Resilient as One, Together We Triumph:

Analysis of Budget 2021

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Summary

Worth a total of RM322.5bil, Budget 2021 is the largest budget in history, notably, the budget generally did not propose any new taxes nor increasing any existing taxes. The budget seems more a fit-for-purpose proposal which aims to meet the most immediate needs of the country to encourage recovery, growth and investment. As seen in the first half of 2020, the pandemic has created significant economic uncertainty which can change very rapidly, as such, flexibility is required when the need arises to supplement and amend measures when necessary.

In the Government's effort to spur investment growth, they have proposed various new and enhanced incentives designed to make Malaysia more attractive to foreign investors. On this note, we saw a proposed extension of the Principal Hub (PH) incentive with relaxed conditions and the introduction of a new Global Trading Centre (GTC) incentive.

The budget also proposes to adopt a preferential tax rate for selected manufacturers extending to 2022 while the scope has been extended to cover targeted services, particularly in high technology, research and development and medical-related goods and services. These proposals, combined with the proposed relaxation to licensed manufacturing warehouses and free zone regimes, can potentially enhance Malaysia's attractiveness for foreign investors, acting particularly as a supply chain hub connected to the Global Value Chain (GVC).

Finally, the budget sees a large increase in development expenditure, making up over 40% of all public expenditures and the highest in 10 years. These development expenditures see a RM15bil allocation for key infrastructure projects such as the Pan-Borneo Highway, the Gemas-Johor Baharu double-tracking and electrification project and phase 1 of the Klang Valley double track project, spurring short-term Government spending. The building of a strong infrastructure network, including an across-the-board upgrade of broadband infrastructure is also noteworthy.

Themed "Resilient as one, together we triumph", there are three integral goals and strategies to the budget namely:

1) *The People's Wellbeing*
    - COVID-19 pandemic and public health
    - Safeguarding the welfare of vulnerable groups
    - Generating and Retaining Jobs
    - Prioritizing the inclusiveness agenda
    - Ensuring the well-being of the Rakyat
2) *Business Continuity*
    - Driving Investments
    - Strengthening Key Sectors
    - Prioritizing Automation and digitization
    - Enhancing access to financing
3) *Economic Resilience*
    - Expansionary Budget
    - Development under the 12th Malaysian Plan
    - Enhancing the role of GLCs and civil society
    - Ensuring resource sustainability
    - Civil Service

The aim of this analysis would be to critically analyse the economic impacts of the budget on key sectors and industries and provide an independent view and analysis on the measures proposed in the 2021 budget on the economy.

Budget 2021: INSAP's Perspective on the Impacts of the Budget

The Malaysian Government's economic targeting by way of tax incentive and subsidy design may signal that the Government senses an opportunity to realign its supply chain as a result of global trade tensions resulting from the COVID-19 pandemic.

The budget introduces generous tax incentive packages under the Pelan Jena Semula Ekonomi Negara or PENJANA to encourage foreign companies to relocate their manufacturing operations towards Malaysia. Budget 2021 continues on these key tax incentives by relaxing qualifying conditions, expanding existing incentives while introducing new incentives for various key sectors, most notably in high-tech manufacturing and services.

Impact on the National Debt

In the "2021 Budget Fiscal Outlook and Federal Government Revenue Estimates" (BFOR) report, some key statistics show an increasing trend of debt in Malaysia. Firstly, the fiscal deficit target in Budget 2020 was set at 3.2% of GDP, will not be achieved in 2020. The BFOR expects that the fiscal deficit will be as large as 6% due to the high expenditure incurred due to the economic stimulus packages and recovery plan. Meanwhile, lower GDP estimates also contribute to the increase in fiscal deficit and will impact the overall Debt-to-GDP ratio.

Malaysia's Federal Government debt is limited by the statutory debt limit and the debt limit has been increased repeatedly over the past 2 decades. Recently in August 2020, under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020, the statutory debt limit was allowed to be increased to 60% to ensure sufficient fiscal space to carry on with assistance measures for businesses struggling with the effects of COVID-19. It should be noted however that this debt limit is valid until the end of 2022.[1] According to the executive director of the Socioeconomic Research Centre, Lee Heng Guie, at a 60% debt-to-GDP ceiling, the Government can borrow an extra of RM70Bil to RM75Bil to carry out these measures.[2]

Currently, the debt-to-GDP ratio for the three main security categories, namely Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII) and Malaysia Islamic Treasury Bills (MITB) is at 56.6%, less than the 60% ceiling. However, total Federal Government debt which includes all securities including Sukuk Perumahan Kerajaan, market loans and project loans, currently stands at 60.7% of GDP (2019: 52.5%)

The total Federal Government debt is expected to increase to reach 61% in 2021 as it is anticipated that the Government might need more funds to finance the fiscal deficit since it is the main course to deal with the ongoing health and economic crises.[3] Therefore, there might be a need for the statutory debt limit to be increased further to provide more fiscal space for the Government to carry out their stimulus packages and recovery plans.

However, the high debt-to-GDP ratio has raised the concern of several parties. The Malaysia-China Chamber of Commerce (MCCC) stated that even though it lauded the expansionary budget announced on 6 November 2020 to stabilize the economy under the pandemic, the Government needs to ensure that the debt-to-GDP ratio is sustained.[4] In addition, the MCCC suggested that the debt-to-GDP ratio needs be lowered to an acceptable level when the economy recovers.

Nevertheless, some parties expressed that budget deficit or debt is not the priority to be addressed in the current circumstances. For example, the UMNO deputy president Datuk Seri Mohamad Hasan stated that instead of concerning about the budget deficit or debt, what is more important is to take care of the survival and well-being of the citizens.[5]

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[1] https://www.reuters.com/article/malaysia-economy/malaysias-parliament-approves-raising-govt-debt-ceiling-to-60-idINL4N2FK1OQ

[2] https://www.thestar.com.my/opinion/letters/2020/10/13/a-fiscal-deficit-for-tough-times

[3] Federal govt debt to increase to 61% of GDP in 2021, The Edge, November 2020

[4] https://www.thestar.com.my/business/business-news/2020/11/07/mccc-praises-expansionary-budget

[5] https://www.malaymail.com/news/malaysia/2020/10/31/budget-2021-spend-more-to-stimulate-economy-amid-covid-19-and-worry-about-d/1918152

However, an increasing debt-to-GDP ratio may impact the sovereign credit rating of Malaysia. According to Kuek Ser Kwang Zhe, the Debt-to-GDP ratio is one of the main criteria used by international rating agencies in evaluating a country's credit rating.[6] If Malaysia's credit rating downgrades due to the high Debt-to-GDP ratio, it will have ripple effects on Malaysia's sovereign bond market as these ratings are used as benchmarks by investors.

If bonds in Malaysia are less demanded due to low credit scores, this will reflect in higher borrowing costs for the Government. It is worthwhile to note that Moody's Investors Service said since remarked that in response to the PENJANA and PRIHATIN schemes, Malaysia now has a lower debt affordability threshold coupled with a higher debt burden which could lead to a serious liquidity constraint and a possible future downgrade on the country's credit worthiness.[7]

Stock Market Outlook

Malaysia's stock market gains from the announcement of Budget 2021 will likely be overshadowed by the United States (US) election.[8] Leading up to the announcement of Budget 2021, the price of several key stocks on Bursa Malaysia ticked upward in anticipation of stimulus measures for the economy. Meanwhile, the fact that Joe Biden has won the US election would likewise cause investors to expect a less volatile business landscape. Therefore, currently there is a largely positive market sentiment in effect.

According to AmBank Research, the theme of the stock market in Malaysia continues to shift from being predominantly pandemic-related to recovery-focused.[9] Despite a new round of movement restriction measures implemented from 6 November 2020, it is expected that the overall market risk premium will likely stabilize as the main domestic institutional investors have become used to the constantly shifting political landscape.

Several stock picks have been on the top spot since Budget 2021, particularly among big names within the banking (Maybank, RHB), utilities and energy (Tenaga Nasional), telecommunications, (Axiata Group), oil and gas (Dialog Group), port logistics (Westports Holdings, Malaysia Airports), insurance, (Allianz) and construction (MMC, Gamuda), healthcare (Top glove, Hartalega). These industries and associated companies have high potential to benefit from the measures set out in the Budget[10].

The technology and communication sectors are set to gain tremendously from the acceleration of digitalization and the near-future rollout of the 5G Network. Meanwhile, the healthcare sector will benefit because it is expected that there will be a rise in demand due to tax incentives. Additionally, a recovery in global trade due to the US election will improve the level of cargo handled by our seaports. In short, it is expected that the stock market will remain stable due to positive sentiments caused by Budget 2021 and the winning of Joe Biden amidst the pandemic.

Sectoral Impacts

In analysing the sectoral impacts from the budget, it helps to segregate the impact of such proposals by sector and by economic and tax implications.

Impact on Real Estate

Sector	Tax Incentives	Economic Measures
Real Estate	• Stamp duty exemption on the first RM500,000 (previously RM300,000) of dutiable value in respect of the first residential property purchased by a	• RM1.2bil for housing: ➢ RM500mil to build 14,000 low cost housing units under the Program Perumahan Rakyat (PPR).

[6] https://www.theedgemarkets.com/article/intheknow-debttogdp-ratio
[7] https://www.thestar.com.my/business/business-news/2020/06/20/malaysias-debt-juggle-continues
[8] https://www.thestar.com.my/business/business-news/2020/11/06/continued-optimism-ahead-of-budget-2021
[9] https://www.theedgemarkets.com/article/ambank-research-maintains-2020-fbm-klci-target-1530-points
[10] https://www.theedgemarkets.com/article/aminvestments-top-stock-picks-now-budget-2021-out

	Malaysian citizen. Its stamp duty exemption on instrument of transfer and loan agreement. ➢ Applicable for Sale and Purchase Agreement (SPA) executed from 1 January 2021 to 31 December 2025.	➢ RM315mil for the construction of 3,000 units of Rumah Mesra Rakyat (RMR). ➢ RM310mil for the Malaysia Civil Servants Housing Programme (PPAM). ➢ RM125mil for the repair and maintenance of low cost, medium-low stratified housing, dilapidated houses and houses damaged by natural disasters. • The Government will collaborate with selected financial institutions on a Rent-To-Own scheme involving 5,000 PR1MA houses with a total value of over RM1bil reserved for first-time home buyers.

The real estate market will likely enjoy somewhat of a resurgence in housing demand, especially in more mid-tier housing, this is due to the exemption of stamp duty in respect of the first residential property by a Malaysian citizen. The previous PENJANA stimulus scheme offered a stamp duty exemption on first-time residential housing purchases on the dutiable value of houses of up to the first RM300,000, which has now been revised to RM500,000 of dutiable value.

The exemption of stamp duty provides a strong incentive for the those in the B40 and M40 range who find it hard-pressed to own a home. However, though this may be true in theory, its likely that for many individuals in the B40 and M40 range who have grown more cautious about big ticket item spending due their recent reductions in income and earnings may potentially only be able to take advantage of such a measure near to the end life of the policy in 2025.

Thus, a short-term surge in the real estate market may not be realistic but rather we are likely to see gradual upticks in housing purchases when economic growth normalizes in the medium to long term. Despite this, it is likely that near-term investors would start investing in undervalued real estate stocks in the share market in anticipation for future medium to long-term growth potential due to the recent budget measures.

The Rent to Own (RTO) scheme for 5,000 PR1MA homes should be a welcomed initiative in allowing young workers who have just started working the ability to work towards purchasing a home. However, PR1MA homes are noteworthy for their poor geographical locations and connectivity, exorbitant land costs and a general lack of management quality[11].

These factors had caused PR1MA to become a colossal white elephant project saddled with unsustainable debt as they consistently miss sales targets, allowing houses to remain dilapidated compared to houses in the private market. It would have been infinitely better for the designers of the budget to include the private real estate sector and the open market to participate and benefit from such RTO schemes.

Despite its drawbacks, the RM1.2bil budget allocation for an expansion of affordable homes to be built under the three aforementioned programs, namely, PPR, RMR and PPAM worth a total of RM1.125bil and a RM125mil subsidy for the repair and maintenance of medium and low-cost housing is a noteworthy positive measure.

This acts essentially as an injection of liquidity into both the upstream and downstream real estate market, with many industries such as roofing and tiling, brickworks and painting subsectors being the main beneficiaries of such fiscal expansion, generating much needed cashflow for many large firms and Small to Medium Enterprises (SMEs) within the real estate sector.

[11] PR1MA and Its Expensive Failure, The Malaysian Reserve, May 2019

Impact on the Manufacturing, High-tech, Automation and High-value Added Service Industry

Sector	Tax Incentives	Economic Measures
High-tech, High-value Service Sector	• 10% tax rate for five years (extendable for a further five years) for the establishment of a GTC. This is applicable to applications received by MIDA from 1 January 2021 to 31 December 2022. • Relaxation of conditions (i.e. number of high value jobs, number of key positions and annual operating expenditure) to qualify for a renewal of the principal hub (PH) incentive for another five years (after expiry of the initial five years incentive period). The application period for the incentive will also be extended, to 31 December 2022. • To spur economic recovery through investment activities, the following incentives have been proposed for companies in selected services sectors: ➢ 0% to 10% tax rate for 10 years for new companies ➢ 10% tax rate for 10 years for existing companies with new services segment The selected services sectors include companies adopting Industrial Revolution 4.0 and digitalization, with investments that contribute to significant multiplier effects in the following services: ➢ Provision of technology solutions ➢ Provision of infrastructure and technology for cloud computing ➢ Research and development or design and development activities ➢ Medical devices testing laboratory and clinical trials ➢ Any other services, including manufacturing related services, as determined by the Minister of Finance This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022	• An allocation of RM1bil for a special incentive package for high value-added technology, including supporting R&D in aerospace and electronic clusters • RM500mil High Technology Fund by Bank Negara Malaysia (BNM) to support high technology and innovative companies • RM400mil to several ministries and agencies for R&D purposes in an effort to support the development of Science and Technology • RM20mil for the Malaysia Techlympics and Science Space programs • RM20m allocated to the Malaysian Global Innovation and Creativity Centre (MaGIC) and selected agencies for social enterprise development programs • RM1.4bil National Development Scheme to be introduced to support the implementation and development of domestic supply chains and increase the production of local products such as medical devices
Automation and Digitization, Research and Development	• To create a competitive R&D ecosystem and to encourage new R&D activities, tax incentives for non-resource-based findings by public research institutions will be re-introduced. Further tax incentives for the commercialization of R&D findings by public research institutions will be extended to private higher education institutions. The proposed incentives are as follows: ➢ Tax deduction equivalent to the amount of investment made in a subsidiary company that commercializes the R&D findings of public research institutions, including public and private higher learning	• Malaysian Communications and Multimedia Commission (MCMC) will allocate RM7.4bil in 2021 and 2022 to build and upgrade broadband services • RM1bil for the Industrial Digitalization Transformation Scheme with the availability of these funds extended until 31 December 2023

	➢ Income tax exemption for a period of 10 years on the statutory income of the subsidiary companies that commercialize the R&D findings The resource and non-resource-based findings are subject to the promoted products listed under the Promotion of Investment Act 1986. This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022.	• RM500m to implement the National Digital Network initiative (JENDELA) to ensure connectivity of 430 schools throughout Malaysia covering all states • RM150m contribution from GLCs and GLICs into the Tabung CERDIK to provide laptops to 150,000 students
Manufacturing	• To encourage manufacturers of pharmaceutical products (including vaccines) to invest in Malaysia, the following incentives have been proposed: ➢ 0% to 10% tax rate for the first 10 years ➢ 10% tax rate for the next 10 years Such companies may be granted other facilities such as grants and import duty or sales tax exemptions on machinery, equipment and raw materials. This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022. • The application period for the following tax incentives will be extended to 31 December 2022: ➢ Concessionary tax rate for companies that establish new manufacturing operations in or relocate existing manufacturing operations to Malaysia, subject to conditions and minimum investment amounts. This applies to companies without existing operations in Malaysia. ➢ Investment tax allowance for companies with manufacturing operations in Malaysia, which relocate their foreign manufacturing facilities to Malaysia for new business segments, subject to conditions and minimum investment amounts. • To further enhance the adaptation of technology in the construction industry by using industrialized building system (IBS), the tax incentive on IBS will be extended to 31 December 2025. However, the incentive is now restricted to an Investment Tax Allowance of 60% on qualifying capital expenditure incurred within five years. This allowance can be set off against 70% of statutory income for each YA. ➢ Companies are required to produce at least three basic components of IBS or an IBS system that uses at least three basic IBS components. ➢ Applicable to applications received by MIDA from 1 January 2021 to 31 December 2025 • The threshold for value-added activities performed in FIZs and LMWs will be increased from 10% to 40% of the total annual sales value effective 7 November 2020.	

It becomes apparent from the above policies that the Malaysian Government's focus in technological upscaling values heavy foreign investor partnerships. In this effort, to order to make Malaysia a more attractive for foreign investors particularly for high-value service and industry activities, the Government has implemented both tax and economic incentives.

The relaxing of conditions for principal hub (PH) tax status reduces the high barriers of this qualification, attracting foreign investment by offering more favourable tax regimes. Notably, the tax incentive for the establishment of GTCs will further align foreign direct investment (FDI) towards the high-value service sector. The new incentive establishes a concessionary tax rate of 10% for a period up to 10 years, incentivizing companies to use Malaysia as a procurement and distribution hub while allowing foreign investors to perform more complex and higher value-added functions. This is similar to the Global Trader Program of Singapore, where their concessionary tax is lower at 5%, however Malaysia's GTC initiative could still be comparatively competitive due to our relative cost-competitiveness.

In addition, a slew of tax incentive (preferential tax rate from 0% to 10% for 10 years) specifically targeted at manufacturers of pharmaceutical products will be able to address drug shortages in Malaysia and enhance the local pharmaceutical industry. Despite Malaysia being a noted regional player in medicines, there are still domestic drug shortages in some local hospitals[12], this may be due to the relative lack of local drug manufacturers thus becoming a net importer of drugs[13]. The proposed tax incentive on pharmaceuticals has the potential to attract more multinational companies in setting up operations in Malaysia, reducing our reliance on imports and taking advantage of the high demand and prices of drugs worldwide.

In short, by relaxing tax restrictions and offering new ones, this generates a favourable climate for attracting FDI, providing several key benefits including technology transfer and access to international markets and the global value chain.

Apart from FDI tax incentives, the Government has also provided tax incentives for non-resource R&D on product commercialization activities of research institutes in Malaysia. Non-resource-based R&D here include sectors related to medical devices, electrical and electronics, and machinery and equipment.[14] These tax incentives, which were previously only available to public research institutes has been extended to private higher education institutions is a laudable step in improving the commercialization rates of R&D products in Malaysian universities.

According to Ali, Leman, Sunar and Ahmad, the R&D commercialization rate in Malaysian universities are low and has experienced a decreasing trend from 3.4% in 2010 to 2.1% in 2013.[15] Hence, this measure seeks to incentivize more R&D commercialization and encourage the future economic growth path in Malaysia through the generation and application of new innovation and technology.

Besides the above tax incentives, the Government has likewise proposed several economic stimulus measures to encourage companies in high-tech and high-value service sector to enhance their R&D investments domestically. A special incentive package for high value-added technologies (RM1bil) and the High Technology Fund (RM500mil) will be introduced to assist innovation-based companies operating in this sector. These measures are encouraging for the medium to long-term outlook for R&D, generating future job opportunities for high-skilled workers and graduates in the science, technology, engineering and mathematics (STEM) fields assisting Malaysia in technological development.

In addition, an economic stimulus measure will likewise be implemented to enhance the development of R&D activities in several ministries and encourage the enhancement of STEM skills among the youth. An allocated

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[12] https://today.mims.com/problems-faced-by-drug-manufacturers-part-of-the-reason-behind-drug-shortage-at-Government-hospitals
[13] https://www.nst.com.my/news/nation/2020/03/574563/medical-players-call-drug-production-plan
[14] https://www.miti.gov.my/index.php/pages/view/1690?mid=110
[15] Issues Related to Low Commercialisation Rates of the University's Research and Development (R&D) Products: Industrial Perspective, R. Ali, A.M. Leman, N.M. Sunar and A.N. Ahmad, 2017

RM400mil will be provided for ministries and agencies to carry out R&D while RM20mil will be allocated for the Government to generate more expert talent in artificial intelligence and robotics.

A noteworthy economic stimulus measure is the National Development Scheme (RM1.4bil) which encourages the development of domestic supply chains and increases the production of locally manufactured products such as medical devices. The realignment of Malaysia's local supply chain will be useful in the medium to long term, especially in response to the global ramifications stemming from the pandemic. The domestic shortage of personal protective equipment (PPE) from the pandemic has forced some to use self and homemade gear for protection[16]. The realignment to enhance Malaysia's internal supply chains will allow us to become less reliant on foreign imports to meet the most critical needs of our society.

SMEs and Micro-Enterprises

Sector	**Economic Measures**
SMEs and Micro-enterprises	• RM2bil Targeted Assistance and Rehabilitation facility introduced through loans from banking institutions to assist SMEs • RM1.2bil worth of micro credit financing will be provided through TEKUN, PUNB, Agrobank, BSN and other financial institutions including RM110mil to Micro Enterprises Facility under BNM to encourage entrepreneurship • Initiatives to encourage the production and purchase of locally-made products: ➢ RM150m for training programs and sales assistance as well as digital equipment for 100,000 local entrepreneurs ➢ RM150m to implement the Shop Malaysia Online initiative together with e-commerce platforms ➢ RM35m to promote Malaysian-made products and services under the Trade and Investment Mission ➢ RM25m for the Micro Franchise Development and Affordable Franchise programs as well as Buy Made in Malaysia program • RM300mil for National Supply Chain Finance Platform, "Jana Niaga" to support the financial position of SMEs that supply the Government or GLCs under extended payment terms • RM230mil to SMEs for working capital, upgrading of automation systems and equipment and expenditure related to the implementation of COVID-19 SOP compliance • RM50mil allocated on a matching investment basis to support peer-to-peer financing platforms (P2P) • RM150mil to support automation and modernization under the SME Digitization Grant Scheme and the Automation Grant. The eligibility conditions will be relaxed for micro-SMEs and start-ups that have been operating for at least six months.
Bumiputera SMEs and Micro-Enterprise	• RM300mil provided to Bumiputera micro and small businesses under Lestari Bumi financing facility scheme • RM4.6bil to support Bumiputera entrepreneurs: ➢ RM2b to assist the financing of Bumiputera SMEs through Syarikat Jaminan Pembiayaan Perniagaan (SJPP) ➢ RM1.3bil for various capacity building programs including Dana Kemakmuran Bumiputera and other Bumiputera specific projects ➢ RM800m for capacity building programs by Bank Pembangunan Malaysia and SME Bank ➢ RM510m to finance Bumiputera SMEs and micro SMEs through TEKUN and PUNB

[16] https://theaseanpost.com/article/medical-supplies-shortage-asean

The budget provides an extensive and comprehensive list of measures for SMEs; however, they have been met with mixed responses by different groups on safeguarding the interests of SMEs. Despite the mixed responses, it is clear that the Government has taken a more long-term view and response to the upscaling of local SMEs in digitization and automation, which was highlighted in INSAP's budget proposals recently provided to the Minister of Finance.

Notably, the Government has allocated RM150mil under the SME Digitization Scheme and Automation Grants toward the modernization of local SMEs. Market observers have widely commended this initiative as a commitment toward long term productivity growth and enhancing Malaysia's regional competitiveness. However, automation and digitization can be a costly affair for many SMEs, requiring high-tech skills the labour market is in a current shortage of, resulting in higher wages and development costs for the firm.

Therefore, the RM150mil SME grant scheme from a personal viewpoint, while important, is likely insufficient after considering the potential medium term demand-pull inflationary pressure on capital goods and tech worker wages resulting from an increase in widespread SME automation. Meanwhile, the RM1bil in new tech training initiatives included in the budget requires considerable time to produce the targeted 200,000 market-ready tech talent.

In line with our view, the Federation of Malaysian Manufacturers (FMM) had said that initiatives for digitization and automation under the Industrial Revolution 4.0 (IR4.0) needed to be further expanded in terms of Government resources and had to be more focused to help SMEs close their automation gaps while also reviewing the right technologies in their industrialization process to help strengthen both their technical capabilities and output capacity[17]. In this respect, the Industrial Linkage Program managed by MIDA and the Vendor Development Program under MEDAC can be the vehicles to drive this transformation more aggressively with specific allocations from the budget.

In line with the initiatives discussed in the earlier section, the Prihatin Connectivity Plan and JENDELA plans would help boost the economy's adoption of e-commerce and enhance its overall connectivity. In addition, the budget also provides added incentives for supporting local brands through the RM150mil allocation under the Shop Malaysia Online campaign and a RM35mil allocation for the promotion of local products and services helping to boost local brands online. These initiatives will be beneficial for the local e-commerce players to remain competitive as retail patterns shift online.

It is worthy to note that as the enhancement of e-commerce trading and services continue into the near future, there will be significant short and medium-term multiplier effects for local SMEs involved in the upstream and downstream in e-commerce, namely, in web design, both software and hardware development, IT maintenance and connectivity services.

Among interest groups, the SME association of Malaysia, Datuk Micheal Kang believes the focus on relieving the cash flow burden on SMEs during the MCO are largely absent[18]. He believes that though such measures are welcoming, they would help little as they were expecting a targeted SME fund to help them survive both 2020 and 2021. According to him, many SMEs were expecting tax deductions and relief, additional financing and a reduction in the cost of doing business.

Despite these protests, the budget does however provide a pathway for loans to help ensure the survival of businesses. In particular, there is a budgeted RM2bil targeted assistance package through banks for SMEs, providing additional financial assistance. As for tax relief, there would be little significance in the reduction of the corporate tax rate as this would only benefit SMEs that are making profits, for 2020 and 2021, SMEs are generally not as concerned about profit in the short to medium-term, but rather they are looking at measures to survive and sustain their operations.

[17] FMM Comments on the 2021 National Budget, FMM, November 2020
[18] Mixed responses from SMEs on the budget, The Star, November 2020

Therefore, to a large extent, the decision of the Government in using a grant-based focus rather than a tax-based one is correct, as it seeks to utilize grants to neutralise the impact of the pandemic on targeted sectors. However, this being said, more could have been done to lighten the cost of operations across the board, such as tax relief and discounts for SMEs on electricity and internet bills as suggested in INSAP's budget proposal to the Ministry of Finance which was not included.

Finally, the Wage Subsidy Program which was targeted mainly toward the tourism sector and tourism-related retail sectors are for the most part absent for most sectors outside of this scope. Many SMEs outside of this scope were excluded from the wage subsidy program, the immediate impact of which can result in a rise in unemployment under the original PENJANA wage subsidy scheme, or 6 months from the date of application. Much of this increase will likely be reflected in the employment statistics in the first half of 2021 if the economy and the cash flow condition of SMEs do not improve.

Impact on Primary Industries (Commodities and Agriculture)

Sector	**Economic Measures**
Commodities	• RM500mil of revolving funds for the Forest Plantation Development Loan (PPLH) Programme • RM30mil of matching grants to encourage investments in mechanization and automation in commodities • RM20mil to continue Malaysian Sustainable Palm Oil Certification (MSPO) to boost growth and enhance competitiveness • RM16m incentive for latex production
Agriculture and Fishing	• RM1.7bil for subsidy, aid and incentive to farmers and fishermen • RM300mil for Rubber Production Incentive to assist 150,000 rubber smallholders, an increase from RM150mil • RM151mil assistance to 40,000 fishermen commencing 2021 • RM150mil to finance fishermen under the Vessel Modernization and Capture Mechanization Programme by Agrobank • RM100mil for implementation of impactful and high-value farming projects, through collaboration with State Governments • RM60mil to finance agricultural entrepreneurs under the Agrofood Value Chain Modernization Programme by Agrobank • RM30mil for the extension of the Community Farming Programme to provide equipment to the semi-urban and rural communities • RM50mil to implement the Organic Agriculture Project to benefit 1,000 communities • RM10mil for the implementation of the e-Satellite Farm Programme • RM10mil for implementation of the Aquaculture Development Programme

Commodities

The RM500mil in revolving funds for the PPLH Programme will likely encourage greater private sector participation in the commercial forest plantation sector. This is seen as a necessary measure for more timber and timber-based products to be produced and exported by Malaysia. According to the Department of Statistics Malaysia (DOSM), the export of timber and timber-based products comprise 1.4% of total exports in April 2020, the lowest exported commodity except for natural rubber.[19] Through this measure, the Government seeks to have another source of foreign export earnings amid the decreasing value of petroleum products resulting from the pandemic.

Budget 2021 also seeks to encourage sustainable growth in the palm oil industry through the MSPO (RM20mil) and matching grants (RM30mil) to encourage automation and mechanization in the industry. According to DOSM, the export of palm oil and palm oil-based products amounted to 7.8% of total exports in April 2020. DOSM stated that despite the rise in the value of the commodity recently, its overall export volume has dropped.

Hence, the implementation of MPSO will allow smallholders in the industry to obtain MPSO certification with the Government bearing its cost. Meanwhile, matching grants in automation can encourage more market players in the palm oil industry to digitalize their operations to improve cost competitiveness in the global supply chain.[20]

Finally, the RM16mil in incentives for latex production will further boost Malaysia's rubber production capacity. Following the pandemic, a significant shift in the global demand for rubber and latex gloves will fuel its main input resource, latex and natural rubber. The proposed expansion in rubber production is a prudent measure by the Government for the near and medium-term supply chain, as it anticipates the commodity will in high demand by local glove companies for use in the manufacturing process.[21] Hence, boosting of the latex industry will greatly encourage Malaysia's export of final consumer goods on the international market.

Agriculture and Fishing

It is well-known that in Malaysia, most farmers and fishermen will not able to escape living in the bottom 40 percent during their lifetimes.[22] Therefore, a reasonable justification for the allocation of RM1.7bil in subsidies and aid can be argued. Through offering subsidies and incentives for paddy crops (RM960mil), many rice farmers will be able to produce the crop at a lower cost. In addition, the increase in the allowance for fishermen from RM250 to RM300 per month may help lighten their cost burden.

Apart from the above, in an effort to better ensure the nation's fish stocks, Agrobank will also be providing financing under the Vessel Modernization and Capture Mechanization Programme (RM150mil) to encourage fishermen to modernize their catching equipment, nets and boats in an effort to increase the average haul of fish they can catch.

Given the current surge in infections and MCO restrictions, this has caused severe labour disruption in food production as many of the farms in Malaysia are still relatively labour-intensive and are unable to find workers for the job. Hence, the Agrofood Value Chain Modernization Program (RM60mil) and e-Satellite Farm Programme (RM10mil) may assist farmers in upgrading their agriculture equipment and technological automation in an effort to wean agriculture away from labour-intensive business practices and increase productive competitiveness.

In an article written by several agriculture industry experts, despite welcoming the measures outlined under Budget 2021 in helping farmers modernize their production process, such measures fail to adequately deal with the long-standing problems in the agriculture sector. Most notably, being the severe lack of Government officers to oversee and train rural farmers on agricultural best practices as well as the expertise to develop seeds of more resistant

[19] Malaysia External Trade Statistics April 2020, Department of Statistics Malaysia, June 2020
[20] https://www.theedgemarkets.com/article/digitalisation-will-create-more-sustainable-smallholders-expedite-inclusion-global-supply
[21] https://www.thestar.com.my/business/business-news/2020/11/07/smallholders-set-to-gain-from-incentives
[22] https://www.malaysiakini.com/news/463369

and higher valued strains.[23] Hence, unless such problems are addressed, the mechanization and modernization of farming methods will not achieve the Government's long-term aims of creating a competitive agribusiness sector.

Impact on the Airline and Tourism Sector

Sector	Tax Incentives	Economic Measures
Airline and Tourism	• With effect from 1 July 2021, tourism tax will be imposed on accommodation premises booked via online platform operators.	• RM50mil for training and placement programs for 8,000 airline employees • RM50mil for maintenance and repair of tourism facilities throughout the country • RM35mil allocated to Malaysia Healthcare Travel Council for initiatives to enhance the competitiveness of the local health tourism industry • RM20mil to improve infrastructure and intensify promotion of Cultural Villages in Terengganu, Melaka, Sarawak and Negeri Sembilan • RM10mil for the preservation of national heritage buildings • Extension of the Wage Subsidy Program (WSP) for an additional three months for the tourism sector at a rate of RM600 per month for employees with wages of RM4,000 and below. The employee limit is increased from 200 employees to 500 employees per employer. • In Sabah, the Government will be providing a grant of RM1,000 per person under the Geran Khas Prihatin to help 20,000 traders and hawkers in Sabah. It would also be given to taxi drivers, e-hailing, rental cars and tour drivers in Sabah as well.

Despite tourism being the declared focus of the Government's budget initiative, there are relatively few noteworthy budget incentives introduced to provide an immediate and short-term cash flow relief for the affected sectors due to international and domestic travel restrictions. Though the six-month exemption on the Human Resource Development Fund (HRDF) levy was a welcomed move, the extension of the RM600 wage subsidy per employee per month is largely insufficient for the retaining of jobs and should have been revised higher given its targeted status, potentially affecting the welfare of approximately 3.6 million workers throughout the country in the hotel sector and SMEs reliant on tourism

Without higher cash aid for SME businesses within the tourism industry, many hotel operators who face little to no sales in the short-term as a result of national travel restrictions will have to start retrenching its staff to survive. As the industry faces a high existential risk in the short-term, the potential for more closures in the short and medium term will lead to a loss of revenue and tourist capacity in the long run. The social costs involved in rebuilding the industry in the long-run when tourism and travel resumes normality will also be high.

Notably, the RM50mil allocation to retrain and replace airline employees potentially ignores the large knock-on effects of unemployment in the conventional tourist sectors, including employees in hotels and SMEs reliant on tourist receipts that do not have access to the same retraining and replacement programs.

Other measures however are less noteworthy, such as a RM50mil allocation for the maintenance and repair of tourism facilities throughout the country which overall is not as immediately necessary in the short-term as a cash aid program. As is the allocation of RM20mil for the improvement of infrastructure and promotion of cultural villages in various targeted states. Such a program is not immediately necessary as the promotion of such tourist

[23] https://www.nst.com.my/news/nation/2020/11/638929/experts-2021-budget-does-not-address-challenges-facing-agriculture-sector

destinations will not translate to higher tourist visits until the initial restrictions on tourism are dealt with, indicating a negative rate of return of the program.

In Sabah however, due to the recent surge in COVID-19 infections, the Government has allocated a grant of RM1,000 per person to help 20,000 traders and hawkers, as well as taxi drivers, rental cars and tour drivers affected by the drop in tourist receipts. This is a highly commendable move as it delivers the necessary cash aid to affected groups on the ground. It would be better for the Government to continue such policies within this line of action to affected individuals as a whole.

Impact on the Financial Market

Sector	Tax Incentives	Economic Measures
Financial Markets	• Stamp duty exemptions on contract notes executed between 1 January 2021 and 31 December 2025 for the trading of Exchange Traded Funds (ETF). ➢ To encourage the issuance of Sustainable and Responsible Investments (SRI) sukuk and bonds which meet the ASEAN Green, Social and Sustainability Bonds Standard, the existing income tax exemption for Green SRI Sukuk Grant will be expanded to all types of SRI sukuk and bonds approved by the SC. ➢ This income tax exemption will also be extended for five years. ➢ Applicable for applications received by the SC from 1 January 2021 to 31 December 2025	• RM10bil additional guarantee under Syarikat Jaminan Pembiayaan Perniagaan, with RM2bil reserved for Bumiputera entrepreneurs • RM3bil allocated for guarantees to companies involved in highly skilled industries, such as oil and gas and aerospace, under the Danajamin Prihatin Guarantee Scheme will be extended to 2021 with improved terms and conditions • RM2b to Green Technology Financing Scheme 3.0 for two years up to 2022 • The Government will issue its first Sustainability Bond for environmental and social initiatives in 2021
Equity Crowd Funding	• Income tax exemption on aggregate income equal to 50% of amount invested, up to a maximum RM50,000 for each YA. The deduction is limited to 10% of aggregate income. ➢ This is applicable for investments made from 1 January 2021 until 31 December 2023 and is subject to relevant conditions being met.	• RM30mil allocation via matching grant for investment in the Equity Crowd Funding (ECF) platform under the supervision of the Securities Commission (SC)

The general impact on financial markets are expected to be positive, as typical with any fiscally expansionary budget, the financial sectors tend to anticipate market movements that tend towards an uptrend as consumption increases in the short and medium-term. This year is markedly different in many ways however, as effects of the pandemic take hold and investors experience a dampened economic climate which may have an adverse impact on the risk appetite of institutional investors.

The ongoing promotion of shariah-compliant banking products and tax incentives for sukuk bonds and financial technology (Fintech) in addition to the promotion of ETFs through stamp-duty exemptions until 2025 will allow for more seamless trading of financial instruments, potentially boosting overall market trading volumes. Through these initiatives the Government had indicated plans to position itself as a prominent international centre for shariah-compliant financial services and providing a boost for the local bond market.

In addition, the Government's proposals to allocate RM1bil to incentivize technology and high-value added investments along with BNM's RM500mil High Technology Fund will allow local producers to become more competitive in the medium to long-term.

Due to the announced cuts on stamp duties for first time home buyers and RPGT exemptions for the first three homes sold by an individual under PENJANA, the short and medium-term outlook for housing loans and real estate mortgages will continue its upward momentum in response to these demand-side factors. Notwithstanding this, national plans to boost the 5G, high-tech, oil and gas, aerospace and medical sectors bode well for market sentiments as Malaysia positions itself towards medium and long-term expansion in the technology, health services and medical equipment industries.

In addition, the short-term fiscal expansion for national transportation and infrastructure projects will likely bode well with financial institutions who see potential financing opportunities and cooperation with various market sectors involved in construction and project billing and the various sub-sectors in the upstream and downstream.

The national targeted repayment assistance program is likely to allay fears of capital inadequacy among banks, with RM10bil allocated to address any shortfall in loan repayment. Despite this, more effort needs to be made on the part of the Government to ensure that firms and SMEs that face financial difficulty with loan repayment are not summarily neglected by the banking sector as the potential for banks to take advantage of their client's weakened financial state exists. However more details of the targeted repayment assistance scheme are needed to more adequately asses its potential impacts in the capital market.

The RM30mil ECF scheme is a highly welcomed move from the Government, fundamentally, the ECF scheme allows the average person to make an equity investment in a company of his choice, while gaining strong tax incentive of 50% of total investment capped at RM50,000 to do so. Such a scheme will encourage members of the public to invest in SMEs not listed in the share market, opening up a channel of non-financial institution share equity raising.

The tax incentive here is important to note as small time investors face a high level of risk in investing in SME equity during a pandemic and MCO restrictions, raising their level of risk aversion. This incentive will help encourage more small-time investors to adopt ECF platforms for small shares of equity, allowing even the layman to invest in small sums, raising available liquidity for the market.

On the same vein, Peer-to-Peer (P2P) lending is likewise worthy of note. The innovative scheme allows for members of the public a slice of a yields generated from lending bonds. The budget had provided for a RM50mil matching investment fund for P2P lending.

While conventionally, P2P lending tends to demand a high level of yield on a bond due to the higher inherent risks involved as a result of the uncollateralized nature of the loan, the matching support facility will prove useful here as the Government effectively absorb half of the overall risk to the lending facility. It is likely that P2P invoice financing will emerge as a clear winner due to the lower risks and shorter tenures for investors. The Finance Minister expressed during his speech that an estimated RM900mil in funds would be made available for SMEs as a result of the expansion of P2P lending.

Impact from changes to the Employee Provident Fund (EPF) Policy

Sector	**Economic Measures**
EPF, Social Security	• Reduction of employee's Employees Provident Fund (EPF) contributions from 11% to 9% for a period of 12 months effective January 2021 • Facility for individuals to withdraw Account 1 EPF savings of RM500 per month for 12 months effective January 2021 • Facility for individuals to withdraw Account 2 EPF savings to purchase insurance and takaful products approved by EPF. This applies only for life and critical illness coverage for individuals and their families.

	• Enhancement of the Employment Insurance System (EIS) by PERKESO by extending the Job Search Allowance for an additional three months during the year 2021, up to a total of nine months. The allowance, subject to a cap, applies at the rate of 80% of a prescribed notional salary for the first month, 50% for the second to sixth month and 30% for the last three months.

In a long-anticipated and hotly debated move, the Government had decided to allow EPF contributors to withdraw from their EPF savings from Account 1 at RM500 per month for 12 months starting 1 January 2021, totalling RM6,000 throughout the year for each contributor. From an economic perspective, the measure simply substitutes long-term savings and investment return for short-term consumption purposes, increasing the short-term consumption economy at the expense of depleting the nation's long-term macroeconomic investment capacity. Unsurprisingly, this move had drawn flak from many different quarters.

The Government had previously allowed the reduction of the mandated EPF allowance contribution by workers from 11% to 7% and allowed the withdrawal of RM6,000 from Account 2. According to news sources, almost 70% of EPF contributors had opted to reduce their contribution to 7%, increasing the short-term disposable income to the tune of almost RM700mil a month[24]. However, as more than 30% of EPF contributors have less than RM5,000 in their EPF accounts, this measure will not help address the cash flow problems faced by such contributors. Such a measure would inevitably drain out all their retirement savings for the future, creating an economic short and long-term imbalance which can create more old age poverty in the future.

However, due to limited direct Government resources in the present, the Government is relying indirect methods of channelling cash aid, using the EPF savings of individual contributors as a way to channel cash aid toward the struggling middle class.

From a public finance perspective, the EPF is both a source of domestic Government loans for the implementation of projects and a source of long-term investment as evidenced by the EPF holding the second largest share of Malaysia sovereign debt bonds after BNM. Therefore, the Government has to strike a delicate balance between the short-term allowance of withdrawals from the EPF and the long-term capacity for domestic loan issuance.

Despite the inherent balancing act, the Government for now is aiming toward a countercyclical economic policy designed to help restore the short-term economic life cycle providing a boost to current expenditure in the economy. This initiative is likely to provide some degree of cash flow relief for a large section of the workforce and will help to reduce much of the short-term financial burden on the people.

Impact from Infrastructure Investment

Sector	**Economic Measures**
Infrastructure	• RM15bil to fund and implement critical transport infrastructure projects such as the Pan Borneo Highway, the Gemas-Johor Bahru Electrified Double-Tracking Project and Klang Valley Double-Tracking Project Phase One • RM5.1bil and RM4.5bil to Sabah and Sarawak respectively for Development Expenditure for the year 2021 • RM2.7bil for rural infrastructure improvement programs and projects • RM780mil allocated for continuing development projects in the five regional economic corridors: ➢ Rapid Transit Bus Transport System at three High Capacity Routes and construction of busway at Iskandar Regional Development Authority (IRDA) in Johor

[24] Experts: EPF withdrawal will deplete people's savings but may help economy, The Star, November 2020

	➢ Construction of the Palekbang Bridge to Kota Bahru, Kelantan under East Coast Economic Region (ECER) ➢ Construction of infrastructure and related components of the Special Development Zone project in Yan and Baling, Kedah under Northern Corridor Economic Region (NCER) ➢ Infrastructure Project in the Samalaju Industrial Area, Sarawak under Sarawak Corridor of Renewable Energy (SCORE) ➢ Continuation of the Sapangar Bay Container Port Expansion Project, Sabah under Sabah Development Corridor (SDC) • RM150mil allocated for the Raw Water Transfer Project from Sungai Kesang and Tasik Biru to the Jus Reservoir, Melaka • RM100mil for the maintenance of industrial park infrastructure • RM45mil to meet the water supply needs of the petrochemical sector in the Gebeng Industrial Zone • RM42mil under JENDELA to improve internet connectivity in 25 industrial parks • Continuation of High-Speed Rail Project (HSR) but it is subject to further discussion with Singapore

According to the 2021 Fiscal Outlook Report, among the allocation for 2021, transport subsector will obtain a large increase in funding, equal to RM15Bil or 21.8% of total development expenditure.[25] Hence, the Government's strategy is clear in improving Malaysia's transportation infrastructure as one of the main strategies to revive the economy, providing a short-term boost in public investment.

The RM15bil allocation for critical transport infrastructure projects will provide economic benefit to various companies in the construction sector such as Gamuda Berhad, IJM Corporation Berhad and MMC Corporation Berhad. As the above companies embark on these infrastructure projects, it is expected that they will need additional manpower, further creating job opportunities in a traditionally labour-intensive industry, in theory helping to reduce overall unemployment in Malaysia.

These transport infrastructure projects will be able to enhance transport efficiency and reduce travel time from one city to another. The Gemas-Johor Bahru Electrified Double-Tracking Project will be able to reduce the travelling time from Kuala Lumpur (KL) to Johor Bahru (JB) from the present 7 hours to only 4 hours as the electric train service (ETS) will be able to travel at a maximum speed of 140km/h and an average speed of 100km/h.[26]

The improvement in the transport system will lower the geographical barriers to travel from one place to another place improves the geographical mobility and efficiency of labour. For example, residents who reside in towns along the route of Gemas-Johor Bahru Railway may travel daily to work in cities further away from home without having to rent a house nearby their workplaces.

Moreover, enhancement of the transportation system will also improve the efficiency of freight logistics. For instance, the Gemas-Johor Bahru Electrified Double-Tracking Project has the potential to increase the freight capacity which allows much greater cargo to be transported between Port Klang and Tanjung Pelepas, the two biggest ports in Malaysia[27].

[25] 2021 Fiscal Outlook and Federal Government Revenue Estimates, Ministry of Finance Malaysia, November 2020
[26] https://www.thestar.com.my/opinion/letters/2020/07/12/benefits-and-challenges-of-the-gemas-johor-baru-railway-electrified-double-tracking-project
[27] The Gemas-Johor Bahru Railway Electrified Double-Tracking Project: Steady Progress towards Completion, ISEAS, July 2020

High-Speed Rail Project (HSR)

The construction of the HSR was halted since September 2018 under the PH administration, in Budget 2021 however, the Ministry of Finance announced that the Government would continue the project as it brings a positive multiplier effect on the economy.[28] At the same time, both the economies of Malaysia and Singapore will also benefit as Malaysia has easier access to capital investment and Singapore would have access to a cheaper labour pool.

In addition, it provides the citizens in Malaysia and Singapore with an additional alternative to cross the border for tourism in both nations. According to the MyHSR Corporation, it would take an estimated 90 minutes to travel from Singapore to Kuala Lumpur.[29] Though the journey might take longer compared to a one-hour flight, the HSR should compensate for this by offering greater comfort, convenience and safety compared to air travel. As tourism improves, the profitability of the retail sector in both countries dependent on tourist arrivals can be enhanced and real estate development along the HSR corridor will see long-term growth potential.

Despite these attractive multiplier effects, as the full cost for the project ranges between RM75Bil and RM105Bil,[30] this may cause the Government to undertake more future debt for liquidity which may result in higher future debt-to-GDP ratio.

East Malaysia

It is clear that infrastructure in East Malaysia is lags significantly behind West Malaysia. Hence, to address the development gap between the two regions, the Government has given the Pan Borneo Highway a high priority. According to Budget 2021, RM15bil will include committed financing for the Pan Borneo Highway.

According to the budget, RM10.12bil will be allocated to the 15 work orders on the Pan Borneo Highway project in Sabah.[31] Effectively, out of the RM15bil for critical transport infrastructure projects, about 67% will be allocated to the development of the Highway, fully funded by the Federal Government.

It is expected that the Pan Borneo Highway can offer strong multiplier effects to East Malaysia. According to sources, the multiplier effects for Sarawak are expected to be 8 times the investment cost of the project[32]. In addition, based on an estimation of the World Bank and World Economic Forum, it is estimated that the marginal return for each investment in the project, the contribution to economic growth can range from 5% to 15% through enhancements in the local manufacturing, agribusiness and tourism sector.[33]

Aside from the allocation for the Pan Borneo Highway, Sabah and Sarawak will also receive an additional RM5.1bil and RM4.5bil respectively for Development Expenditure compared to Peninsular Malaysia. The money will be used for upgrading basic infrastructure projects and important services such as healthcare and education. This can help in further narrowing the development gap between the two regions.

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[28] https://www.capitalpost.com.my/2020/11/06/kl-singapore-hsr-malaysia-intends-to-continue-with-project-given-the-positive-multiplier-effect-on-economy-says-finance-minister/
[29] https://www.myhsr.com.my/kl-sg-hsr/project-overview
[30] https://www.malaymail.com/news/malaysia/2020/11/06/putrajaya-to-keep-kl-singapore-hsr-project-injects-rm15b-for-transport-proj/1920053
[31] https://www.theedgemarkets.com/article/15-sabah-pan-borneo-highway-work-packages-continue-says-fadillah
[32] https://www.thestar.com.my/news/nation/2018/04/17/pan-borneo-highway-to-bring-growth
[33] https://www.dailyexpress.com.my/news/149778/borneo-connectivity-benefits-all/

Concluding Remarks

The Budget, no doubt the largest in Malaysian history aims to strike a well-balanced approach to reinvigorate Malaysia's badly struck economy from the worst pandemic since this century. Altogether, the budget establishes a well thought out incentive framework in aiming to bring out technological enhancement and offers large and targeted economic stimulus funds and programs meant to enhance Malaysia's cost competitiveness and aims to utilize our local skilled workforce to the fullest.

The Government here plays a strong role in charting the economic revitalization of the country, with GLCs and Government ministries playing a more prominent role, assisted by the private sector. The charge toward automation and digitization cannot be overlooked as the budget tries to enhance new and robust technologies in the SME and the local supply chain.

In addition, the push toward short and medium-term infrastructure projects such as the HSR, the Pan Borneo Highway and others will be a welcomed move to spur domestic investment and encourage much needed employment opportunities. In addition, the push for further high-quality FDI is likely to attract a considerable interest from firms affected by the US-China trade exodus, enhancing Malaysia's appeal for international investors.

That being said however, there are still weaknesses in the budget that would be prudent to address. In particular, there is a lack of cash aid and grants for SMEs that are on the brink of bankruptcy. Despite the Government's efforts in establishing a repayment assistance fund for businesses in trouble, there exists no mechanism for the Government to strongarm banks to listen to the plight of affected SMEs except through encouraging cooperation with BNM, many of whom were already struggling even before the pandemic struck.

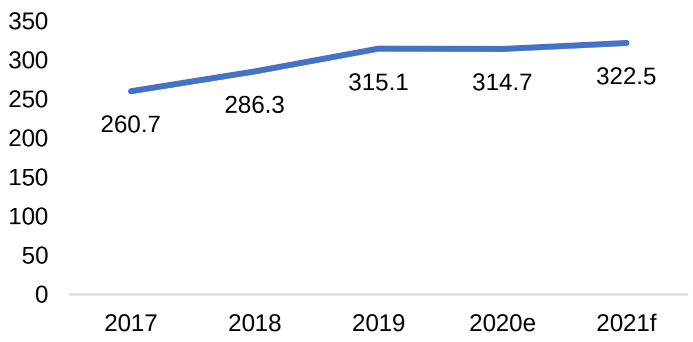
In addition, the wage subsidy program has been curtailed, targeted towards the tourism and tourism-related retail sub-sectors, reducing the program's effective on the overall economy. It would be more prudent to instead increase the wage subsidy pay-out since the scope of its eligible industries has been reduced. Despite these shortcomings, the Government's effort in reskilling and retraining workers in the airline industry through targeted measures is commendable, however it should have been expanded to include more sector workers.

Efforts by the Government to spur consumption in the short-term are commendable, in particular with the allowance of sustained limited EPF withdrawals, will help boost the local consumption economy, however at the expense of long-term reduction of overall wealth. Such a disparity between short and long-term financial resources should be addressed in future budgets when the economy recovers to ensure sufficient pension and old age coverage for the Rakyat.

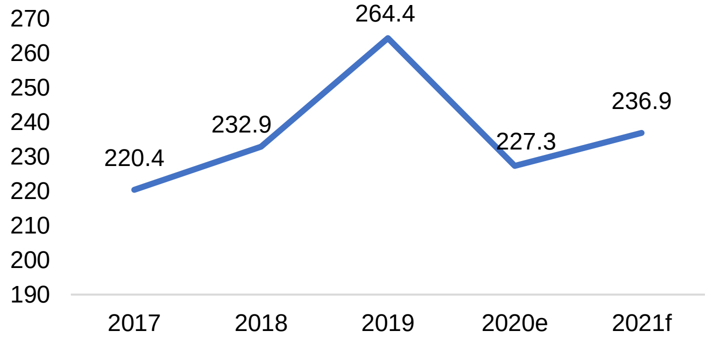
In short, the budget aims to strike a delicate balance between the needs of businesses and the people. Like many Governments around the world, Malaysia has depleted much of available fiscal space and resources and will likely exit the crisis with a larger debt burden and more contingent liabilities. This resulted in difficult temporal constraints for the Government to further expand expenditures on relief and consumption support over the near-term. The aim of the Government to become more technologically productive and realign its economic competitive advantages will allow Malaysia to emerge stronger and more productive following this crisis.

Appendix: Key Estimates and Economic Statistics of the Budget and Preceding Years

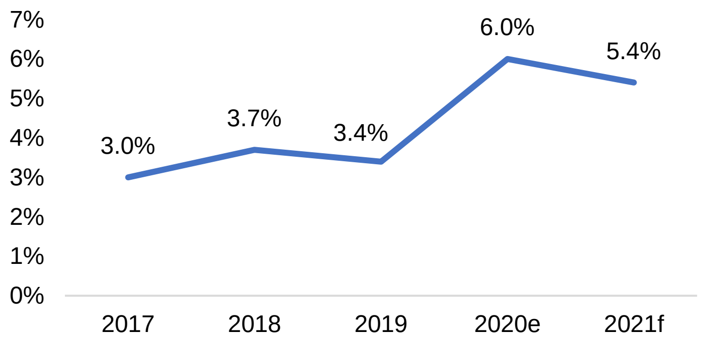
1 Budget Allocation (RM'bil)



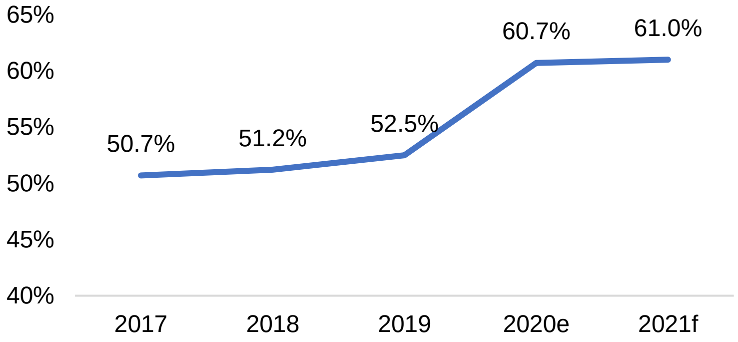
2 Government Revenue (RM'bil)



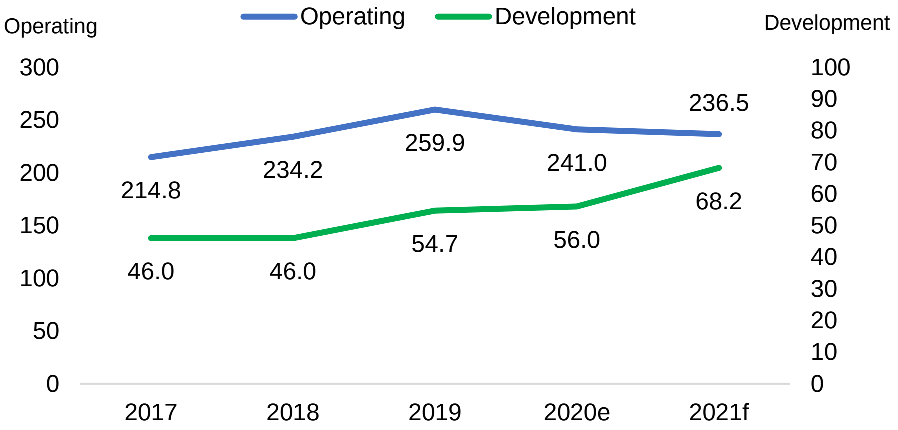
3 Budget Deficit (%)



4 Government Debt to GDP Ratio (%)

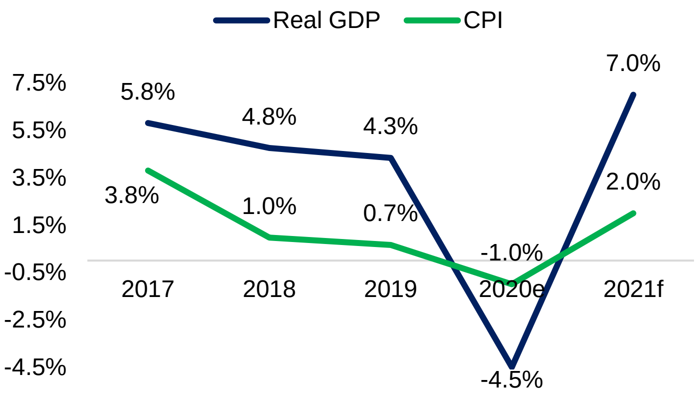


5 Operating and Development Expenditure (RM'bil)

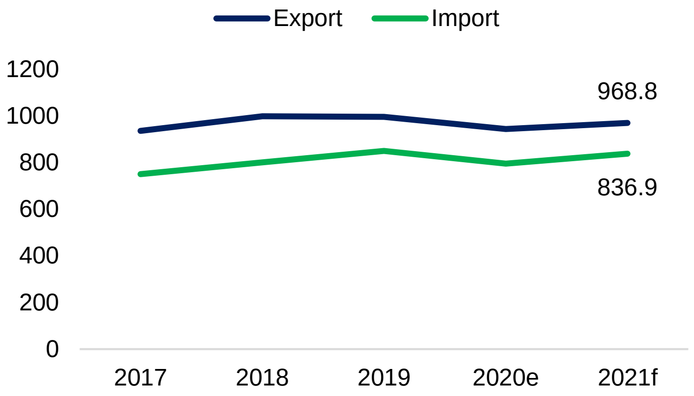


Sources: MOF, Budget Speeches from 2017 to 2021

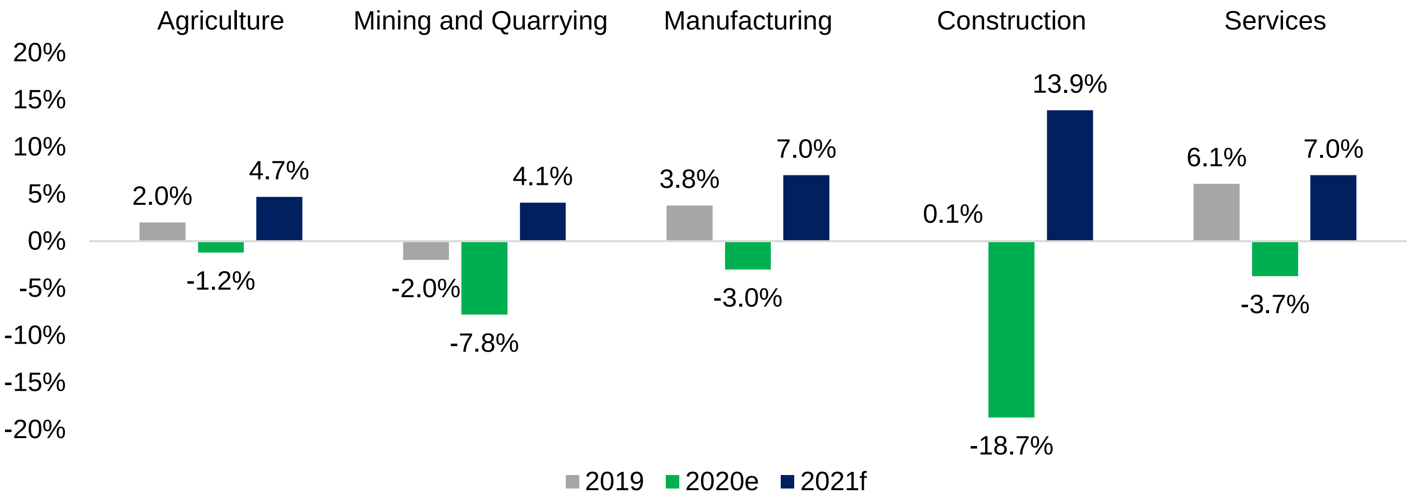
6 Real GDP vs CPI



7 Trade (Goods and Services) RM'bil



8 Y-o-Y Growth by Sector (%)



Sources: MOF Economic Reports