

# SNAPSHOT

30 OCTOBER 2021

## Budget 2022

Malaysia's Budget 2022 is largely within our expectation and 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**. The supposedly steadfast recovery initially projected for this year has been disrupted by rounds of mobility restrictions. Besides stimulus programmes amounting to RM225 bil or ~15% of GDP in 2021 (2020: RM305 bil or ~22% of GDP), the targeted short-term fiscal measures proposed under Budget 2022 to **rebuild economic resilience** should catalyse long-term growth prospects for Malaysia as we enter the endemic phase.

**Ministry of Education (MOE) receives the highest allocation in Budget 2022 at RM52.6 bil**, followed by the **Ministry of Health at RM32.4 bil**. Notably, maintenance and upgrading of more than 10,000 schools under the MOE (RM900 mil) and upgrading of dilapidated schools particularly in Sabah and Sarawak (RM746 mil) makes up the lion share of MOE's allocation, aside from the RM14.5 bil allocation to the Ministry of Higher Education.

After 2 years of contraction in **public investments**, the government foresees a **solid 24% growth in 2022** on account of large-scale transportation projects as well as development allocations for Sabah (RM5.2 bil) and Sarawak (RM4.6 bil). These include the continuation of MRT 2, LTR3, Johor-Singapore Rapid Transit System, Pan Borneo Highway and new projects such as MRT3 and Phase 2 of Klang Valley Double Track upgrading. Furthermore, the enlarged **RM75.6 billion development allocation expenditure** serves as a catalytic boost in public investment next year (Budget 2021's revised estimate: RM62 billion).

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

In line with our current growth projections, the government forecasts a **5.5%-6.5% growth for 2022** (2021 estimate: 3.0%-4.0%). While pent-up demand in 2H 2021 may not be strong enough to lift overall 2021 growth back to pre-pandemic levels yet, it is envisaged to fuel economic recovery in 2022. As such, the MOF projects **2022 fiscal deficit to clock in at 6% of GDP** (2021: 6.5% of GDP) notwithstanding an expansionary budget. The Medium-Term Fiscal Framework stipulates a 5% fiscal deficit target by 2024, reflecting a gradual fiscal consolidation path.

Sources: Department of Statistics Malaysia and Ministry of Finance (MOF)

**New sources of revenue** for the government includes (1) **excise duties** on drinks containing sugar and liquid vapes, (2) **windfall profit levy** on crude palm oil and one-off special tax (Cukai Makmur) on large companies generating profits above RM100 mil, (3) **sales tax on e-commerce** items <RM500, (4) **services tax on delivery services** except for food and beverage deliveries and logistics services.






	2020		Revised Budget 2021		Budget 2022		2022-2024	
	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP
Revenue	225.1	15.9	221.0	14.6	234.0	14.3	736.0	13.9
(-) Operating Expenditure	224.6	15.9	219.6	14.5	233.5	14.3	726.9	13.7
(-) Development Expenditure	51.4	3.6	62.0	4.1	75.6	4.6	250.0	4.7
(+) Less: Loan Recovery	1.3	0.1	0.8	0.1	0.6	0.0	1.8	0.0
(-) Covid-19 Fund	38.0	2.7	39.0	2.6	23.0	1.4	23.0	0.5
<b>Overall Balance</b>	<b>-87.6</b>	<b>-6.2</b>	<b>-98.8</b>	<b>-6.5</b>	<b>-97.5</b>	<b>-6.0</b>	<b>-262.1</b>	<b>-5.0</b>





Source: MOF

Although wage subsidies of RM2 billion and direct cash handouts i.e. Bantuan Keluarga Malaysia of RM8.2 billion in Budget 2022 dwarf that of 2021 (RM18 bil and RM9.6 bil, respectively), these continuous assistances should cushion household income and boost private consumption. Given that **private expenditure makes up 75% share** of the country's GDP, **higher disposable income** amid a **steady recovery in the labour market** should stimulate spending. Meanwhile, the Malaysian economy will also benefit from global recovery. **Expansion in export** activities is anticipated to be driven by commodity products, electrical and electronics products, manufacture of metal and palm oil-based products as well as chemical products.

**Overall, we see Budget 2022 as favourable to SMEs and the Bank stands to gain from financing related to the larger infrastructure bill, in addition to the specific funds that will be channelled through the Bank (RM900 mil).**

### Key points/incentives under Budget 2022

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 bil	✓
SME 	Adoption of sustainable and low-carbon practices	RM1 bil	✓
	Bank Pembangunan Malaysia will offer a RESET Scheme (Rehabilitation and Support Through Equity) & Bank Negara Malaysia will provide a Business Recapitalisation Fund	RM1 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	✓
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	✓

Sources: MOF and The Edge

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