Malaysia 2024 Federal Budget Preview

A budget to achieve fiscal sustainability and inclusivity

SUMMARY

- Budget 2024, slated to be table this Friday, 13th October, by YAB Dato' Seri Anwar Ibrahim, Prime Minister and the Minister of Finance, is set to translate the Malaysia MADANI economic framework and to accelerate the 12th Malaysia Plan (12MP) (2021-2025) Mid-Term Review (MTR).
- Government is expected to project a higher GDP growth target in 2024, potentially between 5.0% and 5.5% (MoF 2023F: 4.5%), in line with its growth target set under the recently tabled 12MP MTR. Our current base target for GDP growth is 4.9% (2023F: 3.5% - 4.0%), barring unforeseen external shocks to the growth outlook.
- Given the optimistic fiscal deficit target set under the 12MP MTR and MTFF 2023-2025, the government may announce a fiscal deficit target of 4.6% (MoF 2023F: 5.0%) while we remain conservative, targeting between 4.5% and 5.0% (2023F: 5.0% - 5.2%) amid a challenging global economic outlook in 2024.
- The implementation of new taxes (capital gains tax, luxury tax, etc), coupled with the government's efforts to tighten tax loopholes through necessary measures and the potential reintroduction of GST may boost revenue in 2024.
- Oil-related revenue is expected to remain stable in 2024, supported by a favourable outlook for Brent crude oil price with official forecast expected to remain above USD80.0 per barrel (bbl), driven by increasing global oil demand, extended supply cuts by OPEC and rising geopolitical tensions.
- Despite our expectation of a lower dividend collection from PETRONAS, the potential implementation of a multi-tiered levy mechanism for low-skilled foreign labour may help to compensate potential losses in non-tax revenue collection.
- New Central Database Hub (PADU) will be introduce to eliminate blanket subsidy especially on subsidised RON95 and diesel as well as to increase social assistance package through Sumbangan Tunai Rahmah (STR) program.
- Government may increase the wages for public servants and the introduction of Progressive Wage Modelling (PWM) slated in 2Q24 to facilitate salary increment, rising workers' productivity and to cater the issues of rising cost of living.
- Development expenditure is expected to focus on elevating socioeconomic development to provide conducive conditions for economic growth. Infrastructure for transport, education, health care, and telecommunications networks will be the focus of development in order to lift national prosperity.
- We expect no new megaprojects to be announce, instead, there will be a revival and acceleration in existing projects. Better public transport connections and accessibility are expected to be reflected in this upcoming budget.

CONTEXT

- **Budget 2024 is set to realise the Malaysia MADANI economic framework and to accelerate the 12th Malaysia Plan (12MP) (2021-2025) Mid-Term Review (MTR)**
  - **MADANI Economy:** The second federal budget by the current administration is expected to realise the Malaysia MADANI policy framework and slogan introduced by YAB Dato' Seri Anwar Ibrahim, Prime Minister and the Minister of Finance. The budget will further translate the MADANI concept into policy action, focusing on sustainability, care, compassion, respect, innovation, prosperity and trust. This is also to ensure that the economy is able to withstand the impact of a potential global economic slowdown brought by the higher interest rate environment in the advanced economies to combat elevated inflation, the ongoing Russia-Ukraine war, escalation in geopolitical tensions, food security and climate change.
  - **Accelerating 12MP development:** Under the recently revised 12MP MTR, the government has increased the development spending ceiling by an extra RM15.0b, bringing the total allocation of development expenditure projected to RM415.0b over the 12MP period from 2021 until 2025. So far, the government have spent RM135.8b in 2021-2022, while RM97.0b was allocated under the revised Budget 2023. The remaining balance of RM182.2b is expected to be allocated at an average of RM91.1b per annum for the remaining two years of the 12MP. The bulk of the development spending allocated for the remaining period is expected to be spent on infrastructure and transportation projects such as the rollout of MRT3 and the newly announced Bayan Lepas LRT. This also includes upgrading schools, hospitals, clinics, and roads and focusing on the development of Sabah and Sarawak.

GROWTH & DEFICIT OUTLOOK

- **Government may project a higher GDP growth target in 2024 despite an imminent global economic slowdown**

  - In view that the economy will continue to expand despite the global slowdown, we expect the Ministry of Finance (MoF) to project an optimistic GDP growth between 5.0% and 5.5% for 2024 (2023F: ~4.5%). This is also in line with its growth target under the 12MP MTR. However, we view this target to be rather optimistic given the increasingly uncertain global economy, which have a direct impact on domestic growth. In comparison, we are projecting 2024 GDP growth to expand by 4.9% (2023F: 3.5% - 4.0%), barring any unforeseen shocks amid the rising concern of global economic slowdown due to the impact of a higher interest rate environment.

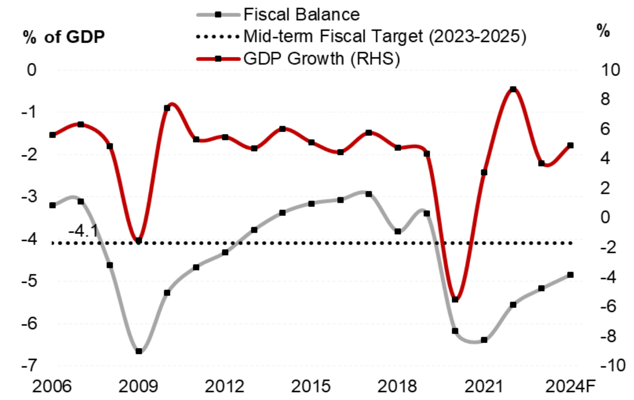
- **Fiscal stance to remain expansionary, but deficit to reduce slightly in line with MTFF and 12MP MTR targets**

  - As we recall, the revised Medium-Term Fiscal Framework (MTFF) from 2023 to 2025 projected an average of 4.1% fiscal deficit, while the recent 12MP MTR has set an even more optimistic target of between 3.0% and 3.5% by 2025. Given the lower deficit target under these frameworks, **government may announce a fiscal deficit of 4.6%, lower than the 5.0% projected for 2023 (2022: 5.6%)** as hinted by Minister of Economy, YB Rafizi Ramli recently**.** However, we believe the target will be challenging to achieve without a significant increase in revenue, controlled expenditure and higher GDP growth. Unless the government embarks on a drastic fiscal consolidation path by slashing its expenditure, especially on the subsidy side, to significantly reduce the deficit, which has already been hinted at by the Minister of Economy. However, our concern is that a drastic measure to cut subsidies without an incentive to boost consumption will also put risk on the growth outlook as households may limit spending amid higher prices due to the cut in subsidies. This will eventually make the deficit target to be even more challenging to achieve.

  - Nevertheless, the **stable oil price is expected to support the federal government's fiscal balance sheet**. For 2023, PETRONAS has announced an extra RM5.0b dividend to the government on top of the committed RM35.0b, bringing the total to RM40.0b. Combined with the Petroleum Income Tax (PITA), export duties and royalties, the total oil & gas revenue for the government is expected to exceed RM60.0b for 2023 (2022E: RM77.8b), thereby contributing significantly to the government coffers. Brent crude oil price has remained stable this year, averaging at USD82.1/bbl year-to-date (6th October), slightly above MoF expectation of USD80.0/bbl under the revised budget 2023. Nevertheless, the average crude oil price is 17.1% lower than last year (USD99.0/bbl).

  - With that said, **we still maintain our fiscal deficit forecast of between -5.0% to -5.2% of GDP in 2023, with slight improvement expected in 2024 at a range between -4.5% and -5.0% (point forecast: -4.7%)**, higher than the government target in the MTFF and 12MP MTR as we expect the balance of risk remained tilted to a possible external shock.

Graph 1: GDP Growth and Fiscal Deficit Trend



Source: Macrobond, Kenanga Research

Table 1: Federal Government Fiscal Balance Sheet Trend

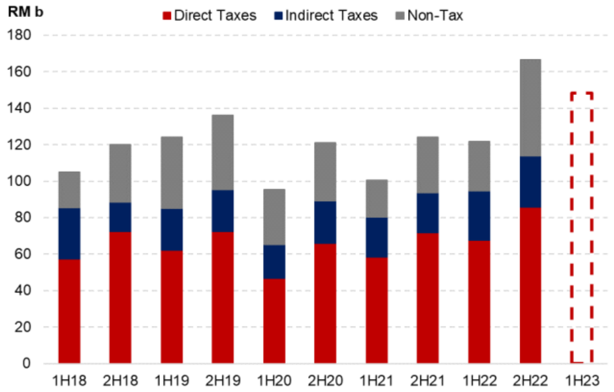
										MoF	KIBB
RM billion	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**	**2023F**
Revenue	**220.6**	**219.1**	**212.4**	**220.4**	**232.9**	**264.4**	**225.1**	**233.8**	**294.4**	**291.5**	**295.0**
Gross Expenditure	**259.1**	**257.8**	**252.2**	**262.6**	**287.1**	**317.5**	**314.0**	**333.5**	**395.2**	**386.1**	**390.5**
Net Expenditure	**258.0**	**256.3**	**250.8**	**260.7**	**286.3**	**315.9**	**315.2**	**334.5**	**396.7**	**385.4**	**390.0**
Operating Expenditure	219.6	217.0	210.2	217.7	231.0	263.3	224.6	231.5	292.7	289.1	293.5
Gross Development Expenditure	39.5	40.8	42.0	44.9	56.1	54.2	51.4	64.3	71.6	97.0	97.0
Loan Recoveries	-1.1	-1.5	-1.3	-1.9	-0.8	-1.6	1.3	1.0	1.4	-0.7	-0.5
COVID-19 Fund							38.0	37.7	31.0	0.0	0.0
Overall Balance	**-37.4**	**-37.2**	**-38.4**	**-40.3**	**-53.4**	**-51.5**	**-87.6**	**-98.8**	**-99.5**	**-93.9**	**-95.0**
% of GDP	-3.4	-3.2	-3.1	-2.9	-3.7	-3.4	-6.2	-6.4	-5.6	-5.0	-5.0 - -5.2
Federal Government Debt (% of GDP)	52.7	53.6	51.9	50.1	51.2	52.4	62.1	63.4	60.4	N/A	61.4
Real GDP Growth (%)	**6.0**	**5.1**	**4.4**	**5.7**	**4.7**	**4.3**	**-5.5**	**3.1**	**8.7**	**4.5**	**3.5 - 4.0**
Average Brent Price (USD/bbl)	97.5	54.4	46.0	55.7	71.6	64.6	43.2	70.9	99.0	80.0	84.0

Source: Ministry of Finance, Kenanga's Forecast

REVENUE

- Despite the potentially lower collection of oil-related revenue due to the lower Brent crude oil price of USD80.0/ bbl in 1H23 (1H22: USD104.9/bbl), **fiscal revenue expanded significantly by 19.4% during this period (1H22: 16.8%), reaching RM 148.4b. This amount represents 50.9% of the targeted revenue for 2023, compared to 53.1% in 1H22.** This growth can be attributed to a potential increase in tax collection revenue, stemming from the implementation of Prosperity tax, higher tax rates for those earning above RM100.0k/annum, and increased participation in the Special Voluntary Disclosure Program (SVDP). According to the deputy finance minister, RM104.9b has been collected from January to July 2023, marking a 20.0% increase compared to the same period last year. Based on historical trend, we expect revenue to increase in the 2H23 and surpass the full-year official target of RM291.5b, especially considering that Brent crude oil price is trending higher (averaging at USD82.1/bbl year-to-date), coupled with the improving labor market conditions.

Graph 2: Government Revenue Trend



Source: Macrobond, Kenanga Research

- **Tax collection is still expected to be the primary source of revenue in 2024, with the government expected to tighten tax loopholes, tax the shadow economy, reintroduce Goods & Services Tax (GST) as a part of tax reform and implement new relevant taxes aimed at super high-income earners**

  - **Taxing shadow economy:** According to the IMF, the shadow economy comprises all economic activities that would generally be taxable if they were reported to tax authorities. This includes income earned by gig workers such as digital entrepreneurs, celebrities, entertainers, and social media influencers. The country's shadow economy is estimated to be worth around 18.0% of GDP or approximately RM300.0b in 2019. While we commend the government's efforts to reduce the size of the underground economy by implementing programs such as the SVDP, there is still a long way to effectively formalise the shadow economy. The current government's effort towards eradicating corruption and increasing Malaysia's technological readiness are seen as a step in the right direction to shrink the size of the shadow economy. However, the government will also need to **focus on promoting electronic payments** by subsidising digital payment infrastructure and **increasing net wages in the official economy** to incentivise these underground workers to participate in the formal sectors.

  - **Tax reform:** As the country's economic situation continues to improve and as the government aims to minimise tax leakages, we believe that Malaysia may **transition back to GST, albeit at a much lower rate of 4.0%**. Since the government plan to reduce subsidies for higher-income individuals first (potentially starting from Jan 2024) before reintroducing GST, we reckon that this transition may only happen in 2H24 (as early as July 2024). On top of reducing the tax rate, the government is also expected to make modifications to the tax mechanism to avoid burdening the lower-income group. This could include **exemptions on basic necessities and targeted cash transfers using the new PADU**. While the initial collection is expected to be much lower compared to 2016 (RM41.2b) and 2017 (RM44.3b) levels, it is still anticipated to be higher than the current Sales & Services Tax (SST) collection.

  - **New taxes:** The government may follow through with the implementation of previously announced Luxury Goods Tax (LGT) and Capital Gains Tax (CGT) in 2024. Although the details are still hazy, the government has hinted that these taxes will primarily affect high-income earners. Regarding the LGT, the government plans to **tax luxury watches and fashion items**, but not to the extent of luxury cruisers, motor vehicles, and residences as seen in Indonesia. Meanwhile, for the CGT, it will only apply to the **disposal of unlisted shares by companies**, typically accessible only by high-net-worth individuals and corporations. Additionally, we believe that the government may also **introduce a vacancy tax, targeting landowners, developers and homeowners to address the issue of property overhang as well as unlocking the value of land for productive use in Malaysia**.

  - **Oil-related revenue:** Petroleum revenue, comprising income tax, export duty, royalties, and ancillary income from PETRONAS, is forecasted to align with the stabilisation of Brent crude oil price, which we project to average at USD86.0/bbl next year (2023F: USD84.0/bbl) amid persistent supply restraint by OPEC+ supply cuts, geopolitical tensions (i.e. Middle Eastern conflict and Russia-Ukraine war) and growing global oil demand. Based on the government's estimate of RM0.3b change in revenue for every USD1.0 change in the oil price, we anticipate that oil-related revenue will increase by approximately RM0.6b in 2024.

- **The expected decrease in proceeds from PETRONAS dividend may impact non-tax revenue collection. However, the implementation of a multi-tiered levy mechanism for low-skilled foreign labour may help to compensate for the shortfall**

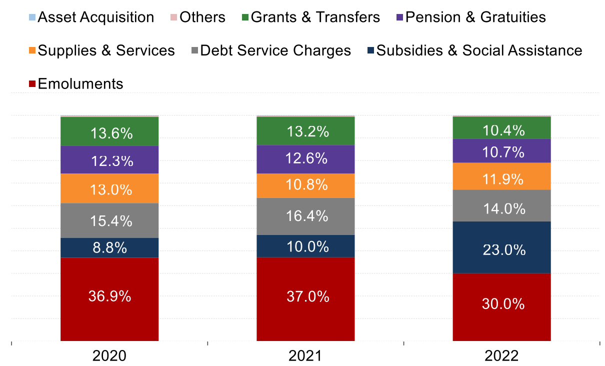
  - After years of postponement and pushback from industry players, the government may finally decide to implement a multi-tiered levy mechanism for low-skilled foreign workers. This move is part of the government's efforts to reduce reliance on foreign labour, secure job opportunities for locals, and expedite the adoption of automation. Referring to the Malaysia New Industrial Master Plan 2030 (NIMP2030), we anticipate that this mechanism will involve the **phased implementation of higher levy charges on companies and sectors that heavily employ foreign low-skilled labor**.

While 3D (dirty, dangerous, and difficult) sectors such as the plantation industry may be significantly impacted by this decision due to the lack of interest from local workers, it could accelerate the adoption of agricultural technology and contribute to Malaysia's progress toward becoming a high-income nation.

EXPENDITURE

- **Fresh expenditure layout.** The 12MP MTR has indicated that the projected operating expenditure (OE) allocation would amount to RM900.2b within the remaining 2023-2025 period. Based on the revised budget for 2023, the government has allocated RM289.1b (KIBB; RM289.5b), making it feasible to reach the expenditure of more than RM300.0b for the total allocation on OE in 2024 and 2025 respectively. In view of the Government's aim to ease the rakyat's increasing financial burden due to the rising cost of living, the bulk of the OE budget is expected to be allocated towards the area of targeted subsidy, social assistance, emoluments and income reformulation. Of note, fiscal expenditure expanded by 10.6% YoY in 1H23 (2H22: 21.7%) to RM188.2b, representing about 48.7% of the total spending allocated in 2023. This indicates a slow start in the 1H this year, partly as the revised budget 2023 was tabled in February and passed in March. Nonetheless, we expect the spending to accelerate in 2H23 as more projects will be kicked off.

Graph 3: Federal Government Operating Expenditure



Source: Macrobond, Kenanga Research

- **Targeted subsidy for the deserving.** The Government to introduce a new database system to facilitate the targeted subsidy initiative. The bulk of money saved from the targeted subsidy would be redirected towards the social assistance program for the lower income group
  - In 2023, the government allocated RM58.6b (2022: RM67.4b) for subsidy and social assistance. Recently, the Prime Minister indicated that the total subsidy for this year may surpass RM81.0b which is higher than the approved revised budget 2023. Moving forward, we expect the government to rationalise the ballooning expenditure on subsidies by eliminating the blanket subsidy on RON95, diesel and electricity. The initiative of targeted fuel subsidy has long been passed by the legislature. With the government's upcoming PADU system in place, we believe the targeted subsidy would finally be implemented, and the subsidy savings can be channeled to the rightful low income group through the implementation of the floating domestic fuel prices and designated cash transfer. For electricity, a RM10.8b subsidy was allocated, exceeding the estimated value from the 2023 revised budget (RM6.8b). The new Imbalance cost pass-through (ICPT) adjustment was implemented to manage the targeted subsidy for the tariff. However, we expect a more robust rationalisation of the mechanism to be introduced later as the current system only affect the top 1.0% of electricity users.
  - The government has spent around RM50.8b on petrol and diesel last year and approximately 30.0% of the subsidy allocation benefits the T20. If the amount can be efficiently reduced via targeted subsidy mechanism, billions can be saved and re-allocated to other OE components and facilitate various **social assistance** in the form of cash transfer like the Sumbangan Tunai Rahmah (STR). Currently STR accounts for RM8.0b from the total expenditure and benefits around 8.0m people. With more savings from the subsidy, the government can promote higher cash transfer or introduce regular payouts every month for the social assistance program. Additionally, these financial aids could deviate to a wider range of recipients including most households in need under the M40 group as current eligibility only exclusively cover the B40 segment. This will be more inclusive, while addressing the issue that the M40 has often been over looked to receive any form of financial assistance from the government.

Table 2: Malaysia Household Income and Social Assistance

Income Proportion (Household)	B40	M40	T20	Overall
Threshold	<RM6,338	RM6,339 – RM10,959	>RM10,960	-
Median	RM3,440	RM7,694	RM15,867	RM5,413
Mean	RM3,401	RM7,971	RM19,652	RM7,111
Share of Income (%)	16.1	37.6	46.3	-
Sumbangan Tunai Rahmah (2023)				
Amount	<RM2,500	NA	NA	-
Household & Individuals Covered	8.0m	NA	NA	-
Sumbangan Tunai Rahmah (2024E)				
Amount	<RM4,000	<2,500	NA	-
Household & Individuals Covered	10.0m	3.8m	NA	-

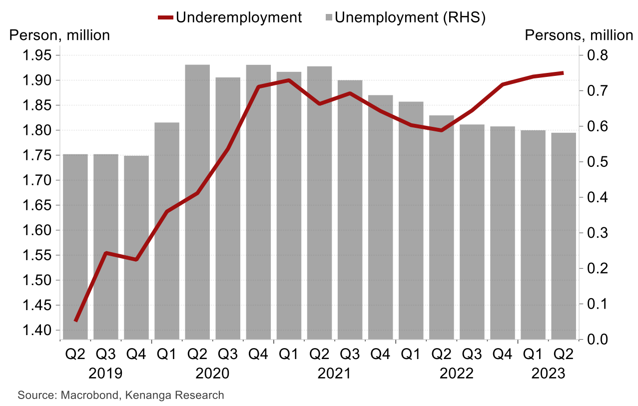
Source: Department of Statistics, Kenanga Research

- **Government servants may receive salary increment and the implementation of the new progressive wage model (PWM) is expected to take place in April 2024**

  – Emoluments are still expected to increase in 2024, driven by scheduled annual increments and chances that the government would increase the nominal wage of the public servants by implementing new wage adjustments. Approximately 1.3m of total civil servants are expected to receive an increment of between RM150.0 to RM300.0. This may cost the government between RM2.0b to RM5.0b but will be mitigated by savings from the targeted subsidy mechanism.

  – For the **private sector**, we anticipate employers to implement the PWM) by increasing wages & compensation from minimum to a staggered, progressive salary increase that will coincide with the nation's economic agenda. Moving towards 2025, Malaysia aims to achieve 1.8m workers in the low skilled labor category. This occupational group is always associated with sticky wage at a very minimum pay, representing 11.0% of total labor force that are stucked with low payout and performance mismatch. We expect the government to incentivise businesses to follow the new wage mechanism to pay their labor fairly and accordingly as employees upscale their skills and productivity level. The budget will also provide a steppingstone for fresh graduates to progressively adapt and improve their expertise with rising salary rather than settling down with low pay upon their entry into the labour market. As for the minimum wage, we expect it would be maintained at RM1,500 because the PWM would facilitate wage increment accordingly and incentivise higher pay. Thus, we believe **Malaysia would achieve a further reduction in the unemployment rate in line with our unemployment rate forecast of 3.3% in 2024 (2023F: 3.5%).** Currently, it stood at 3.4% in 2Q23 (2022: 3.73%)

Graph 4: Skill-Related Underemployment



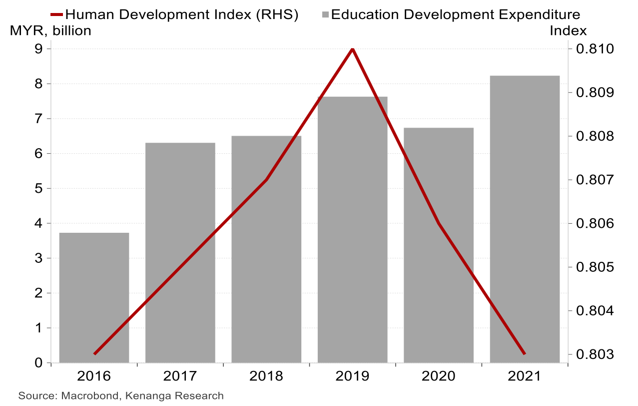
Source: Macrobond, Kenanga Research

- **The government has pledged to spend at least RM90.0b per annum on development expenditure (DE) from 2023 to 2025 under the 12MP MTR to strengthen and stimulate the economy**

  - The DE for 2024 is expected to focus on elevating socioeconomic development to provide conducive conditions for economic growth. To uplift national prosperity, the focus on spending would be on infrastructure development, particularly for transportion such as roads, railways, as well education, health care, and telecommunications networks. Poorer states such as in the northern and east coast of peninsular along with the Sabah and Sarawak region would likely get higher DE allocation.

  - The government is expected to increase the budget for **education.** A total of RM55.2b was allocated for education in 2023 but only RM5.6b in the form of DE. Nevertheless, the total allocation includes boosting the learning quality of STEM and TVET to fulfil the NIMP2030 targets. The number of STEM students has shown a decreasing trend, from 47.18% in 2020 to 40.9% in 2022. Besides, the government is expected to focus on improving the condition of dilapidated schools. This is in accordance with the MADANI Economy framework to improve the Human Development Index (HDI) to be in the top 12th in the world. In the 2023 budget, the government allocated RM920.0m to upgrade dilapidated schools, including in Sabah and Sarawak. This may not be sufficient due to the rising cost and we expect the allocation for 2024 to increase more than RM1.0b.

Graph 5: Human Development Index relationship with Education Development Expenditure



Source: Macrobond, Kenanga Research

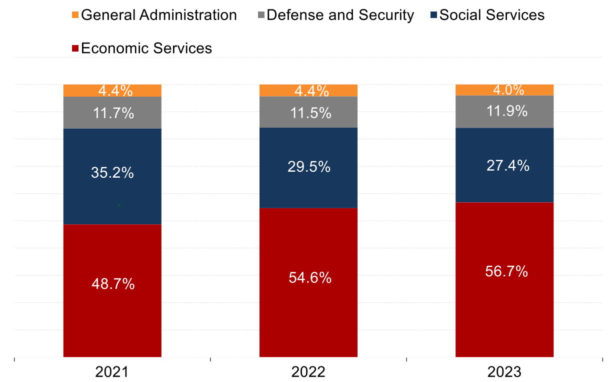
  - In the **healthcare** sector, the government is anticipated to continue to serve the unserved and undeserved groups of people while also improving its facilities. In the 12MP MTR, this sector aims to be more inclusive as the government plans to make healthcare more accessible. An allocation of more than RM5.0b is expected in the Budget 2024 for healthcare compared to RM4.8b in Budget 2023 in the form of DE.

- **The government to focus on reviving existing big infrastructure projects and accelerate ongoing projects.**

  - A bigger allocation for **infrastructure and transportation** is expected, as we believe the government may reassess and resume the Kuala Lumpur-Singapore High-Speed Rail (HSR) and Bandar Malaysia projects. In line with the 12MP MTR to become a high-income nation, large infrastructure project would be able to stimulate the economy and contribute to long-term economic growth. Improvement in connectivity would also promote tourism, trade, and domestic and foreign investments. For 2023, the government allocated RM4.5b for the transportation sector, a 12.0% increase from 2022.

- Meanwhile, the RM45.0b MRT3 is anticipated to be back in the spotlight given its pivotal role in integrating various modes of public transit within the Klang Valley. The average ridership of public transport in the Klang Valley has increased significantly from January to August 2023, from 3.4m to 4.5m, respectively. Apart from increasing the number of buses in Klang Valley, the government is expected to kick off the RM9.5b Bayan Lepas LRT project. The government would also stepped up the East Coast Rail Link (ECRL) project as well as ensuring the completion of the Pan-Borneo Highway project.

Graph 6: Federal Government Development Expenditure



Source: Macrobond, Kenanga Research

- Other infrastructure projects in the pipeline likely to be highlighted in the budget include the flood mitigation projects worth a total of RM13.0b: Sungai Johor (Johor), the construction of the Sungai Klang-Sungai Rasau dual-function reservoir (Selangor), and the Sungai Golok Integrated River Basin Development Phase 3 (Kelantan).

- **There is an urgent need for Malaysia to increase its budget for agriculture development amid heightened concern over food security and the impact of climate change**

  - In the 2023 budget, the government allocated only RM1.6b of the development expenditure for the Ministry of Agriculture and Food Security (total expenditure: RM5.3b). As Malaysia's ranking in the Global Food Security Index fell to 41st place in 2022 from 39th in 2021, the **agriculture** sector is expected to be one of the main areas of focus for the government in an effort to enhance food security in the country. In 2022, Malaysia imported RM75.7b worth of food, compared to RM63.6b in 2021. Malaysia recorded a 62.6% self-sufficiency ratio (SSR) for rice, while also heavily importing beef (85.6%) and mutton (91.5%), based on the import dependency ratio (IDR) in 2022. Through the High Growth, High Value (HGHV) initiative, the government is expected to utilise the existing agricultural land to cultivate interest in modern and smart agriculture, aiming to increase crop and yield production. This is in line with Malaysia's goal of achieving approximately 57.0% of total agriculture value-added in 2025 in its effort to achieve food security. In addition, the government is expected to allocate more funds for research and development in the agricultural sector to adapt to modern technology and innovation; more grants are expected to be given out to fund R&D. According to the Bank Negara report, Malaysia's R&D spending in the agriculture sector is relatively low, as Malaysia only spend 1.0% of gross domestic expenditure on R&D in agriculture as a share of agricultural GDP. Thailand, for example, spent THB128.0b (RM16.0b) in their 2023 budget for the Ministry of Agriculture and Cooperative compared to THB109.0b (RM14.0b) in the previous year. Thailand's sustainable investment in agriculture over the past few years has made them one of the biggest food exporters in the world. In 2017, the Thai government introduced the 20-year Agriculture and Cooperatives Strategy (2017-2036) to increase competitiveness in the agriculture sector through technology and innovations. This includes adopting climate-smart farming to address the impact of climate on crop yield. Some of the smart farming and IoT applications include the application of robotics and drones, livestock monitoring, smart irrigation, climate monitoring and forecasting, and digital marketplaces. In 2022, Thailand exported total agriculture goods worth RM180.0b (USD 38.8b) versus Malaysia's RM120.94b.

  - As the government aims to increase the participation of women in the labour force to 60.0% in 10 years, the upcoming budget would continue to focus on the **empowerment of women**. In the 2023 budget, SOCSO amended its Act to give grants equivalent to 80.0% of the insured worker's salary to encourage women to return to work. Meanwhile, government provide tax exemption for women after career breaks. However, we reckon more needs to be done to encourage women to return to the workforce. Most importantly, we believe an affordable and easy access to daycare centres would be the key for women to return to the workforce. Many women gave up their careers because of the expensive daycare services and lack of daycare facilities around their workplace. Some news reported that childcare centres in Kuala Lumpur cost no less than RM450.0 per person, partly as demand outstripped supply. Therefore, we expect the government to provide more grants and support to revamp the daycare industry while focusing on unregistered daycare centres given that a total of 1,080 nurseries have not been registered since December 2022 according to the Social Welfare Department.

  - In conjunction with "Visit Malaysia Year" in 2025, we expect a higher allocation for the **tourism** industry in 2024 with aggressive promotion to attract more foreign tourists. In the 2023 budget, the government allocated about RM250.0m for the tourism activity sector. We believe more allocation is needed, particularly on better infrastructure and basic amenities surrounding the tourist hotspots, which aligned with the government's initiative to have 'BMW' (Bersih Menawan, Wangi) or clean, attractive and fragrant toilets nationwide. In addition, the government is expected to introduce and build new tourist attractions that will focus on sustainable tourism, especially in Sabah and Sarawak. The pre-COVID tourism sector in Borneo showed that in 2019, Sabah received 4.2m visitors and contributed RM9.0b of its GDP, while Sarawak received 4.6m of visitors and contributed a total of 8.7% to its GDP. Sabah and Sarawak are also expected to receive more development expenditure on facilities, connectivity, and infrastructure. Of note, the total budget allocation for Sabah and Sarawak have increased to RM12.1b in 2023 from RM9.8b in 2022.

- Under the 12MP MTR, the government has set a target to build 500,000 **affordable housing** by 2025. Meanwhile, in 2019 report, Bank Negara Malaysia stated that Malaysia's House Price-to-Income Ratio is at 4.7 indicating that house prices are too expensive and are "seriously unaffordable" for most Malaysians. This is largely due to higher growth in house prices, while income only increased by 2.1%. Therefore, we expect an increase in the allocation for affordable housing, as only 108,373 affordable houses were built at the end of 2022, and also measures to encourage low-to middle-income and first-time buyers to own a house.

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