Economic Research

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

MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

Budget 2013:
Aiming for More Balanced and Quality Growth

Vol.: ER/014/2012

Economics Team

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

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

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

Please read the disclaimer on the last page of this report

In a nutshell

Budget 2013 was tabled in Parliament this past Friday, September 28, 2012 and has been widely viewed as one of the most critical of the Najib Tun Razak era. Bearing in mind the macroeconomic headwinds from faltering growth in the United States (US) and major emerging markets, the ongoing debt saga and incipient recession in Europe, and major structural challenges in the Malaysian economy, the 2013 budget sets the stage for an evolution in Malaysia's growth strategy.

For the budget itself, the government has allocated RM251.6 billion in expenditure, of which RM201.9 billion is for operating expenses and RM49.7 billion is for development expenditure. This means the estimated expenditure for 2013 is almost unchanged from the revised 2012 estimates (specifically a -0.3% difference). Revenue, on the other hand, is forecast to reach RM208.7 billion, a 0.7% increase. The overall fiscal deficit should decline to 4.0% of gross domestic product (GDP) from 4.5% in 2012.

On the overall macro assessment, we concur with the Ministry of Finance's (MoF) forecast of GDP growth of between 4.5% and 5.5% for 2013 (our forecast is 5.3%). The economy, which as a whole is expected to expand to over RM1 trillion at current prices for the first time next year, will be fueled mainly by private consumption and private investment. Similar to the view presented by the MoF, we feel that the external sector will experience a slight recovery but growth will be largely dependent on domestic sources. The wildcard, however, is the extent to which the labour market may be affected by the ongoing weakness in the external sector. If setbacks in export-oriented industries begin to trigger instability in the labour market and result in significantly higher retrenchment, private consumption - and hence headline growth - may be adversely affected.

On the fiscal balance, we are of the view that the government's budget deficit target is within reach as we think that the revenue forecast is overly conservative and should be exceeded in 2013. Although the expenditure forecast may also be on the low side, we do not think that this will be detrimental to achieving the deficit target. Bear in mind that except for the recession years, the government has underestimated its revenue by an average of RM8 billion per annum in the past ten years. We also think that the government's deficit target is achievable because it would take only RM5 billion to reduce the deficit by 0.5 percentage points. On top of that, the government's commitment to bringing down the deficit level to 3% of GDP by 2015 has been clearly stated in the Budget. The biggest wildcard, however, will be global oil prices, with the government expecting a moderation in 2013. If global growth recovers more strongly than expected, petrol and gas subsidies will necessarily increase beyond the budgeted amount.

We are encouraged by the focus on alleviating the financial burden on the low- and middle-income segment of the population. For instance, the one percentage reduction in personal income tax for those with income up to RM50,000 per annum indicates the government's intention to reduce the tax burden on the groups that deserve it the most. Notwithstanding this, we feel that the long-term solution would be adjusting the breadth of the tax bands which is a more effective measure to assist middle-income families, as the marginal tax rate increases rapidly as individual income grows. As it stands, the 1% cut will be of limited benefit to the affected families. As we mentioned in our Pre-Budget report, widening the tax band will serve two important purposes: (1) increase disposable income which can induce private consumption; (2) provide an incentive for Malaysians to stay working in the country rather than migrating to other countries which provide them higher disposable incomes due to wider tax bands. On the other hand, we are happy to see the increase in the tax relief for families with children in higher education from RM4,000 to RM6,000 per child. Bearing in mind that this relief has not been changed for eight years despite the substantial increases in education costs in the interim, the revision is most welcome as noted in our Pre-Budget report.

As was widely expected and hinted at, the government is revisiting the Bantuan Rakyat 1 Malaysia (BR1M) programme, with cash transfers of RM500 for households earning under RM3,000 per month, school assistance of RM100 per student and book vouchers worth RM250. Overall, we are encouraged by the government's efforts in assisting the *rakyat* to cope with the rising cost of living. However, while last year's programme has proved a boon to low-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 creating a culture of government dependency. Various countries around the world, in conjunction with the World Bank, have had great success in providing income-supplementing cash transfers which are conditional on families meeting certain criteria such as ensuring school attendance for children, for instance. We think such conditionality would be useful in Malaysia's case, particularly in providing incentives for continuous education and work-force skill upgrading.

We are also moved by the government's proposals to provide social assistance measures, which have the main virtue of being targeted rather than general. Higher minimum pensions for retired civil servants, assistance in the form of subsidies and transfers are also on the cards for fishermen and paddy farmers, and most surprising of all, group life insurance/takaful schemes are being introduced for various groups, including hawkers and small businesses. The insurance schemes were an unexpected, but innovative, approach towards providing social assistance that would be relatively cheap to implement while avoiding the unconditionality problem noted above. It will also provide a fillip to the local insurance and takaful industry.

We still wish the government could have provided a clearer timetable for the implementation of the Goods & Services Tax (GST), although this was somewhat hinted at during the Budget speech. To offset the unpopularity of GST among the public, we think that the government should undertake more aggressive efforts in explaining the benefits of GST, particularly with respect to replacing the current Sales & Service Tax structure, which is not only less efficient but produces less in tax yield despite a higher marginal rate. GST is even more critical given the 1% cut in personal income tax to be implemented for annual income levels up to RM50,000, which would have the effect of restricting an already narrow government tax base.

In education, various new incentives have been proposed for the further development of pre-school education, and technical and vocational education, both of which are of vital importance in upgrading the education system in Malaysia to meet the needs of a high-income economy. However, we are of the view that more measures are needed to promote innovation and productivity. Research and development (R&D) spending in Malaysia lags that of most of the advanced economies, even those within the region. The level of patent applications from domestic sources in particular, while growing, is not encouraging. The allocation of RM600 million for research universities, and additional RM2 billion for the Green Technology Financing Scheme (GTFS) may not serve as the necessary catalyst for increasing R&D activities in Malaysia.

Some measures were also announced for capital market development, including training of 1,000 graduates, the establishment of a Capital Market Promotion Centre, and the development of a framework for the issuance of AgroSukuk. We are also happy to note the implementation of incentives for retail bond and retail sukuk issuance, something which we have mooted for previous budgets. Also of note is an RM400 million capital injection for Danajamin Nasional Berhad (Danajamin), which will allow it to support issuance of an additional RM4 billion-RM6 billion, which will obviously benefit the development of Malaysia's bond market.

In housing, we feel positive about the government's proposal to provide further measures to promote home ownership and improve affordability such as via a higher allocation for the various bodies involved in promoting home ownership such as the 1Malaysia Housing Programme (PR1MA). Indeed, this is one area which the *rakyat* needs a lot of assistance from the government. However, we cannot help thinking that the impact of these programmes will be somewhat diffused as the approach is rather fragmented at this juncture. Perhaps it would be helpful to provide more clarity on the scope, eligibility and purpose of each programme, and most of all a communications plan to help explain them to the public. We are also concerned over the speed of implementation of the projects under the various agencies, as the need for affordable housing is increasingly urgent.

While these measures address the supply of housing, we think that there should be additional measures to contain house price appreciation from the demand side. There is a need to limit short-term speculation in Malaysia's property markets. Limiting foreign house ownership was one possible avenue as this has proven somewhat successful in dampening house price increases in other countries, but this is not apparently being pursued. The hike in the Real Property Gains Tax (RPGT) rates is a move in the right direction but a 5% increase is probably too mild to act as a deterrent to speculators. In addition, some thought should be given to raising the rate on the 3-5 year band further, as properties bought from developers are not normally sold within two years from the date of the Sales & Purchase agreement. Raising RPGT on the 3-5 year band would therefore be more critical in containing house "flipping".

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

Budget 2013: Key thrusts and allocation

Budget 2013 attempts to improve the welfare of Malaysians, ensure sustainable economic growth and reduce the fiscal deficit as the country moves towards becoming a high-income nation by 2020. It incorporates five major foci and thrusts:

- ***Boosting investment activities***

  To promote a sustainable economy, government spending will be geared towards promoting private investment as the key driver for growth. In this regard, a total of RM3 billion has been allocated to accelerate the implementation of the 12 National Key Economic Areas (NKEAs). Apart from that, the government allocated RM1 billion to establish the Domestic Investment Strategic Fund to promote domestic investment. In addition, in line with the recently launched SME Masterplan 2012-2020, various initiatives will be introduced to accelerate the growth of small and medium enterprises (SMEs). Meanwhile, to promote investment in the oil and gas (O&G) industry, various tax incentives and non-tax incentives will be given, especially for companies which invest in refining petroleum products.

- ***Strengthening education and training***

  In a bid to promote human capital development and shift the economy towards a high income and developed nation, education remains the primary focus of the government. In this regard, the government has allocated RM500 million to improve teaching skills in four core subjects (Bahasa Malaysia, English, Science and Mathematics) to facilitate the outcomes of the Malaysia Education Blueprint introduced last September. Recognising the importance of early childhood education, the government allocated a sum of RM1.2 billion under various initiatives to improve the quality of pre-schools while introducing six pilot pre-schools specifically for disabled children. To help graduates secure employment, the government will introduce the Graduate Employability Blueprint by end-2012 with an allocation of RM200 million to set up the new Graduate Employability Taskforce.

- ***Inculcating innovation and increasing productivity***

  To promote innovation and increase productivity, the government has proposed an allocation of RM600 million to five research universities to conduct high-impact research in strategic fields. Meanwhile, several tax incentives will be extended to companies for commercialisation of R&D findings of public universities. Additionally, to help small entrepreneurs expand their businesses, the government has proposed an allocation of RM200 million to establish an Intellectual Property Financing Fund which will allow the use of intellectual property as collateral to obtain financing. Apart from that, to encourage the development of green technology, the government will provide an additional RM2 billion for the GTFS and extend the application period to end 31 December 2015.

- ***Consolidating fiscal position and enhancing public service delivery***

  On the fiscal balance, the government has made a commitment to ensure that the budget deficit will shrink to 4% of GDP and pledged to keep federal government debt below 55% of GDP. To this end, various initiatives will be undertaken such as the strengthening of the tax system which will enhance revenue collection as well as measures to ensure all expenditures are based on the value-for-money principle. Apart from that, the government proposed to increase the minimum pension for retired civil servants to RM820 from RM720 for those who have served for at least 25 years and a one-off RM1,000 cash assistance for former armed forces members who have opted for early retirement or served for less than 21 years and did not receive any pension. Meanwhile, the entry requirement for the Malaysian Armed Forces (ATM) was raised to Honours Degree for officers and at least Sijil Pelajaran Malaysia (SPM) and Diploma for serviceman. In addition, a Group Insurance Coverage Scheme for armed forces and police personnel was proposed as a means of social assistance.

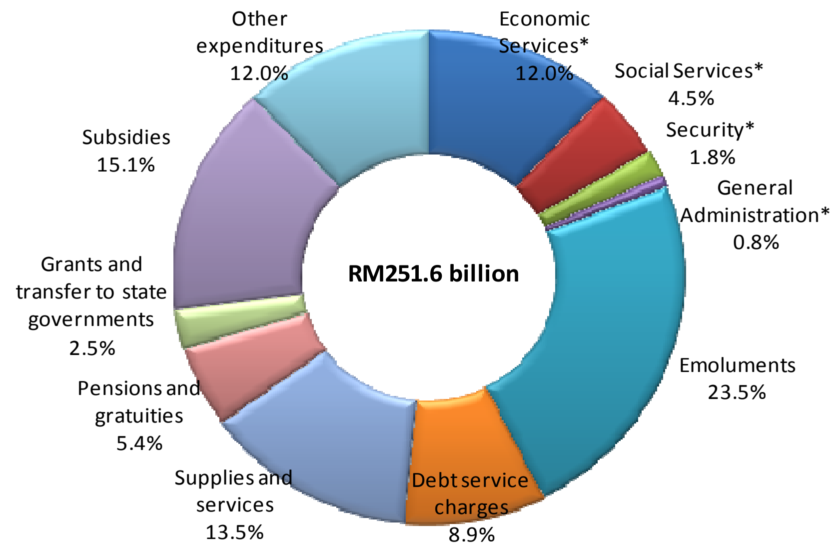
- ***Enhancing the well-being of the rakyat***

  To further improve the well-being of the *rakyat*, several measures were introduced to benefit all income groups from various sectors as well as different age groups. This will particularly help to alleviate the financial burden on the low- and middle-income segment of the population. The one percentage reduction in personal income tax for those with incomes up to RM50,000 per annum is meant to reduce the tax burden on the groups that would benefit the most. In addition, the government also proposed to increase the tax relief for families with children in higher education from RM4,000 to RM6,000 per child. To provide affordable homes for the *rakyat*, the government proposed an increase in income eligibility for the My First Home Scheme (SRP) to RM5,000 per month and to RM10,000 per month for joint loans of husband and wife. As a measure to increase security and reduce the crime rate, the government allocated RM20 million to provide 1,000 motorcycles for a Motorcycle Patrolling Unit and increase the number of police personnel for patrolling and combating crime.

On the whole, the government proposed an allocation of RM251.6 billion for Budget 2013, about 0.3% lower than the revised allocation for 2012. Of the total allocation, RM201.9 billion is slated for operating expenditure while RM49.7 billion will be utilised for development expenditure. As the government is mindful of the need to continuously address the problem of budget deficits, operating expenditure is expected to register a minor drop from the level in 2012. With revenue anticipated to climb by 0.7%, the government foresees the budget deficit to decline to 4.0% of GDP (RM 40 billion) in 2013 from an estimated 4.5% of GDP (RM42.3 billion) in 2012, a target that is within reach, in our view. As always, direct taxes will be the primary source of revenue which will, according to the MoF estimate, increase by 4.4%.

Under this scenario, we do not foresee the government debt figures to be alarming, although its ratio to GDP will still be slightly above 50%. As we have mentioned in our previous reports, the federal government's debt structure remains favourable with domestic debt accounting for 96.5% of the total debt. In addition, the relatively strong headline economic growth will ensure a sustained and favourable revenue stream for the federal government in 2013.

Chart 1: Budget 2013: Spending allocation



Sources: MoF Economic Report 2012/2013
*Note: * = development expenditure*
*Items without * = operating expenditure*

Macroeconomic assessment

▪ *Growth forecast is in line with our assessment*

According to the MoF, Malaysia's GDP growth is expected to be in the range of 4.5% to 5.5% in 2013 after registering a 4.5% – 5.0% expansion in 2012. The higher headline growth is expected to be attributed mainly to a partial recovery of the external sector as well as a sustained expansion in private consumption which has contributed about 62.6% of GDP growth following the 2009 recession. A stronger expansion in private investment is also expected to add fuel to Malaysia's economic growth engine in 2013, according to the MoF.

Table 1: GDP growth on the demand side

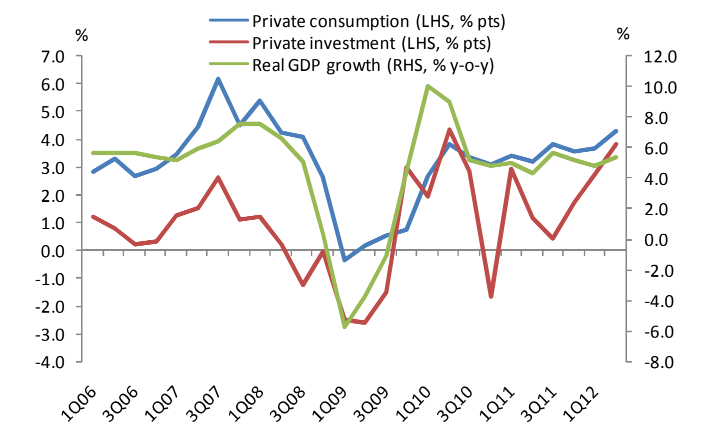
				MARC		MOF	
Growth % y-o-y	**2009**	**2010**	**2011**	**2012F**	**2013F**	**2012F**	**2013F**
GDP	-1.5	7.2	5.1	5.0	5.3	4.5 - 5.0	4.5 - 5.5
Domestic Demand	0.3	7.0	8.2	10.4	7.3	9.4	5.6
Private Consumption	0.6	6.6	7.1	7.5	6.2	7.0	5.7
Public Consumption	4.9	2.9	16.1	5.8	3.6	11.3	-1.2
Private Investment	-7.4	15.5	12.2	21.5	14.9	11.7	13.3
Public Investment	2.9	5.0	-0.3	16.1	6.3	15.9	4.2
Real Exports	-10.9	11.3	4.2	1.8	4.0	1.6	2.8
Real Imports	-12.7	15.6	6.2	6.2	6.4	5.1	3.6

Source: CEIC, MoF, MARC Economic Research

Overall, we concur with the view presented by the MoF as we anticipate a resilient domestic economy to support headline growth in 2013. Our GDP growth projection of 5.3% for 2013 (2012: 5.0%) is premised on sustained momentum in private consumption and private investment, the two key drivers for the economy.

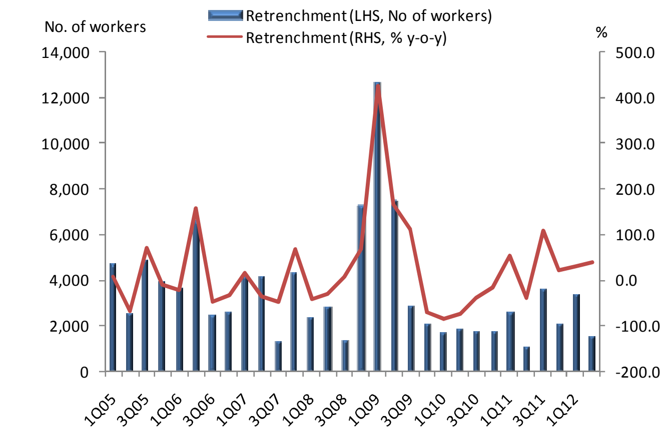
We note that the average contribution of private investment to GDP has risen to circa 42.0% (2.2 percentage points out of 5.3% headline growth) in the four quarters ended June 2012, compared with an average contribution of 11.4% and 26.5% in 2006 and 2007 respectively. We also concur with the view that double-digit growth in private investment will continue in 2013, especially in view of the continuation and rollout of mega projects such as the Tun Razak Exchange (TRX), Warisan Merdeka and the Refinery and Petrochemical Integrated Development (RAPID) which will provide the impetus for private investment and the construction sector in the near term.

Chart 2: Headline GDP growth and contribution to GDP



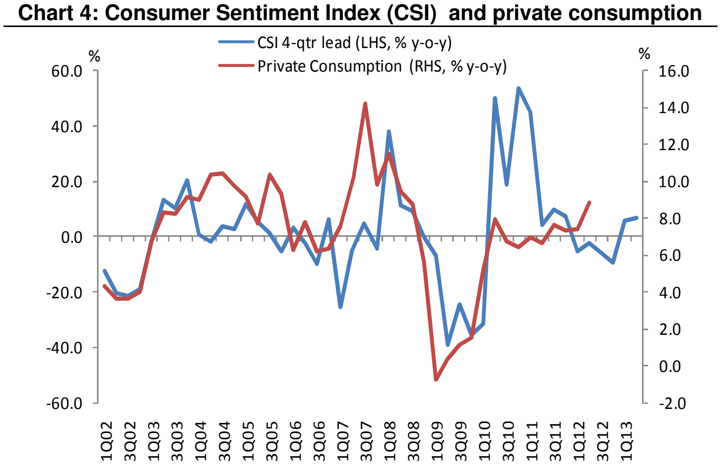
Source: CEIC, MARC Economic Research.

Chart 3: Retrenchment



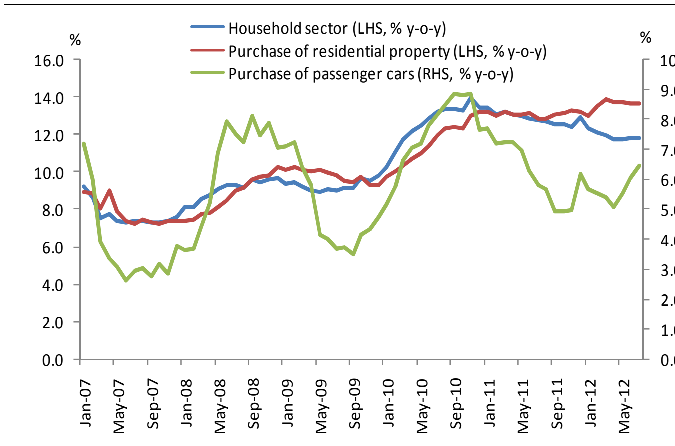
Source: CEIC, BNM, MARC Economic Research.

Chart 4: Consumer Sentiment Index (CSI) and private consumption



Sources: CEIC, MARC Economic Research

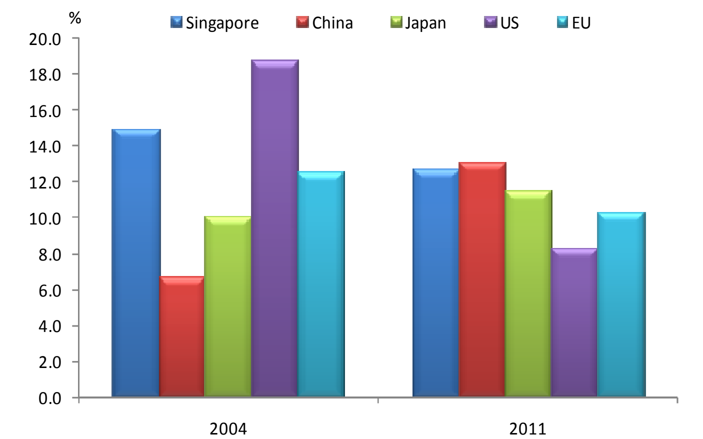
Chart 5: Loans to household sector



Sources: CEIC, MARC Economic Research

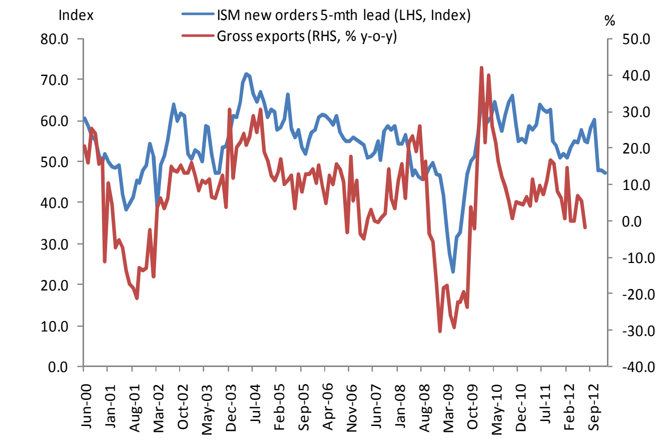
At the same time, private consumption will continue to be resilient as a result of the favourable job market with an unemployment rate of circa 3%. The relatively strong prices of crude palm oil, rising prices of properties and resilient equity market provide a strong foundation to consumer spending for both rural and urban populations. Although bank lending to the household sector has somewhat softened, resilient consumer sentiment and business conditions as reflected by indices tracked by the Malaysian Institute of Economic Research (MIER) suggest that the momentum in private consumption will not erode substantially in the near term. In fact, we still anticipate a robust expansion of circa 6.2% in private consumption in 2013. The wildcard, however, is the extent to which the labour market may be affected by the ongoing weakness in the external sector. If setbacks in export-oriented industries begin to trigger instability in the labour market and result in significantly higher retrenchment, private consumption - and hence headline growth - may be adversely affected. However, as of 2Q2012, the number of workers retrenched has not increased dramatically, although the trend has been on the rise since 1Q2011.

Chart 6: Malaysia's major export markets



Sources: CEIC, MARC Economic Research

Chart 7: ISM new orders index and gross exports



Sources: CEIC, ISM, MARC Economic Research

On the external sector, we do not think that its prospects will get any worse in 2013, although exports are not likely to rebound too strongly in view of the weaknesses in demand from advanced economies as well as from China and ASEAN countries. The prospects for external trade in Singapore and China will be critical as Malaysia's combined exposure to these two markets has risen to 25.8% from 21.7% in 2004. As such, the current weaknesses in China's economy will remain a wild card for Malaysia's external sector in the near term. Notwithstanding this, the strength of the US manufacturing sector will likely remain supportive to global trade, which in turn will buffer Malaysian exports from any sharp downturn in the near future. Although the ISM new orders index (which has a strong correlation with Malaysian exports) has languished in recent months, it will likely rebound in 2013 following more positive sentiment towards recent policies undertaken in the US and Europe (a third round of quantitative easing in the US and sovereign bond purchases by the European Central Bank). As such, we think that the Malaysian external sector will register a slight improvement in the next one year.

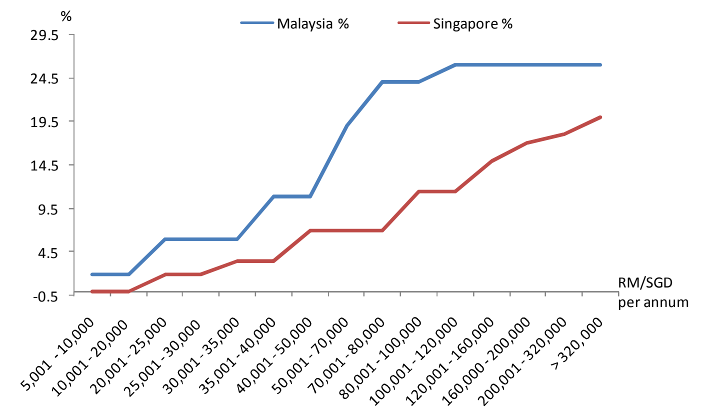
Major issues

- ***Measures to help the rakyat cope with the rising cost of living***

The proposed measures to help the *rakyat* cope with rising home and consumer prices should be applauded. The one percentage reduction in personal income tax for chargeable incomes between RM2,500 to RM50,000 is a positive move which can partially help private consumption, the primary growth engine for the Malaysian economy. It is worth nothing that consumer spending has contributed an average of 3.1% points to the economy's headline growth in the past six years. Notwithstanding this, we feel that the long-term solution would be adjusting the breadth of the tax bands which is a more effective measure to assist middle-income families, as the marginal tax rate increases rapidly as individual income grows. As it stands, the one percent cut will be of limited benefit to the affected families. As we mentioned in our Pre-Budget report, widening the tax band will serve two important purposes: (1) increase disposable income which can induce private consumption; (2) provide an incentive for Malaysians to stay working in the country rather than migrating to other countries which provide them higher disposable incomes due to wider tax bands.

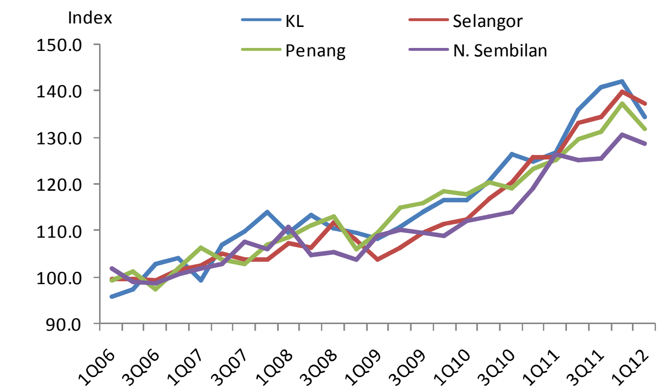
As was widely expected and hinted at, the government is revisiting the BR1M programme, with cash transfers of RM500 for households earning under RM3,000 per month, school assistance of RM100 per student and book vouchers worth RM250. Overall, we are encouraged by the government's efforts in assisting the *rakyat* to cope with the rising cost of living. However, while last year's programme has proved a boon to low-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 creating a culture of government dependency. Various countries around the world, in conjunction with the World Bank, have had great success in providing income-supplementing cash transfers which are conditional on families meeting certain criteria such as ensuring school attendance for children, for instance. We think such conditionality would be useful in Malaysia's case, particularly in providing incentives for continuous education and work-force skill upgrading.

Chart 8: Personal income tax bands for Malaysia and Singapore



Sources: IRB, IRAS, MARC Economic Research

Chart 9: House price indices in major states (2006 = 100)



Sources: CEIC, MARC Economic Research

- ***Affordable housing for the rakyat***

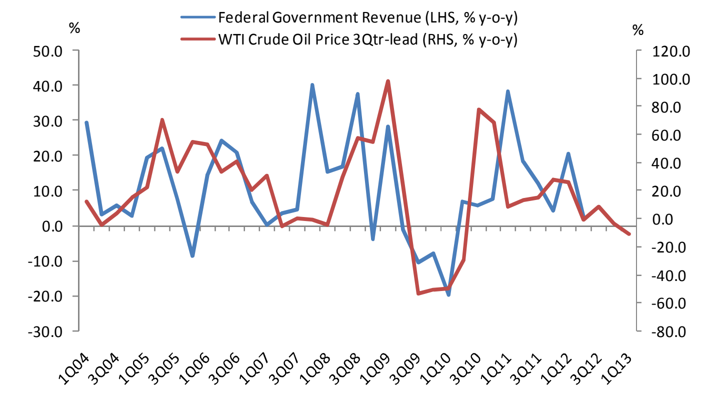
The measures aimed at providing affordable homes are also critical in ensuring that a typical Malaysian is not overly burdened by the cost of renting or owning a home. The efforts to accelerate the programmes already implemented in the past few years (i.e. SRP, RMR1M etc) are positive steps by the government as there is increasing demand for homes under the programmes. Overall, we feel positive about the government's proposal to provide further measures to promote home ownership and improve affordability such as via a higher allocation for the various bodies involved in promoting home ownership such as PR1MA. However, we cannot help thinking that the impact of these programmes will be somewhat diffused as the approach is rather fragmented at this juncture. Perhaps it would be helpful to provide more clarity on the scope, eligibility and purpose of each programme, and most of all a communications plan to help explain them to the public. We are also concerned over the speed of implementation of the projects under the various agencies, as the need for affordable housing is increasingly urgent.

While these measures address the supply of housing, we think that there should be additional measures to contain house price appreciation from the demand side. There is a need to limit short-term speculation in Malaysia's property markets. Limiting foreign house ownership was one possible avenue as this has proven somewhat successful in dampening house price increases in other countries, but this is not apparently being pursued. The hike in the RPGT rates is a move in the right direction but a 5% increase is probably too mild to act as a deterrent to speculators. In addition, some thought should be given to raising the rate on the 3-5 year band further, as properties bought from developers are not normally sold within two years from the date of the Sales & Purchase agreement. Raising RPGT on the 3-5 year band would therefore be more critical in containing house "flipping".

▪ Budget deficit targets are achievable

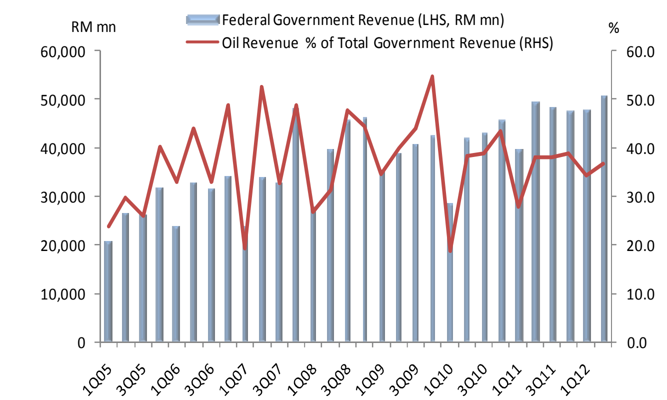
The government is aiming to trim the budget deficit further to 4.0% of GDP in 2013 after an estimated shortfall of 4.5% of GDP in 2012. This, according to the MoF, will be achieved through a combination of negative growth in both development and operating expenditures (-0.2% and -0.3%) coupled with a steady expansion in the amount of revenue (+0.7%). On the operating side, while expenditures are constrained by emoluments, the expected reduction in the amount of fuel subsidies to RM20 billion (2012: RM25 billion) will help ease the pressure on the government's coffers.

Chart 10: Government revenue and crude oil price



Sources: CEIC, MARC Economic Research

Chart 11: Oil revenue as percentage of government revenue



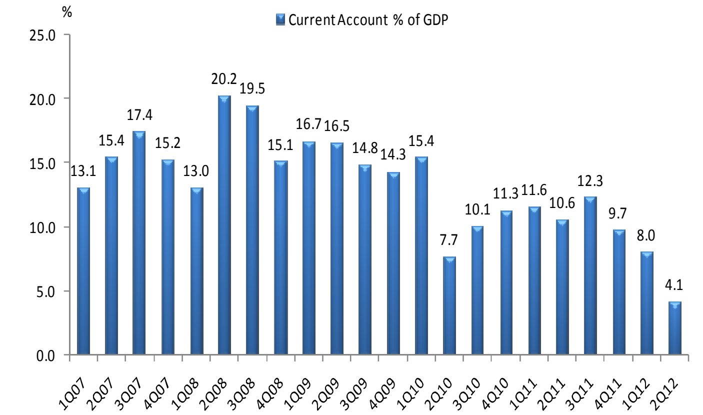
Sources: CEIC, MARC Economic Research

We are of the view that the government budget deficit target can be achieved without much difficulty, especially if GDP growth can be sustained between 5.0%-5.5%. At this level of growth, we foresee federal government revenue to reach circa RM230 billion, which is more than what the government is projecting. Going forward and barring unforeseen circumstances such as another global economic downturn or supply shocks, we anticipate that the government will able to achieve its targeted budget deficit level of 3.0% of GDP by 2015. It is worth noting that the government only needs about RM5 billion to reduce budget deficits by 0.5 percentage points. In addition, in the past ten years, save for the years when the economy stagnated and contracted, the revenue collected by the government surpassed its targets by an average of RM8 billion per year. The biggest wildcard, however, will be global oil prices, with the government expecting a moderation in 2013. If global growth recovers more strongly than expected, petrol and gas subsidies will necessarily increase beyond the budgeted amount.

▪ Government debt

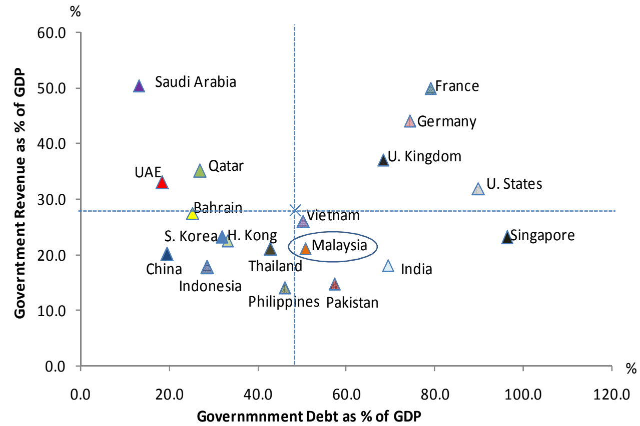
While the MoF has not provided any forecasts for the government debt level, we foresee it to be sustained at around 53.3% of GDP in 2013 (2012: 53.7%). Although the debt-to-GDP ratio has risen from as low as 39.8% in 2008, we do not think the present level too alarming despite the concerns raised by certain quarters, for several reasons: (1) Malaysia managed to slash its debt level from as high as 100% of GDP in the 1980s to the present level; (2) the recent spurt in debt is due to the Great Recession that pushed the economy into a recession in 2009; (3) an overwhelming 96.5% of the debt is domestically financed; (4) the proportion of external debt continues to be stable at around one-third of GDP and is mainly comprised of private sector debt (mostly banks); (5) the external debt-service ratio is still at a manageable level of 10.3% while the government external debt service ratio remained below 1% in 2011.

Chart 12: Current account Surplus as % of GDP



Sources: CEIC, MARC Economic Research

Chart 13: Government debt as % of GDP vs. government revenue as % of GDP (5-year median)



Sources: IMF, MARC Economic Research

When the debt level and government revenue matrix is compared with other countries, Malaysia's overall position is not as unfavourable as some may have suggested. In fact, Malaysia's position is better than some countries such as India, Pakistan and some advanced countries. Ultimately, Malaysia's debt position hinges on the country's deficit level which, as mentioned, is expected to trend down as a result of the favourable outlook for the government's revenue stream. Notwithstanding this, Malaysia will likely continue to face challenges in keeping its operating expenditures down in the near term. As such, the impending implementation of the GST and further rationalisation of subsidies as well as efforts to continue trimming the supply and services portion of the operating expenditure will be the key focus of the government.

Budget 2013 Measures

RURAL TRANSFORMATION

- Expand Rural Transformation Centres to Melaka, Johor, Pahang and Sarawak.
- RM4.5 billion to develop rural infrastructure.
- RM1.2 billion to develop 441 kilometres of rural roads and village link roads.
- RM137 million to finance Program Desa Lestari involving 29 villages nationwide.
- RM88 million for economic development programmes and water supply projects for Orang Asli.

ECONOMIC DEVELOPMENT

- RM3 billion for Entry Point Projects (EPPs) under the NKEAs.
- RM300 million for replacement of water pipelines and sewage.

PUBLIC TRANSPORT

- RapidKuantan to be launched on 1 December 2012.
- 50% discount on KTM Komuter fares for *rakyat* who earn less than RM3,000 per month.
- 50% discount on ferry charges for *rakyat* who travel daily from Labuan to Sabah and Sarawak.

GREEN TECHNOLOGY

- Additional RM2 billion for the GTFS and extended application period to end 31 December 2015.

EDUCATION

- RM38.7 billion for the education sector.
- Additional RM1 billion fund for the construction, improvement and maintenance of schools.
- RM1.2 billion for developing pre-school education.
- RM3.7 billion to train students in technical and vocational fields.
- RM200 million for the establishment of Graduate Employability Taskforce to assist unemployed graduates.
- RM250 1Malaysia Book Voucher to be given for higher education students.
- 20% discount for full settlement of Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loans within one year effective 1 October 2012 and 10% discount per annum for consistent repayment.

COST OF LIVING

- RM500 under BR1M will be given to each household earning less than RM3,000 per month, while RM250 cash assistance will be given to single unmarried individuals aged 21 and above and earning less than RM2,000 per month.
- RM386 million allocated for additional 57 Kedai Rakyat 1Malaysia (KR1M) in Sabah, Sarawak and Labuan.
- Reduction in sugar subsidy by 20 cents per kilogramme and RM1.5 billion allocated to stabilise cooking oil price.
- Establishment of 100 1Malaysia Internet Centres in the People's Housing Projects.

TAXES

- Reduction of individual income tax rate by 1 percentage point for chargeable income under RM 50,000.
- Tax relief for children's higher education raised to RM6,000 per child from RM4,000 per child.
- Cooperative income tax rate to be reduced between 1 to 7 percentage points.
- Tax relief for savings in the National Education Savings Scheme (SSPN) increased to RM6,000 from RM3,000 currently.

CIVIL SERVANTS

- Increment in minimum pension to RM820 from RM720.
- One and half month bonus for all public workers.
- RM301 million allocated on special incentives for all military personnel.
- Entry requirement for ATM officers raised to Honours Degree while servicemen are required to have at least SPM or Diploma.
- Introduction of Group Insurance Coverage Scheme with maximum coverage up to RM15,000 for armed forces and police personnel.
- A one-off payment of RM1,000 to former members of the armed forces who have opted for early retirement.

SECURITY

- Increase in the number of police personnel for patrolling and combating crime.
- RM20 million to establish a Motorcycle Patrolling Unit.
- Additional 10,000 officers for the Police Volunteer Reserve (PVR).
- Installation of additional 496 units of Closed Circuit Television or CCTV in 25 local authorities.
- RM39 million allocated for Kawasan Rukun Tetangga (KRT) activities.
- RM40 million in grants for resident associations to promote patrolling activities.

WELFARE

- RM1.2 billion for 1Malaysia Welfare Programme (KAR1SMA).
- RM400 million allocated for the establishment of Akhiri Zaman Miskin (1AZAM) programme.
- Six additional Anjung Singgah centres will be provided, as well as five Anjung Kasih centres to provide a temporary shelter for poor patients.

PROPERTY AND HOUSING

- A total of RM1.9 billion to build 123,000 units of affordable homes in strategic locations in 2013.
- RM500 million fund allocated by PR1MA for the Housing Facilitation Fund.
- Rumah Mesra Rakyat 1 Malaysia (RMR1M) and Rumah Mampu Milik to be sold at prices between RM120,000 to RM220,000 per unit.
- Income limit for the SRP has been raised to RM5,000 per month or RM10,000 per month for joint loans of husband and wife, and other eligibility criteria will be dropped.
- 50% stamp duty exemption on purchase of first residential property of up to RM350,000 is extended to 31 December 2014 while the price limit been raised to RM400,000.
- Proposed review of the RPGT to 15% for properties held and disposed of within two years, and 10% for those held and disposed of between two to five years.
- RM100 million allocation for revival of abandoned housing projects.

YOUTH AND SPORTS

- RM738 million allocated for youth and sport development.
- RM80 million for the construction of a covered velodrome in Seremban and Badminton Academy in Bukit Kiara.
- RM50 million for the establishment of the New Entrepreneur Foundation (NEF) to assist young ICT entrepreneurs.
- RM50 million allocated by SME Bank for the Young Entrepreneur Fund, providing soft loans.
- RM200 rebate will be given for the purchase of one unit of 3G smartphone for youths aged between 21 and 30 years with a monthly income less than RM3,000.

AGRICULTURE

- RM30 million for the development of the agriculture sector.
- RM75 million to enhance the output of food and health products.
- RM432 million for oil palm replanting programmes under the NKEA.
- RM50 million for Paddy Takaful Coverage Scheme (SPTP).

- Fishermen Insurance Scheme to give a maximum coverage of up to RM100,000.

HEALTH

- Additional 70 new 1Malaysia clinics by 2013 costing RM20 million.
- RM100 million to upgrade 350 clinics nationwide.
- Free mammogram service for women.
- RM2.4 million for SOCSO members to receive free health screening.

TOURISM

- Income tax exemption extended up to 3 years for tour agencies who bring in at least 750 foreign tourists or handle 1,500 local visitors.

SMALL AND MEDIUM ENTERPRISES

- RM1 billion provided under the SME Development scheme managed by the SME Bank.
- RM 200 million for the Halal Industry Fund to finance the working capital of participating SMEs.
- Introduction of the Business in Transformation programme for hawkers and small businesses, providing soft loans up to RM25,000 for licensees and RM500,000 for licensors.
- Group insurance coverage for hawkers and small businesses registered with the Companies Commission Malaysia with a maximum coverage up to RM5,000.
- RM200 million allocated for Intellectual Property Financing Fund scheme for SMEs, allowing the use of intellectual property rights as collateral.

OIL AND GAS

- Investment Tax Allowance of 100% for 10 years for qualified companies which invest in refining petroleum products.
- 100% income tax exemption on statutory income for the first three years of operation for Liquefied Natural Gas (LNG) trading companies under the Global Incentive for Trading (GIFT) programme.

CAPITAL AND FINANCIAL MARKET

- New framework provided by Securities Commission (SC) on the issuance of AgroSukuk, with a double deduction on expenses incurred for issuance until 2015.
- DanaInfra Nasional Berhad will issue the first retail bonds worth RM300 million by end of 2012.
- Double tax deduction for a period of four years on additional expenses incurred in the issuance of retail bonds and retail sukuk effective from year of assessment 2012 to 2015.
- Stamp duty exemption for individual investors on transactions of retail bonds and retail sukuk.
- Establishment of Capital Market Promotion Centre to position Malaysia as a centre of investment and fundraising.
- Introduction of the Graduate Representative Programme by SC to train 1,000 graduates to meet the needs of the capital market industry.

THIS PAGE IS INTENTIONALLY LEFT BLANK

Disclaimer

Published and Printed by:

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