

Budget 2019: Investment Implications

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Key messages:

- Generous and innovative budget that delivers “recalibrated” manifesto
- The promised “sacrifices” did not really materialise but will still be needed in medium term
- Longer term direction of travel on structural reform is positive but details pending

Generous, innovative manifesto recalibration:

- Operational budget increased by over 10%
- This includes spending on manifesto promises: subsidies and welfare
- Some manifesto promises “recalibrated” to be more realistic:
 - Tolls frozen not abolished
 - Student loan repayments eased not eliminated

However, no real sacrifices:

- New taxes are very modest and no spending cuts
- As a result deficit has widened to 3.7%
- Special 30bn dividend from Petronas making up revenue this year
- To reduce deficit over next three years, sacrifices (spending cuts or taxes) will be needed

**Longer term direction on structural reform is positive,
but details missing.**

Three case studies:

- Procurement / PPPs
- Housing
- Government-in-the-economy

Procurement / PPPs:

- Current situation is compromised by patronage and even corruption - Transition from direct negotiation to open tender in Procurement Act
- At same time government increasing outsourcing and PPPs.
- Biggest potential winners: construction, healthcare, IT, services (e.g. facilities management)

Housing:

- Significant “overhang” in the market; some price readjustment necessary
- At the same time many cannot afford a home; federal agencies crowding out developers in affordable segment
- Budget suggests a more market-led approach than feared: developer proposed price cut, no sign of “relaxed” credit policy, rationalisation of agencies involved in housing
- But long way to go, and new peer-to-peer scheme needs clarity

Government-in-the economy:

- Government will review statutory bodies and companies to reduce non-strategic holdings
- **Unlisted** - significant holdings in: real estate (commercial and residential); infrastructure; technology – financial performance is mixed
- **Listed** - government large shareholder in every sector of the economy.
Mixed message on future policy: Finance Minister promises to reduce govt holdings, increase mobility in capital markets – but 11MP maintains govt. policy of actively acquiring equities

Conclusion

- Budget 2019 was well judged political balancing act. Fiscal retrenchment will be need in medium term and no details where sacrifices will be.
- Some cause for optimism on longer term reform, including opportunities for investment but depends on:
 - Commitment to genuine reform, which goes against entrenched interests; and
 - Focus on market-led approach

Thank You

