

# Budget 2018

---

Dato' Charon Mokhzani

2 November 2017

Sesi Forum Pasca Bajet Negara 2018

INTAN

# Contents

---

Economic Outlook

---

The Budget in Context

---

Addressing Pressing Issues of the Nation

---

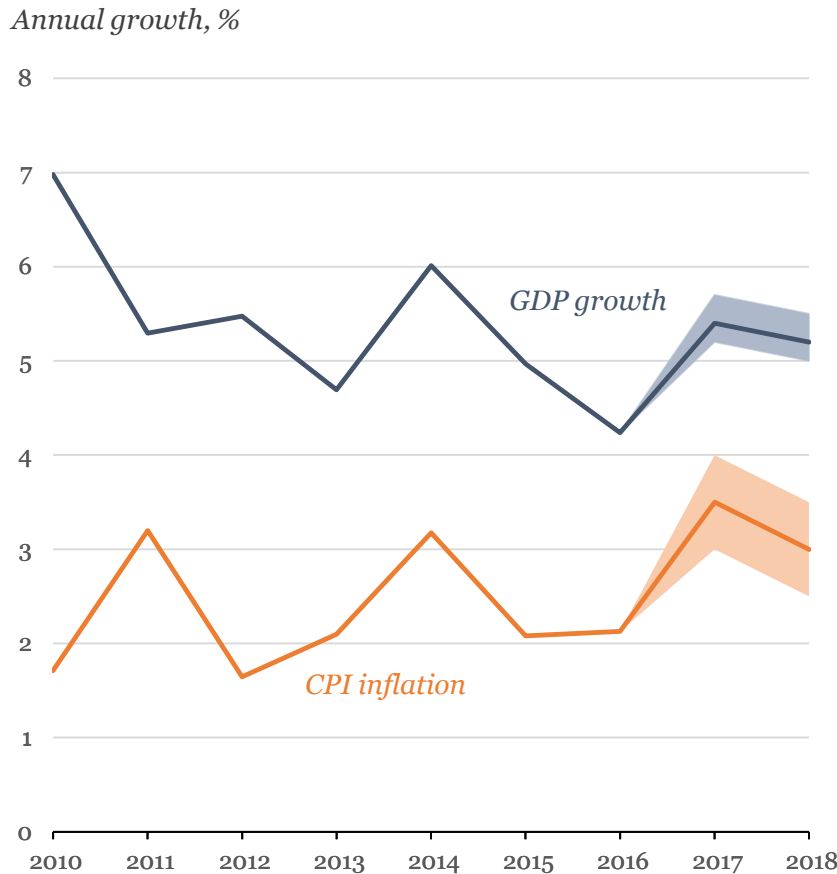
Appendix

---

# Economic Outlook

# 5.2%, 3.0%, 3.3% in 2018

## Economic growth and inflation



Sources: DOS and MOF Economic Report 2017/2018

### **Malaysian macroeconomic outlook is positive, with GDP growth expected to remain above 5%**

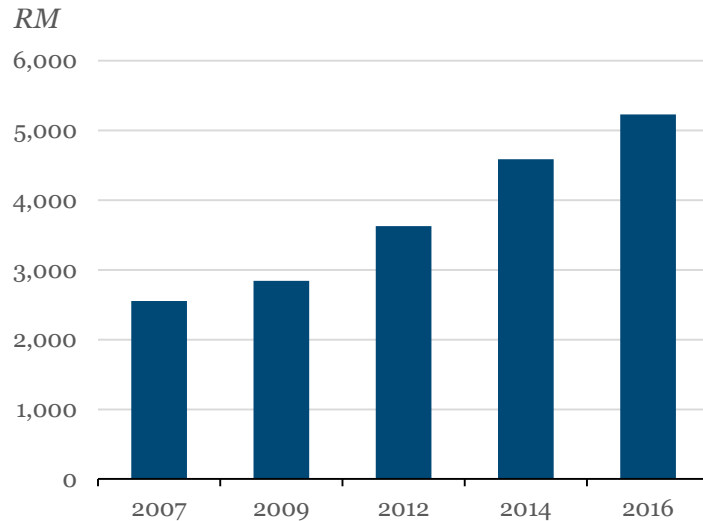
- Growth anchored by private sector activity and improvement in global demand
- In comparison, IMF expects global growth to be 3.7% and EMEs 4.9%
- Inflation is relatively low and stable
- Near full employment; Unemployment expected to be at 3.3% in 2018

### **Some room for upsides**

- The Budget assumes crude oil prices of \$52 per barrel. Current oil price is above \$60 per barrel

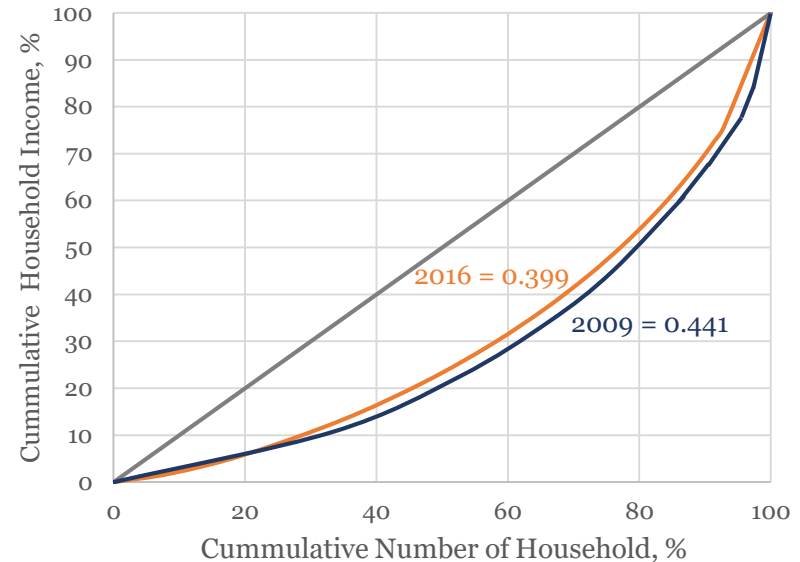
# Households are better off

Median monthly household income



Source: DOS (2017)

Lorenz Curve, 2009 vs 2016



## Households economic conditions continue to improve

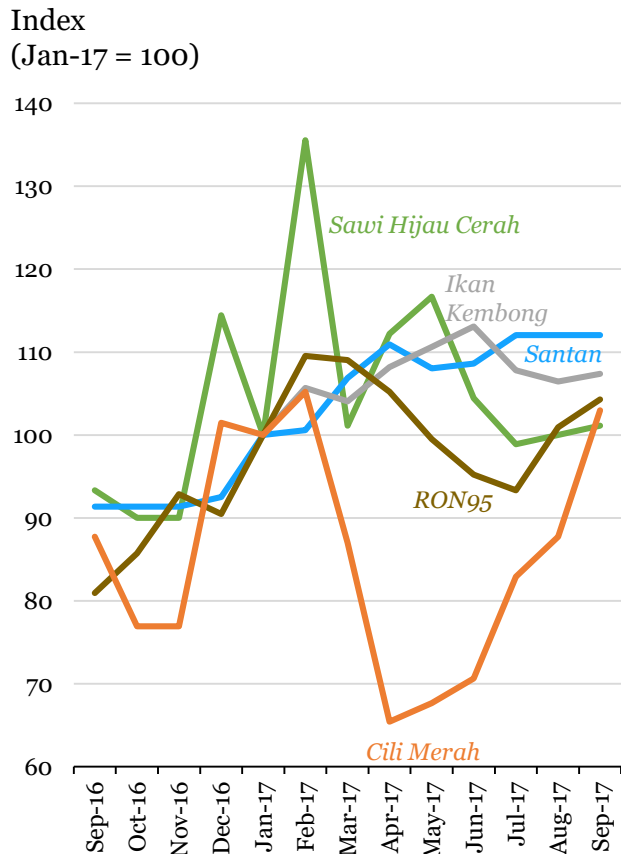
- Median income in 2016 is RM5,228, growing almost 7% per year since 2014
- Incidence of poverty is 0.4%

## Income inequality declined further

- Gini coefficient now at the lowest it has ever been
- This is still relatively high by international standards; for example, OECD average is 0.318

# But sentiments on the ground remain somewhat negative

Price movement of some common household items



Sept 16/17 % change in price

	<b>Ikan Kembong</b>	15.6%
	<b>Sawi</b>	15.4%
	<b>Cili Merah</b>	12.8%
	<b>Santan</b>	19.2%
	<b>RON95</b>	28.8%

## Households' economic sentiments, despite improving, remains somewhat negative

- For example, MIER consumer sentiment index continue to be below 100pts

## Volatile prices for some common household items

- Some items saw substantial increase in prices compared to a year ago
- This could have contributed to the negative perception

## At the same time, other basic items went through milder price changes

- Chicken prices went down by 2%, whilst rice went up by 0.6%

Sources: FAMA and LKIM

Notes:

- 1) Food price inflation between Sept 2016 and Sept 2017 was 4.6%
- 2) The prices are all national average retail prices by FAMA and LKIM

Source: DOS (2017)

# The Budget in Context

# The Budget is more than a speech

---

The Budget is more than a list of measures announced during the speech

MEASURES ANNOUNCED  
DURING THE SPEECH

---

ACTUAL SIZE OF BUDGET  
2018

---

Roughly ~  
**RM70 billion** vs **RM280 billion**

Only about 1/4 of the entire Budget 2018



# The actual Budget in brief

	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	
Revenue (RM million)	212,421	225,337	239,860	Increase in <b>operating expenditure</b>
Operating expenditure (RM million)	210,173	219,910	234,250	
Net development expenditure (RM million)	41,995	45,962	46,000	Development <b>expenditure</b> largely flat
Overall balance (RM million)	-39,747	-40,535	-40,390	
Share of GDP (%)	-3.1	-3	-2.8	

Source: Ministry of Finance

... Balanced budget (~ below - 2%) by 2020?

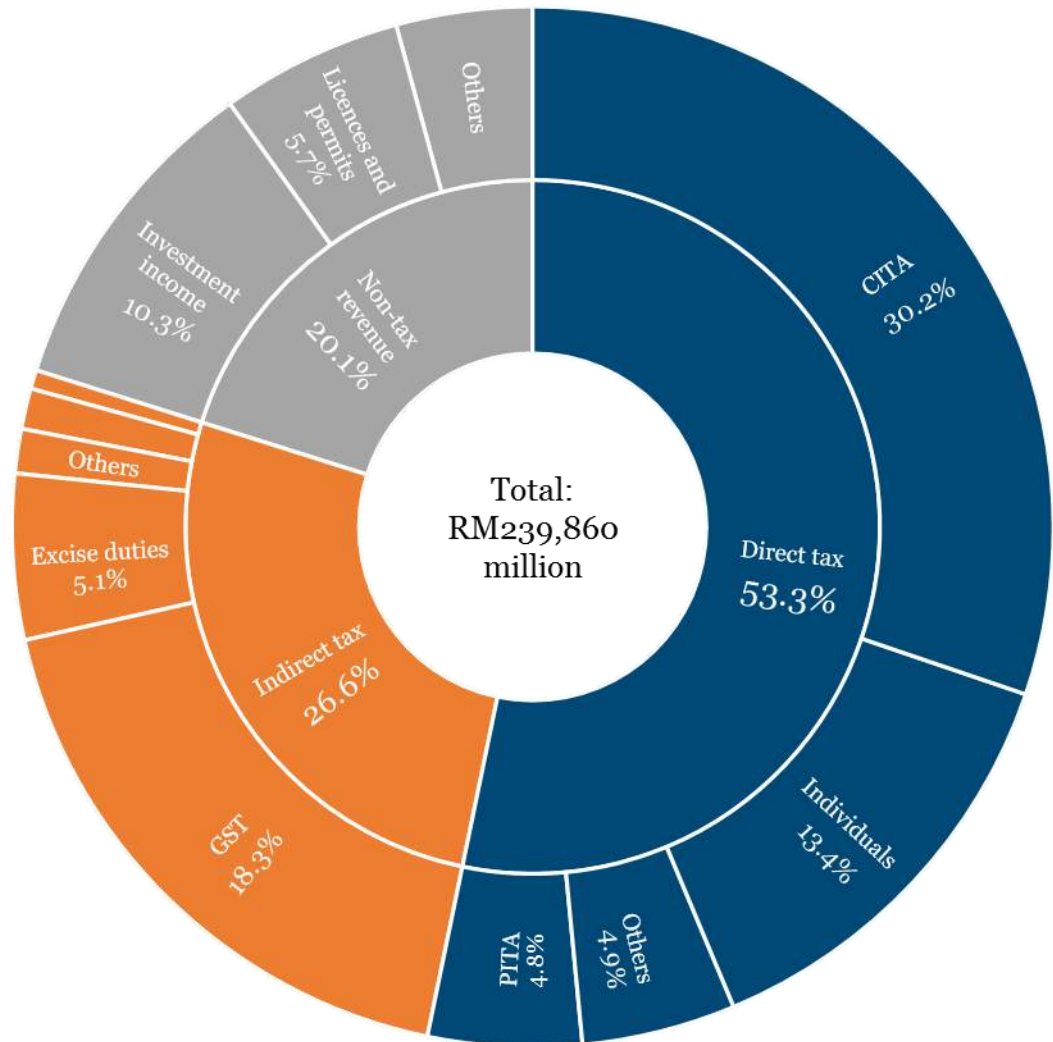
# Sources of revenue

## Composition of sources remain relatively unchanged from previous years

- Income tax from companies remains the largest source
- Share of income tax from individuals have increased slightly; there are approximately 1 – 2 million taxpayers out of 14 million workers

## Notably, GST as both percentage of total revenue and GDP are forecasted to decline

- From 19.4% in 2016 to 18.3% in 2018, as share of revenue
- From 3.6% in 2016 to 3.4% in 2018, as percentage of GDP



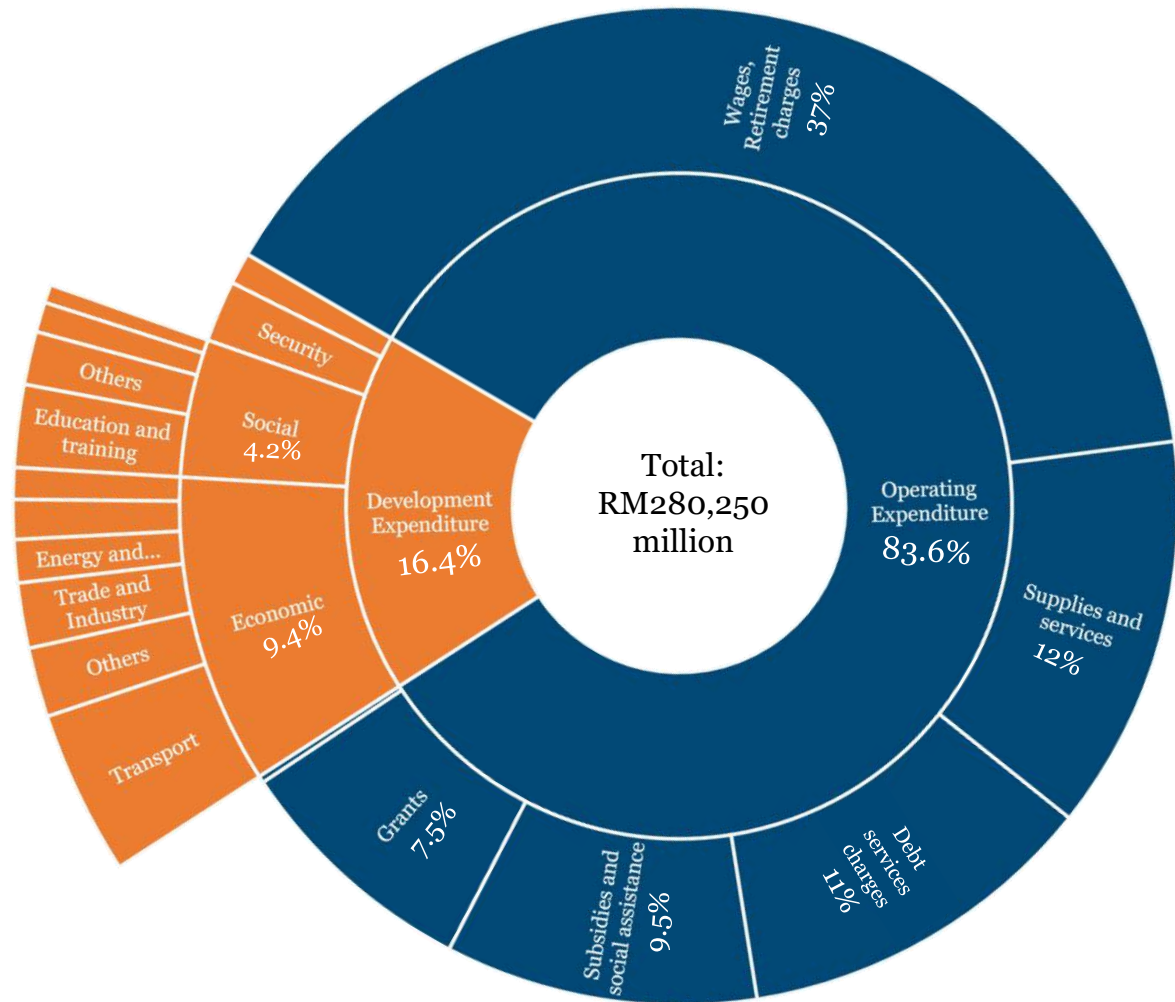
Source: Ministry of Finance

Note: CITA stands for companies income tax, PITA stands for petroleum income tax. All percentages are expressed as a share of total government revenues

# Expenditure breakdown

## Salaries for public sector is the largest expenditure component

- More than 1/3 of the total Budget
- More than 2x the total development expenditure



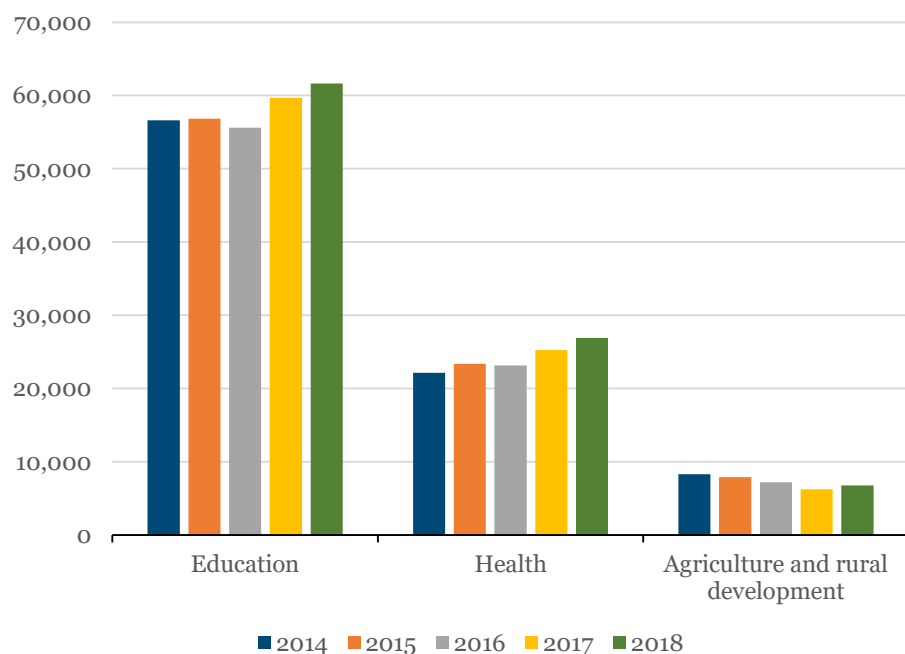
Source: Ministry of Finance

Note: All percentages are expressed as a share of total government expenditure

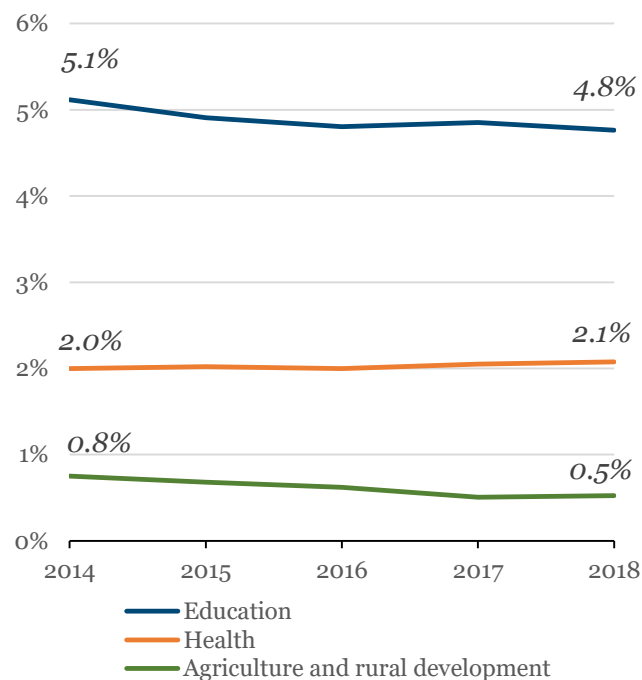
# Some observations on spending

- The education, health, and agriculture & rural development sectors (for both operating and developing expenditures) collectively add up to **one-third** of the Budget (RM95b)
- As a percentage of GDP, both education and agriculture & rural development are trending down, but health is increasing marginally

RM million



Share of GDP, %



Source: Ministry of Finance, KRI staff calculations

Note: Levels for expenditure in all three sectors are government operating and development expenditures for those respective sectors combined.

# Addressing Pressing Issues of the Nation

# Making housing affordable

---

## **Houses are expensive relative to household income**

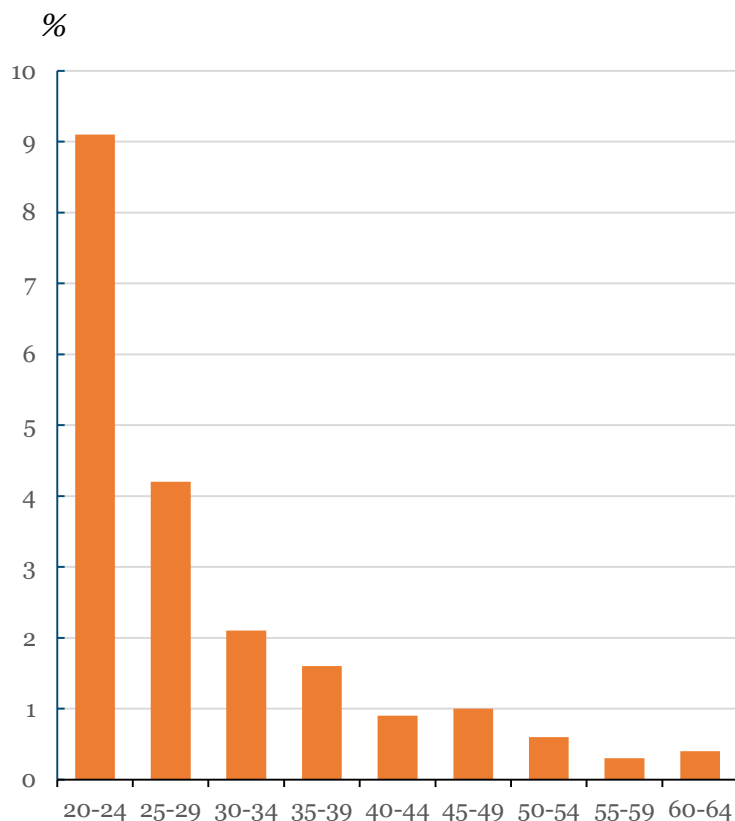
- The median multiple affordability for Malaysia was 4.40 in 2014, which indicates that its housing market is “seriously unaffordable”

## **Measures in the budget focused on the provision of affordable housing but more must be done**

- Residential Rental Act is a good start to formalize the rental housing market
- Current focus is mostly on demand side interventions e.g. making house financing more accessible, increased allocation for affordable housing schemes
- More supply side intervention is needed. For 2018, the promotion for IBS utilization in the construction sector is limited to the development of schools and hospitals. More is needed to boost construction productivity in the residential property sector
- Integrated database is needed to improve information gap on housing demand

# Tackling youth unemployment

Unemployment rate by age group, 2016



Source: DOS

**Unemployment amongst youth is one of the more pressing concerns of our economy. Measures in the Budget to address this issue are very welcome:**

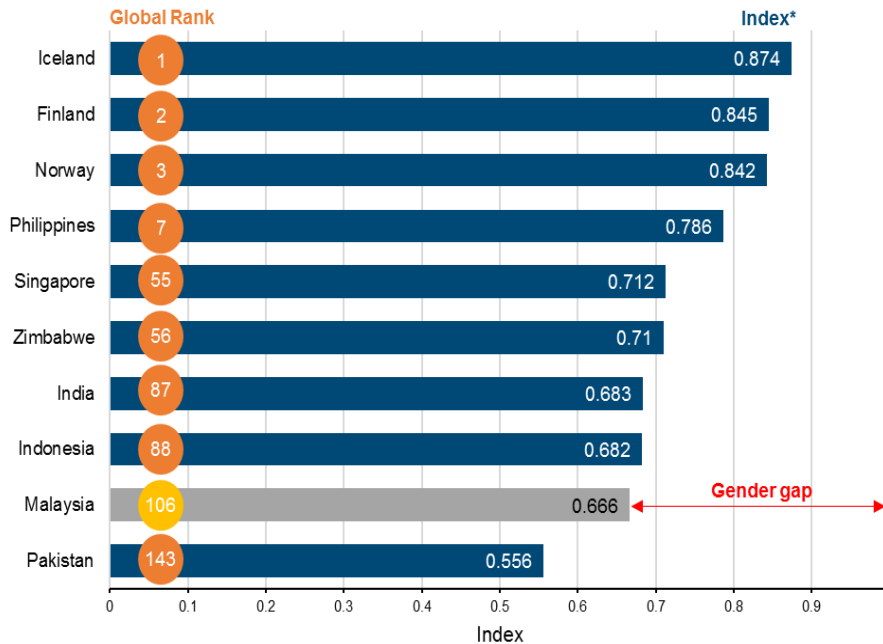
- Institutional arrangements to reducing search frictions in the labour market for youth under TalentCorp and other agencies
- Training schemes such as SL1M would provide more employment opportunity
- Master Plan of TVET to further provide blue-collar job opportunities as well as pursue further education

**Further policy focus on youth unemployment in the future is vital**

# Empowering women

## Malaysia ranks poorly in gender equality

Country Rankings and Global Gender Gap Index, 2016



Source: World Economic Forum The Global Gender Gap Report 2016

## There's significant room for improvement in enhancing the role of women in the economy

- Women's labour force participation rate stood at 54% compared to 80% for men in 2016
- 60% of women who stayed out of the labour force did so due to housework

## The Budget introduced some good measures to address these issues

- Childcare facilities in office buildings
- Tax exemption for women who return to the labour force

## Going forward, efforts to empower women should also involve reexamination of potential unintended gender bias in the labour market

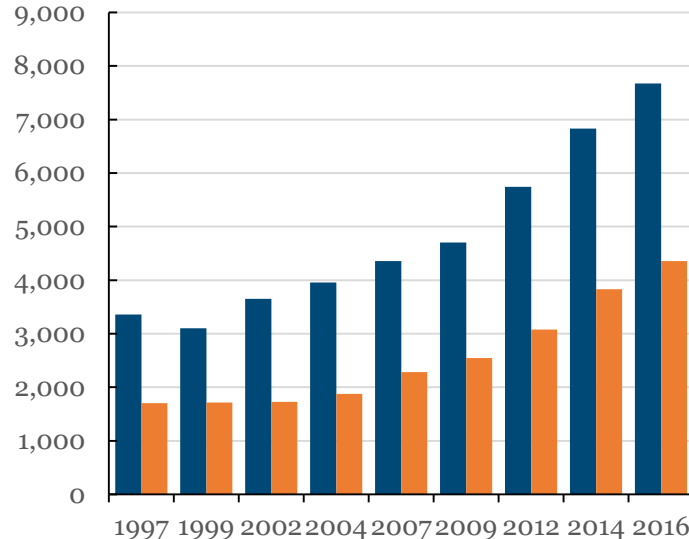
- Paternity leaves?
- More flexible working arrangements



# Enhancing rural income

## The urban-rural income divide

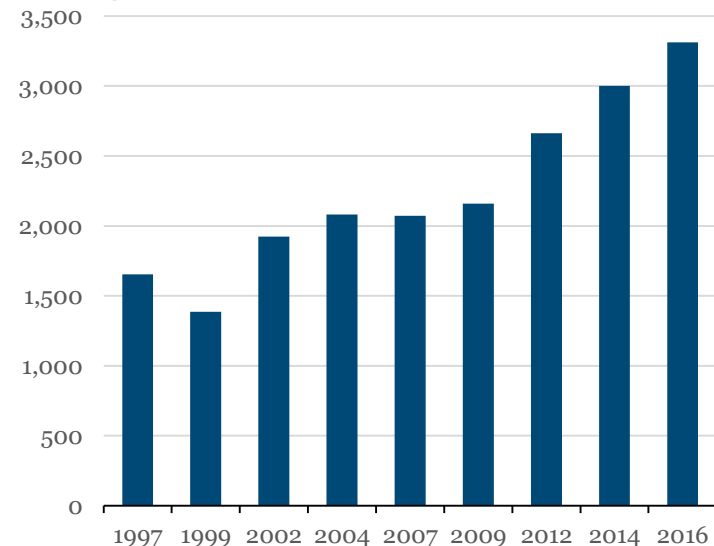
*Mean monthly gross income (RM)*



Source: DOS

■ Urban ■ Rural

*Absolute difference in monthly income (RM)*



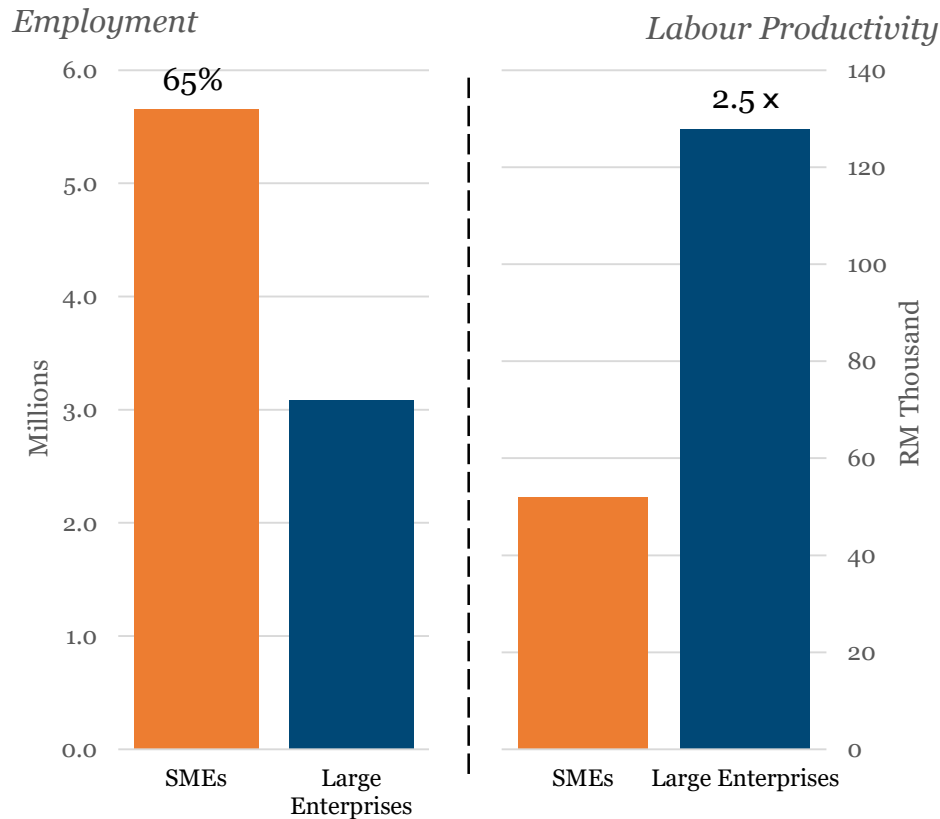
### **The gap between urban and rural household income has continued to increase**

- Measures in the Budget in supporting agriculture and rural development could help ameliorate this. These include:
  - Financial assistance to paddy farmers, rubber smallholders and fisherman (RM2.3b)
  - Financial assistance of RM200 per month for three months while waiting for harvest system
  - Coconut replantation from CARECA and MATAG breed (RM50m)

**Continued effort going forward to reduce the divide is essential to ensure a more balanced and inclusive development for the nation**

# Readying firms for the future

## SMEs versus Large Enterprises



**The Budget's focus on helping firms, especially SMEs, in readying themselves for the future is essential**

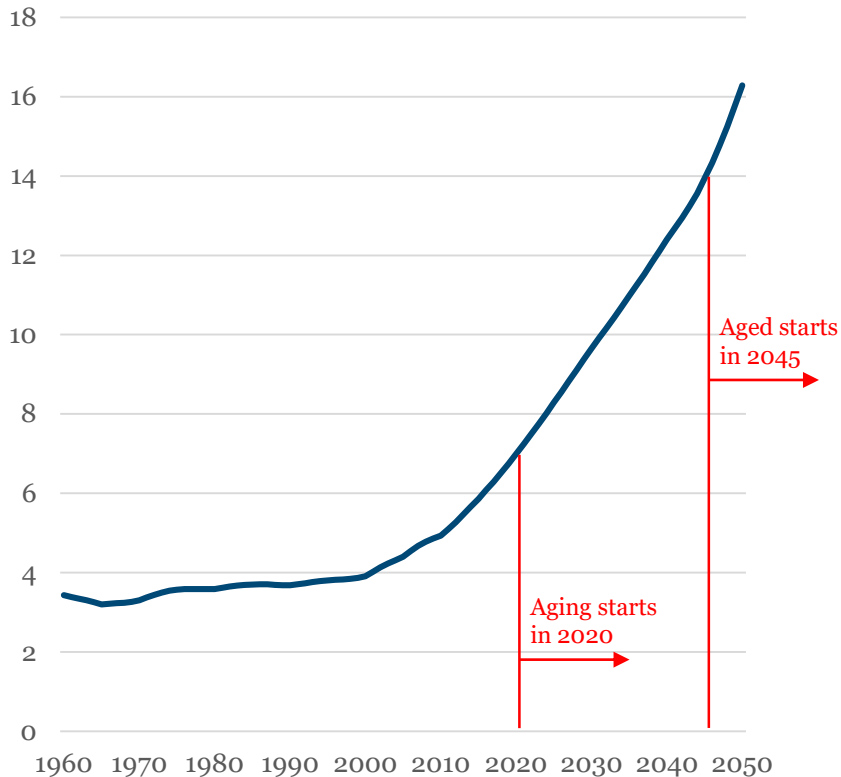
- SMEs employ 65% of all workers, but labour productivity is only 40% of large enterprises

**Rapid technological change could drastically alter the economic landscape of our economy, including in the future of work. Continued focus on this is critical**

# Preparing for an ageing society

## Malaysian population above 65 year-old

*% of total population*



**Malaysia is aging fast. This will significantly alter our society and economy**

- We will be an aging nation starting 2020, an aged nation in 2045

**The Budget touched on some key issues. More needs to be done going forward**

- Adapting to a greying workforce
- Increasing pressure on pension
- Cost and access to health and care services

**How can we ensure all Malaysians can “grow old with security and dignity” and that they can continue to participate in the economy and society meaningfully?**

# Appendix

# Government Revenue Breakdown

**Table 4.2. Federal Government Revenue  
2016 – 2018**

	RM million			Change (%)			Share (%)		
	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>
<b>Tax revenue</b>	<b>169,343</b>	<b>180,194</b>	<b>191,569</b>	<b>2.4</b>	<b>6.4</b>	<b>6.3</b>	<b>79.7</b>	<b>80.0</b>	<b>79.9</b>
Direct tax	109,608	119,699	127,713	-1.9	9.2	6.7	51.6	53.1	53.3
<i>of which:</i>									
CITA	63,625	67,822	72,475	-0.1	6.6	6.9	30.0	30.1	30.2
Individuals	27,566	30,089	32,234	4.7	9.2	7.1	13.0	13.4	13.4
PITA	8,422	10,937	11,445	-27.1	29.9	4.6	4.0	4.9	4.8
Indirect tax	59,735	60,495	63,856	11.3	1.3	5.6	28.1	26.9	26.6
<i>of which:</i>									
GST	41,206	41,500	43,800	52.5	0.7	5.5	19.4	18.4	18.3
Excise duties	11,705	11,806	12,334	-1.6	0.9	4.5	5.5	5.2	5.1
Import duty	2,905	3,008	3,022	6.3	3.5	0.5	1.4	1.3	1.3
Export duty	980	1,222	1,400	-5.7	24.7	14.6	0.5	0.5	0.6
<b>Non-tax revenue</b>	<b>43,078</b>	<b>45,143</b>	<b>48,291</b>	<b>-19.7</b>	<b>4.8</b>	<b>7.0</b>	<b>20.3</b>	<b>20.0</b>	<b>20.1</b>
<i>of which:</i>									
Licences and permits	12,307	12,747	13,560	-1.9	3.6	6.4	5.8	5.7	5.7
Investment income	21,425	22,665	24,588	-34.8	5.8	8.5	10.1	10.1	10.3
<b>Total revenue</b>	<b>212,421</b>	<b>225,337</b>	<b>239,860</b>	<b>-3.0</b>	<b>6.1</b>	<b>6.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Share of GDP (%)</b>	<b>17.3</b>	<b>16.8</b>	<b>16.6</b>						

<sup>1</sup> Revised estimate.

<sup>2</sup> Budget estimate, excluding 2018 tax measures.

Source: Ministry of Finance, Malaysia.

# Operating Expenditure Breakdown

**Table 4.3. Federal Government Operating Expenditure by Object  
2016 – 2018**

	RM million			Change (%)			Share (%)		
	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>
Emoluments	73,108	78,801	79,149	4.4	7.8	0.4	34.8	35.8	33.8
Retirement charges	21,029	23,648	24,550	11.4	12.5	3.8	10.0	10.8	10.5
Debt service charges	26,480	28,866	30,882	9.0	9.0	7.0	12.6	13.1	13.2
Grants and transfers to state governments	6,942	8,058	8,023	0.3	16.1	-0.4	3.3	3.7	3.4
Supplies and services	30,070	32,642	33,621	-17.3	8.6	3.0	14.3	14.8	14.4
Subsidies and social assistance	24,690	23,085	26,544	-9.5	-6.5	15.0	11.7	10.5	11.3
Asset acquisition	676	698	577	-60.8	3.3	-17.3	0.3	0.3	0.2
Refunds and write-offs	799	802	888	-15.6	0.4	10.7	0.4	0.4	0.4
Grants to statutory bodies	13,557	13,449	13,099	-12.5	-0.8	-2.6	6.5	6.1	5.6
Others	12,822	9,861	16,917	-14.9	-23.1	71.6	6.1	4.5	7.2
<b>Total</b>	<b>210,173</b>	<b>219,910</b>	<b>234,250</b>	<b>-3.1</b>	<b>4.6</b>	<b>6.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Share of GDP (%)</b>	<b>17.1</b>	<b>16.4</b>	<b>16.2</b>						

<sup>1</sup> Revised estimate.

<sup>2</sup> Budget estimate, excluding 2018 Budget measures.

Source: Ministry of Finance, Malaysia.

Taken from: Economic Report 2017/2018, page 83

# Development Expenditure Breakdown

**Table 4.4. Federal Government Development Expenditure by Sector  
2016 – 2018**

	RM million			Change (%)			Share (%)		
	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>	2016	2017 <sup>1</sup>	2018 <sup>2</sup>
<b>Economic</b>	25,113	25,897	26,342	7.8	3.1	1.7	59.8	56.3	57.3
<i>of which:</i>									
Transport	7,827	10,749	10,479	16.9	37.3	-2.5	18.6	23.4	22.8
Trade and industry	4,841	4,830	4,149	-14.1	-0.2	-14.1	11.5	10.5	9.0
Energy and public utilities	2,927	2,514	2,746	-19.5	-14.1	9.2	7.0	5.5	6.0
Agriculture and rural development	2,902	2,416	2,523	-6.5	-16.7	4.4	6.9	5.3	5.5
Environment	2,346	2,197	2,013	76.3	-6.4	-8.4	5.6	4.8	4.4
<b>Social</b>	10,429	12,119	11,720	-6.6	16.2	-3.3	24.8	26.4	25.5
<i>of which:</i>									
Education and training	3,727	5,904	5,256	-21.7	58.4	-11.0	8.9	12.8	11.4
Housing	2,238	870	1,167	11.5	-61.1	34.1	5.3	1.9	2.5
Health	1,495	1,532	1,910	3.7	2.5	24.7	3.6	3.3	4.2
<b>Security</b>	4,832	5,286	5,214	1.6	9.4	-1.4	11.5	11.5	11.3
<b>General administration</b>	1,621	2,660	2,724	3.4	64.1	2.4	3.9	5.8	5.9
<b>Total</b>	41,995	45,962	46,000	3.0	9.4	0.1	100.0	100.0	100.0
<b>Share of GDP (%)</b>	3.4	3.4	3.2						

<sup>1</sup> Revised estimate.

<sup>2</sup> Budget estimate, excluding 2018 Budget measures.

Source: Ministry of Finance, Malaysia.

# Operating Expenditure by Sector

Federal Government Operating Expenditure by Sector	2014		2015		2016		2017 <sup>1</sup>		2018 <sup>2</sup>	
	RM million	YoY % Change	RM million	YoY % Change	RM million	YoY % Change	RM million	YoY % Change	RM million	YoY % Change
<b>Economic</b>										
Agriculture and rural development	5,414	<i>n/a</i>	4,777	-11.8	4,286	-10.3	3,823	-10.8	4,247	11.1
Energy and public utilities	125	<i>n/a</i>	246	96.8	119	-51.6	99	-16.8	329	232.3
Trade and industry	6,689	<i>n/a</i>	6,865	2.6	5,466	-20.4	3,194	-41.6	6,243	95.5
Transport	5,355	<i>n/a</i>	5,518	3.0	6,128	11.1	6,516	6.3	6,563	0.7
Communications	77	<i>n/a</i>	140	81.8	93	-33.6	98	5.4	102	4.1
Environment	118	<i>n/a</i>	134	13.6	130	-3.0	94	-27.7	132	40.4
Others	1,531	<i>n/a</i>	2,477	61.8	2,639	6.5	2,816	6.7	2,878	2.2
<b>Social</b>										
Education and training	51,699	<i>n/a</i>	52,059	0.7	51,887	-0.3	53,770	3.6	56,385	4.9
Health	20,735	<i>n/a</i>	21,924	5.7	21,632	-1.3	23,700	9.6	24,975	5.4
Housing	771	<i>n/a</i>	717	-7.0	654	-8.8	722	10.4	36	-95.0
Others	8,359	<i>n/a</i>	8,767	4.9	7,716	-12.0	8,923	15.6	8,523	-4.5

Source: Ministry of Finance

<sup>1</sup> Revised Estimate<sup>2</sup> Budget Estimate