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FUNDAMENTAL FLASH

Budget 2024 | Path to Fiscal Reforms

Prepared by AHAM Asset Management

Walking a Tightrope

Balancing rationalisation measures and expansionary policies, the tabling of Budget 2024 helped lay down the groundwork for the government's path to fiscal consolidation.

According to the Budget, the government aims to narrow the fiscal deficit from 5.0% to 4.30% in 2024, in line with its broader policy objective to bring it down to 3.10% by 2026.

Key measures announced to broaden the government’s revenue base include:

- **Sales and Service tax (SST)**: Increase of the SST rate from 6% to 8%, with exemptions for food, beverages, and telecommunications services.
- **Sugar Tax Adjustment:** Increase from 40 sen to 50 sen per litre
- **Capital Gains Tax:** Introduction of a 10% capital gains tax for unlisted shares. The move could also help increase market vibrancy and encourage initial public offerings (IPOs) on Bursa.
- **Luxury Goods Tax:** To further bolster revenue, a luxury goods tax will be applied to high-value items including jewellery and watches based on predefined thresholds.

Flashpoints

- Our take on Budget 2024 is that it is market-neutral.
- By striking a balance between rationalisation and expansionary policies, Budget 2024 will help set the stage for fiscal consolidation.
- A higher SST, coupled with the introduction of tax on capital gains for unlisted shares as well as luxury goods will broaden the government’s revenue base.
- Though, the omission of any mention of GST was a minor disappointment from a fiscal consolidation standpoint.
- Potential sector winners of Budget 2024 include Healthcare, Construction, Consumer and Renewable names.

Notably, the government took the first step in addressing its hefty subsidy bill by taking a more targeted approach. The phased reduction of diesel subsidies with exemptions for freight companies will help optimise the government's spending. Further subsidy rationalisation plans include decreased subsidies for the top 10% of consumers with highest electricity consumption as well as the lifting of price controls for poultry products.

While the removal of certain subsidies may exert upward pressure on inflation, this impact could be offset by the provision of cash handouts to vulnerable segments of the population. Under Budget 2024, cash handouts increased by 25% and represents one of the largest financial support package since COVID. This financial aid is expected to continue support domestic consumption.

Driving Future Growth

With a total allocation of RM393.8 billion under Budget 2024, RM90 billion was earmarked for development expenditure which is lower than last year's figure of RM97 billion.

The government also followed through on previous policy frameworks such as the National Energy Transition Roadmap (NETR) by allocating RM2 billion for this purpose. To further spur the transition to a low-carbon economy, financial institutions are set to provide RM200 billion in financing.

For the New Industrial Master Plan (NIMP), a total of RM200 million has been allocated to facilitate the implementation of planned programs and initiatives. Over RM1.5 billion has also been earmarked to encourage startups to move up the value chain and venture into high-growth, high-value (HGHV) sectors.

Market Implications

In our view, Budget 2024 is market-neutral. What's notable is that the budget did not introduce any punitive tax policies, such as windfall taxes, gaming taxes or excise duties which had been subjects of concern in previous years.

However, the omission of any mention of a potential Goods and Services Tax (GST) was a minor disappointment from a fiscal consolidation standpoint.

Potential sector winners from the budget include:-

Healthcare

The Health Ministry is a standout recipient, marking the largest allocation increase in 10 years. This bodes well for healthcare players as the augmented funding supports potential private partnerships, opening new avenues for growth.

Renewables

The government's commitment to its energy transition agenda through the National Energy Transition Roadmap (NETR) framework will continue to benefit for solar players.

Consumer

Continuing cash transfer programs, notably the Rahmah Cash Aid scheme with a budget allocation of RM 10 billion will support domestic consumption.

Construction

The construction industry particularly in East Malaysia is set to benefit with various infrastructure projects in the pipeline (e.g. Sabah Pan Borneo project and Sarawak-Sabah Link Road project Phase 2). Other flood mitigation initiatives and the revival of LRT 3 stations are also added catalysts.

While the budget's GDP forecast of 4%-5% next year appears optimistic given external headwinds, the implementation of necessary reforms will strengthen the country's collective resilience and drive sustainable growth over the long-run.

With politics appearing more stable now after the conclusion of state and by-elections, we could see renewed focus by the government towards driving policy and execution that could provide further clarity to global investors. This could bolster fund inflows as well as drive earnings recovery which would bolster the stock market.

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