MALAYSIAN BUDGET 2023

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FIRDAOS ROSLI
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN

Section 1

Overview of Budget 2023

BUDGET 2023: FOCUS ON SUPPORTING GROWTH

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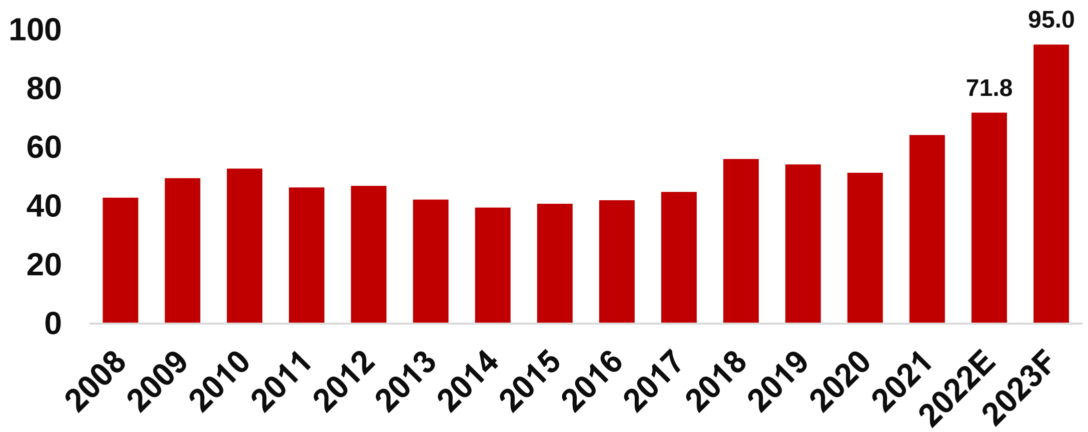
	2023F	2022E
GDP	4.0% - 5.0%	6.5% - 7.0%
Unemployment Rate	3.5%-3.7%	3.8% - 4.0%
Consumer Price Index (CPI)	2.8%-3.3%	3.3%

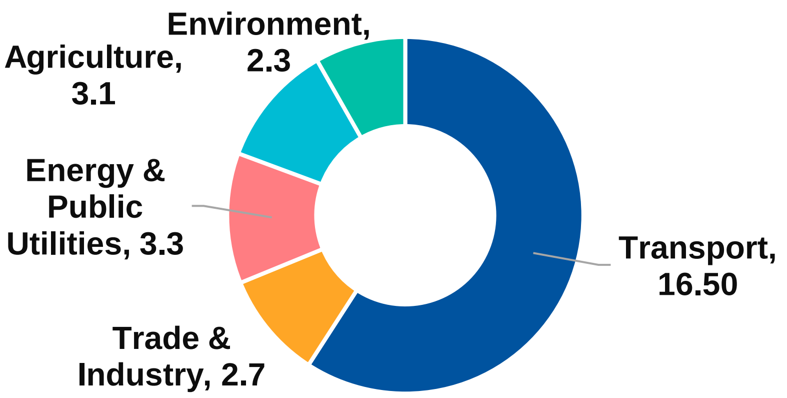
- Private consumption will remain a key pillar of growth following continued recovery in the labour market.
- The government has allocated **RM55.0 billion or 3.0% of GDP** for subsidies, cash transfers and incentives that will boost consumption activities in 2023.
- Public investment to complement economic growth supported by higher Development Expenditure (DE) in 2023 alongside the continuation of megaprojects such as MRT3, Sarawak-Sabah Link Road Phase 2 and Trans Borneo Highway. The allocation of RM95.0 billion is the nation's highest in history.

Development Expenditure, RM Billion



- DE continues to prioritise investment with a high multiplier impact on the economy.

RM Billion



- Allocation for DE will be channeled mainly for projects which promote sustainable development, uplift the living standards of people, as well as accelerate technology adoption.

Section 2

Impressions

KEY TAKEAWAYS: SOCIAL WELFARE

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1. BKM
A total of RM7.8 billion to be benefitted by 8.7 million recipients

2. Tax Reduction
Individual tax reduced by 2.0% ranging from RM50k to RM100K

3. EPF contribution
Increased from RM60k to RM100k a year

4. ASB limit
ASB, ASB2 cap investment has been raised to RM300k from RM200k

5. MY SALAM INITIATIVE
Allocation of RM734.0 million to be benefitted by 1.5 million people from B40

- In light of the rising cost of living, we view that Budget 2023 marks the government's aim to repair the labour market by providing relevant support to the B40 and M40 groups. This is positive as the current unemployment rate is still trending above its pre-pandemic levels.
- Overall, the government has set aside RM55.0 billion for subsidies, aids and incentives to keep inflation in check.
- We welcome the significant increase in the hardcore poverty eradication programme (BMTKM) allocation from just RM150.0 million in 2022 to RM1.0 billion in 2023. However, we believe that access to education, skills upgrading and employment opportunities are more sustainable measures for addressing poverty rather than providing income support alone.
- As interest rates rise, we applaud the government's move to reduce the personal income tax rate by 2.0% and encourage higher savings via the voluntary EPF contribution and higher ASB limits.

KEY TAKEAWAYS: BUSINESSES

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1. MSMEs

One-off RM1,000 grant to all registered MSMEs with a total allocation of RM1.0 billion

2. SMEs

A provision of RM10.0 billion by BNM in supporting automation and digitalisation

3. BUMIPUTERA ENTREPENEURS

RM135.0 million will be funded via TERAJU for financing facilities purpose

4. YOUTH ENTREPRENURES

A total allocation of RM305.0 million under BSN and MARA to start business

- We are pleased with the government’s incentives to reduce taxable income for micro SMEs since the majority of them are still in recovery mode. Such a move can alleviate their margin squeeze in light of the current rising interest rates environment.
- SMEs can benefit from the Semarak Niaga initiative with a higher allocation of RM45.0 billion for 2023 from RM40.0 billion in 2022 to spur domestic business activity. This is crucial to support SME growth which is a primary driver of our country’s economy.
- Aside from encouraging entrepreneurship, we applaud the government’s effort to foster youth employment through TVET graduates, as well as an increase in the salary under the MySTEP programme from RM1,400-RM2,000 to RM1,500-RM2,100.

Section 3

In a nutshell

THE DELICATE BALANCE BETWEEN ECONOMIC GROWTH AND FISCAL CONSOLIDATION

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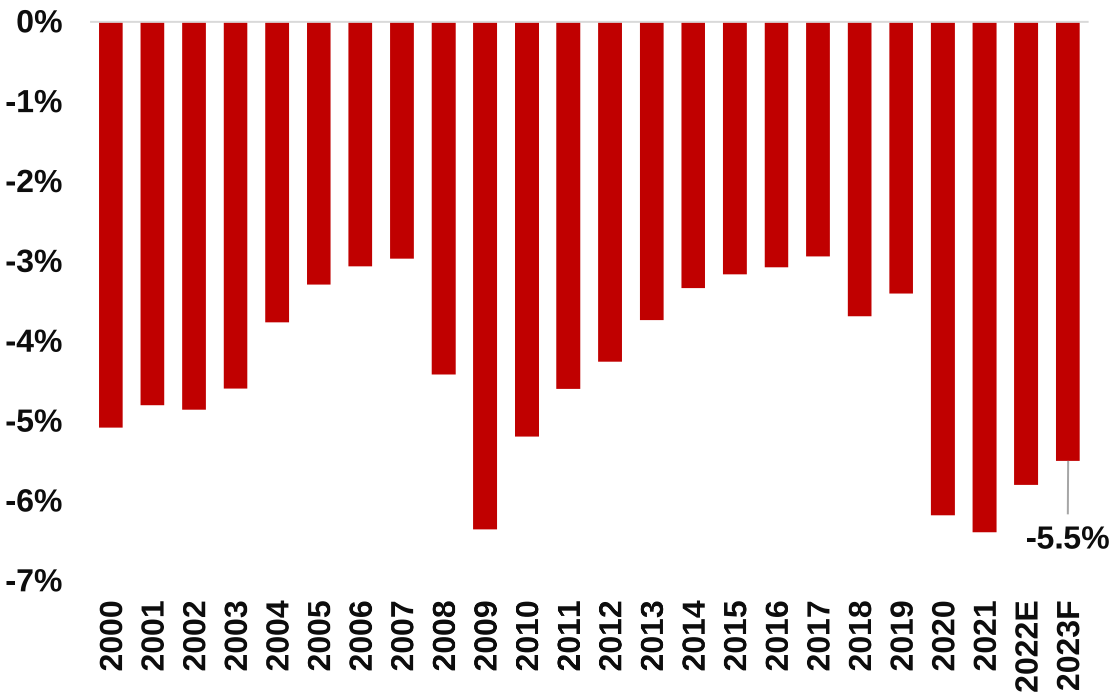
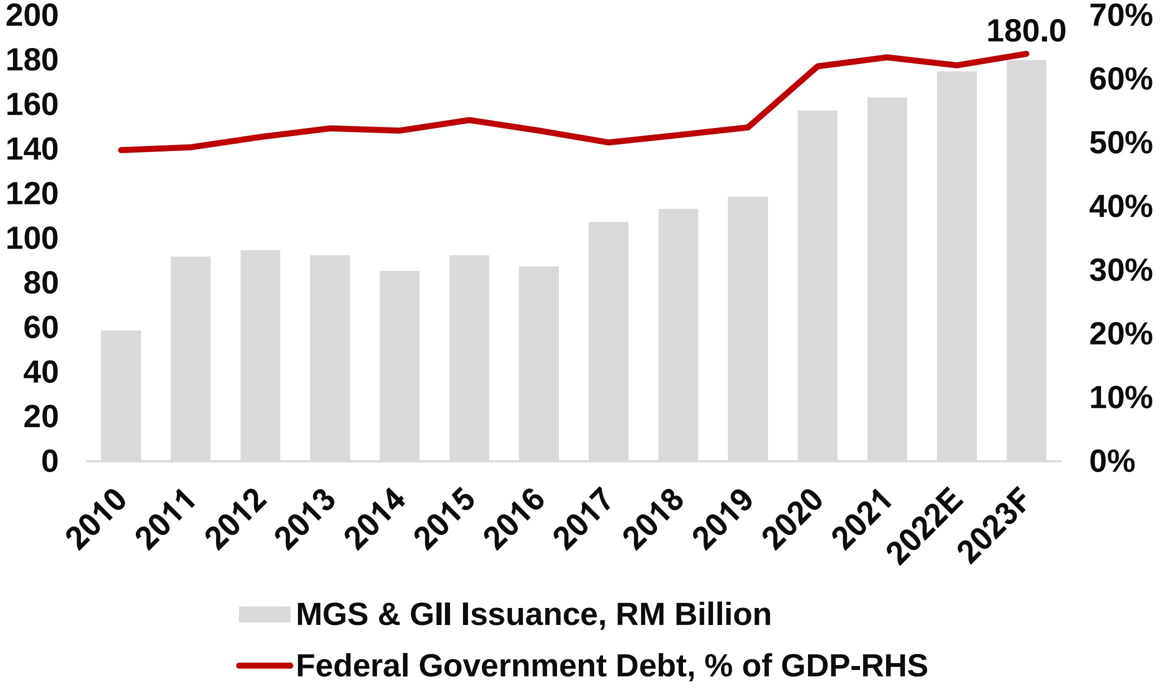
Fiscal Deficits, % of GDP



Sources: MOF, CEIC, Bank Islam

MGS & GII Issuance and Federal Government Debt

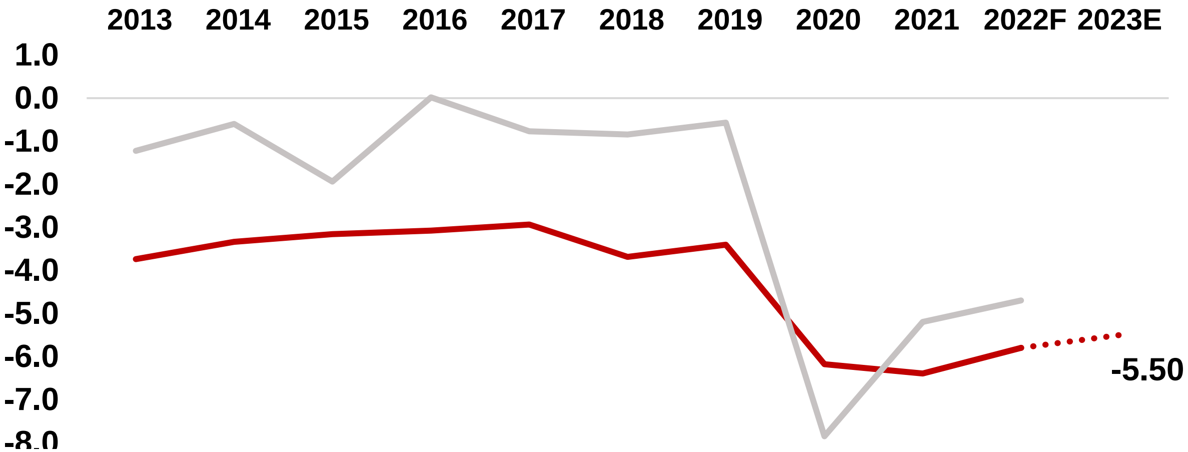


- **Fiscal deficit target appears optimistic due to tax cuts sans a robust indirect tax system.** The government expects the fiscal deficit to come in lower at 5.5% in 2023. The ratio considers lower revenues by -4.4% and lower expenditures of -4.3%. Oil-related revenue accounts for 21.6% of total revenue, based on the global oil price of USD90.0 per barrel.

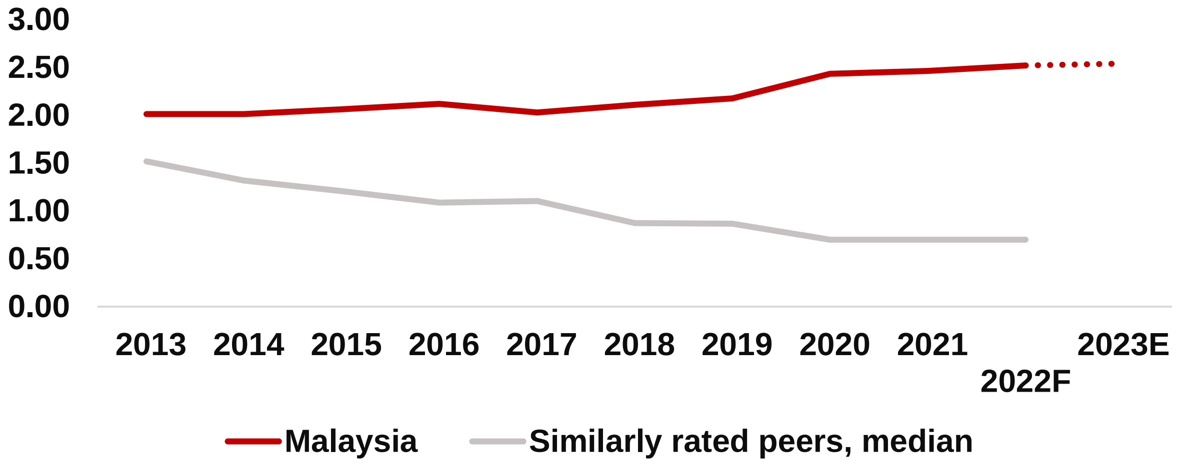
- **Debt-led growth continues amid narrowing revenues.** We project that the budget will bring the issuance of MGS and GII higher to RM180.0 billion next year (2022E: RM175.0 billion).
- Hence, meeting the 2023 growth target of between 4.0-5.0% is **paramount**.

FISCAL POSITION REMAINS WEAKER THAN ITS RATED PEERS

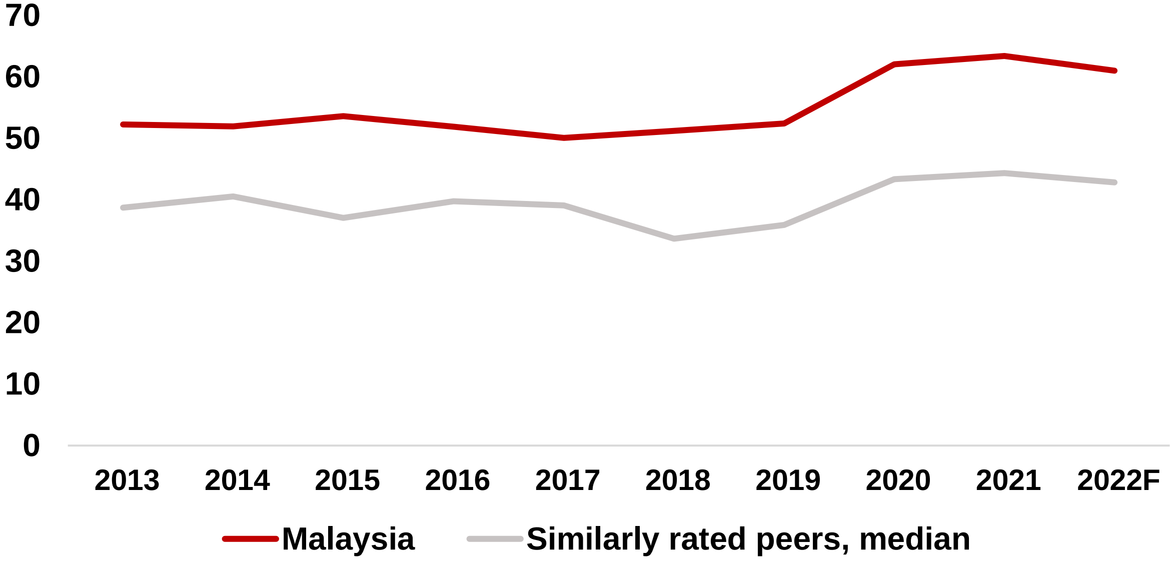
Fiscal balance, % of GDP



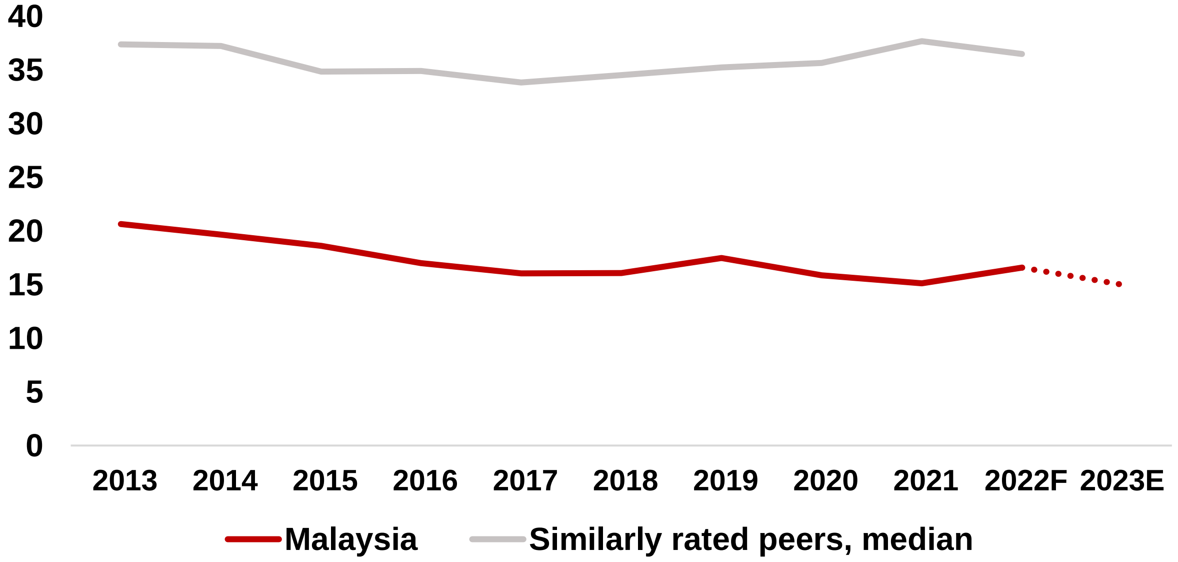
Debt service, % GDP



Public debt, % GDP



Fiscal revenue, % GDP



Sources: MOF, CEIC, Bank Islam

IN A NUTSHELL

- **Budget 2023 is *somewhat* expansionary.** It is higher than Budget 2022 by 12.1% (2022: RM332.1 billion, 2023F: RM372.3 billion) but lower than the revised budget by 3.4% (2022 revised: RM385.3 billion). We laud the government's move to address the anemic labour market and welfare of vulnerable groups when the global economy is likely to decelerate in 2023. The budget appears to be very comprehensive and inclusive, which is positive in our view. As a developing economy, Malaysia cannot afford a contractionary budget as it will be punitive on growth and stifle Malaysia's post-pandemic recovery.

- **We take it that the budget will undergo a major revision after the 15th General Elections (GE15).** To be clear, this is not uncommon as the government tends to issue supplementary budgets in recent years. However, since the government is likely to call for GE15 within the coming weeks, Budget 2023 will be revised according to the financing priorities of the new government.

- **That said, we expect the government to revise the revenue side of the Budget.** Having revenues to match operating expenditures (Opex) is perplexing. Considering income tax cuts and a static indirect tax system, we believe this will pave the way for the goods and services tax to return after GE15 to support higher Opex in the coming year. The government may trim the post-GE15 subsidies bill as well, particularly on retail oil prices.

- **The RM95.0 billion development expenditure (devex) seems large sans new megaprojects.** It appears that the said allocation is only for existing projects, which we believe is overestimated. We take it that devex will be primarily debt-financed for now. This will, in turn, bring the debt service charges (DSC) higher than the DSC-to-revenue administrative limit of 15.0%.

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