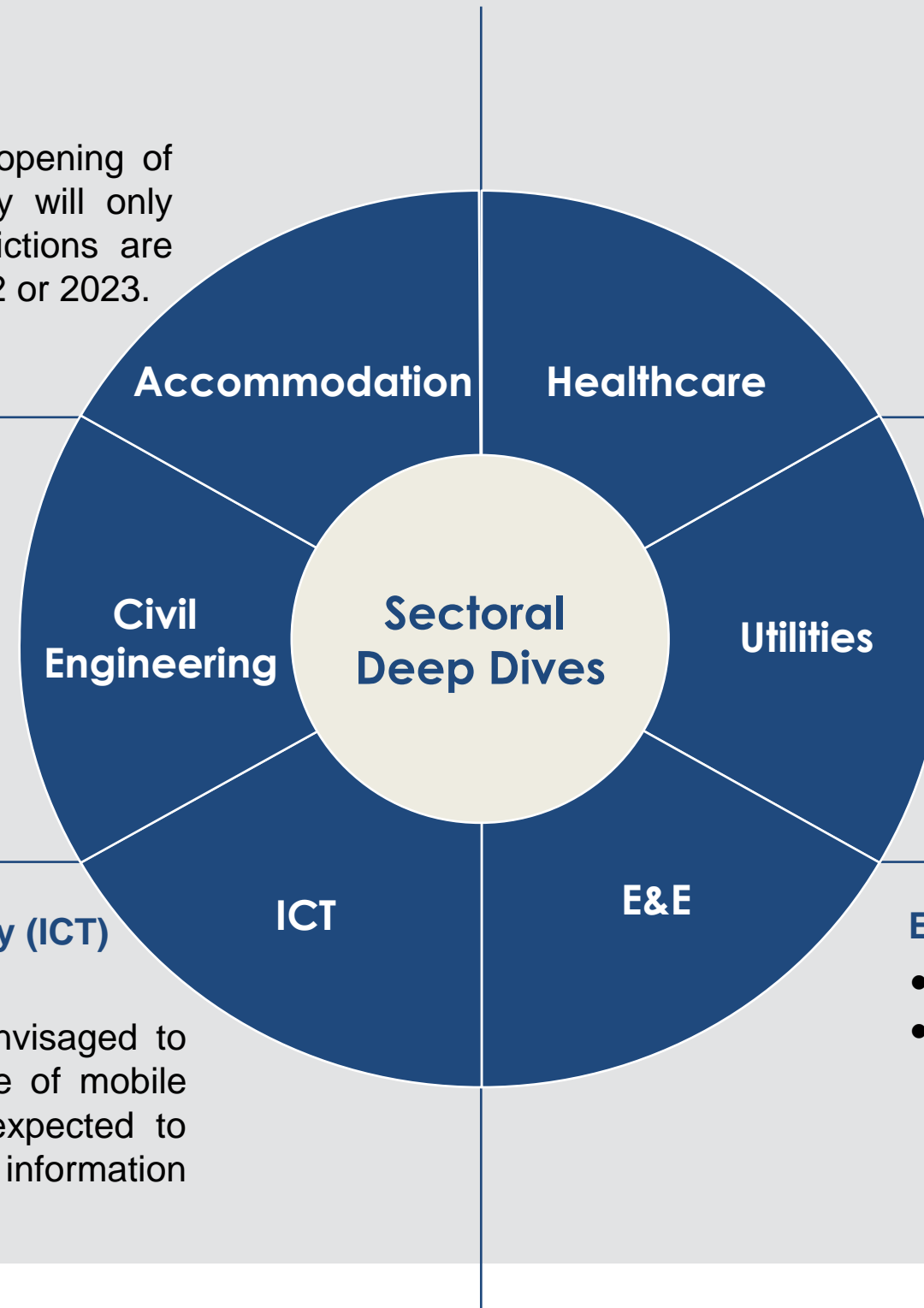
- **Outlook:** **Positive**
- **Key takeaway:** As more countries announces plans on energy transition, this sector stands to benefit. In particular, the renewable energy space and natural gas as Malaysia shifts towards cleaner energy.

Information & Communication Technology (ICT)

- **Outlook:** **Positive**
- **Key takeaway:** Wider connectivity is envisaged to close the country's digital gap as usage of mobile phones and digital/smart devices are expected to rise. Demand for services related to information technology should also increase.

Electrical & Electronic

- **Outlook:** **Positive**
- **Key takeaway:** A major contributor to Malaysia's manufacturing exports (Sept 2021: 36% share). The government's push to promote automation and a national E&E roadmap bodes well for this industry.

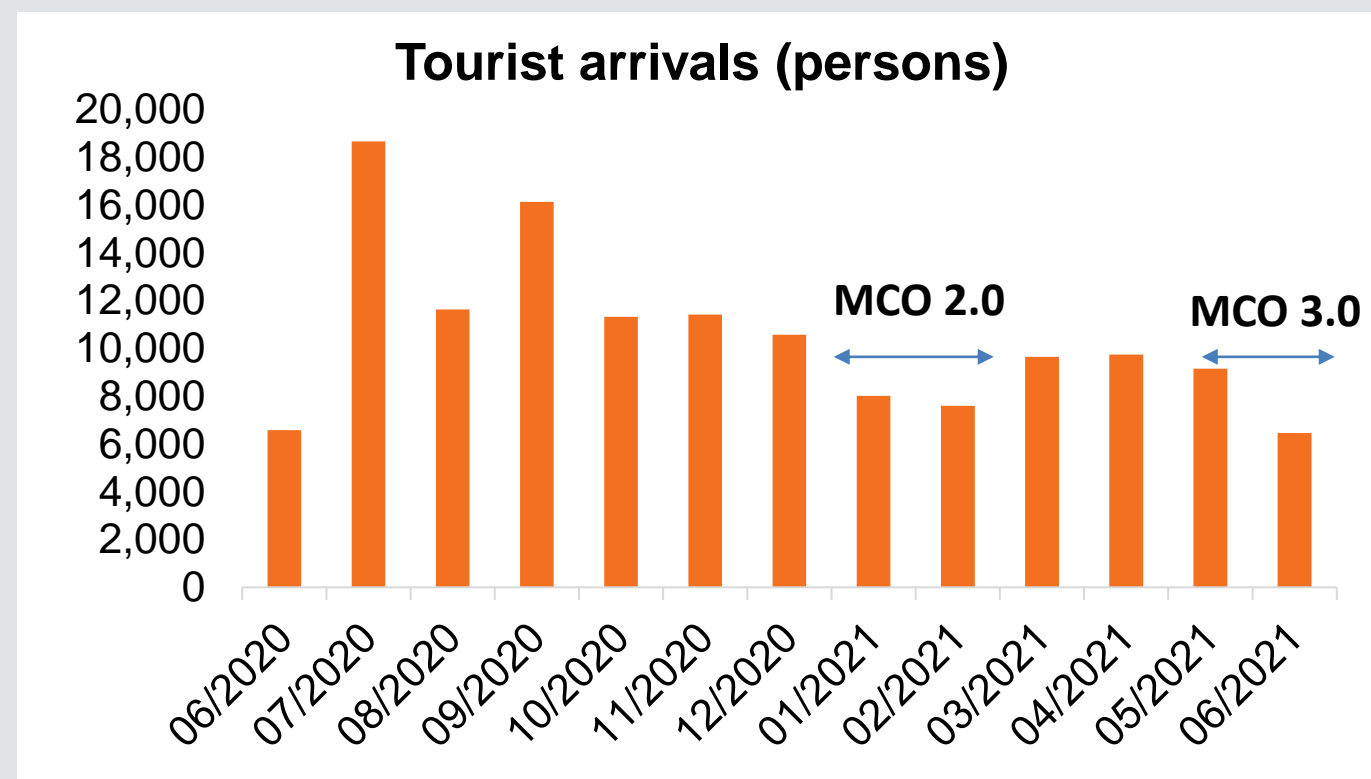




Although the accommodation sector is expected to benefit from the reopening of the economy, a full recovery will only happen when international travel restrictions are completely lifted, which is likely towards end-2022 or 2023. Under Budget 2022, this sector has received ~RM1.6 bil allocation (2.1% of DE). We believe these measures will boost domestic tourism activities.

Sector	Outlook
Accommodation	Stable

Tourist Arrivals



Recent developments

- The United Nation World Tourism Organisation revealed that some 54 mil tourists crossed international borders in July, the highest figure since April 2020, owed to vaccination rollouts and fewer travel restrictions.
- Traveler numbers, however, still **significantly fell short of pre-pandemic levels**.
- Due to border closure in Malaysia, foreign tourist arrivals fell by 98.8% to 50,613 persons YTD June 2021 (January – June 2020: -68.2%; 4.3 mil tourists).
- The recovery of the domestic tourism activity was also swayed by MCOs.
- The government projects the **food & beverages and accommodation subsector to turn around by 7.3% in 2022**, attributed to the resumption of travel and tourism activities by phases starting with travel bubbles among selected countries. An increase in the patronage at restaurants for fully vaccinated individuals is also expected to stimulate the sector's growth.
- Furthermore, the lifting of interstate travel ban will speed up the growth of domestic tourism-related activities.


Negative Outlook




Stable Outlook



Wage Subsidy Programme (RM600 mil)

- Assistance to tour operators whom experienced a decrease in income of at least 30%, RM600 for 3 months limited to 500 employees

Specific financing

- BNM - PENJANA Tourism Financing (**RM500 mil**)
- BPMB - BPMB Rehabilitation Scheme (**RM100 mil**)

Special Assistance to tour operators (RM85 mil)

Tourism project implementation (RM82 mil)

- Islamic Civilization Park preservation project in Kuala Terengganu ,Melaka Island Geopark and Zipline Island development, in Pulau Besar, Melaka, upgrading of tourist facilities at the Gua Gelap Complex, Keris Caves and Pagar Caves in Dabong, Kelantan

Maintenance of tourism infrastructure (RM50 mil)

- Sultan Abdul Samad Building, Carcosa Seri Negara, Lembah Bujang in Kedah and Sungai Lembing Mine in Pahang

Matching grants for owners of registered village homestays (RM30 mil)

Tourism, arts and culture matching grants to private companies / non-governmental statutory bodies to organise arts & cultural programmes / events / projects (RM50 mil)

Promotion fund to encourage domestic tourism (RM60 mil)

Allocation to strengthen Malaysia's position as a destination for health tourism (RM20 mil)

Special individual tax relief on tourism expenses

Duty exemption on entertainment activities and tourism tax exemption

BUDGET
2022

Deep Dive: Accommodation (3/5)

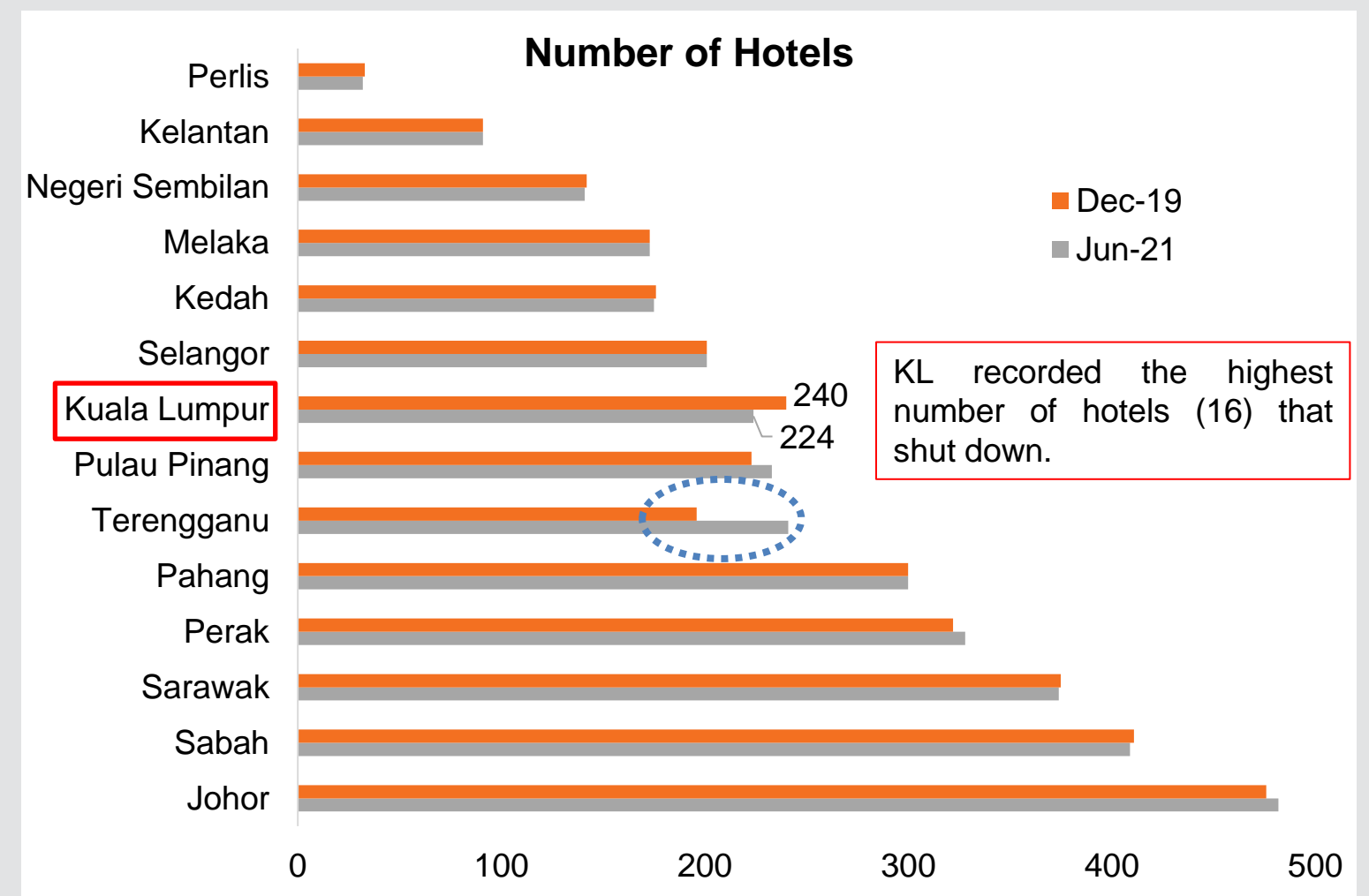
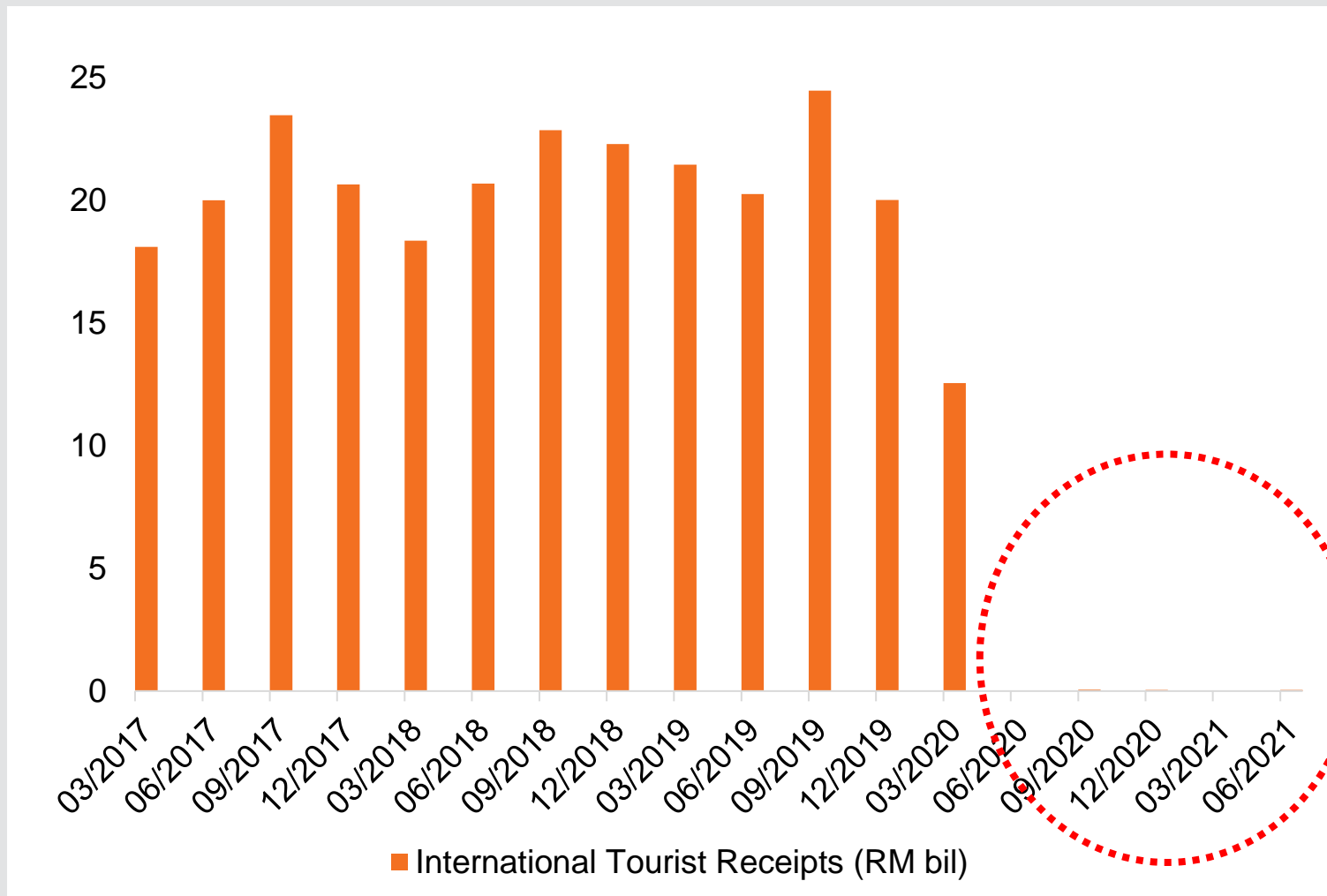
Negative Outlook



Stable Outlook



- The protracted lockdowns and border closure had adversely affected international tourist receipts. From April 2020 to June 2021, international tourist receipts averaged at RM43.7 mil per quarter (4Q 2019: RM20 bil).
- As at June 2021, the number of hotels grew 0.8% y-o-y. However, it was reported recently that a total of 55 hotels nationwide have closed down as at end-September 2021. This could be due to the re-imposition of MCO 3.0 nationwide in 3Q 2021.
- **86 hotels (2.5% of total hotels in Malaysia) have temporarily closed since the onset of the pandemic in March 2020.**



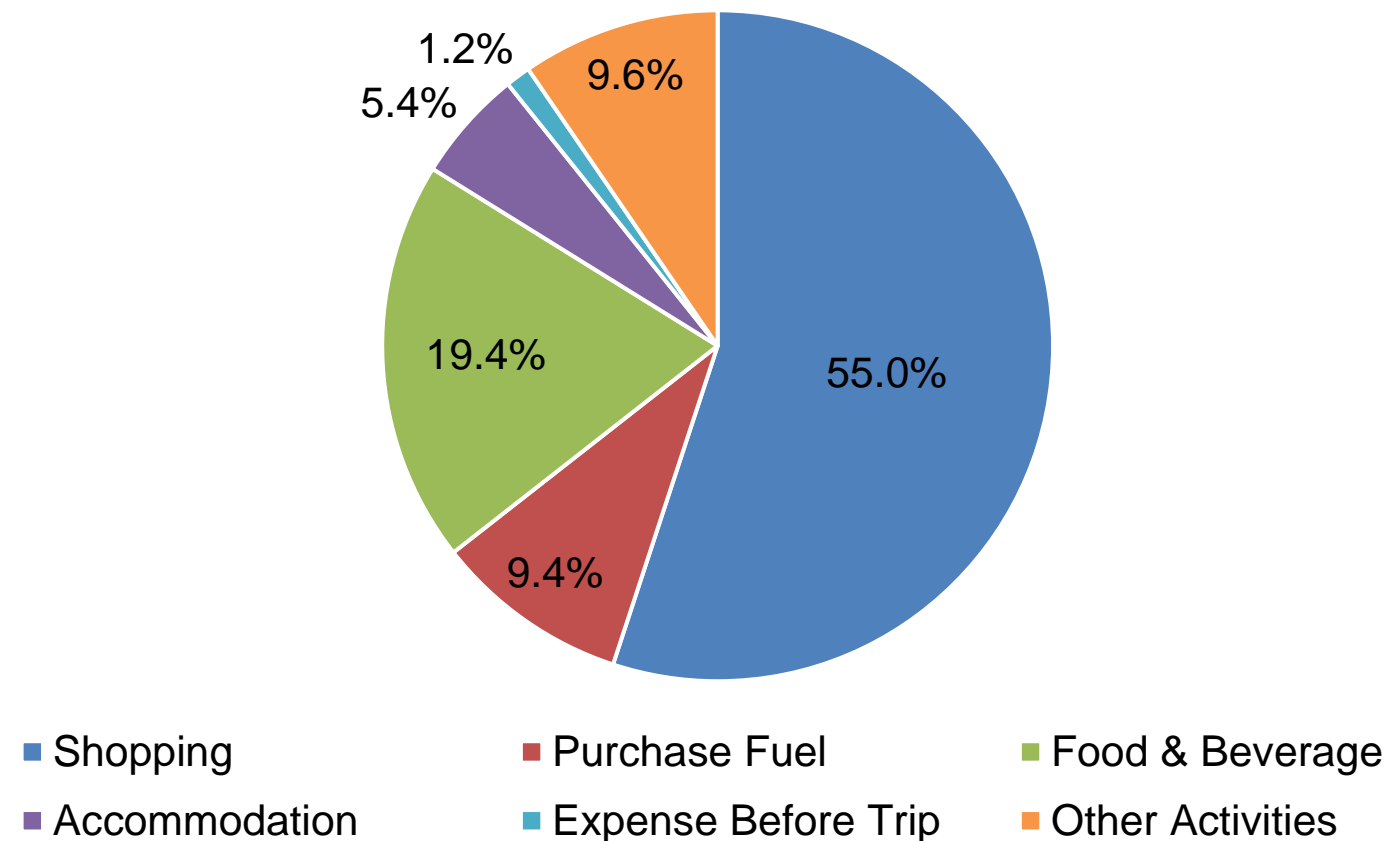
Terengganu-Possible reasons for increase in the number of hotels between January 2020 – June 2021:

- 1) Quarantine programme for workers in the O&G sector
- 2) Pelan Strategik Kelestarian Pelancongan Terengganu 2021 -2025
- 3) Higher demand for staycation

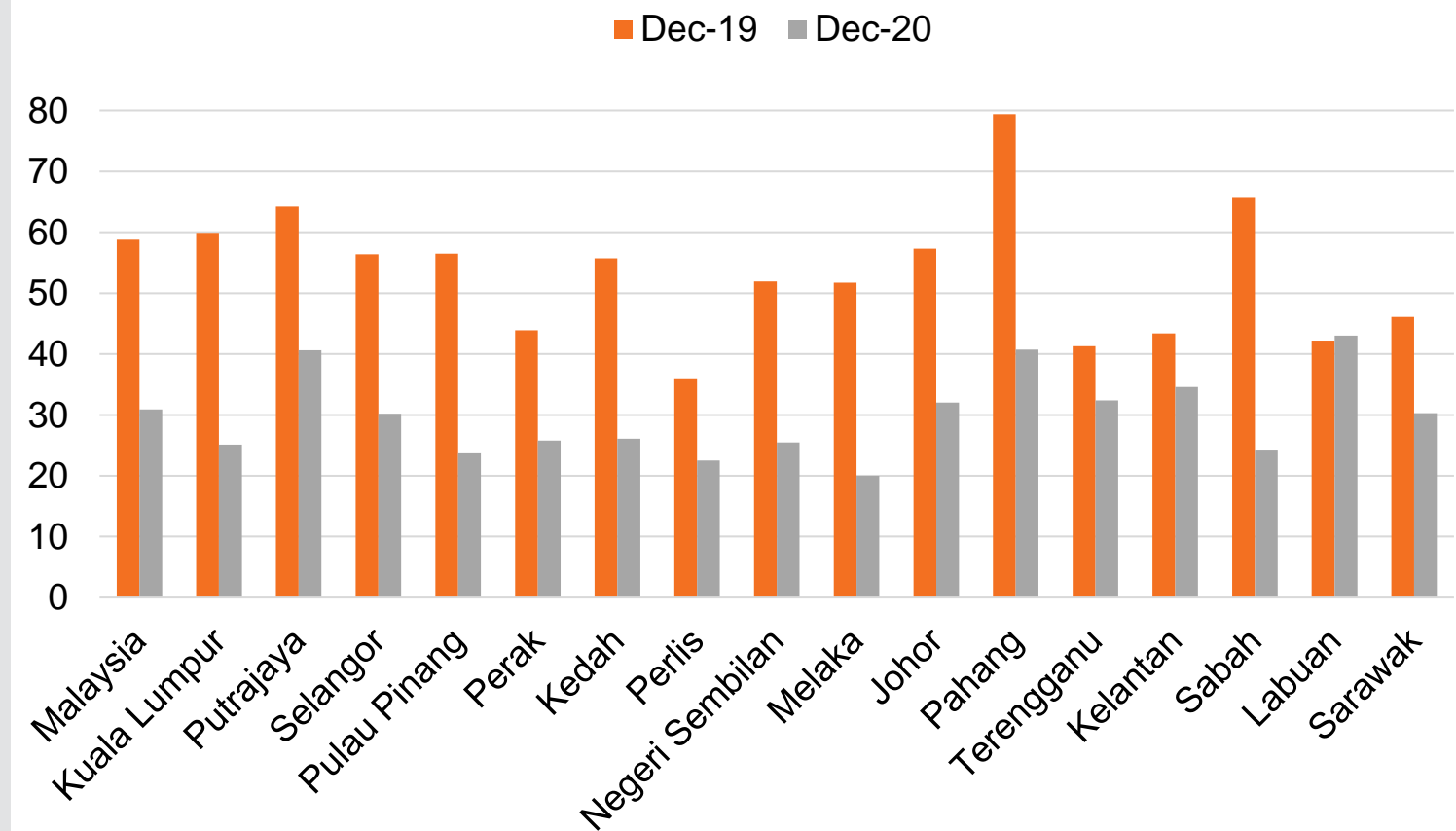


- In 2020, **domestic tourism expenditure plunged 60.8% y-o-y to RM40.4 bil** (5-year average: RM84.3 bil). The Covid-19 pandemic has **dented shopping related consumption** that have always accounted for the bulk of spending. The government estimates that losses in tourist expenditure are envisaged to rise further to RM165 bil this year (2020: RM135 bil).
- The average quarterly hotel occupancy rate stood at 30.1% in 2020 (2019: 58.0%). Given the proximity to Klang Valley and its allure as a highland tourist destination, **Pahang has the highest hotel room occupancy rate**. On the contrary, **Sabah's high occupancy rate before the pandemic plummeted <30% in 2020** as the State relies heavily on foreign tourists. Nonetheless, the situation is set to turn-around with interstate travel now being permitted.

Domestic Tourism Expenditure



Hotel Room Occupancy Rate (%)



Deep Dive: Accommodation (5/5)

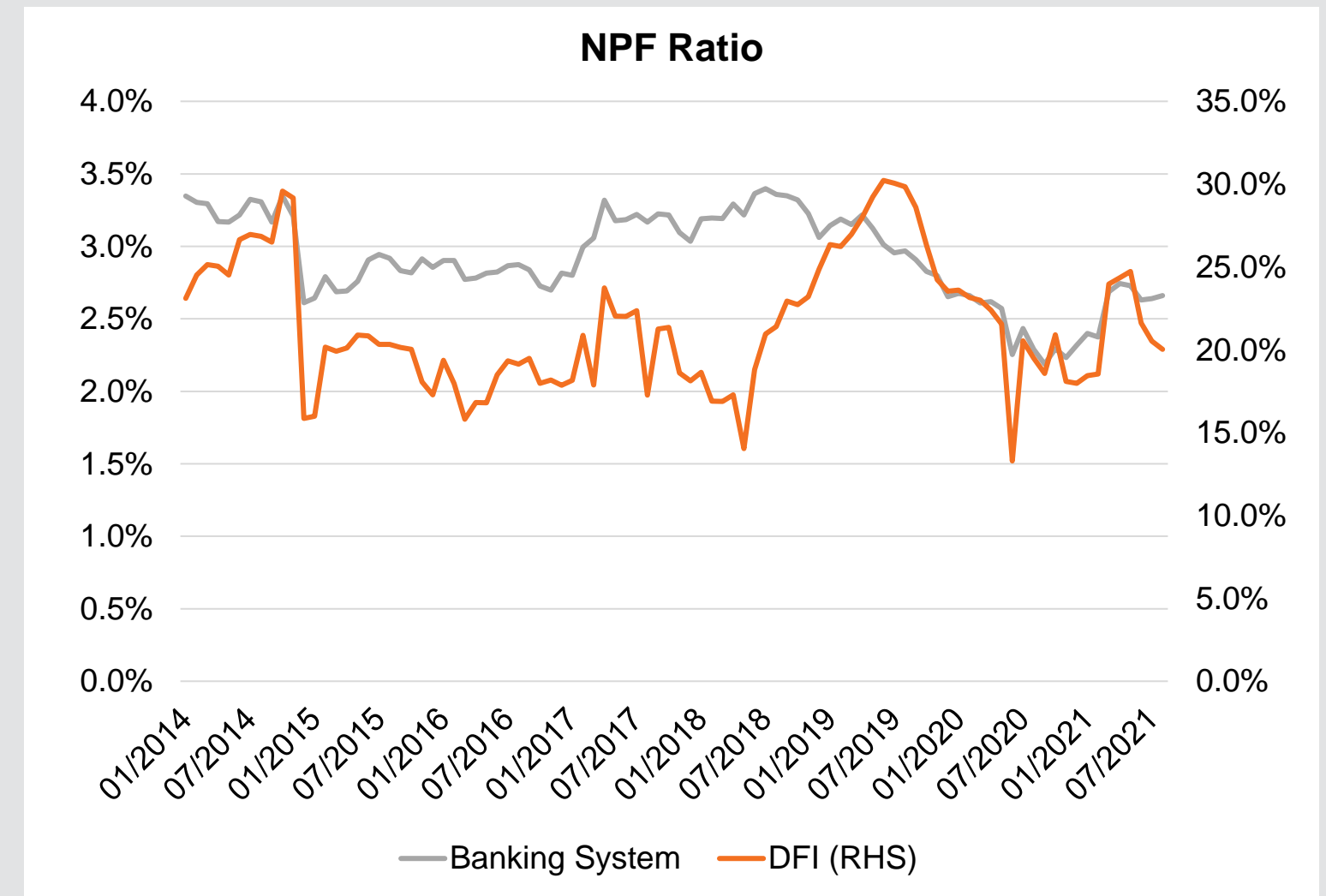
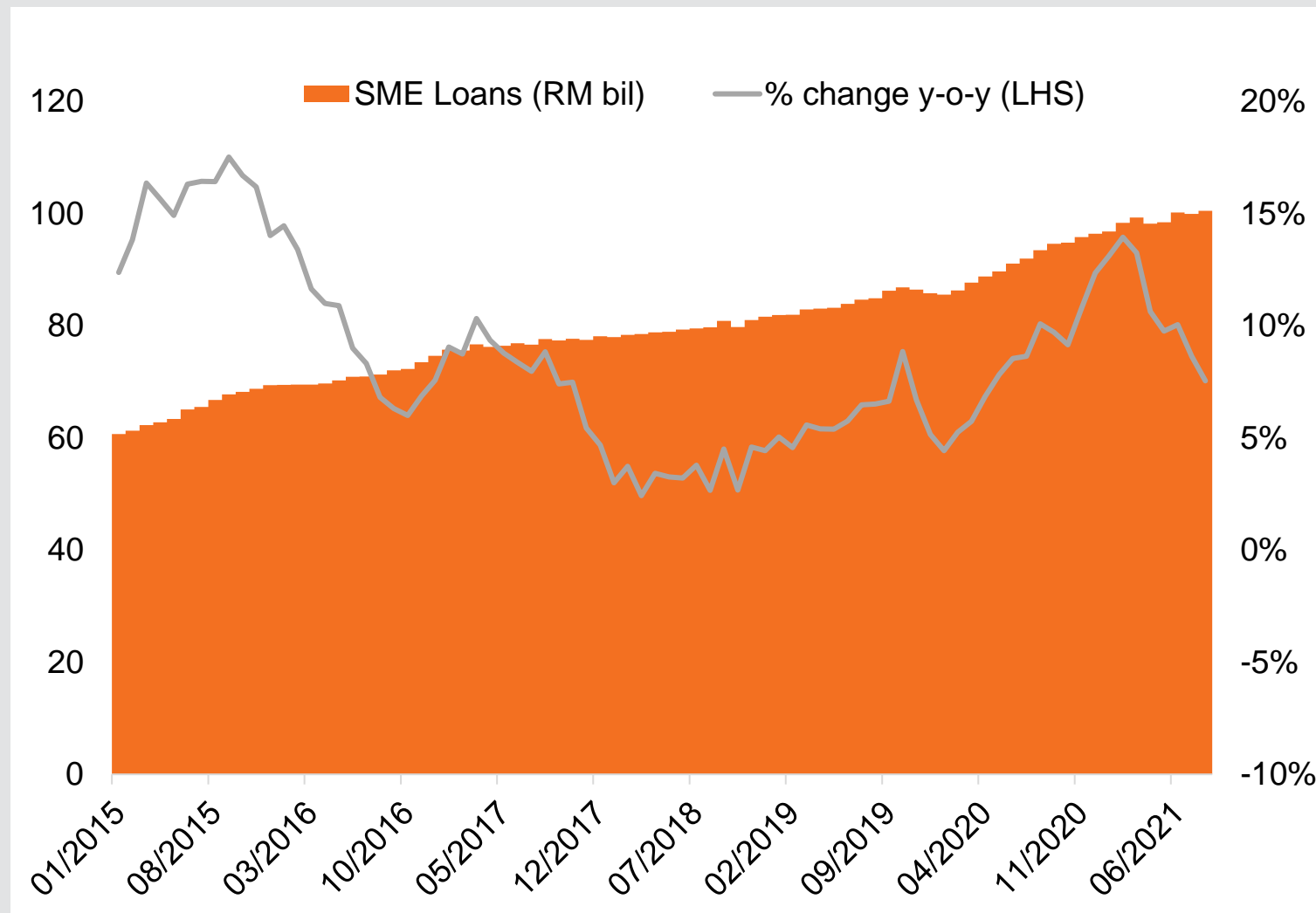
 **Negative Outlook**



 **Stable Outlook**



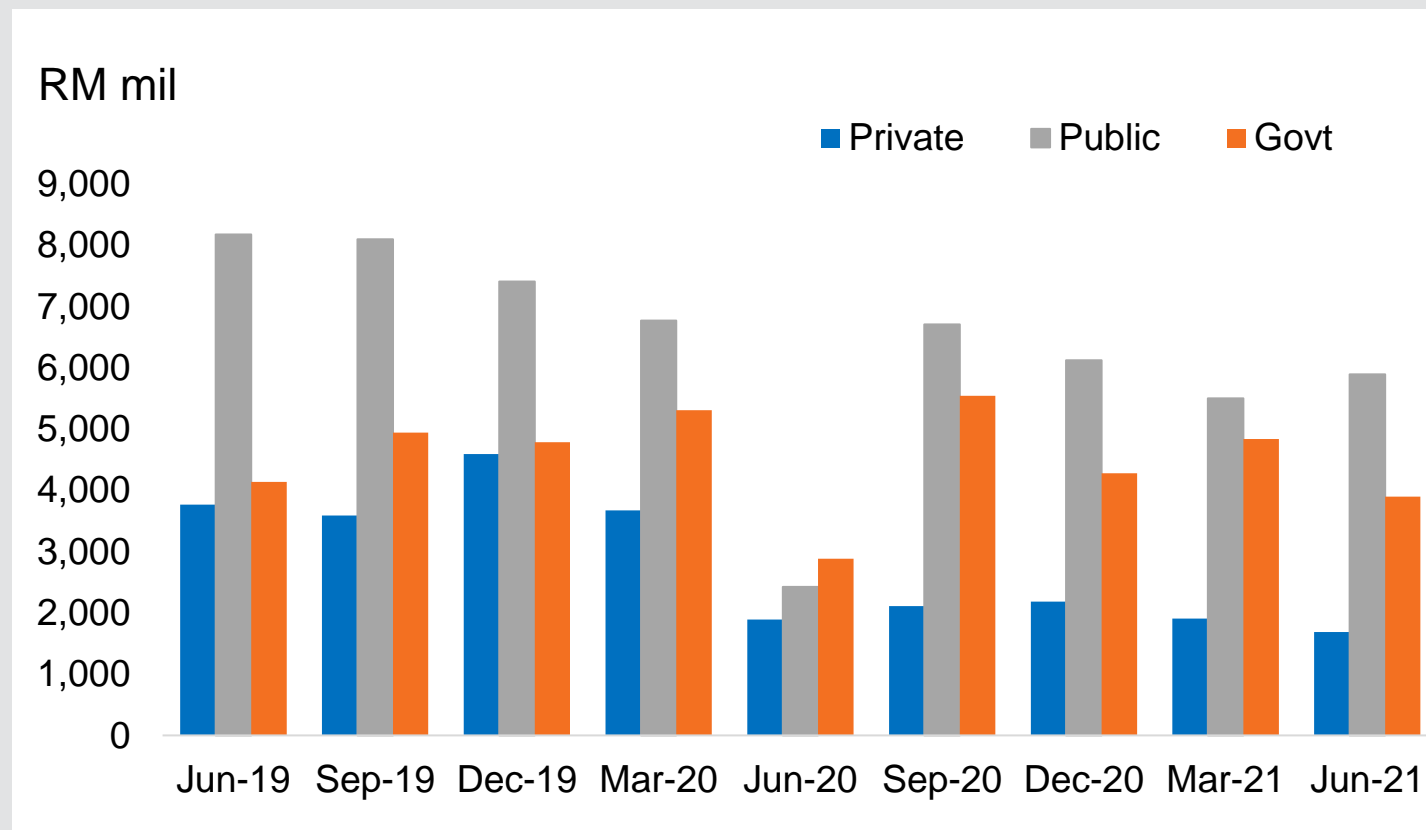
- In the banking system, the growth of SME financing extended to the wholesale, retail, hotels and restaurant sectors have been **decelerating** since the beginning of this year amid the reinstatement of lockdowns.
- NPF ratio**, nonetheless, remained **relatively stable**, thanks to the moratorium and restructuring exercises.



Public investment will complement the economic recovery of the country. Given its high multiplier effect, we expect the civil engineering sector to play key role in economic development. A total of RM15.5 bil (20.5% of total DE) is budgeted by the government for construction, refurbishment, and maintenance of key infrastructures in 2022.

Sector	Outlook
Civil Engineering	Positive

Construction Work Done



Recent developments

- The civil engineering sector is envisaged to regain its positive growth, following the resumption and acceleration of infrastructure projects, such as **LRT3, Johor-Singapore Rapid Transit System (RTS) as well as the Pan Borneo highways** in Sabah and Sarawak.
- Under Budget 2022, new projects are largely related to **refurbishment/upgrading works for roads and bridges**.
- New projects such as **MRT3** and the **upgrading of Klang Valley Double Track Phase 2** are big ticket infrastructure projects that are impetus to the **24.1% growth in public investment in 2022** (2021f: -1.9%; 2020: -21.3%).

*Public refers to public corporation, which consists of statutory bodies and non-statutory bodies

Projects over the next few years under 12MP	Completion	Project Cost
Klang Valley Double Track Phase One (Rawang to Salak Selatan)	2022	RM1.4 bil
Gemas Electric Double Track to Johor Bahru (the final alignment of the electric twin tracks from Padang Besar, Perlis to Johor Bahru, Johor)	2023	RM9.6 bil
East Coast Rail Link project	2026	RM50.0 bil
Rapid Transit System project that connects Bukit Chagar station, Johor Bahru with Woodlands North station in Singapore	Begin construction in end-2021	RM1.0 bil
West Coast Highway (Selangor-Perak)	2024	RM5.0 bil
Central Spine Road Project from Bentong, Pahang to Kuala Krai, Kelantan	2025	RM7.3 bil
Kota Bharu to Kuala Krai Highway	2025	RM1.7 bil
Pan Borneo Highway (Phase 1)	2022	RM16.1 bil
Sarawak	2024	RM15.3 bil
Sabah		



- Areas of key development project would include (1) digitalisation & technology infrastructure, (2) utility & public transport, (3) education training, (4) public healthcare facilities and programmes (hospitals, hospital beds, ICU equipment), (5) affordable housing and (6) green technology.
- Most **new infrastructure projects** are expected to be implemented via the **Public Private Partnership method**.
- **A specific facilitation fund for infrastructure projects will be established** under the model. This will not involve any fiscal spending from the government and will adopt the request for proposal approach. **Details will be announced in mid-2022.**

Various infrastructure projects (RM3.53 bil)

- Continue the construction of the Sabah Pan Borneo Highway from Sindumin to Rampayan Laut
- Continue the construction of the Sarawak Pan Borneo Highway from Semantan to Jalan Pujut Link
- Jenang Transfer project, Kedah
- Continue the Central Spine Road project at the Paloh 2 alignment to Gua Musang and completed the Kg Orang Asli Sungai Chandan alignment to Kg Asap and Raub ByPass
- Build highway packages from Kok Lanas to Bukit Tiu, Kota Bharu Highway to Kuala Krai, Kelantan
- Slope and road improvements from Kg. Tuit to Kg. Mat Daling (Section 2), Jerantut, Pahang
- The construction of the Rantau Panjang Floodwall

Infrastructure Facilitation Fund 3.0 under the supervision of Public Private Partnership Unit, Prime Minister's Office (RM200 mil)

Small and medium projects G1 – G4 (RM2.9 bil)

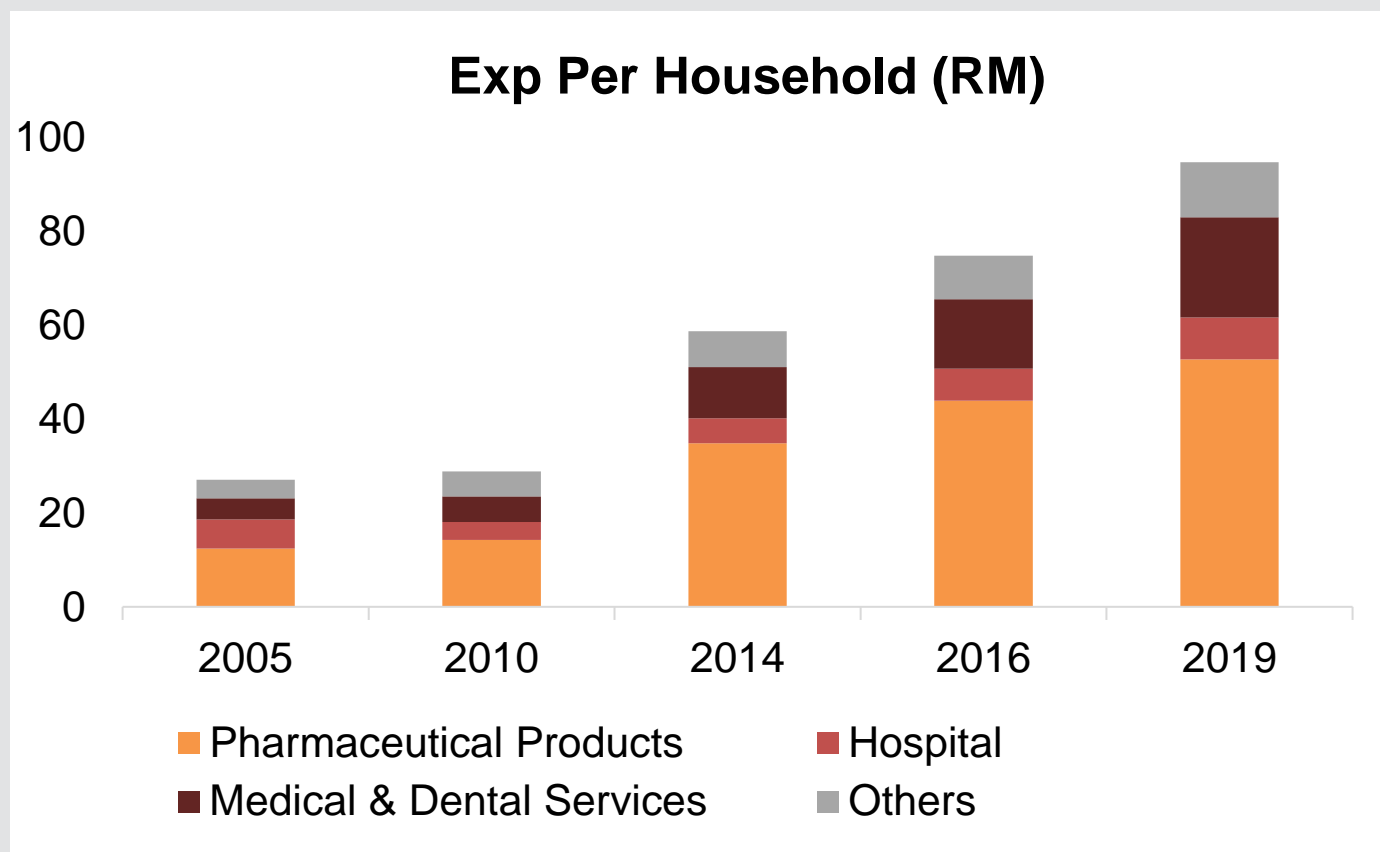
- Small maintenance projects for schools, offices, buildings, bridges, streetlights and traffic lights (RM800 mil)
- Small projects in local authority areas (RM327.8 mil)
- Inter-village roads and federal roads (RM323.9 mil)
- Pavement repair works and slope maintenance (RM241.3 mil)
- Small school maintenance projects in army camps, ATM health facilities and Rumah Keluarga Angkatan Tentera (RM200 mil)
- Repairs for facilities damaged by floods (RM175 mil)
- Maintenance of housing lifts, repairs for houses, houses of worships and slaughterhouses (RM166.9 mil)
- Social Amenities Programme in rural areas including in Orang Asli Villages (RM81.9 mil)
- Rural water and electricity supply (RM34.3 mil)
- Upgrade sports arenas in various states (RM21.5 mil)
- Others (RM481.2 mil)

BUDGET
2022

Demand for healthcare services is expected to rise given the ageing demographic and protracted war against the Covid-19 virus. While the Ministry of Health is **2nd largest recipient of the federal budget (RM32.4 bil)**, **+1.5% increase** compared to last year, it only makes up 2% of GDP, significantly below the 4% of GDP total healthcare spending recommended by many health experts.

Sector	Outlook
Healthcare	Positive

Expenditure Per Household



Recent developments

- This sector will be strengthened further in 2022, benefitting from the continued vaccination programme (booster shot) and **growing medical spending from the B40 group** thanks to **medication coverage under the mySalam insurance scheme**.
- **Demographic ageing** is beginning to drive demand for health services. The % of the population aged above 65 years old was 7.0% in 2020 (2010: 5.0%).
- Under Budget 2022, a sum of **RM4.4 bil or 7.1% of DE** is allocated to **improve healthcare accessibility and facilities, particularly for rural and outskirts areas**. The expenditure includes enhancing & maintaining hospital & clinics and purchasing of vehicles & equipment.
- In addition, RM4 bil is set aside under the Covid-19 fund, where RM2 bil is for vaccination expenses, while another RM2 bil is to enhance the capacity of public health services.
- The recent launch of **Malaysia Healthcare Travel Industry Blueprint (2021-2025)** will **boost medical spending**. In 2019, the healthcare travel sector collected RM1.7 bil in hospital receipts, with spillover effects unto other industries (i.e. air travel, accommodation and F&B) contributing a further estimated RM7 bil to the economy.

Ministry of Health allocation (RM32.4 bil)

Additional allocation specifically to continue the agenda on managing COVID-19 (RM2 bil)

- Medical supply, medical gases, reagents and consumables (RM750 mil)
- Outsourcing medical service to private hospitals and private laboratories (RM190 mil)
- PPE and sanitizer for MOH staff (RM230 mil)
- Teaching Hospital and Field Hospital ICU capacity and procurement of medical devices for Military Hospital (RM200 mil)
- Health kits for 3.6 million B40 families that include reusable face masks, self-test kit, pulse oximeter and thermometer (RM450 mil)
- Acquisition of antiviral drugs against various viruses including COVID-19

National Trust Fund to fund the procurement of COVID-19 vaccine. (RM6 bil)

Individual tax relief and tax deduction to employers for self-funded costs associated with taking the booster shot

National Health Agenda (RM15 mil)

Strengthen the clinical management of patients with Rare Diseases (RM20 mil)

Improve access and responsiveness of ambulance services (RM8 mil)

Continue the contractual appointment of more than 10,000 medical, dental and pharmaceutical officers

Approved the sponsorship of specialisation programmes for 3,000 medical and dental contract officers (RM100 mil)

Mental Health programme (RM70mil)

- Increase the number of mental health advocacy programmes and strengthening the role of NGOs
- Expand the scope of individual income tax relief for mental health related expenses

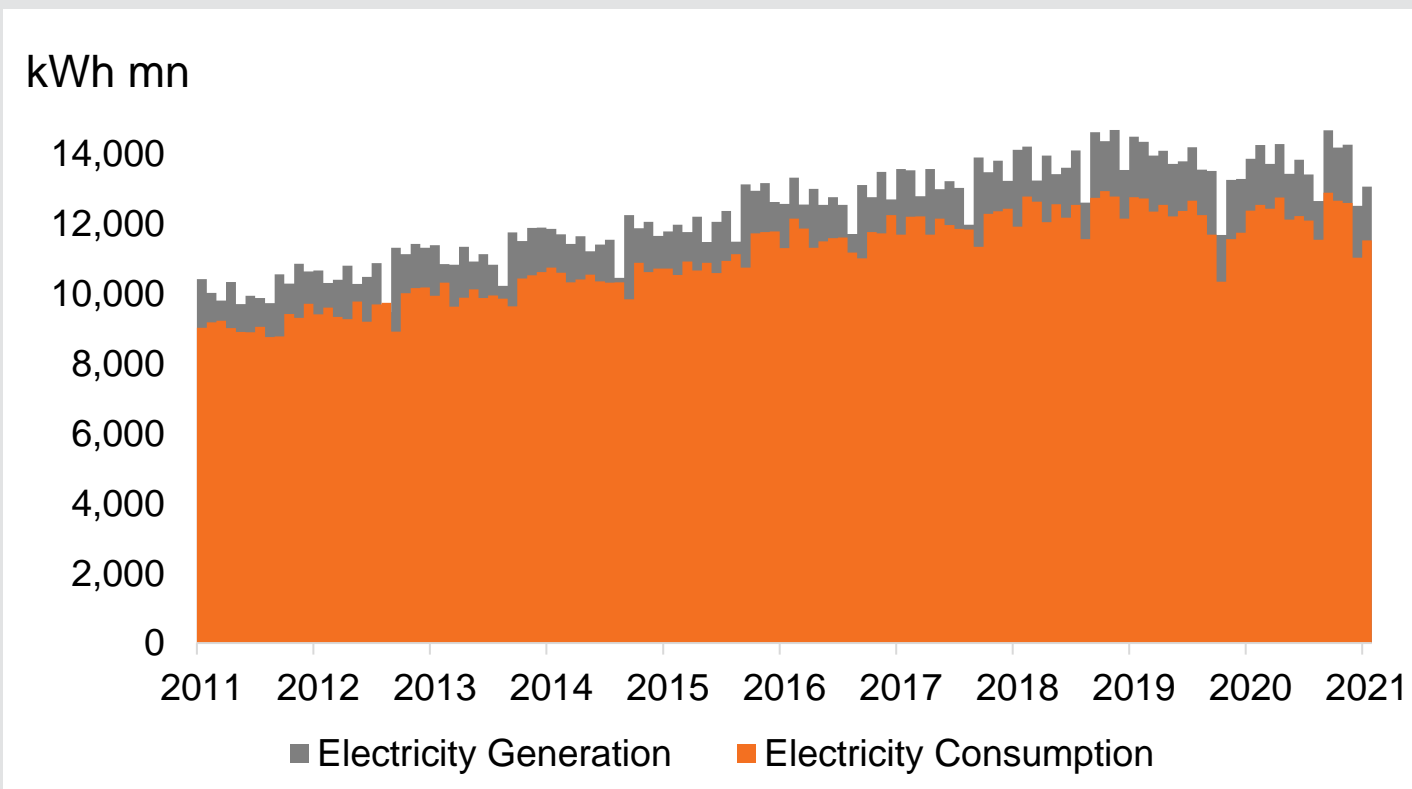
Women's Health Prevention Programme - Subsidy for mammogram test and cervical cancer screening test (RM11.5 mil)

BUDGET
2022

The utility sector is the forefront of the sustainability development goals. With more countries announcing plans on energy transition, this sector stands to benefit from the shift in policy direction as Malaysia joins the world in **moving towards cleaner energy**. Under Budget 2022, about RM 1 bil is earmarked for **rural water** and **electricity supply**.

Sector	Outlook
Utility	Positive

Electricity Consumption and Generation



Recent developments

- Utility projects, including Baleh Hydroelectric, Sarawak Water Supply Grid Programme and Large-Scale Solar 3 plant, are projected to spur growth.
- Malaysia aims to achieve carbon neutrality by 2050. As such, there are **new opportunities in the renewable energy (RE) space**, especially **solar energy**, in line with the target of **31% RE of total installed capacity**.
- There will be a push for **more Electrical Vehicles**.
- The **utilities sector is projected to expand by 6.7% in 2022**, driven by higher demand from the **commercial and industrial** segments, in line with more robust economic activities as well as greater adoption of digitalisation among households and businesses.
- Notably, **IPI electricity has been improving** in tandem with the gradual relaxation of the economy in 3Q. Latest data in August registered a m-o-m growth of 2.8% (July: +4.5%), indicating higher demand for electricity.

Expand the scope of tax incentives on green technology for the purchase of green assets and green services that are eligible for Rainwater Collection and Reuse System Projects.

- Green Investment Tax Allowance: Investment Tax Allowance of 100% on capital expenditure
- Green Investment Tax Exemption: Income tax exemption of 70% of statutory income

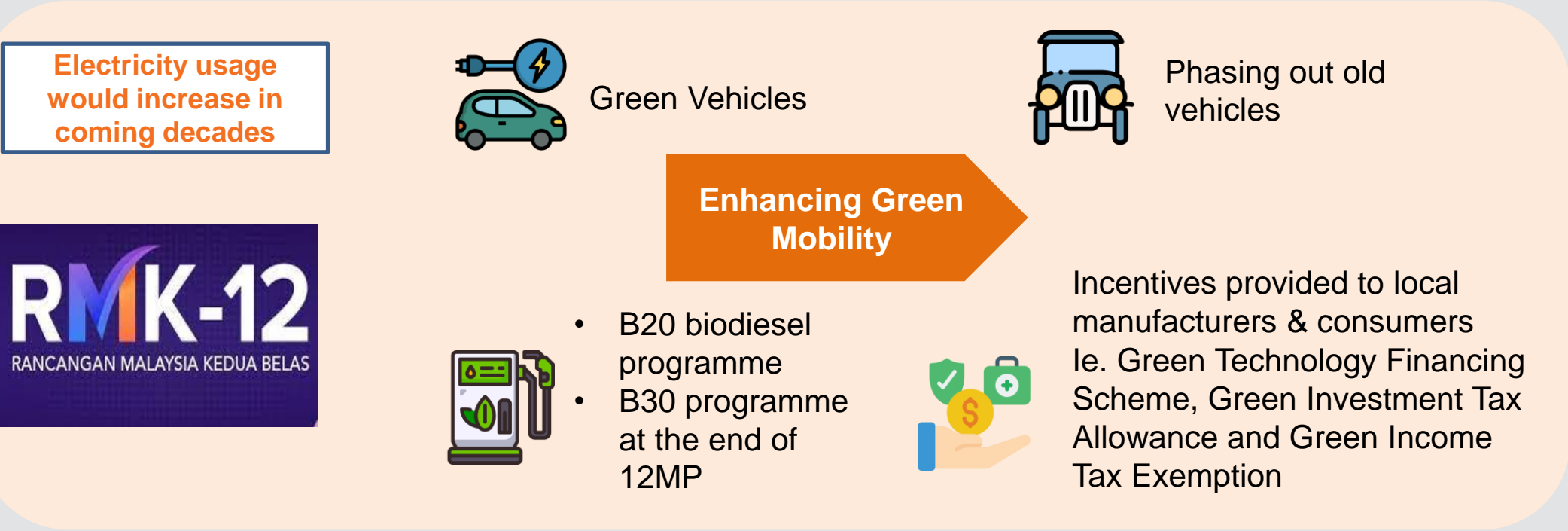
Non-Revenue Water (RM150 mil)

Rural water supply and alternative water supply – 4,800 houses (RM382 mil)


Rural electricity supply – 2,100 homes (RM485 mil)

Full exemption on import, excise duties and sales tax for electric vehicles as well as up to 100% road tax exemptions to those vehicle owners until 2025.

**BUDGET
2022**



Declared its target to achieve **net zero carbon emissions by 2050.**



Several initiatives, includes:

- Reduce hydrocarbon flaring & venting
- Optimise production & operations
- Increase efficacy in providing low-carbon energy & solutions
- Develop low & zero carbon fuels, products & solutions;
- Invest in nature-based solutions by preserving & restoring the capacity of forest ecosystems to act as carbon sinks.

The Water Sector



1

To be restructured through the **Water Sector Transformation 2040 (WST 2040)**:

Phase 1 (2021-2025): Adoption of Integrated Water Resources Management standards

Phase 2 (2026-2030): Develop local technologies on par with international standards

Phase 3 (2031-2035): Achieve economies of scale

Phase 4 (2036-2040): The hub of the regional water industry

2

Reducing Non-Revenue Water (NRW)

- **NRW reduction programme** -> provide financial assistance to state governments.
- Infrastructure for preventive measures including leak sensors and pressure management tools to reduce water loss, particularly in the new distribution systems.
- Agencies and public institutions will be encouraged to implement water auditing.
- Towards the reduction of **NRW level to 25%** (2Q 2020: 36.9%; estimated loss: around RM2 bil a year)

3

Achieve **98% coverage** of access to clean and safe water and 98% coverage of a safely managed sanitation system in rural areas.

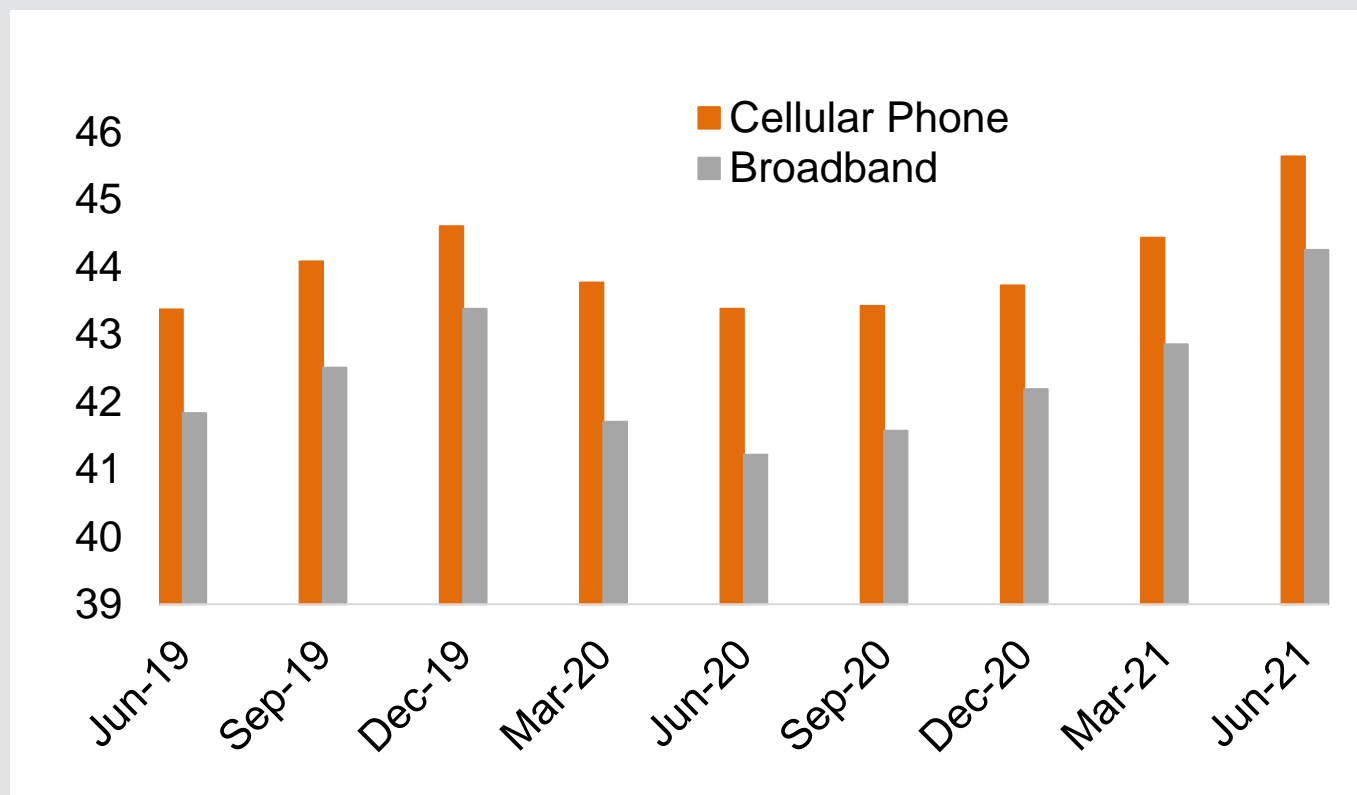
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The government had **approved the RM25.8 bil water infrastructure project** to improve water supply coverage and services as well as provide sustainable infrastructure.

Digital connectivity projects through the **JENDELA** plan will improve the country’s digital infrastructure. Wider coverage will help to drive continued growth not only in fixed broadband, smartphones, computers and electronic devices, but also demand for services related to information technology in the coming years. A total of RM9.4 bil (12.4% of total DE) is allocated under Budget 2022 to close the country’s digital gap holistically.

Sector	Outlook
Information & Communication Technology	Positive

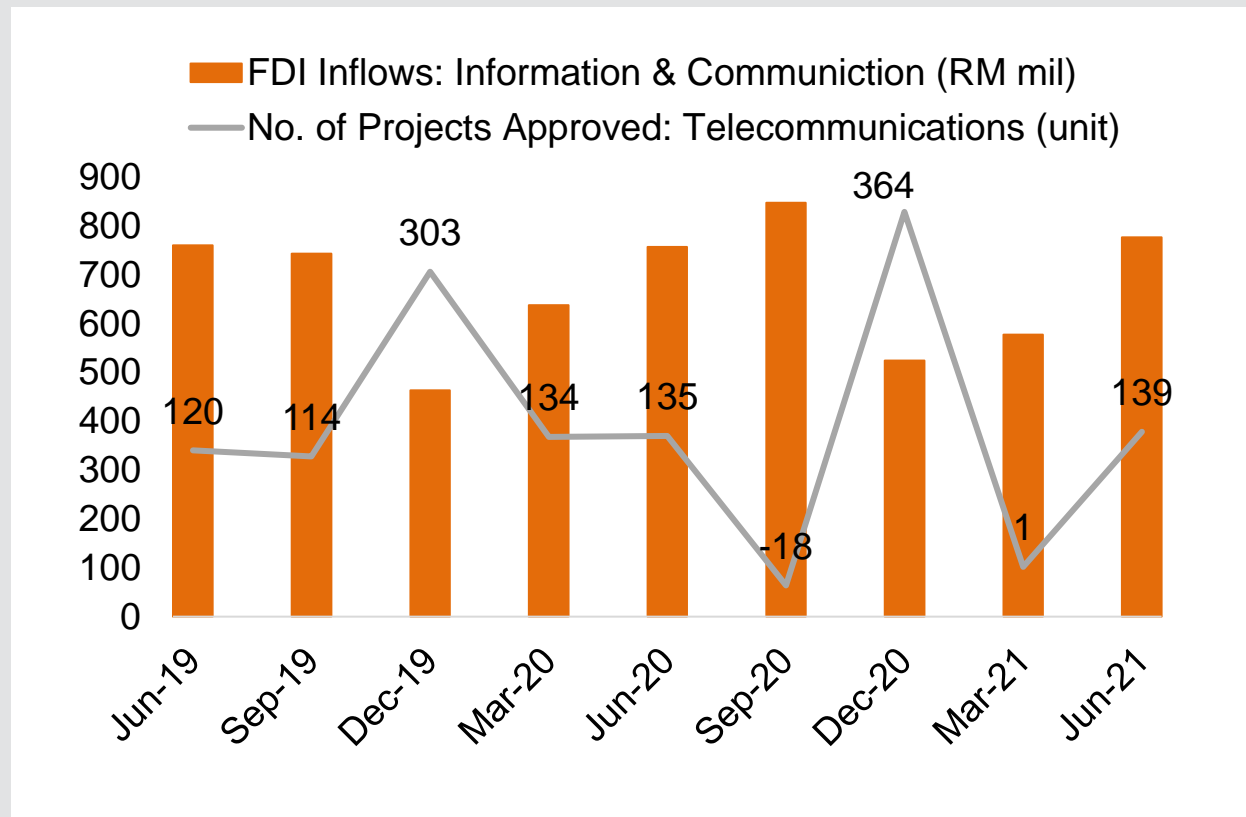
Number of subscribers (mil)



Recent developments

- The implementation of the National Digital Network (JENDELA) initiative will be intensified next year with the provision of **RM700 mil** to widen network coverage and improve internet connectivity, especially in rural areas.
- Digital economy** is envisaged to contribute **22.6% to GDP** and create about 500,000 new jobs **by 2025**. The government targets 875,000 SMEs to embrace digital e-commerce and aims to bring 80% of their services online by 2025.
- To increase digital adoption among MSMEs, the government under Budget 2022 has increased allocations under the **SME Digitalisation Grant Scheme** to **RM200 mil**, with **RM50 mil** earmarked for Bumiputera micro-enterprises in rural areas.

FDI inflows and telecommunications' projects approved can be lumpy due to the high capex nature of the telco industry.



Continuation of JENDELA (RM700 mil)

- Widen network coverage and improve internet connectivity at 47 industrial areas and 630 schools, mainly in rural areas
- This forms part of the 5-year RM21 bil JENDELA initiative
- **5G services** is also expected to **expand to 36% of high-density areas/major cities** in Johor, Selangor, Penang, Sabah and Sarawak next year
- Phase 1 of JENDELA has started and will continue until end-2022 focusing on expanding access to cable broadband with a speed of up to 1 gigabit to 7.5 mil premises
- Priority will also be given to 4G mobile broadband coverage from 91.8% to 96.9% in populated areas as well as improving broadband mobile speed from 25Mbps to 35Mbps

Increase allocation for SME Digitalisation Grant in 2022 to RM200 mil (2021: RM150 mil)

- Of which, RM50 mil will be for Bumiputera micro-entrepreneurs in rural areas

ICT network in Ministry of Education's educational institutions (RM50 mil)

Internet facilities in 40 existing People's Housing Projects (RM30 mil)

Continuation of special RM2,500 individual tax relief until 31 December 2022 would spur the sales of ICT devices.

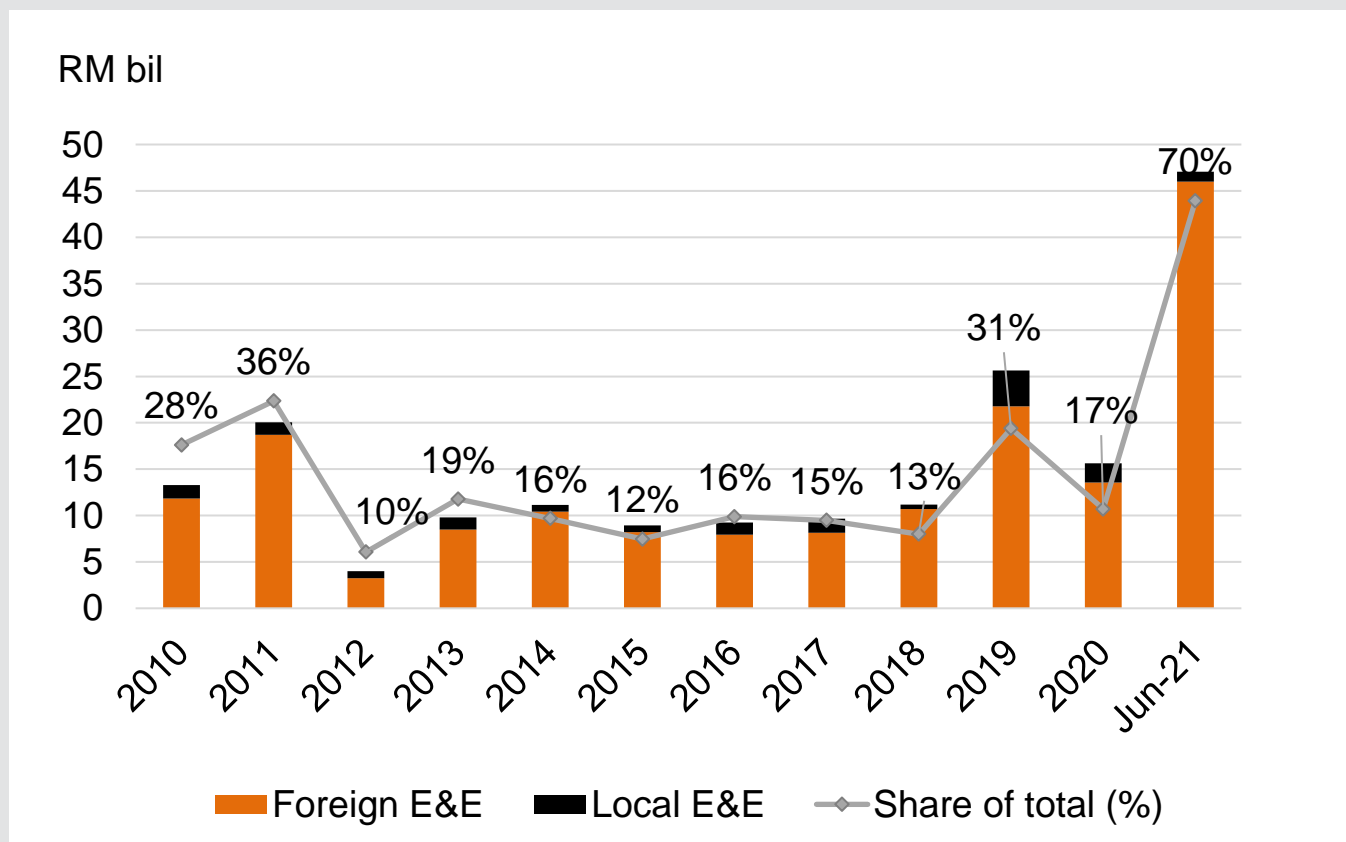
The PRIHATIN Network programme costing RM1.5 bil would benefit 8 mil people in the B40 group to reduce their financial burden to obtain internet service. They will receive RM180 each to spend on internet subscription or to cover the cost for a new mobile phone. This is further supported by another RM1.5 bil contribution from the industry players.



The government's push to **promote automation** bodes well for domestic factory automation solution companies. The global rollout of 5G/6G network should benefit local semiconductor players that are part of the global smartphone value chain, especially the **domestic outsource semiconductor assembly and test (OSAT)** as well as **automated test equipment** businesses.

Sector	Outlook
Electrical & Electronic	Positive

Total E&E investment approved



Recent developments

- In 2020, spending on consumer electronics was initially expected to be hard hit by the pandemic, as these are mainly discretionary items. However, **demand for computers/laptops/tablets and peripheral products surged** for remote work, e-learning and at-home entertainment as these have **become essential items**.
- The **wearable electronics and smart home device markets** are anticipated to see robust demand going forward. On the contrary, **printer market may face dimmer outlook** with the adoption of paperless workflows. While market for **traditional audio visual products** (camera, radios, portable media player, hi-fi systems) will continue to **shrink**, demand for **smart speakers, soundbars, smart TVs and wireless earphones/earbuds** should remain robust.
- Malaysian semiconductor industry may see **more incoming foreign investments**, benefitting from lingering US-China trade tension and supply chain diversification.

BUDGET 2022

Smart automation matching grant for 200 manufacturing and service companies to automate their business processes (RM100 mil)

Innovation Hub: Industrial Revolution 4.0 under Technology Park Malaysia (RM30 mil)

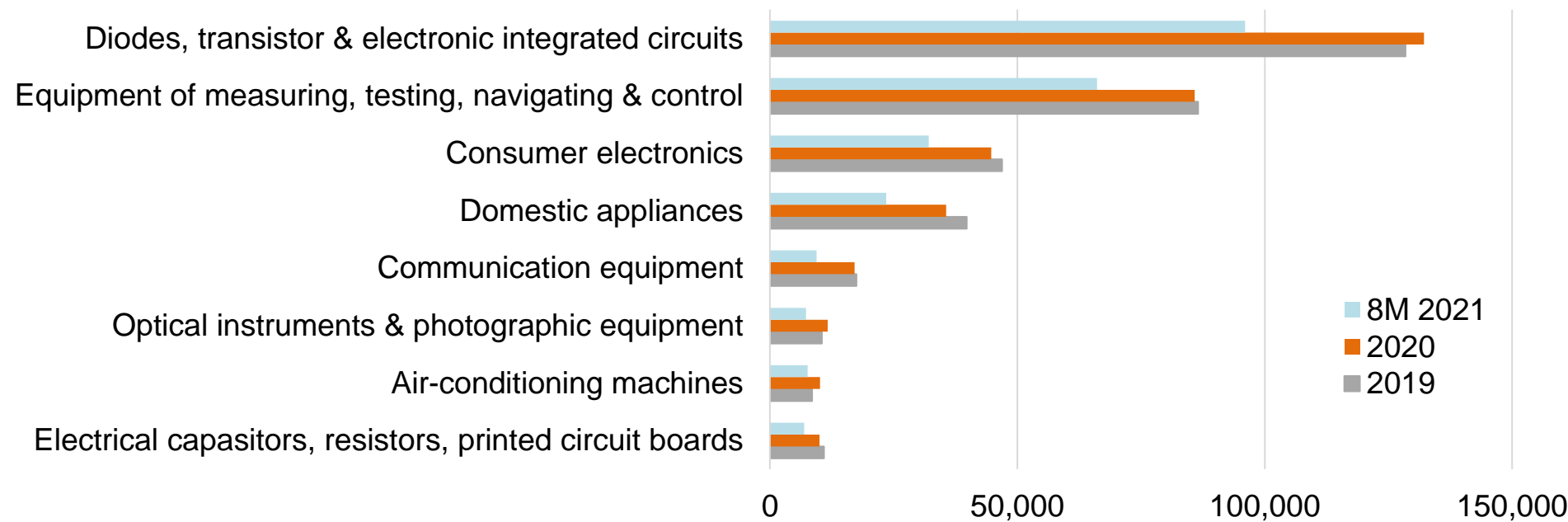
- One-stop centre with the development of new emerging technology clusters such as drones, robotics and autonomous vehicles
- Expected to benefit and provide exposure to 10,000 potential entrepreneurs.

Matching grants through Collaborative Research in Engineering, Science & Technology (RM12 mil)

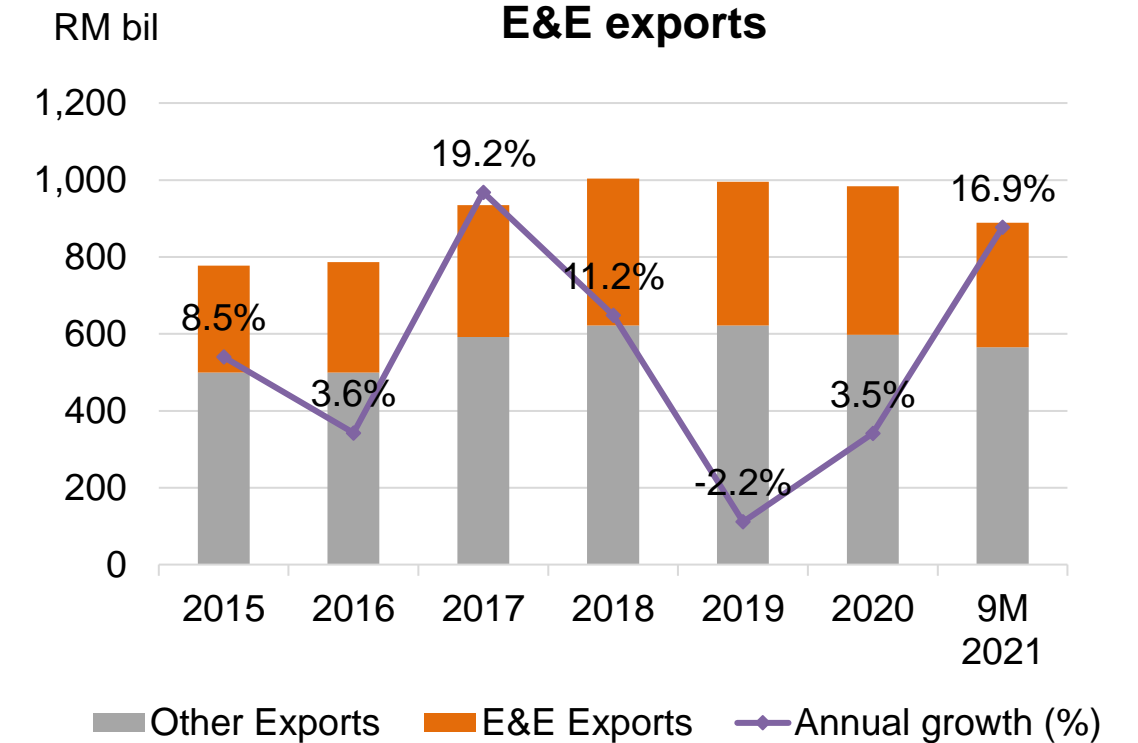
- R&D in Gallium Nitride for application in LEDs and electric vehicles

Extension of reinvestment allowance period from 3 years to 5 years

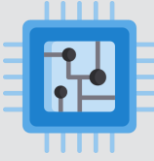
E&E manufacturing sales (RM bil)



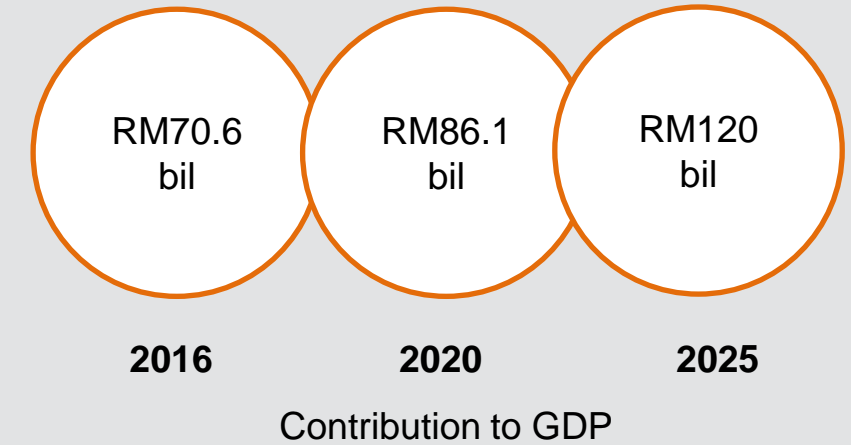
E&E exports



Deep Dive: E&E (3/3)

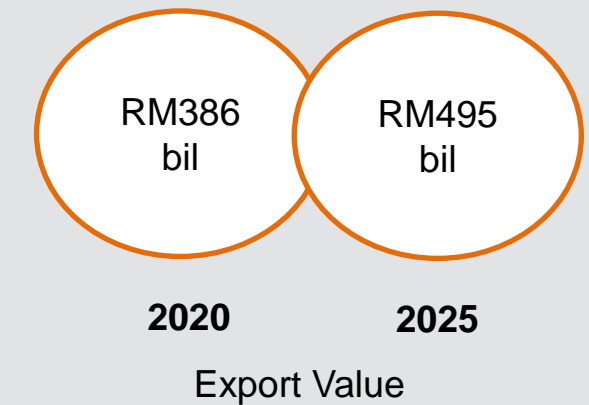


- **Contributed 6.4% to GDP in 2020**, valued at RM86.1 billion.
- From 2016 to 2020, the E&E industry **grew at 5.6% per annum** > the manufacturing sector growth of 3.3%
- Total **E&E exports accounted for 45.6% share** or RM386.1 billion in 2020 (**2025f: RM495 bil**).
- A total of 577 E&E projects with investments of RM71.4 billion were approved between 2016 and 2020.



Challenges:

- (1) Shortage of skilled talent, especially for top-end design engineers & researchers
- (2) Easy access to low-skilled foreign workers has discouraged from innovating & investing in automation as well as in new technology
- (3) Lack in local R&D activities
- (4) Focused on low value-added back-end manufacturing activities such as assembly, testing & packaging



Strengthen the industry ecosystem for higher value chain: A national E&E roadmap will be formulated to provide strategic direction for the industry. Key subsectors are **semiconductors, solar photovoltaic, light-emitting devices, electronics manufacturing services** and manufacturing-related services.

Promote high adoption of technology: Artificial intelligence, IoT, robotics, and big data

Uplift the development of talent & capability: Various micro-credentials programmes, software coding and data analytics modelling training by various institutions

Enhance R&D, design & development: Undertake R&D activities, particularly in integrated circuits (IC), IC packaging, embedded systems as well as test and engineering design services



Strategies

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Small Medium Enterprise Development Bank Malaysia Berhad 49572-H

Menara SME Bank, Jalan Sultan Ismail 50250 Kuala Lumpur

Tel: 03-2615 2020 **Fax:** 03-2698 1748 **Email:** customercare@smebank.com.my

www.smebank.com.my

 smebank |  sme_bank |  smebank_malaysia |  smebankmalaysia



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