



Socio-Economic
Research Centre
社会经济研究中心

Grant Thornton Tax Seminar on Budget 2025

Will the 2025 Budget Deliver on Growth and Jobs?

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Executive Director
4 November 2024



Agenda

1

Global Economy is Steadying but at a Slow Pace

2

Malaysia's Economic Momentum will be Sustained

3

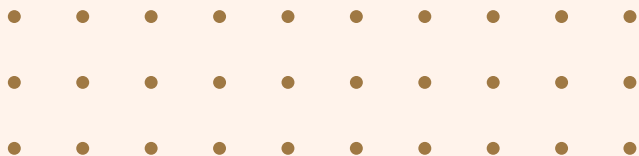
Budget 2025 – Hits and Misses



Global Economic Outlook

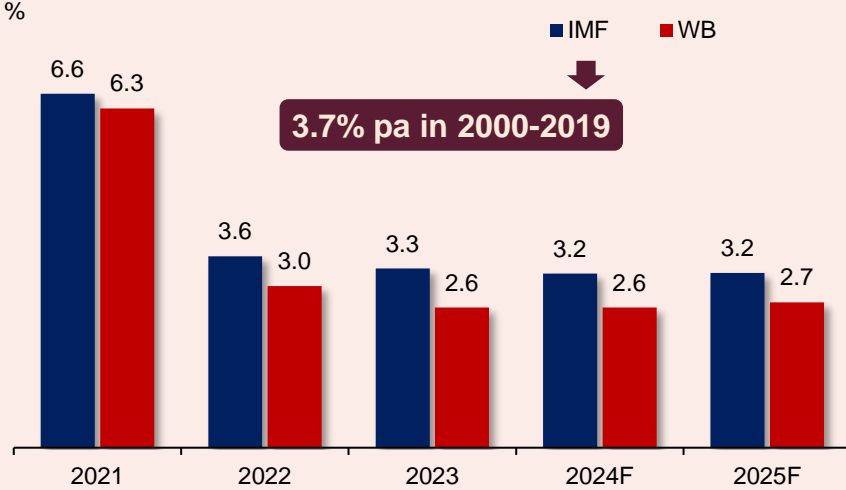
Global Economy is Steadying but at a Slow Pace

1. *Global growth continued amid the challenges and risks*
2. *The US economy is “cruising” along; can avoid recession*
3. *Inflation “emergency” is over ; the start of the Fed’s rate easing cycle*
4. *All eyes on the US Presidential Elections on 5 November 2024*
5. *Will a bazooka stimulus revive China’s economy?*
6. *Geopolitical risks will remain top of mind*

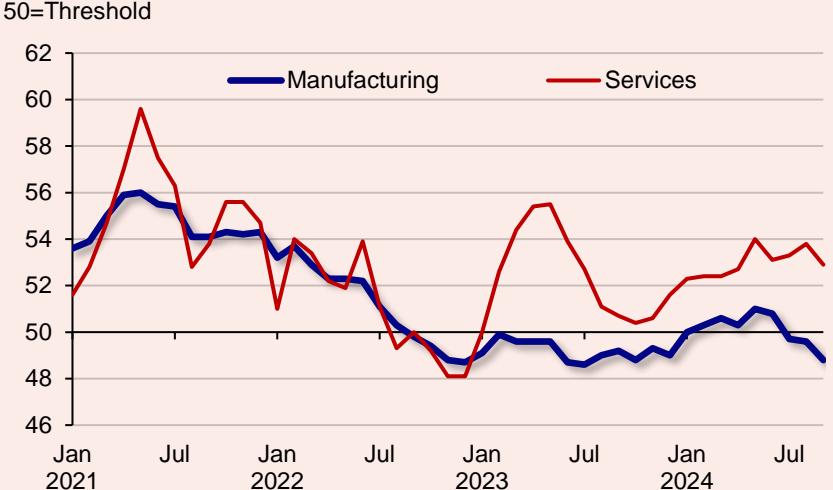


The global economy continues to grow at a slower pace

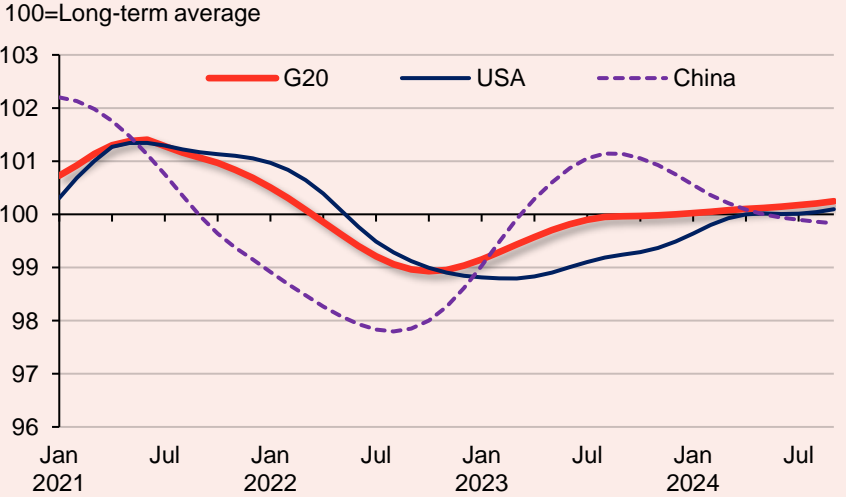
Global growth estimates



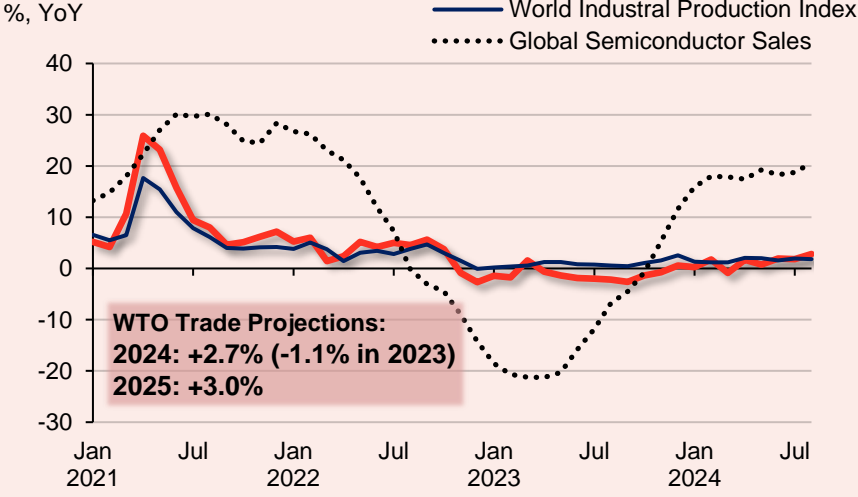
Global PMI for manufacturing & services



OECD Composite Leading Indicators (CLI)



Key economic activities



Mixed indicators:

- Global Manufacturing PMI fell below threshold for all three months in the third quarter of 2024 (49.7 in Jul; 49.6 in Aug; and 48.8 in Sep), after maintaining positive momentum in the first six months of 2024. Global Services PMI remains on an expansion.
- The OECD composite leading indicators (CLI) for G20 were pointing a stable growth ahead.
- Global semiconductor sales recorded strong double-digit growth since Dec 2023.
- World trade volume growth remained uneven.

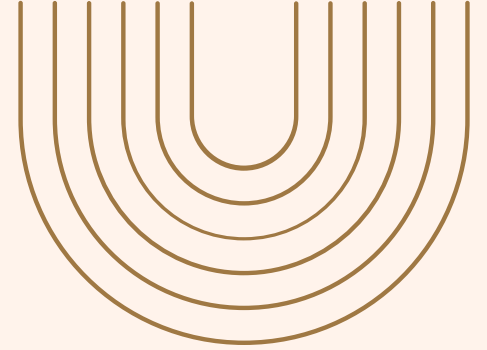
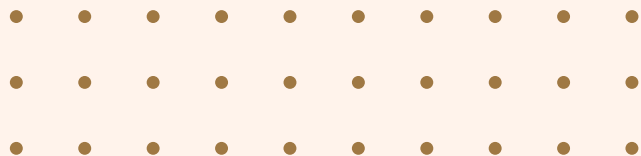
Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands



Malaysia Economic Outlook

All Stars Are Aligned for Malaysia's Second Take-off

1. *The 2025 Budget: Hits and Misses*
2. *Malaysia economy is fired on twin cylinders*
3. *Continued structural reforms to sustain economic resilience*
4. *Domestic demand anchors growth*
5. *Spurring continued both public and private investments*
6. *Interest rate holds steady at 3.00% in 2024 and in 1H 2025*



Our impression on the 2025 Budget

HITS

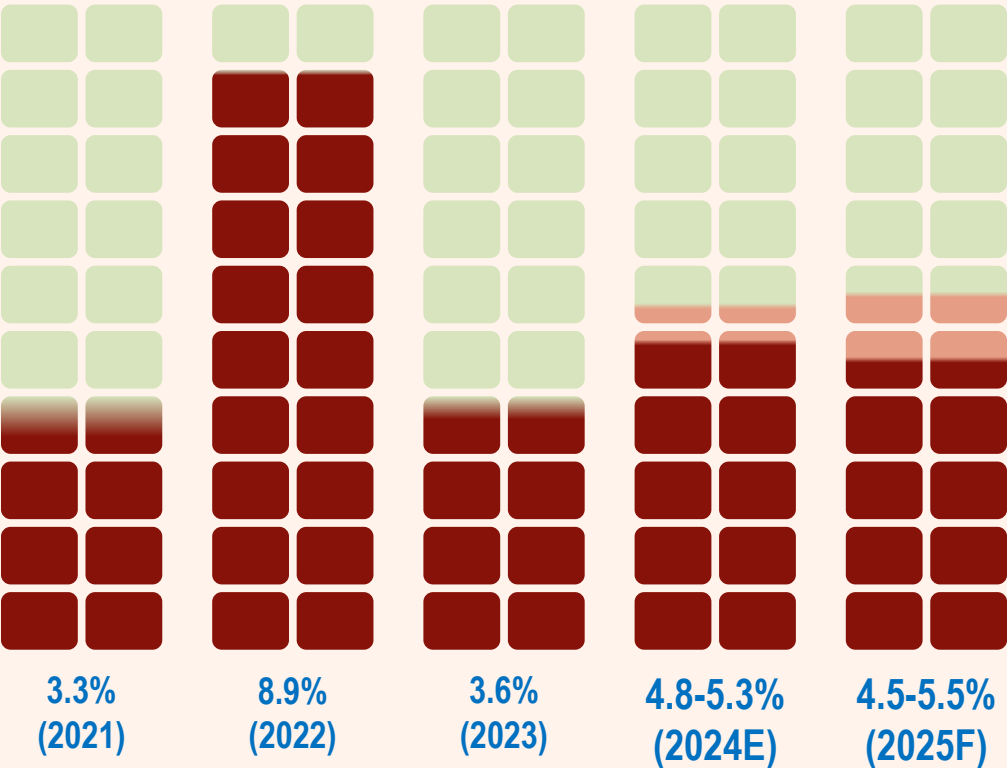
- **A tough balancing act.** Deliver a Budget package that will keep the economy on an upward growth trajectory without derailing its medium-term fiscal stability pact.
- **Fiscal repairs continue. Fiscal deficit will reduce (to 3.8% of GDP in 2025 from 4.3% of GDP in 2024) for four successive years since 2021.**
- **A well-balanced 2025 Budget.** (1) **Continued fiscal repairs and policy reforms** to build stronger foundation for growth, business and investment opportunities; (2) **Cost of living pressures**; (3) **Enhancing investment climate** for sustaining Domestic Direct Investment (DDI) and FDI; (4) **Strengthening domestic enterprises' capabilities and manpower skills development**; and (5) **Building long-term sustainability goals.**
- **Subsidies rationalisation is a must. Subsidies and social assistance slash further by 14.4% or RM8.8 billion to RM52.6 billion in 2025.** The RON95 subsidy rationalisation will be implemented in mid-2025 for foreigners and the wealthiest top 15 of Malaysians to save RM8.0 billion.
- **Government institutional reforms and commitment to administrative efficiency.** Government Procurement Bill, Public Administration Efficiency Commitment Bill, Special Task Force on Agency Reform (STAR).
- **Mitigating cost of living pressures.** RM13.0 billion Sumbangan Tunai Rahmah (STR) for 9 million recipients and personal income tax relief (medical, education, housing loan interest payment).
- **Stimulating both DDI and FDI.** High-value high-growth sector, halal, tourism, infrastructure projects and socio-economic programs and projects.

MISSES

- **A clear plan to ensure sustainable revenue stream.** Narrow tax base – 12.4% of GDP in 2024.
 - Revenue structure: 76.3% tax revenue, of which 55.6% from direct taxes and 20.7% from indirect taxes; remaining 23.7% from non-tax revenue and non-revenue receipts. Petroleum-related revenue at 18.3%.
- **Still high operating expenditure (OE): OE to revenue ratio will reduce to 98.6% in 2025 vs. an average of 99.1% in 2010-2023.**
 - **Higher emoluments** (+RM6.2 billion to RM105.9 billion or 31.6% of total OE).
 - **Higher retirement charges** (+RM6.1 billion to RM40.6 billion or 12.1% of total OE).
 - **Debts service charges** (+RM3.9 billion to RM54.7 billion or 16.3% of total OE).
- **Still high debt and liabilities. FG's direct debt (RM1.23 trillion or 63.1% of GDP) as at June 2024; Debt and liabilities at RM1.60 trillion or 82.0% of GDP. Debt service charges to total revenue: 16.1% in 2025; 15.8% in 2024; 14.7% in 2023.**
- **Business cost pressures:** Higher minimum wage, multi-tiered levy and mandatory EPF contribution for non-citizens as well as fuel subsidies rationalisation.

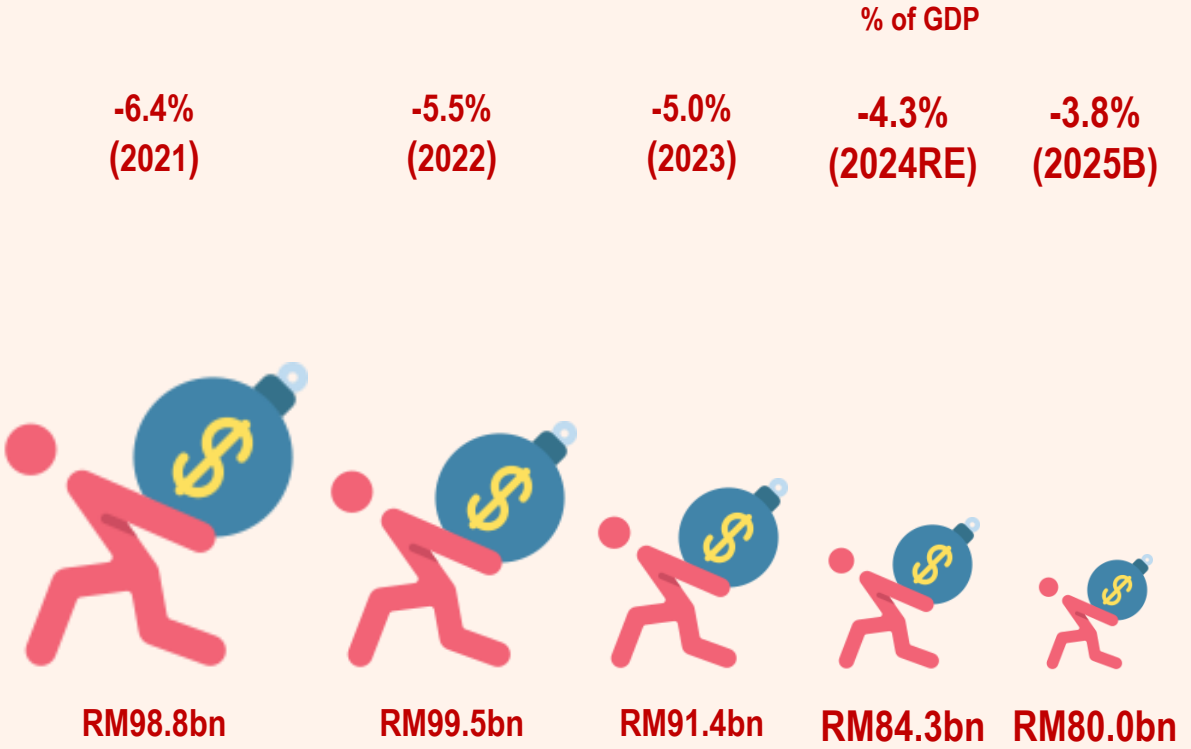
Budget 2025: Economic Outlook and Fiscal Position

Economic Growth



MOF expects the Malaysian economy to expand by **4.5%-5.5%** in 2025.

Fiscal Deficit



Gradual path to fiscal consolidation

Persistent fiscal deficits for the **28th** consecutive year in 2025

Source: MOF E=Estimate; F=Forecast; RE=Revised Estimate; B=Budget Estimate

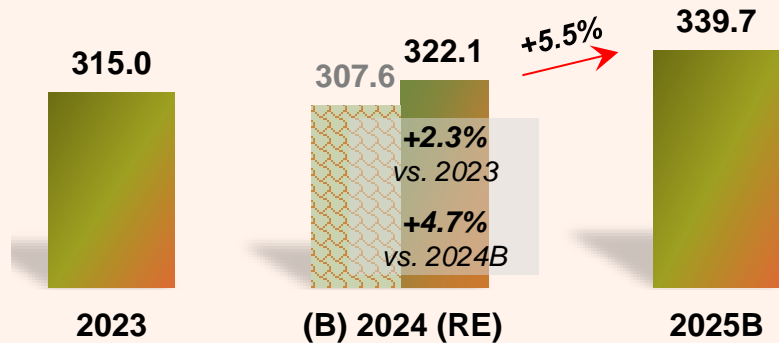
Budget 2025: Budgetary Operations



Total Revenue

16.3% of total GDP in 2025B

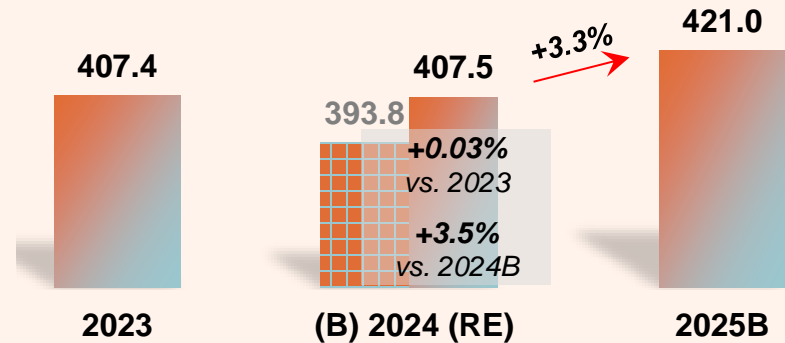
RM billion



Total Expenditure

20.2% of total GDP in 2025B
123.9% of total revenue in 2025B

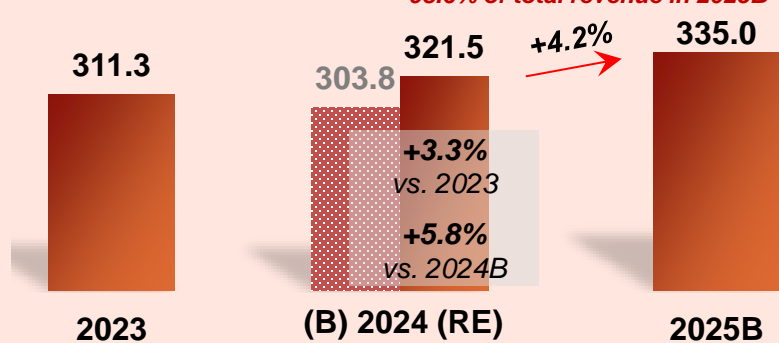
RM billion



Operating Expenditure

16.1% of total GDP in 2025B
79.6% of total expenditure in 2025B
98.6% of total revenue in 2025B

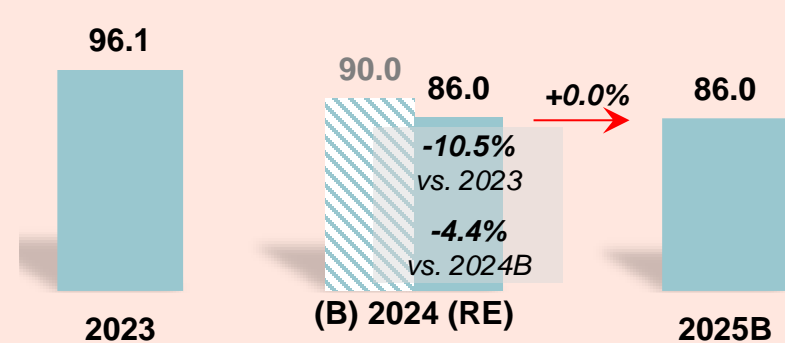
RM billion



Gross Development Expenditure

4.1% of total GDP in 2025B
20.4% of total expenditure in 2025B

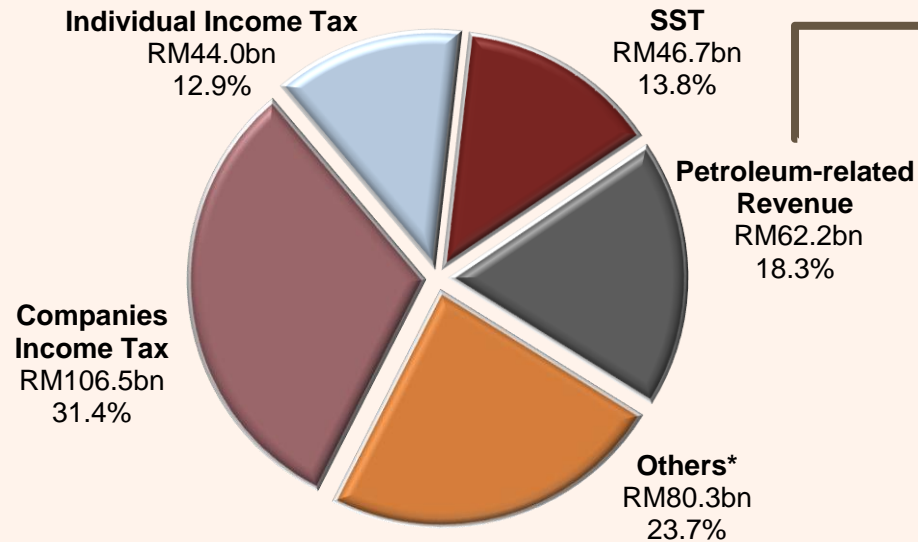
RM billion



Source: MOF (B)=Budget Estimate in Budget 2024; (RE)=Revised Estimate; B=Budget Estimate Note: Excludes 2025 Budget measures

Federal Government's Revenue: Where the money comes from?

For 2025B:



Petroleum-related revenue (RM billion)

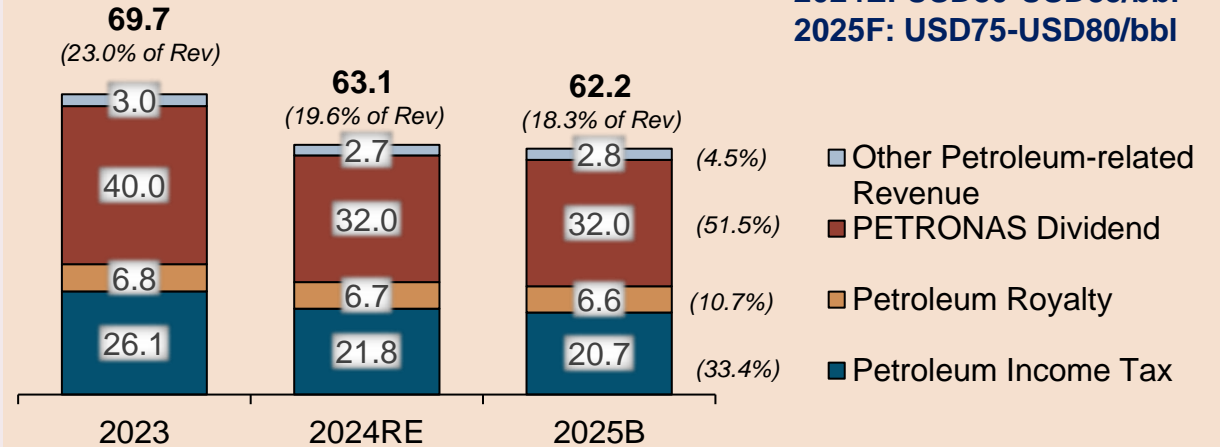


Figure in parenthesis indicates % share of total petroleum-related income in 2025B

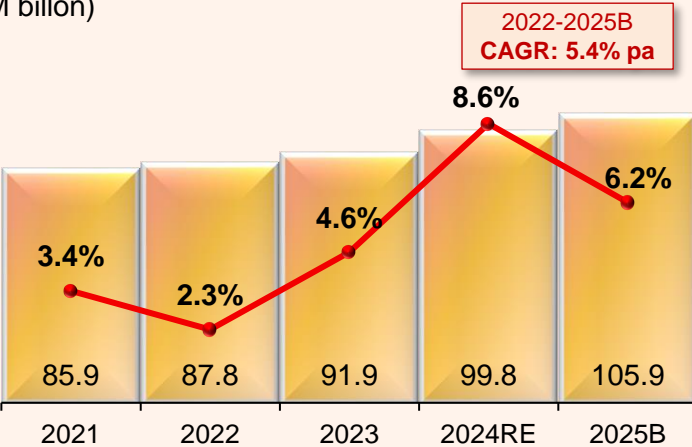
* Include non-tax revenue, excise duty, stamp duty, etc.

Major components	2024RE (RM billion)	Share (%)	2025B (RM billion)	Share (%)	Change (RM billion)	Change (%)
Direct taxes	177.1	54.9	188.8	55.6	11.7	6.6
Companies income taxes	98.5	30.6	106.5	31.4	7.9	8.1
Individuals income taxes	40.8	12.7	44.0	12.9	3.2	7.8
Indirect taxes	64.0	19.9	70.2	20.7	6.3	9.8
Sales and service tax (SST)	40.9	12.7	46.7	13.8	5.8	14.2
Non-tax revenue; non-revenue receipts; etc.	81.0	25.2	80.7	23.7	-0.3	-0.4
Federal Government (FG) Revenue	322.1	100.0	339.7	100.0	17.7	5.5

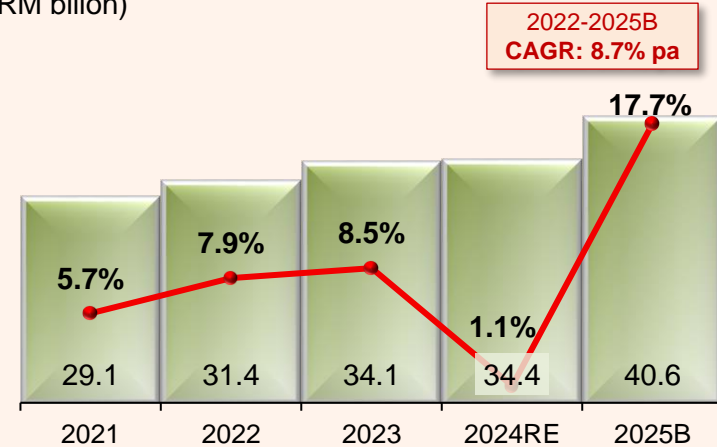
Source: MOF RE=Revised Estimate; B=Budget Estimate

Operating Expenditure (OE) by component

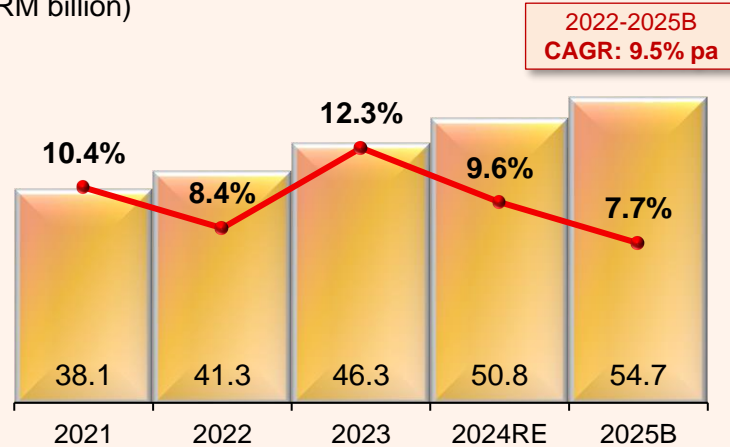
Emoluments
(RM billion)



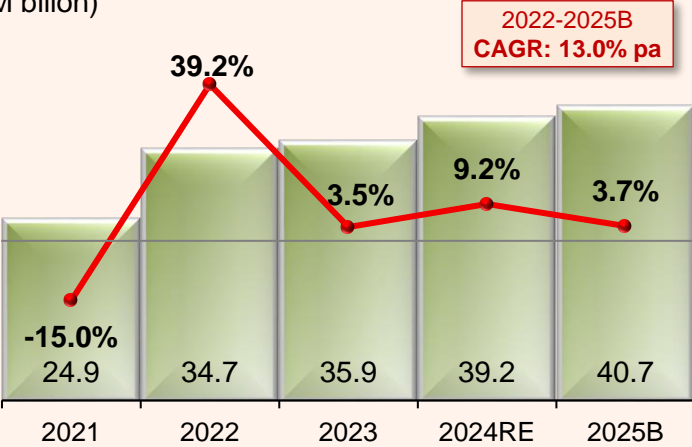
Retirement charges
(RM billion)



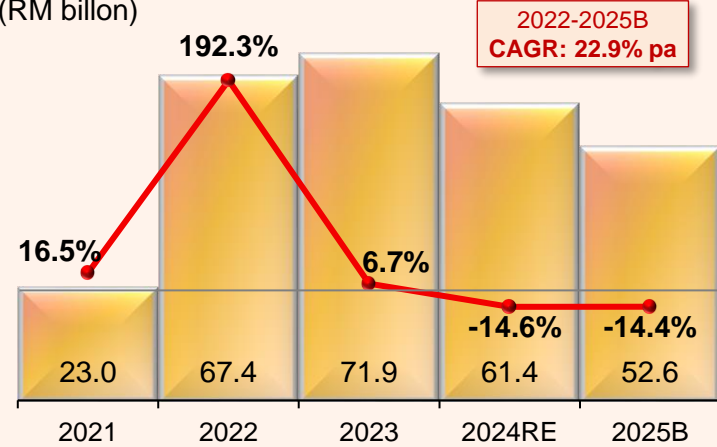
Debt service charges
(RM billion)



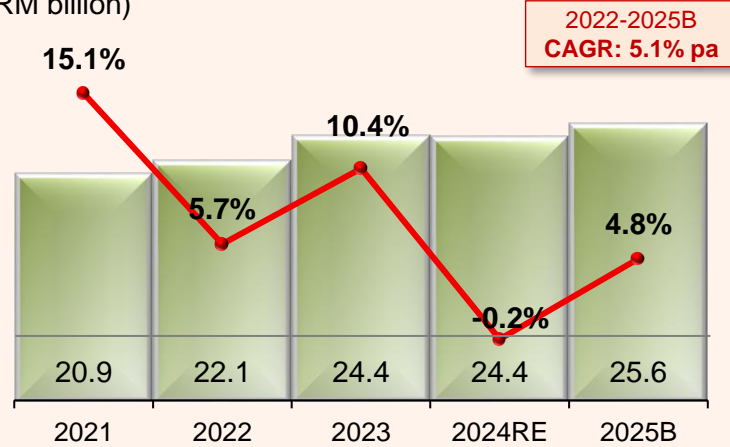
Supplies and services
(RM billion)



Subsidies and social assistance
(RM billion)



Grants and transfers¹
(RM billion)



Note: Line chart indicates an annual rate of change in component of operating expenditure; straight line indicates 0%.
¹ Includes grants and transfers to state governments and grants to statutory bodies only.
 Source: MOF RE=Revised Estimate; B=Budget Estimate

The government has embarked on retargeting subsidies in stages



January
2023

ICPT
Surcharge



November
2023

Chicken
Subsidy



February
2024

Water
Tariff



June
2024

Diesel
subsidy



Mid-
2025

RON 95
subsidy

Estimated
Savings /
Revenue
Increment

Savings
RM4 billion

Savings
RM1.2 billion

Average bill
Increase by RM3

Savings
RM4 billion

Savings
RM8 billion

Impact

> 80% consumers
unaffected by high
tariffs

Price and supply
remain stable
following subsidy
withdrawal

Increased water tariff
across all states in
Peninsular Malaysia

80%
diesel consumers
continue to receive
cash aid

Top 15 and foreigners

Top 15 consumers
account for 40% of
consumption

Source: MOF

List of selected projects under development expenditure in 2025

Transport



- Construction of bridge and road from Ng Belawai to Song-Kapit in Sarawak.
- Additional lane for Lebuhraya Utara Selatan (PLUS) from Yong Peng to Senai Utara (Phase 3: Simpang Renggam-Machap) in Johor.
- Pan Borneo Highway Sabah.
- Sabah-Sarawak Ring Roads.

Environment



- Two newly-approved flood mitigation projects for Sungai Langat, Selangor and Sungai Samagagah, Perak.
- Six river conservation projects:
 - ❖ Sabah: Sungai Mengkabong, Sungai Bongawan, and Sungai Lakutan.
 - ❖ Sarawak: Sungai Batang Sadong, and Sungai Baram.
 - ❖ Kelantan: Sungai Pengkalan Datu.

Housing



- Development of Perumahan Inklusif MADANI; PR1MA Mini Township, Perak; PPR in Pulau Pinang, and Kampung Linggi, Port Dickson, Negeri Sembilan.

Trade and Industry



- NIMP 2030: RM200 million.
- NETR: RM306 million.
- JS-SEZ Infrastructure Facilitation Fund.
- Development of Silver Valley Technology Park 1 at Kinta, Perak.

Education and Training



- Upgrade of Local Area Network (LAN) infrastructure for 1,528 agencies and institutions under MOE along with the implementations of smart classroom in 400 selected institutions.
- 46 new schools and 122 projects to refurbish dilapidated schools, mostly in Sabah and Sarawak.

Health



- Building of new clinics in rural areas as well as repairing and upgrading dilapidated clinics (estimated total cost of RM800 million).

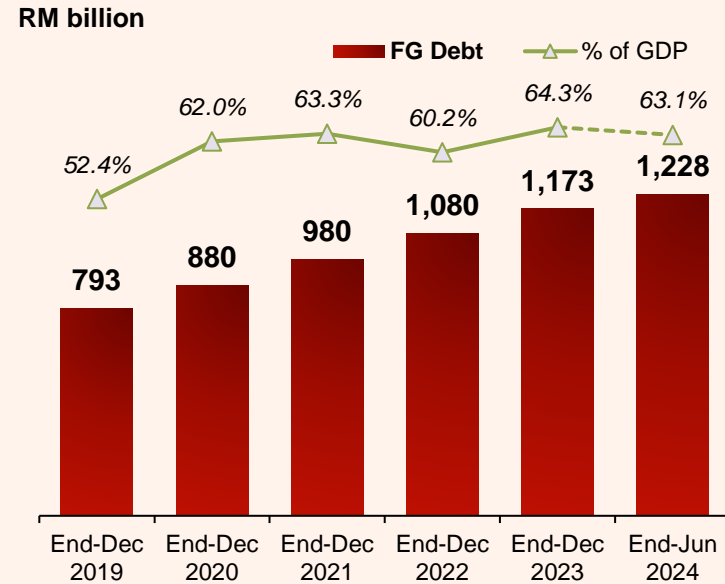
Security



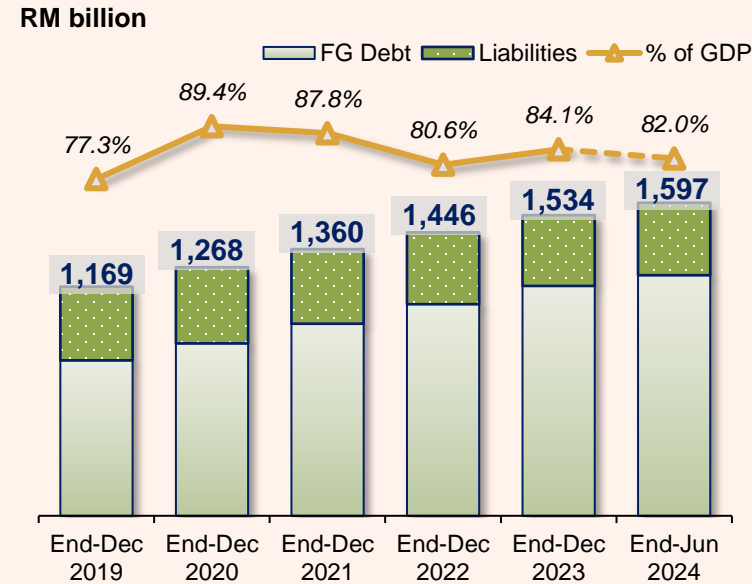
- Refurbishment of training centres to support the reintroduction of the National Service Training Programme (PLKN).

The Federal Government's debt and liabilities position

Federal Government (FG)'s debt



Debt and liabilities



- The Federal Government (FG)'s direct debt increased progressively to **RM1.23 trillion (or 63.1% of GDP) as at June 2024**, an increase of 4.7% from RM1.17 trillion as at end-Dec 2023.
- Added with the committed government guarantees (GG) and other liabilities, **overall debt and liabilities amounted to RM1.60 trillion or 82.0% of GDP**.
- With the targeted lower net borrowing of RM85 billion in 2024 (RM99.8 billion in 2022 and RM92.9 billion in 2023), **the FG debt is estimated to rise to RM1.26 trillion by end-Dec 2024 (64.6% of GDP)**, slightly higher than 64.3% as at end-Dec 2023. It has exceeded the threshold (60%) outlined in Public Finance and Fiscal Responsibility Act 2023 (Act 850).
- In tandem with the rising FG debt amid continued reduction in fiscal deficit, **debt service charges as a percentage of total operating expenditure is expected to climb higher to 15.8% in 2024 and further to 16.1% in 2025 (14.1% in 2022)**.

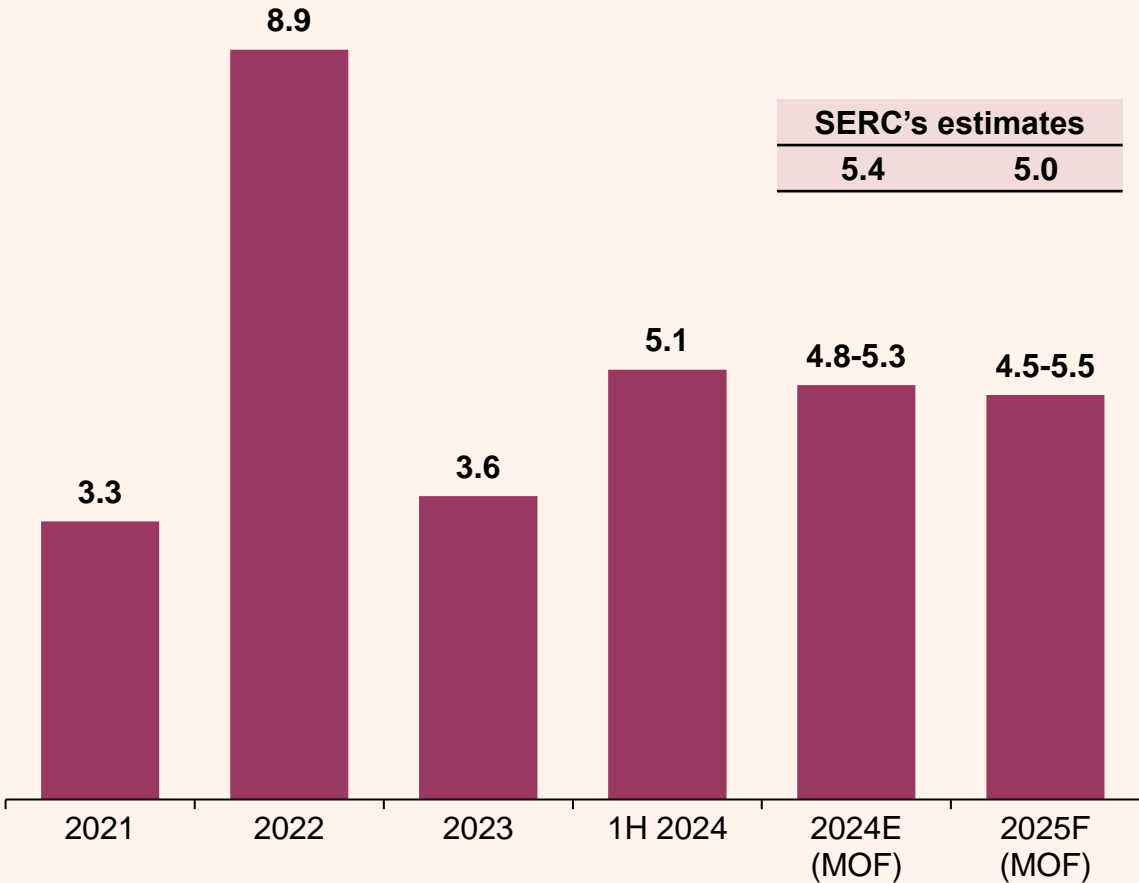
Debt legislative guidelines

Act	Statutory Limit	End-Jun 2024
Loan (Local) Act 1959 [Act 637] & Government Funding Act 1983 [Act 275]	Outstanding MGS, MGII and MTIB not exceeding 65% of GDP	61.2% of GDP (RM1,191 billion)
External Loans Act 1963 [Act 403]	Offshore borrowings not exceeding RM35 billion	RM29.3 billion
Treasury Bills (Local) Act 1946 [Act 188]	MTB not exceeding RM10 billion	RM6 billion
Public Finance and Fiscal Responsibility Act 2023 (Act 850)	Overall debt should not exceed 60% of GDP in the medium term	63.1% of GDP

Source: BNM; MOF

MOF projects Malaysia economy to grow by 4.5%-5.5% in 2025 (4.8%-5.3% in 2024)

Malaysia's real GDP growth (% YoY)



E=Estimate; F=Forecast
Source: DOSM; MOF

Supporting drivers

- **Supply side:** Almost all economic sectors to expand in 2025. The services and manufacturing sectors will lead the growth while the construction sector's buoyancy continues.
- **Demand side:** Strong private sector expenditure, underpinned by firm labour market conditions and income growth as well as manageable inflation despite cost of living pressures still bite. Realisation of higher approved investments in 2021-2023, initiatives to boost domestic investment and the acceleration of strategic projects will public strategic projects will sustain higher investment.

Risks

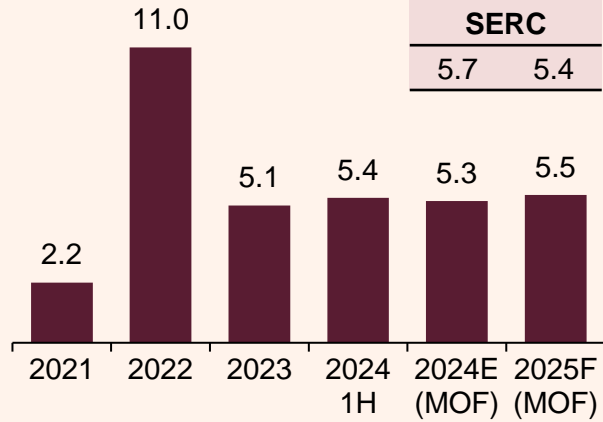
- Escalation of geopolitical tensions.
- Supply chain disruptions.
- Volatility in financial market conditions.
- Varying growth prospects across economies.

Most economic sectors will continue to expand in 2025

Real GDP growth by sector (% YoY)

Services

59.8% of GDP in 2025F

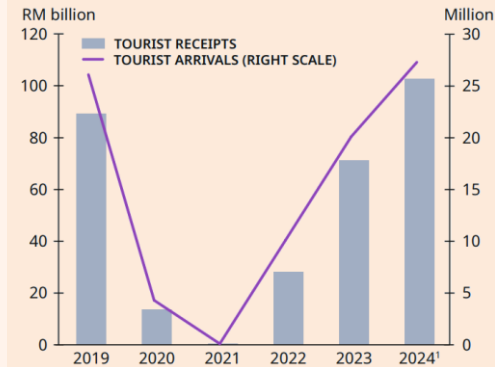


Factors:

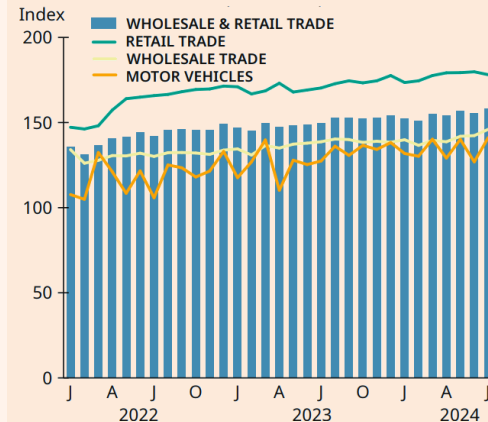
- Expansion in all sub-sectors; continuous consumer spending and robust business- and tourism-related activities.
- Driven by retail and motor vehicle segments – higher adoption of technologies by traders; introduction of new models, specifically in EVs and hybrid vehicles.
- Surge in investment in digital infrastructure.
- Robust growth in transportation and storage subsector.
- Sustained demand for professional services.

Source: DOSM; MOF; MIDA

Tourist arrivals and receipts

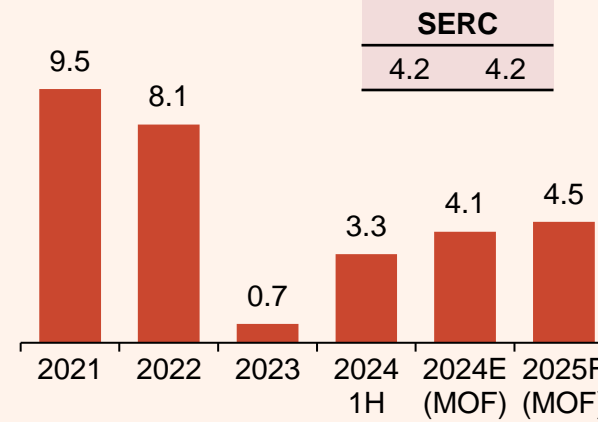


Volume index of wholesale and retail trade (2015=100)



Manufacturing

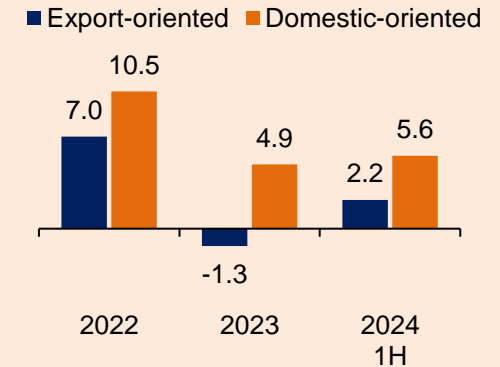
23.1% of GDP in 2025F



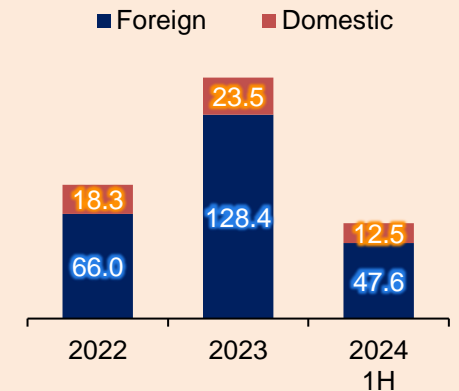
Factors:

- Implementation of major policies (e.g. NIMP 2030, NSS).
- Sustained production in household and consumer goods, supported by stimulus consumer spending policy measures.
- Increasing approved and realised investment propel growth in manufacturing of construction materials.
- Higher demand in electronic components.
- Rising realisation of approved investment in the semiconductor industry.

Growth (% YOY) by segment



Approved manufacturing investment (RM billion)

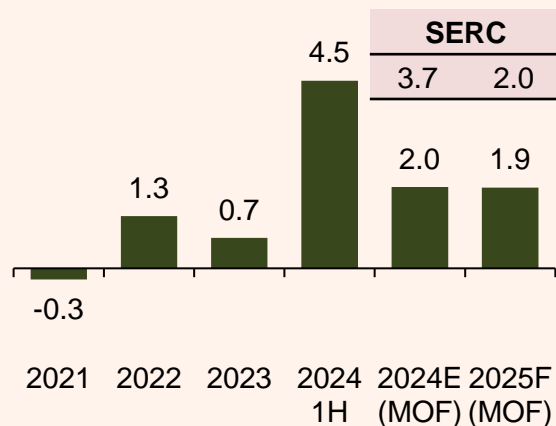


(cont.)

Real GDP growth by sector (% YoY)

Agriculture

6.1% of GDP in 2025F



Factors:

- Supported by all sectors, except forestry and logging.
- CPO: Higher FFB production and yield.
- Increase in natural rubber output and stable prices.
- Other agriculture, livestock and fishing subsectors supported by National Agrofood Policy 2021-2030.

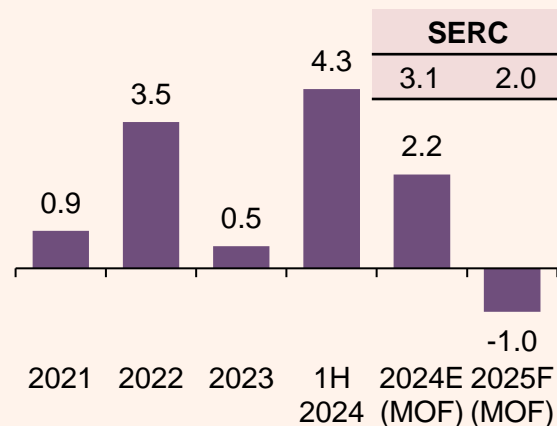
CPO prices:

2025F: RM3,500-RM4,000/tonne
2024E: RM3,800-RM4,300/tonne

Source: DOSM; MOF

Mining and Quarrying

5.7% of GDP in 2025F



Factors:

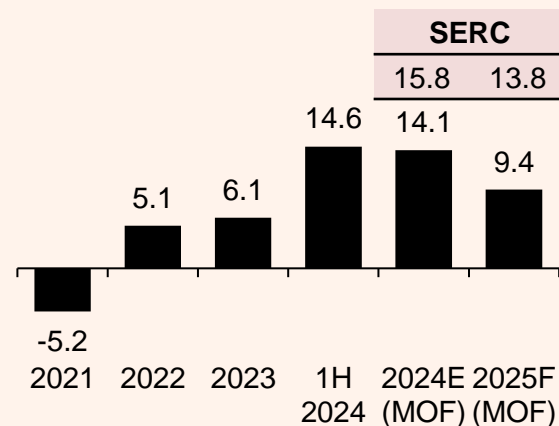
- Sluggish performance in key subsectors.
- Natural gas: Planned shutdown of two facilities in Sarawak; moderating demand from major importing countries.
- Crude oil and condensate: Lower production in Peninsular Malaysia; scheduled maintenance in 2H 2025.

Crude oil prices:

2025F: USD75-USD80/bbl
2024E: USD80-USD85/bbl

Construction

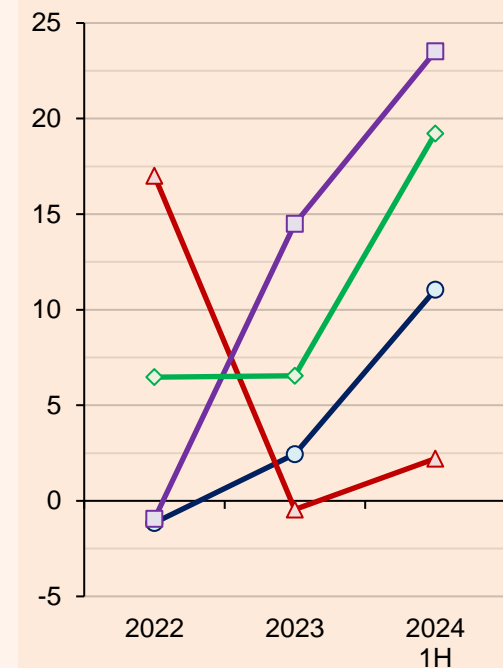
4.1% of GDP 2025F



Factors:

- Acceleration of strategic infrastructure projects, particularly from civil engineering activities.
- Strong demand for industrial facilities from realisation of approved investments and development of new industrial areas.
- Sustained demand for affordable housing and private new development projects.

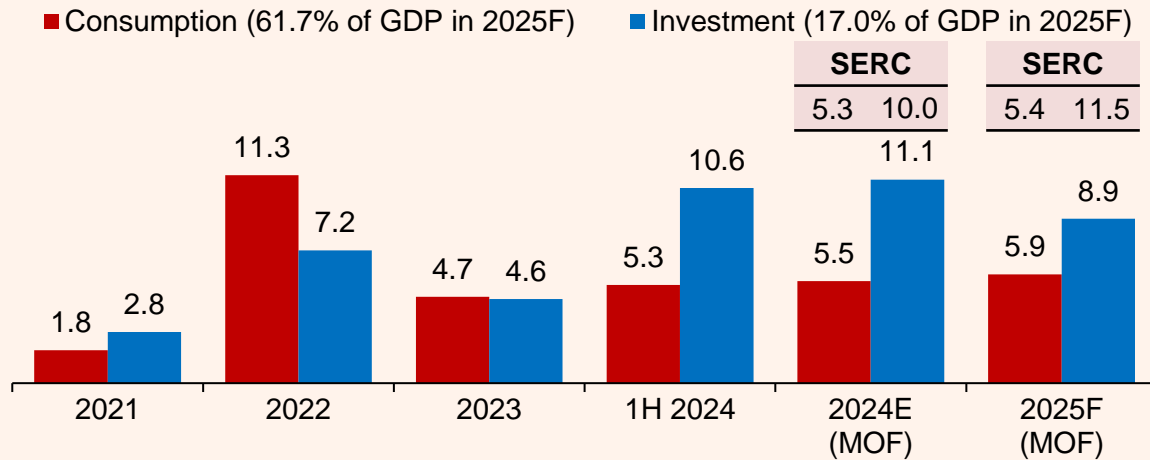
Growth (% YOY) by segment



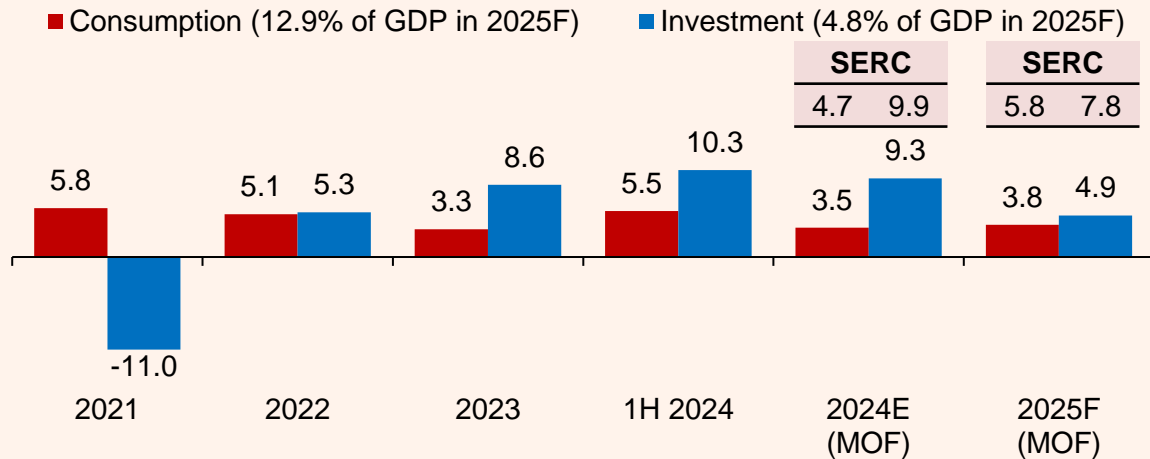
- Residential buildings
- △ Non-residential buildings
- Civil engineering
- ◇ Specialised construction activities

Private sector spending remains the key driver of growth in 2025

Private Consumption and Investment (% YoY)



Public Consumption and Investment (% YoY)



Factors:

Private consumption

- Improvement in disposable income, supported by sustained domestic economic activities and robust labour market conditions, as well as the implementation of Public Service Remuneration System (SSPA).
- Continued targeted cash assistance programmes.

Private investment

- New and ongoing multi-year projects.
- Government's effort in strengthening the investment ecosystem.
- Realisation of projects, especially related to semiconductors and data centres.
- RM120 billion GEAR-uP initiative over 5 years.
- Establishment of Johor-Singapore Special Economic Zone (JS-SEZ).

Factors:

Public consumption

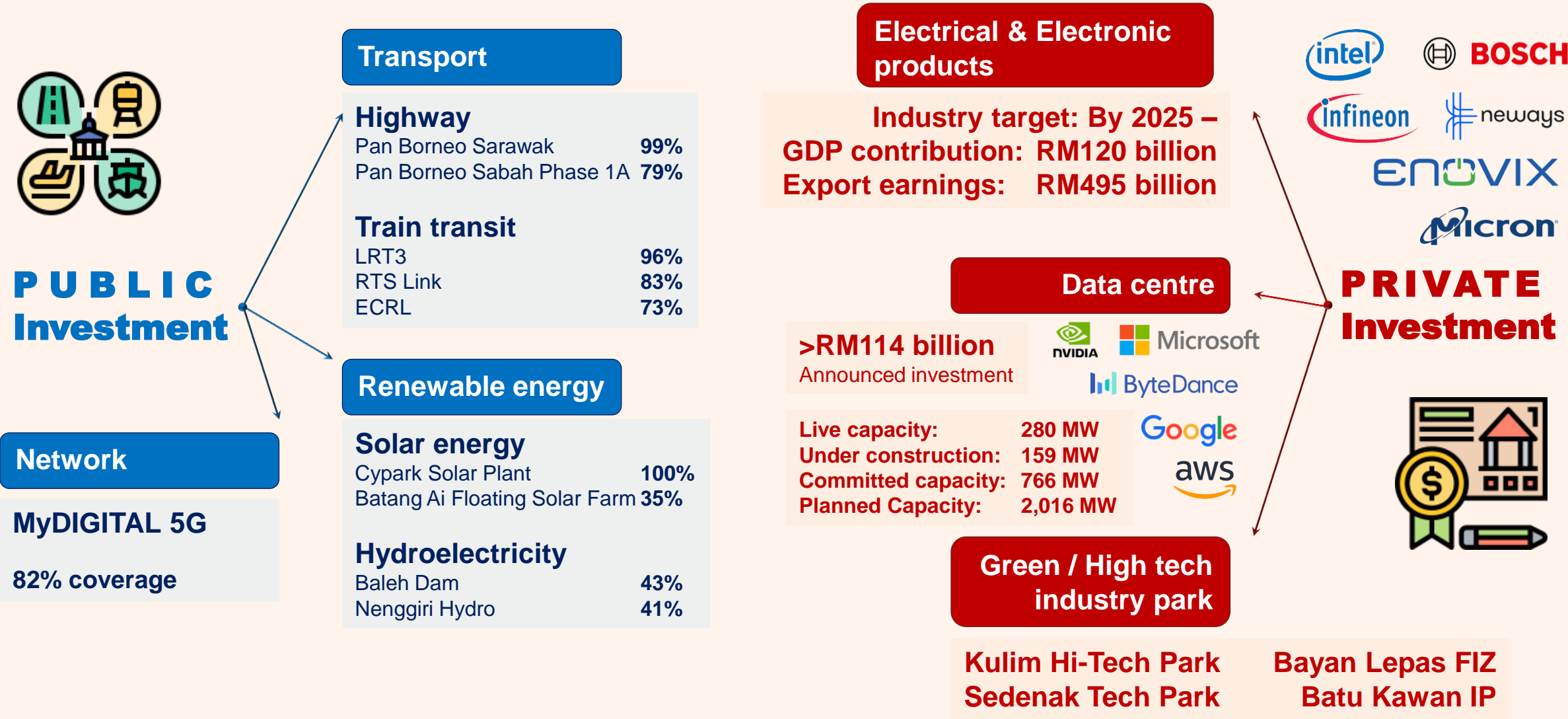
- Increased spending on emoluments following the implementation of Public Service Remuneration System (SSPA).

Public investment

- Higher spending on capital outlays by non-financial public corporations (NFPCs).
- Acceleration of key projects in the final year of Twelfth Malaysia Plan.
- GEAR-uP initiative.

Source: DOSM; MOF; MIDA

Strong investment drives Malaysia's future economic growth



Source: Various

Investment from global tech giant into Malaysia

 **ByteDance** ⑥

Construction of Artificial Intelligence hub

Amount: RM10 billion

 **Nvidia** ⑤

Center for the Artificial Intelligence (AI) Cloud for South East Asia

Amount: RM20 billion

 **Microsoft** ④

Development of cloud systems and AI

Amount: RM10.5 billion



①  **Amazon Web Services**

Launch of infrastructure Region through to 2037.

Amount: RM29.2 billion

② 

Construction of the first Google data centre in Malaysia and the Google Cloud Region.

Amount: RM9.4 billion

③ 

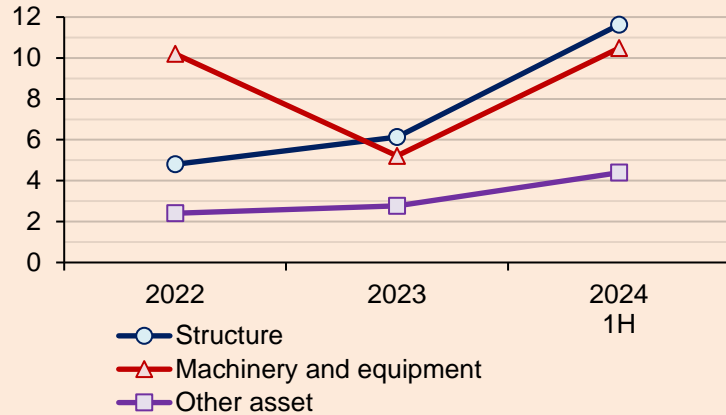
Establishment of the Oracle Cloud Infrastructure (OCI) cloud region.

Amount: RM26.7 billion

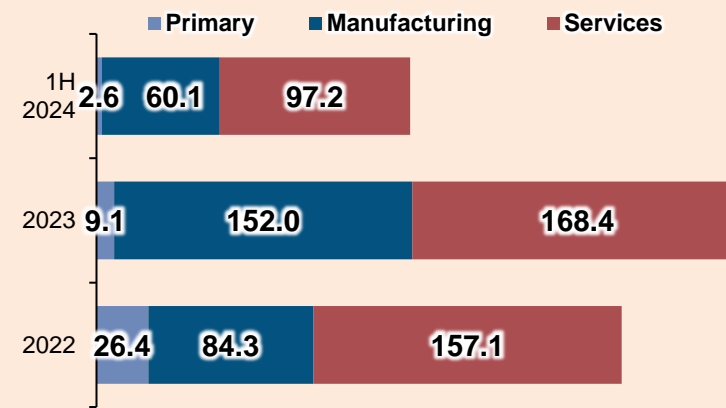
Source: Various sources

Strong private investment drives Malaysia's future economic growth

Gross fixed capital formation by type of assets (Growth, % YoY)



MIDA's approved Investment by major sector (RM billion)



Source: DOSM; MIDA

Selected approved investment by subsector (RM million)	2023	1H 2024
Information & Communications	63,698.1	45,853.9
Electrical & Electronics	85,427.3	36,946.3
Real Estate	60,950.1	30,999.5
Transport Services	1,344.3	4,850.7
Transport Equipment	7,066.8	4,734.5
Utilities	11,143.9	4,010.2
Global Establishments	878.2	3,630.6
Non-Metallic Mineral Products	8,753.6	3,555.4
Chemicals & Chemical Products	8,906.1	3,104.3
Machinery & Equipment	22,558.2	2,823.7
Fabricated Metal Products	4,083.5	2,781.0
Financial Services	6,313.9	2,743.9
Mining	8,768.5	2,361.8
Distributive Trade	11,129.8	1,896.3
Support Services	10,457.6	1,641.1
Food Manufacturing	3,174.4	1,225.6
Basic Metal Products	2,371.5	1,195.7

■ Services sector
■ Manufacturing sector
■ Primary sector

Progress for selected key public projects

Transport

Highway

Pan Borneo Sarawak **99%**
Pan Borneo Sabah Phase 1A **79%**

Train transit

LRT3 **96%**
RTS Link **83%**
ECRL **73%**

Renewable energy

Solar energy

Cypark Solar Plant **100%**
Batang Ai Floating Solar Farm **35%**

Hydroelectricity

Baleh Dam **43%**
Nenggiri Hydro **41%**

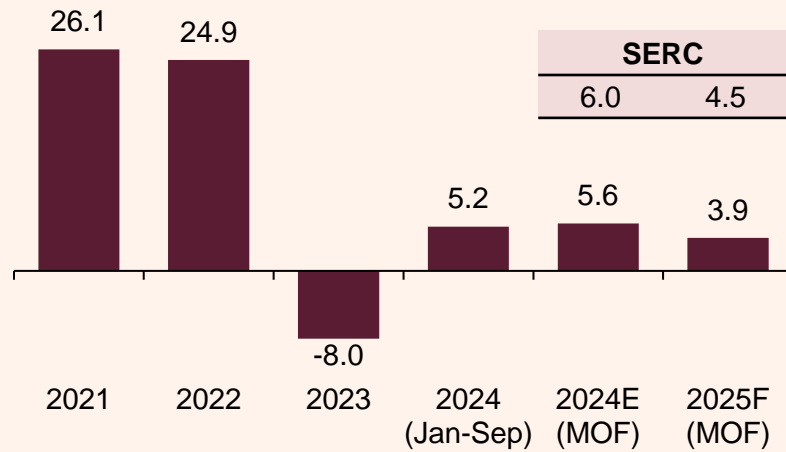
Network

MyDIGITAL 5G **82% coverage**

Source: Various

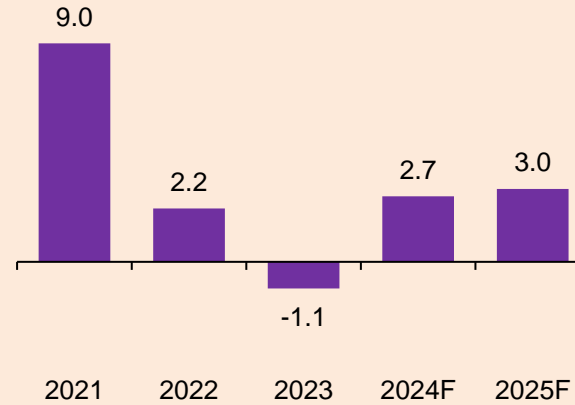
Exports recovery continues amid external risks ahead

Gross Export Growth (%)

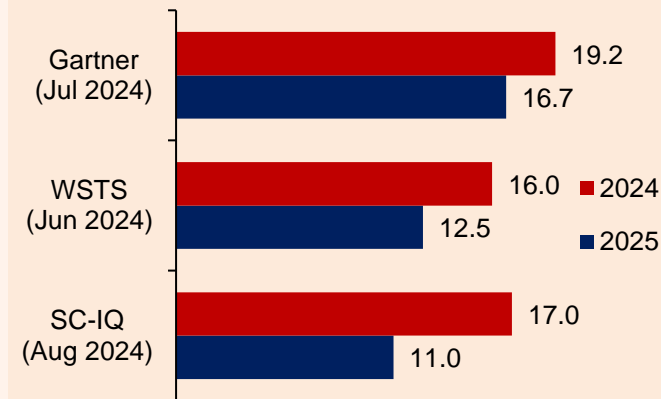


- Improved performance in global trade as well as acceleration in the demand of E&E products driven by global technology upcycle.
- Steady demand for semiconductors.
- Higher demand for non-E&E products, particularly for petroleum products, other manufactures, chemicals and chemical products, as well as machinery, equipment and parts.
- Steady global demand for palm oil and palm oil based agriculture products.
- Softer demand for LNG and crude petroleum from major markets.

WTO's merchandise trade volume growth (%) (Oct 2024)



Selected semiconductor market forecast:



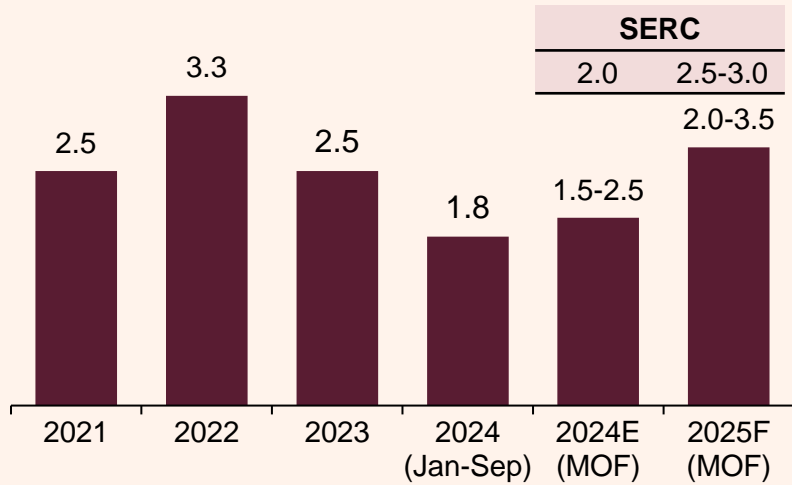
Approved export-oriented manufacturing investment (RM million)	2023	1H 2024
Electrical & Electronics	85,427.3	36,946.3
Chemicals & Chemical Products	8,906.1	3,104.3
Machinery & Equipment	22,558.2	2,823.7
Plastic Products	4,137.8	787.6
Textiles & Textile Products	241.8	778.3
Petroleum Products (Inc. Petrochemicals)	939.5	669.4
Furniture & Fixtures	420.3	338.9
Wood & Wood Products	392.9	279.9
Scientific & Measuring Equipment	1,307.0	106.2
Rubber Products	27.2	54.4

Source: DOSM; MOF; MIDA

Risks of consumer inflation to the upside



Inflation (%)



Changes (YoY) in Sep 2024	Number of items (% share)
Increased >10%	10 (1.7%)
Increased <10%	330 (57.6%)
Remained unchanged	95 (16.6%)
Decreased	138 (24.1%)

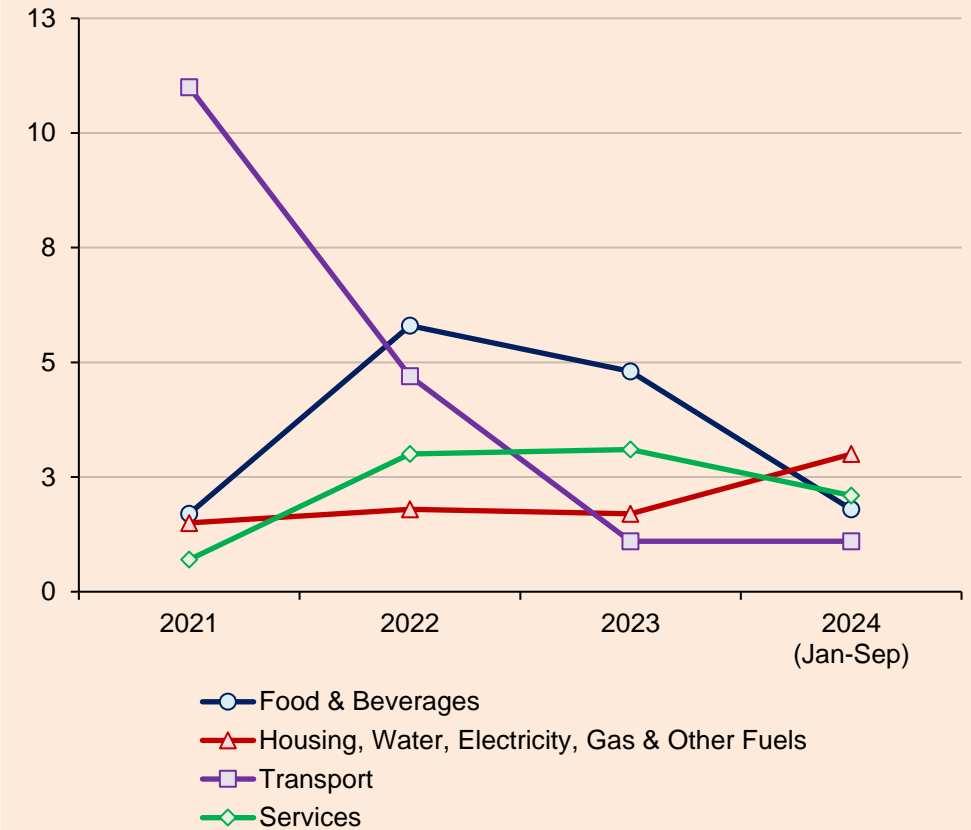
Positive drivers:

- Easing supply constraint.
- Moderation of global commodity prices.

Negative drivers:

- Volatile global commodity prices.
- Global supply chain disruptions.
- Upward inflation pressures from domestic sources:
 - Pay hikes for civil servants
 - Minimum wage increases
 - Petrol subsidy rationalisation in mid-2025

Inflation for main group (% YoY)

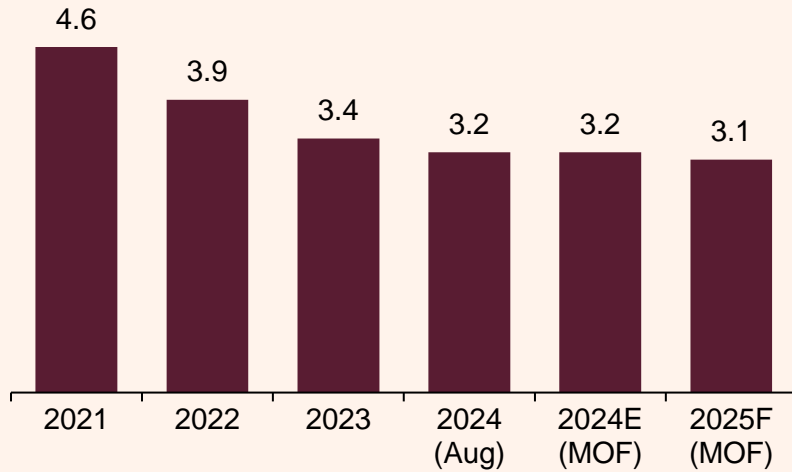


Source: DOSM; MOF; MIDA

Resilient labour market underpins consumer spending



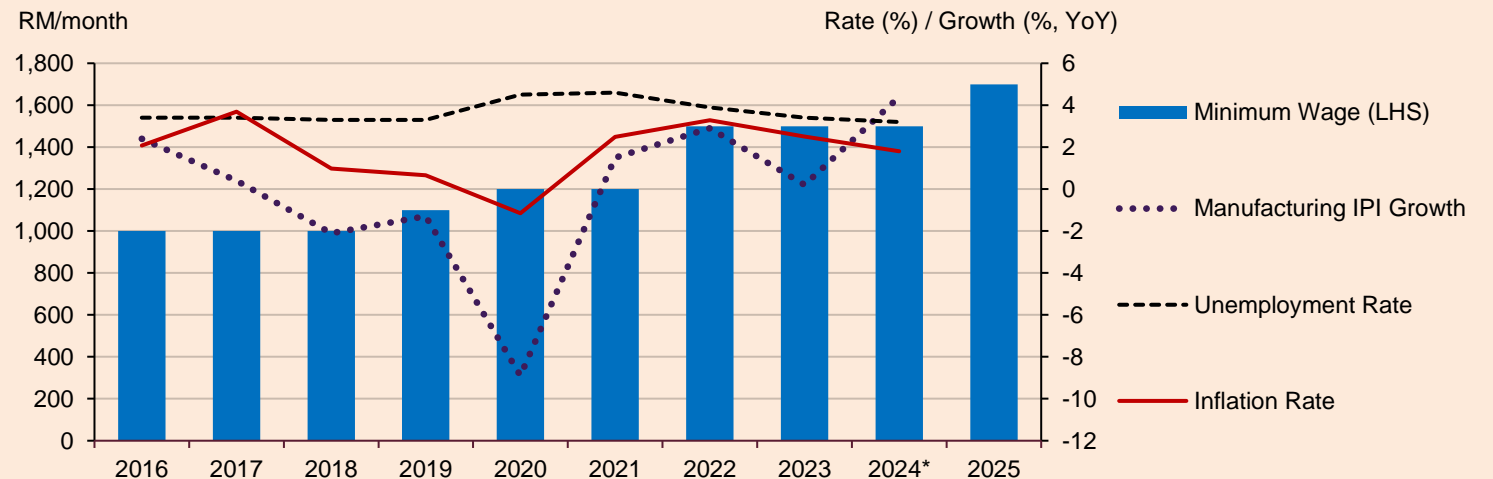
Unemployment Rate (%)



- Remain stable in tandem with better economic growth prospects anticipated in domestic and external fronts.
- Low-skilled foreign workers is expected to hover around 2.5 million persons to accommodate the needs of economic activities, particularly in labour-intensive industries.
- Expatriates hiring is expected to increase marginally to fit the demand of skilled talent in critical jobs.

Impact of higher minimum wage on unemployment

- Given the domestic economy is still growing and stable labour market conditions, though SMEs will experience an increase in employment cost due to higher minimum wages, multi-tiered foreign worker levy and the EPF contribution for foreign workers, they have to manage their cost more efficiently and drive higher productivity of their employees, and will pass on higher unabsorbed costs to consumers to keep their profit margin.
- The businesses could benefit because higher wages mean less labour turnover, as well as less advertising and training for new workers. In the end, their profits are not harmed significantly.
- Our tracking of the minimum wage and unemployment rate showed that the unemployment rate was stable when the minimum wage was raised in 2019 (by 10% to RM1,100 from RM1,000) and it increased to 3.9% in 2022, largely blamed on the COVID-19 pandemic crisis and improved to 3.4% in 2023 when the minimum wage raised by 25% to RM1,500 in 2022 from RM1,200 in 2021.



Source: DOSM; MOF

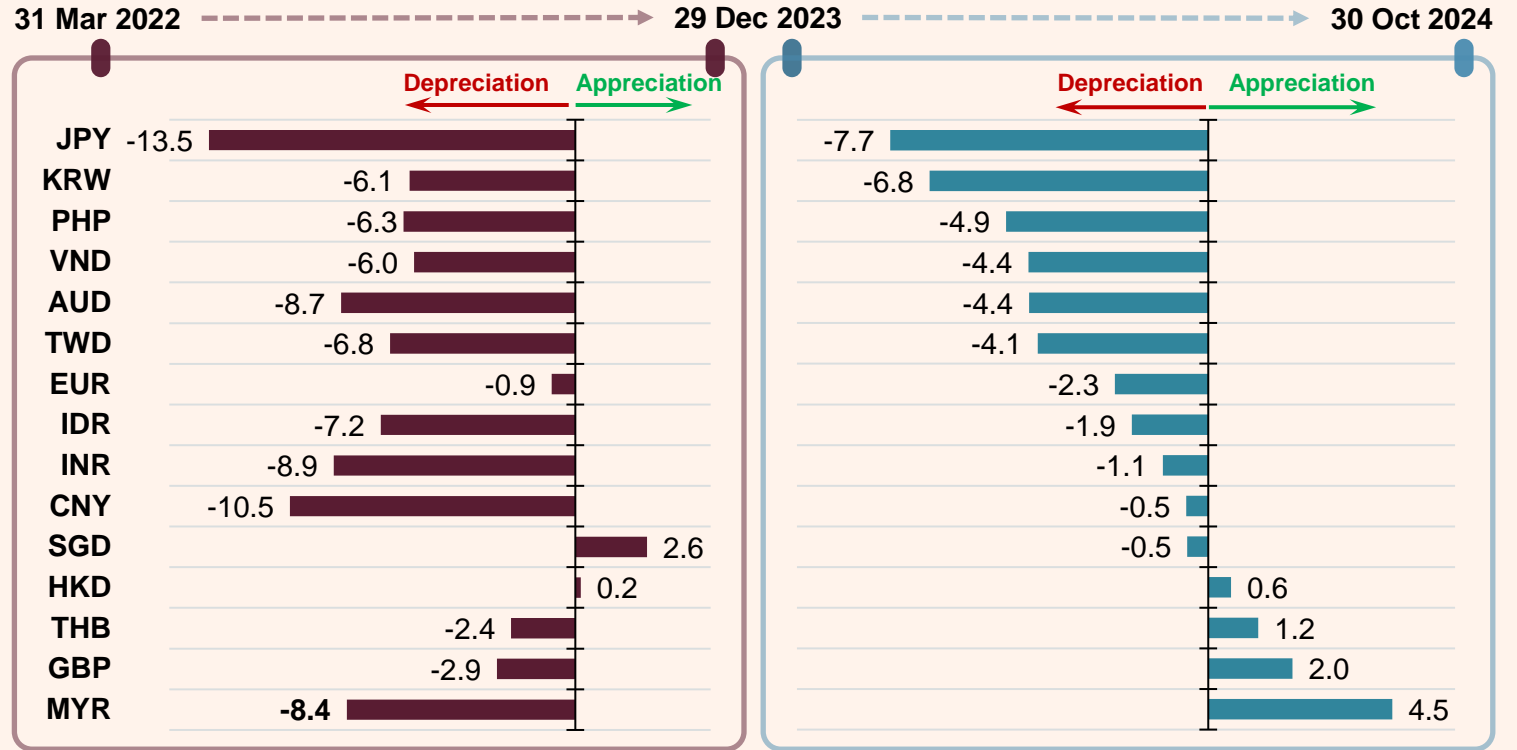
Source: DOSM; MOF; MIDA

Foreign reserves rise steadily, the Ringgit has regained strength

Foreign reserves
USD billion



Selected major and regional currencies against the USD (%)



Foreign reserves

- Continued trade surplus
- FDI flows (manufacturing, technology, data centres, services)
- Portfolio flows (debt, equities, other instruments)

Source: BNM

Ringgit

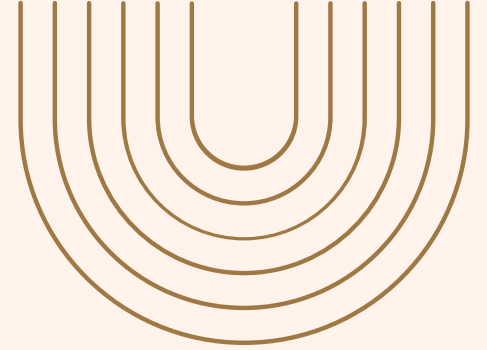
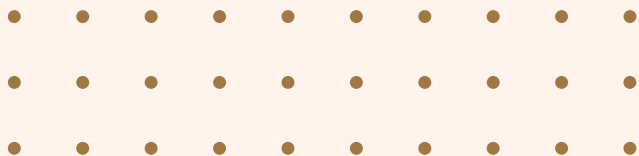
- Narrowing interest rate differentials with the US
- Positive on growth and investment prospects
- Conversion into ringgit
- FDIs and portfolio flows
- Concerted actions by the Government and Bank Negara Malaysia on the repatriation of investment income realised abroad

Note: Cross rate applied for currencies against USD.



Conclusion

1. Fiscal consolidation trajectory and contain the debt are key foundations to sustain higher economic growth. Structural reforms to boost confidence and macro stability.
2. Attracting the right kind of quality investments will transform the Malaysian economy, pushing for the next economic take-off. Our narrative is that Malaysia offers compelling growth and boundless investment opportunities in this region.
3. By fostering a more business-friendly environment and thriving investment ecosystem, Malaysia can unlock the full potential of its investment opportunities, entrepreneurial spirit and innovative capabilities.
4. Malaysia has “diversity” as selling points to differentiate us from other countries in the region. These diversities are natural resources, industries, markets, products, languages, ethnicities, cultures, and markets in the region.



THANK YOU

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