MALAYSIA

ECONOMIC FOCUS

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"Be assured, as the head of the country and chairman of Barisan Nasional, I will not burden the people because the government depends on the people's support."

Prime Minister Datuk Seri Najib Razak

2015 Budget Preview – pushing on with fiscal reforms

Budget 2015, which will be unveiled on 10 Oct, will ensure continuity of the crucial reform measures that were introduced in last year's budget in order to deliver fiscal sustainability. The budget will also lay out measures to deliver more equitable distribution of resources. Given the implementation of GST next year and further subsidy reductions on the horizon, it will be the government's utmost priority to manage the rising cost of living and safeguard economic growth. This would include the continuous improvement of standards of living and the quality of life. Other areas of focus would be sustaining private investments and addressing shortage of affordable housing supply.

Deficit-focused reforms

The coming budget will reaffirm the crucial fiscal reforms that were announced in last year's budget, particularly the implementation of GST in Apr 2015 and the continuity of subsidy rationalisation. These are viewed as necessary to strengthen the country's fiscal and debt framework to avoid a sovereign ratings downgrade. It is imperative that the government reassures the populace that there will be better management of collected revenue and spending to shore up public confidence. Revenue enhancements from GST and savings from subsidy cuts should be accompanied by optimal and cost-efficient spending.

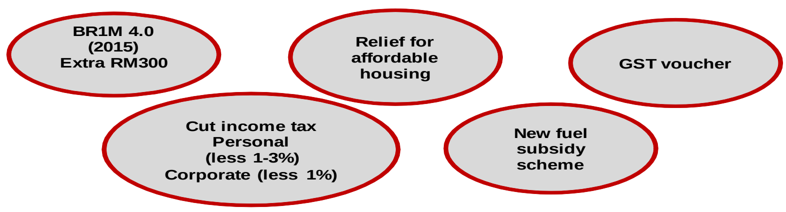
Not compromising on growth

The focal point of Budget 2015 will be managing the rising cost of living, strengthening the social safety net and ensuring standards of living are not compromised as a consequence of GST and subsidy cuts. The government will announce the final list of items that will be zero rated and exempted from the 6% GST (we expect the addition of new items). The government will raise the 1Malaysia People's Aid (BR1M) subsidy by RM300 next year. A separate one-off GST voucher may be issued to targeted households and retirees. It was announced in Budget 2014 that personal income tax rates would be reduced by 1-3% for YA 2015 to provide relief for the middle-income group.

Budget 2015 targets

We expect the government to target fiscal deficit ratio of 3.0% of GDP in 2015 (estimated 3.5% in 2014). The forecast range for real GDP growth is likely to be raised from the current 4.5% to 5.5% range. We project growth of 6.0% for this year and 5.0% for 2015, mainly supported by the strong private investment momentum, ramp-up in ETP-related spending, positive (albeit slower) consumer spending and continued export recovery.

Figure 1: Budget 2015 highlights (some of which announced in Budget 2014)



SOURCES: CIMB RESEARCH

"We must have strong financial resources. Each time we present the annual budget, there must be a bonus element, or else the budget is considered not good."

Prime Minister Datuk Seri Najib Razak

Recap of major announcements in Budget 2014

Last year's budget marked a major turning point for Malaysia as it laid out critical measures for the country to overcome its fiscal challenges amid the risk of sovereign rating downgrades. The announcement of the Goods and Services Tax (GST) to be implemented in Apr 2015, which will replace the current sales and service taxes (SST) of 10% and 6%, respectively. Although it is perceived as a high initial rate, Malaysia has faced years of persistent budget deficits and it is perhaps, not fiscally sustainable to start with a relatively low GST rate. The government is also looking ahead and announced several measures to mitigate the regressive nature of the GST that will take effect in 2015, including:

- GST will not be imposed on basic food items, the first 200 units of electricity consumption for households, water consumption, services provided by the government, public transportation, education, health services, selected financial services, as well as sales, purchase and rental of residential properties.
- One-off cash assistance of RM300 to households that are BR1M recipients;
- A 1-3% pt reduction in individual income tax rates for all taxpayers from YA 2015.
- The chargeable income subject to the maximum personal income tax rate will be increased from above RM100,000 to above RM400,000. The current maximum tax rate of 26% will be reduced to 24%, 24.5% and 25% in YA 2015 onwards. This translates into tax reductions of between RM300-RM7,200 or 7.8-37.5%.

As for the companies, the measures proposed to ensure the smooth implementation of GST included:

- A 1% pt reduction in corporate income tax rate from 25% to 24% in YA 2016 onwards and a 1% pt reduction in SME income tax rate from 20% to 19%.
- Cooperative income tax rate will be reduced by 1-2% pts in YA 2015 onwards.
- Secretariat and tax filing fees are allowed as tax deductions in YA 2015 onwards,
- Cost of purchasing ICT equipment and software is given accelerated capital allowance until YA 2016.
- Expenses incurred for training in accounting and ICT related to GST will be given further tax deductions in YA 2014 and 2015.
- Training grants of RM100m will given to businesses that send their employees for GST training in 2013-14.
- SMEs will be given financial assistance amounting to RM150m for the purchase of accounting software in 2014-2015. Eligible SMEs will be given a RM1,000 e-Voucher to purchase related software from vendors certified by Customs Department.

The government pushed forward with subsidy rationalisation measures, beginning with the abolishment of the sugar subsidy of 34 sen in Oct last year. Prior to that, petrol prices were raised ahead of last year's budget announcement in Sep 2013. Subsequently, there was an electricity tariff hike in Jan 2014, and an industrial gas price hike in May 2014.

Several initiatives were announced to increase the supply of affordable housing, including building more low-cost apartments and the introduction of the Private Affordable Ownership Housing Scheme (MyHome). The government announced that it will offer rent-to-own schemes to potential PR1MA home buyers who are unable to secure loans from financial institutions. Budget 2014 threw cold water on the property sector to curb excessive speculative investment, with a hike in the real property gains tax (RPGT) and by prohibiting developers from implementing projects that have features of Developer Interest Bearing Scheme (DIBS).

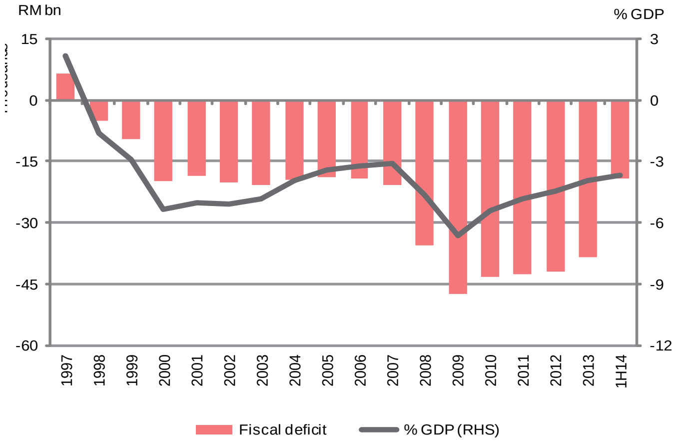
Budget 2015 – pushing forward with reforms

Theme "Accelerating growth, ensuring fiscal sustainability and prospering the rakyat"

This year's budget will be the final budget under the 10th Malaysia Plan (10MP). As such, the coming budget will see allocations for the remaining programmes and projects under the plan prior to the introduction/implementation of the 11th Malaysia Plan (2016-2020), which would cover the crucial final leg of Malaysia's transformation into a high income and developed nation. Given that the bulk of the measures were announced last year, we do not expect any major surprises in the coming budget.

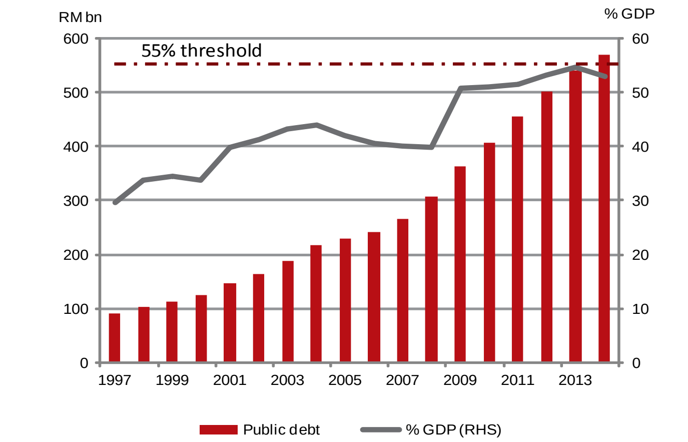
In view of the uneven global economic recovery, closure of the Fed's quantitative easing, looming interest rate hikes in the US and the geopolitical uncertainties that could lead to another emerging markets (EM) sell-off, the government will have to push forward with the much-delayed fiscal reforms to address the country's fiscal vulnerabilities, strengthen public finances and build counter-cyclical buffers.

Figure 2: On the path of fiscal consolidation



SOURCES: CEIC, BNM, CIMB RESEARCH

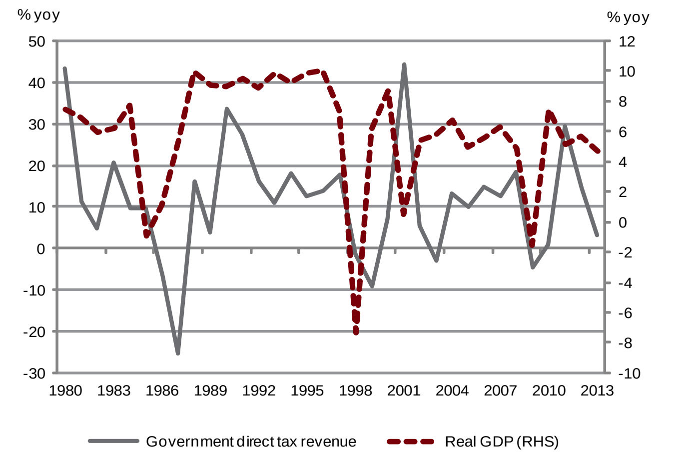
Figure 3: Public debt close to key threshold level



SOURCES: CEIC, BNM, CIMB RESEARCH

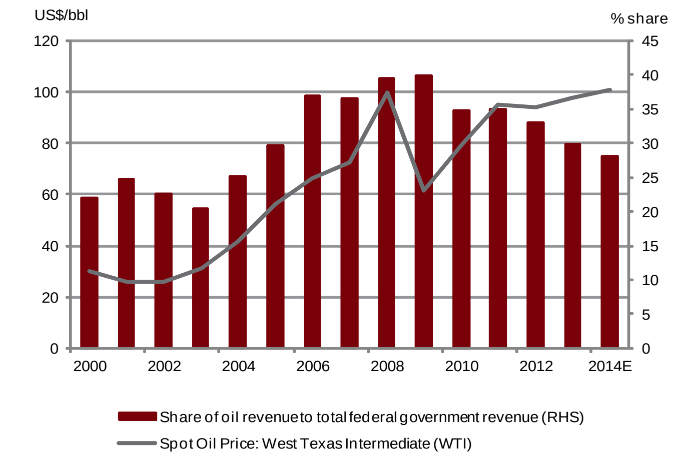
Note: Latest data as at 1Q14

Figure 4: Expanding revenue base amid high dependence on direct tax revenue, which is subject to economic fluctuations



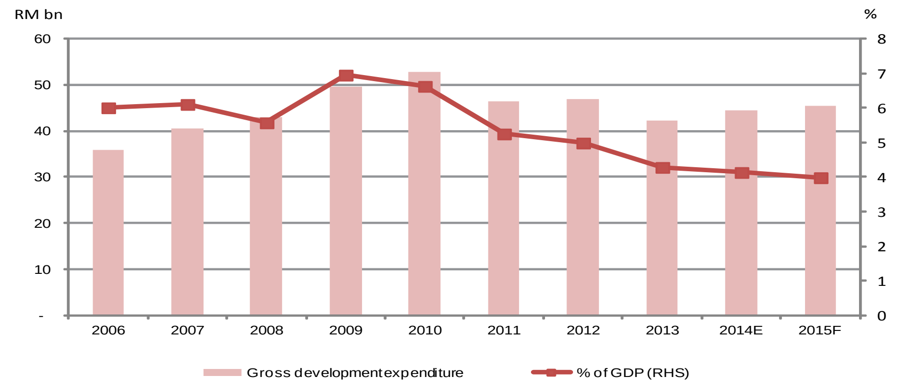
SOURCES: MOF, CEIC, CIMB RESEARCH

Figure 5: Lowering the dependence on petroleum revenue, which is vulnerable to volatile commodity prices



SOURCES: GOVERNMENT SOURCES,CIMB RESEARCH

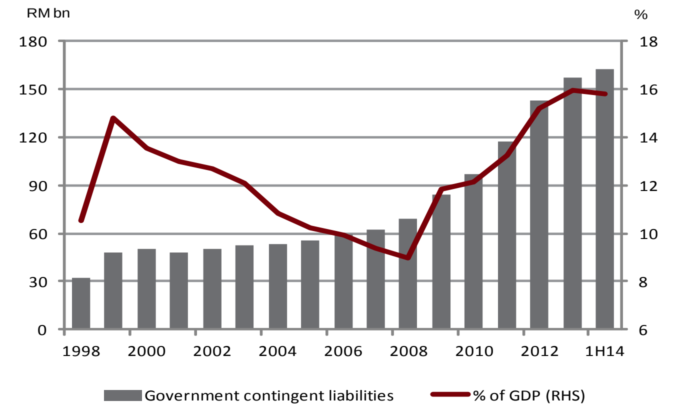
Figure 6: Lower share of development expenditure amid fiscal consolidation efforts



SOURCES: BNM, CIMB RESEARCH

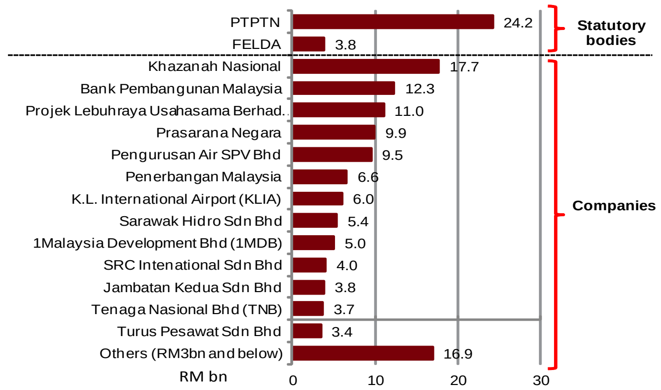
Urgent steps are also needed to reduce the financial burden on the federal government's budget that take the form of grants, investment support, as well as guaranteed loans to government-linked companies (GLCs) and statutory bodies. There is also a need to review non-essential and counterproductive operating expenditure items, as well as undertake cost-saving initiatives to control wastage and leakages.

Figure 7: Rising contingent liabilities



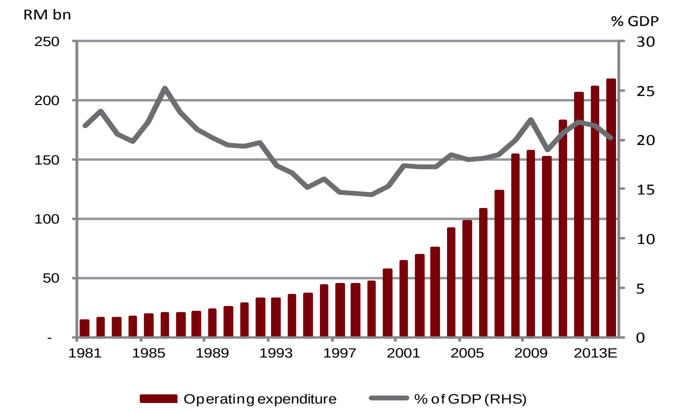
SOURCES: BNM, CEIC, CIMB RESEARCH

Figure 8: Breakdown of government-guaranteed loans in 2012



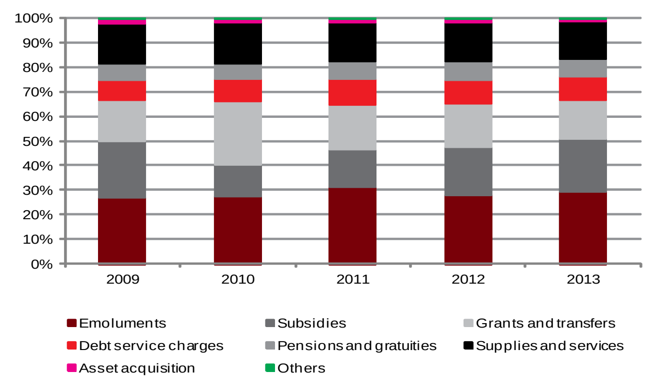
SOURCES: AGM, CIMB RESEARCH

Figure 9: Rising trend of government Operating Expenditure (OE)



SOURCES: MOF, CIMB RESEARCH

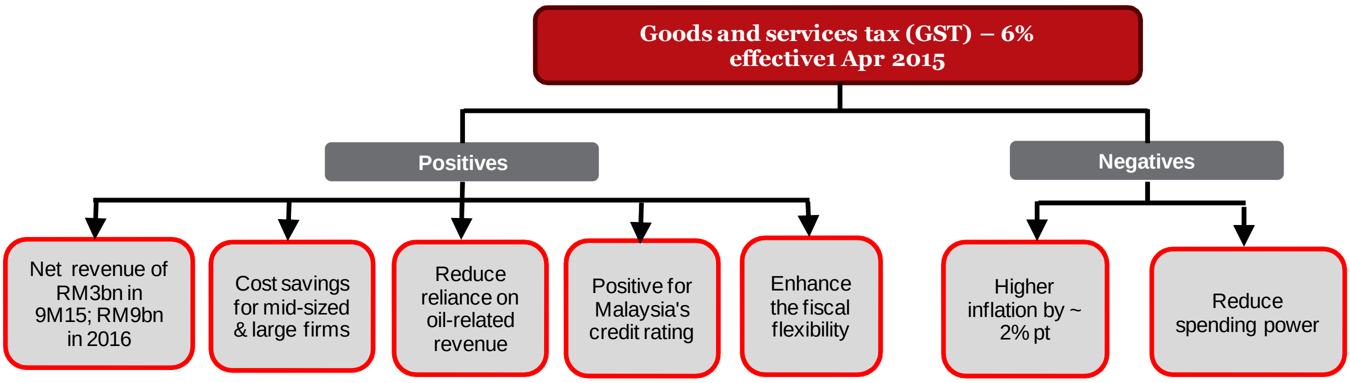
Figure 10: Components of OE - emoluments, supplies and services, and subsidies account for 66.2% of total OE in 2013



SOURCES: MOF, CIMB RESEARCH

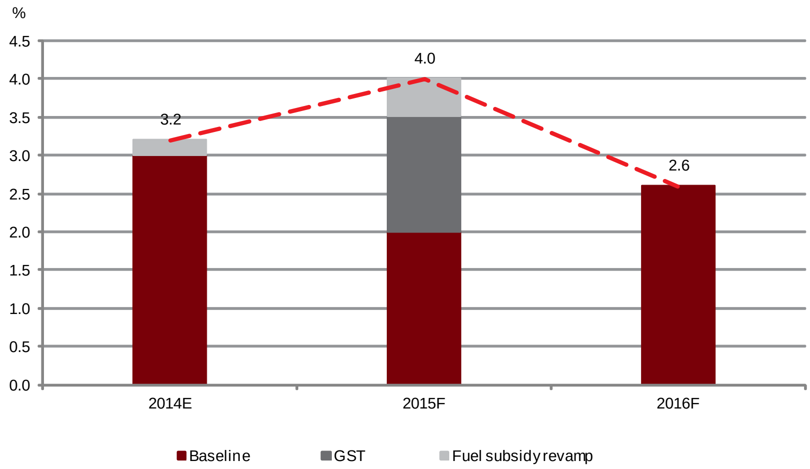
We expect the government to reaffirm the implementation of GST in Apr 2015 and further subsidy rationalisation plans. We estimate that the proposed 6% GST rate will have the following implications: 1) additional net revenue yield of RM3bn in 9M15 and RM9bn in 2016, 2) a one-off inflation jump of around 2.0%; and 3) GST incidence of extra annual tax expenditure of RM140-1,550 p.a. for individuals.

Figure 11: Implications of GST



SOURCES: MOF, CIMB RESEARCH

Figure 12: Higher inflation in 2015 but will normalise in 2016



SOURCES: DOS, CIMB RESEARCH

At 14 Sep 2014, 35,998 businesses had registered for GST with the Customs Department and the government expects 140,000 to be registered by end-2014 (this falls short of its 300,000 target). The government will allocate RM100m to GST awareness and training programmes and RM150m to assist SME migration to the new GST system.

Based on the responses on the Prime Minister's 1Malaysia blog, the suggestions under the GST topic drew an equal number of likes and dislikes, suggesting that public perception remains split. Similarly, suggestions on managing the cost of living drew a high number of responses as many Malaysians are feeling the heat of rising inflation. The official inflation rate has remained above 3% yoy since Dec 2013 and is expected to spike to 4.0-5.0% yoy in 2Q15 and 3Q15 after GST implementation in Apr 2015. The government will have to strictly enforce the initiatives to monitor and minimise profiteering and better manage the indirect effects of GST, particularly on consumer inflation. There is also a need to space out the subsidy rationalisation measures and avoid imposing excessive burdens on the people at the same time.

Figure 13: Steps to monitor and minimise profiteering

1) The Price Control and Anti-Profiteering Act 2011 to monitor and enforce actions against profiteering.

2) Fair trade practices through the Competition Act 2010 which came into force on 1 Jan 2012.

3) Customs department to employ additional 1,000 staff to carry out enforcement of GST.

4) Release of a shoppers' guide list to cover 944 items in the CPI basket to create awareness on prices before and after implementation.

5) The Domestic Trade, Cooperative and Consumerism Ministry is preparing a database on 10,000 products per parliamentary constituency to study the impact of the GST before and after implementation.

SOURCES: VARIOUS, CIMB RESEARCH

Subsidy rationalisation

We expect the government to reduce the subsidy allocation in 2015. The government allocated RM39.4bn for overall subsidies in 2014, the largest portion of which was RM22.3bn (56.6% of total) for fuel and liquefied petroleum gas (LPG). Overall subsidy spending amounted to RM18.2bn in 1H14, which is equivalent to 46.1% of the total amount allocated for 2014.

In order to reduce the subsidy allocation and improve the distribution of resources, we think that the government will announce a new fuel subsidy scheme. However, the finer details may only be released later this year. The new fuel plan aims to limit the purchase of subsidised petrol to selected income groups (with quotas in place), while the rest of the population pays a higher market price. This is in contrast to the current blanket scheme that offers a single fixed subsidised petrol price with no quotas or limits. The fuel subsidy revamp is part of the government's subsidy rationalisation plan and Fiscal Transformation Programme (FTP) that aims to raise the efficiency of government expenditure and distribution of government resources. Only 30% of the current fuel subsidy allocation benefits the lower income groups. The government will also decide whether petrol will be exempted from GST.

We believe that the government is conscious of the possible effects of these measures on the general public and consumer spending. Since 2010, consumers have been subjected to fuel price hikes in the range of 5-20 sen and they have come to expect that subsequent fuel price adjustments will be of similar quantum. The move towards market pricing will lead to adjustments in consumer spending. However, we think that the government will try not to overburden the lower-and middle-income households, considering that these households also have to deal with the effects of the GST implementation. As such, we think that the new fuel plan would still allow at least 60% of all Malaysian households to enjoy the subsidised fuel price.

Figure 14: Major subsidy components

Component	RM bn				% share			
	2011	2012	2013 prelim	2014 budget	2011	2012	2013 prelim	2014 budget
Various subsidies	26.7	33.6	26.4	27.6	73.7	76.2	70.2	70.1
Fuel & LPG subsidies	20.4	27.9	20.0	22.3	56.2	63.3	53.2	56.6
Cooking oil	1.6	1.5	1.5	1.0	4.5	3.3	4.0	2.5
Paddy, rice, sugar & flour	2.3	2.1	2.3	2.1	6.4	4.7	6.0	5.3
Interest rate diffrentials & electricity	1.4	1.5	1.8	1.7	3.9	3.3	4.9	4.3
Others	1.0	0.7	0.8	0.5	2.7	1.6	2.0	1.2
Incentives	0.5	0.9	0.9	0.9	1.5	1.9	2.3	2.2
Social assistance	9.0	9.6	10.4	10.9	24.9	21.8	27.5	27.7
Total subsidies	**36.3**	**44.1**	**37.6**	**39.4**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCES: MOF, CIMB RESEARCH

Strengthening the social safety net

The focal point of Budget 2015 will be managing the rising cost of living, strengthening the social safety net and ensuring that standards of living are not compromised as a consequence of GST and subsidy cuts. We feel that this will be a serious challenge for the government.

We think that the government will also announce the final list of items that will be zero rated and exempted from the 6% GST (we expect new items to be added. However, the government must be careful as the expanded zero-rated GST list may help to manage inflation but compromise the amount of GST revenue collected. This would hinder the country's ability to lower income tax rates going forward.

For the middle and higher income groups with chargable income above RM5,000, Budget 2014 announced that personal income tax rates would be reduced by 1-3% in YA 2015. We anticipate further assistance for civil servants and government pensioners, as well as child relief.

Figure 15: Individual income tax rates

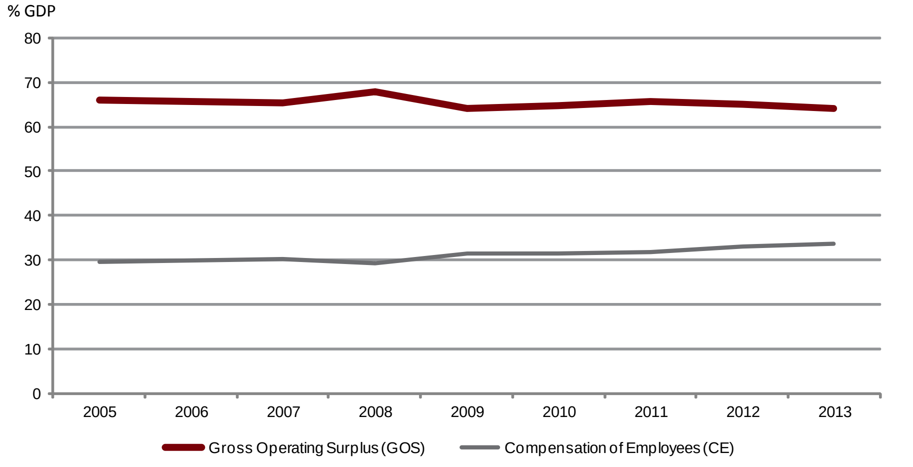
2015		2014		2013		2012		2011		2010	
Chargeable income (Rm)	Tax Rate (%)	Chargeable income (Rm)	Tax Rate (%)	Chargeable income (Rm)	Tax Rate (%)	Chargeable income (Rm)	Tax Rate (%)	Chargeable income (Rm)	Tax Rate (%)	Chargeable income (Rm)	Tax Rate (%)
0 - 5,000	0	0 - 2,500	0	0 - 2,500	0	0 - 2,500	0	0 - 2,500	0	0 - 2,500	0
		2,501 - 5,000	0	2,501 - 5,000	0	2,501 - 5,000	1	2,501 - 5,000	1	2,501 - 5,000	1
5,001 - 20,000	1	5,001 - 10,000	2	5,001 - 10,000	2	5,001 - 10,000	3	5,001 - 10,000	3	5,001 - 10,000	3
		10,001 - 20,000	2	10,001 - 20,000	2	10,001 - 20,000	3	10,001 - 20,000	3	10,001 - 20,000	3
20,001 - 35,000	5	20,001 - 35,000	6	20,001 - 35,000	6	20,001 - 35,000	7	20,001 - 35,000	7	20,001 - 35,000	7
35,001 - 50,000	10	35,001 - 50,000	11	35,001 - 50,000	11	35,001 - 50,000	12	35,001 - 50,000	12	35,001 - 50,000	12
50,001 - 70,000	16	50,001 - 70,000	19	50,001 - 70,000	19	50,001 - 70,000	19	50,001 - 70,000	19	50,001 - 70,000	19
70,001 - 100,000	21	70,001 - 100,000	24	70,001 - 100,000	24	70,001 - 100,000	24	70,001 - 100,000	24	70,001 - 100,000	24
100,001 - 250,000	24										
250,001 - 400,000	24.5	Exceeding 100,000	26	Exceeding 100,000	26	Exceeding 100,000	26	Exceeding 100,000	26	Exceeding 100,000	26
Exceeding 400,000	25										

SOURCES: MOF, CIMB RESEARCH

The government will raise the 1Malaysia People's Aid (BR1M) by RM300 next year. BR1M 2014, which cost RM4.6bn (RM3.5bn in BR1M 2013), benefited over 7m households and unmarried individuals. We think that BR1M 2015 will cost the government RM6.7bn-7.6bn. The extra cost of RM2bn-3bn will be funded by the higher revenue from GST and subsidy savings. The government has promised to increase BR1M to RM1,200 p.a. over the next five years to alleviate the rising costs of living. In the spirit of prudent fiscal management, we think that the BR1M measures should be reviewed over time and provide targeted assistance to the most needy and unreached groups.

In general, conditional direct cash transfers are not sustainable, especially if they are not accompanied by higher productivity. The cash transfers may improve social welfare in the near term but may have the negative result of fostering dependency on public handouts and undermine the ethics of hard work. In our view, improving the quality of education, upgrading skills, vocational training, apprenticeship and "on the job" programmes that can enhance worker productivity and allow them to seek higher wages would be more effective policies. These should be combined with efforts to incentivise businesses and the corporate sector to increase the share of wages to profits. Although the share of employee compensation as a percentage of GDP has risen from 29.5% in 2005 to 33.6% in 2013, the government targets a higher ratio of 40% in the long term. Developed countries have an average wage-to-GDP ratio of around 50%.

Figure 16: Wide gap between employee wages vs. company income and profits



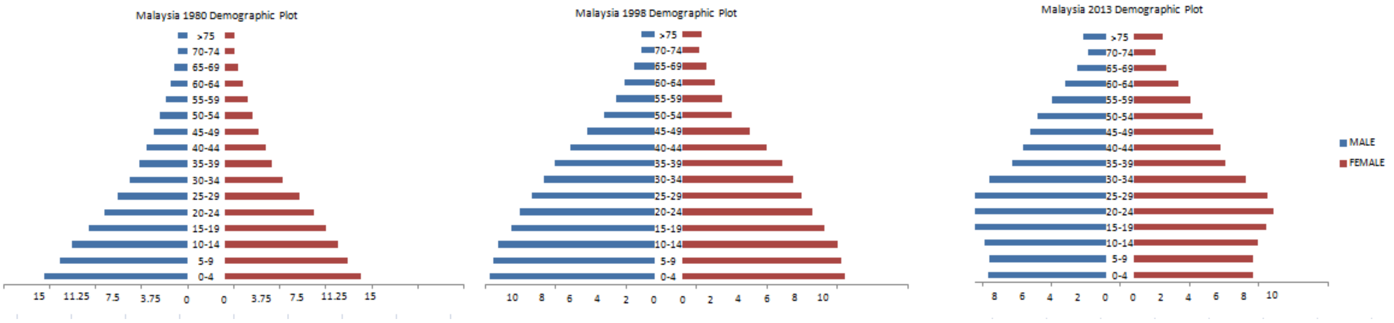
SOURCES: DOS, CIMB RESEARCH

Preparing the nation for a decade of ageing

The average age of the Malaysian population will start to rise in 20 years, at which time the demographic dividend may turn negative. If the government implements appropriate policies that encourage saving for retirement, higher education expenditure on children or improvement in healthcare for the elderly, an ageing population could have the positive effect of boosting per capita income growth. However, the current reality is that the majority of workers have low levels of personal savings for retirement. According to the Employees Provident Fund's (EPF) 2013 annual report, the average savings amount of active members aged 51 to 55 years was RM147,057. The more alarming statistic was that 69% of its members aged 54 years had less than RM50,000 in savings at 31 Dec 2013. This amount is considered too low to sustain life for more than 15 years after retirement. EPF sets a minimum basic savings amount of RM196,800 that members should reach at 55 years of age

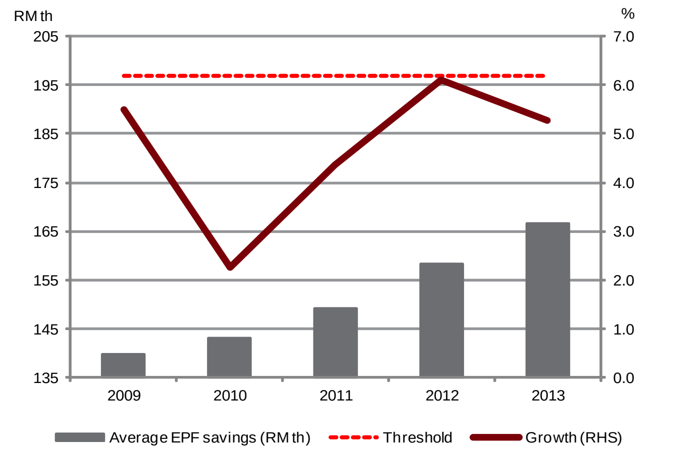
Budget 2014 contained measures that encourage saving for retirement and the growth of the domestic private pension fund industry. These included increasing the voluntary EPF contribution for the self-employed without fixed income from 5% to 10%, or from a maximum of RM60 to RM120 p.a. A one-off incentive of RM500 was given to young contributors (aged 20 to 30 years) who participated in the Private Retirement Scheme (PRS), with a minimum cumulative investment of RM1,000 within a year. We hope that the government will introduce a more comprehensive plan to address the old age conundrum and personal savings behaviour, which tends to be influenced by income levels and financial literacy.

Figure 17: Malaysia's demographic transition



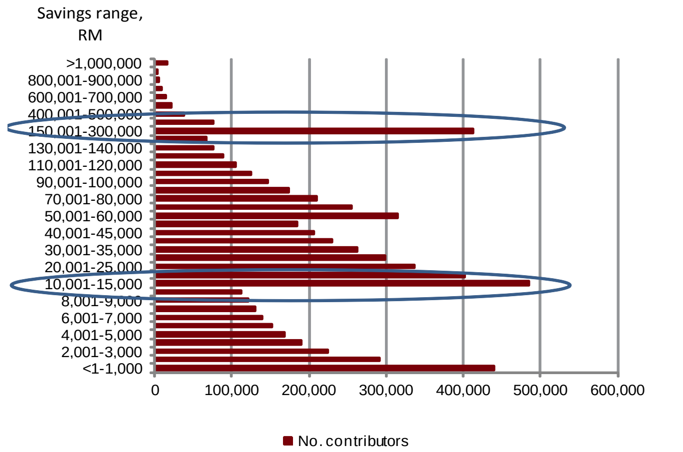
SOURCES: CEIC, CIMB RESEARCH

Figure 17: EPF members' average savings at age 54



SOURCES: EPF, CIMB RESEARCH

Figure 18: Profile of active EPF contributors (2013)

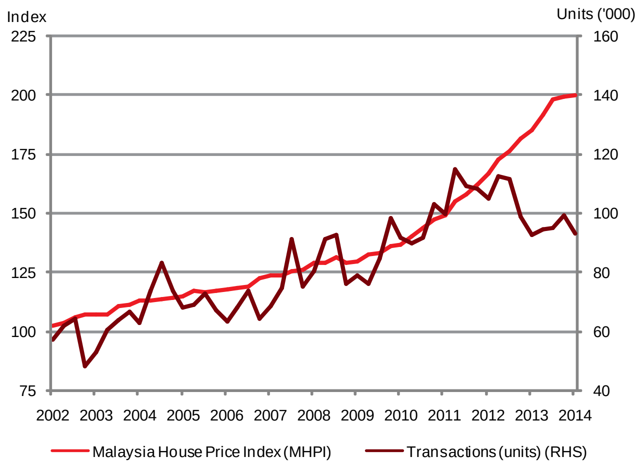


SOURCES: EPF, CIMB RESEARCH

Property-cooling measures

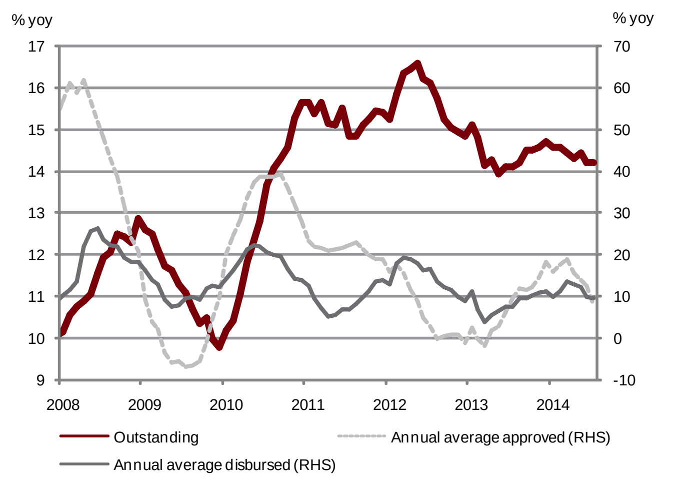
The Real Estate and Housing Developers Association (REHDA) have been lobbying hard for the relaxing of the measures to curb property speculation that were introduced in Budget 2014 last Oct. One of the measures was the abolishment of the developers' interest bearing scheme (DIBS), under which buyers did not have to pay interest on their housing loans during the construction period. An argument in favour of the reversal of the DIBS abolishment is that first home buyers should be given assistance. Despite the sluggish sales and moderation in property price appreciation, we do not think that the government will ease the property-cooling measures yet, as underlying demand is still strong and there is general sentiment that property prices are still high. Furthermore, there are still concerns about excessive speculative property investments, which raise the risk of financial imbalances.

Figure 20: House prices do not reflect drop in transactions



SOURCES: NAPIC, CIMB RESEARCH

Figure 21: Easing of property loans outstanding, approved and disbursed amid property-cooling measures and more stringent bank lending



SOURCES: BNM, CIMB RESEARCH

Figure 19: Real property gain tax (RPGT) prior to 1 Apr 2007

From 23 Oct 1981 till 23 Oct 1986			
Duration between year of disposal and year of acquisition	Tax rate (%)		
	For individual	For companies	For non-citizen & non PR individuals
Disposal within 2 years	40	40	40
Disposal in the 3rd year	30	30	30
Disposal in the 4th year	20	20	20
Disposal in the 5th year	10	10	10
Disposal in the 6th year	5	5	5
Disposal in the 6th year onwards	0	0	0
From 24 Oct 1986 till 26 Oct 1995			
Duration between year of disposal and year of acquisition	Tax rate (%)		
	For individual	For companies	For non-citizen & non PR individuals
Disposal within 2 years	20	20	20
Disposal in the 3rd year	15	15	15
Disposal in the 4th year	10	10	10
Disposal in the 5th year	5	5	5
Disposal in the 6th year onwards	0	0	0
From 27 Oct 1995 till 31 Mar 2007			
Duration between year of disposal and year of acquisition	Tax rate (%)		
	For individual	For companies	For non-citizen & non PR individuals
Disposal within 2 years	30	30	30
Disposal in the 3rd year	20	20	30
Disposal in the 4th year	15	15	30
Disposal in the 5th year	5	5	30
Disposal in the 6th year onwards	0	5	5

SOURCES: LHDN, CIMB RESEARCH

Figure 20: RPGT was reintroduced in 2010 after being abolished in 2007

RPGT was re-imposed effective 1 Jan 2010 till 31 Dec 2011	
Duration between year of disposal and year of acquisition	Tax rate (%)
	All categories of owners
Disposal within 5 years	5
Disposal in the 6th year onwards	0
From 1 Jan 2012 till 31 Dec 2012	
Duration between year of disposal and year of acquisition	Tax rate (%)
	All categories of owners
Disposal within 2 years	10
Disposal in the 3rd year, 4th and 5th year	5
Disposal in the 6th year onwards	0
From 1 Jan 2013	
Duration between year of disposal and year of acquisition	Tax rate (%)
	All categories of owners
Disposal within 2 years	15
Disposal in the 3rd year, 4th and 5th year	10
Disposal in the 6th year onwards	0

From 1 Jan 2014			
Duration between year of disposal and year of acquisition	Tax rate (%)		
	For individual	For companies	For non-citizen & non PR individuals
Disposal within 3 years	30	30	30
Disposal in the 4th year	20	20	30
Disposal in the 5th year	15	15	30
Disposal in the 6th year onwards	0	5	5

SOURCES: LHDN, CIMB RESEARCH

Relief for affordable housing

We think that the government will announce certain relief measures for the affordable property segments that are priced below RM400,000. The Customs Department and GST division have been gathering feedback and suggestions on ways of improving the provision of tax relief for the entire supply chain of the industry, from the manufacturers to the end-users. Much has been said about property being declared GST-exempted but the developers are likely to pass on the higher cost incurred due to GST on construction materials (such as bricks, steel bars, sand, bricks, wood, ceramics, roofing tiles and cement) to the buyer, as the developers will not be able to claim the input tax credit. It was reported that around 55% of property development costs were classified as construction costs. The Master Builders Association Malaysia (MBAM) estimates that construction cost will rise by 4% next year. This, coupled with the 6% GST would lead to higher costs of doing business. As such, REHDA has requested that affordable housing developments be zero-rated so that developers will be entitled to claim the input tax and not pass on the higher cost to consumers.

Figure 21: Previous budget measures for property & housing sector

2014 Budget
In order to increase the ability of the rakyat to buy a house and ensuring stable prices, to government will implement the following steps:
1) Review the RPGT.
2) Increase the min. price of property that can be purchase by foreigners from RM500,000 to RM1,000,000.
3) Increase traperency in property sales price
4) Prohibit developers from implementing projects that have features of Developer Interest Bearing Scheme (DIBS)
223,000 units of new houses will be built by the government and the private sectors in 2014. The government will allocate RM578 million to the National Housing Department.
PR1MA will provide 80,000 housing units with an allocation of RM1 billion. The sales price of PR1MA houses are 20% lower than market prices.
SPNB will built 26,122 units of affordable houses, comprising of 15,122 units of affordable houses, 3,000 units Rumah Idaman Rakyat and 8,000 units of Rumah Mesra Rakyat
The Government will introduce a new category of Rumah Mesra Rakyat which sales prices is around RM45,000 - RM65,000 for which the Gov will provide a subsidy between RM15,000 to RM20,000 per unit.
Government will also introduce the Private Affordable Ownership Housing Scheme (MyHome) as to encourage private sector to build more low and medium-cost houses.
Preferences will be given to developers who build low and medium-cost houses in areas with high demand and limited to 10,000 units in 2014. The scheme is for housing projects approved effective from 1 January 2014, with an allocation of RM300 million.
Proposed establishment of the National Housing Council in order to develop strategies and action plans in a holistic manner.
2013 Budget
To date, the Government borrows RM6 billion annually to finance housing loans for civil servants which is managed by the Housing Loan Division (BPP), Ministry of Finance.
Under implementation by PR1MA. Syarikat Perumahan Nasional Berhad (SPNB) and National Housing Department, the Government will allocate RM1.9 billion to build 123,000 affordable housing units in strategic locations in 2013.
PR1MA will spent RM500 million to build houses in major locations nationwide with the selling price ranging between RM100,000 and RM400,000 per unit.
RM320 million will be allocated through SPNB to build 22,855 residential units including low and medium-cost apartments, Rumah Mesra Rakyat and Rumah Mampu Milik.
Sum of RM543 million will be provided to the National Housing Department for the implementation of 45 projects under the Rakyat Housing Programme (PPR) involving 20,454 units which will be constructed using the Industrialised Building System (IBS).
My first Home Scheme (MyHome), which was launched under the previous budget will be improved by increasing the income limit for individual loans from RM3,000 to RM5,000 per month or joint loans of husband and wife up to RM10,000 per month.
Government will allocate RM100 million to the Ministry of Housing and Local Government to revive 30 abandoned housing projects.
2012 Budget
In meeting the demand for houses from those earning below RM3,000 the Government launched the My First Home Scheme in March 2011. To expand the scheme, the Government proposes to increase the limit of house prices from a maximum of RM220,000 to RM400,000.
To enable buyers to own houses, the Government estabalished PR1MA as the sole agency to develop and maintain affordable and quality houses, specifically for middle-income group.
The government will identify areas in the vicinity of MRT, LRT and other public transport system to be developed by PR1MA for housing projects.
PR1MA will play a main role in ensuring that the distribution of the housing units will be transparent and fair through an open balloting system. The Government also will encourage the construction of more houses using the build then sell concept.
The government will continue to implement the Program Perumahan Rakyat (PPR) by building 75,000 units of affordable houses.
The Rumah Mesra Rakyat (RMR) programme, managed by Syarikat Perumahan Negara Berhad (SPNB), will be continued to help the low-income group own a decent houses.
The Government will establish the Special Housing Fund for Fisherman with an allocation of RM 300 million to build and refurbish houses with basic infrastructure.
2011 Budget
A sum of RM339 million is allocated, including for the construction of highways, development of housing areas as well as providing and improving public transportation services.
In 2011, the Government will allocate RM1.2 billion to the Ministry of Women, Family and Community programmes; Construction of an intervention centre for the homeless by providing employment opportunities, housing facilities and counselling
A sum of RM568 million is provided to build 300 units under Projek Bantuan Perumahan Bandar, 79,000 units under Program Perumahan Rakyat and 8,000 units under Projek Bantuan Rumah Sewa. To assist estate worker to own houses, the Government will provide Skim Pembiayaan Perumahan Kos Rendah with an allocation of RM50 million, managed by Bank Simpanan Nasional. The scheme is open to all Malaysian permanent estate workers to assist them to obtain housing loans with a maximum of RM60,000 for the purchase of low-cost houses at 4% interest rate and a repayment period up to 40 years extending to the second generation.
To assist the young adults who have just joined the workforce with income less than RM3,000, the Government will introduce Skim Rumah Pertamaku through Cagamas Berhad which will provide a guarantee on down payment of 10% for houses below RM220,000. This scheme is for first-time house buyers with household income less than RM3,000 per month. In other words, the house buyers will obtain a 100% loan without having to pay the 10% down payment.
In addition, first-time house buyers will also be given stamp duty exemption of 50% in instruments of transfer on a price not exceeding RM350,000. The Government also proposes that stamp duty exemption of 50% be given on loan agreement instruments to finance such first-time purchase of houses.
To facilitate civil servants in owning houses as well as improving the terms and conditions for housing loans, the Government will allow the purchase of properties from parents, children and siblings. Secondly, the Government will raise the amount of loan from RM10,000 to RM20,000 for additional works on low-cost houses for Support Group II. Thirdly, raise he maximum loan eligibility to RM450,000 compared with RM360,000 currently. The improvements to housing loans will be effective 1 January 2011.
A total of RM15.5 billion is allocated to the social sector, including education and training, health, welfare, housing and community development.
2010 Budget
The Government will continue to provide housing facilities to ensure that rakyat are able to affor and reside in comfortable homes. Priority will be given to the low and middle-income groups to own or rent houses provided by the Government. On 10 October 2009, the Prime Minister announced that more than 44,000 low-cost houses will be sold at a price of between RM21,500 and RM35,000 per unit by Kuala Lumpur City Hall (DBKL) and National Housing Department (JPN), by end-2010. As an additional measure, JPN will also provide 74,000 low-cost houses to be rented in 2010.
To date, a total of 148 private projects have been abandoned involving 49,913 units and 31,824 buyers. Of this, 87 projects are yet to be rehabilitated with 41 projects involving low and medium cost houses. The Government will consider extending appropriate financial assistance to rehabilitate low and medium-cost houses based on the existing project list. For this, an allocation of RM200 million will be provided under the Ministry of Housing and Local Government.
In line with the objective to promote house ownership and enhance the quality of life, the Government willl launch a scheme that enables EPF contributors to utilise current and future savings in Account 2. This will enable them to obtain higher financing to purchase higher value or additional houses. This scheme aims to increase the purchasing power of EPF contributors and is limited to the purchase of one house at any one time and subject to conditions stipulated by EPF. The scheme will be launched in January 2010.
A sum of RM20.3 billion is allocated to the social sector encompassing education and training, health, welfare, housing and community development.

SOURCES: MOF, CIMB RESEARCH

Brewery and tobacco excise duties, gaming tax

We do not expect any excise duty hikes for brewery and tobacco. The brewery sector was hit by the higher duty payment as a result of the imposition of taxes on A&P expenses and royalties paid since 1 Nov 2013, while the tobacco players were negatively affected by the sharp increase in excise duties since Sep 2013. We believe that the government will spare them this time round. In any case, government is expected to receive lofty revenue enhancement due to GST and can afford to forego sin tax hikes next year.

We do not expect gaming tax hikes either. Our gaming analyst thinks that the gaming companies must decide whether to absorb the GST like their peers in Singapore. Our analysis shows that absorbing GST above 5% would have a significant negative impact on the gaming companies' bottomlines. As for the number forecast operators (NFOs), it is likely that they will lower their prize payouts if they choose to absorb the GST to maintain their operating margins.

Figure 25: Historical excise duty hikes for tobacco and brewery

Year	Tobacco		Brewery		NFO gaming tax		Pool betting duties	
	RM/stick	% rise	RM/litre	% rise	%	change	%	change
2003	-	-	4.75	10.0	8.0	-	6.0	-
2004	0.08	-	6.00	26.3	8.0	-	6.0	-
2005	0.11	35.8	7.40	23.3	8.0	-	6.0	-
2006	0.12	9.1	7.40	-	8.0	-	6.0	-
2007	0.15	25.0	7.40	-	8.0	-	6.0	-
2008	0.18	20.0	7.40	-	8.0	-	6.0	-
2009	0.19	5.6	7.40	-	8.0	-	6.0	-
2010	0.22	15.8	7.40	-	8.0	-	8.0	+2%
2011	0.22	-	7.40	-	8.0	-	8.0	-
2012	0.22	-	7.40	-	8.0	-	8.0	-
2013	0.22	-	7.40	-	8.0	-	8.0	-
2014	0.25	13.6	7.40	-	8.0	-	8.0	

SOURCES: VARIOUS, CIMB RESEARCH

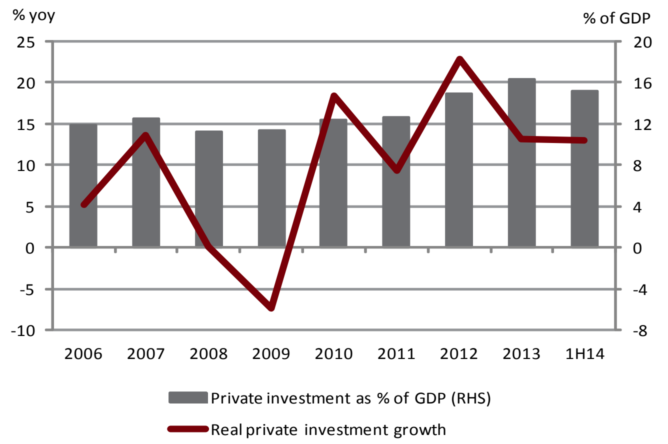
Sustaining private investment momentum

Private investment momentum is still strong and supportive of overall economic growth. Various global benchmarks and surveys showed that Malaysia's rankings in foreign direct investment (FDI) confidence, competitiveness and ease of doing business have improved. Although significant progress has been made, we think that more economic reforms are needed to boost broad-based productivity growth and enhance the investment climate. This would lay a solid foundation to ensure that there will be a strong and sustained boost in investments beyond the Economic Transformation Programme (ETP).

The latest Productivity Report 2013/14 by the Malaysia Productivity Corporation (MPC) showed that much of the growth in 2011-2013 came from capital input (58%), while labour input and total factor productivity accounted for 22.2% (below 10MP target of 24%) and 19.7% (below 10MP target of 38.5%), respectively. The MPC stated that the government needed to strengthen its policies and offer firms the right incentives to create modern jobs that justify higher wages and increase productivity through the application of technology.

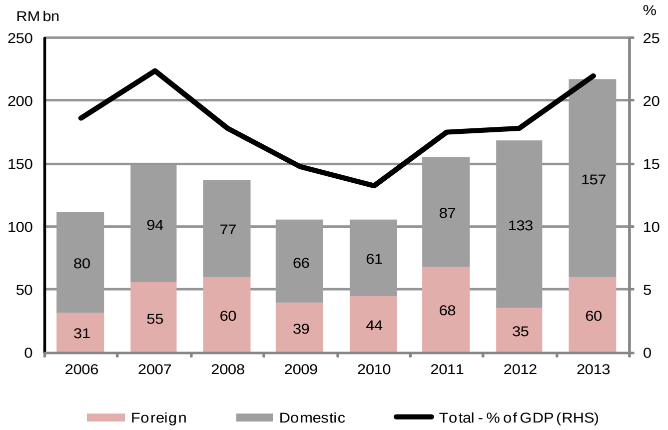
We sense that the majority of companies, especially SMEs, are complacent and reluctant to modernise. This limits their ability to generate higher profits, seek opportunities in the Asean Economic Community (AEC) and puts them at greater risk of becoming irrelevant in a fast-changing, high-technology and innovation-driven environment. This will also create an impediment to elevate compensation for employees. In our view, the government is likely to continue providing incentives to encourage private sector investments in the sectors with high productivity potential (palm oil, E&E, education, pharmaceuticals, transportation and logistics, as well as the creative industries).

Figure 22: Private investment still strong



SOURCES: BNM, DOS, CIMB RESEARCH

Figure 23: Investment approvals have gained momentum since 2011



SOURCES: MIDA, CIMB RESEARCH

Budget 2015 fiscal targets

The government has kept its targets at 3.5% of GDP in 2014 (-3.9% in 2013), -3.0% in 2015 and a balanced budget by 2020. We think that the fiscal deficit target is achievable, given the favourable government revenue increase of 6.8% yoy to RM101.8bn in 1H14, as the higher operating expenditure was partly offset by the shortfall in development expenditure. The actual budget deficit stood at 3.7% of GDP in 1H14 (vs. -4.1% in 1H13).

Figure 24: Federal government fiscal position (RM bn, unless otherwise stated)

	2013	2014 Budget	1H14	2014E	2015F
Revenue	213.4	224.1	101.8	224.1	237.9
- % growth	*2.6*	*5.0*	*6.8*	*5.0*	*6.1*
Operating expenditure	211.3	217.7	106.9	221.1	228.0
- % growth	*2.8*	*3.0*	*7.9*	*4.7*	*3.1*
Current account balance	**2.1**	**6.4**	**-5.1**	**3.0**	**9.9**
- % of GDP	*0.2*	*0.1*	*-1.0*	*0.0*	*0.1*
Gross development expenditure	42.2	44.5	14.3	41.3	45.4
- % growth	*-10.1*	*5.4*	*-12.6*	*-2.1*	*10.0*
Less: Loan recoveries	1.5	0.9	0.3	0.9	0.9
Net development expenditure	40.7	43.6	14.0	40.4	44.5
Overall balance	**-38.6**	**-37.1**	**-19.1**	**-37.4**	**-34.7**
- % of GDP	*-3.9*	*-3.5*	*-3.7*	*-3.5*	*-3.0*

SOURCES: MOF, BNM, CIMB RESEARCH

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