

BUDGET 2023

11 OCTOBER 2022

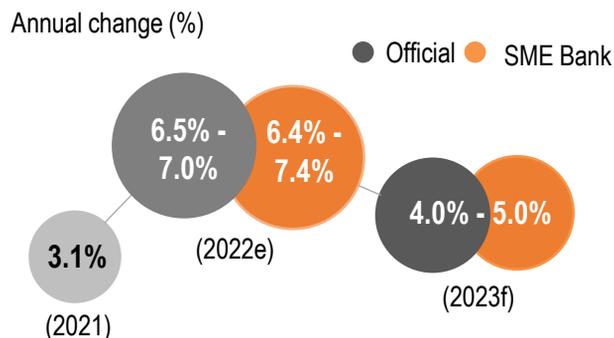
- Given the dissolution of Parliament on 10 October, Budget 2023 which was tabled on 7 October would have **no legality at this juncture**. It will have to be re-tabled once a new government is formed.
- Budget 2023's theme is "*Keluarga Malaysia, Makmur Bersama*", to be driven by the 3R – Responsive, Responsible and Reformist. **One of the largest budget** ever tabled by the government, Budget 2023 (RM372.3 bil) is actually a **contractionary budget** compared to the Revised Budget 2022 of RM385.3 bil which factored in fiscal support to cushion rising inflation (Initial Budget 2022: RM332.1 bil).
- On the macroeconomic front, **Budget 2023 was spot on** as key macroeconomic forecasts for 2023 **matches our in-house projection**, namely:
 - GDP growth is anticipated to moderate to the range of **4.0% - 5.0%** (refer Fig. 2)
 - Inflation to remain manageable between 2.8% - 3.3% (SME Bank: 3.0% - 4.0%)
 - Brent oil prices at USD90/bbl (SME Bank: USD85 – USD95/bbl) amid downtrend in commodity prices

Fig. 1: GDP breakdown by expenditure and industry

	Share (%) 2022e	Change (% YoY)		
		2021	2022e	2023f
Domestic demand	92.5	1.7	6.3	5.1
Private expenditure	75.1	2.0	7.5	5.8
Consumption	60.0	1.9	8.7	6.3
Investment	15.1	2.6	3.0	3.7
Public expenditure	17.4	0.6	1.3	2.0
Consumption	13.1	5.3	1.0	2.0
Investment	4.3	-11.3	2.2	2.1
External sector	6.2	-4.1	10.0	3.2
Exports	70.6	15.4	8.8	1.6
Imports	64.4	17.7	8.7	1.4
Services	58.0	1.9	8.2	5.0
Manufacturing	24.3	9.5	6.3	3.9
Agriculture	6.7	-0.2	0.1	2.3
Mining	6.4	0.3	2.1	1.1
Construction	3.5	-5.2	2.3	4.7
Total GDP	100.0	3.1	6.5-7.0	4.0-5.0

Sources: DOSM, CEIC, MOF, SME Bank Economic Research

Fig. 2: SME Bank's GDP forecast similar to govt



- The modest economic performance next year is in line with softening global economic outlook. **Ongoing domestic demand** and **policy support** should mitigate impact of geopolitical uncertainties and tighter global financial conditions.
- Malaysia's 3 years (2021-2023) average GDP growth is expected to clock in around **4.8%** which is **on track towards 12MP target** of 4.5% - 5.5% average growth by 2025.

Private Consumption

- Personal income tax cut
- Robust tourism-related activities.
- Aid & financial assistance (e-wallet, BKM, allowance to civil servants & pensioners).
- Steady recovery in labour market.

Private Investment

- Capital spending in technology-intensive manufacturing & services sectors.
- Positive spillover effect from national infrastructure development.

Public Expenditure

- Higher spending on emoluments.
- Large-scale transport-related projects (MRT3, ECRL, LRT3, RTS) which buoy the construction sector.

External Demand

- Moderation in global trade due to slowdown in large economies (US, EU & India).
- Global uncertainties that could impinge on supply chain & volatility in commodity prices.

FISCAL POSITION

- Govt remains **committed to fiscal discipline**, but the pace of consolidation is modest as its preference is to **support economic growth**. **Statutory debt** is forecasted to be at **63% of GDP by end-2023** (end-June 2022: 57.8%), in tandem with higher development expenditure (DE) allocation next year.
- Fiscal deficit to improve to 5.5% of GDP by end-2023** (2022e: 5.8% vs initial goal of 6.0%) but it **fell short** of its previous guidance of below 5.0% under the Medium-Term Fiscal Framework 2023-2025. Nonetheless, the gov't aims to reduce fiscal deficit to 4.4% of GDP by 2025, providing some flexibility in regaining fiscal room and ability to deliver counter-cyclical measures, if needed.
- A new record high of DE** is allocated in Budget 2023, +32.3% YoY to RM95 bil, making up 25.5% of total expenditure. **Transport sector (+17.3%) receives the highest allocation of DE** which has high-multiplier impact to the economy (projects such as RTS, ECRL, LRT3, Pan Borneo Highway). As expected, no announcement of new mega projects aside from MRT3.
- As for Operating Expenditure (OE), allocation is 4.3% YoY lower given that subsidies and social assistance is expected to reduce significantly to RM42.0 bil (2022e: RM58.8 bil) amid talks of **subsidy rationalisation**. To note, subsidy bill has ballooned to RM77 bil in 2022 (including subsidies under Covid-19 fund).

	2021		Revised Budget 2022		Budget 2023		2023 - 2025	
	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP	RM bil	% GDP
Revenue	233.8	15.1	285.2	16.7	272.6	15.0	854.3	14.7
(-) OE	231.5	15.0	284.7	16.6	272.3	15.0	842.8	14.5
(-) DE	64.3	4.2	71.8	4.2	95.0	5.2	263.9	4.5
(+) Less: Loan Recovery	1.0	0.1	0.6	0.0	0.7	0.0	1.9	0.0
(-) Covid-19 Fund	37.1	2.4	28.8	1.7	5.0	0.3	5.0	0.1
Overall Balance	-98.7	-6.4	-99.5	-5.8	-99.1	-5.5	-255.5	-4.4

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

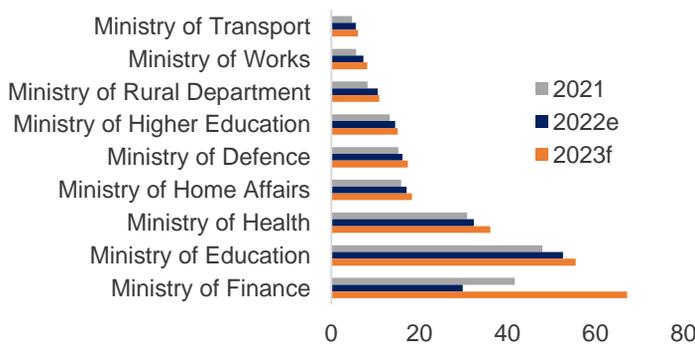


Fig. 5: Federal Govt Expenditure

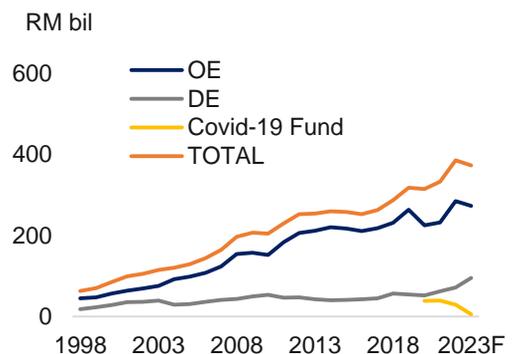
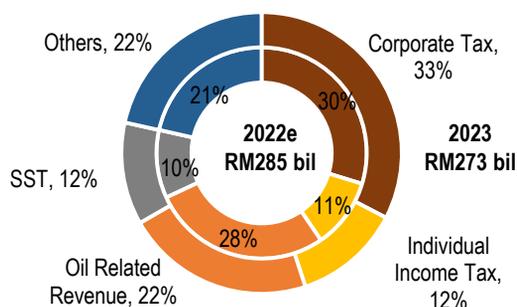


Fig. 6: Fiscal revenue lower by 4.4% YoY



A lower fiscal revenue projection (-4.4% YoY) in Budget 2023 is largely due to smaller:

- Non-tax revenue (PETRONAS dividend)
- Petroleum income (lower Brent forecast of USD90/bbl in 2023)
- Export duties (easing global demand)

While there were **no new taxes** announced, **direct tax revenue** is estimated to **expand** to RM205.6 bil (3.7% YoY) attributed to **better domestic economic activities** and collection of **Cukai Makmur** for tax assessment year **FY2022**.

Spotlights/ Key incentives under Budget 2023

Sector	Allocation/ Tax incentives	Amount (RM mil)	Impact
SME	Special Youth Businesses financing (SME Bank , TEKUN, MARA, BSN & Agrobank)	305	✓
	Semarakniaga BNM : Fund for automation, digitalisation, tourism and food security	10,000	✓
	BNM : High & Green Technology Financing Fund	1,000	✓
	BNM : Low Carbon Transition Fund - to help SMEs implement low carbon practices	1,000	✓
	Reduce MSME's taxable income to 15% from (17%) for first RM100k	n/a	✓
	Women businesses fund (BSN, TEKUN, MARA, Bank Rakyat)	235	✓
	Semarakniaga: Micro Financing (BSN)	950	✓
	Semarakniaga: Skim Pembiayaan SMEs Kaum Cina - interest rates as low as 4%	200	✓
	Semarakniaga: Skim Pembiayaan Usahawan Masyarakat India (SPUMI)	25	✓
	Semarakniaga: Unit Transformasi Masyarakat India (MITRA)	100	✓
	Semarakniaga: TEKUN - for Bumiputera, women, youth & informal sectors	300	✓
	Semarakniaga: Dana Kemakmuran Bumiputera (TERAJU)	135	✓
	Semarakniaga: PUNB - for Bumiputera in retail & distribution trade sector	200	✓
	One off grant (RM1k) to all registered SMEs and registered taxi drivers	1,000	✓
	Carbon pricing/tax - matching grant for SMEs to prepare for carbon assessment	10	✓
	Extend Green Investment Tax until 2025	n/a	✓
	Tourism	GLC's capital venture to support startups and entrepreneurs	1,300
Cradle Fund - to help companies & start-ups successfully innovate (internationally)		50	✓
Program Usahawan Siswazah (PUSH)		20	✓
Program Pembangunan Usahawan Orang Asli		n/a	✓
BNM : Tourism Financing - increase max financing limit to RM500k (from RM300k)		500	✓
Matching grants for promotion and marketing campaigns (GAMELAN)		90	✓
Joint venture with ecotourism operators		10	✓
Discount, voucher & rebate to encourage domestic travelling		25	✓
Special tax deduction for hotel who buy local handicraft products		0.5	✓
Tour operators 100% tax exemption (>200 foreign tourist / >400 local tourist a year)		n/a	✓
ICT	Reinvestment allowance for hospitality projects	n/a	✓
	Continuity of tax incentive for export of private healthcare services until 2025	n/a	✓
	Strengthen Malaysia's position as a destination of choice for health tourist	20	✓
ICT	JENDELA to implement digital connectivity in 47 industrial areas and 3.7k schools	700	✓
	DNB - Digital Nasional Bhd to expand 5G network	1,300	✓
	SBEZ Eight Digital Traffic Hubs & Center alternative data for ASEAN Region	25	✓

Spotlights/ Key incentives under Budget 2023

Sector	Allocation/ Tax incentives	Amount (RM mil)	Impact
	Exempt import duty & sales tax on nicotine replacement therapy products	n/a	✓
	Buy Malaysian Made Goods Campaign	10	✓
Retail	Jualan Murah Keluarga Malaysia	100	✓
	e-Pemula	n/a	✓
	2% income tax cut for annual income earners between RM50k to RM100k	n/a	✓
	0.5% income tax rise for annual income earners between RM250k – RM400k	n/a	✗
	Special financial assistance to civil servants and pensioners	1.3bil	✓
	Bantuan Keluarga Malaysia (BKM)	n/a	✓
Real Estate	First Home Ownership		
	- 100% duty stamps exemption for houses <RM500k until end of 2025	n/a	✓
	- 75% duty stamp exemption for houses >RM500k to RM1 mil until 31 Dec 2023		
	Housing credit guarantee scheme	3,000	✓
	Stamp duty for the transfer of property to family members will be reduced to RM10	n/a	✓
	Promotion of e-commerce activities under MATRADE, MARA MDEC	59	✓
Construction	Build 10 Kemas nurseries	188	✓
	Maintenance of schools & infrastructure and to build 5 new schools	2,730	✓
	Build new hospitals, clinics and facilities as well as medical procurement	1,800	✓
	Upgrading, maintenance and construction of sports facilities	145	✓
	National Development Allocation (Sabah & Sarawak)	11,700	✓
	Upgrading and maintaining facilities of public university	300	✓
	Construction of 500k affordable houses	n/a	✓
	Construction and house renovation in rural areas	460	✓
	PPR-People's Housing Program	367	✓
	Rumah Mesra Rakyat of 4,250 units	358	✓
	Pan Borneo, Gemas-JB Twin Railway Track, ECRL, RTS & Central Spine Road	16,500	✓
	Repair and maintenance of Federal roads and gov buildings	11,400	✓
	50.8km Klang Valley MRT 3	3,300	✓
	Facilities infrastructure improvement in Sabah & Sarawak	2,550	✓
	Allocation for contractors' class G1 to G4 *50mill allocate to female contractor	3,750	✓
	SPIKE- to support Bumiputera contractors involved in electrical & construction fields	20	✓
	Develop cities that borders Thailand and Kalimantan, Indonesia	150	✓
	Upgrading Northern Highway from 4 to 6 lanes	510	✓
	Implementing the Flood Mitigation Programmed	15,000	✓

Spotlights/ Key incentives under Budget 2023

Sector	Allocation/ Tax incentives	Amount (RM mil)	Impact
	Manufacturer of EV charging equipment:		
	- 100% statutory income tax exempted from 2023 to 2032	n/a	✓
	- 100% Investment Tax Allowance		
	Matching grant for product development & local talent in medical device industry	20	✓
	Extend income/investment tax allowance for local pharma manufactures until 2025	n/a	✓
	Relocation incentives to E&E investors to transfer operations to Malaysia	n/a	✓
	MyPSV programme	n/a	✓
	Scheme TEKUN Belia Mobilepreneur	10	✓
	Improvement of public bus access	180	✓
	CREST - to develop application-based radio frequency & Bluetooth	10	✓
	Extend import duty & excise tax exemption for completely built-up EVs until 2024	n/a	✓
	Extend exemption fee on Approved Permit for importation of EV until end-2023	n/a	✓
	Establishment of GENTARI, to provide 500 units of EVs charging facilities	n/a	✓
	50% excise duty exemption on CKD tourist vehicle car	n/a	✓
Aerospace	Matching grant to support aerospace component development	50	✓
	BNM: Agrofood Financing Scheme	1,000	✓
	Allocation to FELDA, FELCRA & RISDA	2,600	✓
	Planting Project Restoring the Orang Asli Farm	n/a	✓
	Agropenjara	10	✓
	Various subsidies & welfare support for farmers, fisherman and smallholders	1,800	✓
	Digital AgTech	20	✓
	Development of agro-food sustainability allocated to MAFI	56	✓
	Extend tax incentive for intellectual property development until end-2025	n/a	✓
	100% tax exemption on capital exp/allowance to improve efficiency via automation	n/a	✓
	Smallholder Rubber Cultivation Area Development Program	315	✓
	New Revenue Redevelopment Program	40	✓
	Multi-tiered levy for foreign worker	n/a	✗
	Malaysian Sustainable Palm Oil Certificate Program (MSPO)	70	✓
	Continue the Halal Hub Center Development Project Tanjung Manis	59	✓
	Malaysia Service and Halal Global Program	8	✓
	Initiative for Halal Industry Development	6.5	✓
	Halal Waqf for SMEs with disabilities	2.5	✓

Sources: DOSM, CEIC, BNM, SME Bank Economic Research

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