Malaysia Budget 2024: On the Right Track

16 October 2023

Overview[1]

The Prime Minister and Finance Minister, YAB Dato' Seri Anwar bin Ibrahim tabled Malaysia's largest ever budget of RM394 billion for 2024, which was 2% higher than the previous year's RM386 billion.

An amount of RM90 billion was allocated for development expenditure compared to RM97 billion for 2023, but the latter included a 1MDB debt repayment of US$3 billion. The larger budget will be funded by higher tax receipts, partly through the hike in Sales & Service Tax (SST) from 6% to 8% and other forms of new taxes, as the government reduces dependence on Petronas dividends from RM40 billion to RM32 billion for 2024, with lower subsidies and an increase in borrowings.[2]

Reducing risk & strengthening growth[1]

Budget 2024 demonstrates policy continuity and much needed fiscal reforms. Ambitions to restructure the economy to position Malaysia as an investment destination were also clear. It has three key pillars:

1. Good governance for service agility;
2. Restructuring the economy to boost growth, building on the National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030) and the 12th Malaysia Plan (12MP); and
3. Raising the Rakyat's standard of living.

The government maintains its gradual fiscal consolidation path, with the fiscal deficit improving from a projected 5% in 2023 to 4.3% in 2024. It sets out a series of targets to be met within 3 to 5 years which include achieving a fiscal deficit of 3% of Gross Domestic Product (GDP) by 2026 and capping federal debt and government guarantees at 60% and 25% of GDP respectively.

Bank Negara Malaysia (BNM) projects Malaysia's GDP growth to range between 4% to 5% for 2024 versus 4% for 2023, driven by sustained domestic demand and a recovery in exports. The central bank projects inflation to range between 2.1% to 3.6% (against 2.5% to 3.0% for 2023), and for the unemployment rate to improve further to 3.4%.[2]

Asset class implications[1]

Equities:

We remain hopeful on the prospects of valuation upside as the risk premium narrows on the back of improved policy clarity and the country's fiscal condition. We remain constructive on sectors that stand to gain from the NETR, especially the Utilities, Construction and Property sectors. We have also turned more optimistic on the Financial sector, fuelled by a better earnings outlook. We also like selective Technology stocks that benefit from ongoing structural shifts.

Consumer, Tourism, Construction and Utilities sectors are seen as key beneficiaries of Budget 2024. The absence of punitive measures on the listed market such as Prosperity Tax (*Cukai Makmur*), capital gains tax, and higher gaming taxes are welcome news. The 8% SST on brokerage should have minimal impacts on trading volume and cost. Banks should also benefit from the absence of further loan assistance, an acceleration in development spending & investment, and higher consumption. The Property sector could benefit from relaxation of the Malaysia My Second Home (MM2H) conditions.[2]

Fixed Income:

We believe the government bond yield curve will see some steepening following government plans to refinance some of the outstanding short-term bills with Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII). The move will see total gross issuances of MGS and MGII for 2023 increasing to RM186 billion from a prior forecast gross issuance of RM175 billion. Nevertheless, we do expect the domestic fixed income market to be able to absorb the additional supply in view of the ample liquidity locally.

As for 2024, we are projecting lower MGS and MGII gross issuances of RM178 billion, comprising the fiscal deficit of RM85.4 billion and maturities of RM93 billion in 2024. The smaller issuance in 2024 will help keep bond yields supported, taking into consideration that the interest rate will be maintained at 3.00% with GDP growth to range between 4% to 5% in 2024 despite the government forecasting inflation to range between 2.1% to 3.6% for 2024 following the rationalisation in subsidies and hike in service tax.[2]

Recommendations[1]

We believe the **Principal Lifetime Bond Fund** and **Principal Islamic Lifetime Sukuk Fund** would potentially benefit from the government's commitment to narrow its fiscal deficit to 4.3% of GDP in 2024 and 3% in the medium-term, from the estimate of 5% for 2023.[2]

The projected improvement in fiscal position over the medium-term would enhance the attractiveness of the domestic bond market. In addition, the improvement in market sentiments and launch of the NETR and NIMP 2030 has reinforced Malaysia's economic growth and corporate earnings outlook.[2]

Our recommended equity exposure is the **Principal Islamic Small Cap Opportunities Fund** and the **Principal Malaysia Enhanced Opportunities Fund.**

Source:
[1] Principal view as of 16 October 2023
[2] Ministry of Finance (MOF) as of 16 October 2023

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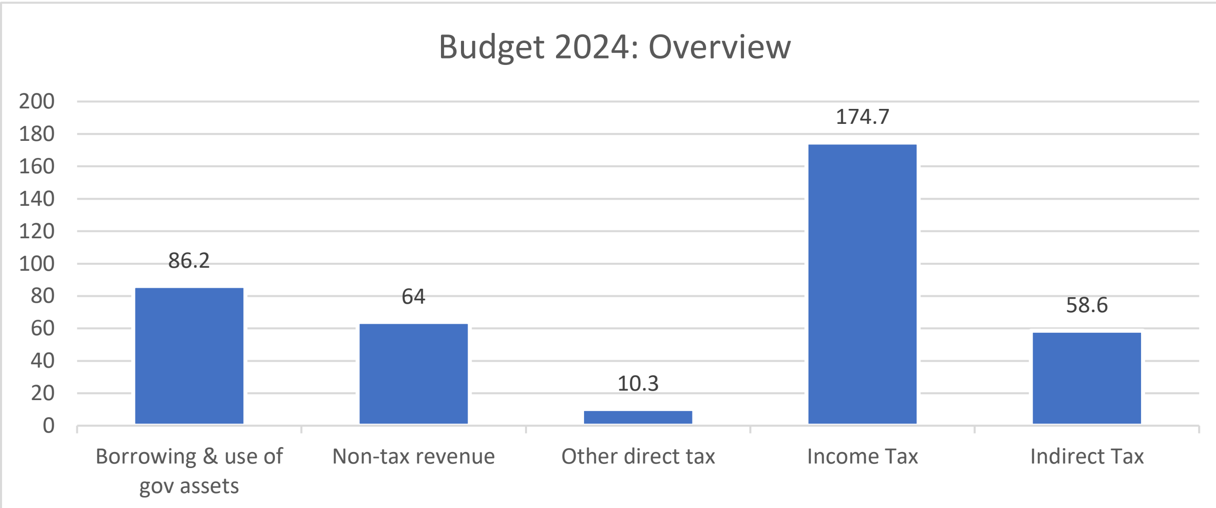
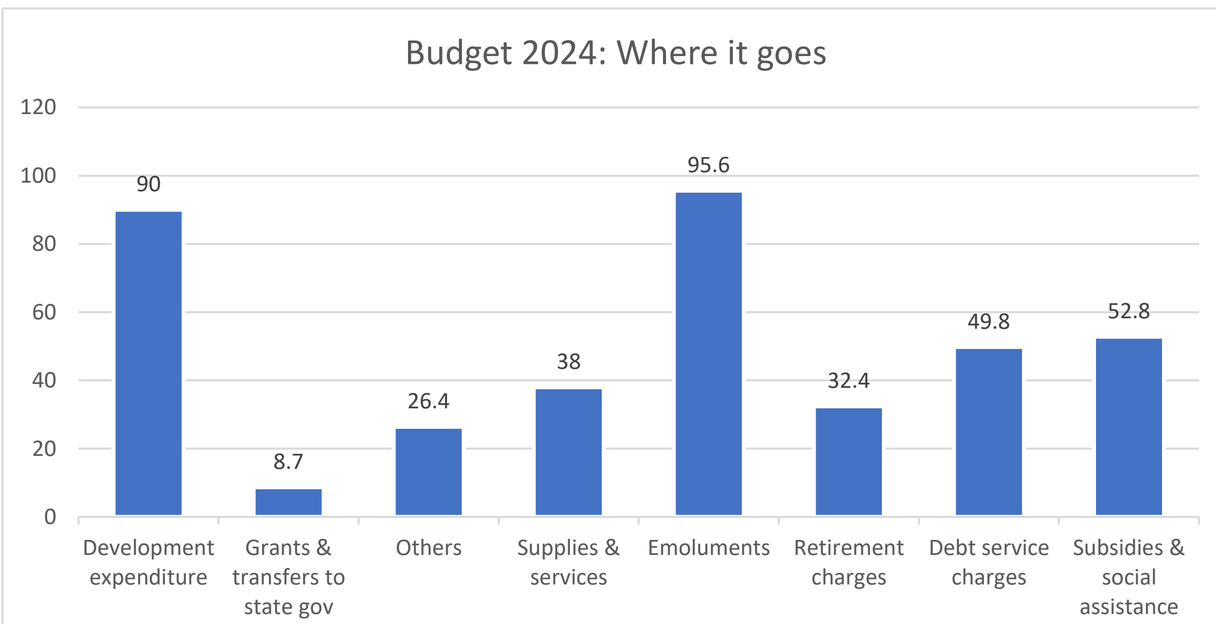
Appendix:

Figure 1: Malaysia Budget 2024 Overview – Total of RM 393.8 billion





Source: MOF, Principal compilation as of 16 October 2023

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Figure 2: Gross Domestic Product by Sector, 2022 – 2024 (at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2023[1]	2022	2023[1]	2024[2]
Services	59.3	10.9	5.5	5.6
Manufacturing	23.5	8.1	1.4	4.2
Agriculture	6.3	0.1	0.6	1.2
Mining	6.1	2.6	-0.8	2.7
Construction	3.6	5.0	6.3	6.8
GDP	**100.0**	**8.7**	**~4.0[3]**	**4.0 – 5.0**

[1] Estimate
[2] Forecast
[3] Approximate
Note: Total may not add up due to rounding and exclusion of import duties component
Source: Department of Statistics and Ministry of Finance, Malaysia

Figure 3: Fiscal deficit and funding profile, 2020 to 2024F (MYR 'bil)

	2020	2021	2022	2023E	2024F
Federal Government Revenue	225.1	233.8	294.4	303.2	307.6
Operating Expenditures	224.6	231.5	292.7	300.1	303.8
Current Account Balance	**0.5**	**2.2**	**1.7**	**3.1**	**3.8**
Gross Development Expenditure	51.4	64.3	71.6	97.0	90.0
Less: loan recoveries	1.3	1.0	1.4	0.7	0.8
Net Development Expenditure	50.1	63.3	70.2	96.3	89.2
Covid-19 Fund	38.0	37.7	31.0	-	-
Budget Deficit	**(87.6)**	**(98.7)**	**(99.5)**	**(93.2)**	**(85.4)**
% of GDP	**-6.2%**	**-6.4%**	**-5.6%**	**-5.0%**	**-4.3%**
Total Expenditure	314.0	333.5	395.2	397.1	
Funded By:					
Net Domestic Debt Issuances	86.9	98.6	99.7	93.6	-
Net External Debt Issuances	(0.3)	1.7	(0.3)	(0.3)	-
Other Debt/Change in Assets	1.1	(1.6)	0.1	(0.0)	-
Total	**87.6**	**98.7**	**99.5**	**93.2**	**-**
YoY Change:					
Federal Government Revenue	(15%)	4%	26%	3%	1%
Operating Expenditures	(15%)	3%	26%	3%	1%
Gross Development Expenditure	(5%)	25%	11%	36%	(7%)
Budget Deficit	(70%)	(13%)	(1%)	6%	8%

Note: The "E" denotes an estimate, and the "F" denotes forecast data. YoY means Year-on-Year There is no assurance that any projection, estimate or forecast will be realised.

Source: MOF, Principal compilation as of 16 October 2023

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