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Budget likely to miss fiscal target to boost growth

PETALING JAYA: Budget 2020 is expected to be a tough one as the government is likely to miss its fiscal target to boost economic growth in light of the slowdown on the global front stemming from the escalating US-China trade war.

RHB Research said the government is likely to increase its development spending and no new taxes will be introduced as part of its "contingency plans" to weather the country from the impact of the trade war.

"The country will need to brace itself for the full brunt of the trade war next year. "This is likely an indication that the government is willing to take a pause from its ongoing fiscal consolidation and allow the budget deficit to rise higher than the targeted 3% of gross domestic product (GDP) for 2020, as stipulated in its medium-term fiscal framework 2019-2021," it said in a report yesterday.

The government is expected to announce Budget 2020 themed "Shared Prosperity: Sustainable and Inclusive Growth Towards a High Income Economy" on Oct 11.

RHB said that there would be a so-called "mini fiscal stimulus" package amounting to RM3bil for development expenditure, including infrastructure projects, facilitating trade and industry to allow for trade relocation and diversification amid the trade war, upgrading of existing public buildings and equipment in schools, hospitals and universities, and higher social spending to aid the B40 group.

New infrastructure projects such as the Pan Island Link 1 highway and the light rail transit (LRT) under the RM46bil Penang Transport Master Plan may be announced in the upcoming budget announcement.

Higher development expenditure of about RM58bil and a potential tax cut are expected to translate to a higher fiscal deficit of 3.2% of GDP, RHB said.

The research house reckoned that the government is likely to withhold from introducing new tax measures in Budget 2020.

The government had already introduced a slew of new taxes including gaming, sugar, digital and real property gains in the previous Budget 2019.

"We think the corporate income tax rates are unlikely to be lowered under the contingency measures mentioned by Finance Minister Lim Guan Eng to counter the impact of the US-China trade war on global trade," RHB said.

Malaysia's corporate income tax rate currently stands at 24% for companies and has remained at this rate since 2014.

UOB KayHian Malaysia Research also anticipates an "expansionary budget", but it would be "another" market-neutral budget.

As such, the research house has cut its target on the local stock market benchmark index FBM KLCI to 1,630 points by year-end.

"Budget 2020 is expected to be another market-neutral budget modestly expansionary with its focus on the B40 income group, incentives for the new economy and tourism. The painfully slow progress in mega-projects and the fallout of the Axiata-Telenor merger proposal prompts us to trim our year-end FBM KLCI target," it said in a note to clients yesterday.

However, it expects some positive development to take place in the fourth quarter of the year stemming from mega-projects and awards from e-government contracts.

Among its top picks are healthcare stock IHH Healthcare Bhd, the power sector's Tenaga Nasional Bhd and oil and gas service providers such as Yinson Holdings Bhd.