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Budget 2016: Strengthening Economic Resilience and Prospering the Rakyat

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In a nutshell

- Budget 2016, tabled in Parliament this past Friday, is the first budget under the Eleventh Malaysia Plan (11MP). As expected, it focuses mainly on accelerating economic growth, strengthening the government's fiscal position and enhancing economic development inclusiveness to maximise the benefits of economic expansion to the *rakyat*. With macroeconomic headwinds emanating from the protracted slowdown in the Chinese economy as well as the recent moderation in the United States (US) economy, Budget 2016 prioritises measures that support domestic demand by energising investments and sustaining private consumption. Measures to alleviate the pressure of rising cost of living on the *rakyat* and ensure the inclusiveness of growth are given high priorities in Budget 2016.
- A sum of RM267.2 billion worth of expenditure is allocated in Budget 2016 with the bulk of it (81.0% or RM215.2 billion) allocated for operating expenses, while the balance (RM52.0 billion) is slated for development expenditure (DE). With an expectation of a hefty 27.4% drop in oil-related revenue from 2015 following a sharp decline in global crude oil and natural gas prices but partially offset by rising indirect taxes through the Goods and Services Tax (GST), overall government revenue is anticipated to edge up by a mere 1.4% to RM225.7 billion. With this, the budget deficit is anticipated to slip marginally to 3.1% of gross domestic product (GDP) in 2016 (2015: -3.2% of GDP).
- On the overall macro assessment, the Ministry of Finance's (MoF) GDP growth forecast of between 4.0% and 5.0% for 2016 is in line with our forecast (MARC 2016: 4.4%), although events such as a prolonged moderation of the Chinese economy and slower-than-expected pace of the US economy could derail this target. On the domestic side, the wild card remains consumer spending, which we think will expand less than 6.0% in 2016 - lower than the government's projection of a 6.4% growth - as consumers adopt a cautious attitude on the back of rising cost of living (due to stubbornly high home prices, recent toll hikes, and other possible subsidy rationalisation efforts next year). In addition, while temporary relief from lower pump prices helped sustain consumers' spending enthusiasm in 2015, the rise in crude oil prices – if it persists in 2016 – will start to pinch consumers' pockets and temper their spending pattern going forward.
- On the fiscal balance, MARC is of the view that the government budget deficit target for 2016 is realistic, although it remains challenging at this juncture especially with oil-related revenue expected to drop by 52.0% in 2016 from its level in 2014. In order to ensure that the government's fiscal consolidation effort is on track, the sharp drop in oil-related revenue has to be made up by GST revenue which the government foresees to climb substantially to RM39.0 billion in 2016. While we are comforted by the collection of GST since April 2015 (RM7.6 billion until June), we remain cautious on the amount to be collected in 2016 due to the weaker pace of consumer spending growth and slower GDP growth in general. In addition, our estimate suggests that achieving a nominal GDP growth of 6.8% as envisioned by the government is a tall order at a time when the overall strength of the economy is weakening (our forecast of nominal GDP growth 2016: 4.0-5.0%).
- In the long term, MARC views positively the slower growth in overall government operating expenditure (OPEX) and higher allocation (and perhaps utilisation) of DE which were largely the result of lower subsidies following the fuel subsidy rationalisation. Based on statistics, we estimate total government subsidies to have grown at a much lower compound annual growth rate (CAGR) of 14.5% per annum (p.a.) in 2010-2014, compared with 33.9% p.a. in 2001-2008. Similarly, the amount spent on oil subsidies has grown at a slower pace of approximately 24.8% p.a. on a CAGR basis in 2010-2014, down from the 29.5% p.a. in 2001-2008. Therefore, adopting a market-based pricing mechanism for fuel has advantages in reducing the growth of OPEX, thus cushioning the impact on budget deficits. Notwithstanding this, MARC is of the view that the government should provide details on how the savings from the subsidy rationalisation will be used to assure the *rakyat* of its benefits.
- Measures to alleviate the rising cost of living such as higher personal reliefs for those with children below 18 years of age, new reliefs for parental care, higher minimum wage and additional amount of 1Malaysia People's Aid (BR1M) are already expected in order to sustain a respectable growth in private consumption, although consumers may continue to remain cautious in their spending pattern in the near term. The move to add more medicines under the zero-rated category is welcome, although MARC is of the view that all medicines should be classified as zero-rated products. This is in view of the fact that statistics from the World Bank indicate the 'out of pocket expenditures on health' for Malaysians have risen to around 80.0% of total private health expenditure in 2013 (world average: 46.0%). The increase in income tax rates for the higher-income brackets

comes as a surprise, although it was recently introduced in Malaysia's neighbouring country, Singapore. Such a measure can enhance the progressivity of the tax system and increase future revenue streams for the government. Holistically, it can be seen as a positive measure because such an increment is unlikely to hurt the purchasing power of those in this income bracket.

- With regard to the BR1M programme, we are encouraged that the amount has been raised and a new group of recipients has been added (e-Kasih participants with monthly income of less than RM1,000 per month) to help the poorest group of the population. With wider coverage and higher payout for each group by RM50 p.a., the amount allocated for BR1M will increase to RM5.9 billion in 2016. However, as we have mentioned in the past, 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 prefer non-cash and conditional transfers, i.e. through MyKad, to avoid the misuse of the assistance provided by the government.
- On housing, we feel positive about the government's update on various affordable housing projects introduced in the past few years. Notwithstanding this, MARC feels that the main focus now is the speed of completion of these projects. The latest information suggests that only 560 homes have been completed under 1Malaysia's People's Housing Programme (PR1MA), while 41,000 units are still under construction. In addition, MARC is of the view that more serious measures are needed to contain speculative activities in the housing market, as prices remain stubbornly high. Although the Bank Negara Malaysia (BNM) has implemented certain measures to reduce the risk of further sharp increases in home prices, further measures should be taken, such as reviewing property developers' practice of giving "rebates" that essentially enable buyers to secure properties with 100% financing. Such incentive schemes, while helping home buyers with their downpayments, will cause home prices to rise at a more rapid pace as the cost of the rebates are normally factored in the selling price of the property.
- On capital market measures, we view the tax deduction on issuance of Sustainable and Responsible Investments (SRI) sukuk as a strong follow-through on the SRI framework that was announced in the 2014 budget speech to promote socially responsible investment and financing. The move could help SRI sukuk to gain traction with private sector issuers following Khazanah Nasional Bhd's issuance of Malaysia's first SRI sukuk in June this year. By encouraging more issuances of SRI sukuk, the tax incentive would help the market to gain familiarity with the new Shariah-based instrument and move Malaysia's Islamic finance agenda of transitioning from Shariah-compliant to Shariah-based products and services forward. Notwithstanding this positive initiative by the government, we believe that the demand side of such sukuk is equally important to the creation of a liquid market. In particular, the differences in the risk-reward profile of such sukuk from Shariah-compliant offerings and the lack of track record for the product may pose challenges in finding a sufficient number of investors.
- On the 20% stamp duty exemption of Shariah-compliant loan instruments to finance the purchase of houses, we are of the view that such a measure should go some way towards contributing to the growth of Malaysia's Islamic finance assets, given that more than half of Islamic banks' financing is disbursed to the household sector. We observe that Malaysia's success in broadening and deepening its domestic Islamic financing market over the years is attributable in part to the tax incentives provided for Islamic financing through various past Budget announcements. However, there are other factors that affect the dynamics of demand such as housing and household debt affordability. Also, there is currently a lack of measures to increase market awareness and acceptance of Islamic financing as an alternative source of financing for domestic businesses.
- MARC believes that Budget 2016 meets the important needs of keeping Malaysia both competitive and on a fiscally sustainable path without sacrificing the needs and interests of the *rakyat*. This unenviable balancing act is being made tougher by a number of economic headwinds. However, Malaysia's situation, when seen from the perspective of some advanced economies currently undergoing painful economic adjustments, remains enviable against a backdrop of slower global economic growth. MARC believes that despite some areas of weaknesses, Malaysia should be able to carry out Budget 2016's difficult balancing act supported by its strong economic institutions.

Budget 2016: Key priorities

Budget 2016 and future Budgets will focus on striking a balance between the Capital Economy and the People Economy. The government aims to achieve inclusive and sustainable economic growth and build a nation with a united society that is competitive, progressive and morally strong. To that end, it has proposed the following five priorities:

- **First priority: Strengthening economic resilience**

Budget 2016 proposes increased efforts to boost domestic investment to create more jobs and lift consumption spending. For example, existing companies in selected manufacturing and agriculture sectors whose Reinvestment Allowance incentives have expired will be provided with a new incentive, the Special Reinvestment Allowance. Meanwhile, incentives for small and medium enterprises (SME) include an additional RM1 billion allocation for the Shariah-compliant SME Financing Scheme until end-2017. Under this scheme, the government will subsidise 2% of the financing profit rate. In addition, Malaysia External Trade Development Corporation (MATRADE) and SME Corp will focus on increasing the capacity of SMEs and other mid-tier companies to export goods and services overseas. Initiatives to further invigorate the capital market include tax deduction on issuance costs of SRI sukuk. The government will continue to improve logistics infrastructure, an important catalyst for overall economic and social development, including the Damansara - Shah Alam, Sungai Besi - Ulu Klang, Pulau Indah and Central Spine Road highways.

- **Second priority: Increasing productivity, innovation and green technology**

The government will continue to focus on driving innovation and creativity to boost productivity. Measures to accelerate innovation and entrepreneurship include automatic double tax deduction for SMEs on expenditure on research and development (R&D) projects of up to RM50,000 for the assessment years of 2016 to 2018. Meanwhile, the construction sector will enjoy incentives to leverage on advancements in technology with the government's promotion of the Industrialised Building System (IBS). To promote green technology and protect the environment, Budget 2016 proposes initiatives to conserve natural resources, strengthen resilience against climate change and natural disasters, promote renewable energy, and encourage the use of energy-efficient vehicles. The government aims to reduce the Green House Gases emission intensity to 40% of GDP by 2020. To achieve that, it will, among other things, extend the implementation period of the Green Technology Financing Scheme until end-2017 with a fund of RM1.2 billion.

- **Third priority: Empowering human capital**

The education system will be continuously improved to ensure that Malaysian students are on par with their international peers. A sum of RM41.3 billion will be allocated in 2016 under the Malaysia Education Blueprint 2013-2025 to, among others, build 30 primary schools and 27 secondary schools. Measures to strengthen higher education include a RM1.65 billion scholarship programme allocation through the Public Service Department. To improve the quality and quantity of Technical and Vocational Education and Training (TVET) graduates, the Ministry of International Trade and Industry (MITI) will establish an Industrial Skills Committee to coordinate the TVET programmes with industry players. The government will also allocate RM930 million to the Ministry of Youth and Sports for youth, community and non-governmental organisation (NGO) initiatives. There will also be allocations for programmes to improve the employability of the workforce. For example, the government proposes that an additional 15,000 participants be trained under the 1Malaysia Training Scheme (SL1M), which will be fully financed by government-linked companies (GLC) to the tune of RM250 million.

- **Fourth priority: Advancing the Bumiputera agenda**

Allocations to advance the Bumiputera agenda include the following: a) RM150 million to the Bumiputera Agenda Unit (TERAJU) to implement various programmes, including the Bumiputera Entrepreneurs Startup Scheme and High-Performing Bumiputera Companies Programme; and b) RM3.7 billion to Majlis Amanah Rakyat (MARA) for expenditure, including the sponsorship of 72,000 Bumiputera students to continue studies at the tertiary level. For the development of the Bumiputera community in Sabah and Sarawak, the government will construct the 1,090-kilometer Sarawak Pan-Borneo Highway. It is expected to be completed in 2021 with an estimated cost of RM16.1 billion. In Sabah, construction work on the 706-kilometer highway from Sindumin to Tawau will commence in 2016 with an estimated cost of RM12.8 billion. Other allocations include the RM70 million to be provided through Bank Simpanan Nasional, in collaboration with the state government of Sabah and Sarawak, for interest-free loans of up to RM50,000 for building longhouses.

- **Fifth priority: Easing cost of living of the *rakyat***

The government remains committed to enhancing the *rakyat*'s standard of living and quality of life, as well as easing living costs. To increase the quality of life for bottom 40% household income group (B40), for example, Budget 2016 will allocate RM600 million for Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), of which RM500 million is allocated for Bumiputera entrepreneurs and RM100 million for 10,000 Indian entrepreneurs through the Indian Community Development Scheme. In addition, RM50 million will be provided through the SME bank to assist small-scale Indian entrepreneurs. Meanwhile, house ownership programmes for all income levels will be implemented. For example, Budget 2016 will allocate RM1.6 billion to PR1MA to build 175,000 houses which will be sold at 20% below market prices. The government's proposed healthcare services projects include the construction of five new hospitals in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya. Rural clinics, health clinics, dental clinics, as well as quarters will also be built and upgraded with an allocation of RM260 million. The government has not forgotten the less fortunate and persons with disabilities (PWD). Budget 2016 will allocate almost RM2 billion to the Ministry of Women, Family and Community Development to assist PWD, the elderly and poor families.

Our take on Budget 2016

- **Overall macro assessment**

On the overall macro assessment, the MoF's GDP growth forecast of between 4% and 5% for 2015 is in line with our forecast (MARC 2016: 4.4%), although events such as a prolonged moderation of the Chinese economy and slower-than-expected pace of the US economy could derail this target. While we acknowledge that China has the necessary fiscal buffer to cushion its economy against a hard landing, the question remains whether its policy makers are willing to undertake additional fiscal measures in view of the risks of long-term economic imbalances. As for the US, the hike in interest rates will likely rattle the financial market temporarily, leading to additional capital outflows from Malaysian shores (portfolio outflow of RM51.2 billion in 3Q2014 - 2Q2015). Notwithstanding this, based on past experiences, we believe that once the rate hike takes place, the strength of the greenback against major global currencies will subside as the Federal Reserve's (Fed) move brings more certainty to the financial market. This, coupled with an expectation of a rebound in crude oil and natural gas prices, will stabilise the regional currencies, including the ringgit.

On the domestic side, the wild card remains consumer spending, which we think will expand less than 6% in 2016 - lower than the government's projection of a 6.4% growth - as consumers adopt a cautious attitude on the back of rising cost of living (due to stubbornly high home prices, recent toll hikes, and other possible subsidy rationalisation efforts next year). In addition, while temporary relief from lower pump prices helped sustain consumers' spending enthusiasm in 2015, the rise in crude oil prices – if it persists in 2016 – will start to pinch consumers' pockets and temper their spending pattern going forward.

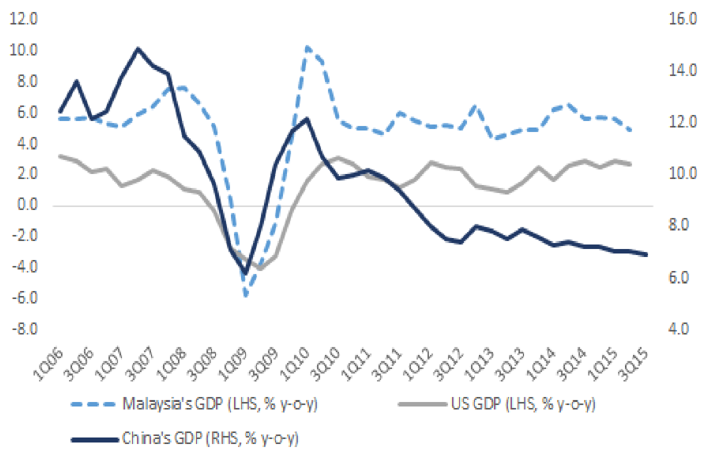
On the balance of payments (BOP), the expected reduction in the current account (CA) balance to circa 1% of GDP in 2016 does not augur well for the ringgit, although the decline does not signify major weakness in economic fundamentals. We reiterate our stance that when viewed from a saving-investment perspective, it reflects the fact that domestic demand has been driving economic growth as the external economic environment remains weak. The hefty 65% decline in the petroleum income tax anticipated for this year will also raise concerns among investors as they assess its possible impact on the government financial position. However, the negative sentiment on the ringgit will be partially mitigated by the fact that GST revenue will increase to more than double the amount of Sales and Services Tax (SST) in previous years, thus easing pressures on government coffers and making it possible for the deficit target to be achieved, especially if nominal GDP growth remains respectable.

Table 1: GDP growth on the demand side

Growth (%y-o-y)	2011	2012	2013	2014	MARC		MoF	
					2015E	2016F	2015E	2016F
GDP	5.3	5.5	4.7	6.0	4.7	4.4	4.5 - 5.5	4.0 - 5.0
Domestic Demand	7.8	10.7	7.3	5.9	5.3	5.3	5.9	5.5
Private Consumption	6.9	8.3	7.2	7.0	5.5	5.4	6.8	6.4
Public Consumption	14.2	5.4	5.9	4.4	3.3	3.9	3.6	3.0
Private Investment	9.5	21.4	12.8	11.0	8.4	6.9	7.3	6.7
Public Investment	2.6	15.9	1.9	-4.7	1.4	3.4	1.6	2.3
Real Exports	4.2	-1.7	0.3	5.1	1.4	3.1	-0.8	0.9
Real Imports	6.3	2.9	1.7	4.2	3.0	4.2	0.8	1.5

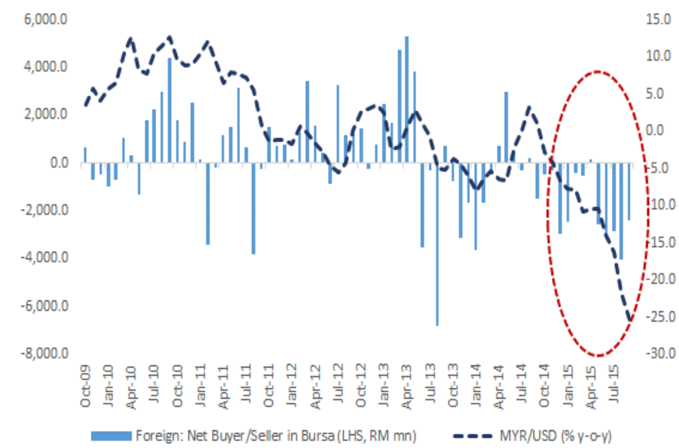
Source: CEIC, MoF, MARC Economic Research

Chart 1: Real GDP growth – Malaysia versus China and US growth



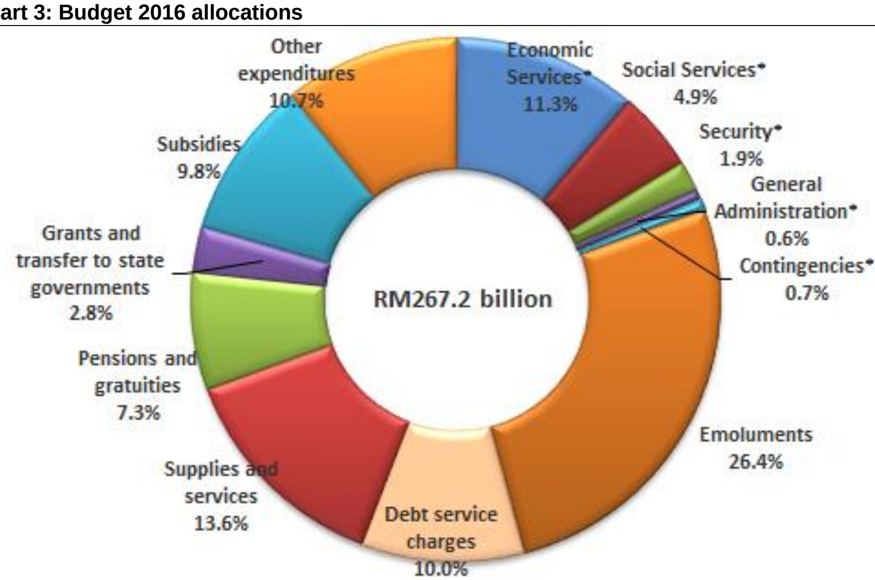
Source: CEIC, MARC Economic Research

Chart 2: Foreign transactions in Bursa Malaysia and annual change in MYR/USD



Source: CEIC, MARC Economic Research

Chart 3: Budget 2016 allocations



Source: MoF's Economic Report 2015/2016
*Note: * = development expenditure*
*Items without * = operating expenditure*

▪ On allocations and budgetary positions

A sum of RM267.2 billion worth of expenditure is allocated in Budget 2016 with the bulk of it (81% or RM215.2 billion) allocated for OPEX, while the balance (RM52 billion) is slated for DE. The fact that OPEX is anticipated to grow by a mere 0.9% in 2016, compared with a 9.7% pace on a CAGR basis between 2010-2014, suggests that the government is making extra effort to trim expenditures in order not to burden its coffers going forward. Much of the reduction in OPEX has been attributed to the decline in fuel subsidies following the recent move to adopt a market-based pricing mechanism. We are encouraged by this. However, we hope that the DE will be fully utilised in order to support economic growth going forward. The DE has contracted by an average of 7.0% p.a. on a CAGR pace between 2010-2014, compared with a 2.9% p.a. expansion between 2001 and 2008.

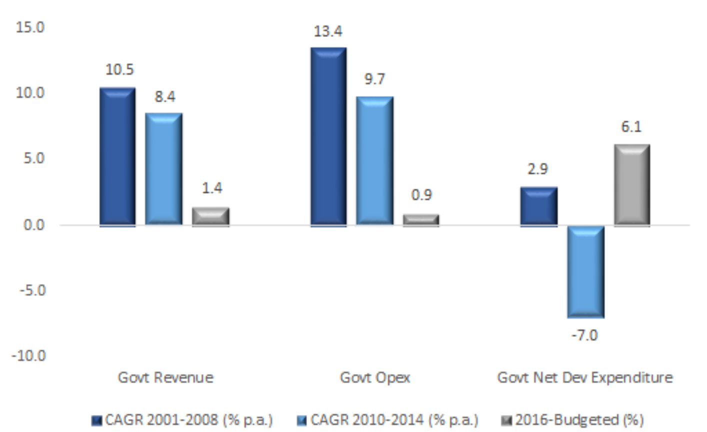
With an expectation of a hefty 27.4% drop in oil-related revenue from 2015 following a sharp decline in global crude oil and natural gas prices but partially offset by rising indirect taxes through the GST, overall government revenue is anticipated to edge up by a mere 1.4% to RM225.7 billion. With this, the budget deficit is anticipated to slip marginally to 3.1% of GDP in 2016 (2015: -3.2% of GDP). Based on our calculation, the deficit target is achievable only if nominal GDP grows by more than 6.1% (government is forecasting a 6.8% growth). Based on the current trend of the GDP deflator, we feel that nominal GDP growth will likely register a slower growth of 4.0-5.0% as economic momentum weakens in 2H2015 and 1H2016. Notwithstanding this, a slower pace of nominal GDP will only affect the deficit target by 0.1-0.2 percentage points in our view (refer to Table 2).

Table 2: Fiscal deficit in 2016 as % GDP based on 2016's government revenue projection and nominal GDP growth

Fiscal deficit in 2016 (%GDP)		*Change in government revenue from 2016's budgeted level (%)*						
		-3.0	***-2.0***	***-1.0***	***0.0***	***1.0***	***2.0***	***3.0***
Nominal GDP growth (%)	***5.9***	-3.7	-3.5	-3.3	-3.2	-3.0	-2.8	-2.6
	6.0	-3.7	-3.5	-3.3	-3.2	-3.0	-2.8	-2.6
	6.1	-3.7	-3.5	-3.3	***-3.1***	-3.0	-2.8	-2.6
	6.2	-3.7	-3.5	-3.3	***-3.1***	-3.0	-2.8	-2.6
	6.4	-3.7	-3.5	-3.3	***-3.1***	-3.0	-2.8	-2.6
	6.5	-3.7	-3.5	-3.3	***-3.1***	-3.0	-2.8	-2.6
	6.6	-3.7	-3.5	-3.3	***-3.1***	-3.0	-2.8	-2.6

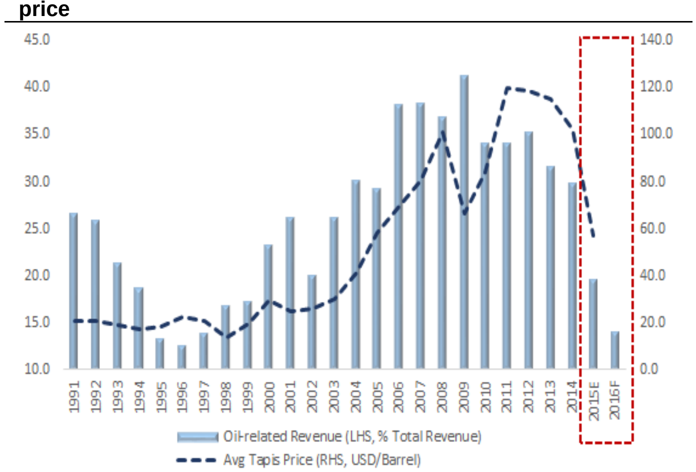
Source: MoF, MARC Economic Research

Chart 4: Growth in government revenue, OPEX and DE on a CAGR basis



Source: MoF, CEIC, MARC Economic Research

Chart 5: Oil-related revenue versus average TAPIS crude oil price



Source: MoF, Bloomberg, MARC Economic Research

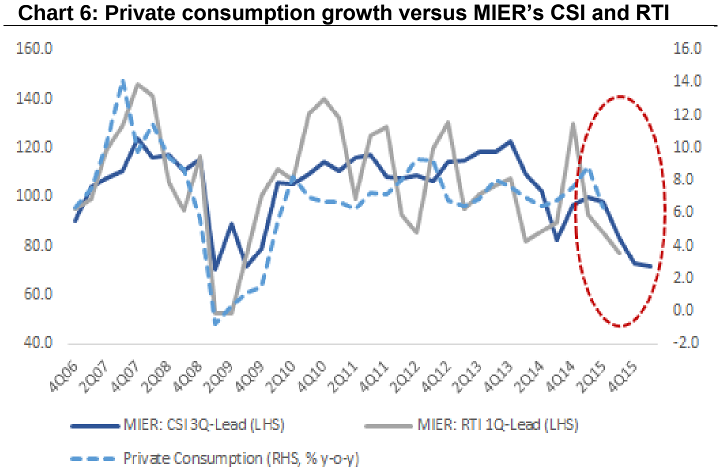
- ## On measures to alleviate the burden of high cost of living

We are encouraged by the efforts to alleviate the burden of rising cost of living through various tax reliefs such as personal reliefs for those with children below 18 years of age, new reliefs for parental care as well as through higher minimum wage and additional BR1M. The move to add more medicines under the zero-rated category is welcome, although MARC is of the view that all medicines should be classified as zero-rated products. This is in view of the fact that statistics from the World Bank indicate the 'out of pocket expenditures on health' for Malaysians have risen to around 80% of total private health expenditure in 2013 (world average: 46%). Notwithstanding all these measures, we are of the view that consumers will likely remain cautious in their spending pattern in the near term due to global and domestic economic uncertainties. Consumer sentiment has also eroded in the past few quarters, based on the Malaysian Institute of Economic Research's (MIER) Consumer Sentiment Index (CSI) which dropped to a six-year low in 2Q2015. The declining sentiment was also reflected in the institute's Retail Trade Index (RTI) which fell in 2Q2015.

With regard to the BR1M programme, we are encouraged that the amount has been raised and a new group of recipients has been added (e-Kasih participants with monthly income of less than RM1,000 per month) to help the poorest group of the population. With wider coverage and higher payout for each group by RM50 p.a., the amount allocated for BR1M will increase to RM5.9 billion in 2016. However, as we have mentioned in the past, 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 prefer non-cash and conditional transfers, for example through the MyKad, to avoid the misuse of the assistance provided by the government.

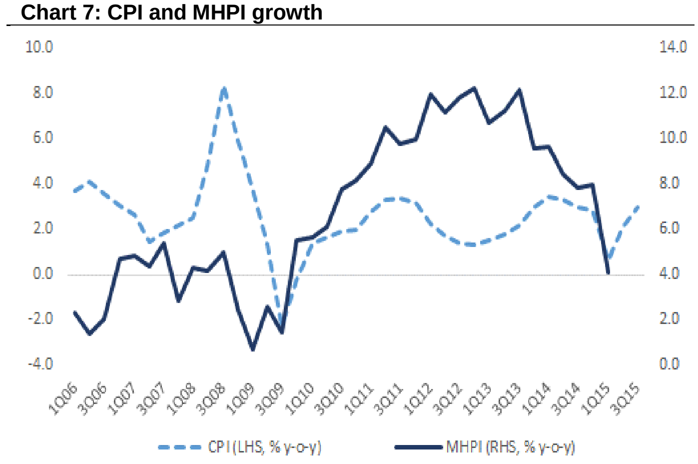
As for dealing with high cost of houses, MARC views positively the government's update on various affordable housing projects introduced in the past few years. Notwithstanding this, we are of the view that the main focus now is the speed of completion of these projects. The latest information suggests that only 560 homes have been completed under PR1MA, while 41,000 units are still under construction. In addition, MARC is of the view that more serious measures are needed to contain speculative activities in the housing market, as prices remain stubbornly high. Although the BNM has implemented certain measures to reduce the risk of further sharp increases in home prices, further measures should be taken, such as reviewing property developers' practice of giving "rebates" that essentially enable buyers to secure properties with 100% financing. Such incentive schemes, while helping home buyers with their downpayments, will cause home prices to rise at a more rapid pace as the cost of the rebates are normally factored in the selling price of the property.

Chart 6: Private consumption growth versus MIER's CSI and RTI



Source: CEIC, MARC Economic Research

Chart 7: CPI and MHPI growth



Source: CEIC, MARC Economic Research

- **On capital market measures**

On the capital market, MARC views the tax deduction on issuance of SRI Sukuk as a strong follow-through on the SRI framework that was announced in the 2014 Budget speech to promote socially responsible investment and financing. The move could help SRI sukuk to gain traction with private sector issuers following Khazanah Nasional Bhd's issuance of Malaysia's first SRI sukuk in June this year. By encouraging more issuances of SRI sukuk, the tax incentive would help the market to gain familiarity with the new Shariah-based instrument and move Malaysia's Islamic finance agenda of transitioning from Shariah-compliant to Shariah-based products and services forward. Notwithstanding this positive initiative by the government, we believe that the demand side of such sukuk is equally important to the creation of a liquid market. In particular, the differences in the risk-reward profile of such sukuk from Shariah-compliant offerings and the lack of track record for the product may pose challenges in finding a sufficient number of investors.

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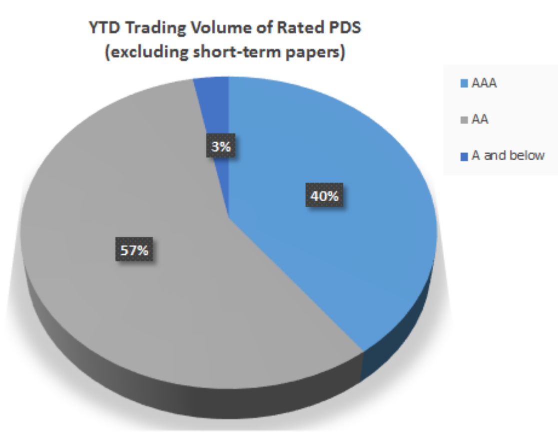
Relating to this, MARC continues to feel that the problem of illiquid secondary bond market needs to be properly addressed to reduce liquidity risk premiums, which would in turn encourage issuers of bonds rated A and below to enter the primary market. This would help solve the problem of lackluster bond origination activity in this segment. As we have proposed in our Pre-Budget report, some funds can be allocated to invest in investment-grade bonds that are rated A and below. A fund management unit can also be set up to manage the fund and be monitored by government institutions with a proven track record such as Khazanah Nasional Berhad.

Chart 8: Year-to-date trading volume of rated private debt securities (PDS)



Source: BPAM, MARC Fixed Income Research

Chart 9: 5Y MGS yield versus 5Y blended high grade yield

Source: BPAM, MARC Fixed Income Research

Budget 2016 Measures

RURAL TRANSFORMATION

- RM1.4 billion proposed to build and upgrade 700 km of rural roads nationwide.
- RM200 million allocated for upgrading of roads in Federal Land Development Authority (FELDA) settlements.
- RM878 million will be provided for the Rural Electrification Project covering 10,000 homes.
- RM568 million allocated for the Rural Water Supply Project benefitting 3,000 homes.
- RM60 million for flood mitigation projects under the Social Amenities Programme.
- RM70 million will be provided for the continuation of the Rural Business Challenge (RBC) and Sustainable Rural programmes.
- RM67 million for MARA Bus Transport Project to operate bus services on uneconomic routes in rural areas.
- Domestic air transportation for economy class passengers on Rural Air Services (RAS) routes will be exempted from GST.
- RM70 million worth of funds will be provided through Bank Simpanan Nasional for interest-free loans for the purpose of building longhouses with a maximum loan up to RM50,000 for every unit.
- RM300 million proposed for the Orang Asli community, of which RM160 million is allocated for NGOs for community development, unity, welfare, health and safety projects.

ECONOMIC DEVELOPMENT AND INVESTMENT

- Malaysian Vision Valley will be developed with an initial investment amounting to RM5 billion in 2016.
- RM11 billion will be allocated for the implementation of Cyber City Centre in Cyberjaya.
- Khazanah Nasional Berhad will invest in nine high-impact domestic projects worth RM6.7 billion covering sectors such as healthcare, education, tourism, communication software and infrastructure.
- RM500 million to be allocated by Khazanah Nasional Berhad as venture capital and private equity.
- RM18 billion worth of investment in 2016 for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor.
- RM320 million allocated for the development of Rubber City in Kedah, RM142 million for Samalaju Industrial Park, Sarawak, and RM20 million for Palm Oil Jetty in Sandakan, Sabah.
- Malaysian Investment Development Authority is expected to received RM730 million of funds for investment in chemical, electrical and electronics, machinery and equipment, aerospace and medical devices, as well as services industries.
- The Special Reinvestment Allowance will be introduced to replace the Reinvestment Allowance incentive which has expired, in an effort to further promote reinvestment among existing companies in the manufacturing and agriculture sectors.

INFRASTRUCTURE

- Damansara – Shah Alam, Sungai Besi – Ulu Klang, Pulau Indah and the Central Spine Road highways are among several highways that are expected to commence construction in 2016.
- The Pan-Borneo Highway, which has an estimated cost of RM28.9 billion, will be toll-free, with the Sarawak routes to be completed in 2021, while those in Sabah will commence construction in 2016.
- RM900 million allocated to implement the Jalan Tun Razak Traffic Dispersal Project to reduce traffic congestion.
- RM42 million to be provided for the construction of Mukah Airport, as well as the upgrading of airports in Kuantan and Kota Bharu.
- RM28 billion estimated costs for the construction of MRT II project from Sungai Buloh – Serdang – Putrajaya which will commence in 2Q2016 and is expected to be completed by 2022.

- The construction of LRT3 project from Bandar Utama, Damansara – Johan Setia, Klang with an estimated cost of RM10 billion to be built in 2016 and expected to be completed by 2020.
- The high-speed rail project will continue to be negotiated with Singapore's government.
- A sum of RM2.5 billion allocated for the implementation of Rapid Transit Bus (BRT) and BRT Kota Kinabalu.
- RM1.2 billion will be provided by the Malaysian Communication and Multimedia Commission (MCMC) for rural broadband projects; National Backbone Infrastructure; High-speed Broadband; and undersea cable system.

EDUCATION

- A sum of RM41.3 billion proposed under the Malaysia Education Blueprint, which includes the construction of 30 additional primary schools, 27 secondary schools, four MARA Junior Science Colleges (MRSM), and five fully residential schools.
- RM44.6 million allocated for the implementation of various programmes in pre-schools nationwide.
- RM135 million will be provided to increase proficiency in Bahasa Malaysia and English.
- RM100 schooling assistance will be continued but to more targeted students from households earning less than RM3,000 per month beginning January 2016.
- RM423 million will be allocated for e-Kasih programme to provide breakfast to school students on top of the existing meal provided during recess.
- RM250 1Malaysia Book Voucher Programme will be continued.
- A sum of RM2.5 billion will be provided to various ministries to continue the existing scholarship programmes for higher education.
- RM4.8 billion allocation provided to 545 TVET institutions.

COST OF LIVING

- Increase in BR1M payments by RM50 for all previous recipients.
- E-Kasih participants earning less than RM1,000 per month will receive BR1M of RM1,050.
- The Bereavement Scheme for all BR1M recipients will be continued.
- RM500 of special assistance will be provided to all civil servants.
- RM250 of special payments will be given to pensioners.

TAXES

- All types of medicines under the Poison List Group A to D as well as an addition of 95 brands of over-the-counter medicines will be classified as GST zero-rated products, a double increase to 8,630 brands of medicines from 4,215 previously.
- An addition of six food items will be zero-rated under the GST, which includes milk for infant and children, dhal, lotus roots and water chestnuts as well as mustard seeds.
- Annual sales turnover threshold for small-scale farmers to benefit from the Flat Rate Scheme will be reduced from RM100,000 to RM50,000.
- Companies involved in maintenance, repair and overhaul (MRO) in the aerospace industry are allowed to participate in the Approved Trader Scheme.
- GST relief for reimportation of goods that were exported temporarily for the purpose of promotion, research and exhibition.
- GST relief for oil and gas industry on the reimportation of equipment for oil and floating platforms that are temporarily exported for the purpose of rental and leasing.
- GST relief on teaching materials and equipment procured by skills and vocational training providers.
- Prepaid telco users will receive rebates equivalent to the amount GST paid effective January 2016 to December 2016.

- Taxable income tax band for the highest tax rate will be raised to 26% from 25% for those with an income between RM600,000 and RM1 million effective assessment year 2016.
- Tax rate for those earning more than RM1 million will be raised from 25% to 28% effective assessment year 2016.
- Increase in ordinary child relief from RM1,000 to RM2,000.
- Income tax relief for those with unemployed spouses raised from RM3,000 to RM4,000.
- New tax relief for those supporting unemployed parents aged above 60 years amounting to RM1,500 for each parent.
- Tax relief for parents with children above 18 years old studying at higher learning institutions will be increased to RM8,000 from RM6,000.
- Parents with disabled child above 18 pursuing higher studies eligible for an increase in relief to RM8,000 from RM6,000 on top of existing RM6,000 tax relief for parents with disabled child.
- Individual taxpayers who pursue higher education will enjoy tuition fee relief up to RM7,000 from RM5,000 previously.

CIVIL SERVANTS, PENSIONS AND WAGES

- RM1.1 billion proposed for salary adjustments equivalent to one annual increment according to grade.
- 252 schemes of service will be improved, benefiting 406,000 civil servants.
- Minimum starting salary will be set at RM1,200 per month, benefitting 60,000 civil servants.
- Minimum pension rate at RM950 per month with at least 25 years of service.
- Permanent post will be offered to contract officers who have at least 15 years of service.
- Minimum wage in Peninsular Malaysia raised from RM900 to RM1,000 effective July 2016, and from RM800 to RM920 in East Malaysia.

SECURITY

- RM17.3 billion proposed allocation to the Ministry of Defence to procure six Littoral Combatant Ships, Very Short Range Air Defence weapon systems, armoured vehicles, and the A-400M Airbus jet.
- A sum of RM523 million will be provided for the development of an ESSCOM military camp in Felda Sahabat, Lahad Datu, Sabah.
- RM160 million to build 4,000 new military quarters.
- RM864 million allocated for the Malaysian Maritime Enforcement Agency (APMM) for the acquisition of Offshore Patrol Vessels and patrol boats.
- A sum of RM13.1 billion allocated to enhance safety and security, which includes the construction of 15 new police stations and an additional 500 motorcycles and cars for the patrolling unit at PDRM.
- RM20 million proposed to implement the Safe City programme in 60 “black sites” prone to street crime.

PROPERTY AND HOUSING

- RM1.6 billion allocated for PR1MA to build 175,000 houses with selling price at 20% less than the market value, of which 10,000 units are expected to be completed in 2016.
- 10,000 units of homes will be built by SPNB under the Rumah Mesra Rakyat with a subsidy of RM20,000 each house at an estimated cost of RM200 million.
- 100,000 houses will be built under Perumahan Penjawat Awam 1Malaysia (PPA1M) by 2018 with prices ranging from RM90,000 to RM300,000.
- RM863 million will be allocated for KPKT to build 22,300 units of apartment and 9,800 units of terrace house under the People’s Housing Programme (PPR).
- First House Deposit Financing Scheme will be established under KPKT to assist first-time home buyers to pay for deposits with an allocation of RM200 million.
- 5,000 units of PR1MA and PPA1M homes will be built in 10 locations in the vicinity of LRT and monorail stations.

- RM60 million for the Department of Orang Asli Development to build houses for the community.
- Build houses for the second generation of settles comprising 20,000 units by FELDA, 2,000 units by FELCRA, and 2,000 units by RISDA. For houses built by FELDA, the maximum price is reduced to RM70,000 from RM90,000 previously.
- Affordable houses will be built by GLCs in the vicinity of MRT station in Bandar Kwasa Damansara, of which 800 units will be built by EPF and 4,600 units by Sime Darby Property.
- RM40 million proposed for KPKT to revive abandoned low and medium-cost private housing projects.

YOUTH AND SPORTS

- RM280 million proposed for technical and vocational training in National Youth Skills Training Institutes (IKBN) and National Youth Advance Skills Training Institutes (IKTBN).
- RM50 million to encourage youth participation in economic and entrepreneurial activities.
- RM145 million allocated to prepare athletes for the 29th SEA Games and the 9th ASEAN Para Games.
- RM75 million will be provided to produce world-class champions under the Preparation of Elite Athletes.
- RM22 million to build two sport complexes in Bagan Datoh and Kuantan.
- RM360 million to improve the National Service Training Programme (PLKN) for 20,000 trainees.

AGRICULTURE

- RM450 million allocated for various high-impact programmes, including fruit and vegetable cultivation, matching and research grants for herbal products, and fish cage farming.
- RM180 million proposed to upgrade drainage and irrigation infrastructure in the Integrated Agricultural Development areas.
- RM190 million will be allocated to FAMA for various programmes, which includes the Price Reduction Programme, an additional 50 farmers' market, as well as establishing 150 new Agrobazaar Rakyat 1Malaysia (ABR1M).
- A sum of RM90 million for Youth Agropreneur Development Programme, Agriculture Entrepreneurs Financing Fund, rebranding MARDI, Department of Veterinary Services, Department of Agriculture, Department of Fisheries and implementing the Multiplier Farm Project.
- RM70 million subsidy will be given for hill paddy fertilisers to increase food supply and income of hill paddy farmers in Sabah and Sarawak.
- RM852 million allocated to Rubber Industry Smallholders Development Authority (RISDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement various income and productivity enhancement programmes.
- The rubber production incentive (IPG) activation price of SMR20 FOB will be raised to RM5.50 per kilogramme from RM4.60 and from RM1.75 to RM2.20 per kilogramme at farm price for scrap rubbers or cuplumps.
- The rate of paddy price subsidy scheme (SSHP) will be raised to RM300 for every metric tonne from RM248.10 previously.

HEALTH

- Five new hospitals will be built in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya.
- Kuala Lumpur Women and Children's Hospital with a cost of RM848 million will commence operations in October 2016.
- Redevelopment of Kajang Hospital.
- RM260 million proposed to build and upgrade rural clinics, health clinics, dental clinics as well as quarters nationwide.
- RM52 million to open 33 new 1Malaysia Clinics and to continue 328 others.
- RM72 million of medical assistance, which includes haemodialysis up to 10,000 patients.
- RM4.6 billion for medicine, consumables, vaccines, and reagents to all government hospitals and clinics.

TOURISM

- A sum of RM1.2 billion will be provided to Ministry of Tourism and Culture to attract an estimated 30.5 million tourists in 2016.
- Online visa applications will be implemented beginning with China, India, Myanmar, Nepal, Sri Lanka, the US and Canada.
- E-Visa will be implemented in mid-2016 to facilitate tourist visits to Malaysia
- 100% income tax exemption on statutory income for tour operators will be extended until assessment year 2018 from 2016.

SMALL AND MEDIUM ENTERPRISES (SMEs)

- Double tax deduction will be given automatically for SMEs that incur expenditure on Research and Development (R&D) projects up to RM50,000 for each year of assessment between 2016 and 2018.
- A sum of RM600 million will be provided by TEKUN, of which RM500 million is allocated for Bumiputera entrepreneurs and RM100 million for 10,000 Indian entrepreneurs.
- SME Bank will provide RM50 million to assist small-scale Indian entrepreneurs.
- RM100 million proposed under Social-Economic Development of Indian Community Programme.
- An additional RM90 million is allocated for microcredit to Chinese hawkers and petty traders.
- RM1 billion worth of funds for the Shariah-compliant SME Financing Scheme up to 31 December 2017 with the government subsidising 2% of the financing profit rate.
- RM107 million will be allocated for the SME Blueprint.
- RM60 million proposed for the Entrepreneurs Acceleration Scheme and SME Capacity and Capability Enhancement Scheme.
- SME Bank will provide soft loans at 4% under the SME Technology Transformation Fund worth RM200 million.
- Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM) projects will be expanded with RM18 million worth of funds to be allocated.
- SMEs will be given flexibility to comply with the value-add condition for tax exemption that is from 30% to 20% and from 50% to 40% for manufactured products, beginning year assessment 2016 to 2018.

CAPITAL AND FINANCIAL MARKETS

- Tax deduction to be given on issuance costs of Sustainable and Responsible Investments (SRI) sukuk.
- 20% stamp duty exemption on Shariah-compliant loan instruments to finance the purchase of houses.

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