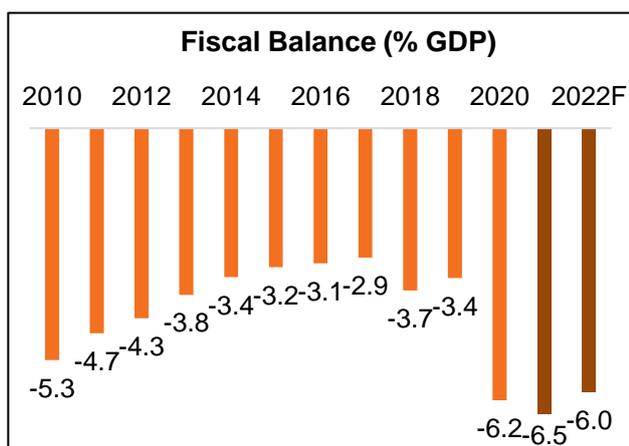


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Budget 2022, aimed at bolstering Malaysia’s recovery path, was tabled to the Parliament on October 29. It is the second budget under the 12<sup>th</sup> Malaysia Plan (2021-2025) (12MP). Themed “Malaysian Family, Prosperous and Peaceful”, we laud the expansionary budget that revealed the largest spending allocation of RM332.1 billion to date, a 3% increase from last budget. Akin to Budget 2021, Ministry of Education (RM52.6 billion) and Ministry of Health (RM32.4 billion) remain the top 2 recipients.

Of the total budgeted amount, RM233.5 billion (70.3%) will be channelled to Operating Expenditure, RM75.6 billion (22.8%) to Development Expenditure (DE) and RM23 bil (6.9%) to Covid-19 Fund. As the government is committed to spend RM400 billion on DE under the 12MP (2021 & 2022: 34.4% of the target), this means it would need to earmark an average RM87 billion per year on development purposes for the next 3 years. We believe the elevated development spending would prop up the



near-term growth trajectory and enhance Malaysia’s economic potential. Meanwhile, fiscal deficit is projected to shrink to 6% of GDP in 2022, on account of revenue growth (+5.9%) and rosier economic outlook in 2022. The government in its 3-year budgetary guidance, Medium-Term Fiscal Framework 2022-2024, eyes a deficit of 5%, indicating a gradual fiscal consolidation ahead.

GDP Growth (%)	% share GDP	2020	2021e	2022f
Agriculture	7.1	-2.2	-0.8	3.9
Mining	6.7	-10.6	1.5	-0.3
Manufacturing	23.9	-2.6	8.1	4.7
Construction	3.8	-19.4	-0.8	11.5
Services	57.2	-5.5	2.6	7.0
<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 2022 forecast, the Ministry of Finance (MOF) expects an expansion across all sectors, except the mining sector due to a scheduled shutdown of oil & gas plants for maintenance. Meanwhile, driven by the continuation of big-ticket projects in the civil engineering space and

measures to tackle affordable housing shortages, the construction sector is expected to chart the strongest growth. The manufacturing sector’s growth is likely to accelerate to 4.7%, propelled by export-oriented industries, particularly the electrical & electronic subsector.

The MOF anticipates the services sector to grow 7% in 2022, benefitting from the pent-up demand amid strengthening business and consumer confidence. For the tourism industry a strong rebound of 28.9% is anticipated, given the resurgence of tourist arrivals and domestic tourism following the lifting of interstate travel ban. As the wholesale & retail trade and accommodation subsector contributes to about 40% of the SME sector’s GDP, we are of the view that the growth engine for the SME segment is on the right track to revive.

In addition, the government, under Budget 2022, proposes a slew of programmes to assist SMEs financially. An estimated total of RM14.2 billion or 4.3% of budgeted expense is dedicated to the group. The much-needed injection is expected to bridge funding gap and ease tight cashflow faced by SMEs.

#### Available programmes for SME entrepreneurs under Budget 2022

Allocation/Tax	Amount
iTEKAD, a blended social finance programme	RM20 million
Halal Product Digital Branding and Halal Product Marketability programme.	RM25 million
Technological transformation incentive for SMEs	RM45 million
A matching grant to Bumiputera SMEs to explore the aerospace industry	RM100 million
SME Digitalisation Grant Scheme	RM200 million
RESET Scheme (Rehabilitation and Support Through Equity) by Bank Pembangunan Malaysia	RM500 million
Matching method through equity and quasi-equity investments via funds led by SME Bank in collaboration with the Bumiputera Agenda Steering Unit & Bank Simpanan Nasional	RM600 million
Business Recapitalisation Fund by Bank Negara Malaysia (BNM)	RM1 billion
Low Carbon Transition Facility	RM1 billion
Agrofood Facility will be upsized by RM500 million	RM2 billion
Targeted Relief and Recovery Facility by BNM to top up RM2 billion	RM8 billion
Enhanced business financing guarantees by Syarikat Jaminan Pembiayaan Perniagaan	RM10 billion
Micro SME entrepreneurs are eligible to receive benefits of up to RM2,000 for e-commerce implementation activities, training in marketing and digital payments	N/A
SMEs allowed to postpone income tax instalments for six months until 30 June 2022	N/A

Sources: MOF and BNM

Besides, existing facilities under BNM – (1) the Micro Enterprises Facility, (2) SME Automation and Digitalisation Facility, (3) PENJANA Tourism Financing, (4) All Economic Sectors Facility and (5) High-Tech Facility – are still available. All in all, the SME financing extended by the central bank stood at RM11.2 billion as at end-September 2021 (out of a total facility of RM31.1 billion).

SME Bank is also entrusted with 3 funds under Budget 2022 to help entrepreneurs, namely (1) Industrialised Building System Promotion Fund 2.0, (2) Young Entrepreneur Fund 2.0 and (3) SME Recapitalisation Fund, totalling RM900 million. We welcome businesses to reach out to SME Bank for more details on these funds and other financing products.

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