

Economic Focus

Budget 2024: Delivering on reform promises

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- **Budget 2024 allocated RM394bn to achieve Madani Economy goals**
- **Emphasis on fiscal resilience for long-term sustainability to uplift socioeconomic developments**
- **Government's 2024 GDP growth projected at 4.0%-5.0% with lower budget deficit of 4.3%**

Fiscal resilience is prioritized

Budget 2024 entails a total expenditure of RM394bn as Malaysia strives to deliver inclusive and sustainable economic growth. Notably, 2024 development expenditure is expected to increase by 8% to RM90bn (excluding US\$3bn 1MDB bond redemption in 2023 base) while operating expenditure is projected to increase by 1.2%, mirroring the projected revenue growth of 1.5% in 2024. We take cognizance of the lower 2024 PETRONAS dividend of RM32bn, compared to RM40bn in 2023 and RM50bn in 2022 as well as fiscal reform measures such as broadening tax revenue and subsidy rationalisation, reflecting government's commitment for long-term fiscal sustainability. Therefore, 2024 budget deficit is expected to fall to the lowest since 2019 at 4.3% (vs 5.0% in 2023). As at Dec 2022, government debt accounted for ~62% of our gross domestic product (GDP), compared to 60% in Dec 2021.

Balancing needs to address Rakyat's high cost of living and ballooning subsidies

Budget 2024 marks a critical milestone to deliver on the government's reform initiatives, encompassing the key strategies laid out in the recently tabled 12th Malaysia Plan Mid-Term Review. Diesel subsidies will be rationalised while ceiling prices on chicken and eggs will be removed to allow prices to float. Targeted subsidy for petrol is expected to be implemented in phases in 2024 with some of the savings channelled to the allocation for Rahmah Cash Aid (STR) of RM10bn in 2024 (vs RM8bn in 2023), benefitting 9m recipients (vs 8.7m). For revenue base expansion, some of the new taxes introduced are capital gains tax on unlisted shares, luxury goods tax as well as higher rates for service tax at 8% (from 6%) and sugar sweetened beverages. In short, the government has clearly showcased its commitment toward fiscal sustainability which will bode well for Malaysia's long-term development.

Growth strategies under Madani Economy Framework

Budget 2024 reaffirms the long-term strategies under the National Energy Transition Roadmap (NETR) and New Industry Masterplan (NIMP) 2030 with various tax incentives provided such as RM50k tax deduction for ESG-related expenses, enhanced green technology tax incentives and tiered investment tax allowance to attract investment in high-growth high-value industries. SME development is also emphasized with ample financial facilities offered and RM900m loan funds for automation and digitalisation. In addition, mega projects such as RM10bn Penang LRT, RM4.7bn LRT 3 (5 stations in Selangor revived), RM0.9bn PLUS highway expansion and RM15.7bn Pan-Borneo Sabah Highway will sustain investment activities in 2024. The government has also delivered on its promise to allocate more development expenditure for Sabah/Sarawak at RM12.4bn in 2024 (vs RM12.1bn in 2023).

Domestic demand to underpin economic resilience

The government has revised its 2023 GDP growth forecast to 4% (from 4.0%-5.0%) which is in line with our in-house projection of 4.1%. Meanwhile, government's 2024 GDP growth stands at 4.0%-5.0%, compared to our in-house projection of 4.3%. Private consumption continues to be the key growth driver, underpinned by robust labour market and strong economic and social activities while private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030.

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Key economic indicators

	2022		2023		2024	
	RMm	% chg	RMm	% chg	RMm	% chg
Gross Domestic Product (2015 prices)	1,510,939	8.7	1,569,247	4.0	1,645,078	4.0-5.0
Agriculture	99,073	0.1	99,620	0.6	100,076	1.2
Mining and quarrying	96,199	2.6	95,448	(0.8)	97,546	2.7
Manufacturing	364,131	8.1	369,359	1.4	378,872	4.2
Construction	53,441	5.0	56,824	6.3	56,576	6.8
Services	881,310	10.9	930,125	5.5	924,353	5.6
Import duties	16,785	7.3	17,868	6.5	17,207	5.6
Gross Domestic Product (current prices)	1,791,358	15.7	1,850,102	3.5	1,974,027	6.0-7.0
Federal Government Finance						
Revenue	294,357	25.9	303,200	3.0	307,600	1.5
Operating expenditure	292,693	26.4	300,140	2.5	303,800	1.2
Current balance	1,664		3,060		3,800	
Gross Development expenditure	71,574	11.4	97,000	35.5	90,000	(7.2)
Less: Loan recovery	1,407		700		800	
Net Development expenditure	70,167	10.9	96,300	37.2	89,200	(7.4)
COVID-19 fund	30,979	(17.9)	-		-	
Overall balance	(99,482)		(93,240)		(85,400)	
% of GDP	(5.6)		(5.0)		(4.3)	
	2021	% of GDP	2022	% of GDP		
Federal Government Debt	1,079,591	60.3	1,147,132	62.0		
Domestic debt	1,050,078	58.6	1,117,158	60.4		
Treasury bills	31,500	1.8	34,500	1.9		
Msian government investment issues	471,300	26.3	512,800	27.7		
Msian government securities	538,178	30.0	564,358	30.5		
Government housing sukuk	9,100	0.5	5,500	0.3		
Offshore borrowings	29,513	1.6	29,974	1.6		
Market loans	25,543	1.4	26,298	1.4		
Project loans	3,970	0.2	3,676	0.2		

Source: Ministry of Finance

Budget 2024 key highlights

Financial Assistance for SMEs and Micro Businesses	Amount
Guarantee by SJPP up to 80% loans for SME entrepreneurs, especially those involved in the green economy, technology and halal sectors	RM20bn
Allocation of loan funds under BNM to support SMEs	RM8bn
Specific allocation to for microenterprises, low-income entrepreneurs, small contractors, the adoption of sustainable practices and the food security sector	RM600m
Provision of small loans to micro-entrepreneurs and small traders through BNM, BSN and TEKUN	RM2.4bn
Allocation for FELDA, FELCRA and RISDA to enhance agro-commodity activities and improve socioeconomic status of small farmers	RM2.4bn
Loan and guarantee facilities specifically for Bumiputera's MSMEs, including provision of venture capital financing to bumiputera startups	RM1.6bn
Funding by GLCs and GLICs to encourage startups, including bumiputera SME owners to enter High Growth, High-Value (HGHV) sectors such as the digital economy, aerospace technology and E&E fields	RM1.5bn
Grants and loans to 7000 private small oil palm farmers through the Palm Replanting Programme	RM100m
Allocation for the Rubber industry Smallholders Development Authority (Risda) and Felcra for smallholders to optimise their land use	RM90m
Special financing facilities for micro entrepreneurs with disabilities, provided by BSN	RM50m
Allocation of additional funds in matching grants under the existing i-TEKAD social finance programme	RM25m
Allocation to improve entrepreneurship programmes among Orang Asli	RM28m
Continuation of Tunas Usahawan Belia Bumiputera programme	RM20m
Continuation of Tekun Belia Mobilepreneur to fund youths in delivery service	RM20m
Infrastructure	
Development expenditure of RM90bn (2023e: RM97bn; 2022: RM71.6bn)	RM90bn
Tender process for 19 work packages for the Pan Borneo Highway in Sabah Phase 1B, covering 366km to completed in November 2023	RM15.7bn
33 high-priority flood mitigation projects	RM11.8bn
Penang LRT project under Public Private Partnership method	RM10.0bn
Sarawak-Sabah Link Road (SSLR) Phase 2 project to be commenced by end of 2023	RM7.4bn
Maintenance of federal roads and bridges, specifically earmarked for contractors in categories G1 to G4	RM2.8bn
Construction, maintenance and improvement of government employee quarters, teacher accommodation, hospitals, police, military and firefighter facilities	RM2.4bn
Solutions to fix water supply issues especially in Kelantan, Sabah, and Federal Territory of Labuan	RM1.1bn
PLUS Highway expansion for Sedenak-Simpang Renggam stretch from 4 lanes to 6 lanes	RM931m
Continuation of air transport subsidies for the rural residents of Sabah and Sarawak	RM209m
Maintenance of streetlights, including replacement with energy-efficient LED types that can save electricity	RM100m
Healthcare	
Total allocation of RM41.2bn for Ministry of Health (2023e: RM36.3bn; 2022: RM33.0bn)	RM41.2bn
Allocation to build Universiti Sains Islam Malaysia (USIM) Teaching Hospital Complex Phase 1 in Kota Tinggi, Johor	RM938m
Procurement of medical equipment in government hospitals to replace equipment that reached Beyond Economic Repair (BER)	RM766m
Improve cooperation by outsourcing patients to other hospitals including military, university and private hospitals	RM200m
Additional Pathology Block at Raja Perempuan Zainab II Hospital, Kelantan	RM175m
Provision to maintain the information technology system under MoH including providing Clinic Management System Subscription (CCMS) in 100 health clinics	RM150m
Construction of 5 new health clinics in Rantau (Negeri Sembilan); Kuala Tahan, Jerantut (Pahang), Kuala Jengal, Dungun (Terengganu) and Pulau Mantanani, Kota Belud (Sabah)	RM150m

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Budget 2024 key highlights (cont'd)

Education	Amount
Total allocation of RM16.3bn for Ministry of Higher Education (2023e: RM15.3bn; 2022: RM14.3bn)	RM16.3bn
Tiered discount for PTPTN repayments starting from 14 Oct 2023 to 31 Mar 2024 for payments made through scheduled payments or direct debit	-
Registration fees for public universities will not exceed RM1500 starting from Jan 2024	-
Establishment of the country's first Faculty of Artificial Intelligence (AI) at UTM	initial allocation of RM20m
Total allocation of RM58.7bn for Ministry of Education (2023e: RM55.2bn; 2022: RM51.9bn)	RM58.7bn
Construction of 26 new schools	RM2.5bn
Allocation to upgrade and maintain schools throughout the country	RM1.9bn
Allocation to KEMAS for early childhood education	RM586m
Sustainability Development	
Funding to support National Energy Transition Roadmap	RM2.0bn
Improve implementation of Corporate Green Power Programme as one of the methods for Third Party Access	-
Allocation for Ecological Fiscal Transfer for Biodiversity Conservation (EFT)	RM200m
Additional tax deduction of up to RM300k for companies that spend on Measurement, Reporting and Verification (MRV) related to the development of carbon projects	-
Tax exemptions to fund management companies that manage sustainable and responsible investment (SRI) funds as well as tax deductions on the cost issuing SRI sukuk until assessment year 2027	-
Tax relief of up to RM2500 on EV charging facility expenses for a period of 4 years and tax deductions for EV rental costs	-
Allocation to enhance the sustainability of the palm industry on the international stage	RM70m
Implementation of solar-hybrid energy generation and the construction of electricity transmission networks in southern Sabah	-
Individuals	
Allocation to finance various forms of government grants including subsidies, incentives and aid	RM58.1bn
Financing of distribution costs of essential necessities such as petrol, LPG, flour, rice and cooking oil	RM225m
Targeted electricity subsidy approach based on the level of consumption (expected to save more than RM4.6bn)	RM20bn
Continuation of electricity bill rebates of up to RM40 per month to extremely poor households	RM55m
Cash aid under Sumbangan Tunai Rahmah (STR) to benefit 9m adults	RM10bn
Aid channelled by Social Welfare Department to benefit 450k people	> RM2.4bn
Aid in various aspects for the disabled, such as care for chronically incapacitated disabled persons, those who are jobless, and disabled worker allowances	RM1.2bn
Introduction of flexible EPF account	-
Allocation to increase the participation of more hardcore poor people in People's Income Initiative programme to increase their income	RM500m
Provision to fund training fees and income replacement incentives for 9000 gig workers who attend training programmes under SOCSO Career Building Programme	RM35m
Increase in allowance for disabled trainees participating in the community rehabilitation programme from RM150 to RM300 per month, benefitting over 18k disabled trainees	RM30m
Income tax exemption limit on childcare allowances to be increased from RM2400 to RM3000	-
Monthly salary ceiling for SOCSO contributions to be increased from RM5000 to RM600	-
Provision of special incentives of RM1500 per month for 6 months to support the entry of more than 3300 job seekers	RM30m

Budget 2024 key highlights (cont'd)

Others	Amount
Increase service tax rate to 8% from 6% (excl. services such as food & beverages and telecommunications)	-
Implementation of Capital Gains Tax for the disposal of unlisted shares by local companies based on net profit at rate of 10% from 1 Mar 2024	-
Implementation of High Value Goods Tax at a rate of 5% to 10% on certain high value goods such as jewelery and watches based on the threshold value of goods	-
Excise duty rate for sugar sweetened beverages raised from 40 sen to 50 sen per litre	
Mandatory e-invoicing for taxpayers with annual income or sales exceeding RM100m starting from 1 Aug 2024	-
Provision of support fund to strengthen the Research & Development, Commercialisation & Innovation (R&D&CI) ecosystem for the commercialisation of products	RM76m
Allocation for technology-related areas, including E&E technology under MIMOS, the aerospace sector under MYSA and drone and robotics technology under MRANTI	RM10m
Open a high-tech industrial area in Kerian in northern Perak to build a wider ecosystem for E&E cluster in the northern region	

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