Malaysia 2024 Federal Budget

Taking measured steps to broaden tax base amid economic uncertainty

SUMMARY

- In its quest to rejuvenate economic prosperity and elevate living standards, the government has earmarked an unprecedented RM393.9b for the 2024 Federal Budget. This move underscores its unwavering commitment to fiscal reforms, as outlined in the "Ekonomi Madani" framework to ensure enduring fiscal resilience.
- The federal government pegs 2024's GDP growth at 4.0% to 5.0%, in line with our house forecast of 4.9% and Bloomberg's median consensus of 4.5%. Meanwhile, the Ministry of Finance has tempered its 2023 outlook, cutting it from 4.5% to 4.0% (KIBB Forecast: 3.5% - 4.0%).
- The MoF charts a modestly expansionary fiscal course, anticipating the fiscal deficit to shrink to -4.3% of GDP in 2024, down from a forecasted -5.0% in 2023. Even with the government's loftier revenue expectations and trimmed allocations for development expenditure (DE) and tightened operating expenditure (OE), we hold steady on our fiscal deficit forecast, ranging from -4.5% to -5.0% (2023F: -5.0% to -5.2%).
- To reinforce its fiscal coffers, the government is revealing a suite of measures: elevating the sales tax to 8.0% from 6.0%, ushering in the Capital Gains Tax (CGT), taxing high-value goods, widening the tax net, and tightening the screws on taxpayer compliance.
- The budget earmarked for OE has soared to a record RM303.8b, driven chiefly by heftier outlays for emoluments and debt service charges (DSC). Gross DE is pegged at RM90.0b, with focus on health, security, and transport. Although smaller than the RM97.0b for 2023, the DE allocation for 2024 are mainly planned for projects that can produce high multiplier impact, underscoring a commitment to achieve long-term sustainable economic growth.
- As alarm bells ring over escalating debt, Budget 2024 rolls out a medley of initiatives, laying a foundation for enduring fiscal resilience. It's a clarion call for judicious financial stewardship and shrewd resource allocation, all aimed at staunching wastage and leakage.
- DSC have increased in tandem with rising federal government debt level to a staggering RM46.1b (2022F: RM41.3b) or around half of DE. We expect federal government debt to reach 64.5% of GDP in 2024 (2023F: 63.9%) versus government forecast of 64.0%.

Overview

- Themed ‘Economic Reforms, Empowering the People' the 2024 Federal Budget - the second budget offering from an eleven-month-old unity government – charts a path towards national economic sustainability and prosperity. With goals spanning improved governance to corruption eradication and uplifting the standard of living, it also serves as the conduit for fresh policy blueprints namely the National Energy Transition Roadmap (NETR), New Industrial Masterplan 2030 (NIMP 2030), and the 12th Malaysia Plan Mid-term Review (12MP)
- The Budget 2024 supply bill is based on the ‘*Ekonomi Madani*’ framework with three main focus areas:
  - **Good governance for service agility**: Government pledge to give its full support to ensure the governance ecosystem to function effectively based on the values of efficiency, honesty, and transparency. This includes strengthening judicial and parliamentary institutions, digitising government services, boosting social resilience, guaranteeing fiscal sustainability, and improving the rule of law.
  - **Restructuring of the economy to boost growth**: Essentially to improve the business environment by providing a solid infrastructure, a sizable skill pool, an abundance of natural resources, as well as widespread technological adoption, digitalization, and innovation. It focusses on recognising the economic contributions made by small businesses or MSMEs by providing a wide range of activities and projects to increase their level of competitiveness by providing funding options and talent development initiatives.
  - **Raising the people’s standard of living**: Putting social assistance at the fore, the government's commitment leans into bolstering aid for society's most vulnerable. From refining cash transfers to enhancing retirement blueprints, the intent is clear: better protection and provision. It also focusses on improving social insurance by seeking ways to widen the coverage, ensuring Malaysians nestle into a comfortable retirement. Meanwhile, retraining and upskilling initiatives are set to bolster worker resilience during challenging times.
- While Budget 2024 offers commendable steps to shield the rakyat and the economy from global pressures, its tepid stance on subsidy tweaks and vague outlines - particularly on the proposed progressive wage policy and its ten-year, seven-targets agenda - stir doubts about its aptitude to resolve the structural socio-economic issues.

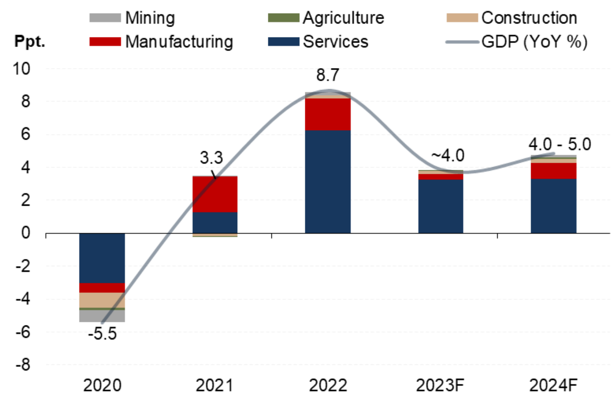
- While the proposed new taxes might fall short of expanding the tax base and bolstering revenue, they hint at the government's measured approach to tax reforms. It seems the government is wary of overburdening the middle class (M40), especially given the economic slowdown, as it could curb consumer spending. Yet, we anticipate phased tax shifts and tailored subsidies as the economy finds its footing.

MoF's Growth Outlook

- **The MoF pegs Malaysia's 2024 growth at 4.0%-5.0% from about 4.0% this year, a tad below our expectations. Still, it aligns with our forecast of 4.9% and sits comfortably within Bloomberg's consensus of 4.5% (ranging from 3.0% to 5.0%)**

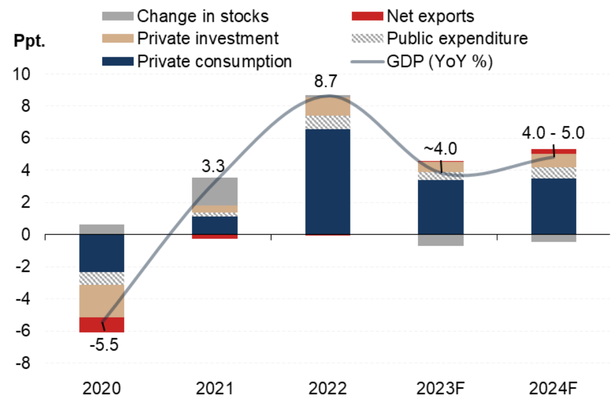
  – **Sectoral:** Domestic growth is expected to be sustained in 2024 despite slowdown in the global economic outlook. On the supply side, domestic growth will be driven by the services and manufacturing sectors. The **services** sector is projected to expand to 5.6% (2023F: 5.5%), backed by a broad-based expansion across subsectors chiefly led by the wholesale and retail trade subsector, which is expected to grow by 5.6%. This is also supported by a strong recovery in the tourism industry amid a surge in tourist arrivals and resilient consumer spending. The **manufacturing** sector is expected to expand to 4.2% (2023F: 1.4%), underpinned by better performance in domestic and export-oriented sectors, particularly the E&E segment, amid a rebounding demand for technologically advanced products. The manufacturing sector will be supported by the implementation of government initiatives under the Chemical Industry Roadmap 2030, NETR, and NIMP 2030. In addition, the **construction** sector is expected to expand to 6.8% (2023F: 6.3%) on a broad-based expansion. This is primarily attributed to ongoing development projects and acceleration of projects under the 12MP as well as the implementation of NIMP2030, more affordable housing projects and a new solar power plant. Similarly, the **agriculture** sector is projected to expand to 1.2% (2023F: 0.6%) on the back of expansion in most subsectors, namely palm oil, livestock, and other agriculture. This premise on the anticipation that the El-Nino will have a minimal impact on palm oil output while labour conditions return to pre-pandemic level, as well as an effort to strengthen food security and modernisation in the agriculture sector. In addition, the **mining and**

Graph 1: GDP by Sector (MoF)



Source: MoF, Kenanga Research

Graph 2: GDP by Expenditure (MoF)



Source: MoF, Kenanga Research

Table 1: MoF Macroeconomic Forecast Summary

	2022	2023F	2024F	MoF Remarks
Unemployment (% rate)	3.9	3.5	3.4	Expected to return to pre-pandemic levels with employment growth to expand by 2.0% to reach 16.1m persons with more than 80.0% of employment opportunities provided by the services and manufacturing sectors.
Current Account Surplus (% of GNI)	3.1	3.3	3.2	Surplus is expected to widen in 2024 on the back of further improvement in economic activities but % of GNI is expected to narrow slightly. This will be supported by higher good surplus and lower deficit in the services account.
Consumer Price Index (% change)	3.3	2.5 – 3.0	2.1 – 3.6	Attributed to a gradual shift towards targeted subsidy mechanism while also subjected to the fluctuations in exchange rates and supply-related factors.
Brent Average Price (USD/barrel)	99.0	80.0	85.0	On anticipation of higher demand given the positive global outlook. However, this also subject to changes in world production and consumption could.

Source: MoF, Kenanga Research

quarrying sector is expected to rebound by 2.7% (2023F: -0.8%), contributed by performance in natural gas, crude oil and condensate subsectors with anticipation from higher output from new and existing production facilities.

- **Domestic demand:** Domestic demand is expected to expand to 5.3% in 2024 from 4.7% in 2023. This will be driven by **private consumption** which is expected to expand by 5.7% (2022F: 5.6%) due to continued improvement in the labour market and robust economic and social activities. Meanwhile, the public sector is expected to contribute via **public consumption** (2.6%; 2023F: 1.0%), driven by increased spending in supplies and services and effort to spend effectively and efficiently. In addition, the government expects favourable business sentiments and improved external demand to support **private investment**, which anticipated to grow by 5.4% (2023F: 4.3%). This is likely to benefit from the realisation of higher approved investment announced by MIDA, particularly in the E&E, transport equipment and ICT subsectors. Meanwhile, **public investment** will complement the private sector, expanding by 8.3% (2023F: 8.2%) driven by government DE, non-financial public corporations' expenditure, the continuation of transport-related projects and acceleration of refurbishments of dilapidated schools and clinics in rural areas.

- **External Sector:** The government expect **gross exports** to rebound by 5.1% (2023F: -7.8%) on a broad-based expansion driven by the recovery in global trade outlook, improved prospect of the commodity sector, and ratification of trade agreements such as Regional Comprehensive Economic Partnership (RCEP), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Exports of manufactured goods are projected to rebound by 5.5%, bolstered by higher demand for E&E and non-E&E products. Similarly, **gross imports** are expected to recover by 4.9% (2023F: -6.8%), attributable to higher demand for intermediate, capital and consumption goods. This is driven by expansion in the construction sector, favourable investment activities and acceleration in the implementation of government projects with high multiplier impact.

- Overall, **the government projection on GDP growth is realistic and lower than we initially expected.** Though our growth projection (2024F: 4.9%) is on the high side, near the upper end of the government forecast, our projection remains susceptible to downside risk, particularly the impact of the global economic slowdown brought by the effects of higher interest rate environment among advanced economies.

Table 2: Malaysia GDP Growth (constant 2015 prices)

		Kenanga								MOF	
YoY %	**2022**	**1Q23**	**2Q23**	**3Q23F**	**4Q23F**	**1H23**	**2H23F**	**2023F**	**2024F**	**2023F**	**2024F**
By Sector											
Agriculture	0.1	1.0	-1.1	-2.2	0.6	-0.1	-0.9	-0.5	1.3	0.6	1.2
Mining	2.6	2.4	-2.3	1.1	1.3	0.1	2.0	1.1	1.8	-0.8	2.7
Manufacturing	8.1	3.2	0.1	-1.6	2.3	1.7	0.4	1.0	5.3	1.4	4.2
Construction	5.0	7.4	6.2	5.7	4.8	6.8	5.2	6.0	1.6	6.3	6.8
Services	10.9	7.3	4.7	3.0	5.5	6.0	4.2	5.1	5.5	5.5	5.6
Real GDP	**8.7**	**5.6**	**2.9**	**1.7**	**4.5**	**4.2**	**3.1**	**3.5 – 4.0**	**4.9**	**~4.0**	**4.0 – 5.0**
By Expenditure											
Consumption	9.9	4.5	4.2	4.9	4.2	4.3	4.6	4.5	5.4	4.8	5.1
Public	4.5	-2.2	3.8	2.5	2.1	0.8	1.3	1.1	2.1	1.0	2.6
Private	11.2	5.9	4.3	5.5	5.1	5.1	5.3	5.2	6.2	5.6	5.7
Investment	6.8	4.9	5.5	4.9	6.3	5.2	5.6	5.4	6.2	5.1	6.1
Public	5.3	5.7	7.9	7.1	8.7	6.7	8.1	7.5	6.1	8.2	8.3
Private	7.2	4.7	5.1	4.3	5.1	4.9	4.7	4.8	6.3	4.3	5.4
Public Spending	4.7	-0.3	4.6	3.3	3.1	2.1	3.1	2.7	3.1	2.8	4.1
Private Spending	10.3	5.6	4.5	5.3	5.1	5.0	5.2	5.1	6.2	5.3	5.6
Aggregate Demand	9.2	4.6	4.5	4.9	4.6	4.5	4.8	4.7	5.6	4.0	4.8
Exports	14.5	-3.3	-9.4	-2.9	1.3	-6.4	-0.8	-3.5	2.3	-6.2	4.1
Imports	15.9	-6.5	-9.7	-3.1	1.5	-8.1	-0.9	-4.4	2.0	-6.8	3.9
Net Exports	-1.0	54.4	-3.7	-0.7	-0.4	24.7	-0.5	8.1	4.9	1.1	5.5
Real GDP	**8.7**	**5.6**	**2.9**	**1.7**	**4.5**	**4.2**	**3.1**	**3.5 – 4.0**	**4.9**	**~4.0**	**4.0 – 5.0**

Source: DoSM, BNM, MoF, Kenanga Research

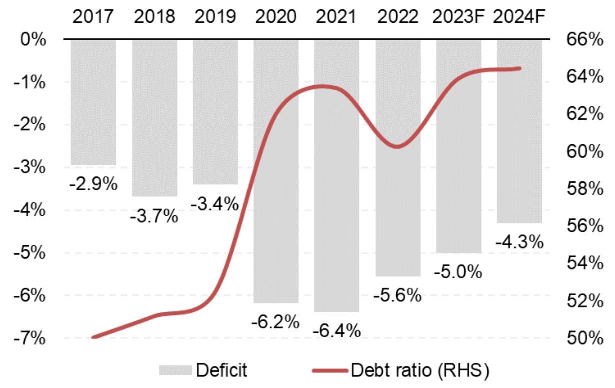
Fiscal Management

- **Fiscal stance remains modestly expansionary amid reform initiatives and fiscal consolidation measures**

  - Despite the need to reduce the fiscal deficit and overall debt to GDP while undertaking economic reform, the federal government remains supportive of the domestic economy and ensures people's well-being. **MoF expects fiscal deficit to narrow to -4.3% in 2024, lower than the 2023 forecast of -5.0% (2022: -5.6%).** This is partly because the government expect to collect a sustained revenue (1.5% YoY; 2023: 3.0%), which is slightly higher than growth in OE (1.2%; 2023F: 2.5%). Meanwhile, DE is expected to shrink by 7.2% (2023F: 35.5%) to RM90.0b (2023F: RM97.0b), a RM7.0b lower than allocated in 2023. Nevertheless, this aligns with 12MP MTR allocation, whereby the remaining allocation worth RM182.2b is planned for 2024-2025.

- Given the year-to-date uptick in government revenue (Jan-Sep: 16.2% YoY) and optimistic projected tax collection for 2023 and 2024, **we have nudged our revenue projection to surpass the RM300.0b mark for both years, though still shy of MoF forecast.** Conversely, the government's restrained 10.4% spending hike YTD, trailing revenue growth, suggests a tight rein on expenditure. However, we remain conservative, as the deficit target would also depend on the growth outlook, which remains uncertain for now and also subject to the effectiveness and efficiency of the government's policy and administration.

Graph 3: Federal Government Deficit and Debt



Source: BNM, Macrobond, Kenanga Research

- **Eyeing the MoF's outlook, the deficit target appears notably ambitious, diving well below 2023's mark.** The government seems to be tightening its purse strings, possibly leading to reduced spending by the public, especially with rising living costs and looming global economic jitters. Yet, **rising debt levels remain a worry, with our forecast pointing to 64.5% of GDP in 2024 (2023F: 63.9%)**.

Table 3: Federal Government Finance Trend and Forecast – 2023 & 2024

						MoF			KIBB	
RM billion	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**	**2023F***	**2024F**	**2023F**	**2024F**
Revenue	**232.9**	**264.4**	**225.1**	**233.8**	**294.4**	**291.5**	**303.2**	**307.6**	**302.5**	**305.0**
Gross Expenditure	**287.1**	**317.5**	**314.0**	**333.5**	**395.2**	**386.1**	**400.2**	**397.6**	**398.5**	**395.0**
Net Expenditure	**286.3**	**315.9**	**315.2**	**334.5**	**396.7**	**385.4**	**399.5**	**396.8**	**398.0**	**394.5**
Operating Expenditure	231.0	263.3	224.6	231.5	292.7	289.1	303.2	307.6	301.5	303.0
Gross Development Expenditure	56.1	54.2	51.4	64.3	71.6	97.0	97.0	90.0	97.0	92.0
Loan Recoveries	-0.8	-1.6	1.3	1.0	1.4	-0.7	-0.7	-0.8	-0.5	-0.5
COVID-19 Fund			38.0	37.7	31.0	-	-	-	-	-
Overall Balance	**-53.4**	**-51.5**	**-87.6**	**-98.8**	**-99.5**	**-93.9**	**-96.3**	**-89.2**	**-95.5**	**-89.5**
% of GDP	-3.7	-3.4	-6.2	-6.4	-5.6	-5.0	-5.0	-4.3	-5.0 – -5.2	-4.5 – -5.0
Federal Government Debt (% of GDP)	51.2	52.4	62.1	63.4	60.3	62.0	62.0	N/A	63.9	64.5
Real GDP Growth (%)	**4.7**	**4.3**	**-5.5**	**3.1**	**8.7**	**~4.5**	**~4.0**	**4.0 - 5.0**	**3.5 - 4.0**	**4.9**
Average Brent Price (USD/barrel)	71.6	64.6	43.2	70.9	99.0	80.0	80.0	85.0	84.0	86.0

Note: *updated forecast

- **Medium-term projection has been revised to reflect the latest projections for revenue, expenditure and macroeconomics forecast**

  - Under the 2024-2026 Medium-Term Fiscal Framework (MTFF) (table 4), **average real GDP growth is projected to grow by 4.8%** (2023-2025: 4.5%), higher than the previous period. **Crude oil is expected to average at USD80.0/barrel (bbl), for the period between 2024 to 2026** down from the prior USD90.0/bbl (2023-2025), while production holds steady at 530,000 barrels daily. This hints at the government's belief in stabilising oil prices ahead. The medium-term outlook factors in reforms like boosting revenue and tweaking spending. Yet, this growth forecast clashes with the updated 12MP MTR, aiming for 5.0%-5.5% in GDP growth through 2023-2025, and averaging 5.0%-6.0% over the full 12MP span.

  - Still, the **fiscal deficit is projected to average a lower -3.5% of GDP (2023-2025: -4.4%)**, matching the 12MP MTR goal. This stark decline suggests a government shift towards fiscal tightening as part of its reform efforts. While we commend this direction, achieving the fiscal target in the medium term could prove challenging without robust GDP growth and a significant increase in revenue..

Table 4: Medium-Term Fiscal Framework 2024 - 2026

	2023 – 2025 (previous)		2024 – 2026 (new)	
	RM bil	***share of GDP (%)***	**RM bil**	***share of GDP (%)***
Revenue	854.3	*14.7*	986.9	*15.6*
Non-petroleum	699.5	*12.0*	816.2	*12.9*
Petroleum-related	154.8	*2.7*	170.7	*2.7*
Operating Expenditure	842.8	*14.5*	927.2	*14.7*
Current balance	**11.5**	***0.2***	**59.7**	***0.9***
Gross development expenditure	263.9	*4.5*	279.0	*4.4*
Less: Loan recovery	1.9	*0.0*	1.8	*0.0*
Net development expenditure	262.0	*4.5*	277.2	*4.4*
COVID-19 Fund	5.0	*0.1*	-	-
Overall balance	**-255.5**	***-4.4***	**-217.5**	***-3.5***
Primary balance	**-106.4**	***-1.8***	**-58.0**	***-0.9***
Underlying assumptions:				
Real GDP growth (%)	4.5		4.8	
Nominal GDP growth (%)	6.4		6.7	
Crude oil price (USD per barrel)	90		80	
Oil production (barrels per day)	530,000		530,000	

Source: MoF, Kenanga Research

- **Tax revenue is expected to maintain a positive trend, reflecting the nation's economic recovery and reinforced fiscal framework**

  – Tax collection remains the most significant contributor to overall revenue, estimated to increase by 6.4% to RM243.6b in 2024 (2023F: RM229.0b), driven by higher collection from direct tax (RM185.0b or 75.9% of total tax revenue; 2023F: RM173.0b) and indirect tax (RM58.6b; 2023F: RM56.0b).

Table 5: MoF Revenue Forecast (RMb, %YoY)

	2022	2023F*	2024F
Tax Revenue	208.8 (+20.2)	229.0 (+9.7)	243.6 (+6.4)
Direct Tax	153.5 (+18.0)	173.0 (+12.7)	185.0 (+6.9)
Indirect Tax	55.3 (+26.8)	56.0 (+1.3)	58.6 (+4.7)
SST	31.4 (+22.5)	34.2 (+9.0)	35.8 (+4.7)
Non-Tax Revenue	85.6 (+42.5)	74.2 (-13.3)	64.0 (-13.8)
Total Revenue	**294.4 (+25.9)**	**303.2 (+3.0)**	**307.6 (+1.5)**

Source: MoF, Kenanga Research
**Revised estimate*

  ▪ The higher projection for direct tax revenue can be attributed to increased collections from corporate income tax (CITA), individual income tax, and petroleum income tax (PITA). This increase is driven by expectations of improved corporate earnings prospects, ongoing efforts to enhance audit and tax compliance, a positive labour market outlook, and stable crude oil prices. Additionally, an optimistic property market outlook may result in better collections of stamp duty and real property gains tax.

  ▪ The rise in indirect tax revenue can be credited to higher Sales and Services Tax (SST) collections, driven by expectations of increased consumer and business spending amid an improved economic sentiment. Sales tax is expected to grow by 4.0% to RM18.3b, primarily due to higher sales of machinery and spare parts, while **services tax collection may increase to RM17.5b, mainly fuelled by higher demand for food products and an increase in the tax rate to 8.0% from 6.0% currently**. A significant portion (23.2%) of indirect tax revenue will be derived from excise duties, which are expected to see higher collections due to the imposition of excise duties on e-cigarettes and vapes, an expansion in the scope of sugar-sweetened beverage tax, and a stable automotive sector outlook.

  – **The implementation of the CGT at a rate of 10.0%** on the net profit derived from the disposal of unlisted shares by local companies, starting in March 2024, and **the introduction of a high-value goods tax on certain luxury items**, such as jewellery and watches, at rates ranging from 5.0% to 10.0%, **is expected to play a significant role in reducing the country's fiscal deficit to -4.3% in 2024**. However, to gauge the full impact of these new taxes, more detail on their workings is essential. **We see this as a positive move, mainly targeting the top earners.** The targeted taxation on capital gains and luxury items is likely to contribute positively to fiscal sustainability and revenue generation. Further clarification on the implementation and enforcement of these taxes will provide a more comprehensive understanding of their potential effects.

- **The decline in investment income proceeds and reduced collections from licenses and permits to drive non-tax revenue lower**

  – A decrease in Petroliam Nasional (Petronas) dividend (RM32.0b; 2023F: RM40.0b) and lower retirement charges collected from Kumpulan Wang Persaraan or KWAP (RM1.0b; 2023F: RM3.0b), coupled with a drop in petroleum royalties (RM5.6b; 2023F: RM6.8b), is expected to reduce the **non-tax revenue** by 13.8% to RM64.0b or 3.2% of GDP. However, this shortfall is expected to be partially offset by an increase in BNM's dividend (RM3.0b; 2023F: RM2.75b) and higher revenue collection from motor vehicle licenses (RM3.1b; 2023F: RM3.0b) and levies on foreign workers (RM3.3b; 2023F: RM3.2b).

- **The government is actively reducing its reliance on petroleum-related revenue as part of its commitment to becoming a net-zero greenhouse gas emissions nation by 2050**

  – Despite the expectation of a higher average Brent crude oil price of USD85.0/bbl, the **share of petroleum-related revenue is projected to decline further** to 20.1% of total revenue (2023F: 23.0%). This is primarily due to the outlook of reduced Petronas dividend and petroleum royalties, reflecting the persistent economic headwinds and concerns about energy security.

- **Total government spending is expected to be reduced to RM393.8b in 2024 (2023F: RM397.1b) due to a marked decrease in gross DE in the absence of payments for maturing 1MDB bond**

  – **Gross DE (RM90.0b; 2023F: RM97.0b):** despite being RM7.0b lower than 2023, most sectors witnessed an increase in allocation, particularly in transport (8.9%), health (25.0%) and security (9.0%).

  ▪ Aiming to bolster the domestic economy, the government zeroes in on high-impact projects. Thus, the transport subsector gets RM19.1b for fresh initiatives (i.e. additional lanes for PLUS highway and road upgrades), as well as to fulfil existing financial commitments for strategic infrastructure projects (i.e. MRT, LRT, ECRL, Pan-Borneo highway and Pulau Pinang second bridge). In the health sector, RM6.1b is mainly designated for the construction and upgrading of health facilities. Notably, the government has allocated a substantial sum of RM12.5b for the security sector, primarily for the procurement of new military assets, including 12 new helicopters and three littoral mission ships.

- **OE (RM303.8b; 2023F: RM300.1b):** despite a substantial reduction in subsidies and social assistance, spending is expected to increase by 1.2% (2023: 2.5%) due to an increase in allocation for emoluments (4.8%) and DSC (8.0%).
    - To support the public sector consumption, RM95.6b (31.5%) is allocated for civil servants' emoluments. This allocation can be attributed to annual salary increments and an increase in headcount to fill critical positions, such as doctors, nurses, and teachers.
    - **The DSC as a share of OE has broadly retained a worrying uptrend since 2012 and are expected to breach the government's 15.0% self-imposed limit in both 2023 (15.4%) and 2024 (16.4%).** While this is expected in a high-interest rate environment, proactive initiatives to lower it need to be outlined.
    - Notably, **allocation for subsidies is projected to be significantly reduced by -17.9% in 2024 (2023F: -4.6%), primarily due to the removal of subsidies for eggs and chicken, the adoption of a targeted electricity subsidy approach, and phased diesel subsidy rationalisation.** These measures aim to ensure that funds are channelled to the right segment of the population and utilised efficiently.

Table 6: MoF Expenditure Forecast (RMb)

	2022	2023F	2024F
Operating Expenditure	292.7	300.1	303.8
Emoluments	87.8	91.3	95.6
Debt service charges	41.3	46.1	49.8
Subsidies and social assistance	67.4	64.2	52.8
Supplies and services	34.7	34.0	38.0
Retirement charges	31.4	32.1	32.4
Grants to statutory bodies	14.0	15.3	15.6
Grants to state governments	8.1	8.1	8.7
Asset acquisition	0.8	0.9	1.7
Refunds and write-offs	0.5	0.5	0.5
Others	6.7	7.8	8.5
Current balance	**1.7**	**3.1**	**3.8**
Gross development expenditure	71.6	97.0	90.0
Economic	39.1	55.0	45.2
Social	21.1	26.5	28.3
Security	8.2	11.5	12.6
General administration	3.1	3.9	3.9
Less: Loan recovery	1.4	0.7	0.8
Net development expenditure	70.2	96.3	89.2
COVID-19 Fund	31.0	N/A	N/A
Overall balance	**-99.5**	**-93.2**	**-85.4**
Primary balance	**-58.2**	**-47.1**	**-35.6**
Fiscal Deficit (% of GDP)	**-5.6**	**-5.0**	**-4.3**

Source: MoF, Kenanga Research

- **Debt continues to increase but remains within manageable levels as the government has maintained the statutory debt limit at 65.0%**
    - Amid the pandemic's extraordinary borrowing spree, Federal Government debt has surged to RM1.1t (62.0% of GDP by MoF estimates) by end-August 2023. Of this amount, statutory debt, which consist of the Malaysian Government Securities (MGS), Government Investment Instrument (GII), and Malaysian Islamic Treasury Bonds (MITB), constituted 59.9% of GDP, which is still below the statutory debt threshold of 65.0%. While Malaysia Treasury Bill (MTB) stood at RM3.5b, below the RM10.0b ceiling, and offshore borrowings registered RM30.9b, below its RM35.0b threshold.
    - The government continues to rely on an abundance of domestic liquidity, with 96.5% of the debt denominated in local note, leaving only the remaining 3.5% denominated in foreign currency. This minimises exposure to foreign exchange risk, especially given the persistent rise of debt levels and volatile market conditions, resulting in ringgit weakening. The RM1.1t domestic debt, predominantly comprising of MGS (49.2%) and GII (44.7%). Likewise, offshore borrowing increased marginally to RM30.0b, with market loans accounted for RM26.3b, primarily in USD (75.8%) and JPY (24.2%), while project loans stood at RM3.7b, with the majority denominated in JPY (97.6%).

Table 7: Federal Government Financing

	RM Bil		Share %	
	2022	2023F	2022	2023F
Gross Borrowings	**230.9**	**228.5**	**100.0**	**100.0**
Domestic Debt	**230.9**	**228.5**	**100.0**	**100.0**
MGS	86.5	91.0	37.5	39.8
GII	85.0	95.0	36.8	41.6
Treasury Bills	59.4	42.5	25.7	18.6
Repayments	**131.5**	**135.2**	**100.0**	**100.0**
Domestic	131.3	134.9	99.8	99.8
Offshore	0.3	0.3	0.2	0.2
Net Borrowings	**99.4**	**93.3**	-	-
Domestic	99.7	93.6	-	-
Offshore	-0.3	-0.3	-	-
Total Deficit Financing	**99.5**	**93.2**	-	-

Source: MoF, Kenanga Research

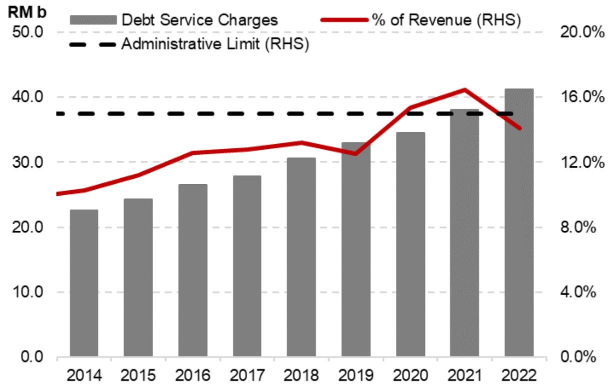
- Anticipating an increase in government spending to finance strategic development projects under the 12MP and NIMP 2030**, we estimate that federal government debt to rise to 64.5% of GDP by end-2024 (2023F: 63.9%).** In comparison, the MoF projects debt to be around 64.0% of GDP, with gross borrowings estimated to be lower at around 10.0% of GDP. The government is also committed to reducing the issuance of short-term debt instruments to ensure a well-spread debt maturity profile.

- **Bond issuances expected to remain elevated due to the expansionary budget**
    - The Federal government's gross borrowing is expected to decrease to 12.4% of GDP (RM228.5b) in 2023 compared to 12.9% of GDP (RM230.9b) in 2022. The domestic market remain the sole funder as sufficient liquidity enables the

borrowing through ringgit-denominated instruments. From the projected amount, RM93.2b will be supporting the deficit financing while RM135.3b for principal repayments. Issuance of the MGS and MGII are expected to amount to 39.8% and 41.6% of total gross borrowings, respectively. Additionally, treasury bills issuance will be responsible for the remaining 18.6% of borrowing at RM42.5b (2022: RM59.5b) due to government strategy to manage the refining risk.

– In 2024, government bonds worth RM111.5b are scheduled to mature. With our fiscal deficit projection at -RM89.5b, or -4.5% to -5.0% of GDP, we anticipate that gross bond issuances will range between RM197.0b and RM203.0b. This projection significantly exceeds our 2023 target of RM173.0b-RM177.0b.

Graph 4: Debt Service Charges and % of Revenue



Source: BNM, Kenanga Research

– The MoF estimates that DSC for 2023 will increase to RM46.1b (2022F: RM41.3b), which account for 15.2% of revenue ratio, compared to 14.0% in the preceding year and would exceed slightly the administrative limit of 15.0%. The DSC is largely for domestic issuance at RM45.3b and RM0.8b for offshore borrowings. With that said, the strengthening of the USD will have a minimal impact on offshore financing costs, given a relatively small amount foreign currency debt.

– In 2024, DSC is expected to expand further to RM49.8b or 16.2% of revenue, well above the administrative limit. This is partly due to the rising debt level which MoF projected to be around 64.0% of GDP by end of 2024.

Appendix: Budget 2024 Highlights

- **Education** Ministry received an allocation worth RM58.7b.
    - RM2.5b to build 26 new schools in Sabah, Sarawak, Pahang, Perak and Kelantan.
    - RM150.0m to expand aid for poor students to benefit 1.0m students nationwide.
    - 30.0m to supply equipment for special education student and provide friendly disabled facilities.
- **Health** Ministry to receive RM41.2b.
    - RM5.5b for medicines and vaccines.
    - RM100.0m to expand the Madani medical scheme, benefitted 700,00 people and the continuation of mySalam scheme for another two years.
    - RM130.0m for health screening, early screening of newborns, and vaccines for pregnant women.

Best Governance for Service Agility

- Service Tax increased to 8.0% from 6.0% but excludes services such as food and beverages, and telecommunications.
- Introduction of Capital Gain Tax based on net profit at a rate of 10.0% starting 1 March 2024. Applies to the sale of shares for non-listed local companies.
- High Value Goods Tax at a rate of 5.0% to 10.0% on certain high-value items based on the threshold value of the goods price.
- Global minimum tax in 2025 for companies with global income of at least EUR750.0m.
- Rahmah Cash Contribution increased to RM10.0b from RM8.0b.
- Subsidy rationalisation for electric and diesel fuel.
- The price ceiling for eggs and chicken will be lifted.
- Electricity bills rebate up to RM40.0 per month to hardcore poverty households with an allocation of RM55.0m.
- RM10.0m for the Ministry of Domestic Trade and Cost of Living (KPDN) and Competition Commission
- Malaysia (MyCC) to eradicate the practice of exploitation.
- RM2.4b to build, maintain and repair civil servant quarters, teachers, hospitals, policemen, soldiers and firefighters.
- RM150.0m for maintaining and repairing public toilets in 150 PBT across the country.
- RM2.8b for maintenance of federal roads and bridges, with RM300.0m dedicated to G1 to G4 contractors.
- Allocation for Sarawak's development increased to RM5.8b from RM5.6b in 2023.
- Development spending for Sabah will increase to RM6.6b from RM6.5b in 2023.

Restructuring the Economy to Boost Growth

- RM200.0m to catalyse the New Industrial Master Plan (NIMP) 2030.
- 70% or 100% tax incentives to attract investments in the form of tiered investment tax allowances.
- RM28.0m for the development of MYStartup platform, one-stop centre to support startups.
- Government Linked Companies (GLCs) Government-Linked Investment Companies (GLIC) provide funds up to RM1.5b to encourage startups, including SME entrepreneurs Bumiputera, to venture into the field of HGHV.
- RM100.0m to MyCIF for a period of 3 years to complement the cooperation with food security initiatives, the environment, the community and the State Islamic Religious Council.
- RM20.0m to stimulate research and creativity and Islamic economic innovation.
- Loan and guarantee financing available for the benefit of micro, small and (PMKS) amounting to RM44.0b.
- RM330.0m under TEKUN for financing facilities for small traders such as entrepreneurs of batik and crafts, Orang Asli and Sabah Bumiputera entrepreneurs and Sarawak.
- RM900.0m loan funds under BNM to encourage SME companies to increase productivity business through automation and digitisation.
- RM20.0m dedicated to encouraging women and youth to venture into business.
- Total allocation of RM6.8b for TVET education.
- RM50.0m grants to maintain the road to Klang and enforces load limits overloading on heavy vehicles.
- RM350.0m to boost promotion and tourism activities.
- RM160.0m to implement various initiatives for the benefit of artists.
- 10% reduction to entertainment duty for stage performances by international artists and events as well as for other entertainment such as movie screenings and sports events and games.
- 4% stamp duty for property.
- RM2.4b to FELDA, FELCRA and RISDA to continue to boost agricommodity activities and increase the socioeconomics of smallholders.
- RM11.8b for a total of 33 High Priority Flood Mitigation Projects.
- RM2.6b subsidies and incentives to farmers and fishermen.

Improving Living Standards

- RM58.1b is allocated for subsidies, incentives and assistance.
- RM200.0m to continue implementation of Payung Rahmah.

- RM500.0m to increase the participation of more people in the IPR program.
- The government to continue paying for driving tests for class B2 motorcycle licenses, e-hailing and taxis to benefit over 40,000 youth from underprivileged families.
- 100,000 helmets including for children to be distributed to poor family.
- FLYsiswa to subsidised ticket purchase assistance flights for students, benefit almost 60,000 students.
- EPF Flexible Account will be introduced as a new account that members can access at any time.
- Tax incentives for women who return to work are extended until December 31, 2027.
- 26 new preschools under The Ministry of Education will be built involving a cost of 82.0m.
- RM500.0 to youth who successfully do volunteer activities with a body recognised by the government.
- RM 333.0 for the indigenous community.
- RM1.0b is allocated to protect the well-being of the elderly.
- RM1.9b for upgrading and maintaining schools throughout the country.
- RM250.0m to replace and expand Wi-Fi access everywhere public university.
- Registration fee to public universities is limited to no more than RM1,500.0
- RM300.0m for repairing 400 dilapidated clinics.
- RM1.63b to build and upgrade roads in villages of Kelantan, Perlis, and Negeri Sembilan.
- RM1.1b for water supply issues, especially in Kelantan, Sabah and Labuan with water treatment plants in Kelantan will have better infrastructure.
- RM7.4b for Sarawak-Sabah Link Road (SSLR) Phase 2 Project.
- RM4.7b to resume the proposal construction of five LRT3 stations: Tropicana, Raja Muda, Temasya, Bukit Raja, and Bandar Botani stations.
- RM10.0b for Penang LRT with the PPP method.
- RM2.47b for the implementation of housing projects.
- 4% stamp duty for property transfers by non-citizens and foreign firms but does not include permanent residents.
- RM400.0m for maintenance and repair recovery of Armed Forces Family Homes.
- RM1000.0 special tax relief for purchases of sports equipment and activities. This will also be expanded to include training fee expenses for sports.

Source: MoF, Kenanga Research

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