

Budget 2020 - Job Creation Prime Focus

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Flash Points:

- Budget 2020 struck a prudent approach in balancing fiscal discipline and growth at volatile times
- Job creation was the main focus of the budget in a move to wean off subsidy mentality
- Consumer and tech seen as beneficiaries with large allocation and incentives

Sticking to the Script

At the tabling of the budget, Finance Minister YB Lim Guan Eng struck a balanced tone by sticking to the need for fiscal discipline whilst also remaining expansionary.

The budget placed a lot more emphasis on job creation and shifted away from the outright disbursement of large cash handouts and subsidies as seen in prior budgets before.

Among the measures include a Malaysians@Work initiative aimed at creating better employment opportunities for youth and women, as well as reduce dependence on foreign labour.

Malaysians who replace foreign workers will get a monthly wage incentive of RM350/RM500 for two years, depending on the sector. Similarly, employers will get a monthly incentive of up to RM250 a month throughout the same period.

With expectations that 2020 will be another year of a sustained global economic slowdown, the government also focused on the attraction of FDIs and incentives to attract large multi-national corporations (MNCs) to set-up shop in Malaysia.

These include a RM1 billion allocation in investment incentive to attract Fortune 500 companies and global unicorns. The move is intended to create supporting industries that will boost job creation and aid development of the SME segment as an important pillar of the economy.

Table 1: Federal Government Revenue

	RM bn			Change (%)			Share (% of total)		
	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²
TAX REVENUE	174.1	180.0	190.0	-2.0	3.4	5.5	74.7	68.4	77.7
Direct tax	130.0	135.6	142.7	12.1	4.3	5.2	55.8	51.5	58.4
Income tax	122.5	127.5	134.0	13.3	7.0	5.1	51.2	47.0	53.3
Companies	66.5	70.8	75.5	3.1	6.4	6.7	28.5	26.9	30.9
PITA ³	20.1	17.9	17.5	70.7	-10.9	-2.4	8.6	6.8	7.1
Individuals	32.6	35.2	37.4	12.6	8.0	6.1	14.0	13.4	15.3
Withholding & others	3.3	3.7	3.7	-2.0	10.4	0.2	1.4	1.4	1.5
Others	7.5	8.1	8.7	1.2	7.3	7.0	3.2	3.1	3.5
Indirect tax	44.0	44.4	47.3	-28.6	0.8	6.5	18.9	16.9	19.3
Export duties	1.7	1.3	1.3	27.3	-25.8	1.6	0.7	0.5	0.5
Import duties	2.9	2.7	2.8	4.1	-7.8	4.9	1.2	1.0	1.1
Excise duties	10.8	10.5	11.0	6.6	-2.7	4.9	4.6	4.0	4.5
Sales tax	3.9	15.5	16.3	83.0	2.9	0.1	1.7	5.9	6.7
Service tax	1.4	11.3	12.0	95.5	6.7	0.1	0.6	4.3	4.9
GST	20.2	-	-	-0.5	-	-	8.7	-	-
Others	2.9	3.1	3.9	-2.8	6.5	23.6	1.3	1.2	1.6
NON-TAX REVENUE	58.8	83.3	54.6	37.6	41.6	-34.5	25.3	31.6	22.3
Licenses and permits	14.0	15.2	15.2	9.8	8.4	-0.2	6.0	5.8	6.2
Investment income	31.9	59.5 ³	28.6	47.4	86.6	-52.0	13.7	22.6	11.7
Total Revenue	232.9	263.3	244.5	5.7	13.1	-7.1	100.0	100.0	100.0
% of GDP	16.1	17.4	15.2	-	-	-	-	-	-

¹ Revised estimate; ² Budget estimate, excluding 2020 tax measure
Source: MOF Economic Report 2019/2020

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Fundamentals Flash

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Technology also received a large allocation of the budget particularly to accelerate the deployment of 5G in the country through a RM50million grant.

There were also initiatives to propel the use of e-wallet via a RM30 seeding incentive to qualified Malaysians aged 18 and above with annual income less than RM100,000 as the economy evolves towards a cashless society.

On a fiscal level, the government revised its Budget 2020 deficit target to 3.2% of GDP, which is slightly higher than the 3% originally announced in Budget 2019.

Sectors in the Spotlight

In terms of impact, the budget was market-neutral with no immediate catalysts that could drive Bursa higher for now.

The absence of any pump-priming measures or announcement of mega infrastructure projects came as a disappointment to the **construction sector**.

The **consumer sector** could benefit incrementally over time as the trickle-down effects of job creation, allocation of social subsidies to address high cost of living will help spur consumption.

Allocation for subsidies and social assistance were increased to RM24.2 billion including welfare aid such as Bantuan Sara Hidup (BSH). The government also proposed to raise the minimum wage in urban areas to RM1,200 per month in 2020.

Another sector seen as a beneficiary include the **technology sector** via grant incentives and also measures to boost adoption of e-wallets. Other incentives including a 50% matching grant to increase the digitalisation of operations for SMEs and for technology entrepreneurs.

We remain neutral on the **property sector** as the measures outlined are not expected to move the needle in boosting demand and elevating the oversupply overhang in the market in a meaningful way.

No new tax measures or duties announced in the budget for the sin sectors was also positive for **gaming, tobacco and brewery players** especially for the latter two which has been assailed by the illicit market.

Table 1: Ministry of Finance GDP Forecasts

	Change (%)			Share (% of GDP)			%ppt contribution to GDP growth		
	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²	2018	2019 ¹	2020 ²
Real GDP	4.7	4.7	4.8	100	100	100	4.7	4.7	4.8
Real GDP by aggregate demand									
Private Expenditure	7.1	5.6	5.8	74.2	74.9	75.6	5.1	4.1	4.3
Consumption	8.0	6.8	6.9	57.0	58.1	59.3	4.4	3.9	4.0
Investment	4.3	1.5	2.1	17.3	16.8	16.3	0.7	0.3	0.3
Public Expenditure	0.1	-1.8	0.8	19.8	18.6	17.9	0.0	-0.4	0.1
Consumption	3.3	2.0	1.5	12.5	12.1	11.8	0.4	0.2	0.2
Investment	-5.0	-8.1	-0.6	7.4	6.5	6.1	-0.4	-0.6	0.0
Domestic Demand³	5.5	4.0	4.8	94.1	93.5	93.5	5.2	3.8	4.5
Change in Stocks	-2025.4	13.7	-49.2	-1.1	-1.1	-0.6	-1.2	-0.1	0.6
Net External Demand	11.4	14.5	-2.7	7.0	7.7	7.1	0.8	1.0	-0.2
Exports ⁴	2.2	-0.4	1.4	67.6	64.3	62.2	1.5	-0.3	0.9
Imports ⁴	1.3	-2.1	1.9	60.6	56.7	55.1	0.8	-1.3	1.1
Real GDP by Sector									
Agriculture	0.1	4.3	3.4	7.3	7.3	7.2	0.0	0.3	0.2
Mining	-2.6	0.6	0.3	7.6	7.3	7.0	-0.2	0.0	0.0
Manufacturing	5.0	4.0	4.1	22.4	22.2	22.1	1.1	0.9	0.9
Construction	4.2	1.7	3.7	4.9	4.7	4.7	0.2	0.1	0.2
Services	6.8	6.1	6.2	56.7	57.5	58.2	3.8	3.5	3.6
(-) Undistributed FISIM ⁵	-	-	-	-	-	-	-	-	-
(+) Import duties	-11.5	-15.1	-7.3	1.2	1.0	0.8	-0.2	-0.2	-0.1

¹ Revised estimate, ² Budget estimate, ³ Excludes change in stocks, ⁴ Goods and non-factor services
Source: MOF Economic Report 2019/2020 & Budget speech



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