Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst| 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst| 03-2782 1417 | norjannah@bankislam.com.my

Budget 2020 – spurring domestic growth amidst fiscal constraint

Overview

The government has announced its annual budget for the year 2020. The way we see it, the government is cognizant of the downside risks to growth which mainly emanated from abroad. This would include the ongoing trade war, heightening geopolitical risks in the Middle East, slowing China's economy as well as volatility in the financial and commodities market. As such, the Budget 2020 was designed as a counter cyclical measures of some sort given that the magnitude of the widening in fiscal deficits are still being implemented at a measured pace. At 3.2% of GDP, the size of fiscal deficits is slightly higher than the original target of 3.0%. This will be achieved via higher Development Expenditure (DE) of RM56.0 billon (2019E: RM53.7 billion). The size of DE, in our view, is decent as the amount is higher than the long-term average of RM45.7 billion between 2010 and 2018. This should provide the right catalyst to growth in particular the construction sector which has been plagued by the weaknesses in the property markets. Other sectors that will benefit directly from the budget include:

1. **Electrical & Electronics (E&E)** – tax incentives such as tax exemption, investment tax allowance and capital allowance.
2. **Ports** – feasibility study to develop Pulau Carey in Port Klang as well as feasibility studies on Serendah-Port Klang Rail Bypass. Both projects would cost RM8.3 billion.
3. **Telecommunication** – National Fiberisation & Connectivity Plan (NFCP) over the next five years. It will be based on Public Private Partnership (PPP) with total project cost of RM21.6 billion.
4. **Islamic finance** – tax deductions for on the cost of sukuk issuance under Wakalah will be extended for 5 years, tax exemption on Shariah compliant funds and Sustainable and Responsible Investment (SRI).
5. **Residential property** – Rent-to-Own (RTO) financing scheme worth RM10 billion whereby government will guarantee 30% from the total amount. The RTO is meant for first-time house buyer with property prices of up to RM500,000.

More importantly, the announcement of **tax deduction for Cash Waqaf contribution to state religious council and public universities** suggests the government have become more open to inculcate philanthropy economy. We have been a strong proponent that Cash Waqaf could be harnessed and complement the fiscal policy. Apart from that, it could be an effective means to redistribute wealth as the donations are purely voluntary in nature. Therefore, it is imperative to identify the right project that would attract Malaysians to donate via Cash Waqaf.

Recognising the hardship faced by the average Malaysians, the government has maintained its allocation for cash transfers program such as the Bantuan Sara Hidup (BSH) of RM5 billion. This will benefit 3.6 million people that qualifies for the program. The firshermen allowance would also be increased from RM200 to RM250 per month next year in order to reduce their financial burden. Apart from that, the new income tax band for those who earned RM2 million and above in a year will be taxed at a rate of 30%. This indicates government efforts to address the income gap between the rich and the poor.

In a nutshell, the Budget 2020 is a step in the right direction. Measures introduced are aimed at promoting equitable growth as well as preparing for a solid foundation as the country will embark its journey under the ambit of Shared Prosperity Vision 2030 (WKB2030). Although the GDP growth target of 4.8% for 2020 is somewhat optimistic in our view, we believe if the measures are well executed, it would provide the needed boost to the economy. Additionally, the government commitment to reduce its debt and liability as well as its transparency in disseminating the relevant data should be able to instil confidence among the Credit Rating Agencies (CRAs). Various institutional reform that will determine the guiding principle for effective fiscal management such as Government Procurement Act (GPA) and Fiscal Responsibility Act (FRA) would bolster the governance level. The GPA and FRA are expected to be tabled in the parliament in 2020 and 2021.

Table 1: Federal government finances

RM billion	2015	2016	2017	2018	2019E	2020F
Revenue	219.1	212.4	220.4	232.9	263.3	244.5
%chg	-0.7%	-3.0%	3.8%	5.7%	13.1%	-7.1%
Operating Expenditure	217.0	210.2	217.7	231.0	262.3	241.0
%chg	-1.2%	-3.1%	3.6%	6.1%	13.6%	-8.1%
Current Balance	**2.1**	**2.2**	**2.7**	**1.9**	**1.0**	**3.5**
%chg	101.8%	7.5%	20.6%	-29.1%	-45.9%	237.5%
Gross Development Expenditure	40.8	42.0	44.9	56.1	53.7	56.0
%chg	3.2%	3.0%	6.9%	25.0%	-4.3%	4.3%
Less: Loan Recoveries	1.5	1.3	1.9	0.8	0.9	0.8
Net Development Expenditure	**39.3**	**40.6**	**43.0**	**55.3**	**52.8**	**55.2**
%chg	2.2%	3.5%	5.9%	28.5%	-4.5%	4.6%
Overall Balance	**-37.2**	**-38.4**	**-40.3**	**-53.4**	**-51.8**	**-51.7**
% of GDP	**-3.2%**	**-3.1%**	**-2.9%**	**-3.7%**	**-3.4%**	**-3.2%**

Source: Economic Outlook 2020, CEIC

Government Finance

The total revenue is expected to decline by 7.1% to RM244.5 billion in 2020 as compared to RM263.3 billion in 2019 (2018: RM232.9 billion). Nevertheless, after excluding one-off special dividend from PETRONAS in 2019, the government revenue is projected to grow by 4.8% in 2020. This was mainly underpinned by the increase in tax revenue of 5.5% to RM189.9 billion (2019E: RM180.0 billion). Higher tax revenue was due to increase in corporate income tax by 6.7% to RM75.5 billion (2019E: RM70.8 billion).

For Budget 2020, total spending for Operating Expenditure (OE) is set to be at RM241.0 billion, lower by 8.1% in 2020 (2019E: RM262.3 billion). As expected, higher allocation is registered for the Development Expenditure (DE), increasing by 4.3% to RM56.0 billion in 2020 (2019E: RM53.7 billion). Such higher DE was intended to implement projects with higher multiplier to the economy as well as for capacity building. A sum of RM53.2 billion from the total DE is allocated for the 4,744 ongoing projects while the balance RM2.8 billion is geared towards 722 new projects. Given that, the Government is estimated to record fiscal deficits of RM51.7 billion or 3.2% of GDP in 2020. The government is expected to maintain its fiscal consolidation exercise as prescribed by the Medium Term Fiscal Framework (MTTR). As such, the fiscal deficits are envisaged to be reduced to an average of 2.8% of GDP between 2020 and 2022. The MTTF will be based on 4 macroeconomic assumptions:

1) Projection of real GDP growth in between 4.5% and 5.0%.
2) Nominal GDP ranging 5.5% to 6.0%.
3) Crude oil price to be at between USD60 and USD65 per barrels.
4) Crude oil production of 600,000 barrels per day.

Table 2: Federal government revenue

RM million	2016	2017	2018	2019E	2020F
Tax Revenue	**169,343**	**177,658**	**174,061**	**180,010**	**189,951**
Direct Tax	109,608	116,024	130,035	135,639	142,676
- CITA	63,625	64,465	66,474	70,760	75,510
- Individuals	27,566	28,945	32,605	35,224	37,363
- PITA	8,422	11,761	20,082	17,883	17,452
Indirect Tax	59,736	61,634	44,026	44,371	47,275
- GST	41,206	44,290	20,236	26,800	28,300
- Excise Duties	11,705	10,112	10,779	10,485	11,000
- Import Duty	2,905	2,784	2,875	2,670	2,800
- Export Duty	980	1,355	1,725	1,280	1,300
Non-tax Revenue	**43,078**	**45,143**	**58,821**	**83,290**	**54,579**
- License and Permits	12,307	12,747	14,027	15,204	15,177
- Investment Income	21,425	21,638	31,889	59,500	28,580
Total Revenue	**212,421**	**220,406**	**232,883**	**263,300**	**244,530**
% of GDP	**17.0%**	**16.1%**	**16.1%**	**17.4%**	**15.2%**

Source: Economic Outlook 2020

Table 3: Federal government debt

RM million	2018	% GDP	2019E	% GDP
Federal Government Debt	**741,050**	**51.2%**	**799,108**	**52.7%**
Domestic Debt	**719,545**	**49.7%**	**769,867**	**50.7%**
MGS	380,345	26.3%	404,167	26.6%
MGII	304,300	21.0%	330,300	21.8%
SPK	28,400	2.0%	27,900	1.8%
Treasury Bills	6,500	0.4%	7,500	0.5%
Offshore Borrowing	**21,504**	**1.5%**	**29,241**	**2.0%**
Market Loans	15,907	1.1%	23,664	1.6%
Project Loans	5,597	0.4%	5,577	0.4%

Source: Economic Outlook 2020

Table 4: Government debt and liability as at June 2019

Subsector	RM billion		% of GDP	
	2018	2019	2018	2019
Federal government debt	741.0	799.1	51.2	52.6
Guarantees commitment	132.7	157.3	9.2	10.4
1Malaysia Development Berhad	32.2	32.2	2.2	2.1
Other liabilities (PPP, PFI & PBLT)	184.9	181.7	12.8	12.0
Grand total	**1,090.8**	**1,170.3**	**75.4**	**77.1**

Source: Budget 2020 speech

Table 5: Federal government operating expenditure by component

	RM million			Change (%)			Share (%)		
	2018	2019E	2020F	2018	2019E	2020F	2018	2019E	2020F
Emoluments	79,989	82,045	82,611	3.8%	2.6%	0.7%	34.6%	31.3%	34.3%
Retirement charges	25,177	26,557	27,055	10.4%	5.5%	1.9%	10.9%	10.1%	11.2%
Debt services charges	30,547	33,000	34,945	9.6%	8.0%	5.9%	13.2%	12.6%	14.5%
Grants and transfers to state governments	7,605	7,571	7,749	7.0%	-0.4%	2.4%	3.3%	2.9%	3.2%
Supplies and services	35,283	30,178	38,546	1.6%	-14.5%	27.7%	15.3%	11.5%	16.0%
Subsidies and social assistance	27,516	23,569	24,186	23.1%	-14.3%	2.6%	11.9%	9.0%	10.0%
Asset acquisition	447	673	650	-13.4%	50.6%	-3.4%	0.2%	0.3%	0.3%
Refunds and write-offs	883	921	987	9.2%	4.3%	7.2%	0.4%	0.4%	0.4%
Grants to statutory bodies	13,763	13,218	15,272	-2.0%	-4.0%	15.5%	6.0%	5.0%	6.3%
Others	9,750	44,528	9,019	-5.0%	356.7%	-79.7%	4.2%	17.0%	3.7%
Total	**230,960**	**262,260**	**241,020**	**6.1%**	**13.6%**	**-8.1%**	**100.0%**	**100.0%**	**100.0%**
Share of GDP (%)	**16.0%**	**17.3%**	**14.9%**						

Source: Economic Outlook 2020, CEIC

Table 6: Federal government development expenditure by sector

	RM million			Change			Share (%)		
	2018	2019E	2020F	2018	2019E	2020F	2018	2019E	2020F
Economic	**36,103**	**28,820**	**31,019**	**49.3%**	**-20.2%**	**7.6%**	**64.4%**	**53.7%**	**55.4%**
Transport	17,004	11,209	12,195	63.0%	-34.1%	8.8%	30.3%	20.9%	21.8%
Trade and industry	2,512	3,022	2,446	-33.9%	20.3%	-19.1%	4.5%	5.6%	4.4%
Energy and public utilities	2,254	2,584	4,338	-8.9%	14.6%	67.9%	4.0%	4.8%	7.7%
Agriculture and rural devlopment	2,133	2,310	2,973	-3.9%	8.3%	28.7%	3.8%	4.3%	5.3%
Environment	1,665	1,945	1,734	-19.2%	16.8%	-10.8%	3.0%	3.6%	3.1%
Social	**12,873**	**15,010**	**15,068**	**3.6%**	**16.6%**	**0.4%**	**22.9%**	**28.0%**	**26.9%**
Education and training	6,505	8,020	7,864	3.2%	23.3%	-1.9%	11.6%	14.9%	14.0%
Health	1,773	2,258	2,898	20.6%	27.4%	28.3%	3.2%	4.2%	5.2%
Housing	1,285	1,830	1,491	63.7%	42.4%	-18.5%	2.3%	3.4%	2.7%
Security	**4,929**	**6,689**	**6,557**	**-7.6%**	**35.7%**	**-2.0%**	**8.8%**	**12.5%**	**11.7%**
General administration	**2,190**	**3,181**	**3,356**	**-25.5%**	**45.3%**	**5.5%**	**3.9%**	**5.9%**	**6.0%**
Total	**56,095**	**53,700**	**56,000**	**25.0%**	**-4.3%**	**4.3%**	**100.0%**	**100.0%**	**100.0%**
Share of GDP (%)	**3.9%**	**3.5%**	**3.5%**						

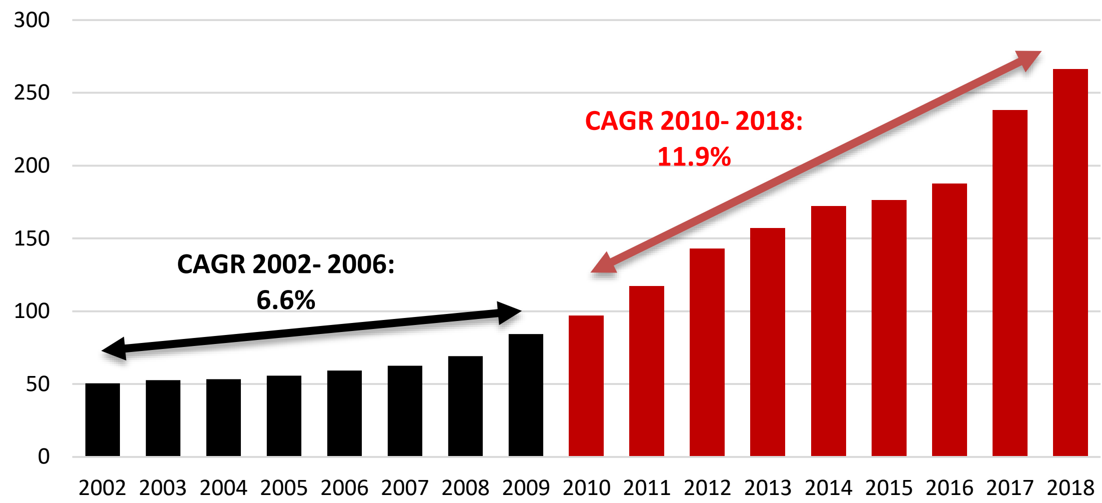
Source: Economic Outlook 2020, CEIC

Debt Management

The government has taken a proactive move in order to strengthen its sovereign debt creditworthiness as well as to safeguard investors' confidence. A Debt Management Office (DMO) and Debt Management Committee (DMC) were set on 15 May 2019. The establishment of DMC was to address concerns over risk associated with the Federal Government domestic and offshore borrowings, government guarantees (GG) and any policy direction that may impact the fiscal and debt position. As of June 2019, the Federal Government debt stood at RM799.1 billion (2018: RM741.1 billion) or 52.7% of GDP (2018: 51.2%). The prevailing debt level still lower than the self-imposed limit of 55.0%. That said, the government still have some room to manoeuvre for additional spending.

Additionally, the new disbursement under GG was needed, mainly to finance public infrastructure projects such as Mass Rapid Transit (MRT) and Pan Borneo Highway. Nevertheless, the government has been reviewing projects that involves GG and public-private partnership schemes (PPP). This is to ensure that the GG liabilities will not be too excessive that could compromise government's creditworthiness. This is especially true when debts guaranteed by the government has been growing at Compounded Annual Growth Rate (CAGR) of 11.9% between 2010 and 2018. Such trajectory is higher compared to CAGR of 6.6% registered between 2002 and 2009. Therefore, it is imperative to limit the usage of GG.

Chart 1: Government Guaranteed Debt (RM billion)



Source: Economic Outlook 2020, CEIC

Table 7: Government guaranteed liabilities (RM million)

Entity	RM million				
	2014	2015	2016	2017	2018
1Malaysia Development Berhad	5,000	5,000	5,000	5,000	5,000
Asset Global Network Sdn. Bhd.	860	1,012	658	556	455
Bank Pembangunan Malaysia Berhad	13,713	13,670	6,560	6,400	6,350
DanaInfra Nasional Berhad	14,100	17,600	29,700	42,180	52,700
GovCo Holdings Berhad	3,000	3,000	4,600	8,800	7,300
Jambatan Kedua Sdn. Bhd.	5,164	3,554	7,395	6,318	5,751
Johor Coporation	3,000	3,000	3,000	2,600	2,600
K.L. International Airport Berhad	4,722	2,560	339	181	94
Khazanah Nasional Berhad	20,000	20,000	18,000	17,000	15,000
Lembaga Kemajuan Tanah Persekutuan	5,146	4,859	4,150	4,100	4,000
Lembaga Pembiayaan Perumahan Sektor Awam	-	-	4,000	11,500	17,750
Malaysia Debt Ventures Berhad	1,000	1,300	1,200	900	930
Malaysia Rail Link Sdn. Bhd.	-	-	-	14,493	18,862
Malaysian Industrial Development Finance Berhad	18	12	5	-	-
MKD Kencana Sdn. Bhd.	-	-	-	1,000	3,500
Pelabuhan Tanjung Pelepas Sdn. Bhd.	2,095	2,053	1,925	1,840	1,995
Penerbangan Malaysia Berhad	3,973	4,386	661	530	469
Pengurusan Air SPV Berhad	10,450	10,650	12,710	13,110	13,310
Perbadanan Kemajuan Negeri Pahang	200	200	200	120	120
Perbadanan PRI1MA Malaysia	-	-	-	3,718	5,000
Perbadanan Tabung Pendidikan Tinggi Nasional	33,200	35,200	40,350	40,200	37,700
Prasarana Malaysia Berhad	13,914	15,614	18,700	26,614	31,414
Projek Lebuhraya Usahasama Berhad	11,000	11,000	11,000	11,000	11,000
Sabah Electricity Sdn. Bhd.	12	13	8	2	-
Sarawak Hidro Sdn. Bhd.	6,350	5,995	1,000	1,000	1,000
Senai Airport Terminal Services Sdn. Bhd.	330	330	330	330	330
Sentuhan Budiman Sdn. Bhd.	-	400	650	800	800
Small Medium Enterprise Development Bank Malaysia Berhad	2,337	2,317	2,310	2,600	2,600
SRC International Sdn. Bhd.	4,000	4,000	4,000	3,900	3,600
Suria Strategic Energy Resources Sdn. Bhd.	-	-	-	2,940	7,925
Syarikat Perumahan Negara Berhad	-	-	-	-	530
Tenaga Nasional Berhad	2,325	2,380	2,866	2,555	2,547
TRX City Sdn. Bhd.	800	800	699	595	485
Torus Pesawat Sdn. Bhd.	5,310	5,310	5,310	5,310	5,310
Total	172,019	176,215	187,326	238,192	266,427
% of GDP	15.5%	15.0%	15.0%	17.4%	18.4%

Source: Economic Outlook 2020, CEIC

Macroeconomic targets

Malaysian Gross Domestic Product (GDP) is expected to grow by 4.8% in 2020 from estimated growth of 4.7% in 2019. The expansion in the economic growth will be spearheaded mostly by the domestic demand (2020F: 4.8% vs. 2019E: 4.0%), particularly the private sector expenditures. Upon further scrutiny, private consumption and private investment are anticipated to record 6.9% (2019E: 6.8%) and 2.1% (2019E: 1.5%) growth in 2020 respectively. This was supported by the stable labour market conditions (Unemployment rate – 2020F: 3.3% vs. 2019E: 3.3%) and relatively low inflation (2020F: 2.0% vs. 2019E: 0.9%, average inflation 2010 – 2018: 2.3%). More job opportunities offer in the economy are likely to be the main underpinning factors for the labour market. In addition, the government has remained committed to reduce dependency on low-skilled foreign workers. Overtime, we foresee that this will encourage more locals in the labour force participation. Apart from that, continuous growth in salaries would help to improve household income. The latest data on median monthly salaries and wages of employees in Malaysia has increased to RM2,308 in 2018 as compared to RM2,160 in 2017, representing an increment of 6.9%. Notwithstanding, net exports is forecasted to deteriorate by 2.7% in 2020 from 14.5% expansion in 2019 as import growth outweigh the export performance. Real export is projected to grow by 1.4% in 2020 from an estimated contraction of 0.4% in 2019. Despite that, the expected real export growth is still lower compared to the average growth of 3.7% from 2010 to 2018. On real imports, it would rise by 1.9% in 2020 from an estimated 2.1% contraction this year.

Table 8: GDP by expenditure

Y-o-Y%	2016	2017	2018	2019E	2020F
GDP	**4.4%**	**5.7%**	**4.7%**	**4.7%**	**4.8%**
Domestic Demand	4.3%	6.5%	5.5%	4.0%	4.8%
Consumption	**4.9%**	**6.6%**	**7.1%**	**5.9%**	**5.9%**
-Private	5.9%	6.9%	8.0%	6.8%	6.9%
-Public	1.1%	5.5%	3.3%	2.0%	1.5%
Investment	**2.6%**	**6.1%**	**1.4%**	**-1.4%**	**1.3%**
-Private	4.5%	9.0%	4.3%	1.5%	2.1%
-Public	-1.0%	0.3%	-5.0%	-8.1%	-0.6%
Net Exports	**0.4%**	**-3.9%**	**11.4%**	**14.5%**	**-2.7%**
Exports	1.3%	8.7%	2.2%	-0.4%	1.4%
Imports	1.4%	10.2%	1.3%	-2.1%	1.9%

Source: Economic Outlook 2020

On the supply side, services and manufacturing sector will continue to be the key drivers of growth in 2020. The services sector which accounted for 57.5% of GDP is expected to grow by 6.2% in 2020 from 6.1% in 2019 due to expansion across all subsectors. The wholesale and trade subsector are expected to be the main engine of growth for the services industries. This was due the expansion in the retail segment following an increasing number of conveniences stores. Apart from that, the launch of Visit Malaysia 2020 (VM2020) is expected to be a major booster for the sector. Tourist's arrivals are estimated to increase to 30.0 million in 2020 from 28.1 million in 2019. As such, more investment is needed to promote the industry as in view of its great potential to the country.

Table 9: GDP by industries

Sector	Share (%)	Change (%)		
	2019E	2018	2019E	2020F
Services	57.5	6.8	6.1	6.2
Manufacturing	22.2	5.0	4.0	4.1
Mining	7.3	-2.6	0.6	0.3
Agriculture	7.3	0.1	4.3	3.4
Construction	4.7	4.2	1.7	3.7
GDP	**100.0**	**4.7**	**4.7**	**4.8**

Source: Economic Outlook 2020

Table 10: Services sector performance

Subsector	Share (%)	Change (%)		
	2019E	2018	2019E	2020F
Wholesale and retail trade	29.6	8.1	6.8	7.0
Finance and insurance	11.4	5.7	4.8	5.1
Information and communication	10.3	8.3	6.7	6.9
Real estate and business services	8.4	7.6	7.6	7.8
Transport and storage	6.5	6.4	6.5	6.4
Food & beverages and accomodation	6.1	8.9	9.2	8.9
Utilities	4.6	4.9	5.6	4.4
Other services	8.6	5.5	5.3	5.1
Government services	14.5	4.5	4.0	4.0
Services	**100.0**	**6.8**	**6.1**	**6.2**

Source: Economic Outlook 2020

Similarly, the manufacturing sector is anticipated to expand slightly by 4.1% in 2020 from 4.0% in 2019. This would mainly be supported by export-oriented industries as manufacturers are expected to benefits from the changes in the global electronics supply chain following the US and China trade and technology disputes. Apart from that, Electrical & Electronics (E&E) subsector will be the key catalyst for growth, as expanding demand for Artificial Intelligence (AI), Internet of Things (IoT), Big Data Analytics (BDA) and 5G are likely to support the E&E subsector output production.

Table 11: Manufacturing production index

Subsector	Share (%)		Change (%)	
	2018	2019	2018	2019
Export-oriented industries				
Petroleum, chemical, rubber and plastic products	29.5	29.3	4.2	3.2
Electrical and electronics products	27.9	27.8	6.0	3.7
Wood products, furniture, paper products and printing	6.7	6.8	4.2	5.4
Textiles, wearing apparel, leather products and footwear	2.0	2.0	5.0	5.2
Domestic-oriented industries				
Non-metalic mineral products, basic metal and fabricated metal products	13.3	13.4	5.2	4.2
Food, beverages and tobacco	12.5	12.4	4.5	4.1
Transport equipment and other manufacturers	8.1	8.3	5.3	6.4
Manufacturing Production Index	**100.0**	**100.0**	**5.0**	**4.1**

Source: Economic Outlook 2020

The agriculture sector is expected to grow moderately in 2020 by 3.4% (2019E: 4.3%). The growth would be driven by the higher output of plantation, livestock, and other agriculture subsectors. Oil palm which is the largest contributor to the agriculture sector is projected to increase by 5.5% in 2020 after rebounded to 7.7% in 2019. This would be attributed by the increase in CPO production (2020F: 22.2 million tonnes vs. 2019E: 21 million tonnes) due to favourable weather conditions and expansion in oil palm matured areas. **The government projected CPO prices to be at RM2,100 per MT in 2020 from RM2,000 per MT** following the increase in domestic consumption for biodiesel as well as higher demand from major markets.

Table 12: Value added in agriculture sector

Subsector	Share (%	Change (%)		
	2019E	2018	2019E	2020F
Oil palm	39.1	-1.8	7.7	5.5
Rubber	2.9	-17.6	7.3	4.4
Other agriculture	24.8	3.3	3.0	3.1
Livestock	15.0	6.7	5.6	5.1
Fishing	11.8	0.5	-1.2	-0.2
Forestry and logging	6.4	-5.5	-3.1	-6.1
Services	**100.0**	**0.1**	**4.3**	**3.4**

Source: Economic Outlook 2020

Other macroeconomics indicator such as the current account balance (CAB) is predicted to be in a surplus balance of 1.9% of Gross National Income (GNI) in 2020 (2019E: 2.9%). This would mean the country still has sufficient domestic liquidity in view of positive savings-investment gap. All in all, based on the observed data, we can infer that **Malaysian economic growth would still within its potential growth level of 4.8% - 5.0%.** However, the risks to the outlook is still on the downside following the heightened uncertainties in the global markets, as well as pressures from the slower trading activities and demand conditions.

Measures that we like:

1. Small Medium Enterprises (SMEs)

The following are some of the measures that the Government has introduced to uplift the SME industry:

- ✓ Skim Jaminan Pinjaman Perniagaan (SJPP) increased from 70.0% to 80.0% for bumiputera while the guarantee fee reduced to only 0.75%.
- ✓ A new SJPP allocation of RM500.0 million in guarantee facility for women entrepreneurs will also be embarked.
- ✓ Two new funds amounted to RM500.0 million will be introduced and an annual interest subsidy of 2.0% will be given by the government to reduce the cost of borrowing.
- ✓ SME Corporation (SMECorp) funded RM75.0 million for capacity building and exports which will focus on Bumiputera.

2. Tourism

In order to promote Malaysia as a top destination and spur the domestic tourism, the government has introduced:

- ✓ RM1.1 billion to the Ministry of Tourism, Arts and Culture (MoTAC) to drive awareness and programmes for Visit Malaysia 2020 (VM2020).
- ✓ Income tax exemption for organisers of approved arts and cultural activities, international sports, recreational competitions and conference organisers.
- ✓ Income tax exemption of 100% of statutory income or Investment Tax Allowance of 100% to be set off against 70% for 5 years for new investments in international theme park projects.
- ✓ Accelerated Capital Allowance (ACA) for expenditure incurred on the purchase of new locally assembled excursion bus to be fully claimed within 2 years.
- ✓ Excise duty exemption of 50% for locally assembled vehicles be given to tour operators for the purchase of qualified new tourism vehicles.

3. Digital economy

The government is committed to gear towards Digital Malaysia.

- ✓ Implementing the National Fiberisation & Connectivity Plan (NFCP) with total investment of RM21.6 billion. This will provide comprehensive coverage of high speed and quality digital connectivity nationwide.
- ✓ Allocation of RM210.0 million to accelerate the deployment of new digital infrastructure for public buildings particularly schools and also high impact areas such as industrial parks.
- ✓ RM25 million was set to establish a contestable matching grant fund for more pilot projects on digital applications such as autonomous vehicle and drone delivery.
- ✓ RM20 million was given to Malaysian Digital Economy Corporation (MDEC) to create digital contents that give economic values.
- ✓ Income tax exemption up to 10 years to Electric & Electronic (E&E) companies investing in selected knowledge-based services.
- ✓ A special Investment Tax Allowance to encourage companies in E&E sector that have exhausted the Reinvestment Allowance to further reinvest in Malaysia.
- ✓ Accelerated Capital Allowance and automation equipment capital allowance for manufacturing sector on the first RM2 million and RM4 million incurred on qualifying capital expenditure is extended to the year of assessment 2023.
- ✓ The incentive is also be expanded to include services sector on the first RM2 million incurred on qualifying capital expenditure from the year of assessment 2020 to the year of assessment 2023.

4. Housing

- ✓ Rent To Own (RTO) financing scheme for purchase of first home up to RM500,000 property price.
- ✓ Extension of the Youth Housing Scheme administered by Bank Simpanan Nasional (BSN) from 1 January 2020 to 31 December 2021.
- ✓ RM100.0 million allocation for repair and refurbishment of medium cost strata housing.
- ✓ Free personal accident insurance up to RM100,000 coverage for two years will be offered by the Public Sector Home Financing Board (LPPSA) to new government housing loan borrowers.
- ✓ RM70 million for housing the new generation of FELDA settler.

5. Education

- ✓ RM735.0 million for school maintenance and upgrading.
- ✓ RM5.9 billion for Technical & Vocational Education & Training (TVET) programme.
- ✓ RM11.0 million allocation for Ministry of Education in collaboration with Ministry of Environment, Science, Technology and Climate Change (MESTECC) to inculcate the Science, technology and Innovation (STI) culture and to encourage more students into the field.
- ✓ RM6.6 billion allocation for Bumiputera institutions.
- ✓ RM10.0 million allocation for early childhood care facilities development in government buildings by creating 66 new TASKAs.
- ✓ Encouraging adult learning by expanding the scope of education withdrawal via EPF especially for accredited programmes that are in line with IR4.0.

6. Infrastructure

- ✓ RM1.1 billion allocation to support projects for corridor development activities.
- ✓ RM210 million allocation to accelerate the deployment of new digital infrastructure for public buildings and high impact areas.
- ✓ RM90 million for the upgrading of FELDA roads and basic infrastructure.
- ✓ RM1.0 billion for development on rural roads primarily targeted at Sabah and Sarawak.
- ✓ RM85 million allocation for development and repair of basic infrastructure in new village.
- ✓ RM319 million for the construction and upgrading of health and dental clinics, as well as quarters facility.
- ✓ The Government remains committed to complete the Pan Borneo Highway project.
- ✓ To proceed with the Bandar Malaysia Project which involves 486 acres at Sungai Besi, Kuala Lumpur.

Appendix

Table 13: Development expenditure by ministry

Ministry	RM million				Change (%)			Share (%)		
	2017	2018	2019E	2020F	2018	2019E	2020F	2018	2019E	2020F
PM Dept	11,009	3,321	3,696	3,852	-69.8%	11.3%	4.2%	6.9%	6.5%	6.6%
JPA	27	46	49	32	70.4%	6.5%	-34.7%	0.1%	0.1%	0.1%
Treasury	4,823	5,396	6,553	9,652	11.9%	21.4%	47.3%	11.2%	11.6%	16.6%
Foreign Affairs	102	124	117	93	21.6%	-5.6%	-20.5%	0.3%	0.2%	0.2%
Economic Affairs	-	2,193	2,504	2,725	-	14.2%	8.8%	4.6%	4.4%	4.7%
Plantation Industries	373	497	381	411	33.2%	-23.3%	7.9%	1.0%	0.7%	0.7%
Agriculture	1,251	1,336	1,360	1,364	6.8%	1.8%	0.3%	2.8%	2.4%	2.4%
Rural and Regional	5,615	3,225	5,422	5,224	-42.6%	68.1%	-3.7%	6.7%	9.6%	9.0%
Natural Resources and Environment	1,466	2,582	2,829	3,500	76.1%	9.6%	23.7%	5.4%	5.0%	6.0%
MITI	816	1,149	1,163	865	40.8%	1.2%	-25.6%	2.4%	2.1%	1.5%
Domestic Trade	56	74	75	78	32.1%	1.4%	4.0%	0.2%	0.1%	0.1%
Entrepreneurship	-	437	324	326	-	-25.9%	0.6%	0.9%	0.6%	0.6%
Public Works	5,087	5,763	6,116	6,241	13.3%	6.1%	2.0%	12.0%	10.8%	10.8%
Transport	3,132	2,975	3,982	1,856	-5.0%	33.8%	-53.4%	6.2%	7.0%	3.2%
Energy, Technology and Water	492	675	812	841	37.2%	20.3%	3.6%	1.4%	1.4%	1.5%
Tourism	156	189	187	188	21.2%	-1.1%	0.5%	0.4%	0.3%	0.3%
Federal Territory	926	914	1,222	1,098	-1.3%	33.7%	-10.1%	1.9%	2.2%	1.9%
Health	1,296	1,845	2,180	2,661	42.4%	18.2%	22.1%	3.8%	3.8%	4.6%
Housing	1,624	2,027	2,393	1,996	24.8%	18.1%	-16.6%	4.2%	4.2%	3.4%
Youth	400	408	378	484	2.0%	-7.4%	28.0%	0.9%	0.7%	0.8%
Human Resources	464	500	500	455	7.8%	0.0%	-9.0%	1.0%	0.9%	0.8%
Multimedia	477	581	415	814	21.8%	-28.6%	96.1%	1.2%	0.7%	1.4%
Women	144	189	196	214	31.3%	3.7%	9.2%	0.4%	0.3%	0.4%
Defense	3,349	3,297	3,648	3,084	-1.6%	10.6%	-15.5%	6.9%	6.4%	5.3%
Home Affairs	952	1,842	3,087	3,089	93.5%	67.6%	0.1%	3.8%	5.4%	5.3%
Education	1,096	4,412	5,110	4,858	302.6%	15.8%	-4.9%	9.2%	9.0%	8.4%
Contigent Deposits	-	2,000	2,000	2,000	-	0.0%	0.0%	4.2%	3.5%	3.4%
Total	**45,133**	**47,997**	**56,699**	**58,000**	**6.3%**	**18.1%**	**2.3%**	**100.0%**	**100.0%**	**100.0%**

Source: MOF