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

Quarterly Economy Tracker
(Jul-Sep 2024)

The Malaysian Economy is Fired on Twin Cylinders

Lee Heng Guie
Executive Director
8 October 2024

Agenda

1. Global Economy is Steadying, Albeit at a Slow Pace
2. The Malaysian Economy is Fired on Twin Cylinders
3. Budget 2025 – Sustaining Growth with Fiscal Stability

Global Economic Outlook

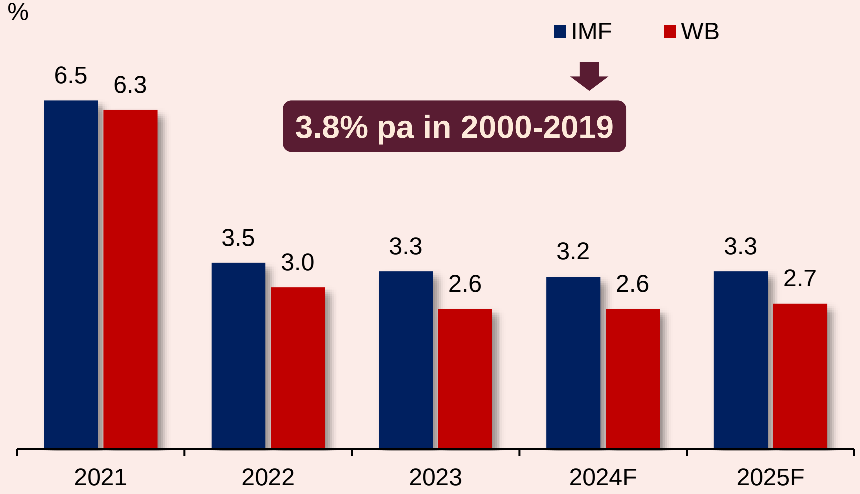
Global Economy is Steadying, Albeit at a Slow Pace

1. *Global growth continued amid the challenges and risks*
2. *The US economy is “cruising” along; can avoid recession*
3. *Inflation “emergency” is over; the start of the Fed’s rate easing cycle*
4. *China’s economy is hitting the wall; bazooka stimulus comes to rescue*
5. *Geopolitical risks will remain top of mind*

The global economy continues to grow at a slow pace

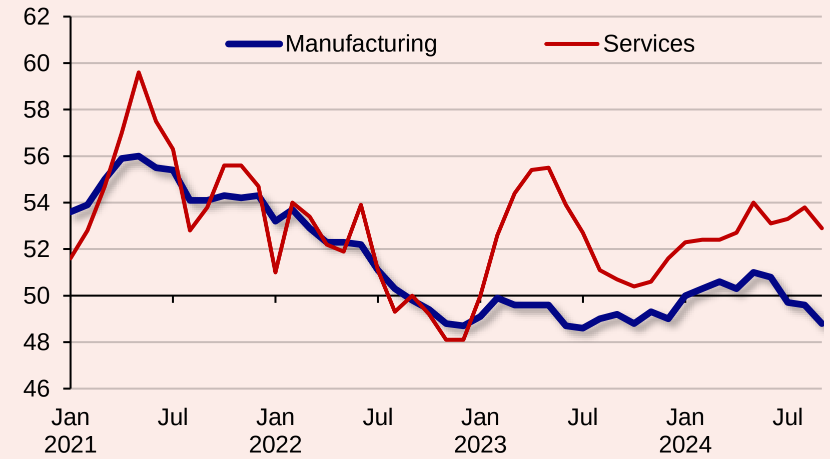
Global growth estimates

%



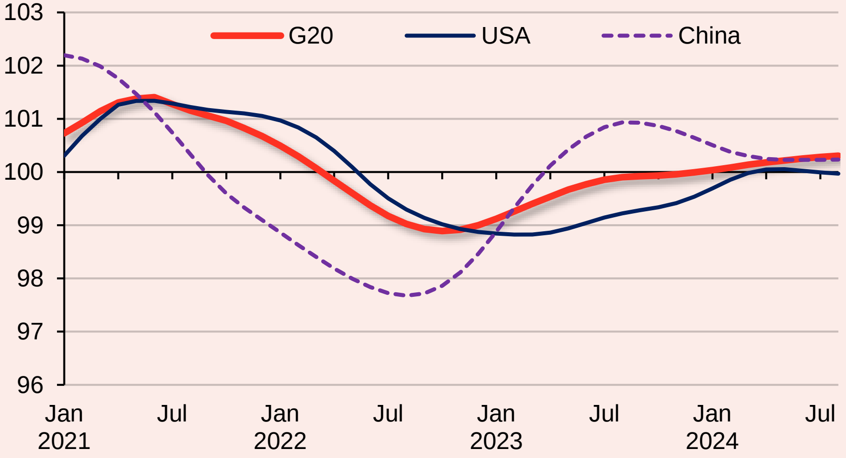
Global PMI for manufacturing & services

50=Threshold



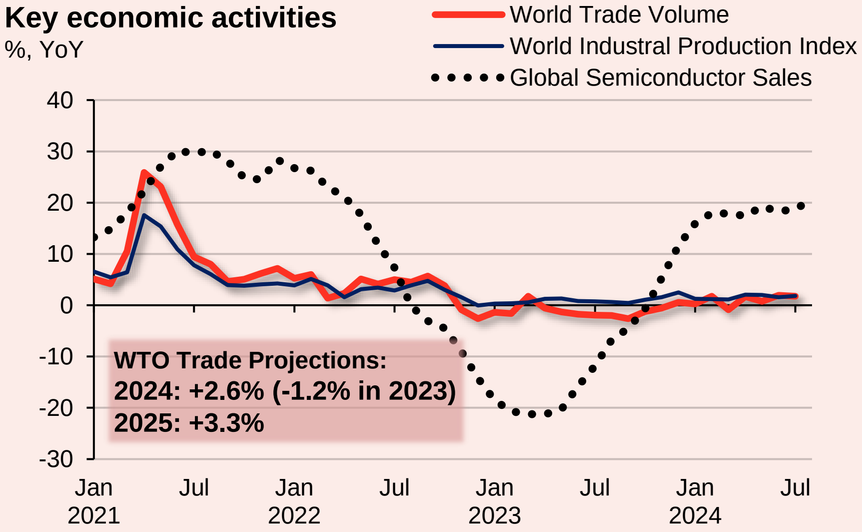
OECD Composite Leading Indicators (CLI)

100=Long-term average



Key economic activities

%, YoY



WTO Trade Projections:
2024: +2.6% (-1.2% in 2023)
2025: +3.3%

Mixed indicators:

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

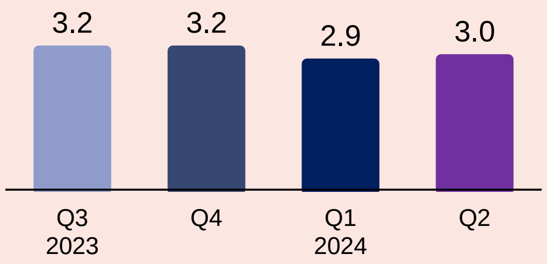
Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands

GDP growth heatmap for advanced and emerging economies

Key economic powerhouse

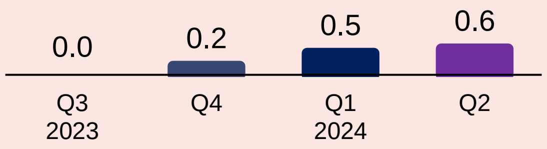
The United States

%, annualised QoQ	
1.6	**3.0**



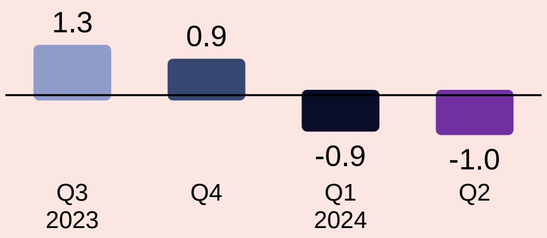
Euro area

%, QoQ	
0.3	**0.2**

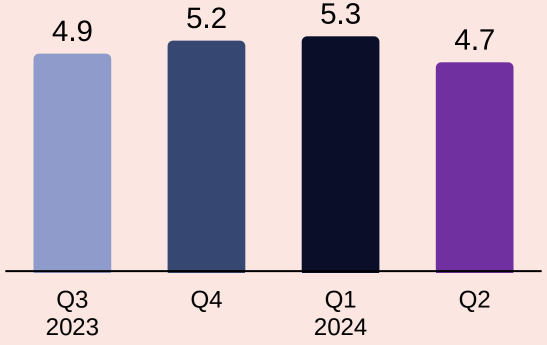


Japan

%, QoQ	
-0.6	**+0.7**



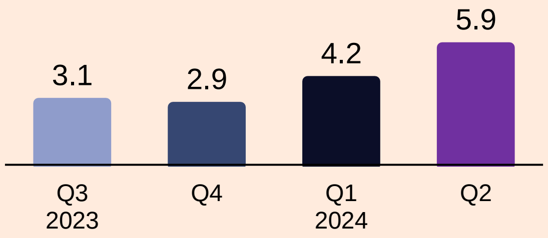
China



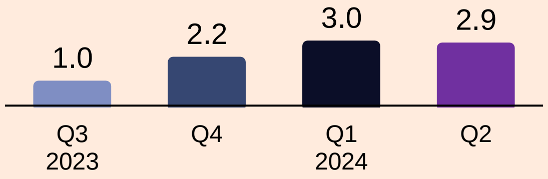
Regional economies

%, YoY

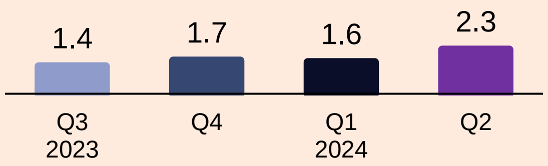
Malaysia



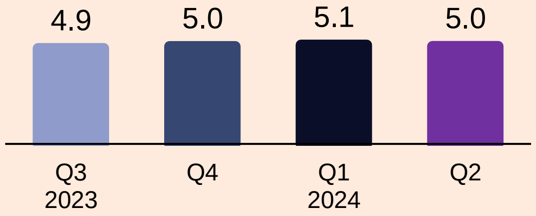
Singapore



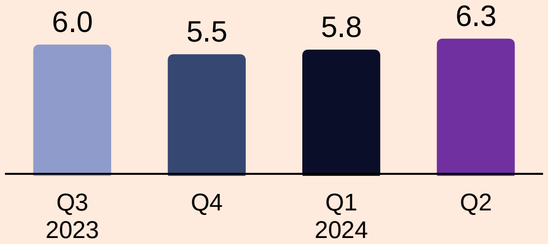
Thailand



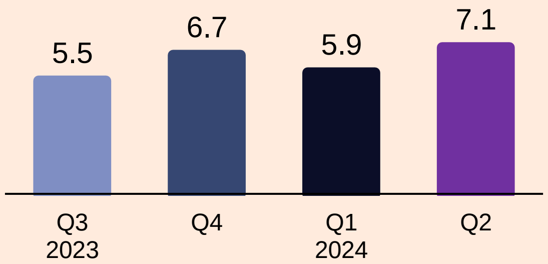
Indonesia



Philippines



Vietnam



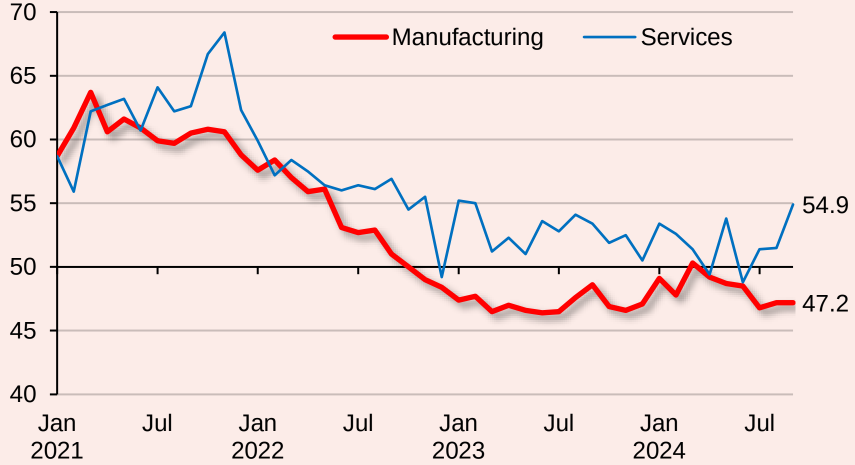
Source: Various officials (unadjusted data except for Euro Area)

Growth divergences among major economies

The United States

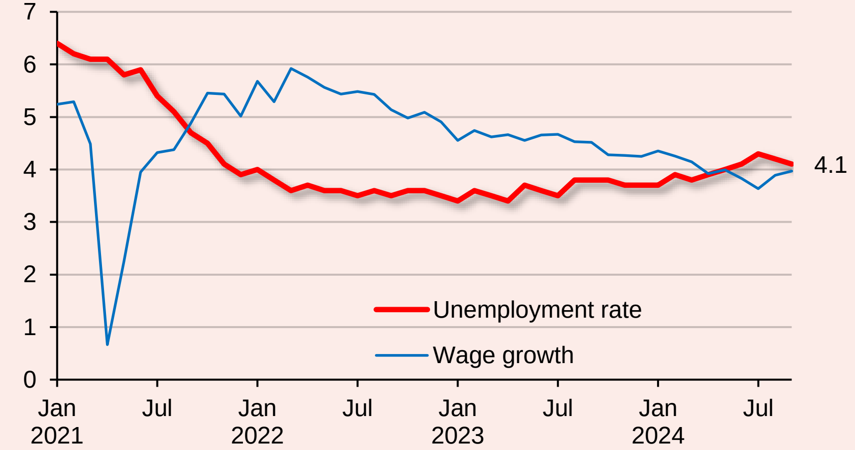
Manufacturing and services PMI

50=Threshold



Unemployment rate and wage growth

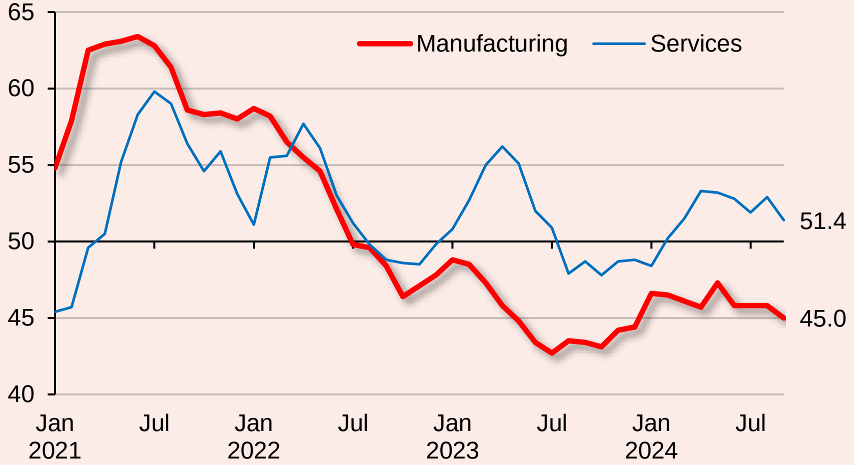
% / %, YoY



Euro Area

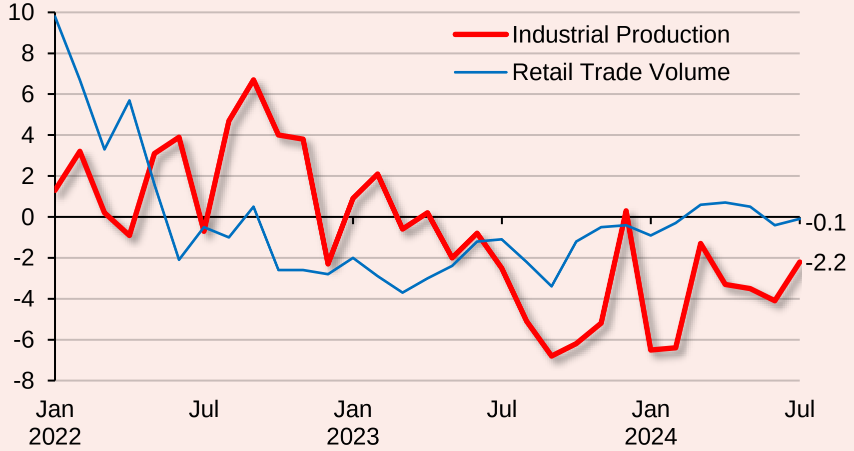
Manufacturing and services PMI

50=Threshold



Industrial and retail activities

%, YoY



The United States

The start of a rate-easing cycle

- Mixed economic performance. Manufacturing PMI has persistently fallen; uneven job market, while the retail sector still steady; and headline inflation level held steady. Question: How aggressive is the rate cut?

Euro Area

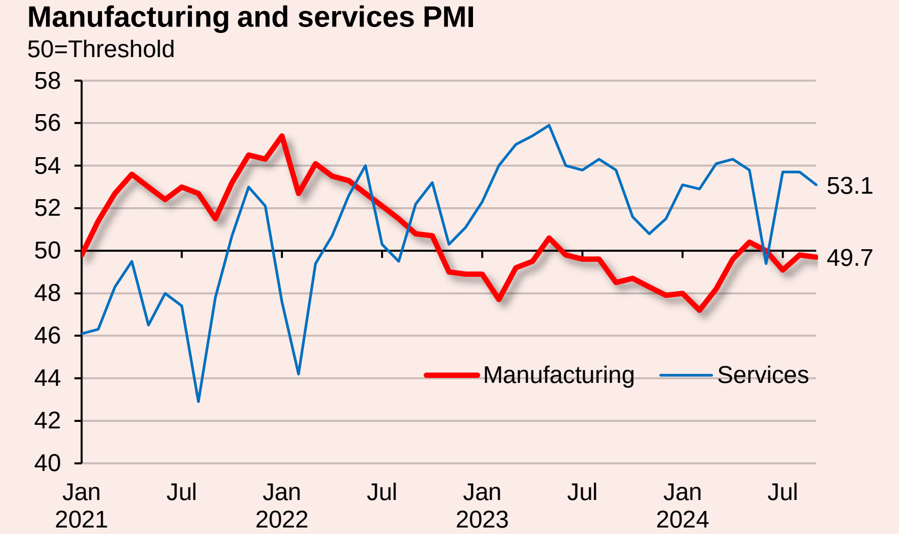
Still weakening growth

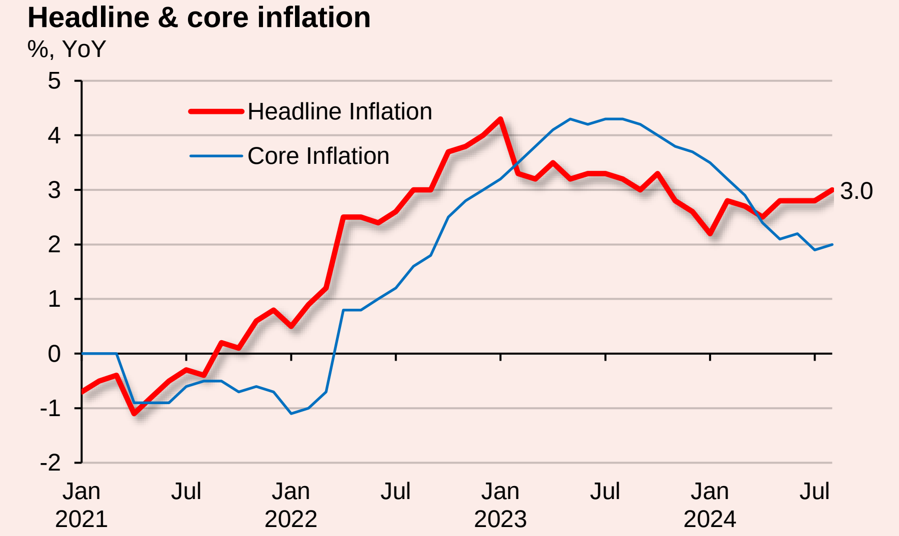
- High-frequency economic data indicated unfavourable performance. Both retail sales and industrial production continued to contract.
- Inflation rate at three-year low (2.2% in Aug 2024).

Source: Institute for Supply Management (ISM); US Bureau of Labour Statistics; S&P Global; Eurostat

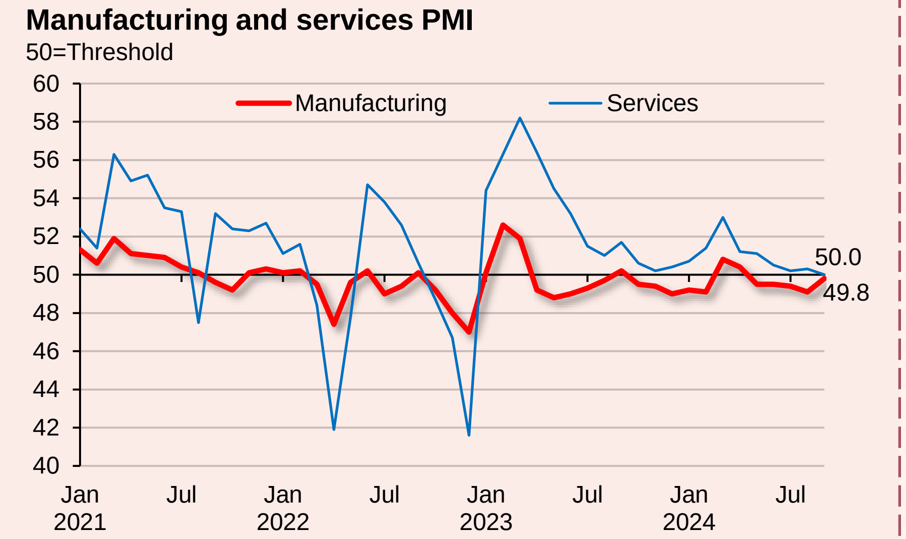
Growth divergences among major economies (cont.)

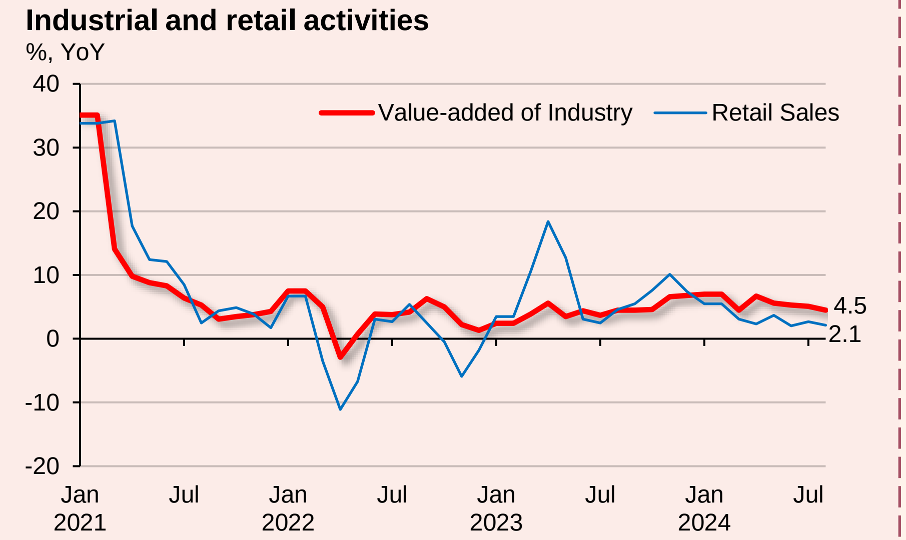
Japan


Manufacturing and services PMI
50=Threshold


Headline & core inflation
%, YoY

China


Manufacturing and services PMI
50=Threshold


Industrial and retail activities
%, YoY

Japan

A turnaround in growth?

- A modest turnaround in growth is expected in 2H 2024, driven by stronger wage growth and consumer spending, but may be partially offset by potentially aggressive rate hikes.
- Bank of Japan set to move interest rate cautiously.

China

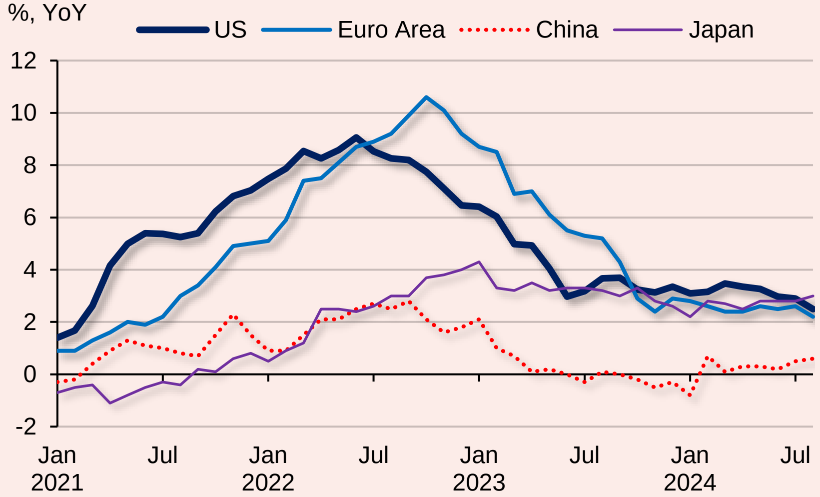
Searching for a breakthrough

- Economic data in recent months has missed forecasts, raising concerns that the growth target was at risk.
- Pulls the bold stimulus package trigger to prop up its economy.

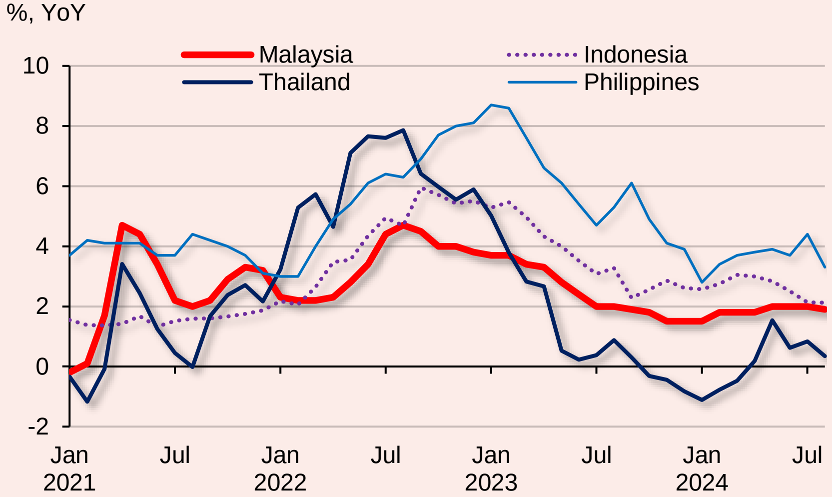
Source: S&P Global; Statistics Bureau of Japan; National Bureau of Statistics of China

Major energy shock could undermine much of the progress in reducing inflation

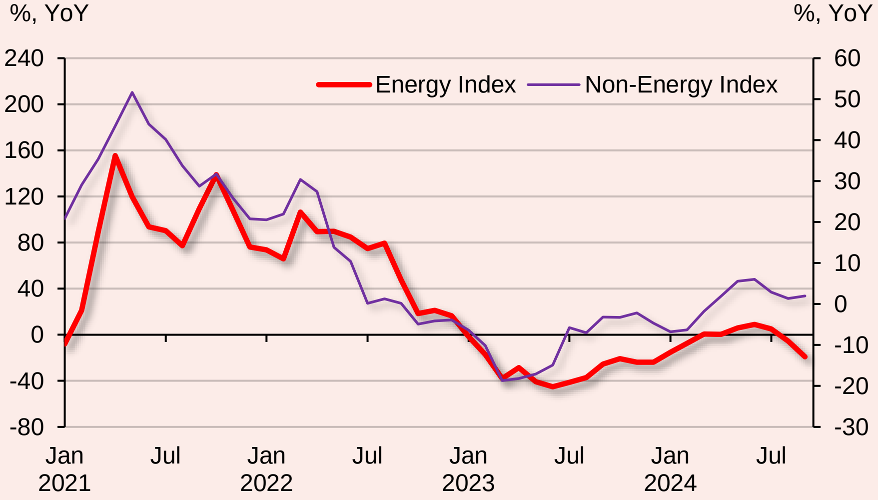
Inflation – Major economies



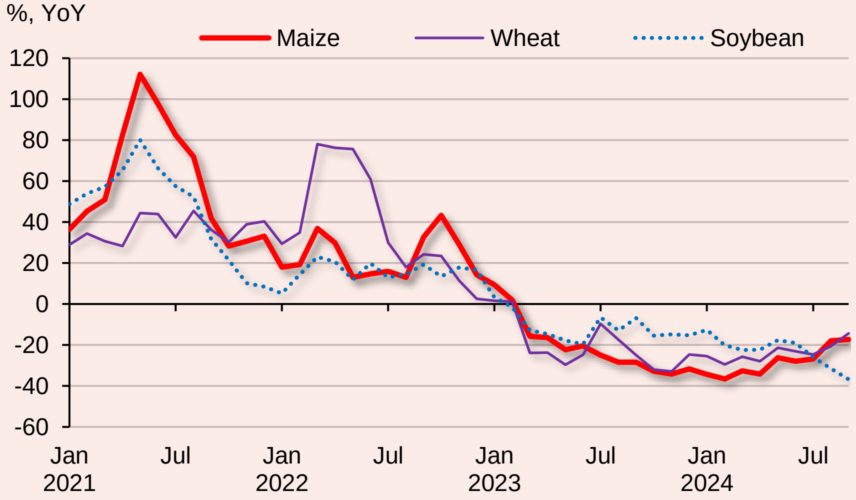
Inflation – Selected ASEAN economies



Energy Index **Non-energy index**



Selected global food prices



- Headline inflation has been tamed and stabilised over the past few months.
- A serious escalation of tensions in the Middle East would push the price of crude oil above USD100 a barrel. Increase in cost of crude oil could drive inflation up and force central banks to keep interest rates high.
- The Drewry World Container Index (WCI) has shown a significant increase in the price of 40ft containers, rising from USD1,342 on 26 Oct 2023 to a peak of USD5,937 (+342.6%) on 18 Jul 2024, before easing to USD3,489 as of 3 Oct 2024.

Source: World Bank; Various officials for inflation data

Harris and Trump: Compare on where they stand on key issues

	 **Harris**		**Trump** 
Corporate tax	• **Raise** top corporate tax rate to 28%	🥊	• **Reduce** corporate tax rate to 15%-20%
Individual tax	• Permanently extend tax rates established in the Tax Cuts and Jobs Act to all individuals except those earning more than $400,000		• Permanently extend tax rates established in the Tax Cuts and Jobs Act
	• Permanently extend expanded Affordable Care Act (ACA) health insurance tax subsidies	🥊	• Allow expanded Affordable Care Act (ACA) health insurance tax subsidies to lapse
	• Eliminate income taxes on tips and Social Security benefits	⚖	• Eliminate income taxes on tips and Social Security benefits
	• Reduce estate and gift tax exemptions; Decrease standard deductions; Impose a wealth tax; Raise top capital gains tax rate; Consider additional tax increases for individual income exceeding $400,000	🔵	
	• Permanently extend child tax credit; Provide tax credits for newborns; Provide tax credits for first-time homebuyers		
Trade policies against China	• **Target tariffs at industry/geopolitical rivals, including Chinese technology products**	⑂	• **Implement a 60% tariff on goods from China**
	• Increase investment restrictions in key Chinese sectors tied to national security	⚖	• Increase investment restrictions on key Chinese sectors tied to national security
			• Increase restrictions on semiconductor exports to China
			• Phase out imports of essential Chinese goods
Trade policies against all		🔴	• **Implement 10-20% across-the-board tariffs** • Consider removing the US from the World Trade Organization
Regulatory	• Raise the federal minimum wage to $15/hour from $7.25 • Expand antitrust initiatives/enforcement		• Reduce/roll back actions on consumer fees and other Consumer Financial Protection Bureau activities • Cut regulations substantially across the board

Trade policies by both presidential candidates will have direct and indirect impacts on the world

Source: American Century Investments

🥊 Against ⚖ Same ⑂ Similar direction 🔵 By Harris 🔴 By Trump

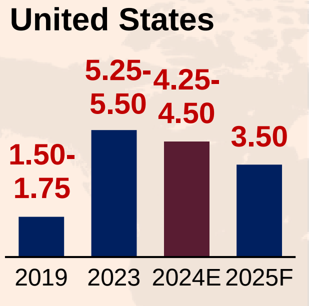
(cont.)	 **Harris**		**Trump** 
Federal Reserve	• Preserve the Fed's traditional political independence and likely keep Jerome Powell as chair	🥊	• Favor easy-money policies and low interest rates; consider replacing Jerome Powell as chair • Consider challenging the Fed's political independence
Healthcare	• Reduce drug prices • Expand the $2,000 cap on out-of-pocket Medicare prescription costs to all Americans • Extend Medicare inflation cap to private-sector drugs	⚖	• Reduce drug prices • Accelerate efforts to privatise Medicare and reduce payments to hospitals for outpatient care • Reduce Medicare Advantage payments to insurers
Energy / Renewables	• **Extend electrical vehicle incentives** to commercial transportation • Expand carbon capture credits	🥊 ⚖	• **Offer tax incentives for oil and gas drilling**; Reduce/roll back fuel efficiency requirements; Eliminate the $7,500 electric vehicle tax credit • Expand carbon capture credits
Defence / Foreign aid	• Increase spending on national defence • Maintain financial/arms support of Ukraine; Push for cease-fire in Israel/Hamas war	⚖ 🥊	• Increase spending on national defence • Reduce or eliminate financial/arms support of Ukraine; Emphasize US support of Israel
Technology	• Provide additional subsidies/incentives for US semiconductor suppliers and domestic production • Maintain US engagement in Organization for Economic Co- operation and Development (OECD) global tax discussions, keeping current suspension of digital services taxes in place	🥊	• Apply pressure on social media companies about free speech, antitrust and national security concerns • Seek to exit the Organization for Economic Co-operation and Development (OECD) tax discussions, threatening reimposition of suspended digital services taxes
Industrial	• Provide additional tax incentives/subsidies for onshoring efforts to increase domestic industrial production and secure supply chains	⑂	• Support onshoring efforts to increase domestic industrial production • Reduce spending on projects for public transit and pollution control
Immigration	• Implement enhanced border enforcement on asylum seekers	⑂	• Increase deportation of undocumented individuals • Implement substantially more restrictive immigration rules, including avenues for legal work and student visas • Restore funding for the wall on the US-Mexico border

Source: American Century Investments

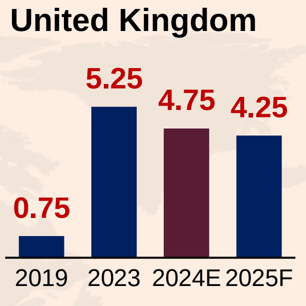
🥊 Against ⚖ Same ⑂ Similar direction

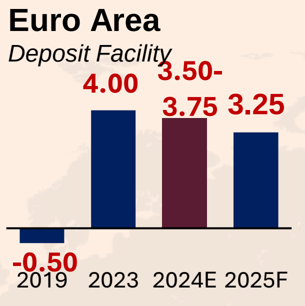
Global monetary policy tracker

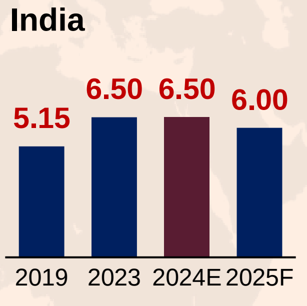
Policy rate (%, end-period)

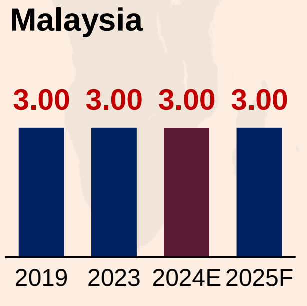


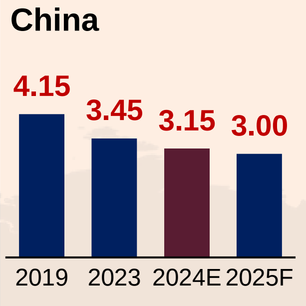
Federal Reserve Chair Jerome Powell said that a 50 basis point rate cut reflects the Fed's growing confidence that, with an appropriate recalibration of policy, it can maintain strength in the labour market while achieving moderate growth and ensuring that inflation moves sustainably toward the 2% target.

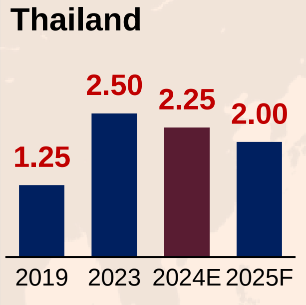


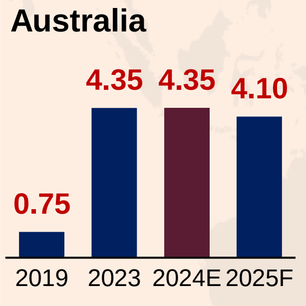


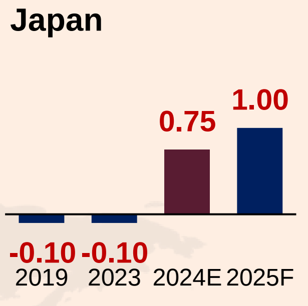


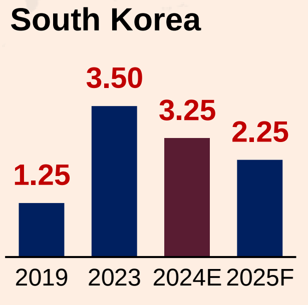


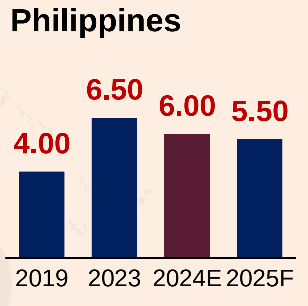












Source: Various officials; SERC's forecasts

Malaysia Economic Outlook

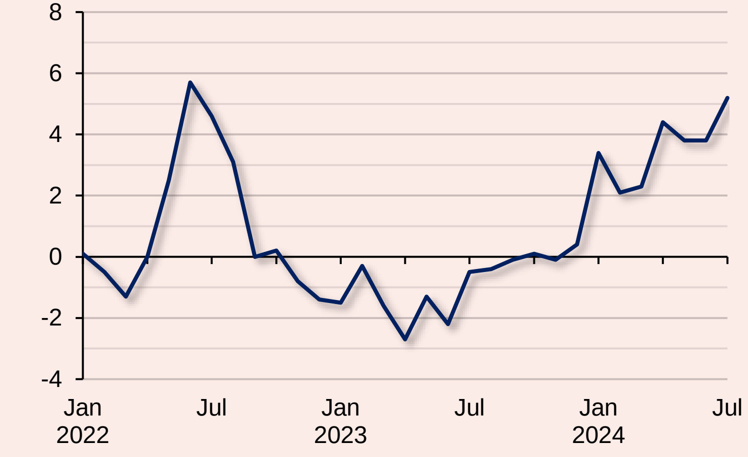
The Malaysian Economy is Fired on Twin Cylinders

1. *A broad-based economic expansion*
2. *Continued structural reforms to sustain economic resilience*
3. *Domestic demand anchors growth; exports reinforce it*
4. *Stage set for robust private investment cycle*
5. *Interest rate holds steady at 3.00% in 2024 and in 1H 2025*

Tracking Malaysia's economic indicators

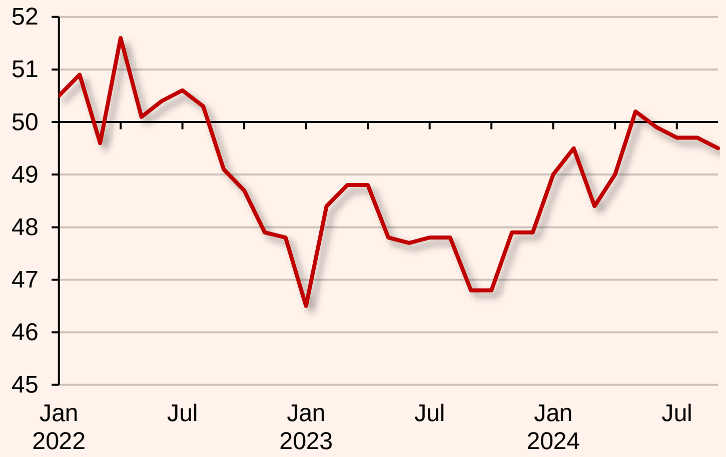
Leading indicators

%, YoY



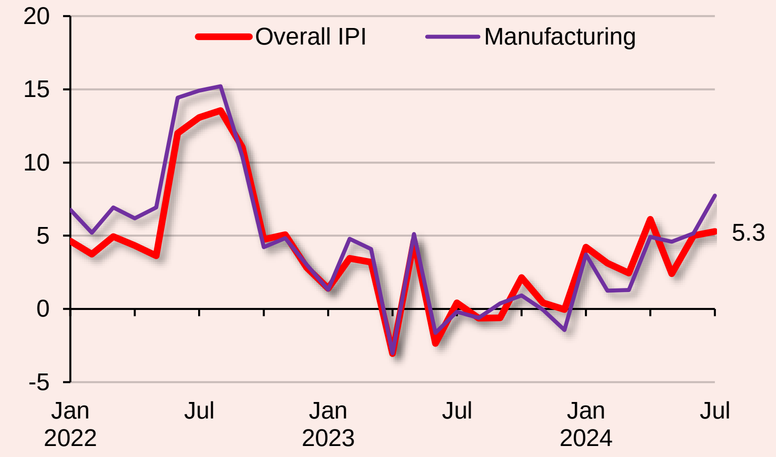
Purchasing Managers' Index (PMI)

50=Threshold



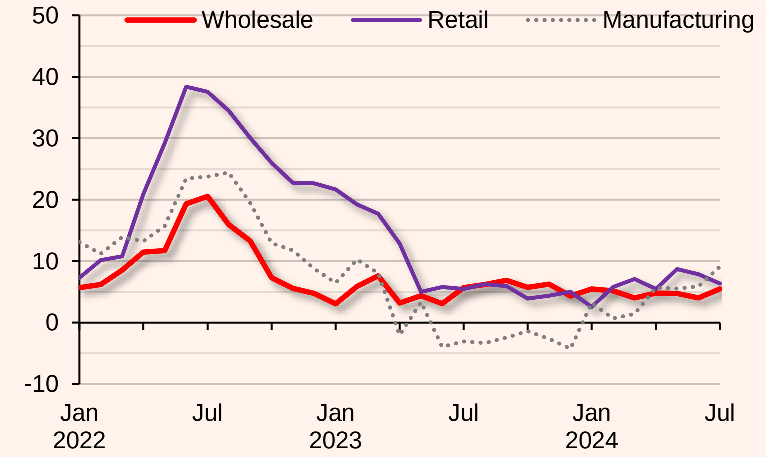
Industrial production index (IPI)

%, YoY



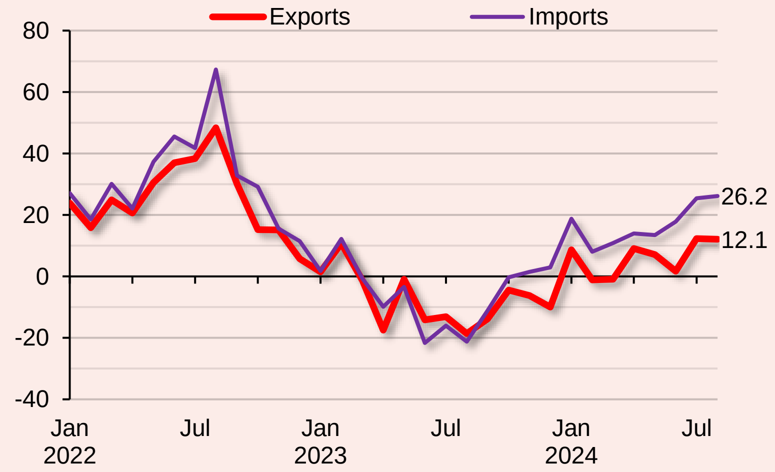
Wholesale, retail & manufacturing sales

%, YoY



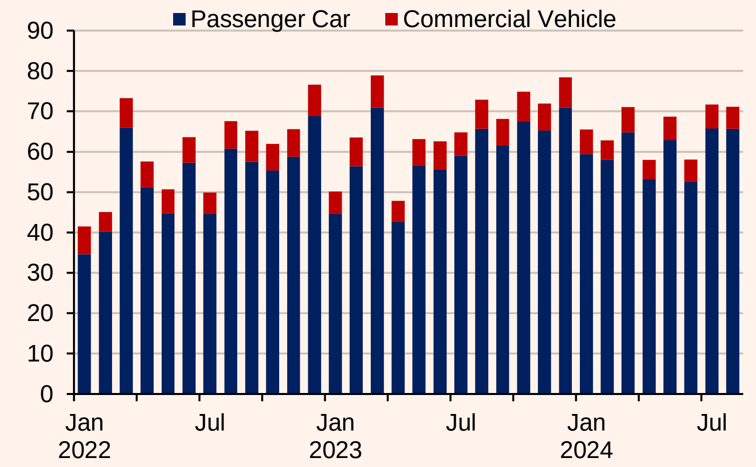
External trade

%, YoY



Sales of passenger & commercial vehicles

Thousand units

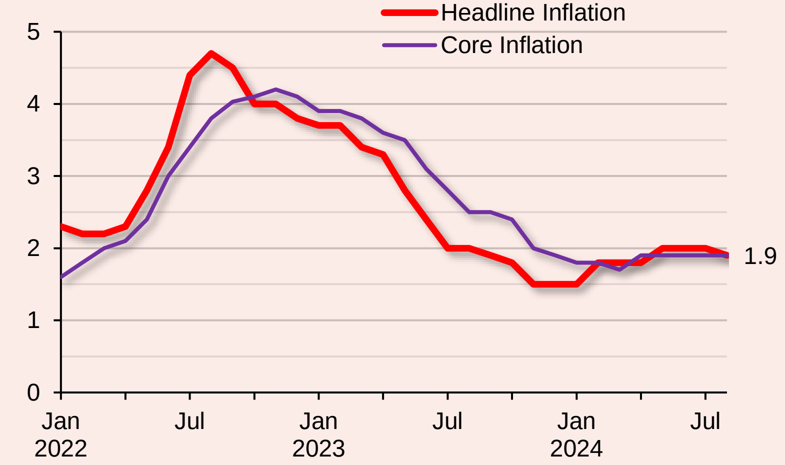


Source: S&P Global; DOSM; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)

Inflation

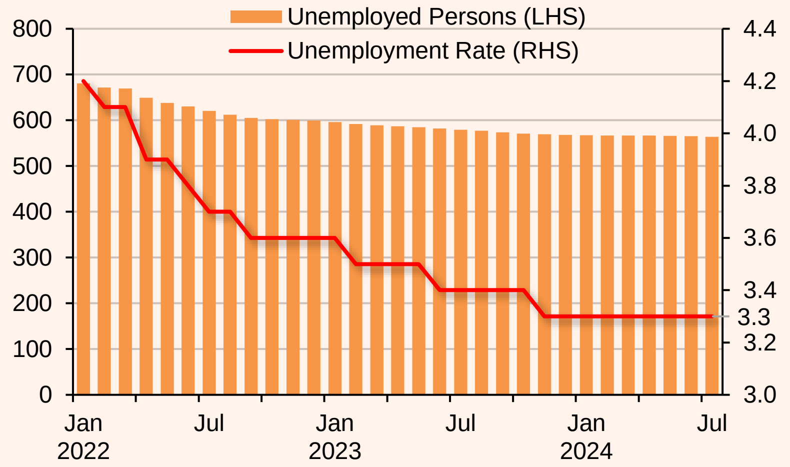
%, YoY



Unemployment

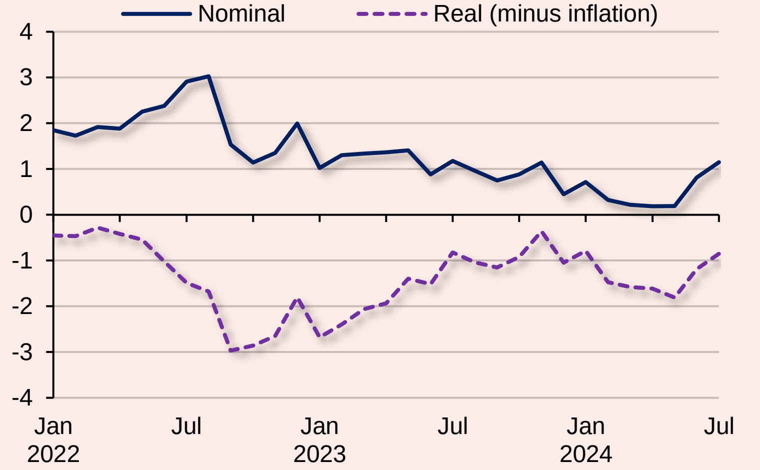
('000)

%



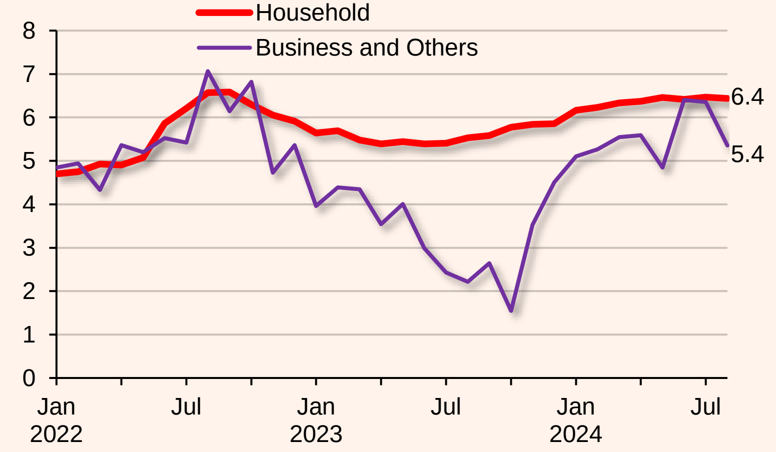
Manufacturing wages (per employee) growth

%, YoY



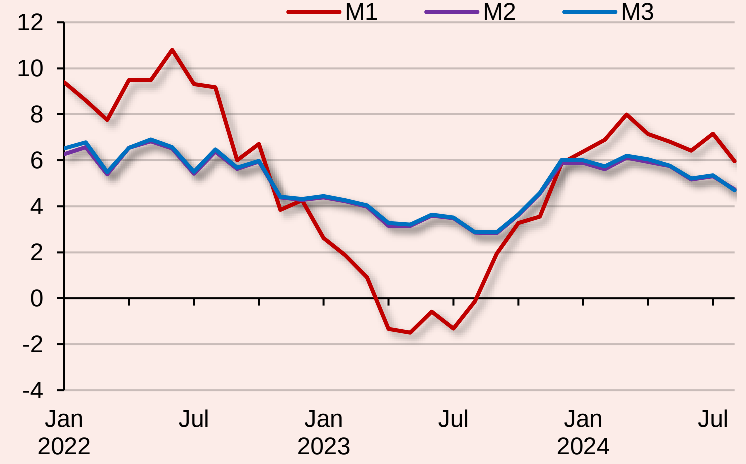
Outstanding banking loan growth

%, YoY



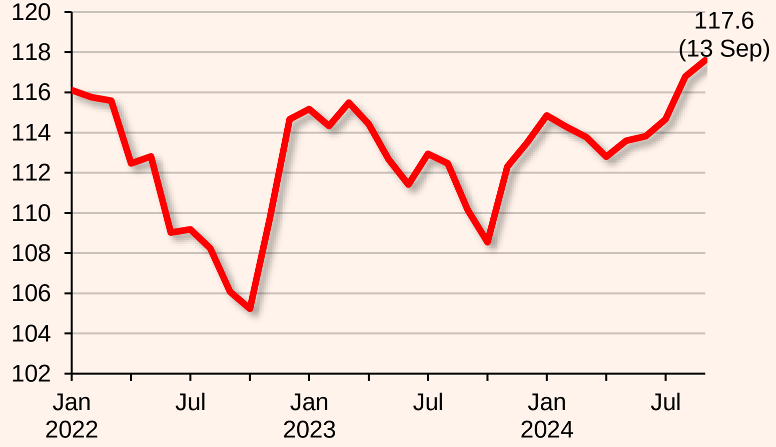
Money supply

%, YoY



Foreign exchange reserves

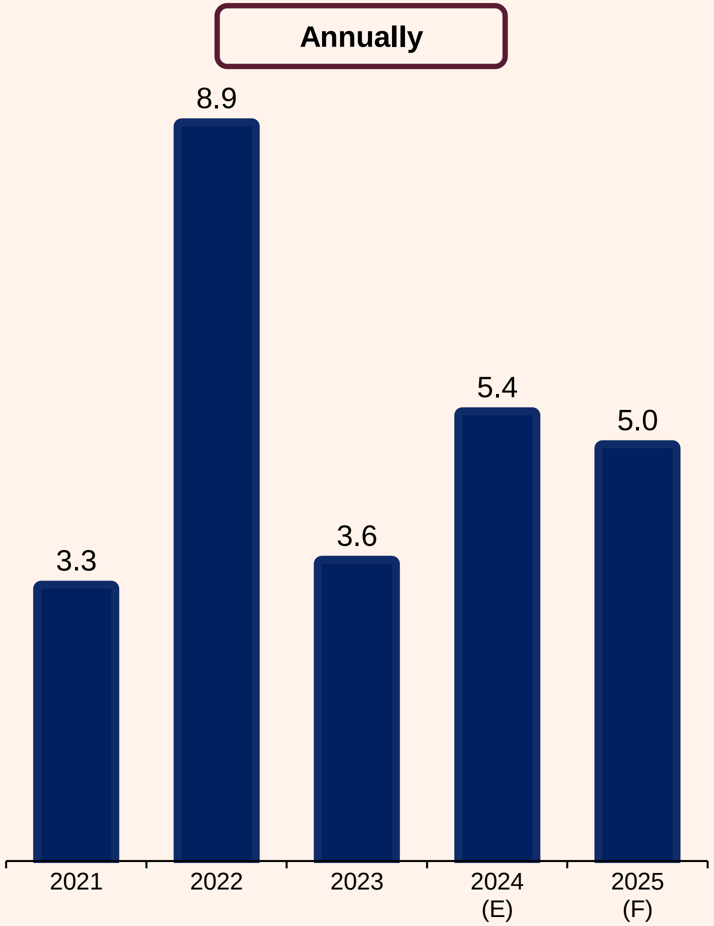
USD billion



Source: DOSM; BNM; MIDA

The Malaysian economy is doing better than expected

Malaysia’s real GDP growth (%, YoY)



Source: Department of Statistics Malaysia (DOSM); SERC’s forecast

Drivers of economic growth in 2024-2025

Supporting drivers

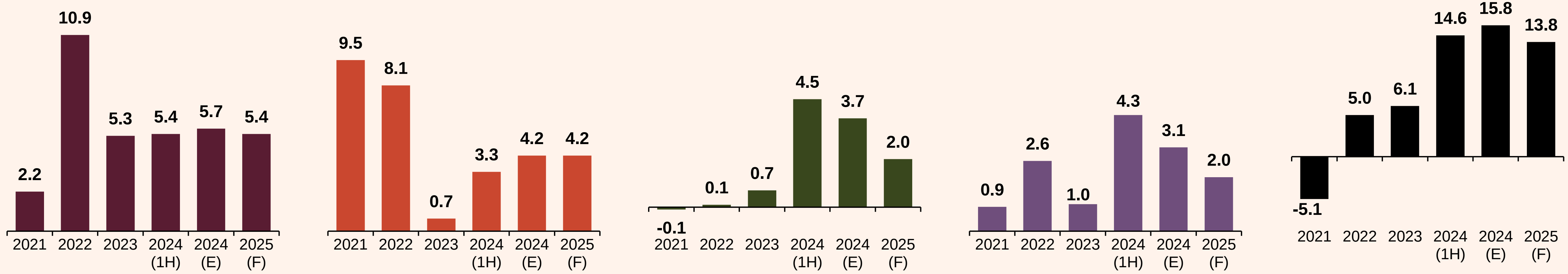
- Resilient domestic expenditure and higher export activity, lifted by the global tech upcycle.
- Investment upcycle in the technology and digital infrastructure.
- Stronger tourists spending.

Dampening drivers

- Cost of living pressures and high business costs.
- Businesses and households’ anxieties have already built up over the petrol subsidy rationalisation will be next in line.
- Domestic economic growth outlook remains subject to downside risks.
  - ➢ Worsening of geopolitical tensions.
  - ➢ Higher-than-anticipated inflation outturns.
  - ➢ Volatility in global commodities and financial markets.

All economic sectors will register positive growth in 2024-2025

GDP growth by economic sector (%, YoY)



Services

- Consumption supports retail, dining, accommodation, and communications sectors.
- Recovery in tourism activities will further bolster the consumption sector.
- Increased trade-related activities will benefit the wholesale, transportation, and warehousing sub-sectors.

Manufacturing

- Recovery in foreign demand benefits export-oriented industries, particularly E&E products that are experiencing a technology upcycle.
- Domestic-oriented industries will be driven by sustained growth in consumption and investment.

Agriculture

- Production of crude palm oil (CPO), livestock products, and other agricultural goods is expected to increase.
- CPO: Lower-than-expected impact of El Niño, improved labour supply, an expansion of mature areas, and higher oil extraction rates.

CPO Prices:
2024F: RM3,971/tonne
(2023: RM3,810/tonne)

Mining and Quarrying

- Natural gas production is recovering from new and existing gas fields, as well as from crude oil and condensate production.
- With a positive global economic outlook, demand is expected to increase.

Crude oil prices:
2024F: US$81/barrel
(2023: US$83/barrel)

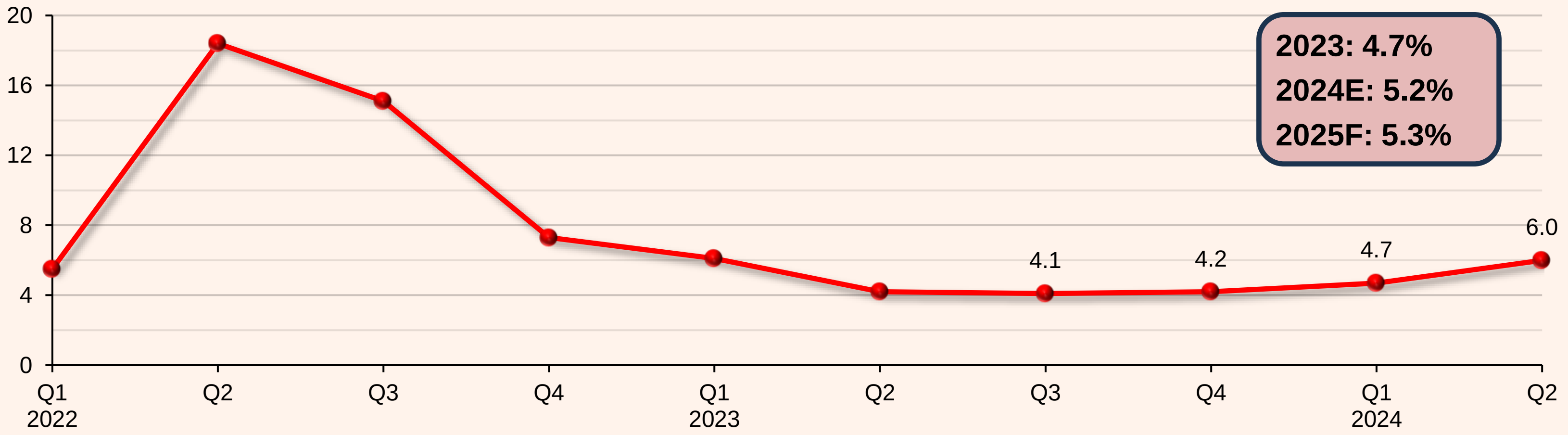
Construction

- All construction sub-sectors (residential, non-residential, and civil engineering) are expanding.
- Strategic infrastructure and utility projects, including the Central Spine Road (CSR), Pan-Borneo Highway, MRT, LRT, and East Coast Rail Link (ECRL), are contributing to this growth.

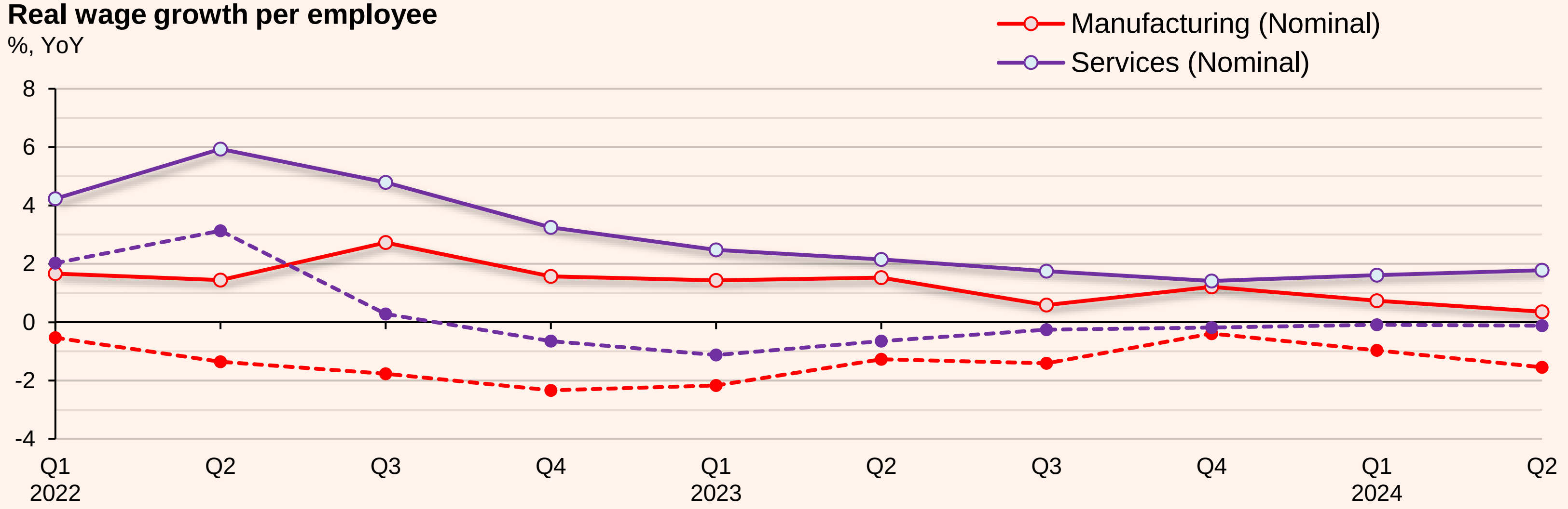
Source: Department of Statistics Malaysia (DOSM); SERC's forecast

Sustaining private consumption

Private consumption growth (60.7% of GDP in 2023)
%, YoY



Real wage growth per employee
%, YoY



Key focuses

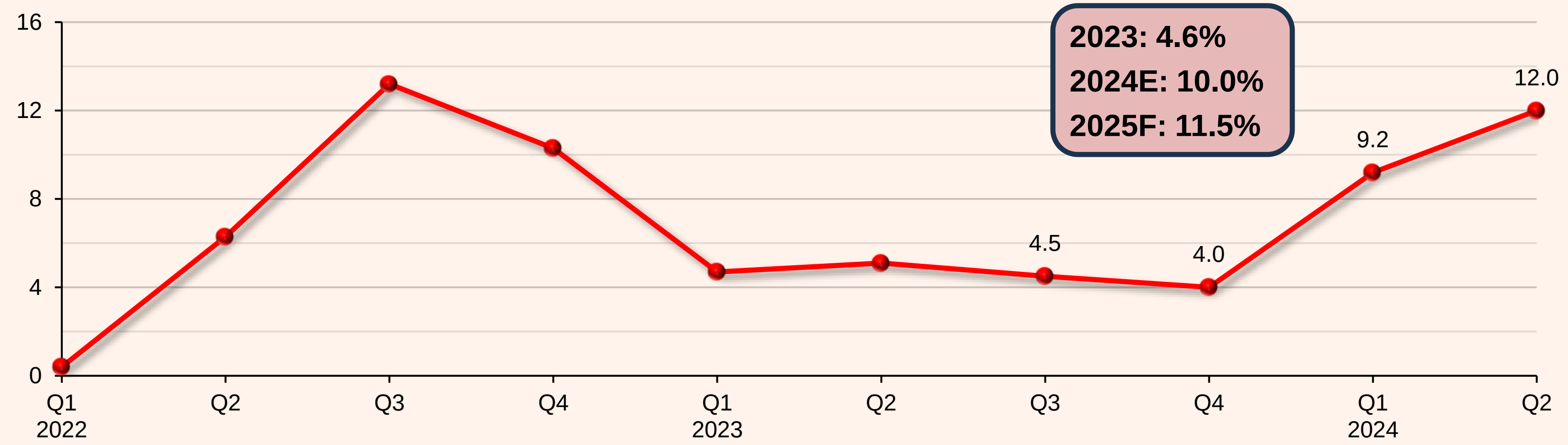
- Stable employment and improved wage growth, as well as policy measures supportive of household spending.
- Rising cost of living and high prices pressure as well as anxiety about retargeting subsidy rationalisation for RON95 may lead to cautious spending.
- Tourists spending will continue. In Jan-Aug 2024:+29.5% yoy to 16.5 million tourist arrivals (target is 27.3 million in 2024).
- Average salary increment between 16.8% and 42.7% (with compounding effects) for 1.6 million civil servants (close to 10% of total employment) to be implemented in two phases (December 2024 and January 2026).
- Higher minimum wage.
- Continued tapping on withdrawals from the EPF Flexible Account (Account 3). As of 12 August, there were withdrawals of RM9.6 billion from the Flexible Account by 3.6 million or 27.5% of total 13.1 million EPF members (RM8.9 billion as of 19 July and RM7.0 billion as of 10 June).

Source: DOSM

Strong investment upcycle starting to take off

Private investment growth (15.5% of GDP in 2023)

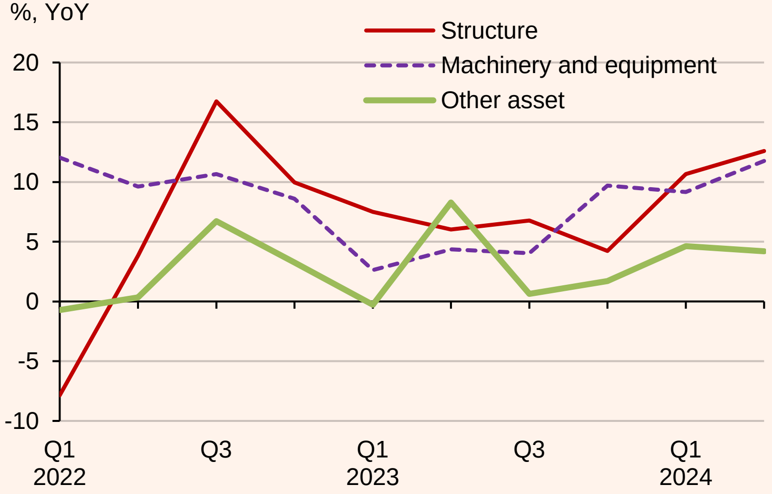
%, YoY



2023: 4.6%
2024E: 10.0%
2025F: 11.5%

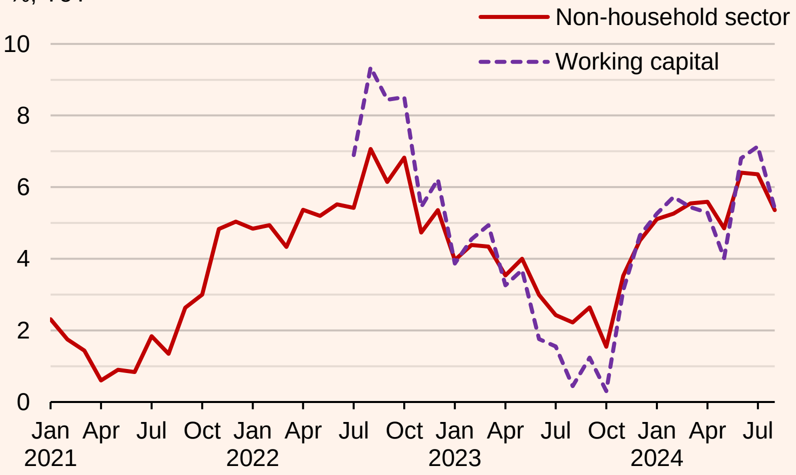
Gross fixed capital formation by type of assets

%, YoY



Outstanding loans to the business sector

%, YoY



Source: DOSM; BNM

Key focuses

- With a plethora of investments streaming in from multinationals like Google, Microsoft, ByteDance, Tesla, Malaysia will experience a global tech upcycle, especially where digital infrastructure like Artificial Intelligence (AI), cloud computing, data centres, EVs are concerned.
- Several strategic plans, namely the New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), the Mid-Term Review of the 12th Malaysia Plan (2021-2025), and National Semiconductor Strategy (NSS) are gradually materialising and will be the catalyst for higher investment growth.
- Johor-Singapore Special Economic Zone (JS-SEZ), together with Special Financial Zone (SFZ) in the Forest City, are set to be a game changer.

Strong investment drives Malaysia's future economic growth

PUBLIC Investment

Transport

Highway

Pan Borneo Sarawak	**99%**
Pan Borneo Sabah Phase 1A	**78%**

Train transit

LRT3	**86%**
RTS Link	**83%**
ECRL	**70%**

Renewable energy

Solar energy

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

Hydroelectricity

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

Network

MyDIGITAL 5G

82% coverage

PRIVATE Investment

Electrical & Electronic products

intel ENOVIX BOSCH infineon Micron neways

Industry target: By 2025 –
GDP contribution: RM120 billion
Export earnings: RM495 billion

Data centre

>RM114 billion
Announced investment

NVIDIA Microsoft ByteDance Google aws

Live capacity:	**280 MW**
Under construction:	**159 MW**
Committed capacity:	**766 MW**
Planned Capacity:	**2,016 MW**

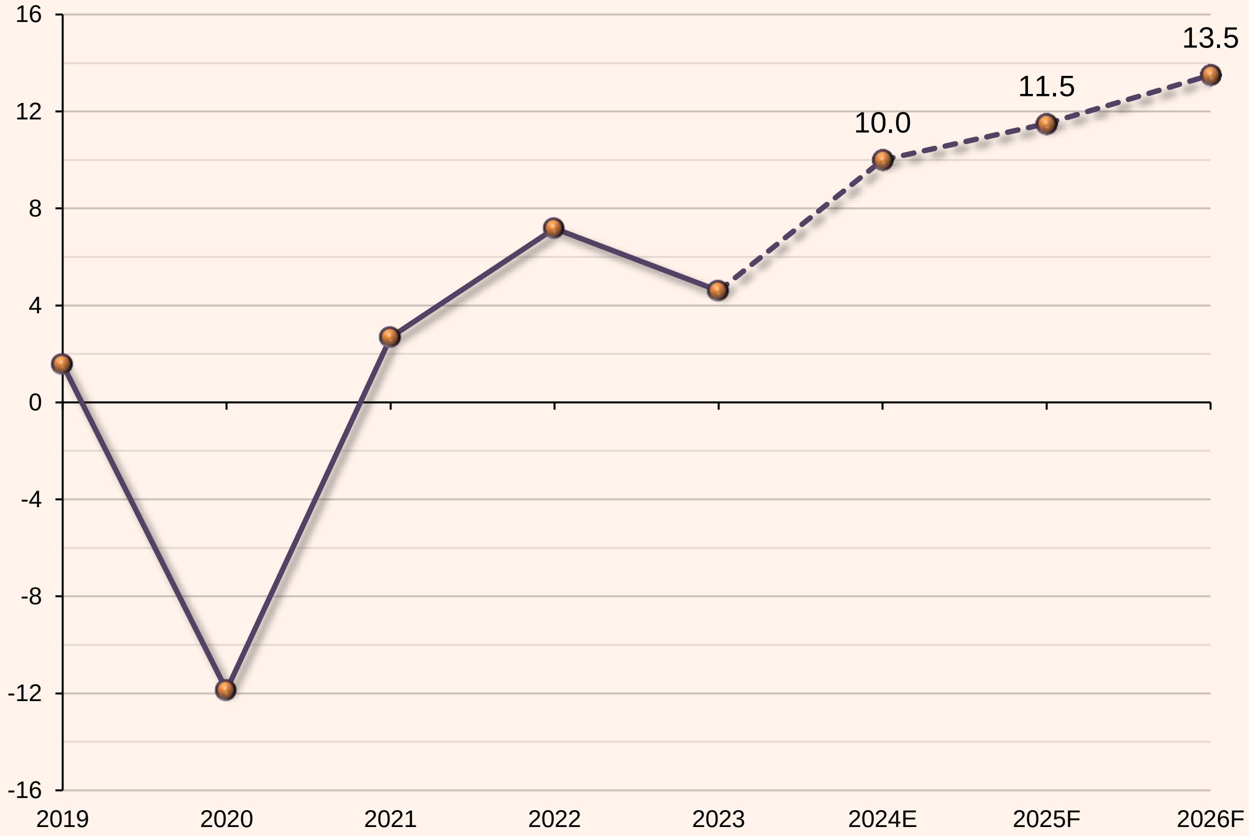
Green / High tech industry park

Kulim Hi-Tech Park
Sedenak Tech Park
Bayan Lepas FIZ
Batu Kawan IP

Source: Various

Sustaining higher private investment prospects ahead

Private investment growth
%, YoY



Reduce bureaucracy, red tape and gold-plating as well as address skills mismatches and encouraging the deployment of technology and innovation would bring down costs of doing business.

Source: DOSM

Drivers of higher private investment growth in the medium term:

- **National Strategic Plans and Roadmaps**

#1 Malaysia MADANI Economy
- A whole-of-Malaysia approach with 7 intermediate indicators.

#2 12th Malaysia Mid-Term Review (2021-2025)
- 17 big bolds to catalyse socio-economic development.

#3 New Industrial Master Plan 2030
- Key industries include E&E, chemical products, advanced materials, aerospace, and healthcare.

#4 National Energy Transition Roadmap
- Six energy transition levers and 10 flagship projects that address energy efficiency, renewable energy, hydrogen, bioenergy, green mobility, and CCUS.

#5 National Artificial Intelligence Roadmap 2021-2025
- Create a thriving and sustainable AI innovation ecosystem.

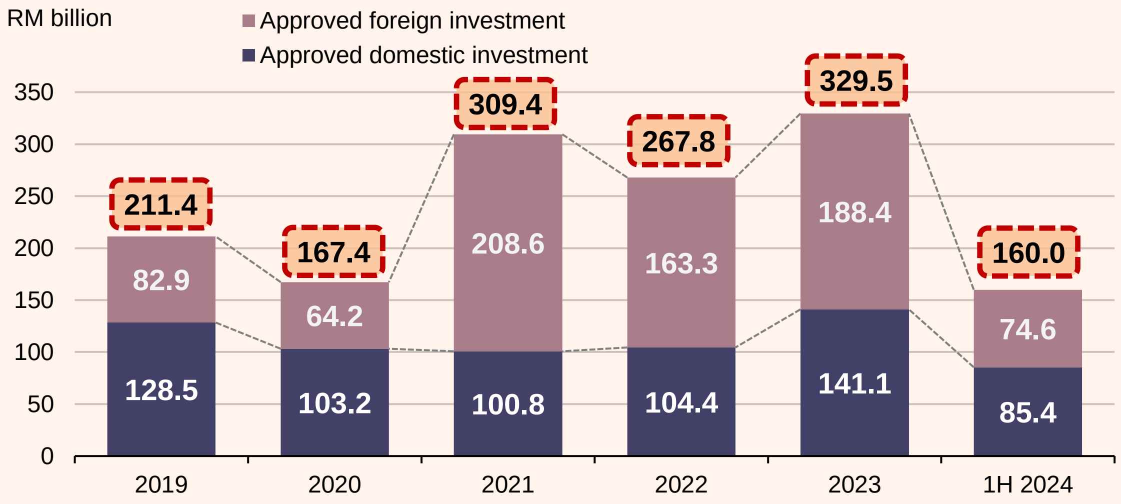
#6 National Semiconductor Strategy
- Boost the semiconductor industry by enhancing research, development, and manufacturing capabilities.

#7 Johor-Singapore Special Economic Zone (JS-SEZ)
- Foster economic connectivity by improving cross-border flows of goods, investments, and people.

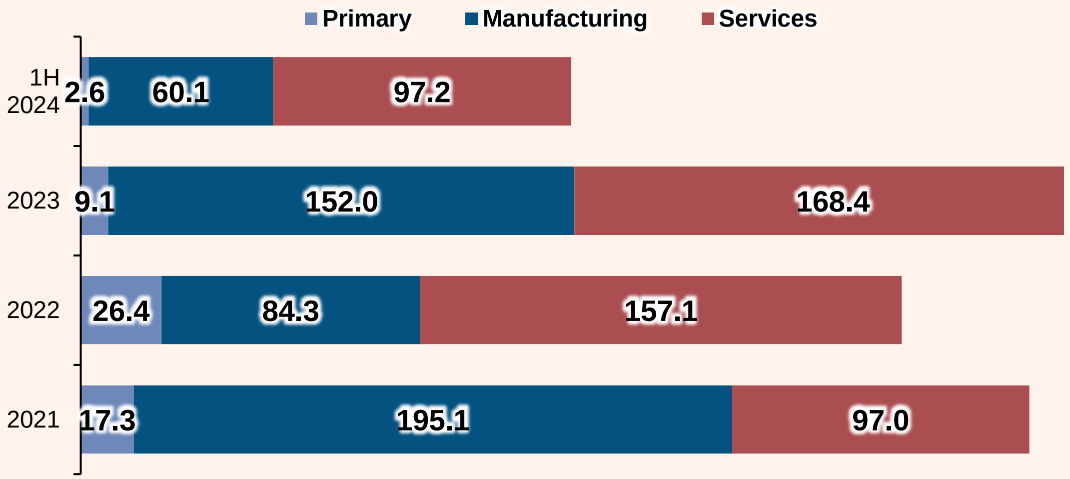
- On-going implementation of multi-year infrastructure projects.
- Realisation of some approved investments in previous years (2021-2023) and in 2024.
- Continued capacity expansions in the manufacturing sector (semiconductor, transport equipment, chemical and chemical products) and services (renewable energy, ICT, data centres, technology-related fields).

Malaysia has demonstrated its continued appeal to investors

MIDA's approved DDI and FDI



MIDA's approved Investment by major sector



Major foreign investors by ranking (1H 2024)

Approved investment value

1.		Austria	RM30.1 billion (18.8%)
2.		Singapore	RM16.5 billion (10.3%)
3.		China	RM9.8 billion (6.1%)
4.		Netherlands	RM4.0 billion (2.5%)
5.		Taiwan	RM2.4 billion (1.5%)

Source: MIDA

Note: Figure in parenthesis indicates % share of total approved foreign approved investments.

Investment from global tech giant into Malaysia

ByteDance ⑥

Construction of Artificial Intelligence hub

Amount: RM10 billion

Nvidia ⑤

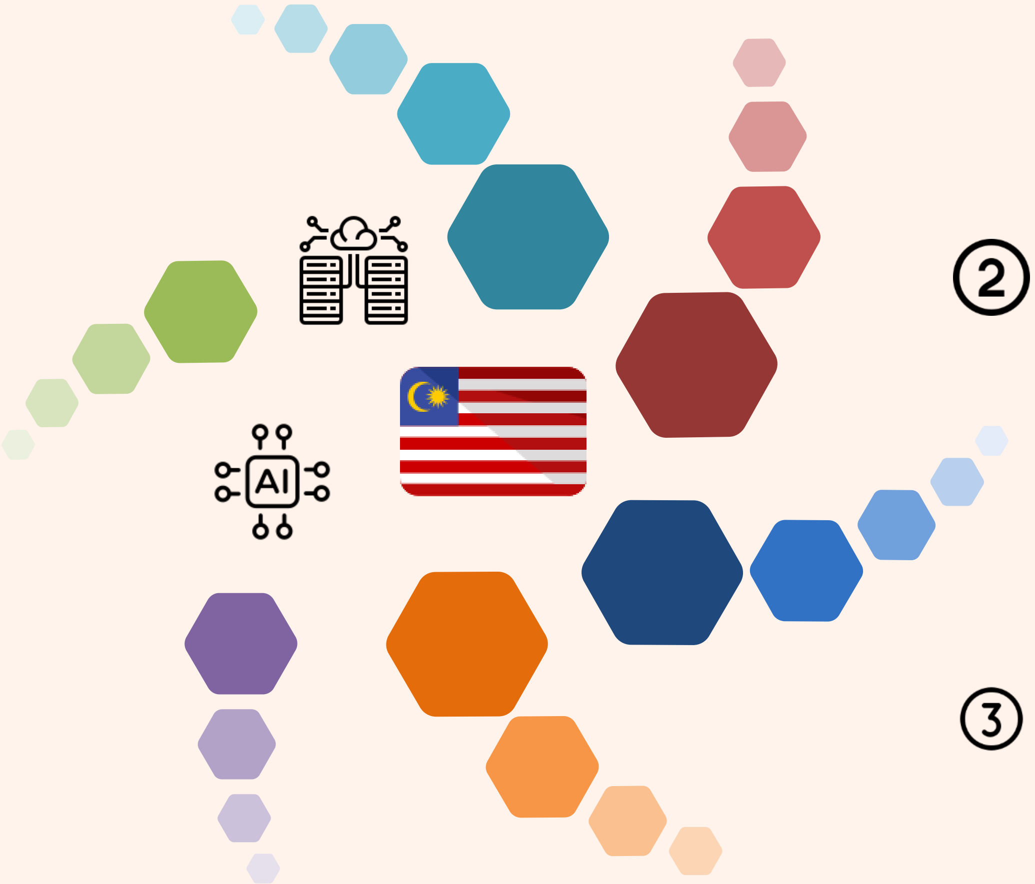
Center for the Artificial Intelligence (AI) Cloud for South East Asia

Amount: RM20 billion

Microsoft ④

Development of cloud systems and AI

Amount: RM10.5 billion



① aws Amazon Web Services

Launch of infrastructure Region through to 2037.

Amount: RM29.2 billion

② Google

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

Amount: RM9.4 billion

③ ORACLE

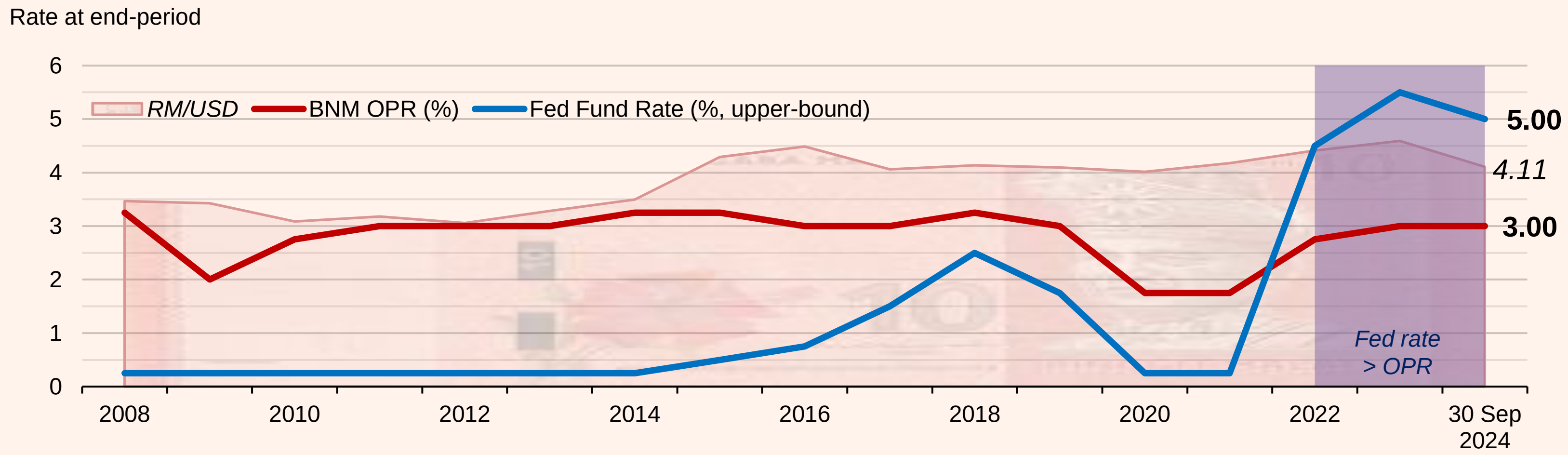
Establishment of the Oracle Cloud Infrastructure (OCI) cloud region.

Amount: RM26.7 billion

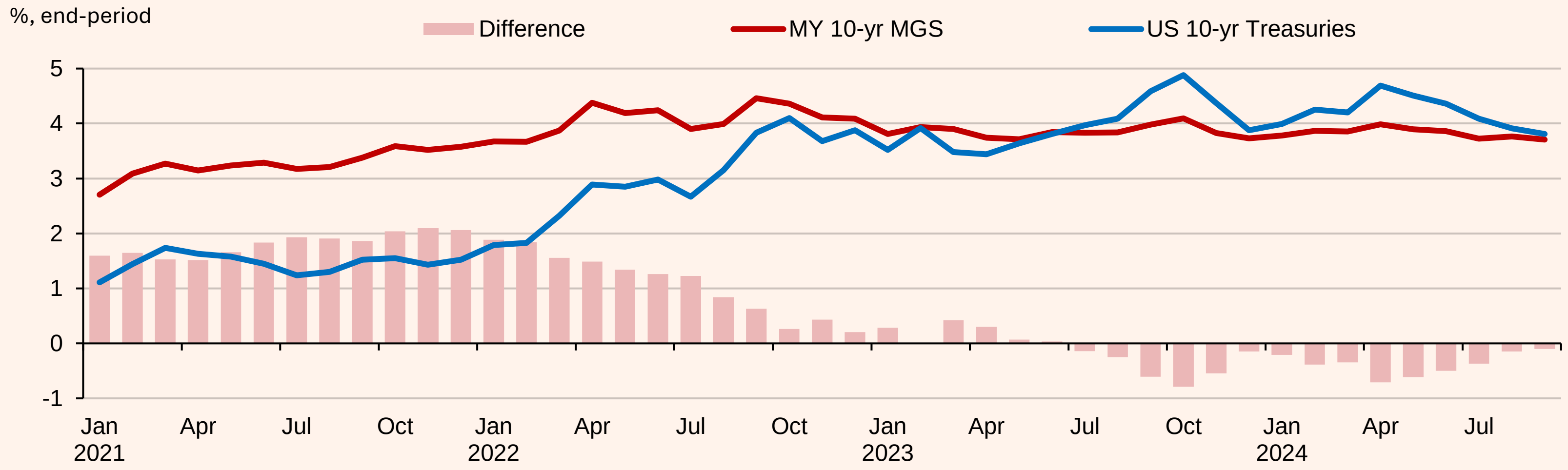
Source: Various sources

The OPR to hold steady at 3.00% in 2024 and 1H 2025

BNM OPR vs. Fed Funds Rate vs. RM/USD



Yields: MY 10-year MGS vs. US 10-year Treasuries



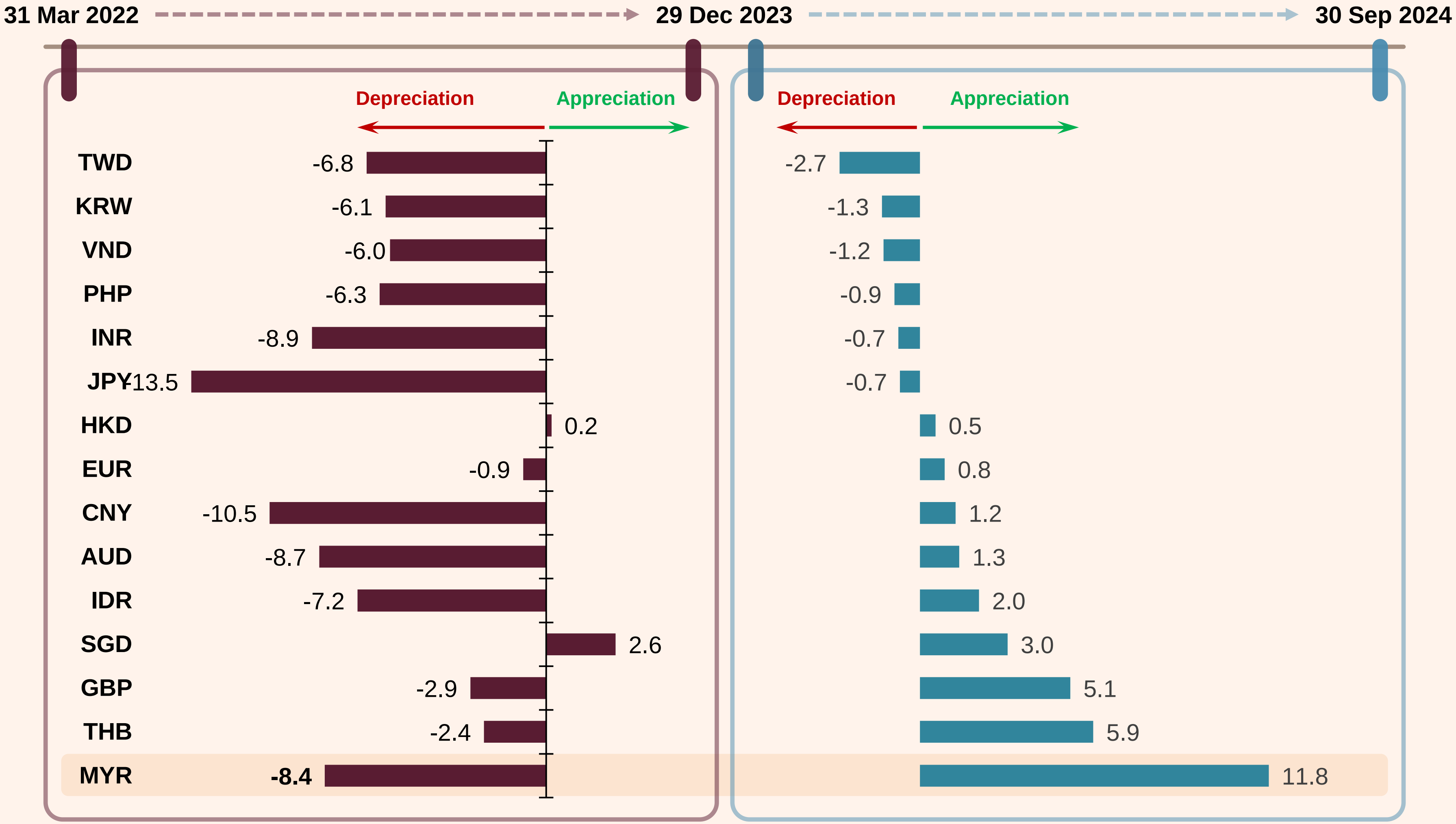
Source: Fed; BNM; US Treasury Department

OPR to stay put at 3.00%

- We expect BNM to maintain the OPR at 3.00% in 2024 and in 1H 2025.
  - ➢ Support the economy while keeping domestic prices stable.
  - ➢ Keep track of developments in global energy and commodities market, the potential implementation of subsidies rationalisation for RON95, the impact of salary hikes for civil servants and review of new minimum wage.

The Ringgit has recouped its losses

Selected major and regional currencies against the USD (%)



Since 31 Mar 2022:

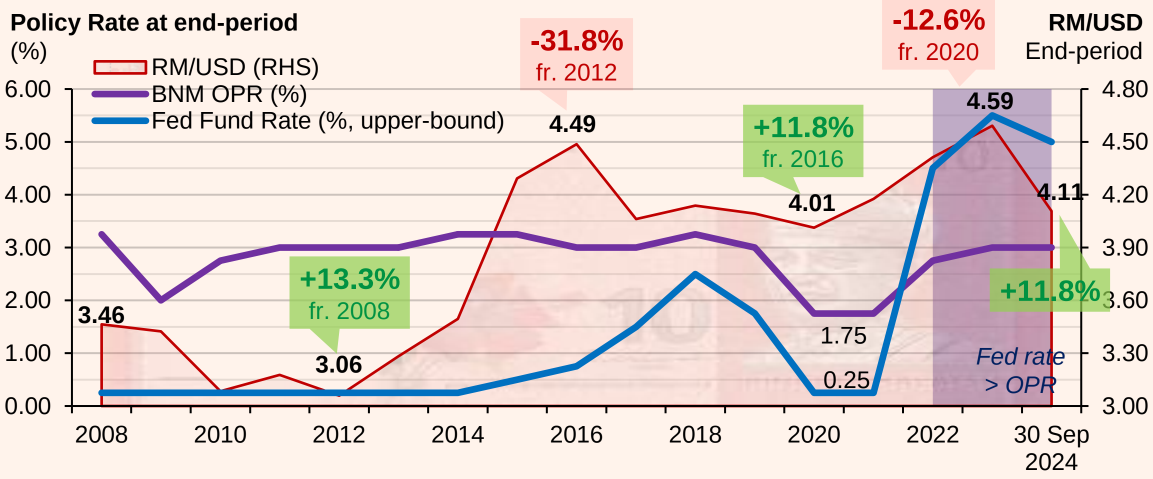
- **SDG** has outperformed all other currencies, claiming the top spot.
- **MYR** ranked as the third strongest currency against the US dollar.
- **JPY** was the worst performing currency as of now.

Net Impact		
#12	TWD	-9.4
#10	KRW	-7.3
#8	VND	-7.1
#9	PHP	-7.2
#14	INR	-9.6
#15	JPY	-14.1
#5	HKD	+0.7
#6	EUR	-0.05
#13	CNY	-9.5
#11	AUD	-7.4
#7	IDR	-5.3
#1	SGD	+5.7
#4	GBP	+2.0
#2	THB	+3.3
#3	MYR	+2.3

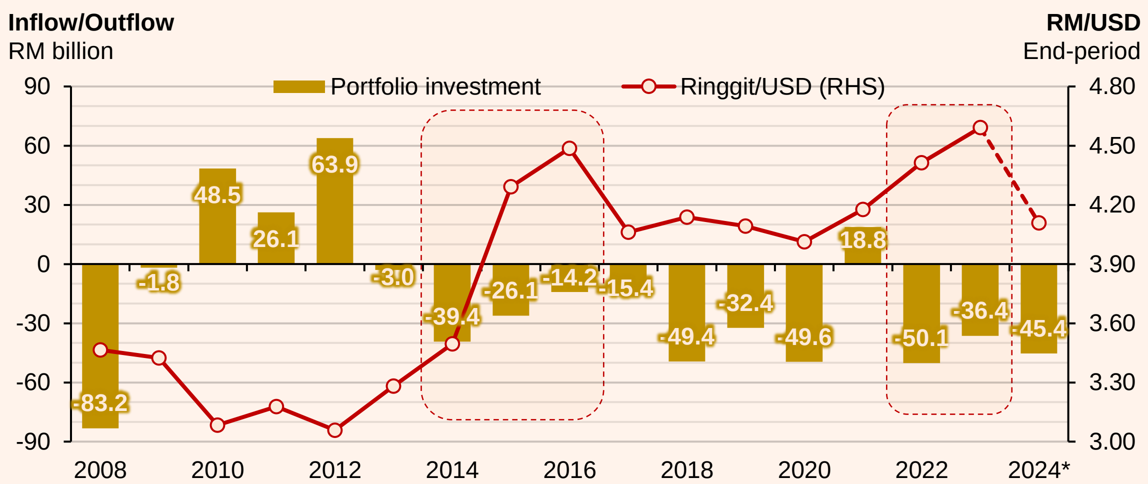
Source: Bank Negara Malaysia (BNM)

Interest rate differentials and capital flows impact on the Ringgit

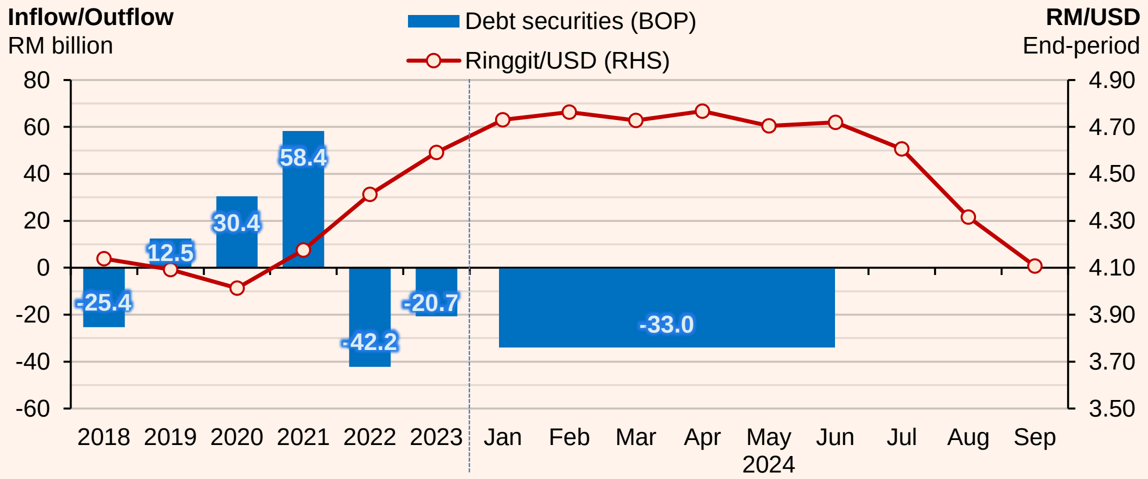
BNM OPR vs. Fed Funds Rate vs. RM/USD



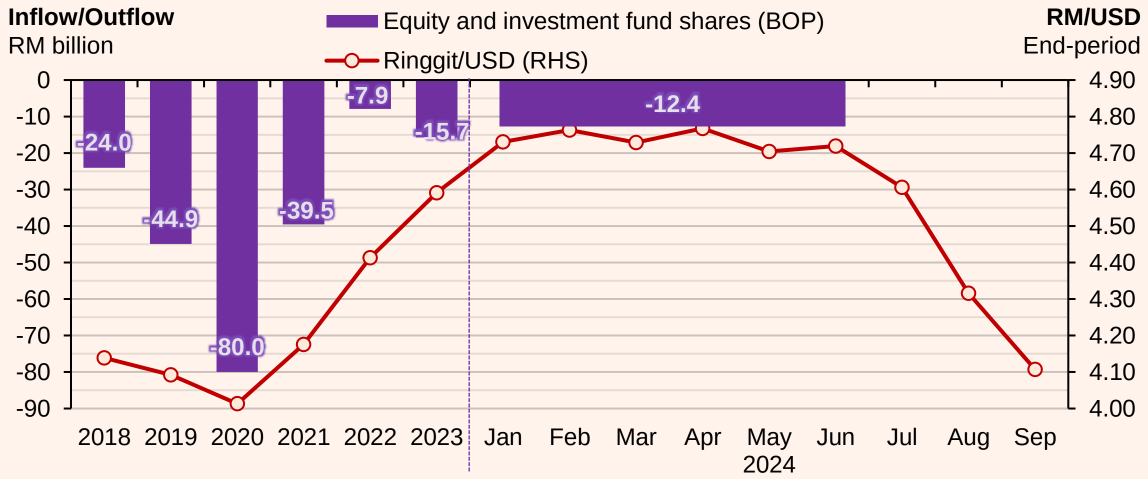
Overall net portfolio investment flow in Malaysia



Net inflow/outflow in the Malaysian debt securities



Net outflow in the Malaysian equity and investment fund shares

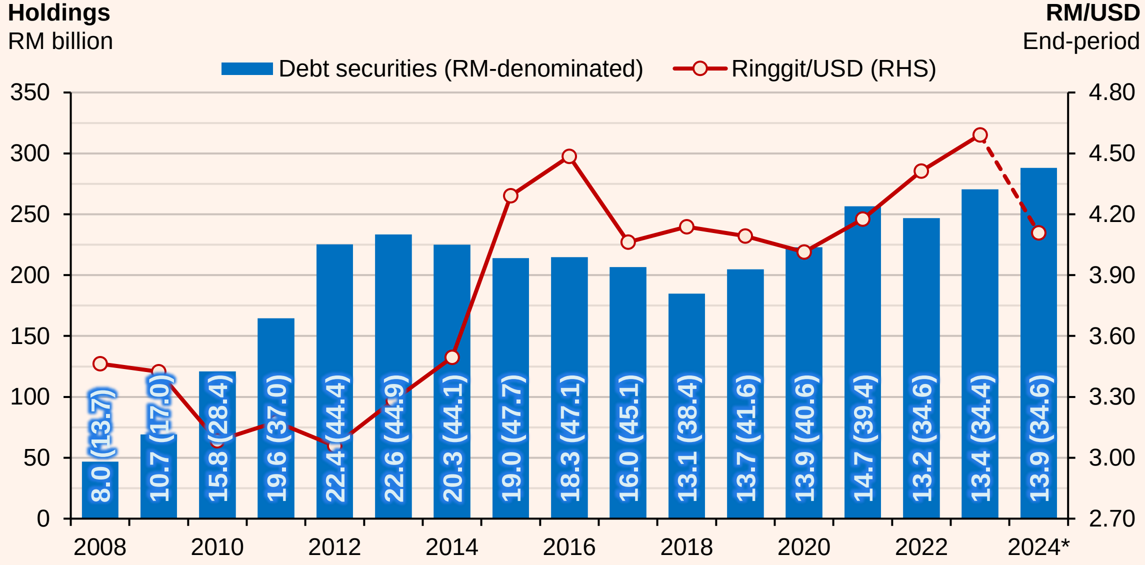


Source: Fed; BNM; DOSM

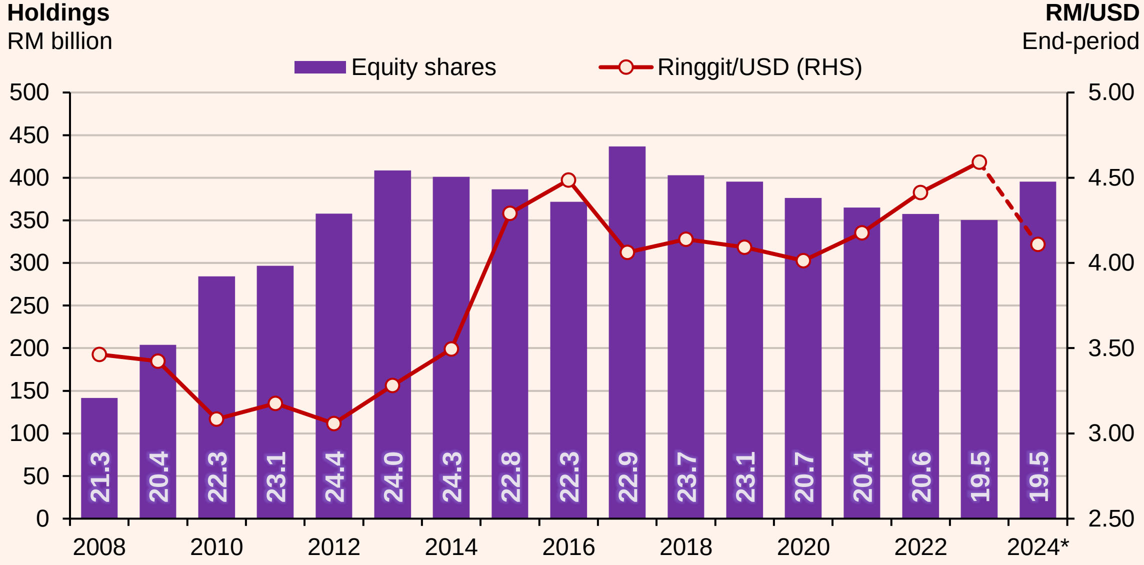
** RM/USD as at 30 Sep 2024; Portfolio investment for Jan-Jun 2024.*

Foreign holdings of the Malaysian debt and equities

Foreign holdings in the Malaysian debt market



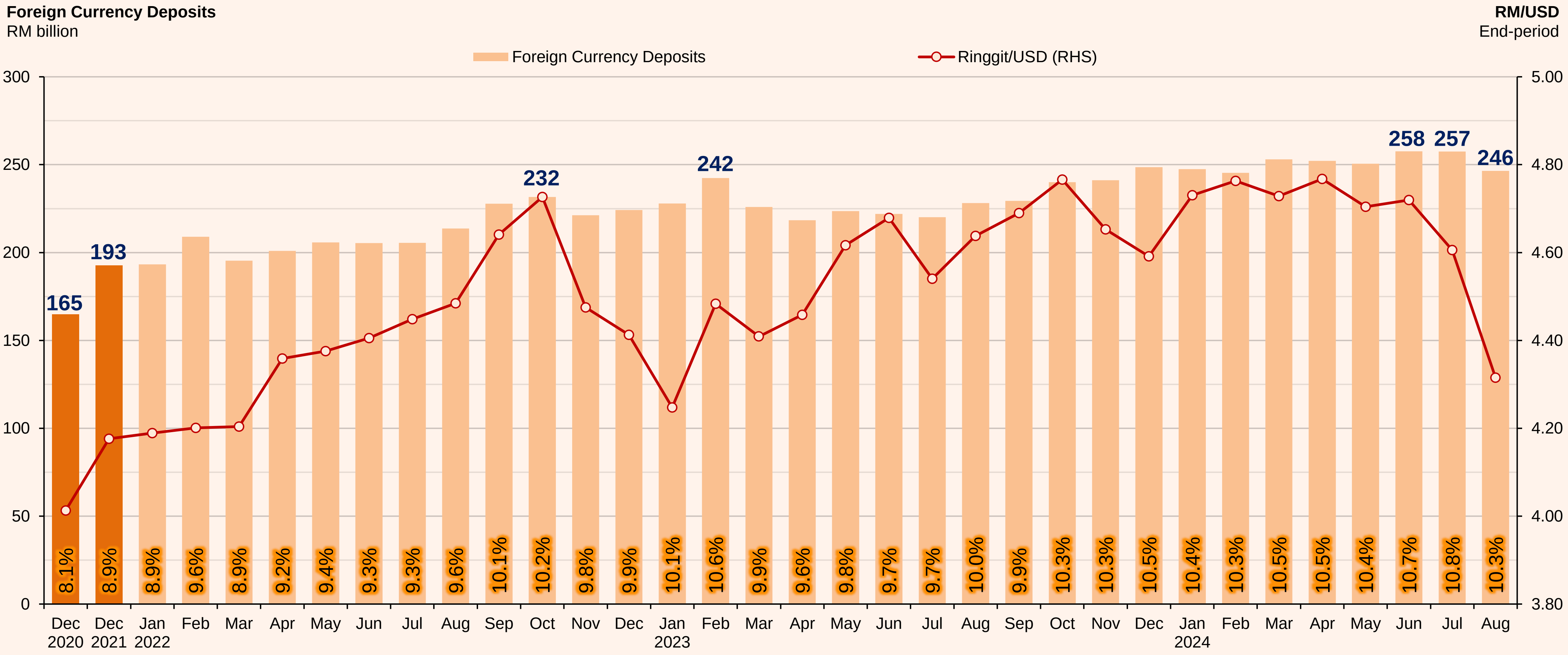
Foreign holdings in the Malaysian equity market



** RM/USD as at 30 Sep 2024; Debt securities holdings as at end-Aug 2024; Equity holdings for as at end-Jun 2024.*
Note:
Data label indicates % share of foreign holdings as at end-period; figures in parenthesis indicates % share of foreign holdings in Malaysian Government Securities (MGS).
Foreign holdings in equity market for the year 2008-2009 are computed based on the investor's country of incorporation, while 2010 onwards are computed based on the nationality of investors.

Source: BNM; Bursa Malaysia

Foreign currency deposits have eased from the peak in August



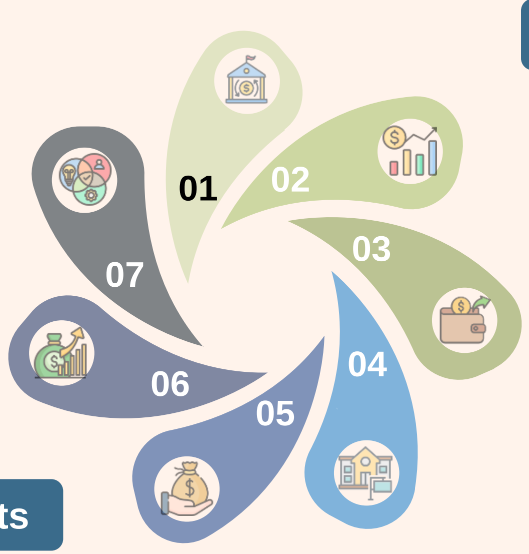
Note: Data label indicates % share of foreign currency deposits over total deposits.
Source: BNM

Budget 2025 – Sustaining Growth with Fiscal Stability

A blend of sustaining economic growth with fiscal stability, investment orientation, and supporting long-term sustainable development

1. *Gradualism of Fiscal Reforms*
2. *Global Minimum Tax (GMT)*
3. *Tackling Cost of Living Pressures*
4. *Managing Business Costs*
5. *Skilling-up Manpower*
6. *Greening Investment and ESG Agenda*

A 2025 Budget Drives Growth with Fiscal Stability



Fiscal Consolidation

- Further reduction in fiscal deficit to GDP ratio (-3.8% in 2025 vs. -4.3% in 2024)

Revenue Enhancement and Tax System

- Reintroduction of GST
- E-invoicing
- Global Minimum Tax Rate (15%) and Domestic Minimum Top Up Tax (DMTT)

Operating Expenditure Rationlisation

- Fuel Subsidies Rationalisation
- Consolidation of Departments and Agencies

Easing Cost of Living

- Sumbangan Tunai Rahmah
- Tax Rebate and Relief for Individuals
- Medical Inflation; Income Enhancement for Retirees

Managing Business Costs

- Preferential Tax Rate for SMEs
- Minimum Wage Rate and Tiered Levy – Not too Steep
- E-invoicing – Higher Exemption for SMEs

Sustaining High Investment

- Reinvestment Allowance
- Facilitation Fund/Grant
- Family Offices
- R&D Tax
- ESG Fund

Skills Development

- Enhancement of Progressive Wage Model
- TVET, STEM

#1 Gradualism of Fiscal Reforms

Issues

- **Federal Government's total spending has ballooned; debt and liabilities have risen sharply.** As at end-June 2024, the Federal Government debt stood at RM1,227.5 billion (63.5% of GDP) – second highest ratio on record after Q4 2023.
- Rising operating expenditure (OPEX), especially for **emoluments** (*31.5% of total OPEX in 2024B vs. 30.5% in 2014*) - an *average* salary *increment of 16.8%-42.7%, with compounding effects, for about 1.6 million civil servants in 2025-2026*) and **ballooning debt service charges** (*16.4% of OPEX in 2024B vs. 10.3% of OPEX in 2014*).
- Government has embarked on a series of subsidy rationalisation and price controls based on the targeted approach.
- Several new taxes and tax adjustments have been implemented to improve fiscal revenue, but the associated administration and compliance costs from both the public and private sectors could outweigh the revenue collection.
- Overall, Malaysia's tax revenue, at 12.6% of GDP in 2023, ranks among the lowest in ASEAN.

Proposals

- Continue to plug leakages in public spending. Tabling of **Government Procurement Act** must be expedited without further delay.
- **Rationalisation of Federal statutory bodies** to address the issue of overlapping functions and structures, involving statutory bodies and GLCs, which had led to financial overreach and uncontrolled spending.
- **Radical consideration to reintroduce the GST** at 4.0%.
- **Fuel subsidy reforms**:
    - Careful design and considerate execution with ease of administration and better enforcement to enhance its effectiveness.
    - Credible means-testing to identify the eligible recipients of receiving the financial aid to minimise inclusion and exclusion errors.
    - Phase in the implementation of subsidy reforms gradually.
    - Transparent reporting and regular updates of detailed subsidies.

#2 Global Minimum Tax (GMT) on 1 January 2025

IMPLEMENTATION TIMELINE OF
GLOBAL MINIMUM TAX
IN MALAYSIA

GMT LEGISLATION
➡ **Part XI, ITA 1967**

1. **1.1.2025**
   Effective date
   For MNE Group with a consolidated financial statement period begin on or after 1.1.2025
2. **31.12.2025**
   Closing date*
   The closing date for the first MNE Group's consolidated financial statement for the year 2025
   ** For a complete 12-month financial year period beginning 1.1.2025*
3. **30.6.2027**
   Submission for Top-up Tax Return (TTR), the Information Return (GIR) and the payment of the top-up tax *
   ** Transitional Period - For the first financial year when the MNE Group comes within the scope of the GMT, the submission and payment period is within 18 months from the closing date of the consolidated Financial Statement*
4. **January 2028**
   Proposed for risk assessment and audit review process

Source: LHDN

The Finance Act incorporates the OECD Pillar Two rules into Malaysia's revenue laws, including the Income Tax Act 1967, Petroleum Income Tax Act 1967, and Labuan Business Activity Tax Act. However, the UTPR under OECD Pillar Two Model Rules is not included.

Globally, more than 130 countries supported GMT and at least 42 jurisdictions have enforced or will enforce income inclusion rule (IIR) by 1 January 2025. The days of competing on offering lower tax rate to attract FDIs will come to an end. Malaysia will enforce both IIR and QDMTT by 1 January 2025.

Based on PwC's Pillar Two Country Tracker (last updated on 30 Sep 2024):

Out of 117 jurisdictions	**2024**	**2025**	**2026**
Income inclusion rule (IIR)	31	42	42
Undertaxed Payments Rule (UTPR)	0	32	33
Qualified Domestic Minimum Top-up Tax (QDMTT)	33	44	46

Note: Jurisdictions where the year of entering into force is uncertain, are not counted.

The GMT rate of 15% applied to:

1. Multinational enterprises that operates in at least two jurisdictions; and
2. With annual revenue of €750 million in at least two out of four financial years immediately preceding the tested financial year.

Why Malaysia is in?

1. Aligning with international taxation standards, especially in curbing tax base erosion activities and transferring profits to countries with low tax rates.
2. Malaysia has the first right to charge top-up taxes on revenue from entities located in Malaysia that are paying low taxes.

Negative implications?

- Malaysia could lose out its competitive edge to attract FDI but this can be compensated by other non-tax factors -- good investment climate and better investment facilitation, good governance as well as predictable regulatory environment, backed by credible economic and financial policies and stable political conditions.

#3 Tackling Cost of Living Pressures

Issues

- Rakyat faces **rising cost of living pressures; does not see many benefits from national plans; trickle-down effects would take time**.
- Despite a stable headline inflation since 2H 2022, households' cost-of-living pressures still biting. In August 2024, 59.9% of 573 items in consumption baskets recorded price increases, 16.8% remained unchanged, and less than a quarter (23.4%) saw a decline in prices.
- **Real wage growth** (wage growth minus inflation rate) per employee **has been negative for many quarters**, eroding purchasing power and placing financial strain on households.
- **Rising healthcare costs (medical cost inflation was 12.6% in 2023) and medical insurance premiums** are hitting the low- and middle-income households.

Proposals

- **Continued cash transfer programs**, namely Sumbangan Asas Rahmah (SARA) and Sumbangan Tunai Rahmah (STR). **Review the cost-of-living support package regularly** and step in to enhance it where necessary to provide additional support.
- Proposed **tax reliefs for B40 and M40 households**:
  - Increase personal tax relief to RM12,000 from current RM9,000 (last revision was in 2010).
  - Reintroduce the parental care tax relief (last given in YA2016-2020).
  - Extend the tax rebate of RM400 to individuals with chargeable income not exceeding RM70,000.
  - House rental payment be given a personal tax relief of up to RM4,000 annually.
- Addressing the **old-age and retirees' financial protection challenge**:
  - Higher income relief up to RM8,000 for an increase in the EPF voluntary contribution rates for those aged 55 to 60.
  - Tax incentives for employers to offset employees' monthly wages to employers who voluntarily re-employ workers after the retirement age 60.
- **Managing Healthcare Costs and Medical Insurance.** Consider the establishment of Universal Healthcare Insurance Fund; introduce hospital fee benchmarks for 21 common surgical procedures and 8 common medical conditions for transparency; reduce and cap the prices that commercial insurers pay for hospitals and physicians' services by regulating those prices in various ways.

#4 Managing Business Costs

Issues

- Private investment has registered a buoyant growth of 10.6% YoY in 1H 2024. Several national strategic plans are gradually materialising and will be the catalysts for higher investment growth ahead.
- Nevertheless, **high operating cost and cash flow problem** remained as a key business concern. Substantial increase in percentage of respondents (47.4% in 1H 2024 vs. 38.6% in 2H 2023) in ACCCIM's Malaysia Business and Economic Condition Survey (MBECS) indicated that this factor has adversely affected their business performance, especially in the wholesale and retail trade, manufacturing, and construction sectors. Among the increase in operating costs include **higher water and sewerage tariffs, retargeting of diesel subsidy rationalisation, and higher rental cost**.
- Given that 96.9% of businesses in Malaysia are micro, small, and medium enterprises (MSMEs), the **implementation of e-invoicing presents a significant challenge** due to their limited financial and technical resources. The original timeline aimed to cover all businesses by January 2027, but this has been moved forward to July 2025, providing less time for preparation and increasing the operational burden on MSMEs.

Proposals

- **Ease cost of doing business** for MSMEs:
  - Increase the threshold to RM500,000 from RM150,000 currently for SMEs enjoying preferential tax of 15%.
  - Qualifying SMEs and mid-tier companies should be given a corporate income tax rebate of 25%, capped at RM20,000.
  - For those qualified SMEs that are not making a profit at a certain threshold, a cash payout of RM5,000 should be disbursed to support these businesses.
- **Adapting to e-invoicing** and **reduce operational burdens**:
  - Consider making participation in e-invoicing voluntary for businesses with an annual turnover or revenue not exceeding RM500,000 (from current RM150,000).
  - Delay the e-invoicing full implementation timeline to the original proposed date, moving it from 1 July 2025 to 1 January 2027.
- **Minimum and a multi-tiered levy**: The quantum of increases must not be too steep so as not to overburden them. The levy can be applied to SMEs only two years after its initial implementation for large companies.
- Ensure that the legal procedures, particularly the gazette document, to be in place soonest possible.

#5 Skilling-up Manpower

Issues

- As the industry is moving towards automation, digitalisation, IR4.0, and ESG-oriented, there will be a **higher demand for talent and skilled manpower**. The competition in getting talent is beyond a national boundary.
- Despite setting a goal of 60:40 ratio for the science, technology, engineering and mathematics (STEM) education policy, but Malaysia has not been achieving the ratio for decades and there is inadequate STEM or technical and vocational education and training (TVET) students produced in Malaysia. Generally, **TVET stigmatisation still exist**.
- Malaysia's **brain drain predicament** has been an ongoing concern, most of the skilled workforce has migrated to other countries in search of better job opportunities.
- The Government has agreed to issue long-term Social Visit Pass (Graduate Pass) to international students from 23 countries, enabling them to further their studies, travel, and work part-time in the permitted economic sectors. However, it only lasts for 12 months period and for part-time work only.
- The Progressive Wage Policy (PWP) in its current form does not allow "Managers" and "Low-skilled workers" to participate.

Proposals

- The Budget is expected to allocate fund for investment in AI, tech skills, data quality and public IT infrastructure for technology.
- Increase personal tax relief for both individual and children for studying degree in STEM courses.
- **Grant TVET institutions funding from the government based on performance** – employability to high-paying jobs.
- **A comprehensive rebranding exercise for TVET** sector to change the perception amongst the Malaysian society.
- **Provide tax cut or rebate for companies and employers** who are able to prove the inclusion of future-talent-need practices.
- **Issue a work visa for foreign students graduated from local universities and higher learning institutions**, especially for digital/engineering courses, for a duration of two years (renewable in a term of 2 years), if they received a job offer from a registered local company.
- **Include "Manager" and "Low-skilled worker" to participate in the PWP** as their exclusion stand against the principle behind the PWP.

#6 Greening Investment and ESG Agenda

Issues

- The New Industrial Master Plan (NIMP) 2030 and the National Energy Transition Roadmap (NETR) recognise the critical importance of a green transition in the industry.
- However, with rising cost of doing business and survivability, there is generally **low awareness of the importance of ESG principles and their imminent impact on local businesses**.
- Investment in green technology **requires long-term financing and capital** to support business operations without incurring losses. Adopting ESG practices also necessitates investment in monitoring devices and allocating additional human resources for green-related affairs.

Proposals

- Consider to introduce **carbon tax** at a tax rate initially to raise awareness:
    - Provide clear guidelines and a timeline for the progressive introduction of carbon tax.
    - Offer across-the-board incentives for firms and households to reduce carbon-intensive energy use and shift to cleaner fuels by increasing the price of carbon-intensive energy.
    - Provide government-funded GHG emissions-related training and courses.
- Enhance the Green Electricity Tariff by offering a premium subscription rate with an Imbalance Cost Pass-Through (ICPT) waiver or a rate lower than the standard tariff.
- Extend **Solar for Rakyat Incentive Scheme (SOLARIS)** to at least 2026 with additional rebate quota, and personal tax relief of up to RM10,000 for remaining installation costs after rebate.
- Extend **Additional Reinvestment Allowance** for another 2-5 years for companies that have exhausted their existing 15-year reinvestment allowance period.

THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang,
50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Email : serc@acccimserc.com
Website : https://www.acccimserc.com

For our website:

For our LinkedIn: