Economic Research

KDN No.: PP14787/11/2012(030811)

Budget 2014: Speeding up fiscal reforms, alleviating burden on rakyat

MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

Vol.: ER/012/2013

Economics Team

Nor Zahidi Alias
Chief Economist
+603 2082 2277
zahidi@marc.com.my

Nurhisham Hussein
Economist
+603 2082 2231
nurhisham@marc.com.my

Afiq Akmal Mohamad
Economic Analyst
+603 2082 2274
afiq@marc.com.my

Please read the disclaimer on the last page of this report

In a nutshell

Budget 2014, which was tabled in Parliament this past Friday, October 25, 2013, sets the stage for a speedier reduction in macroeconomic imbalances while providing the *rakyat* with assistance to ease the burden of rising cost of living. With macroeconomic headwinds from the slowdown in emerging economies, mediocre growth in the United States (US) and a snail-pace recovery of the Euro region, Budget 2014 also aims at sustaining growth momentum via measures to support private consumption and private investment.

In Budget 2014, the government allocated RM264.2 billion in expenditure, of which RM217.7 billion is allocated for operating expenses and RM46.5 billion is allocated for development expenditure. Revenue is forecast to reach RM224.1 billion, a 1.7% increase from 2013, while expenditure for 2014 is almost unchanged from the revised 2013 estimates (specifically, a 1.7% difference). The overall fiscal deficit should decline to 3.5% of gross domestic product (GDP) in 2014 from 4.0% in 2013, according to the Ministry of Finance (MoF).

On the overall macro assessment, we concur with the MoF's GDP growth forecast of between 5.0% and 5.5% for 2014 (our forecast: 4.7% for 2013 and 5.0% for 2014). The challenge, however, is creating a domestic economy that is strong enough to offset the lackluster performance of the external sector, although we expect a slight recovery in the export sector in 2014. We still think that private consumption will once again play a significant role in supporting headline growth, although its pace may moderate from the past few years due to the lag effect of stricter lending criteria of banking and non-bank institutions and weaker sentiment due to higher consumer prices. Similarly, private investment will likely continue to remain resilient, although the blistering growth of over 20.0% that was recorded in 2012 may not be repeated in 2014. With foreign direct investments (FDI) likely to continue flowing in at circa RM30 billion per annum, and with major infrastructure and real estate investments remaining on track, we foresee private investment to expand around 11.0% in 2014.

On the fiscal balance, we are of the view that the government's budget deficit target is well within reach despite the challenges arising mainly from slower growth in nominal GDP. Further subsidy rationalisation efforts will likely be implemented and we sense that the government will continue to focus mainly on the rationalisation of petrol subsidies, although subsidy reductions on consumer items in the future cannot be ruled out. Operating expenditure grew at a more moderate pace of 7.6% on a compound annual growth rate (CAGR) basis in 2008-2012 (2001-2005: 11.3% CAGR per annum), albeit still higher than revenue growth of 6.8% per annum within the same period. The impending implementation of the Goods and Services Tax (GST) will also increase opportunities for the government to gain additional revenue in the long term. The likelihood of achieving the targeted deficit of 3.5% of GDP in 2014 is high as revenue growth has been significantly underestimated in our view.

We are encouraged by the focus on alleviating the financial burden on the low- and middle-income segment of the population. This is critical especially at a time when subsidy rationalisation efforts and the imposition of GST at 6% are expected to drive consumer prices up and dampen consumer sentiment. Assuming there will be two more reductions in subsidies (i.e. a hike in petrol and diesel prices or other consumer items), we foresee inflation to edge up to 3.0% in 2014, up from an estimated average of 2% in 2013.

The implementation of the new income tax bands effective 2015 to coincide with GST comes as a pleasant surprise. We feel that the significant reduction in tax rates for the taxable income between RM50,001 and RM100,000 is a positive move, raising disposable income from between RM1,050 to RM1,950 for individuals in these tax brackets. In addition, the higher threshold of taxable income that is subject to the maximum tax rate of 25% is also a welcome move, and brings Malaysia's tax rates closer in line with the rest of the region. What the government can focus on now is the effort to increase the number of taxpayers in the country. The revision in tax rates for corporate and cooperatives are also welcome, as these may underpin stronger private investment going forward, as well as reduce tax competition with our neighbours.

With regard to the 1Malaysia People's Aid (BR1M) programme, on one hand, we are encouraged that the amount has been raised to help the poorest group of the population. The extension of BR1M to households earning under RM4,000 per month, with a lower payout of RM450, and the introduction of life and disability insurance schemes for all recipients substantially widens the scope and coverage of the programme. In addition, we support the changes in the administration of the programme, wherein payments will now be made twice a year directly into the recipients' bank accounts. However, as we mentioned in our 2013 Budget report, while such assistance is a boon to lower-income households and will prove invaluable in rebalancing income and wealth inequality in Malaysia, we are concerned over the long-term impact of 'unconditional' cash transfers on work incentives and in potentially creating a culture of government dependency. We are still of the view that transfers are the optimum choice so long they are subject to certain conditions such as ensuring children attend school. In addition, giving food and other types of vouchers instead of cash may prevent the misuse of the allocation on purchases of items such as tobacco and alcohol.

The timeframe for the implementation of GST is positive, and the comprehensive measures to mitigate the impact of its introduction show the commitment of the government in getting it off the ground. The proposed cuts in both personal and corporate income taxes, the one-off additional BR1M payout of RM300 for lower-income households and the various tax incentives for companies to prepare for GST cover all the bases. We view that the impact of GST on government revenue and the economy will generally be positive. However, the GST is regressive in nature, and its impact on the lower-income group will be disproportionately higher than on the high-income group (in terms of percentage). As such, we do not think the one-off BR1M payment will be sufficient compensation for lower-income households as consumer prices are also expected to rise following the implementation of GST; in contrast, middle-income households get an effective permanent cut in income tax, but even here we estimate the tax savings from lower tax rates and changes in the bands do not fully offset the higher tax burden arising from GST at 6%. In addition, while the measures for increasing the adoption of GST by companies are welcome and should be effective, the cut in the corporate income tax rate is unnecessary as companies will lose the tax liability they currently suffer under the present sales and service tax regime. Furthermore, we hope that the Price Control and Anti-Profiteering Act 2011 will be strictly enforced to prevent unscrupulous traders from hiking up prices unnecessarily.

On housing, we feel positive about the government's proposal to provide further measures to promote home ownership and improve affordability such as higher allocations for the various bodies involved in promoting home ownership such as the 1Malaysia Housing Programme (PR1MA). The two-prong approach of using both public agencies and incentivising private developers promises to accelerate the supply of affordable housing. In addition, the hike in Real Property Gains Tax (RPGT), increase in the floor price for foreign ownership and the banning of Developer Interest Bearing Scheme (DIBS) should have some impact on containing excessive house price appreciation. Notwithstanding these measures, we are still of the view that higher stamping duties for second and subsequent homes should have been added to the mix, as this has proved an effective deterrent to speculative activity in other countries.

We feel positive about the proposed new Netting Act, as the effect will be to reduce a company's credit risk exposure to net from gross exposure, which subsequently reduces financial institutions' capital requirements and cost of doing business. We therefore view this as favorable to the financial markets as it enhances stability and integrity via protecting participants against unfavorable market conditions. In addition, we are supportive of the government's initiative to introduce the Framework of Socially Responsible Sukuk Instrument (SRI Sukuk), SRI Fund and Environmental, Social and Governance Index (ESG) in the country. However, while we believe that investors will be attracted to companies with high ESG points as awareness levels of corporate social responsibility are increasing around the world, we think the benefits of these measures will take some time to have a significant impact on local financial markets.

Overall, MARC thinks that Budget 2014 broadly meets the competing needs of fiscal consolidation while attempting to address the aspirations of the people. That is an unenviable balancing act which, despite some areas of weakness, the government has managed to achieve.

Budget 2014: Key thrusts and allocation

Budget 2014 attempts to ensure sustainable economic growth, reduce the fiscal deficit, and enhance the welfare of the *rakyat,* as the country moves towards becoming a high-income nation by 2020. It incorporates five major foci and thrust:

- ***Invigorating economic activities***

  The government continues to keep pace in promoting investment as the main pillar for economic growth as the country moves towards a high-income economy. In this regard, various initiatives continue to be introduced, including the construction of the 316-kilometre West Coast Expressway. Meanwhile, to increase the contribution of the services sector, the government is expected to launch the Services Sector Blueprint in 2014, outlining the strategies and measures to further promote growth in the sector. Apart from that, in conjunction with Visit Malaysia 2014, a total of RM1.2 billion is allocated for development and operating expenditure, including promotion and advertising, as well as encouraging investment activities, especially on building infrastructure such as hotels and resorts with a total of RM2 billion worth of funds under the Special Tourism Infrastructure Fund. In the financial market, the government continues to further enhance the regulatory framework by amending the existing law and formulating the Netting Act initiated by Bank Negara Malaysia (BNM). In addition, the introduction of the Framework of Socially Responsible Sukuk Instrument by the Securities Commission will likely continue to support growth in the debt market going forward.

- ***Strengthening fiscal management***

  As the government remains committed towards fiscal consolidation, transformation of the civil service remains the primary focus of the government, particularly in addressing the issues highlighted in the recently published Auditor General's Report. As such, the government introduced an Integrity Management Unit for each ministry to increase compliance and adherence with established procedures. To further improve the government's financial position, the timeline for implementation of GST was announced, with the new system commencing on April 1, 2015 at a 6% rate to replace the current 10% sales and 6% services tax. However, upon the commencement of GST, various forms of assistance will be introduced, especially for the low- to middle-income group, including one-off RM300 cash assistance for BR1M recipients, reduction in personal income tax rates by 1% to 3%, as well as increasing the floor for the maximum income tax rate from RM100,000 chargeable income currently to more than RM400,000. In addition, the subsidy rationalisition programme was continued with the removal of the final 34 sen subsidy for sugar effective October 26, 2013, following the 20 sen hike in fuel prices in early September.

- ***Inculcating excellence in human capital***

  Education and development in human capital is vital for the economy to move towards becoming a high-income and developed nation. As such, the government has allocated a sum of RM54.6 billion, equivalent to 21.6% of total expenditure, to accelerating academic achievement, competencies and skills. Moreover, the government is committed to achieving its target of ranking in the top one-third category of the world's best education providers following the implementation of the Malaysia Education Blueprint. RM530 million of the education sector allocation is allocated for pre-school programmes, RM209 million to improve teaching methods and efficiency in Bahasa Malaysia and English, RM168 million to expand internet connectivity in schools in rural areas and RM831 million to build an additional 33 new schools as well as for upgrading works. In addition, RM100 vouchers for primary and secondary students and 1Malaysia Book vouchers amounting to RM250 each will continue to be given.

- ***Intensifying urban and rural development***

  To promote further development in urban and rural areas, the government has proposed an allocation of RM278 million for various programmes to complement the National Transformation Policy, including the launch of an additional five Urban Transformation Centres (UTC) and three Rural Transformation Centres (RTC). In addition, a sum of RM3.0 billion is being allocated for strengthening the Public Transport Network under various programmes, including the construction of a double-tracking project from Ipoh to Padang Besar as well as the introduction of a Centralised Taxi Service System. Meanwhile, to further strengthen and improve infrastructure, particularly in the rural areas, the government has allocated a total of RM4.1 billion for development of several rural basic infrastructure projects.

- ***Ensuring well-being of the rakyat***

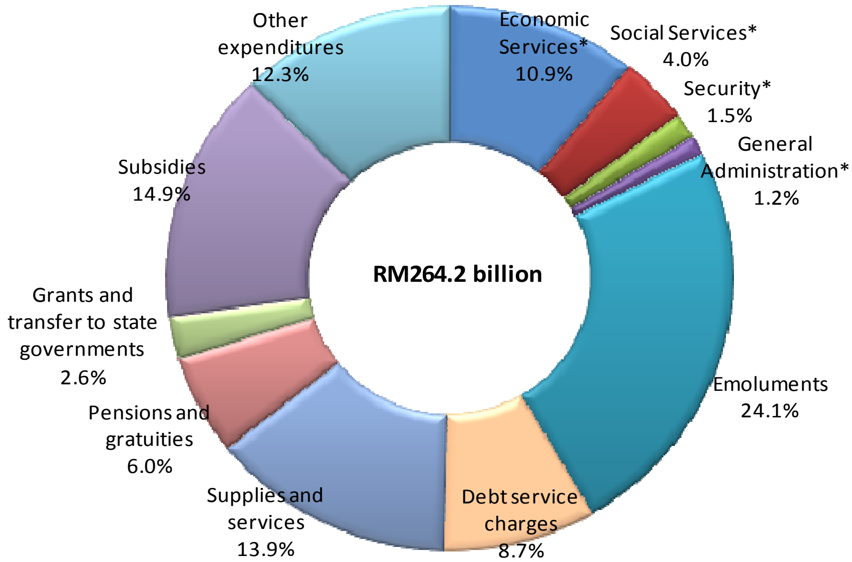
  In a bid to enhance the well-being of the *rakyat,* a sum of RM8.8 billion has been allocated for the Royal Malaysian Police (PDRM) and RM13.2 billion to the Malaysian Armed Forces (ATM) as part of the initiative to improve national security and public order. Apart from that, the government has allocated a total of RM22.1 billion for the health sector to provide high quality medical services for the *rakyat.* To increase home ownership, especially for the low- to middle-income group, an additional 300,000 units and more of affordable houses will be built by the government and private sector. Moreover, the RPGT has been revised with rates increased to 30% for disposals within a holding period of up to three years. In addition, the minimum price of property for foreign buyers is now at RM1 million instead of RM500,000 previously, while features such as DIBS are now banned. To alleviate the burden from the rising cost of living, especially for the middle-income group, the government has proposed a special tax relief of RM2,000 for those with a monthly income of up to RM8,000 effective year assessment 2014.

On the whole, the government proposed an allocation of RM264.2 billion for Budget 2014, about 1.7% higher than the revised allocation for 2013. The trajectory comes as no surprise as the government is increasing efforts to speed up the reduction in the budget gap to meet its 3.0% of GDP target in 2015. Of the total allocation in Budget 2014, RM217.7 billion is slated for operating expenditure while RM46.5 billion will be utilised for development expenditure. With revenue anticipated to climb by 1.7%, the government foresees the budget deficit to decline to 3.5% of GDP (RM37.1 billion) in 2014 from an estimated 4.0% of GDP (RM39.3 billion) in 2013, a target that is within reach in our view. This is premised on an absence of or only a small supplementary budget that the government may request in the next one year. We are comforted by the fact that operating expenditures, while remaining high, have grown by a significantly slower pace of 7.6% per annum on a CAGR basis in 2008-2012, compared with 11.3% per annum in 2001-2005.

While the government debt has climbed to 54.6% of GDP in 2Q2013, a shade lower than the self-imposed limit, the increase was mainly due to the anemic growth in nominal GDP of 4.9% expected for 2013. In 1H2013, nominal GDP grew by barely 2%, compared with its 5-year median of 10.9%. On the positive side, declining budget deficits and a favourable debt structure (large domestic debt of 96.8% of total debt) suggest that the overall macroeconomic risk is manageable. On the negative side, however, a rapid increase in contingent liability (RM143.1 billion or 15.2% of GDP at the end of 2012 compared with 9.0% of GDP in 2008) means that government's flexibility in guaranteeing future debt will be more limited. And this will be challenging at a time when the government is embarking on huge investments on infrastructure and non-infrastructure projects. Notwithstanding this, the ratio to GDP is not at an alarming level when compared with other countries in the world.

Despite the relatively high debt ratio, other macro variables do not indicate a significant exposure to major risks. A resilient growth profile, absence of rapid inflationary pressure, strong international reserves position, sound banking system and strong governance indicators seem to indicate that a sovereign downgrade is not justified at this juncture.

Chart 1: Budget 2014: Spending allocation



Sources: MoF Economic Report 2013/2014
*Note: * = development expenditure*
*Items without * = operating expenditure*

Macroeconomic assessment

- ***Growth forecast is in line with our assessment***

Malaysia's GDP growth is expected to rebound to 5.0-5.5% in 2014 from 4.5-5.0% in 2013 according to the MoF, in line with our forecast (2013: 4.7% and 2014: 5.0%). Similar to 2013, stronger headline growth is expected to be attributed to a partial recovery of the external sector as global trade is likely to be on the mend following a mild recovery in emerging economies and in the US despite a snail-pace recovery of the euro region. The Malaysian economy is also anticipated to be supported by a sustained expansion in private consumption which has contributed about 59.3% of GDP growth following the 2009 recession. Retail trade is anticipated to remain resilient even after an estimated 6-7% expansion in 2013. The wild card, however, is the trend in private consumption following the implementation of GST which may moderate despite the proposed cuts in both personal and corporate taxes and the one-off additional BR1M payout of RM300 for lower-income households which may not be sufficient to cover the tax burden, especially for the low-income group. A strong expansion in private investment, albeit lower than in 2013, is also expected to add fuel to Malaysia's economic growth engine in 2014, according to the MoF.

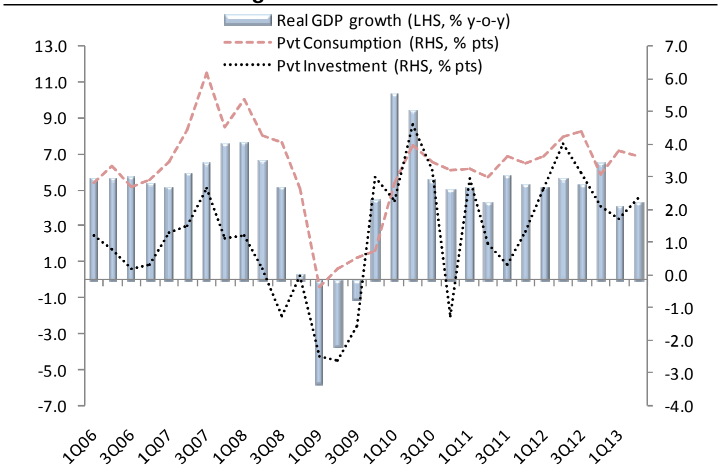
Table 1: GDP growth on the demand side

Growth (% y-o-y)	2010	2011	2012	MARC		MoF	
				2013F	2014F	2013F	2014F
GDP	7.4	5.1	5.6	4.7	5.0	4.5 - 5.0	5.0 - 5.5
Domestic Demand	7.7	7.9	10.6	7.7	6.4	8.7	5.9
Private Consumption	6.9	6.8	7.7	7.1	6.2	7.4	6.2
Public Consumption	3.4	15.8	5.1	5.6	4.1	7.3	3.3
Private Investment	18.4	10.5	21.9	11.5	11.0	16.2	12.7
Public Investment	4.9	1.0	17.1	7.5	3.7	5.5	-2.7
Real Exports	11.1	4.6	-0.1	-0.2	4.0	1.2	1.6
Real Imports	15.6	6.1	4.7	1.6	5.6	4.4	2.2

Source: CEIC, MoF, MARC Economic Research

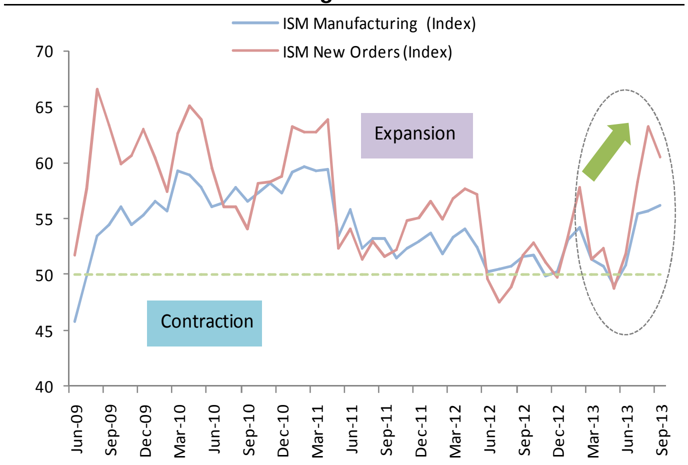
Overall, we are more optimistic about the external sector in 2014, despite not expecting a robust expansion in the export sector. Specifically, China's economic recovery will be a plus point for Asian trade and will help Malaysia to regain some ground in its export performance. Malaysia's exports to China – its single largest trading partner – will also hinge on the uptrend in the US economy which we think will continue to benefit from a long period of loose monetary policy implemented by the Fed to ensure a stable growth in 2014. The strength of the manufacturing sector is evidenced by the uptrend in the ISM manufacturing index and its new orders sub-index.

Chart 2: Headline GDP growth and contribution to GDP



Source: CEIC, MARC Economic Research.

Chart 3: US ISM manufacturing and new orders index



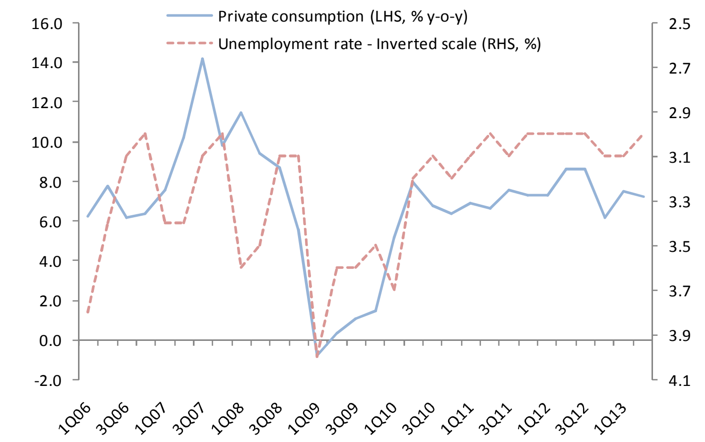
Source: ISM, MARC Economic Research.

Malaysia's palm oil prices are also expected to rebound slightly from the 2013 level as global demand starts to recover. While production remains high, recent indications from the industry show that orders have risen rapidly and prices are expected to breach RM2,500 per tonne in 2014. Although many are expecting prices to continue to decline as output will rise by almost 9% in 2013-2014 (according to USDA), palm oil prices are currently at a deep discount to soybean prices based on its long-term average.

On the domestic front, while the momentum in private consumption will likely be tempered by rising cost of living and weaker bank lending, the resilient labour market and relatively strong lending by non-bank institutions will continue to offset its weakness. Retail trade and auto sales will likely continue to support overall private consumption which we foresee to grow by 6.2% in 2014.

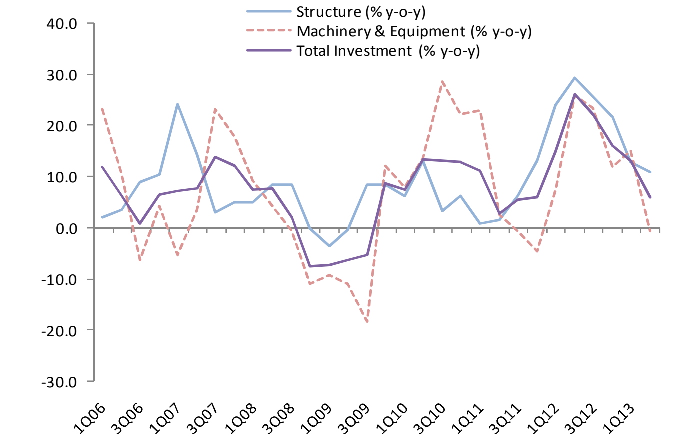
On private investment, we concur with the government's forecast of a slower pace in its growth as extra efforts will be made to ensure high import content projects are delayed to safeguard Malaysia's current account surplus which is trending downward. Notwithstanding this, many projects under Economic Transformation Programme (ETP) will still contribute to the growth in private investment in 2014 while private residential projects will remain robust despite stricter lending guidelines imposed in the last few years following BNM's ruling. Loan growth for residential purchases has remained robust at 12.8% in the first eight months of 2013.

Chart 4: Private consumption and unemployment rate



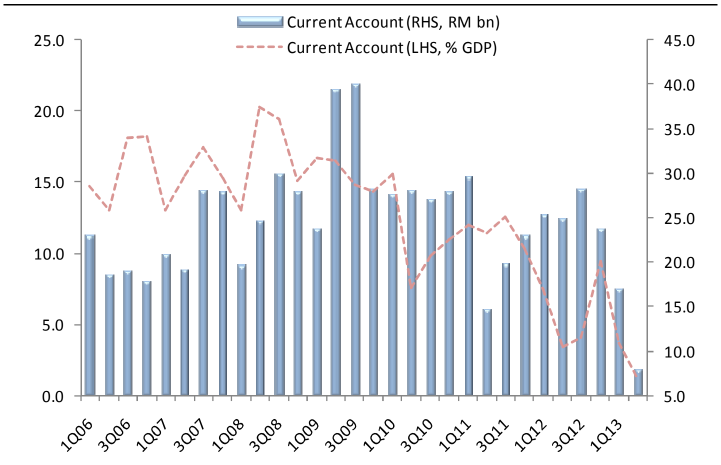
Source: CEIC, MARC Economic Research.

Chart 5: Investment composition



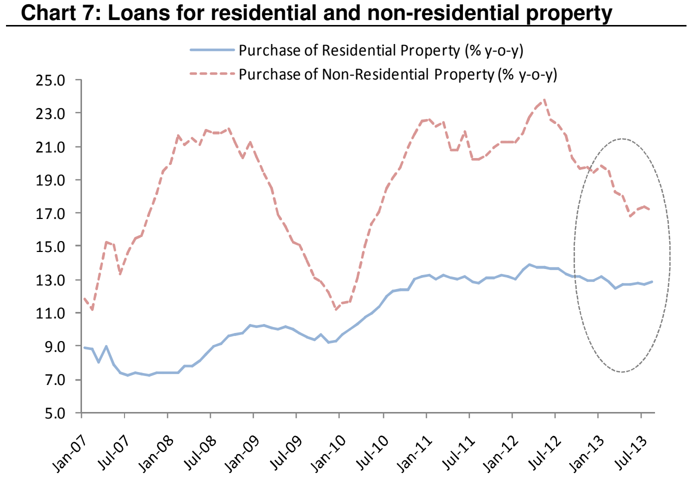
Source: CEIC, MARC Economic Research.

Chart 6: Current account balance



Sources: CEIC, MARC Economic Research

Chart 7: Loans for residential and non-residential property



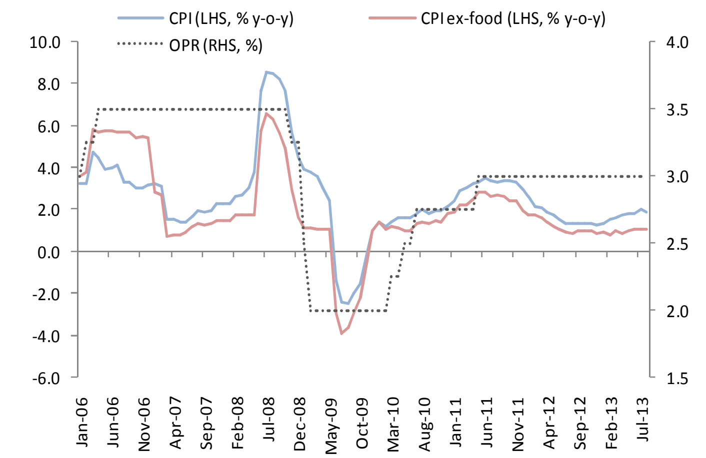
Sources: CEIC, MARC Economic Research

- ***Impact on inflation and interest rate***

More subsidy reduction is anticipated in the future as the government focuses on containing operating expenditures which have surged by 35.5% within three years. In 2012, subsidies amounted to RM44.1 billion, or about 21.4% of operating expenditure, a big jump from RM2.7 billion recorded in 2003. With more reduction in petrol subsidies likely to happen in the future, consumer prices will start to creep up in 2014. In addition, the announcement of a timeframe to implement the GST at a higher-than-expected rate of 6% will likely cause some unscrupulous traders to hike up prices of selected goods, especially if the Price Control and Anti-Profiteering Act 2011 is not properly reinforced. This may happen even before the actual implementation of GST comes into effect. Assuming that there will be two more reductions in subsidies (i.e hike in petrol and diesel prices or other consumer items), we foresee inflation to edge up to 3.0% in 2014, up from an estimated 2.0% in 2013.

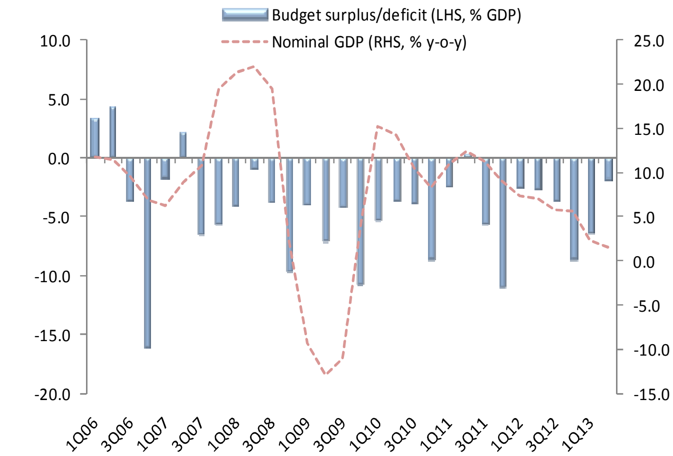
Notwithstanding this, we do not foresee any increase in the policy rate (OPR) in 2014 unless the economy starts to expand more robustly than expected. We believe that the fragile sentiment due to global headwinds such as the Fed's tapering of bond purchases, mediocre performance of the euro economies and jitters surrounding future prospects of Asian economic giants like China and India will keep policymakers from nudging up interest rates in 2014. The wildcard, however, is the possible outflow of capital after the Fed starts to reduce its bond purchases, which may cause the central bank to consider raising the policy rate slightly. Even if this happens, we do not anticipate the rate to rise by more than 25 bps.

Chart 8: Inflation and policy rate



Sources: CEIC, MARC Economic Research

Chart 9: Budget deficit as % of GDP and nominal GDP growth



Sources: CEIC, MARC Economic Research

▪ *Budget deficit trajectory*

The year 2013 has been a challenging period for the government to bring the deficits down, not because of the increase in expenditure but because of the slower growth in nominal GDP which boosted the ratio of the deficit against the country's nominal output. With nominal GDP growing at anemic rate of 2% in 1H2013, deficits stood at 4.1% during the first six months of the year. However, based on the expectation of a recovery in nominal GDP growth in 2H2013, Malaysia's deficit target of 4% of GDP is likely to be achieved in 2013.

Going forward, we believe that the government's deficit target of 3.5% of GDP for 2014 is achievable due to several reasons: (1) subsidy rationalisation efforts have been revived as evidenced by the first 20 sen increase in petrol and diesel prices in September and the removal of sugar subsidy announced during Budget 2014. Further reductions will likely on the cards based on Budget 2014; (2) nominal GDP will likely be on the uptrend in 2014, especially if global trade starts to recover and prices for commodities such as crude oil and palm oil start to pick up. High crude oil prices tend to have a positive effect on government revenue and based on the past trend, prices normally lead revenue by approximately three quarters; (3) development expenditure will likely trend downward as the government makes extra effort to avoid being downgraded by international rating agencies. With a relatively strong momentum in private investment, the government will not be under pressure to allocate a large amount for development expenditure as in the past years; and (4) supplementary budgets will likely be controlled in order to ensure expenditure targets will not be compromised.

In the long term, the revenue to be generated from GST will likely help ease the pressure on the government coffers despite some of the rebates the government has planned for the *rakyat* and businesses.

▪ *Dealing with rising government debt*

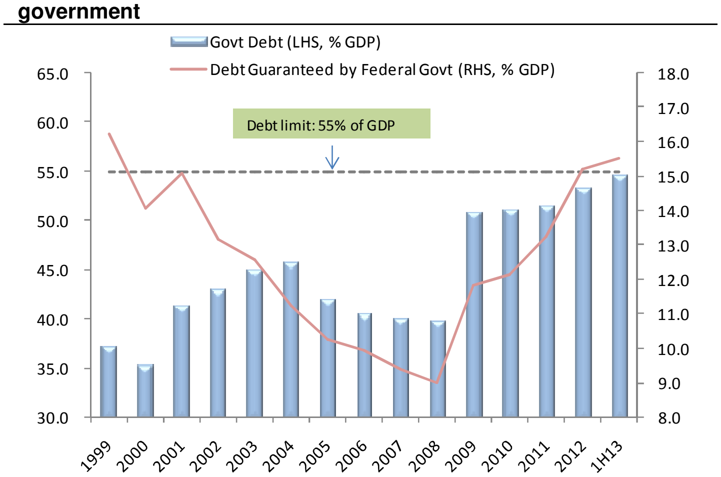
Malaysian government debt is anticipated to reach RM578.0 billion in 2014 (54.7% of GDP). The concern over reaching the self-imposed debt ceiling of 55% is understandable as the increase in the debt level has accelerated to 12.5% per annum on a CAGR basis in the ten years between 2000 and 2009. Since the 2009 recession, government debt has risen by 11.4% per annum on a

CAGR basis. This is in contrast with the experience in the 1990s (between 1990-1999) when government debt expanded at a CAGR pace of only 1.9% per annum.

Notwithstanding this, there are two main points worth noting. First, the 1990s was a period when economic growth was very high, averaging 8% per annum (excluding the 1998 recessionary year). During that time, the economy registered a surplus in its budgetary position. As such, the debt level was kept relatively low. Secondly, after 2000, the debt level surged following the global Great Recession in 2009 when the Malaysian economy contracted for the first time since the Asian Financial Crisis. This prompted the government to introduce stimulus measures and caused the debt to increase at more rapid pace. Thirdly, despite the rising debt-to-GDP ratio, the portion of government external debt is minuscule at 3.4% of total government debt in 2012. In fact, the federal government's external debt-service ratio (principle payment and interest as a percentage of exports of goods and services) declined to 0.2% in 2012 from 1.2% in 2009.

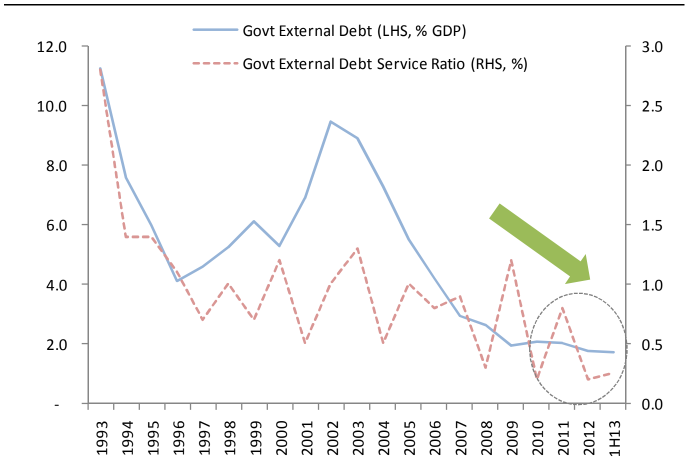
On a slightly negative note, Malaysia's contingent liability has risen at a rapid pace whereby in 2Q2013 it reached RM147.3 billion (15.5% of GDP). Contingent liabilities have grown by 52% since the end of 2010 and have expanded at a CAGR pace of 4.3% per quarter. Prior to 2005, such liabilities rose by a minuscule 0.4% per quarter between 2000 and 2005. However, following the recession in 2009, contingent liabilities have increased exponentially, mainly due to the huge projects undertaken with government guarantees.

Chart 10: Government debt and debt guaranteed by federal government



Sources: CEIC, MARC Economic Research

Chart 11: Government external debt



Sources: CEIC, MARC Economic Research

Budget 2014 Measures

RURAL TRANSFORMATION

- RM1.6 billion to expand High-speed Broadband (HSBB) to suburban areas.
- RM1.5 billion allocated for installation of telecommunication transmission towers to increase internet coverage in rural areas.
- RM850 million for new underwater cables to increase internet access in Sabah and Sarawak.
- Three additional Rural Transformation Centres will be launched with one each in Sabah, Sarawak and Negeri Sembilan.
- RM130 million to subsidise rural air transport, particularly for rural population in Sabah and Sarawak.
- A total of RM4.1 billion is allocated for rural development programmes under various basic infrastructure projects.
- RM50 million for land surveying and customary land ownership verification for Bumiputera minority, mainly in Sabah and Sarawak.

ECONOMIC DEVELOPMENT

- RM1.6 billion allocated for development in five regional corridors.
- Introduction of Services Sector Blueprint in 2014 to further promote growth in the services sector.
- RM3.0 billion of soft loans provided under the Maritime Development Fund to finance the development of logistic sector.
- Formulation of National Aviation Policy to strengthen the ecosystem and services network in the aviation industry.

PUBLIC TRANSPORT

- RM2.9 billion to upgrade rail tracks nationwide.
- RM62 million allocated for providing ‘park and ride’ facilities at LRT stations, KTM commuter stations, and ERL stations.
- RM15.3 million for Centralised Taxi System.
- RM28 million provided for upgrading bus stops and providing ‘drop and ride’ facilities as well as building ‘last city terminal’.
- RM28 million to refurbish Electric Multiple Units (EMU) trains to enhance efficiency.

GREEN TECHNOLOGY

- RM15 million worth of grants for Malaysian Green Foundation to promote and enhance the use of green technology by the corporate and the public.

EDUCATION

- RM530 million proposed for preschool programmes.
- RM209 million allocated to enhance the teaching profession.
- RM168 million to expand internet access in schools, especially in rural areas.
- RM1 billion worth of fund for building, upgrading and maintenance of schools.
- RM600 million worth of grants in research for public universities.
- RM110 million under the MyBrain15 programme to finance tuitions fees at post-graduate level.
- RM100 vouchers to all primary and secondary school students as well as RM250 1Malaysia Book Vouchers will continue to be given.

COST OF LIVING

- Increase in BR1M payments from RM500 to RM650 for households earning less than RM3,000 per month, while the amount will be increased from RM250 to RM300 for single individuals aged 21 and above with a monthly income less than RM2,000.
- RM450 of BR1M assistance will be extended to households with a monthly income of between RM3,000 to RM4,000.
- RM250 of financial assistance for pensioners.
- RM30 million allocated to open an additional 60 units of Kedai Rakyat 1Malaysia (KR1M).

TAXES

- Announced the timeline for implementation of GST with the new system commencing on April 1, 2015 at a 6% rate to replace the current 10% sales and 6% services tax.
- Reduction in individual income tax rates by 1%-3% upon the implementation of GST.
- Revision on the personal income tax structure by increasing the floor for the maximum income tax rate from RM100,000 chargeable income currently to more than RM400,000.
- Corporate tax rates to be reduced from 25% to 24%, and income tax rate for small and medium size businesses will be reduced by 1% point effective year assessment 2016.
- Reduction in cooperative income tax rate by 1%-2% effective year assessment 2015.
- Tax relief amounting to RM2,000 for those with a monthly income of up to RM8,000 effective year assessment 2014.

CIVIL SERVANTS

- Half-month bonus for 2013 with a minimum payment of RM500 to be paid in January 2014.

SECURITY

- RM8.8 billion allocated for PDRM and RM13.2 billion to the ATM to for crime reduction and improving military equipment.
- RM128 million to build and upgrade the Police Headquarters, District Police Headquarters, and staff quarters.
- RM20 million for an additional 800 motorcycles for the Police Motorcycle Patrol Unit.
- RM75 million allocated to strengthen East Coast Special Security Area (ESSCOM) operations.

PROPERTY AND HOUSING

- Increase in RPGT to 30% on disposal of properties within the holding period of up to three years, while for disposals within the holding period up to four and five years, the rates are increased to 20% and 15% respectively.
- The minimum price of property for foreign buyers is now at RM1.0 million from RM500,000 previously.
- Banned projects that have features of DIBS.
- More than 300,000 units of affordable homes to be built by the government and private sector, including PR1MA.
- Introduction of new category of Rumah Mesra Rakyat, with sales price between RM45,000 to RM65,000.
- Introduction of Private Affordable Ownership Housing Scheme (MyHome) to encourage private sector to build more low- and medium-cost houses, of which RM30,000 worth of subsidies will be given for each unit built.

YOUTH AND SPORTS

- RM239 million allocated to upgrade sports complexes and courts as well as to establish Pilot Talent Identification Programme in primary schools.
- RM150 million to the Sports Trust Fund for the development of elite sports, medical treatment and research.
- One-off incentive of RM500 for Private Retirement Scheme contributors aged between 20 and 30 years with a minimum cumulative investment of RM1,000 within a year.

AGRICULTURE

- RM6.0 billion allocated for the implementation of high value-added and commercial viable agriculture programmes, including the establishment of Food and Agro Council for Export (FACE), and to increase the number of farmer's markets, fish markets, agriculture caravans, as well as fresh fruit stalls, to promote fair prices of food products.
- RM2.4 billion in subsidies for fertilisers, seeds, paddy and rice, as well as incentives for higher production of paddy and fish landing.
- RM243 million allocated for rubber, palm oil, and cocoa replanting programme.

HEALTH

- A total of RM22.1 billion allocated for the health sector, including the construction of Hospital Tanjung Karang and additional blocks for Hospital Jeli, as well as upgrading Hopsital Kuali Lipis and 30 rural clinics.
- An additional 50 1Malaysia clinics to be built.
- RM66 million allocated for the construction of additional blocks in Hospital Queen Elizabeth and for the purchase of equipment.
- Continuous Ambulatory Peritoneal Dialysis (CAPD) will be provided for free to facilitate home treatment of end state kidney patient.
- Removal of 34 sen sugar subsidy effective October 26, 2013 to prevent *rakyat* from facing various health complications such as diabetes, heart disease and kidney failure.

TOURISM

- A sum of RM1.2 billion allocated for tourism development and operating expenditure, including for promotion and advertising in conjunction with the implementation of Visit Malaysia 2014.
- Application period for Pioneer Status and Investment Tax Allowance incentives to be extended for another three years to encourage more investments in new 4- and 5-star hotels.
- RM2.0 billion worth of funds under the Special Tourism Infrastructure Fund used to finance the cost of building infrastructure such as hotels and resorts.

SMALL AND MEDIUM ENTERPRISES

- RM120 million proposed for an integrated packaged to enhance innovation and productivity of SMEs.
- Further tax deductions for SMEs to help reduce financial impact of the implementation of Minimum Wage policy.
- Introduction of Night Market Traders Entrepreneur Scheme amounting to RM100 million under Bank Simpanan Nasional in providing soft loans for night market traders to cover business costs.

CAPITAL AND FINANCIAL MARKET

- Formulating Netting Act initiated by the BNM as well as amending existing law to protect enforcement of "close-out netting" under financial contracts.
- Introduction of the Framework of Socially Responsible Sukuk Instruments by Securities Commission to finance various sustainable and responsible investment initiatives.
- Introduction of Environment, Social and Governance Index (ESG) to raise the profile of listed companies, with RM1 billion worth of funds under Valuecap to be invested in companies that score highly on the index.

THIS PAGE IS INTENTIONALLY LEFT BLANK

THIS PAGE IS INTENTIONALLY LEFT BLANK

--- Disclaimer ---

Published and Printed by:

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