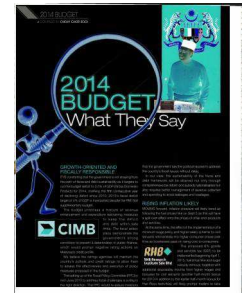


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Section	NEWS	Page No	12TO18
ArticleSize	1467 cm ²	Journalist	J COV1PILED BY
PR Value	RM 47,934		



2014 BUDGET

COMPILED BY CHEAH CHOR SOOI



2014 BUDGET

What They Say



GROWTH-ORIENTED AND FISCALLY RESPONSIBLE

IT IS comforting that the government is not straying from the path of fiscal and debt sustainability as it targets to cut the budget deficit to 3.5% of GDP (Gross Domestic Product) for 2014, marking the fifth consecutive year of declining deficit since 2010. 2013's fiscal deficit target of 4% of GDP is maintained despite the RM15bil supplementary budget.

The budget proposes a mixture of revenue enhancement and expenditure restraining measures

to keep the deficit and debt within safe limits. The fiscal action plans demonstrate the government's strong

conviction to prevent a deterioration in public finance, which would prompt negative rating actions on Malaysia's credit profile.

We believe the ratings agencies will maintain the country's outlook and credit ratings to allow them to assess the effectiveness and execution of policy measures proposed in the budget.

The setting up of the Fiscal Policy Committee (FPC) in mid-June 2013 to address fiscal challenges is a step in the right direction. The FPC would re-assure investors

that the government has the political resolve to address the country's fiscal issues without delay.

In our view, the sustainability of the fiscal and debt framework will be attained not only through comprehensive tax reform and subsidy rationalisation but also requires better management of revenue collected and spending to avoid leakages and wastages.

RISING INFLATION LIKELY

MOVING forward, inflation pressure will likely trend up following the fuel prices hike on Sept 3 as this will have a spill-over effect onto the prices of other end-products and services.

At the same time, the effect of the implementation of a minimum wage policy and higher salary scheme for civil servants will translate into higher consumer prices over time as businesses pass on rising cost to consumers.

The proposed 6% goods and services tax (GST) to be implemented beginning April 1, 2015, fuel price hike and sugar subsidy removal, together with additional disposable income from higher wages and bonuses for civil servants (another half-month bonus for 2013 in addition to the earlier half-month bonus for Hari Raya festivities) will likely prompt traders to take



CIMB



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advantage to raise prices of retail products and services.

As a whole, we expect inflation to trend up and range from 2.8% to 3.2% in 2014, depending on the extent of subsidy rationalisation, i.e. whether the government will adhere to its plan of cutting fuel subsidies once every six months.

For 2013, inflation is envisaged to average at 2.2% (1.6% in 2012), which is still manageable and not a major policy concern for the policymakers.

DEBT-TO-GDP RATIO STILL A CONCERN



AS anticipated, the government has shown a commitment

towards fiscal prudence and consolidation.

The fiscal deficit is estimated to decrease to 3.5% of GDP in 2014, in line with market calls for a tighter grip on government spending. Improvement in efficiency would likely raise the country's competitiveness by avoiding a rating downgrade.

On the other hand, the government's debt-to-GDP estimate of 54.8% and 54.7% for 2013 and 2014 respectively remains a concern. As such, we expect to see more fiscal consolidations in the next few quarters, among other things, through accelerated subsidy rationalisation. If the rumours about shifting civil servants' housing loans from the federal government's balance sheet materialises, then the debt-to-GDP level could fall to below 50%.

While growth may be affected by the recent announcements on the sequencing of certain Economic Transformation Programme (ETP) projects and policy reforms such as the subsidy rationalisation programmes, we remain positive that the improving external environment would likely offset the weakness and support growth in the coming quarters.

Though domestic demand slows down, it is expected to remain strong enough to provide a positive contribution to growth ahead.

In this regard, we forecast second-half 2013 to register a higher growth of 4.7%, compared to 4.2% expected in the first

half. Overall, we expect a full-year growth of 4.5% for 2013, at the low-end of Bank Negara's revised forecast of 4.5% to 5%. For 2014, we expect growth to pick up – brought about by robust domestic demand coupled with improving external conditions – thus ensuring a stronger GDP expansion of 5%.

NO SHORT-TERM PRESSURE ON EARNINGS

THE absence of any drastic subsidy cuts, except for the 34 sen for sugar, has removed the short-term downside pressure on corporate earnings. We maintain our FBM KLCI 2013 and 2014 earnings growth assumption of 6.9% and 8.2% respectively. Similarly, the index targets for end-2013 and 2014 remain at 1,800 and 1,910 based on 2014 and 2015 price-earnings ratio of 15.4x and 15x, respectively.

While business volume in 2015 could be affected because of the GST, the impact will be mitigated by businesses raising prices to sustain profit margins and some sectors benefiting from the value added tax.

Biggest beneficiaries: Telcos will benefit as they may potentially no longer be expected to absorb the current 6% service tax imposed on prepaid subscribers. Notwithstanding any retaliatory moves in the soon-to-be announced New Auto Policy, the auto sector will see a net four percentage point savings as sales tax is foregone for GST.



Construction players will also benefit from government spending on infrastructure projects. Likewise, the absence of a duty hike and the RM4.6 billion in cash incentives for low-to-middle income households are positive for breweries and consumer-related stocks.

Disadvantaged: It appears the property sector is the biggest loser here but as the implementation of the GST is expected to push home prices higher, demand could rise in the medium term.

The absence of any news about base tariff increases is negative for Tenaga Nasional Bhd, (TNB) but expect the government to address this issue

separately in the first quarter of 2014.

POWER TARIFF: STILL IN THE DARK

DESPITE the much-anticipated updates on the power sector reforms, the government has kept mum on the implementation of the fuel-cost-pass-through (FCPT) mechanism and the incentive-based regulation (IBR) framework.



There was only a brief mention of a possible

electricity tariff hike in 2014, without further elaboration on the expected percentage change in tariffs.

Although the sector reforms remain hazy at this juncture, we believe subsidy rationalisation and the gradual trimming of gas subsidies will eventually happen in the near term as this serves as an important measure for the government to cut spending and improve its current fiscal position.

In view of this, the FCPT mechanism will need to be implemented to pass on increased fuel costs to end-users via tariff hikes, so as not to over-burden national utility giant TNB in absorbing the sizeable additional fuel costs like it did in the past.

Premised on this, we still expect the FCPT mechanism to kick off at the beginning of next year, and the announcement could possibly only be made end of the year. We deduce this based on previous incidents of tariff reviews whereby the announcement was only made public about a month before the effective date.



TAN SRI AZMAN MOKHTAR, MANAGING DIRECTOR OF KHAZANAH NASIONAL BHD

ABOVE all, this is a budget for economic re-balancing. This states clearly that Malaysia's future growth should not be driven by the

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expansion of debt, but rather by it moving up the global value chain in an inclusive manner, which leaves no citizens behind.



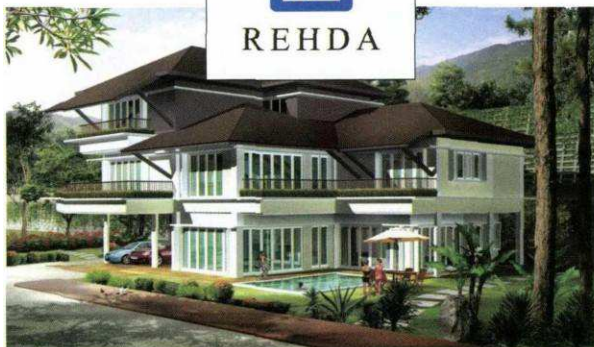
Key to this is reducing the level of fiscal deficit via a measured introduction of GST, through which the rates for corporate and personal income tax can be reduced to incentivise innovation and productivity.

While the property cooling-off measures may result in short-term weakness in the property market, we believe this is the right thing to do for the long-term sustainability of the sector, and for better access and affordability for all Malaysians.



DATUK SERI MICHAEL K.C. YAM, PRESIDENT OF REAL ESTATE AND HOUSING DEVELOPERS' ASSOCIATION MALAYSIA (REHDA)

THE increase in real property gains tax (RPGT), from the current rate of between 10% and 15% to between 15% and



30% depending on the year of disposal, will to a great extent curb speculative activities in certain market segments although in reality, the presence of speculators is insignificant.

Delays in disposal of property by sellers will only further reduce supply into the market causing prices to increase. The flat rate of 30% RPGT charged for disposal of properties by foreigners may send the wrong signal to foreign investors with regard to our property investment and promotion policies.

REHDA is of the opinion that innovative home financing packages such as the Developer Interest Bearing Scheme (DIBS) offered by developers of high premium properties in certain hot spots in Kuala Lumpur, Penang and Johor should be encouraged. This is to facilitate financing and promote homeownership, as it will greatly assist homebuyers in upgrading and facilitating their acquisition cost.

Banning DIBS altogether will put pressure of high acquisition cost on genuine buyers, including first-time buyers and Bumiputera buyers.

TAN SRI YONG POH KON, PRESIDENT OF FEDERATION OF MALAYSIAN MANUFACTURERS (FMM)

THE 6% GST rate is higher than anticipated and manufacturers request that this rate be maintained for not less than five years from the date of implementation. We note that regional countries with higher GST rates had increased their rates incrementally over a period of time. For example, Singapore took nine years to increase its GST rate from 3% to 4%; and another four years to 7%.

FMM is also of the view that the reduction in corporate tax rates following implementation of the GST is not sufficiently aggressive to enhance Malaysia's



attractiveness as a destination for foreign investment, taking into account the current corporate tax rates in neighbouring economies. A higher reduction would have been welcome.

However, FMM welcomes the restructuring of the personal income tax brackets which extends the maximum chargeable income rate from that exceeding RM100,000 to that exceeding RM400,000. This has been our recommendation to the government for the purpose of attracting and retaining talent in the country.

REGIONAL GST RATES

Country	Year GST implemented	Current rate of GST
Cambodia	1999	10%
Indonesia	1984	10%
Laos	2009	10%
Philippines	1988	12%
Vietnam	1999	10%
Singapore	1994	7%
Thailand	1992	7%



DATUK SERI NAZIR RAZAK, CEO OF CIMB GROUP

THE government has correctly prioritised fiscal consolidation and restraining expenditure while being prudent with income expectations for 2014. The financial markets will welcome the

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reaffirmation of the targeted 2013 and 2014 budget deficits of 4% and 3.5% of GDP respectively.



Despite these various measures, the Federal

Government debt is still forecast to rise to 54.8% by the end of 2013 and our current account surplus is expected to narrow further.

It is imperative therefore that in the near term, the government manages its planned spending meticulously and is agile enough to adjust for unforeseen events in a potentially volatile global economic environment. As for the longer term, it should stay firmly on the path of fiscal consolidation. We expect global funds to be ever more discerning between countries based on the financial strength of governments.

DATUK ABDUL FARID ALIAS, PRESIDENT & CEO OF MAYBANK & CHAIRMAN OF THE ASSOCIATION OF BANKS IN MALAYSIA



OBVIOUSLY the government needs to strike a balance between maintaining fiscal discipline and sustainability; supporting economic growth amid the fluid global economic and financial market conditions; as well as attending to the rakyat's well-being.



Besides ensuring that the country

stays on the fiscal consolidation path via further budget deficit reduction, we welcome the fiscal reform announcements by the Prime Minister, especially the decision to introduce a 6% GST to replace the current 5% to 10% sales tax and 6% service tax, thus putting to rest speculation and uncertainties over the matter.

We are also appreciative of the fact that selected financial services are exempted from GST. [mb](#)