

BUDGET 2023

27 FEBRUARY 2023

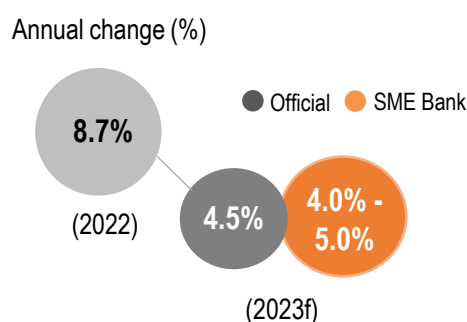
MACROECONOMIC OUTLOOK

- The revised Budget 2023's theme is **"Developing Malaysia Madani"**, guided by six policy framework namely: 1) sustainability, 2) prosperity, 3) innovation, 4) respect, 5) trust, 6) care & compassion. It focuses on the **people, SMEs, green initiatives and digital advancement** while initiating the fiscal consolidation plan.
- One of the largest budget** ever tabled by the government, Budget 2023 amounted to RM386.1 bil (+3.7% from initial budget) is actually a **contractionary budget** (-2.3% YoY) compared to the Revised Budget 2022.
- On the macroeconomic front, several changes were made to the key forecasts for 2023 however they are still **broadly in line with our in-house projection**:
 - GDP growth** is revised to **4.5%**, the midpoint of its initial budget of 4.0% - 5.0% (Fig.1&2)
 - Inflation's upper limit rose to 2.8% - 3.8% (initial: 2.8% - 3.3%; **SME Bank: 3% - 4%**)
 - Brent oil average price is lowered to USD80/bbl (initial: USD90/bbl; **SME Bank: USD85 - 95/bbl**)
- GDP performance is expected to be propelled by domestic demand (Fig.1) in 2023. While Construction sector is anticipated to chart the highest growth rate of 6.1%, **Services sector** (58.2% share of GDP) will continue to **steer the economic growth**, supported by resilient performance in **wholesale & retail trade, transportation & storage, ICT, food & beverages and accommodation, and finance & insurance** sub-sectors.
- Despite continuation of blanket fuel subsidy, the upper limit of inflation projection was raised on **prolonged supply disruptions**. In Jan 2023, 81% of goods in the CPI basket recorded price increase (Dec 2022: 78%), reflecting the **pervasiveness** of current inflation pressure. According to World Bank, a complete removal of fuel subsidy would lead to an increase in price levels to about 9%.

Fig. 1: GDP breakdown by expenditure and industry

	Share (%)	Change (% YoY)		
		2022	Initial 2023f	Revised 2023f
Domestic demand	93.1	9.2	5.1	5.4
Private expenditure	75.6	10.4	5.8	6.1
Consumption	60.2	11.3	6.3	6.1
Investment	15.4	7.2	3.7	5.8
Public expenditure	17.5	4.3	2.0	2.5
Consumption	13.2	3.9	2.0	1.0
Investment	4.4	5.3	2.1	7.0
External sector	5.4	-1.8	3.2	13.0
Exports	71.7	12.8	1.6	3.1
Imports	66.3	14.2	1.4	2.3
Services	58.2	10.9	5.0	5.3
Manufacturing	24.2	8.1	3.9	3.9
Agriculture	6.6	0.1	2.3	1.1
Mining	6.4	3.4	1.1	1.2
Construction	3.5	5.0	4.7	6.1
Total GDP	100.0	8.7	4.0 - 5.0	4.5

Fig. 2: GDP growth in 2023 to soften



- Domestic GDP growth momentum is expected to ease this year (below the long-term average of 5.5%), following a gloomy global economic outlook. Nonetheless, resilient domestic demand alongside improving labour market should cushion the spill over effect from the external front.
- For the period 2023 - 2025, the Govt expects GDP growth to average at 4.7% to be **on track** towards achieving its **12MP average growth target of 4.5% - 5.5%**.

Private Consumption	Private Investment	Public Expenditure	External Demand
<ul style="list-style-type: none"> • Personal income tax cut for M40 • Continuous labour market improvement • Robust tourism-related activities aided by China's reopening • Aid & financial assistance (e.g. Sumbangan Tunai Rahmah (STR), kredit e-Tunai Belia Rahmah, special RM700 to civil servants and RM350 to Govt pensioners) 	<ul style="list-style-type: none"> • Funds and incentives to support adoption of digitalisation, high-tech, automation, and ESG • Positive spillover effect from national infrastructure development that has high multiplier effects • Carey Island main port development 	<ul style="list-style-type: none"> • Higher spending on emoluments • Large-scale transport-related projects such as upgrading of the Klang Valley Double Track (KVDT) Phase 2 and acceleration of ECRL, LRT3, RTS, 5G projects • Other significant projects (e.g. airport expansion, port development, flood mitigation) will buoy the construction sector 	<ul style="list-style-type: none"> • Moderation in global trade due to slowdown in large economies (US, EU & India) • Global uncertainties that could impinge on supply chain and volatility in commodity prices • Continuous demand for E&E export products (semiconductors), petroleum & chemical products (LNG) and manufactures of metals

FISCAL POSITION

- Government remains **committed to fiscal discipline**, but the pace of consolidation is modest as it prefers to **support economic growth** to cushion against global uncertainties. Despite the tabling of one of the largest budget ever, the Govt's **fiscal deficit** is expected to **improve to 5.0% of GDP by end-2023** (2022e: 5.6% of GDP deficit), partially attributed to the denominator factor i.e. higher GDP.
- Under the Medium Term Fiscal Framework, the fiscal deficit is targeted to decline to **3.2% by end-2025** (pre-pandemic 2019: 3.4%), taking into account revenue enhancement, reduce spending wastages and shifting towards a more targeted subsidy mechanism.
- A slightly **lower fiscal revenue projection** of -1.0% YoY (*Fig.5*) in Budget 2023 is largely due to smaller:
 - Investment income (PETRONAS & BNM dividend)
 - Oil related revenue from petroleum income, licenses & permits due to lower Brent forecast of USD80/bbl in 2023 (initial budget: USD90; 2022: USD99)
 - Export duties (lower windfall levy on crude palm oil (CPO) exports due to lower CPO prices)
- **As expected, GST will not be implemented in the near future** due to the current inconducive environment (e.g. low wage and high food inflation).
- However, government **proposes 2 new taxes to diversify its revenue sources** and also to promote a more equitable wealth redistribution ecosystem:
 - Wealth/luxury e.g. watches & fashion items (to be implement this year)
 - Capital gains for unlisted share disposal by companies (likely to be implement in 2024)
- Direct tax revenue to expand by 6.9% YoY primarily attributed to higher corporate and personal income tax amid changes in personal income tax rate (↓2% for those earn between RM35k – RM100k a year and ↑0.5% to 2% for those taxable income earners between RM100k – RM1 mil).

Fig 3: Fed. Govt Fiscal Position

Position	2021		2022e		Budget 2023		2023 - 2025	
	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP
Revenue	233.8	15.1	294.4	16.5	291.5 [+18.9]	15.4	908.5	15.1
(-) OE	231.5	15.0	292.7	16.4	289.1 [+16.8]	15.3	889.1	14.8
(-) DE	64.3	4.2	71.6	4.0	97.0 [+2.0]	5.1	264.2	4.4
(+) Less: Loan Recovery	1.0	0.1	1.4	0.1	0.7 [0.0]	0.0	1.9	0.0
(-) Covid-19 Fund	37.7	2.4	40.0	1.7	0.0 [-5.0]	0.0	-	-
Overall Balance	-98.7	-6.4	-99.5	-5.6	-93.9 [+5.2]	-5.0	-242.9	-4.1

Note: Value in brackets are changes from initial Budget 2023

FISCAL POSITION (cont.)

- **Development expenditure (DE)** soared 35.5% YoY to a **record high** of RM97 bil (+RM2 bil from initial budget) partially to fulfill financial obligations (e.g. USD3 bil 1MDB bond repayment). Nonetheless, ample DE allocation will still be channeled to other significant projects including the development of Sangla Port in Perlis, floods mitigation, highway and school, expansion of hospitals and public housing.
- **No new mega projects**, except for the upgrading of KTM's KVDT Phase 2 to kickstart in 2023. Meanwhile, MRT3 project will be delayed as the Govt aims to reduce the cost to <RM45 bil (currently: RM50 bil) and Kulim airport project has been scrapped to make way for major upgrades of Penang and Subang airports.
- By sector, **transport** (18.1%) **received the highest allocation of DE** – has high-multiplier impact to the economy (e.g. RTS, ECRL, LRT3, Pan Borneo Highway, upgrading of existing roads, airports and ports). This is followed by **education & training** (14%), earmarked for construction and upgrading of schools, training institutions and universities.
- In tandem with higher DE allocation, **statutory debt** is forecasted to clock in at **62% of GDP by end-2023** (2022: 58.2%) – the act that raised debt ceiling to 65% of GDP lapsed in Dec 2022.
- As for OE, allocation is 1.2% YoY lower than in 2022, thanks to lower subsidies as commodity prices moderate. **As anticipated, no announcement made on targeted fuel subsidy** – reinforcing expectation for a roll-out next year. However, allocations for emoluments, retirement charges, debt service charges and grant to statutory bodies will remain sticky given higher outlays for emoluments (Special Additional Annual Salary Increment) as well as absorption of contract officers to permanent positions (healthcare and education sectors).

Fig. 4: Total Expenditure by Ministry (RM bil)

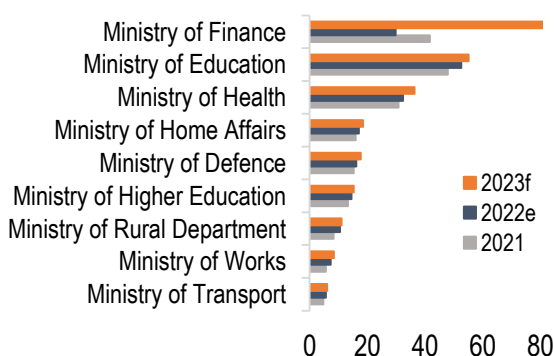
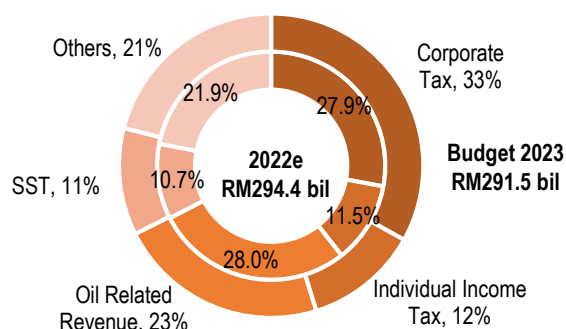



Fig. 5: Fiscal Revenue lower by 1.0% YoY



SUMMARY OF SPOTLIGHT ON SMEs

- Overall, the revised budget 2023 is viewed to be a **positive and supportive for SMEs** in Malaysia.
- Key initiatives for SMEs in this budget are (more on Page 5):
 - ❑ **Tax reduction** (17% → 15%) on the first RM150k of taxable income of SMEs [initial: RM100k]
 - ❑ **RM20 bil** allocation for **MSMEs financing** in high technology, agriculture, tourism and manufacturing sectors **guaranteed by the Govt up to 90%**, also extended to financing by credit leasing/cooperatives
 - ❑ **BNM RM9.7 bil** fund for SMEs to ease their financial burden and support business expansion
 - ❑ **BNM RM2 billion** fund for **sustainable tech start-ups** and SMEs to **implement low-carbon practices**
 - ❑ **BNM RM1 bil** fund to help **MSMEs automate business process and digitise operations**
 - ❑ **RM100 mil** under SME Digitisation Grant Scheme and small hawkers. Matching grant up to RM5,000 for SMEs who subscribe to digitisation applications (POS sales system, accounting/inventory management)
 - ❑ **RM300 mil** to support micro businesses owned by women and youth entrepreneurs
 - ❑ Maintains **electricity tariffs for SMEs** and domestic users while large corporates will see higher tariffs except for the food and agriculture industry
 - ❑ Build new and upgrading of hawker stalls, kiosks (RM50 mil) and business facilities (RM176 mil)


Spotlights/ Key incentives under Budget 2023

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
 SME Bank	Financing / Grants / Program		
	1. Social Enterprise Funding Scheme	20	✓
	2. IBS Promotion Fund (IBS2.0)	165	✓
	3. Young Entrepreneur Fund (YEF) 2.0	90	✓
	4. SME Recapitalisation Fund	600	✓
	5. Jaguh Serantau	165	✓
	6. Lestari Bumi [Bumiputera SMEs Sustainability Fund]	160	✓
	7. PEMERKASA Matching Grant	160	✓
	Tax/Incentives		
	1. Sustainability Incentive Scheme	10	✓
2. Juara Lestari Scheme	1	✓	









SUMMARY OF SPOTLIGHT (cont.)

- The **Wholesale & Retail** sub-sector is expected to grow following greater usage of e-commerce and rapid transition to digitalisation, in line with the aim towards creating a cashless society.
 - ❑ While revenue spending has started to taper off, higher disposable income arising from aid and financial assistance (Aidilfitri Special, STR, e-Tunai Belia Rahmah), 2% personal income tax deductions for earners between RM35k – RM100k, Jualan Rahmah and Menu Rahmah should spur retail spending.
 - ❑ Higher end fashion or retail outlets could be impacted with the wealth/luxury tax and increase in personal income taxes for earners between RM100k – RM1 mil. As a silver lining, it may encourage this group of consumers to substitute to cheaper alternatives or shop local brands which generally benefit the SMEs.
- The **Electric Vehicles (EV)** motor vehicle ecosystem would benefit from tax incentive programmes.
- The **Real Estate** segment will be buoyed by stamp duty exemption for transfer of property by way of love and first home ownership and Govt guarantees for home financing (SJKP RM5 bil).
- Growth in the **ICT** sub-sector will be led by expansion of 5G network, JENDELA which encourages wider digital adoption by businesses and individuals. Efforts to attract high-quality investments in **data centers** and **cloud computing services**, along with the surge of **online streaming activities** will further boost this sub-sector.
- Momentum in the **Tourism** (i.e. **F&B and Accommodation**) industry should continue from the implementation of initiatives under Tourism Recovery Plan 2022, PENJANA fund, matching grants for promotional activities and special deduction for expenditure on Malaysia-Made Handicraft.
 - ❑ The expansion of **F&B franchise outlets** is expected to further boost this sub-sector.
 - ❑ The Govt has also allocated close to RM1.5 bil to **upgrade and build new roads leading towards tourist destinations to avoid traffic congestion**, such as the expansion of driving lanes from 4 to 6 along the Yong Peng Utara to Senai Utara road (RM525 mil) and new road from Habu to Tanah Rata, Cameron Highlands (RM480 mil).
 - ❑ **Healthcare tourism** revenue likely to increase by 30% to more than RM1.5 bil in 2023.












Spotlights/ Key incentives under Budget 2023

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
SME	Financing / Grants / Program		
	1. Skim Jaminan Pembiayaan Perniagaan		
	1.1 Skim Jaminan Pembiayaan Perniagaan (SJPP) [Initial: RM 9 bil]	20,000	✓
	1.2 Skim Jaminan Pembiayaan Teknologi Hijau (GTFS 4.0)	3,000	✓
	2. Various Entrepreneur Program		
	2.1 SME Corp - Various entrepreneur programs	880	✓
	2.2 Various franchise entrepreneur programs	21.5	✓
	2.3 Program latihan dan bimbingan keusahawanan Institut Keusahawanan Malaysia (INSKEN)	10	✓
	2.4 SKM - Program Pembangunan Perniagaan Melalui Koperasi 2.0	5	✓
	2.5 Program Peningkatan Prestasi Keupayaan dan Daya Saing PKS	5	✓
	2.6 Professional Training and Education for Growing Entrepreneur (PROTÉGÉ)	5	✓
	2.7 Business Exports Program to 50 potential Bumiputera SMEs	4	✓
	2.8 SSM - Various programmes Skim 1 OKU 1 Perniagaan, SSM Biz Trust	n/a	✓
	3. Various Microcredit Financing Agency		
	3.1 BNM - Fund for Micro Enterprise automation, digitalisation, tourism [Initial: RM 10 bil]	9,700	✓
	3.2 BSN - Various Schemes, Micro Kasih Schemes, [Initial: RM900 mil]	1,150	✓
	3.3 Exim Bank - Exporter Development Incentive Scheme (SIP2)	1,000	✓
	3.4 Agrobank - Various agrofood financing programmes [Initial: RM 660 mil]	610	✓
	3.5 TEKUN - Various Microcredit Schemes [Initial: RM325 mil]	330	✓
	3.6 PUNB - Various financing programmes such as retail	200	✓
	3.7 TERAJU - Various financing programmes	135	✓
	3.8 SKM - Co-operative Societies Commission Revolving Fund	100	✓
	3.9 Bank Rakyat - BR Plus Biz Lady	100	✓
	3.10 MARA - Various financing programmes	80	✓
	3.11 MIDF - Various financing programmes [Initial: RM 60 mil]	51.5	✓
	3.12 DBKI - Business Premises	30	✓
	4. BPMP - Strategic Funding	5,900	✓
	5. SMEs Digitalisation - e-Trans Phase II, Pembiayaan Peluang Kedua	18,851	✓
	Tax/Incentives		
	1. Tax- Reduce MSME's Taxable Income to 15% from (17%) for first RM150k [Initial: RM100k]	n/a	✓
	2. Matching Grant- (Up to RM5,000) to SMEs that subscribe to business digitisation applications	100	✓
	3. Build new and upgrade stalls and kiosk (MyKiosk@KPKT) for RM10k/unit	50	✓
	4. PBT - Upgrade food courts and marketplace	28.6	✓
	5. UDA - Malaysia Entrepreneur Hub	n/a	✓
	6. Maintain tariff electricity for all SMEs and domestic [except MNC]	n/a	✓





Spotlights/ Key incentives under Budget 2023

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Tourism 	Financing / Grants / Program		
	1. BNM - Tourism Financing increase PENJANA	500	✓
	2. Promoting Tourism	250	✓
	2.1 Matching Grant - Organising tourism programs incl. international sports event	115	✓
	2.2 To promote charter flights (Join venture between MAHB and international airlines)	40	✓
	3. Tax- Special deduction for expenditure on Malaysia-Made Handicraft	n/a	✓
ICT 	Financing / Grants / Program		
	1. Malaysia Research and Education Network Project (MYREN) 	35	✓
	2. Digital National Berhad to expand 5G network with 80% coverage	n/a	✓
	3. MAMPU- Upgrade the MyGovCloud service	n/a	✓
	Tax/Incentives		
1. JENDELA Phase 2 - provide internet coverage and digital connectivity in 47 industrial areas and 3,700 schools	725	✓	
Retail 	Financing / Grants / Program		
	1. e- Tunai Belia Rahmah (RM 200)	400	✓
	2. Distribution of necessities [Initial: RM 200 mil]	225	✓
	3. Jualan Rahmah	100	✓
	4. Menu Rahmah (RM 5 for a set of meals)	n/a	✓
	Tax/Incentives	n/a	✓
	1. Tax rate – Increase between 0.5% to 2% for T20 individuals RM100k – RM1 mil earners	n/a	✗
	2. Bankruptcy status waiver for amount less than RM50,000	n/a	✓
	2. Tax - Excise duty on liquid or gel containing nicotine for e-cigarette & vape	n/a	✗
3. Tax - On luxury goods	n/a	✗	
Real Estate 	Financing / Grants / Program		
	1. Govt guarantee for home financing (SJKP), increased to RM5 bil [Initial: RM 3 bil]	n/a	✓
	Tax/Incentives		
	1. New People's Housing Program (PPR)	367	✓
	2. Stamp Duty - Exemption for first home ownership	n/a	✓
2.1 Exempt 100% <RM500k (2025)	n/a	✓	
2.2 Exempt 75% >RM500,001 <RM1 mil (2023)	n/a	✓	
3. Stamp duty – Exemption limited to first RM 1 mil of property value	n/a	✓	
Manufacturing 	Financing / Grants / Program		
	1. TVET program – Academy in Factory, Sistem Latihan Dual Nasional (SLDN) 	55.3	✓
	Tax/Incentives		
	1. Manufacturer of EV charging equipment: 		
	1.1 Tax - Exempt 100% statutory income tax from 2023 -2032	n/a	✓
	1.2 Tax - 100% Investment Tax Allowance	n/a	✓
	2. Relocation incentives of 15% to E&E investors to transfer operations to Malaysia	n/a	✓
3. Tax - Exempt income tax 100% on capex to mfg, agri adapt Industry 4.0 elements	n/a	✓	
4. Tax - Extend 15% flat income tax rate to C-Suite to 2024	n/a	✓	

Spotlights/ Key incentives under Budget 2023

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Construction	Financing / Grants / Program		
	1. Transport infrastructure projects		
	1.1 Pan Borneo Expressway 	20,000	✓
	2. Flood Mitigation Plan		
	2.1 Flood Barrier Programs	1,000	✓
	2.2 Upgrade urban infrastructure drainage system	117.7	✓
	2.3 PBT- Maintenance of flood reservoirs, drainage and sewer involves contractors G1-G4	130	✓
	3. Development		
	3.1 Sabah [Initial: RM 6.3 bil]	6,500	✓
	3.2 Sarawak [Initial: RM 5.4 bil]	5,600	✓
	4. Construction, maintenance and repair assets		
	4.1 Health facilities and 26 hospitals - build, upgrade, repair and expand 	4,900	✓
	4.2 Federal roads upgrade nationwide [Initial: RM 1 bil]	2,700	✓
	4.3 People's Housing Program (PPR) - build and maintenance	2,100	✓
	4.4 Rural roads and connectivity road - repair and upgrade	1,500	✓
	4.5 Potholed roads – repair (RM 1,000 for each district)	n/a	✓
	4.6 MAARIS to repair and upgrade state roads	5,200	✓
	4.7 To install streetlights especially in accident areas	50	✓
	4.8.Upgrade and build new roads to avoid traffic congestion 	1,465	✓
	4.9 Upgrade infrastructure of dilapidated schools (380) and clinic (400)  		
	[Initial: 387 school only]	1,200	✓
	4.10 Construction of 80 taska and 13 KEMAS nurseries 		
	[Initial: 10 units of KEMAS nurseries]	n/a	✓
	4.11 House of worship - repair, maintenance and development	50	✓
	4.12 Upgrade prison facility	18.5	✓
	4.13 Construction of wheelchair ramps in 7 airports in Sabah dan Sarawak	n/a	✓
Automotive	Tax/Incentives		
	1. Tax – Deduction for companies renting non-commercial EVs (up to RM300,000) [Initial: cost of vehicle not exceeding RM150,000 (deduction RM50,00) and >RM150,000 (deduction RM100,000)]	n/a	✓
	2. Tax - Extend import duty & excise tax exemption for completely built up EVs (CKD: 2027, CBU: 2025) [Initial: 2024] 	n/a	✓
	3. Tax - Extend exemption fee on Approved Permit for importation of EV 	n/a	✓
	4. Tax - Exempt sales tax purchases of locally assembled buses by bus operators (2024)	n/a	✓
	5. Subsidy - Driving test fee B2 class motorcycle, taxi, e-hailing and bus license	n/a	✓
Aerospace	Tax/Incentive		
	1. Tax- Extend income tax and investment tax allowance for aerospace companies to 2025 [Initial: 2023]	n/a	✓
	2. Tax - Extend 15% income tax rate to C-Suite to 2024	n/a	✓

Spotlights/ Key incentives under Budget 2023

Sector	Allocation/Tax Incentives	Amount (RM mil)	Impact
Agriculture 	Financing / Grants / Program		
	1. Intensifies Anti-Palm Oil Campaign	80	✓
	2. Grants- Automation of plantation sector (AI adoption)	50	✓
	3. Agrofood project between Govt and State Govt	30	✓
	4. Allocation to FELDA, FELCRA and RISDA	n/a	✓
	5. Keluarga Malaysia Hardcore Poverty Eradication Program	n/a	✓
	Tax/Incentives		
	1. Initiative-Support welfare of paddy farmers, farmers	1,600	✓
	2. Agrobank - Dana Pembiayaan Agromakanan and Program Modernisasi Rantaian Nilai Agromakanan	1,150	✓
	3. Increase Rubber Production Incentive Activation Price Level	350	✓
	4. BNM - Kemudahan Pertanian Pemakanan (AF)	1,000	✓
	5. Incentives - Monsoon aid, RM 800 for 4 month	256	✓
	6. BERNAS- sharing 30% profit to farmers	60	✓
7. Expand Digital AgTech Program under MDEC [Initial: RM 20 mil]	10	✓	
Halal 	Financing / Grants / Program		
	1. Initiative for Halal Industry Development, Halal Go Global [Initial: RM6.5 mil]	10	✓
	2. Innovation and halal technology program	2.5	✓
	3. Halal industry entrepreneur capacity development program	1.5	✓
	4. Halal Entrepreneur Internationalisation Program	1	✓
ESG 	Financing / Grants / Program		
	1. Green Practice Programs	579.5	✓
	2. BNM -Various Financing	2,000	✓
	3. BPMB - Sustainable Development Scheme and Strategic Financing	7,000	✓
	4. Green Technology Financing Schemes (GTFS) until 2025	3,000	✓
	5. Khazanah National Impact Fund [Initial: RM 200 mil]	150	✓
	6. GENTARI - Installation of 500 units Evs charging facility and solar panel in Gov facilities	n/a	✓
7. TNB - Installation of rooftop solar in Putrajaya and 70 Evs charging facility 	n/a	✓	

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