



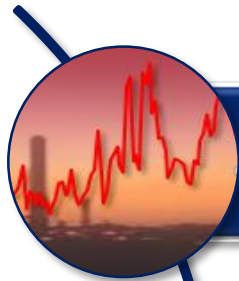
**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**QUARTERLY ECONOMY TRACKER**  
**(Jul-Sep 2019)**

**A priority for action, now more than ever**

**Lee Heng Guie**  
**Executive Director**  
24 September 2019

# Key Messages



**GLOBAL ECONOMIC RISKS ARE HIGH AND RISING**



**MALAYSIA ECONOMIC OUTLOOK REMAINS CAUTIOUS**



**2020 FEDERAL BUDGET: EXPANSIONARY STANCE ON THE CARDS**

## Section 1

# The World Economy

*A synchronized slowdown amid global recession fears*

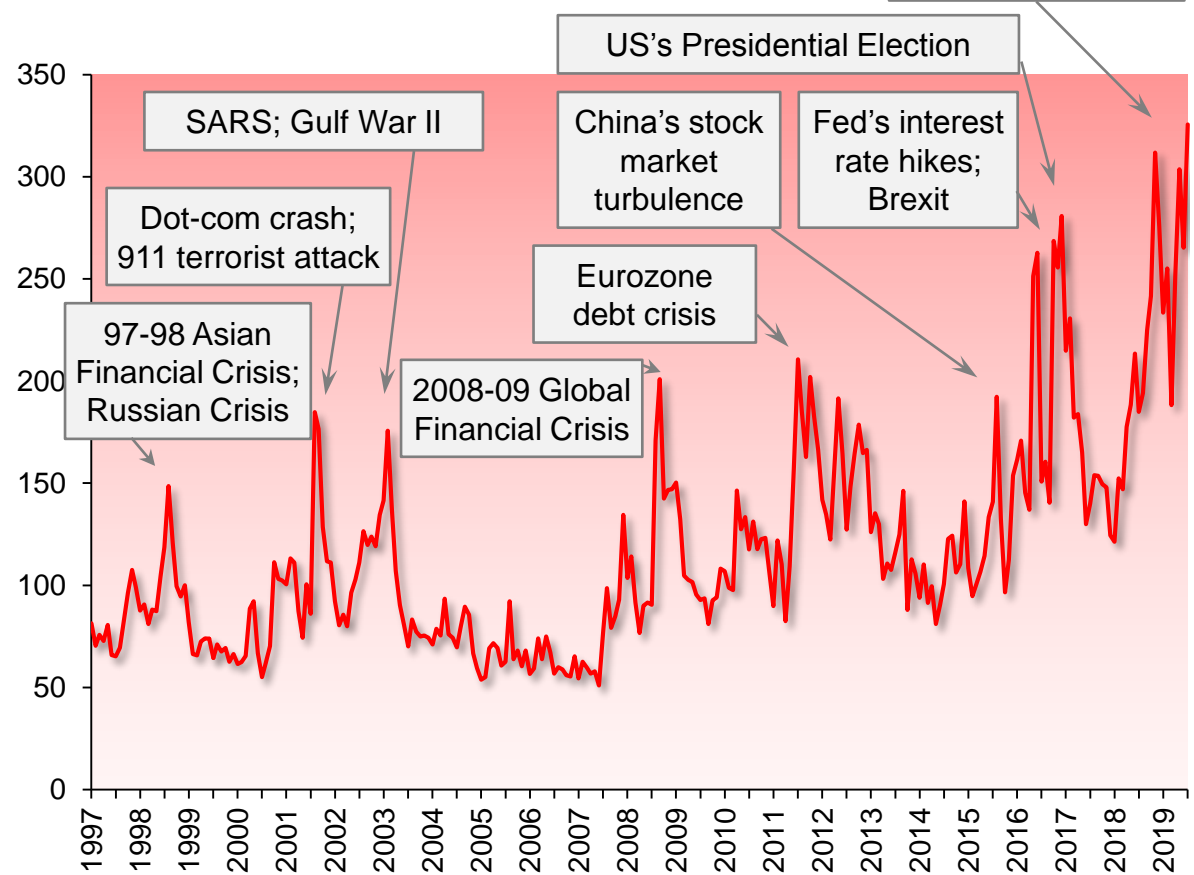


# Heightened uncertainties weighing on global growth

**Uncertainties** in the global economy have soared to their highest level in Nov 2018 and remained above the long-term average.

- Heightening uncertainty about the **trade tensions**
- **Global race to monetary bottom; plunging bond yields**
- Concerns about **global recession risk, the US and China economy**
- **Currency tensions** flared up, inflicted by the Chinese Renminbi's weakness
- Wide swings in **crude oil prices**
- **Geopolitical** (Middle-east and North Korea) and **political risks** (Brexit)

**Monthly Global Economic Policy Uncertainty Index**

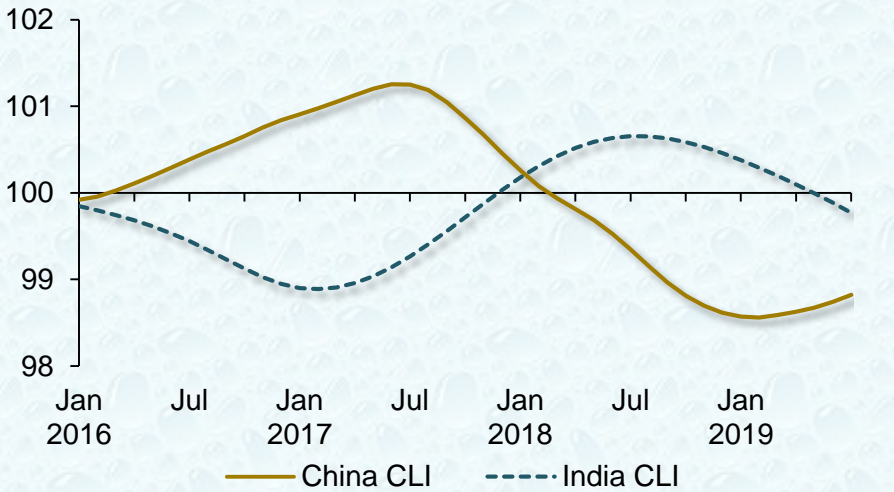
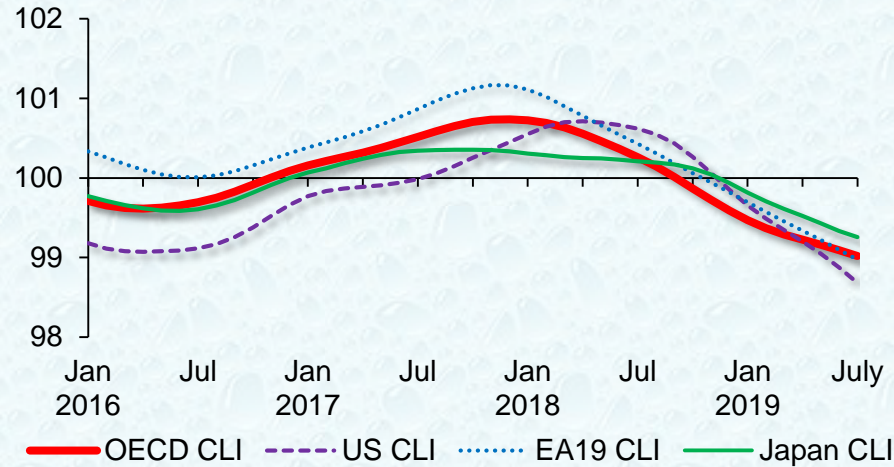


Source: *Economic Policy Uncertainty*

# High frequency data pointing to slower global growth

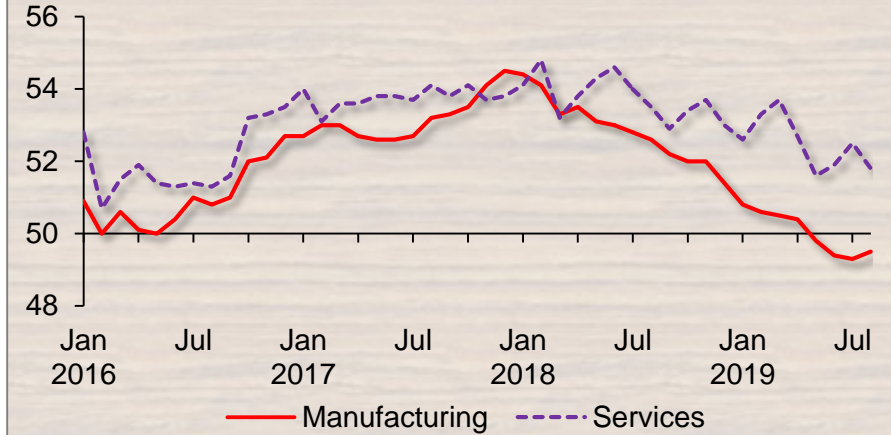
## Composite Leading Index (CLI)

A gauge of economic outlook  
(Long-term average = 100)



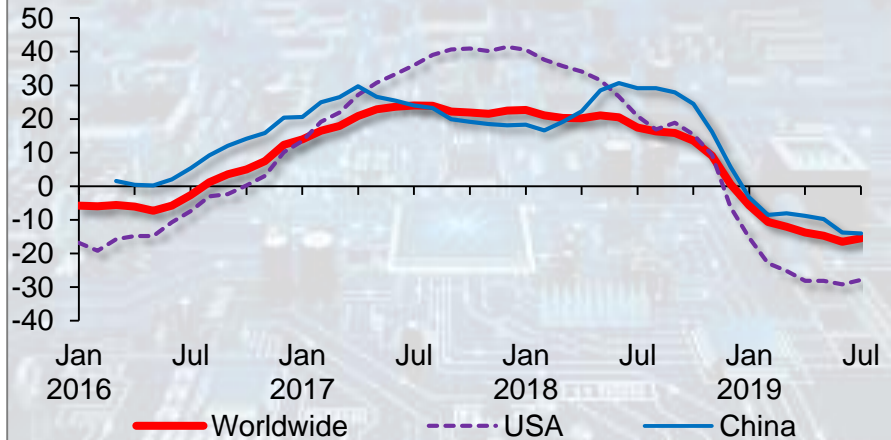
## Global PMI for manufacturing and services

(50 = no change on prior month)



## Global semiconductor sales

(%, 3-month moving average YoY)



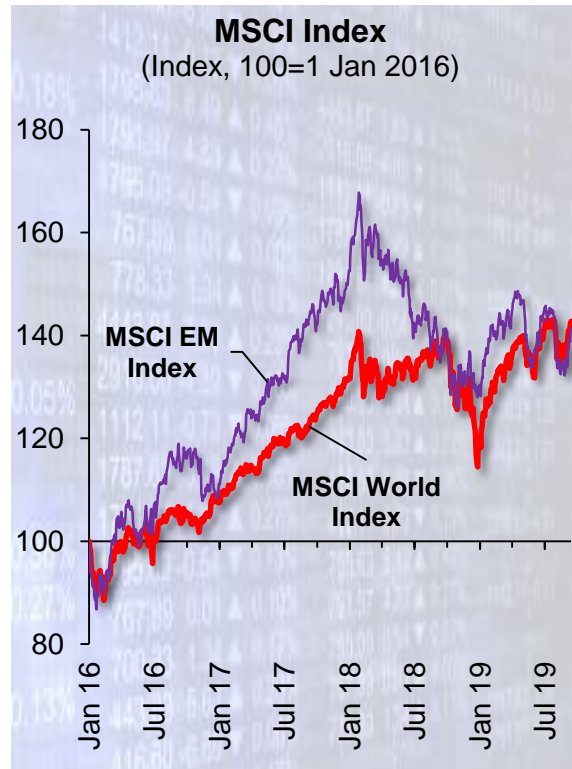
Source: OECD; Markit; SIA

# Brace for high financial market volatility

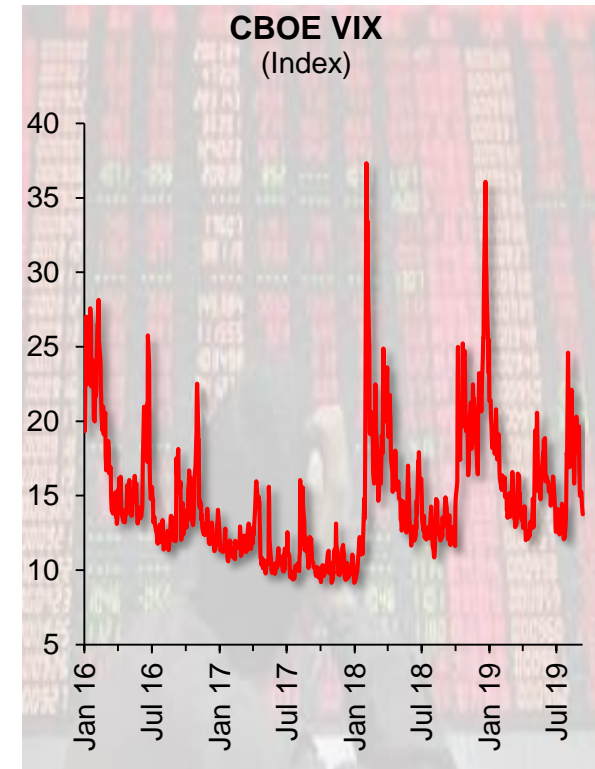
DJIA fluctuates amid uncertainty about the progress of trade talks



Emerging markets' equities are more volatile to economic newsflow



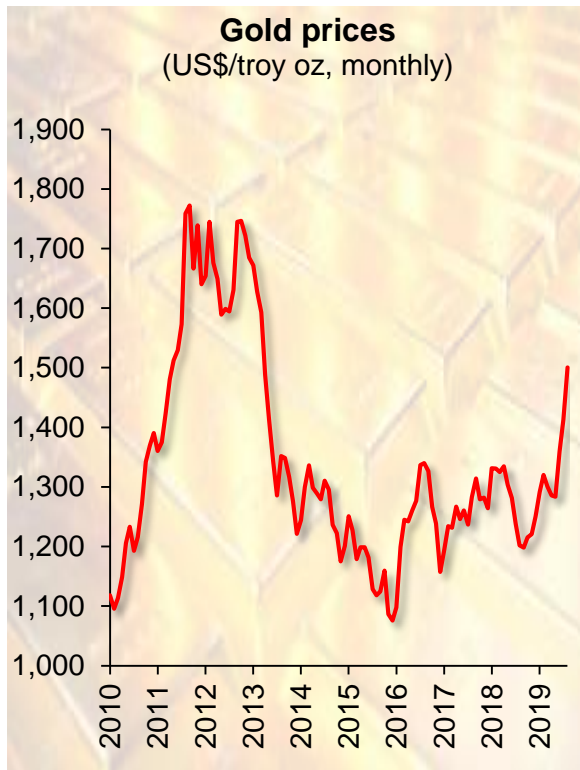
Recent global trade tensions and economic uncertainties spiked up 'Fear index' to above 20-pts



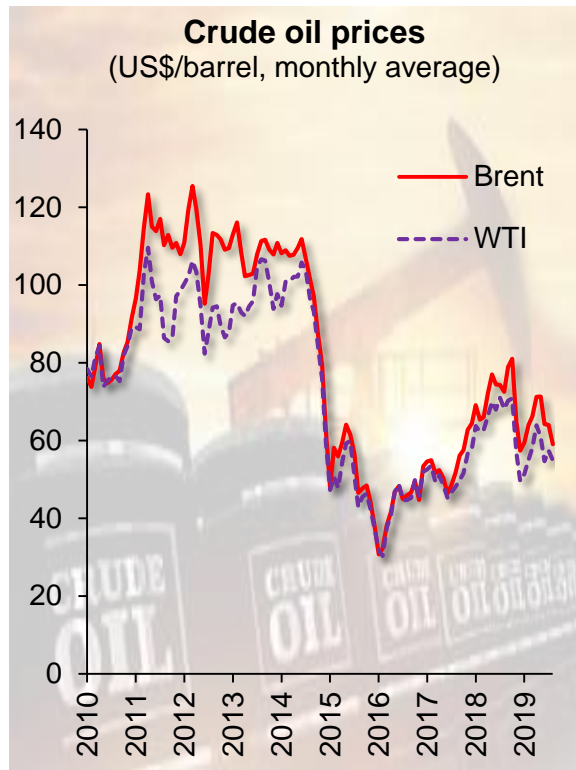
Source: WSJ; MSCI; CBOE

# Gold a safe haven (a six-year high) ; Volatile commodity prices

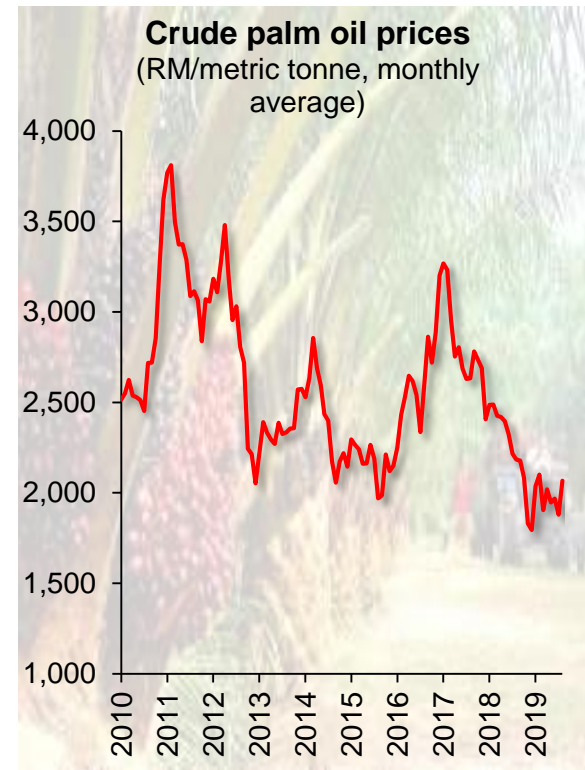
Gold prices rise on strong demand and falling long-term real interest rate



Volatile crude oil prices: Supply cut continues; the US-Iran tensions; Hurricane Barry



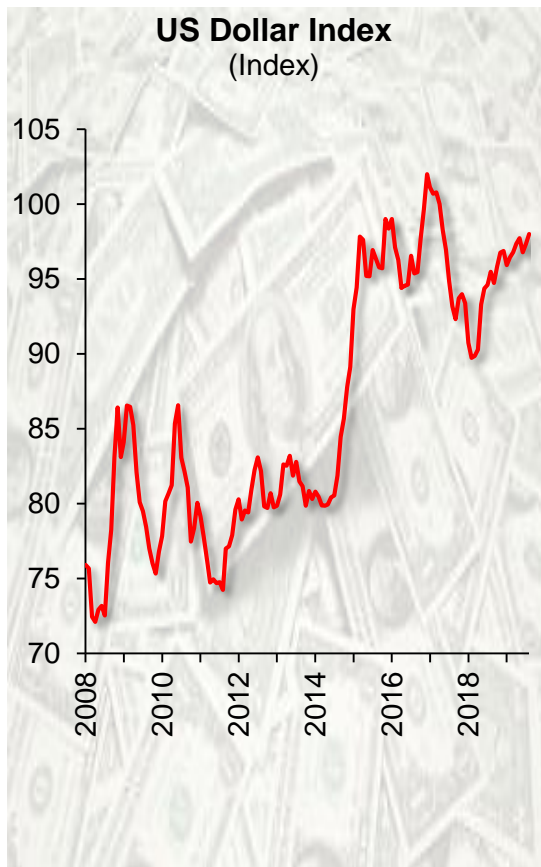
CPO prices yet to recover strongly amid a reduction in inventory



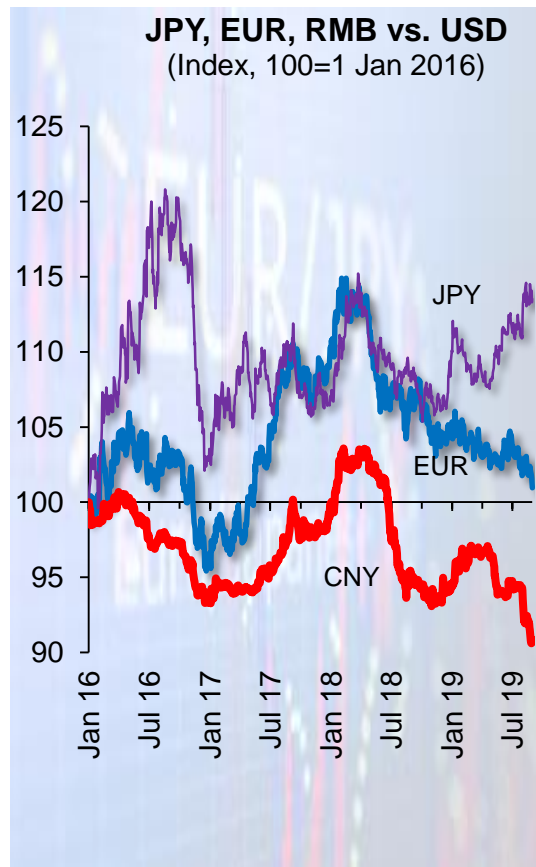
Source: World Bank; EIA; MPOB

# Foreign exchange market – currency tensions

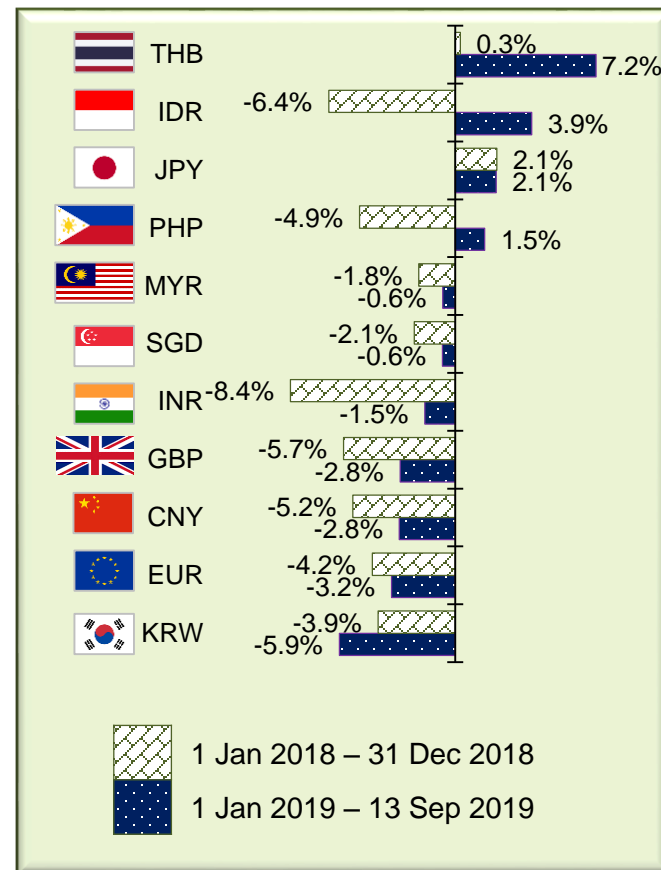
The US dollar index still firming up amid the Fed's dovish stance



RMB's weakness flares currency tensions



Major and emerging market currencies against the USD

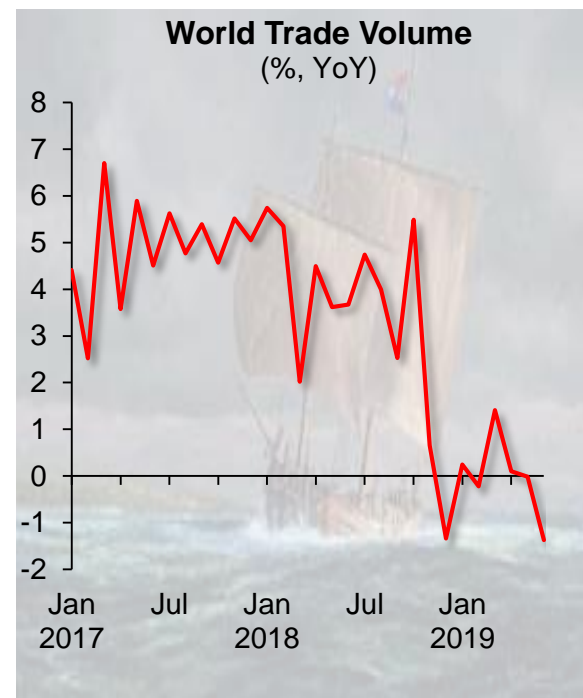
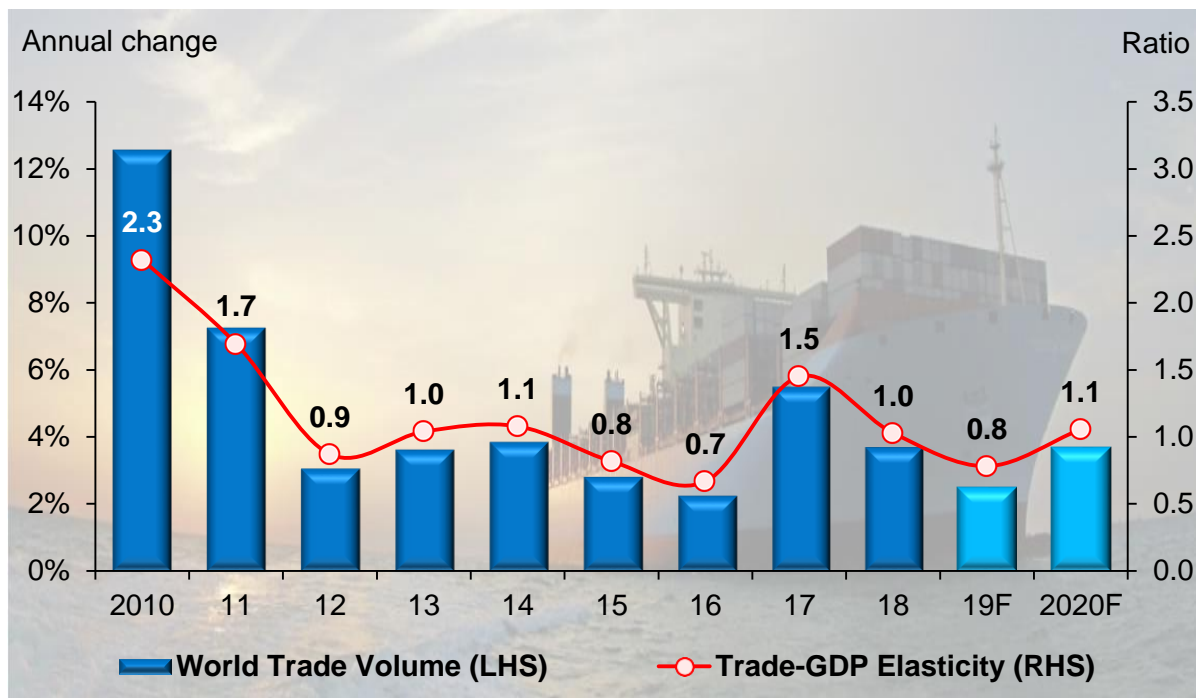


Source: WSJ; BNM (cross rate)



# Global trade weakness continues

- The **WTO** slashed this year's **global trade growth** forecast to **2.6%** (vs. IMF's second round downward revision to 2.5% from 3.4% and 3.7% previously (3.0% in 2018)). It **expects trade growth to rebound by 3.0%** (vs. IMF's 3.7%) in 2020.
- **Heightened trade tensions** pose a material risk to investment and trade via further denting business and financial market sentiments, slowing investment and growth.
- **Trade to GDP ratio** is expected to decline further to 0.8x in 2019 before ticking higher to 1.1x in 2020.

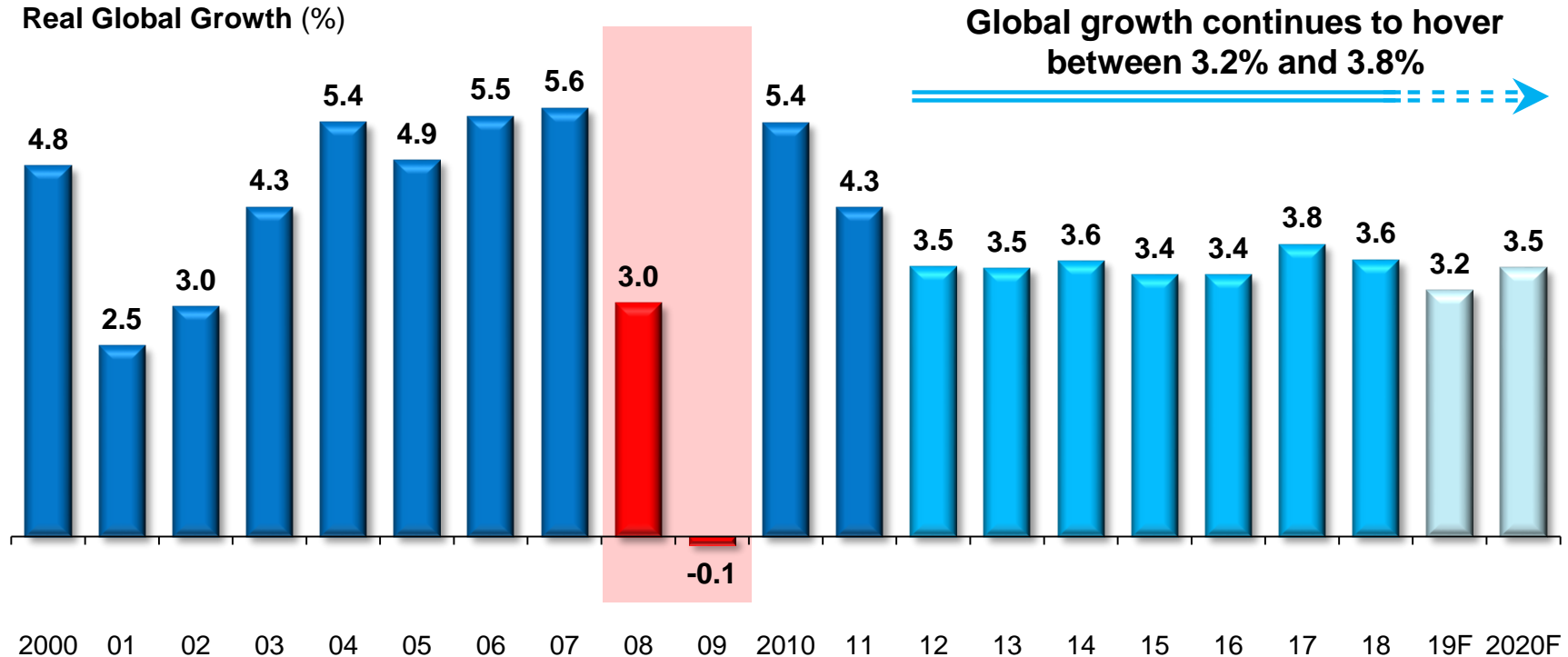


Source: IMF; SERC's computation; CPB Netherlands

# Global growth is decelerating in synchronisation

- Three International Institutions (IMF, WB and OECD) have **concurrently marked down 2019's global growth estimates: IMF** (4x from 3.9% to 3.7% to 3.5% to 3.3% to **3.2%**); **World Bank** (3x from 3.1% to 2.9% to 2.7% to **2.6%**); and **OECD** (4x from 3.9% to 3.5% to 3.3% to 3.2% to **2.9%**).
- The IMF has warned that worsening trade tensions could **lower 2020's global growth estimate to 3.1%**. (Note: A global recession occurs when GDP is 3% or less. According to the IMF's definition, a **drop in global output** must coincide with a **weakening of other macroeconomic indicators- trade, capital flows, and employment**).

Real Global Growth (%)

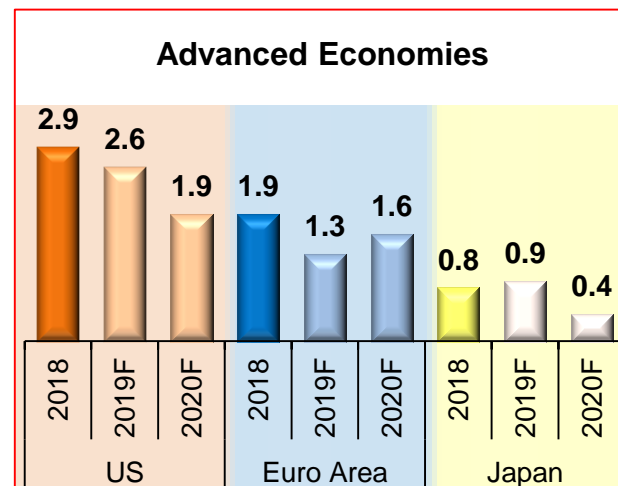
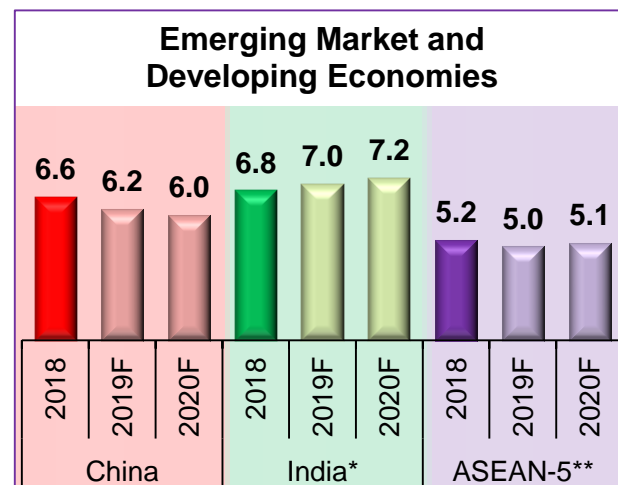
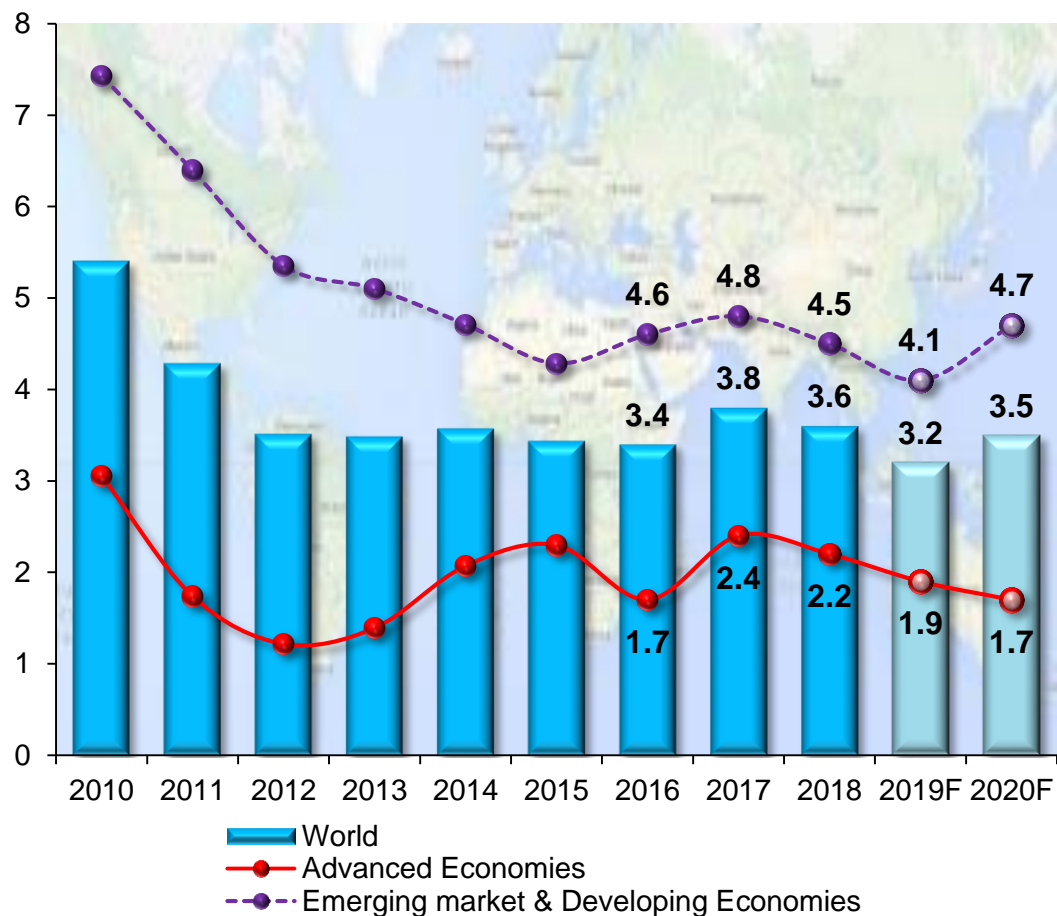


Source: IMF (WEO update, July 2019)

# Deepening trade wars can slash global growth in 2020

**Downside risks:** Further trade and technology tensions; Abrupt shifts in risk sentiment; Disinflationary pressure; and Geopolitical tensions in the Persian Gulf.

Real GDP Growth (%)



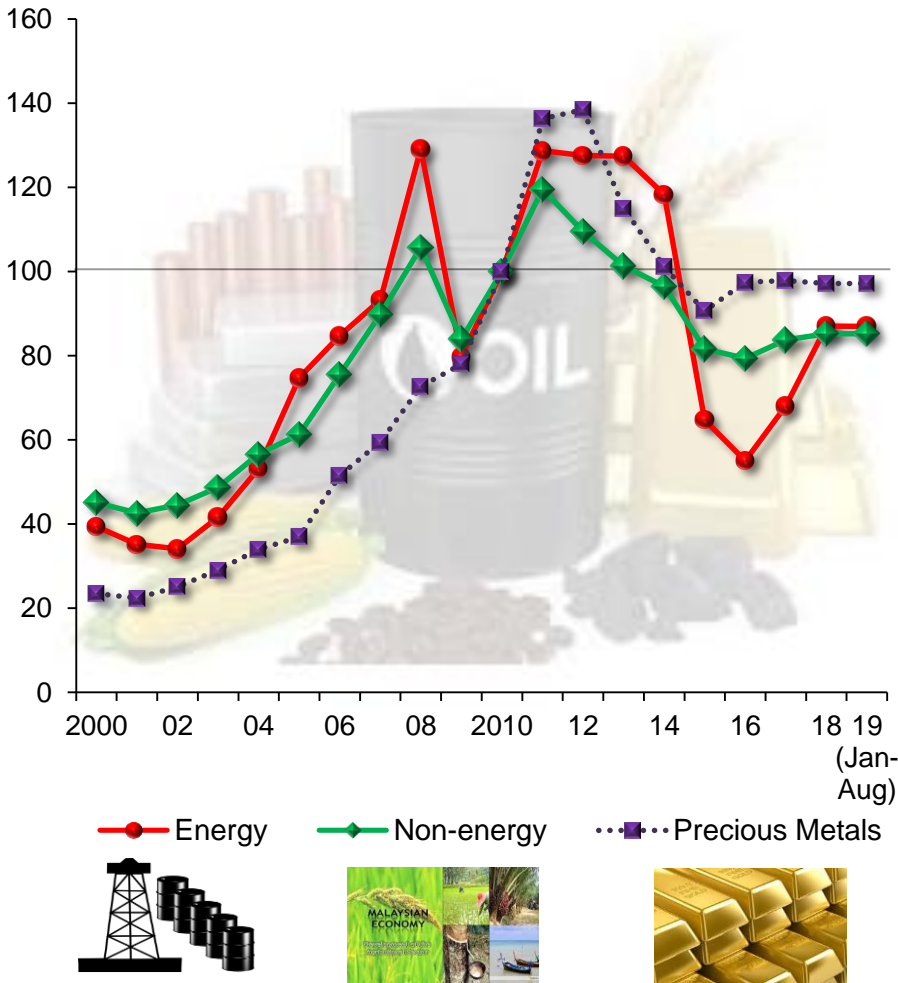
Source: Officials; IMF (WEO Update, July 2019)

\* Annual GDP for India is on fiscal year basis

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

# Volatile energy prices remain a wild card

**Commodity Price Index**  
(2010=100)

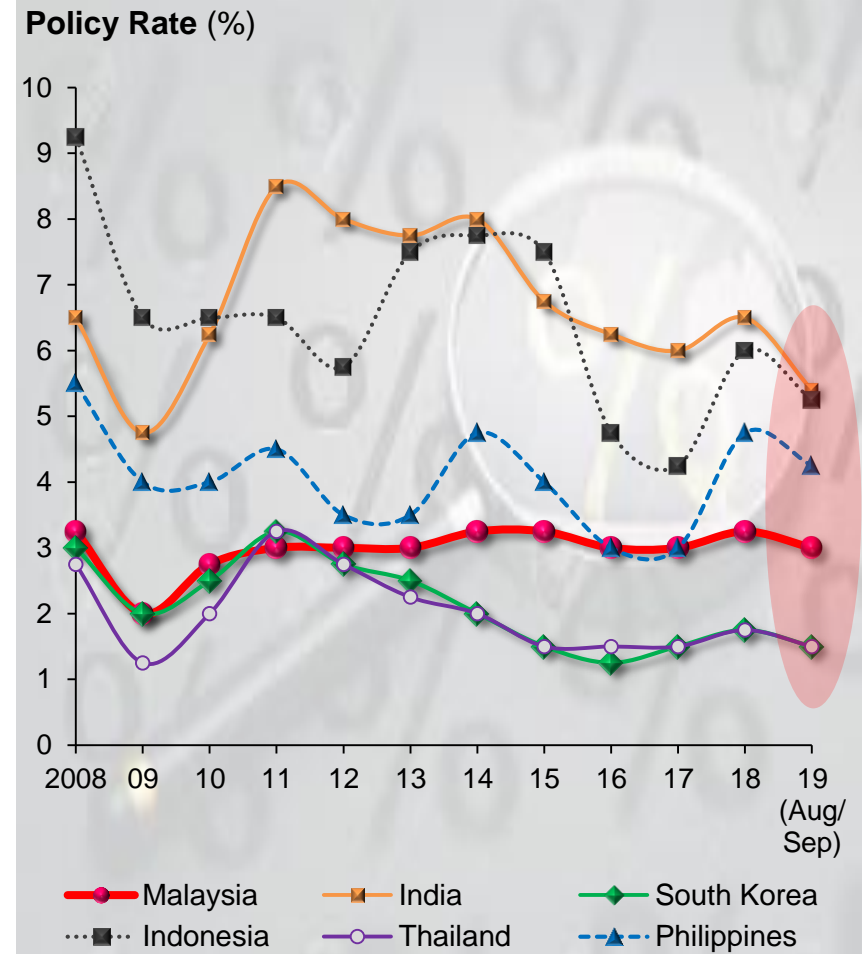
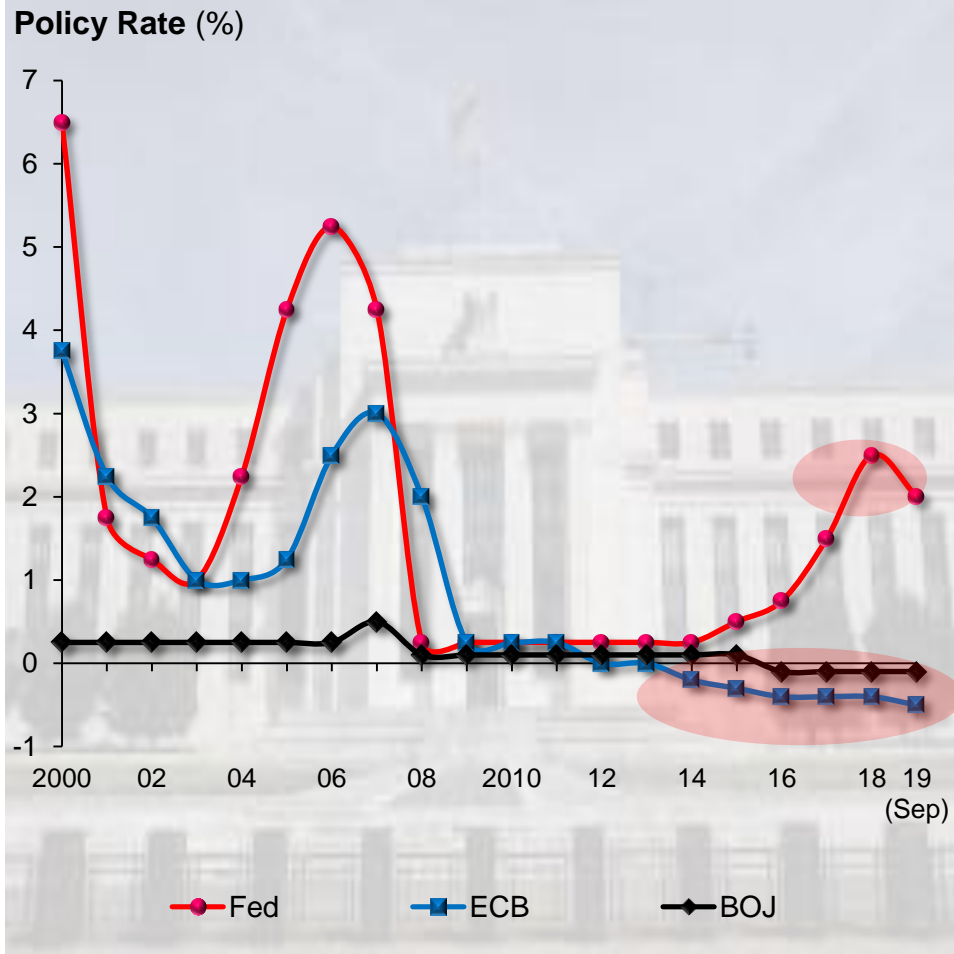


- **Brent crude oil prices** have climbed more than 30% to average US\$71/bbl in May 2019 (US\$51/bbl as at end-2018) before reverting to average US\$59/bbl in Aug. Nevertheless, the drone strike on Saudi Arabia’s oil facilities pushed the price level up to US\$68/bbl on 16 Sep. YTD (Jan to 16 Sep), **Brent crude oil prices average at US\$65/bbl.**
- Factors affecting the near-term movement of prices: (i) The duration of production disruption and recovery pace of Saudi Arabia’s oil facilities; (ii) Adequacy of global stock in covering the supply disruption; (iii) Will OPEC+ supply cut continue?; (iv) Disruption from the US-China trade war; (v) Increasing shale oil production and production recovery of conventional crude from Hurricane Barry in the US; and (iv) The US-Iran tensions.

Source: World Bank

# Global central banks race interest rate to bottom

- Low or negative interest rate is a new normal again?



Note: Interest rate on deposit facility applied as ECB's policy rate  
 Source: Fed; ECB; BOJ, Official central banks

# Snapshot of selected central banks' policy rate

End-period of	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Aug/Sep)	2019E
<b>US, Fed</b> Federal Funds Rate	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.75-2.00	1.50-1.75
<b>Euro Area, ECB</b> Deposit Facility	2.00	0.25	0.25	0.25	0.00	0.00	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50
<b>Japan, BOJ</b> Short-term Policy Interest Rate	0.10	0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
<b>China, PBC</b> 1-year Benchmark Loan I/R	5.31	5.31	5.81	6.56	6.00	6.00	5.60	4.35	4.35	4.35	4.35	4.35	4.35
<b>India, RBI</b> Policy Repo Rate (LAF)	6.50	4.75	6.25	8.50	8.00	7.75	8.00	6.75	6.25	6.00	6.50	5.40	5.40
<b>South Korea, BOK</b> Base Rate	3.00	2.00	2.50	3.25	2.75	2.50	2.00	1.50	1.25	1.50	1.75	1.50	1.50
<b>Malaysia, BNM</b> Overnight Policy Rate	3.25	2.00	2.75	3.00	3.00	3.00	3.25	3.25	3.00	3.00	3.25	3.00	3.00
<b>Indonesia, BI</b> 7-Day Reverse Repo Rate	9.25	6.50	6.50	6.50	5.75	7.50	7.75	7.50	4.75	4.25	6.00	5.25	5.00
<b>Thailand, BOT</b> 1-Day Repurchase Rate	2.75	1.25	2.00	3.25	2.75	2.25	2.00	1.50	1.50	1.50	1.75	1.50	1.50
<b>Philippines, BSP</b> Overnight RR Facility	5.50	4.00	4.00	4.50	3.50	3.50	4.00	4.00	3.00	3.00	4.75	4.25	4.25

Note: Selected central banks' benchmark policy rate have changed over the coverage period.

Source: Officials

## Section 2

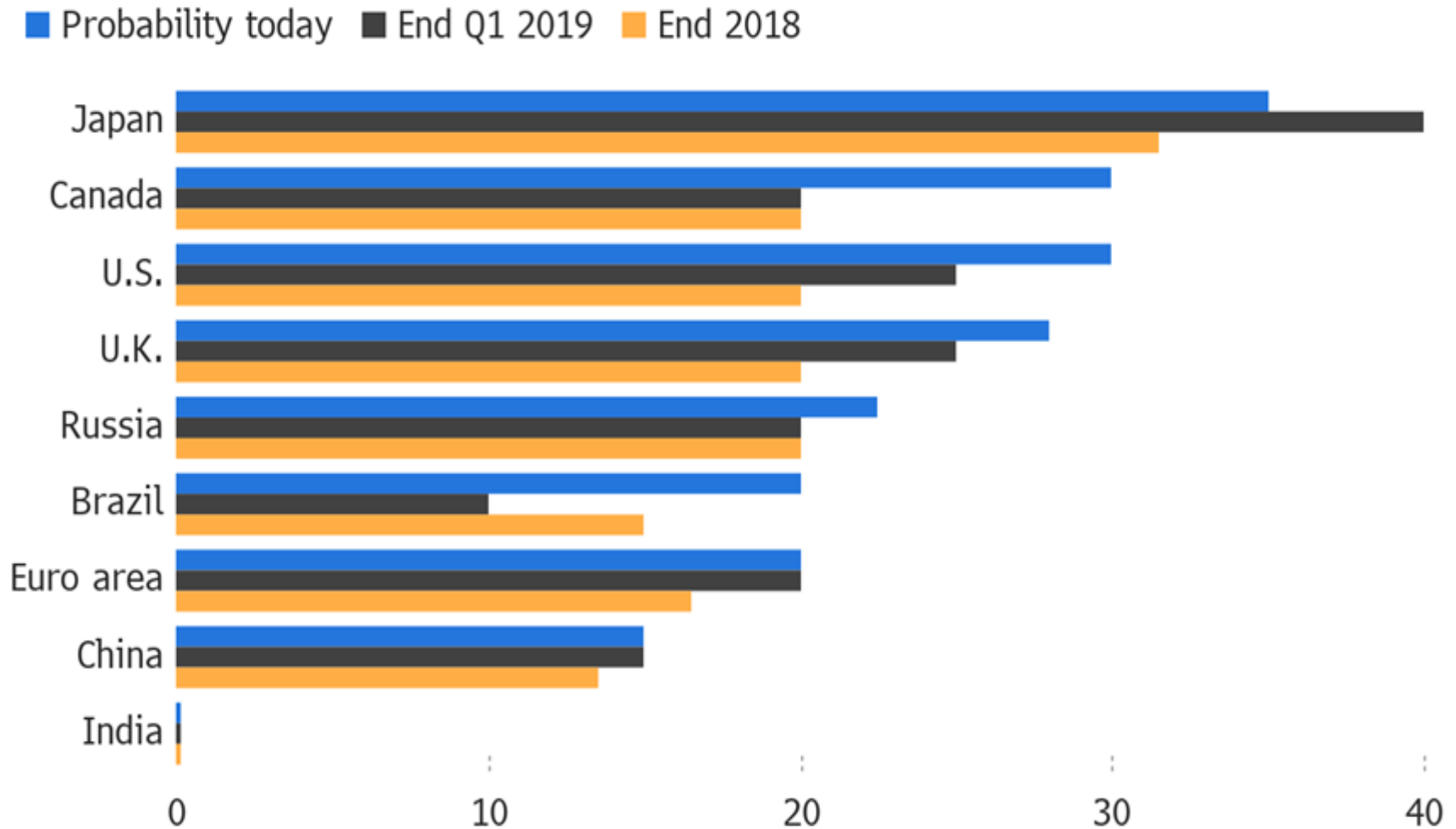
# Global Recession Risk

*Recession odds at 40-50%*



# Recession risk on the rise

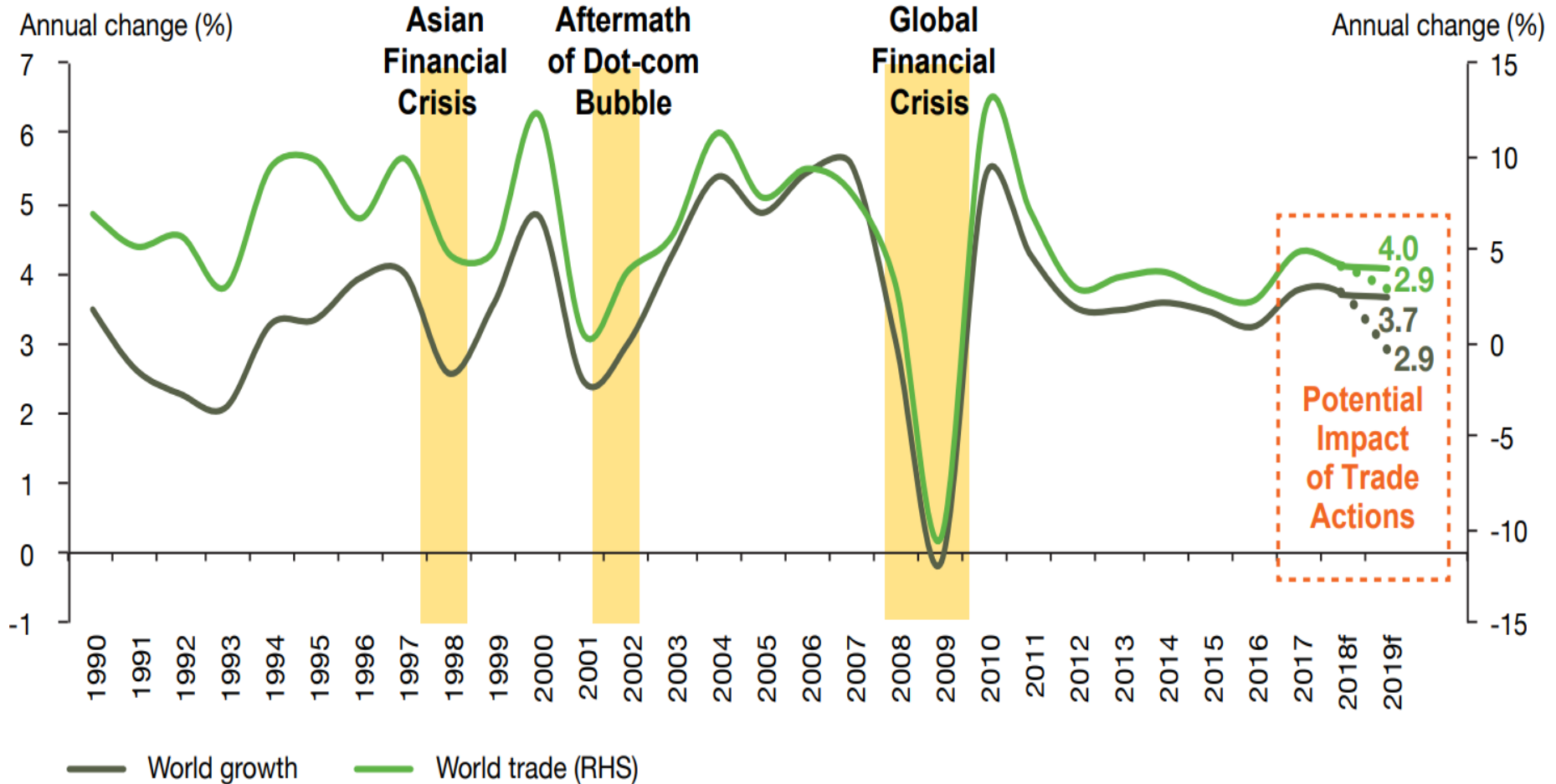
The risk of recession has increased in most of the world's biggest economies



Source: Bloomberg surveys, median probability of a recession in the next 12 months



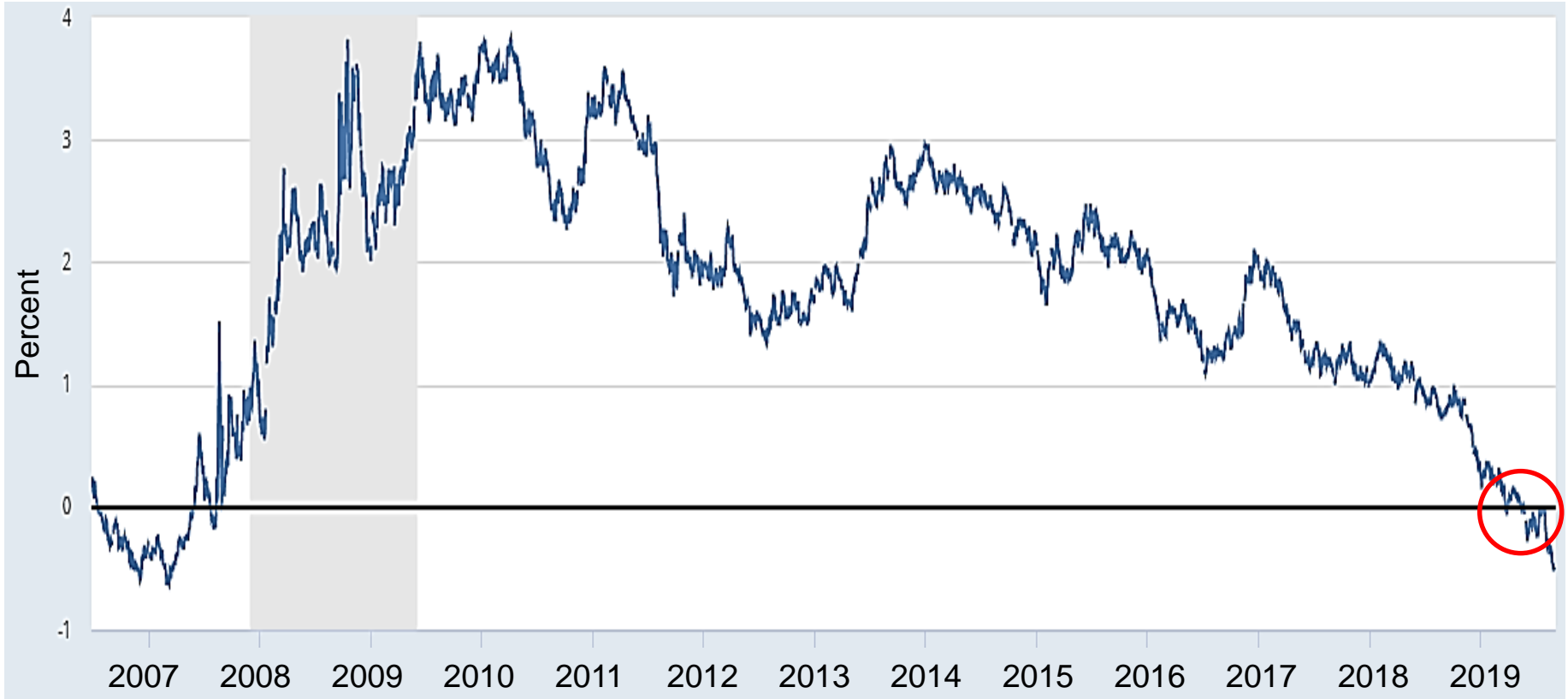
# Intensified trade tensions pose significant risks to global economy



Source: BNM; IMF

# U.S. curve **INVERTS** for first time since 2007 – A reliable predictor of recession (Has happened ahead each of the past seven recessions)

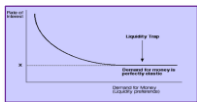
10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Note: Shaded area indicates US recessions

Source: Federal Reserve Bank of St. Louis

# Do Governments have policy tools to avert a financial crisis or global recession? A severe enough shock could usher in a global recession, even if central banks respond rapidly.



**Policy tools are limited.** Interest rates are very low and it gives the central banks very limited room to cut interest rates.

- Today, the **Fed** is starting with a benchmark policy rate of 2.25%-2.50% compared to 5.25% in September 2007.
- In **Euro Area and Japan**, central banks are already in negative-rate territory, and will face limits on how much further below the zero bound they can go.



**Printing money (Quantitative easing (QE))?** With bloated balance sheets from successive rounds of QE, central banks would face similar constraints if they were to return to large-scale asset purchases.



There's so much divide across the political spectrum, it may be difficult to put together a strong enough **government spending fiscal response**.



On the fiscal side, most advanced economies have **even higher deficits and more public debt** today than before the 2008-09 GFC, leaving little room for stimulus spending.

## Section 3

# The Malaysian Economy

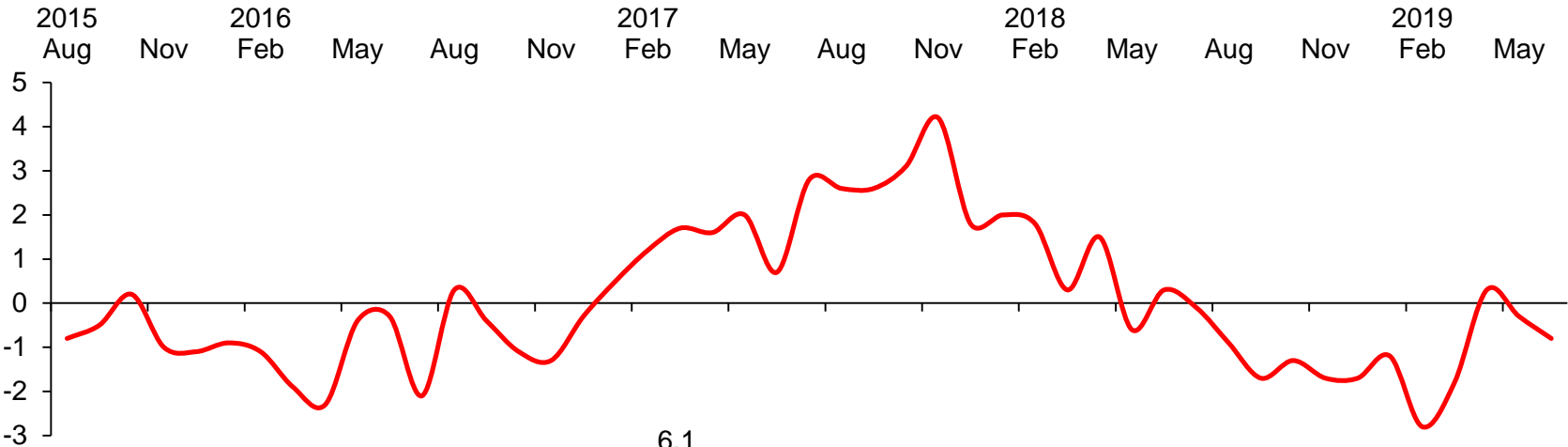
*What the economic indicators say?*



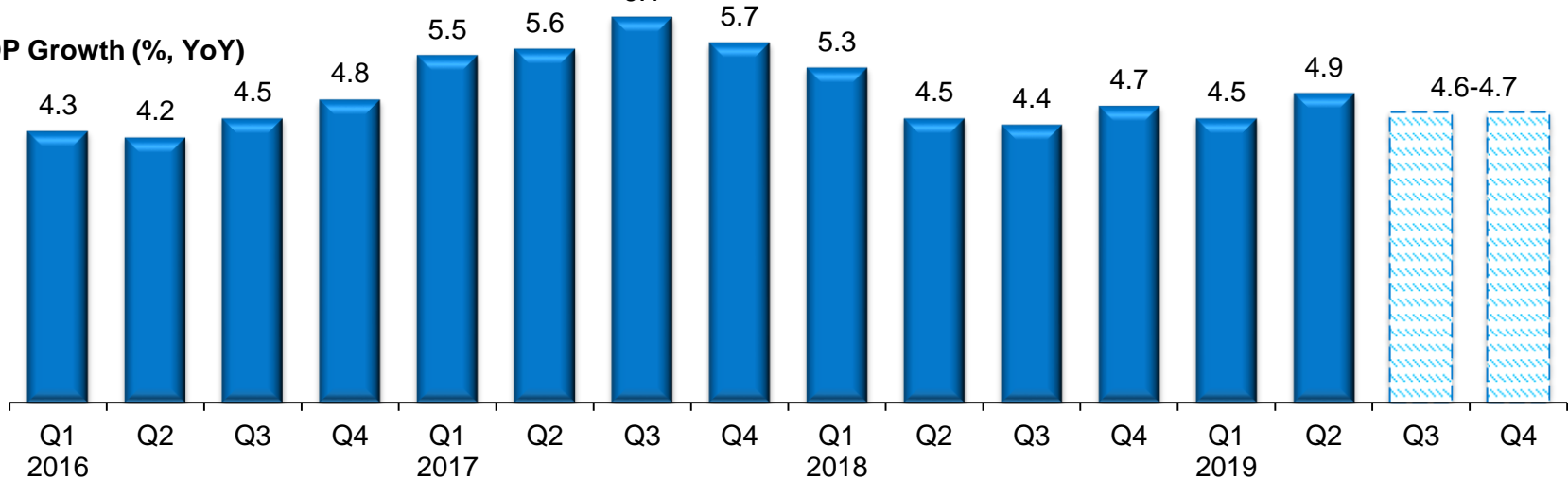
# Malaysia's leading index indicates softening economic growth

The Leading Index (LI) indicators anticipates the overall economic activity in four to six months ahead, e.g. LI indicators in Feb indicate performance in Jun-Aug.

Leading Index Growth (% YoY)



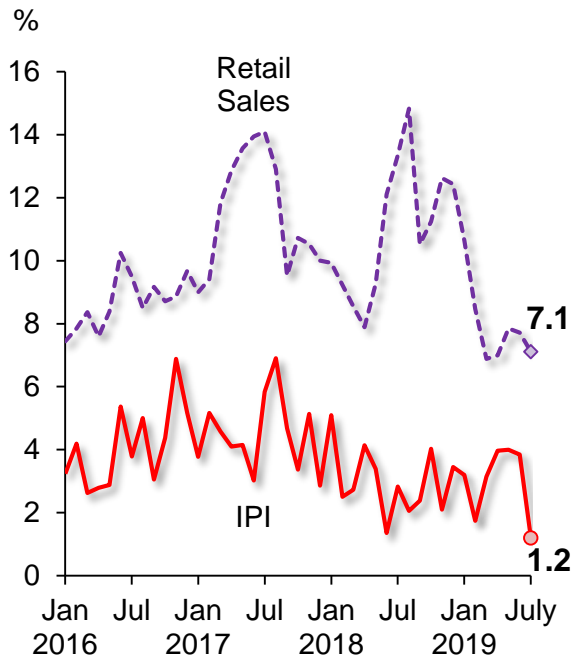
GDP Growth (% YoY)



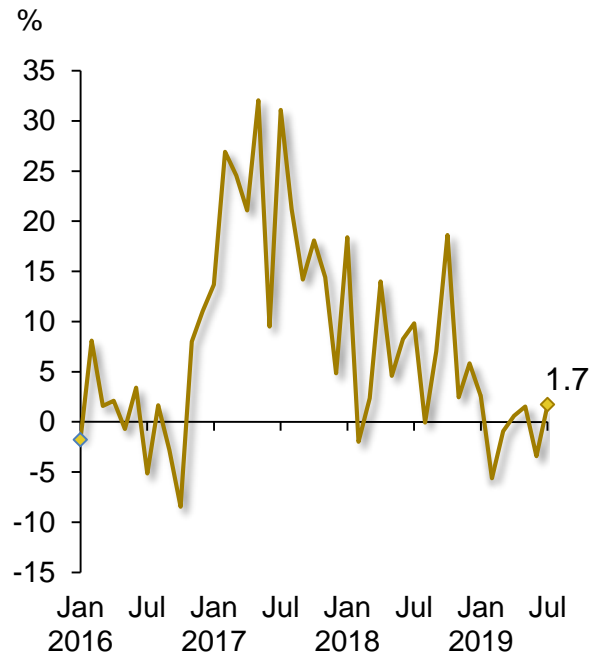
Source: DOSM; BNM

# High frequency indicators suggest continued expansion; albeit slower

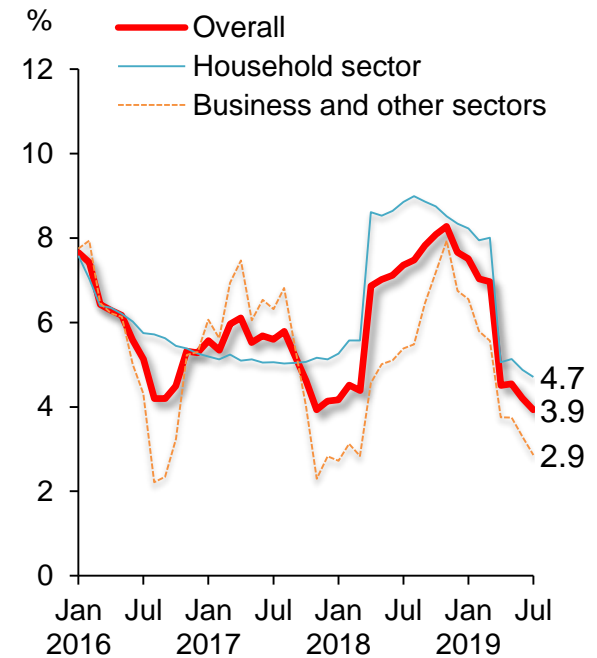
**IPI growth sustained; retail sales growth moderated significantly**



**Exports declined by 0.4% yoy in the first seven months of 2019**



**Overall loan growth continued to moderate**

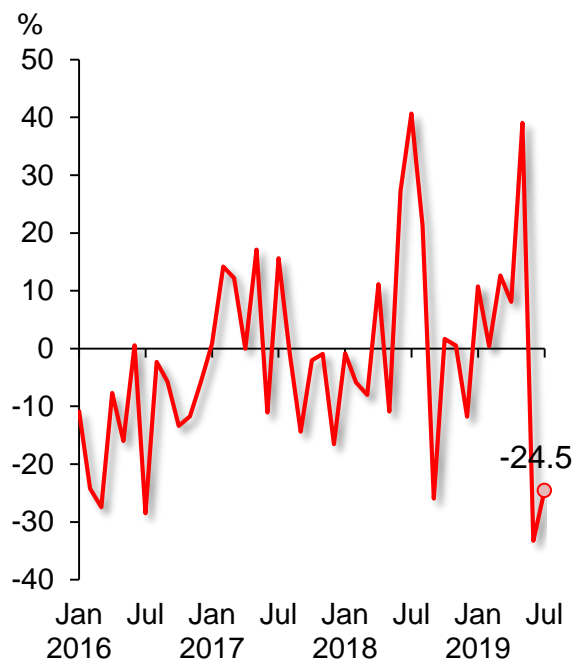


Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

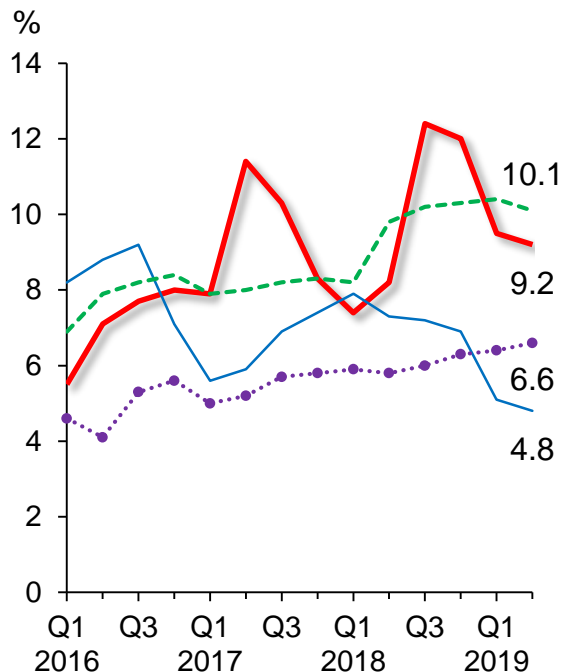
Source: DOSM; BNM

# Private consumption indicators

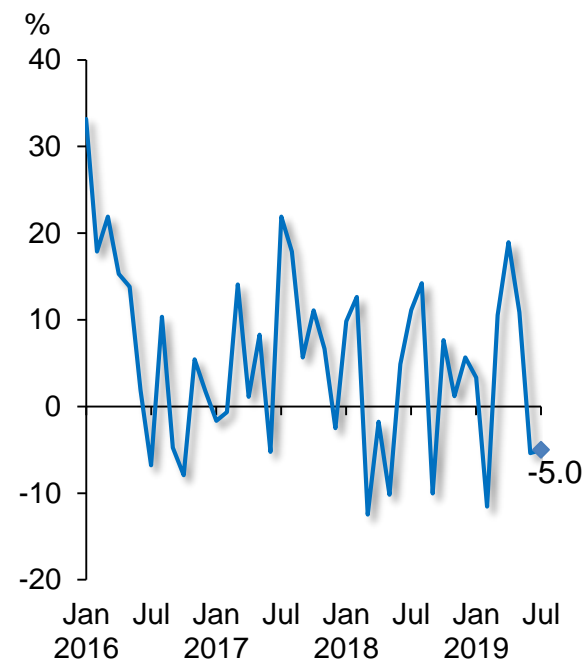
Passenger car sales declined due to high base (zero-rated GST) last year



Growth of wholesale, retail, restaurant and hotels



Imports of consumption goods



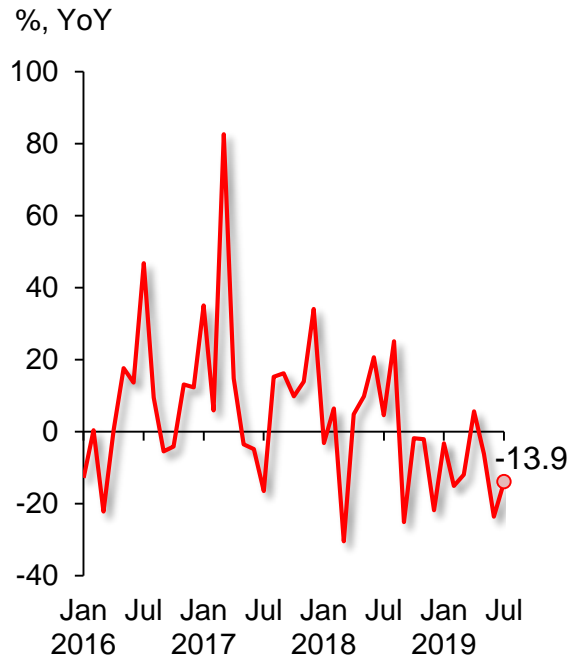
- Retail Trade
- Wholesale Trade
- - - Food & Beverage
- Accommodation

Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

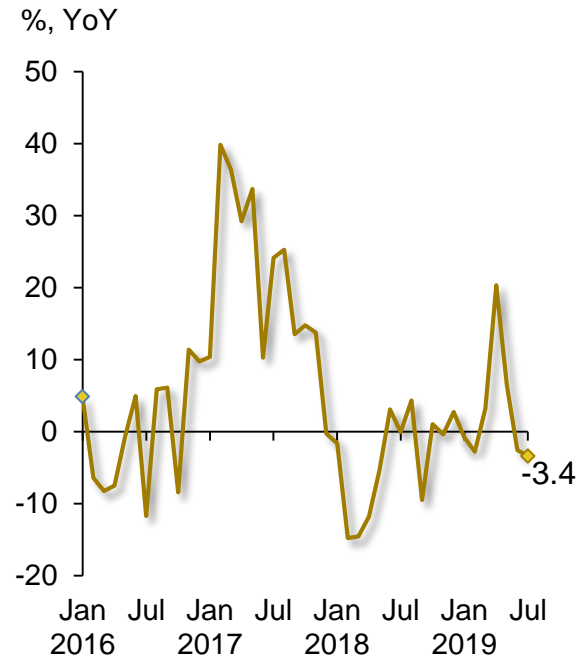
Source: DOSM; BNM

# Private investment indicators

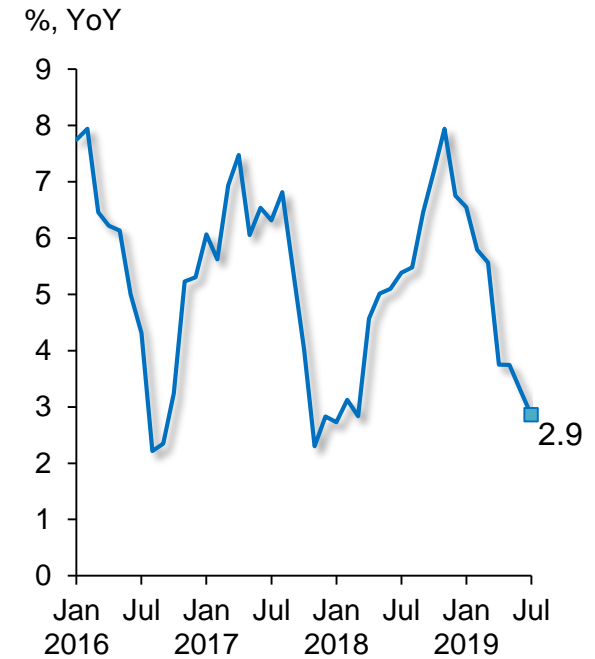
## Imports of capital goods



## Imports of intermediate goods



## Loans extended for businesses and other sectors



Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

Source: DOSM; BNM



## Section 4

# The Malaysian Economy

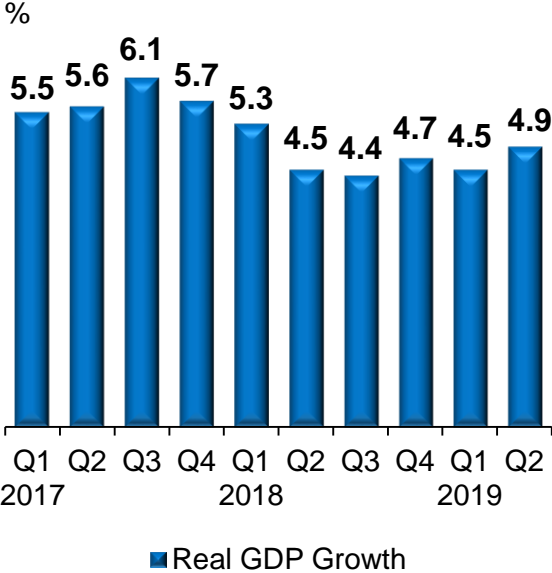
*Present, Prospects and Challenges*



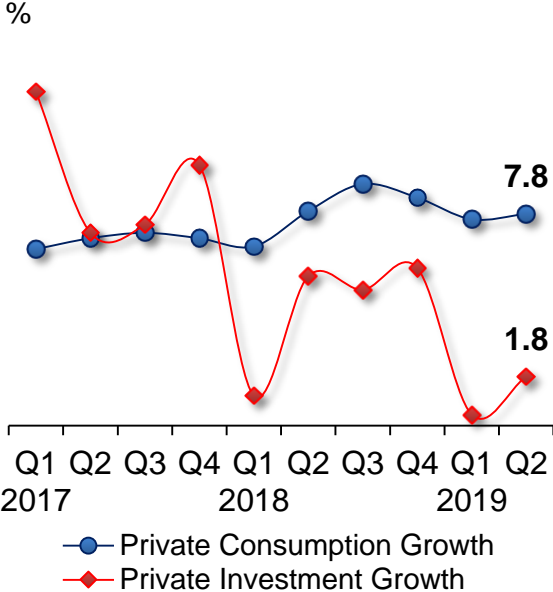
# Malaysia's GDP growth estimates: 4.7% in 2019; 4.5% in 2020F

- Higher real GDP growth in 2Q19 (4.9% yoy vs. 4.5% in 1Q19), underpinned by resilient consumer spending and a rebound in mining output.
- SERC maintains GDP growth estimate at 4.7% in 2019. Looking ahead, GDP growth is expected to grow by between 4.6% and 4.7% in 2H 2019. For 2020, real GDP is projected to expand by 4.5%.
- Downside risks remain: Global recession risk, the escalation of the US-China trade tensions, slowing domestic demand.

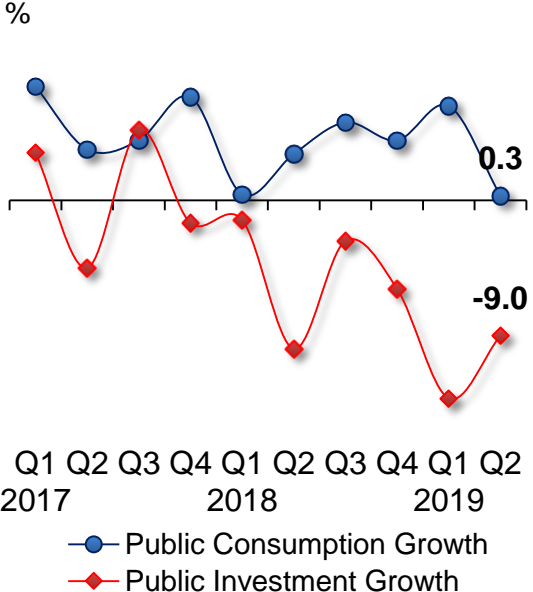
## Malaysia bucks regional economies to record higher GDP growth in 2Q19



## Resilient consumer spending; cautious private investment



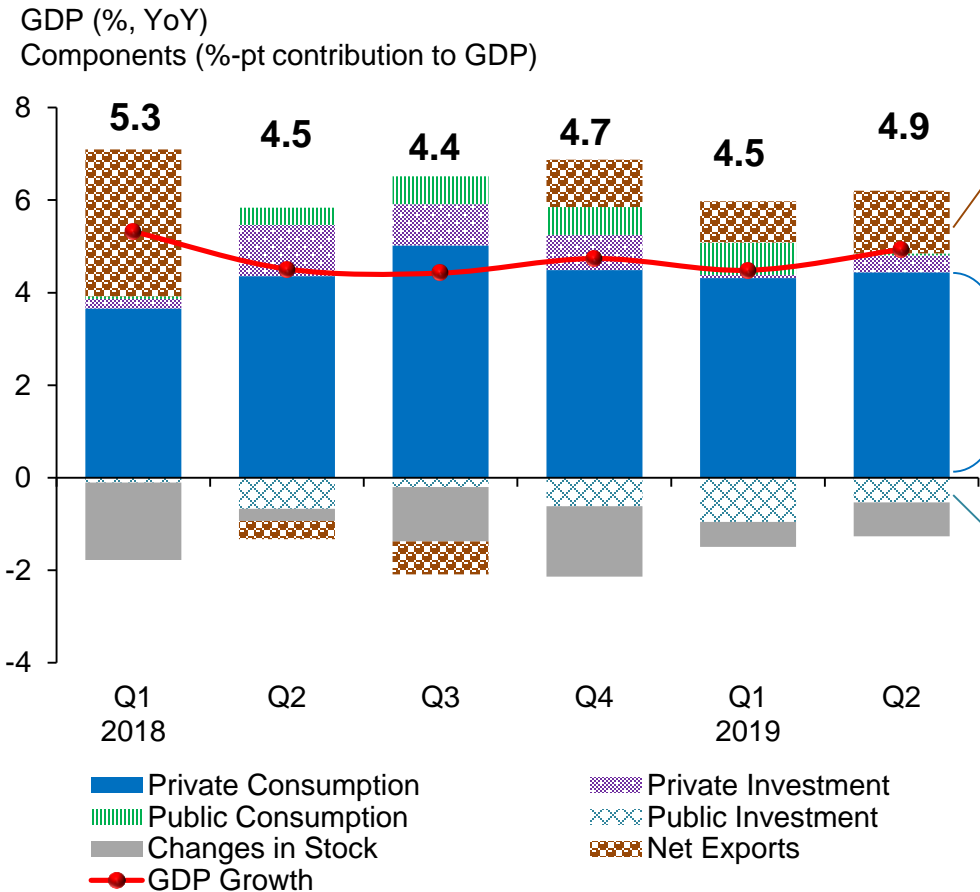
## Public sector spending continued to contract, albeit narrower



Source: DOSM

# Private sector spending remained the key driver of growth

- Private consumption is holding the fort



Higher net export's point contribution due to imports compression

Sustained strong expansion in household spending while private investment remains weak

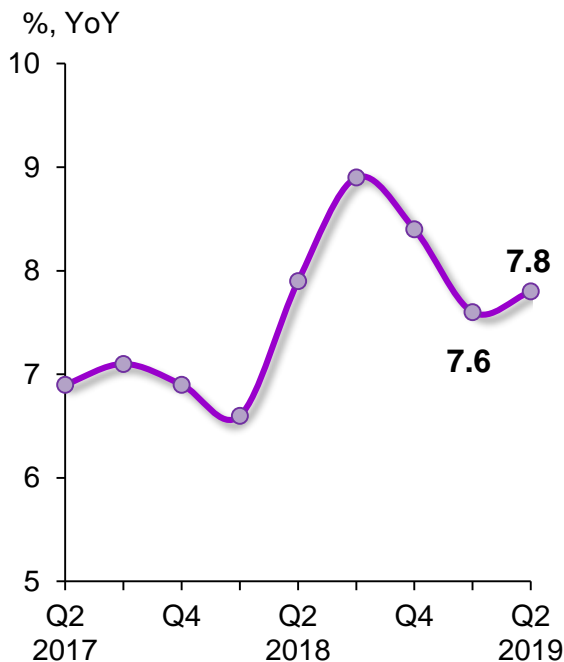
Continued contraction in capital outlays by public corporations

Figure indicates quarterly GDP growth  
Source: DOSM

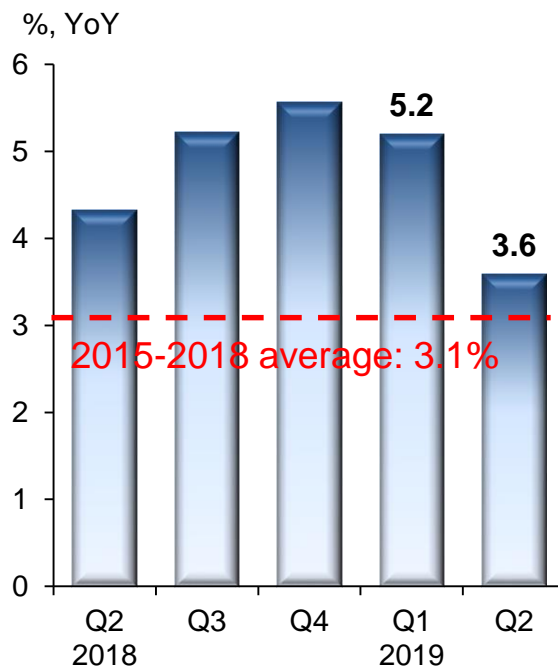
# Still-strong consumer spending amid cautious sentiment

- Household spending propping up the economy, underpinned by above-average real wage growth and consumption-enhanced measures.

Real private consumption growth



Real private sector wage growth



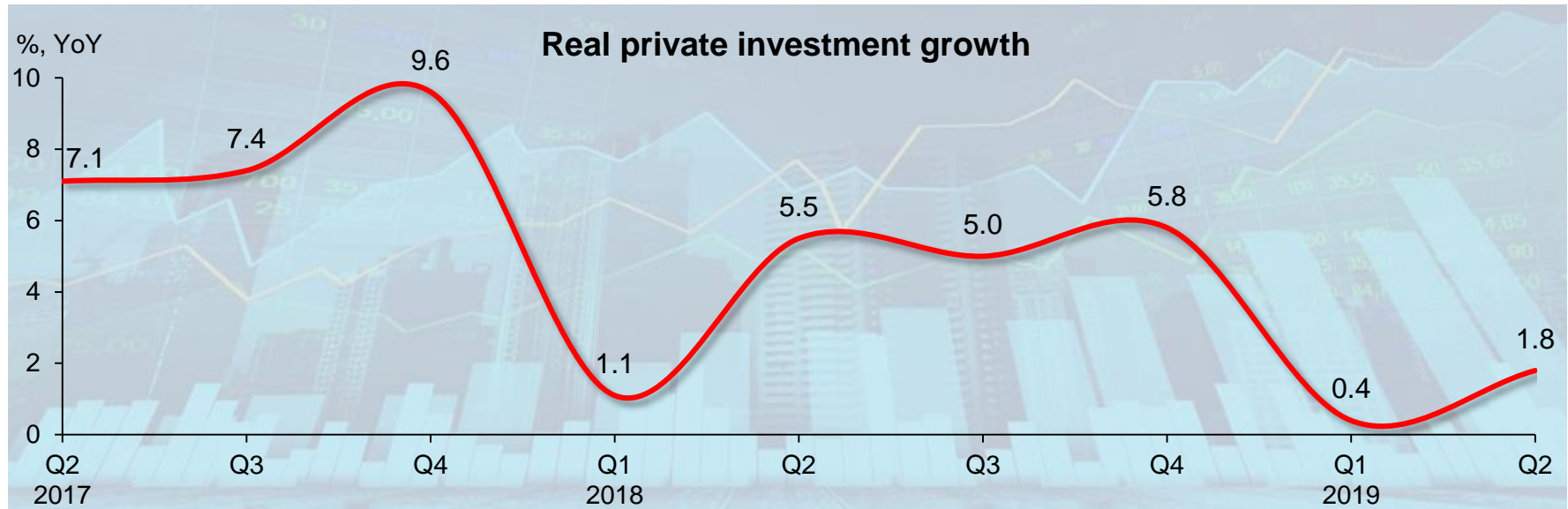
Consumer spending likely to moderate to 6.7% in 2020 (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

Note: Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).

Source: DOSM; BNM

# Slackening private investment growth is worrying

- Private investment's momentum had moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It expanded by 1.3% in 1H 2019.



## ➤ Downside risks remain:



Heightened global uncertainty, slower global growth and trade hostilities

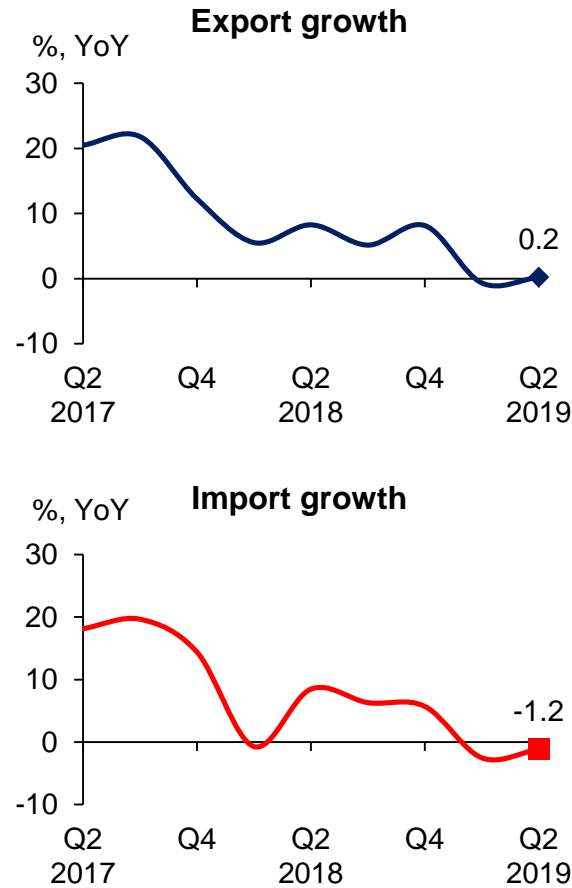


Domestic policy uncertainties; persistent weakness in the property segment, especially residential and commercial properties

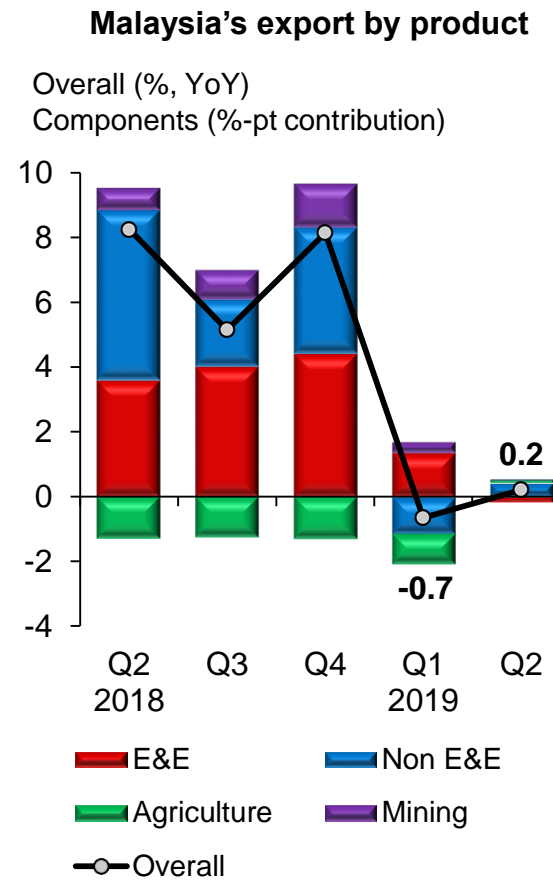
Source: DOSM

# Exports hostage to slowing global growth & trade tensions

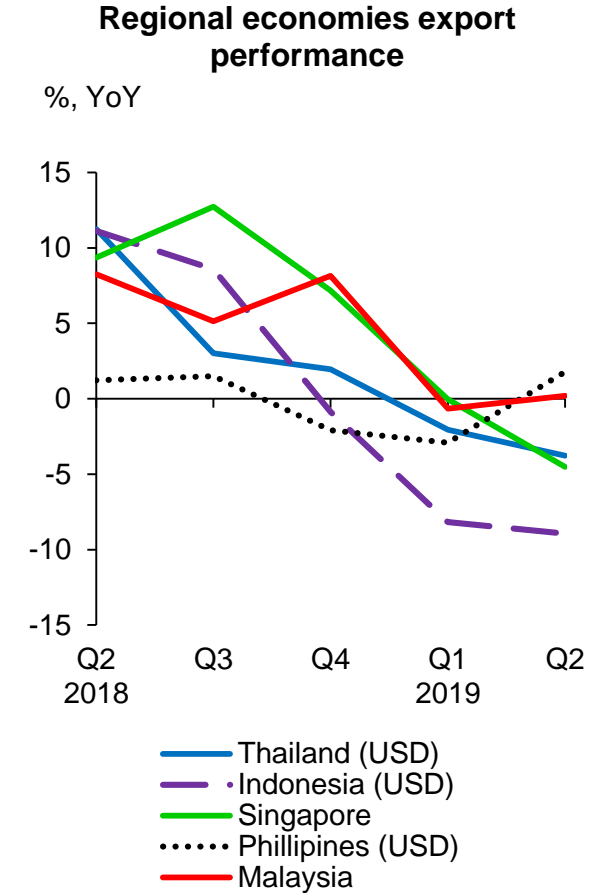
## Lethargic exports growth



## Diversified exports helped mitigate impact of weaker E&E export growth



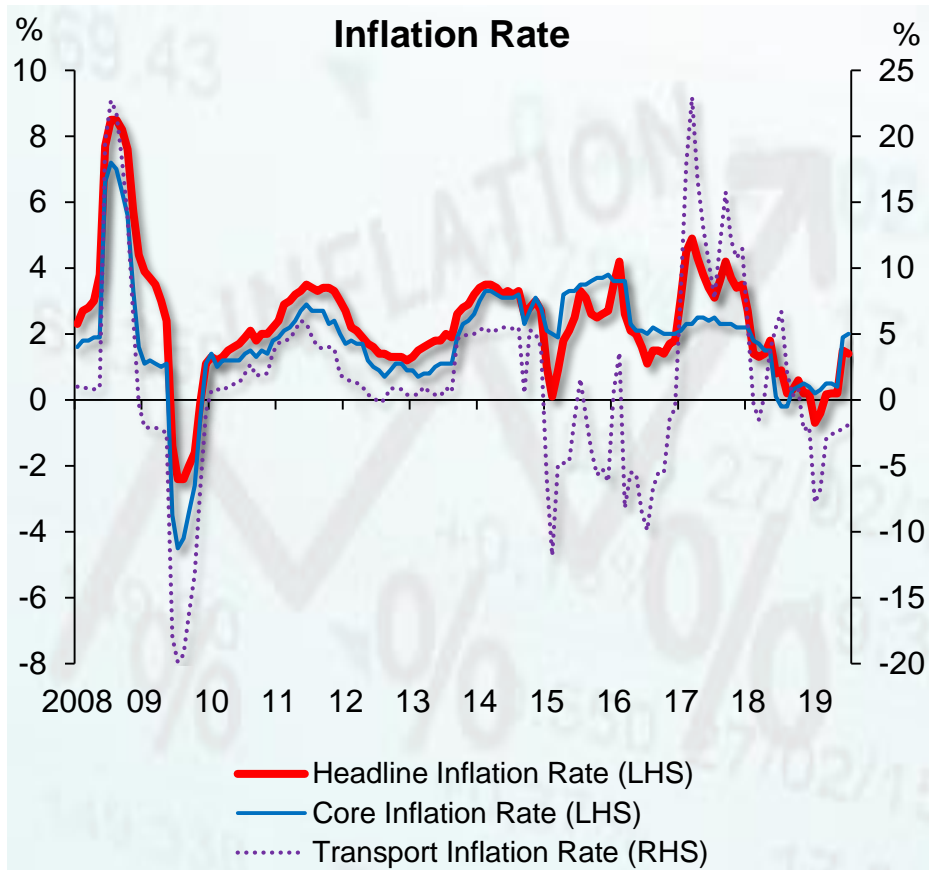
## Malaysia's exports compared to regional economies



Note: Mineral products data taken is the data of mining products

Source: DOSM; Officials

# Inflation has returned to positive trajectory



- **Headline inflation** normalises to 1.5% yoy and 1.4% in June and July respectively after experiencing either low or negative rate due to the change of consumption tax policy. Inflation up 0.3% in Jan-July.
- **Core inflation** remained healthy and ticked higher to 2.0% in July (1.9% in June), indicating continued domestic demand.
- SERC expects **headline inflation to average 0.8% in 2019** due to some cost pass-through from domestic cost factors. These include:
  - Lapse in consumption tax policy;
  - Increase in prices of soft drinks due to soda tax;
  - Increase in minimum wage; and
  - Potential higher increase in food prices.
  - Volatile crude oil prices remain a wild card

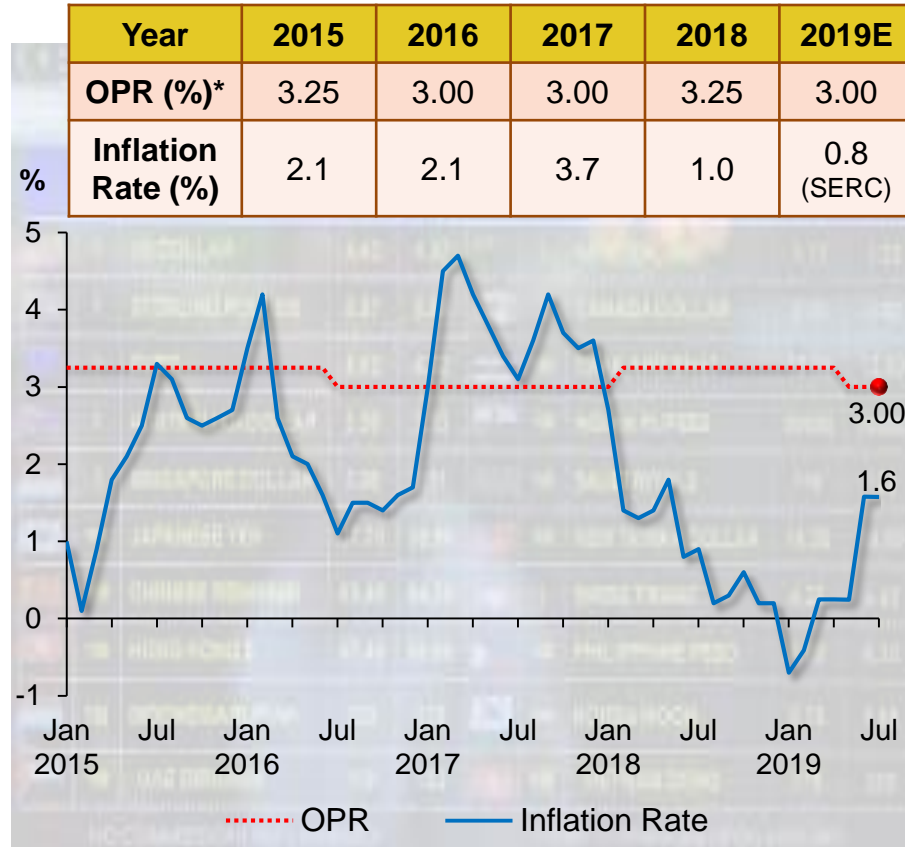
Note: Core inflation in 2008-2014 excludes food and non-alcoholic beverages only.

Source: BNM; DOSM

# Should BNM cut rate further?

- BNM cut the overnight policy rate by 25 bps to 3.00% in May.
- Reserve monetary arsenal while continue to assess the impact of rate cut on domestic demand.

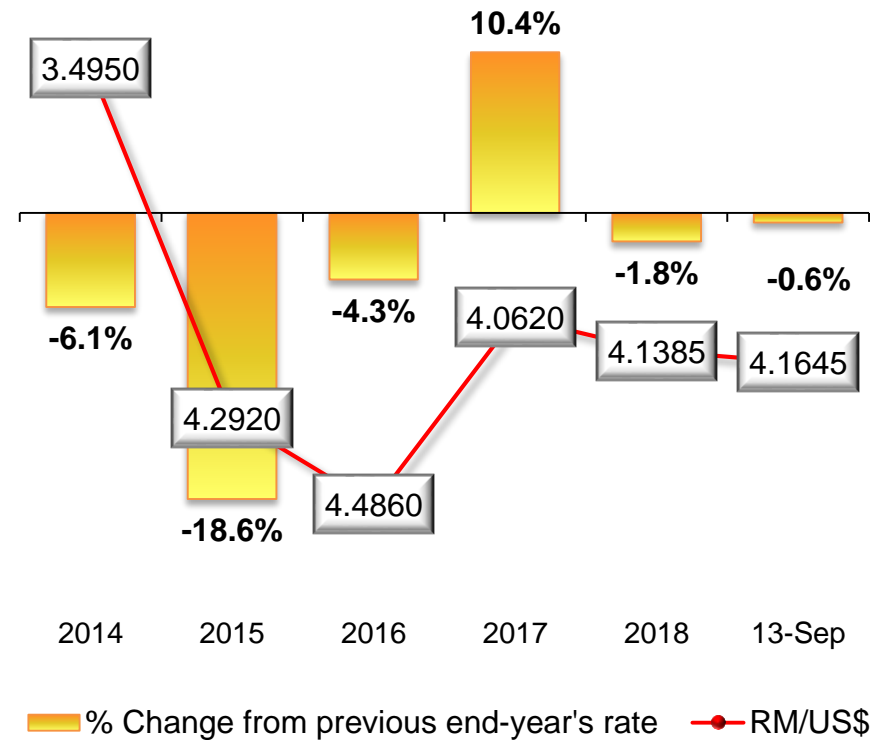
## Inflation will rise in second half-year of 2019



\* OPR as at end-year

Source: DOSM; BNM; SERC

## Ringgit outlook at RM4.15-RM4.20 per US dollar



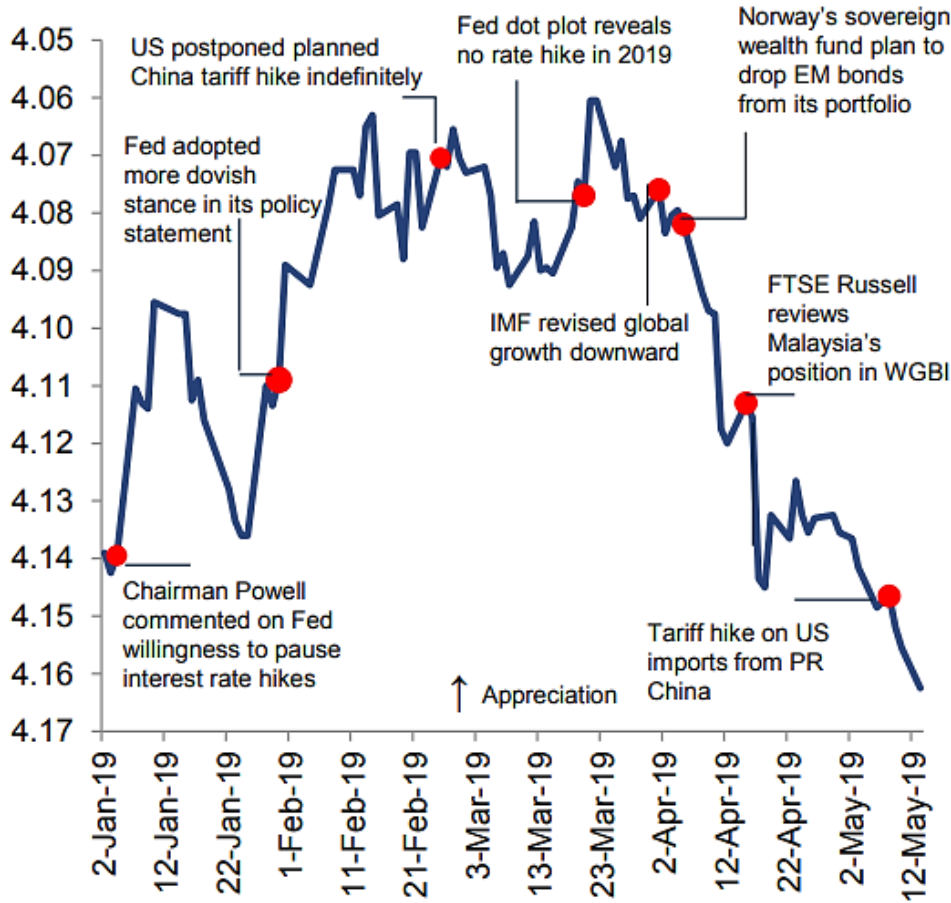
Note: Exchange rate (12:00 rate) as at end-period



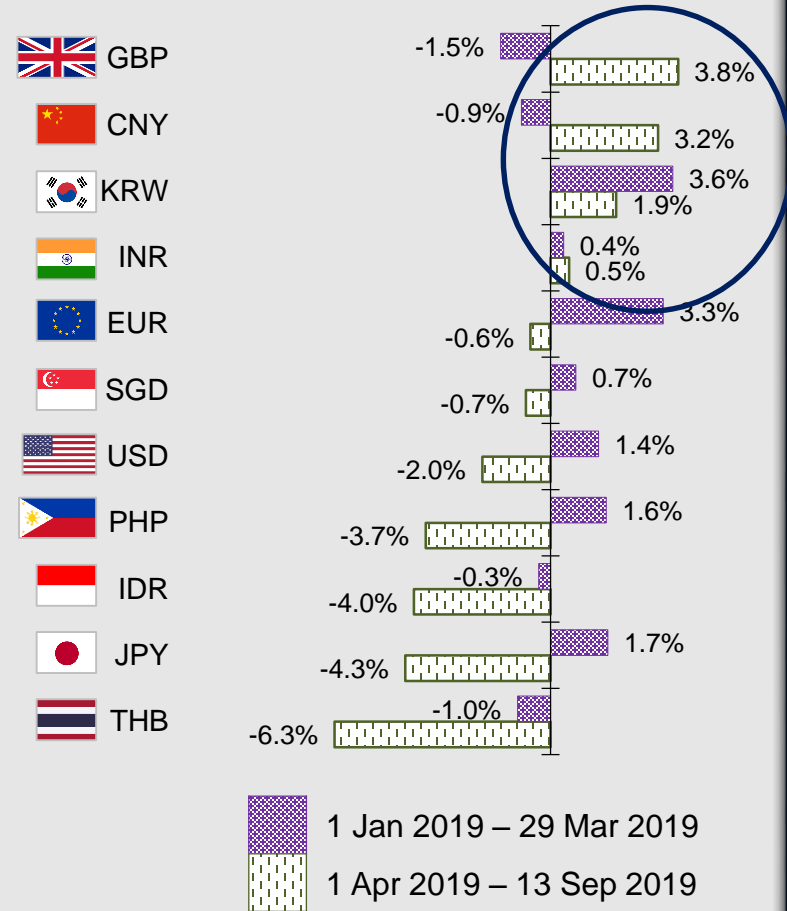
# Ringgit's movements largely driven by external influences & cautious investors' sentiment

## Movements of ringgit and global developments

MYR/USD



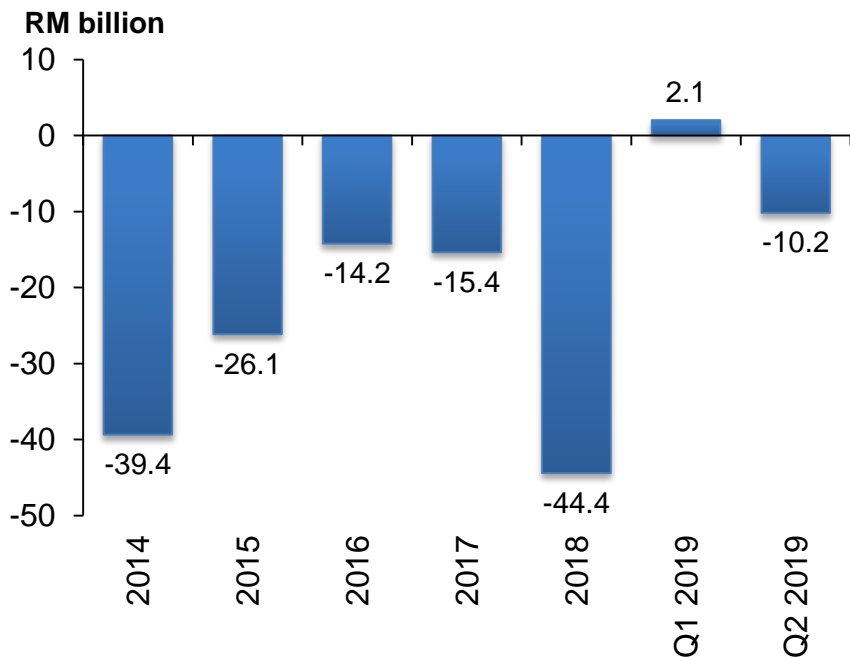
## Ringgit performance against selected major and regional currencies



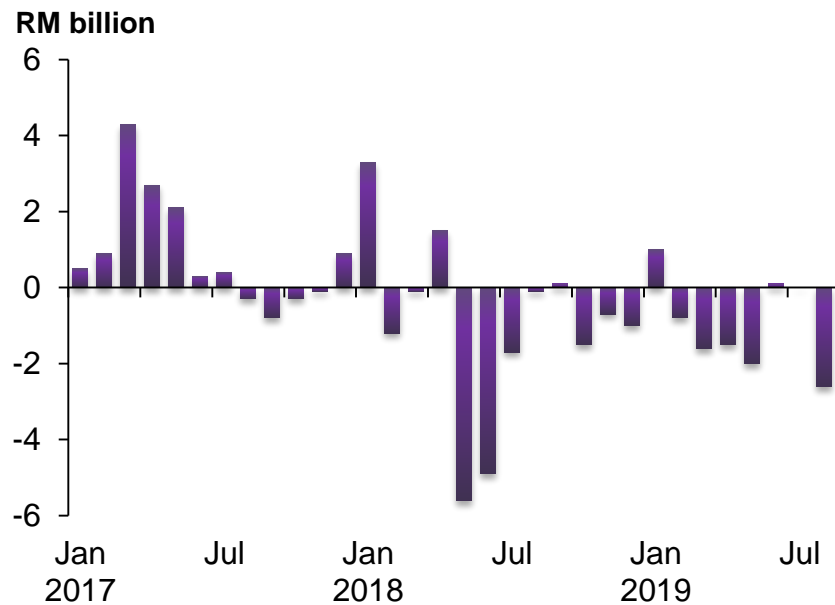
Source: BNM

# Volatility in portfolio investment flows would persist

## Portfolio investment



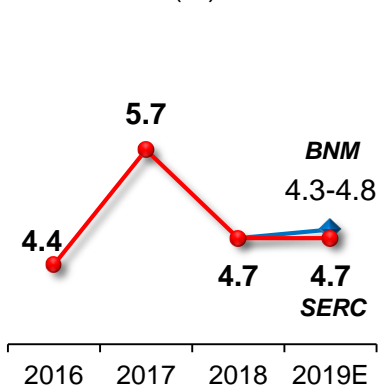
## Foreigners' net buy/(sell) position of domestic equity market



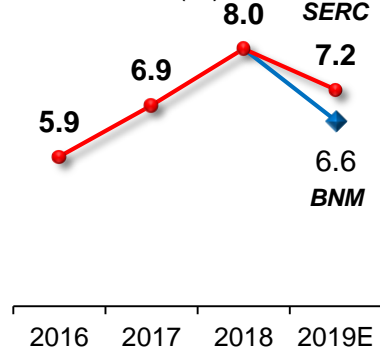
Source: DOSM; BNM

# Malaysia's key economic indicators

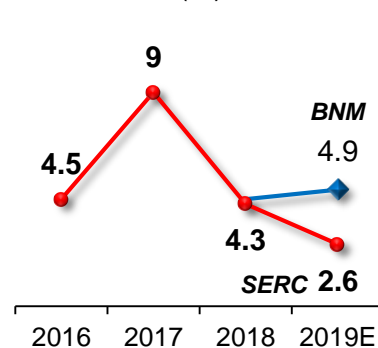
**Real GDP Growth (%)**



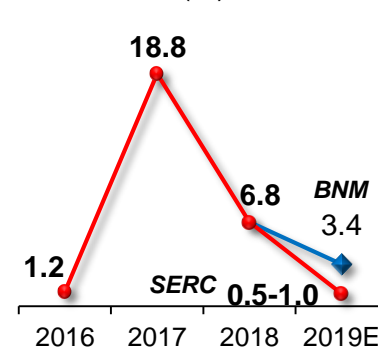
**Private Consumption Growth (%)**



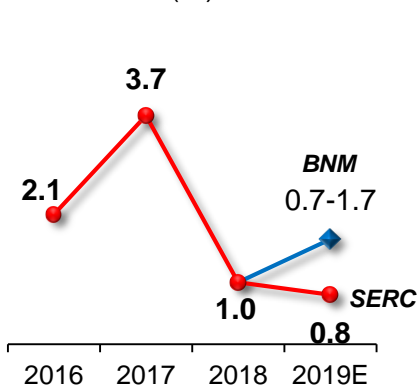
**Private Investment Growth (%)**



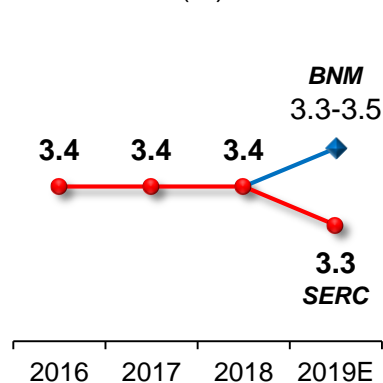
**Gross Export Growth (%)**



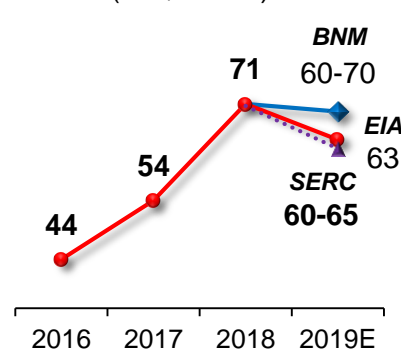
**Inflation Rate (%)**



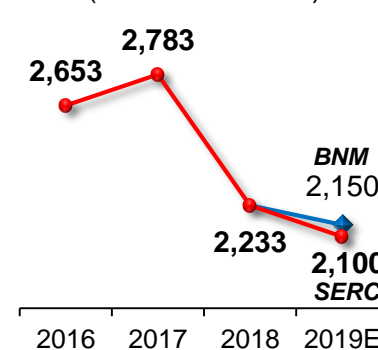
**Unemployment Rate (%)**



**Brent Crude Oil Prices (US\$/barrel)**



**Crude Palm Oil Prices (RM/metric tonne)**



Source: DOSM; EIA; MPOB; BNM; SERC

# Sources of GDP growth: Demand and Supply

- **Positive drivers:** Continued expansion in services and manufacturing; recovery in agriculture and mining output
- **Negative drivers:** Weak investment activities and consolidation of public spending

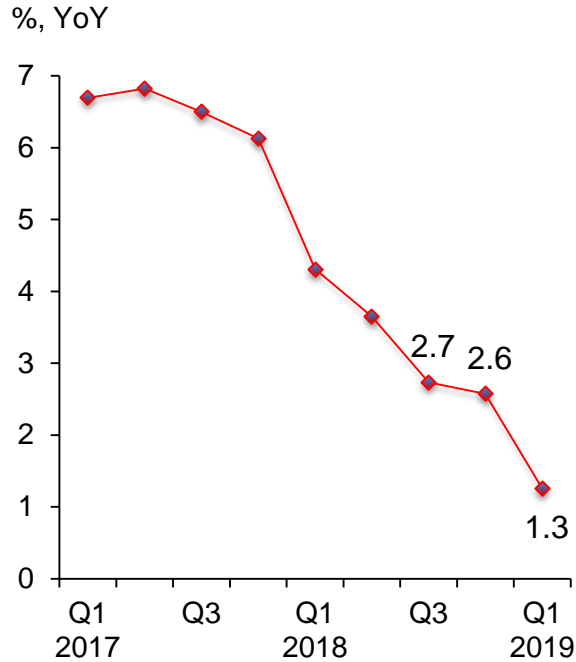
% growth, 2015=100	2017	2018	2019 Q1	2019 Q2	2019 1H	2019E (BNM)	2019E (SERC)	2020F (SERC)
<b>GDP by demand component</b>								
Private consumption (57.0%)	6.9	8.0	7.6	7.8	7.7	6.6	7.2	6.7
Private investment (17.3%)	9.0	4.3	0.4	1.8	1.2	4.9	2.6	3.5
Public consumption (12.5%)	5.5	3.3	6.3	0.3	3.2	1.2	2.7	2.0
Public investment (7.4%)	0.3	-5.0	-13.2	-9.0	-11.3	-7.1	-8.9	-1.0
Exports of goods and services (67.6%)	8.7	2.2	0.1	0.1	0.1	0.1	0.3	1.2
Imports of goods and services (60.6%)	10.2	1.3	-1.4	-2.1	-1.8	0.0	-1.6	1.0
<b>GDP by economic sector</b>								
Agriculture (7.3%)	5.7	0.1	5.6	4.2	4.9	2.8	4.6	2.0
Mining & quarrying (7.6%)	0.4	-2.6	-2.1	2.9	0.3	0.8	0.5	1.5
Manufacturing (22.4%)	6.0	5.0	4.2	4.3	4.2	4.8	4.4	3.9
Construction (4.9%)	6.7	4.2	0.3	0.5	0.4	3.0	0.8	1.5
Services (56.7%)	6.2	6.8	6.4	6.1	6.3	5.7	6.1	5.9
<b>Overall GDP</b>	<b>5.7</b>	<b>4.7</b>	<b>4.5</b>	<b>4.9</b>	<b>4.7</b>	<b>4.3-4.8</b>	<b>4.7</b>	<b>4.5</b>

Figure in parenthesis indicates % share to GDP in 2018

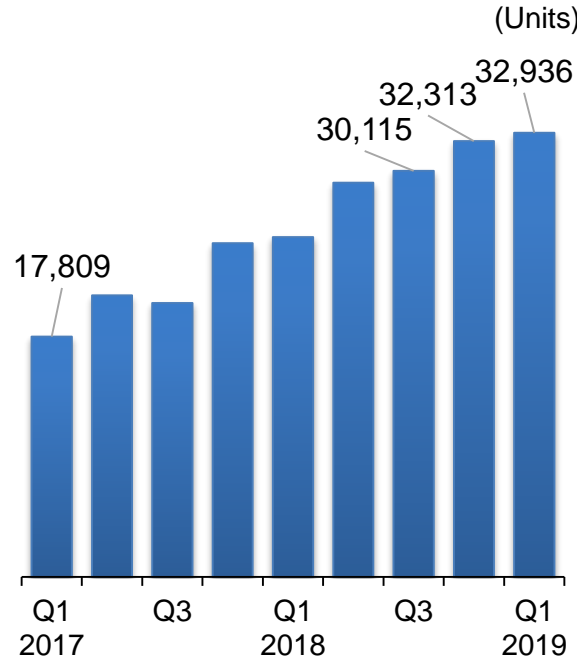
Source: DOSM; BNM; SERC

# Property overhang continues to rise

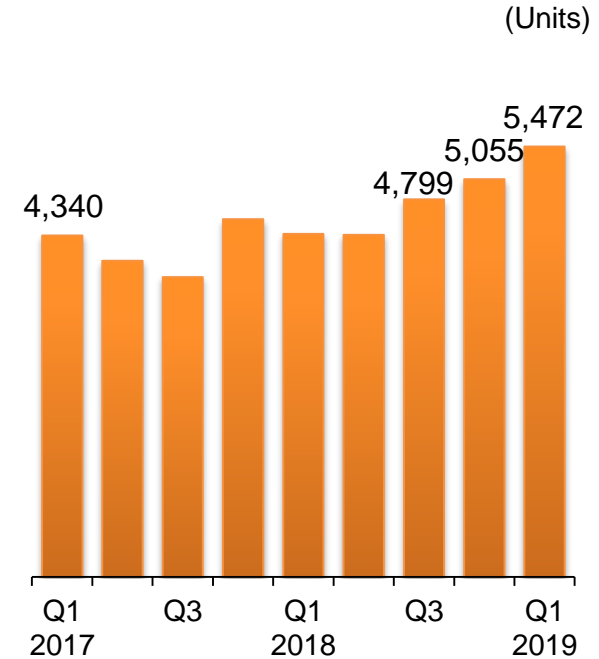
House price index slows further in 1Q19, marking seven consecutive quarters of easing



Overhang in residential properties surge new highs



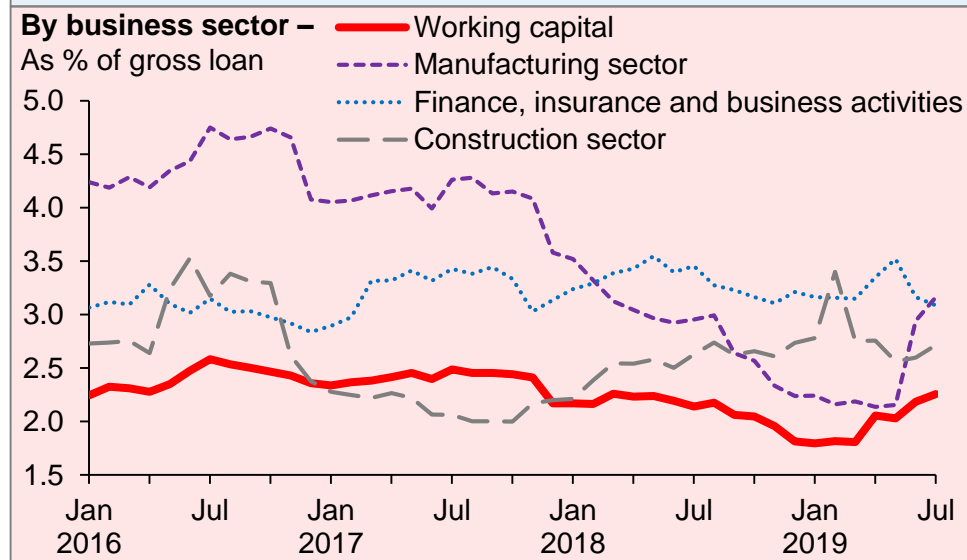
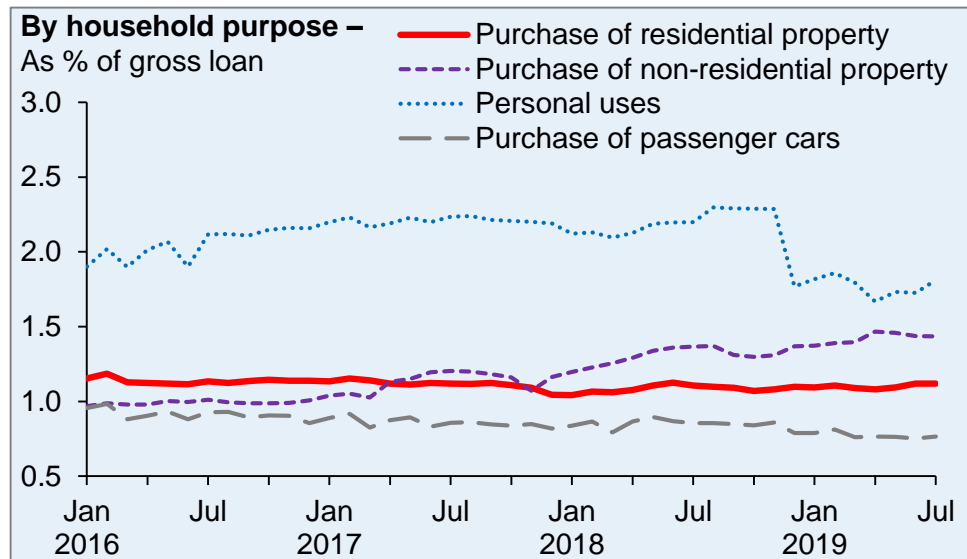
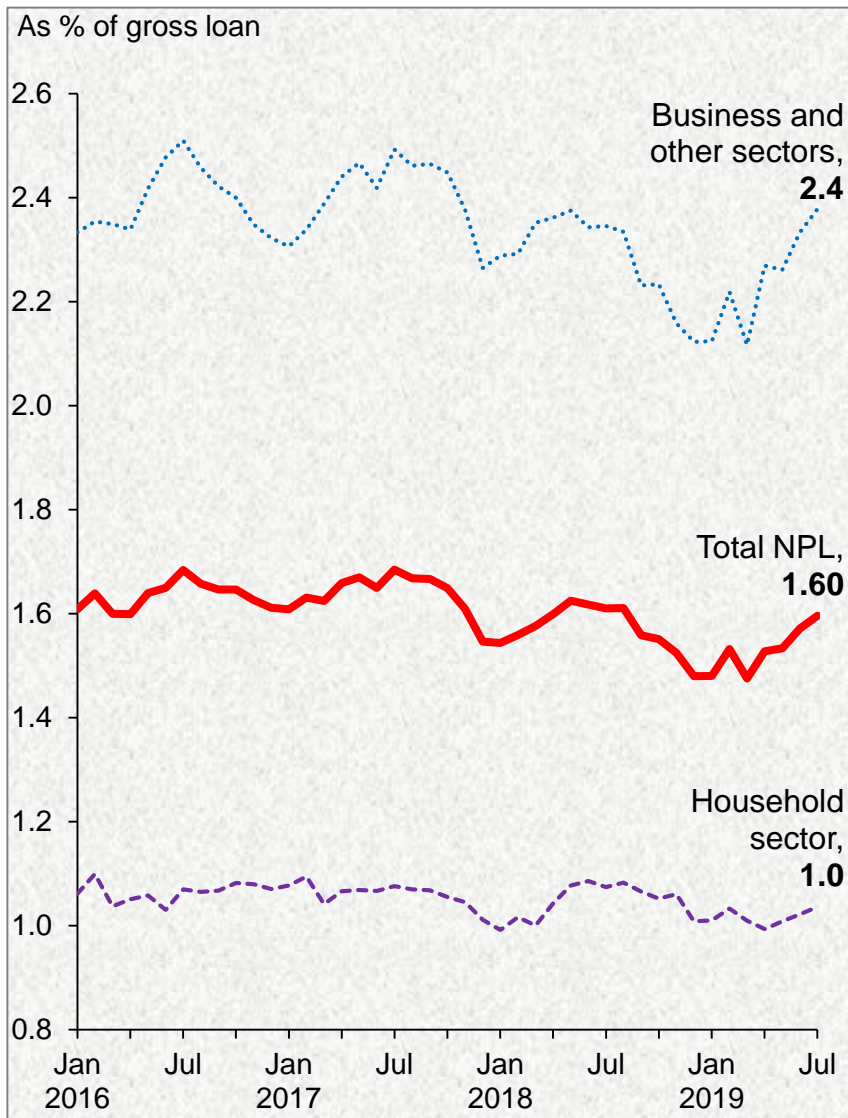
Further rise in overhang commercial properties



Note: Residential and commercial overhang properties data are excluding SOHO and service apartment.

Source: NAPIC

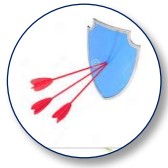
# Non-performing loans (NPL) seen ticking up



Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

Source: BNM

# What can buffer Malaysia against external shocks?



**Malaysia is in a position of strength to face headwinds.** Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.



**A well-diversified trade, economic sectors and sources of foreign direct investments.** This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as country.



**Targeted gradual fiscal consolidation path is appropriate** while continuing to protect growth-enhancing spending.



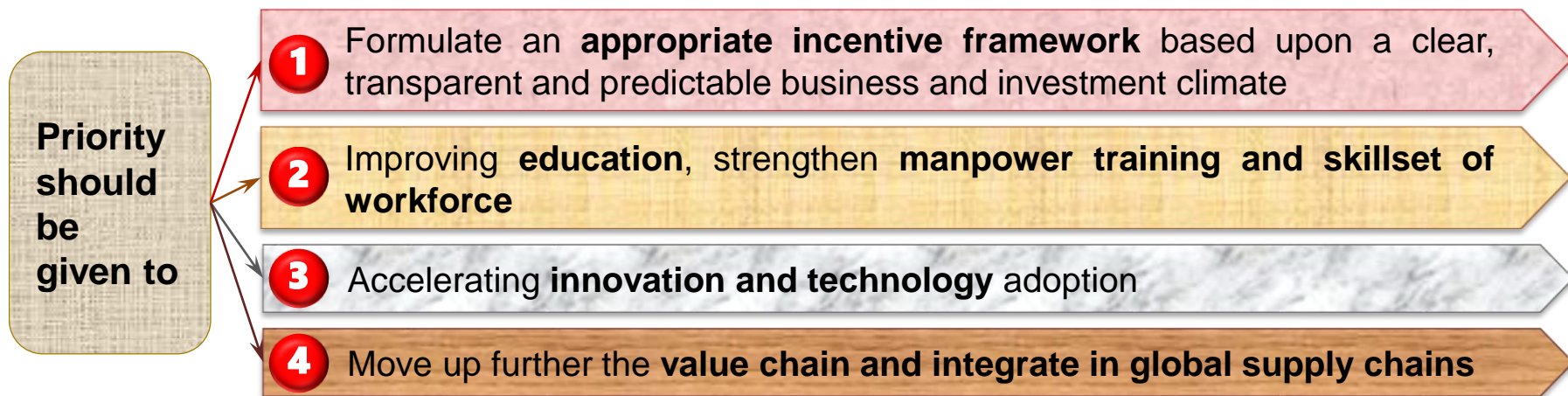
**The financial sector is well capitalised** to cope with most shocks. As at July 2019, banks' liquidity buffers exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs) at 1.6% of gross loans) and sizeable provisions (91.0% to total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 155.4%.



**Flexible exchange rate is essential** continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus.**

# A priority for action, now more than ever

- The rise of global complexity and competition and uncertainty about its future as well as digitalisation acceleration will fundamentally reshape global economic and business landscape.
- Being a small and highly open economy, Malaysia remains vulnerable to external trade or financial shocks.
- Domestically, the Government must continue and has the political will to **enhance economic resilience and implement coordinated policy reforms** to ensure medium-term growth sustainability. Delays or resistance to the reform agenda could undermine confidence, leading to lower investment and growth.
- **Effective and well-designed structural reforms** are key to shaping Malaysia's future. Structural reforms are needed to boost the country's growth potential, raise productivity and investment as well as reduce the cost of doing business.





## Section 5

# 2020 Federal Budget on 11 Oct

*Expansionary stance on the  
cards*



# 2020 Budget: Pragmatic and responsive to external shocks



**Focusing on appropriate budgetary stance** and being prepared to be **more expansionary** is especially important during rising global economic uncertainties.



The Government's **fiscal policy can be calibrated to allow some room for an expansionary budget**, focussing on sectors, initiatives and measures that would protect growth-enhancing spending and investment.



**A marginal reduction in the budget deficit to GDP ratio for 2020 (estimated - 3.2% of GDP)** from estimated 3.4% of GDP in 2019 is acceptable given the need to turn on spending taps under the threat of a bigger global economic slowdown and its spillover effect on domestic economy via both trade and financial transmissions.

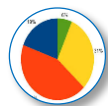


The **2020 Budget policies must aim at strengthening economic resilience, sustaining domestic spending and investment, save jobs, create jobs and help viable companies staying afloat.**



It also prepares Malaysia to **emerge stronger and enhance our capabilities and competitiveness in medium- to longer term.**

# 2020 Budget: Proposed measures and initiatives



## **A. SECTORAL ALLOCATION**

- i. Allocate more budget for development expenditure, focusing on **education, utilities, ports, healthcare, housing, digital infrastructure, tourism, industrial development and SMEs**; and
- ii. **Smart and green technology projects and climate change**, including flood mitigation, renewable energy, public infrastructure, airports upgrading and ports projects. Development of suburban nodes, roads and rail networks, drainage and sewerage networks, and public housing community, especially the low-cost flats and apartments rejuvenation.

By selected sub-sector	2017	2018E	2019B	2017	2018E	2019B	2017	2018E	2019B
	RM million			% YoY			% Share		
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
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
<b>Total Development Expenditure</b>	<b>44,884</b>	<b>54,900</b>	<b>54,700</b>	<b>6.9</b>	<b>22.3</b>	<b>-0.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# 2020 Budget: Proposed measures and initiatives



## **B. JOBS PRESERVATION AND CREATION**

- i. Provide **jobs credit for the employment of graduates and diploma students**; skills upgrading program; freeze of foreign workers' levy;
- ii. Establish a **one-stop jobs bank and non-stop online marketplace** that are user-friendly to provide better search functions for job seekers. The online marketplace is to be equipped with individual learning portfolio portal to upskill their capabilities;
- iii. Expand the **channels of job-matching services** through closer collaboration between academia, industry and private-sector employment agencies through focus on active job seekers, not passive job seekers;
- iv. Introduce the “**Attach-Train-Employ**” program by giving some form of incentives and tax rebates to incentivize private sector in providing job opportunities for fresh graduates; and
- v. Introduce **New Enterprise incentive scheme** to support eligible job seeker, who is interested in starting and running a small business, and will get practical small business training, business mentoring and financial assistance from the scheme.

# 2020 Budget: Proposed measures and initiatives



## **C. UPLIFTING PRODUCTIVITY AND MANPOWER DEVELOPMENT**

- i. Provide allocation for **Skill and Productivity Enhancement** through the revamping of Technical and Vocational Education and Training (TVET). Tax deductible training expenses should be given to private sector in manpower development;
  
- ii. Introduce various measures such as **SkillsFuture and Workforce Skills Qualifications Fund** to ensure that Malaysians remain employable in the face of automation and digital disruption; and
  
- iii. Introduce the **skills for education and employment program** for fresh graduates and college students to improve soft skills such as speaking, reading, writing or communication in the workplace.

# 2020 Budget: Proposed measures and initiatives



## **D. REVITALISE PRIVATE INVESTMENT**

- i. Increase the **grant for technology, industrial deepening and R&D as well as automation** to facilitate SME in the adoption of IR 4.0.
- ii. Extend **Reinvestment Allowance (RA)** indefinitely from the current qualifying period of 15 years of assessment.
- iii. Enhance **Accelerated Capital Allowance (ACA)** for machinery and equipment.
- iv. **A moratorium on hikes in foreign worker levy for next three years till 2021** to ease manpower cost of SMEs. In efforts to increase labour productivity and production efficiency, the **levies should be ploughed back into a Designated Industrial Revolution/Adjustment Fund** that provides financial support or technical assistance to firms to facilitate automation, mechanization and technological development.
- v. Enhancement of **bank lending guarantee**, especially to SMEs through enhancing existing schemes on risk-sharing initiative.
- vi. Enhancing **business cash-flow and cost of doing business** via a rebate in quick rent and assessment for industrial and commercial properties, business fees and licences; road tax rebate for taxi, buses and lorries.

# 2020 Budget: Proposed measures and initiatives



## **E. ENHANCING DOMESTIC CONSUMPTION**

- i. Supporting households, especially B40 and targeted vulnerable group via **direct cash assistance**;
- ii. **House rental payments to be given a personal tax relief of up to RM4,000 annually**, mainly for M40 households. In the 2018 Budget, a 50% income tax exemption was given on rental income not exceeding RM2,000 per month for each residential home. This is to encourage landlords to reduce their rents but intrinsically rents are market driven based on the supply and demand;
- iii. **Personal tax relief** on tuition fees (primary & secondary) up to RM2,000 annually;
- iv. **"Buy Malaysian Products"** Campaign;
- v. **Re-introduce tax relief for interest payments on housing loan up to RM10,000 per year**. The interest relief is only entitled for one unit of residential property for owner-occupied and not renting out;
- vi. To **increase lifestyle tax relief** from RM2,500 to RM3,000 annually;
- vii. To **revise personal tax relief** from current RM9,000 to RM10,000. The last revision was in 2010; and
- viii. Increase the **tax relief for EPF's contribution and life insurance** premium to RM6,000 each.

# 2020 Budget: Proposed measures and initiatives



## **F. EASING PROPERTY OVERHANG PRESSURE**

- The **persistent overhang in residential and commercial properties** require urgent attention and prompt policy intervention. In 1Q 2019, total overhang of residential properties remained high to increase by 30.7% to a new record of 32,936 units valued at RM20 billion. For commercial properties, the number of overhangs increased by 25.5% to 5,472 units in 1Q 2019 to value at RM4.5 billion.
- **Growth in Malaysia's House Price Index (HPI) has slowed for seven consecutive years**, from 13.4% in 2012 to 3.1% in 2018 (6.5% in 2017). In 1Q 2019, house price index eased further to 1.3%.
  - i. **Review the threshold for the foreign purchase of properties.** Between 2012-2016, foreign purchases of properties only accounted for 0.3% (706 units) -1.0% (2,406 units) of total properties transacted;
  - ii. **Review of RPGT, including the abolishment of 5% RPGT** on the disposal of property after the fifth year; and
  - iii. **Extend the National Home Ownership Campaign (HOC)** until 31 December 2020, together with the stamp duty exemption.



# Media Briefing and Press Conference on SERC's Quarterly Economy Tracker Third Quarter of 2019





**社会经济研究中心**  
**SOCIO-ECONOMIC**  
**RESEARCH CENTRE**

**谢谢**  
**THANK YOU**

**Address** : 6<sup>th</sup> Floor, Wisma Chinese Chamber,  
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.  
**Tel** : 603 - 4260 3116 / 3119  
**Fax** : 603 - 4260 3118  
**Email** : [serc@accimserc.com](mailto:serc@accimserc.com)  
**Website** : <http://www.accimserc.com>