



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

**Ministry of Finance's Economic and Fiscal
Outlook and National Budget 2023**

- Responsive, Responsibility, Reformist -



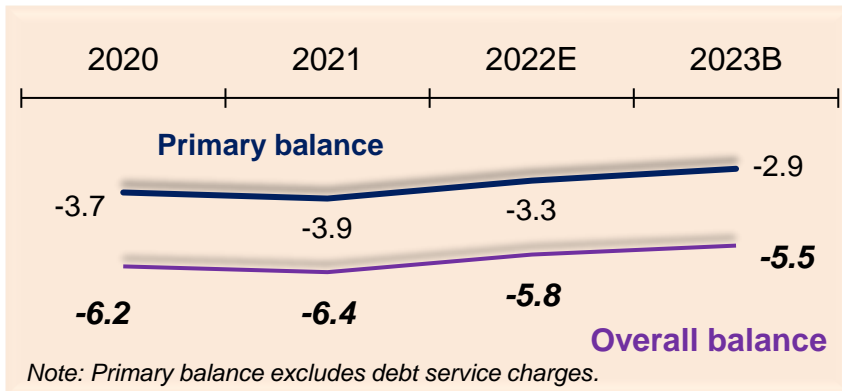
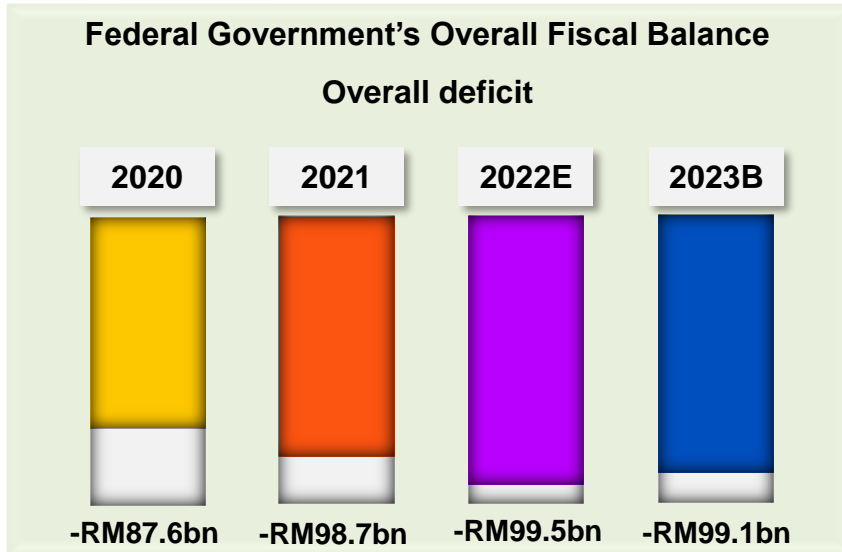
Part 1: 2023 Budget and Economic Prospects

- The Budget 2023 set a course for sustaining economic recovery amid a small effort to resume the fiscal consolidation path for restoring the health of public finances.
- Ministry of Finance (MOF) expects the economy to pace slower to 4.0%-5.0% in 2023 from estimated 6.5%-7.0% in 2022 due to:
 - i. Slower domestic demand; and
 - ii. Slower exports on weaker global demand and lower energy and commodity prices

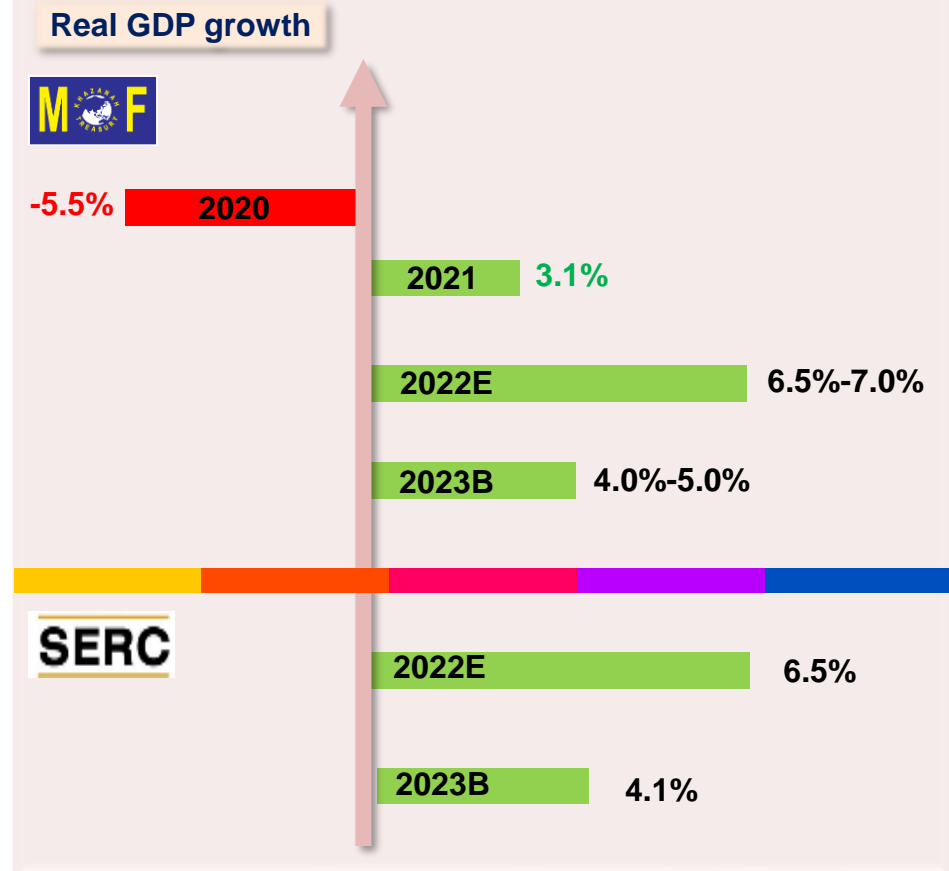


The Budget and the Economy

26th consecutive year of budget deficit since 1998



The economy will grow at slower pace between **4.0% and 5.0%** in 2023
(2022E: 6.5% - 7.0%)



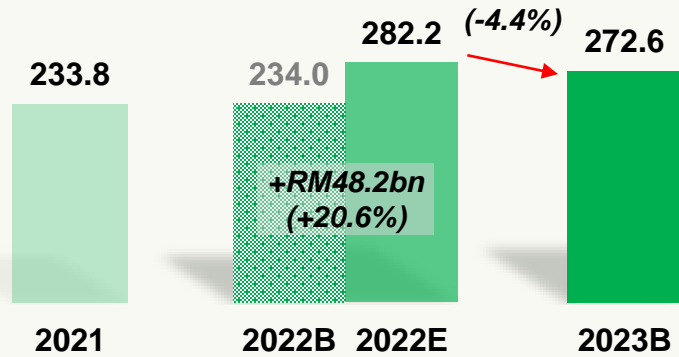
2023 Budgetary operations snapshot



TOTAL REVENUE

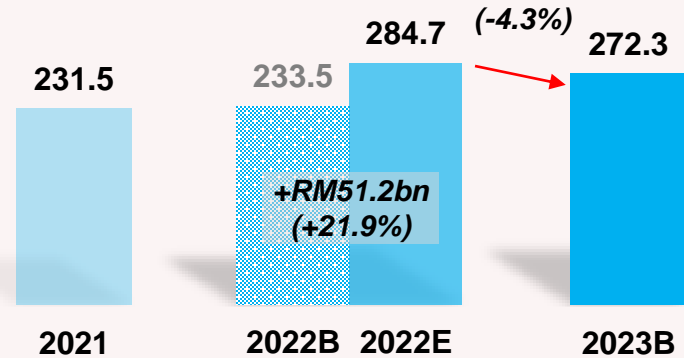
RM billion

Budget's tax measures are expected to result in net revenue loss of RM1.3 billion



OPERATING EXPENDITURE (OE) (73.1% of total expenditure in 2023)

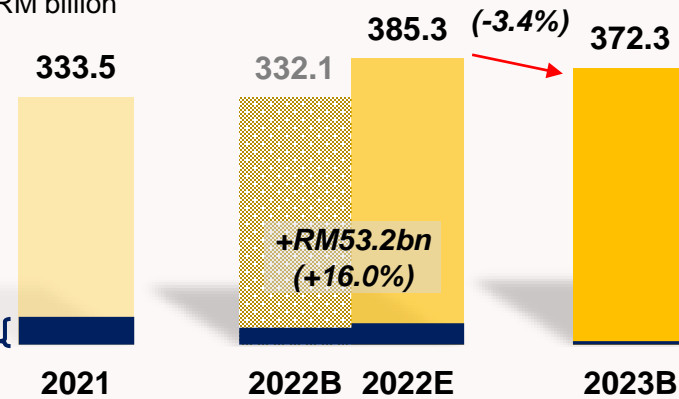
RM billion



TOTAL EXPENDITURE*

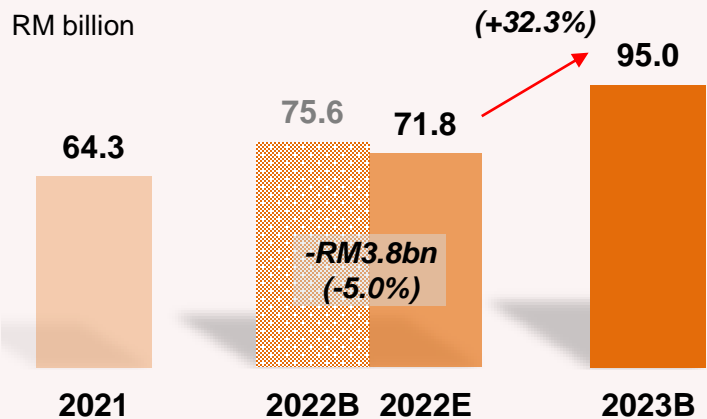
RM billion

COVID-19 Fund



DEVELOPMENT EXPENDITURE (DE) (25.5% of total expenditure in 2023)

RM billion



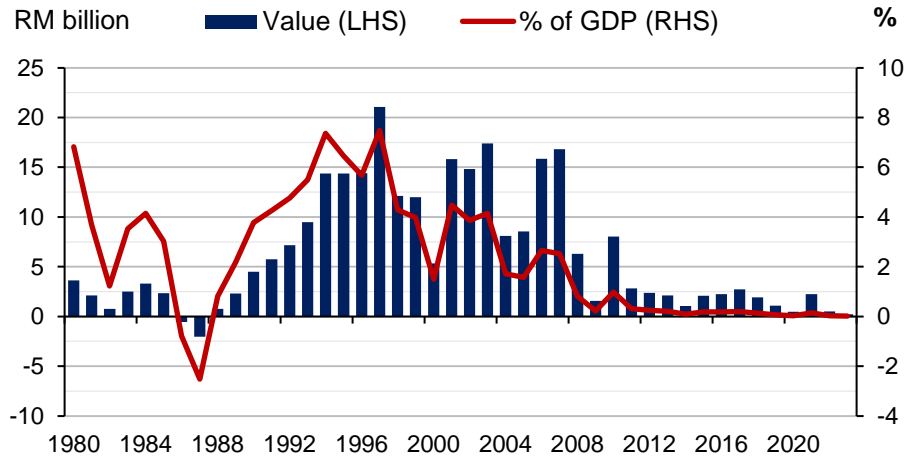
* Includes the COVID-19 Fund: 2021 (RM37.7bn), 2022B (RM23.0bn), 2022E (RM28.8bn) and 2023B (RM5.0bn)
The COVID-19 Fund ceiling amounted to RM110 billion as stipulated under Act 830. As of August 2022, RM86 billion (or 78.2%) has been utilized.

2022B refers to initial budget estimates in 2022 Budget
2022E refers to revised estimates in 2023 Budget

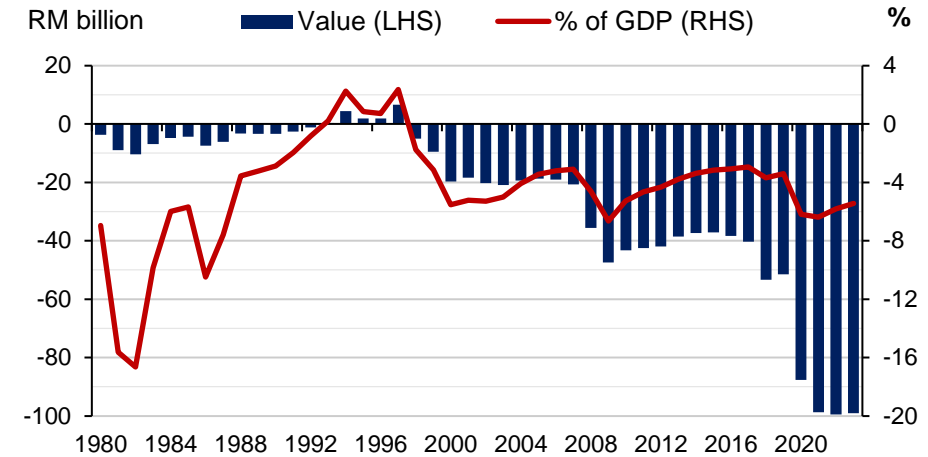
Source: MOF

2023 Fiscal current balance and overall fiscal balance

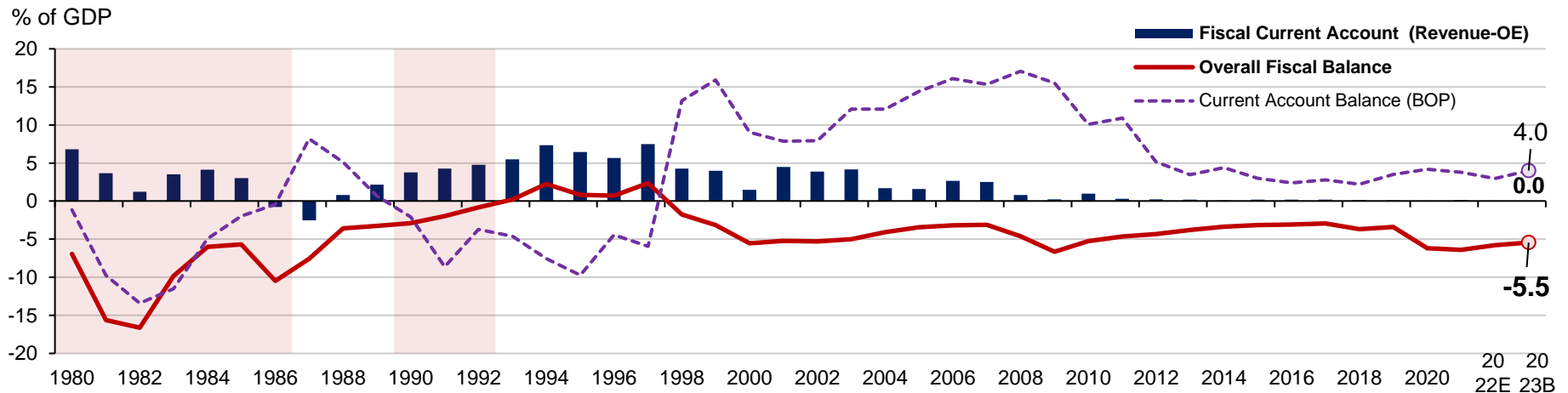
Shrinking fiscal current account surplus is worrying



Reducing overall fiscal deficit needs bold fiscal reforms



Structural adjustments are needed to avoid either (i) Twin deficits in fiscal current account and overall deficit or (ii) Twin deficits in overall fiscal balance and BOP's current account balance

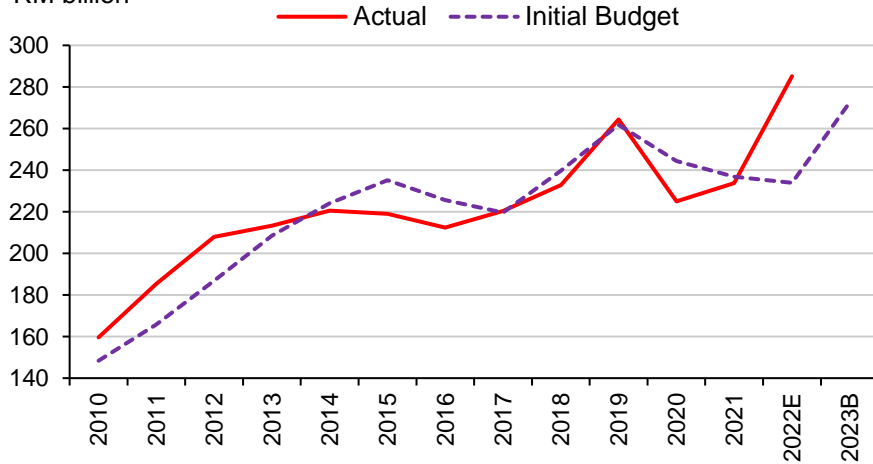


Source: BNM; EPU; MOF

Budgetary operation trends – Actual vs. Budget/Estimates

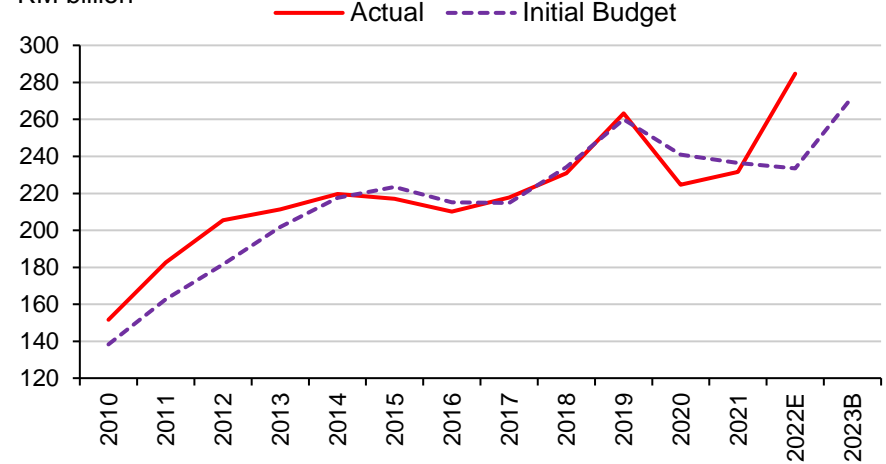
PETRONAS dividend boosted revenue to help meet bloated subsidies and expenditure

RM billion



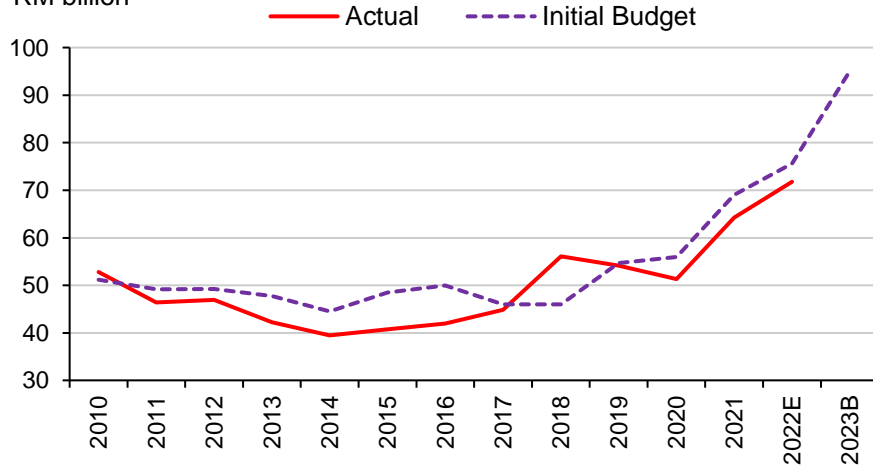
Operating expenditure higher than budgeted, due to bloated subsidies

RM billion



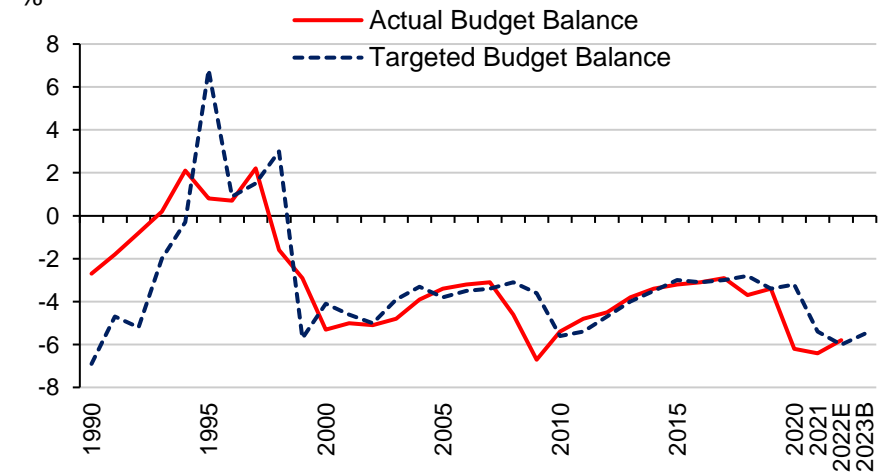
Development expenditure mostly fell short of Budget's estimates

RM billion



Fiscal deficit narrows marginally in terms of GDP ratio, but the level still high

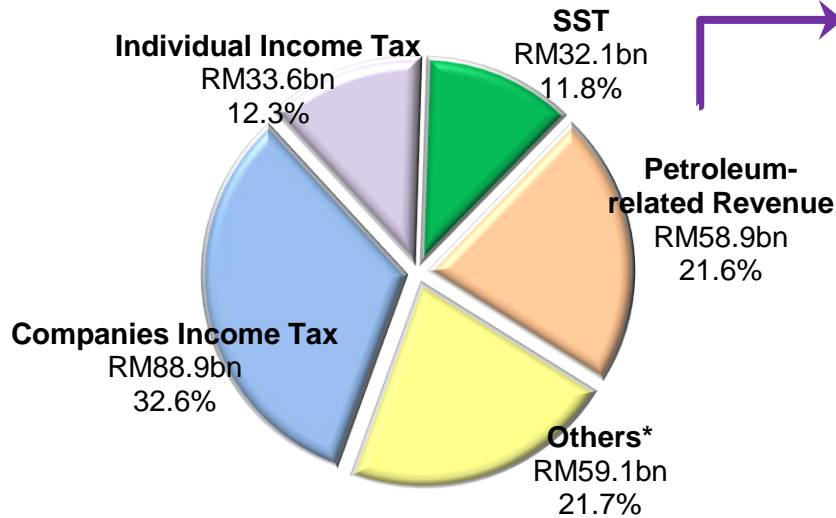
%



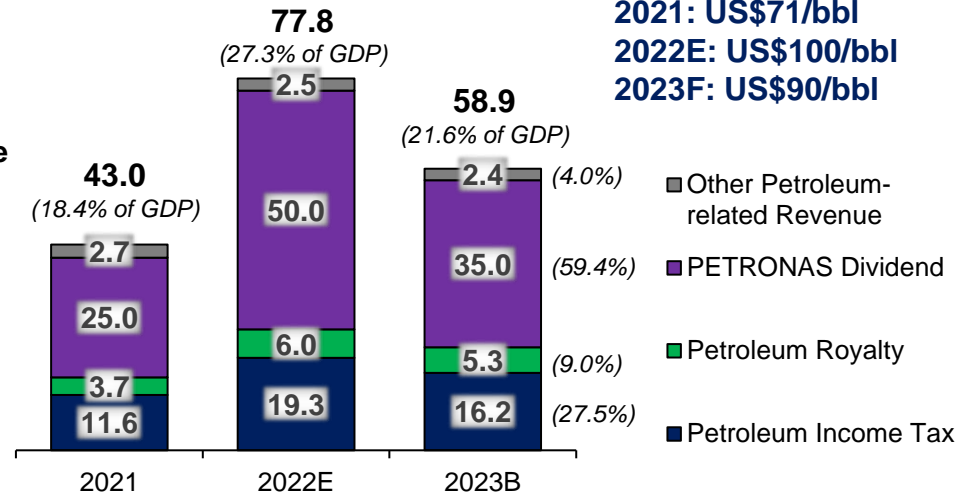
Source: MOF

Distribution in revenue

2023B: Where the money comes from?



Petroleum-related revenue (RM billion)



Oil price assumption:
 2021: US\$71/bbl
 2022E: US\$100/bbl
 2023F: US\$90/bbl

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

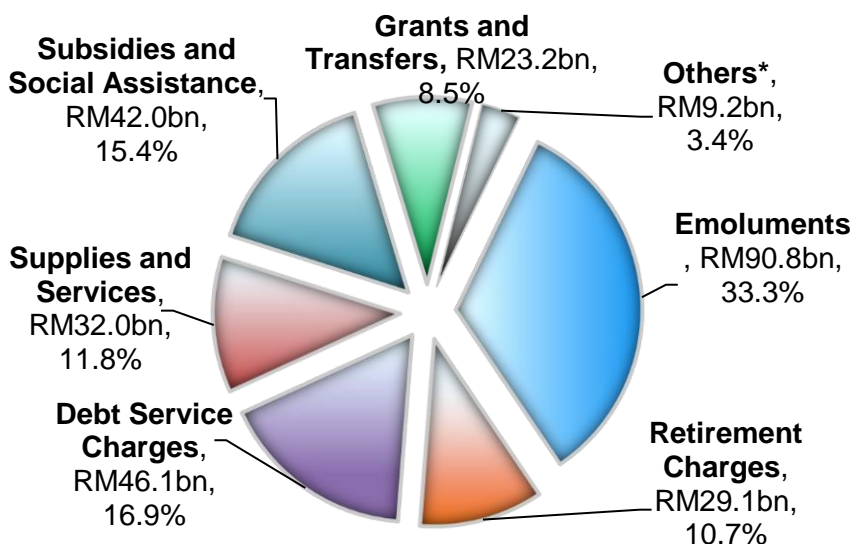
Figure in parenthesis indicates % share of total petroleum-related income in 2023B

Major components	2022E (RM billion)	Share (%)	2023B (RM billion)	Share (%)	Change (RM billion)	Change (%)
Direct taxes	147.2	51.6	152.4	55.9	+5.2	+3.5
Companies Income Taxes	84.8	29.7	88.9	32.6	+4.1	+4.8
Individuals Income Taxes	30.6	10.7	33.6	12.3	+3.0	+9.8
Indirect taxes	51.0	17.9	53.2	19.5	+2.2	+4.3
SST	29.7	10.4	32.1	11.8	+2.4	+7.9
Non-tax revenue; non-revenue receipts; etc.	87.0	30.5	67.0	24.6	-20.0	-23.0
Overall revenue	285.2		272.6		-12.6	-4.4

Source: MOF

Distribution in operating expenditure (OE)

2023B: Where the money goes?



* Includes asset acquisition, refunds and write-offs, grants to Statutory Funds, etc.

- OE is expected to decline by 4.3% (or RM12.4 billion) to RM272.3 billion in 2023 (+23.0% in 2022), mainly due to a reduction of RM16.9 billion or -28.7% in subsidies and social assistance due to a gradual implementation of targeted fuel subsidy scheme on 1 January 2023.
- However, other components show increases: **Debt Service Charges** (+7.0% or RM3.0 billion) and **Grants and Transfers** (+7.8% or RM1.7 billion).
- **Debt service charges will make up 16.9% of total revenue** in 2023 (15.1% of revenue in 2022), which exceeds the 15% threshold in accordance to international best practices.

Major components	2022E (RM billion)	Share (%)	2023B (RM billion)	Share (%)	Change (RM billion)	Change (%)
Emoluments	86.5	30.4	90.8	33.3	+4.3	+4.9
Retirement charges	28.7	10.1	29.1	10.7	+0.4	+1.4
Debt service charges	43.1	15.1	46.1	16.9	+3.0	+7.0
Supplies and services	33.3	11.7	32.0	11.8	-1.3	-3.8
Subsidies and social assistance	58.9	20.7	42.0	15.4	-16.9	-28.7
Grants and transfers	21.5	7.6	23.2	8.5	+1.7	+7.8
Overall operating expenditure	284.7		272.3		-12.4	-4.3

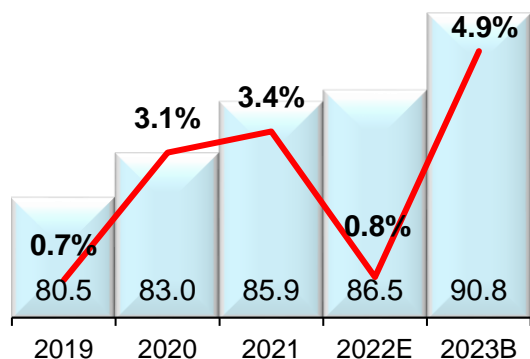
Source: MOF

Distribution in operating expenditure by component

Emoluments

(RM bn)

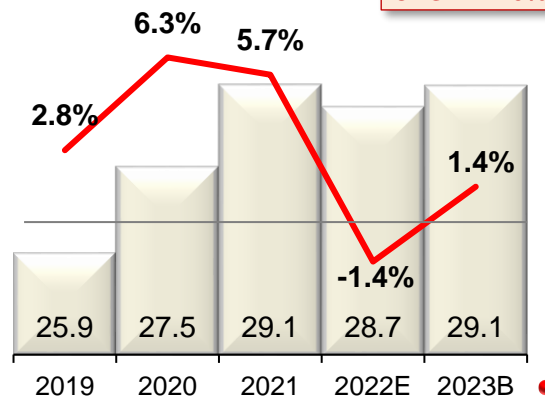
2020-2023B
CAGR: +3.0% pa



Retirement charges

(RM bn)

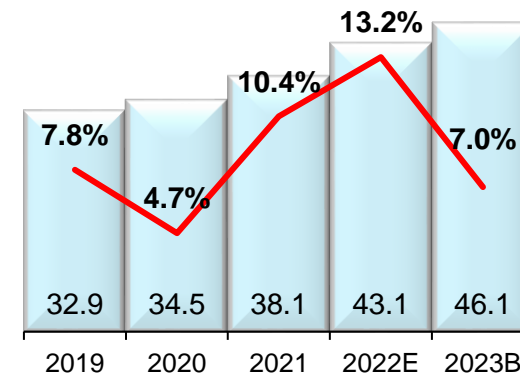
2020-2023B
CAGR: +2.9% pa



Debt service charges

(RM bn)

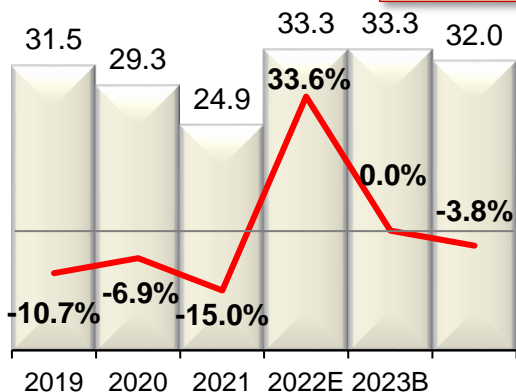
2020-2023B
CAGR: +8.8% pa



Supplies and services

(RM bn)

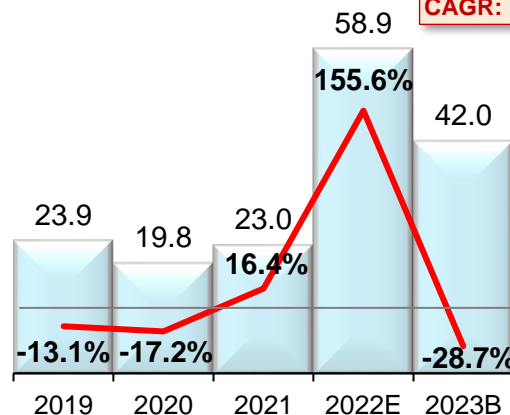
2020-2023B
CAGR: +0.4% pa



Subsidies and social assistance

(RM bn)

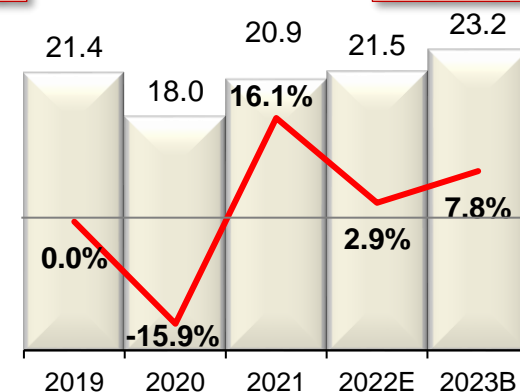
2020-2023B
CAGR: +15.1% pa



Grants and transfers¹

(RM bn)

2020-2023B
CAGR: +2.0% pa



Note: Line chart indicates an annual rate of change in component of operating expenditure; straight line indicates 0%

¹ Includes grants and transfers to state governments and grants to statutory bodies

Source: MOF

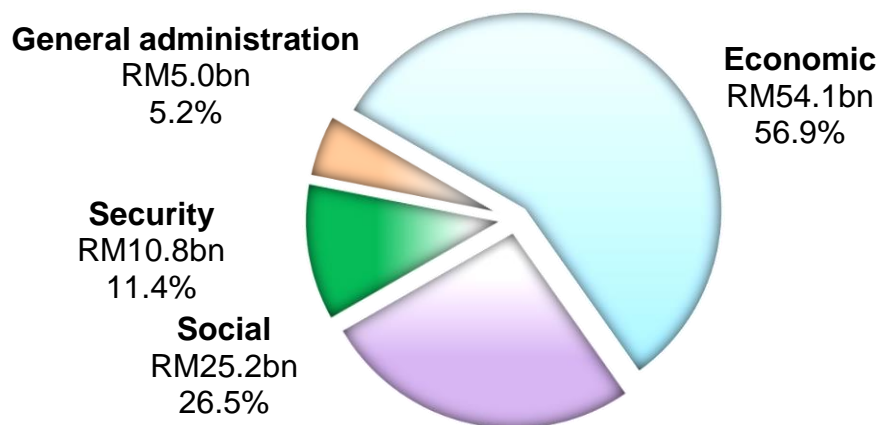
Bloated subsidies to mitigate inflation and rising cost of living

- According to MOF's media statements on 25 & 30 June 2022, total subsidies are expected to reach RM77.7 billion in 2022. These bloated subsidies have added pressure on the already-constrained fiscal balance sheet.
- As blanket subsidies for petrol, diesel, water and electricity also benefitting many of the M40 and T20 households, compelling a move towards targeted subsidy rationalisation scheme, which will start implementation on 1 January 2023.
- **Subsidies and social assistance are budgeted at RM42.0 billion (20.7% of total operating expenditure) in 2023**, a decline of RM16.9 billion from RM58.9 billion in 2022.

Subsidy (RM billion)	2022 Budget	2022 (Needs)
Petrol, Diesel & LPG	3.7	41.7
Cooking oil (1kg packet under cooking oil stabilisation scheme (COSS) and bottle)	0.4	3.0
Electricity bill subsidies	-	5.8
Other consumer subsidies	1.1	1.5
Other subsidies	25.8	25.7
Total	31.0	77.7

Distribution in development expenditure (DE)

2023B: Where the money goes?



- DE is expected to increase by 32.3% to RM95.0 billion in 2023 (+11.7% to RM71.8 billion in 2022), mainly for transport, trade and industry, energy and public utilities, housing, security as well as general administration.
- Allocation for DE marks a new record high in 2023, of which US\$3.0 billion is for the redemption of 1MDB bond maturing on 9 March 2023.
- Including 2023B allocation, **total DE will amount to RM231.0 billion in 2021-2023B**, making up 57.8% of RM400 billion DE allocation in 12MP.

Major components	2022E (RM billion)	Share (%)	2023B (RM billion)	Share (%)	Change (RM billion)	Change (%)
Economic	37.4	52.1	54.1	56.9	+16.6	+44.4
Transport	14.1	19.7	16.5	17.3	+2.4	+16.7
Energy and public utilities	2.6	3.6	3.3	3.4	+0.7	+27.1
Agriculture	2.8	3.9	3.1	3.3	+0.3	+11.0
Trade and industry	2.1	2.9	2.7	2.8	+0.6	+28.7
Social	22.2	30.9	25.2	26.5	+3.0	+13.5
Education and training	11.7	16.3	12.8	13.5	+1.1	+9.2
Health	4.457	6.2	4.7	5.0	+0.3	+5.8
Overall development expenditure	71.8		95.0		+23.2	+32.3

Source: MOF

Distribution in development expenditure (DE) (cont.)

By Sector	2021	2022E	2023B	2021	2022E	2023B	2021	2022E	2023B
	RM million			% YoY			% Share		
Economic	31,284	37,431	54,051	9.0	19.6	44.4	48.7	52.1	56.9
Transport	12,988	14,100	16,460	1.6	8.6	↑16.7	20.2	19.7	17.3
Trade and industry	1,756	2,084	2,682	-31.8	18.7	↑28.7	2.7	2.9	2.8
Energy and public utilities	2,115	2,557	3,251	-8.6	20.9	↑27.1	3.3	3.6	3.4
Agriculture	2,463	2,789	3,095	23.0	13.2	11.0	3.8	3.9	3.3
Environment	1,310	2,059	2,333	-1.1	57.2	13.3	2.0	2.9	2.5
Communications	94	343	942	25.3	264.9	↑174.6	0.1	0.5	1.0
Social	22,603	22,167	25,156	63.5	-1.9	13.5	35.2	30.9	26.5
Education and training	8,230	11,708	12,788	22.2	42.3	9.2	12.8	16.3	13.5
Health	8,719	4,457	4,714	118.9	-48.9	5.8	13.6	6.2	5.0
Housing	1,360	1,660	2,053	34.0	22.1	↑23.7	2.1	2.3	2.2
Security	7,498	8,752	10,831	29.6	16.7	↑23.8	11.7	12.2	11.4
General Administration	2,872	3,450	4,962	-5.4	20.1	↑43.8	4.5	4.8	5.2
Total	64,257	71,800	95,000	25.1	11.7	↑32.3	100.0	100.0	100.0
Share to GDP (%)	4.2	4.2	5.2						

57.8% of RM400 billion of DE in 12MP

- RM81.3 billion – 5,900 ongoing projects
- RM13.7 billion – 1,700 new projects

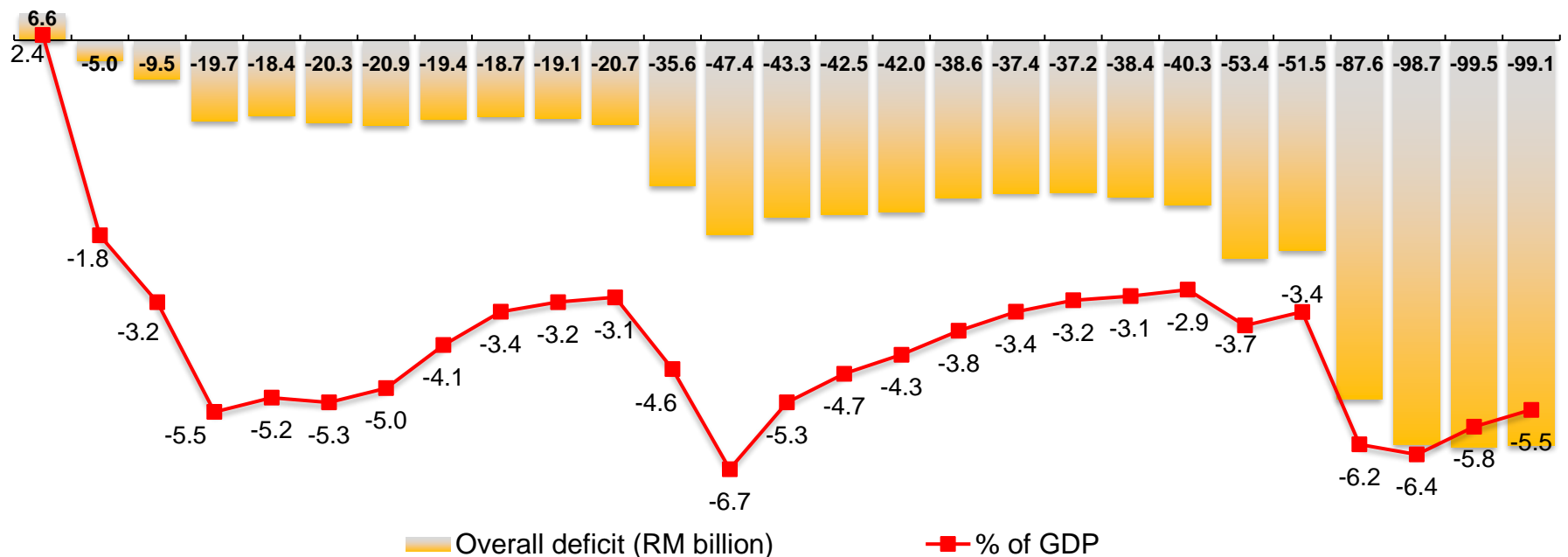
Source: MOF

Malaysia's fiscal balance trajectory since 1997

- 2023 Budget deficit of 5.5% of GDP marks the 26th consecutive year of deficit since 1998.
- While the medium-term fiscal consolidation has to be tackled gradually, we need strong political commitments to **rebuild fiscal buffers through increased revenue collection and enhanced spending efficiency** should remain a key policy priority.












Federal Government's Overall Fiscal Balance

1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022E 2023B







Source: MOF

Medium-Term Fiscal Framework (MTFF) 2023-2025

	MTFF 2023-2025	
	Total (RM billion)	Share of GDP (%)
 Revenue	854.3	14.7
 Non-petroleum	699.5	12.0
 Petroleum-related	154.8	2.7
 Operating expenditure	842.8	14.5
 Current balance	11.5	0.2
 Gross development expenditure	263.9	4.5
 Less: Loan recovery	1.9	0.0
 Net development expenditure	262.0	4.5
 COVID-19 Fund [^]	5.0	0.1
 Overall balance	-255.5	-4.4
 Primary balance	-106.4	-1.8



Underlying assumptions (average)

 Real GDP growth (%)	4.5
 Nominal GDP growth (%)	6.4
 Crude oil price (USD per barrel)	90
 Oil production (barrels per day)	530,000

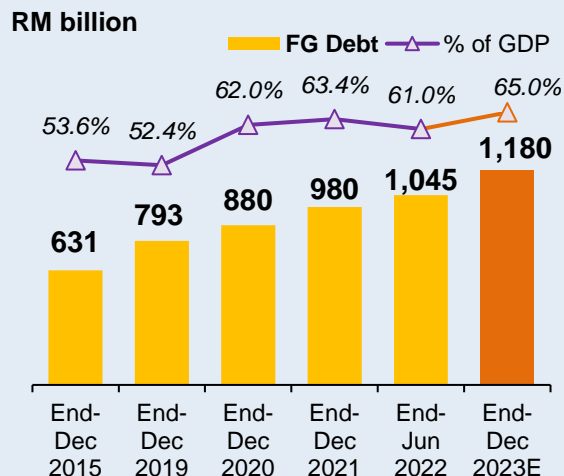
[^] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19) Act 2020) to finance economic stimulus packages and recovery plans

Note: MTFF estimate, excluding budget measures

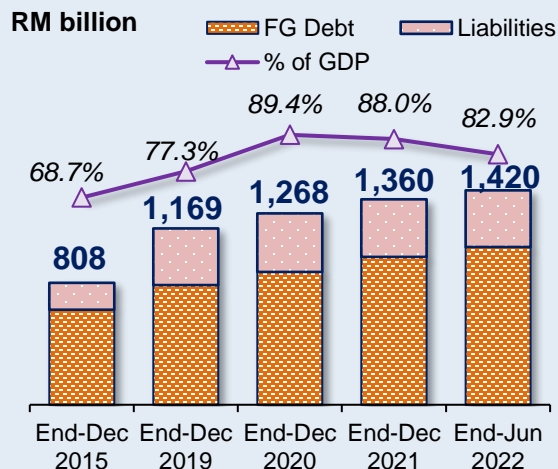
Source: MOF

We have to anchor expectations of sustainable fiscal and debt levels

Federal Government (FG)'s debt



Debt and liabilities



Note: Liabilities in 2015 cover government guarantee only.

- The Federal Government's direct debt continued to increase over the years to **RM1.04 trillion (61.0% of GDP) at end-Jun 2022**. It marks a record high level though the debt to GDP ratio was lower from 63.4% of GDP (RM980 billion) at end-2021.
- The overall debt is projected to be around 65% of GDP while statutory debt at 63% by end-2023. To ensure a smooth implementation of 12MP, the Government may extend the statutory debt limit of GDP in the medium-term after the expiry of the Act 830 on 31 Dec 2022.
- Compared to selected A-rated peers and regional economies, Malaysia ranked the sixth highest (worst) in 2021.
- In terms of debt service charges (DSC) to revenue ratio, Malaysia ranked the second highest at 16.3% in 2021. The DSC is expected to rise higher to 16.9% of revenue in 2023 from 15.1% in 2022, which exceeds the threshold 15% in accordance to international best practices.

Debt legislative guidelines

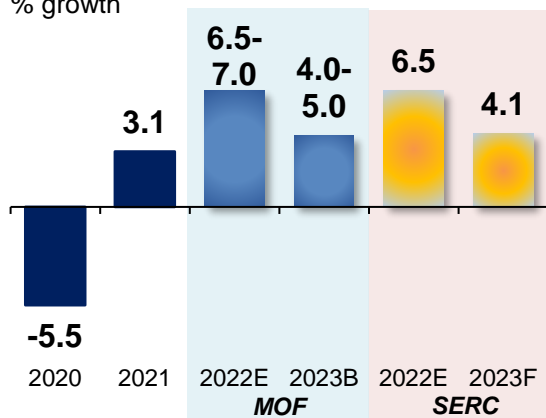
Act	Statutory Limit	End-June 2022
<ul style="list-style-type: none"> Loan (Local) Act 1959 [Act 637] Government Funding Act 1983 [Act 275] Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) (Amendment) Act 2021 [Act A1635] 	Outstanding MGS, MGII and MTIB not exceeding 65% of GDP	57.8% of GDP (RM989 million)
External Loans Act 1963 [Act 403]	Offshore borrowings not exceeding RM35 billion	RM29.4 billion
Treasury Bills (Local) Act 1946 [Act 188]	MTB not exceeding RM10 billion	RM8.5 billion

Source: BNM; MOF

Downside risks weigh on the economy in 2023

Real GDP growth will slow in 2023

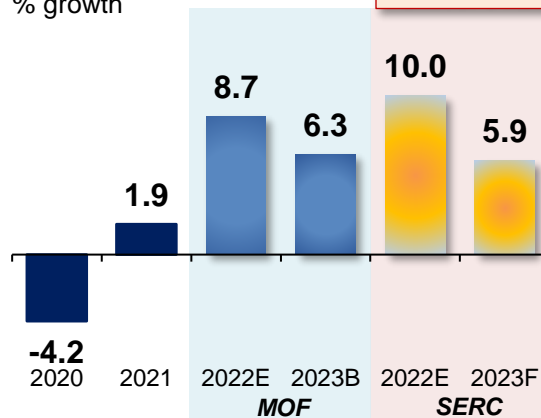
Real GDP
% growth



... supported by income and job growth ...

Private Consumption
% growth

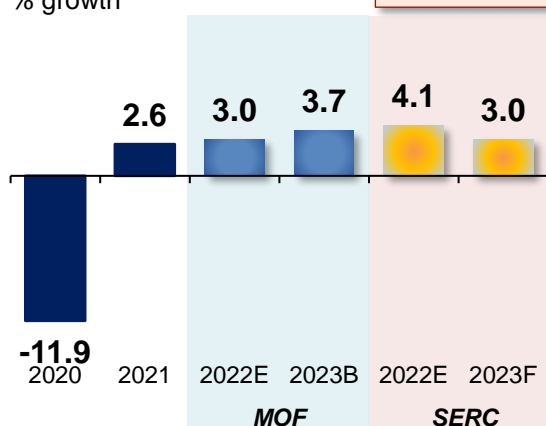
Share of GDP in
2023B: 61.2%



... and moderate growth in private investment and public investment

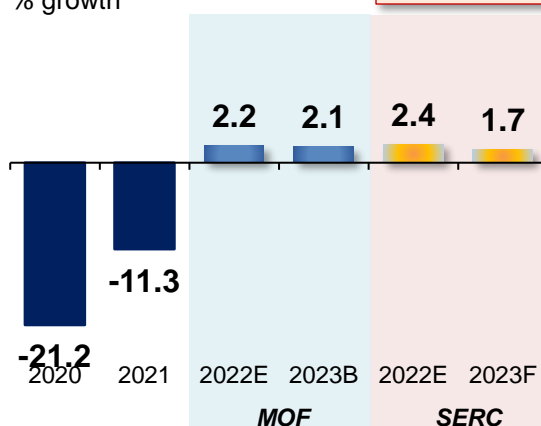
Private Investment
% growth

Share of GDP in
2023B: 15.0%



Public Investment
% growth

Share of GDP in
2023B: 4.2%

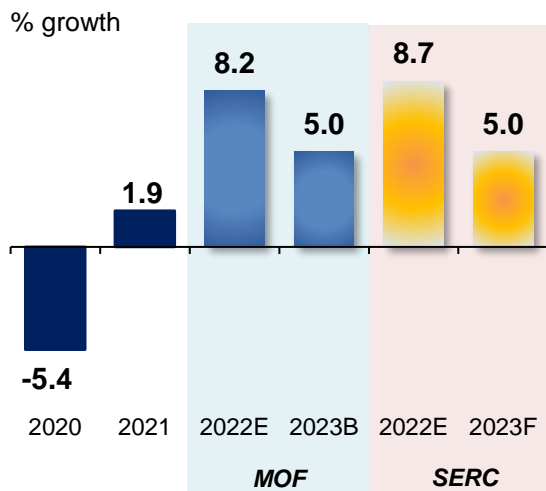


- MOF expects the economy to grow between **4.0%-5.0% in 2023**, backed by ongoing policy support to cushion the impact of rising cost of living and mitigate the downside risks stemming from prolonged geopolitical uncertainties and tightening global financial conditions.
- The MOF estimates **slower private consumption growth to 6.3% in 2023** from estimated 8.7% in 2022 while **private investment will improve moderately to 3.7% in 2023** (3.0% in 2022).
- MOF's estimates are higher than SERC's estimates (private consumption: 5.9% in 2023; private investment: 3.0% in 2023). Continued higher inflation and cost of living as well as interest rate increases would crimp consumer spending power.
- Private investment will remain on a cautious mode on increased costs, shortage of workers; external uncertainties and domestic political uncertainty.

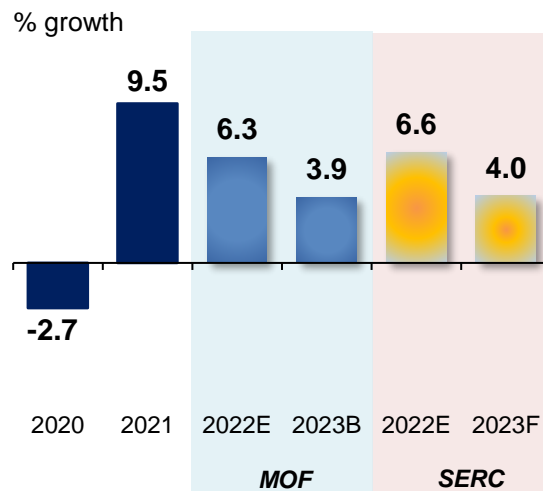
Source: DOSM; MOF

Downside risks weigh on the economy in 2023 (cont.)

Services sector (58.4% of total GDP)

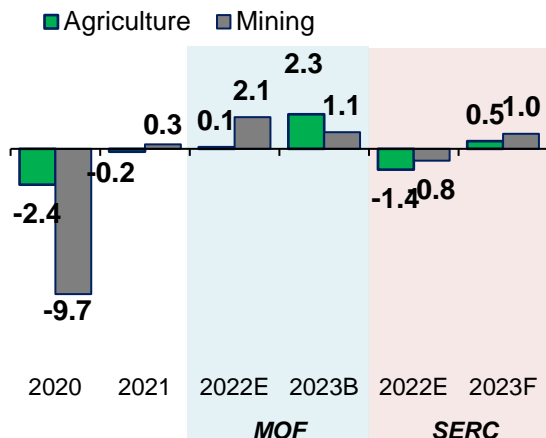


Manufacturing (24.2%)

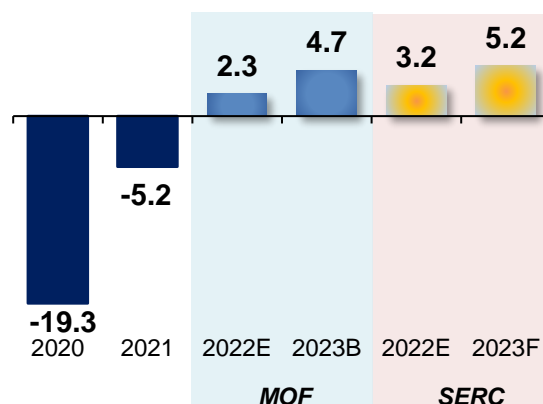


Agriculture (6.6%); Mining (6.2%); and Construction (3.5%)

Agriculture and Mining, % growth



Construction, % growth



Services

- Driven by the **wholesale and retail trade** (wider usage of e-commerce and rapid transition to digitalization); **real estate and business services** (higher demand for professional services particularly engineering, legal and accounting); **information and communication** (increasing digital adoption, Phase 2 of JENDELA, surge in e-commerce and online entertainment activities)

Manufacturing

- Supported by expansion in all subsectors across both export- and domestic oriented industries.

Agriculture

- Improvement in labour supply; oil palm subsector is expected to expand on account of higher CPO output (increase in fresh fruit bunches production and better oil extraction rate); rubber subsector will turnaround.

Mining

- Higher natural gas output (completion of new pipeline projects in Sarawak); higher demand from major trading partners (esp. Japan); new demand from domestic industrial and petrochemical segment.

Construction

- The implementation of new projects such as Mass Rapid Transit Line 3 (MRT3) Circle Line and acceleration of ongoing infrastructure projects which include, Rapid Transit System (RTS) Link, East Coast Rail Link (ECRL) and Light Rail Transit Line 3.

Source: DOSM; MOF

Note: % in parenthesis refers to share of GDP in 2023B

List of major new projects under development expenditure

Transport sector RM16.5bn

Upgrading, expansion and maintenance of infrastructure



Trans Borneo Highway



Sarawak Sabah Link Road Phase 2



Pengalat-Papar bypass road in Sabah



Upgrading of Pasir Gudang Highway

Energy and public utilities RM3.3bn

Construction of:

- *Water treatment plant in Landeh, Sarawak*
- *Solar hybrid system in Beluran, Sabah*
- *Upgrading of regional sewerage treatment plant in Pasir Gudang, Johor*



Health and Housing sector RM4.7bn and RM2.1bn

To build, upgrade and repair health facilities and affordable housing



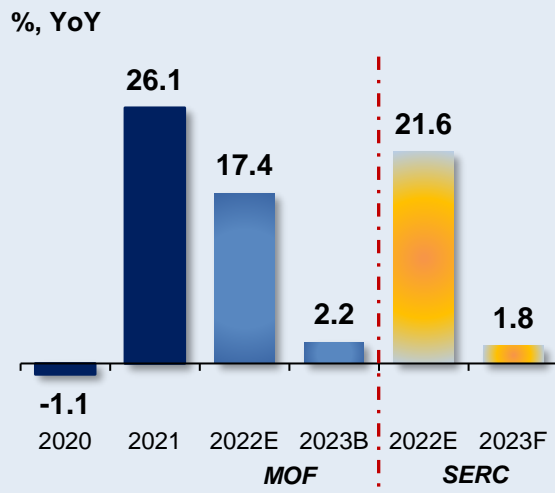
Construction of:

- *Women and children's block in Melaka General Hospital*
- *People's Housing Project (PPR) in Arau, Perlis; Marang, Terengganu; and Machang, Kelantan*

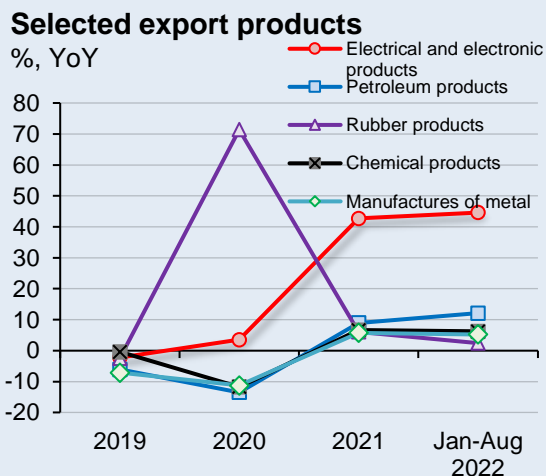
Source: MOF

Exports are expected to slow markedly in 2023

Export performance



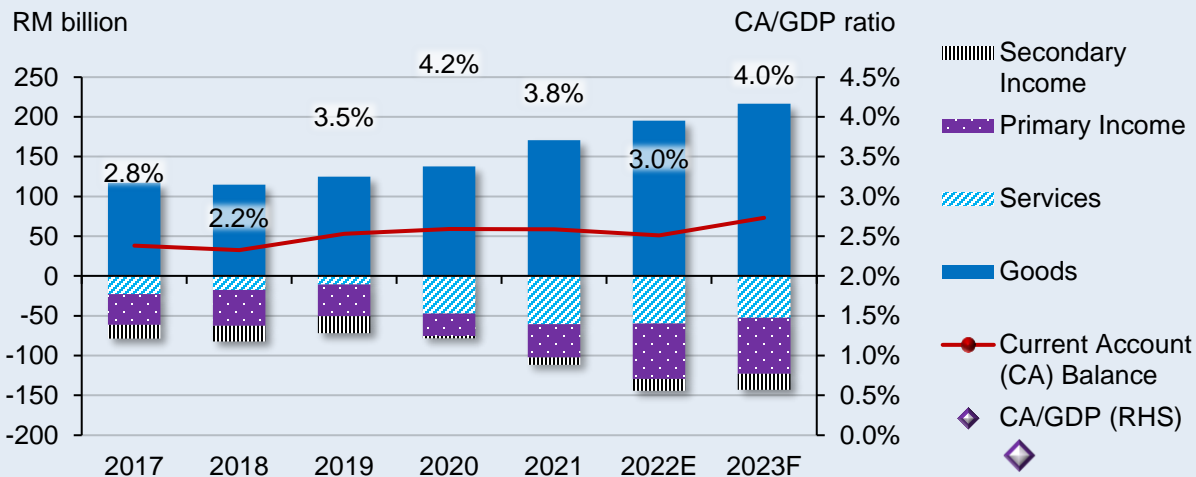
Major export products



Gross Exports

- Supported by modest external demand due to lackluster global growth following uncertainties arising from prolonged geopolitical tensions and supply chain disruptions.
- Lower Brent crude oil price (US\$90/bbl in 2023 vs. US\$100/bbl in 2022); and CPO price (RM4,300/MT in 2023 vs. RM5,000/MT in 2022).
- SERC concurs with MOF's assessment that exports are expected to slow, reflecting the dampening impact of weakening global demand, easing prices of energy and commodities as well as being challenged by the high base effects.

Current account surplus narrows further despite stronger trade balance

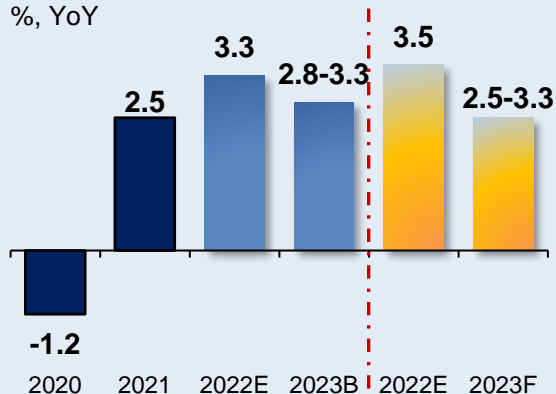


Source: DOSM; MOF

Inflation and labour market condition

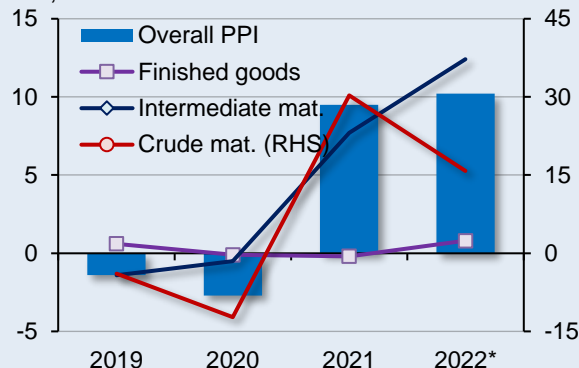
Inflation

Consumer prices
%, YoY



Producer Price Index (PPI)

Producer prices
%, YoY

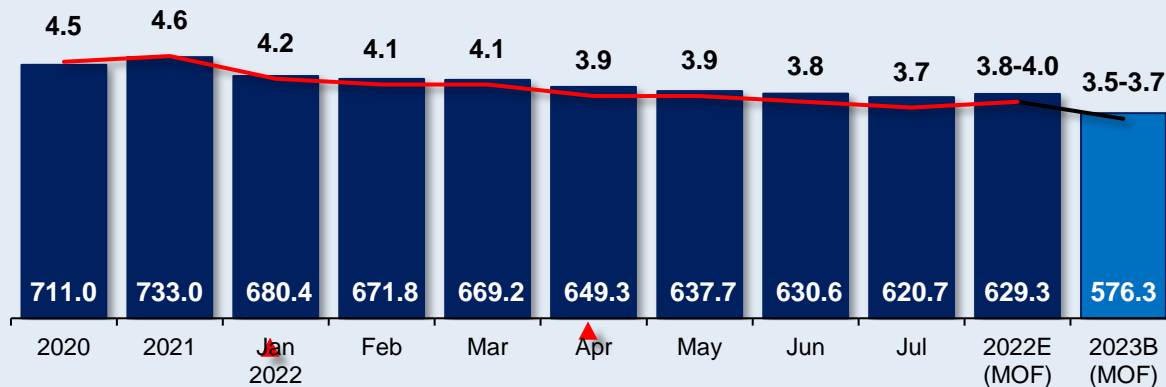


* Jan-Jul 2022; mat.=materials

Labour market condition

Unemployed person ('000)

Unemployment rate (%)



Source: DOSM; MOF

Price level

- **Headline inflation** is forecast to increase between 2.8% and 3.3% in 2023 (3.3% in 2022), following stable commodity prices as well as a gradual move towards targeted subsidies mechanism.
- **Producer prices** are expected to moderate on account of stable global input costs.

Labour market

- **Unemployment rate** is projected to improve in the range of 3.5%-3.7% in 2023.
- This is in tandem with better growth prospects anticipated in both the domestic and external front. Continuous upskilling and reskilling programmes will improve demand for labour.
- The number of low-skilled foreign workers (1.2 million persons at end-Aug 2022) and expatriates (86,023 persons at end-June 2022) is projected to increase to the pre-pandemic level.

Upside and Downside risks to Malaysia's growth prospects in 2023

UPSIDE RISKS

- Fiscal Support for **inflation** and **cost of living**
- Efforts in **mitigating the downside risks**
- **Strong improvement in tourism sector**
- **Successful containment of the pandemic**
- Continued **improvement in the labour market**

DOWNSIDE RISKS

- **Inflationary pressure**
- Acute **labour shortages**
- **Geopolitical uncertainties**
- **Tightening global** financial conditions
- **Rising recessionary risk**

SERC's commentaries on 2023 Budget and Economy

2023 Budget

- The Budget 2023 set a course for sustaining economic recovery amid a small effort to resume the fiscal consolidation path for restoring the health of public finances. It will extend short-term fiscal and financial assistance support to the immediate needs of the vulnerable households and selected sectors that need time for a full-fledged recovery.
- The Budget seeks to prioritize the allocation towards expenditures in infrastructure, climate change related projects, the adoption of ESG, healthcare, transportation, skills development, education, digital infrastructure and supporting the vulnerable segment of the population.
- After three years' deficit averaging 6.1% of GDP in 2020-2022, the budget deficit is targeted to narrow marginally to 5.5% of GDP (RM99.1 billion) in 2023 from estimated -5.8% of GDP (RM99.5 billion) in 2022, indicating a baby step in fiscal consolidation due to limited room for maneuvering of spending. After taking into account the Budget's measures net revenue loss of RM1.3 billion, the overall deficit still remains at 5.5% of GDP in 2023.
- A total allocation of RM372.3 billion or 20.5% of total is allocated for 2023 Budget, of which operating expenditure (OE) will be allocated RM272.3 billion (73.1% of total) while RM95.0 billion or 25.5% for development expenditure (DE).
- While the Federal revenue and OE is budgeted to decline by 4.4% and 4.3% respectively in 2023, Ministry of Finance (MOF) has budgeted a new record high of RM95.0 billion for DE (25.5% total expenditure and 5.2% of GDP), marking a substantial increase of 32.3% from estimated RM71.8 billion in 2022. Higher allocation of DE is for the construction of highways and railways, water and sewerage treatment plants, medical and education facilities as well as a sum of US\$3 billion for the redemption of 1MDB's maturing bond in March 2023. About 1,700 new projects have been approved with an allocation of RM13.7 billion on top of the existing 5,900 projects.
- While we reckon that an extraordinary higher allocation of DE is to help cushioning domestic economy against the risk of global recession in 2023, our concern is not only the implementation capacity of the Ministries and agencies but also the effectiveness of projects/ projects implementation as well as the leakages and misappropriation of public funds. The real multiplier impact of the projects would depend on how fast the allocation is disbursed and effectively carry out the planned projects and programs.
- However, there are risks to fiscal plan stemming from a weakening economic growth and high inflation, which could affect the tax revenue collection, continued subsidies, higher contingency expenses, as well as calls for permanent increases in spending that exceed available resources.

SERC's commentaries on 2023 Budget and Economy (cont.)

Economic growth

- The MOF expects the Malaysian economy (real GDP) to grow between 4.0% and 5.0% in 2023, slowing from estimated 6.5%-7.0% in 2022. This is in line with our estimates of 6.5% in 2022 and 4.1% for 2023, reflecting the impact of weakening global growth, a normalisation of domestic demand as the consumption booster effect faded and restraint by the technical high-base effects.
- We caution that growth risks in 2023 skewed to the downside given the considerable risks to the global economy, especially recession risk in the US economy and Europe, strong inflation pressures, continued military conflicts in Russia-Ukraine, and higher US interest rate induced negative spill over disruption effects on domestic economy. The worst-case scenario is real GDP growth could be around 2%-3% in 2023 if there is a deep global recession and domestic demand pulls back sharply.
- The MOF estimates slower private consumption growth to 6.3% in 2023 from estimated 8.7% in 2022 while private investment will improve moderately to 3.7% in 2023 (3.0% in 2022). These estimates are higher than SERC's estimates (private consumption: 5.9% in 2023; private investment: 3.0% in 2023). Continued higher inflation and cost of living as well as interest rate increases would crimp consumer spending power. Unemployment rate will ease slightly to 3.5%-3.7% in 2023 from estimated 3.8%-4.0% in 2022. The continued payment of Bantuan Keluarga Malaysia totalling of RM7.8 billion to benefit 8.7 million households and individuals and other financial assistance, including a reduction in personal income tax rate by 2% for the chargeable income between RM50,000 and RM100,000, resulting in tax savings between RM250 and RM1,000 is expected to help relieve households' financial burden. This will release RM800 million disposable income.
- Private investment will remain on a cautious mode on increased costs, shortage of workers; external uncertainties and domestic political uncertainty. The proposed reduction in the preferential tax rate to 15% from 17% currently for SMEs on the first chargeable income of RM100,000 is expected to result in tax savings of RM2,000 for 150,000 tax payers.
- We concur with MOF's assessment that exports are expected to slow markedly to 2.2% in 2023 from estimated 17.4% in 2022. SERC is more cautious about exports estimated 1.8%, reflecting the dampening impact of weakening global demand, easing prices of energy and commodities as well as being challenged by the high base effects. Brent crude oil price is projected to average US\$90 per barrel in 2023 (estimated US\$100 per barrel in 2022) while crude palm oil price to average RM4,300 per tonne in 2023 (2022:RM5,000 per tonne).
- Inflation is estimated to range between 2.8%-3.3% in 2023 (estimated 3.3% in 2022), which is in line with SERC's estimates of 3.5% in 2022 and 2.5-3.3% in 2023. This is to factor in a gradual move towards targeted subsidies mechanism amid easing energy and commodity prices.

SERC's commentaries on 2023 Budget and Economy (cont.)

Structural Reforms

- Faster implementation of structural reforms would bolster confidence and economic recovery; and also ensure the economy is fit and better able to realise its growth potential in a balanced and competitive way. The Fiscal Responsibility Act is expected to be tabled in Parliament by end-2022 to deliver better fiscal outcomes, enhance governance, accountability and transparency in financial management.
- However, we are disappointed that Budget did not commit a wholesale tax reform to broaden the tax base as current narrow tax base is unsustainable. In times of meeting revenue shortfall, the Government has implemented a piecemeal approach such as the windfall tax, Prosperity Tax or turned to PETRONAS as its last resort of banker, thanks to soaring crude oil prices. But once the high crude oil prices fizzle out, the challenges for having a sustainable revenue stream to meet high committed obligations and expenditure remain.
- There's going to be sustained pressures on the Budget – public healthcare, education, social community services, fiscal support for aging population and aged care. Debt service charges bill at 16.9% of total operating expenditure (RM46.1 billion) in 2023 Budget is under pressure in relation to total revenue of 16.9%, which is higher than the 15% threshold in accordance to international best practices. If the level of debt is not stabilised, the interest bill will rise significantly given rising bond yield.
- Hence, the Government has to move forward with a tax reform system fit for purpose that takes on board all the pressures on the Federal Budget is critical to anchor expectations for sustainable fiscal and debt level. Malaysia has incurred unbroken 26 consecutive years of deficits, resulting in a cumulation of RM1.04 trillion Federal Government debt or 61.0% of GDP at end-June 2022. Total debt and liabilities of FG was estimated at RM1.42 trillion or 82.9% of GDP as at end-June 2022.
- The bloated subsidies and financial assistance of RM58.9 billion or 20.7% of total operating expenditure in 2022 has forced on the Government to implement a gradual subsidies rationalisation, moving towards a targeted regime based on needs and income from a blanket approach. This is expected to reduce subsidies and social assistance by RM16.9 billion to RM42.0 billion or 15.4% of total operating expenses in 2023 Budget.
- Subsidies come with huge “opportunity cost” to the society. It reduces the fiscal capacity as the huge financial resources spent on subsidies have diverted the budget's allocation from other sectors such as education, healthcare, infrastructure and housing. Subsidy programs encourage waste and degrade environment. The implementation of the subsidy reform must have three important principles (3 “Cs”) – **CREDIBLE, COMPENSATION and COMMUNICATION**.

Part 2: 2023 Budget – Measures and Initiatives

- **The fiscal policy remains expansionary** to support continued economic growth while undertaking economic reforms
- **FOR KELUARGA MALAYSIA:** Financial assistance and personal tax reduction to ease the financial burden of targeted households
- **FOR BUSINESSES AND INVESTMENT:** Incentives to attract investment; financing and loan facilities for SMEs; allocation for public infrastructure and utilities
- **FOR SUSTAINABILITY:** Green initiatives and Environmental, Social and Governance (ESG); financing for sustainable Development; and 5G infrastructure



3Rs

R



Responsive

R



Responsible

R



Reformist

BUDGET
2023

**SELECTED MEASURES AND
INITIATIVES IN FOCUS**



1. Targeted cash relief and tax breaks

- **RM7.8bn for Bantuan Keluarga Malaysia (BKM)** with adding a new category – 5 children (existing tiers capped at 4 children)
- **2% point reduction in individual income tax rate for chargeable income band between RM50,000 and RM100,000;** and an increase of 0.5% points for chargeable income band (between RM250,000 and RM400,000)

Chargeable Income (RM)	Existing		Proposal		Savings	
	Tax rate	Max. tax payable	Tax rate	Max. tax payable	RM	%
1-5,000	0	0	0	0	-	-
5,001-20,000*	1	0	1	0	-	-
20,001-35,000*	3	200	3	200	-	-
35,001-50,000	8	1,800	8	1,800	-	-
50,001-70,000	13	4,400	11↓	4,000	400	9.1
70,001-100,000	21	10,700	19↓	9,700	1,000	9.3
100,001-250,000	24	46,700	24	45,700	1,000	2.1
250,001-400,000	24.5	83,450	25↑	83,200	250	0.3
400,001-600,000	25	133,450		133,200	250	0.2
600,001-1,000,000	26	237,450	26	237,200	250	0.1
1,000,001-2,000,000	28	517,450	28	517,200	250	0.0
Exceeding 2,000,000	30		30		250	

* Special income tax rebate of RM400 for chargeable income less than RM35,000

- **e-Pemula**, RM100 per individual with an annual earning less than RM100,000 (RM800m)
- **e-Pemula for youth** of RM200 each (RM400m)

- Cash aid program “Bantuan Keluarga Malaysia (BKM)” is enhanced to benefit 8.7 million recipients with an allocation of RM7.8 billion. This is higher than the cost of living aid in 2020 (5 million recipients and RM5 billion allocation).
- There is no rationalisation of the scheme to ensure it is fiscal sustainable. These include exit mechanism, inclusion and exclusion errors, etc. to wean off from over-dependence on cash handouts. Design a mechanism making cash handouts conditionality and review the eligibility of cash assistance.
- The proposed cut in personal income tax rate for M40 tax payers would result in income tax savings between RM250 and RM1,000, releasing about RM800 million disposable income.
- Coupled with the e-Pemula that will benefit estimated 8 million individuals, these cash handouts and tax breaks as well as subsidies are expected to help mitigate against rising inflation and higher cost of living for the low and middle-income households. However, the expected targeted subsidies rationalisation could take off some disposable income.

2. Ease cost of doing business and cash flow conditions

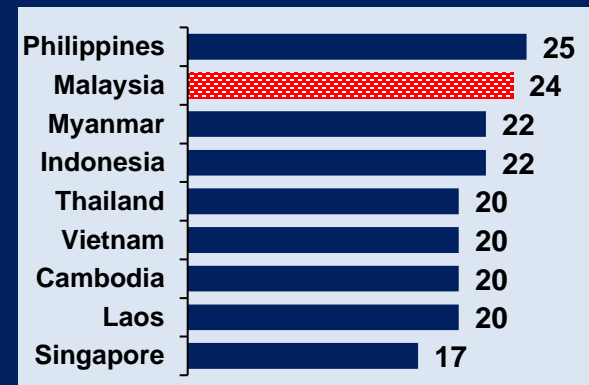
- **Preferential tax rate on chargeable income for the first RM100,000 will be reduced from 17% to 15%, starting YA 2023**

Corporate income tax rate	Existing	Proposal
Company with paid up capital more than RM2.5 million	24	24
Company with paid up capital not more than RM2.5 million		
On first RM100,000	17	15 ↓
On first RM600,000	17	17
Subsequent Balance	24	24

- **One-off grant of RM1,000** to all registered MSMEs and registered taxi drivers
- **Enhanced SemarakNiaga** (includes direct loans, alternative financing and financing guarantees) (RM45bn)
- **100% stamp duty exemption on restructuring or rescheduling loans or financing agreements** extended until 2024

- A cut in preferential tax rate would result in income tax savings of up to RM2,000 for estimated 150,000 SMEs, particularly microenterprises. This is a welcome relief given increased business costs.
- Malaysia's headline corporate income tax rate of 24% has not been reduced for the past seven years since 2016 and has remained as one of the highest tax rate in the region.

Corporate tax rate in regional countries (2022)



Source: Various

- About 1 million MSMEs will also benefit from the one-off cash assistance of RM1,000.

3. Financing facilities

Microcredit Scheme and Financing Facilities (RM1.7bn):

- RM950m **BSN microcredit loan**, including RM350m for Skim Penjaja Kecil Keluarga Malaysia
- RM300m **loan under TEKUN** specifically for **Bumiputera, women, youth, and informal sector**
- RM200m **loan for Chinese community** (as low as 4%)
- RM25m for micro-funding scheme under the **Indian Community Entrepreneur Development Scheme (SPUMI)**; RM100m under **MITRA**
- RM10m for **iTEKAD social finance program**

Strategic Financing (with an interest subsidy of 1.5% per year):

- RM1.5bn for **Sustainable Development Financing Scheme** to facilitate the effort to achieve **17 sustainable development goals**
- RM1bn for **Tourism Infrastructure Scheme** to strengthen the recovery of the tourism sector
- RM1bn for **Maritime and Logistics Scheme** to support oil and gas, shipbuilding and ship repair

- Various financing and credit facilities are expected to ease distressed borrowers' cash flow and drive businesses' growth in tandem with technology and sustainability agenda.
- As of July 2022, loan applications and approvals for SMEs increased substantially by 21.8% and 21.7%, respectively, indicating a recovery trajectory of funding businesses' operations.

Loan indicators, Jan – Jul 2021 and 2022

SMEs	RM billion		% Change	
	2021	2022	2021	2022
Loan applications	99.2	162.3	-9.6	21.8
Loan approvals	37.8	82.7	10.4	21.7
Loan disbursement	170.9	310.9	24.7	27.8
Loans repayment	172	306.3	28.1	25.4
Loans outstanding	292.4	350.5	3.8	4.9

Source: Bank Negara Malaysia

- Despite the provision of financial assistance and financing facilities, MSMEs still experienced a marginal GDP growth of merely 1.0% in 2021 (vs. overall 3.1%), it is important to look into other aspects to strengthen their business resilience: good management practices, innovation, digital and technology adoption.

3. Financing facilities (cont.)

Other Business Financing and Alternative Financing

- RM100m for **Tabung Modal Pusingan Suruhanjaya Koperasi Malaysia** to develop **agro-food industry**
- RM10bn of loans for **SMEs** to encourage **automation and digitalisation and support food security agenda and recovery of the tourism sector**
- RM1bn for **Rehabilitation and Support through Equity Facility (RESET)** and **Skim Modal Kerja** through BPMB to provide equity injection and working capital
- RM135m under **Dana Kemakmuran Bumiputera**
- RM200m under **Perbadanan Usahawan Nasional Berhad (PUNB)** for Bumiputera in the retail sector
- RM235m for **women** under BSN Semarak-Nita, Tekunita TEKUN, DanaNITA MARA and Biz Lady Bank Rakyat schemes
- RM305m for **youths** by SME Bank, TEKUN, MARA, BSN and Agrobank
- RM500m under **BNM Tourism Financing (PTF)**
- RM1bn under **Skim Agrofood BNM** at a rate of 3.75%
- RM20m under **Skim Pembiayaan Kontrak Ekspres (SPIKE)**
- RM1bn for **High Technology & Green Facility** and RM1bn under **Low Carbon Transition Facility**
- RM30m for **Malaysia Co-investment Fund (MyCIF)** to support start-up companies in **the sustainability and social enterprise agenda**

Financing Facilitation:

- Extend **100% stamp duty exemption on restricting or rescheduling loans or financing agreements** until 2024
- **RM9bn financing guarantees** by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) for SMEs, especially for strategic sectors such as **agro-food, sustainable technology, tourism, and oil and gas**
- Expand the scope of tax incentives for individual investors in start-up companies through equity crowdfunding to cover investments made through Limited Liability Partnership Nominee companies

4. Attracting investment

- Khazanah Nasional Berhad to invest **RM1bn under Dana Impak** in 2023; of which RM230m for investments in **local high tech companies**
- Extension of the **intellectual property development tax incentive** until 31 December 2025
- **Tax incentive for angel investors** extended until 31 December 2026
- Over **RM1bn investment fund to attract high-value-added investment**
- RM10m to the **Collaborative Research in Engineering, Science and Technology Centre (CREST)**
- **Extending the relocation tax incentives for electrical and electronic (E&E) sector** and a **15% flat tax rate for C-Suite** until 2024
- RM20m of **matching grants for medical device industry** and **Tax incentive for pharmaceutical companies** be extended until 31 Dec 2025
- **Income tax incentives and investment tax allowances** for aerospace companies will be extended until 31 Dec 2025
- Special status for Pengerang, as well as **chemical and petrochemical industry investment incentives** to develop Pengerang as petrochemical hub
- RM100m allocation to **Domestic Investment Strategic Fund (DISF)**
- Extend the **tax deduction of up to RM1.5m** on expenses incurred for listing on the ACE and LEAP markets until 2025 as well as listing expenses of technology-based companies on Bursa Malaysia's Main Market.
- Existing **tax incentive package in economic corridors** that will expire in 2022 will be improved and extended for another two years
- Develop a **digital traffic hub** and an **alternative data centre** for the Southeast Asian region with a potential domestic investment of up to RM4bn
- Reallocation of additional levies to assist in undertaking automation initiatives

- While a series of investments and tax incentives are expected to attract high-value-added investment, the Government needs to enhance conducive domestic investment climate with easing regulatory and compliance costs.
- The development of a digital traffic hub and data center is expected to attract more high-skilled talents and FDI as well as create high-skilled job opportunities in Malaysia.
- The Government must provide clear guidelines and reduce the paperwork for the application process of incentives or matching grants to increase the utilization of incentives and help to reduce unnecessary businesses' cost.



5. Sustainability agenda

- Extend the incentive application period for **Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE)** until 31 Dec 2025, by improving the incentive period from 3 to 5 years for eligible green activities, including solar activities and Battery Energy Storage System
- Enhance the **Green Technology Financing Scheme (GTFS)** by increasing the financing guarantee to RM3bn until 2025, in addition to expanding the scope of financing, especially to the electric vehicles (EV) sector with a guarantee limit of up to 60% and the waste management sector's financing guarantee will be increased up to 80%
- RM1bn soft loan under the **High Technology & Green Facility** to support innovative sustainable technology start-ups and RM1b under the **Low Carbon Transition Facility (LCTF)**
- To support **EV adoption**:
 - **Import duty and excise duty exemption on imported CBU EV** be extended until 31 December 2024
 - **Exemption on Approved Permit (AP)** until 31 December 2023
 - **Manufacturer of EV charging equipment**: Income tax exemption of 100% on statutory income from 2023 to 2032 and Investment Tax Allowance of 100%
- **Sales rebates of up to RM4,000** to motorcycle rental entrepreneurs who replace their existing motorcycles with electric motorcycles
- To introduce a **carbon tax** and will study the feasibility of a **carbon pricing mechanism**
- **RM10m matching grant** to help prepare carbon assessments for SME companies and eligible related products

- The incentives will facilitate businesses and SMEs to adopt ESG.
- The introduction of a carbon tax and carbon pricing mechanism provides a broad-based price signal to encourage companies to reduce their emissions. To maintain a transparent, fair, and consistent price signal across the economy, the carbon tax must be applied uniformly to all sectors including energy-intensive and trade-exposed sectors, without exemption.
- However, the question is does Malaysian businesses prepare to adopt and embark on sustainability?
- According to the ACCCIM M-BECS, more than half of the total respondents rated “neutral” when asked how important for their company to be “Green” and operate sustainably. This indicates that most businesses are unaware of the significance to be “Green”.

5. Sustainability agenda (cont.)

- RM1.5bn **Sustainable Development Financing Scheme**
- **RM50m investment in 2023**: establishment of a **sustainability framework** for investments and setting targets to achieve a fully ESG compliant portfolio and carbon neutral operations
- RM330m of **green procurement implementation** and provision of **EV infrastructure**
- GENTARI to **install solar panels at Government and commercial facilities by 2024** and **provide 500 units of EV charging stations nationwide**
- Tenaga Nasional Berhad (TNB) to **install solar rooftops and EV charging stations** with an investment value of RM165m until 2025
- Implementation of green procurement by the Government will be extended to **State Governments and Local Authorities (PBT)**
- **Tax deduction** given to companies and other than companies that make **donations or sponsorships of Smart Artificial Intelligence (AI) Driven Reverse Vending Machine**
- RM150m to spur the development of nature-based solutions to support the development of **Malaysia's carbon markets eco-system**
- RM20m to the UNDP and the All-Party Parliamentary Group Malaysia to increase SDGs related program activities

- Moreover, the lack of in-depth understanding of ESG also poses challenges for businesses as they have no idea how to adopt and comply with and fulfil the relevant ESG standards and requirements.
- Companies with a lack of in-depth understanding of ESG will tend to ignore or not embrace ESG practices and might think that they can continue to operate their business “Business As Usual”.
- Therefore, the Government must promote increased awareness of sustainability among businesses and government, including GLCs should be a leader as an effective driver to lead businesses to achieve ESG and climate change goals.



6. Bridging the economic gap

- RM16.5bn various **infrastructure projects**, e.g. Pan Borneo Highway; Gemas-Johor Bahru Electrified Double-Tracking Project, ECRL, RTS Link, Central Spine Road and MRT2
- RM11.4bn **prioritising the repair and maintenance** of Federal roads and Government buildings
- RM3.3bn for **MRT3 project** (Total project costs: RM50.2b)
- RM6.3bn of development expenditure (DE) allocation for **Sabah**; RM5.4bn for **Sarawak**
- RM1.4bn for **corridor development**, existing tax incentive package that will expire in 2022 will be improved and extended for another two years
- RM3.7bn for **small and medium projects for contractors in class G1 – G4 nationwide**
- RM700m for continuation of **JENDELA**
- Digital Nasional Berhad (DNB) will expand the **5G network** nationwide to cover 70% of highly populated areas and to implement infrastructure expenditure worth RM1.3bn

Rural infrastructure

- RM1.5bn for rural and inter-village road projects (~500km)
- RM381m for Rural and Alternative Water Supply Project (benefit 4,800 houses)
- RM472m for Rural Electricity Supply project (benefit 2,100 houses)
- RM123m and RM54m allocation to build and maintain village street lights and bridges respectively
- RM5.2bn State Road Maintenance Grant (MARRIS)
- RM11m for Mobile Bank initiative in Kelantan, Perlis and Sabah
- RM2.6bn for rural infrastructure development allocation to Sabah and Sarawak

- These planned projects and infrastructure spending will continue to support both the construction and manufacturing sectors' growth and help to reduce the gap between the developed and less developed states.
- Higher amount of these planned projects and infrastructure spending could reflect partly increased cost of building materials. The Government must ensure these projects are effectively carried out and allocations are quickly disbursed as well as to ensure no cost overrun and leakages.



7. Job placement and talent development

- **Income tax exemptions for women** return to the workforce after a career break from YA2023 to YA2028
 - RM150m for **JaminKerja hiring incentives** by SOCSO to offer more than **70,000 job opportunities**
 - **Mobility assistance** of RM500-RM1,000 to those who secure employment outside of their state of residence or migration between East and Peninsular Malaysia
 - Continue **Malaysia Short-term Employment Programme (MySTEP)** to offer **50,000 job opportunities** in the public sector and Government-Linked Companies (GLCs) on a **contract basis with a RM100 increase in salary**
 - Continue to pursue the **Reskilling and Upskilling program**
 - RM750m for **HRD Corp to provide skills training** for more than 800,000 workers
 - RM30m for the **Capital Market Graduate Program** to enhance the employability of 9,000 graduates
 - RM20m for **Program Usahawan Siswazah (PUSH)** to benefit 1,000 graduates into entrepreneurship
 - Hiring incentives under SOCSO to employers who hire youth aged between 18 and 30 years old who have been unemployed for more than three months as well as TVET graduates
- JaminKerja Keluarga Malaysia is targeted to offer 600,000 job opportunities by end-2022 while it has benefited over 310,000 people (51.7% of target).
 - The Budget aims to generate 120,000 jobs: (i) JaminKerja employment incentives (70,000 jobs); and (ii) Short-term Employment Program (MySTEP) (50,000) via public sector (15,000) and GLCs (35,000).
 - MOF expects the jobless rate to improve gradually to 3.5%-3.7% in 2023 from estimated 3.8%-4.0% this year. Although there was an improvement in the labour market as reflected in growing job vacancies by over 96.9% yoy to 508,000 positions (vs 258,000 in Jun 2021), job placements were not encouraging amid the labour shortages remained and incentives supported by JaminKerja.
 - Skills-related underemployment are still significant and persistent at 36.7% (or 1.8 million persons) in the second quarter of 2022.
 - Mismatch of skills between labour supply and demand remains an issue with the changes arising from economic and social development. The allocation of billions for TVET is intended to drive the performance and quality of manpower as well as to meet the supply-demand gap in various industries.

7. Job placement and talent development (cont.)

- RM6.6bn for the **Technical and Vocational Education and Training (TVET)**:
 - RM180m as TVET Training Fund to **offer loans for the benefit of 12,000 of Malaysian Skills Certification program trainees**
 - RM20m for Dual National Training Scheme to benefit 3,000 trainees
- Develop 13 Pusat Satelit MYFutureJobs in UTCs across the country (RM8m)
- Establishment of National Placement Center in the Klang Valley by HRDCorp and SOCSO
- SOCSO will increase the number of Employment Service Managers to assist the unemployed
- **Multi-tiered levy for foreign workers** to be commenced in 2023



- The income tax exemption for women returning to the workforce is an encouraging measure to support women and increase labour force participation rate. Besides, the daycare centres go a long way in supporting the professional women in ensuring work-life balance.
- As senior citizens are an asset, it is proposed that to consider providing incentives for senior citizen continue working given their experience and knowledge accumulated.
- The implementation of multi-tiered levy is expected to add additional employment cost for SMEs that already burdened with increasing operating costs.



8. Enhance the recovery of the tourism industry

- RM200m allocation to strengthen the recovery of tourism sectors
- RM90m **matching grants** to the industry involving **promotion, marketing campaigns, and tourism program organisers**
- **Matching grants to charter flight services** on new direct flight routes from international destinations
- RM10m allocation to **build a network of ecotourism industry players**:
 - Upgrading ecotourism attraction in Gua Kelam, Perlis
 - Pioneering sustainable solid waste management efforts in Pulau Perhentian, Terengganu
 - Intensifying activities at Taman Pertanian Jubli Perak Sultan Ahmad Shah, Kuantan Pahang
- Support and funding for tourism industry operators:
 - **RM500m for BNM Tourism Financing (PTF)**
 - **100% of tax exemption** on statutory income for tour operators (at least 200 foreign tourists or 400 local tourists a year);
 - **50% of excise duty exemption** on the purchase of new CKD tourism vehicles
 - **60% of Reinvestment Allowance (EPS)** on eligible capital expenditure made for a period of 5 years consecutively (can be deducted up to 70% of the statutory income)
- With the reopening of international borders, Malaysia has received 3.2 million tourist arrivals with RM9.4 billion in tourism revenue as of July 2022. In 2023, the Government targets more than 15 million tourist arrivals with RM47.6 billion foreign exchange earnings.
- The tourism industry still largely supported by domestic tourism, especially during festive season and school holidays. A full-fledged recovery of tourism industry is still far-off given the lack of big spenders, especially tourists from China.
- Global uncertainty and high inflation, as well as the waning effect of spending boosting measures will cause consumers' weak sentiments about the economic growth and hence, weaken the demand of tourism activities in Malaysia.
- As the ecotourism industry has a positive spillover effect on tourism activity and the environment, it should be given adequate facilitation and capacity building to grow the business.
- Effective implementation of sustainable forest management and other environmental conservation is crucial to promote the livelihood of local communities and the tourism industry, especially for ecotourism and natural-based tourism, which will be encouraged to reduce impacts on the country's natural heritage.

8. Enhance the recovery of the tourism industry (cont.)

- **Up to RM500,000 of a special tax deduction** for hotels to support local handicrafts
- RM10m to transform Kuala Lumpur City Centre into a **creative and cultural hub**
- **RM25m incentives to people** for accommodation, tourism packages, handicrafts and works of art
- **Extend tax incentives** for the export of private healthcare services until 2025
- RM20m to the **Malaysia Healthcare Travel Council (MHTC)** to enhance Malaysia's position as a health tourism destination
- RM1bn for the **Tourism Infrastructure Scheme** to finance the recovery of the tourism sectors with an interest subsidy of 1.5% per year



- The awareness of personal health is growing in tandem with the COVID-19 pandemic. With the reopening of borders and Malaysia's popularity as a Muslim travel destination, Malaysia Healthcare Travel Council (MHTC) estimated the healthcare tourism revenue to increase by 30% to RM1.3 billion in 2023.
- However, the status quo remained a concern in medical tourism, such as high dependency on the Indonesian market, which will pose challenges to the industry players. This requires reforms to the status quo and improvement in the supply chains (e.g. translator) to introduce competitive and value creation tourism packages in line with ecotourism (as people can spend time on visiting Malaysia while waiting for the medical results).
- Budget 2023 only allocates a similar amount to MHTC compared to Budget 2022. This may not be sufficient to transform or implement projects and programs so as to compete with other countries (e.g. Singapore) that are also grabbing the market.

9. Agriculture and food security

- Initiative for the utilisation of **800 acres of abandoned lands** owned by FELDA, FELCRA, and RISDA and agencies under MAFI for food crops
- To increase self-sufficiency ratio (SSR):
 - RM1bn for **Skim Agrofood BNM** to fund agrifood entrepreneurs at a rate of 3.75%
 - RM250m for **Agrovest investment programs** to fund agricultural start-up companies and establish e-commerce
 - RM200m **investment under Khazanah's Dana Impak** with a focus on increasing the income and productivity of smallholders
 - RM20m for **the Digital Agtech program under MDEC** to train more smallholders to adopt digital technology
 - Propose **Pembasmian Kemiskinan Tegar Keluarga Malaysia Program** to focus on the promotion of low SSL food crops
- RM56m for MAFI to support sustainable agriculture efforts
- **100% of income tax exemption** on statutory income for food production projects and modern agricultural projects until 2025
- **100% of income tax exemption** on statutory income extended for companies with BioNexus status until end-2024
- **100% of income tax exemptions** on capital expenditure to adopt automation

- While 7 million hectares are used for oil palm and rubber cultivation in 2020, other food crops accounted for about 1 million hectares only.
- Recent events on the food shortages and inflation have raised alarm bell over the concern of food security in Malaysia.
- Malaysia has 11 selected food products with a self-sufficiency ratio (SSR) of less than 80% (six types are below 50%). Nevertheless, imported inflation remains due to highly dependent on imported food.
- While the utilization of abandoned lands for food crops is a good initiative, it raises doubts on the integrality and quality of land as they might not be suitable for fruits and vegetables on mass production over a long time and also must be supported by the availability of basic infrastructure.

Food products with self-sufficiency ratio (SSR) below 50% in 2021

Mutton	10.7%	Fresh milk	56.7%
Ginger	14.6%	Rice	65.0%
Mango	16.2%	Coconut	69.6%
Beef	18.9%	Sardine	74.9%
Chilli	29.3%	Sweet potato	78.1%
Round cabbage	40.3%		

9. Agriculture and food security (cont.)

- RM1.8bn of **various subsidies and incentives** for rice farmers and fishermen
- RM228m for the **reintroduction of aid** to benefit 240,000 rice farmers
- RM256m for **Bantuan Musim Tengkujuh (BMT)** to benefit 320,000 rubber smallholders
- Introduction of the **Insentif Pengeluaran Lateks together with the TARGET program** to improve the supply chain of rubber raw materials
- Introduction of **Skim Perlindungan Pertanian** to protect agricultural producers from unpredictable risks

- Higher risk of environmental disasters, such as climate change, requires technological innovation in biotech or machines equipment to mitigate the impact on food security. This has to be supported by solid Research and Development (R&D) and collaborations among the government and agencies, public universities and private sector, especially since most of the players in private sector are smallholders with limited capital and technical skills.



10. Home ownership

- **Stamp duty exemption increased from 50% to 75% for property transfer documents and loan agreements for house value between RM500,001 and RM1 million, effective until 31 Dec 2023**
- **Real estate transfers based on love and affection** between families subject to a stamp duty at RM10
- **Construction of new rural houses and renovation of rural houses (RM460m); ceiling rate for building new houses raised –3,000 new homes will be built**
- **Program Perumahan Rakyat (PPR)** benefitting 2,400 potential new residents (RM367m)
- **Rumah Mesra Rakyat** program – construction of 4,250 housing units (RM358m)
- Government guarantee facility through **Syarikat Jaminan Kredit Perumahan (SJKP)**, benefitting 12,000 borrowers (RM3bn)

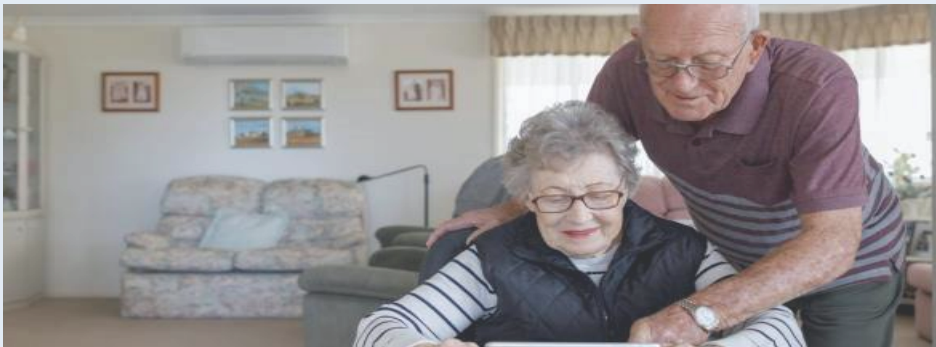
- The proposed measure (75% exemption for house value between RM500,001 and RM1 million) would result in savings up to RM7,250 to total savings up to RM21,750 for a property valued at RM1 million.

House value (RM)	500,000	750,000	1,000,000
Stamp duty for Instrument of transfer (RM) (0.5% fixe rate)			
First RM500,000	2,500	2,500	2,500
Next RM500,000	-	1,250	2,500
Stam duty for Loan agreement (RM) (1% for first RM100k; 2% for next RM400k; 3% for next RM500k, 4% subsequently)			
First RM100,000	1,000	1,000	1,000
Next RM400,000	8,000	8,000	8,000
Next RM500,000	-	7,500	15,000
Total (Not first home buyer)	11,500	20,250	29,000
First home buyer under current scheme (Savings)	0 (11,500)	10,125 (10,125)	14,500 (14,500)
First home buyer under proposed scheme (Savings)	0 (11,500)	5,062.50 (15,187.50)	7,250 (21,750)

- This measure is expected to help increase sales of new properties priced between RM500,000 and RM1 million amid the impact of higher lending rates. In 1H 2022, there were 116,178 transactions worth RM45.62 billion recorded in the review period, increased by 26.3% in volume and 32.2% in value year-on-year.

11. Caring society and social protection

- RM150m for **SOCSO extended to self-employed**, such as taxi drivers and gig workers from the information technology sectors, with only paying 20% of contributions
- **Gradually mandatory SKSPS contributions** for all self-employed sectors
- **An increase of EPF voluntary contribution limit** from RM60,000 to RM100,000 per year
- **Expand the scope of tax relief** for life insurance premiums or life takaful contributions by including **voluntary contributions** to EPF of up to RM3,000
- RM30m for **the I-Saraan programme** raising the matching contribution ceiling from RM250 to RM300 until 2023 to help more than 100,000 contributors
- RM120m for **Kasih Suri Keluarga Malaysia Programme** extended until 2023 and enhanced through additional protection under the SOCSO Scheme, benefiting 200,000 housewives



- Under the First Schedule of Self-Employment Social Security Act 2017 (Act 789), the mandatory contribution was expanded to 20 industries and it will gradually cover all other self-employed sectors in 2023. Lack of law enforcement and low awareness have contributed to a low participation rate in the social security scheme, with only 260,000 or 14% of 2.8 million self-employed workers are covered currently.
- As of Jun 2022, 52% of total 12.78 million EPF members aged under 55 have less than RM10,000 in savings. According to the EPF, a person needs at least RM240,000 by the time of retirement to cover basic needs such as food and everyday costs. The increase in voluntary contribution would encourage savers to contribute more EPF to rebuild retirement savings.
- A secured safety net is vital for supporting decent retirement living given that most of the employees approaching the retirement age have low savings in their EPF account. SOCSO intends to transform the platform into a pension scheme to cover members after retirement, which is currently under study. This would incur additional contribution for both employers and employees.
- Social security is the fundamental protection for everyone in society. However, additional contribution from both public and private sectors are important to help provide adequate social safety net after retirement, especially for those low-and middle-income households.

12. Raising of the youth

- **Hiring incentives under SOCSO** to employers who hire youth aged between 18 and 30 years old who have been unemployed for more than three months as well as TVET graduates
- **RM305m for financing facilities reserved for youths** by SME Bank, TEKUN, MARA, BSN and Agrobank
- RM50m for **Penjaja Muda Keluarga Malaysia scheme** by BS for 10,000 youths
- **Waive the fees of getting taxi, bus and e-hailing licenses** under MyPSV programme
- **Waive the fees** for B40 in getting **B2 motorcycle license**
- RM10m for TEKUN Mobilepreneur Financing Scheme
- Pakei Remaja Keluarga Malaysia extended to April 2023
- RM400m allocate for e-Pemula initiative continued with an increase to RM200 for 2 million youths and full-time students



- ePemula initiative would release RM400 million disposable income for supporting consumer spending.
- While there are targeted measures (hiring incentives and some financial relief measures) to address youth unemployment, the high youth unemployment rate of 12.1% in Jul 2022 (or 336,200 youths aged 15-24) requires efforts beyond incentives to address the structural problems, such as education, mindset change and attitude as well as skill training for future-of-work.
- While there are initiatives encouraging youth to be entrepreneurs, the government should also identify the skills gap in the job market to avoid underemployment or over-education, and match the graduates with high-skilled jobs.



13. Fiscal reforms for sustainability

- **e-Invoicing** will be implemented in phases from 2023
- Individual citizens and permanent residents who reach the age of 18 be given **Tax Identification Number (TIN)** automatically and made mandatory for all stamping documents and instruments
- **Minimum effective tax rate at the global level** as recommended under Pillar 2 of the BEPS Action Plan 1
- Implement the **Qualified Domestic Minimum Top-up Tax** upon completion of detailed study and targeted for the year 2024
- **Eradicate cigarette and liquor smuggling activities** are being carried out through a Multi-Agency Task Force
- Implement **reforms comprehensively** to deal with the **leakage of subsidies for essential goods**



- Tax administration and governance would be improved via the proposed e-invoicing starting 2023 and TIN that already implemented in 2022.
- The government should consider to reinstate the Goods and Services Tax (GST) not only for broadening the narrow revenue base but also help to curb shadow economic activities that close to 20% of GDP and also reduce tax leakages. For a start, it should not be used as a revenue generator at a high tax rate. A neutral tax revenue rate at 4% can be considered with the intention of tapping the tax leakages.
- Subsidies reform is urgently required to rebuild fiscal sustainability and also rechannel more resources to productive sectors such as education, healthcare and public transportation.
- Total subsidies and social assistances have bloated to RM77.7 billion in 2022. in 2022, of which RM58.9 billion is from OE while the balance from the COVID-19 Fund. For 2023, though subsidies and social assistance are expected to decline by RM16.9 billion to RM42.0 billion, it is still higher than the average of RM22.2 billion per annum in 2019-2021, partly due to higher crude oil prices.
- A gradual targeted subsidy scheme instead of blanket subsidies will be implemented.

Strategy	Key measures and initiatives																					
1.EXPANSIONARY FISCAL POLICY	<ul style="list-style-type: none"> Total expenditure Budget of RM372.3bn: RM272.3bn (73.1% of total) for operating expenditure; RM95bn (25.5% of total) for development expenditure; RM5bn (1.4% of total) for COVID-19 Fund; RM2bn for contingency 																					
2. PRIORITY FOR THE RAKYAT	<p>B40</p> <ul style="list-style-type: none"> Vulnerable group be given special emphasis (RM2.5bn) Electricity bill subsidy of up to RM40 expanded according to the latest food poverty line income (PLI) of RM1,169 Enhancement of Bantuan Keluarga Malaysia to benefit 8.7 million recipients, with new category for those with 5 children and more (RM7.8bn) <table border="1"> <thead> <tr> <th>Category</th> <th colspan="2">Benefits</th> </tr> </thead> <tbody> <tr> <td>Household</td> <td>No. of Child 0-4</td> <td>No. of Child ≥5</td> </tr> <tr> <td><RM2,500</td> <td>RM1,000-RM2,000</td> <td>RM2,500</td> </tr> <tr> <td>RM2,501-RM5,000</td> <td colspan="2">RM500-RM1,250</td> </tr> <tr> <td colspan="3">Additional Assistance:</td> </tr> <tr> <td>Single Parents with Children (IBT)</td> <td colspan="2">RM500</td> </tr> <tr> <td>Senior Citizen (single) /Singles <RM5,000</td> <td colspan="2">RM350-600</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Agenda of eradicating hardcore poor (RM1bn: RM750m by Government; RM250m by GLCs) <p>M40</p> <ul style="list-style-type: none"> Individual's income tax rate reduced by 2% points for chargeable income band of RM50,001 to RM100,000; chargeable income band of RM250,001 to RM400,000 is combined with chargeable income band of RM400,001 to RM600,000 and subject to the tax rate of 25%, an increase of 0.5% points from 24.5% previously e-Pemula initiative, RM100 per individual with an annual earning less than RM100,000 for 8 million individuals (RM800m) <p>Woman and Children</p> <ul style="list-style-type: none"> Gender Focal Teams will be established in every ministry and agency Tribunal for Anti-Sexual Harassment will be established in early 2023 Reinforce One Stop Social Support Centres Subsidising mammogram tests and cervical cancer screening programmes (RM11m) Financing under BSN Semarak-Nita, Tekunita TEKUN, DanaNITA MARA and Biz Lady Bank Rakyat schemes (RM235m) Income tax exemptions for women to return to the workforce after a career break, for application received in YA2023-YA2028 	Category	Benefits		Household	No. of Child 0-4	No. of Child ≥5	<RM2,500	RM1,000-RM2,000	RM2,500	RM2,501-RM5,000	RM500-RM1,250		Additional Assistance:			Single Parents with Children (IBT)	RM500		Senior Citizen (single) /Singles <RM5,000	RM350-600	
Category	Benefits																					
Household	No. of Child 0-4	No. of Child ≥5																				
<RM2,500	RM1,000-RM2,000	RM2,500																				
RM2,501-RM5,000	RM500-RM1,250																					
Additional Assistance:																						
Single Parents with Children (IBT)	RM500																					
Senior Citizen (single) /Singles <RM5,000	RM350-600																					

Strategy	Key measures and initiatives
2. PRIORITY FOR THE RAKYAT (cont.)	<p>Woman and Children (cont.)</p> <ul style="list-style-type: none"> • Community Development Department or KEMAS (RM188m); allowance for KEMAS voluntary community assistants will be increased in 2023 • Tax relief of up to RM3,000 on fees paid for TASKA and TADIKA registered with the Government extended to YA2024 • Cahaya Mata Keluarga Malaysia initiative – Mothers from BKM households who give birth in 2023 will be provided a one-off cash assistance of RM500 (RM150m) <p>Youth</p> <ul style="list-style-type: none"> • Hiring incentives under SOCSO to employers who hire youth aged between 18 and 30 years old who have been unemployed for more than three months as well as TVET graduates • Financing facilities reserved for youths by SME Bank, TEKUN, MARA, BSN and Agrobank (RM305m) • Penjaja Muda Keluarga Malaysia scheme by BSN for 10,000 youths (RM50m) • Waive the fees of getting taxi, bus and e-hailing licenses under MyPSV programme • Waive the fees for B40 in getting the B2 motorcycle license • TEKUN Mobilepreneur Financing Scheme (RM10m) • Pakej Remaja Keluarga Malaysia extended to April 2023 • e-Pemula initiative continued with an increase to RM200 for 2 million youths and full-time students (RM400m) <p>Social Protection</p> <ul style="list-style-type: none"> • Contribution for SOCSO payment for self-employed such as taxi drivers and gig workers from information technology sectors (RM150m) • Gradually make mandatory SKSPS contributions for all self-employed sectors • EPF voluntary contribution limit will be raised from RM60,000 to RM100,000 per year • Expand the scope of tax relief for life insurance premiums or life takaful contribution by including voluntary contributions to EPF of up to RM3,000 • i-Saraan programme extended to 2023 and improved through raising the matching contribution ceiling from RM250 to RM300, benefitting >100,000 contributors (RM30m) • Kasih Suri Keluarga Malaysia Programme extended to 2023 and enhanced through additional protection under the SOCSO Scheme, benefit 200,000 housewives (RM120m) • Maximum investment limit for Amanah Saham Bumiputera (ASB) and ASB2 increased from RM200,000 to RM300,000 • BSN provides soft loans to assist B40 Bumiputera in investing with ASB with loans offered at the rate of 1.5 % annually (RM100m) <p>Cost of Living</p> <ul style="list-style-type: none"> • RM55bn for subsidies, aid and incentives under Budget 2023 in conjunction with other measures such as through price controls on goods and services • Support cost of transportation and distribution of essential goods; expand the coverage of the program to 23 new areas (RM200m) • Continuing Jualan Murah Keluarga Malaysia (JMKM) program in 2023 (RM100m)

Strategy	Key measures and initiatives
2. PRIORITY FOR THE RAKYAT (cont.)	<p>Jobs and Skills Training</p> <ul style="list-style-type: none"> • Hiring incentive of between RM600 and RM750 per month for three months to employer, benefiting >70,000 job seekers (RM150m) • Mobility assistance of RM500 to those who secure employment outside of their state of residence; RM1,000 for work related migration from Sabah or Sarawak to the Peninsular and vice versa • MySTEP (50,000 career opportunities on a contract basis, comprising 15,000 jobs in the public sector and 35,000 jobs with GLCs); public sector jobs under MySTEP will be extended until 31 December 2023; increase MySTEP salary rate by RM100 to RM1,500-RM2,100 • Skills training by HRDCorp for >800,000 workers (RM750m) • Capital Market Graduate Program for 9,000 graduates (RM30m) • Program Usahawan Siswazah (PUSH) for 1,000 graduates (RM20m) <p>Education and TVET</p> <ul style="list-style-type: none"> • Ministry of Education (RM55.6bn) • Bantuan Awal Persekolahan for all students regardless of their parents' income (RM825m) • Increase per student rate for Rancangan Makanan Tambahan (RMT) from RM2.50 to RM3.50 for Peninsular and from RM3 to RM4 for East Malaysia, starting Oct 2022, benefitting more than 800,000 students, 7,300 food operators, and local milk suppliers (RM777m) • Conducive and safe learning space for school students (RM2.3bn): School maintenance and repair works (RM1.1bn); Upgrade of infrastructure of dilapidated schools (RM1.2bn) • Build five new schools (RM430m) • Ministry of Higher Education (RM1.5bn) • Scholarships and educational loans (RM3.8bn) • Cost of Living allowance for local JPA-sponsored students and officers will be standardized and increased by RM100 per month at all levels of study • MARA, Yayasan Peneraju, and UiTM (RM6.6bn) • Encourage public universities to inculcate green campus initiatives (RM10m) • Upgrading and maintaining public university facilities (RM300m) • Research and Education Network (MYREN) project (RM35m) • Implementing various TVET initiatives by seven main ministries (RM6.6b); including TVET Training Fund through Perbadanan Tabung Pembangunan Kemahiran for 12,000 Malaysian Skills Certification program trainees (RM180m) • Dual National Training Scheme for 3,000 trainees (RM20m) • Individual income tax relief of up to RM8,000 for annual net savings into the Skim Simpanan Pendidikan Nasional (SSPN) extended till 2024 • Discounts on PTPTN loan repayment from 1 Nov 2022 to 30 Apr 2023 <ul style="list-style-type: none"> ○ 20% on the outstanding debt for full settlement ○ 15% for repayment of at least 50% of the outstanding debt made in a single payment ○ 15% for repayment through salary deductions or direct debit according to a repayment Schedule

Strategy	Key measures and initiatives
2. PRIORITY FOR THE RAKYAT (cont.)	<p>Home Ownership</p> <ul style="list-style-type: none"> • Stamp duty exemption increased from 50% to 75% for property transfer documents and loan agreements for house value between RM500,001 and RM1 million, effective until 31 Dec 2023 • Real estate transfers based on love and affection between families subject to a stamp duty at RM10 • Construction of new rural houses and renovation of rural houses (RM460m); ceiling rate for building new houses raised –3,000 new homes will be built • Program Perumahan Rakyat (PPR) benefitting 2,400 potential new residents (RM367m) • Rumah Mesra Rakyat program – construction of 4,250 housing units (RM358m) • Government guarantee facility through Syarikat Jaminan Kredit Perumahan (SJKP), benefitting 12,000 borrowers (RM3bn) • Building a harmonious community: <ul style="list-style-type: none"> ○ Maintenance, including replacing obsolete lifts (RM290m) ○ Improving mobile health services (RM22m) ○ Provide classes for children of low-cost home residents who fell behind in education during COVID-19 pandemic ○ Intensify income-enhancing activities by Yayasan Hasanah <p>Public Transportation</p> <ul style="list-style-type: none"> • Improve public bus accessibility in Melaka, Kota Kinabalu, and Kuching (RM180m) • Replace 18 stages buses operated by MARA in Kedah • Subsidisation of air transport services for rural residents (RM209m) • Improve facilities at seven airports in Sabah and Sarawak by building wheelchair ramps, benefit around 2,300 MASWings wheelchair bound users • My50 monthly pass initiative in Klang Valley, benefits nearly 180,000 users • Allocation to JKR to replace the existing ferry over 34 years old (RM9m) • Extend the scope of exemption from excise duty and sales tax on the sale, ownership transfer, personal use, or disposal of car taxis to executive taxis, TEKS1M and airport taxis <p>Focused Community</p> <ul style="list-style-type: none"> • Orang Asli community (RM305m) • Orang Asli Replanting Projects for >2,100 orang Asli • Orang Asli Entrepreneurship Development Program for 550 orang Asli • Foundations under the Government Linked Companies (GLC) to sponsor at least 10 orang Asli to further studies abroad • Welfare of the elderly (RM1bn) • Support the operation of private care institutions for the elderly, children, and disabled run by NGOs (RM21m) • Allocation for the disabled (RM1.2bn) • Empower Skim 1 OKU 1 Perniagaan, exempting businesses by disabled from paying registration fees and business license renewal fees under SSM • Travel vouchers to the disabled via e-hailing services (RM10m)

Strategy	Key measures and initiatives
2. PRIORITY FOR THE RAKYAT (cont.)	<p>Focused Community (cont.)</p> <ul style="list-style-type: none"> • Teaching aids and facilities improvement in special needs schools (RM20m) • Special incentives to establish 50 new TASKA OKU • Establish Pusat Panggilan Mesra OKU • Agropenjara (RM10m) • Additional tax deductions provided for employing ex-convicts will be extended for employing former students of Henry Gurney School as well as Government protection and rehabilitation institutions and non-Government care centres registered under JKM • Establish Pusat Transit – Anjung Sinar <p>Paddy Farmers, Fishermen and Smallholders</p> <ul style="list-style-type: none"> • Various subsidies and incentives (RM1.8bn) • Aid to rice farmers of RM200 per month for three months per season to 240,000 rice farmers (RM228m) • Bantuan Musim Tengkujuh (BMT) to 320,000 rubber smallholders amounting to RM200 per month for four months (RM256m) • Insentif Pengeluaran Lateks together with TARGET program • Skim Perlindungan Pertanian
3. SUPPORT FOR BUSINESSES	<p>Tax Deductions and Cash Grants</p> <ul style="list-style-type: none"> • Tax rate on taxable income for the first RM100,000 be reduced from 17% to 15%, benefitting 150,000 MSMEs taxpayers • One-off grant of RM1,000 to all registered MSMEs and taxi drivers, benefitting 1 million businesses (RM1bn) <p>Financing Facilities</p> <ul style="list-style-type: none"> • SemarakNiaga (RM45bn) • Microcredit loans and financing facilities (RM1.7bn): <ul style="list-style-type: none"> ○ BSN microcredit loans, includes RM350m for Skim Penjaja Kecil Keluarga Malaysia, of which RM150m for Bumiputera entrepreneurs (RM950m) ○ Loan facilities for small entrepreneurs under TEKUN (RM300m) ○ Financing facilities specifically for the Chinese community with an interest rate as low as 4% (RM200m) ○ Micro-funding scheme under Indian Community Entrepreneur Development Scheme (SPUMI) (RM25m) ○ MITRA (RM100m) ○ iTEKAD social finance program, matched with funds from financial institutions through zakat and cash waqf contributions (RM10m) • Tabung Modal Pusingan Suruhanjaya Koperasi Malaysia (RM100m) • BNM loans are provided to encourage automation and digitization of SMEs, support food security agenda and recovery of tourism sector (RM10bn) • Dana Kemakmuran Bumiputera under TERAJU (RM135m) • Financing facilities and entrepreneur development programs for Bumiputera in the retail sector through Perbadanan Usahawan Nasional Berhad (PUNB) (RM200m) • Extend 100% stamp duty exemption on restructuring or rescheduling loans or financing agreements until 2024

Strategy	Key measures and initiatives
3. SUPPORT FOR BUSINESSES (cont.)	<p>Strategic Financings, Alternatives and Financing Guarantees</p> <ul style="list-style-type: none"> • Various financing funds are offered with an interest subsidy of 1.5% per year through Bank Pembangunan Malaysia Berhad (BPMB): <ul style="list-style-type: none"> ○ Sustainable Development Financing Scheme (RM1.5bn) ○ Tourism Infrastructure Scheme (RM1bn) ○ Maritime and Logistics Scheme (RM1bn) ○ Loan facilities for small entrepreneurs under TEKUN (RM300m) • Rehabilitation and Support Through Equity facility (RESET) and Skim Modal Kerja through BPMB (RM1bn) • Financing guarantees by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) for SMEs (RM9bn) • Malaysia Co-investment Fund (MyCIF) funds (RM30m) • Expand the scope of tax incentives for individual investors in start-up companies through equity crowdfunding to cover investments made through Limited Liability Partnership Nominee companies <p>Recovery of Tourism Industry</p> <ul style="list-style-type: none"> • Strengthening the recovery of the tourism sector with incentives, promotion, and marketing initiatives (RM200m) • Geran Padanan Galakan Melancong (GAMELAN) (RM90m) • Matching grants to encourage charter flight services, especially from the Middle East and East Asia • Work on new direct flight routes from international destinations • Allocation provided through a joint venture with a network of ecotourism industry players (RM10m) • Incentives for domestic tourism in the form of discounts, vouchers, and rebates for accommodation, tourism packages, handicrafts and works of art up to RM100 (RM25m) • Special tax deduction for hotels that buy local handicraft products limited up to RM500,000 • BNM Tourism Financing (PTF) with an increase of financing size to RM500,000 (RM500m) • 100% tax exemption on statutory income for tour operators who guide at least 200 foreign tourists a year or at least 400 local tourists • Excise duty exemption of 50% given to tourism operators on purchase of new CKD tourism vehicles such as hire and drive cars and excursion buses • Reinvestment Allowance for selected hotel and tourism projects • ThinkCity to transform Kuala Lumpur City Centre into a creative and cultural hub (RM10m) • Existing tax incentives for export of private healthcare services extended until 2025 • Malaysia Healthcare Travel Council (RM20m)

AGENDA 2: RESPONSIBLE BUDGET

Strategy	Key measures and initiatives
1. FISCAL RESPONSIBILITY	<p>Fiscal Consolidation</p> <p>Revenue Sustainability</p> <ul style="list-style-type: none"> • e-Invoicing will be implemented in phases from 2023 • Individual citizens and permanent residents who reach the age of 18 be given Tax Identification Number (TIN) automatically and made mandatory for all stamping documents and instruments • Introduce the minimum effective tax rate at the global level as recommended under Pillar 2 of the BEPS Action Plan 1 • Implement the Qualified Domestic Minimum Top-up Tax upon completion of detailed study and targeted for the year 2024 <p>Addressing Revenue Leakages</p> <ul style="list-style-type: none"> • Tighten the control of cigarette and liquor imports through legal landing places • Limit liquor transshipment activities to certain ports • Bukit Kayu Hitam Immigration, Customs, Quarantine and Security Complex as a single exit point for the northern region • Special rewards to strengthen efforts to combat cigarette and liquor smuggling • Implement comprehensive reforms to address leakage of essential goods subsidies
2. BUILDING NATIONAL RESILIENCE	<p>Healthcare</p> <ul style="list-style-type: none"> • Ministry of Health (RM36.1bn) • Procurement of medicines, reagents, vaccines, and consumables (RM4.9bn) • Refurbishment of underfunded hospitals and clinics as well as the replacement of obsolete equipment (RM420m) • Building new hospitals, clinics, and facilities, including the procurement of equipment (RM1.8bn) • Establish a National Mental Health Centre of Excellence (RM34m) • Income tax relief on personal, spouse, and child medical treatment expenses expanded to include dental examination and treatment expenses, limited to expenses of up to RM1,000, from YA2023 • Procurement of 10 units of 3D printing machines to produce dentures (RM10m) • Exempt import duty and sales tax on nicotine replacement therapy products • Allocation for treating rare disease (RM25m) • Establish a Trust Fund for the Treatment of Rare Diseases for public donations; tax deduction equivalent to the actual contribution amount will be given to the contributors • Skim Peduli Kesihatan for B40 Group (PEKA B40), including diabetes screening (RM80m) • Enhance SOCSO Health Screening Program, benefits 2.3 million workers (RM80m) • Continue MySalam to BKM recipients • Perlindungan Tenang Voucher extended to purchase of flood disaster protection products for residential homes • Committed to replenishing KWAN funds when the crisis is over, subject to the financial position; PETRONAS plans to contribute RM2bn to KWAN in 2023

Strategy	Key measures and initiatives
2. BUILDING NATIONAL RESILIENCE (cont.)	<p>National Defence and Public Safety</p> <ul style="list-style-type: none"> • Ministry of Home Affairs (RM18.3bn) • Ministry of Defence (RM17.4bn) • Purchase and maintenance of ATM assets (RM4bn) • Purchase and maintenance of PDRM assets (RM431m) • Maintenance of all APMM ships and boats (RM485m) • Procurement of body scanners and upgrading facilities in five prisons (RM19m) • Improve border control by establishing 25 border control posts • Welfare of the uniformed bodies and retirees <ul style="list-style-type: none"> ○ Maintain the Rumah Keluarga Angkatan Tenteraa (RKAT) (RM118m) ○ Repair and upgrade PDRM residential quarters (RM42m) ○ Three construction projects of quarters under the Prison Department (RM28m) ○ 50% discount on public transport operated by PRASARANA to >21,000 ATM veteran card holders and Police retiree cards <p>Food Security</p> <ul style="list-style-type: none"> • Utilize the abandoned lands owned by FELDA, FELCRA, and RISDA and agencies under MAFI with an area of up to 800 acres for food crops • To increase self-sufficiency level (SSL) and encourage the use of technology in the agricultural sector: <ul style="list-style-type: none"> ○ Skim Agrofood BNM up to RM5 million at a rate of 3.75% for agrifood entrepreneurs (RM1bn) ○ Agrovest investment program by Agrobank for seed funding to agricultural startup companies and establishment of an e-commerce platform (RM250m) ○ Investment under Khazanah's Dana Impak with a focus on increasing the income and productivity of smallholders (RM200m) ○ Digital AgTech program under MDEC expanded to 264 Pertubuhan Peladang Kawasan (RM20m) ○ Pembasmian Kemiskinan Tegar Keluarga Malaysia Program • Various initiatives such as the development of agro-food sustainability (RM56m) • Tax incentive period for food production projects extended to end-2025, with the scope expanded to include modern agricultural projects based on Controlled Environment Agriculture • Extend the tax incentive application period for companies with BioNexus status until end-2024; enhanced with an increased income tax exemption on statutory income from 70% to 100% • Accelerate the Capital Allowance claim and exempt 100% of income tax on capital expenditure for agriculture sector <p>Disaster Preparedness</p> <ul style="list-style-type: none"> • Committed to implementing the Flood Mitigation Plan until 2030, projects to be awarded in 2023 with expenditure of RM700m: <ul style="list-style-type: none"> ○ Sabo Dam project in 46 locations across the country (entire project worth RM500 million) ○ Dual-purpose reservoir involves alignment along the Klang River and the Rasau River (entire project worth nearly RM2 billion) ○ Additional phase for the Integrated River Basin (entire project worth RM500 million) ○ Upgrade of the weather forecast system

Strategy	Key measures and initiatives
2. BUILDING NATIONAL RESILIENCE (cont.)	<p>Disaster Preparedness (cont.)</p> <ul style="list-style-type: none"> • National Disaster Management Agency (NADMA) (RM174m) • National Disaster Relief Fund (RM100m) • Pertubuhan Prihatin Komuniti Grant to 2,000 resident associations (RM20m) <p>Financial Scams</p> <ul style="list-style-type: none"> • Establishment of National Scam Response Centre (NSRC) • Banking institutes to tighten internet banking security measures • Platform for public to report any account or number suspected • Raise individual's awareness of financial and digital literacy • CyberSecurity Malaysia (RM73m) • Tabling of Consumer Credit Bill in the second quarter of 2023 • Establishment of Consumer Credit Monitoring Board
3. PUBLIC SERVICE DELIVERY EFFICIENCY	<p>Public-Private Partnership</p> <ul style="list-style-type: none"> • Launching of Public-Private Partnership Master Plan 2023-2032 • Infrastructure Facilitation Fund (RM250m) <p>Government Linked Companies</p> <ul style="list-style-type: none"> • Investment of up to RM50bn: • Venture capital (up to RM1.3bn) • Food security projects (RM1.35bn) • Establishment of a sustainability framework for investments and setting targets to achieve a fully ESG compliant portfolio and carbon neutral operations • Green procurement implementation (up to RM330m) • Provision of EV infrastructure • Domestic direct investment (up to RM45bn): <ul style="list-style-type: none"> ○ Kwasa Damansara by KWSP ○ Merdeka Tower 118 project by PNB • Dana Impak by Khazanah Nasional Berhad (RM1bn), including local high technology companies (RM230m) • Extend intellectual property development tax incentive until 31 December 2025 • Extend tax incentive for angel investors until 31 December 2026 • Provision to Pelaburan Hartanah Berhad (PHB) (RM50m) • Dana Asas investment by Ekuiti Nasional Berhad (EKUINAS) for Bumiputera companies with a minimum RM10 million each investment (RM100m) • Good Governance Principles, which will be extended to all GLCs • An investment standard will be launched to ensure that GLIC investment process takes into consideration the agenda of sustainability

Strategy	Key measures and initiatives
3. PUBLIC SERVICE DELIVERY EFFICIENCY (cont.)	<p>Government Administration</p> <ul style="list-style-type: none"> • Establishing two new UTCs and maintaining the upkeep of existing UTCs (RM20m) • Transform UTC as a digital hub through MDEC • Develop 13 Pusat Satelit MYFutureJobs in UTCs across the country (RM8m) • Establishment of National Placement Centre in the Klang Valley by HRDCorp and SOCSO • SOCSO will increase the number of Employment Service Managers to assist the unemployed • Special funding assistance for the appointment of private lawyers to assist consumers in the handling of judicial review application cases at the Tribunal for Consumer Claims Malaysia • Process of documents stamping and stamp duty payment to the Inland Revenue Board will be entirely online through the Stamp Assessment and Payment System by 2024 <p>Civil Servant's Welfare</p> <ul style="list-style-type: none"> • Widen the definition of digital devices under the Computer and Smart Phone Financing Scheme to include smart watches • RM100 subsidy to include insurance and takaful home content coverage worth RM20,000 • Early redemption of cash on lieu of leave (GCR) up to 50% will be increased to a maximum of 90 days • Increase special annual leave for civil servants in education to 15 days, benefitting 500,000 teachers • Special salary increment of RM100 to all civil servants Grade 11 to 56 starting Jan 2023, which the increment will remain in subsequent years (RM1.5bn) • Special Financial Assistance: RM700 for 1.3 million public servants Grade 56 and below; RM350 for 1 million pensioners (RM1.3bn) • Increase the Aidilfitri 2023 Special Financial Assistance to RM600, to be paid in March 2023

AGENDA 3: REFORMIST BUDGET

Key measures and initiatives
<ul style="list-style-type: none"> • Committed to be among World's 10 Most competitive Economies by 2025 • Tax reforms: <ul style="list-style-type: none"> • Allow bringing forward accumulated losses that cannot be absorbed by companies in sectors that have a long gestation period of up to a maximum of 20 years • Inclusion intangible asset such as software as part of the definition of plant under Schedule 3, Income Tax Act 1967 • Establishing guideline for charitable hospitals registered as Company Limited by Guarantee be given income tax exemption equivalent to the amount of charitable expenditure incurred; donors are given tax deductions of up to 10% from aggregate income under subsection 44(11C) of Income Tax Act 1967 • Taxpayers to make electronic transmissions for tax payments from YA2024 • Extend the relaxation of government procurement procedures and regulations, including allowing government agencies increase procurement limit by quotations from RM500,000 to RM800,000, till end-2023

Strategy	Key measures and initiatives
1. NEW GROWTH AREAS	<p>Investment Attraction</p> <ul style="list-style-type: none"> • Creating an investment fund to attract high-value-added investment (RM1bn) • Collaborative Research in Engineering, Science and Technology Centre (CREST) to develop applications based on Radio Frequency and Bluetooth technology for the automotive industry (RM10m) • Extend relocation tax incentive to attract affected E&E sector investors and 15% flat tax rate for C-Suite until 2024 • Matching grants to support product development and nurture local talents in the medical device industry (RM20m) • Income tax incentives and investment tax allowances for aerospace industry extended until 31 December 2025 • Matching grant to support the development of aerospace components (RM20m) • Area around KLIA Sepang will continue to be developed as an aerospace industry cluster, especially for Maintenance, Repair, and Overhaul (MRO) operations • Special status for Pengerang for the chemical and petrochemical industry's investment incentives; upgrading of the Senai Desaru Expressway-Bandar Penawar intersection, Senai Utara-Pandan, Johor North-South Highway (RM510m) • Domestic Investment Strategic Fund (DISF) (RM100m) • Extend tax deduction of up to RM1.5m on expenses incurred for listing on the ACE and LEAP markets until 2025, include listing expenses of technology-based companies on Bursa Malaysia's Main Market <p>Science, Technology and Innovation</p> <ul style="list-style-type: none"> • Research & Development activities (RM364m) • Allocation (RM50m): <ul style="list-style-type: none"> ○ Development and commercialisation of nanotechnology under NanoMalaysia Berhad (RM16m) ○ Establishing a Venture Capital Fund to finance high-tech companies in the E&E and renewable energy sectors through equity injection (RM10m) ○ Malaysia Techlympics 2023 (RM7m) • Cradle Fund (RM50m) • MyDigital will coordinate efforts across the start-up ecosystem to jointly collaborate with the government agencies towards providing technology solutions for issues identified • DE Rantau will provide six new locations involving 2,000 short-term rental accommodations certified as Digital Nomad Hubs, benefitting 120 start-up companies • MRANTI Technology Park (RM20m) <p>Commodity Sector</p> <ul style="list-style-type: none"> • FELDA, FELCRA, and RISDA (RM2.6bn) • Program Pembangunan Kawasan Bertanam Getah Pekebun Kecil to replace old rubber trees, benefitting 387,000 small farmers (RM315m) • Program Pembangunan Semula Hasil Baharu (RM40m) • Improve the level of sustainability in palm oil industry, including encouraging the recycling of palm waste materials (RM70m) • Intensify efforts to promote and counter anti-palm oil campaigns at global level • Implement multi-tiered levy for foreign workers in 2023; re-allocate additional levies collected to assist employers undertaking automation initiatives

Strategy	Key measures and initiatives
1. NEW GROWTH AREAS (cont.)	<p>Local Products</p> <ul style="list-style-type: none"> • Intensify digitization and automation efforts through promotion of e-commerce activities under MATRADE, MARA and MDEC (RM59m) • Empower franchise entrepreneurs under Vendor Capacity and Development Program 2.0 and Vendor Research And Commercialization Grant 2.0 (RM15m) • Encourage the purchase of locally made products through the Buy Malaysian Products campaign (RM10m) <p>Creative Sector</p> <ul style="list-style-type: none"> • Dana Penerbitan Filem Kenegaraan (DEKAN) (RM50m) • Dana Kandungan Digital (RM102m) • Tax deduction of up to 10% from aggregate income for contributions to Tabung Komuniti Filem dan Pembangunan Filem Kenegaraan under FINAS • Import duty and sales tax exemption on studio and filming production equipment to providers of equipment and production services including post-production, studio and cinema • Intensify Program Merakyatkan Seni, Budaya dan Warisan (RM30m) <p>Sports Industry</p> <ul style="list-style-type: none"> • Training programs and sports facilities (RM332m): <ul style="list-style-type: none"> ○ Maintain, upgrade and build sports facilities (RM145m) ○ Develop a comprehensive sports ecosystem (RM154m) ○ Development of drag circuit (RM20m) ○ Development of e-sports (RM13m) ○ Tax deduction of up to 10% from aggregate income to individuals or corporation contributing to non-profit organisations focusing on sports development at the grassroots level • Development of paralympic sports (RM12m) • National Athlete Welfare Foundation (YAKEB) (RM5m) • Healthy Malaysia National Agenda (RM15m) • continuation of National Sports Day and Fit Malaysia Tour (RM10m)
2. NATIONAL INFRASTRUCTURE DEVELOPMENT	<p>Largest Development Allocation</p> <ul style="list-style-type: none"> • Development expenditure (RM95bn) <p>Major Development Projects</p> <ul style="list-style-type: none"> • Transportation sector through major infrastructure projects, especially Pan Borneo Highway, Gemas-Johor Bahru Electrified Double-Tracking Project, ECRL, RTS Link, and Central Spine Road (RM16.5bn) • Repair and maintenance of federal roads and government buildings (RM11.4bn) <p>Strategic Project</p> <ul style="list-style-type: none"> • MRT3 project (entire project cost is RM50.2 billion) (RM3.3bn): Phase 1 to be completed in 2028; Phase 2 will be completed in 2030

Strategy	Key measures and initiatives
3. INCLUSIVE DEVELOPMENT	<p>Syiar Islam</p> <ul style="list-style-type: none"> • Islamic affairs (RM1.5bn) • Maintain educational institutes under the supervision of JAKIM (RM150m) • Special one-off payment of RM500 to 72,000 KAFA teachers, Takmir teachers, Imams, Bilal, Siak, Noja, and Marbut (RM36m) • Spurring the development of halal industry (RM92m): • Continuing Halal Hub Centre Development Project in Tanjung Manis, Sarawak (RM59m) • Malaysia Services and Halal Global program for promoting halal products in the global market (RM8m) • Implementing halal industry development initiatives to increase compliance with halal certification and adapt halal innovation (RM6.5m) • Wakaf Halal PKS OKU (RM2.5m) <p>Rural Infrastructure</p> <ul style="list-style-type: none"> • Infrastructure facilities (RM2.55bn): <ul style="list-style-type: none"> ○ Rural road inter-village road projects of almost 500km, benefitting >110,000 residents (RM1.5bn) ○ Rural Electricity Supply Project, benefitting 2,100 houses (RM472m) ○ Rural and Alternative Water Supply Project, benefitting 4,8100 houses (RM381m) ○ Kampung Street Lights Project (RM123m) ○ Preliminary works to build 85 new bridges to replace worn and unsafe bridges (RM54m) • State Road Maintenance Grant (MARRIS), with scope expanded to include state agricultural road maintenance work under the supervision of agricultural development board (RM5.2bn) • Mobile Bank initiative (RM11m) <p>Inter-Regional Development</p> <ul style="list-style-type: none"> • Sabah (RM6.3bn) • Sarawak (RM5.4bn) • Five main Economic Corridors (RM1.4bn): <ul style="list-style-type: none"> ○ Dairy farm project in Chuping, Perlis (RM80m) ○ Human Capital Development Program under ECERDC (RM63m) ○ Rapid Transit Bus Transport System in Johor (RM80m) ○ Expansion of Sapangar Bay Container Port, Sabah (RM250m) ○ Samalaju Water Supply Infrastructure Project Phase 3 (RM100m) • Existing tax incentive package that will expire in 2022 will be improved and extended for another two years • Develop a digital traffic hub and an alternative data center for the southeast Asian region on a 200-acre area in SBEZ Delapan • Key infrastructure in addition to the private sector investing in business assets (RM25m) • Develop cities bordering with Thailand and Kalimantan, Indonesia (RM150m) • Preliminary work to construct a new road from Kalabakan, Sabah to Simanggaris, Indonesia, and upgrade the Serian-Tebedu Road, Sarawak to the Indonesian border

Strategy	Key measures and initiatives
3. INCLUSIVE DEVELOPMENT	<p>Small and Medium Projects</p> <ul style="list-style-type: none"> • Small and medium projects throughout Malaysia (RM3.7bn), of which RM500m for class G1 to G4 contractors • Skim Pembiayaan Kontrak Ekspres (SPIKE) (RM20m) • Kontraktornita initiative (RM50m) <p>Digital Connectivity</p> <ul style="list-style-type: none"> • National Digital Infrastructure Plan (JENDELA) (entire project cost RM8bn) – Digital connectivity in 47 industrial areas and nearly 3,700 schools (RM700m) • Matching grant for implementation of Rural Internet by Tenaga Nasional Berhad (TNB), benefit over 60,000 rural residents (RM25m) • Infrastructure expenditure for 5G Network by Digital Nasional Berhad (DNB) (RM1.3bn)
4. SUSTAINABILITY DEVELOPMENT	<p>Commitment towards Carbon Neutral 2050</p> <ul style="list-style-type: none"> • Extend Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) until 31 December 2025 by improving the incentive period to 5 years for eligible green activities such as solar activities integrated with Battery Energy Storage System • Enhancing Green Technology Financing Scheme (GTFS): <ul style="list-style-type: none"> ○ Guarantee scheme increased to RM3bn until 2025 ○ Scope of financing expanded specifically to provide guarantees for EV sector with a guarantee limit up to 60% ○ Waste management sector's financing guarantee increased up to 80% • High Technology and Green Facility by BNM to support innovative sustainable technology start-ups (RM1bn) • Low Carbon Transition Facility by BNM to help SMEs implement low carbon practices (RM1bn) • Development of nature based solutions to support the development of Malaysia's carbon markets eco-system through Dana Impak by Khazanah (RM150m) • GENTARI (subsidiary of PETRONAS) to install solar panels at government and commercial facilities by 2024 with a cumulative PV capacity of 3 megawatts and provide 500 units of EV charging stations nationwide • Tenaga Nasional Berhad to install solar rooftops and EV charging stations with an investment value of RM165m until 2025 • Supporting EV adoption: <ul style="list-style-type: none"> • Import duty and excise duty exemption on imported CBU EV be extended until 31 December 2024 • Exemption on Approved Permit (AP) until 31 December 2023 • Manufacturers of EV charging equipment are given income tax exemption of 100% on statutory income from YA2023 until Y2032 or Investment Tax Allowance of 100% • Sales rebates of up to RM4,000 to motorcycle rental entrepreneurs in Pulau Tuba in Langkawi, Kedah • Implementation of green procurement extended to State Governments and Local Authorities (PBT) to achieve 25% green procurement by 2025 • Income tax deduction for parties who make donations or sponsorships of Smart AI-Driven Reverse Vending Machine equipment • Plan to introduce a carbon tax and study the feasibility of a carbon pricing mechanism • Matching grant to help prepare carbon assessments for SME companies and eligible related products (RM10m)

Strategy	Key measures and initiatives
4.SUSTAINABILITY DEVELOPMENT	<p>Continuity of Biodiversity</p> <ul style="list-style-type: none"> • Ecological Fiscal Transfer for Biodiversity Conservation (EFT) (RM100m per year) • Conservation programmes for tigers, elephants and other wild species (RM36m) • Increase community rangers who control the forest biodiversity to 1,000 rangers and employ the local community, especially the orang Asli and veterans (RM39m) • Conservation projects to improve, clean, and treat rivers (RM216m) <p>Sustainable Communities</p> <ul style="list-style-type: none"> • Yayasan Hasanah (RM100m) • UNDP and the All-Party Parliamentary Group Malaysia to increase SDGs related program activities (RM20m) • Program Diplomasi Bahasa dan Budaya towards the internationalization of Bahasa Melayu (RM5m) • Efforts to celebrate diversity and preserve various other languages and cultures (RM10m)



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