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Budget 2012:
Maximising welfare gains, minimising cost-linked pains

Economics and Ratings Team

Milly Leong
Chief Rating Officer
+ 603 2082 2200
milly@marc.com.my

Nor Zahidi Alias
Chief Economist
+603 2082 2200
zahidi@marc.com.my

Mohd Afzanizam Abd Rashid
Economist
+603 2082 2200
afzanizam@marc.com.my

James Foo Kok Chye
Economic Analyst
+603 2082 2200
jamesfoo@marc.com.my

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Overview

Budget 2012 was finally tabled on Friday, 7 October 2011, amidst high expectations from Malaysians of all walks of life. Civil servants, particularly, were anticipating a repeat of year 2007's one-off and broad-based salary revisions which pushed their salaries up by between 7.5% and 35%. However, the measures in Budget 2012 turned out to be slightly different from such expectations - it spelt out a new annual increment structure for civil servants that will lay a strong foundation for greater flexibility in civil servants' remuneration in the long run. This is targeted at increasing productivity in the public sector which is generally positive in enhancing government effectiveness in the long term. Greater flexibility in the employment terms of civil servants (such as the exit policy for underperformers) is a welcome move indeed, although its implementation might meet with initial hurdles as the public sector adjusts to the new employment culture. Overall, with prospects of better remuneration, civil servants are set to get a better deal in their employment if such measures were to be properly implemented.

An important implication of better remuneration for highly productive government employees would naturally be the spillover of higher private consumption in the future. It is generally known that the low- and middle-income segments of the population have the highest marginal propensities to consume (MPC). With Malaysia having one of the highest MPC in the region of about 0.53 (according to our estimate), coupled with the fact that credit is easily available from financial institutions at low borrowing costs, private consumption will likely continue its role as the major pillar that will spearhead the economy in the coming years. In the short term, however, measures provided by Budget 2012 will not cause a big jump in private consumption, at least not to the level that would have happened if a broad-based salary revision were to be given.

The mounting concerns about the ever-rising cost of living are addressed by measures such as the provision of subsidies not only for food, but also for petroleum products and cash assistance. As such, speedy rationalisation of subsidies is not top of the government's priority list. Due to the government's financial constraints, we observed that many benefits were dished out on a discriminatory basis. In particular, retirees, senior citizens, taxi drivers and the lower-income groups are supported via various measures to ensure that they can withstand the rising cost of living. We think positively of such measures, but feel that doubling efforts to contain price increases would trump monetary adjustments in tamping inflation in the long run. Indeed, the latter move is unsustainable in that the government would have to continuously fork out higher compensation if prices were to continue escalating over the years. As such, stricter enforcement of price controls and the Price Control and Anti-Profiteering Act should be the government's next logical focus.

We are also of the view that one-off cash payments to the poor and needy, while coming in handy at times like this, will not translate into sustained value in the economy as they are not tied to productivity-driven incentives. We are hopeful that such generosity on the government's part will not promote a 'government-dependent' mentality among Malaysians which would consequently breed complacency, a definite negative in the nation's drive towards attaining high-income status. We feel positive about the measures aimed at improving the living standards of the low-income group, although we think that there is a distinct lack of such initiatives to ameliorate the financial burdens of the middle-income group, particularly those who reside in high-cost urban areas.

The measures instituted to address the problem of inadequate savings amongst retirees are generally positive, as studies show that a whopping 70% of all retirees tend to exhaust their savings within 10 years. A new tax relief of up to RM3,000 on contributions to a Private Retirement Scheme (PRS) and insurance annuity for 10 years, as well as tax deductions on employers' contributions to a PRS for their employees and exemptions on income of the Private Retirement Fund are meant to lighten retirees' financial burdens, decidedly a positive for private consumption going forward. We also feel that the mandatory increase in employers' EPF contributions is bearable for businesses.

We are intrigued by the government's optimistic target of 2012's budget deficit of 4.7% of gross domestic product (GDP) as it is even lower than our already optimistic target of 4.9% of GDP. However, we do not feel that such a target is out of reach, judging by Malaysia's relatively high revenue-to-GDP ratio which is among the highest in the region. However, the attainment of this result is predicated on the achievement of actual growth in 2011, which we view to be in the lower range of the government's projection.

The sharp reduction in the budget gap is probably aimed at taking some pressure off a possible sovereign re-rating, in our view. However, there are reasons for not being overly concerned about Malaysia's deficit and debt position. First, the various macro matrices commonly used for sovereign evaluation indicate that Malaysia still stands rather favourably in relation to its regional peers. At the same time, government revenue as a percentage of GDP is among the highest in the region. As for its debt position, almost 96% of total debt is domestic debt, and second, financing the debt through Malaysian Government Securities (MGS) is never difficult as there is strong demand for the instruments from financial institutions like banks, insurance companies and other government-linked investment companies.

Following the government's persistent budget deficit, albeit smaller than in previous years, we think that sustained MGS issuance momentum for 2012 will address continuing investor demand for high-quality fixed-income instruments amidst heightened uncertainty that is weighing on corporate debt-raising in the domestic bond market. It is truly a sound strategy to borrow domestically, given the current turmoil in global financial markets that has been exacerbated by sovereign-debt concerns.

While there is a noticeable absence of any groundbreaking capital market-specific measures, the incentives for the Kuala Lumpur International Financial District (KLIFD) could sow the seeds for the future competitiveness of Kuala Lumpur and Malaysia as a global financial centre. Capital market-specific measures were the extension of tax exemptions on the issuance and trading of foreign currency *sukuk* by three years and tax deductions for expenses incurred in the issuance of *sukuk wakala* for three years starting 2012. The income-tax exemptions for KLIFD, stretching over a 10-year period, underscores the forward-thinking approach on the part of the government to ensure Malaysia remains a vibrant and competitive financial hub in the years to come.

On the hot issue of the budget deficit, we feel that the government should take a long-term perspective about containing future expenditures to ensure that its fiscal position will continuously be in check. For instance, medical expenses incurred by an aging population will represent a significant burden on government coffers due to changing demographics in the years to come. As such, we feel that measures such as withdrawals from the Employees Provident Fund (EPF) for the purchase of medical insurance should not only be introduced, but also be actively promoted by the government. At the same time, we opine that the government needs to exercise stricter control on the size of the public sector so as not to cause undue acceleration in operating expenditure going forward. In addition, the focus on monitoring expenditure on supply and services should never waver. Indeed, this suggestion stems from the National Audit Department's report which indicated that there is considerable room for improvement in the supervision of certain areas of expenditure.

We applaud the government's efforts to address the citizenry's housing needs – however, the revision to the real property gains tax (RPGT) structure is too mild to be effective, in our view. The 5% increase in the tax imposed on those who sell their properties within two years of acquisition will not likely have a material effect, especially on those who speculate in this sector. While we are cognisant of and understand the opposing perspectives (particularly of industry players who are concerned about the repercussions of the higher RPGT), we hold fast to the view that the proposed revision will still not address the froth in the property sector at this juncture. Indeed, with the prevalence of relatively easy credit ties provided by the banking sector, property prices look set to remain on their upward trajectory in the near term.

We deem the overall macro assessment as fair, although the government seems more optimistic than private economists about the strength of private investment. Indeed, despite experiencing a strong rebound in 1H2011, a possible increase in risk aversion (should the global economy take a turn for the worse) could well dampen the sustainability of private-investment strength. We also maintain that the speed at which construction projects are implemented is of paramount importance in ensuring growth proceeds apace. In terms of GDP growth, our projection of 5.2% for 2012 is in the lower range of the government's forecast as we remain cautious about the investment momentum that is not attributed to any lack of efforts on the government's part, but due to the return of risk aversion within the investor fraternity.

Budget 2012: Key thrusts and allocation

Budget 2012 attempts to improve the welfare of Malaysians and strives at the same time to keep the transformational policy in place as the country works towards becoming a high-income nation. It incorporates these five major foci and thrusts:

- **Accelerating investment**

  In order to promote a sustainable economy, government spending will be geared towards promoting private investment as the key driver for growth. In this regard, the liberalisation of 17 services subsectors that allow 100% foreign-equity ownership will be implemented, amongst which include private hospital services, medical and dental services, architectural and engineering. Apart from that, the government will spend a total of RM2.5 billion in 2012 from the RM20 billion public-private partnership (PPP) Facilitation Fund under the 10th Malaysia Plan (10MP). The government will also allocate a total spending of RM978 million in 2012 to speed up development in the five economic corridors.

- **Generating human capital excellence, creativity and innovation**

  In a bid to shift economic activities onto a higher plane, innovation should be harnessed at the early stage of human development in order to stimulate research and development (R&D) activities. Additionally, the commercialisation of research findings should be given due attention for the betterment of the human race. Amongst the important initiatives is the offering of more than 300 intellectual properties in the form of new product and technologies to the private sector for commercialisation.

- **Rural transformation program**

  Economic development across regions is uneven, given the heightened urbanisation rate as the younger generation increasingly seeks out employment opportunities in the big cities. To reduce such imbalances, the rural transformation program (RTP) is aimed to promote job creation and private investment in rural areas. To this end, Bank Simpanan National (BSN) is entrusted (through the establishment of the Professional Services Fund amounting to RM100 million) to encourage professionals such as doctors, lawyers and accountants to set up their businesses in rural areas.

- **Strengthening the civil service**

  Civil servants play a crucial role in the government machinery, so it is imperative that government employees remain productive with their performance commensurating with their remuneration and rewards. Similarly, employees who are not in conformance with proper work standards or ethics must face the consequences in order to prevent complacency from setting in amongst government staff. In this regard, the introduction of an exit policy for underperforming civil servants and for those who choose to leave the service is decidedly a step in the right direction.

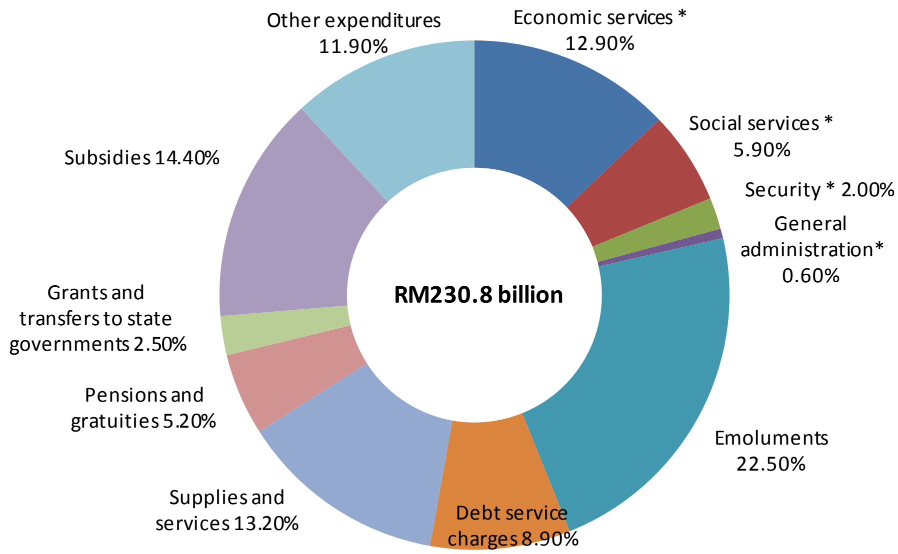
- **Easing inflation and enhancing the people's wellbeing**

  The impact of rising prices, if not contained, will have negative repercussions on household purchasing power and welfare, particularly for the lower-income groups. In this regard, the introduction of the National Agro-Food Policy 2011 – 2020 is expected to ease the people's burdens through various strategies such as ensuring sufficient food supplies and improving supply chain management in the agricultural sector. Apart from that, the establishment of Kedai Rakyat 1Malaysia (KR1M), Agro Bazaar Kedai Rakyat and promoting Menu Rakyat 1Malaysia would help Malaysians deal with rising prices, especially for essential products.

Based on *Economic Report 2011/2012*, the government is expected to allocate a total spending of RM230.8 billion in 2012, of which RM181.6 billion is slated for operating expenditure while gross development expenditure is pegged at RM49.2 billion. The government has generally been mindful of the state of their finances, and the spending program in 2012 is expected to increase only by a marginal 0.5% from 2011. As such, the government is envisaged to record a lower budget deficit of

RM43.0 billion or 4.7% of GDP in 2012, down from RM45.5 billion (5.4% of GDP) in 2011. Despite having financial constraints, the government appears committed to ensuring that the people's welfare will not be compromised. This is reflected in the allocation of fuel subsidies amounting to RM17 billion for 2012 (2011 estimate: RM15.9 billion). As such, private consumption, which has been the main pillar of domestic demand thus far, will likely sustain its momentum, providing the necessary buffer for overall economic performance as the country anticipates an external slowdown emanating from the debt and deficit woes of the advanced economies.

Chart 1: Budget 2012: spending allocation



Source: *Economic Report 2011 / 2012*
Note: * = development expenditure
Items without * = operating expenditure

Macroeconomic assessment

- ***Our forecasts are less upbeat than the government's***

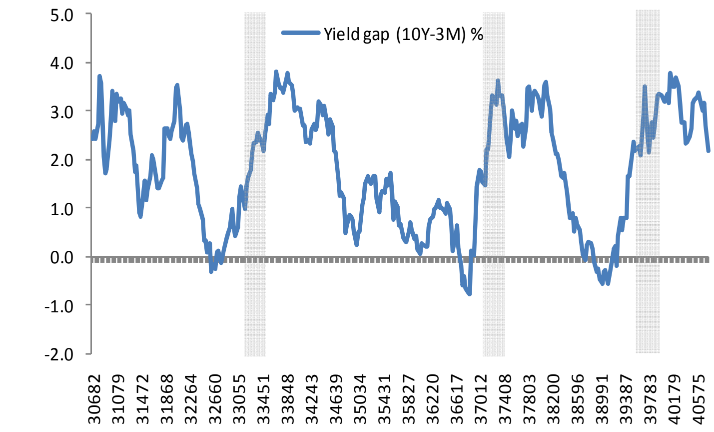
According to the Ministry of Finance, GDP growth is anticipated to rebound to 5% - 6% in 2012 from an estimated 5% - 5.5% expansion in 2011 as resilient domestic demand, powered by the acceleration in private investment as well as robust private consumption, help offset the weaknesses of the external sector. Our projection of a 5.2% expansion in 2012 falls in the lower range of the government's growth forecast, while our projection for 2011 stands at 4.7% as we foresee more negative repercussions from the weak external sector in 2H2011.

We are more optimistic than the government on the external sector's performance in 2012. Indeed, we opine that a slight rebound in the global economy will take place as a result of the measures instituted to support the US economy (expansionary fiscal and accommodative monetary policies). As such, we are not in the same camp as those who expect the worst for the US economy, although manufacturing statistics have so far been languishing (e.g. the ISM manufacturing index has been at the demarcation line between expansion and contraction in recent months).

Our optimistic view is based more on financial-market indicators such as the yield gap and the trend of the US dollar (USD) which we think are not indicating a double-dip scenario in the medium term (see Charts 2 and 3). For instance, the current yield gap stands at roughly 207 basis points, suggesting that there is only a less than 10% chance of a recession[1]. Similarly, the greenback is trading at $1.34 against the euro, compared with $1.18 per euro in June 2010, signaling again that financial-market players are not as pessimistic as they were about the prospects of the US economy.

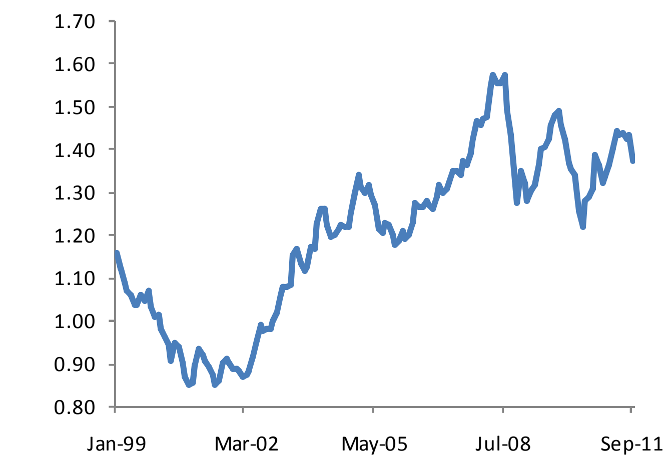
[1] Estrella, A. and Mishkin, F. S. (1996), "The Yield Curve as a Predictor of U.S. Recessions", *Current Issues in Economics and Finance*, Vol. 2, No. 7, p2.

Chart 2: US yield gap (10-year minus 3-month)



Source: CEIC
Note: Shaded areas denote recessionary periods

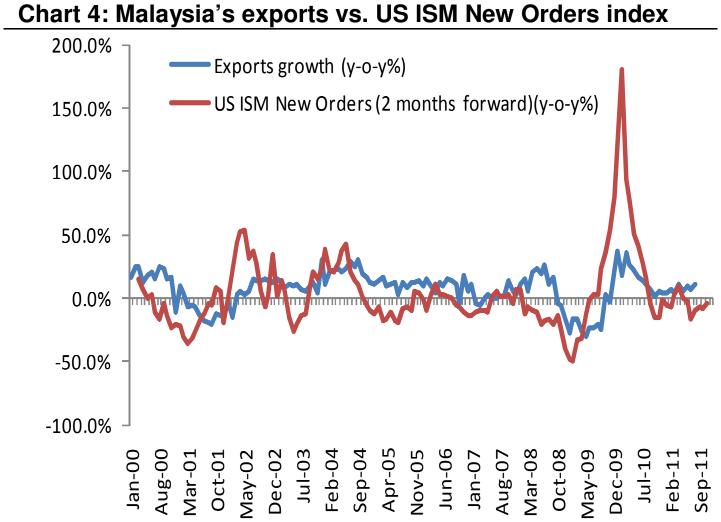
Chart 3: USD vs. euro



Source: CEIC

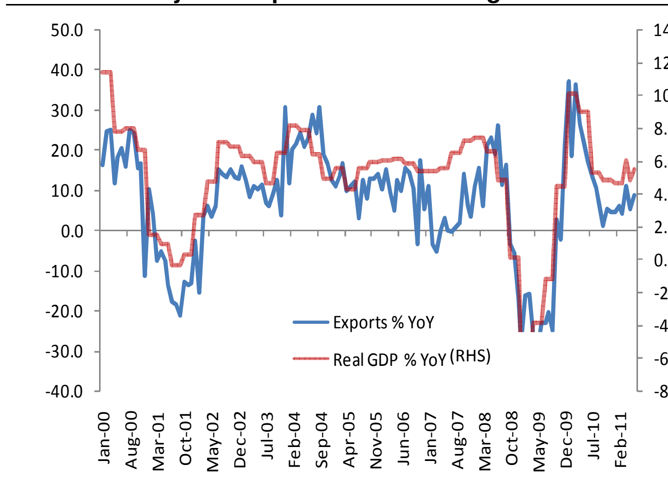
Better external-sector performance naturally confers on Malaysia stronger economic growth. Although net exports only represent a small portion of GDP, its leakages in the domestic sector provide an important stimulus for the overall economy. As such, with the US ISM "new orders" component revealing some semblance of stabilisation, prospects are positive not only for the export sector, but also for the entire economy due to a strong correlation between exports and GDP (see Chart 5). While the government anticipates weak export growth of 2.5% in 2012, we envisage a stronger expansion of 7%. Indeed, the more robust pace of exports that we expect is predicated on higher anticipated demand for global chip sales.

Chart 4: Malaysia's exports vs. US ISM New Orders index



Sources: CEIC, MARC Economic Research

Chart 5: Malaysia's exports vs. real GDP growth



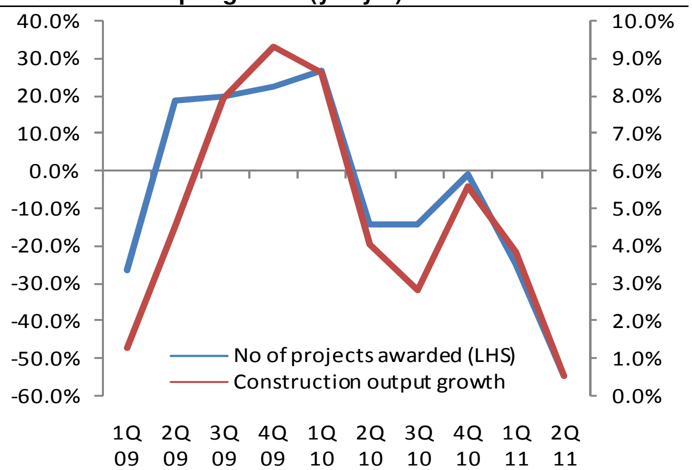
Sources: CEIC, MARC Economic Research
Note: RHS = right-hand scale

On the domestic front, the government foresees private investment and consumption as being the economy's key pillars as the Economic Transformation Programme's (ETP) rigorous efforts continue to fuel investment momentum, while stable labour-market conditions and easy credit lure consumers on to the High Street. We are a tad cautious about the pace of investment but concur with the government's view of strong private consumption going forward. As a whole, our forecast is in line with that of the government who envisages growth in private consumption to accelerate to 7.1% in 2012 (MARC: 6.9%) from 6.6% this year.

As for investment, we think that the present uncertainties about the prospects of the US and European economies will continue to bug investors, although in the medium term we see better prospects for the US economy. As such, we expect relatively benign risk-taking activities and a more moderate pace in direct and indirect investments. Notwithstanding this, Malaysia's ETP has been a major reason for the government's optimistic anticipation of a robust growth in investments. Based on this, the Ministry of Finance (MOF) is anticipating private investment to expand by 15.9% in 2012, following an estimated 16.2% expansion in 2011. Certainly, timely implementation of the projects under the ETP is a decidedly critical factor in realising these estimates.

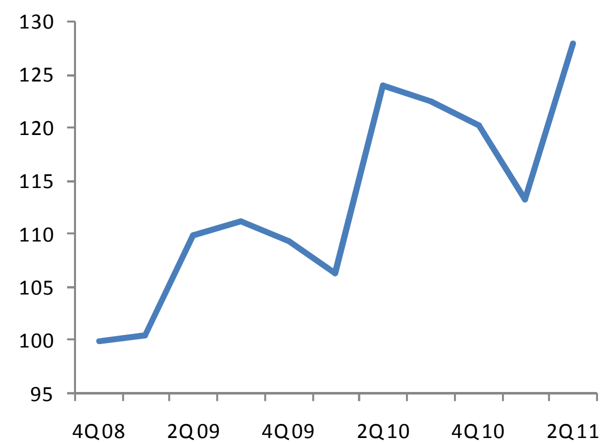
We, on the other hand, are projecting a more moderate growth in private investment as we are cautious about the prospects of the global economy as well as the pace of implementation of the projects under the ETP. We observed that since 1Q2011, the pace of projects awarded and development expenditure have been rather lacklustre, with these measures experiencing a decline of 54.7% year-on-year (y-o-y) (1Q2011: -24.8%) and 31.4% (1Q2011: -9.9%) in 2Q2011 respectively. This has been detrimental to construction output growth, which decelerated sharply to 0.6% (1Q2011: 3.8%) during the same period (see Chart 6).

Chart 6: Number of projects awarded (y-o-y%) vs. construction output growth (y-o-y%)



Sources: CEIC, MARC Economic Research

Chart 7: How investment has recovered since the bottom of the recent cycle (Dec 2008 = 100)



Sources: CEIC, MARC Economic Research

Table 1: GDP growth forecast

				MARC		MOF	
Growth	**2008**	**2009**	**2010**	**2011F**	**2012F**	**2011F**	**2012F**
GDP	**4.8%**	**-1.6%**	**7.2%**	**4.7%**	**5.2%**	**5.0% - 5.5%**	**5.0% - 6.0%**
Domestic demand	6.9%	-0.4%	6.3%	5.4%	6.8%	8.1%	7.6%
Private consumption	8.7%	0.7%	6.5%	6.1%	6.9%	6.6%	7.1%
Public consumption	9.9%	3.9%	0.5%	5.2%	5.0%	8.9%	3.0%
Private investment	0.2%	-17.0%	17.7%	9.2%	9.5%	16.2%	15.9%
Public investment	2.2%	7.5%	2.8%	1.5%	7.7%	6.0%	7.0%
Real exports	1.7%	-10.5%	9.9%	6.0%	7.0%	2.3%	2.5%
Real imports	2.1%	-12.2%	15.1%	6.4%	8.4%	4.1%	3.6%

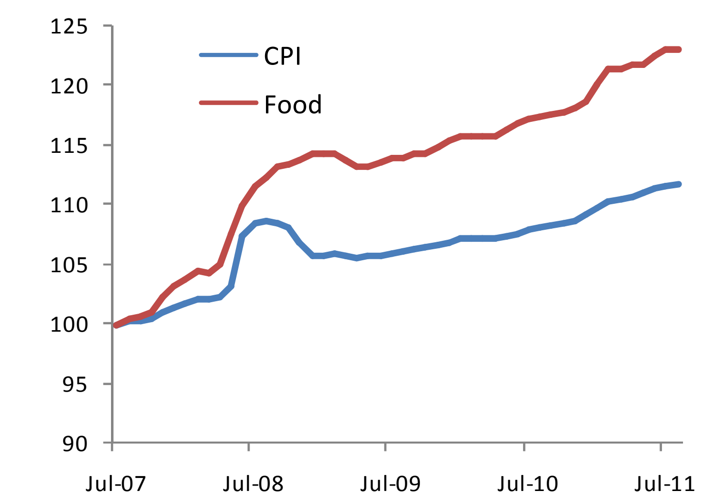
Sources: MOF, MARC Economic Research

Major issues

- ***Addressing the rising cost of living***

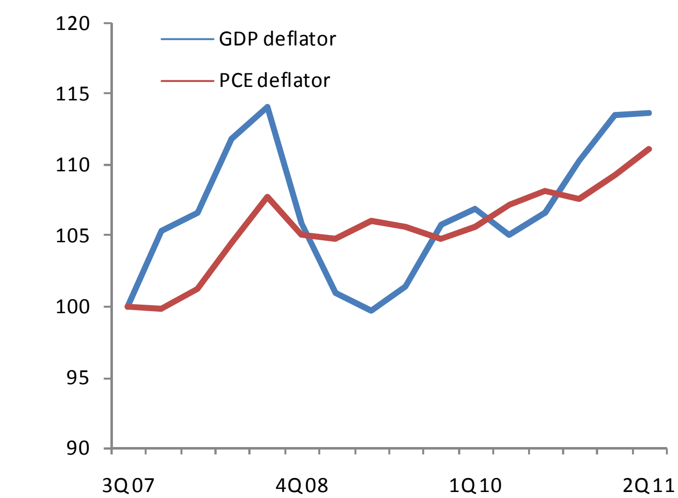
As expected, one of the main emphases in Budget 2012 is addressing the issue of rising cost of living that has been reflected by consumer prices which have increased considerably in recent years. Specifically, the consumer price index (CPI) has risen by 11.8% since civil servants' last salary revision in 2007, while food prices escalated by 23.0% over the same period. Another gauge of inflation called the GDP deflator is also on the uptrend (see Chart 9). Such a scenario demonstrates the strong upward pressure in prices in the economy. Similarly, asset prices have gone up significantly. Malaysia's house price index, for instance, has risen by 28% since 2006. We also estimate that house rentals have accordingly escalated. Between 2004 and 2009, there was an approximately 44.2% increase in house rentals whilst monthly incomes only rose by 31% during the period.

Chart 8: CPI vs. food sub-index (July 2007 = 100)



Sources: CEIC, MARC Economic Research

Chart 9: GDP deflator vs. PCE deflator (3Q2007 = 100)



Sources: CEIC, MARC Economic Research
Note: PCE = personal consumption expenditures

In Budget 2012, concerns about the rising cost of living were addressed by the government through measures such as cash assistance and the provision of subsidies not only for food, but also for other goods such as petroleum products. While prior to the Budget announcements, the general expectation was that the government will assist through direct salary increments for civil servants, we observed that many benefits were dished out on a discriminatory basis in Budget 2012. In particular, retirees, senior citizens, taxi drivers and the lower-income groups are supported via various measures to ensure that they can withstand the rising cost of living. We think positively of such measures, but feel that doubling efforts to contain price increases would trump monetary adjustments in tamping inflation in the long run. Indeed, the latter move is unsustainable in that the government would have to continuously fork out higher compensation if prices were to continue escalating over the years. As such, we think that stricter enforcement of price controls and the Price Control and Anti-Profiteering Act should be the government's next logical focus.

One-off cash payments for the poor and needy were also given by the government. These include RM3,000 to be paid to all ex-servicemen, widows and widowers who served during the Emergency, RM500 for families with household incomes below RM3,000, RM100 for primary- and secondary-school students, RM200 book vouchers for university students, RM3,000 to ex-Jasa and Kemas employees, a minimum of RM500 bonus for civil servants, RM500 bonus for pensioners and a windfall for every settler preceding the listing of Felda Global Ventures Holdings. While we deem such assistance in good light, we are also of the view that one-off cash payments to the poor and needy, while coming in handy at times like this, will not create sustained value in the economy as they are not tied to productivity-driven incentives. Although such gifts will initially create a 'feel-good' factor, such sentiment normally fizzles out rather quickly. Over time, such assistance, if they continue to be provided, will likely breed expectations of a continuous assistance by the government. As such, we are hopeful that this generosity on the government's part will not promote a 'government-dependent' mentality among Malaysians which would consequently breed complacency, a definite negative in the nation's drive towards attaining high-income status.

We feel positive about the measures aimed at improving the living standards of the low-income group, although we think that there is a distinct lack of such initiatives to ameliorate the financial burdens of the middle-income group, particularly those who reside in high-cost urban areas. In our Pre-Budget report, we cited the *Household Income Survey* (HIS) in 2009 which showed the average monthly salary for households in Kuala Lumpur standing at RM5,488, while those living in Pahang, Terengganu and Kelantan were earning monthly incomes of RM3,279, RM3,017 and RM2,536 respectively. However, a stark difference in residential property prices existed: RM355,242 in KL; RM155,603, RM134,624 and RM113,182 for Pahang, Terengganu and Kelantan respectively. This should also connote differences in house rentals amongst these states.

- ***Strengthening the civil service***

Prior to the Budget announcement, civil servants were generally anticipating a repeat of year 2007's one-off and broad-based salary revisions which pushed their salaries up by between 7.5% and 35%. However, the measures in Budget 2012 turned out to be slightly different from such expectations - it spelt out a new annual increment structure for civil servants that will lay a strong foundation for greater flexibility in civil servants' remuneration in the long run. We are of the view that these measures are targeted at increasing productivity in the public sector which is generally positive in enhancing government effectiveness in the long term. Greater flexibility in the employment terms of civil servants (such as the exit policy for underperformers) is a welcome move indeed, although its implementation might meet with initial hurdles as the public sector adjusts to the new employment culture. Overall, with prospects of better remuneration, civil servants are set to get a better deal in their employment if such measures were to be properly implemented. In the short term, however, the restructuring of pay incentives for civil servants fall short of the market's expectations of a broad-based increase in salaries.

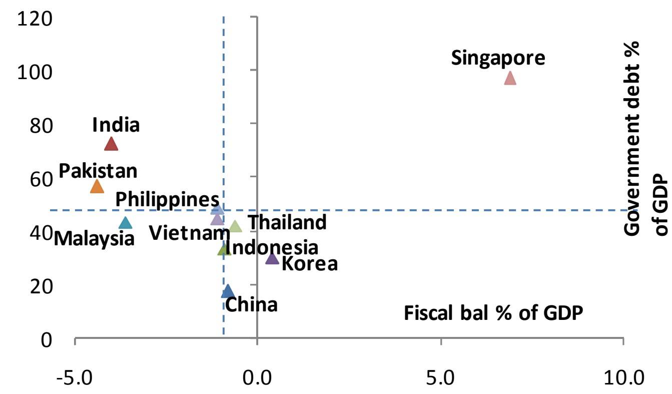
It should be noted that an important implication of better remuneration for highly productive government employees would naturally be the spillover of higher private consumption in the future. It is generally known that the low- and middle-income segments of the population have the highest MPC. With Malaysia having one of the highest MPC in the region of about 0.53 (according to our estimate), coupled with the face that credit is easily available from financial institutions at low borrowing costs, private consumption will likely continue its role as the major pillar that will spearhead the economy in the coming years. In the short term, however, measures provided by Budget 2012 will not cause a big jump in private consumption, at least not to the level that would have happened if a broad-based salary revision were to be given.

- ***Budget deficit and debt level***

The government is anticipating a rather dramatic improvement in the budget deficit in 2012 (4.7% of GDP, down from 5.4% of GDP in 2011). We are intrigued by the government's optimistic target as it is even lower than our already optimistic target of 4.9% of GDP. However, we do not feel that such a target is out of reach, judging by Malaysia's relatively high revenue-to-GDP ratio which is among the highest in the region. The attainment of this target is predicated on the achievement of actual growth in 2011, which we view to be in the lower range of the government's projection.

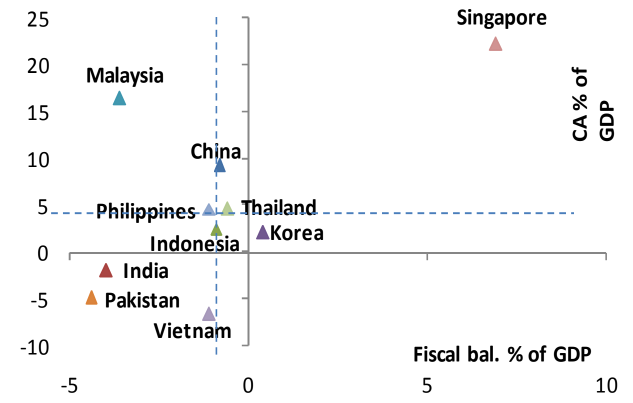
In our view, the sharp reduction in the budget gap is probably aimed at taking some pressure off a possible sovereign re-rating. Malaysia's A- sovereign rating has been constantly monitored by international rating agencies as the country has experienced uninterrupted years of budget deficits since the Asian Financial Crisis in 1998. Notwithstanding this, there are reasons to not be overly concerned about Malaysia's deficit and debt positions. First, the various macro matrices commonly used for sovereign evaluation indicate that Malaysia still stands rather favourably in relation to its regional peers. For instance, the current account of the balance of payments has remained in positive territory, while inflation has been benign over the years. At the same time, government revenue as a percentage of GDP also stands favourably compared with Malaysia's regional peers (see Charts 11 and 12).

Chart 10: Fiscal balance vs. government debt (5-year median)



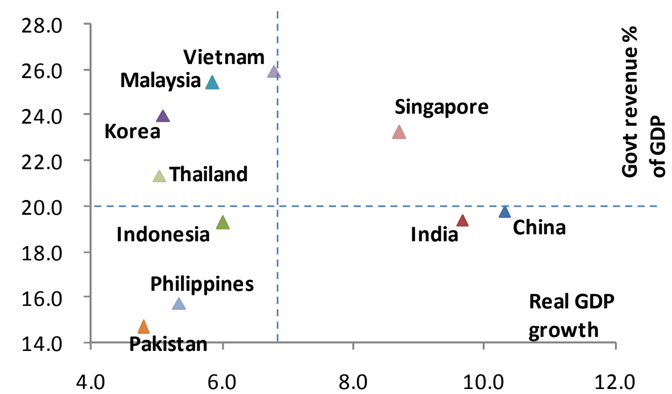
Source: MARC Economic Research

Chart 11: Current account vs. fiscal balance (5-year median)



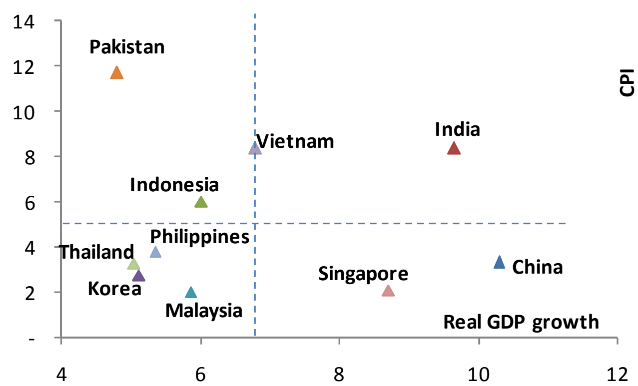
Source: MARC Economic Research

Chart 12: GDP growth vs. government revenue (5-year median)



Source: MARC Economic Research

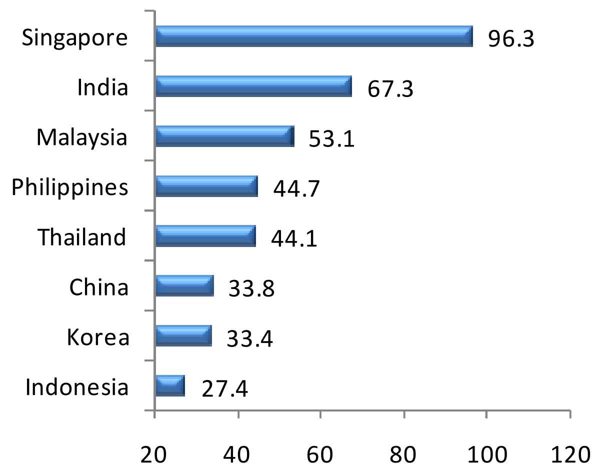
Chart 13: GDP growth vs. CPI (5-year median)



Source: MARC Economic Research

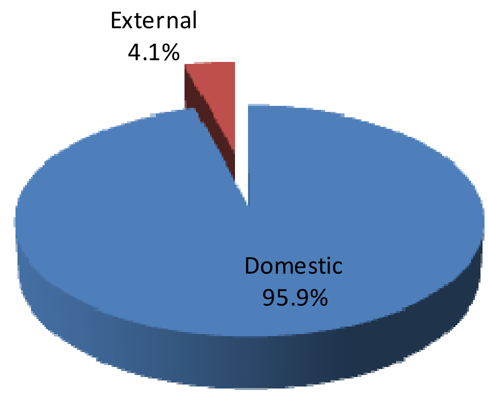
Although government debt is expected to remain above 50% of GDP, it must be noted that almost 96% of total debt is domestically funded, and financing the debt through MGS is never difficult as there is strong demand for the instruments from financial institutions like banks, insurance companies and other government-linked investment companies. In fact, we think that the sustained MGS issuance momentum in 2012 will address continuing investor demand for high-quality fixed-income instruments amidst heightened uncertainty that is weighing on corporate debt-raising in the domestic bond market. It is truly a sound strategy to borrow domestically, given the current turmoil in global financial markets that has been exacerbated by sovereign-debt concerns.

Chart 14: Government debt of selected Asian countries (% of GDP)



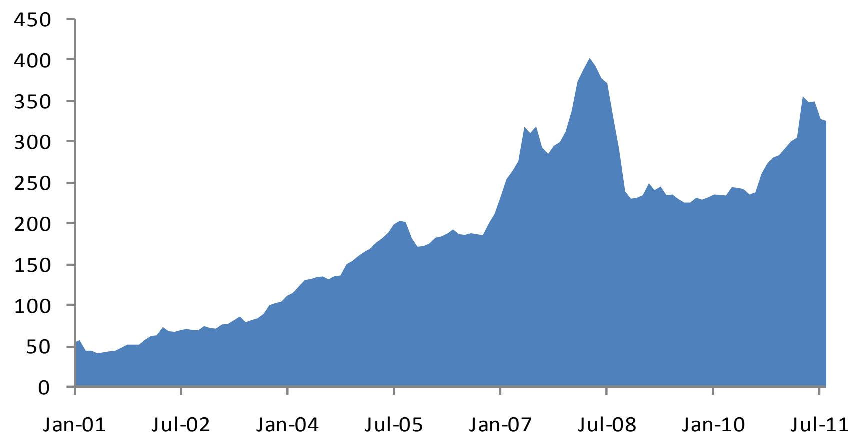
Sources: International Monetary Fund, CEIC

Chart 15: Malaysia's government debt composition



Source: CEIC

Chart 16: Excess liquidity mopped up by Bank Negara Malaysia (RM billion)



Sources: CEIC, MARC Economic Research

On the contentious issue of the budget deficit, we feel that the government should take a long-term perspective when containing future expenditure to ensure that its fiscal position will continuously be in check. For instance, medical expenses incurred by an ageing population will represent a significant burden on government coffers due to the changing demographics in the years to come. As such, we feel that measures such as EPF withdrawals for the purchase of medical insurance should not only be introduced, but also be actively promoted by the government. At the same time, we opine that the government needs to exercise stricter control on the size of the public sector so as not to cause undue acceleration in operating expenditure going forward.

In addition, the focus on monitoring expenditure on supply and services should never waver. Indeed, this suggestion stems from the National Audit Department's report which indicated that there is considerable room for improvement in the supervision of certain areas of expenditure. To illustrate: it was reported that some recipients of the school-feeding program or *Rancangan Makanan Tambahan (RMT)* were not qualified as the students' family income levels were above the prescribed threshold. Apart from that, some of the food operators for RMT were not adhering to the stipulated guidelines. These are but a few of the examples where close monitoring is needed to ensure that each spending program yields maximum effectiveness.

For the record, the government had spent RM233.0 million, RM243.5 million and RM249.3 million on the RMT in 2007, 2008 and 2009 respectively.

- ***Housing affordability***

The government proposed several measures to improve the affordability of houses, some of which include expanding the house-price limit of My First Home Scheme from RM220,000 to RM400,000 and allowing joint loans of husband and wife to buy such houses beginning January 2012. Apart from that, RM443 million has been put aside for the construction of 8,000 units of houses for sale and 7,000 units of houses to be rented under Program Perumahan Rakyat (PPR). Additionally, Syarikat Perumahan Negara Berhad (SPNB) will build 10,000 units of houses under Rumah Mesra Rakyat (RMR), where each house will cost RM65,000 to build and will be sold at RM45,000 with the government providing a subsidy of RM20,000 per house.

We applaud the government's efforts to address the citizenry's housing needs. However, the revision to the RPGT structure is too mild to be effective, in our view. The 5% increase in the tax imposed on those who sell their properties within two years of acquisition will not likely have a material effect, especially on those who speculate in this sector. While we are cognisant of and understand the opposing perspectives (particularly of industry players who are concerned about the repercussions of the higher RPGT), we hold fast to the view that the proposed revision will still not address the froth in the property sector at this juncture. Indeed, with the prevalence of relatively easy credit ties provided by the banking sector, property prices look set to remain on their upward trajectory in the near term.

Budget 2011 Measures

RURAL TRANSFORMATION

- RM5 billion to develop rural infrastructure
- RM50 million to provide clean water to the rural community in Sabah
- Bank Simpanan Nasional to appoint agents in rural areas
- RM990 million for the Orang Asli for basic necessities
- RM20 million for the Orang Asli affected by the landslides at Sungai Ruil in Cameron Highlands
- RM300 million housing fund for fishermen

ECONOMIC DEVELOPMENT

- RM2.5 billion for high-impact projects
- Incentives to attract multinational corporations to establish Treasury Management Services in Malaysia
- Development of the Kuala Lumpur International Financial District

ISLAMIC FINANCE

- Tax deductions on *sukuk wakala* will be given for three years from next year
- Income tax exemptions for non-ringgit *sukuk* issuance and transactions will be extended for another three years

FELDA

- Felda Global Ventures Holdings will be listed on Bursa Malaysia next year
- Settlers to receive a windfall, with the amount to be announced before the listing
- RM400 million to upgrade water supply infrastructure in selected settlements

GREEN CARS

- Full exemption of import duty and excise duty on hybrid cars and electric cars to continue until 2013

EDUCATION

- RM50.2 billion for the education sector
- RM1 billion for the construction, improvement and maintenance of schools
- Incentives for private schools registered with the Education Ministry
- Tax incentives to encourage private-sector human-capital development, including a double deduction on scholarships

COMMUNITY

- Expediting tax-exemption approvals for educational institutions and all places of worship
- Subsidies and incentives totaling RM33.2 billion will be continued
- Government will allow EPF to ring-fence RM1,300 from Account 2 for Muslims to register early for the *haj*

CIVIL SERVANTS

- Annual salary to be increased between RM80 and RM320
- RM80 million in tuition-fee assistance to pursue part-time studies, including 5,000 master's and 500 doctoral scholarships. A total of 20,000 places to be offered to diploma teachers to pursue undergraduate studies
- A one-off payment of RM3,000 to RM4,300 to employees who have completed their contract with the Department of Special Affairs (Information, Communication and Culture Ministry) and Jabatan Kemajuan Masyarakat (Rural and Regional Development Ministry)

SECURITY FORCES

- RM3,000 will be given to ex-members of the special constable and auxiliary police as well as widows and widowers
- For a new police framework and upgrades, a special allocation of RM200 million will be made available
- RM500 million for 175,000 army personnel not eligible for pensions under the Army Care programme

WELFARE

- 500,000 to benefit from KAR1SMA, which provides assistance to poor senior citizens and children, as well as disabled persons
- Social assistance centre Anjung Singgah to benefit 1,400 homeless people in Kuala Lumpur. More such centres will be established in Penang, Johor and Sarawak

PROPERTY AND HOUSING

- My First Home Scheme to be expanded from a maximum threshold of RM220,000 to RM400,000
- Program Perumahan Rakyat to build an additional 75,000 affordable houses
- Proposed review of the RPGT to 10% for properties held and disposed of within two years, and 5% for those held and disposed of between two and five years. Those held and disposed of after the five-year period will not be subject to RPGT

YOUTH AND SPORTS

- RM15 million to build 150 futsal courts
- RM200 million for MyCreative Venture Capital
- 2012 declared National Innovation Movement Year; RM100 million for seven strategic initiatives
- RM200 million to train school-leavers through the SAY 1Malaysia programme

AGRICULTURE

- The National Agro-Food Policy 2011-2020 introduced; RM1.1 billion for the development of the agriculture sector

HEALTH

- Hospitals to be upgraded and constructed
- 81 rural health clinics upgraded and 50 new 1Malaysia clinics to be opened
- RM700 million for women and children's hospital in Kuala Lumpur
- Free Human Papilloma Virus immunisation nationwide
- Kuala Lumpur Hospital to be upgraded

TOURISM

- RM420 million to launch the Langkawi Five-Year Tourism Development Master Plan
- The Malaysia Healthcare Travel Council will be privatised to promote and develop Malaysia as a healthcare destination

SMALL AND MEDIUM ENTERPRISES

- RM100 million SME Revitalisation Fund offering loans up to a maximum of RM1 million to entrepreneurs
- RM2 billion *syariah*-compliant SME Financing Fund
- Commercialisation Innovation Fund totaling RM500 million to enable SMEs to commercialise research products

FLOOD RELIEF

- Flood-mitigation plan to be implemented in Perlis, Perak and Johor to assist four million people

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MALAYSIAN RATING CORPORATION BERHAD (Company No.: 364803-V)
5th Floor, Bangunan Malaysian Re, No. 17, Lorong Dungun, Damansara Heights, 50490 KUALA LUMPUR
Tel.: +603 2082 2200 Fax: +603 2094 9397 E-mail: marc@marc.com.my
Homepage: www.marc.com.my