Budget 2020:
Market implications and investment strategy

Highlights

- The Budget 2020 is focussed on sustaining economic activities with introduction of various investment incentives, especially for the manufacturing and technology sectors. It is also an inclusive budget with measures targeted at the lower income (B40) group.

Table 1: Summary of macro data

	2020f	2019e	2018
GDP (%)	4.8	4.7	4.7
Budget deficit (% of GDP)	3.2	3.4	3.7
Revenue (RM bn)	244.5	263.3	232.9
Operating expenditure (RM bn)	241.0	262.3	231.0
Net development expenditure (RM bn)	55.2	52.8	56.1

Source: Ministry of Finance, 2019, f – forecast, e - estimate

- Budget deficit as a percentage of GDP is expected to be moderately lower in 2019 and 2020 at 3.4% and 3.2% respectively compared with 3.7% in 2018.

- GDP in 2020 projected to grow at 4.8% versus 4.7% over 2018-19. The more balanced growth profile in 2020 would set the stage for 2021 economic activities and beyond.

- The pro-business budget proposals are expected to have a long-term positive to neutral impact on most of the major sectors within the economy.

Table 2: Equity and Fixed Income implications

Sectors	Budget proposals	Implications	Comments
Construction	Restarting of some projects	Neutral	Relaunched of JB-Singapore RTS and Bandar Malaysia. Nevertheless, focus on rural infrastructure and hospitals will be a boost to smaller contractors.
Consumer	Minimum wage, toll reduction & fuel subsidy	Positive	Rise in minimum wage in major cities to RM1,200, continuation of Bantuan Sara Hidup, reduction in toll charges and implementation direct fuel subsidy will be a boost to the B40 group
Oil & Gas	No special dividend from Petronas	Positive	Petronas to maintain its dividend pay-out of RM24bn to the government in 2020. It is expected that Petronas will be able to ramp up its capex which will benefit the oil & gas service providers.

Property	Lower threshold for foreign buyers	Positive	Lower the floor price for purchase of high-rise residential property by foreigners from RM600k to RM1m which will help to alleviate property oversupply. Real Property Gains Tax will also be indirectly lowered as the deemed purchase price for properties acquired prior to 2013 will be fixed at the market value in 2013.
Manufacturing/ Technology	Tax incentives for reinvestment and automation	Positive	Foreign and domestic investments is expected to be boosted by tax incentives to promote high-value added activities in the Electrical and Electronic sector to transition into 5G digital economy and Industry 4.0.

Source: Ministry of Finance, 2019. Principal Asset Management, Oct 2019

Conclusion

- We view Budget 2020 positively as the government focuses on reinventing Malaysia in the digital space over the medium term by attracting foreign and domestic investments. Various tax incentives have been proposed to attract these investments which are expected to create high-paying jobs.

- The government is also focusing on the need for shared prosperity to narrow the income disparity. Measures proposed to alleviate high cost of living especially among the B40 group will be a boost to consumer sentiment.

- The budget is viewed to be largely neutral ratings. Both Rating Agency of Malaysia and Standard & Poor have reiterated that Malaysia's sovereign rating should remain unchanged at gA2/stable and A-/stable respectively.

- The stable outlook assigned to Malaysia's sovereign rating indicates that we are unlikely to see any adverse rating action within the next two years as Malaysia remains committed to the path of fiscal consolidation over the medium term.

- We believe the immediate impact to the equity market to be neutral given the growth challenges in the global economy as well as time needed for implementation of these medium-term growth initiatives.

- We recommend investors to maintain a globally diversified portfolio with focus on income and dividend. The recommended asset allocation is 50:50 for equity and fixed income.