Economic Research

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Budget 2020

Driving Growth and Equitable Outcomes Towards Shared Prosperity

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In a nutshell

- A total of RM297 billion is allocated for Budget 2020 (Budget 2019: RM316 billion). Of the total amount being proposed, the allocation for operating expenditure (OPEX) is RM241 billion, 8.1% lower than the estimated spending in 2019. As expected, the allocation for gross development expenditure (DE) is higher, at RM56 billion (2019's estimated spending: RM53.7 billion).
- Amid the growing uncertainty over the prospects of the global economy, the government is projecting an overall real gross domestic product (GDP) growth of 4.8%. Key support comes from the consumer side, with a hefty 83% growth contribution coming from private consumption. MARC concurs with the continuing upbeat prospects of private consumption despite projecting a lower real GDP expansion of 4.3% for 2020.
- The proposed increase in DE has been widely anticipated. The increase in DE is meant to support growth through high-impact projects that include the Pan-Borneo Highway, MRT2 and electrified Klang Valley Double Track (KVDT). A respectable headline GDP growth will likely lead to a decent amount of non-oil revenue growth, a major source of federal government receipts.
- The expected budget deficit of 3.2% of GDP in 2020 is slightly higher than its initial target of 3.0% of GDP. It is nevertheless lower than the estimated deficit of 3.4% of GDP in 2019. We do not think such a level would raise concerns among international credit rating agencies at this juncture. Overall, we feel that Malaysia's sovereign rating will hinge on the medium- and long-term prospects of generating sustainable revenue sources that would offset the decline in oil-related receipts in times of low crude oil prices.
- Re-energising investment growth is among the top priority of Budget 2020. Important measures that are proposed include: (i) an incentive package to attract targeted Fortune 500 companies and global unicorns in the high technology, manufacturing, creative and new economic sectors; (ii) an investment incentive for Malaysian businesses that have the ability to grow and export their products and services globally.
- The government's efforts to embark on a new growth frontier through promotion of high value-added investments is also evidenced by measures to accelerate the adoption of digitalisation of the economy. The proposed measures include: (i) an allocation to expedite digital infrastructure establishment in public buildings; (ii) a matching grant fund to encourage more pioneer digital projects that benefit fibre optic infrastructure and 5G; and (iii) a grant to increase the digitalisation of operations for Small and Medium Enterprises (SME).
- The proposed measures to further strengthen the SME sector have been widely expected. Measures to assist SMEs include, among others, an extra RM50 million allocation for My Co-Investment Fund (MyCIF) to help finance the underserved SMEs and a RM300 million fund by SME Bank. The latter allocation is aimed at supporting Bumiputera SMEs with potential to become regional champions. We continue to believe that efforts to create a conducive ecosystem for SMEs should be reviewed periodically in order to ensure its realisation.
- A significant push for greater women participation in the economy should be applauded. We believe that the proposed measures such as the extension to the year 2023 of income tax exemption for women returning to work, a guaranteed facility for women entrepreneurs by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) and a RM200 million fund from SME Bank for women entrepreneurs will strengthen women's role and help improve Malaysia's long-term economic growth trajectory.
- In line with its theme of sharing economic prosperity, Budget 2020 also emphasises a push for the greater well-being of the *rakyat*. Notable are the proposed measures to lower the financial burden of the *rakyat* through aids and subsidies. These include welfare aid such as Bantuan Sara Hidup (BSH), a targeted fuel subsidy scheme, assistance for eligible rubber smallholders under RISDA and Lembaga Industri Getah Sabah, and socio-economic assistance to senior citizens. Other measures that could help provide support to consumer spending in the near term are special payments for civil servants and government retirees, special allowance for firefighters and discounts on toll charges on all PLUS highways.

- As for the financial market, the government's decision to further extend measures introduced back in its previous budget is positive. They include the extension of double tax incentives on issuance costs of sukuk under the principle of Wakalah for another five years, ending in 2025, as well as the extension of the tax deduction on issuance costs of Sustainable and Responsible Investment (SRI) sukuk to 2023. To further promote Islamic fund and SRI fund management activity, the government has also extended the tax exemptions for fund management companies managing Shariah compliant funds and SRI funds to 2023.

Budget 2020: Strategic thrusts

The 2020 Budget, drafted against the backdrop of disruptions to the present global economic order and global trading system, is anchored by four thrusts that are aimed at achieving the Budget theme of "Driving Growth and Equitable Outcomes Towards Shared Prosperity."

First thrust: Driving Economic Growth in the New Economy and Digital Era

Digital transformation remains a key commitment, and SMEs will not be left out.

- The government is committed towards digital transformation. There will be tax incentives to further promote high value-added activities in the electrical and electronics (E&E) industry and the transition towards a 5G digital economy and Industry 4.0. Over the next five years, the government will implement the National Fiberisation & Connectivity Plan to create a Digital Malaysia. SMEs will not be left out as there will be incentives to encourage them to digitalise their business operations. Going forward, there are also plans to build up to 14 one-stop Digital Enhancement Centres to facilitate the Fourth Industrial Revolution (IR4.0).

Second thrust: Investing in Malaysians: Levelling Up Human Capital

Government remains focused on enhancing job creation

- The government is committed to ensuring meaningful participation in growing the economy and equitable sharing of economic rewards. To create better employment opportunities for youth and women, as well as to reduce over-dependence on low-skilled foreign workers, it will be launching the Malaysians@Work initiative. The government expects the initiative, which is directed at providing both wage incentives for workers and hiring incentives for employers, to create an additional 350,000 jobs over the next five years. Meanwhile, its human capital development policy remains a key focus area. To mainstream the Technical & Vocational Education & Training (TVET) programme, the government is increasing its allocation to, among other things, further strengthen public-private synergy and promote greater industry collaboration by public skills training institutions.

Third thrust: Creating a United, Inclusive and Equitable Society

Efforts to reduce inequality will receive a boost from increased allocations

- Government efforts to reduce inequality will continue in 2020. It is setting aside more allocations for rural basic infrastructure projects – water, electrification and roads – to narrow the rural-urban divide. There will also be more allocations for welfare assistance such as BSH and subsidies related to, among other things, agriculture and fuel. Similarly, healthcare services will see increased allocations. To enhance the mobility of Malaysians, the government will lower transportation costs and improve the transportation ecosystem. It will, for example, further support last-mile connectivity by subsidising bus operators with a RM146 million allocation in 2020. To promote access to housing, it will extend the Youth Housing Scheme administered by Bank Simpanan Nasional from January 1, 2020 until December 31, 2021.

Fourth thrust: Revitalisation of Public Institutions and Finances

Reforms will lead to stronger institutions and finances.

- The government remains committed to strengthening institutions, governance and integrity. For example, it has allocated RM10 million to undertake Risk Assessment Tests at all ministries, departments and agencies, and make available more resources for the Malaysian Anti-Corruption Commission

(MACC). Meanwhile, gradual fiscal consolidation also remains a key commitment though Budget 2020 will be mildly expansionary to sustain economic growth. To ensure a more progressive personal income tax structure, the government is proposing the introduction of a new band for taxable income in excess of RM2 million, to be taxed at 30%.

Our take on different issues in Budget 2020

Overall allocation comes as no surprise

Lower allocations for OPEX but higher allocations for DE

- A total of RM297 billion is allocated for Budget 2020 (Budget 2019: RM316 billion). Of the total amount being proposed, the allocation for OPEX is RM241 billion, 8.1% lower than the estimated spending in 2019. As expected, the allocation for gross DE is higher, at RM56 billion (2019's estimated spending: RM53.7 billion). The average amount of DE will rise to RM54.9 billion p.a. in 2019-2020 from RM44.9 billion p.a. in 2011-2018.

Decent growth in revenue in 2020 if one were to strip off PETRONAS' payment in 2019

- The allocation for DE is higher on the back of expectation of lower OPEX because of ongoing expenditure rationalisation efforts. There is also the expectation of decent 2020 revenue growth of 4.8% compared with 2019 (excluding Petroliam Nasional Berhad's (PETRONAS) one-off special payment in 2019). Based on a Brent crude oil price assumption of USD60-USD65 per barrel and nominal GDP growth of 6.0% in 2020, we think the revenue growth pace forecast is realistic, unless the global economy weakens considerably.

Higher DE to provide a buffer to the economy

Higher DE meant to re-invigorate activities and support growth

- The proposed increase in DE has been widely anticipated. The RM2.3 billion increase in DE is meant to reinvigorate economic activities and support growth through high-impact projects that include the Pan-Borneo Highway, MRT2 and KVDT. A respectable headline GDP growth will likely lead to a decent growth in non-oil revenue, a major source of federal government receipts (73% of total revenue in 2010–2019). This should help relieve some fiscal pressure.

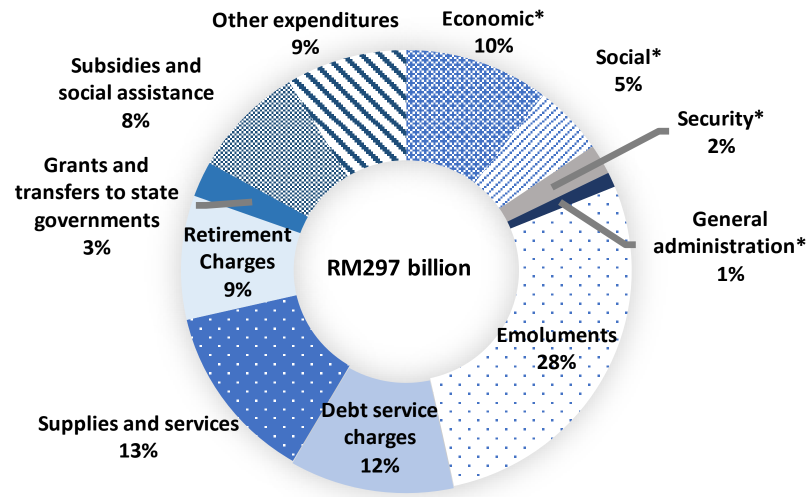
Fiscal injection is needed; using monetary arsenals could worsen imbalances

- Overall, we feel positive about the higher DE proposed in Budget 2020 as there is a need to support growth without compromising on the government's fiscal consolidation efforts. In addition, a fiscal injection is needed at a time when monetary policy arsenals, if not properly utilised, could worsen macroeconomic imbalances (i.e. high household indebtedness). The latest statistics show that Malaysia's household debt remains above 80% of GDP.

Real impact will depend on actual spending

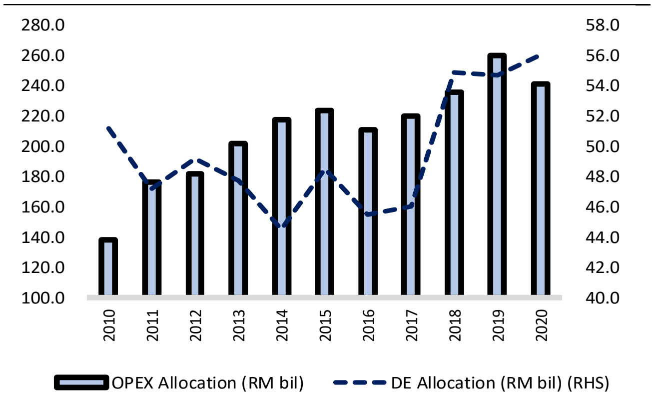
- Notwithstanding this, as we have always observed, the real impact on the economy will depend on the actual amount spent and the kind of activities that the allocation goes to. In 1H2019, less than half of DE's allocation for 2019 was spent (approximately 44%).

Chart 1: Budget 2020 – Spending allocation



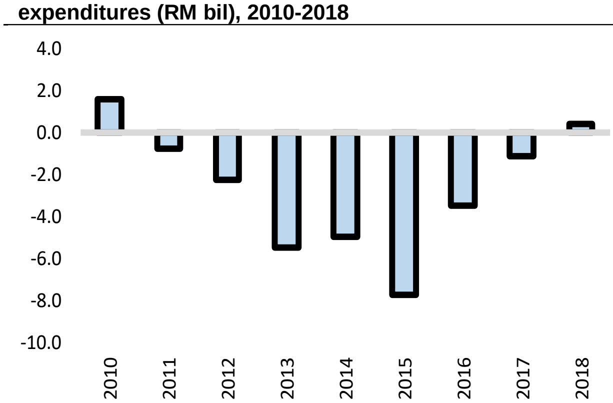
Source: MoF Fiscal Outlook and Federal Government Revenue Estimates 2020
*Note: * = development expenditure*
*Items without * = operating expenditure*

Chart 2: Budgeted allocations for OPEX and DE, 2010-2020



Sources: CEIC, MoF, MARC Economic Research

Chart 3: Difference between budgeted and actual expenditures (RM bil), 2010-2018



Sources: CEIC, MoF, MARC Economic Research

Growth to remain lower than 5-year trend

Real GDP growth will remain below the five-year trend, supported by private consumption

- Amid the growing uncertainty over the prospects of the global economy, the government is projecting an overall real GDP growth of 4.8%, lower than Malaysia's growth trend of 5.2% in the past five years. Key support comes from the consumer side, with a hefty 83% growth contribution coming from private consumption. MARC concurs with the continuing upbeat prospects of private consumption despite projecting a lower real GDP expansion of 4.3% for 2020. Our lower headline forecast rests on the assumptions that consumer spending growth will likely moderate in view of the prevailing weak sentiment as well as weaker prospects of the external sector amid significant deterioration in the outlook of global trade.

Deteriorating external sector weighs on the economy

- Deteriorating prospects of global trade, as evidenced by the declining trade volume, will likely affect Malaysia's headline growth although domestic demand will, to some extent, cushion the impact of the slowdown. Global trade volume has contracted by 3.2% in mere eight months after its peak in October 2018, as compared with a 2.6% decrease in the similar period during the Global Financial Crisis (GFC) 2008-09. In line with this, E&E exports have languished by 23.1% since October 2018. Palm oil prices have remained 11.5% below trend while the KLCI has fallen by 6.3% YTD on the back of net foreign outflows of RM7.9 billion in the equity market.

Measures to raise long-term growth potential

Measures to encourage greater women participation in the economy

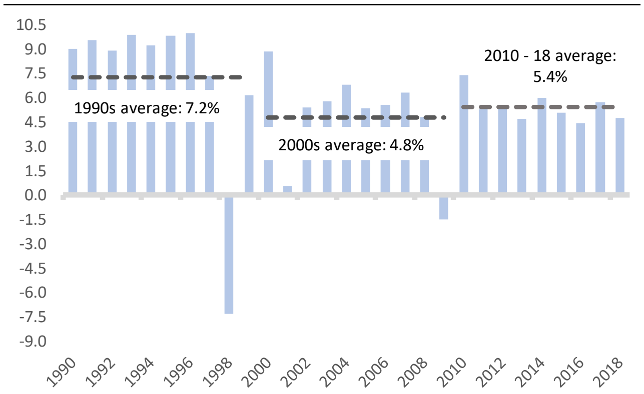
- In an effort to elevate Malaysia's long-term economic growth potential, Budget 2020 also provides measures to encourage greater participation from women in the economy. These include the extension to the year 2023 of income tax exemption for women returning to work, a guaranteed facility for women entrepreneurs by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) and a RM200 million fund from SME Bank for women entrepreneurs that will strengthen women's role and help improve Malaysia's long-term economic growth trajectory.

A push for the greater adoption of digitalisation in the economy

- The government's efforts to embark on a new growth frontier through promotion of high value-added investments are also evidenced by measures to accelerate the adoption of digitalisation in the economy. The proposed measures include: (i) an allocation to expedite digital infrastructure establishment in public buildings; (ii) a matching grant fund to encourage more pioneer digital projects that benefit fibre optic infrastructure and 5G; and (iii) a grant to increase the digitalisation of operations for SMEs.

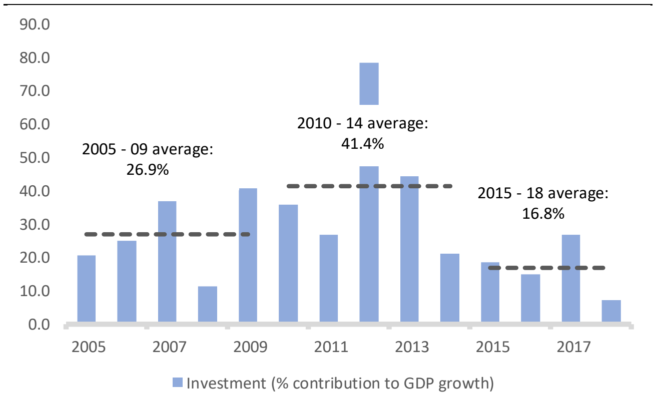
- Overall, we are encouraged by these measures and hope that the scope of the recently proposed digital tax will not be extended to include local service providers in the near term as this could discourage the pace of digitalisation of the economy.

Chart 4: Real GDP growth (% y-o-y), 1990 - 2018



Source: DoSM, MARC Economic Research

Chart 5: Investment (% contribution to GDP growth), 2005 - 2018



Source: DoSM, MARC Economic Research

Efforts to re-energise investments

Slower pace of investment in the past three years

- The pace of investments has weakened in recent times, evidenced by private investment growth which has moderated to an average of 5.9% p.a. in the past three years (2010–2014: 13.6% p.a.). Of note is the amount of domestic direct investment (DDI) which recorded an approved amount of RM42 billion in 1H2019 (2018: RM124 billion).

Measures proposed in Budget 2020 to get investments back on track

- Against this backdrop, re-energising investment growth becomes the top priority in Budget 2020. Important measures proposed in Budget 2020 include: (i) an incentive package worth RM1 billion p.a. for five years to attract targeted Fortune 500 companies and global unicorns in the high technology, manufacturing, creative and new economic sectors; and (ii) a RM1 billion annual investment incentive for a period of five years for Malaysian businesses that have the ability to grow and export their products and services globally.

Allocations to ensure approved investments are realised

- What we think is encouraging is the RM10 million allocation for MITI to increase their monitoring of approved investments, which have increased in recent times, and ensure their realisation. In 1H2019, the amount of approved foreign direct investments had surged to RM80 billion.

Opting for a more flexible budgetary target

A slightly higher budget deficit in 2020 compared with its initial target

- The expected budget deficit of 3.2% of GDP in 2020 anticipated by the government is slightly higher than its initial target of 3.0% of GDP. It is, nevertheless, lower than the estimated deficit of 3.4% of GDP in 2019. However, we think that there is a need to provide counter-cyclical fiscal measures to support growth at this juncture. A respectable headline economic growth will likely lead to a decent growth in non-oil revenue, a major source of federal government receipts (73% of total revenue in 2010-2019).

Reducing OPEX remains a challenge

- Although government revenue is anticipated to fall by 7.1% in 2020, the reduction is mainly due to the high base in 2019 following a one-off PETRONAS dividend payment. However, reducing OPEX by 8.1% remains a challenging task as such a reduction could be carried out not only by controlling leakages but also through further rationalisation of subsidies in the future. This will, to some extent, affect the future pace of consumer spending.

Revenue gap between SST and GST could be reduced

- On a positive note, the revenue gap between SST and Goods and Services Tax (GST) may not be as large as initially expected. This is especially true if the government continues to widen the scope of SST and receives additional income from other sources such as the digital tax.

Target to generate RM4.3 bn current balanced per annum is challenging if there is a downward bias in GDP growth

- At this juncture, we foresee that the government's medium-term target to generate a positive current balance of RM4.3 billion p.a. as outlined in the MoF's Medium Term Fiscal Framework (MTFF) 2020-2022 to be rather challenging especially if there is a downward bias in the GDP growth trajectory in the next few years. In 1H2019, the current balance stood at RM1 billion.

Impact on sovereign rating

Budget deficit target for 2020 will not raise concerns among international CRAs

- We do not think the new budget deficit target for 2020 would raise concerns among international CRAs at this juncture. However, we expect international CRAs to continue monitoring Malaysia's sovereign rating closely as global economic weakness weigh on its macro prospects in the near term. As of now, Malaysia's rating and outlook are mainly supported by its favourable growth trajectory and external strength.

Favourable growth trajectory and external position remain key rating supports

- Malaysia's median real GDP growth stands favourably against it's A-rated peers in the past five years (5-year median: 5.1% p.a.; A-rated peers: 4.3% p.a.), supported by a resilient domestic demand, particularly, private consumption (5-year median: 6.4% p.a.). Externally, Malaysia's current account balance — while declining — has recorded surpluses since the Asian Financial Crisis (AFC) in 1998 (5-year median: 2.8%).

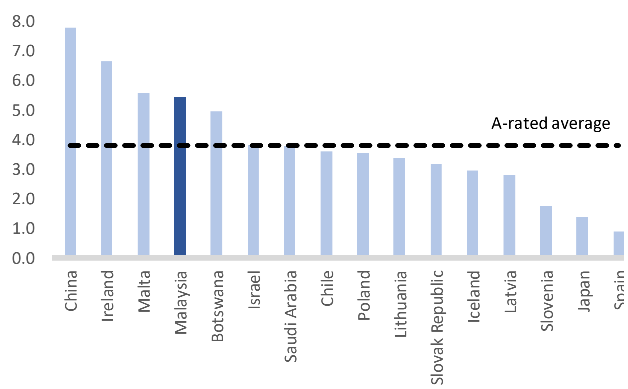
Prospects of generating sustainable revenue sources will support Malaysia's sovereign rating

- Overall, we are of the view that Malaysia's sovereign rating will hinge on the medium- and long-term prospects of generating sustainable revenue sources that would offset the decline in oil-related receipts in times of low crude oil prices. Future measures, other than steps to widen the scope of SST as well as a continuing effort to rationalise OPEX, will likely strengthen the case to keep Malaysia in the single-A rating band in the international sovereign rating universe.

….although the deteriorating global economic backdrop could add pressure

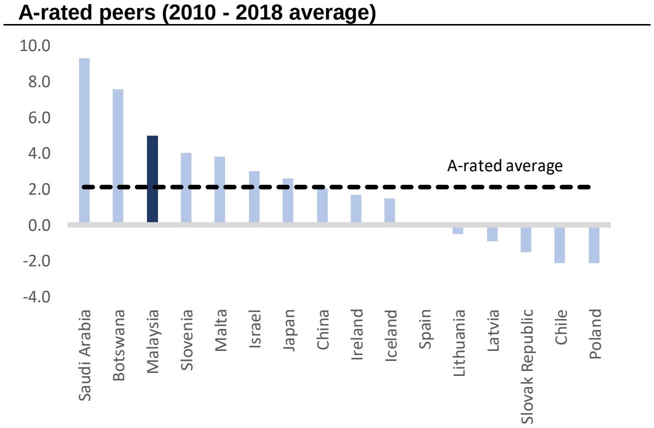
- Having said this, a sharp deceleration in real GDP growth or continuing prospects of having narrow-based revenue sources could add pressure to Malaysia's sovereign rating at times when the global economic backdrop continues to deteriorate.

Chart 6: GDP growth (% y-o-y) - Malaysia and A-rated peers (2010 - 2018 average)



Source: IMF, DoSM, MARC Economic Research

Chart 7: Current account balance (% GDP) - Malaysia and A-rated peers (2010 - 2018 average)



Source: IMF, DoSM, MARC Economic Research

On the capital market

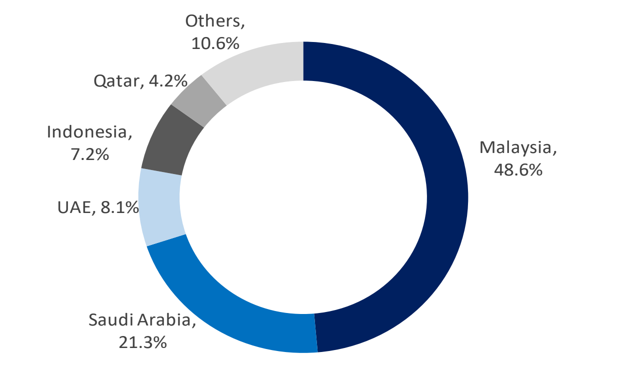
Capital market tax incentives positive for overall economy

- As for the financial market, the government's decision to resume measures introduced in its previous budget is positive. These include the extension of double tax incentives on issuance costs of sukuk under the principle of Wakalah to another five years, ending in 2025, as well as the extension of the tax deduction on issuance costs of SRI sukuk to 2023. To further promote Islamic fund and SRI fund management activities, the government has also extended the exemption for fund management companies managing Shariah-compliant funds and SRI funds to 2023.

Measures will encourage corporates to further tap into the sukuk market

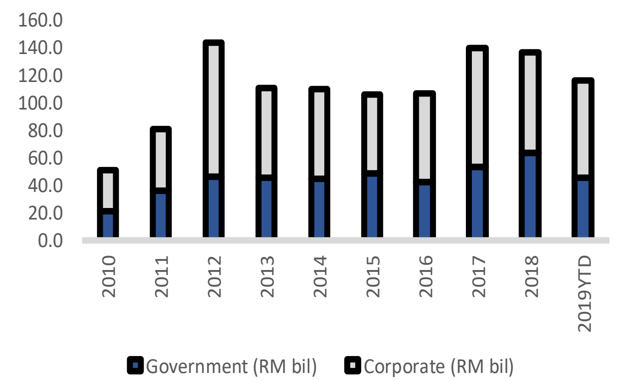
- In line with Malaysia's ambition to remain as the Global Islamic Finance Hub, the measures announced are set to encourage corporates to further tap into the sukuk market. In the first nine months of 2019, gross issuance of corporate sukuk in Malaysia had surged to RM70.6 billion, representing 67.0% of total gross issuance of corporate bonds. Gross issuance of sukuk in Malaysia in 2019 on a year-to-date basis has surpassed the amount recorded in the same period last year. As such, we believe that sukuk issuances in 2020 will continue to be robust as issuers are expected to leverage on the incentives combined with the lower yield environment.

Chart 8: Global sukuk outstanding by country as at end-August 2019



Source: MIFC, MARC Economic Research

Chart 9: Gross issuance of sukuk, 2010-2019



Source: Bloomberg, MARC Economic Research

Table 1: GDP growth on the demand side

Growth (% y-o-y)	2016	2017	2018	YTD	MARC		MoF	
					2019E	*2020F*	*2019E*	*2020F*
GDP	4.4	5.7	4.7	4.7	4.6	4.3	4.7	4.8
Domestic Demand	4.3	6.5	5.5	4.5	4.3	4.5	4.0	4.8
Private Consumption	5.9	6.9	8.0	7.7	7.1	6.5	6.8	6.9
Public Consumption	1.1	5.5	3.3	3.2	3.0	2.6	2.0	1.5
Private Investment	4.5	9.0	4.3	1.2	1.8	2.3	1.5	2.1
Public Investment	-1.0	0.3	-5.0	-11.3	-9.0	-3.0	-8.1	-0.6
Real Exports	1.3	8.7	2.2	0.1	-0.4	0.2	-0.4	1.4
Real Imports	1.4	10.2	1.3	-1.8	-2.1	1.4	-2.1	1.9

Source: CEIC, MoF, MARC Economic Research

Budget 2020 Measures

FISCAL ADMINISTRATION AND GOVERNMENT DEBT

- Dispose assets via competitive bidding process in order to realise the full potential of these assets. This is expected to generate revenue of more than RM3 billion in 2020.
- Centralise and combine the tender and procurement of RM500 million worth of medicine across the Ministry of Health, Ministry of Defence and university hospitals to generate savings from bulk purchase.
- The Japanese Government once again offered to guarantee an additional tranche of Samurai bonds with an even lower interest rate of less than 0.5%.
- The government intends to issue new Samurai bonds in early 2020.

TAXES

- Introduce a new band for taxable income in excess of RM2 million which will be taxed at 30%.
- Increase the chargeable income to RM600,000 for SMEs, subject to the SME having paid-up capital of not more than RM2.5 million and annual sales of not more than RM50 million.
- The Special Commissioner of Income Tax and Customs Appeal Tribunal will be merged into the Tax Appeal Tribunal to improve the management of taxpayer appeals. Through this merger, taxpayers who are dissatisfied with the decision of the Director-General of the Inland Revenue Board (IRB) or the Director-General of the Royal Malaysian Customs Department (RMCD) may submit a tax-related appeal under all applicable tax laws to the Tax Appeal Tribunal, to be operational in 2021.
- The Digital Services Tax will be implemented effective January 1, 2020.
- Malaysians above the age of 18 years and corporate entities will be assigned a Tax Identification Number (TIN) beginning January 2021.

SABAH AND SARAWAK

- RM470 million allocated for rural water projects.
- RM326 million and RM224 million allocated for rural road projects in Sabah and Sarawak.
- Remain committed to complete the Pan-Borneo Highway project.
- Review the plan for the Trans-Borneo Highway connecting Sabah and Sarawak to Eastern Kalimantan.
- Propose to double the amount of the Special Grant under Section 112D of the Federal Constitution to RM53.4 million for Sabah and RM32 million for Sarawak for 2020, and double the amount again to RM106.8 million for Sabah and RM64 million for Sarawak within five years.
- Maintain a fuel price ceiling of RM2.08 per litre for RON95 and RM2.18 per litre for diesel for motorists in Sabah and Sarawak.

RURAL DEVELOPMENT

- RM587 million allocated for rural water projects.
- RM500 million allocated for rural electrification.
- RM1 billion allocated for the development of rural roads.
- RM170 million allocated for transportation subsidies and distribution of basic goods to rural areas.
- RM5 million allocated to provide mobile clinics in rural areas, especially for the Orang Asli.

INVESTMENT

- A “Special Channel” will be established under InvestKL to attract investments from China.
- Review and revamp existing incentive framework, namely Promotion of Investments Act 1986, Special Incentive Package and Income Tax Act 1967.
- RM1 billion per year of customised packaged investment incentives for five years to attract Fortune 500 companies and global unicorns.
- RM 1 billion per year of customised packaged investment incentives for five years to enhance export competitiveness of Malaysia’s best and most promising businesses.
- RM10 million allocated for MITI to focus on post-approval investment monitoring and realisation.
- Extension in tax incentives given to venture capital and angel investors.

CAPITAL AND FINANCIAL MARKET

- Provide a RM1 billion 1:5 matching guarantee for dedicated private equity funds to invest in Malaysian consortiums.
- Establish Special Committee on Islamic Finance (JKKI) which will formulate the Islamic Economic Blueprint and organise outreach initiatives and professional courses to promote deeper understanding of Islamic finance nationwide.
- Extension of tax deduction on sukuk issuance costs under the principle of Wakalah for another five years until year of assessment 2025.
- Extension of tax exemption for fund management companies managing Shariah-compliant funds and SRI funds for another three years.
- Extension of tax deduction on the cost of issuing SRI sukuk for another three years until year of assessment 2023.

DEVELOPMENT FINANCING

- Interest subsidy of 2% p.a. for financing programmes under Bank Pembangunan Malaysia Berhad which include:
  - RM2 billion for Sustainable Development Financing Fund;
  - RM1 billion for Maritime and Logistics Fund; and
  - RM2 billion for Industry Digitalisation Transformation Fund.
- Restructure development financial institutions (DFI) through the merger of Danajamin Nasional Berhad, Bank Pembangunan Malaysia, SME Bank, and the Export-Import Bank of Malaysia.
- RM10 million allocated towards a joint Government-UN Sustainable Development Goals (SDG) fund.

BROADBAND

- RM21.6 billion of investments for public-private partnership for National Fiberisation and Connectivity Plan (NFCP).
- RM250 million allocated to improve connectivity in remote areas.
- RM210 million allocated to accelerate deployment of new digital infrastructure for public buildings and high-impact areas.

DIGITAL ECONOMY AND INDUSTRY 4.0

- Income tax exemption up to 10 years for companies in the E&E sector investing in selected knowledge-based services.
- Special investment tax allowance to encourage further reinvestment by E&E companies that have exhausted the Reinvestment Allowance.
- Accelerated capital allowance and automation equipment capital allowance for the manufacturing and services sector.
- RM550 million allocation for Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies.
- Introduce a 5G Ecosystem Development Grant worth RM50 million.

- RM25 million allocated to set up a contestable matching grant fund to spur pilot projects on digital applications.
- RM1.1 billion allocated for corridor development activities.
- RM20 million allocated to Malaysian Digital Economy Corporation (MDEC) to grow local champions in creating digital content.
- RM70 million allocated to MDEC to set up 14 one-stop Digital Enhancement Centres nationwide to facilitate access to financing and capacity building of businesses.
- Establish digital libraries in Kedah, Perak and Johor.
- RM20 million allocated to the Cradle Fund for training and grants to seed companies.
- Introduce the Digital Social Responsibility (DSR) concept. Companies that contribute towards DSR will be given tax deduction.
- RM10 million allocated to MDEC to train micro-digital entrepreneurs and technologists.
- RM450 million allocated to Khazanah Nasional to implement a one-time RM30 digital stimulus to qualified Malaysians to use e-wallets.

RESEARCH AND DEVELOPMENT (R&D)

- RM524 million allocated to intensify R&D in the public sector.
- RM30 million allocated for matching grants for collaborations with industry and academia to develop downstream uses of palm oil.
- RM10 million allocated to establish a Research Management Agency to manage public research resources.
- Establish a one-stop Innovation Office to explore business opportunities in intellectual property.
- Tax exemption of up to 10 years for IP-generated income based on the Modified Nexus Approach (MNA) derived from patents and copyright software.

SMALL AND MEDIUM ENTERPRISES

- A 50% matching grant of up to RM5,000 per company is provided for the adoption of digitalisation measures to the first 100,000 applicants.
- Government guarantee will be increased to 80% from 70% for Bumiputera SMEs, export-oriented SMEs and SMEs investing in automation and digitalisation.
- SME Bank to introduce an annual interest subsidy of 2%.
- RM300 million in funds for Bumiputera SMEs with the potential to become regional champions.
- Increase in ceiling per company for the Market Development Grant (MDG) initiative from RM200,000 to RM300,000 yearly.
- Increase in ceiling for participation in each export fair to RM25,000 from RM15,000.
- RM50 million allocated to SMEs to engage in export promotion activities.
- An extra RM50 million allocated to MyCIF to help finance underserved SMEs.

ENTREPRENEURSHIP AND LOCAL INDUSTRY

- RM445 million allocated to support Bumiputera entrepreneurial development.
    - RM150 million for entrepreneurship development and upskilling;
    - RM75 million for capacity building and export focus;
    - RM170 million for access of financing via TEKUN, SME Bank and Pelaburan Hartanah Berhad; and
    - RM50 million for entrepreneurship under Unit Peneraju Agenda Bumiputera.
- RM100 million allocated for Small Business Loans (Program Pembiayaan Usahawan Perusahaan Kecil Komuniti Cina) for the Chinese community via Bank Simpanan Nasional at an interest rate of 4%.
- For Indian entrepreneurs, the government will provide RM20 million under TEKUN Nasional's Skim Pembangunan Usahawan Masyarakat India (SPUMI) which is expected to benefit 1,300 entrepreneurs at an interest rate of 4%.
- A minimum allocation of 30% to encourage local producers to upgrade equipment and tools used in public clinics and hospitals.
- RM10 million allocated to the Ministry of Entrepreneur Development for advocacy and awareness of halal products.

COMMODITIES

- RM550 million allocated for palm oil replanting loan fund for smallholders at an interest rate of 2% p.a. with a tenure of 12 years.
- RM27 million allocated to support Malaysian Palm Oil Board's (MPOB) efforts to market palm oil internationally and counter anti-palm oil campaigns.
- The use of B20 biodiesel for the transport sector to be implemented by the end of 2020.
- RM200 million allocated for Bantuan Musim Tengkujuh to eligible rubber smallholders.
- RM100 million allocated for the Rubber Production Incentive in 2020 to enhance the income of smallholders faced with low rubber prices.
- RM810 million allocated for the welfare of the Federal Land Development Authority (FELDA) community, which includes:
  - RM250 million for an income enhancement programme;
  - RM300 million to write off the interest of the settlers' debts;
  - RM100 million for FELDA water supply projects;
  - RM70 million for housing the new generation of FELDA settlers; and
  - RM90 million for the upgrading of FELDA roads and basic infrastructure.
- RM738 million allocated to Rubber Industry Smallholders Development Authority (RISDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement income-generating programmes.

AGRICULTURE

- Increase fishermen's allowance from RM200 to RM250 per month.
- RM150 million allocated to facilitate crop integration.
- RM30 million allocated for the production of glutinous rice in Langkawi Island.
- RM855 million allocated for padi inputs.
- Continuation of the subsidy for Padi Bukit and Padi Huma.
- RM43 million allocated for Agriculture Industry 4.0 to develop new crop varieties with higher productivity and quality.
- Establish a RM100 million Disaster Assistance Fund to provide loans at an interest rate of 4% for farmers in their time of need.

TOURISM

- Continue to allocate 50% of tourism tax receipts to respective state governments.
- RM1.1 billion allocated to drive awareness, promotions and programmes for the Visit Malaysia Year 2020 (VMY2020) campaign which targets 30 million tourist arrivals.
- Allocation of departure levy collected for tourism infrastructure projects.
- Income tax exemption for organisers of targeted arts and the tourism sector.
- Income tax exemption of 100% of statutory income or investment tax allowance of 100% for new investments in international theme park projects.
- Increase in tax deduction for companies sponsoring arts, cultural and heritage activities in Malaysia from RM700,000 to RM1 million.
- Accelerated capital allowance for expenditure incurred on the purchase of new locally assembled excursion buses.
- Excise duty exemption of 50% for locally assembled vehicles given to tour operators.
- RM100 million allocated for the construction of a new cable car system at Penang Hill.
- RM5 million allocated to Cultural Economy Development Agency (CENDANA) to support Malaysian visual art galleries and exhibition organisers.
- RM10 million allocated to Think City to preserve culture and urban heritage.
- RM25 million allocated to Malaysian Healthcare Tourism Council (MHTC) for medical tourism.
- Permission given to licensed travel agents to submit group applications for up to 100 people per transaction through the eNTRI and eVISA system.

EMPLOYMENT AND EMPLOYABILITY

- RM6.5 billion allocated over five years for the launch of Malaysians@Work initiative, which will be managed by the Employees' Provident Fund (EPF) and will be integrated with the Employment Insurance System (EIS) as well as other active labour market programmes.
  - Wage incentive of RM500 per month for two years for graduates who secure work after being unemployed for a year or more, and corresponding hiring incentive of up to RM300 per month for two years for employers for each new hire.
  - Wage incentive of RM500 per month for two years for women who have stopped working for a year or more, and are between 30 to 50 years old, and corresponding hiring incentive of up to RM300 per month for two years for employers for each new hire.
  - Extension of tax exemption for returning women workers for another four years to 2023.
  - Wage incentive of either RM350 or RM500 per month for two years for Malaysians who are hired to replace foreign workers, depending on sector, and corresponding hiring incentive of up to RM250 per month for two years for employers for each new hire.
  - Additional TVET incentive of RM100 per month for trainees on apprenticeships.
  - Extension of double tax deduction on expenses incurred by companies participating in Skim Latihan Dual Nasional (SLDN) for another two years.
  - Expand Structured Internship Programme (SIP) to include students from all academic fields.
- Extend the eligibility for overtime to those earning less than RM4,000 per month.
- Improve protection and procedures for handling sexual harassment complaints.
- Introduce new provisions on the prohibition of discrimination on religion, ethnicity and gender.
- Propose to raise the minimum wage rate only in major cities to RM1,200 per month effective 2020.

EDUCATION AND HUMAN CAPITAL

- RM735 million allocated for school maintenance and upgrading works.
- RM783 million allocated to repair dilapidated schools, particularly in Sabah and Sarawak. Schools will also be constructed in Langkawi, Kulai, Hulu Langat, Putrajaya, Pasir Gudang, Tumpat, Marang and Johor Bahru.
- An additional RM23 million is allocated for national schools to ensure school facilities are disabled-friendly.
- An additional RM12 million is allocated for government-aided schools to increase the amount of utility assistance.
- RM11 million allocated to encourage students to take up Science, Technology, Engineering and Mathematics (STEM).
- RM50 million allocated to fund TVET courses conducted by State Skills Development Centres (SSDC). Surplus revenue generated from TVET courses will be allocated to Public Skills Training Institutions (ILKA).
- RM200 million in matching grants to support customised TVET courses undertaken in collaboration with industries.
- Malaysia Technical University Network (MTUN) universities to offer degree courses for trainees graduating from vocational colleges.
- RM30 billion allocated for the Human Resource Development Fund (HRDF) to collaborate with industries to provide TVET training.
- EPF to expand the scope of withdrawals for the purpose of education to include qualifications attained at certificate level.
- RM20 million allocation to be matched by another RM20 million from HRDF to encourage take-up of professional certification examinations in fields relating to IR4.0.
- RM1.3 billion allocated to educational institutions under MARA.
- RM2 billion allocated for student loans provided via MARA.
- RM192 million allocated for professional certification programmes under Yayasan Peneraju.

HEALTH AND SOCIAL PROTECTION

- RM1.6 billion allocated for the construction of new hospitals as well as for the upgrading and expansion of existing ones.
- RM319 million allocated for the construction and upgrading of health and dental clinics, as well as quarters facility.
- RM227 million allocated for the upgrade of medical equipment.
- RM95 million allocated for renovation of medical infrastructure and facilities.
- RM60 million allocated to kick-start pneumococcal vaccination for children.
- RM59 million allocated to acquire more ambulances.
- RM31 million allocated for upgrading and maintenance of information and communications technology (ICT) services which will include a pilot project for hospital electronic medical records.
- Extend the coverage of MySalam to:
  - cover 45 illnesses from the existing 36;
  - include those aged up to 65 years; and
  - include those with gross annual income up to RM100,000 who will receive critical illness payout of RM4,000 and RM50 daily hospitalisation income replacement for up to 14 days when diagnosed and warded at government hospitals.
- Expand the coverage of the Skim Peduli Kesihatan (PeKA) B40 to those aged above 40 years.
- The EPF to allow withdrawals for fertility treatment.
- Expansion of income tax relief of up to RM6,000 given on expenses incurred for medical treatment of serious illnesses to include expenses incurred for fertility treatment.
- Government will allow pre-retirement withdrawals from the Private Retirement Scheme (PRS) for the purposes of healthcare and housing with the same terms and conditions as that allowed by the EPF and not subject to any penalty for early withdrawal.
- The EPF to extend coverage to contract workers.
- Social Security Organisation (SOCSO) to expand the Self-Employment Social Security Scheme to enable contributions by other self-employed groups.
- RM500 million allocated to SOCSO to build a rehabilitation centre in Perak.

WELFARE AND QUALITY OF LIFE

- RM575 million allocated for socio-economic assistance to senior citizens whose household income is below the poverty level.
- RM4.6 million allocated to the Senior Citizens Activity Centre (PAWE).
- RM80 million allocated for the upgrading, repair and maintenance of 67 various institutions under the Department of Social Welfare (JKM) including childcare, disabled and elderly centres.
- RM25 million allocated for the management, administration and expansion of the Food Bank programme throughout Malaysia.
- RM5 billion allocated for BSH in 2020.
- Expansion of BSH to include single individuals aged above 40 years and disabled persons aged 18 years and above who are earning less than RM2,000 per month. They will receive a cash handout of RM300 and qualify automatically as a recipient of the MySalam scheme.
- Services tax exemption on all training and coaching services provided by training service providers to disabled persons.
- RM15 million allocated to the National Anti-Drugs Agency's pilot RINTIS programme on drug addict rehabilitation with non-governmental organisations (NGOs) and local communities.
- RM4.5 million allocated to Anjung Singgah to help homeless Malaysians.
- RM20 million allocated to expand skills training and programmes that meet the national TVET standard for inmates.
- RM10 million allocated to Malaysian Global Innovation & Creativity Centre (MaGIC) to support social enterprises.
- An additional RM10 million will be allocated to MyCIF to support fundraising of social enterprises via peer-to-peer financing platforms at affordable rates.
- Raise the donation reporting threshold to RM10,000 from RM5,000 under Subsection 44(6) of the Income Tax Act 1967 for companies effective September 5, 2019. The threshold will subsequently be increased to RM20,000 beginning 2020.
- Increase tax deduction on donation for charitable and sports activities and projects of national interest for individual taxpayers to 10% of the aggregate income from 7%.

- Expansion of tax deduction on donation for charitable and sports activities and projects of national interest for individual taxpayers to include:
  - cash wakaf contribution to state religious authorities or a body established by state religious authorities administering wakaf;
  - cash wakaf contribution to public universities allowed by the state religious authorities to receive wakaf; and
  - cash endowment contribution to public universities.
- Extension of income tax exemption to include religious institutions or organisations registered as a company limited by guarantee with the Companies Commission of Malaysia.
- RM57 million allocated to the Department of Orang Asli Development (JAKOA).
- RM100 million grant to the Malaysian Indian Transformation Unit (MITRA).
- RM85 million allocated for the development and repair of basic infrastructure in new villages.
- Outline the eligibility for the Targeted Subsidy Programme (PSP) effective January 2020 which will only kick in whenever the RON95 market price exceeds RM2.08 per litre. Individuals who own not more than two cars and two motorcycles are qualified to receive PSP for one vehicle, which must be:
  - a non-luxury passenger car with 1,600cc engine capacity and below, or more than 10 years old if above 1,600cc;
  - a motorcycle with 150cc engine capacity and below, or more than 7 years old if above 150cc.
- Eligible recipients of the BSH who qualify for the PSP will receive a cash transfer of RM30 per month for car owners and RM12 for motorcycle owners.
- Non-recipients of the BSH who qualify for the PSP will receive a special Kad95 which will allow them to enjoy the fuel subsidy at a discount of 30 sen per litre limited to 100 litres per month for cars or 40 litres per month for motorcycles when purchasing RON95 at petrol stations.

WOMEN AND EARLY CHILDHOOD CARE

- RM500 million guarantee facility for Skim Jaminan Pinjaman Perniagaan (SJPP) for women entrepreneurs.
- RM200 million fund where the SME Bank will provide an annual interest subsidy of 2% for women entrepreneurs.
- Increased maternity leave to 90 days from 60 days effective 2021.
- Wage incentive and extension of income tax exemption for women returning to work.
- Expansion of the i-Suri programme to allow husbands to contribute 2% from their 11% EPF employee contribution to their wives' EPF account.
- RM20 million allocated in 2020 to further extend the benefits under i-Suri via social safety coverage under SOCSO.
- RM10 million allocated for the development of early childhood care facilities in government buildings.
- RM30 million allocated to provide more TASKAs.
- Increase individual tax relief to RM2,000 from RM1,000 for parents who enroll their children in registered nurseries and kindergartens.

PROPERTY AND HOUSING

- Introduce Rent To Own (RTO) financing scheme for the purchase of first home up to RM500,000 in collaboration with financial institutions. Stamp duty on the instruments of transfer will be exempted under this scheme.
- Lower the threshold on high-rise property prices in urban areas for foreign ownership from RM1 million to RM600,000 in 2020 to reduce supply overhang of condominiums and apartments.
- Extend the Youth Housing Scheme until the end of 2021.
- A 10% loan guarantee through Cagamas and RM200 monthly instalment assistance for the first two years will also be offered to the first 10,000 home units under the Youth Housing Scheme.
- Enhance the Real Property Gains Tax (RPGT) treatment by revising the base year for asset acquisition to January 1, 2013 for assets acquired before January 1, 2013 compared to the previous base year of January 1, 2000.
- RM100 million allocated for the repair and refurbishment of low- and medium-cost strata housing.

- RM15 million allocated for the Safe City Initiative (Bandar Selamat) to provide security features and safety advocacy programmes.

INFRASTRUCTURE AND PUBLIC TRANSPORT

- Undertake feasibility studies on the development of Pulau Carey.
- RM50 million allocated for the repair and maintenance of roads leading to Port Klang.
- RM8.3 billion allocated to conduct feasibility studies on the Serendah-Port Klang Rail Bypass and Klang Logistics Corridor.
- RM50 million allocated for the upgrading of rail tracks from Gorge Line between Halogilat Station and Tenom Station in Sabah.
- Introduce a deferred payment facility to expedite cross-border transactions.
- Allocate an additional RM50 million to stimulate public-private partnerships for the development of a truck depot at the Kota Perdana Special Border Economic Zone (SBEZ) in Bukit Kayu Hitam.
- RM50 million allocated for the development of the Chuping Valley Industrial Area in Perlis.
- RM69.5 million allocated for Kuantan Port-related projects.
- RM42 million allocated for the construction of the Sungai Segget Centralised Sewerage Treatment Plant in Johor.
- RM55 million allocated for infrastructure development in Samalaju Industrial Park, Sarawak.
- RM20 million allocated for the development of the Sabah Agro-Industrial Precinct.
- RM450 million allocated to acquire up to 500 electric buses of various sizes for public transportation in selected cities nationwide.
- RM146 million allocated to subsidise bus operators to support last-mile connectivity in rural and urban areas.
- Propose to upgrade the Sultan Azlan Shah Airport in Ipoh including an extension of its runway.
- Proceed with the Bandar Malaysia project in Sungai Besi, Kuala Lumpur.
- RM4.85 billion allocated under the Malaysia Road Registration Information System (MARRIS) fund to all state governments to maintain roads.
- Proceed with the Rapid Transit System (RTS) between Johor Bahru and Singapore.

TOLL

- Consider proposals to acquire or dispose all shares of PLUS Malaysia Berhad.
- A minimum reduction of average toll charges by 18% across all PLUS highways.
- Acquisition of four Klang Valley highways, which include KESAS, LDP, SPRINT and SMART, to be funded via government-guaranteed borrowings.
- Introduce congestion charges on the four highways mentioned above; toll rates will be lowered by up to 30% during near-peak and normal hours, and tolls will not be imposed during off-peak hours.
- Reduce toll rates for cars at the Second Penang Bridge from RM8.50 to RM7.00 effective January 1, 2020.

ENVIRONMENT AND RENEWABLE ENERGY

- Migrate the current power purchase system towards a wholesale market. Renewable energy suppliers will compete directly in the retail market.
- Extension of the Green Investment Tax Allowance (GITA) and Green Investment Tax Allowance (GITA) to 2023.
- A 70% income tax exemption of up to 10 years for companies undertaking solar leasing activities.
- Accelerate Energy Performance Contracting (EPC) implementation for government buildings.
- RM30 million allocated to raise the capability and capacity of the Department of Environment and Department of Chemistry to tackle pollution.
- RM443.9 million allocated towards flood mitigation projects.
- RM150 million allocated towards the maintenance of existing flood retention ponds.
- RM48 million allocated to preserve Malaysia's pristine forests and natural biodiversity.
- RM15 million allocated to NGOs in wildlife conservation and endangered animals.

- RM20 million allocated to employ more forest rangers.

PUBLIC SERVICES

- RM85 million allocated towards enhancing vehicle and traffic flow through the Customs, Immigration and Quarantine Complex (CIQ).
- RM235 million allocated to purchase 20 additional cargo scanners to be placed at all strategic ports of entry.
- The RMCD will introduce a deferred payment facility to expedite the clearance process of cross-border transactions.
- RM10.5 billion allocated for the maintenance and repair of existing public assets.
- RM10 million allocated to the MACC to undertake Risk Assessment Tests at all ministries, departments and agencies.
- An additional 100 personnel will be added to the MACC in 2020.
- Establish the Independent Police Complaints and Misconduct Commission (IPCMC) to raise public confidence in our Royal Malaysian Police Force (PDRM).
- Establish the Malaysian Ombudsman to replace the Bureau of Public Complaints to enhance governance and delivery systems of the government.
- Increase the Ministry of Defence's allocation to RM15.6 billion in 2020 from RM13.9 billion in 2019.
- RM50 million allocated to The National Centre for Governance, Integrity and Anti-Corruption (GIACC) to enhance detention procedures and facilities.
- RM5 million allocated to support the convening of Parliamentary Select Committee meetings and for greater engagement by members of Parliament with civil society.

CIVIL SERVANTS

- Raise the Cost of Living Allowance (COLA) by RM50 per month beginning 2020.
- Allow early redemption of Accumulated Leaves (Gantian Cuti Rehat) for up to 75 days as replacement pay for those who have at least 15 years of service.
- The Public Sector Home Financing Board (LPPSA) will offer free personal accident insurance (up to RM100,000 coverage) for two years to new government housing loan borrowers.
- Introduce an Ex-Gratia Death Benefit of up to RM150,000 payable to dependants of civil servants who have died in service.
- The Annual Salary Movement (PGT) is brought forward for civil servants who have died in service before the Salary Movement Date (TPG).
- Higher allowance of RM2 per hour for the People's Volunteer Corps (RELA) beginning 2020.
- A special allowance of RM200 a month to all personnel of Jabatan Perkhidmatan Bomba dan Penyelamat Malaysia.
- A one-off payment of RM500 to holders of the Pingat Jasa Malaysia.
- A special payment of RM500 to civil servants Grade 56 and below.
- A special payment of RM250 to government retirees including non-pensionable veterans.
- RM150 million and RM250 million allocated for the repair and refurbishment of Malaysian Armed Forces family housing units (RKAT) and PDRM quarters.
- RM330 million allocated to the Property and Land Management Division under the Prime Minister's Department to repair and maintain public service quarters.

ISLAMIC AFFAIRS

- RM1.3 billion allocated for Islamic affairs under the Prime Minister's Department.
- Increase the allowance for Al-Quran dan Fardu Ain class (KAFA) teachers by RM100 a month.
- Proposed a one-off special bonus of RM500 for each Imam, Bilal (Muezzin), Tok Siak/Noja/Merbot (mosque caretakers) and Guru Takmir.
- RM10 million allocation of Rahmatan Lil-Alamin to the Department of Islamic Development Malaysia (JAKIM) to develop a greater understanding of Maqasid Shariah.

YOUTH AND SPORTS

- An increased allocation of RM20 million for eSports.
- RM299 million allocated to implement the Sports For All programme, including rehabilitating and upgrading of sports facilities.
- RM179 million allocated for the preparation for international sporting events such as the Tokyo Olympics 2020 and Hanoi Sea Games 2021.
- RM45 million allocated for the National Football Development Programme.
- RM10 million allocated to further promote women in sports and nurture the next generation of world-class sportswomen.
- RM138 million allocated to the Youth Power Club (YPC), Malaysia Future Leaders School (MFLS) and volunteerism initiatives.
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GAMING INDUSTRY

- Propose a higher minimum mandatory penalty of RM100,000 for illegal gamblers, along with a minimum mandatory jail sentence of six months.
- Propose a higher minimum mandatory penalty of RM1 million for illegal gaming operators, along with a minimum mandatory jail sentence of 12 months.
- Reduce the total number of special draws for number forecast operators (NFO) from 11 to 8 times a year starting 2020.

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