THEMATIC REPORT

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Economics & Policy

Madani Economic Narrative: Amalgamating All Plans to Set the Future Development Goals and Address Structural Issues

KEY HIGHLIGHTS

- **We view the release of the Madani Economic Narrative as a document that aims to set a clear narrative and roadmap amalgamating past all past plans for future developments.**
- **The Madani Economic Narrative reiterates about improving Malaysia's global competitiveness, promotion of green growth, better adoption of digitalization, and continued push to enhance national food security. In other words, this is a continuation of development agenda as outlined in previous development plans, mainly the 12th Malaysia Plan.**
- **The New Industrial Master Plan 2030 aims to shift the focus from the primary sector towards higher value-added manufacturing activities, with special mention about E&E and the Chemical sectors.**
- **At the moment, the Madani narrative on provides high-level targets, and more details will be unveiled by each ministry. For now, the impact on government's fiscal position cannot be fully measured until all initiatives are revealed.**

ECONOMICS & POLICY

Reinforce the narrative towards reforms and rebuilding. We view the release of the Madani Economic Narrative as a document that serves as the country's future development roadmap. It outlines what the Federal Government intends to achieve in terms of economic developments going forward, with the objectives to boost Malaysia's competitiveness to become the regional champion, reinvigorating the public service delivery and ultimately promote economic growth which would benefit the rakyat. Not only the government and the public sector, every unit in the economy will play a part to propel growth of the country to the next level.

Setting the background. Looking at the past track record, Malaysia has been successful to develop and become a middle income country, transitioning from agriculture-driven to a more industrialised and export-oriented manufacturing-driven economy. In the post-Asian Financial Crisis period, the economy diversified more towards services sector, but consequently it comes with de-industrialization with the size of total trade to GDP, for example, dropped to 141% as of last year from 200% in 2000 and investment-to-GDP ratio declined to 20-25% from 40% prior to 1998. While the country is trapped in the middle-income status, competitiveness dwindled constrained by the low-cost and low-wage growth model. The decline in the competitiveness also coincides with the lack of new growth engines and the divergence in household income also comes with still low compensation of employees to the GDP which stood at 32.4%. Moreover, the continued fiscal deficits pushed the government to rely more on borrowings, translating into accumulation of national debt to more than 60% of the economy. However, it should be noted that this was due to the initiatives to combat the Covid-19 pandemic.

What are the goals? Given the strength of Malaysia from its strategic location in East Asia, the diversity of its society and the existing large industrial base (i.e. E&E and palm oil), the Madani Economic Narrative sets the following 7 high-level goals for Malaysia's future economic developments:

1.	Emerge as top 30 largest economy in the world
2.	Be among the top 12 global competitive countries
3.	Rise to top 25 in Human Development Index
4.	Increase labour income to 45% of GDP
5.	Upgrade the Corruption Perception Index to top 25
6.	Strengthen fiscal sustainability by lowering fiscal deficit to 3% of GDP or lower
7.	Promote greater female participation in the labour force to 60%

Providing policy stability by continuing some of the previous development plans. The Madani Economic Narrative reiterates about improving Malaysia's global competitiveness, promotion of green growth, better adoption of digitalization, and continued push to enhance national food security. In other words, this is a continuation of development agenda as outlined in previous development plans, mainly the 12th Malaysia Plan. On top of that, the new roadmap also stresses on strengthening local businesses including micro businesses and the informal sector. Ultimately, Malaysia shall become a more attractive investment destination which will be backed by the reversal of de-industrialization and promotion of greater domestic investment, guided by the New Industrial Master Plan 2030 which will be released next month. To propel the country to greater height, Malaysia must be involved in the ASEAN development by promoting expansion of Malaysian businesses regionally and facilitate greater movement of goods, capital, people and knowledge within the region.

Madani economy aims to revolutionise industries. The New Industrial Master Plan 2030 aims to shift the focus from the primary sector towards higher value-added manufacturing activities, with special mention about E&E and the Chemical sectors. Regarding labour supply, plans are being made to enhance the relationship between TVET and private sectors to shift towards demand-driven education rather than the current conventional supply-driven. Recognizing the importance of direct investments, the MADANI economy highlights the importance of Malaysia's readiness to facilitate both foreign and domestic direct investments by reevaluating investment incentives, improving industrial areas, and solidifying agencies under MIDA. There is also a stress on revolutionizing Islamic Finance to be more sustainable through Malaysia International Islamic Finance Centre (MIFC), focusing more on equity financings like venture capital (VC), crowdfunding, and the Islamic digital economy. Sustainability remained a priority through the National Energy Transition Roadmap (NETR) to accelerate energy transition and mitigate climate change. Other business-related measures that will come include:

- Streamlining investment promotion agencies with a focus on translating approved to realised investments
- Enhancing infrastructure in Industrial Parks with allocation of RM100 million
- Public-private collaboration on TVET through industry participation and curriculum in public TVET institutions
- Reassert Malaysia's world leadership in Islamic Finance innovation and product development, including in areas of waqf and blended financing
- Accelerate adoption of Electric Vehicles by scaling up installation of charging stations on major highways through public-private partnerships and GLCs
- Promote green growth through enhanced tax and non-tax incentives for new growth areas such as Carbon Capture Utilisation & Storage (CCUS)

MSMEs and startups as economic accelerators. The Madani 2023 Budget already listed over 70 initiatives for MSMEs focusing on access and guarantee and financing. In the Madani economy, GLCs and GLICs are seen to continue leading domestic direct investment (DDI) in strategic sectors (like E&E, digital economy and aerospace) and supporting MSMEs. To create more local unicorns, the Securities Commission will develop the Financial Market Reform Policy by facilitating the investment process for retail investors, attracting more investors to invest in MSMEs and new growth activities, and improving the competitiveness of the capital market at the international level. Some of the initiatives highlighted include:

- RM400m allocation for micro-financing funds via agencies, including TEKUN, MARA and TERAJU
- Spur local Venture Capital ecosystem, by earmarking RM1 billion of Government & GLIC funds as matching funds with private sector funds for startups
- Refreshing investment incentives to better target quality investments particularly linked to creation of higher income and skilled jobs in addition to domestic linkages to local SMEs
- Expanding programs like Corporate Hackathon dan MYHackathon under *Pelan Hala Tuju Ekosistem Startup Malaysia* (SUPER) 2021-2030
- Extra RM20m for MATRADE for *Program Pembangunan Syarikat Pertengahan and Geran Pembangunan Pasaran*

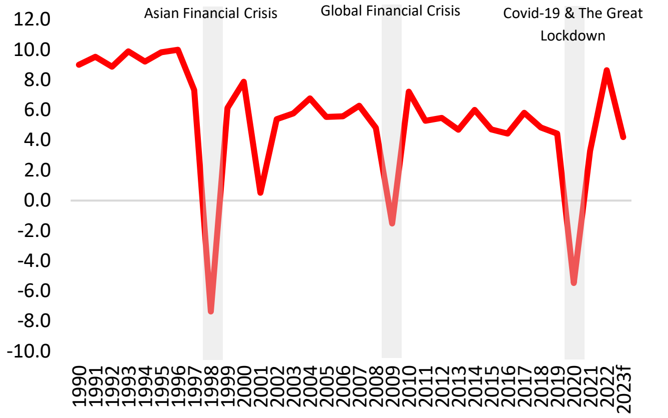
Positive for social development and empowering the rakyat. The document also touches about the importance to ensure growth will improve the livelihood of the rakyat, including the protecting the welfare among B40 and M40 groups. The Madani Economy roadmap introduces three key pillars in social protection programs: (i) prevention through social insurance, (ii) promotion of sustainable retirement savings, and (iii) assistance through social aid initiatives. Among the key initiatives is offering e-cash credits to specific groups or eligible individuals, such as the eBelia Rahmah programme in Budget 2023, which will provide financial support as well as reducing the burden from rising cost of living. Additionally, the government prioritizes retirement schemes to protect the gig workers, which mostly concentrated with the youth, and also reassess retirement adequacy among workers. These initiatives are set to secure a future for all. The social insurance schemes have been strenghtened to provide a safety net during times of economic uncertainty while upskilling training and education opportunities are provided to empower individuals to thrive in a rapidly evolving job market. Moreover, recognizing the importance of senior citizens, the special cash aid has been introduced to support retirees in their golden years. Other social-related programmes that will be rolled out include:

- Commitment to gradually increase wages, including minimum wage review in line with economic development and productivity (i.e. progressive wage system)
- Expand mandatory coverage coverage of social protection (EPF & SOCSO) for contract employment and informal sector
- Expansion of *Skim Perubatan Madani* to all states in Malaysia with high density population
- Support for homebuyers: enhancement to the SKJP scheme through a guarantee up to 120% of home value for homes up to RM300,000

Commitment towards fiscal sustainability. The government indicates the continued commitment to improve its fiscal position as well as the importance of improving public services. Apart from reiterating the commitment to reduce fiscal deficit to 3% of GDP or lower over time, the Madani economy will look at improving subsidy management including introduction of targeted subsidy scheme. From fiscal sustainability, the subsidy rationalization will ease fiscal burden and most importantly making sure all subsidies are directed to those who are in need. Although the government will carry out fiscal reforms that will look at the overall management of fiscal spending, sources of fiscal revenue and addressing issues surround public debt management, the government clearly emphasizes that the priority will be given towards providing necessary supports and assistance to the rakyat who face challenges from rising cost of living. In terms of upholding integrity and fighting corruption, the government aims to improve the country's Corruption Perception Index to be among the top 25 in the world. This is a challenging task, considering Malaysia was ranked 61st in 2022.

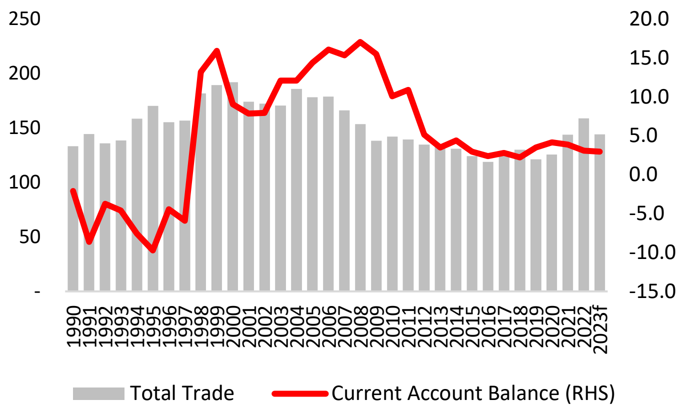
Scarce on details – expect more to come. At the moment, the Madani narrative on provides high-level targets, and we expect more details will be unveiled by each ministry. For now, the impact on government's fiscal position cannot be fully measured until all initiatives are revealed. However, we believe improvements in fiscal space this year on the back of sustained economic growth will allow government to finance the initiatives that have been announced in the Madani Economic Narratives such as allowance for civil servants and e-tunai credit. We opine the document sets a clear goals and targets for the country, and if it is done right Malaysia's growth potential could be higher than the average growth of +4.7% since 1998. We expect announcement of other developments plans, including the mid-term review of 12MP, New Industrial Master Plan 2030, and the upcoming Budget 2024 will assimilate the same aspirations and targets as outlined in the Madani economic roadmap.

Chart 1: Real GDP Growth (YoY%)



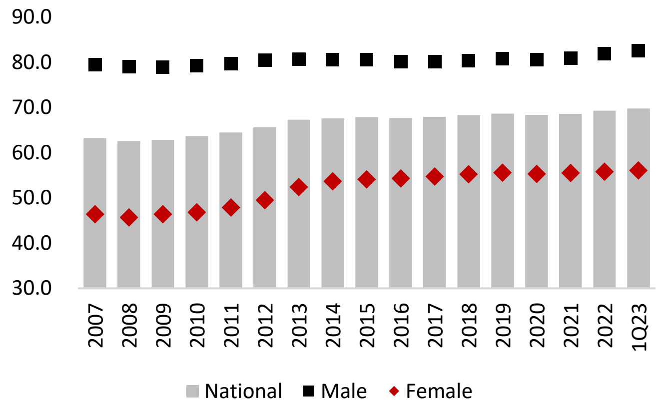
Source: Macrobond, DOSM, MIDFR

Chart 2: Total Trade & Current Acct. Balance as % of GDP



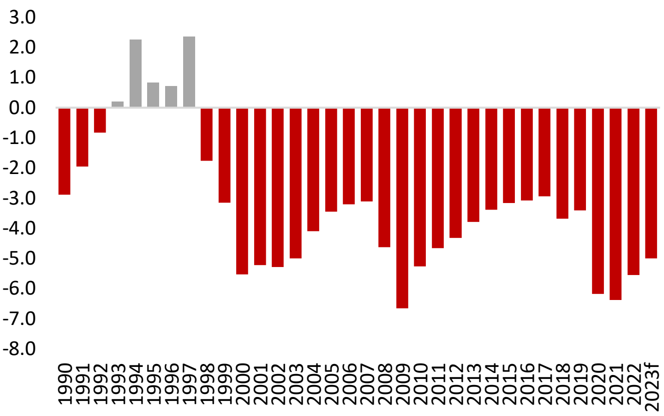
Source: Macrobond, DOSM, MIDFR

Chart 3: Labour Force Participation Rate (%)



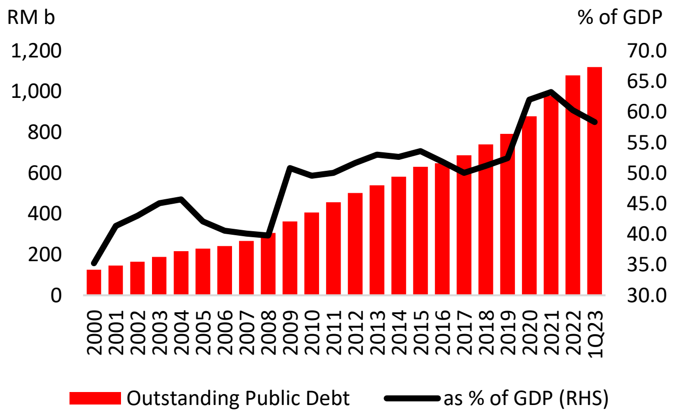
Source: Macrobond, DOSM, MIDFR

Chart 4: Fiscal Deficit as % of GDP



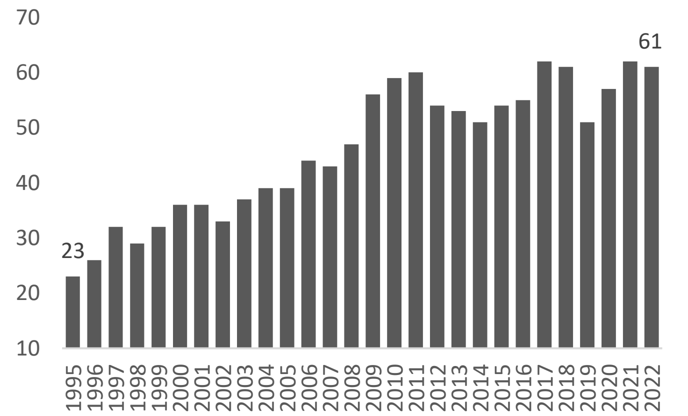
Source: Macrobond, MIDFR

Chart 5: Outstanding Public Debt in value and % of GDP



Source: Macrobond, MIDFR

Chart 6: Corruption Perception Index: Malaysia's Ranking



Source: Macrobond, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology