社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

Quarterly Economy Tracker (Jul-Sep 2018)

Growing but challenges still ahead

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25 September 2018

Key Messages

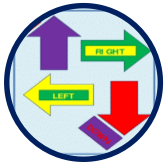
RISKS TO GLOBAL ECONOMY STILL LURK

MALAYSIA ECONOMY GROWING, RISKS AHEAD

2019 BUDGET: LEAN BUT GROWTH SUPPORTIVE

Global economy still GROWING but MULTIPLE RISKS ahead

Global growth has **MATURED** and **PASSED ITS PEAK**. **INCREASING DOWNSIDE RISKS** to growth over next 18 months.



UNEVEN EXPANSION and **LESS SYNCHRONIZED** in advanced economies and emerging Asia.

"**FIVE BEARS**" increase **global uncertainty**:

TRADE WAR

RISING US INTEREST RATES

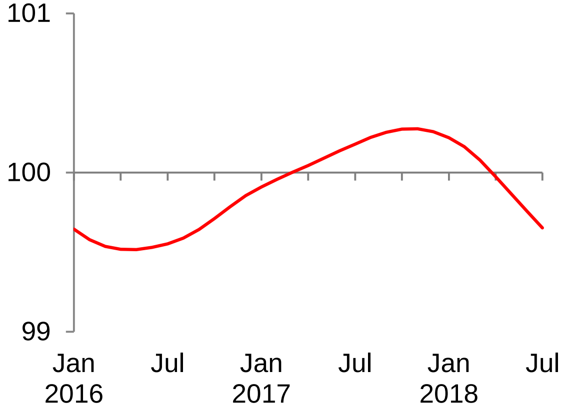
FINANCIAL VOLATILITY

INTENSIFIED RISKS IN EMERGING MARKETS

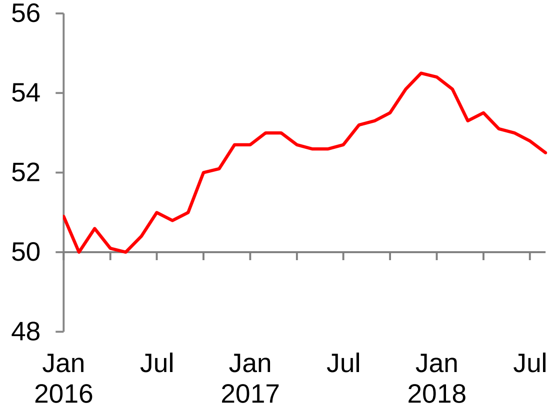
POLITICAL AND GEOPOLITICAL RISKS

Global indicators point to PEAKING & EASING global growth

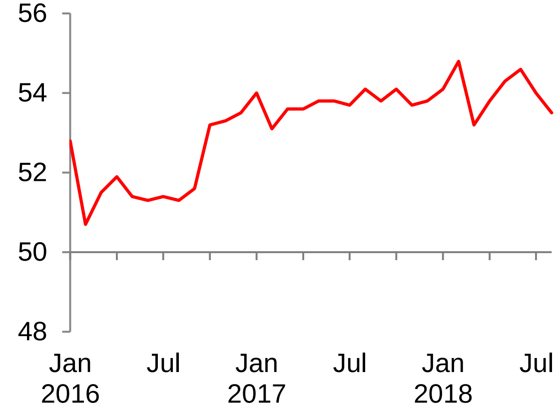
OECD CLI
(Long-term average = 100)



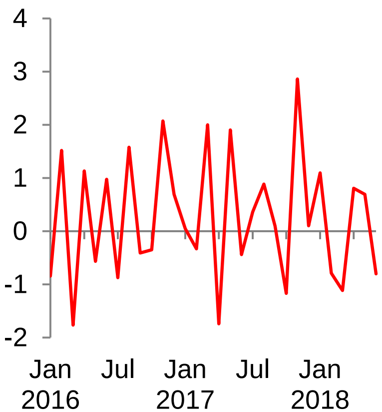
Manufacturing PMI
(50 = no change on prior month)



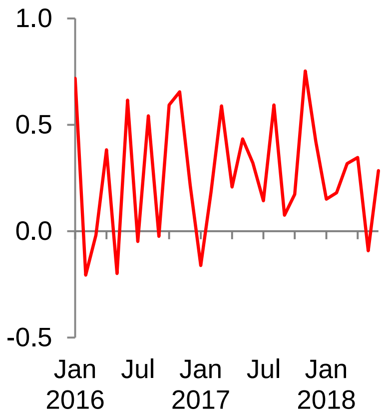
Services PMI
(50 = no change on prior month)



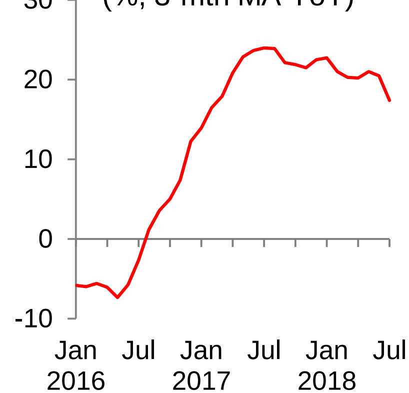
Trade volume
(%, MoM)



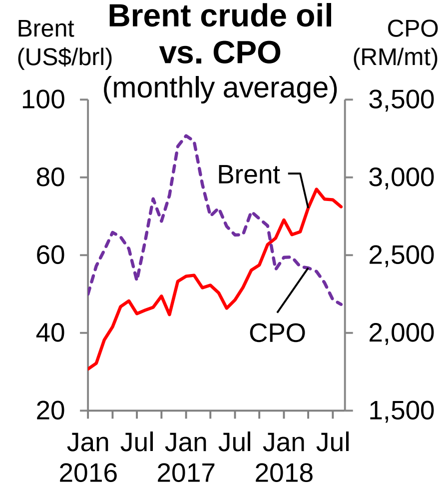
Industrial production
(%, MoM)



Global semiconductor sales
(%, 3-mth MA YoY)



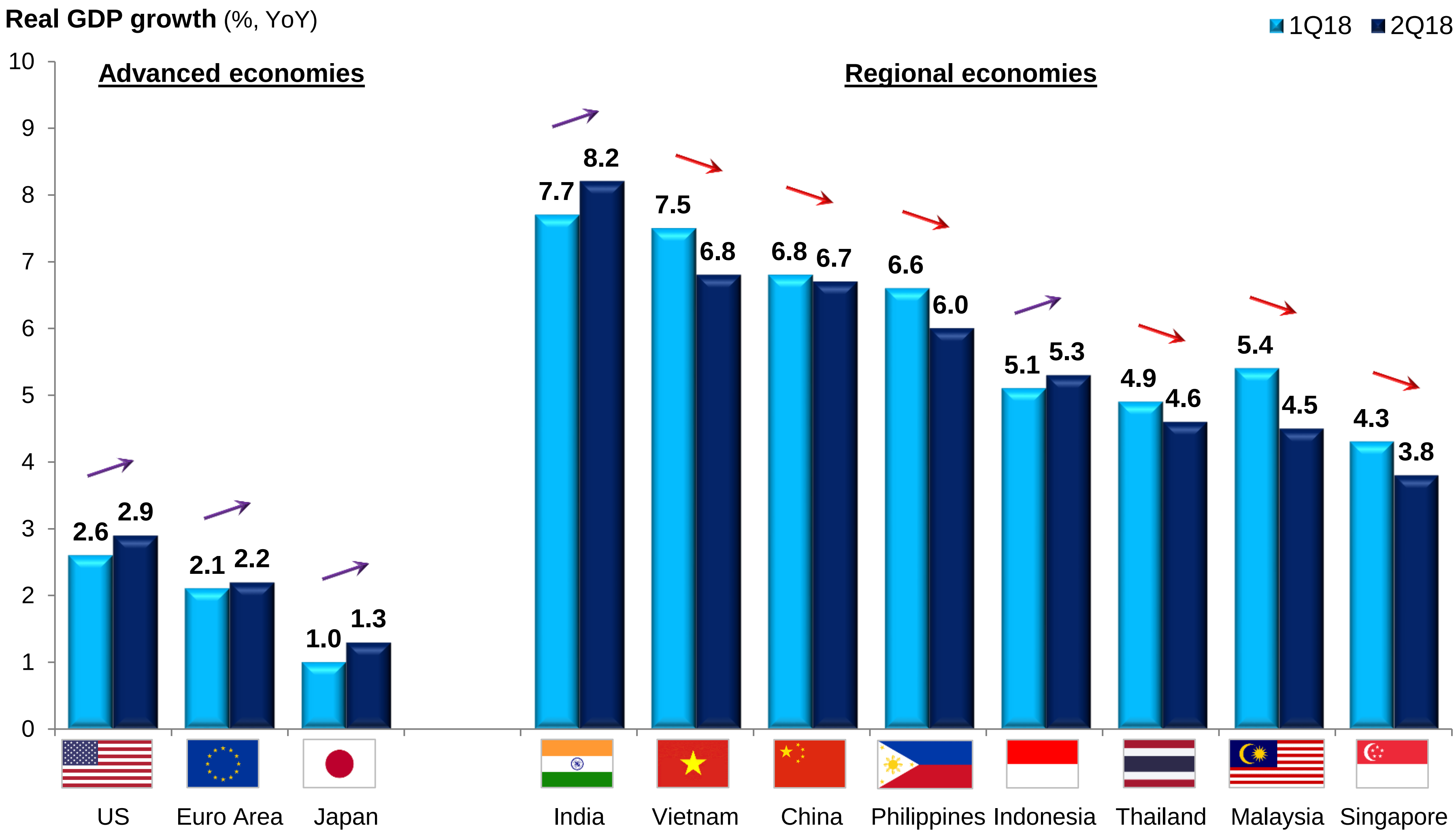
Brent crude oil vs. CPO
(monthly average)



Jan-Aug 2018	Brent crude oil:	US$71/brl
	CPO:	RM2,363/mt

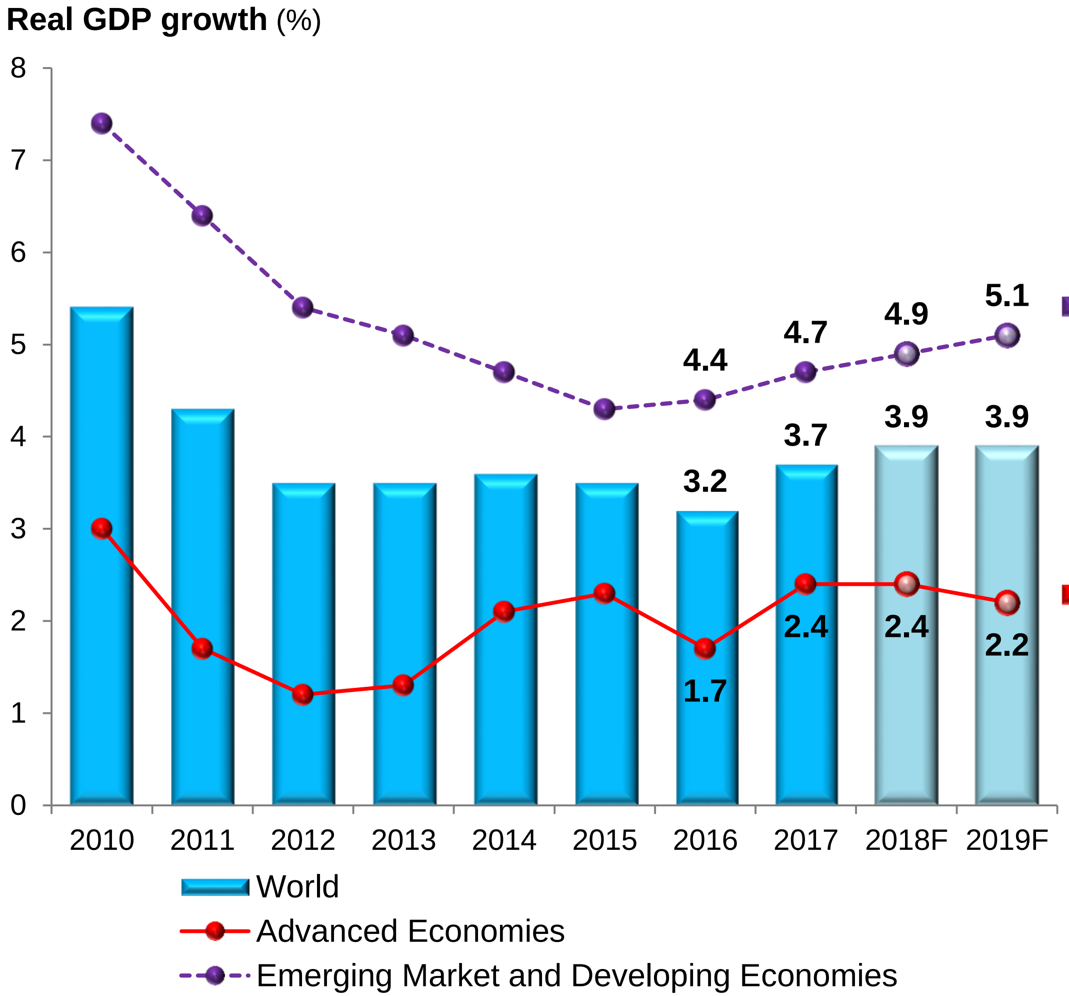
Source: OECD; Markit; CPB; SIA; EIA; MPOB

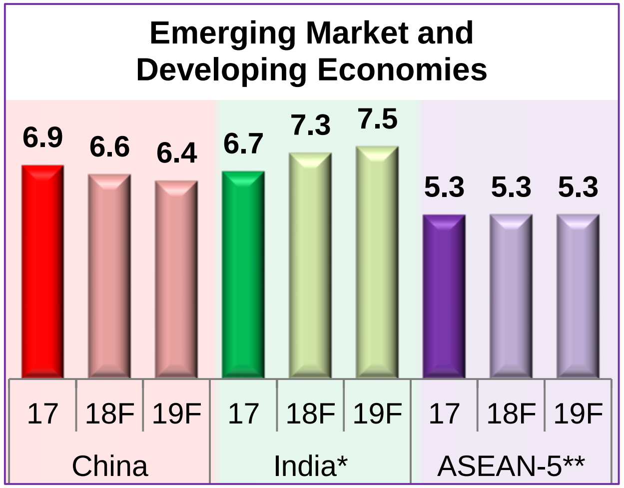
Uneven EXPANSION in advanced and regional economies

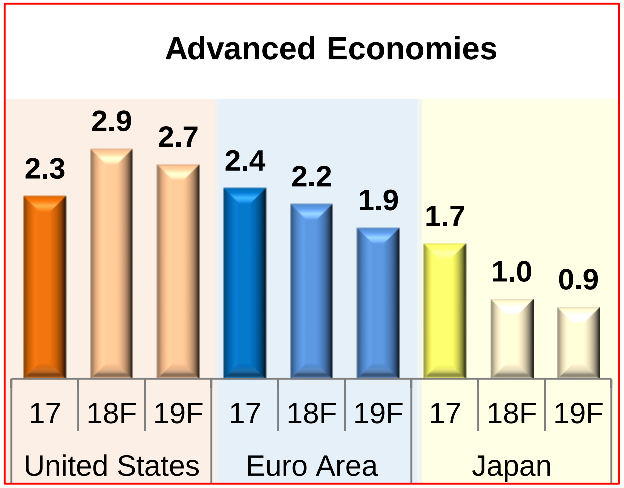


Source: Officials

Less SYNCHRONISED global economic growth prospects





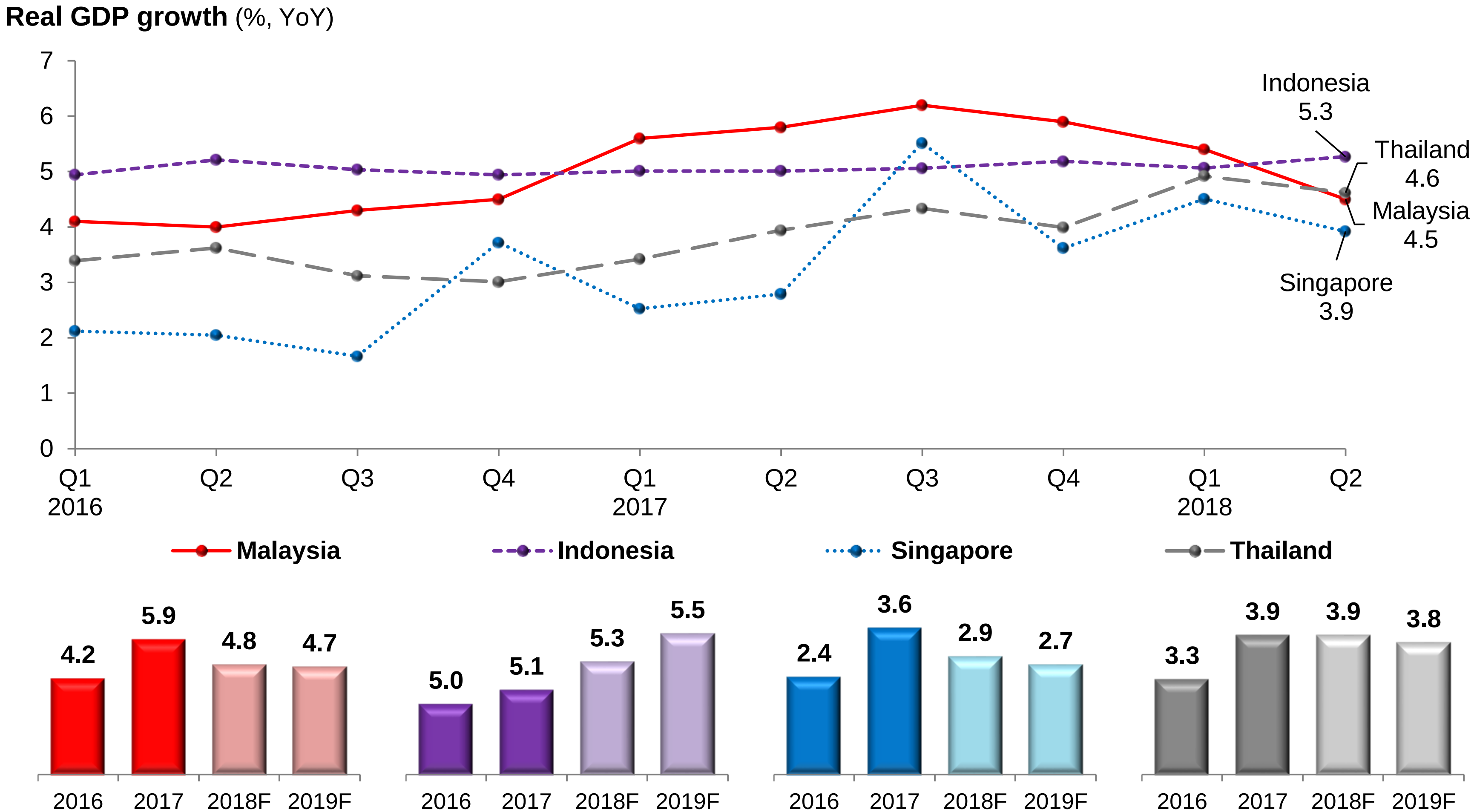


Source: Officials; IMF (WEO Update, July 2018)

* *Annual GDP for India is on fiscal year basis*

** *ASEAN-5: Malaysia, Indonesia, Philippines, Thailand, Vietnam*

ASEAN-4 still in good shape, BEWARE THE TAIL RISKS

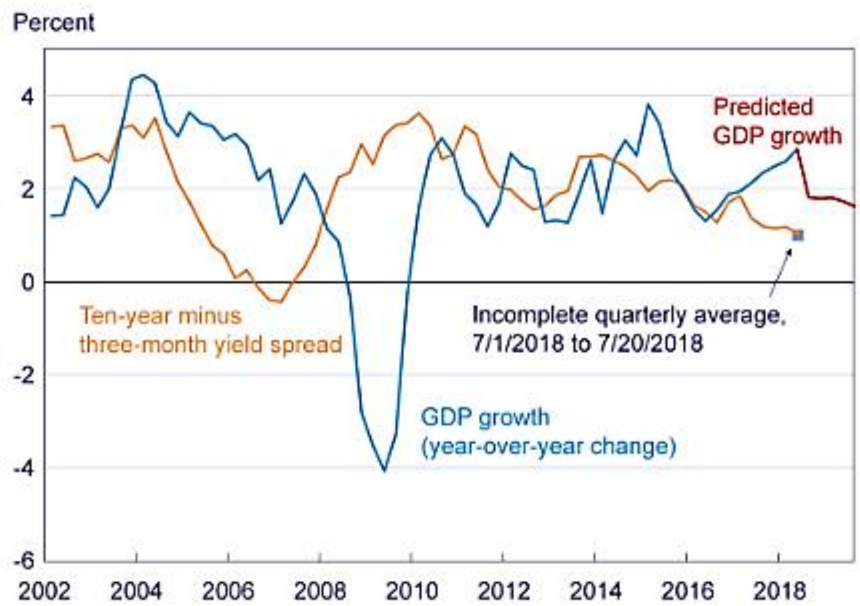


Source: Officials; IMF (WEO, April 2018); SERC (Malaysia's GDP forecasts for 2018 & 2019)

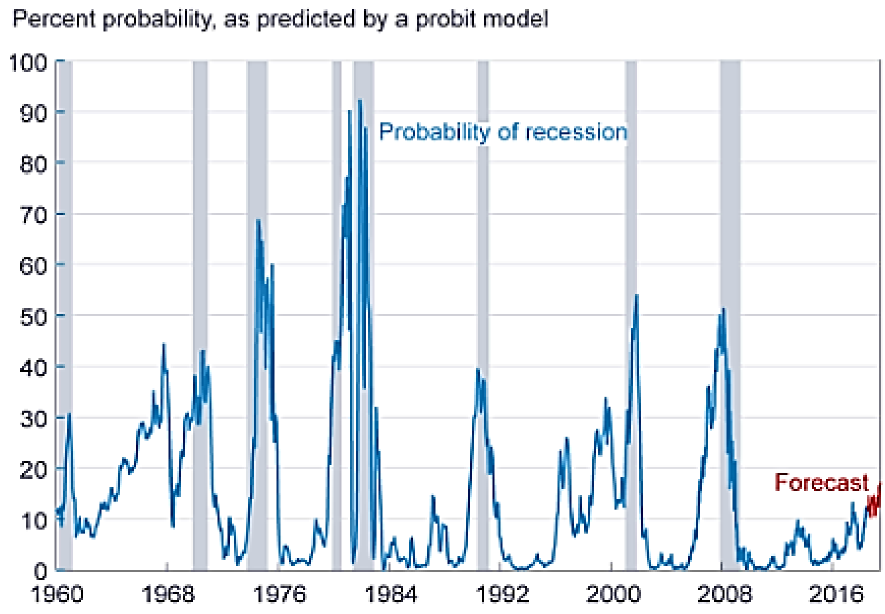
Is INVERTED US yield curve is a harbinger of ECONOMIC TROUBLE?

- The rule of thumb is that **AN INVERTED YIELD CURVE** (short rates above long rates) indicates a recession in about a year, and yield curve inversions have **PRECEDED EACH OF THE LAST SEVEN RECESSIONS**.
- **FLIGHT TO QUALITY AND SAFETY**. The Fed and central banks around the world have been buying up government debt for years, effectively depressing long-term interest rates.

Yield-Curve-Predicted GDP Growth



Sources: Bureau of Economic Analysis; Federal Reserve Board; authors' calculations.



Note: Shaded bars indicate recessions.
Sources: NBER, Federal Reserve Board; authors' calculations.

1 TRADE WAR gets ugly; when will it end?

- **First**, **SPILLOVER EFFECTS**. Impact felt not only in the countries involved but across the value chains that span several countries;
- **Second**, **ESCALATION**. Trade flows would be impaired and global growth would be undermined; and
- **Third**, **UNCERTAINTY**. Dampen business confidence and unsettle financial markets.

(Percentage point)	Impact from trade channel		Impact from investment channel
Impact of US tariffs to China	-0.04		
Impact of China tariffs to US		-0.06	
Asia excl. China	-0.01 to -0.03		
Global growth	-0.02		-0.03
Global trade	-0.02		-0.04

IMPACT on Malaysia: Estimated a marginal decline of 0.05-0.15 ppt in GDP growth

Trade disputes ADVERSELY AFFECT THE US MORE THAN CHINA, due to higher value-added sourced domestically (US: ~82%; China: ~64%)

High integration of EA-8 economies in China's production value chain, particularly E&E products (~18% share of value-added)

- ➔ **LOWER PROFIT from exporters**
- ➔ **DETERIORATION in financial conditions**
- ➔ **DAMPENED business sentiments and investment activities**

Source: BNM

1a US-CHINA'S TRADE NUMBERS at a glance

Total Exports in 2017: US$1,546bn
- To China: US$130bn (Share: 8.4%)

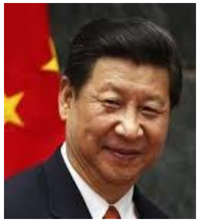
Total Imports in 2017: US$2,342bn
- From China: US$505bn (Share: 21.6%)

Trade deficit with China: US$375bn

Total Exports in 2017: US$2,264bn
- To US: US$430bn (Share: 19.0%)

Total Imports in 2017: US$1,841bn
- From US: US$154bn (Share: 8.4%)

Trade surplus with US: US$276bn



Trade war timeline

First Stage

US imposed tariffs on US$50bn worth of China's imports and retaliated by China with same amount:
(i) US$34bn effective on 6 July; and
(ii) US$16bn effective on 23 Aug

Second Stage

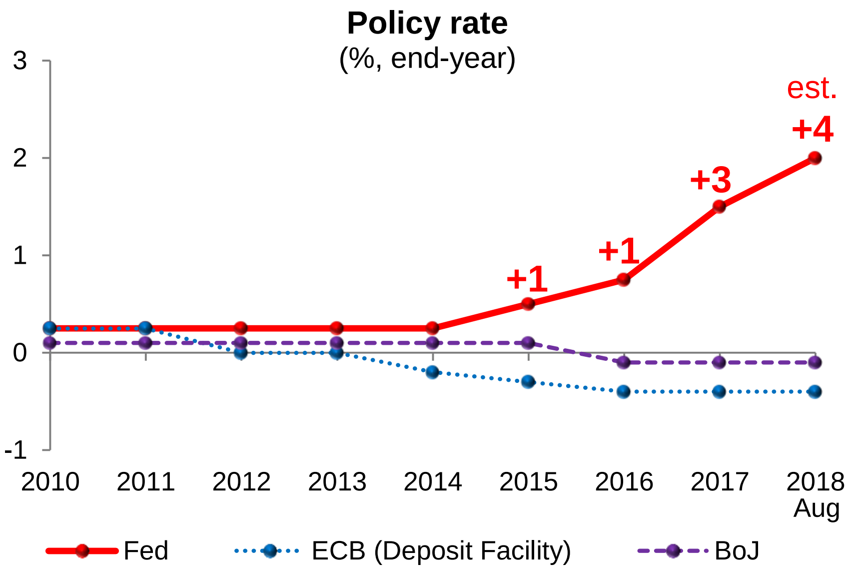
US announced tariffs of 10% on additional US$200bn worth of China's products, effective 24 Sep (will up to 25% comes 2019) and retaliated by China at 5-10% tariffs on additional US$60bn worth of US's products.

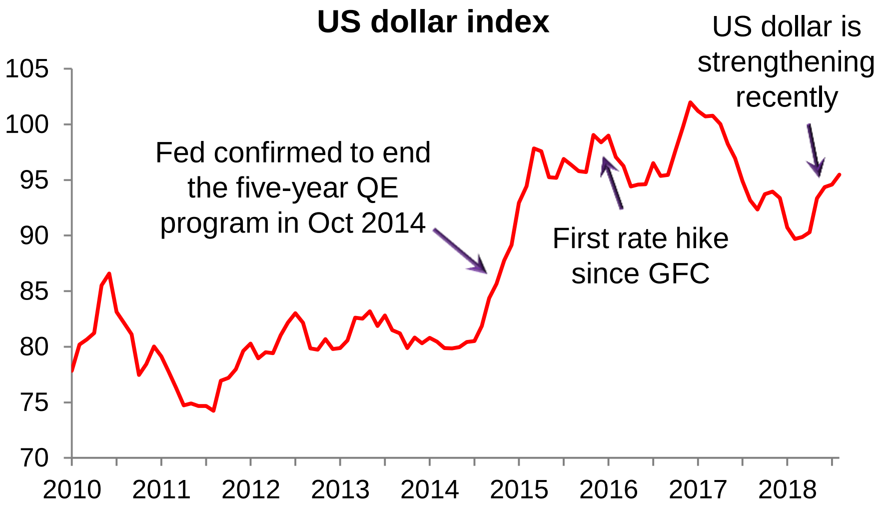
	US's tariffs on US$250bn of Chinese goods	China's tariffs on US$110bn of US's goods
Share of US's total imports	10.7%	
Share of US's total exports		7.1%
Share of imports from China	49.5%	
Share of exports to China		84.7%
	US's tariffs on US$250bn of Chinese goods	**China's tariffs on US$110bn of US's goods**
Share of China's total imports		6.0%
Share of China's total exports	11.0%	
Share of imports from US		71.5%
Share of exports to US	58.2%	

Source: US Census Bureau; China Customs

2 RISING interest rates

- The risk of **RAPID INFLATION** has heightened.
- Further **US INTEREST RATE TIGHTENING CYCLE** (2018E: 2.25-2.50%; 2019F: 2.75-3.25%); ECB to start raise rate in 2H19.
- **HIGHER DEBT SERVICING**; **TIGHTER FUNDING COST** and **US DOLLAR LIQUIDITY CONDITION**.
- **CAPITAL OUTFLOWS** and **CURRENCIES PRESSURE** in emerging markets.

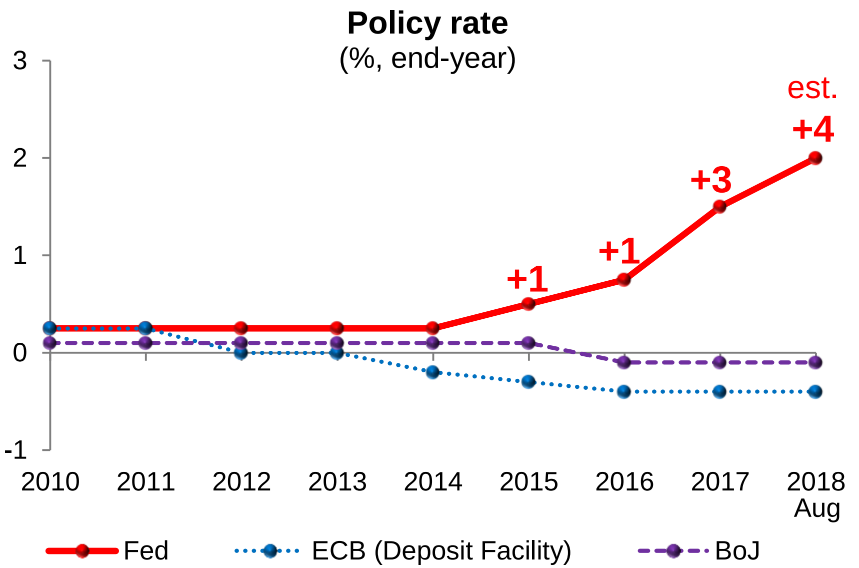


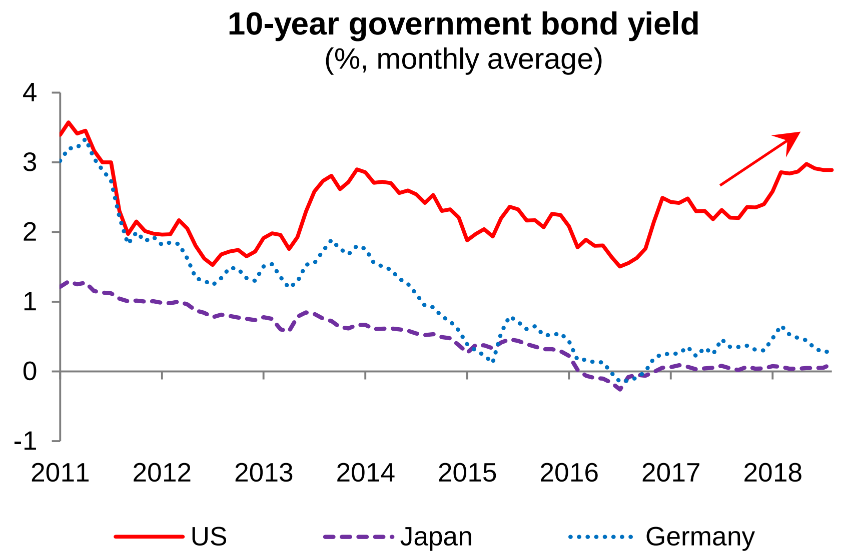


Source: Federal Reserve; ECB; BoJ; The Wall Street Journal

3 FINANCIAL volatility

- Two things are happening that threaten to tighten global financial conditions even more:
- **First**, **HIGHER US INTEREST RATES** and **CONTINUED UNWINDING OF THE FED'S BALANCE SHEET** which withdraws US dollar liquidity from global markets; and
- **Second, INCREASED ISSUANCE** of **US TREASURY BILLS** to fund fiscal expansion, which accentuates tightness in US dollar funding.
- More acute **WITHDRAWAL OF US DOLLAR LIQUIDITY** induces **SERIOUS BOUTS OF FINANCIAL VOLATILITY**.



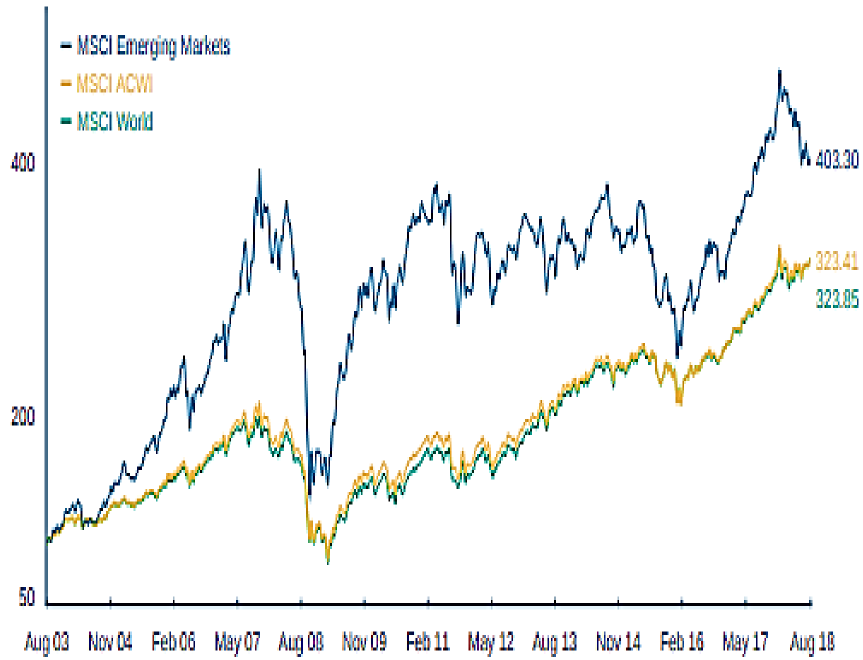


Source: Federal Reserve; ECB; BoJ; U.S. Department of the Treasury; MOF, Japan; Eurostat

4 CURRENCY CONTAGION RISK in emerging markets

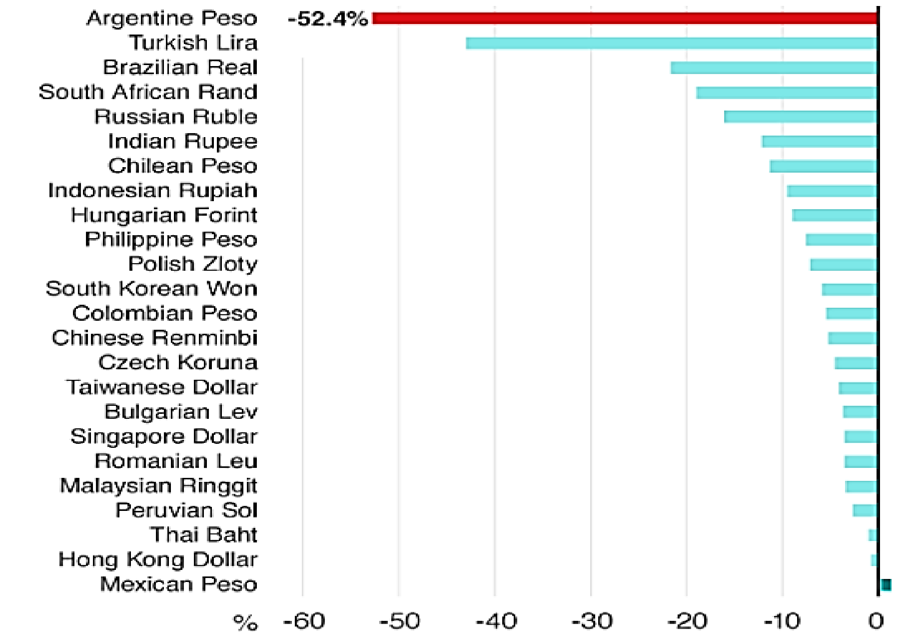
- **POWERFUL CROSSWINDS:** Higher global crude oil prices, rising US interest rates and bond yields, strong US dollar, the escalation of US-China trade war and political conflicts.
- **CAPITAL REVERSALS** and **CURRENCIES PRESSURES** on countries with **WEAK ECONOMIC FUNDAMENTALS** (twin deficits in both budget and external payments position, large foreign debt exposure and high domestic inflation pressures).

Cumulative index performance – net returns (USD) (Aug 2003 – Aug 2018)



Source: MSCI

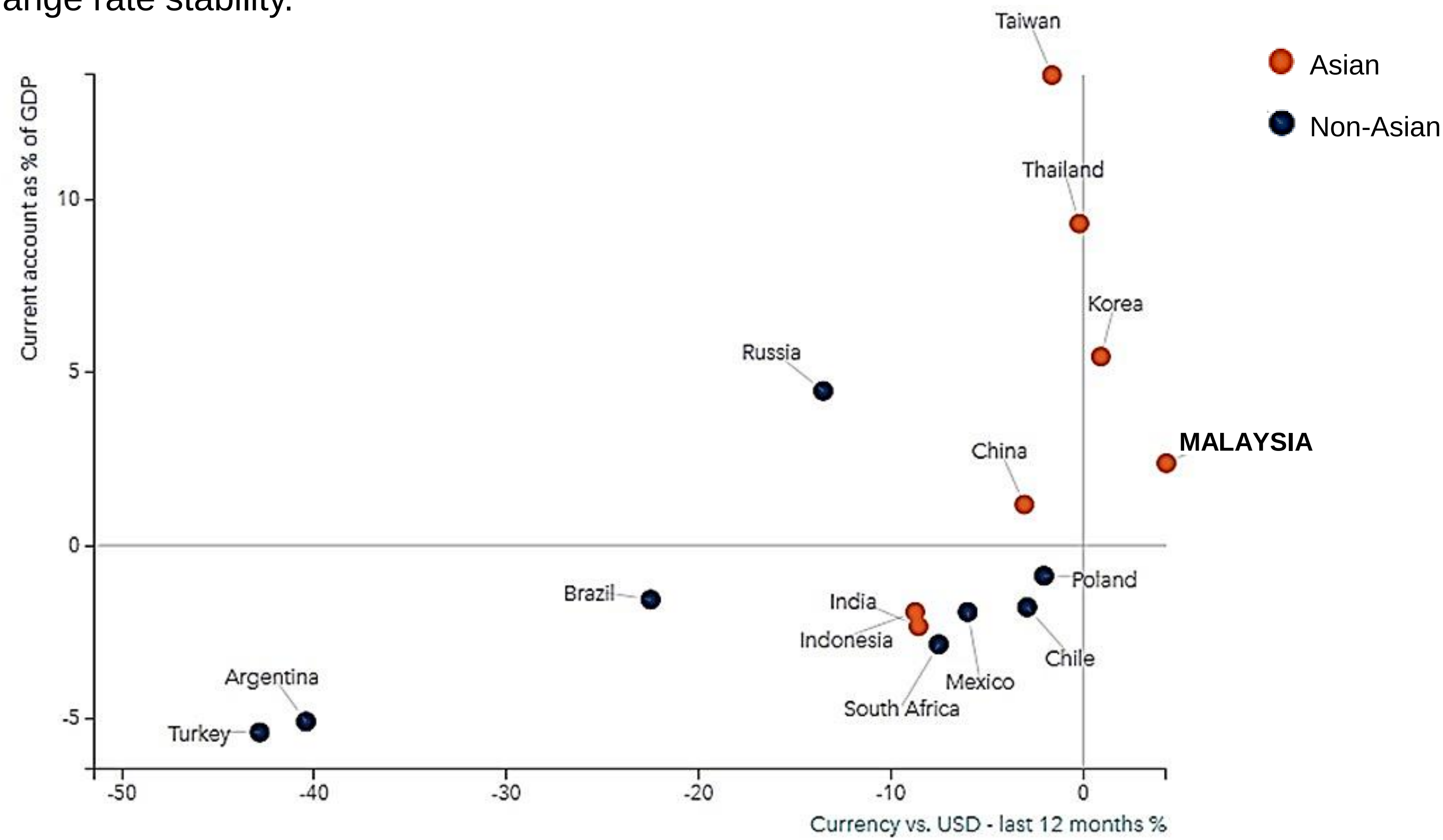
Argentina peso is the worst performing currency against the US dollar in 2018



Source: Bloomberg. Last update 06/09/2018

4 a Contagion fear in EMERGING ASIA

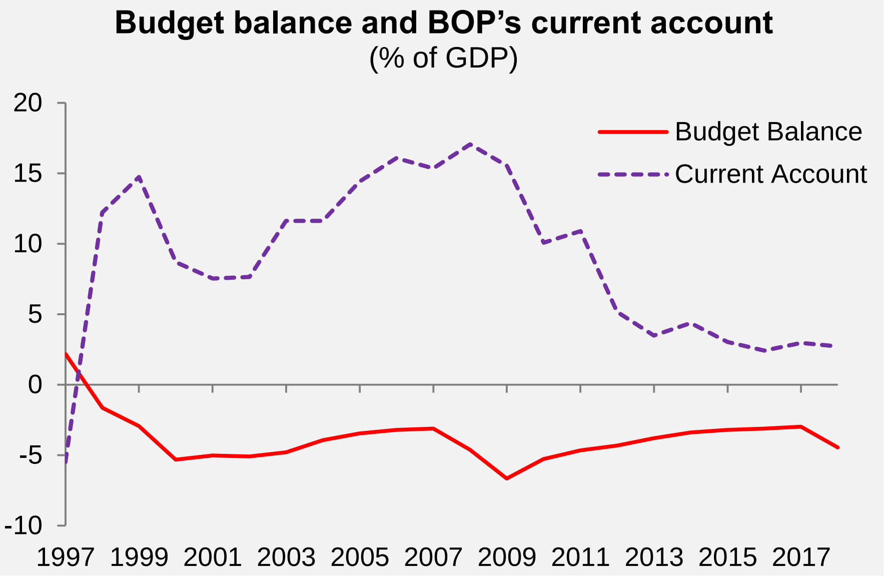
- **STRONGER ECONOMIC FUNDAMENTALS:** Larger foreign reserves and bank capital buffers; robust financial regulatory frameworks. Pre-emptive interest rate hikes to support exchange rate stability.

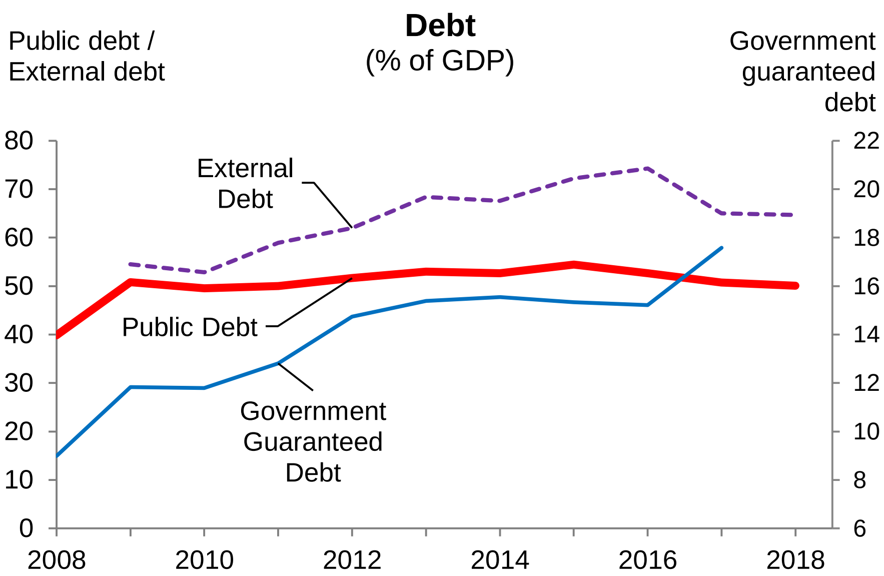


Source: BlackRock Investment Institute (23 Aug 2018)

4b How Malaysia is 'different' from other emerging economies at risk?

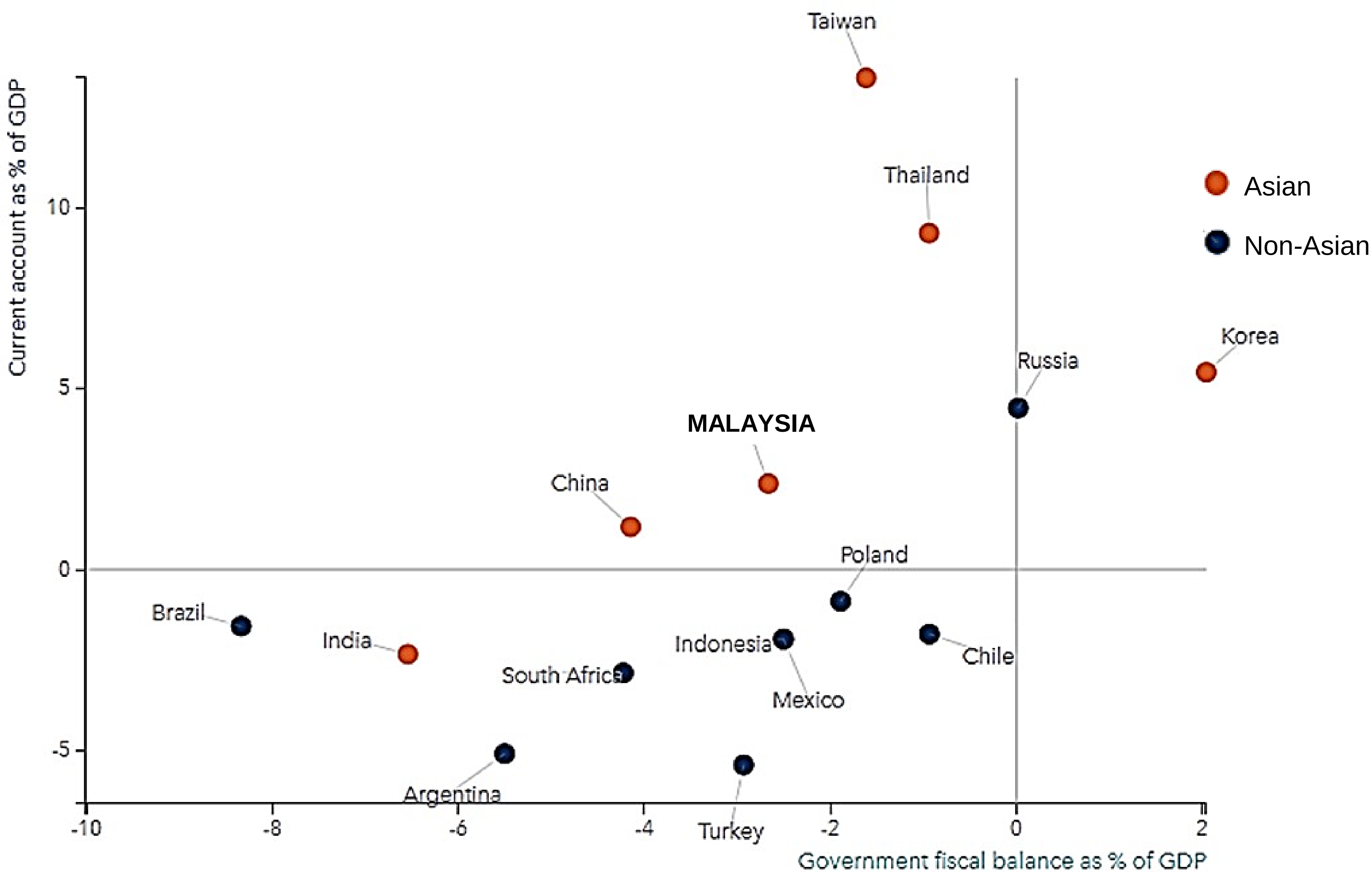
- **NOT** at risk of **TWIN DEFICITS**.
- Manageable external debt (end-June: RM936.5 billion or 64.7% of GDP) in terms of **CURRENCY AND MATURITY PROFILES**.
    - ❑ Close to one-third of total external debt is denominated in ringgit (31.2%)
    - ❑ 68.8% of total external debt in foreign currencies (End-2017: 51% in USD, 34.3% in ringgit, 2% in Japanese yen and others (12%))
    - ❑ 52% is medium- to long-term tenure while the balance of 48% is short-term debt
- **0.9x FOREIGN RESERVES TO SHORT-TERM EXTERNAL DEBT COVERAGE**. Banks and corporations held 75% of Malaysia's external assets totaling RM1.3 trillion at end-2Q18.





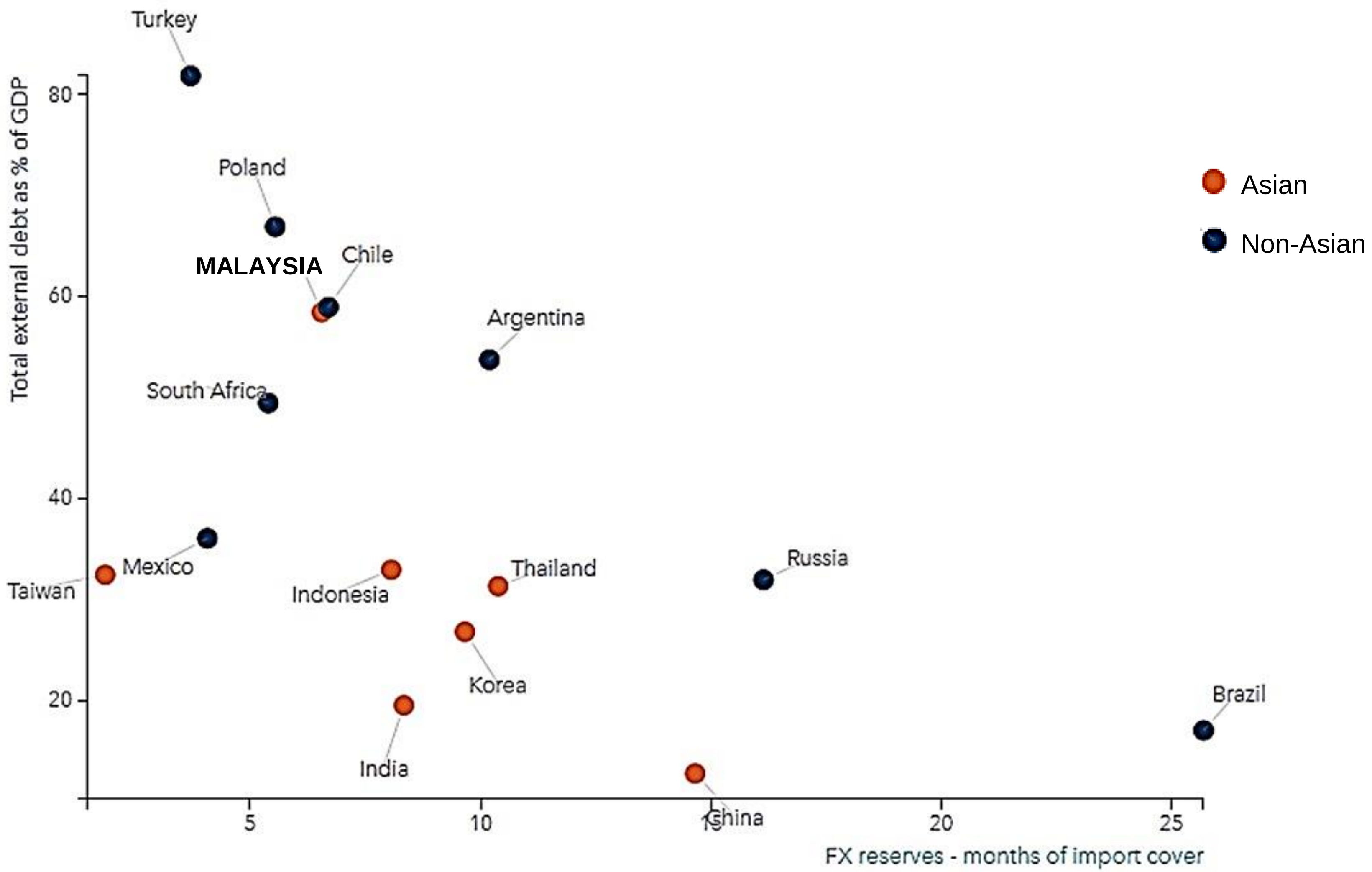
Source: BNM

4 C Malaysia's avoidance of TWIN DEFICITS are credit positive



Source: BlackRock Investment Institute (23 Aug 2018)

4 d Manageable EXTERNAL DEBT and strong RESERVES buffer



Source: BlackRock Investment Institute (23 Aug 2018)

5 GEOPOLITICAL and POLITICAL risks

PRESIDENT TRUMP – the US **MID-TERM ELECTIONS** (6 November) incites Donald Trump to implement his electoral promises on trade.

US SANCTIONS ON IRAN and **SYRIA WAR** tend to drive up the oil price.

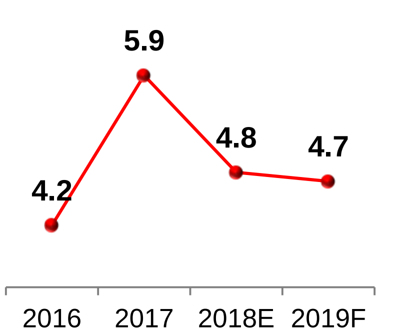
EUROZONE: Fiscal slippage in Italy – the coalition government‘s commitment to take the follow actions.

BREXIT NEGOTIATIONS are stalling and governments (in the UK and in the rest of the EU) are openly preparing contingency plans in case of no agreement on 31 March 2019 (Hard Brexit).

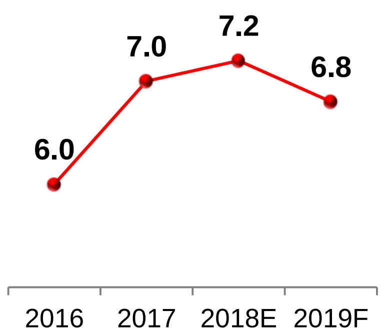
CURRENCY CRISIS IN HIGH RISK EMERGING MARKETS – Turkish financial crisis may get even worse; Argentina’s currency woes crisis deepens.

Malaysia's key ECONOMIC INDICATORS

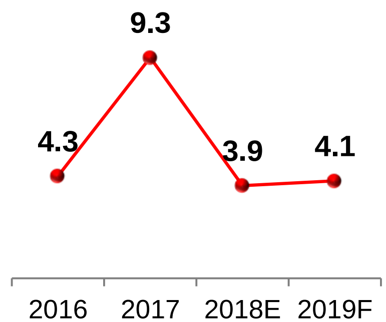
Real GDP growth
(%)



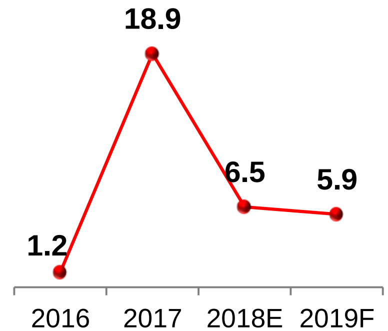
Private consumption growth
(%)



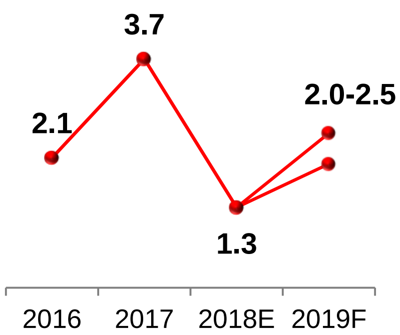
Private investment growth
(%)



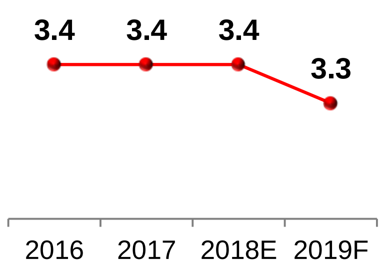
Gross export growth
(%)



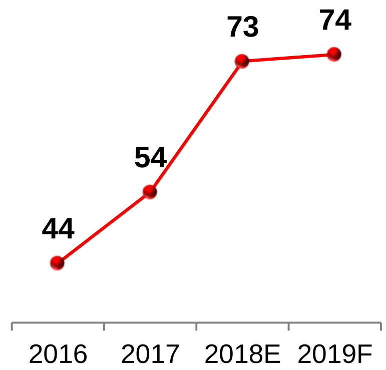
Inflation rate
(%)



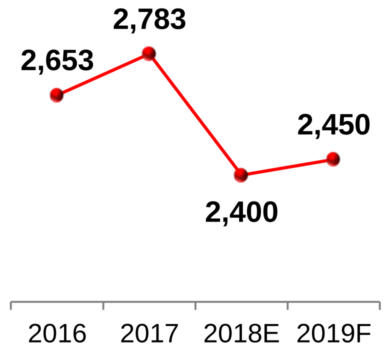
Unemployment rate
(%)



Brent crude oil price
(US$/barrel)



Crude palm oil price
(RM/tonne)



Source: DOSM; BNM; EIA; MPOB; SERC

Malaysia economy in TRANSITION

STILL POSITIVE GROWTH MOMENTUM. Based on an average 4.9% growth in 1H18, we estimate this year's GDP growth at 4.8% (revised from 5.2% previously), underpinned largely by consumers demand and exports, albeit negative sentiment risks from the trade tariffs battle and damaging market volatility.

EXPORTS are expected to rise at a moderate pace (2018E: 6.5% vs. 18.9% in 2017). In the first seven months of 2018, exports up 7.3% yoy, with the drivers coming from electronics and electrical products as well as higher crude oil prices.

PRIVATE CONSUMPTION (2018E: 7.2% vs. 7.0% in 2017), thanks to cost of living allowance, stabilized fuel prices, zerorised GST and personal income tax rate cut. The introduction of SST on 1 Sep is expected to take some heat off consumer spending.

PRIVATE INVESTMENT growth had a very subdue start of 3.4% yoy in the first half-year of 2018 on lingering uncertainty ahead of the General Election 14, will likely to pace cautiously given the political and new government's policies transition as well as external headwinds. But, **GOOD GOVERNANCE** and **TRANSPARENCY** will enhance investment prospects over the medium-term.

Growth OUTLOOK for 2019

SUSTAINED POSITIVE ECONOMIC GROWTH. Baseline GDP growth estimate is 4.7% for 2019, supported by continued global growth and trade as well as domestic demand, albeit moderately. Downside risks have increased.

EXPORTS are expected to rise at a moderate pace (2019F: 5.9% vs. 6.5% in 2018), supported by moderate global demand and recovery in commodity prices.

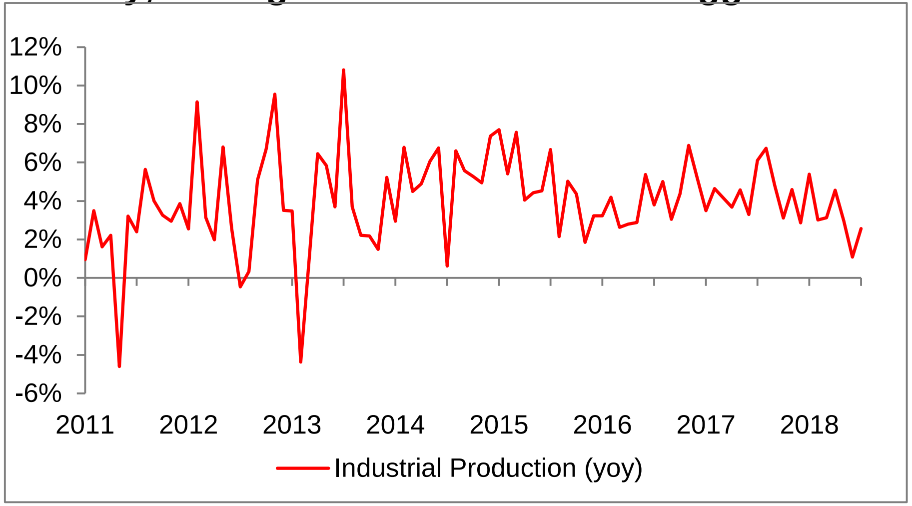
PRIVATE CONSUMPTION (2019F: 6.8% vs. 7.2% in 2018) as households' spending normalize amid the stabilization of fuel prices and the implementation of SST on 1 September 2018.

PRIVATE INVESTMENT growth (2019F: 4.1% vs. 3.9% in 2018) will improve slightly on continued cautious about external environment due to the likely protracted and deepening trade war between the US and China. The review, deferment and cancellation of major infrastructure projects will continue to impact private investment.

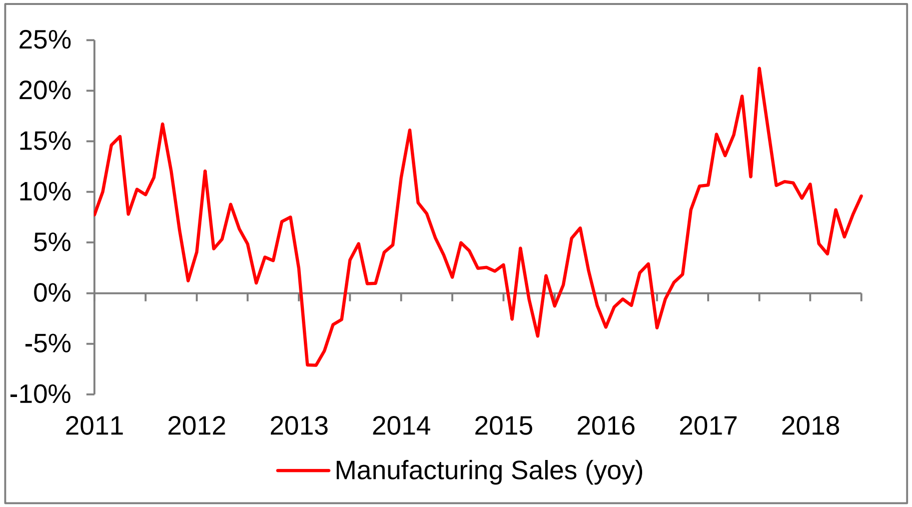
DOWNSIDE RISKS to GDP growth: DEEPENING TRADE TARIFFS BATTLE; AGGRESSIVE HIKES IN US INTEREST RATE DRIVE CAPITAL REVERSALS AND FINANCIAL MARKET VOLATILITY

Malaysia: ACTIVITY INDICATORS remain on track

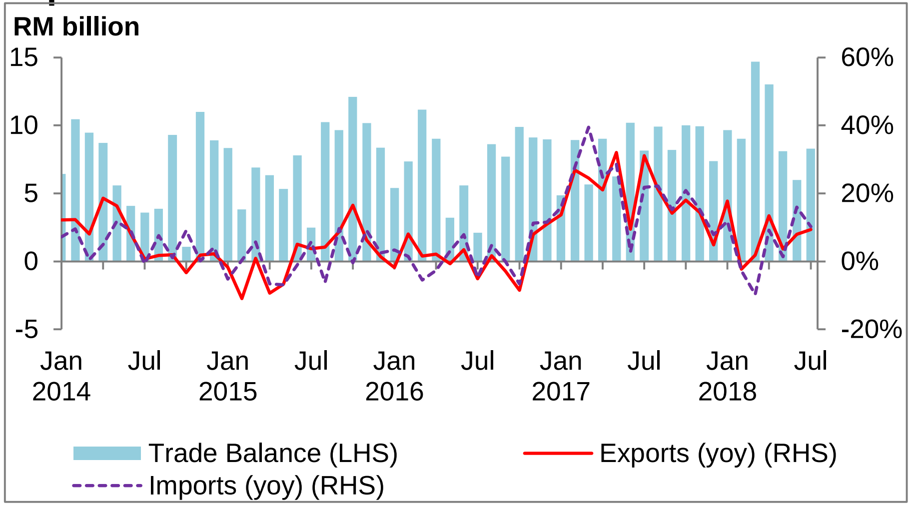
Manufacturing production continues to grow steadily; mining activities remained sluggish



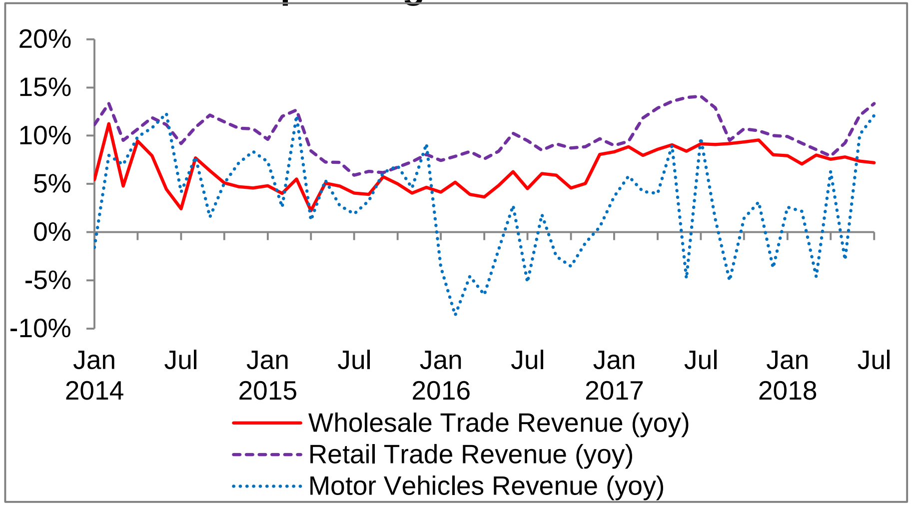
Manufacturing sales growth is regaining traction



Uncertainties on trade war could temper exports outlook



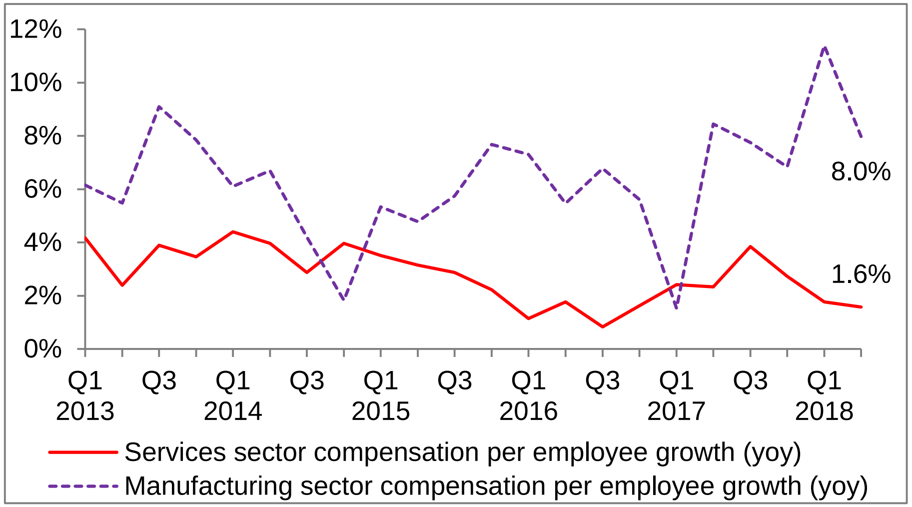
Three months tax holiday (zero-rated GST) boosted retail spending. Will it be a one-off?



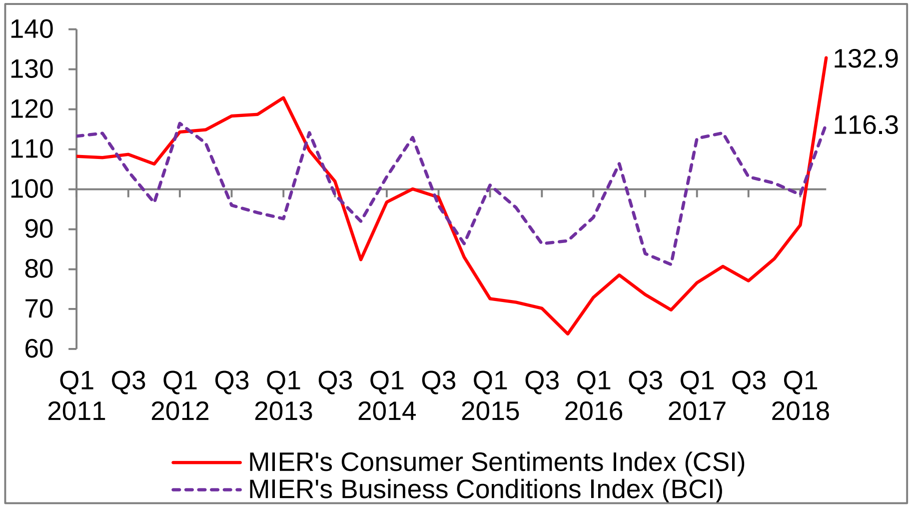
Source: DOSM

Consumption RESILIENCE; IMPROVED investment sentiment

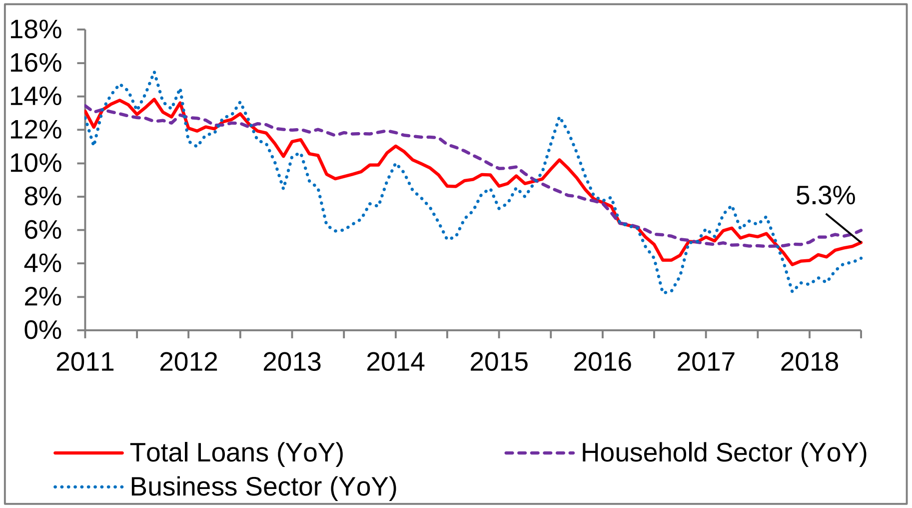
Growing salaries and wages in private sector, albeit slower in services sector



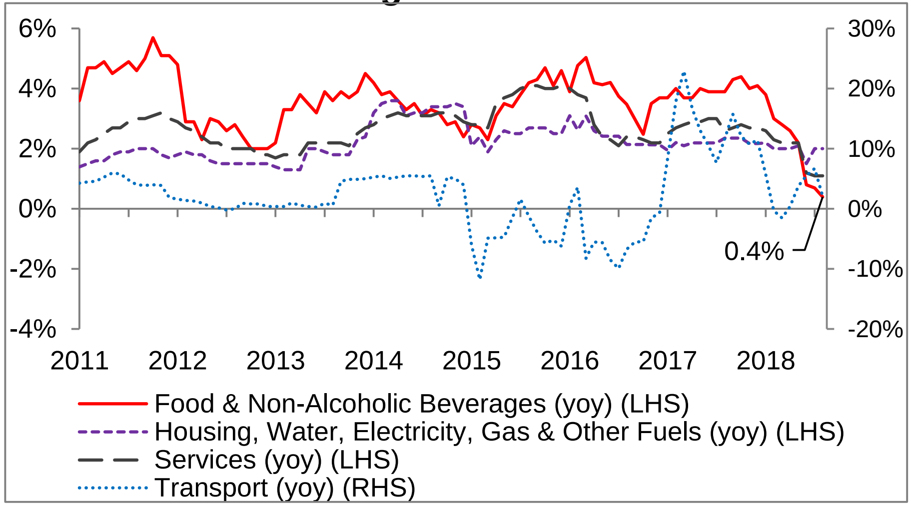
Consumer sentiments surged to 21-year high; better business confidence



Higher loan growth since April, lifted by both households and business sectors



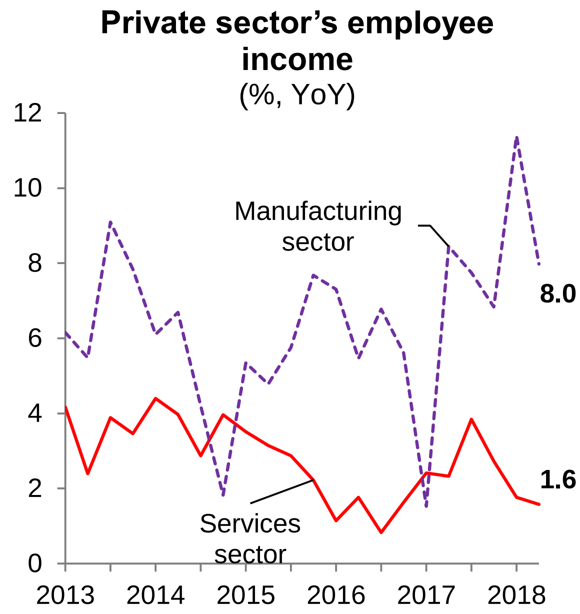
Marginal increase in food prices, core CPI has declined for two straight months

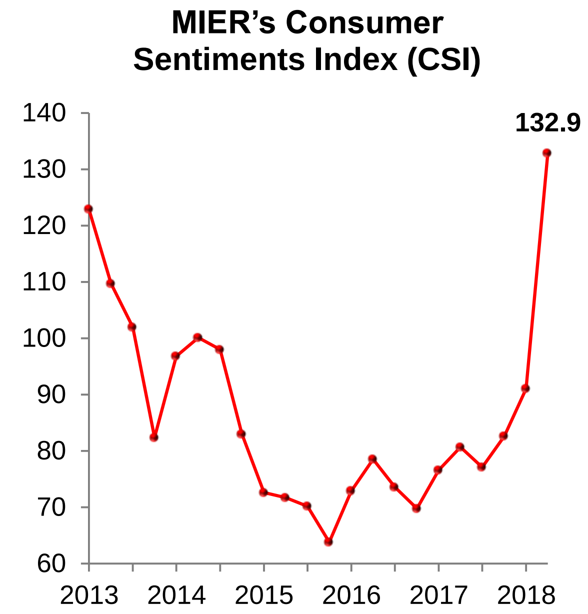


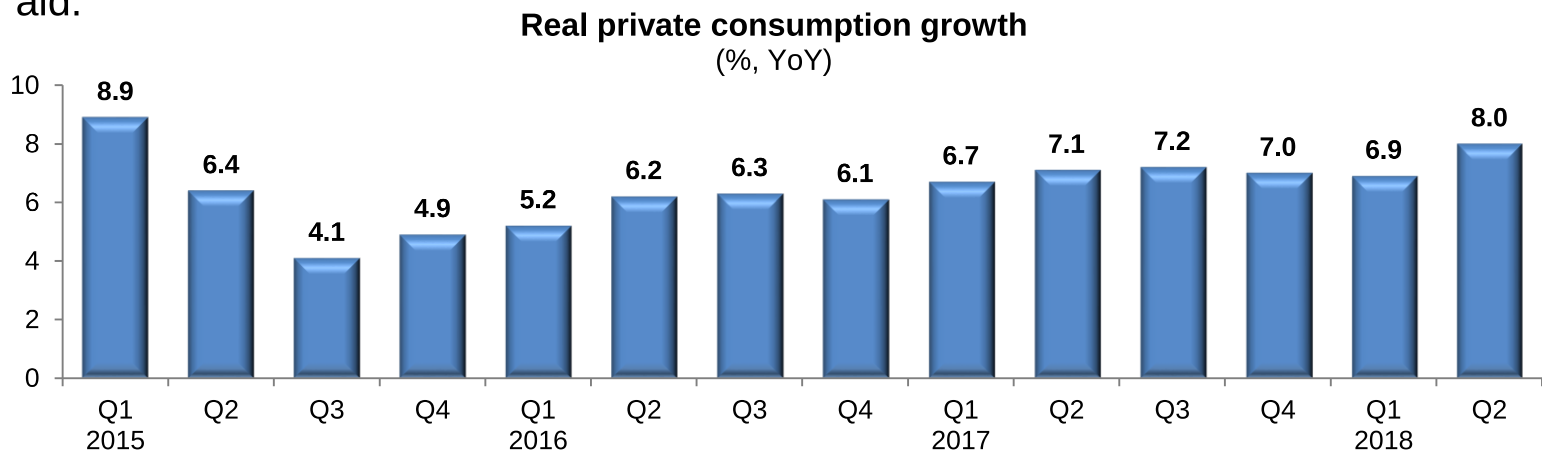
Source: DOSM; MIER; BNM

SOLID consumer spending but will it normalise?

- **FUNDAMENTAL DRIVERS**: income growth and labour market conditions.
- Household spending will **NORMALIZE** post 3-mth zerorised GST tax holiday and the introduction of **SST** on 1 Sep.
- Potential **DAMPENING FACTORS**: review of fuel subsidy and cost of living aid.



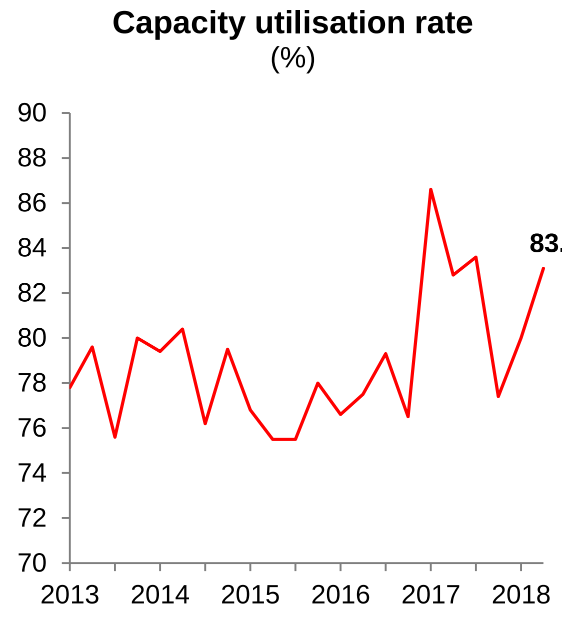


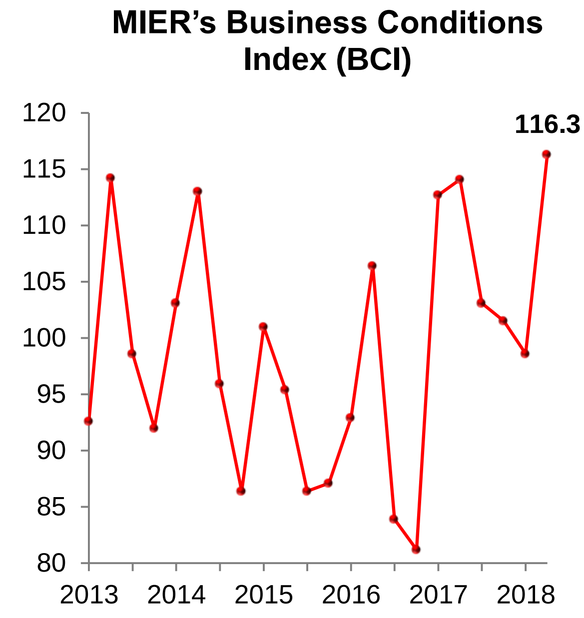


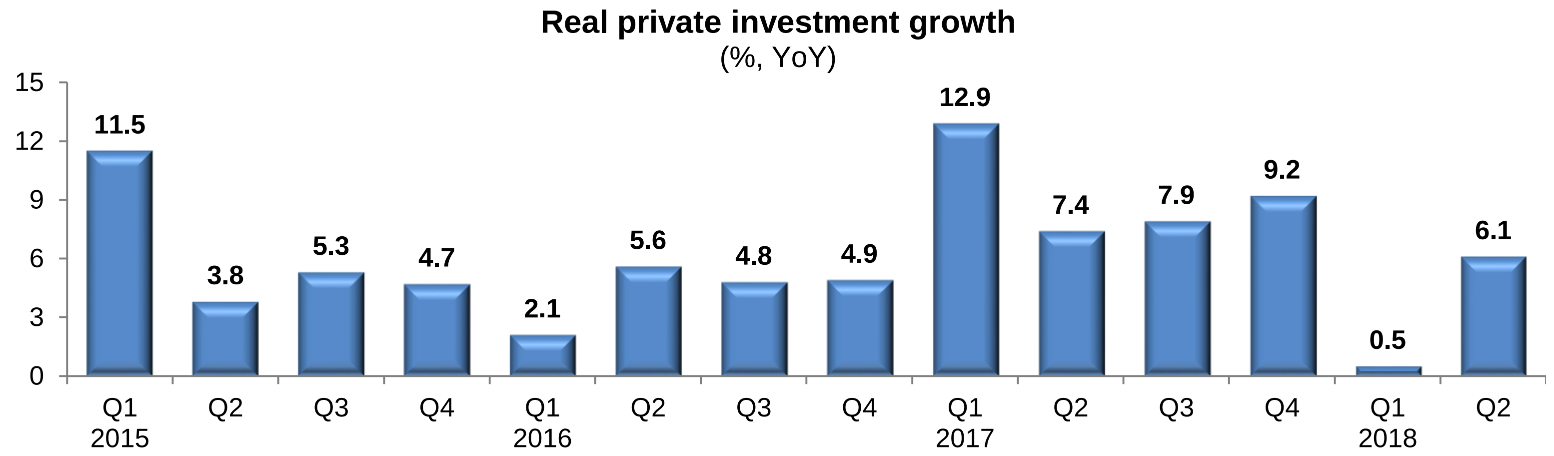
Source: DOSM; MIER

Private investment BOUNCES back but CAUTIOUS

- Private investment **BOUNCED BACK** to 6.1% yoy in 2Q (0.5% in 1Q).
- **CAUTIOUS** about external environment; new government's policy implications.
- 2019 Budget to **BOOST** private investment in tourism, manufacturing, IR 4.0 and e-commerce.



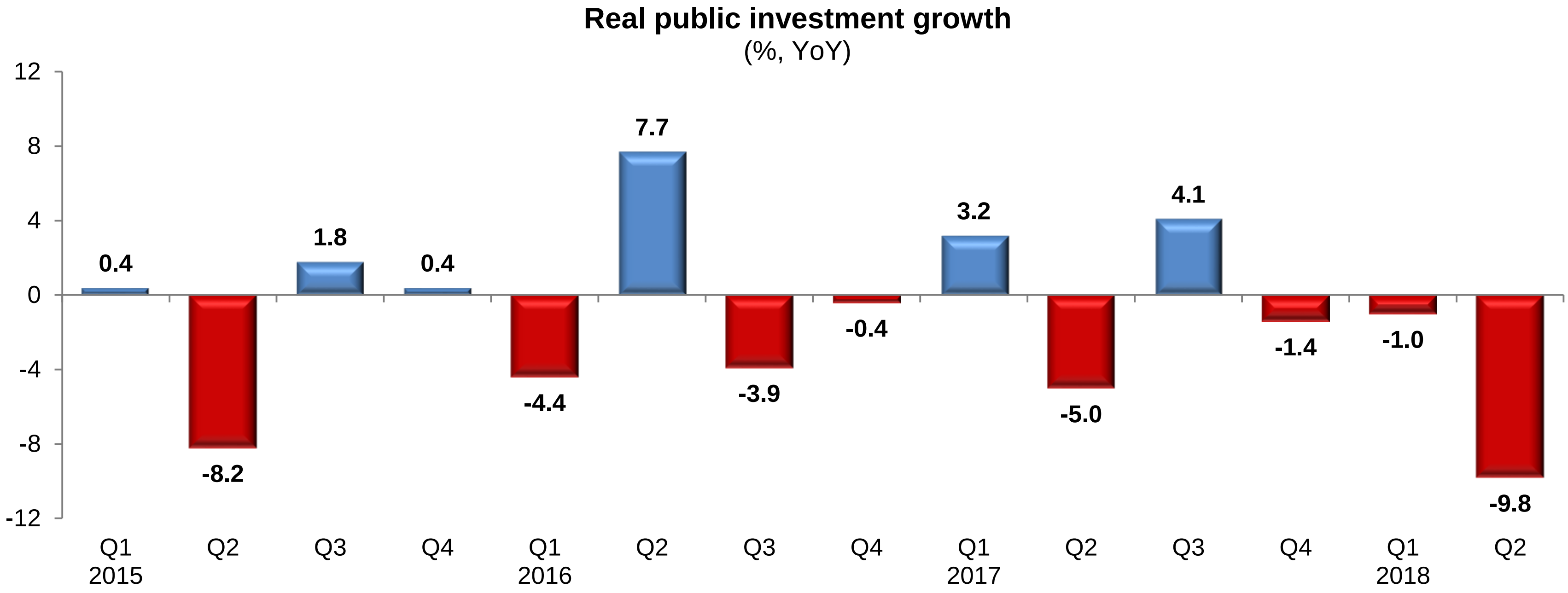




Source: DOSM; MIER

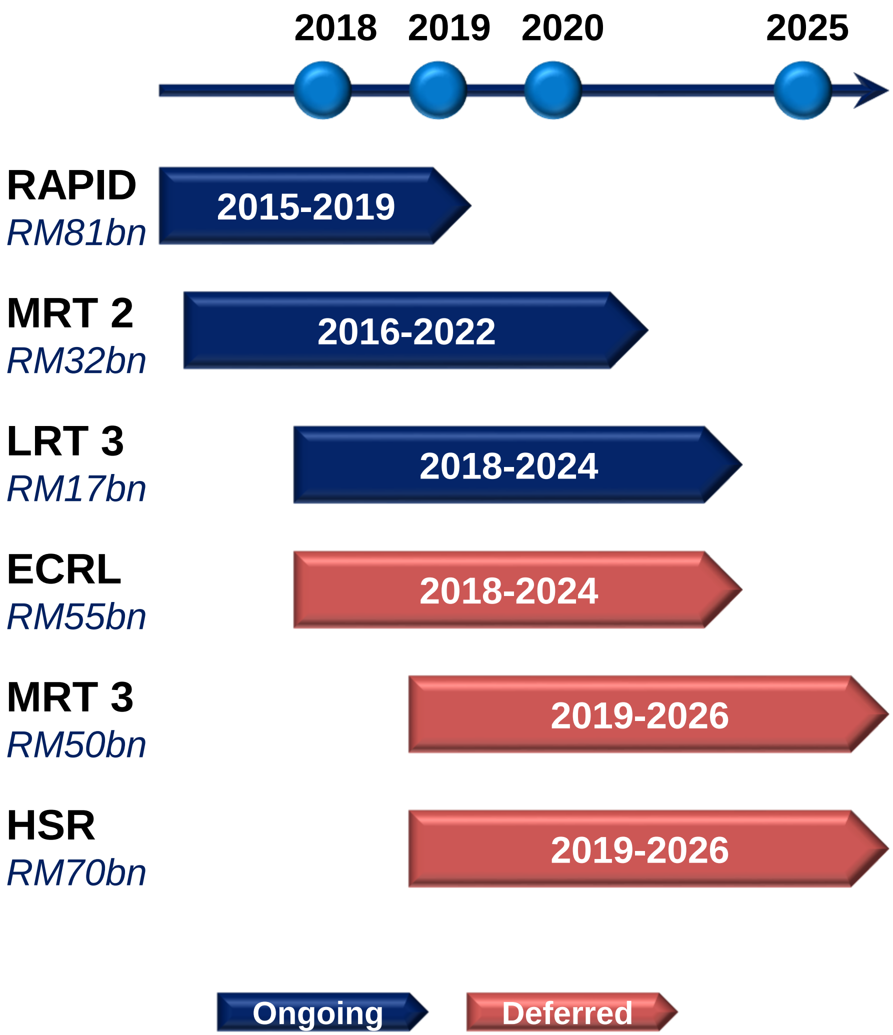
Public investment turning from support to DRAG

- **PUBLIC INVESTMENT CONTRACTED SHARPLY** (-9.8% yoy in 2Q vs. -1.0% in 1Q).
- Rationalisation of development expenditure means moderate public investment growth.
- Further consolidation of development in 2019.



Source: DOSM

DEFERRED OR CANCELLED mega projects: manageable impact



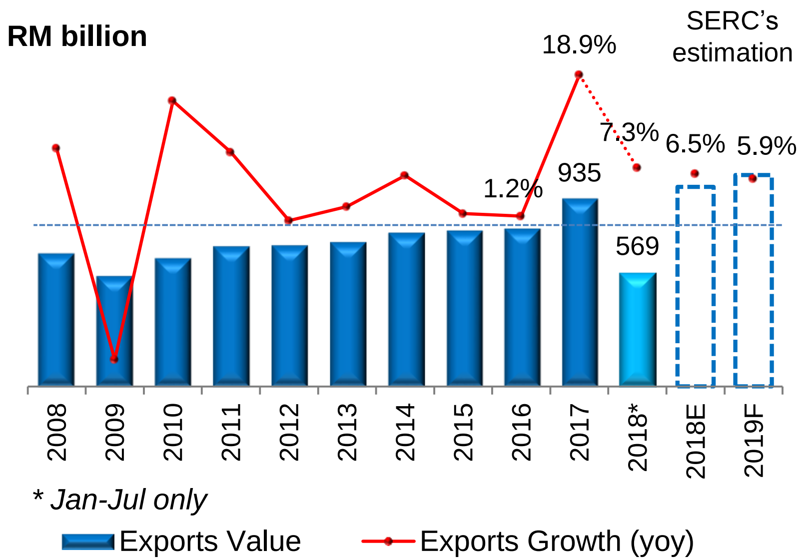
Source: BNM

On-going projects help mitigating the impact on growth:

- In early stages of construction or have yet to commence
- Spreading effects (contained impact in single year) due to long period of development
- Depend on the localisation vs. imported of construction related materials and services
- Manageable impact on domestic employment

Exports in 2H18 and 2019 will be more CHALLENGING

Exports continue growing



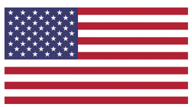
Broad-based expansion, except CPO & LNG

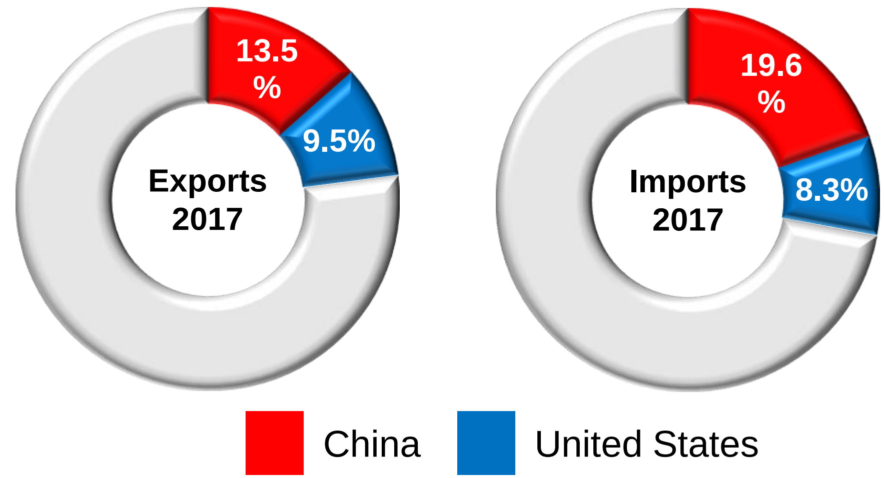
Major export products in 2018 (Jan-Jul) [% share]	**Value** *(RM billion)*	**Growth** *(% yoy)*
E&E products [37.5%]	213.5	12.6
Petroleum products [7.8%]	44.4	3.3
Chemical & chemical products [5.6%]	31.8	18.1
Manufactures of metal [4.7%]	27.0	29.8
Machinery, equipment & parts [4.3%]	24.3	1.4
Palm oil [4.1%]	23.1	-14.0
LNG [3.7%]	21.1	-10.2
Crude petroleum [3.6%]	20.7	25.6
Optical & scientific equipment [3.6%]	20.2	12.3

- **PRESSING FACTORS**: 1) Exceptionally high export levels averaging RM80.6 billion per month in 2H2017; 2) Moderate pace of global semiconductor sales (estimated 12-16% this year vs. 21.6% in 2017); 3) Softer CPO prices; and 4) Trade tensions between the US and its major trading partners.
- **Export growth estimates**: 6.5% in 2018 and 5.9% for 2019.

Source: DOSM

Malaysia's exports to the US and CHINA

Ranking	Exports	Imports
	2	1
	3	3



Major export products to China in 2017	RM mil	% share*
E&E products - *Semiconductor*	50,386 *36,332*	39.9 *28.8*
Chemical & related products (excl. non-primary plastics)	14,449	11.5
Petroleum products	13,312	10.6
Liquefied Natural Gas	5,798	4.6
Manufactures of metal	4,529	3.6
Palm Oil	4,027	3.2
Total	126,150	

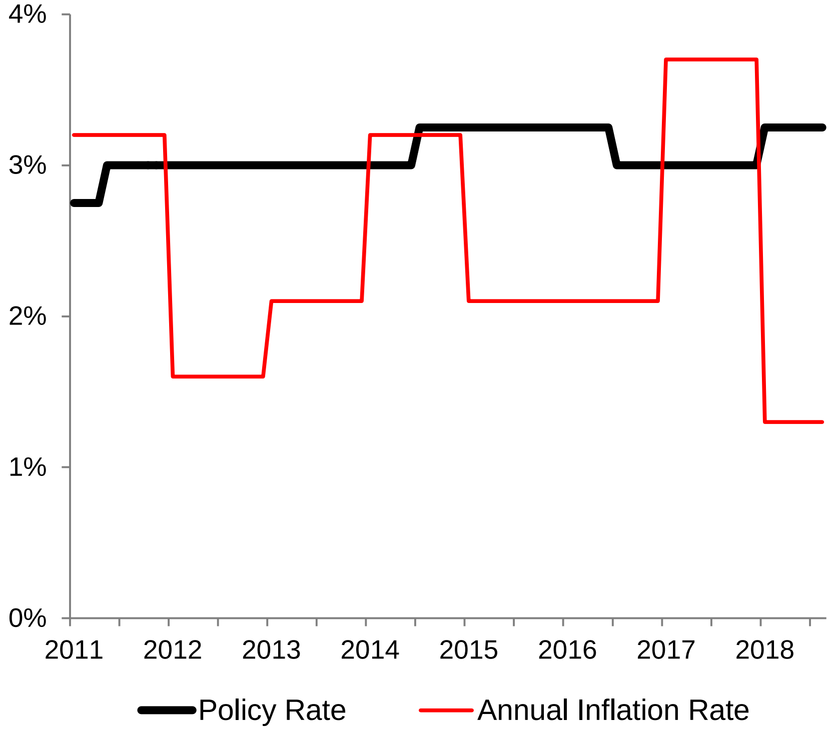
Major export products to United States in 2017	RM mil	% share*
E&E products - *Semiconductor*	49,148 *16,034*	55.4 *18.1*
Optical & scientific equipment	5,562	6.3
Rubber gloves	5,502	6.2
Furniture & parts	3,604	4.1
Machinery, equipment & parts	3,271	3.7
Chemical & related products (excl. non-primary plastics)	3,243	3.7
Total	88,693	

Source: DOSM

** % share to total exports to respective country*

Monetary policy remains ACCOMMODATIVE

Overnight policy rate (OPR) vs. Annual inflation rate



- **HEADLINE INFLATION**: Underlying inflation remains low in 2018 due to transitory effect from 3-mth tax holiday and fuel subsidy. This transitory effect is expected to lapse in 2H19. Inflation outlook hinges on SST and the continued fuel subsidy. (2018E: 1.3%; 2019F: 2.0-2.5%).
- **GROWTH OUTLOOK**: The hurdle rate for BNM to consider cutting interest rate is when GDP growth slows to around 4.0% (GDP estimates 2018E: 4.8%; 2019F: 4.7%).
- **WILL THE WEAK RINGGIT OUTLOOK AND HIGHER US INTEREST RATES** constrain Bank Negara Malaysia's monetary policy?

Note: Average inflation rate for 2018 accounts from January to August.
Source: BNM; DOSM

The ringgit is UNDER PRESSURE (end-2018: RM4.15; 1Q19: 4.05-4.10; 2Q: 4.05-4.10; 3Q: 4.00-4.05; 4Q: 3.95-4.00)

- **FACTORS WEIGH ON RINGGIT**: New political and policies transition; trade war; capital reversals; surging US Treasury yields; the expectation of further US interest rate hikes; contagion fear in emerging markets and a revived strength of the dollar.
- **COUNTERACT STRENGTH** to support the ringgit: strong fundamentals, the clarity of policies, the fiscal and debt path as well as the affirmation of Malaysia's sovereign ratings.

Ringgit's movement against the USD

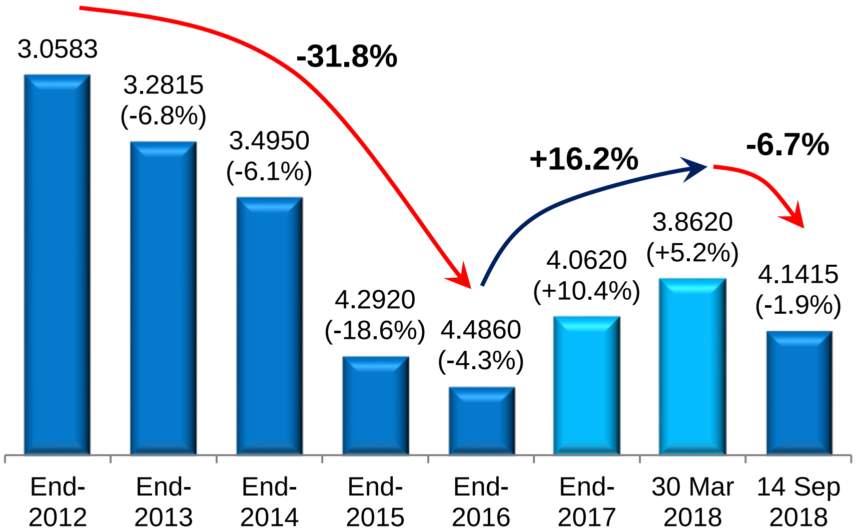
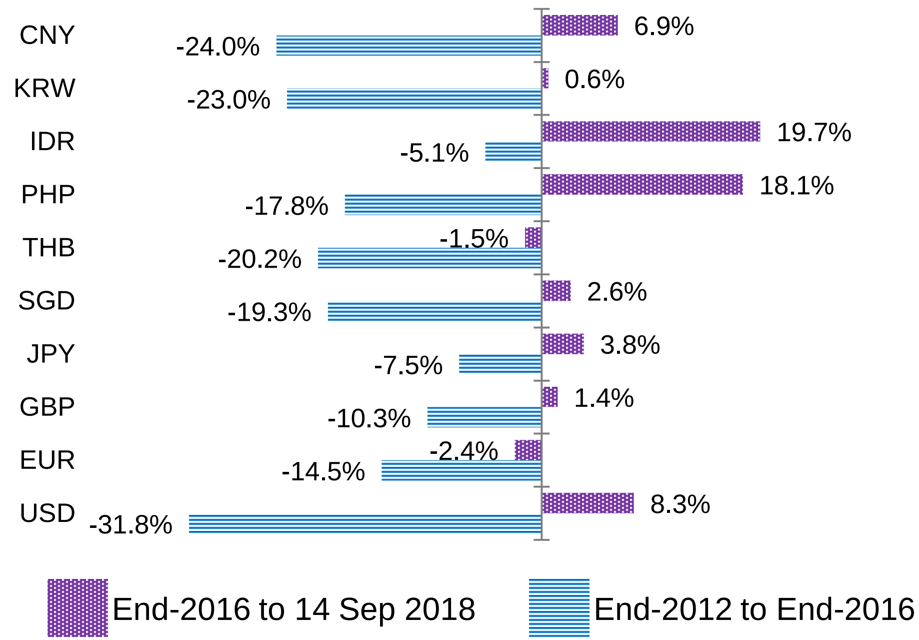


Figure in parenthesis denotes changes from end of previous year
Source: BNM (end-period; rates at 12:00)

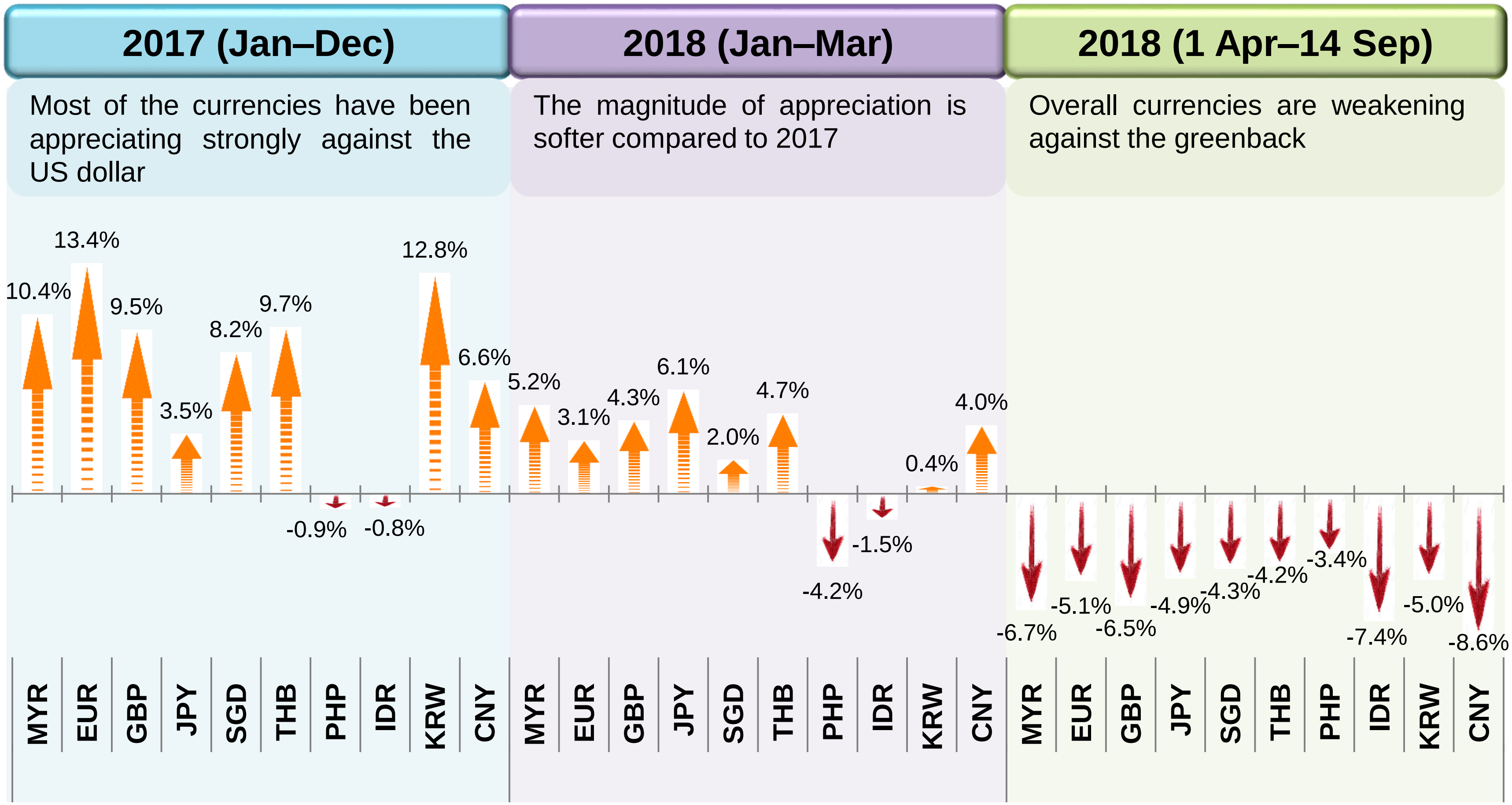
Ringgit's movement against regional currencies



Regional currencies SUCCUMBED to strong US dollar

- The US dollar index strengthened by 6.8% against a basket of foreign currencies (measured in real effective exchange rate (REER)) in the first eight months of 2018.

Major and regional currencies vs. the US dollar*

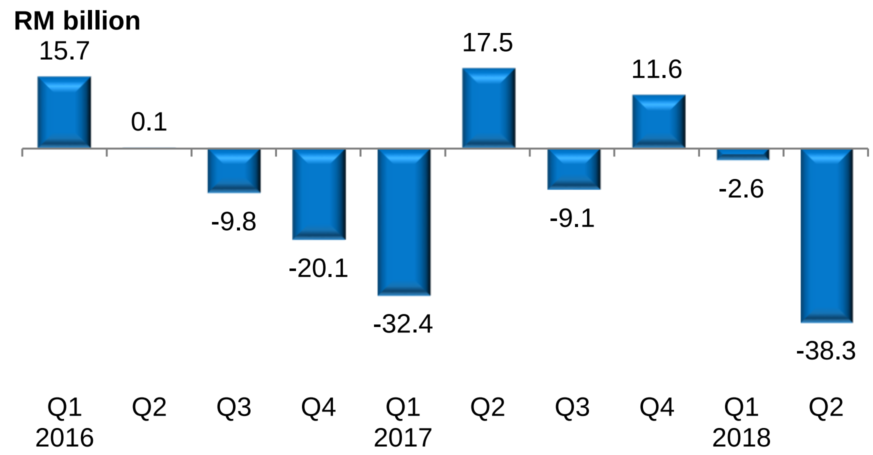


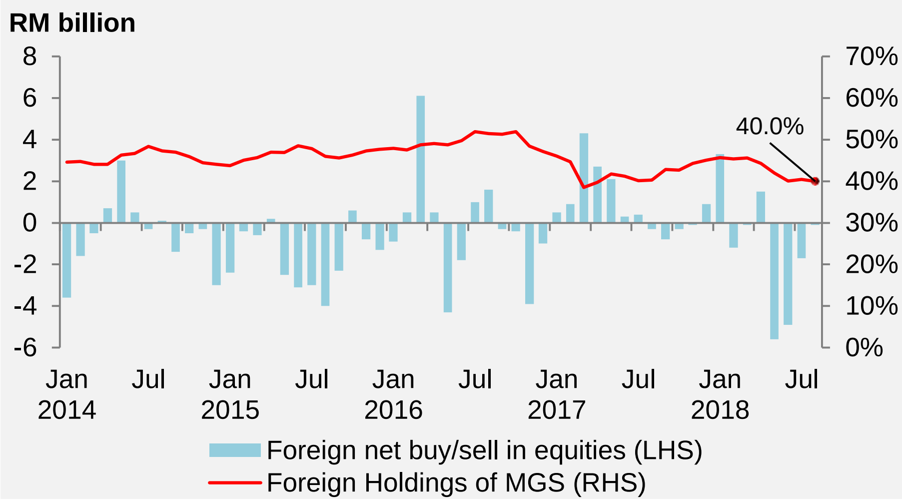
Source: BNM (end-period; rates at 12:00) ** Calculation based on cross-rate*

Malaysia: OUTFLOWS in both debt and equity markets

- **EXTERNAL FACTORS**: Prospects of higher US interest rates; strong US dollar; uncertainties on global trade tensions; pressure on emerging markets triggered contagion risk.
- **DOMESTIC FACTORS**: Post GE14 political and domestic policies transition.
- In April-June, foreigners net sold RM24.3 billion of ringgit-denominated debt securities. Despite net buying occurred in July (+RM4.0 billion), it reverted to net selling in August (-RM2.4 billion).
- Post GE14's 32 consecutive days of net selling of equities by foreigners have moderated in July and August. Net foreign buying interests have returned in September.

Net portfolio investment: Largest outflows since 3Q 2008

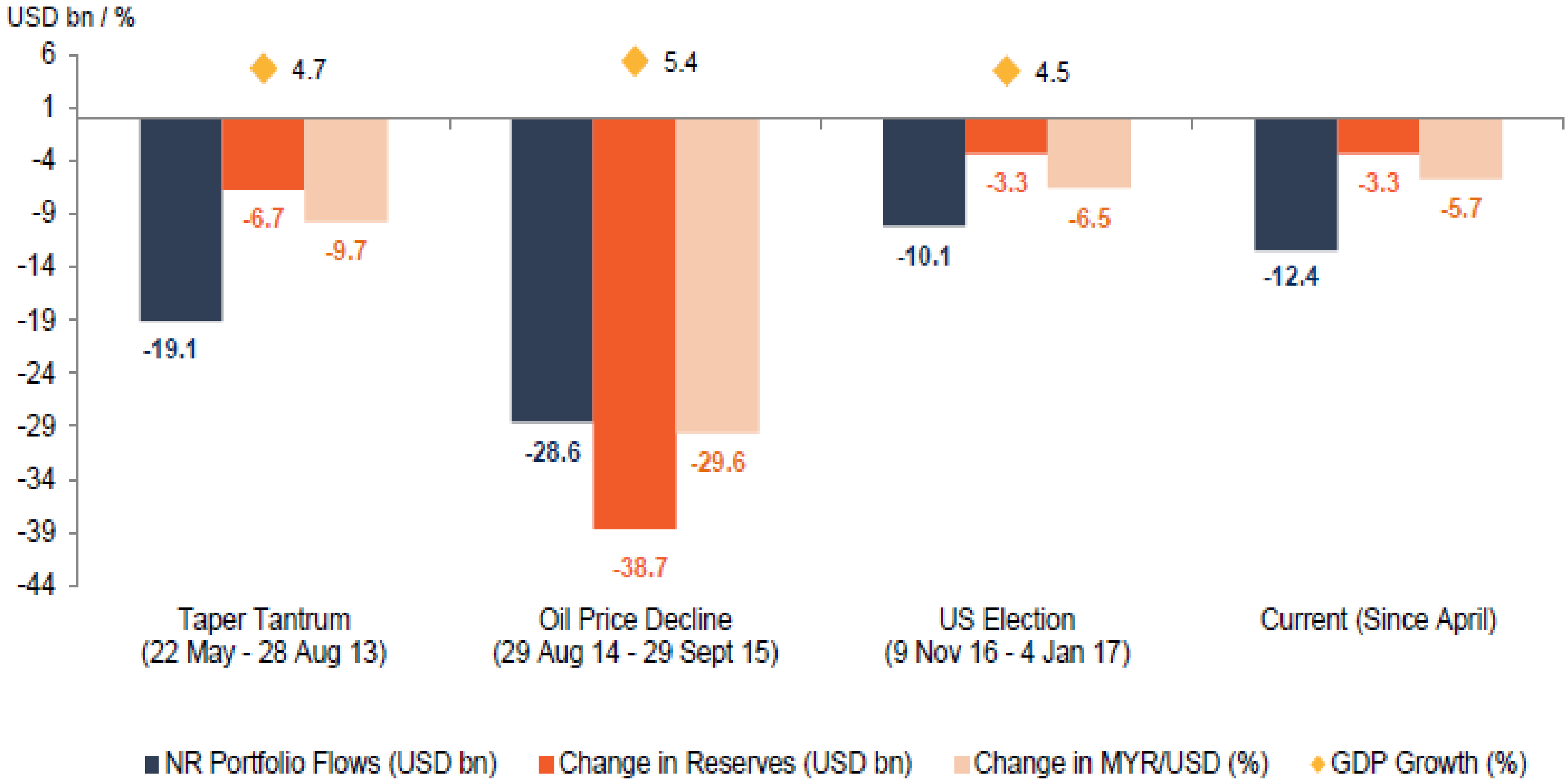




Source: BNM; Bursa Malaysia

Malaysia has experienced SIZEABLE capital reversals

NR Portfolio Flows, Reserves, Ringgit Performance and GDP Growth during Outflow Periods



Note: Current data for reserves is at end-July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018

Source: BNM

New Malaysia in TRANSITION: Policy PRIORITIES

POLITICAL AND ECONOMIC POLICIES TRANSITION – adjustment and transition costs; short-term pain for long-term gains if the Government wants to be **LEANER, MEANER AND BETTER**.

First, is to **RESTORE THE RULE OF LAW AND ACCELERATE INSTITUTIONAL REFORMS** for better Government and governance.

Second, **FISCAL RECONSTRUCTION** to maintain **FISCAL DISCIPLINE AND RESPONSIBLE BUDGET** as well as debt controls through reduced waste, leakage and weed out corruption.

Third, **RESTRUCTURE THE GOVERNMENT (PUBLIC SECTOR, including GLCS)** and **INSTITUTIONS** to restore public trust; to become a more effective and responsive enabler as well as good regulator.

A SMALLER, LESS INTRUSIVE ROLE FOR GOVERNMENT, MUCH MORE CONTAINED PUBLIC SERVICE AND A BIGGER ROLE FOR THE PUBLIC-PRIVATE PARTNERSHIPS UNDER MALAYSIA INCORPORATED

2019 Budget: LEAN and MEAN but SUPPORTIVE

Putting the **BIG BUDGET NUMBERS** in perspective, it's high time to ask this administration how to make the Federal Budget lean in times of facing slowing economic growth and increasing global risks.

RM1.0873 trillion debt and liabilities or 80.3% of GDP and unbroken 21 consecutive years of fiscal deficit since 1998.

Revenue shortfall of RM23 billion from SST.

Fuel subsidy to stabilise retail price of RON95; **cost of living aid** (BSH).

GST refunds of RM19.2 billion and the **refunds of excess income tax and real property gains tax** of RM16.05 billion.

FISCAL RECONSTRUCTION measures:

- ✓ Reduction of Cabinet Ministers' salaries by 10%
- ✓ Termination of the contracts of 17,000 political appointees
- ✓ Sets limit of 10 special officers for each Cabinet member
- ✓ Deferment or cancellation of estimated RM175 billion worth of mega public infrastructure projects (ECRL, MRT3 and HSR)

2019 Budget: TOUGH balancing act

A **RESPONSIBLE YET DISCIPLINE BUDGET** that can smoothen out the impact of expenditure rationalization on the economy.

Some **NECESSARY YET UNPOPULAR FISCAL RESTORATION MEASURES** and **NEW TAXES** to help plugging the large financing gap in the Budget.

SPENDING CUTS OR REFORMS in both **UNPRODUCTIVE** and **OVER-INFLATED** cost of operating and development expenditures.

The **ZERO-BASED BUDGETING METHOD** for its ministries and departments to reduce wastage and unnecessary spending.

REVIEW COST OF LIVING AID (BSH) to make them conditional and be prioritized for the truly underserved and vulnerable groups; **REVIEW THE FUEL SUBSIDY PROGRAM ELIGIBILITY** (household income and engine capacity); **HEALTHCARE** for B40.

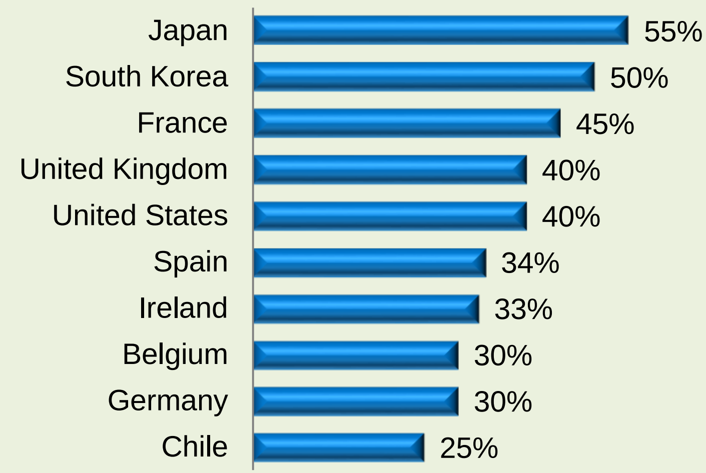
New taxes under consideration are **SODA TAX** to discourage unhealthy diets; **INHERITANCE TAX**; **CAPITAL GAINS TAX ON SHARE TRANSACTIONS**; and **E-HAILING OR E-COMMERCE/DIGITAL BUSINESS TAX**.

Some **DISPOSABLE OF GOVERNMENT'S ASSETS** may be on the cards.

Is INHERITENCE TAX necessary?

- **Inheritance tax** was once imposed in Malaysia under the Estate Duty Enactment 1941. It was repealed on 1 Nov 1991 due to low revenue collected. Estate duty was charged at scale rates of 0%, 5% and 10%. No tax on value < RM2 mil; Highest rate on value > RM4 mil.
- **Pros**: Reduce **INCOME INEQUALITY**.
- **Cons**: Dampens **WORK EFFORTS, ENTREPRENEURSHIP AND WEALTH CREATION** as well as causes the loss of economic output due to less capital formation.
- **HIGH COMPLIANCE** and **ENFORCEMENT COST**; an arduous task and process to value inheritance assets.
- In practice, the **CORRELATION** between inheritance tax and income equality is **NOT STRONG** and also a **POOR SOURCE OF REVENUE**.
- **TAX EFFORT** and **ADMINISTRATIVE COST** will outweigh the amount of revenue collected.

Top 10 estate or inheritance tax



Regional countries	Inheritance Tax
Philippines	Yes, 5-20% on taxable value >PHP200k
Thailand	Yes, 5-10% on taxable value >THB100m
Vietnam	Yes, 10% on taxable value >VND10m
Brunei Cambodia Indonesia Laos Myanmar Singapore	No inheritance tax
Hong Kong	No inheritance tax

Source: The Edge; EY

CAPITAL GAINs TAX (CGT) on listed share transaction

PROS: Revenue enhancement, equity and fairness

CONS:

- **GLOBALISATION and COMPETITIVENESS** – capital is highly mobile across borders
- **DAMPEN** the marginal cost of investing in Malaysia
- Foreign investors already **MARGINALIZED MALAYSIA EQUITIES**

ISSUES:

- **Practicability** – “lock-in” and double taxing of shares. Lock-in is the tendency of a taxpayer to defer selling an asset to defer the tax. The taxpayer may accelerate selling shares in loss.
- **Limit capital losses** so as to allow offset only against capital gains.

	Capital Gains Tax Rate (%)		Corporate Tax Rate (%)
Global	**Individual**	**Corporate**	
Australia	45#	30#	30
China	Not taxable	25#	25
Germany	25*	Not taxable	15
Hong Kong	Not taxable	Not taxable	16.5
India	15	20	30
Japan	20	23.4#	23.4
South Korea	Not taxable	25#	25
Taiwan	Not taxable	Special rate	17
United States	20	21#	21
Regional			
Indonesia	30#	25#	25
Philippines	Not taxable	15	30
Singapore	Not taxable	Not taxable	17
Thailand	Not taxable	20#	20
Vietnam	5	20#	20

Note: Listed rates are the maximum rate under general scenario
 # Follows respective income tax rate
** Gain subject to maximum 25% withholding tax*

Source: EY

2019 Budget: Proposed MEASURES and INITIATIVES

SPURRING AND SUSTAINING QUALITY PRIVATE INVESTMENT

- ✓ **AN INDEPENDENT PANEL** – review of cost of doing business, streamline regulatory practices and compliance cost
- ✓ **E-SERVICES AND E-PROCUREMENT** – competitive and transparent tendering
- ✓ **INCLUSIVENESS OF GLC** – liberalize 30% of the procurement for non-bumiputra
- ✓ Extension of **REINVESTMENT ALLOWANCE**; **ACCELERATED CAPITAL ALLOWANCE (AUTOMATION)**
- ✓ **RE-PLOUGH FOREIGN WORKERS' LEVY** to **INDUSTRIAL ADJUSTMENT FUND** to support automation and technology upgrading
- ✓ **REVIEW OF APPROVED PERMITS** (APs) to avoid rent seeking

BOOST EXPORTS POTENTIAL AND CAPACITY EXPANSION

- ✓ **MARKET DEVELOPMENT GRANT** (increase from RM200k to RM500k)
- ✓ Grants for **EXPORT PROMOTION PROGRAMS** (branding, packaging and international marketing)
- ✓ **COST-EFFICIENT** transportation, logistics and ports
- ✓ **TRADE FACILITATION AND CUSTOM CLEARANCE** (simplifying documents, streamlining procedures; market intelligence)
- ✓ **R&D FUNDING** to encourage original equipment manufacturer (OEM), own design manufacturer (ODM) and original brand manufacturer (OBM)

2019 Budget: Proposed MEASURES and INITIATIVES (cont.)

EASE COST OF LIVING

- ✓ Tax relief for rental; tuition fees for primary and secondary; separate tax relief for EPF contribution and life insurance
- ✓ Discount food card at eateries operated by GLCs
- ✓ Incentivized retailers to adopt best practice (Fair price label)
- ✓ Reintroduce RM100 monthly pass for unlimited LRT and bus rides; peak hour discounts for daily commuters
- ✓ Incentivize "RENT-to-Own" housing programs
- ✓ Strict price surveillance and enforcement

UPSKILLING OF WORKFORCE & JOBS CREATION

- ✓ Incentivise companies to increase female labour participation; flexi-working hours; child-care centre
- ✓ Tax allowance for hiring of unemployed youths; more collaboration between learning institutions and private sector
- ✓ Encourage private sector to participate in SL1M
- ✓ Review the effectiveness of TVET
- ✓ Encourage start-up

SECTORS FOCUS

- ***Tourism***
- ***Agriculture***
- ***E-commerce***
- ***Healthcare***
- ***IR4.0***

社会经济研究中心

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谢 谢
THANK YOU

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