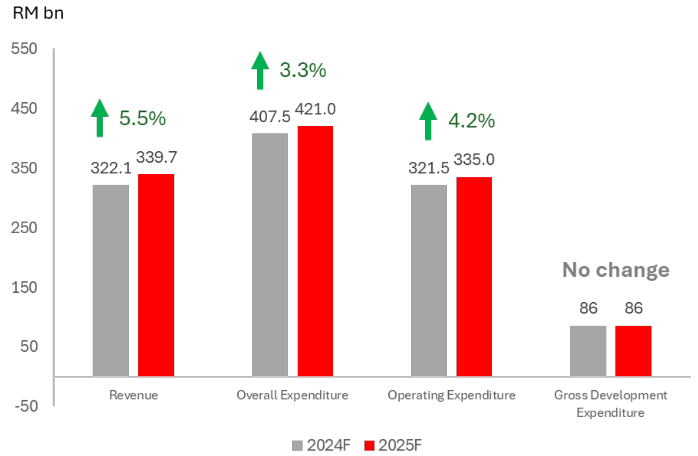
Market Highlights:

Budget 2025

21 October 2024

Prime Minister Datuk Seri Anwar Ibrahim tabled the third MADANI Budget 2025 on 18 October 2024, with three focus: reforming the economy, fueling change and bringing prosperity to the people.

Federal Government Financial Position at a Glance

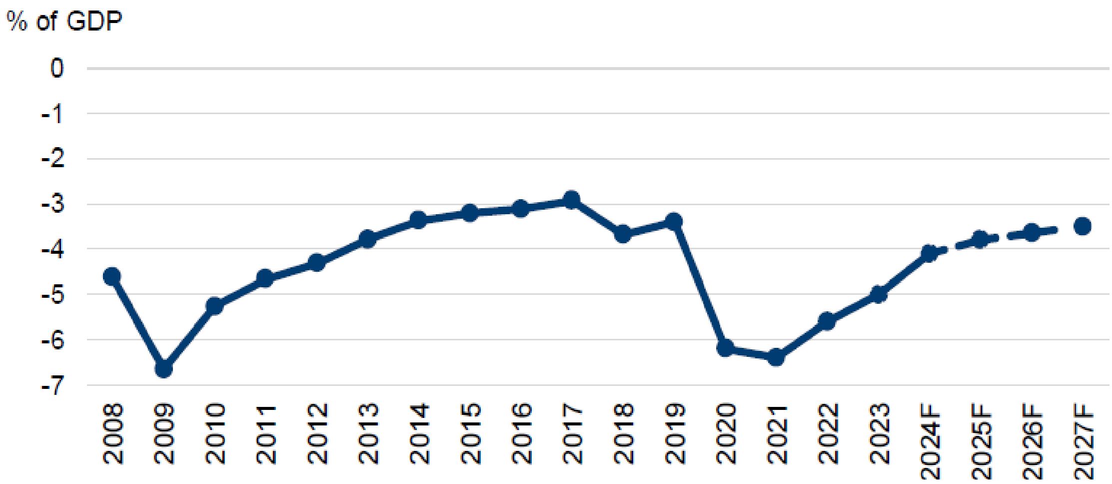


IMPROVED
Fiscal Deficit
2024F: -4.3% of GDP
2025F: -3.8% of GDP

NO CHANGE
Debt-to-GDP ratio
2024F: 64.0% of GDP
2025F: 64.0% of GDP

Source: MOF Economic Report 2024/2025

Fiscal Consolidation Path



Source: MOF Economic Report 2024/2025

Budget 2025 is projecting a narrower fiscal deficit of 3.8% of Gross Domestic Product (GDP) or RM79.9bn (2024: estimate 4.3%), but will still be expansionary with total expenditure projected at its highest ever at RM421bn or 20.2% of GDP. The higher expenditure will be made up of RM335bn of operating expenses, while development expenditure will remain flat at RM86bn, preferring to leverage on the private sector to implement key projects to ease fiscal constraints and debt burden as outlined in the newly launched Public-Private Partnership Master Plan 2030. RM9bn of Public-Private investments (PFI) are expected to be implemented, in addition to direct domestic investments by Government-Linked Investments Company (GLIC) companies worth RM25bn, bringing public investments for development in 2025 to RM120bn.

Revenue for 2025 is projected to be higher at RM340bn (+5.5%) or 16.3% of GDP, driven by higher direct tax collection (+6.6% to RM188.8bn) and indirect tax collection (+9.8% to RM70.2bn), supported by sustained economic growth, higher corporate earnings, higher personal income and spending, and continued rollout of e-invoicing in phases. Revenue increase is also supported by the following measures: a more progressive Sales and Service Tax (SST) to be implemented on 1 May 2025. Sales tax will not be imposed on basic food items but on premium imported items, for example salmon or avocado. Services tax will be expanded to cover commercial services such as fee based financial services. In addition, Budget 2025 proposes a 2% tax on dividends exceeding RM100,000 received by individual shareholders, although this is not applicable to distributions made by Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Amanah Saham Nasional Berhad (ASNB) and any unit trusts. Dividend income from abroad is also exempted. Oil-related revenues is expected to decline to RM62bn, following the assumption of lower global oil price forecast of USD75-80/bbl in 2025 (vs USD80-85/bbl in 2024); and lower non-tax revenue in 2025 to RM80.7bn from lower proceeds from investment income (although Petronas dividend committed is still unchanged at RM32bn). The revenue impact of carbon tax on steel, iron and utilities will only kick in the following year in 2026.

Key Macro Forecast by Ministry of Finance (MOF)

Indicator	Actual	Ministry of Finance	
	2023	2024F (Revised)	2025F
Real GDP Growth (%)	3.6	4.8-5.3	4.5-5.5
Headline Inflation (%)	2.5	1.5-2.5	2.0-3.5
Unemployment Rate (%, average)	3.4	3.2	3.1
Fiscal Balance (% of GDP)	-5.0	-4.3	-3.8
Federal Government Debt (MYR bn)	1,172.5	1,245.8	1,332.8
Federal Government Debt-to GDP ratio (%)	64.3	64.0	64.0
Statutory Debt (MYR bn)	1,131.7	-	-
Statutory Debt-to-GDP ratio (%)	62.1	-	-
Current Account Balance (MYR bn)	28.2	43.4	49.1
Current Account Balance (% of GNI)	1.6	2.3	2.4
Global Oil Price (USD/bbl, average)	82.2	80.0-85.0	75.0-80.0
CPO price (MYR/MT, average)	4171	3,800-4,300	3,500-4,000
USD/MYR (end-period)	4.59	-	-

Source: MOF Economic Report 2024/2025

2024 GDP projected to come in stronger at 4.8-5.3% (vs 4-5%), whilst for 2025, MOF has projected Malaysia's GDP will be between 4.5-5.5%, supported by measures and strategies of the third MADANI Budget 2025. Inflation is expected to be between 2-3.5% in 2025 (2024 estimate: 1.5-2.5%), taking into account the impact of further subsidy rationalization measures. Unemployment rate is expected to improve further to 3.1% (2024 estimate: 3.2%).

Some of the interesting initiatives mentioned in Budget 2025 include:

- **Removal of RON95 Subsidy:**
  - The government will implement subsidy targeting for RON95 by mid-2025. This targeted subsidy approach will apparently only impact the T15 income group, but no details were provided on the mechanism to achieve this.

- **Minimum Wage Hike**:
  - Effective 1 February 2025, the government will raise minimum wages from RM1500/month to RM1700/month (the last adjustment was May 2022). Companies with fewer than 5 employees may comply later by 1 August 2025.
  - In addition, the Ministry of Human Resources has issued a guideline on starting salaries for all job sectors.
  - There is also a proposal to make it compulsory for all non-citizens workers to contribute to EPF, to be implemented in phases.
  - Minimum wage increases will hit sectors such as plantation, construction, consumer, manufacturing and rubber gloves. However, the higher disposable income should also help boost consumer spending for the economy.

- **Assistance to Address Cost of Living:**
  - Higher cash aid of RM13bn (from RM10bn)
  - Tax relief for education and medical insurance of RM4,000 (vs RM3,000)
  - Higher tax exemption for medical expenses of up to RM10,000 to cover taxpayer's payment portion under co-payment
  - Extension of tax exemption for childcare to include elderly care.
  - Exemption from income tax for income generated overseas that has been subjected to tax abroad, extended to 2036 (from 2026)
  - Tax relief of up to RM5,000-7,000 for housing loan interest to encourage first home ownership for residential houses priced not more than RM750,000, claimable for three consecutive assessment years for Sales and Purchase Agreement (SPA) completed between January 2025 – December 2027.

- **New Investment Incentive Framework:** Expected to be implemented in 3Q2025, the following are expected to be introduced:
  - Tax incentives for increased exports extended to integrated circuit (IC) design activities
  - Special tax deductions for Higher Education Institutions that develop new courses in digital technology, AI robotics, Internet of Thing (IoT), Data Science, FinTech, and sustainable technologies.
  - Supply Chain Resilience initiatives where tax deductions will be offered for multinational enterprises that spend up to RM2mn per annum, or jointly invest with other local suppliers.
  - Accelerated capital allowances to be claimed over two years on purchase of Information and communications technology (ICT) equipment, computer software packages, and consultancy fees for e-invoicing purposes.
  - Economic clusters to be established to be tailored to what each state can offer. For example, renewable energy in Perlis or Sabah, or specialized chemicals in Pahang and Terengganu.

- **No mention of GST, luxury tax, inheritance tax, AI tax or sin taxes**

Equity view

Budget 2025 is a balance of sticking to the reform agenda, broadening the tax base, and being able to provide social support and infrastructure investments. The focus on improving household disposable incomes will bode well for the economy, providing the resilience for consumer spending. The government's commitment to rationalize RON95 subsidies by mid-2025 bodes well for improving public finances and boosting the government's reform credentials. Domestically, the Malaysian economy has been on a firm path of progress, with macro data points improving, investments coming in, tourism numbers higher, and consumer spending resilient. Nevertheless, we are cognisant of the external risks that persists stemming from geo-political tensions in the Middle East, and the US Elections which is less than one month away, and still too tight a race to call.

Equity Strategy

No change in fund strategy as we stay highly invested. The abundant domestic liquidity and positive news flows on FDI and mega themes (energy transition/data centre/industrialization plan) will continue to drive the interest in Malaysia. Key beneficiaries of the budget include construction and consumer names. Sectors negatively impacted include those which have high foreign labour usage, such as rubber gloves, plantations and Electronics Manufacturing Services (EMS) sectors. Heavy carbon emitters will soon be penalised via the carbon tax in 2026. See below for sector-specific comments.

Fixed Income View

We applaud the government's discipline to reduce fiscal deficit from 4.3% of GDP in FY2024 to 3.8% of GDP in FY2025. This should bode well with external rating agencies as the government is seen as committed to reduce fiscal deficit towards the 3% mark in the medium term. With fiscal deficit targeted to reach 3.8% of GDP or RM80bn, government net borrowings will see a reduction of close to RM5 billion compared to FY2024. Meanwhile, with MGS and MGII maturities estimated at RM83.5bn, gross borrowings will fall to circa RM163.5bn from RM183bn in FY2024. This should keep bond yields anchored given the massive liquidity within the domestic Ringgit debt market. Headline inflation is forecasted to range between 2.0 – 3.5% (Budget 2023/2024: 2.1 - 3.6%). We believe the elevated inflation range is consistent with the RON95 subsidy rationalisation to be implemented in mid-2025. However, Bank Negara Malaysia needs to see second round spillover effects into demand before they tweak monetary policy.

Fixed Income Strategy

We highlight the risk of rising inflationary pressure due to subsidy rationalisation, higher wage pressure and continued robust GDP growth. While this may not lead to a tightening in monetary stance, it could temper demand if indeed headline inflation stays elevated for a prolonged period in 2H2025. Corporate credit spreads remain historically tight with no distinct differentiation between credit ratings. We will participate in primary corporate bond offerings which offer attractive yield pickup against the secondary market. In terms of duration strategy, we remain Neutral given the abundance in liquidity still lingering in the domestic Ringgit debt market.

Impact of Budget 2025 to Malaysian Sectors:

Consumer: Positive

- Higher disposable income from cash handouts, higher minimum wages and higher civil servants' salaries will be a positive for the sector.
- The new minimum wage of RM1,700, effective from 1 February 2025, could potentially be negative in the short term for companies that hire a lot of workers within the minimum wage range, e.g.: 99Speedmart, and MR DIY. Although based on previous experience, they have usually managed to pass on the cost.
- Targeted subsidy of RON95 to be implemented by mid-2025. It is expected that T15 will not receive subsidies for RON95, whilst the remaining 85% of citizens should continue to benefit from the current subsidized petrol. Initiatives to implement this still unknown.
- War on sugar, increase sugar tax by 40 cents per litre from 1 January 2025. Expected to have a marginal impact on the Food & Beverage manufacturers as they have already started producing less sweet variants and have passed on the cost to consumers.
- No excise duty hike for brewers or tobacco players.

Construction: Positive

- Instead of focusing on mega infrastructure projects, the budget was focused on development spending to benefit the nation, including projects that will support local areas to boost growth.
- The projects mentioned range from Green Industrial Parks, or bypass roads, flood mitigation projects, water treatment plants, to LRT projects and airport expansion projects, including those funded via PFIs.
- In Budget 2025, the development expenditure allocation to Sabah and Sarawak is highest amongst all states at RM6.7bn and RM5.9bn respectively, in continuing efforts to reduce the development gap in the country especially for basic infrastructure.

Healthcare: Positive

- The Ministry of Health receives the second biggest allocation, from RM41.2bn to RM45.3bn. The increase could be positive for the suppliers of pharmaceutical and non-pharmaceutical products to government hospitals and clinics.
- The government will collaborate with 91 private hospitals to outsource patients from the government sector for services such as cardiology, radiology and nephrology. This could result in higher inpatient volume for private hospitals but may not be significant.
- High income earners will soon be required to contribute more when utilizing the public healthcare system. We do not foresee meaningful shift in patient flows from this as high-income earner typically already resort to private healthcare operators via insurance or cash.

Transportation & Logistic: Positive

- The 60% investment tax allowance for 5 years for logistic companies engaged in "complex smart logistic activities" will encourage logistic companies to invest in development and expansion of their operations.

ESG: Positive

- Carbon tax on steel & iron and energy industry by 2026 to promote low-carbon technologies adoption.
- 1GW Hybrid Hydro-Floating Solar PV in Kenyir, Terengganu, half of the capacities will be used for green hydrogen project with Petronas.
- UEM Lestra TNB to invest RM16bn to upgrade the grid & industrial decarbonization.

Automotive: Neutral

- Electric motorcycle Completely Knocked Down (CKD) incentive of up to RM2,400 extended.
- Perodua working on <RM100k Energy Vehicle (EV) vehicle.
- RON95 subsidy rationalization by mid-2025 could dampen Internal Combustion Engine (ICE) vehicles sales.
- No changes to existing EV tax incentive framework, to continue supporting the transition to locally assembled CKD EVs. The exemption on import duty and excise duty for Completely Build Up (CBU) EV will end in 2025, while excise duty and sales tax exemption for CKD EV to stay until 2027.
- We expect the sales of EV to pick up driven by the expiring duty exemption on imported EVs by Dec 2025 and the implementation of RON95 subsidy rationalization. Maintain underweight on the sector as incumbent OEMs are under pressure from the influx of Chinese car brands.

Gaming: Neutral

- No sin taxes were announced, and leisure related companies like Genting may benefit indirectly from the allocations provided for tourism, and as the government gears up for Visit Malaysia 2026.

Property: Neutral

- First home Ownership tax relief of up to RM7,000 for homes up to RM500k, RM5,000 relief for homes RM500-750,000. The tax relief can be claimed for three consecutive years for SPAs executed between 1 January 2025 to 31 December 2027.
- The "Step Up Financing Scheme" under Skim Jaminan Kredit Perumahan (SJKP) offers a government guarantee of up to RM5bn to help young people purchase their first home. The scheme provides for lower repayments options for the first five years to reduce the financial burden.

Telecommunication: Neutral

- Two small Budget allocations i.e. the Malaysian Communications and Multimedia Commission (MCMC) would seek to improve internet access in public universities, schools, military camps and MARA institutions with an investment of RM200mn.
- To ensure internet access in rural and rural schools, the government agreed to implement the Fixed Line Broadband Infrastructure Connectivity Program to rural schools with an allocation of RM100mn. The existing Point of Presence (POP) will continue with an allocation of over RM800mn.
- The government will continue to encourage the use of 5G especially in driving the use cases of 5G by industry ahead of the 2025 ASEAN-Malaysia Chairmanship.
- In short, normally most government telecommunication initiatives are off Budget items mainly via MCMC funding through annual Universal Service Provision Fund collection from telecommunication players. Hence no major impact on telecommunication sector for Budget 2025.

Utilities: Neutral

- More details needed to the announcement regarding the UEM Lestra and Tenaga investment of RM16bn to upgrade the grid & industrial decarbonization.
- Carbon Tax should be net neutral to Tenaga as they will pass it on to end consumer.

Banks: Negative

- The proposed tax relief of up to RM7,000 on housing loan interest payments for house below RM500k and up to RM5,000 for homes between RM500k-750k, is also positive for banks as this will encourage more homes purchases and mortgages.
- The proposed service tax levied on banking services except Current Account Savings Account (CASA) related transactions is slight negative on banks. Currently, banking services are exempted from SST, the only levy is RM25 imposed on credit card. If service tax is to be levied, then cost of transactions will rise. The uncertainties lie on whether all or some transactions are impacted, and whether customers or banks are to absorb the service tax. Assuming service tax is to be levied across all banking services and banks were to absorb the cost, then impact on 2025 earnings estimated to range between 2-3%.

Building Material: Negative

- The key announcement affecting this sector will be the planned carbon tax levied on iron and steel industry which the government aims to introduce by 2026, but the structure and mechanism remain unclear.
- We do not have any coverage on listed upstream iron and steel stocks. However, the carbon tax is expected to pass on to mid and downstream players such as water pipe maker ENGTEX, likely with higher operating/input costs which translate into higher average selling price if pass on to end users.

Plantation: Negative

- Higher threshold for Windfall Profit Levy of RM3,150 (from RM3,000) for Peninsular Malaysia and RM3,650 (from RM3,500) for East Malaysia.
- Higher min wages of RM1,700 and the roll out of multi-tier levy on foreign workers starting early next year will negatively impact plantation companies which are reliant on migrant workers.
- Higher export duty on Crude Palm Oil (CPO) above RM3,600/tonne (from flat 8%) to encourage midstream and downstream processing activities. Minimal impact on listed plantations as large integrated planters' exports is in the form of processed palm oils while pure upstream planters sell CPO to local refiners.

Rubber Gloves: Negative

- Minimum wage increases from RM1,500 to RM1,700 will impact costs, but expected to be minimal as labour cost contributes less than 12% to production cost.
- Non-citizen workers are required to contribute to EPF. Not sure if employers are required to contribute as well.
- Levy on foreign workers to encourage more automation.
- Maintain Neutral on the sector as we expect full pass through to customers, supported by strong demand for gloves produced in Malaysia after US imposed high tariffs on medical glove produced by China manufacturers from 2025 onwards.

Oil & Gas: Negative

- The targeted subsidy for RON95, to be implemented in mid-2025, will likely have some negative impact on total retail gasoline volume. While foreigners and top 15% income bracket have high inelasticity in their consumption, the higher fuel price could help curb the smuggling of subsidized fuel to neighboring countries.
- The proposed tax incentive on Carbon, Capture, Utilisation and Storage (CCUS) is positive for selected oil and gas players as it could make the existing planned projects more economically viable.
- The forthcoming carbon tax (target implementation in 2026) could potentially affect the oil and gas industry. However, details are not available yet. Generally, companies without carbon reduction initiatives may incur significant carbon taxes.

Technology/EMS: Negative

- Minimum wage increases from RM1,500 to RM1,700 will impact cost for EMS and labour-intensive technology companies.
- Levy on foreign workers to encourage automation.
- Non-citizen workers are required to contribute to EPF. Unclear at this juncture if employers would have to contribute EPF as well, which would incur additional cost beyond the hike in min wage.
- We expect some of the cost impact to be either pass-through (dependent on demand and pricing strength) or mitigated by productivity gains/automation and new product introductions.

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