社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

Half Empty or Half Full?

-Uneven, Risks, Opportunities-

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Key Messages

GLOBAL GROWTH AT RISK OF GOING OFF TRACK

UNEVEN GROWTH PROSPECTS

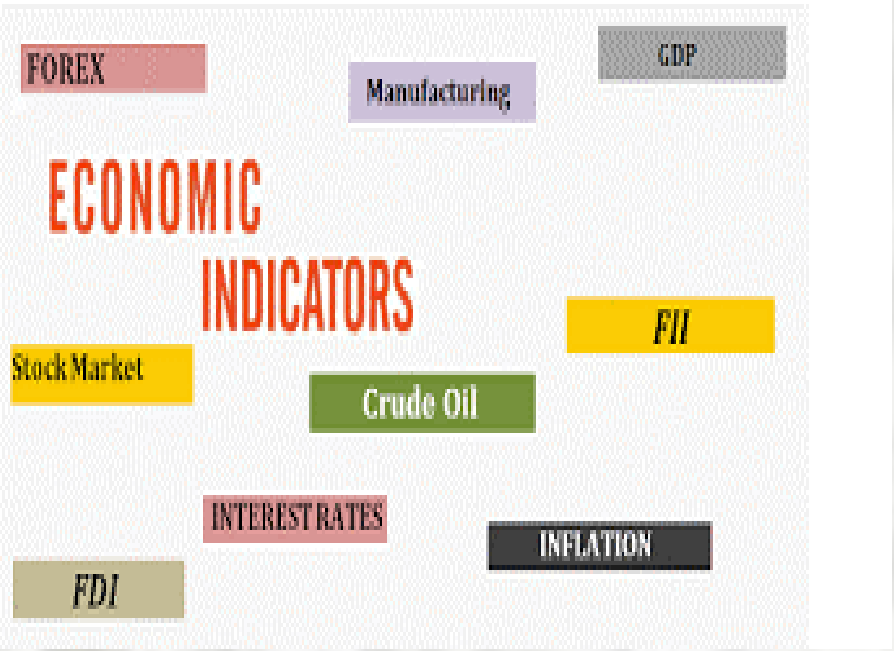
RISKS INFLUENCING THE OUTLOOK

NEW MALAYSIA IN TRANSITION

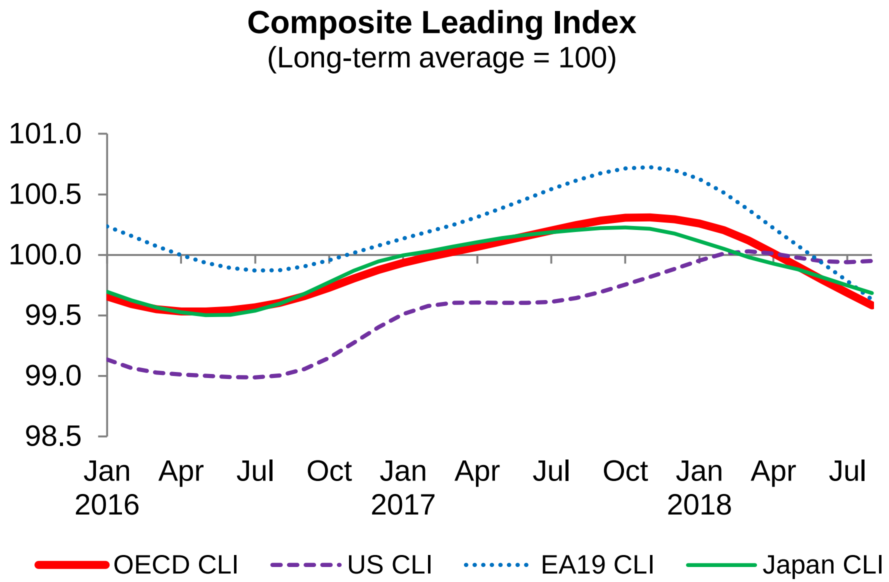
Section 1:

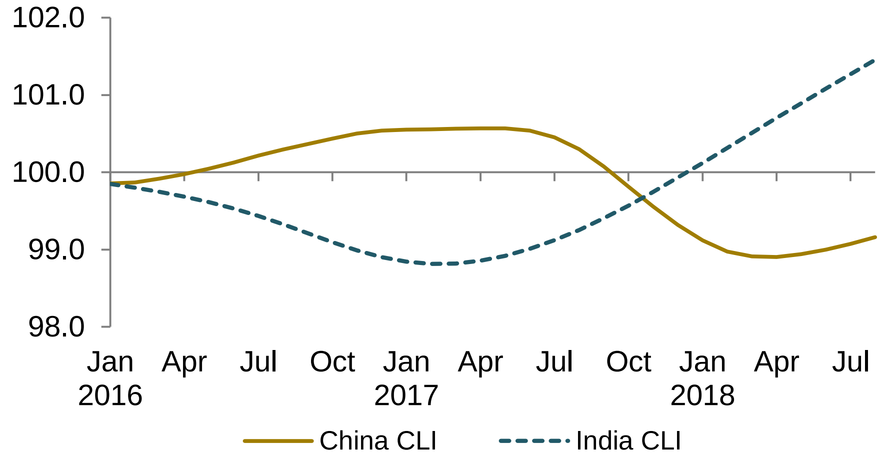
Global Activity Indicators –

Softening momentum



Global leading index has FALLEN below its long-term average

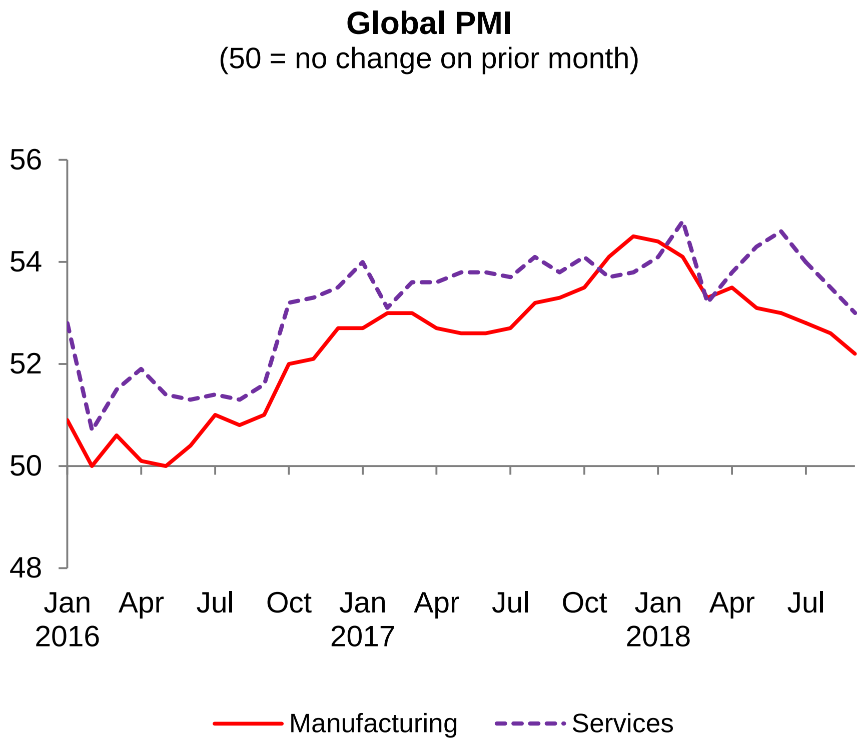




Source: OECD

- **Advanced economies'** growth have **peaked** and some have moderated.
- **Divergent** growth prospects in **advanced** and **emerging economies**.

Manufacturing and services PMIs have eased…

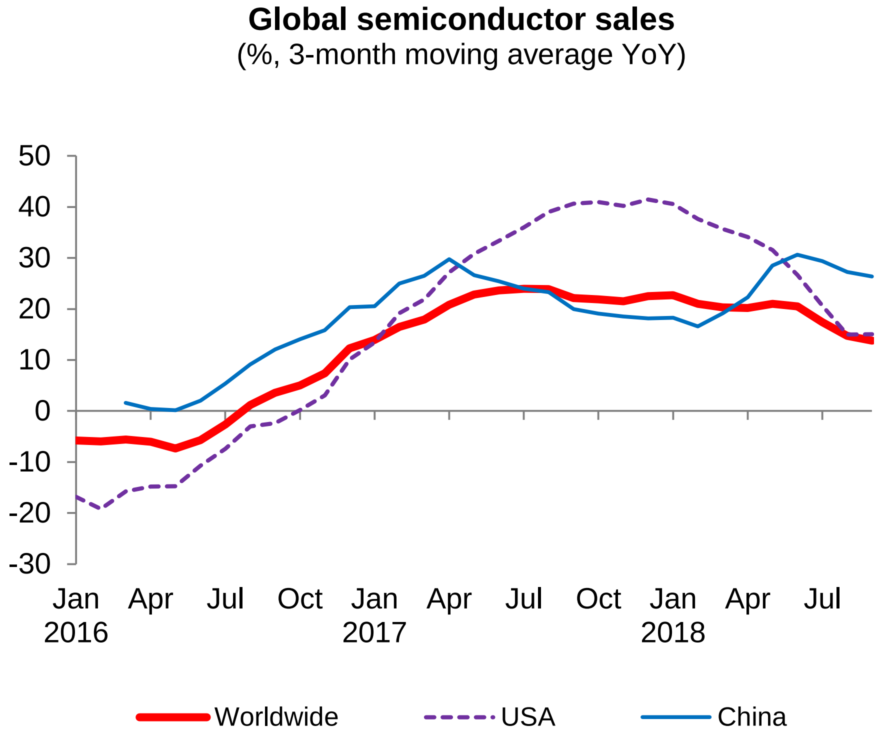


- Both **manufacturing** and **services** activities are **losing growth momentum**, albeit still staying above 50-pt, which separates between expansion and contraction.

- World **industrial production** growth also slowed (2.9% yoy in July vs. 3.3% in 2Q and 4.0% in 1Q).

Source: Markit

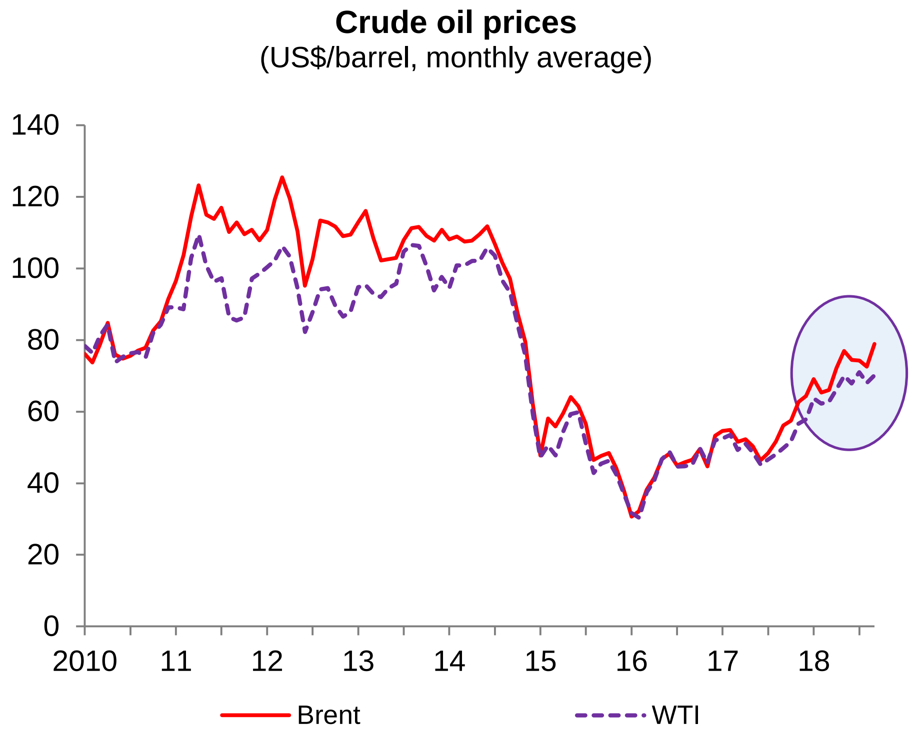
Global chip sales have MODERATED in recent months



- **Broad-based growth** across all regions and product categories.
- **Softer growth outlook**. The WSTS projected global semiconductor sales to grow at **a single-digit of 5.2% in 2019**, coming off from strong double-digit growth of 15.7% in 2018.

Source: Semiconductor Intelligence Association (SIA)

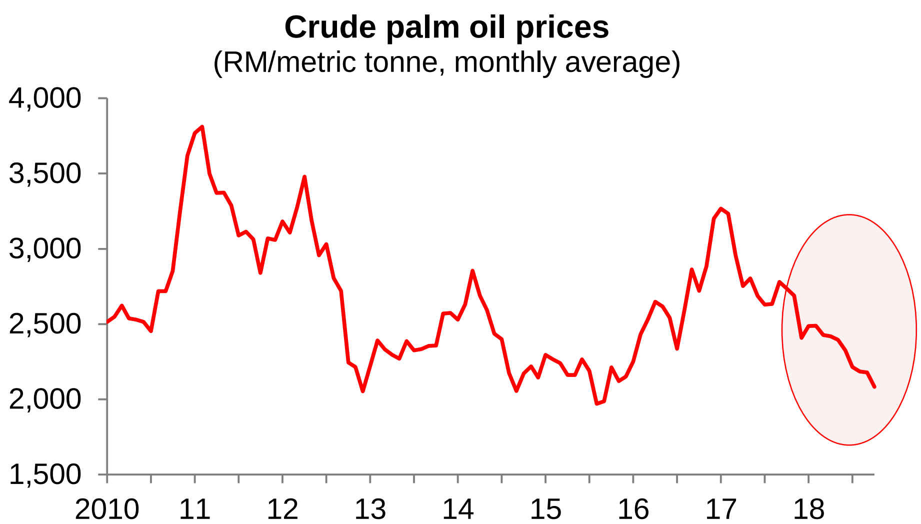
Crude oil prices at the HIGHEST LEVEL since 2014

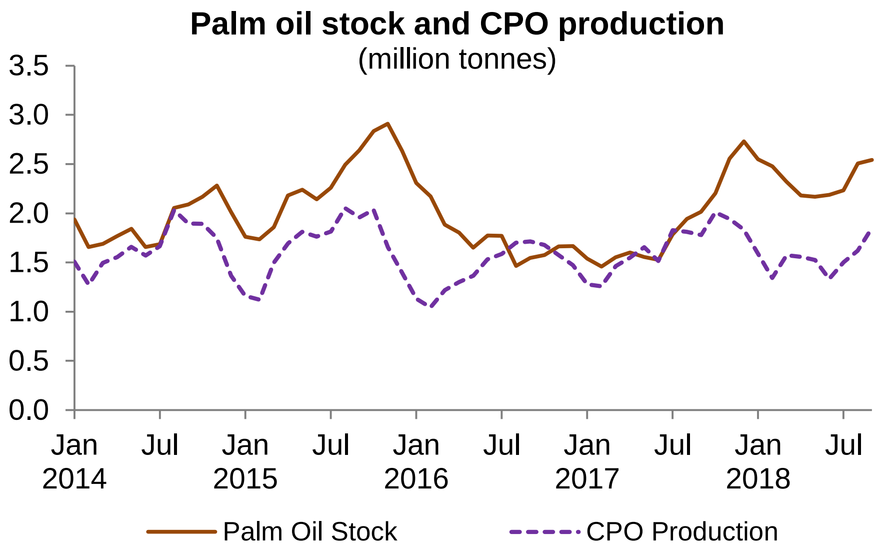


- Brent crude oil prices have surpassed US$80/barrel in September.
- **Upside risks** to prices in short-term: a faster-than-expected deterioration of Venezuelan production and a large-than-anticipated reduction in Iran's crude exports.
- **Downside risks**: trade tensions, slower global economic growth, higher OPEC output, stronger than expected Canadian and US production.
- IEA expects oil demand to grow by 1.3 mbd and 1.4 mbd in 2018 and 2019 respectively.
- IEA's estimation of **average crude oil prices** (US$74/bbl in 2018; US$75/bbl in 2019).

Source: EIA

Prolonged weakness in CPO prices

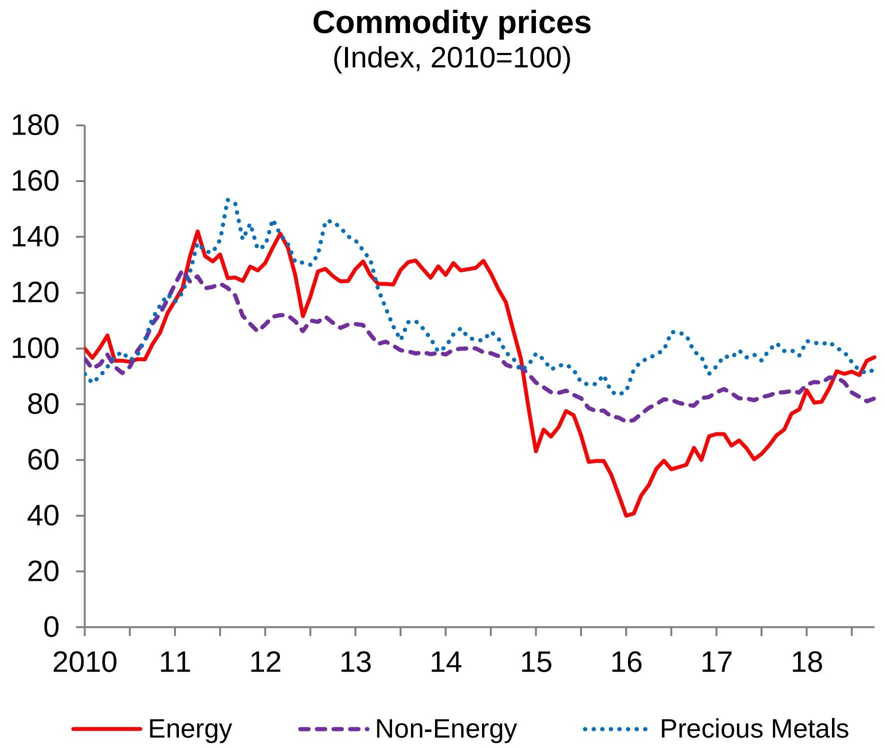




- **Upside to CPO prices** are capped by
  - ❑ High palm oil inventory in Malaysia and Indonesia. Stocks are piling up since May.
  - ❑ Pressure on US soybean price due to the US-China trade war.
  - ❑ Demand uncertainty from weak EM currencies.
- **Risk factors** to watch
  - ❑ Weather – starts of dry seasons, next El Nino.
  - ❑ Soybean planting in South America.
  - ❑ Higher import tariffs imposed by India.
  - ❑ Proposed ban on the utilization of palm oil as biodiesel in Europe starting 2021.

Source: MPOB *Note: Palm oil stock including CPO and processed palm oil*

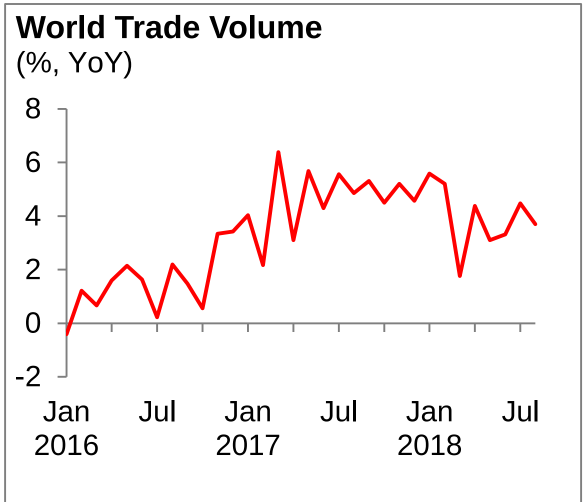
Commodity market moves in DIFFERENT DIRECTIONS

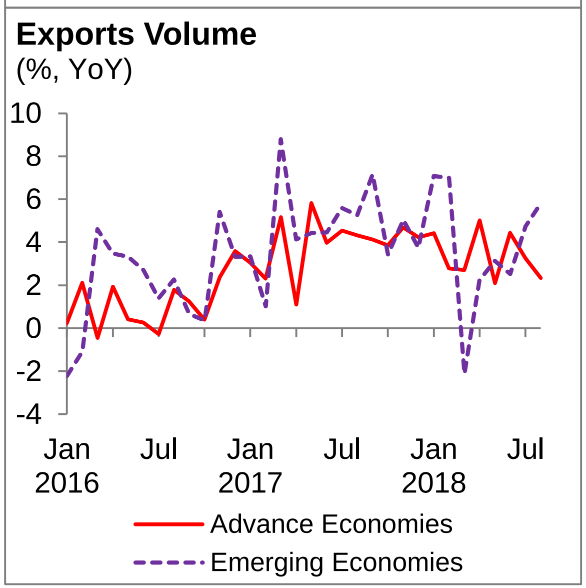


- Energy prices are rising; non-energy and precious metal prices are softening.

Source: World Bank

Global TRADE still on positive trajectory, but …





Source: CPB, Netherlands

… there are unintended consequences from tit-for-tat trade war. The repercussions are highly disruptive and damaging on global economic growth via trade and financial channels.

Trade channel

Curtail trade activity; Asian supply chains disruption and dampen global growth

Financial channel

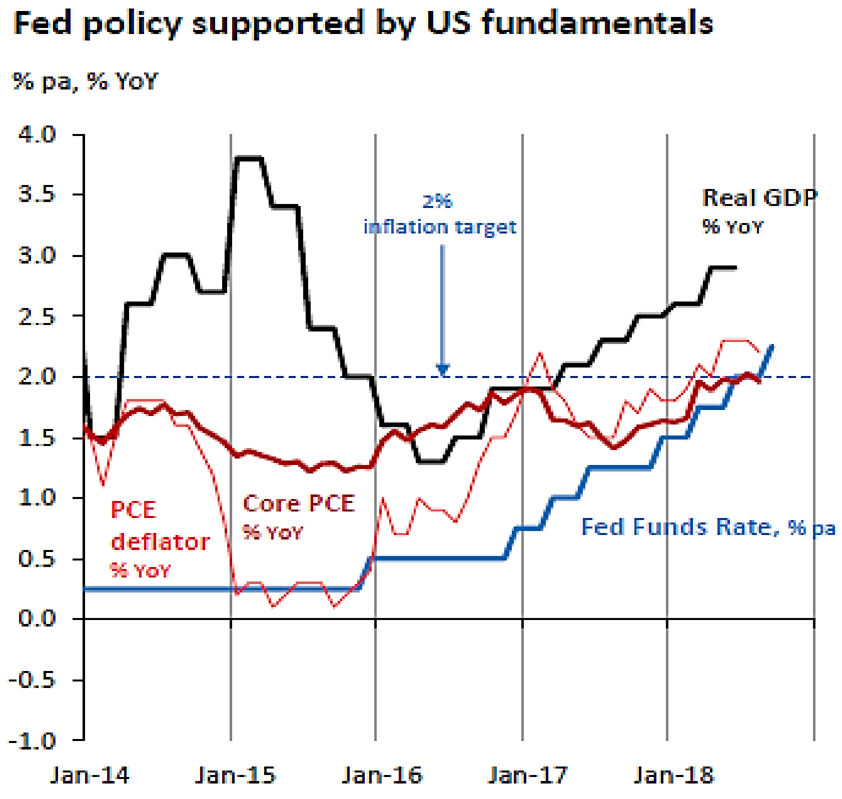
Share prices of affected companies / industries will be rerated on earnings concern

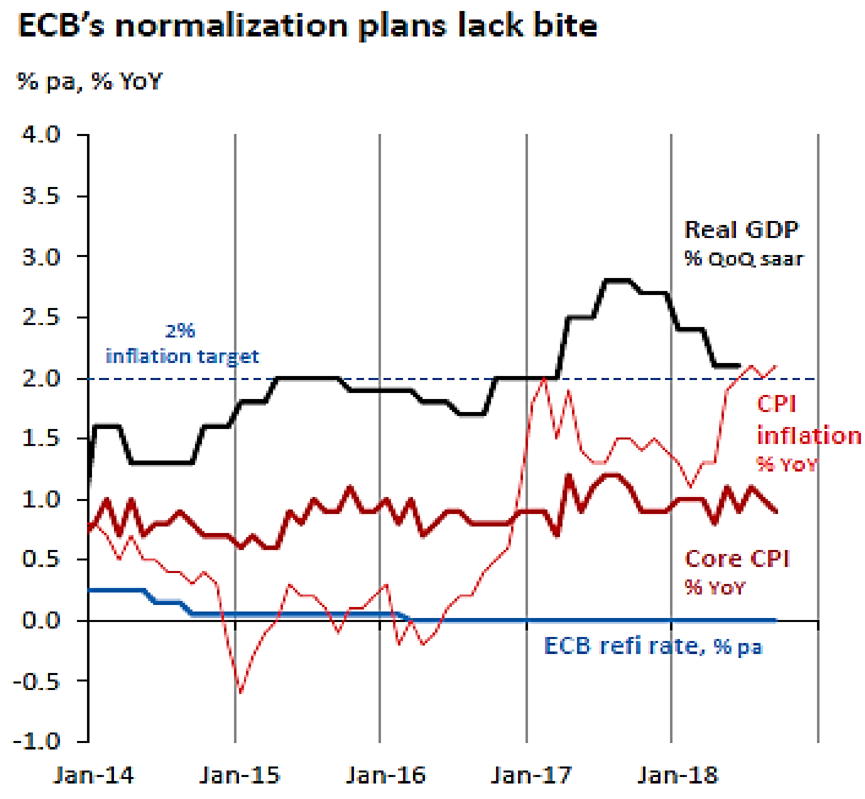
In Sep 2018, WTO revised trade growth projections lower to 3.9% (from 4.4%) in 2018 and 3.7% (from 4.0%) in 2019

Sustained trade tensions could slash Asia's economic growth by up to 0.9 percentage point in coming years

Growth, inflation and interest rates RISING together

- Based on the Fed's guided rate path, the Fed funds rate will rise to **2.25-2.50% by end-2018** and **3.00-3.25% by end-2019** respectively.

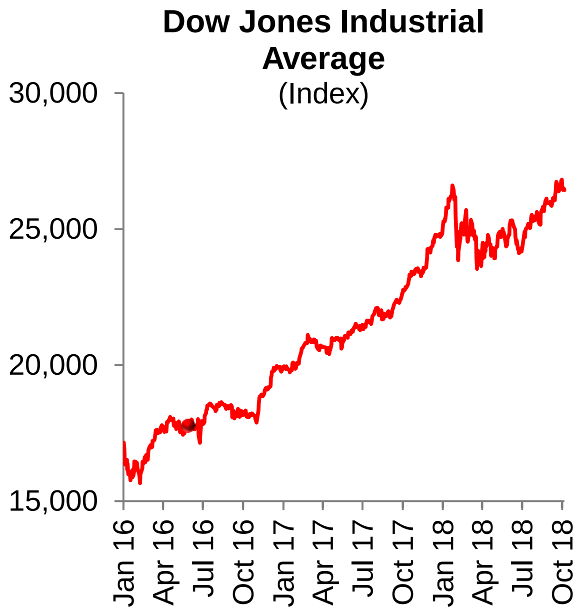




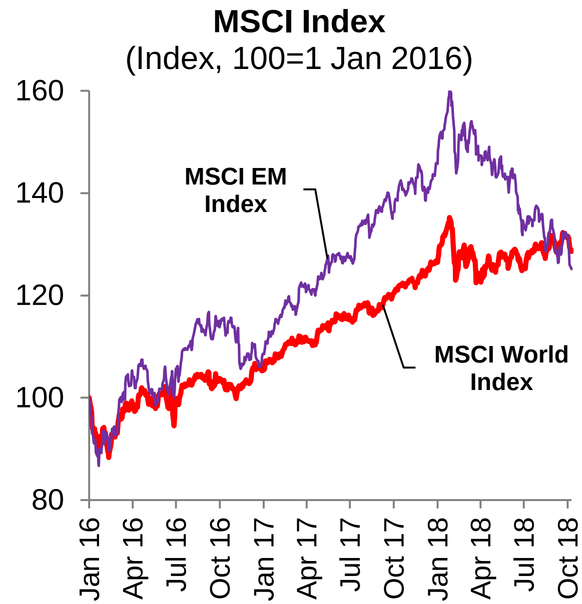
Source: DBS

Global equity markets: Dow Jones Industrial Average rallies while emerging markets slide

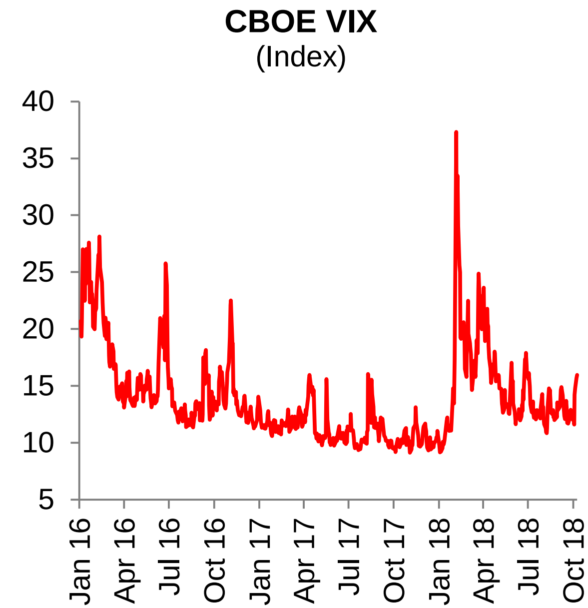
The DJIA is hitting record highs…



…emerging markets falling into bear territory



The 'fear index' indicates some uptick



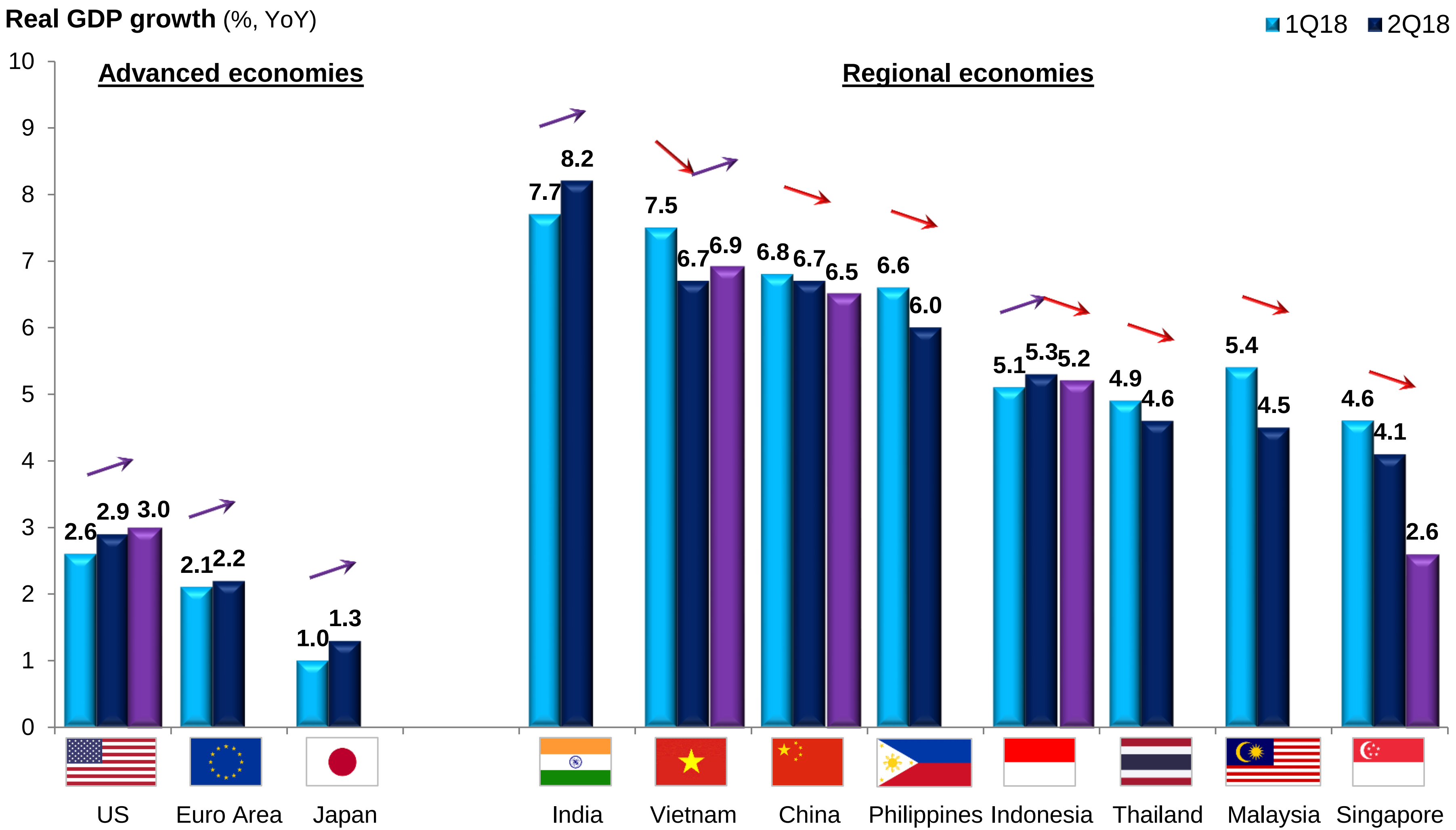
Source: WSJ; MSCI; CBOE

Section 2:

Snapshot of Economic Performance –

Uneven expansion, downside risks to growth

Uneven EXPANSION in advanced and regional economies



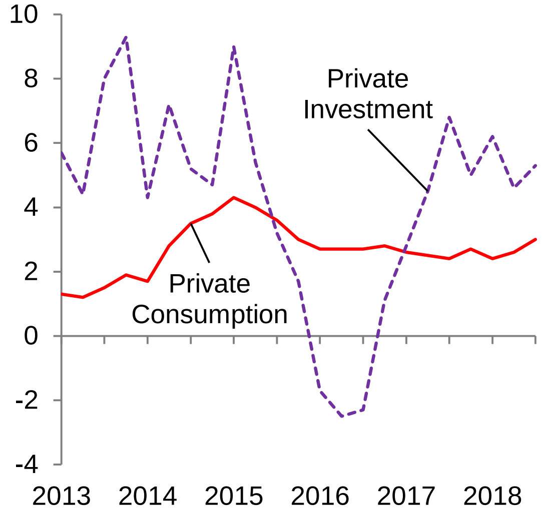
Source: Officials

US: Firing on ALL CYLINDERS

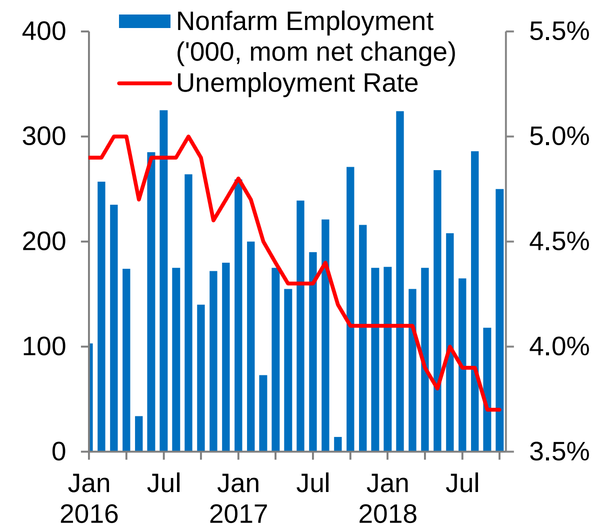
(2018E: 2.9%; 2019F: 2.5%)

- **GOING STRONG:** Annualised 3.5% qoq in 3Q18, second highest since 3Q14.
- **FISCAL STIMULUS:** Robust private spending, strong external sector.
- **RISKS TO OUTLOOK:** Escalating trade war; diminishing tax stimulus effects; aggressive hikes in interest rate.

Real private sector growth (%,YoY)



Labour market condition (%,YoY)



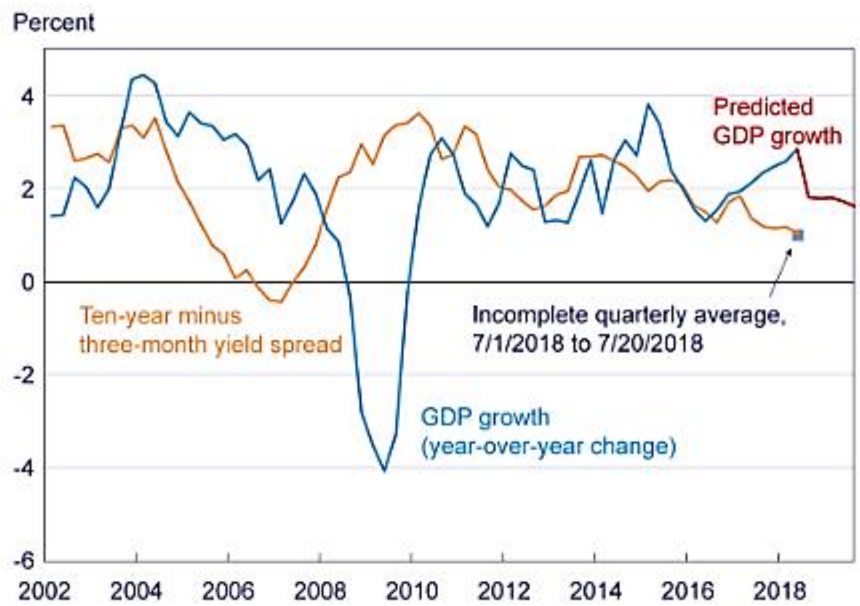
Real GDP growth (%, Annualized QoQ)

Source: US Bureau of Economic Analysis; US Bureau of Labor Statistics

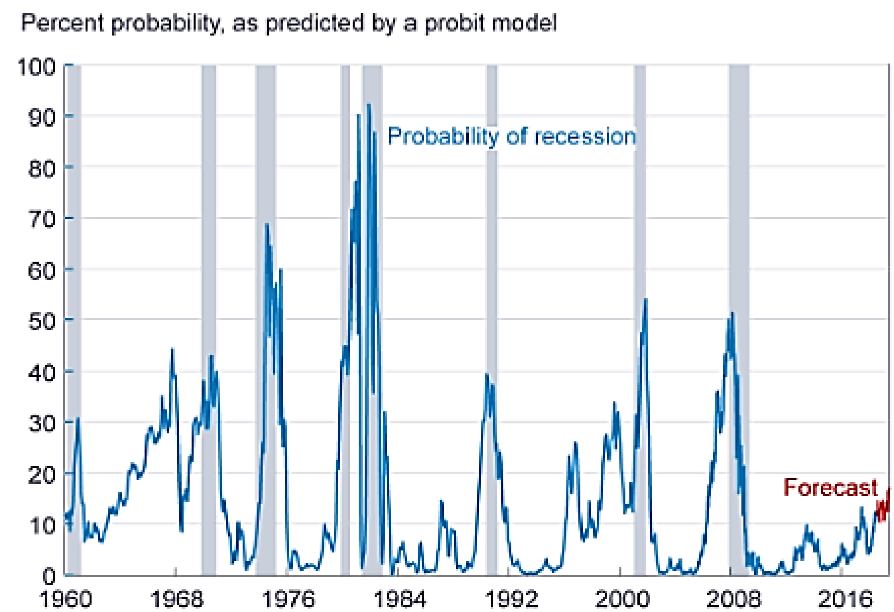
Is INVERTED US yield curve is a harbinger of ECONOMIC TROUBLE?

- 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.

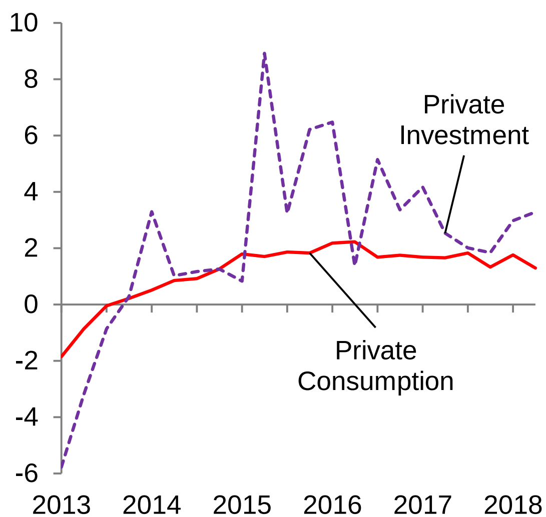


Note: Shaded bars indicate recessions.
Sources: NBER, Federal Reserve Board; authors' calculations.

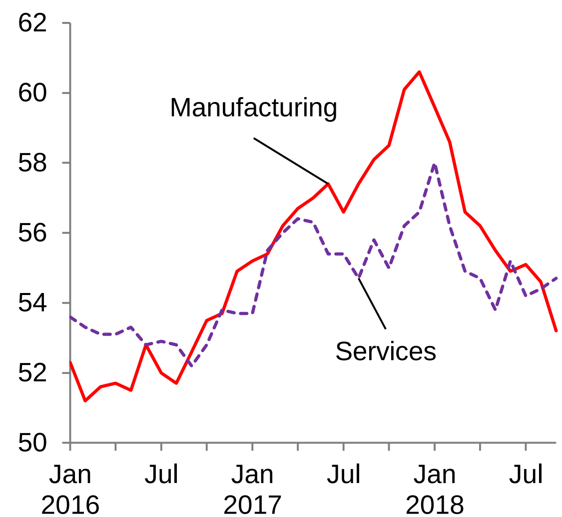
Euro area: Growth CHALLENGES remain
(2018E: 2.0%; 2019F: 1.9%)

- **WEAKEN GROWTH:** GDP growth slowed to 0.2% qoq in 3Q18. Private consumption growth lost steam; fixed investment picked up.
- **RISKS TO OUTLOOK:** A firm euro; trade war; geopolitical tensions; BREXIT deadline and rising inflation.

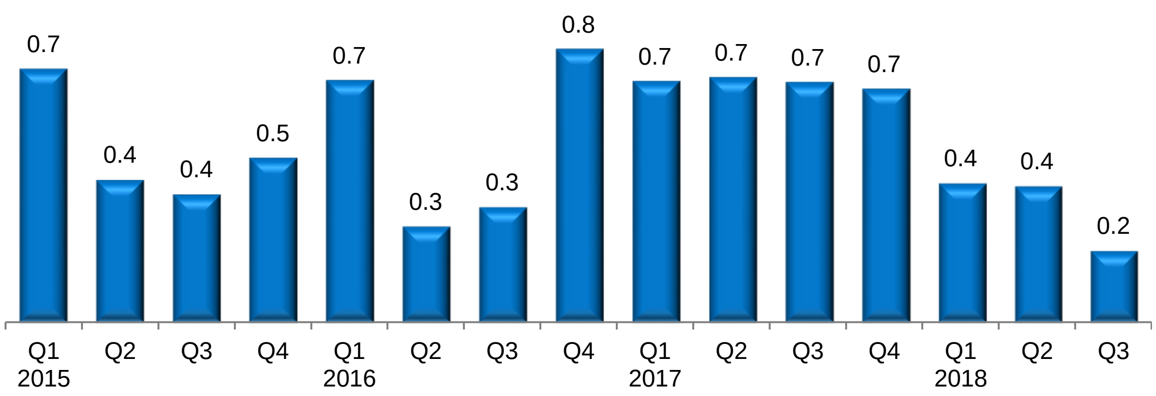
Real private sector growth (%,YoY)



PMI



Real GDP growth (%, QoQ)

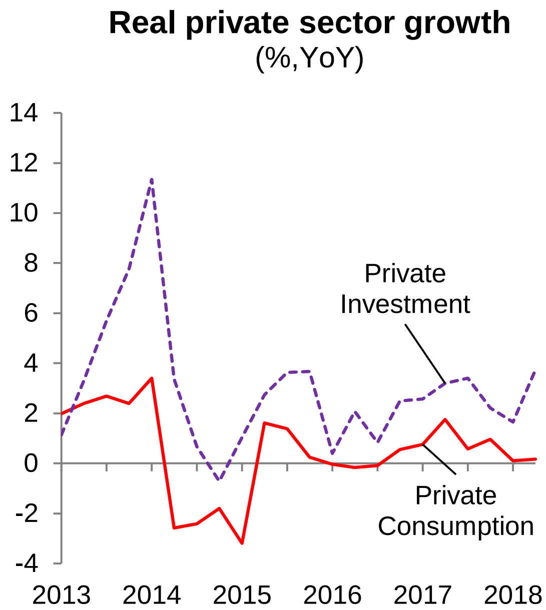


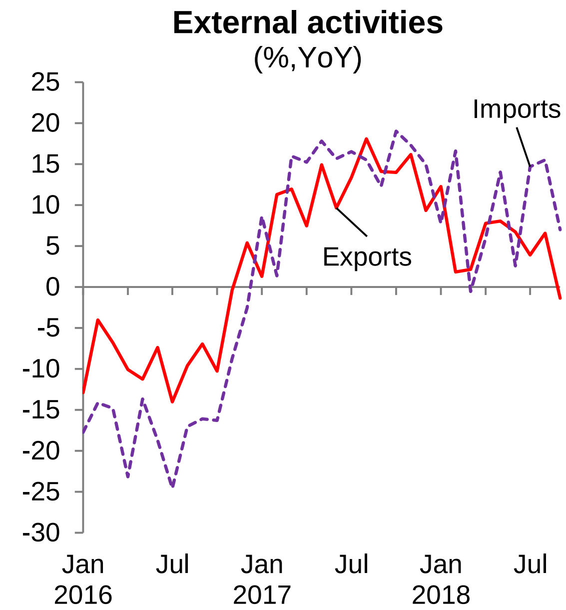
Source: Eurostat; Markit

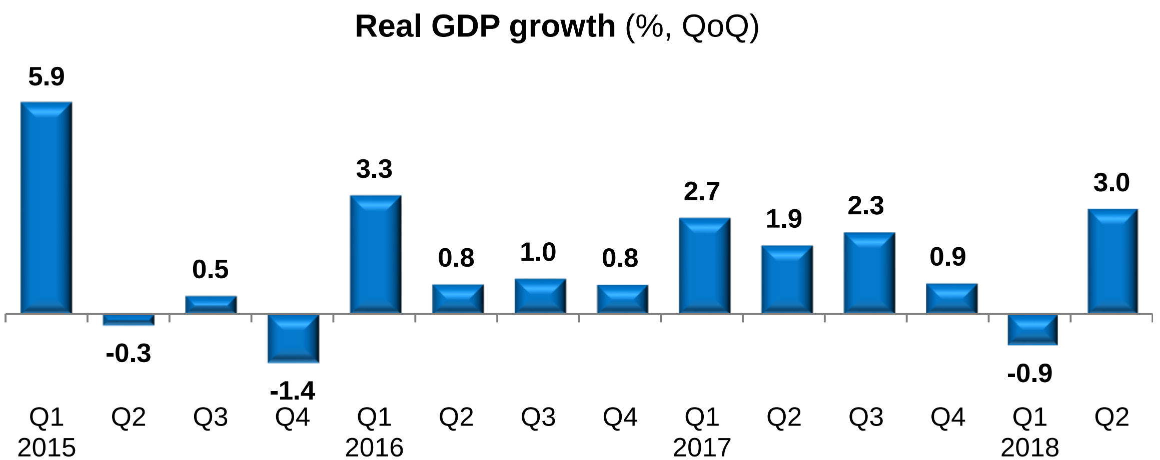
Japan: Still growing but RISKS remain

(2018E: 1.1%; 2019F: 0.9%)

- **GROWTH REBOUNDED:** GDP accelerated to 1.3% yoy or 3.0% qoq in 2Q (1Q: +1.0% yoy / -0.9% qoq).
- Accommodative financial conditions, robust labor market and construction projects related to the 2020 Tokyo Olympics.
- **RISKS TO GROWTH:** Rising trade protectionism; geopolitical risks could strengthen the yen.





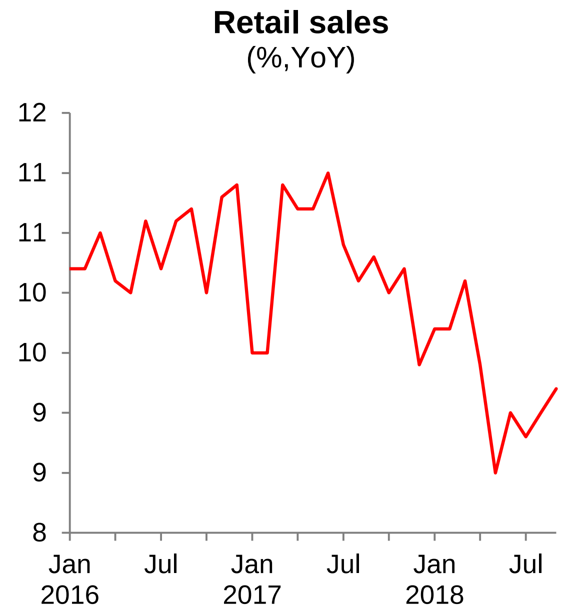


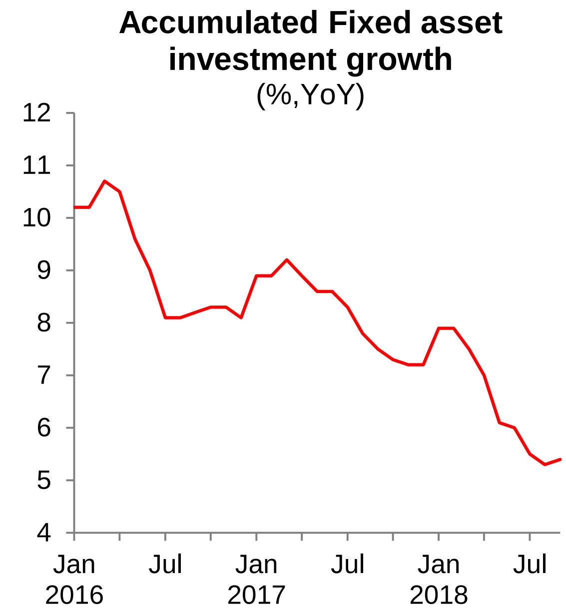
Source: Economic and Social Research Institute; Japan Customs

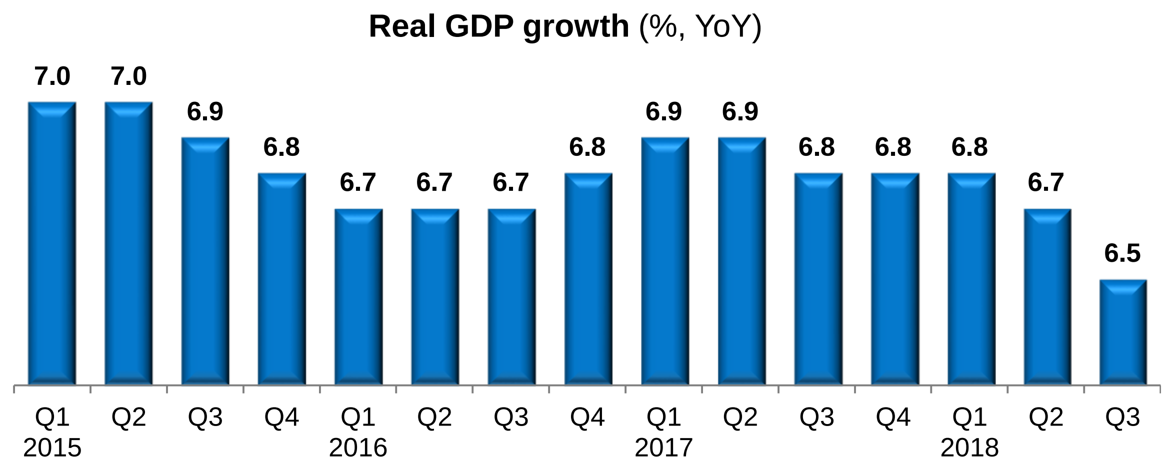
China: COOLING amid a full blown trade war

(2018E: 6.6%; 2019F: 6.2%)

- **GROWTH COOLS:** GDP eased further to 6.5% yoy in 3Q (2Q: 6.7%; 1Q: 6.8%).
- Continued financial deleveraging weighed on investment and property lending. Investment growth slowed to a record low.
- PBOC cut the reserve requirement (release liquidity to banks) for the fourth time by 1% to spur growth.
- **RISKS TO GROWTH:** Escalating trade war with the US; a sudden slowdown in the property market and potential corporate defaults.





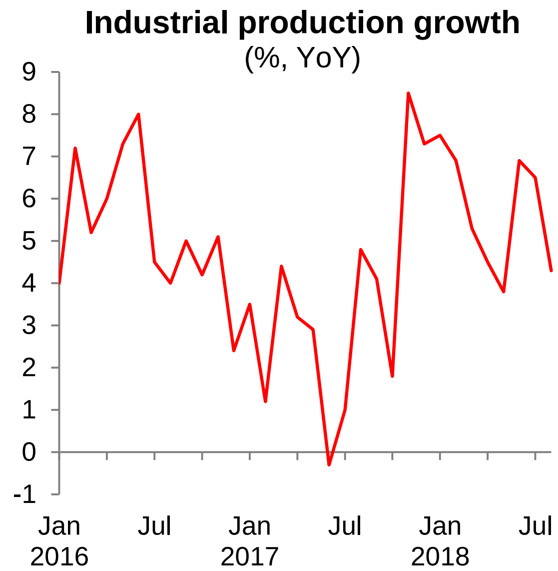


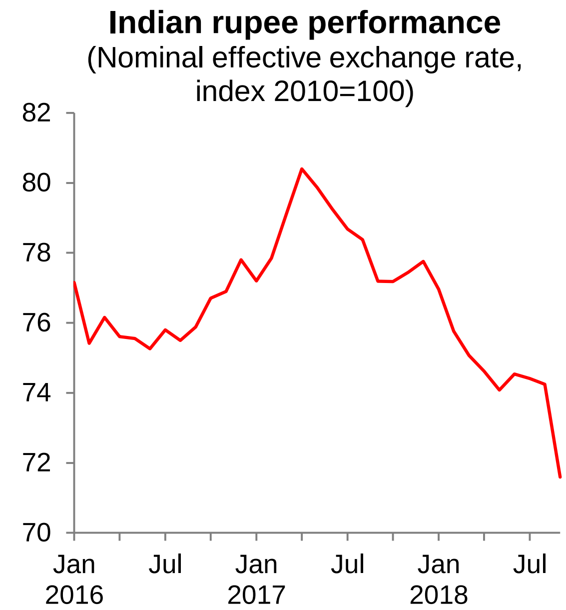
Source: National Bureau of Statistics of China

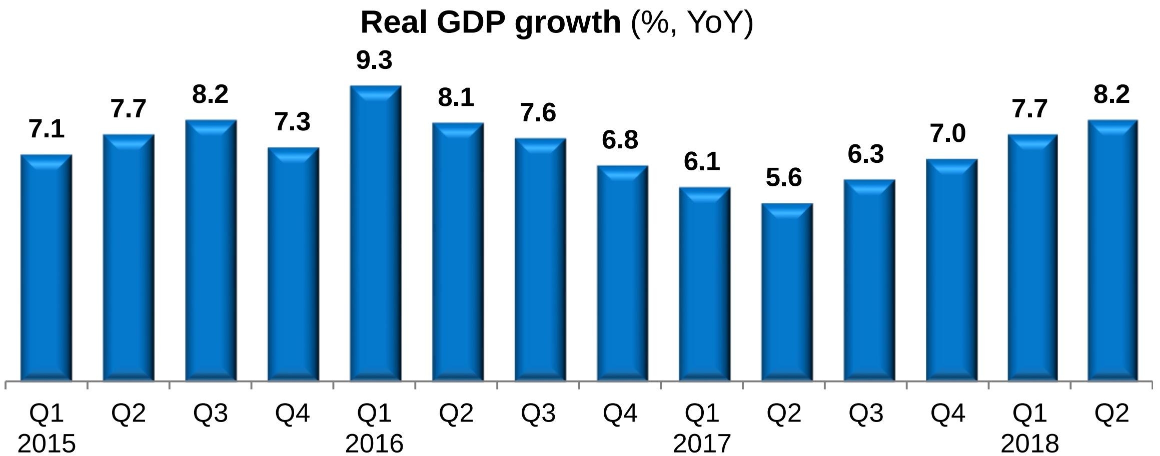
India: STRONG expansion amid weakening rupee

(2018E: 7.3%; 2019F: 7.4%)

- **GROWTH ACCELERATED.** The strongest in two years 2018 (8.2% in 2Q vs. 7.7% in 1Q), buoyed by surging private consumption.
- **RISKS TO GROWTH.** Fiscal slippage ahead of next year's general elections; global trade tensions, higher oil prices and weakening rupee.





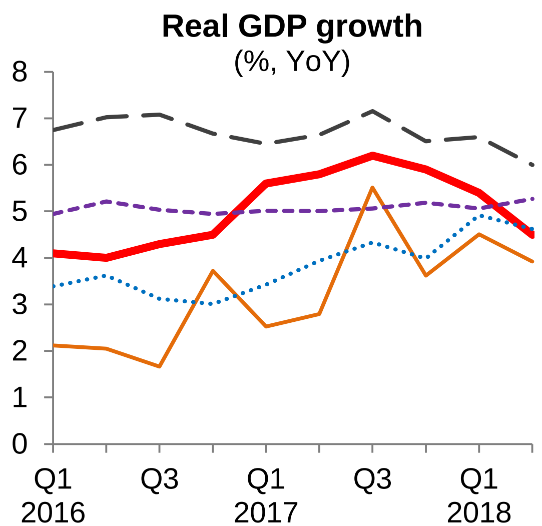


Source: Ministry of Statistics and Programme Implementation, India; Bank of International Settlements

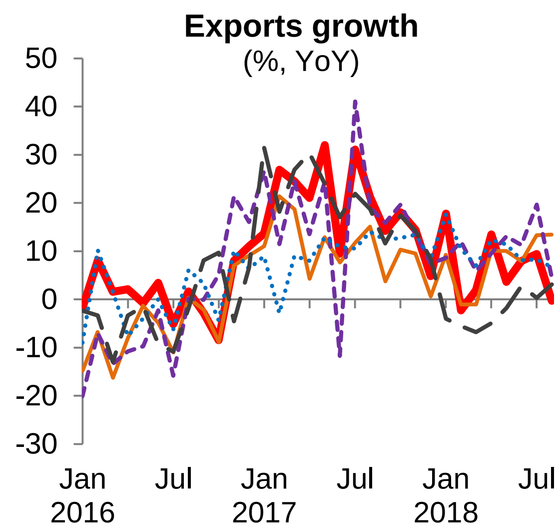
ASEAN-5 economies still GROWING but risks remain

- **Malaysia:** New political landscape and policies transition adjustment
- **Indonesia:** Tightening monetary policy; plunging rupiah
- **Thailand:** Softer external demand. General elections will be held by May 2019
- **Singapore:** Highly open economy subjects to financial volatility and trade tensions
- **Philippines:** Large fiscal stimulus. Rising fiscal and current account deficits

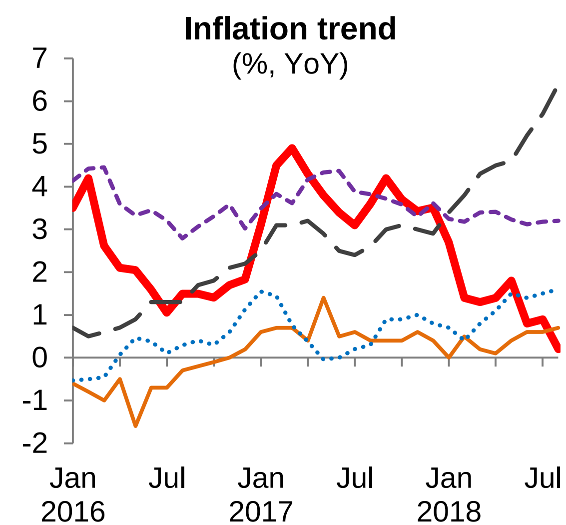
Uneven growth



Exports growth moderated from high levels



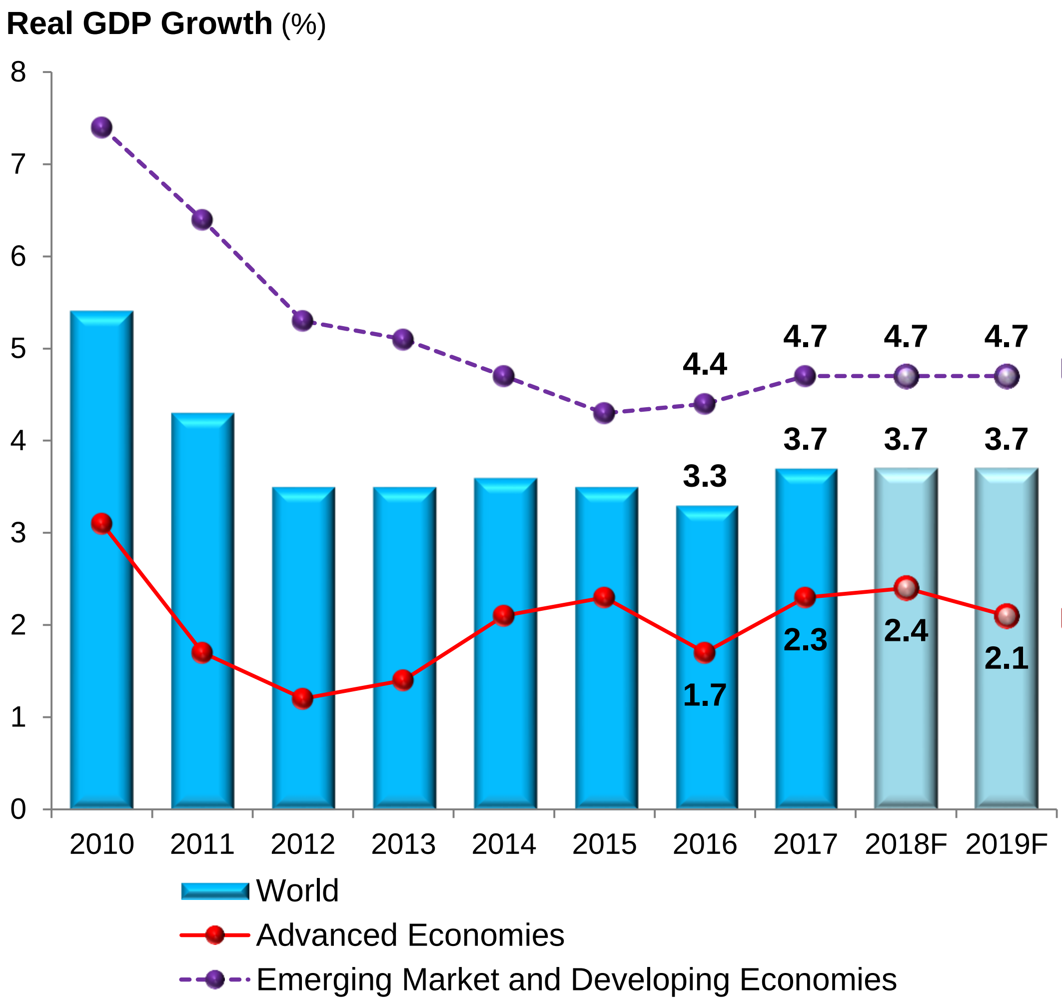
Inflation shows mixed trend

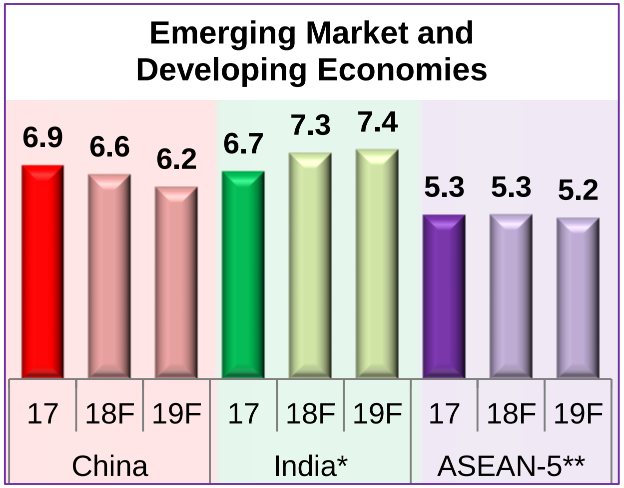


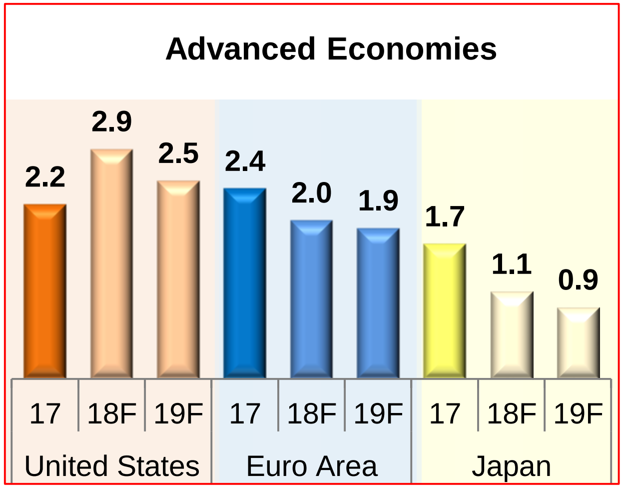
Malaysia — Singapore — Indonesia — Thailand — Philippines

Source: Various

GROWTH prospects for advanced and emerging economies







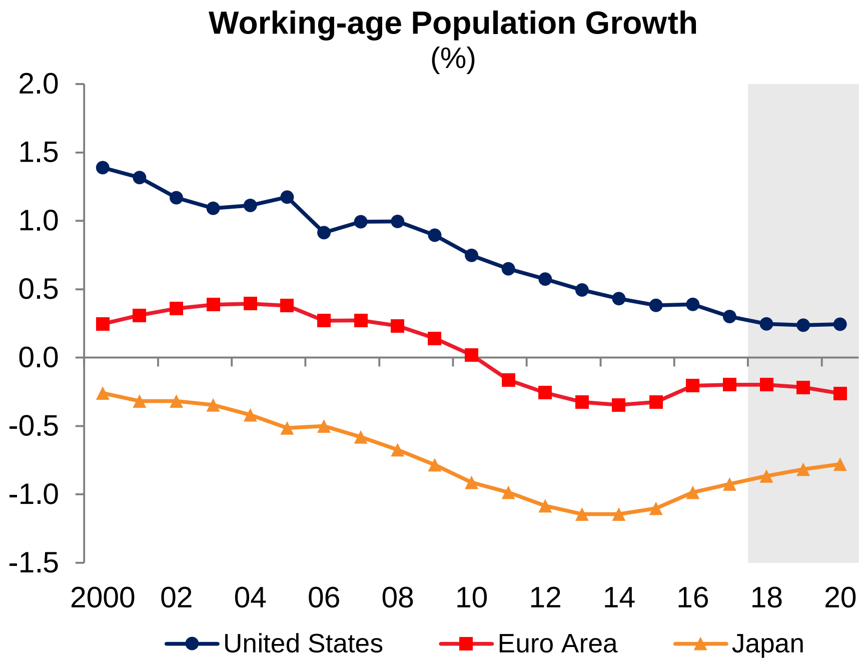
Source: Officials; IMF (WEO, October 2018)

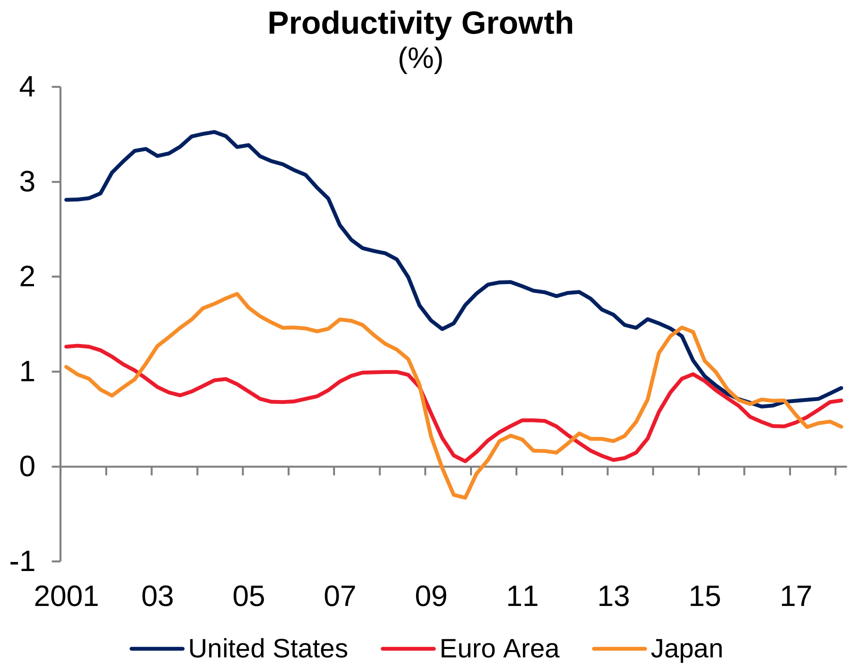
* *Annual GDP for India is on fiscal year basis*

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

STRUCTURAL risks to restraint potential growth

- **Shrinking working population (aging workforces)** in eurozone and Japan and slower growth in the US.
- Along with **trending slower productivity growth** would constrain the potential output growth and poses downside risks to the longer-term economic growth.





Source: World Bank; Haver Analytics

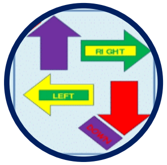
Section 3:

Risks to Global Growth –

Growing downside risks

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 RISKS**" increase **global uncertainty**:

1. TRADE WAR

2. RISING US INTEREST RATES

3. FINANCIAL VOLATILITY

4. INTENSIFIED RISKS IN EMERGING MARKETS

5. POLITICAL AND GEOPOLITICAL RISKS

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

Source: BNM

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**

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

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

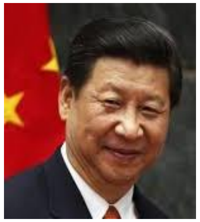
Total Imports in 2017: US$2,342bn
- From China: US$505bn (Share: 21.6%)

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.

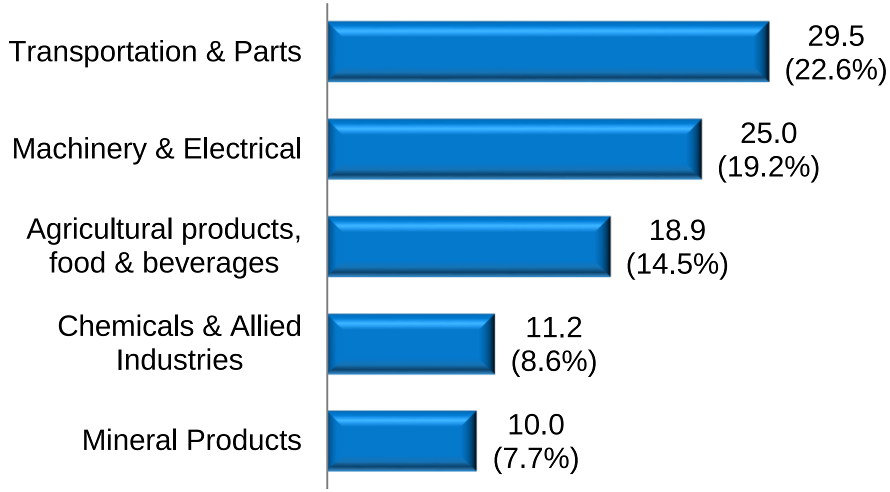
	US's tariffs on US$250bn of Chinese goods	China's tariffs on US$110bn of US's goods
Share of US’s total imports	10.7%	
Share of US’s total exports		7.1%
Share of imports from China	49.5%	
Share of exports to China		84.7%

	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%	

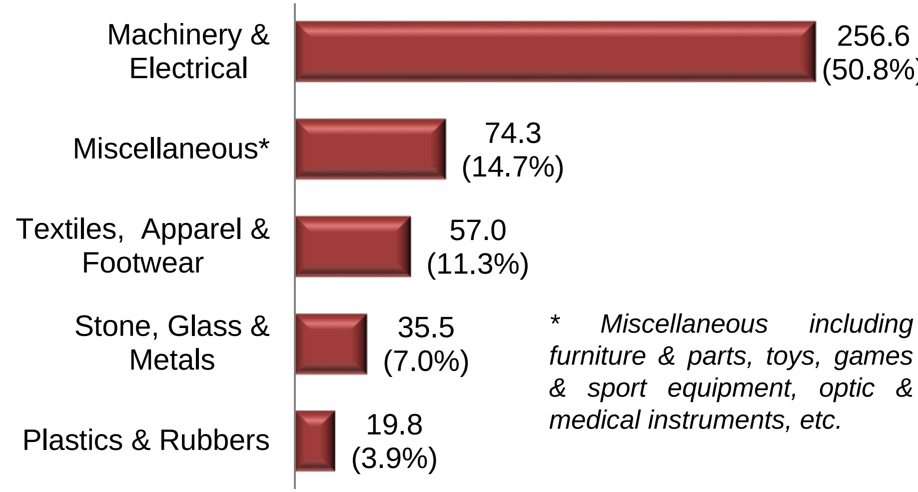
Source: US Census Bureau; China Customs

The industries most AT RISK in the US-China trade war

The US industries most at risk in a trade war with China
Leading export categories by HS code
United States to China in 2017 (US$ billion)



The Chinese industries most at risk in a trade war with US
Leading export categories by HS code
China to United States in 2017 (US$ billion)



** Miscellaneous including furniture & parts, toys, games & sport equipment, optic & medical instruments, etc.*

Figure in parenthesis indicates % share of gross exports in 2017

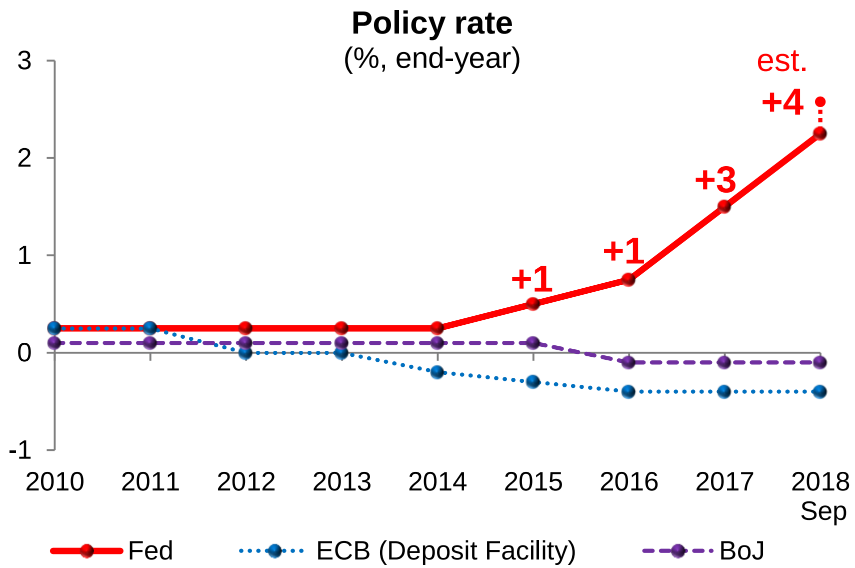
Exposure to the value chain (%)

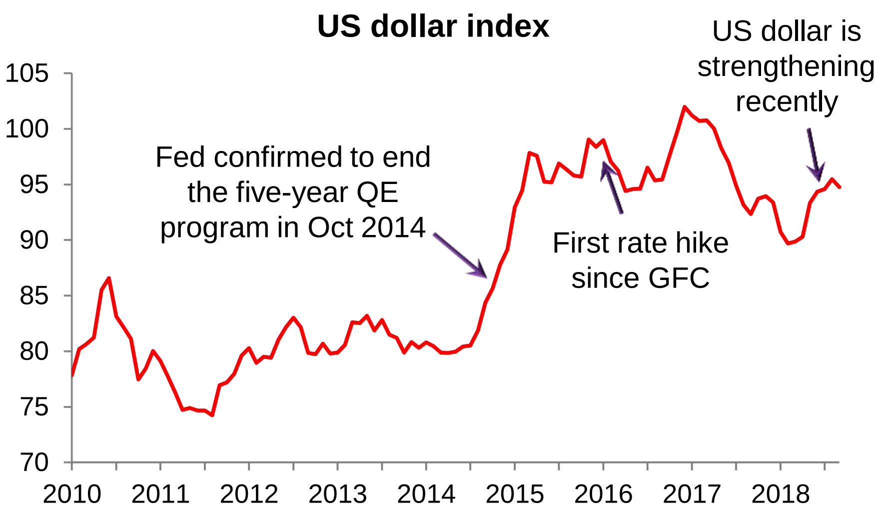
	Indonesia	Malaysia	Singapore	Thailand		Indonesia	Malaysia	Singapore	Thailand
Wood & products	0.1	0.0	0.0	0.1	**Textiles**	1.1	0.6	0.3	0.7
Food products	0.2	0.1	0.0	0.1	**Machinery**	1.1	0.7	0.4	0.5
Electronics	3.4	6.6	2.7	3.0	**Motor vehicles**	0.1	0.0	0.0	0.0
Paper & products	0.1	0.0	0.0	0.0	**Other transport**	0.1	0.1	0.0	0.0
Chemicals	1.0	0.5	0.2	0.4	**Basic metals**	0.9	0.3	0.1	0.1
Electrical machinery	2.8	2.5	1.1	1.8	**Total**	**10.9**	**11.4**	**5.0**	**6.8**

Source: US Census Bureau; Oxford Economics

RISING interest rates mean TIGHTER liquidity conditions

- 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.

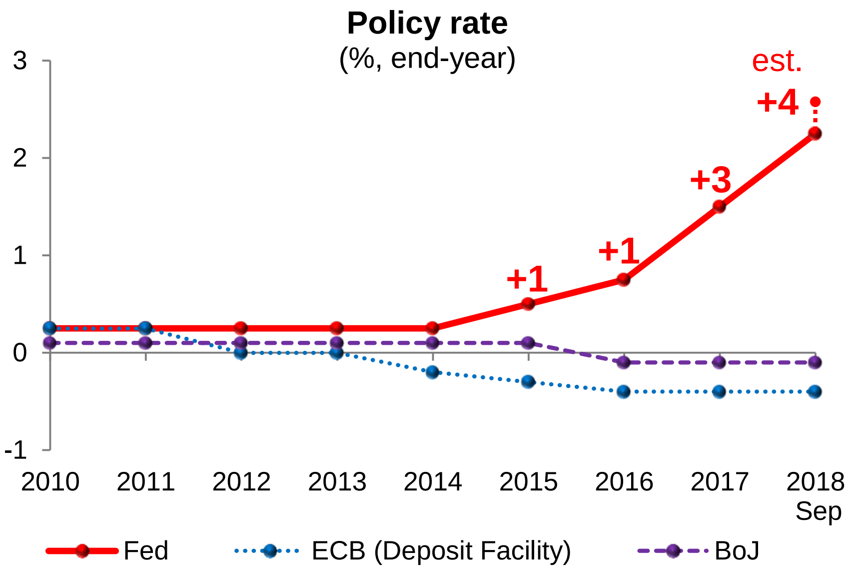


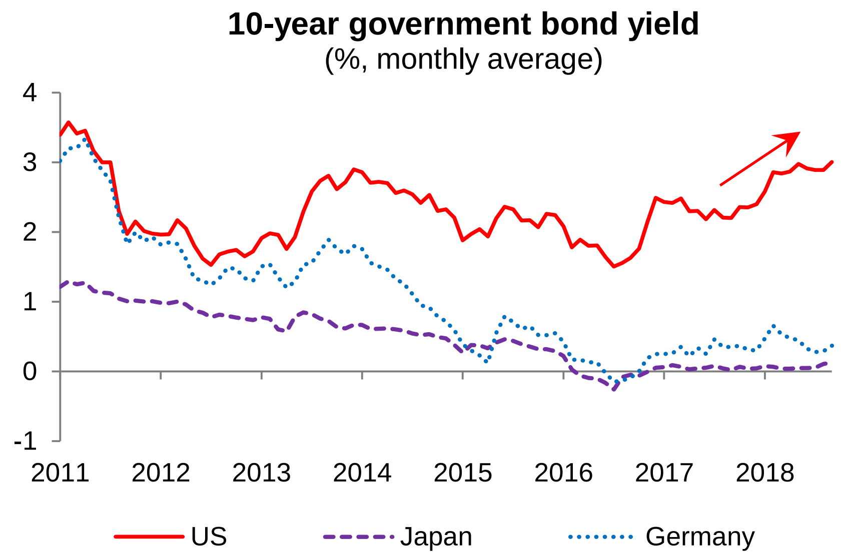


Source: Federal Reserve; ECB; BoJ; The Wall Street Journal

FINANCIAL VOLATILITY induces markets' pressure

- 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**.



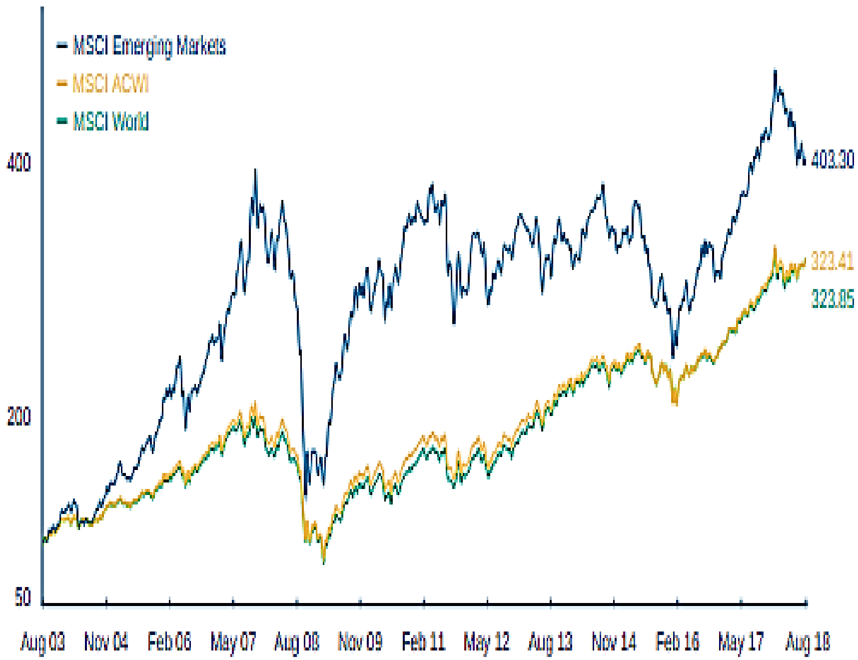


Source: Federal Reserve; ECB; BoJ; U.S. Department of the Treasury; MOF, Japan; Eurostat

4 CURRENCY CONTAGION RISK in emerging markets

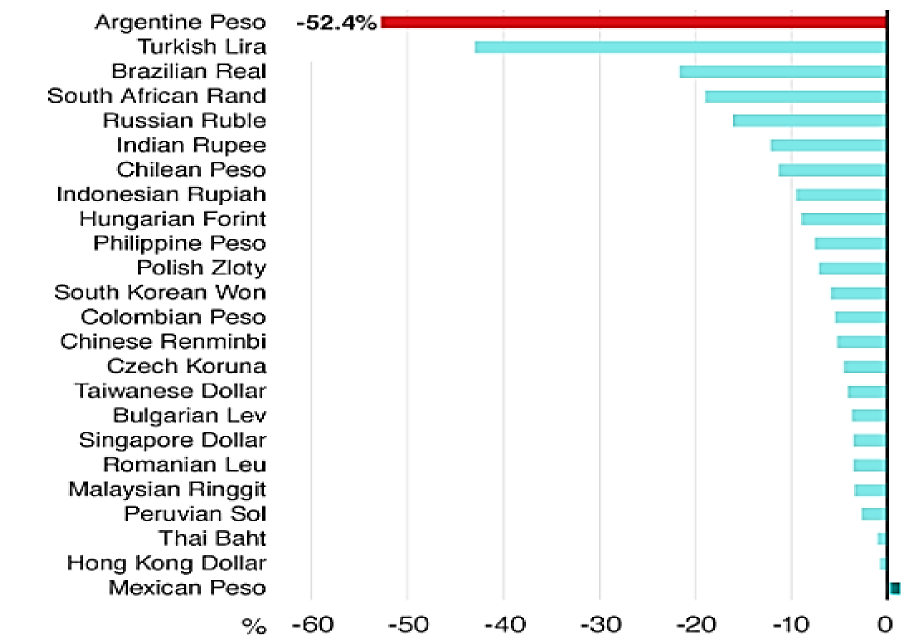
- **POWERFUL CROSSWINDS**: Higher global crude oil prices, rising US interest rates and bond yields, strong US dollar, the escalation of US-China trade war and political conflicts.
- **CAPITAL REVERSALS** and **CURRENCIES PRESSURES** on countries with **WEAK ECONOMIC FUNDAMENTALS** (twin deficits in 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

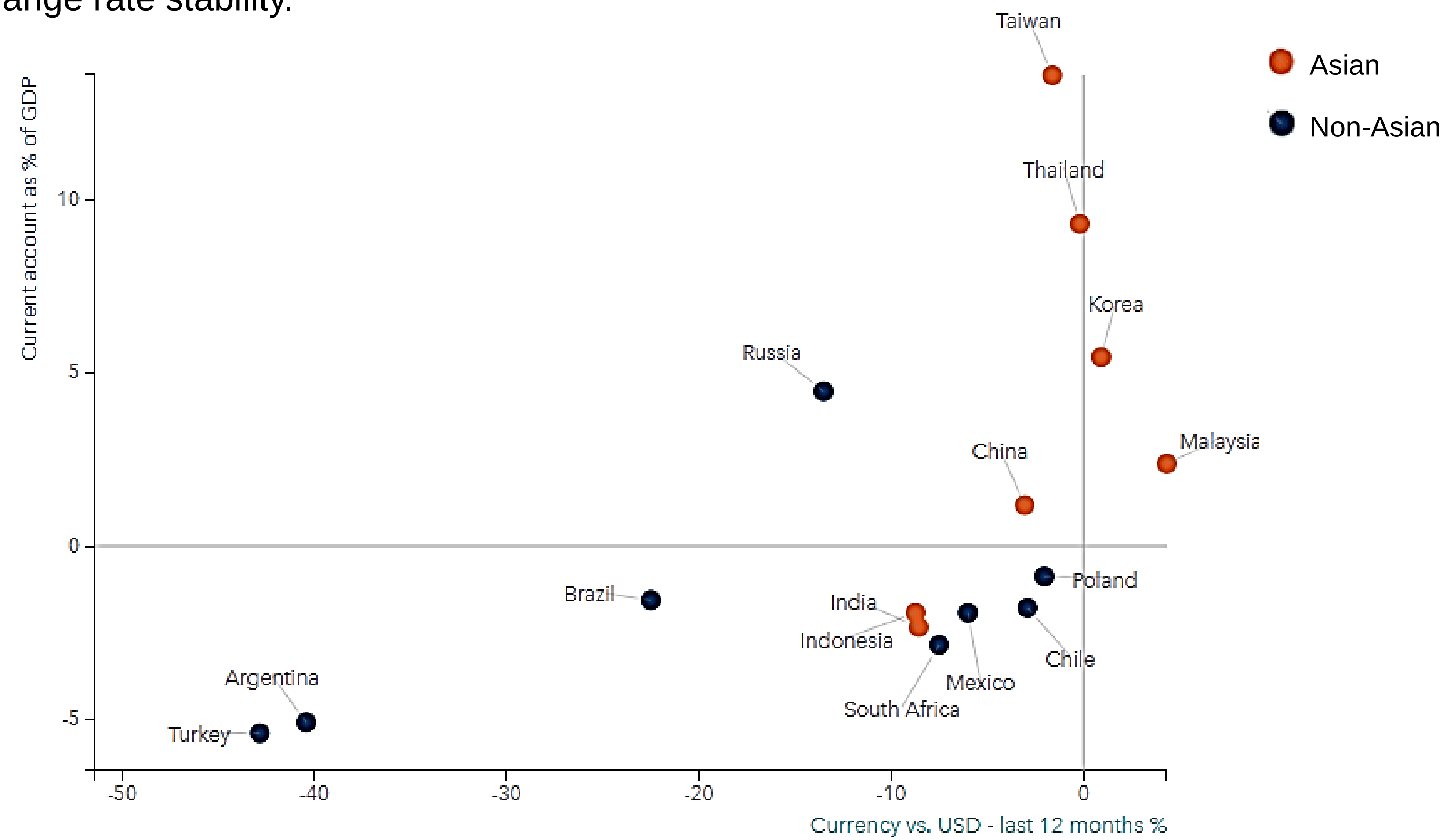
Argentina peso is the worst performing currency against the US dollar in 2018



Source: Bloomberg. Last update 06/09/2018

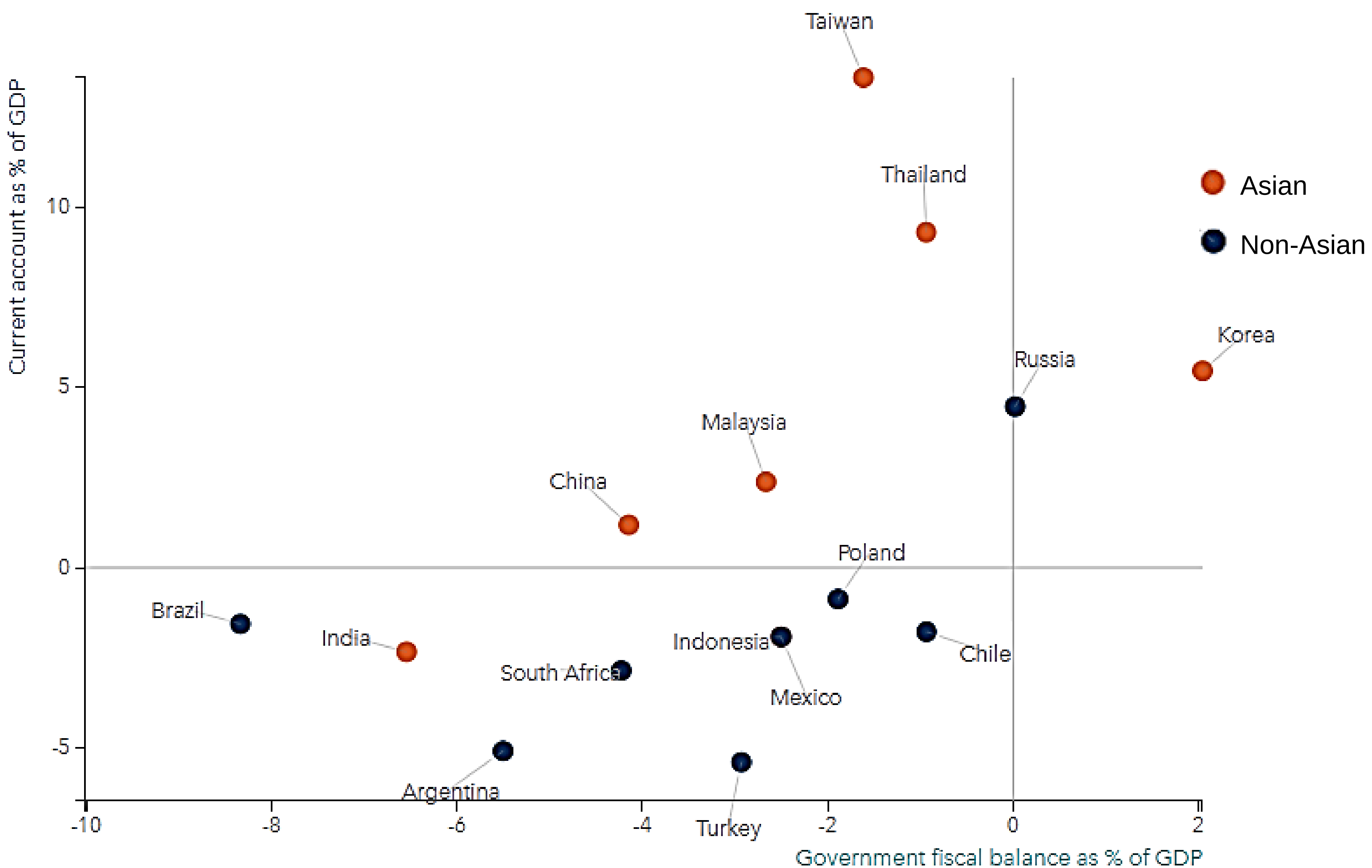
4 a CONTAGION FEAR in emerging Asia

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



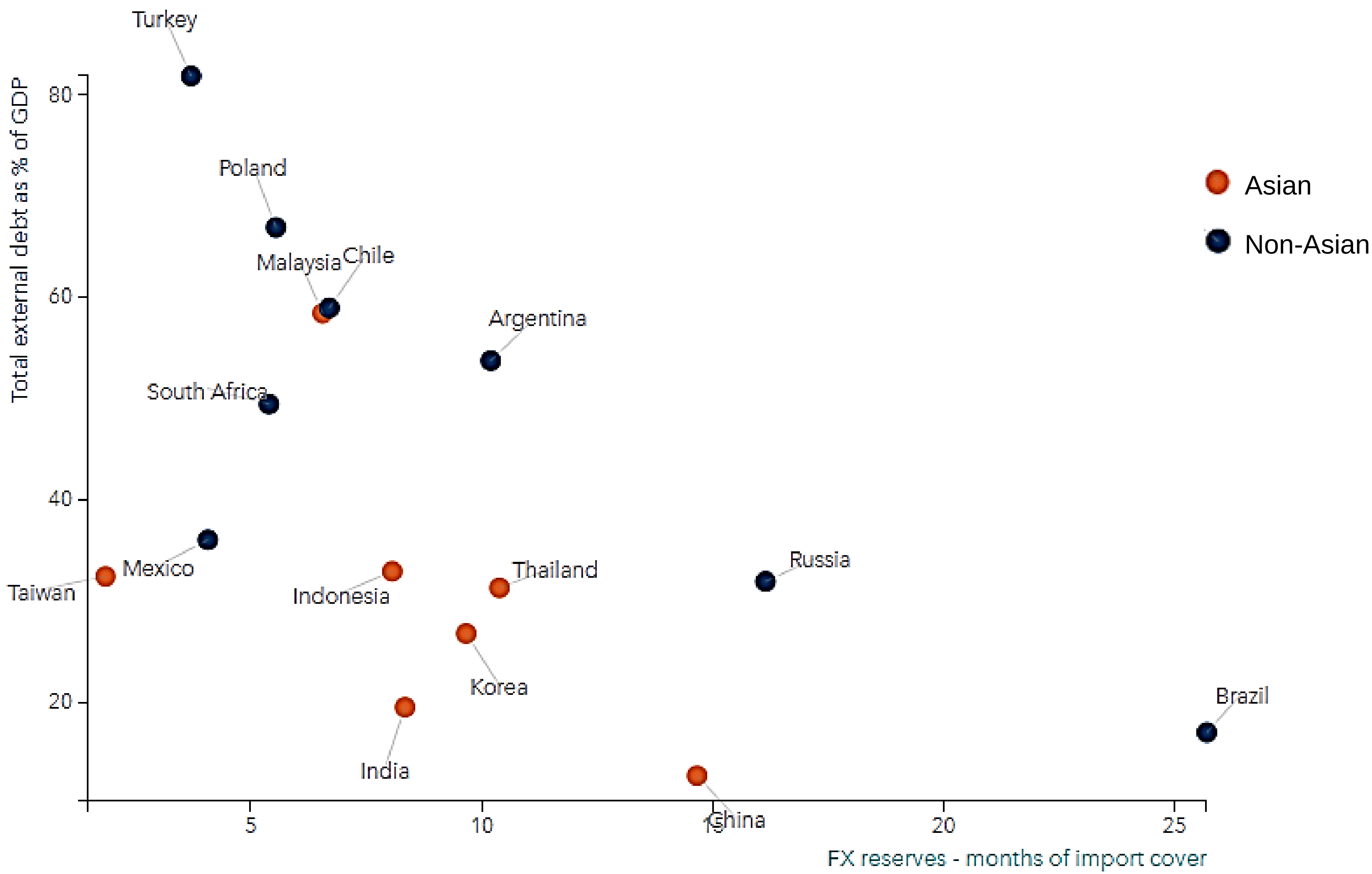
Source: BlackRock Investment Institute (23 Aug 2018)

4 b CONTAGION FEAR in emerging Asia



Source: BlackRock Investment Institute (23 Aug 2018)

4 C CONTAGION FEAR in emerging Asia



Source: BlackRock Investment Institute (23 Aug 2018)

5 GEOPOLITICAL and POLITICAL risks

PRESIDENT TRUMP – Post **MID-TERM ELECTIONS.** It is unlikely to change Washington's trade war with Beijing. Both Democrats and Republicans are believed to support a tougher stance on Chinese trade and intellectual property practices.

The US’s 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.

Next GLOBAL RECESSION – What will trigger and when?

First, US's fiscal-stimulus effects **RUNNING OUT OF STEAM**.

Second, with inflation rising above target **PUSHING THE FEDERAL FUNDS RATE TO AT LEAST 3.5%** by 2020. By then, other central banks would have normalized interest rates; reduce global liquidity and put upward pressure on interest rates and the US dollar.

Third, the Trump administration's **ESCALATING TRADE SPATS** with China and other trading partners, leading to slower growth and higher inflation.

Fourth, other countries will retaliate against US protectionism. **CHINA'S GROWTH** will be challenged by continued deleveraging; highly vulnerable emerging markets will be significantly pressured by capital reversals.

Fifth, GLOBAL EQUITY MARKETS ARE GETTING FROTHY. US P/E ratio is 50% above historical average, steep market valuations, government bonds are too expensive. Global debt has hit another high (US$247 trillion, exceeding 318% GDP at end-Mar). Some of the US$3.7 trillion in debt taken on in the ten years since the 2008-09 Global Financial Crisis.

THE EXPANSION IS NINE YEARS OLD. AN ILL-TIMED END OF FISCAL STIMULUS, CORPORATE DEBT BUBBLE AND THE TRADE WAR ARE THE POWERFIRES THAT COULD MOST EASILY END IT

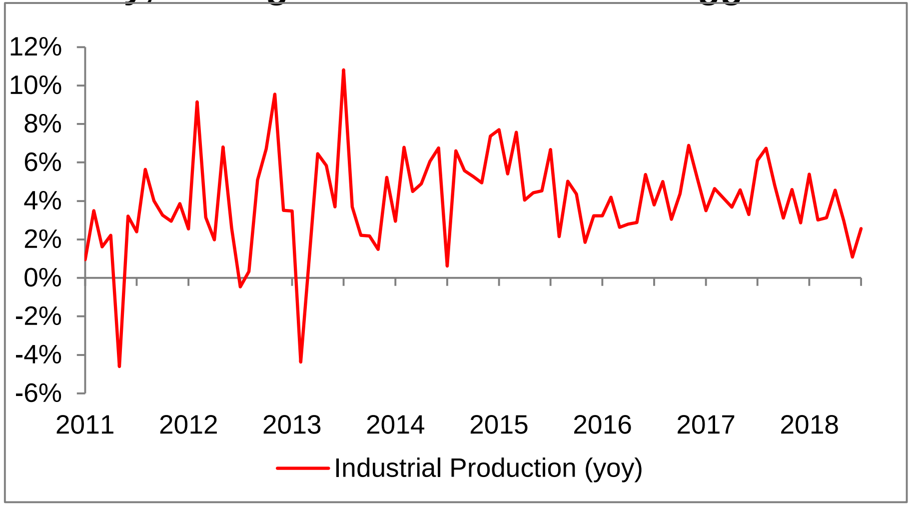
Section 3:

Domestic economic conditions:

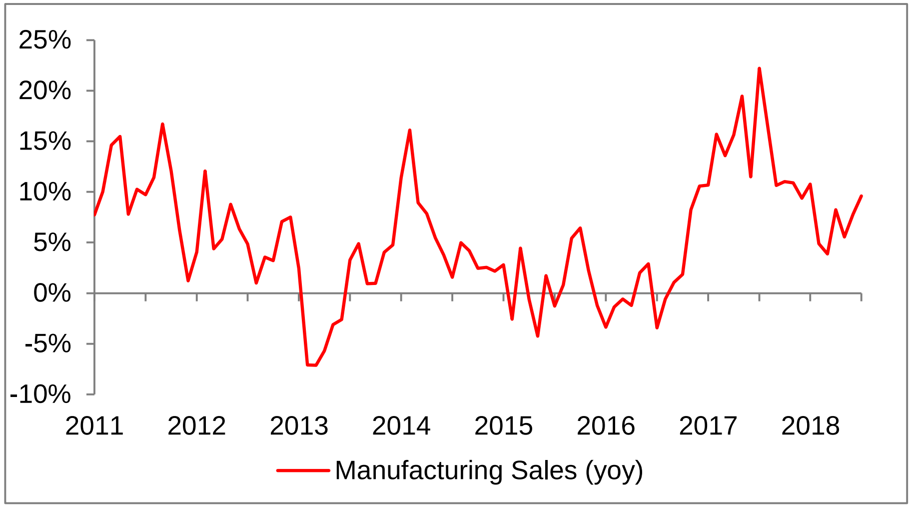
Challenging Transition for New Malaysia

Malaysia: ACTIVITY INDICATORS remain on track

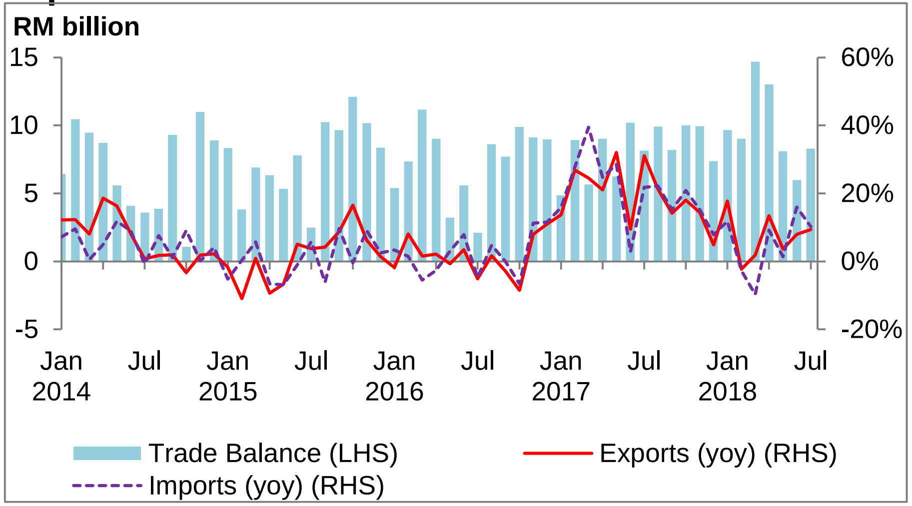
Manufacturing production continues to grow steadily; mining activities remained sluggish



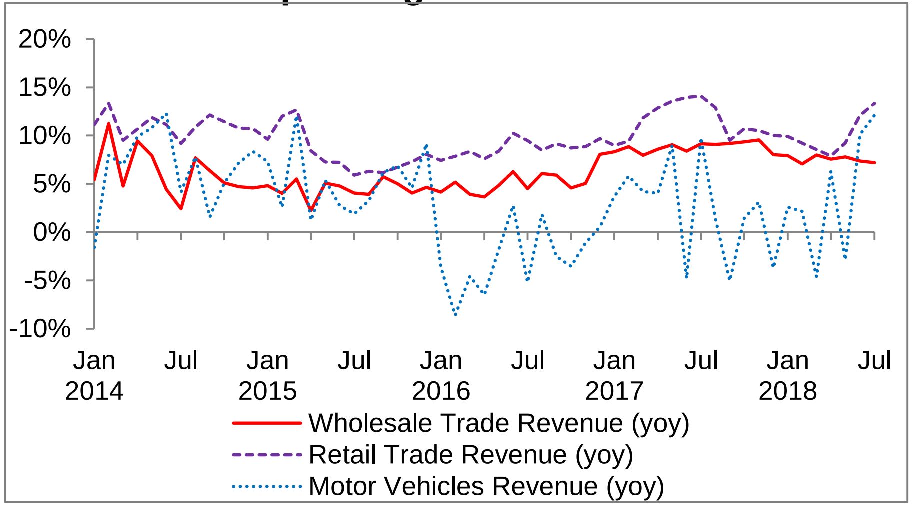
Manufacturing sales growth is regaining traction



Uncertainties on trade war could temper exports outlook



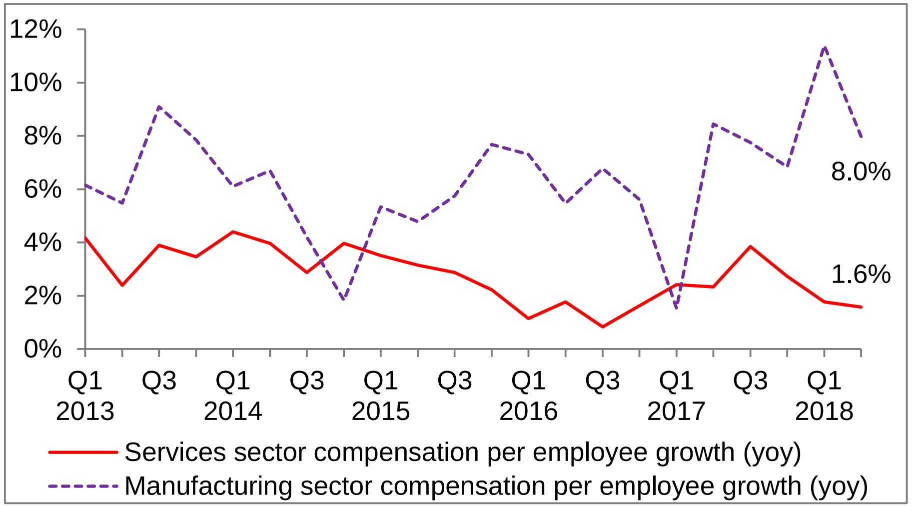
Three months tax holiday (zero-rated GST) boosted retail spending. Will it be a one-off?



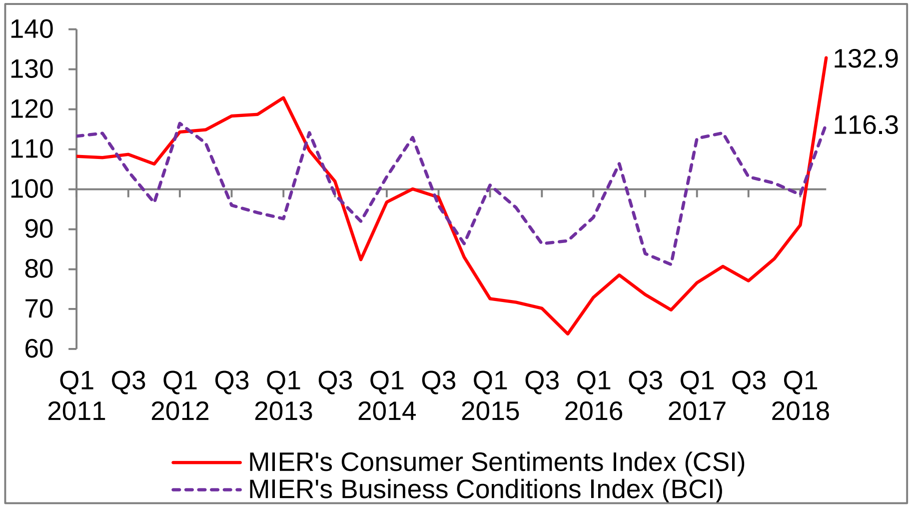
Source: DOSM

Consumption RESILIENCE; IMPROVED investment sentiment

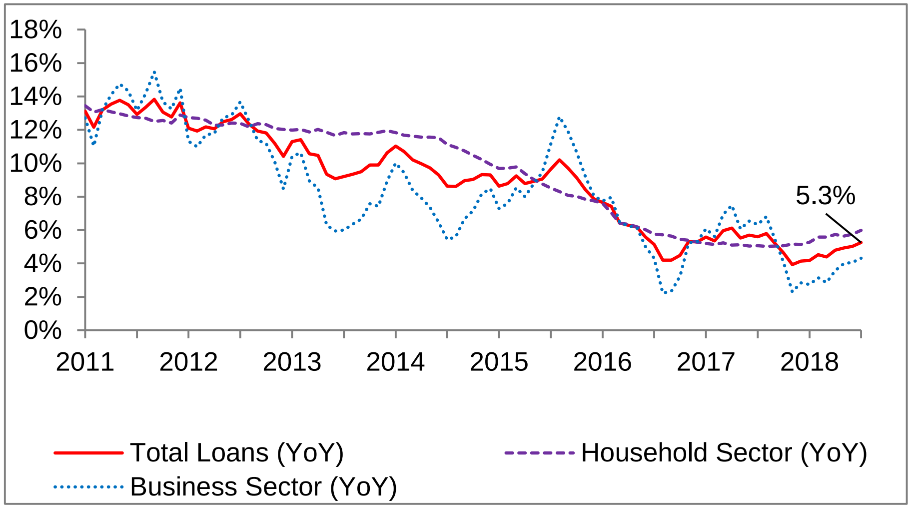
Growing salaries and wages in private sector, albeit slower in services sector



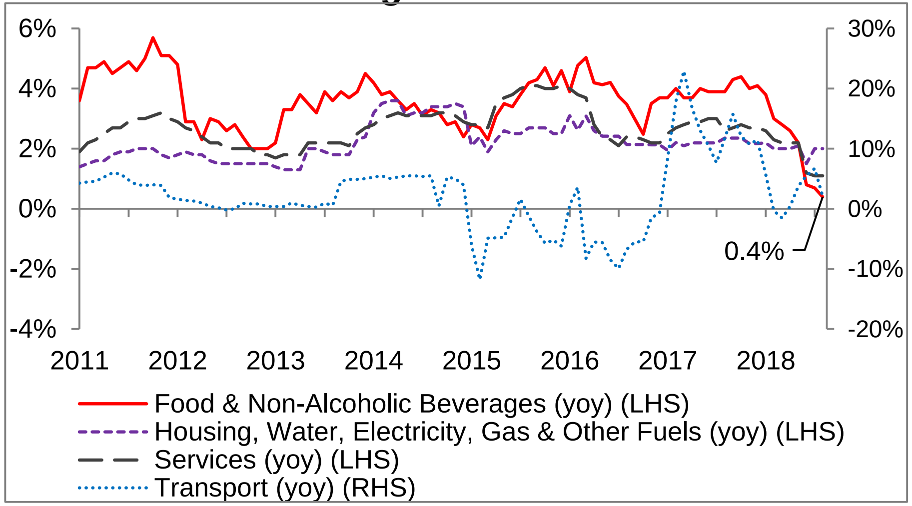
Consumer sentiments surged to 21-year high; better business confidence



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



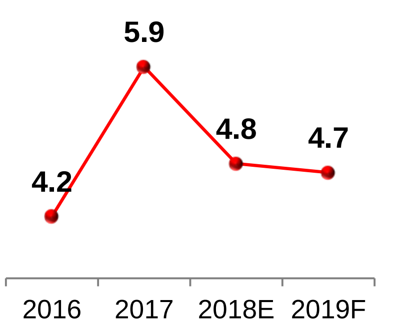
Marginal increase in food prices, core CPI has declined for two straight months



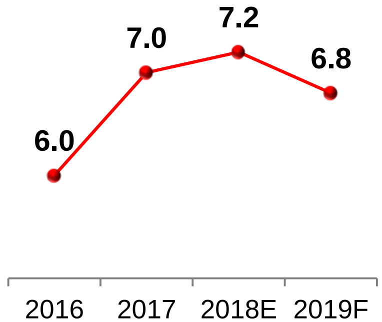
Source: DOSM; MIER; BNM

Malaysia's key ECONOMIC INDICATORS

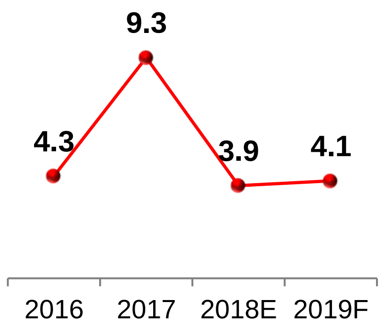
Real GDP growth
(%)



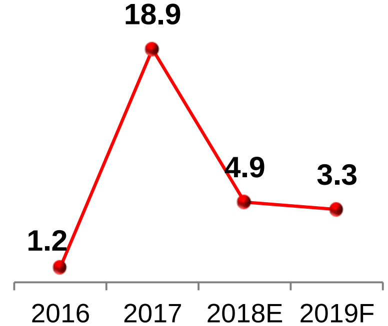
Private consumption growth
(%)



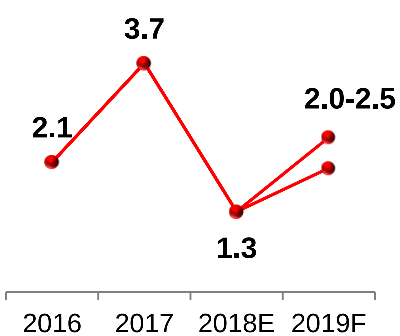
Private investment growth
(%)



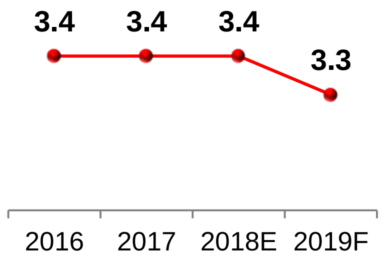
Gross export growth
(%)



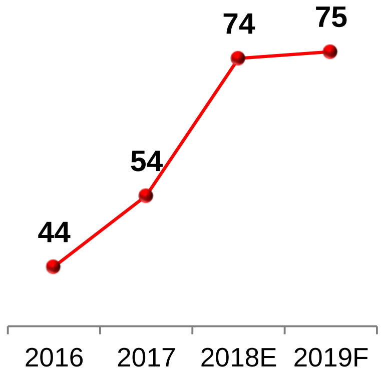
Inflation rate
(%)



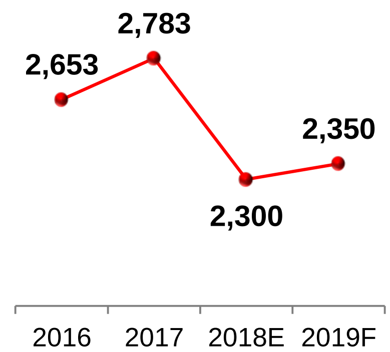
Unemployment rate
(%)



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%, 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: 4.9% vs. 18.9% in 2017). In the first eight months of 2018, exports up 6.3% 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: 3.3% vs. 4.9% 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.

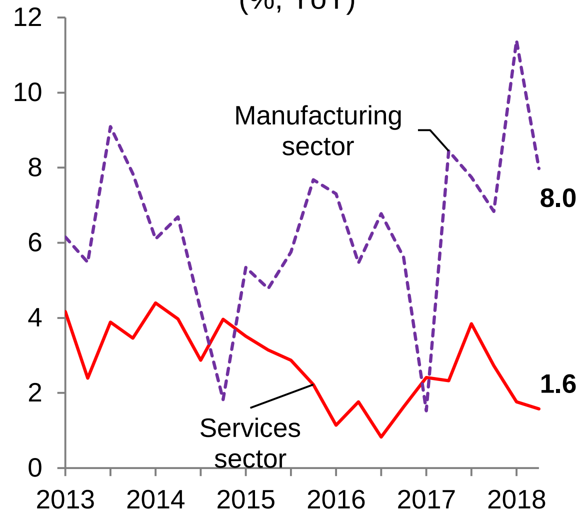
PRIVATE INVESTMENT growth (**2019F: 4.1% vs. 3.9% in 2018**) will improve slightly on continued cautious about external environment due to the likely protracted and deepening trade war between the US and China. The review, deferment and cancellation of major infrastructure projects will continue to impact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

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

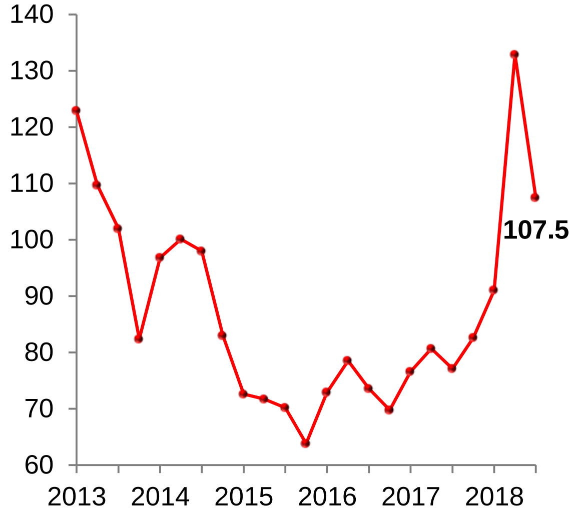
SOLID consumer spending but will it normalise?

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

Private sector's employee income
(%, YoY)



MIER's Consumer Sentiments Index (CSI)

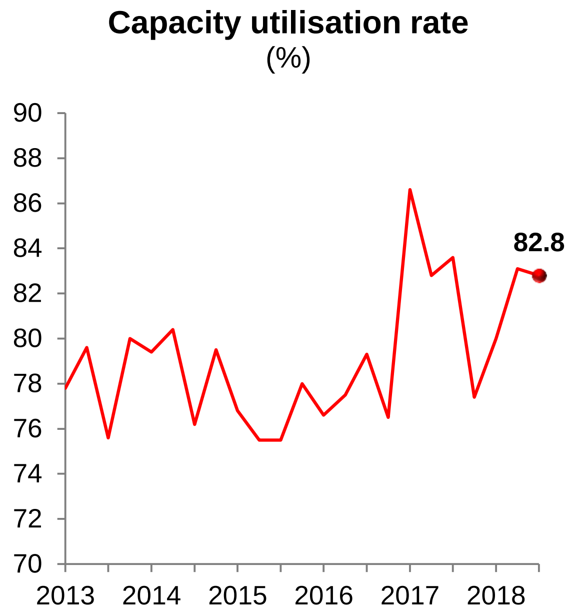


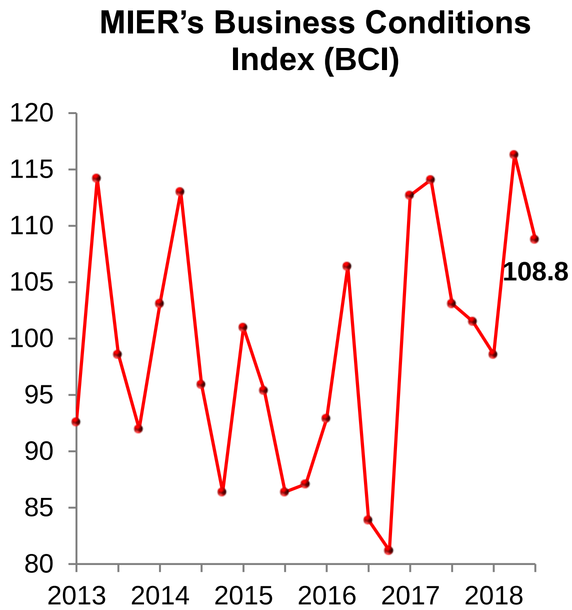
Real private consumption growth
(%, YoY)

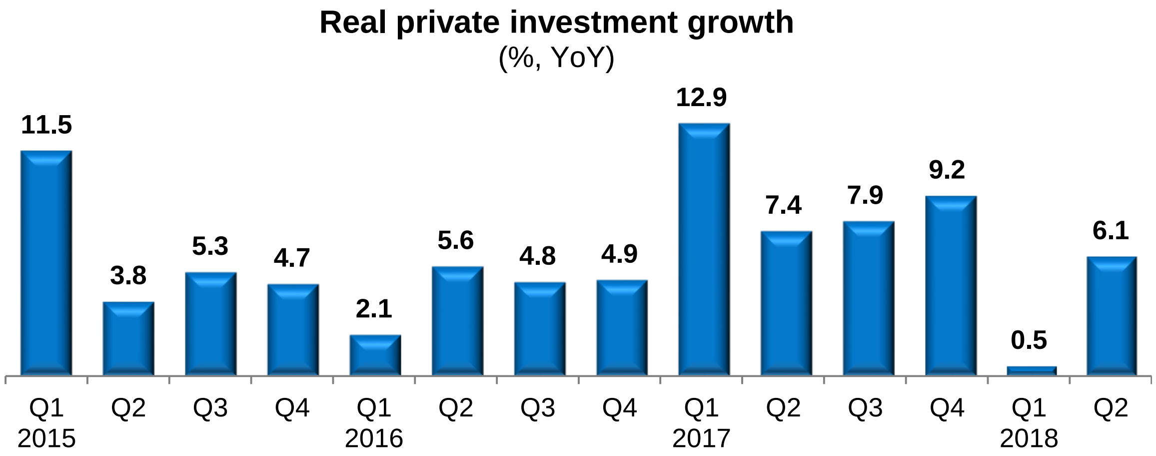
Source: DOSM; MIER

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



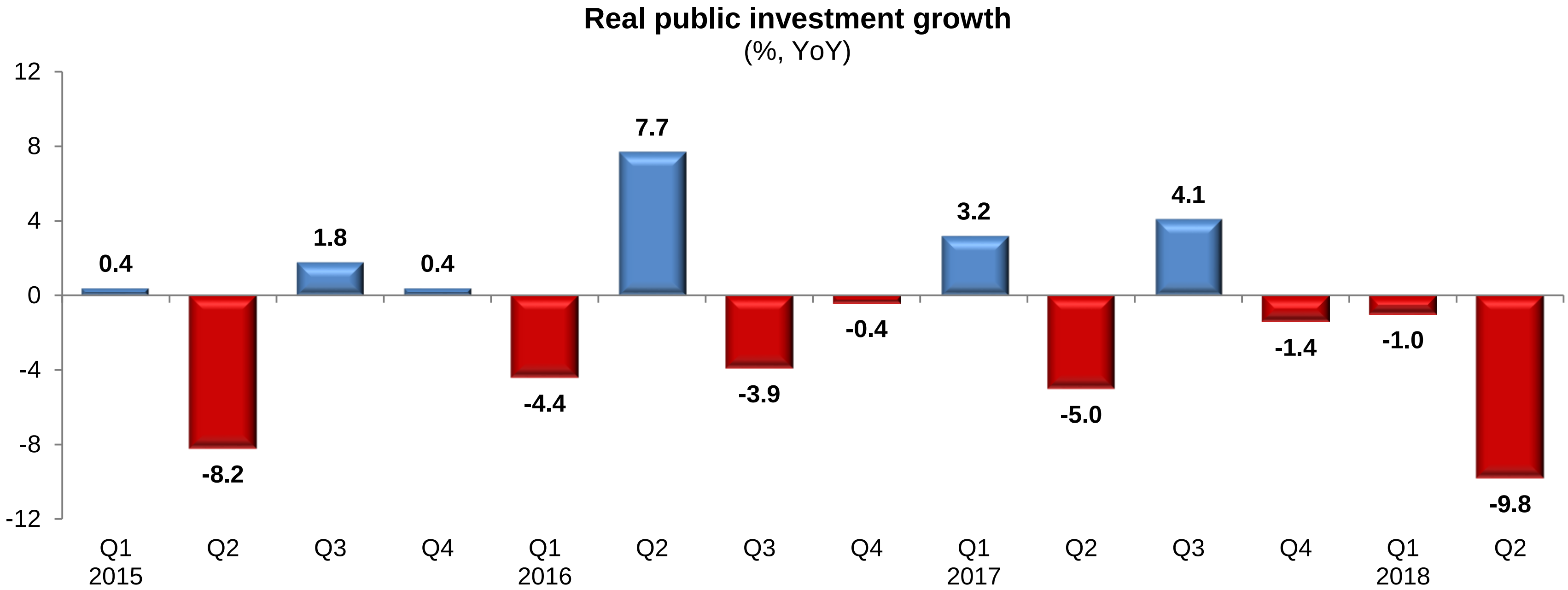




Source: DOSM; MIER

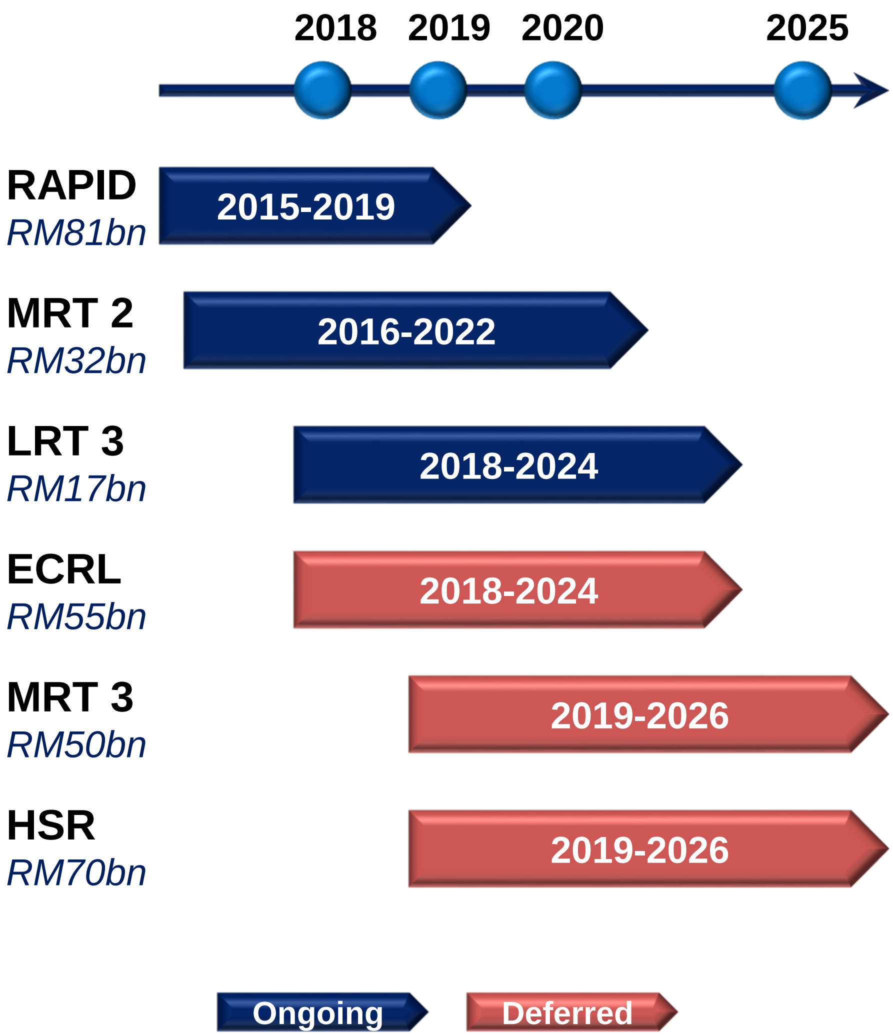
Public investment turning from support to DRAG

- **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 expenditure in 2019.



Source: DOSM

DEFERRED OR CANCELLED mega projects: manageable impact



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

SERVICES sector is driving the economy

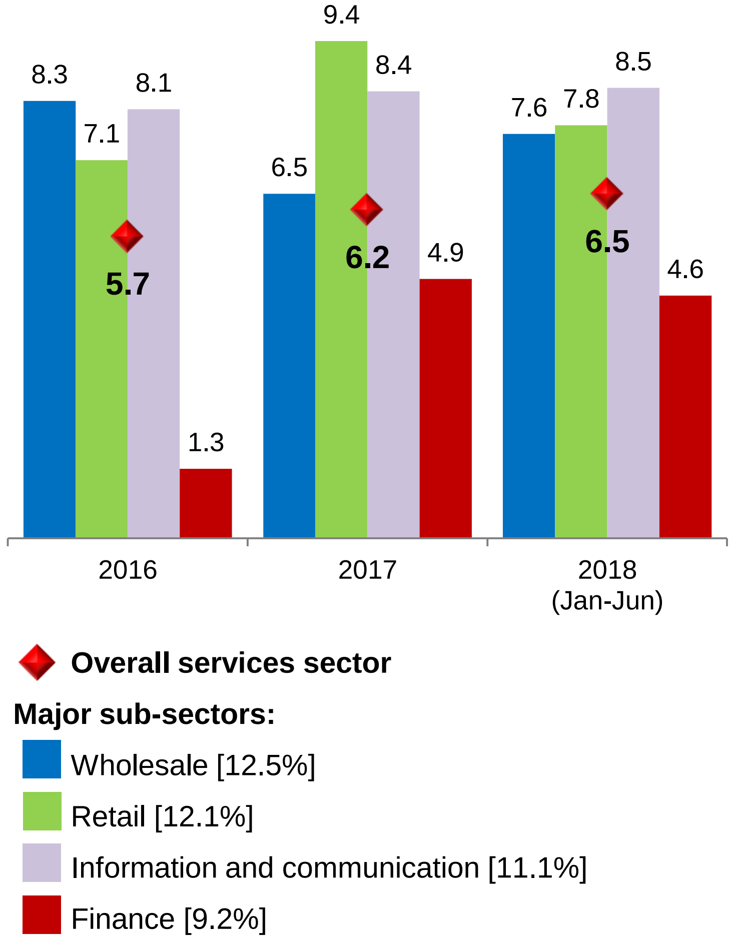
Services sector (2018E: 6.4%; 2019F: 5.8%)

% share of GDP in 2017: ***54.5%***

- Continued growth, albeit slower in most sub-sectors.
- Strong consumer spending will somewhat normalise following the 3-month "tax holiday" and the reintroduction of SST on 1 Sep.
- **Supporting factors**: Tourism activities; strong consumer sentiments; steady growth in income healthy labour market conditions and continued trade activities.
- **Pressing factors**: Potential review of fuel subsidy and cash-aid.

Services sub-sectors growth

(%, YoY)



Source: DOSM

[ ] indicates % of total services GDP in 2017

MANUFACTURING sector braces the escalation trade war

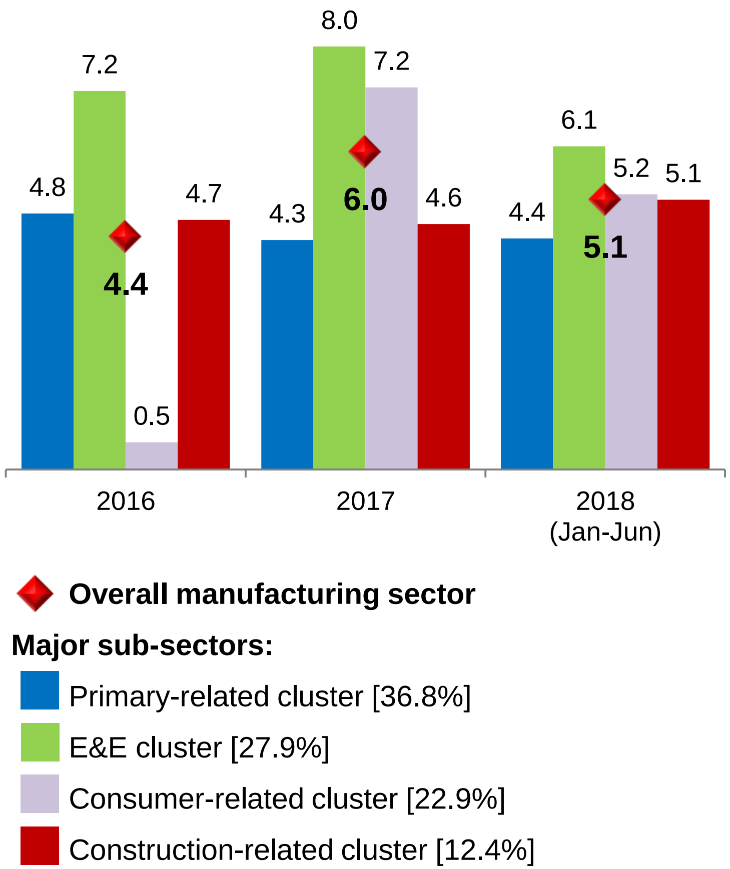
Manufacturing sector (2018E: 4.8%; 2019F: 4.5%)

% share of GDP in 2017: ***23.0%***

- Growth in electronics and electrical products and consumer-related clusters have moderated.
- Lack of short-term catalysts.
- **Supporting factors**: Diversion of orders arising from the deepening trade spats between the US and China, high global oil prices.
- **Pressing factors**: Slower semiconductor sales; supply chains disruption; slower domestic construction activities dampening demand of construction-related materials.

Manufacturing sub-sectors growth

(%, YoY)



Source: DOSM

[ ] indicates % of total manufacturing GDP in 2017

MINING to rebound from a contraction

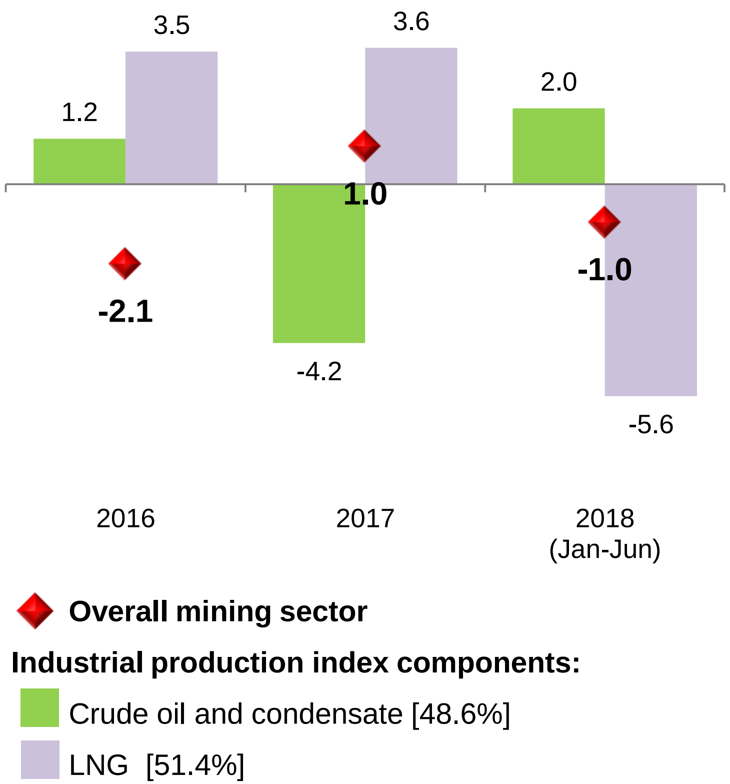
Mining sector (2018E: -1.0%; 2019F: 0.5%)

% share of GDP in 2017: ***8.4%***

- Crude oil prices surge on no formal agreement to increase production; supply disruptions due to sanction on Iran; cut in Venezuela's production.
- Gas leak incident in January 2018. PETRONAS is still waiting for approval from the authority to resume operations.
- **Supporting factors**: Rising crude oil prices; the resumption of production of LNG.
- **Pressing factors**: Declining oil prices on strong US dollar, tighter liquidity conditions and concerns over slower global economic growth.

Mining Sector

(%, YoY)



Source: BNM

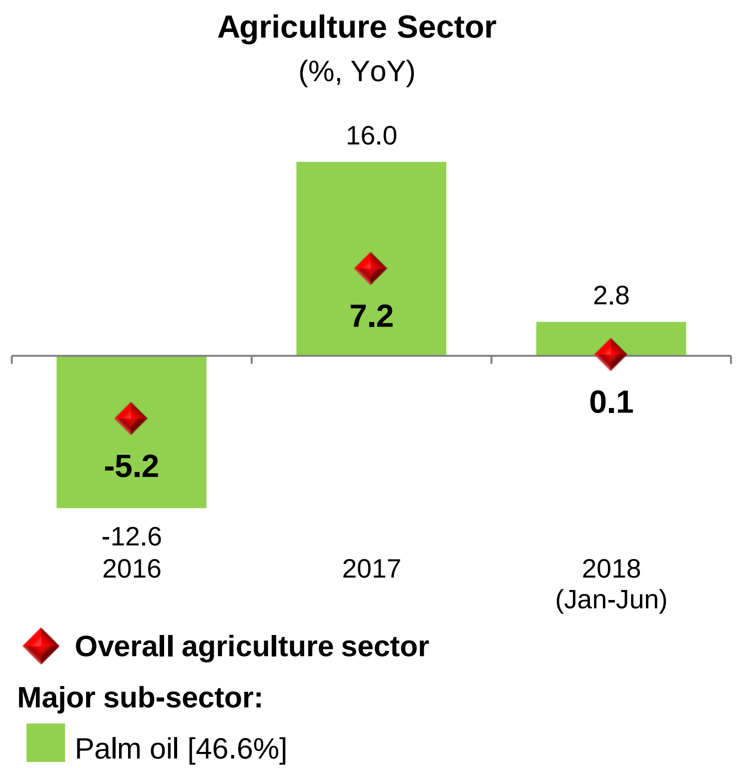
[ ] indicates weight of mining indices in 2015

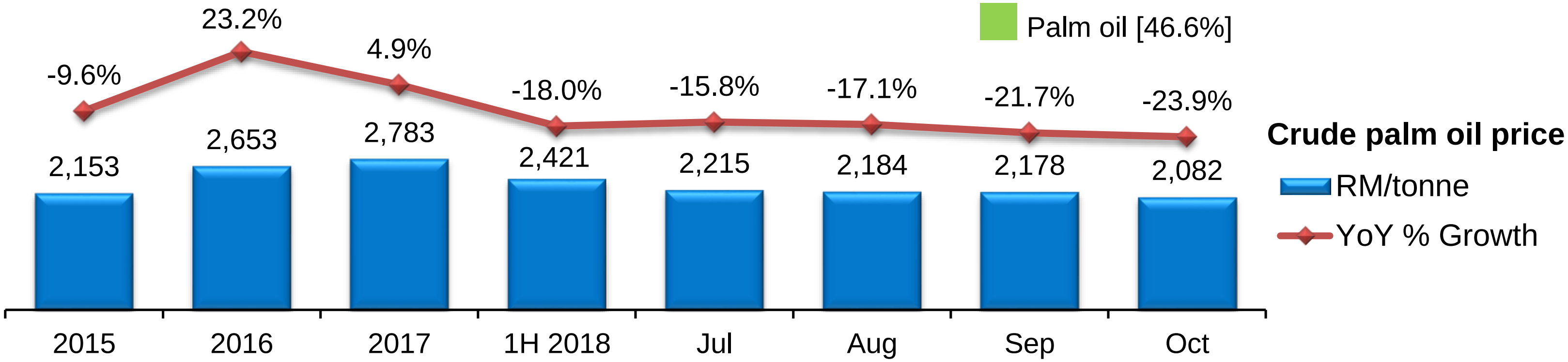
AGRICULTURE sector lack of short-term catalysts

Agriculture sector (2018F: -0.4%; 2019F: 2.0%)

% share of GDP in 2017: ***8.2%***

- High stocks level and declining CPO prices dampened the CPO outlook.
- **Supporting factors**: Zero export tax on crude palm oil in September 2018; weak ringgit
- **Pressing factors**: India announced a higher import tariffs at 44% on palm oil; EU had proposed to ban of using palm oil as biodiesel by 2021





Source: BNM

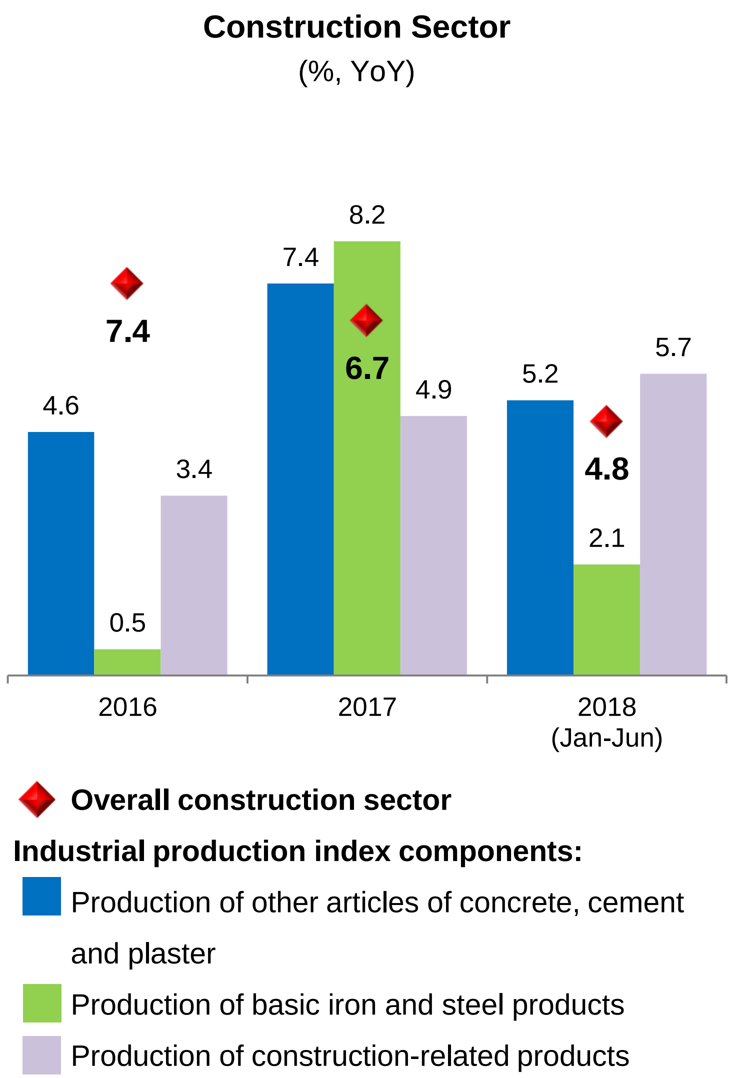
[ ] indicates % of total agriculture GDP in 2017

CONSTRUCTION momentum slows on the deferment of projects

Construction sector (2018E: 4.5%; 2019F: 4.4%)

% share of GDP in 2017: ***4.6%***

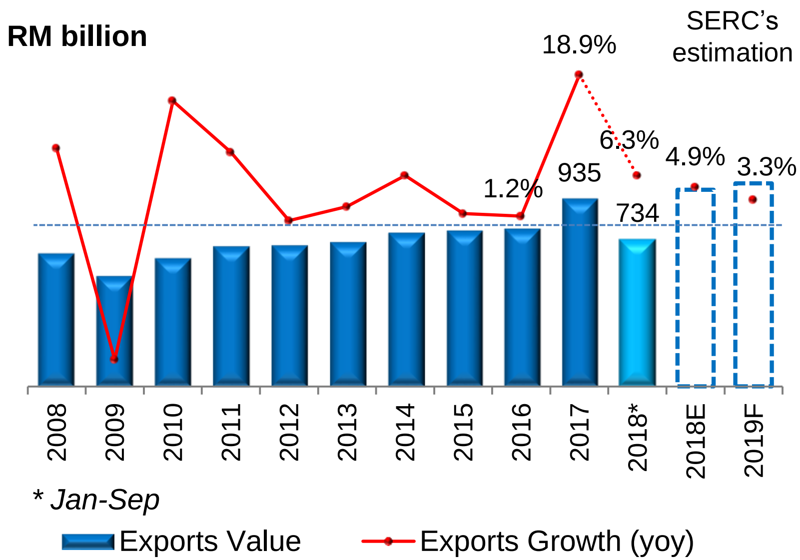
- Post-GE14, several mega projects have been reviewed and some have been put on hold.
- **Supporting factors**: On-going projects (e.g. RAPID, MRT2 and LRT3) will partially offset the impact from deferred projects; some building materials (e.g. cement, sand and iron) were EXEMPTED under SST2.0.
- **Pressing factors**: The deferment of mega projects (e.g. ECRL, MRT3 and HSR) had been deferred; spillover effects to commercial and residential projects as would require longer time to build and re-marketing.



Source: BNM

Exports in 2H18 and 2019 will be more CHALLENGING

Exports continue growing …



Broad-based expansion, except CPO & LNG

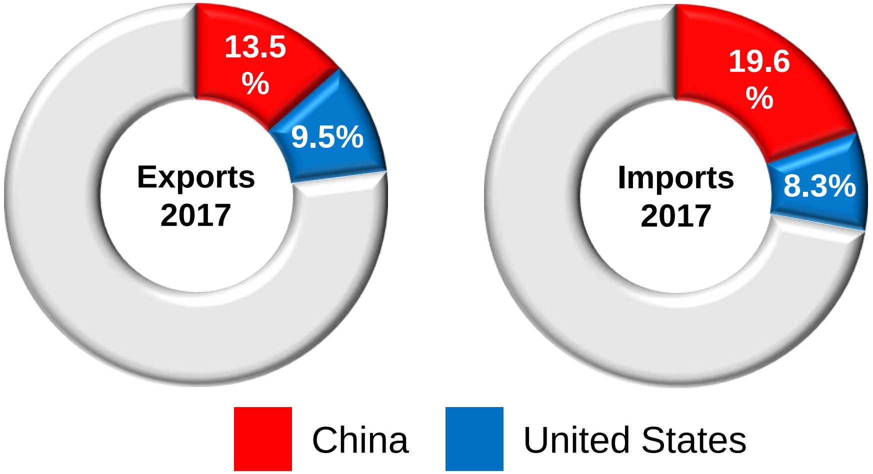
Major export products in 2018 (Jan-Jul) [% share]	**Value** *(RM billion)*	**Growth** *(% yoy)*
E&E products [37.5%]	213.5	12.6
Petroleum products [7.8%]	44.4	3.3
Chemical & chemical products [5.6%]	31.8	18.1
Manufactures of metal [4.7%]	27.0	29.8
Machinery, equipment & parts [4.3%]	24.3	1.4
Palm oil [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**: 4.9% in 2018 and 3.3% 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	

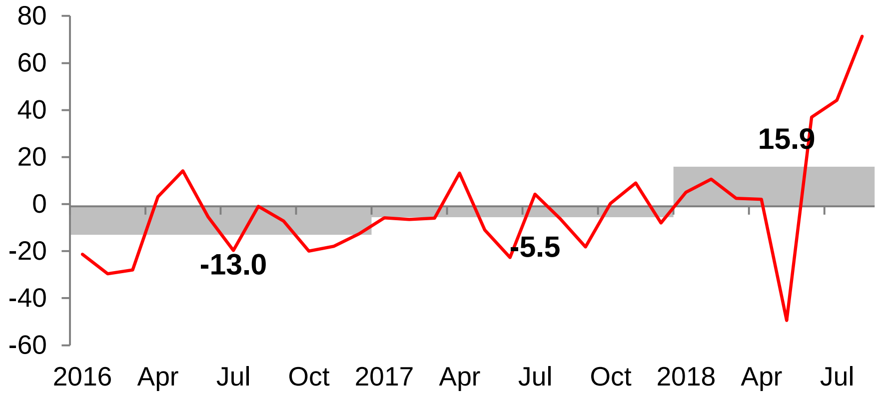
Source: DOS, Malaysia

** % share to total exports to respective country*

BUSINESS LOAN growth – Bottoming out

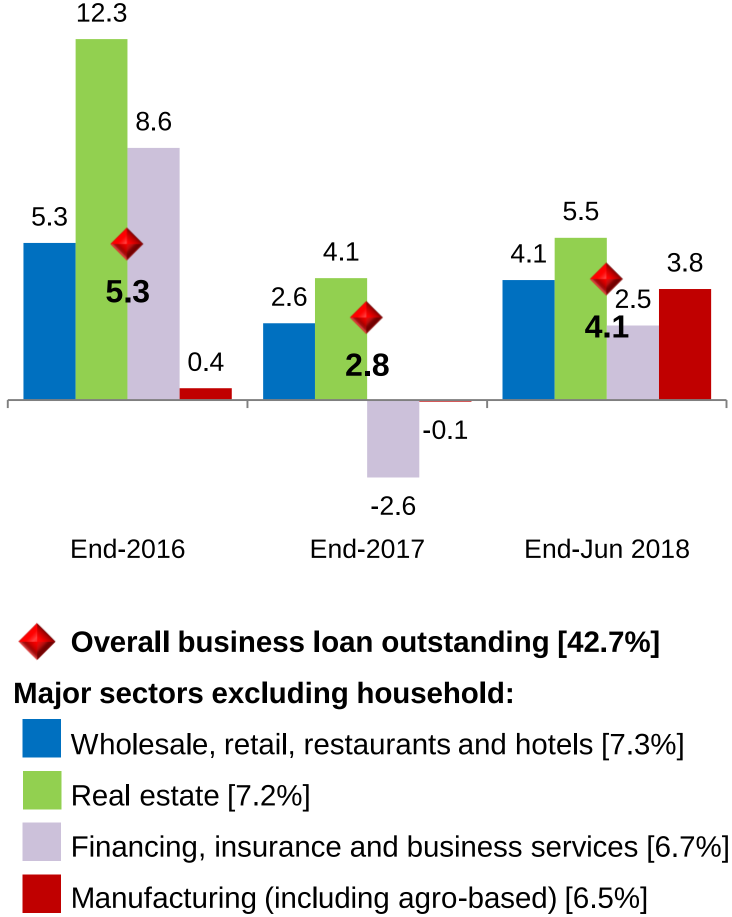
- Business loan growth picked up since April, backed by loans for working capital.
- Loan disbursement for working capital purposes jumped by 17.8% in June and 17.9% in July respectively.
- Commercial car sales registered a record high growth rate of 71.3% yoy in August.

Commercial vehicle sales growth
(%, YoY)



Note: Shaded area indicates annual growth

Business Loan Outstanding Growth
(%, YoY)



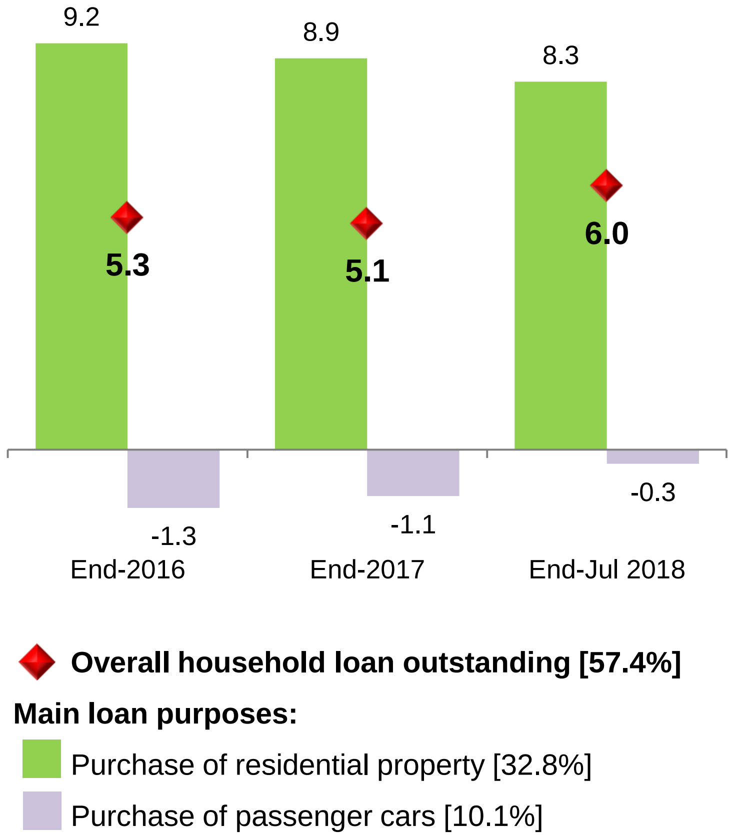
Source: BNM; MAA

[ ] indicates % of total loan outstanding in 2017

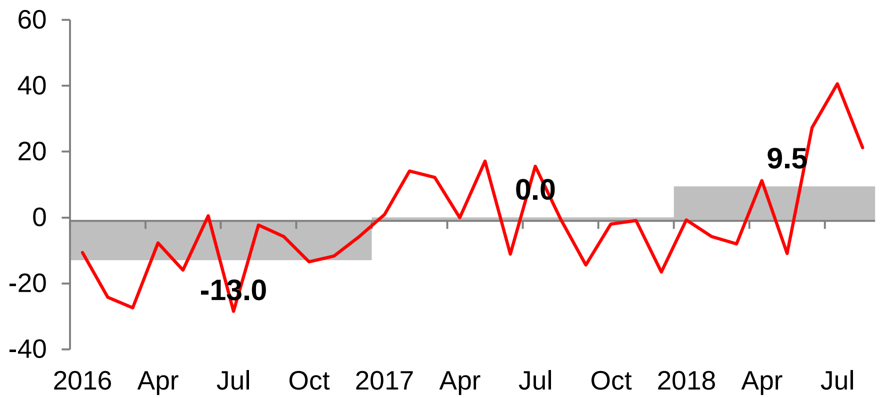
HOUSEHOLD LOAN growth – Gaining traction

- New household borrowings remained of high quality.
- Majority of the household debt (64.5%) are secured by properties and principal-guaranteed investments.
- Loan disbursement shot up for purchase of passenger cars in June (16.7%) and July (44.8%).

Household Loan Outstanding Growth
(%, YoY)



Passenger car sales growth
(%, YoY)



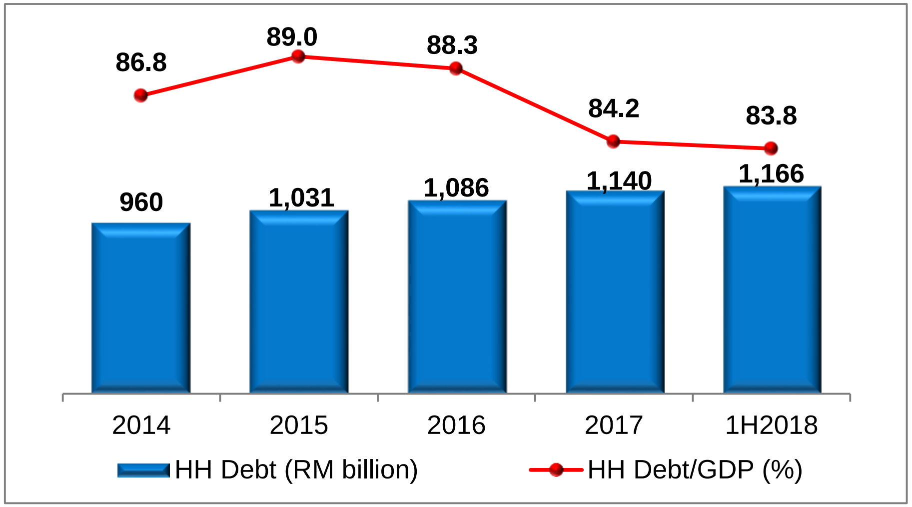
Note: Shaded area indicates annual growth

Source: BNM; MAA

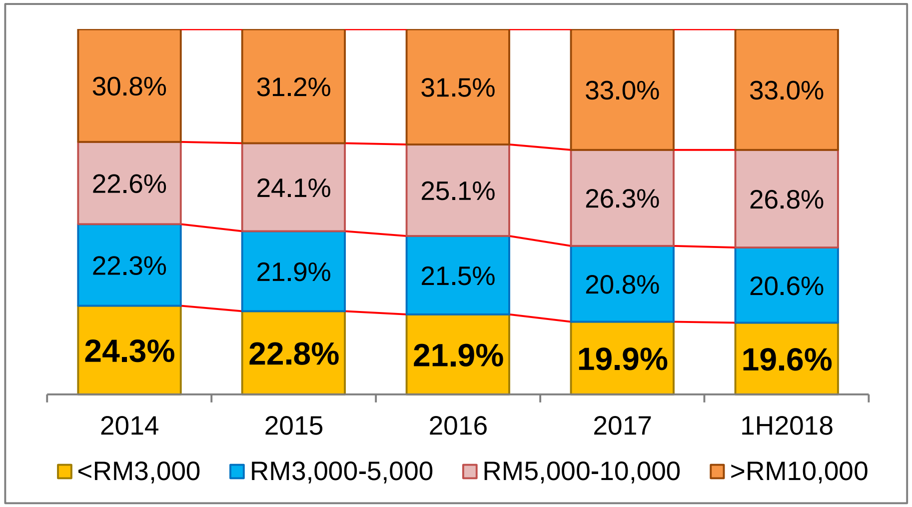
[ ] indicates % of total loan outstanding in 2017

HOUSEHOLD DEBT (HHD) at a glance

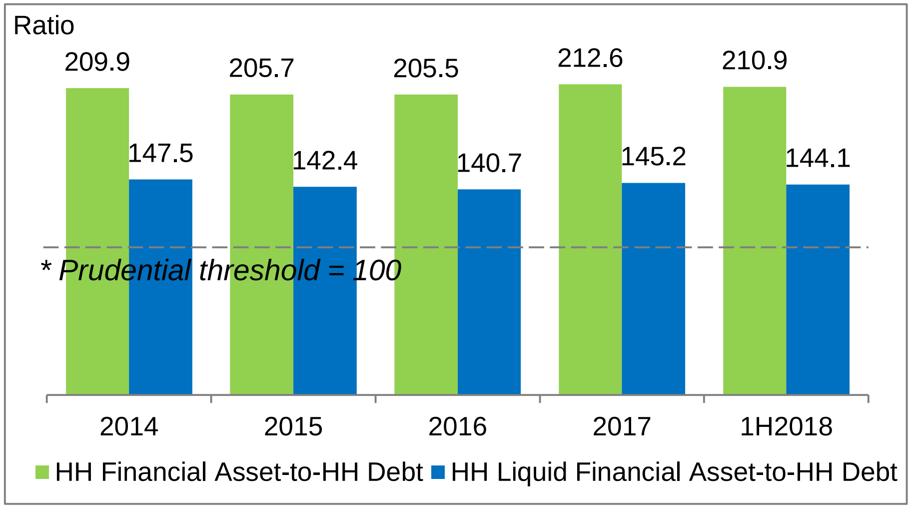
Household debt to GDP ratio eases



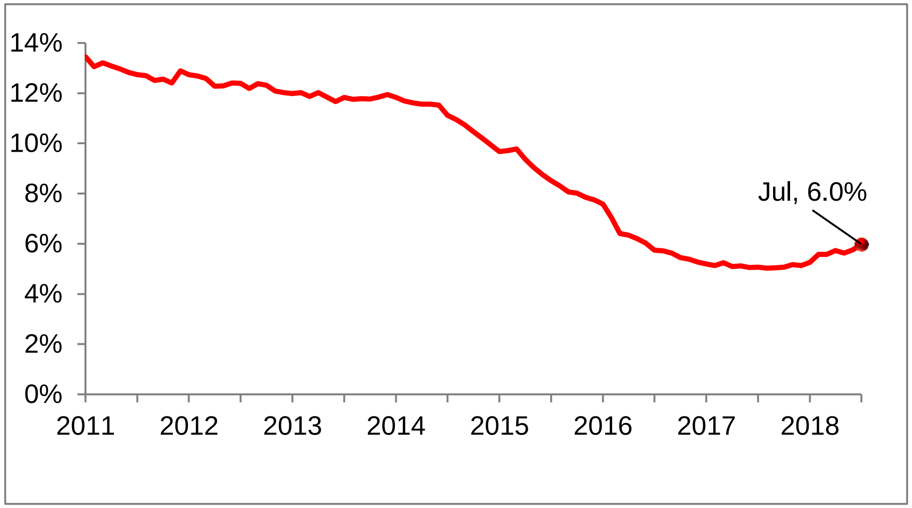
Household debt by income group



Healthy households' balance sheet: Financial assets are above 2 times of household debt



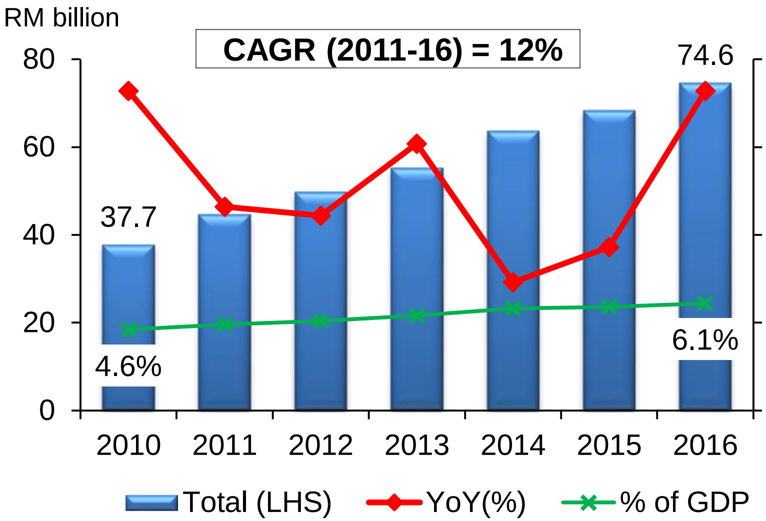
Household loans rise moderately



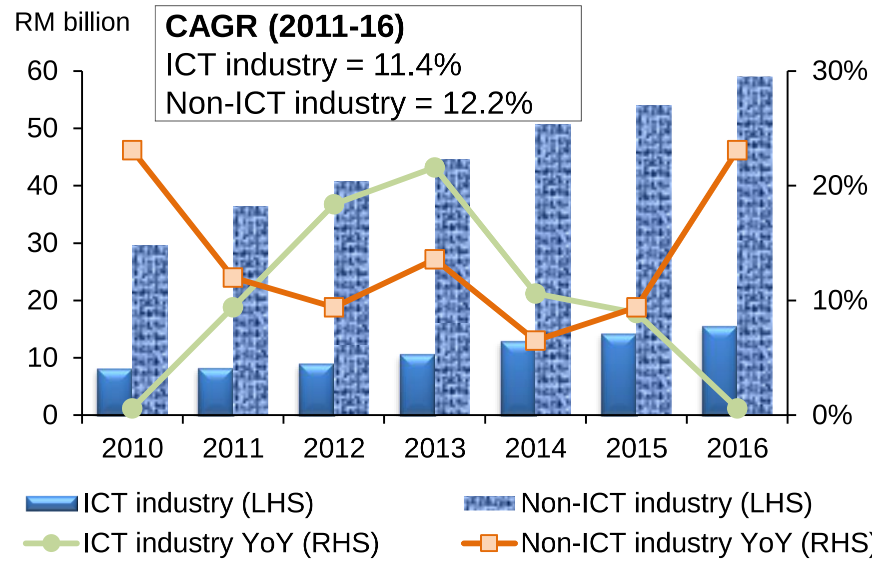
Source: BNM

BOOMING Malaysia's E-commerce

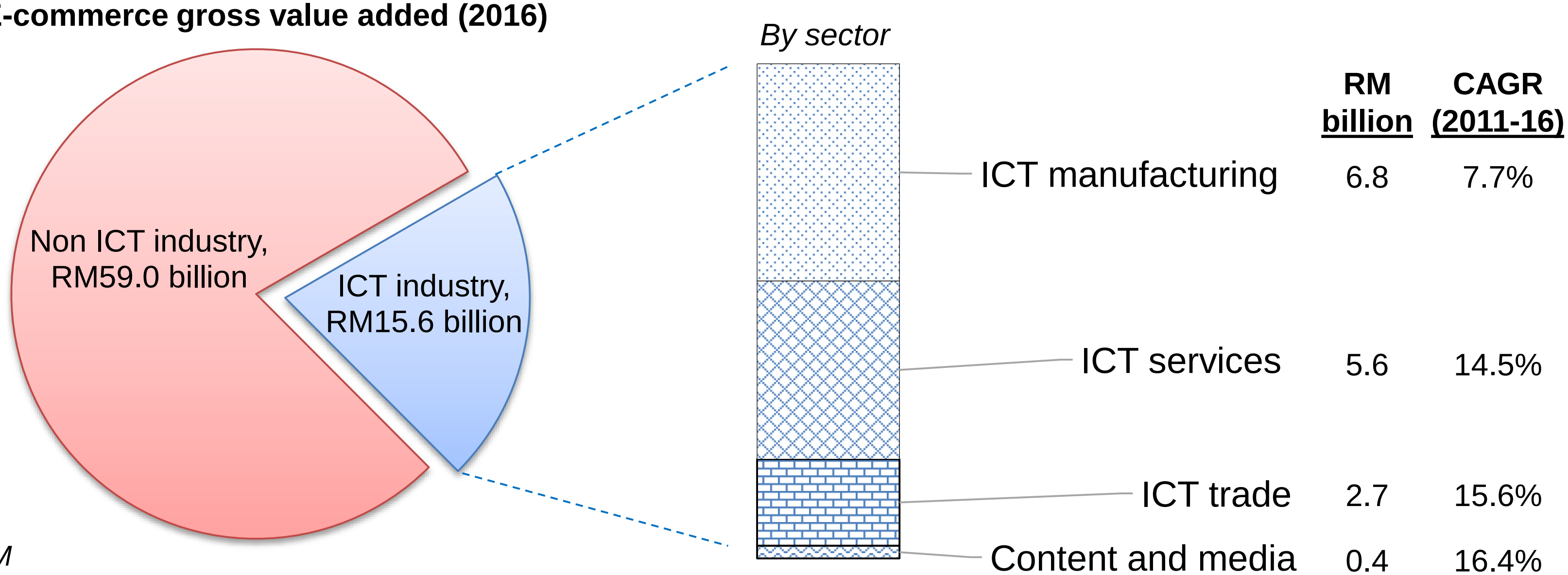
Malaysia's E-commerce is growing steadily



Non-ICT industry drives the Malaysia's E-commerce



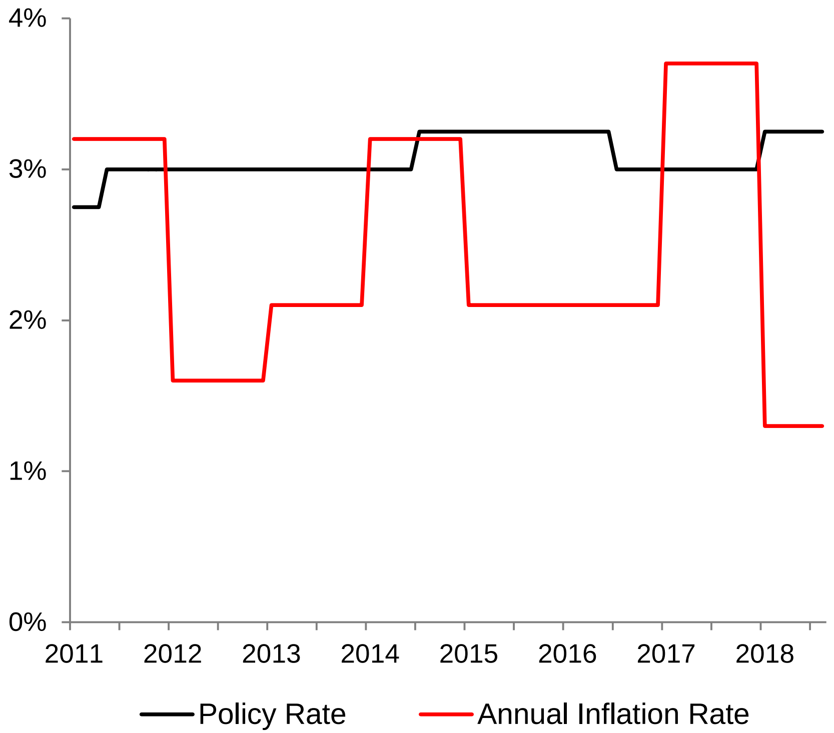
E-commerce gross value added (2016)



Source: DOSM

Monetary policy remains ACCOMMODATIVE (OPR at 3.25% at end-2018; 3.25% at end-2019)

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: RM4.15-4.20; 1Q19: 4.05-4.10; 2Q: 4.05-4.10; 3Q: 3.95-4.00; 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

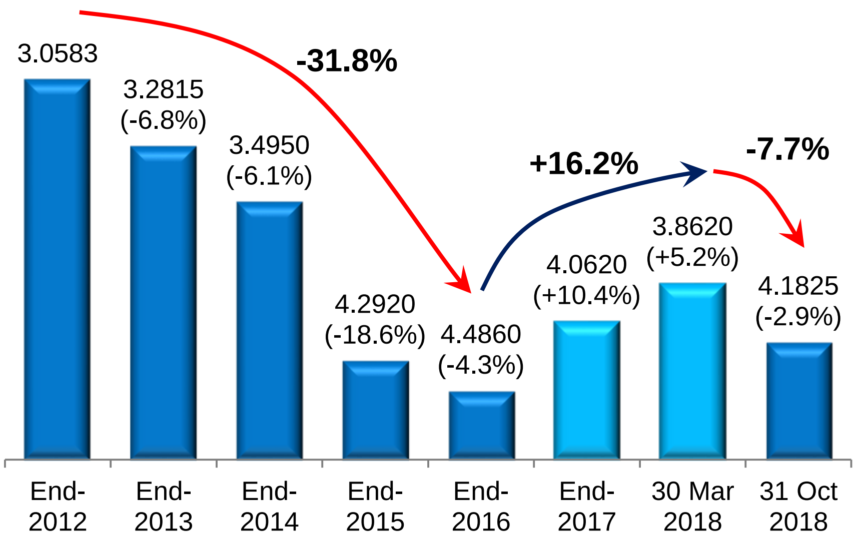
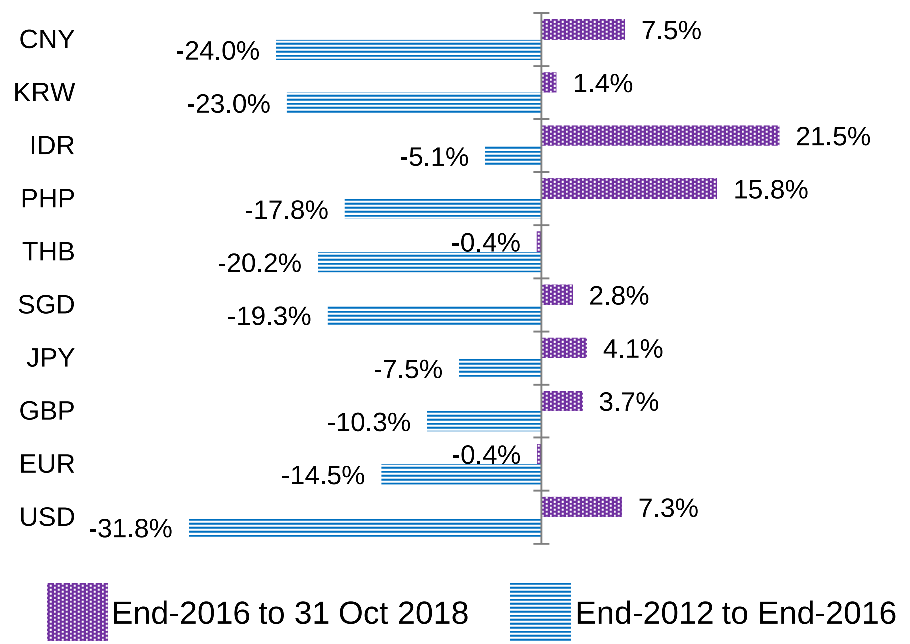


Figure in parenthesis denotes changes from end of previous year
Source: BNM (end-period; rates at 12:00)

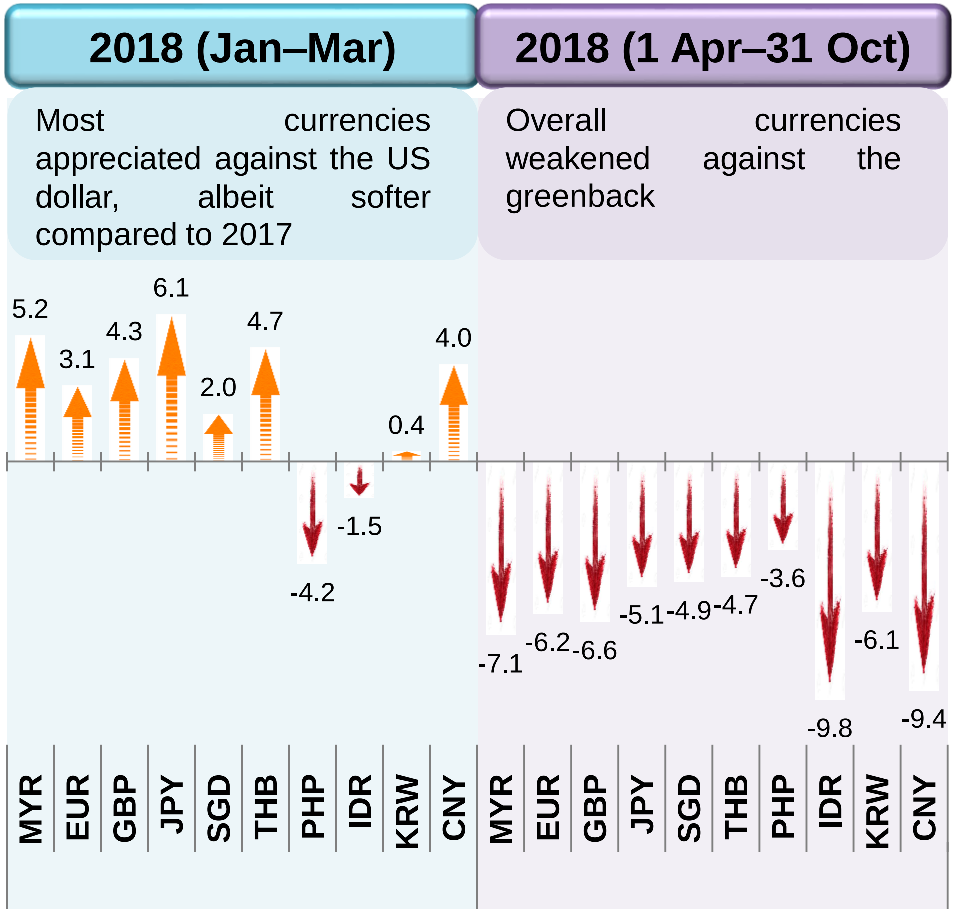
Ringgit's movement against regional currencies



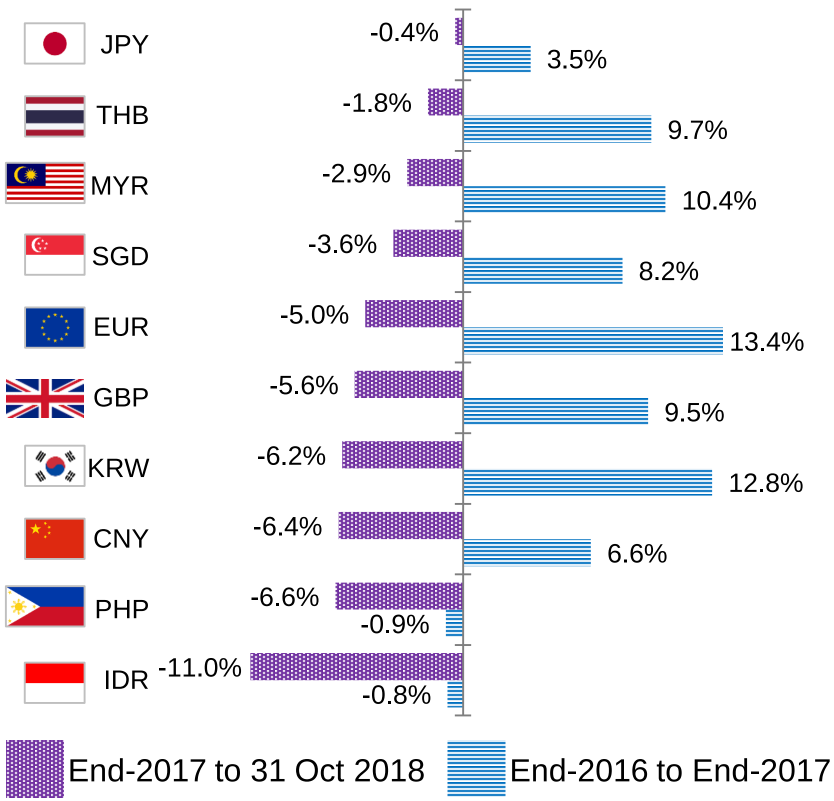
Regional currencies SUCCUMBED to strong US dollar

- The US dollar index strengthened by 6.7% against a basket of foreign currencies (measured in real effective exchange rate (REER)) in the first nine months of 2018.

Major and regional currencies vs. the US dollar* (%)



Ringgit still performs better than most regional peers year-to-date

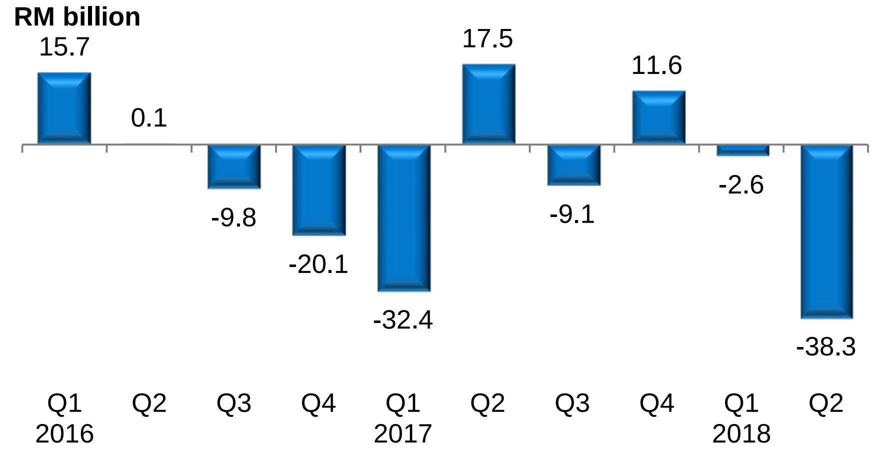


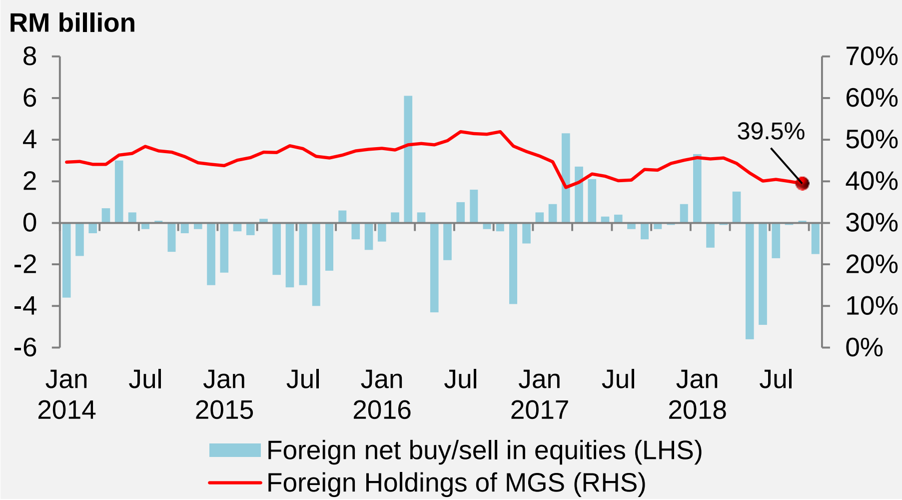
Source: BNM (end-period; rates at 12:00) ** Calculation based on cross-rate*

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 Apr-Jun, 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 Aug-Sep (-RM5.4 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 marginally in September but retreated again in October.

Net portfolio investment: Largest outflows since 3Q 2008

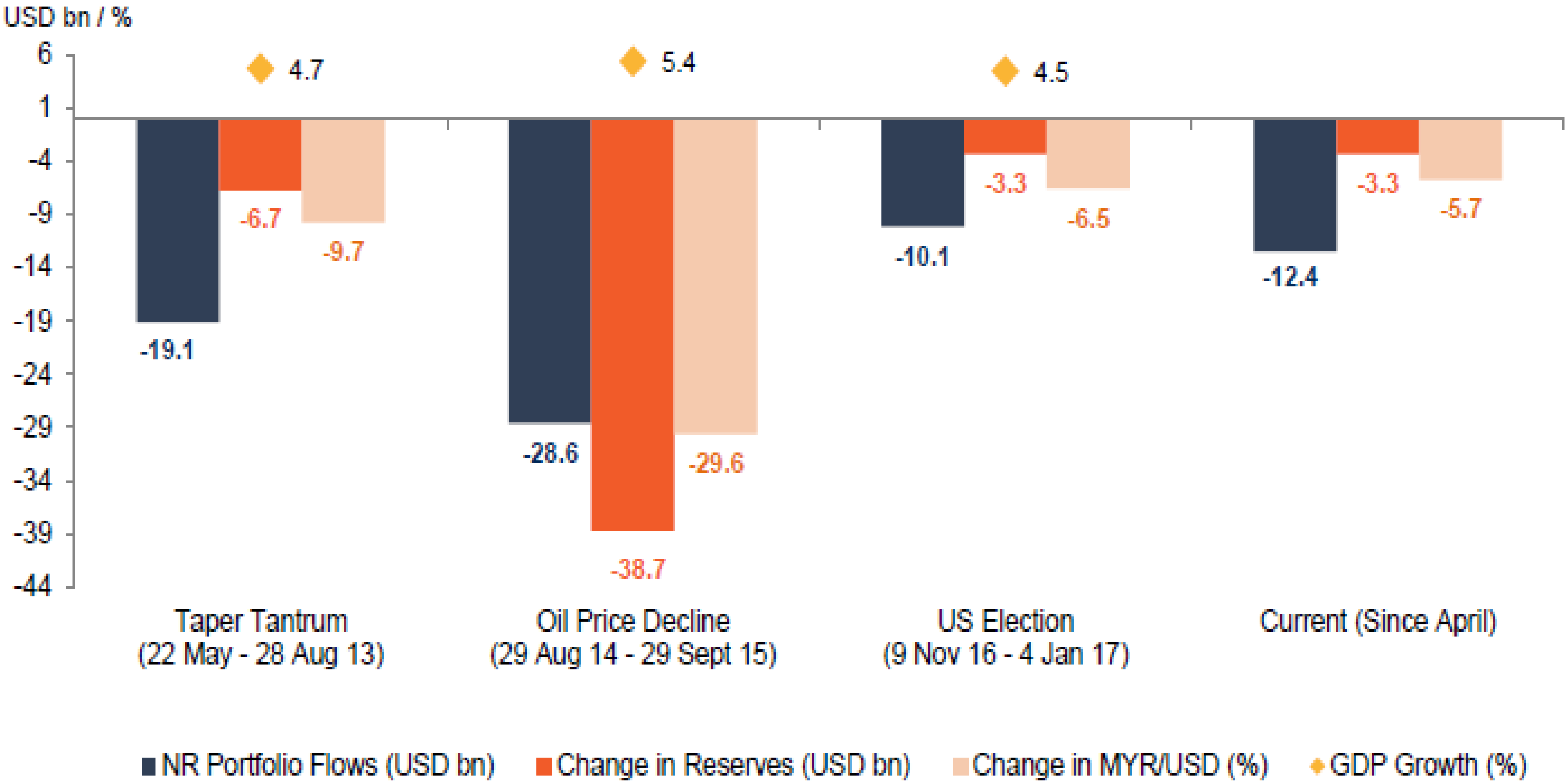




Source: BNM; Bursa Malaysia

Malaysia has experienced SIZEABLE capital reversals

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

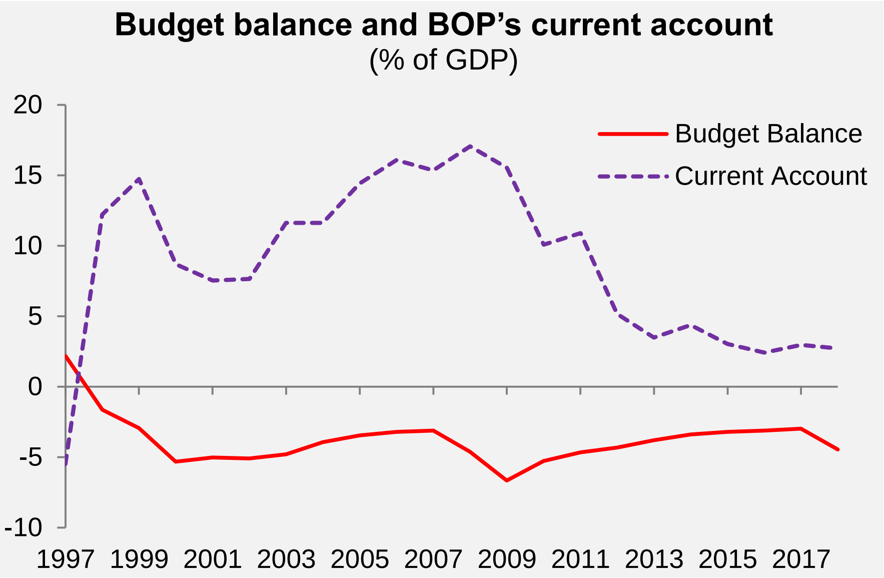


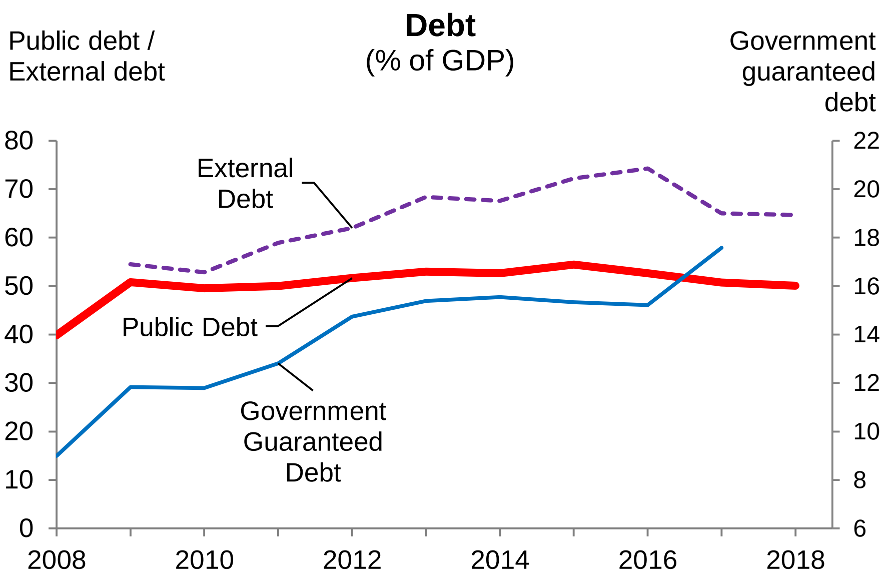
Note: Current data for reserves is at end-July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018

Source: BNM

How Malaysia is 'DIFFERENT' from other emerging economies at risk?

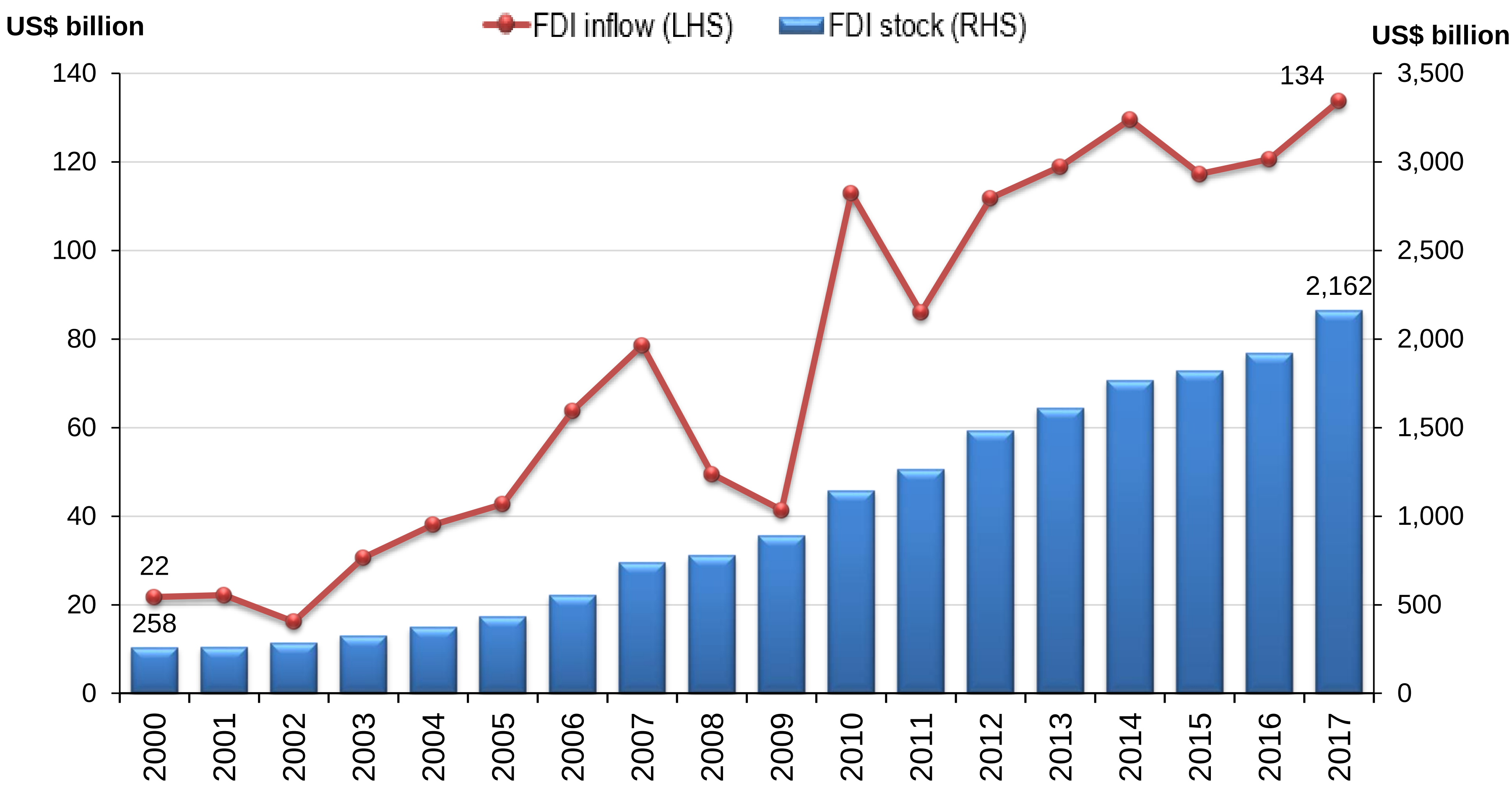
- **NOT** at risk of **TWIN DEFICITS**.
- Manageable external debt (end-June: RM936.5 billion or 64.7% of GDP) in terms of **CURRENCY AND MATURITY PROFILES**.
  - ❑ Close to one-third of total external debt is denominated in ringgit (31.2%)
  - ❑ 68.8% of total external debt in foreign currencies (End-2017: 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.





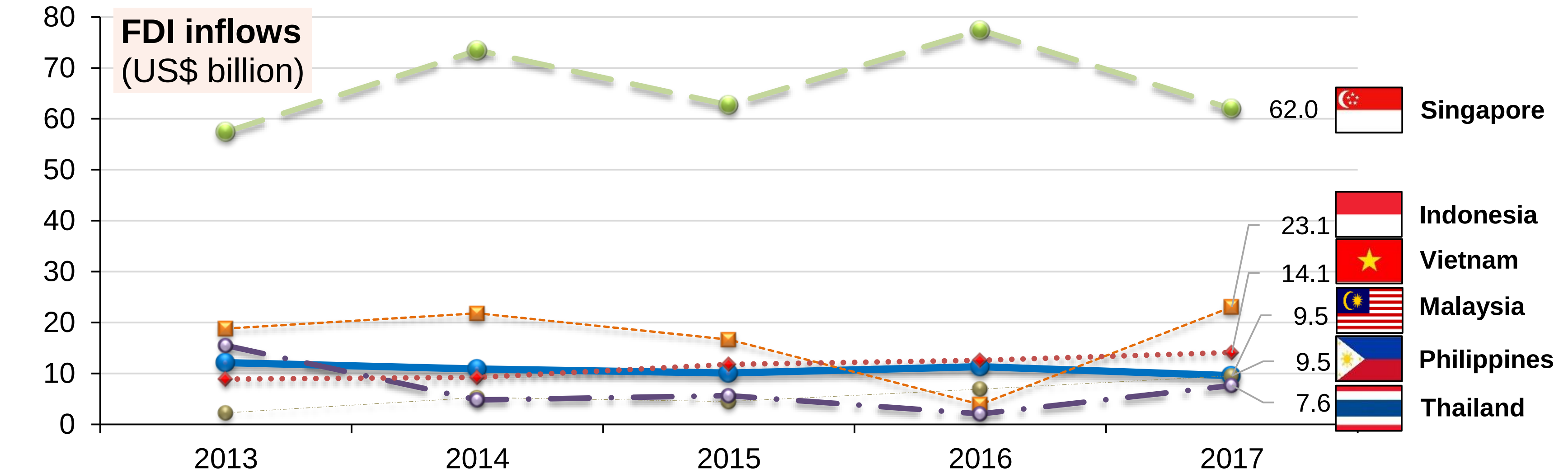
Source: BNM

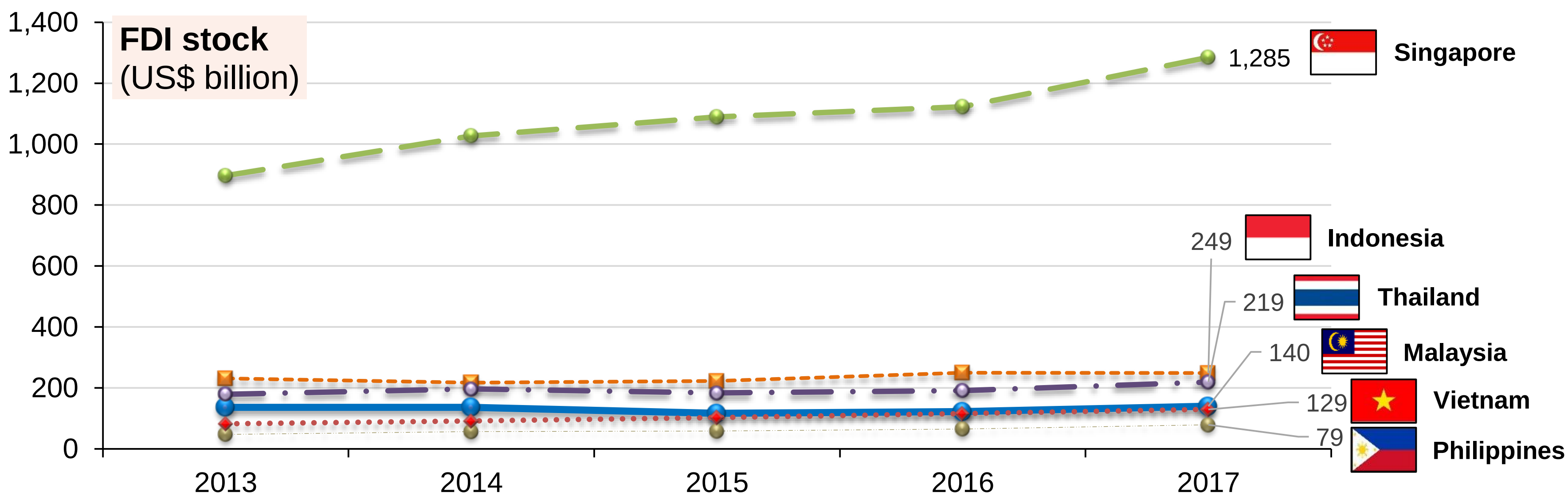
INCREASING inflows of FDI into ASEAN



Source: World Investment Report

Malaysia is LAGGING behind…

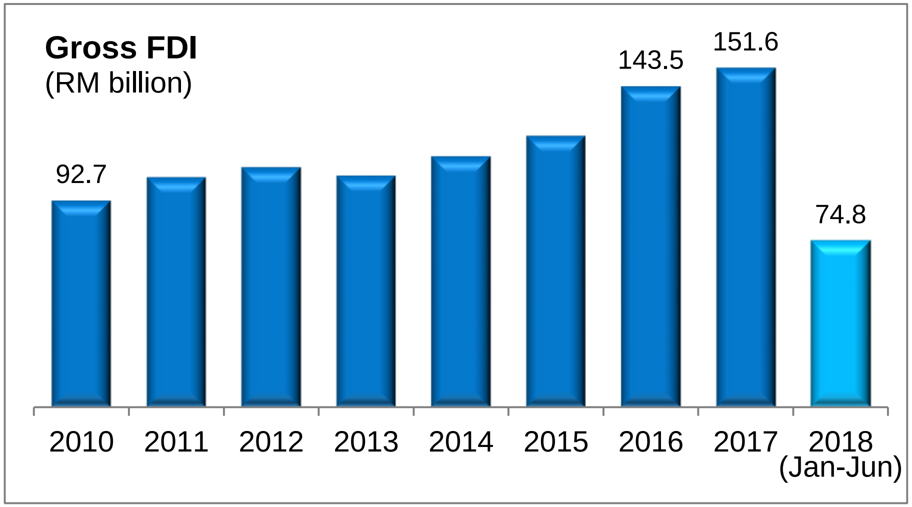




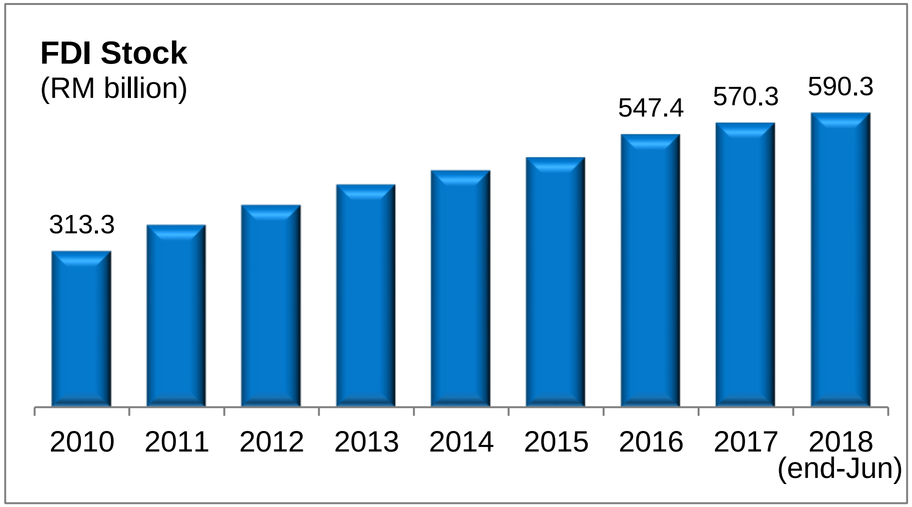
Source: World Investment Report

Malaysia still a PREFERRED investment destination

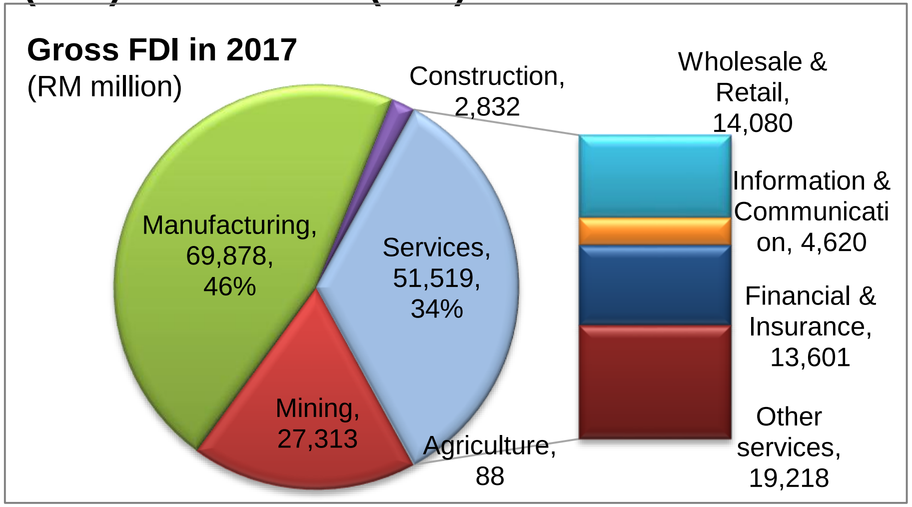
Overall gross FDI are on increasing trend



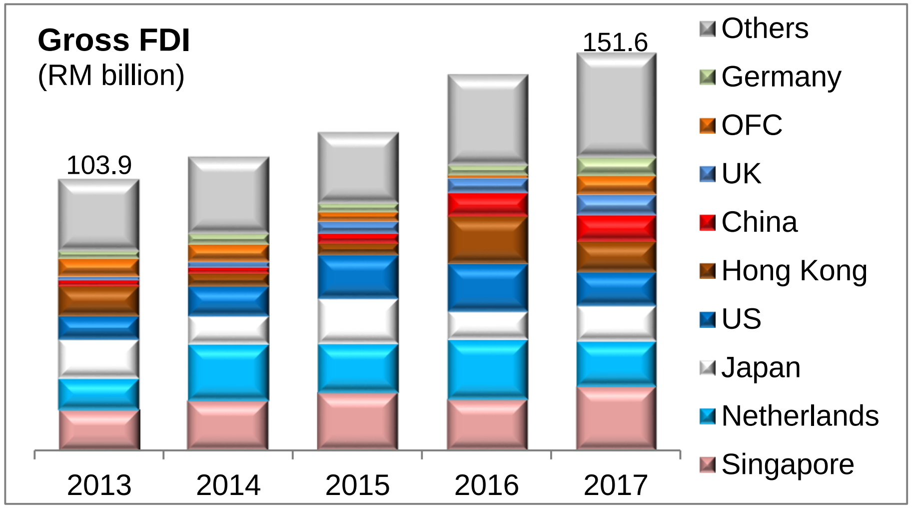
FDI outstanding stock grew by 8.9% pa in 2010-17



Majority of gross FDI went to manufacturing (46%) and services (34%) sectors



Well diversified sources of FDI

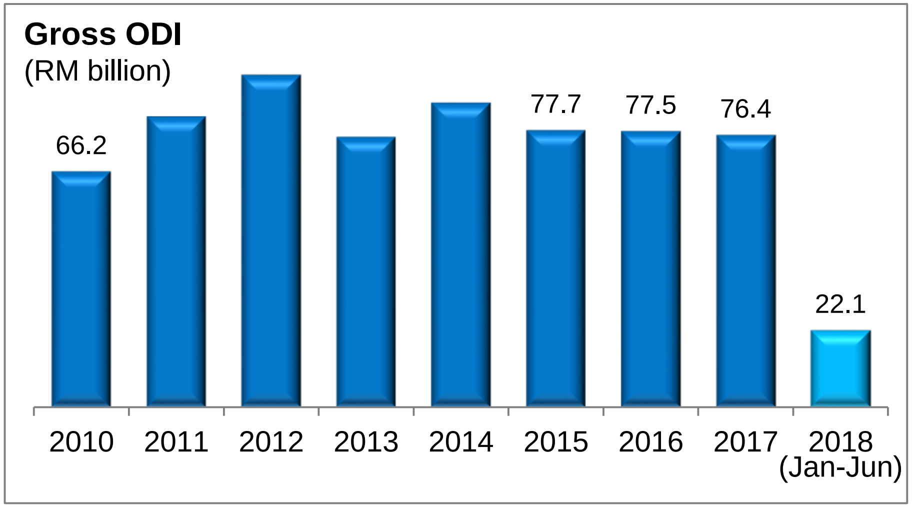


Source: BNM

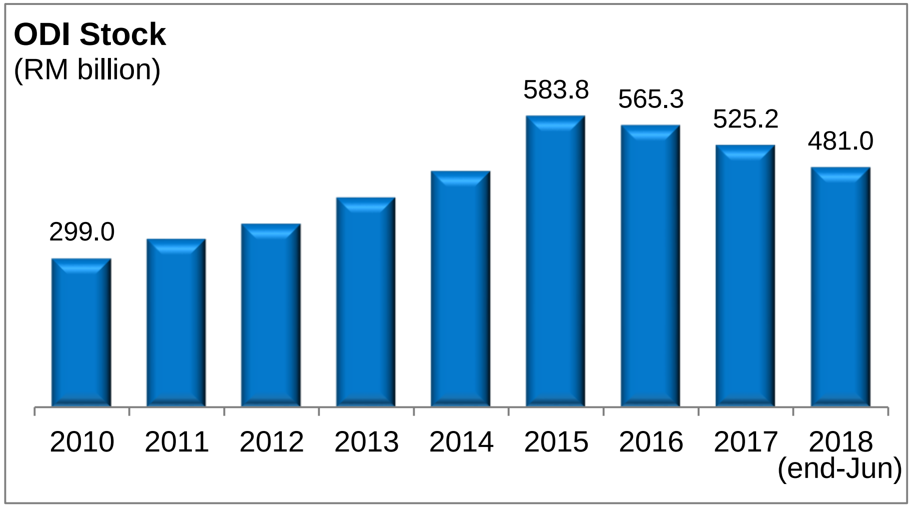
OFC: Cayman Islands, British Virgin Islands & Bermuda

Malaysia's OUTWARD DIRECT INVESTMENT paces slower

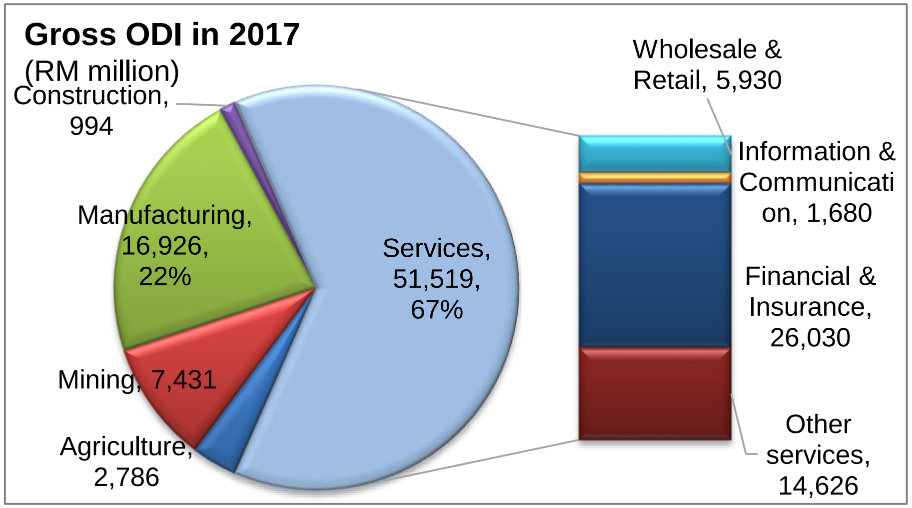
Fairly stable flows of ODI in recent years



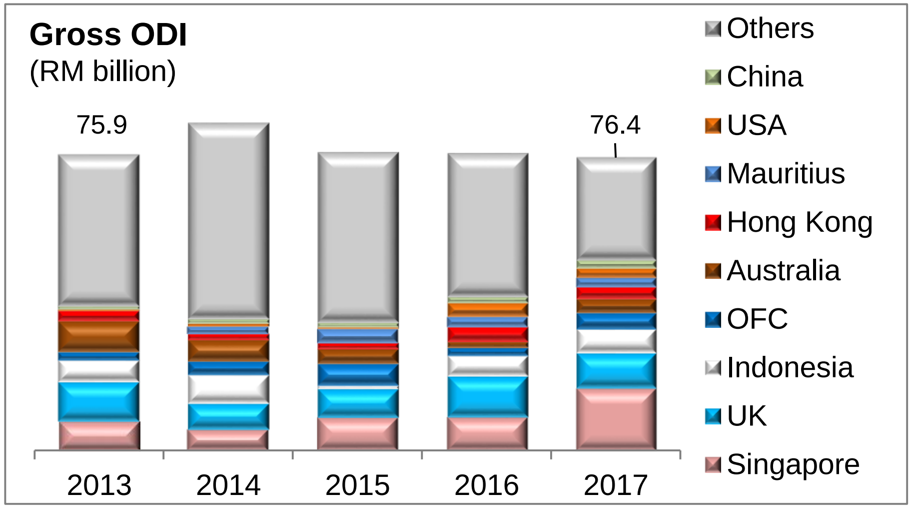
Declining ODI outstanding stock since 2015



67% of gross ODI are in services sector



In 2017, most ODI are located in Singapore



Source: BNM

OFC: Cayman Islands, British Virgin Islands & Bermuda

China is NOT in Malaysia's top 5 (FDI or ODI -Flows and Stock)

Gross FDI inflows by ranking:

2017	2018 (Jan-Jun)
1.Singapore	1. Singapore
2.Netherlands	2. Netherlands
3.Japan	3. USA
4.USA	4. Hong Kong
5.Hong Kong	5. Japan
6.China	6. Germany
7.UK	7. UK
8.OFC	**8. China**
9.Germany	9. OFC
10.South Korea	10. Thailand

Gross ODI outflows by ranking:

2017	2018 (Jan-Jun)
1.Singapore	1. Singapore
2.UK	2. Netherlands
3.Indonesia	3. Indonesia
4.OFC	4. UK
5.Australia	5. OFC
6.Hong Kong	6. Hong Kong
7.Mauritius	7. India
8.USA	8. Australia
9.China	**9. China**
10.Thailand	10. USA

FDI stock by ranking:

2017	2018 (Jan-Jun)
1.Singapore	1. Singapore
2.Japan	2. Japan
3.Hong Kong	3. Hong Kong
4.OFC	4. OFC
5.Netherlands	5. Netherlands
6.USA	6. USA
7.Switzerland	7. Switzerland
8.Germany	8. Germany
9.UK	9. UK
10.China	**10. China**

ODI stock by ranking:

2017	2018 (Jan-Jun)
1.Singapore	1. Singapore
2.Indonesia	2. OFC
3.OFC	3. Indonesia
4.Mauritius	4. Hong Kong
5.UK	5. Australia
6.Australia	6. Thailand
7.Hong Kong	**7. China**
8.India	**8.** USA
9.Thailand	9. Vietnam
10.China	10. Netherlands

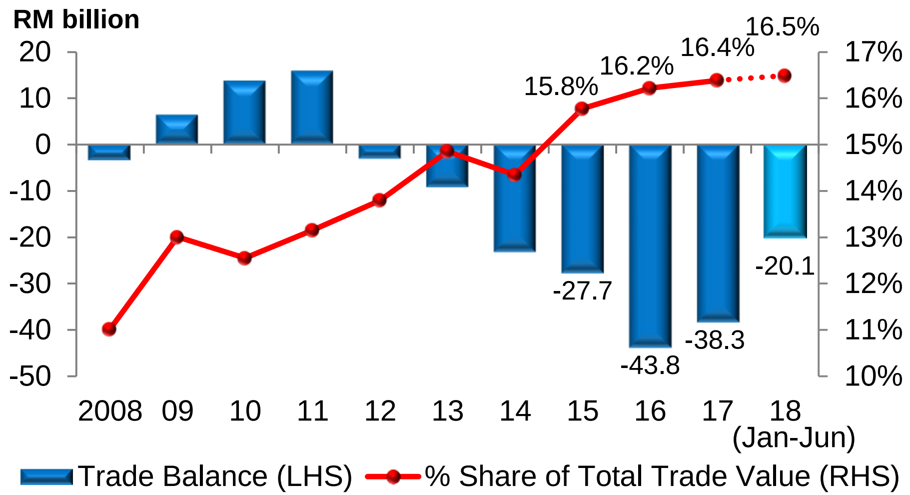
Source: BNM

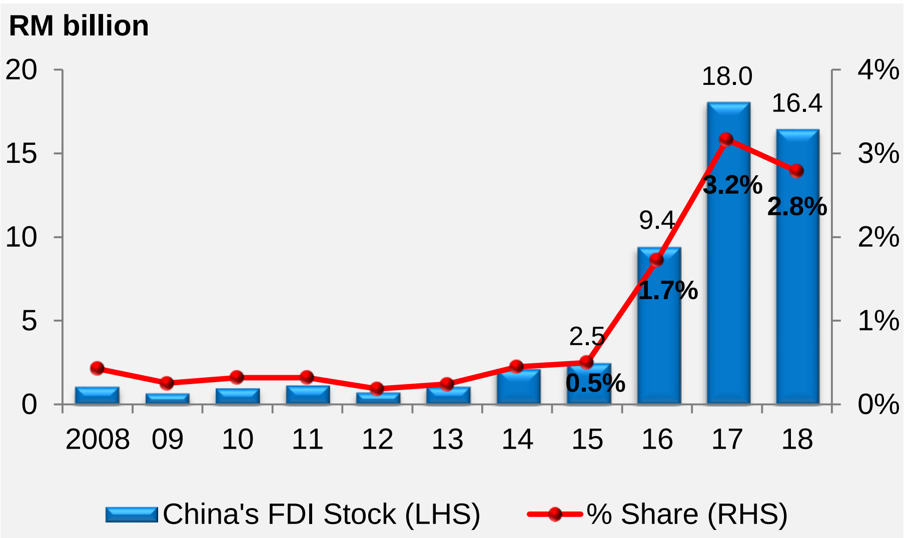
OFC: Cayman Islands, British Virgin Islands & Bermuda

WHAT'S NEXT for China's FDI in Malaysia?

CHINA's POSITION IN MALAYSIA:

- Malaysia's **largest trading partner** in terms of total trade (16.4% of Malaysia's total trade in 2017).
- **2nd largest exporter** (13.5% of total exports); **largest importer** (19.6% of total imports).
- Malaysia has been incurring **trade deficits with China for six consecutive years** since 2012, widening from RM3.1 billion in 2012 to RM38.3 billion in 2017. In 1H18, trade deficit amounted to RM20.1 billion.
- At end-June 2018, China's FDI outstanding stock stood at **RM16.4 billion or 2.8% of Malaysia's outstanding FDI** and is ranked as the 10th largest foreign investor in Malaysia.





Source: DOSM; BNM

RESETTING Malaysia and China's ties

- **NEGATIVE PERCEPTIONS** and sentiments
- Renew commitments**;** a concerted **COMMUNICATION APPROACH TO CORRECT MISPERCEPTIONS**
- A **CLEAR AND CONSISTENT POLICY CERTAINTY**. Avoid **AMBIGUOUS ANNOUNCEMENTS AND STATEMENTS** that could strain the relations of both sides
- To overcome the **FEELING OF "DISTRUST" AND MUTUAL "MISUNDERSTANDING**", both sides should follow some guiding principles:
  - ❑ establish common standards of procedures;
  - ❑ reciprocal protection of investments;
  - ❑ enhanced communication lines and increase transparency; and
  - ❑ maximize efforts to manage and resolve differences through consultative means
- Adopt a new holistic approach to forge **NEW MODEL OF ECONOMIC AND BUSINESS PARTNERSHIPS** with China's globalization and 'Going out" strategy built on mutual cooperation.

STRATEGIC measures to strengthen Malaysia-China ties

- **INSTITUTIONALISED “G-G” RELATIONSHIP**
  - ❑ Collaborations between Malaysian state and city governments with their counterparts in China should be encouraged.
  - ❑ Senior ministers and key ministries from both sides are encouraged to make regular visits to China or engage with their counterparts to reflect the sincerity to make good relationship from both sides.

- **GLCs TO TAKE THE LEAD**
  - ❑ **GLC-led Malaysia Consortium** to cultivate more business partnerships with China’s counterparty in areas of **technology and communications, plantation, logistics, finances, power, renewable energy as well as oil and gas sector**.

- **SET UP A SPECIAL DESK** dedicated at facilitating China investors’ investment in Malaysia, in coordination with the chambers.
- **SET UP A DEDICATED UNIT IN MATRADE** to conduct market and business intelligence services.
- **SET UP A HIGH-LEVEL TRADE FACILITATION COMMITTEE** to discuss bilateral trade issues concerning market access, tariff structures, anti-dumping as well as non-tariff barriers.

Section 4

New Malaysia in Transition:

Reconstruction and Policies Adjustment

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

CRITICAL ISSUES AND DECISIONS

FISCAL CHALLENGES

- **Tax revenue** under pressure under SST
- **Oil revenue & PETRONAS dividends** come to rescue **BUT** not sustainable
- **Non-tax revenue** to fetch more
- **Committed expenses** unlikely to cut more
- **Legacy obligations**

ECONOMIC CONDITIONS

- ❑ **External environment** still challenging
- ❑ **Global & trade** growth revised lower in 2019
  - ▪ **Global growth:** +3.7%
  - ▪ **Trade growth:** +4.0%
- ❑ **Domestic GDP growth** has slowed; **sentiments** softened

CASE FOR FISCAL RESET / RECONSTRUCTION

- ➢ **Drastic spending cut** would hurt economic growth
- ➢ **Prioritise & smart spending**
- ➢ **Revenue enhancement** measures to plug deficit
- ➢ **Push back** a near-balanced budget

Principles of RESTORING FISCAL HEALTH:
Fiscal transparency; Expenditure optimisation; Revenue enhancement

Competency

Accountability

Transparency

Public Finance Committee

- Strengthen fiscal administration
- "Zero-based" budgeting
- Fiscal Responsibility Act (by 2021)
- Government Procurement Act (by 2019)
- Debt Management Office (restructuring and rationalising government debt)

Tax Reform Committee

- Review the existing reliefs and incentives
- Look for sustainable revenue
- Ensure effective taxation system

2019 Budget stance: Responsible and Balanced

- **A Bold and Balanced Budget**. As widely expected, the Minister of Finance presented a **RESPONSIBLE, BALANCED and GROWTH SUPPORTIVE BUDGET for 2019**. It's about **rebuilding trust in the Government, restoring fiscal health and prospering the people**. It contains no major negative surprises, especially the much speculated inheritance tax and capital gains tax on share transactions. Soda tax was introduced to promote a healthy lifestyle.

- **Between choices and trade-offs**. We understand the Government have to make choices and trade-offs to manage the medium-term fiscal challenges and limitations. It is indeed a tough and challenging political balancing act for the Minister of Finance to craft a responsive budget without impairing growth and worsening the fiscal deficit.

- **Budget's priorities and policy responses**. Despite facing a tough balancing act, the Budget will continue to provide targeted fiscal support to businesses and households while sustaining economic growth and stimulate private investment.

- The Budget's allocations will be prioritized to **sectors (tourism, transport, housing)** where it they are needed the most. In particular, there are policies and initiatives to promote **entrepreneurship, ensuring domestic SMEs and businesses are digitalized & ICT adoption** and our workforce are skilled and adaptive to embrace the Industry 4.0 (IR4.0), which are crucial to the future of the economy.

The economy at a glance – PERFORMANCE and PROSPECTS

Key indicators	2017	2018E	2019B
Real GDP growth (%)^	5.9	4.8	4.9
Private consumption growth (%)^	7.0	7.2	6.8
Private investment growth (%)^	9.3	4.5	5.0
Income per capita (RM)	41,128	42,937	44,686
Unemployment (%)	3.4	3.3	3.3
Inflation (%)	3.7	1.5-2.5	2.5-3.5
Export Growth (%)	18.8	4.4	3.9
Current account balance			
RM million	40,275	38,591	33,995
% of GDP	3.0	2.7	2.2
Budget deficit			
RM million	40,321	53,327	52,080
% of GDP	3.0	3.7	3.4
Federal government debt			
RM million	686,837	725,241*	792,703
% of GDP	50.7	50.7	51.8
Contingent liabilities			
RM million	238,191	258,392*	332,078
% of GDP	17.6	18.1	21.7

Source: Ministry of Finance (MOF)

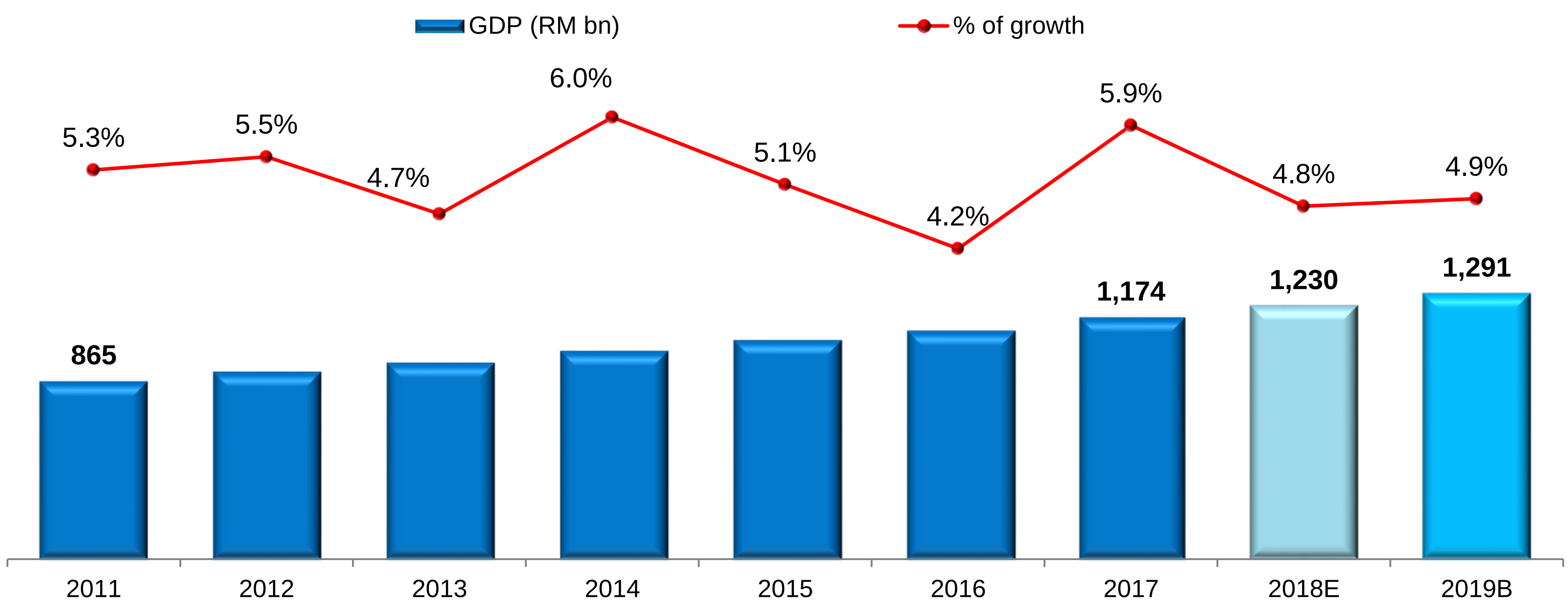
^ 2010=100

** As at end-June 2018*

- **Sustaining economic growth**. The Malaysian economy is estimated to **grow by 4.8% in 2018 and 4.9% in 2019** respectively, supported by domestic demand and moderate external demand (SERC's estimates: 4.8% in 2018 and 4.7% in 2019 respectively).
- **Downside risks to growth** come from rising trade conflict, capital flows volatility, oil prices and geopolitical risks.
- **Domestic demand anchors overall growth**. **Consumer spending** growth still respectable (6.8% in 2019 vs. 7.2% in 2018) backed by stable employment and improved income. **Private investment** growth improved to 5.0% in 2019 from 4.5% in 2018. *SERC remains cautious amid external uncertainties and wary about domestic policy implications*.
- **Public sector's consolidation continues** as it rationalises its spending, focusing on cost savings and value for money projects and programs to support the economy.

GDP growth OUTLOOK: 4.8% in 2018 and 4.9% in 2019

- Not surprisingly, the economic outlook presented in the 2019 Budget was **revised lower to 4.8% this year** (from 5.0%-5.5% previously). A slight improvement in growth to **4.9% for 2019**.
- With stable global growth estimated 3.7% in 2019 (3.7% in 2018) amid more downside risks, the projected GDP growth for 2019 will be supported by **continued expansion of domestic demand**, with the private sector taking the driver seat. The rationalisation of government's expenditure will continue. **Gross exports** are expected to grow slower (3.9% in 2019 vs. 4.4% in 2018).



Source: Bank Negara Malaysia (BNM); MOF

RESILIENT domestic demand (5.0% in 2018; 4.8% in 2019)

- **Sustained private sector spending** (6.5% in 2018 and 6.4% in 2019) while public sector expenditure is projected to decline by 0.9% in 2019 (-0.1% in 2018) due to lower investment by public corporations.
- **Public investment is projected to decline further by 5.4% in 2019** (estimated -1.5% in 2018), dragged down by lower capital spending of public corporations. The on-going oil and gas projects, highway, utilities and transport as well as telecommunication projects are expected to cushion a sharper decline in public investment.

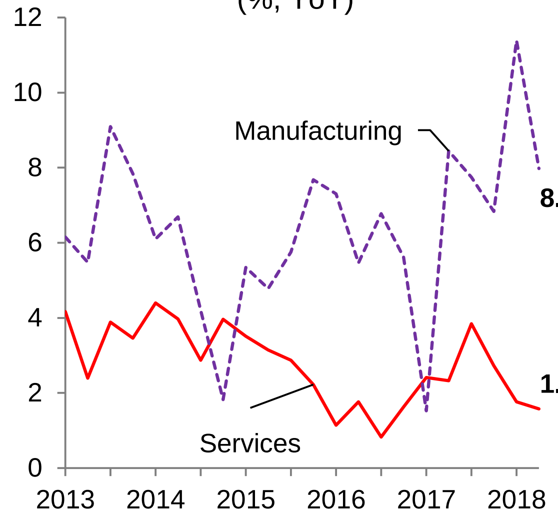
Growth rate, %		2011	2012	2013	2014	2015	2016	2017	2018 1H	2018E	2019B	
Private	Consumption (*56.9%*)	6.9	8.3	7.2	7.0	6.0	6.0	7.0	7.4	7.2	6.8	↓
	Investment (*17.8%*)	9.5	21.4	12.8	11.1	6.3	4.3	9.3	3.4	4.5	5.0	↑
Public	Consumption (*11.4%*)	14.2	5.4	5.8	4.4	4.5	0.9	5.4	1.8	1.0	1.8	↑
	Investment (*6.8%*)	2.6	15.9	1.8	-4.7	-1.1	-0.5	0.1	-5.2	-1.5	-5.4	↓
Goods and services	Exports (*67.3%*)	4.2	-1.7	0.3	5.0	0.3	1.3	9.4	2.9	2.0	1.6	↓
	Imports (*60.2%*)	6.3	2.9	1.7	4.0	0.8	1.3	10.9	0.0*	1.4	1.8	↑

Figure in parenthesis denotes % share of GDP ** less than 0.1% growth*
Source: BNM; MOF

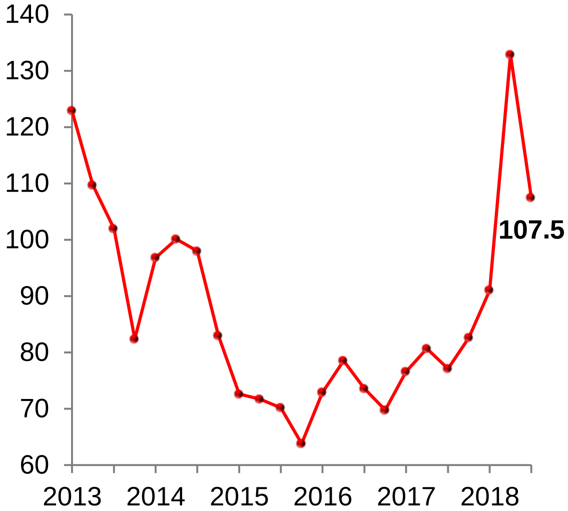
SOLID consumer spending but will it normalise?

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

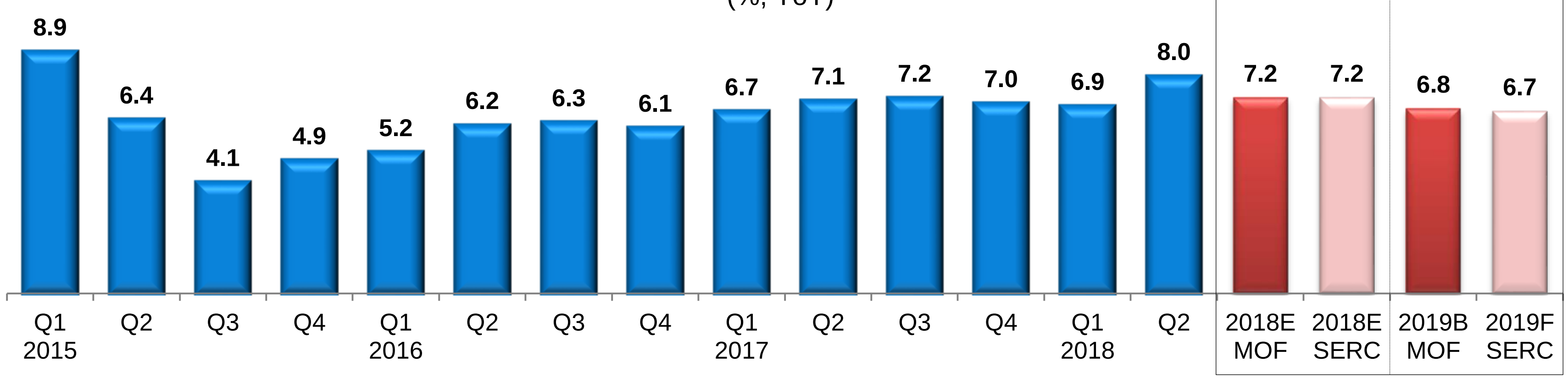
Private Sector's Employee Income
(%, YoY)



MIER Consumer Sentiments Index (CSI)



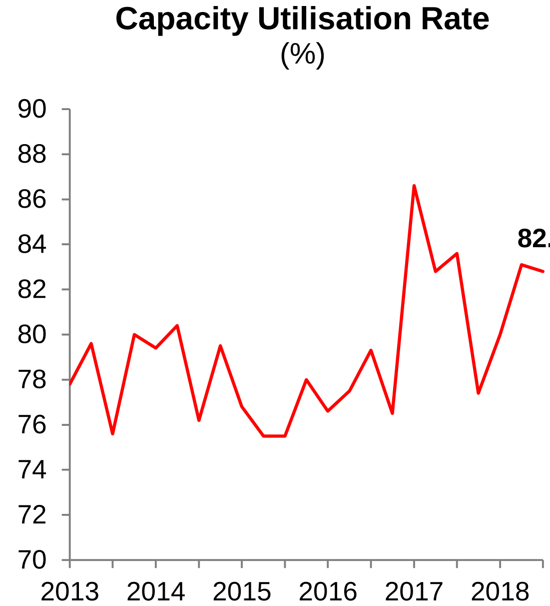
Private Consumption Growth
(%, YoY)

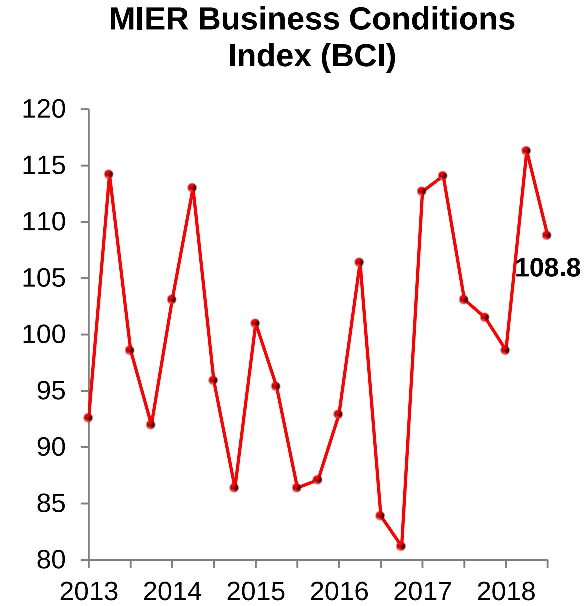


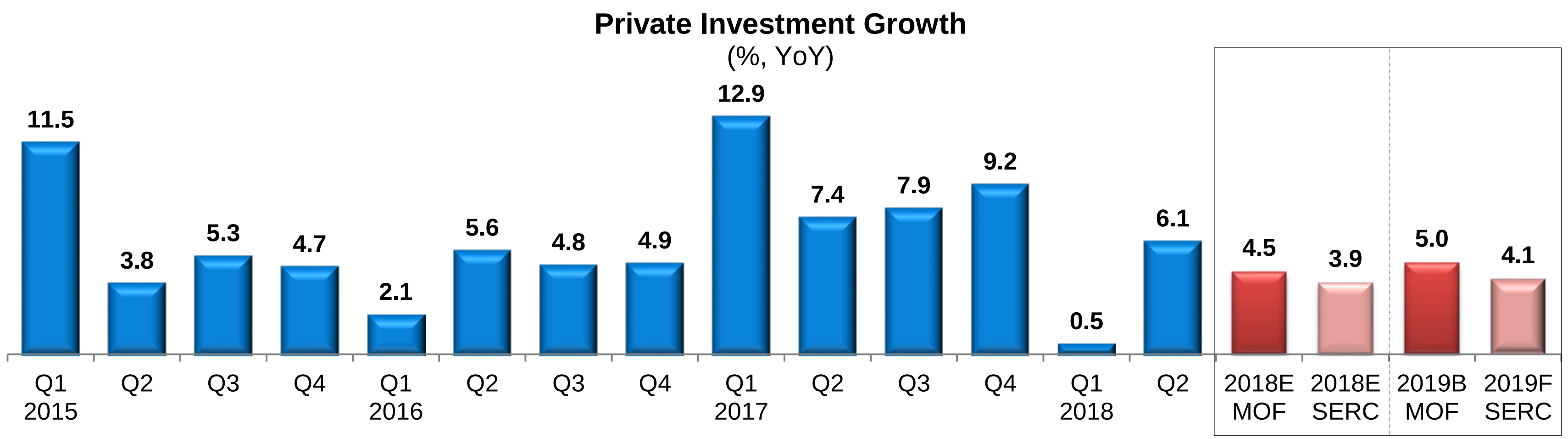
Source: Department of Statistics, Malaysia (DOSM); MIER

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







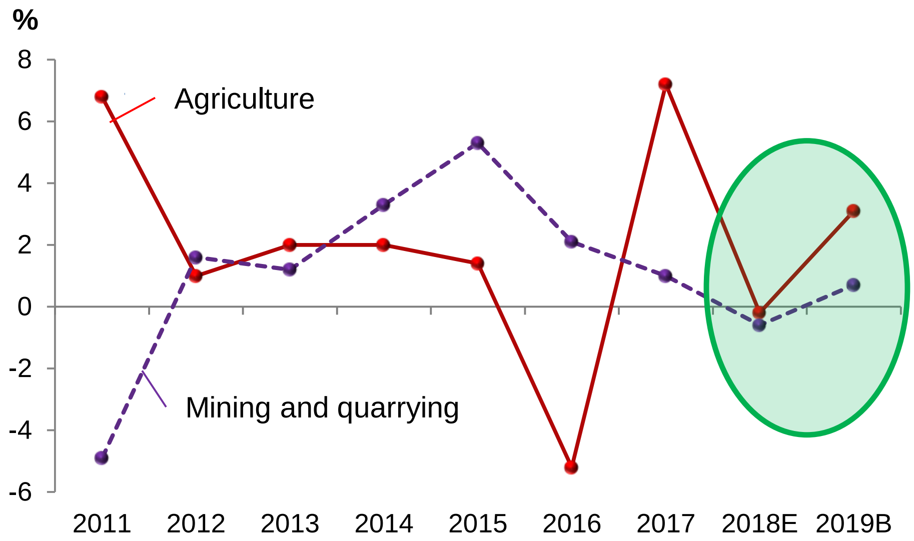
Source: DOSM; MIER

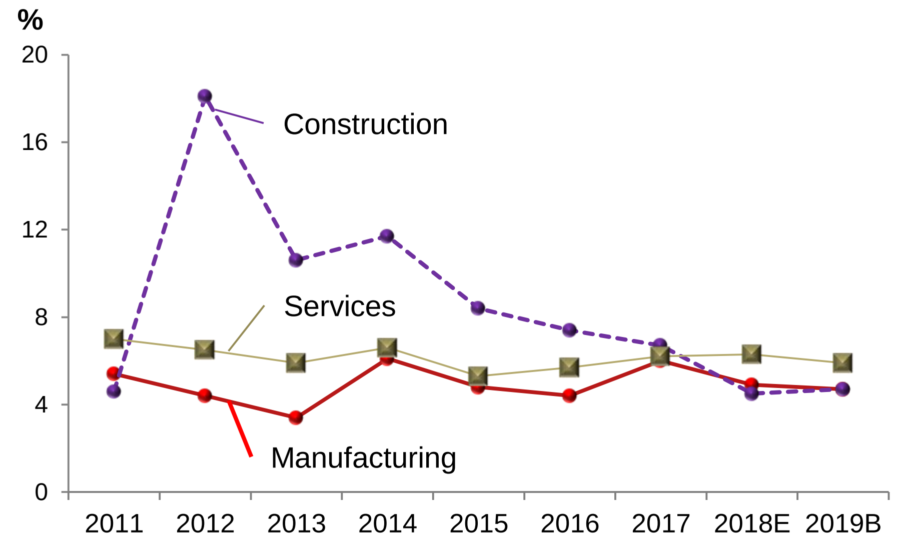
SECTORAL target at a glance

- Both the **services and manufacturing** sectors continued to drive overall growth.
- The **agriculture and mining sectors** are expected to **rebound in 2019.** Growth in the construction sector will remain moderate.

	Agriculture	Mining and Quarrying	Manufacturing	Construction	Services
2017	7.2% (8.2%)	1.0% (8.4%)	6.0% (23.0%)	6.7% (4.6%)	6.2% (54.5%)
2018E	-0.2% (7.8%)	-0.6% (8.0%)	4.9% (23.0%)	4.5% (4.5%)	6.3% (55.3%)
2019B	3.1% (7.6%) ↑	0.7% (7.6%) ↑	4.7% (23.0%) ↓	4.7% (4.5%) ↑	5.9% (55.8%) ↓

Figure in parenthesis denotes % share of GDP





Source: BNM; MOF

Where is the GROWTH coming from?

Services (2018E: 6.3%, 2019B: 5.9%)
% share of GDP in 2019F: 55.8%

- Supported by **consumption** and **domestic tourism**.
- Strong demand for **ICT, transport and finance**.

Manufacturing (2018E: 4.9%, 2019B: 4.7%)
% share of GDP in 2019B: 23.0%

- Continuous expansion in **electronics and electrical products** (wearable gadgets and smart home applications).
- Domestic-oriented industries (**food based and construction-related building materials**).

Agriculture (2018E: -0.2%, 2019B: 3.1%)
% share of GDP in 2019B: 7.6%

- **Higher output of palm oil** (2019: 20,500 tonnes vs. 19,800 tonnes in 2018). **CPO average prices** at RM2,400 per tonne in 2019 vs. RM2,300 in 2018.
- Improved output of rubber and food commodities as well as livestock.

Where is the GROWTH coming from? (cont.)

Mining (2018E: -0.6%, 2019B: 0.7%)
% share of GDP in 2019B: 7.6%

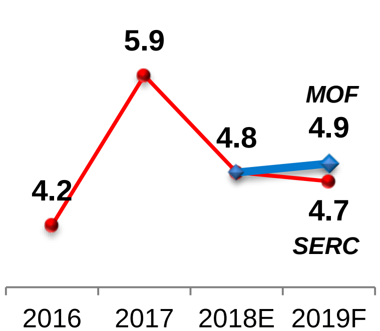
- Driven by recovery in the **production of natural gas** following the resumption of operation in Kebabangan and Kinabalu fields as well as expectation of new production from Bakong and Larak fields in the second half of 2019.
- **Crude oil and condensates** subsector is expected to decline due to production constraints in Sabah Gumusut Kakap and Malikai fields.

Construction (2018E: 4.5%, 2019B: 4.7%)
% share of GDP in 2019B: 4.5%

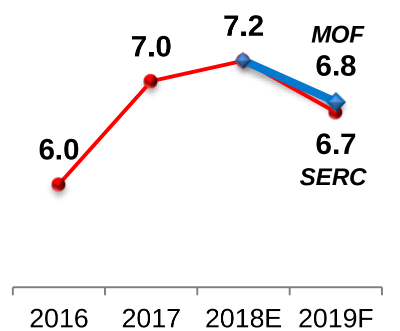
- The **civil engineering** remains as the driver of construction sector, supported by on-going projects (Pan Borneo Highway in Sabah and Sarawak; Central spine Road in East Coast, MRT2, LRT3 in Klang Valley, Deepwater Petroleum Terminal 2 at RAPID, Floating LNG 2 in Sabah and the Central Processing Platform in Bokor, Sarawak.
- Slower growth of **residential subsector and non-residential subsectors**.

Malaysia's key ECONOMIC INDICATORS

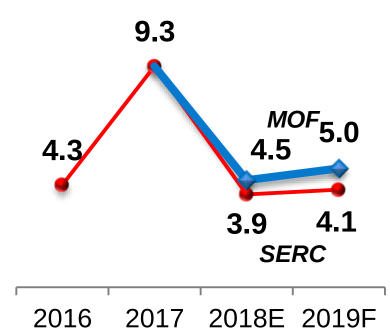
Real GDP Growth
(%)



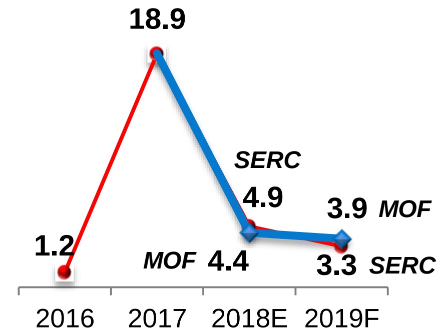
Private Consumption Growth
(%)



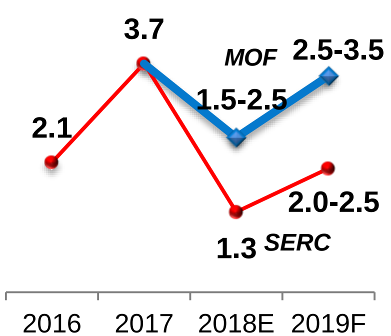
Private Investment Growth
(%)



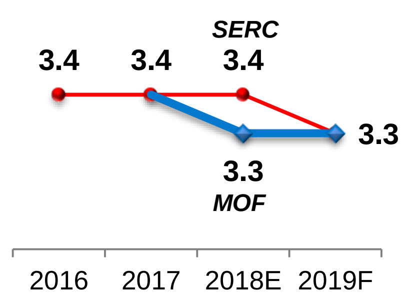
Gross Exports Growth
(%)



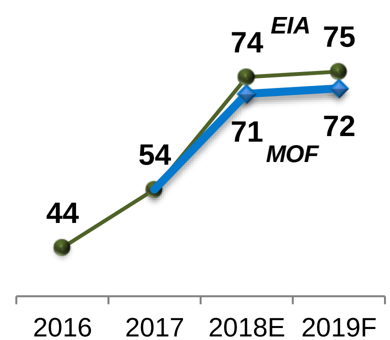
Inflation Rate
(%)



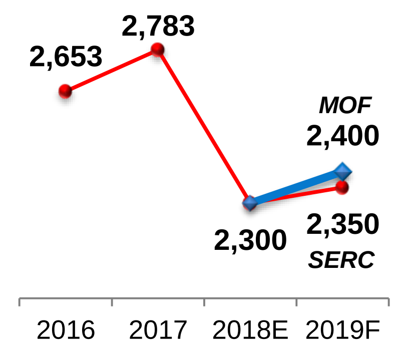
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)



Crude Palm Oil Prices
(RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC

Sources of GDP growth: DEMAND and SUPPLY side

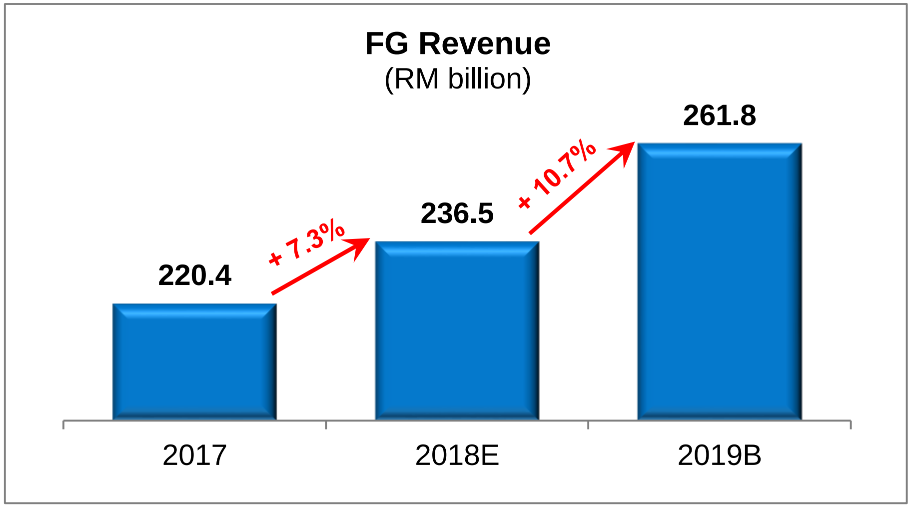
- Private sector expenditure will cushion the effects of lower public spending.
- All economic sectors are expected to register positive growth in 2019.

% growth, 2010=100	**2016**	**2017**	**2018 1H**	**2018E (MOF)**	**2018E (SERC)**	**2019B (MOF)**	**2019F (SERC)**
GDP by demand component							
Private consumption (55.0%)	6.0	7.0	7.4	7.2	7.2	6.8	6.7
Private investment (17.3%)	4.3	9.3	3.4	4.5	3.9	5.0	4.1
Public consumption (12.5%)	0.9	5.4	1.8	1.0	1.8	1.8	0.7
Public investment (7.5%)	-0.5	0.1	-5.2	-1.5	-1.5	-5.4	-4.8
Exports of goods and services (70.9%)	1.3	9.4	2.9	2.0	2.5	1.6	2.0
Imports of goods and services (63.0%)	1.3	10.9	0.0*	1.4	2.6	1.8	2.3
GDP by economic sector							
Agriculture (7.8%)	-5.2	7.2	0.1	-0.2	-0.4	3.1	2.0
Mining & quarrying (8.0%)	2.1	1.0	-1.0	-0.6	-1.0	0.7	0.5
Manufacturing (23.0%)	4.4	6.0	5.1	4.9	4.8	4.7	4.5
Construction (4.5%)	7.4	6.7	4.9	4.5	4.5	4.7	4.4
Services (55.3%)	5.7	6.2	6.5	6.3	6.4	5.9	5.8
Overall GDP	**4.2**	**5.9**	**4.9**	**4.8**	**4.8**	**4.9**	**4.7**

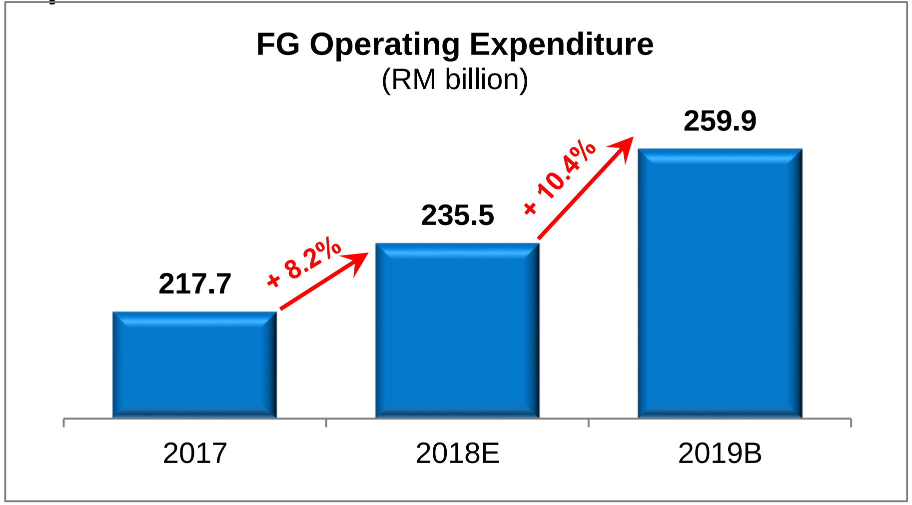
** Growth less than 0.1%*
Figure in parenthesis indicates % share to GDP in 2018
Source: DOSM; MOF

2019 Budget analysis: REVENUE and EXPENDITURE

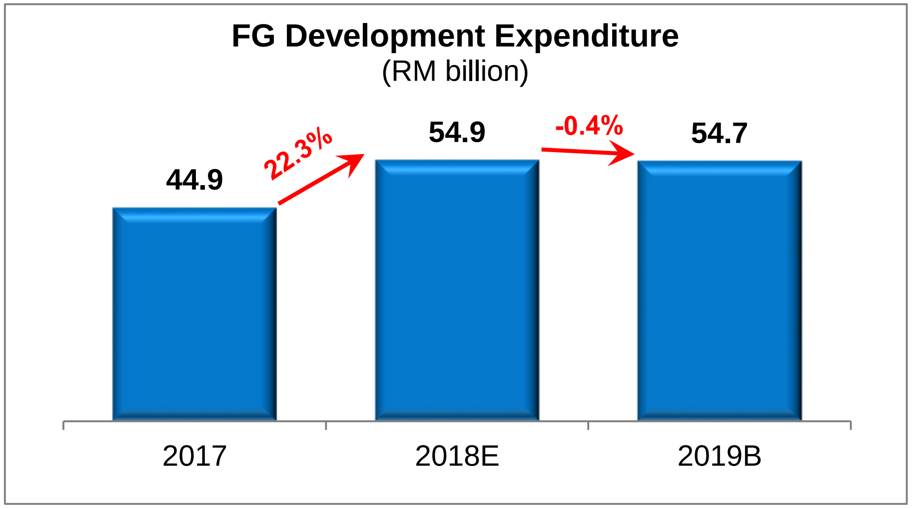
Revenue rises for three consecutive years



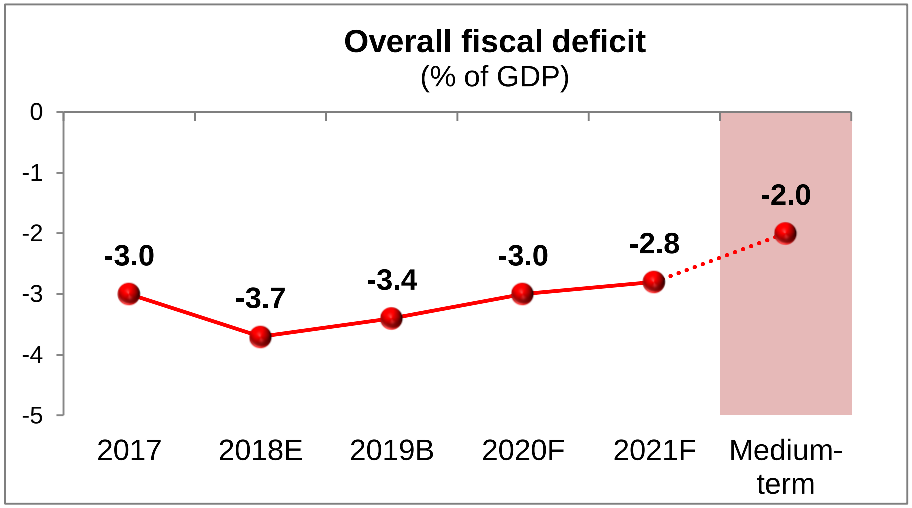
About 99.2% of revenue goes to operating expenditure



Development expenditure declined marginally to RM54.9bn in 2019



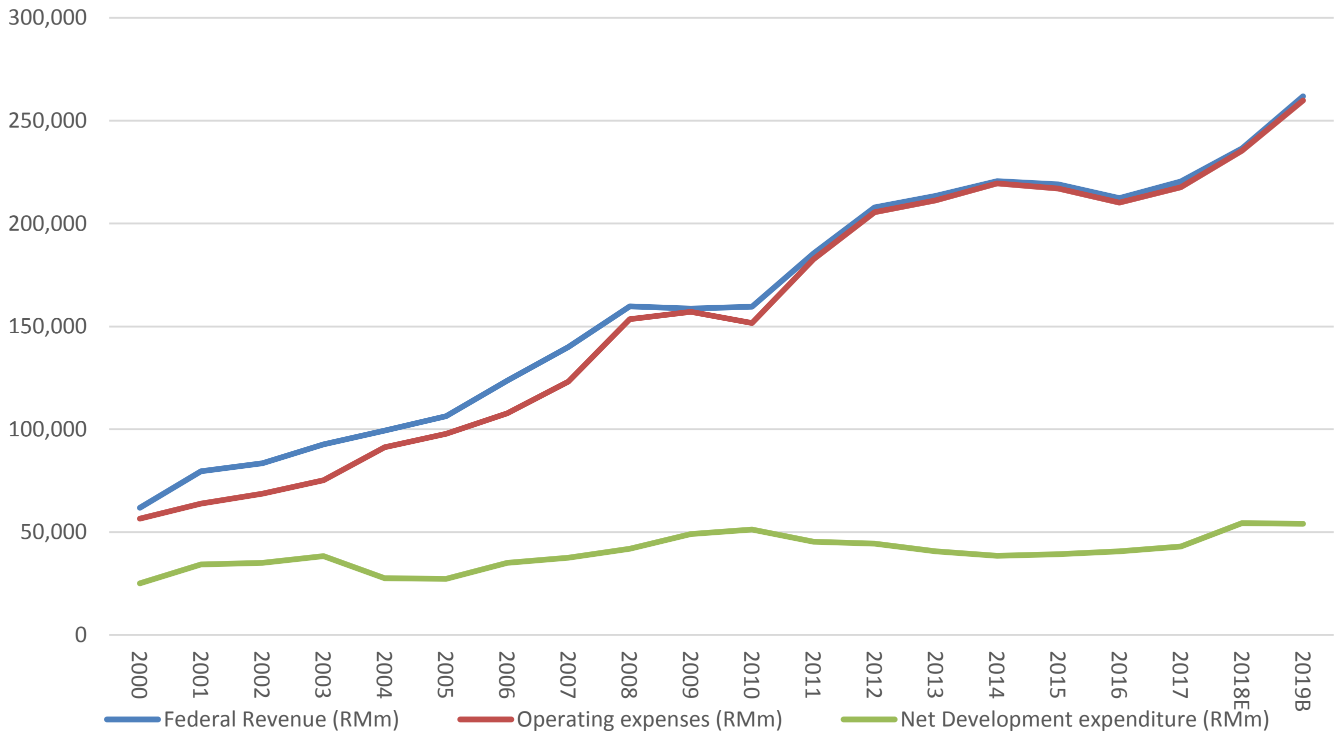
Fiscal deficit to narrow gradually



Source: MOF

SHRINKING operating surplus

- **Operating surplus** has been shrinking to an **average of RM3.1bn per year in 2008-2017** from an average of RM13.9bn per year in 2001-2007.



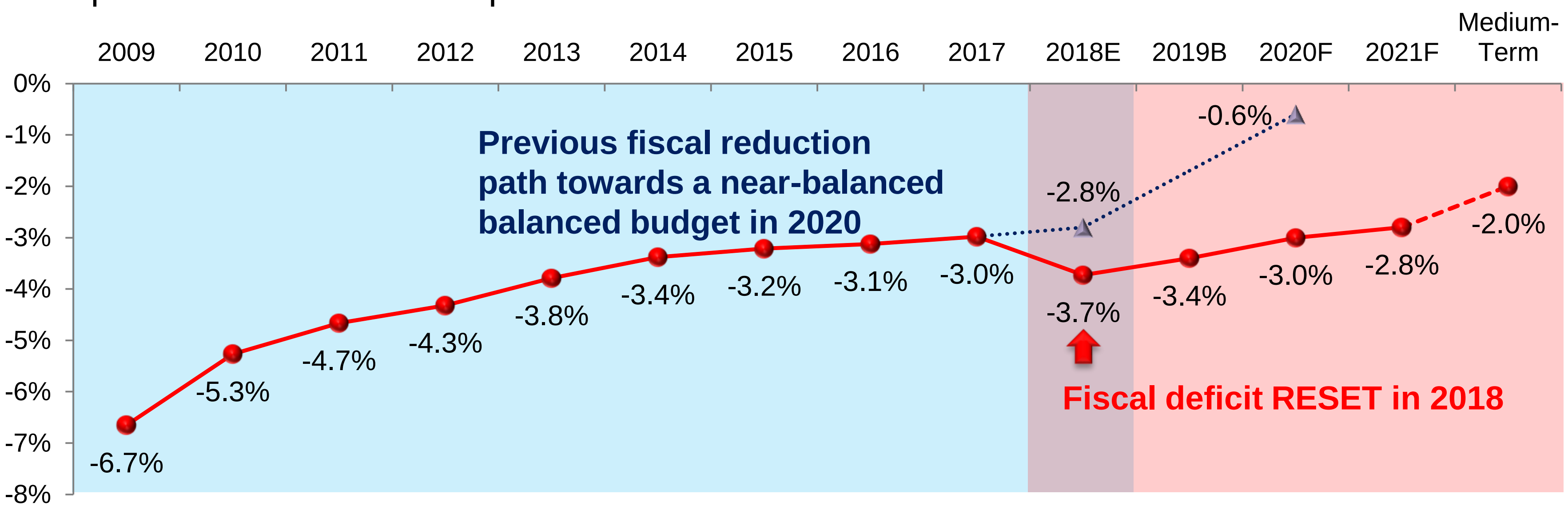
Source: MOF

Fiscal deficit RESET on a clean slate

- **Overall fiscal deficit** is reset higher to **-3.7 % of GDP in 2018** (from -2.8% previously) due to:
  a) Shortfall in revenue
  b) The GST and income tax refunds (RM3.9bn or 0.3% of GDP in 2018 and RM37.0bn or 2.4% of GDP in 2019); and
  c) Restating of off-budget items and unbudgeted expenses as well as reclassification of capital expenditure in operating expenditure to development expenditure.

- Fiscal deficit to GDP ratio will come down **to -3.4% in 2019, narrowing further to -3.0% in 2020** and **-2.8% in 2021.**

- **Restoring fiscal health** remains a priority. A **timeline returning the budget to balance** is important to rebuild fiscal space.



Source: BNM, MOF

Medium-Term Fiscal Framework (MTFF)

	2019-2021	
	Total *(RM billion)*	Share of GDP *(%)*
Revenue	767.9	*15.7*
Non-petroleum	584.0	*12.0*
Petroleum-related	183.9	*3.7*
Operating expenditure	754.9	*15.5*
Current balance	**13.0**	***0.2***
Gross development expenditure	164.7	*3.4*
Less: Loan recovery	1.9	*0.1*
Net development expenditure	162.8	*3.3*
Overall balance	**-149.8**	***-3.1***
Underlying assumptions		
Real GDP growth (%)	4.5-5.5	
Nominal GDP growth (%)	6.8-8.2	
Crude oil price (USD per barrel)	60-70	
Oil production (barrels per day)	600,000	

Note: MTFF estimate, excluding budget measures
Source: MOF

Will Malaysia's sovereign rating at RISK?

- **Fitch Ratings** – *Malaysia's* ***public debt is high*** *"relative to rating peers", and* ***a further increase in debt*** *over the medium-term could have a rating impact.*
- **S&P Global Ratings** – *A heavier reliance on* ***commodity-based revenues*** *presents an additional risk to Malaysia's fiscal accounts*.
- **Moody's** – *Wider deficits and a heightened reliance on* ***volatile oil-related revenues****.*
- **Impact on Malaysia's sovereign rating***: a low likelihood of a rating downgrade. A downgrade could be triggered by any one of a series of factors: slowing economic growth prospects, deteriorating external debt, political instability or lack of fiscal reforms.*

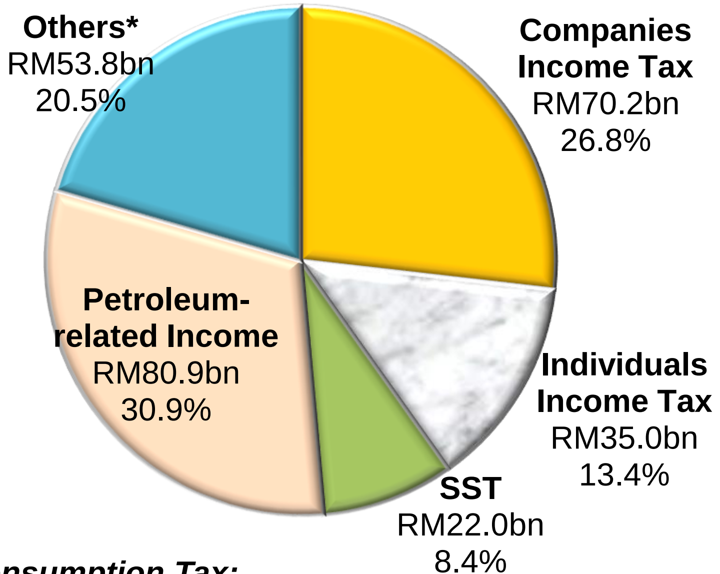
	Date of change	Grade	
		From	To
Fitch Ratings	8 November 2004	BBB+	A-
S&P Global Ratings	7 October 2003	BBB+	A-
Moody's	16 December 2004	Baa1	A3

	Date of change	Outlook	
		From	To
Fitch Ratings	30 June 2015	Negative	Stable
S&P Global Ratings	15 May 2008	Positive	Stable
Moody's	11 January 2016	Positive	Stable

Source: Fitch; S&P; Moody's; Trading Economics

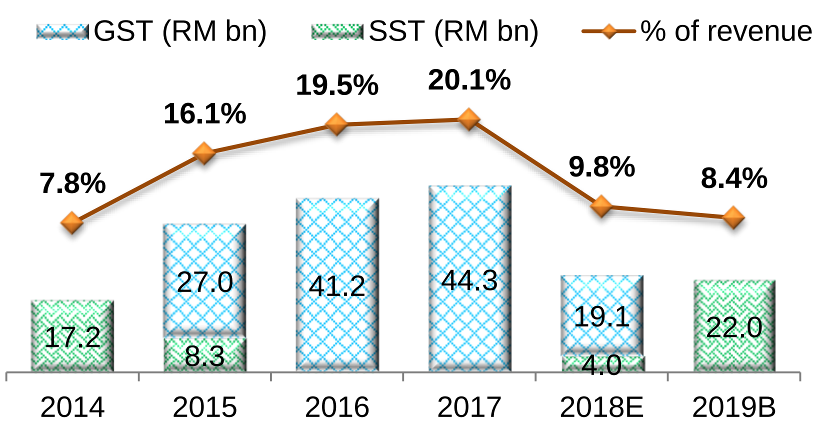
DISTRIBUTION in revenue

2019B: Where is the money coming from?

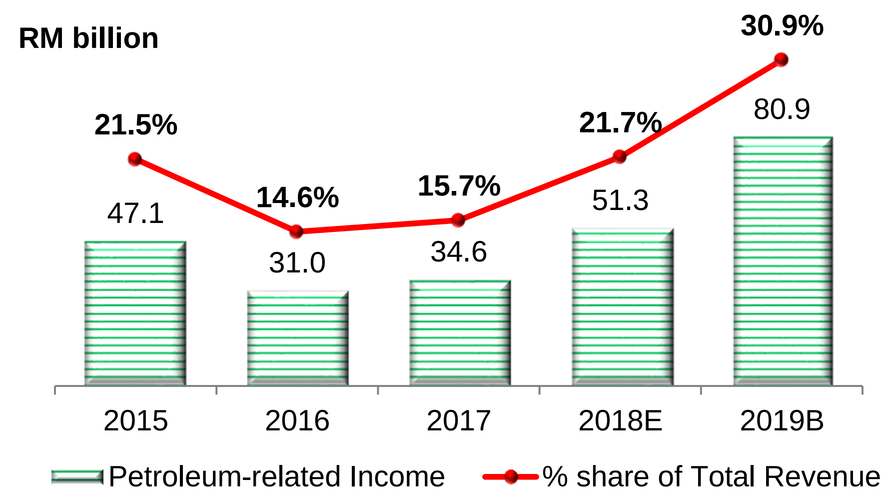


- **SST revenue** budgeted at RM22.0bn, accounted for 8.4% of total revenue (2018: RM4.0bn).
- Company income tax (-0.5% to RM70.2bn); Individual income tax (+0.4% to RM35.0bn)
- **Petroleum-related income** increased by 56.7% to RM80.9bn (of which **RM30.0bn is PETRONAS's special dividend**).
- **Oil price assumption**: US$71/bbl in 2018 and US$72/bbl in 2019.

<u>Consumption Tax:</u>



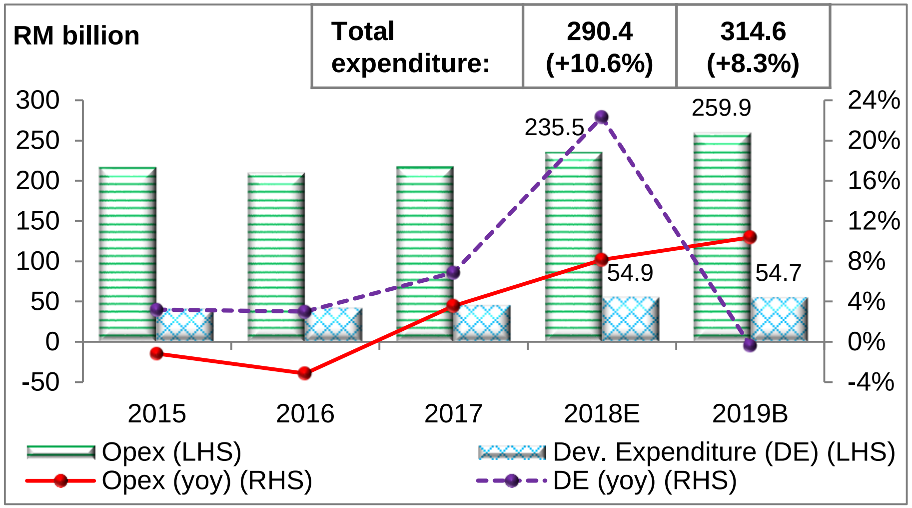
<u>Petroleum-related Revenue:</u>



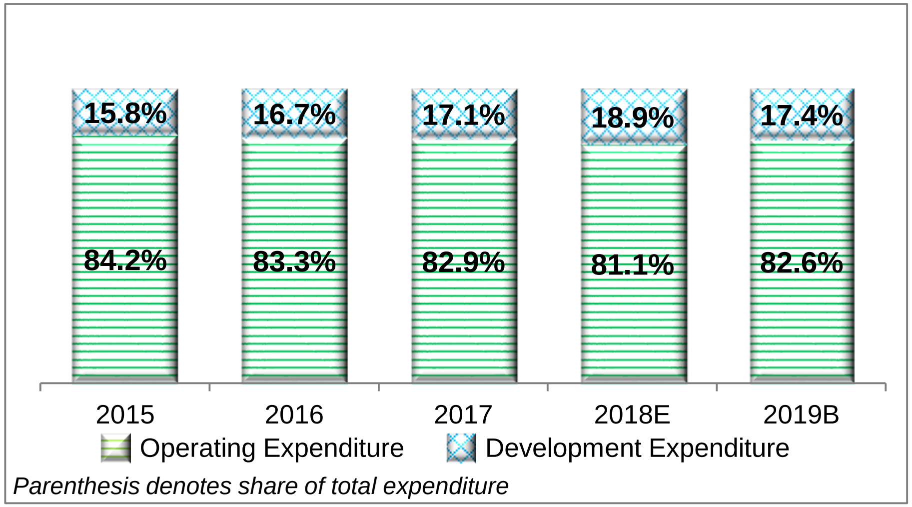
** Includes non-tax revenue, excise duty, stamp duty, etc.*
Source: MOF

Budgetary EXPENDITURE MIX

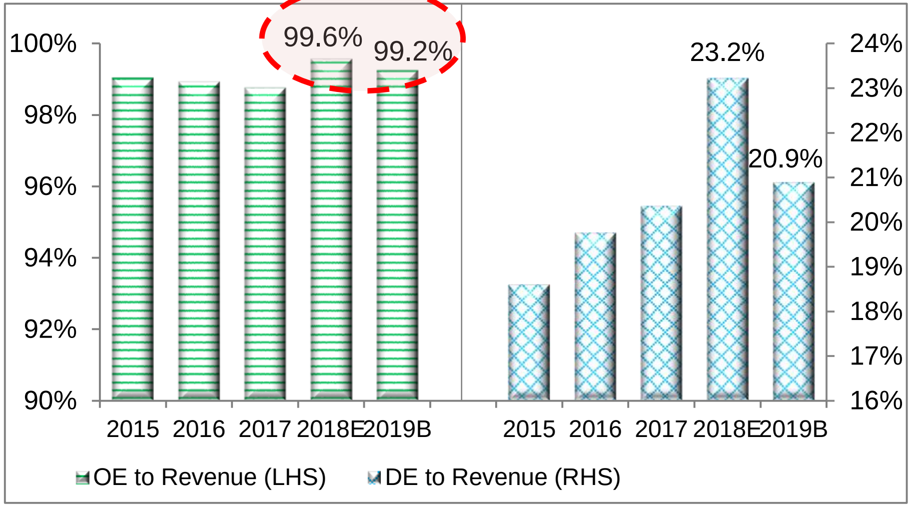
Operating expenditure rises for three years in a row since 2017



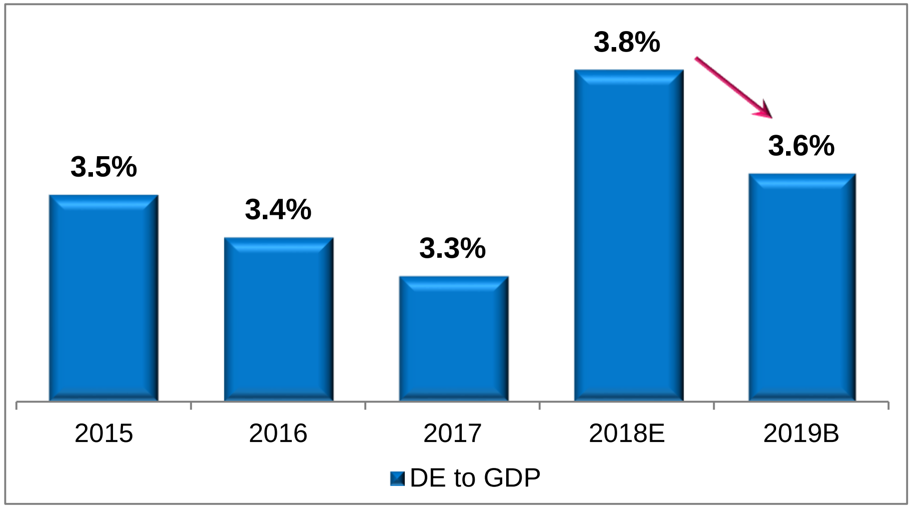
% share of development expenditure in 2019



OE and DE to revenue ratio



Declining share of DE to GDP in 2019

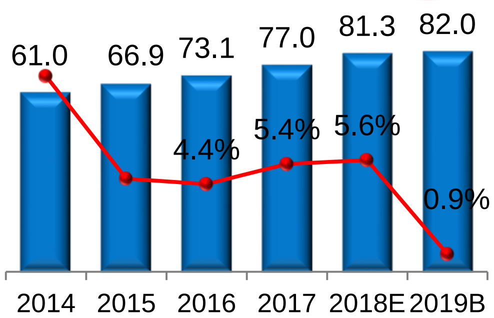


Source: MOF

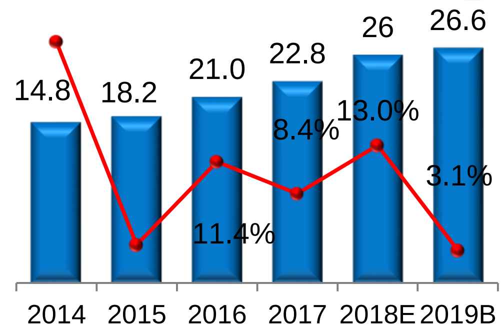
Operating expenditure analysis calls for FURTHER RESTRAINT

Distribution of operating expenditure by type

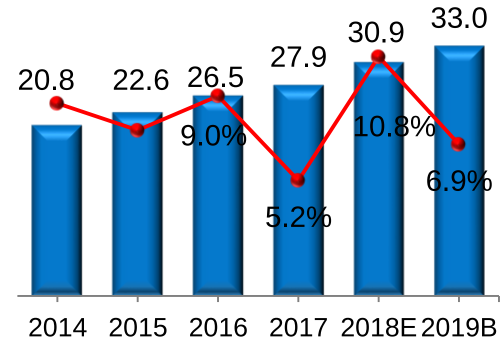
Emoluments
(RM billion)



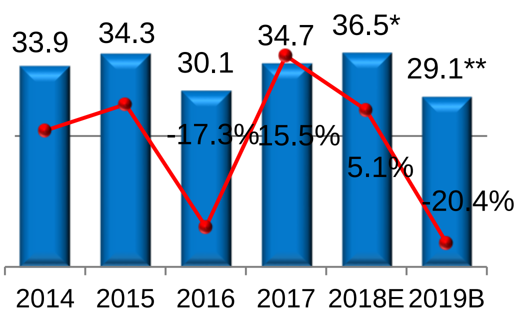
Retirement charges
(RM billion)



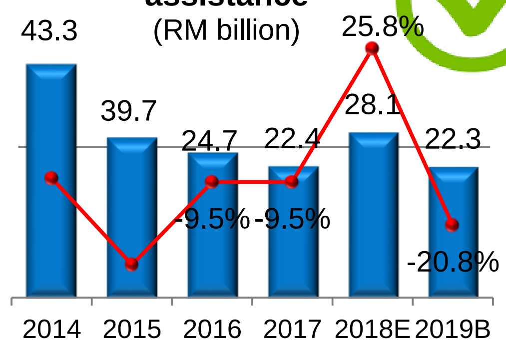
Debt service charges
(RM billion)



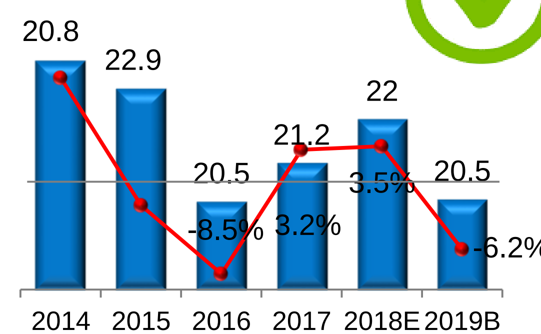
Supplies and services
(RM billion)



Subsidies and social assistance
(RM billion)

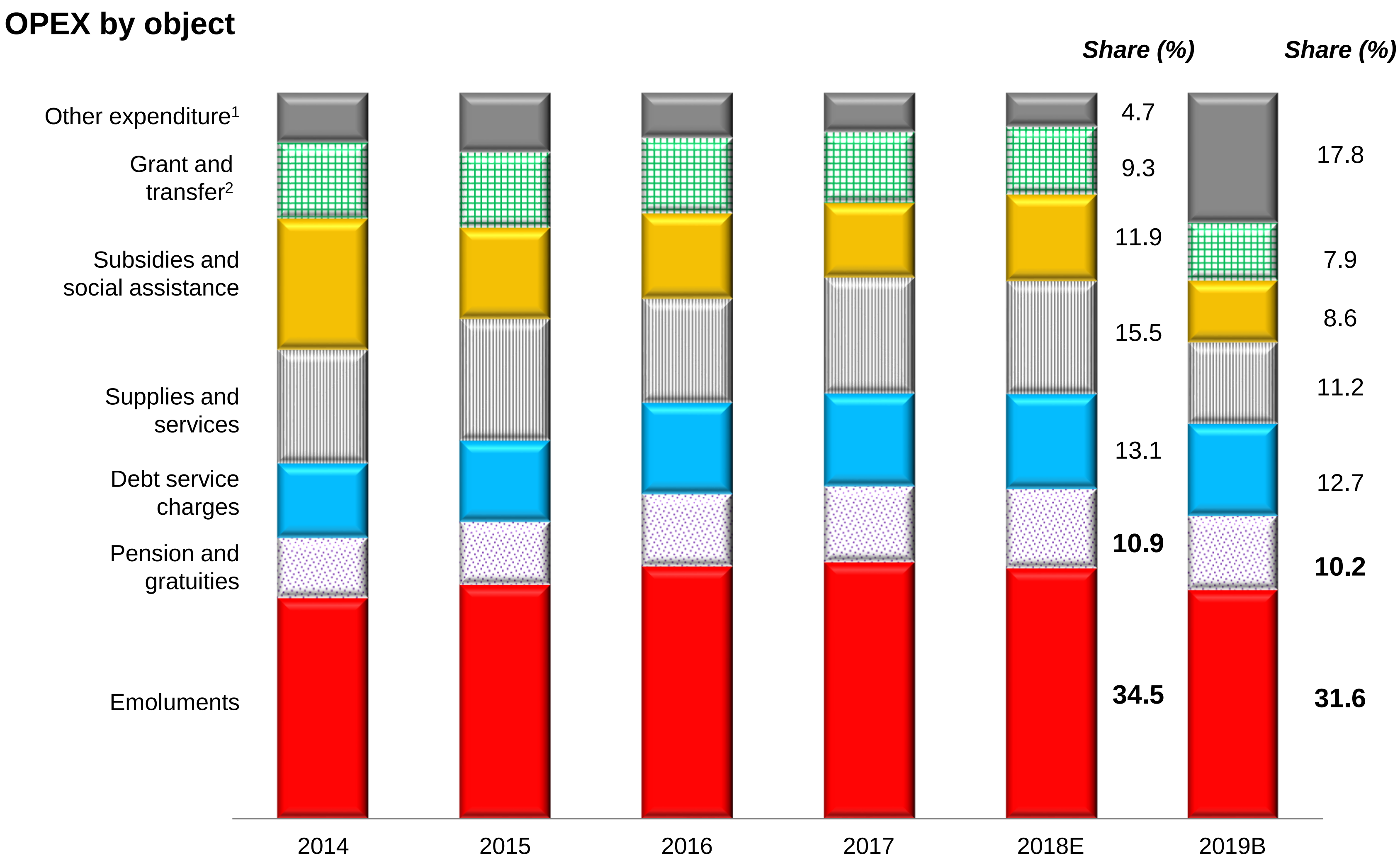


Grants and transfers[1]
(RM billion)



*Note: Line chart indicates changes of operating expenditure; * Higher due to RM3.8bn for hospital cleaning services, school security, asset and system maintenance. ** Reclassification of items related to capital investment from OE to DE; reprioritise of projects under zero-based budgeting; [1] Includes grants and transfers to state governments and grants to statutory bodies; the line indicated as 0%*
Source: MOF

47% contributed by EMOLUMENTS and RETIREMENT CHARGES



[1] *Include assets acquisition, refunds and write-offs, grants to statutory funds and etc.*
[2] *Include grants and transfers to state governments and grants to statutory bodies.*

Source: MOF

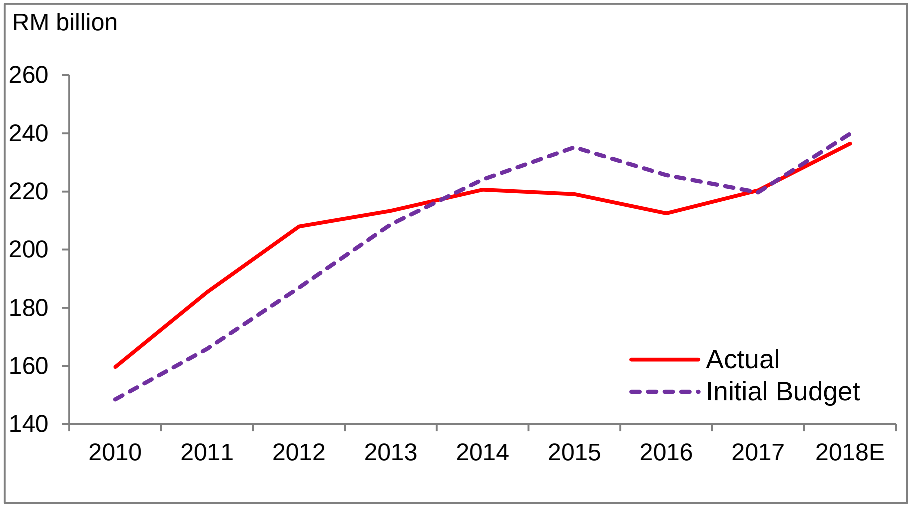
Development expenditure: SECTORAL ALLOCATION

By Sector	2017	2018E	2019B	2017	2018E	2019B	2017	2018E	2019B
	RM million			% YoY			% Share		
Economic	**24,186**	**33,025**	**29,235**	**-3.7**	**36.5**	**-11.5**	**53.9**	**60.2**	**53.4**
Agriculture and rural development	2,219	2,191	2,278	-23.5	-1.2	3.9	4.9	4.0	4.2
Energy and public utilities	2,475	3,379	4,589	-15.4	36.5	35.8	5.5	6.2	8.4
Trade and industry	3,800	6,686	5,721	-21.5	75.9	-14.4	8.5	12.2	10.5
Transport	10,429	15,501	13,388	33.2	48.6	-13.6	23.2	28.2	24.5
Environment	2,061	1,725	2,134	-12.1	-16.3	23.7	4.6	3.1	3.9
Others	3,202	3,543	1,125	-25.0	10.6	-68.2	7.1	6.5	2.1
Social	**12,425**	**14,507**	**15,183**	**19.1**	**16.8**	**4.7**	**27.7**	**26.4**	**27.8**
Education and Training	6,306	7,307	8,287	69.2	15.9	13.4	14.0	13.3	15.2
Health	1,470	1,897	2,257	-1.7	29.1	19.0	3.3	3.5	4.1
Housing	785	1,144	1,852	-64.9	45.8	44.4	1.7	2.1	3.0
Others	3,864	4,159	2,987	30.1	7.6	-28.1	8.7	7.5	5.5
Security	**5,334**	**5,338**	**7,082**	**10.4**	**0.1**	**32.7**	**11.9**	**9.7**	**12.9**
Defence	4,315	3,649	3,737	9.4	-15.4	2.4	9.6	6.6	6.8
Internal Security	1,019	1,689	3,345	14.9	65.8	98.0	2.3	3.1	6.1
General Administration	**2,939**	**2,030**	**3,200**	**81.4**	**-30.9**	**57.6**	**6.5**	**3.7**	**5.9**
Total	**44,884**	**54,900**	**54,700**	**6.9**	**22.3**	**-0.4**	**100.0**	**100.0**	**100.0**

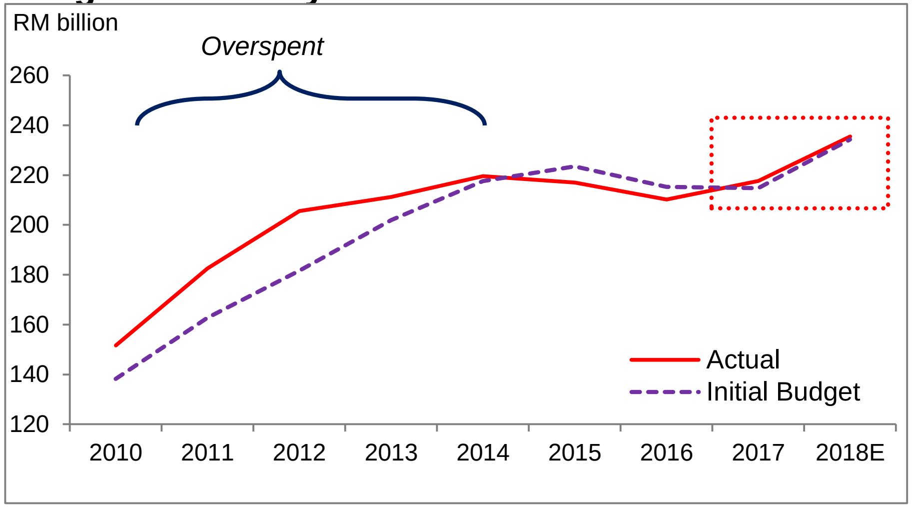
Source: MOF

Budgetary operation trends – ACTUAL VS. ESTIMATES

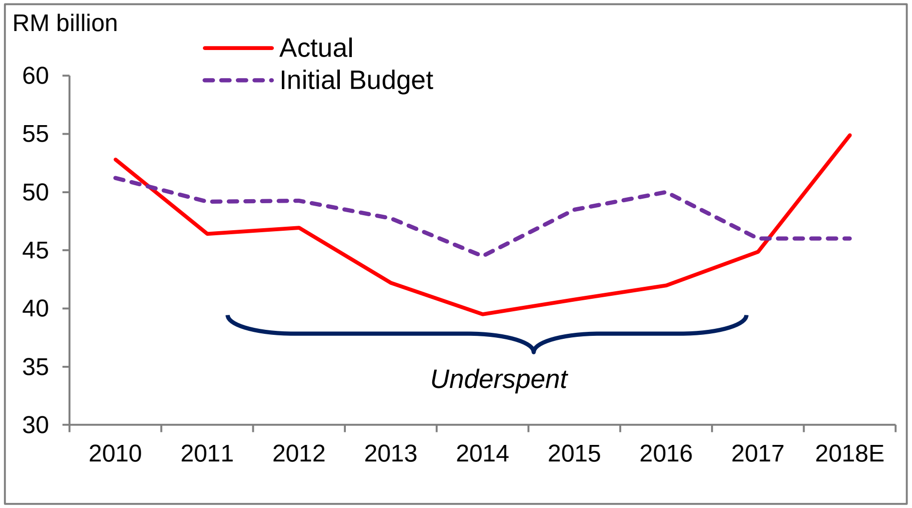
Fiscal revenue somewhat overestimated



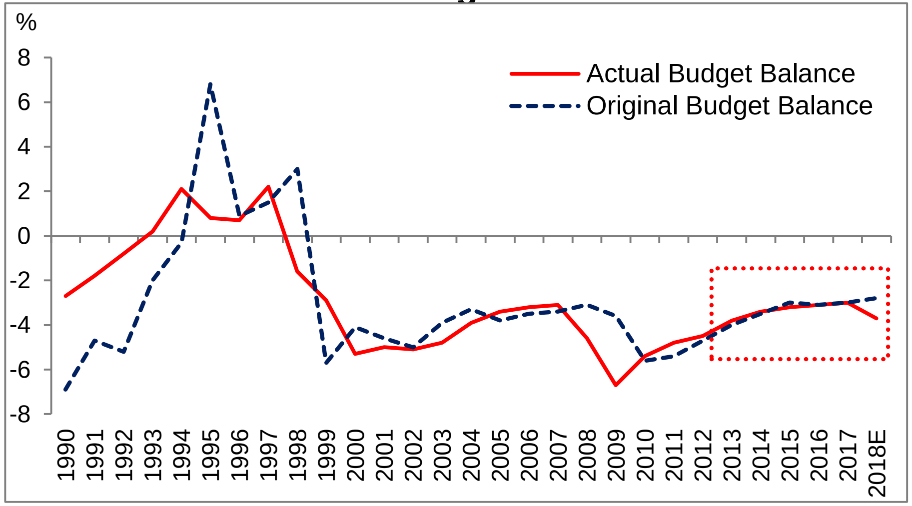
Operating expenditure matched with initial budget in recent years



Increase in DE due to LRT3, housing, Electrified Double Track rail and reclassification of OE to DE



Larger fiscal deficit gap in 2018, worsening from -2.8% of GDP in initial budget to -3.7%

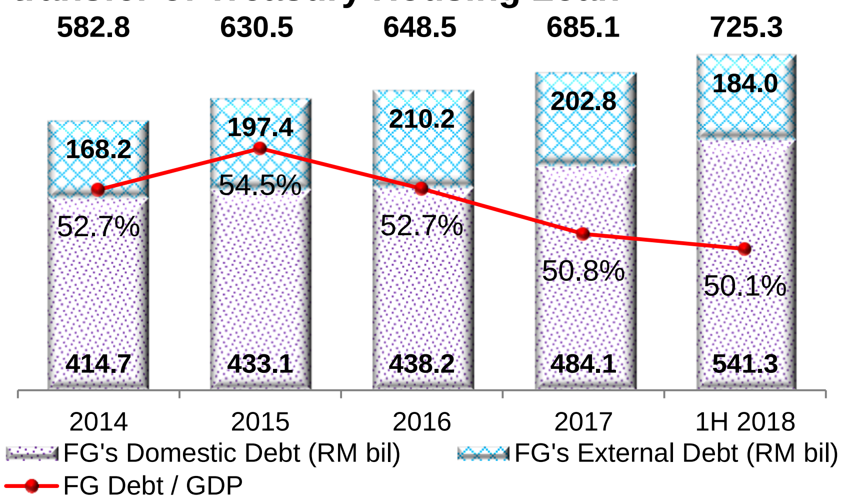


Source: MOF

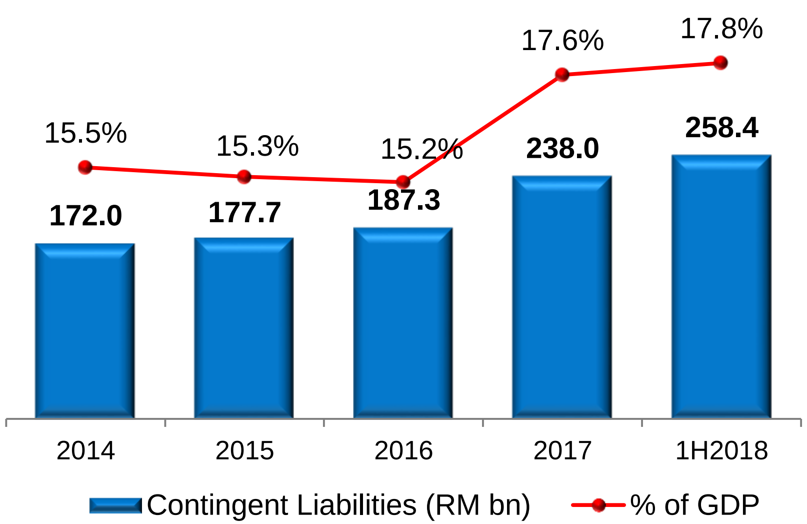
FG's total DEBT AND LIABILITIES (2018: RM1.068 trn or 74.6% of GDP; 2019: RM1.125 trn or 73.5% of GDP)

- **Federal government's debt stood** at **RM725.3bn at end-June 2018**, a rise of 5.9% from RM685.1bn at end-2017. **Debt to GDP ratio stood at 50.1% at end-June 2018** (2017: 50.8% of GDP).
- **Federal government's contingent liabilities** (government guarantees) stood at **RM258.4bn or 17.8% of GDP at end-June 2018** (2017: RM**238.2**bn; **17.6**% of GDP).
- The **Federal Government debt, contingent liabilities and commitment made under public-private partnership (PPP) projects** stood at **RM1.057 trillion** or **80.3% to GDP as at end-2017**.

FG debt to GDP ratio improves due to the transfer of Treasury Housing Loan



Government guarantees debt on the rise



Source: BNM; MOF

INVIGORATING investment

Positive

- New version of **Public-Private Partnership** and reintroduce **Malaysia Incorporated** to empower private initiative and entrepreneurship.
- To carry out a **thorough review of the over-130 types of fiscal schemes** to support investments, administered by 32 approving authorities with the intention to expire incentives which are no longer relevant or are duplicated.
- To enhance **Labuan's competitiveness** by removing restrictions on trade in Malaysian Ringgit, transactions between Labuan and Malaysian residents as well as maintaining the current tax rate of 3%. However, the tax ceiling of RM20,000 under the Labuan Business Activity Tax Act 1990 will be removed.
- **The Ministry of Finance (MoF) and Ministry of International Trade and Industry (MITI)** will form a joint task force jointly chaired by both Ministers to **drive regulatory reform**, particularly in the areas of improving trade processes and tax administration.
- To improve the existing incentives by **charging a concessionary 10% income tax rate** on the overall statutory income related to Principal Hub activities for a period of 5 years.
- MoF will set up a **Special Task Force** to evaluate the **role and functions of statutory bodies and companies owned by Ministry of Finance**, Inc. to reduce duplication of functions and involvement in areas where the private sector is efficient and competent.

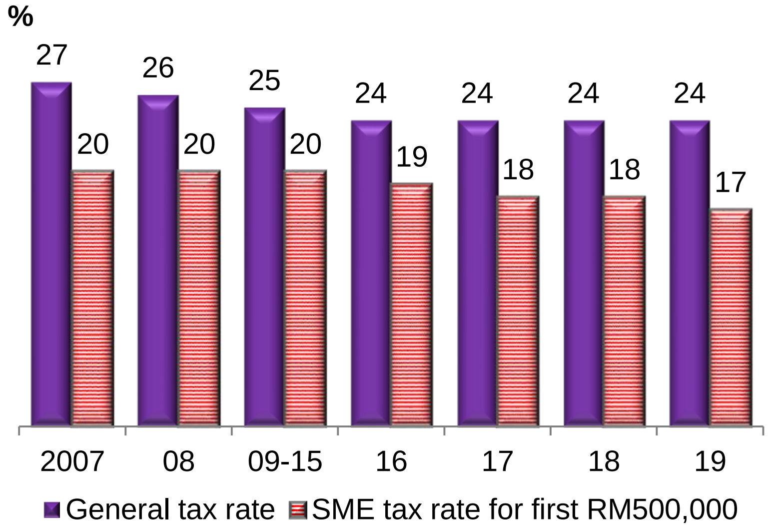
EMPOWERING SMEs

Positive

- **A 1% cut in corporate tax rate** to 17% for the first RM500k chargeable income.
- **RM4.5bn SMES Loan Fund** with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP).
- **RM2.0bn** is allocated for up to 70% government guarantees via a **Business Loan Guarantee Scheme** to encourage investing in automation.
- **RM2.0bn worth of credit and takaful facilities** provided by EXIM Bank to support export financing.
- **RM100m** to upgrade capabilities of SMES in **the halal industry**.
- **RM1.0bn SME Shariah-Compliant Financing Scheme** given by FIs, with the Government providing a 2% profit rate subsidy.

SMEs' contribution (2017)

- *98.5% of establishments*
- *66.0% of employment*
- *37.1% of total GDP*
- *17.3% of export*

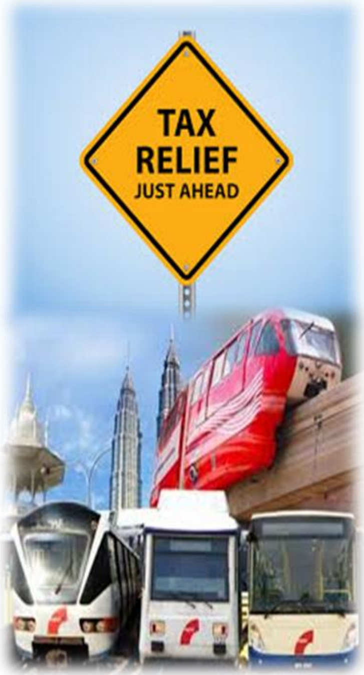


Negative

- **Minimum wage** increase to **RM1,100 per month** (+10% for PM; 19.6% for EM)
- **New tiered foreign workers' (FW) levy,** higher levy for a high proportion of FW. For **agriculture and plantation** sectors, the levy for FW serving 10 years or more, the **levy is lowered to RM3,500 from RM10,000**.

Mitigating high COST OF LIVING

Positive



- **Separate tax relief for EPF contributions** (RM4,000) and takaful or life insurance deductions (RM3,000). This raises total relief to RM7,000 from RM6,000.
- **B40 Health Protection Fund** to provide free protection against Top 4 critical illness up to RM8,000 and 14 days hospitalization as well as income cover at RM50 per day.
- **Raise tax relief for National Education Saving Scheme** from RM6,000 to RM8,000.
- **Minimum wage** will be raised to RM1,100 per month.
- **Freeze toll hike** in intra-city toll; abolish tolls for motorcycles for the First and Second Penang Bridges as well as the Johore Second Link.
- A RM100 **transport pass** on the Rapid KL rail and bus network. A RM50 monthly pass will be made available just for Rapid KL bus services only.
- RM150m to **equalize prices of critical goods**.
- RM80m in the form of **subsidy of RM40 per month electricity usage** for poor and hardcore poor households.

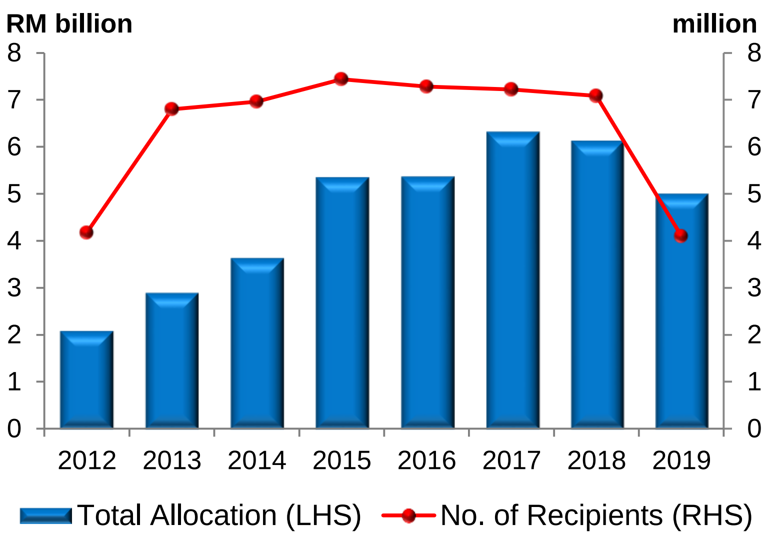
Negative

- **Managed float** of RON95 retail price. **Targeted fuel subsidy** for car owners of 1,500 cc and below **at RM0.30 per litre for 100 litres** and 40 litres for motorcycle owners with 125cc and below.
- **Rationalization** of Bantuan Sara Hidup (BSH).

RATIONALISATION of Bantuan Sara Hidup (BSH)

- Cost of living aid continued but more **targeted at the under-served and vulnerable**. **2019B**: **Benefitting 4.1 million households costing RM5bn**; 2018:7.1 million households at RM6.1bn.
- Individual with income of less than RM2,000 per month is no longer eligible.
- For **every child 18 years old and below or is disabled** in the family, there will be an additional top-up of **RM120 per child** of up to a maximum of four children.

<table>
<tr><th>Monthly income</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>e-Kasih:
≤RM1,000</td><td rowspan="3">500</td><td rowspan="3">500
(Same)</td><td rowspan="3">650
(+150)</td><td rowspan="3">950
(+300)</td><td>1,050
(+100)</td><td rowspan="3">1,200
(+150-200)</td><td rowspan="3">1,200
(Same)</td><td rowspan="2">1,000
(↓200)</td></tr>
<tr><td>Houshold:
≤RM2,000</td><td rowspan="2">1,000
(+50)</td></tr>
<tr><td>Household:
RM2,001-3,000</td><td>750
(↓450)</td></tr>
<tr><td>Household:
RM3,001-4,000</td><td>-</td><td>-</td><td>450</td><td>750
(+300)</td><td>800
(+50)</td><td>900
(+100)</td><td>900
(Same)</td><td>500
(↓400)</td></tr>
<tr><td>Individual:
≤RM2,000</td><td>-</td><td>250</td><td>300
(+50)</td><td>350
(+50)</td><td>400
(+50)</td><td>450
(+50)</td><td>450
(Same)</td><td>-
(↓450)</td></tr>
</table>



Source: Various

Housing for all, especially AFFORDABLE homes

Positive

- Allocate **RM1.5bn** to ensure the availability of supply of affordable homes.
- **A RM1.0bn fund** established by Bank Negara Malaysia, to help those (**income of RM2,300 per month**) to purchase affordable **homes priced up to RM150,000**. The fund is for two years.
- For first-time home-buyers purchasing residential properties **priced up to RM500,000**, the **exemption of stamp duty** up to RM300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020.
- Launch a **National Home Ownership Campaign**, starting 1 January 2019 for 6 months, **waive all stamp duty charges** for **first time purchases of homes valued between RM300,001 and RM1.0m**. Developers will offer **a minimum price discount of 10%** for these residential properties.
- Private sector driven '**Property Crowdfunding**' platforms which will serve as an alternative source of financing for first time home buyers.

Negative

- **Raise stamp duty** to 1% from 4% for the transfer of property priced above RM1m.
- **Increase** real property gains tax (RPGT) rate.

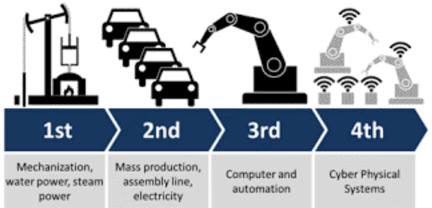
Secured the commitment **REHDA** to **lower house prices by 10%** that are not subjected to price control in new projects.

Real Property Gains Tax rates (RPGT) REVISED higher

- Presently, RPGT rates for the disposal of properties or shares in property holding companies within the first five years are between 0% and 30%.
- The rate for the disposal of properties after **the fifth and subsequent years** will be **raised by 5%**.
- **Exemption** for **low cost, low-medium cost** and **affordable housing priced below RM200,000**.

RPGT Rate	Disposal	Citizen / PR	Company	Non company / citizen / PR
No change	Within 3 years	30%	30%	30%
No change	4th year	20%	20%	30%
No change	5th year	15%	15%	30%
Pre-adjustment	After 5th year	0%	5%	5%
Post-adjustment	**After 5th year**	**5%**	**10%**	**10%**

Accelerating adoption of INDUSTRY 4.0



Positive

- To allocate RM210m from 2019 to 2021 to **assist the first 500 SMEs to carry out the Readiness Assessment** to migrate to Industry4.0 platforms via Malaysia Productivity Corporation.
- To provide RM2.0m in the Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources.
- To create a **RM3.0bn Industry Digitalisation Transformation Fund** with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad.
- MIDA will continue to provide **matching grants through its High Impact Fund (HIF)** with a specific emphasis of Industry 4.0 initiatives.
- Khazanah will **lead and develop an 80-acre development in Subang as a world class aerospace industry hub**.
- Intend to upgrade the **marketability of our graduates and the skill-level** of the Industry4.0-related workforce by providing **double tax deduction**.

Negative

- Place a **time limit** on the carrying forward of losses and allowances **for tax reliefs to a maximum of 7 years**, apply to unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses.

EMBRACING the digital economy

Positive

- **Venture capital funds** managed by Government agencies (Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn. Bhd) will be **streamline to make them more efficient** in delivering capital to companies in various stages of financing needs.
- **RM2.0bn Government-Linked Investment Funds** to assist strategic sectors and new growth areas.
- **RM50m to set up a Co-Investment Fund (CIF)** to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing.
- **RM170m raised through crowdfunding platforms** to assist more than 450 companies across a broad cross-section of sectors.
- Capital Market and Services Order to introduce a new framework to **approve and monitor digital forex activities and token market** will be gazetted in 2019.
- To launch the **National Fibre Connectivity Plan in 2019** with an allocation of RM1.0bn to develop our broadband infrastructure to ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas within 5 years to achieve world class infrastructure at affordable prices. The Government has also enforced the **Mandatory Standards for Access Pricing** (MSAP) which will result in fixed broadband prices to be reduced by at least 25% by the end of 2018.

Boosting TOURISM industry

Positive

- **RM100m in matching grants** to the private sector for running promotional and marketing campaigns overseas to increase the number of visitors to the country.
- Tax exemption facility to be given to **duty-free shops at Swettenham Port in Penang** to further promote cruise tourism
- To make **Pulau Pangkor a duty-free island** while **Langkawi's status as a duty-free island will be further expanded**.
- To share 50% of the proceeds on tourism tax, estimated at RM50m, with states.
- Provide **RM500m loan facilities via the SME Tourism Fun**d with SME Bank at a 2% interest subsidy to assist handicraft makers and homestay operators.
- **RM20m for the Malaysia Healthcare Tourism Council** (MHTC) to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism.
- **Khazanah Nasional Berhad** will lead the public-private partnership to **redevelopment and restoration of the Sultan Abdul Samad building** in Kuala Lumpur into an arts, cultural and heritage hub.
- To impose a **departure levy for all outbound travellers by air starting 1 June 2019**. The proposed rate is 2-tiered, RM20 for outbound travellers to ASEAN countries and RM40 to countries other than ASEAN, to encourage domestic tourism.

Who are the LOSERS? WINNERS?


B40


ICT


Medical care

SMEs


First-time home buyer and developers


Rubber smallholders


Tourism


Beverages industry


Gaming


Property investors & developers

社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

谢 谢

THANK YOU

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