

Budget 2016 Preview

Goodies for the Rakyat but economic management back on manual mode amid global challenges

Overview

Budget 2016 would be an expansionary budget. Budget 2016 which comes in the midst of domestic and global economic uncertainty is expected to provide more stimuli particularly in sectors which will provide high multiplier impact and boost social welfare of the country. The budget is expected to achieve this by putting an emphasis in development expenditure while cutting back its operational expenditure through a more prudent spending in parts of the government sector. The budget will become the first budget under 11th Malaysia Plan and should start to kick-off most of the 11 MP pathways. At the same time, the needs of the *Rakyat* will still become one of the main focuses in the budget, particularly through providing targeted subsidies to various categories.

Government Finance

Table 1: Government Finance (RM `Mil)

	2012	2013	2014	2015 ^e (Original)	2015 ^e (Revised)	2016 ^f
Revenue	207,913	213,370	220,626	235,219	221,419	221,988
Operating Expenditure	205,537	211,270	219,589	223,440	217,940	211,500
Current balance	2,376	2,100	1,037	11,779	3,479	10,488
Gross development expenditure	46,932	42,210	39,503	48,500	48,500	51,783
Less loan recovery	2,606	1,526	1,056	1,033	1,033	1,000
Net development expenditure	44,326	40,684	38,447	47,467	47,467	50,783
Overall balance	(41,951)	(38,584)	(37,411)	(35,688)	(43,988)	(40,295)
Overall balance as % of GDP	-4.5	-3.9	-3.5	-3.0	-3.2	-3.2

Source: MOF, CEIC, MIDFR

Budget deficit is expected to be maintained at 3.2%. Government's revenue is expected to be pulled back from the lower contribution of petroleum-related revenue, making it difficult for the government to achieve the initially planned 3.0% budget deficit target. However, the higher revenue received from the introduction of Goods and Services Tax (GST) should be able to cushion most of the shortfall. We would expect the operating expenditure to be cut by approximately 3% to RM211,500 relative to the revised 2015 budget figure through a more prudent spending. Development expenditure is expected to be higher by approximately 5.2% in order to boost the economy amid domestic and global economic uncertainty. The focus of the development expenditure is expected to be in line with 11 MP.

Table 2: Government Revenue (RM 'Mil)

	2012	2013	2014	2015 ^e (Original)	2015 ^e (Revised)	2016 ^f
Taxation	151,643	155,952	164,205	183,378	171,078	178,835
Direct Tax	116,937	120,523	126,742	135,646	123,346	126,566
Petroleum Income Tax	33,934	29,753	26,956	28,300	16,000	17,000
Indirect Tax	34,706	35,429	37,462	47,732	47,732	52,269
SST/GST	15,079	16,012	17,217	26,328	26,328	30,000
Non-Tax	54,909	54,450	53,899	49,813	48,313	40,939
Petronas Dividend	26,260	27,000	29,000	27,000	26,000	18,000
Petroleum Royalty	6,423	6,186	6,532	6,500	6,000	6,300
Non-Revenue	1,360	2,968	2,522	2,028	2,028	2,214
Total Revenue	207,913	213,370	220,626	235,219	221,419	221,988

Source: MOF, CEIC, MIDFR

Note: Details of 2015 revised figure was estimated since it was not provided by the government. Adjustments was made on Petroleum-related revenues

GST revenue is expected to offset reduction from Petroleum-related revenues. GST is estimated to contribute approximately RM30 billion towards government revenue in 2016 based on the 2Q15 GST collection at RM7.6 billion. This is estimated to be higher by RM11.5 billion relative to the potential collection of SST in 2016. There may be more exempted and zero-rated list introduced in Budget 2016 to ensure that the new tax system does not burden the citizens in need particularly in the healthcare sector.

Malaysia will be less dependent on petroleum-related revenue. The petroleum-related revenue is expected to further reduce to RM41.3 billion as compared to the 2015 revised budget of RM48 billion and the original 2015 budget at RM61.8 billion. This figure is on the expectation that the oil price will remain around \$50-\$60 per barrel for year 2016 and Petronas would be able to achieve a net profit of approximately RM45 billion for year 2015. The contribution of petroleum-related revenue to the total revenue is expected to decline to 18.5% in 2016 from 21.5% in 2015 revised budget. Under the 11 MP, the government is aiming to reduce the dependency on petroleum-related revenue to 15.5% in 2020.

Table 3: Development Expenditure (RM 'Mil)

	2012	2013	2014	2015 ^e	2016 ^f
Defence & Security	4,409	4,649	4,332	4,932	4,931
Economic Services	28,936	24,646	23,338	29,260	32,407
Agri & Rural Dev	1,906	2,692	2,875	3,166	3,641
Trade and Industry	5,043	6,244	4,688	7,775	8,164
Transport	10,065	8,152	7,271	8,697	9,567
Public Utilities	5,519	3,332	3,485	4,545	5,045
Others	6,403	4,226	5,019	5,077	5,991
Social Services	12,399	10,884	10,490	12,618	13,071
Education	7,550	6,438	4,928	5,582	6,475
Health	1,864	1,738	1,385	1,702	1,520
Housing	524	852	618	2,293	2,499
Social & Community	2,462	1,856	3,559	3,041	2,577
General Administration	1,187	2,032	1,344	1,690	1,374
Total Development Exp.	46,932	42,210	39,503	48,500	51,783

Source: MOF, CEIC, MIDFR

Expect higher development expenditure in 2016. As mentioned by Dato' Seri Ahmad Husni, the 2016 budget will have a larger budget particularly for development expenditure as a kick-off for the 11 MP. At the same time the higher budget is also expected to support the current economic uncertainties and provide a stimulus to boost the economy. We are expecting a higher budget expenditure growth particularly for agricultural and rural development, public utilities, trade and industry and education sector, in line with our 11 MP plan to become a high income economy in 2020 by pushing economic growth through productivity and knowledge while enhancing inclusiveness for all Malaysians.

Economic Development

More incentives for SMEs can be expected. As the government is targeting for SMEs to contribute up to 40% of GDP growth, hence more incentives and investments are needed to further encourage entrepreneurial activities. More loans and incentives for SMEs would be incorporated in the budget, with a special focus on high value add activities.

Special incentives for agropreneurs. As Malaysia's population is steadily increasing, it is becoming more essential for Malaysia to produce our own food for domestic uses. Agropreneurs which are able to produce more agricultural products with high level of efficiency is expected to become one of the focuses in 2016 budget.

Encourage use of domestic products. In order to further strengthen our domestic economy and improving Malaysia's current account balance, introducing measures to further encourage use of domestic products may be included in the budget. This will eventually improve the profitability of local economy.

Taxation

There may be no income tax cut. The last budget 2015 had already cut a sizable amount of income tax due to the introduction of GST. Amid the tightening of government revenue due to the lower oil price, an income tax cut may not be considered by the government. Rather the change in income tax may be more on reliefs and rebates for the middle income class.

More GST exemptions could be expected. The government may consider including more goods and services in the GST exempted and zero rated list particularly on food products and medical products and services. This is due to the high number of requests among the public to consider including them into the exempted list. As budget 2016 is expected to consider the voice of the citizens, hence the suggestion may be taken into consideration.

Subsidy

The 1Malaysia People's Aid (BR1M) will continue to increase next year. As promised by Dato' Sri Najib since the last few years, BR1M's handouts will continue to increase gradually every year until it reached RM1,200 for the qualified household. The increment in BR1M's payment would be applicable to all stages of recipients, with a higher increase for the lowest income bracket. The cash handouts for lowest income bracket household may be increased to RM1,050 from the current RM950.

Housing

All of the currently ongoing housing schemes will continue. The high level of housing price continues to become the woes of the public, particularly for young graduates and married couples. All of the previous schemes targeting specific groups are expected to continue with some adjustments to the criteria. Transit housing programmes for youth and young married couples might also be introduced as planned in 11 MP.

Affordable houses will continue to be developed. The focus to help low and middle income household to own a house is expected to continue to become one of the main keys in the government budget every year. Most of the houses are expected to be built in sub-urban areas particularly around major cities in Malaysia.

Incentives to develop more cost-efficient house by developers. Recently the focus of the government is to encourage more cost-efficient housing by using various models from around the world particularly from Philippines and South Korea. As such, incentives to produce these types of house such as by using IBS technology could be one of the measures introduced in Budget 2016.

Infrastructures

Expansion of fiber optic internet particularly for rural areas. In line with the government's plan to make Malaysians more internet-savvy, Budget 2016 could incorporate fiber optic expansion to rural areas as one of the key element under its development expenditure. The higher number of internet access would also contribute to higher economic activity as online business activities are growing rapidly nowadays.

Enhancing rural-urban linkages via road and railways construction. In line with the 11 MP to balance the geographic growth of Malaysia, the connectivity between urban and rural areas is expected to be improved further via more roads and railways construction. This would boost the population in targeted areas and eventually transform the rural areas by providing more business and employment opportunities.

Spending on electricity and clean water supply for rural areas will continue. The rural areas are expected to continue receive special allocations for the development of electricity and clean water supply in the area. This project is a continuation of Budget 2015 and is also one of the key targets in 11MP.

Healthcare

Making healthcare more mobile friendly. Investment in the healthcare is expected to be focused on making it more mobile and flexible, in order to cater the needs of the citizens particularly in rural areas. Besides that, there may be more hospitals to be developed in sub-urban and rural areas.

Education

My Brain and My PhD is expected to continue. Both My Brain and My PhD scheme is expected to continue as Malaysia's university rankings continue to improve since local universities are becoming more research-oriented. Higher allowances to the students may be considered due to the higher cost of livings recently.

Public Safety

Investments in trainings and systems to improve efficiency of the current police force. Rather than increasing the amount of the police force which will further tighten the government's operating expenditure, the government may opt to focus on improving the efficiency of the police force. Participation of the public in ensuring public safety and cooperation with the police is also expected to be addressed as proposed in the 11 MP.

Employment

Trainings for unemployed graduates will focus on high-skilled areas. In order for Malaysia to achieve a developed nation status in 2020, it is essential to improve the overall skills of our labours to high-skilled areas. Trainings for unemployed graduates are expected to continue, with more emphasis given towards knowledge-intensive and high-skilled areas.

Specialised training for women and disabled persons. As the government would have wanted more participation in the economy, more training are expected to be given to women and disabled persons. Furthermore childcare and maternity incentives may be provided in order to further encourage women participation in the workforce.

Measures to reduce cost of foreign labour. It is inevitable that as Malaysia is aiming to become a high income country, dependency on cheap and low-skilled foreign labours cannot be tolerated. However, reducing the amount of cheap foreign labour during economic uncertainty would be costly to the businesses. As such we are expecting there will be some kind of measures introduced in the budget to tackle the issue of high cost of foreign labour. At the same time, measures to reduce the amount of illegal immigrant workers may also be included in the budget.

Transportation

Subsidies for public transportation for low and middle income earners. In line with the government's aim to reduce traffic congestion and encourage use of public transports, the government may introduce subsidies for use of public transportation for low and middle income earners.



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