

The banner features the REHDA Institute logo on the left, which includes a stylized house icon. To the right of the logo, the text reads "BUDGET COMMENTARY 2017" in large, bold letters, followed by "(Impact on Real Estate, Construction & Property Development)" in smaller text. Below this, it says "FEATURING: Panel Discussion on Budget, Impact on Homeownership and First Home Buyers". On the right side of the banner, there is a silhouette illustration of five business professionals in suits standing in a line, with two large upward-pointing arrows in the background. The overall background is a light blue-grey color.

**REHDA INSTITUTE** **BUDGET COMMENTARY 2017**  
(Impact on Real Estate, Construction & Property Development)  
FEATURING: Panel Discussion on Budget, Impact on Homeownership and First Home Buyers

Date: 2<sup>nd</sup> November 2016  
Time: 8.30 AM - 4.30 PM  
Venue: Wisma REHDA

For further inquiries/registration, please contact:  
Tel: 03-7803 6006  
Fax: 03-7880 3823  
E-mail: register@rehdainstitute.com

# Overall Review of 2017 Budget

## *Impact on Real Estate, Construction and Property Development*

Dr. Yeah Kim Leng  
*Professor of Economics*  
Sunway University Business School

2<sup>nd</sup> November 2016



I. Macroeconomic perspectives



II. Industry-level impact



III. Effects on firms and individuals



IV. Concluding remarks



# I Macroeconomic perspectives

# Budget 2017: Realistic? Achievable? Efficient?

## Realistic?

- Macroeconomic assumptions & forecasts

## Achievable?

- Overall GDP and sectoral growth targets
- Budget revenue
- Fiscal deficit target

## Efficient & equitable?

- Allocative efficiency
- Spending efficiency

# Implications of macro assumptions

	2016	2017	Market expectations for 2017	Assessment
<b>World GDP (%)</b>	3.1	3.4	3.0-3.3	Marginal improvement in 2017
<b>Malaysia's GDP (%)</b>	4.0-4.5	4.0-5.0	4.0-4.5	Slight improvement in growth expected in 2017
<b>Commodity prices</b>				
Crude oil (USD/b)	40	45	45-60	Upside potential for commodity prices for 2017
Palm oil (RM/tonne)	2,500	2,500	2,400-2,700	
Rubber (RM/kg)	5.00	5.00		
<b>CPI (%)</b>	2.0-2.5	2.0-3.0	2.5-3.5	Uptick in CPI inflation but within historical range
<b>Current account balance (% of GNI)</b>	1.0-1.5	0.5-1.5	0.1-1.5	Higher current account deficit risk
<b>World trade (%)</b>	2.3	3.8	2.0-3.0	Rising global trade risk

# Are growth assumptions reasonable?

	2016	2017	Private sector expectations for 2017	Assessment
<b>Real GDP</b>	4.0-4.5	4.0-5.0	3.8-4.5	Lower end of forecast range
<b>Supply</b>				
Agriculture	-3.3	1.5	0.5-1.0	In line
Mining	1.1	1.4	0.5-1.5	In line
Manufacturing	4.0	4.1	3.5-4.0	Slightly lower
<b>Construction</b>	<b>8.7</b>	<b>8.3</b>	<b>6.0-7.0</b>	Marginally lower
Services	5.6	5.7	4.5-5.5	Marginally lower
<b>Demand</b>				
Private consumption	6.1	6.3	5.5-6.1	Slightly lower
Private investment	5.3	5.8	4.5-5.5	Slightly lower
Public consumption	0.2	0.4	0.2-0.4	In line
Public investment	1.7	1.1	0.5-1.0	In line
Exports	0.7	2.5	1.5-2.5	Marginally lower
Imports	1.4	2.6	1.8-2.5	Marginally lower

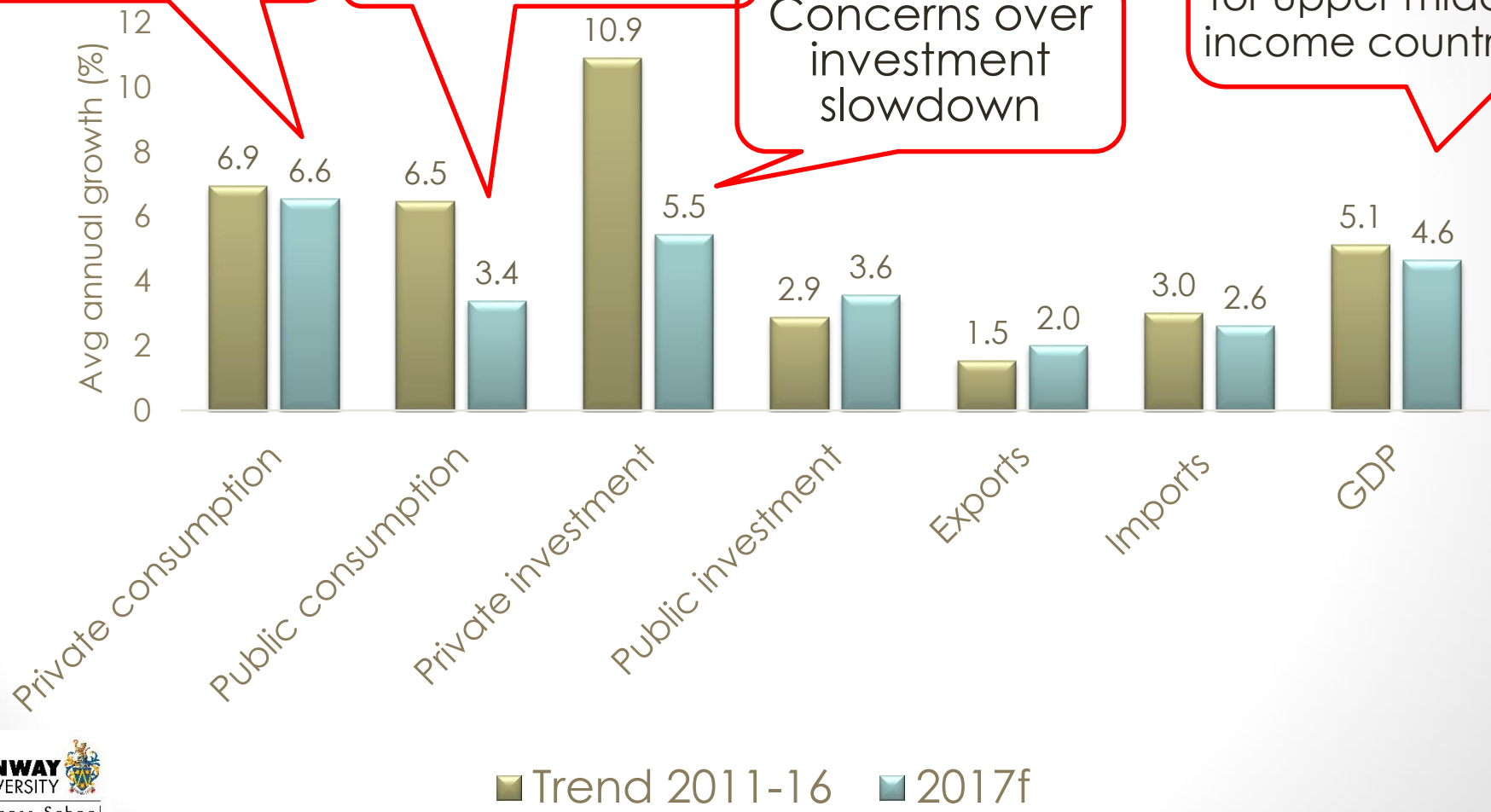
# Malaysia's 2017 growth forecasts versus trend: Demand-side

Key to growth in 2017

More restrained public spending

Concerns over investment slowdown

Growth is still among the best for upper middle income countries



## I. Macroeconomic perspectives

# Malaysia's 2017 growth forecasts versus trend: Output





## I. Macroeconomic perspectives

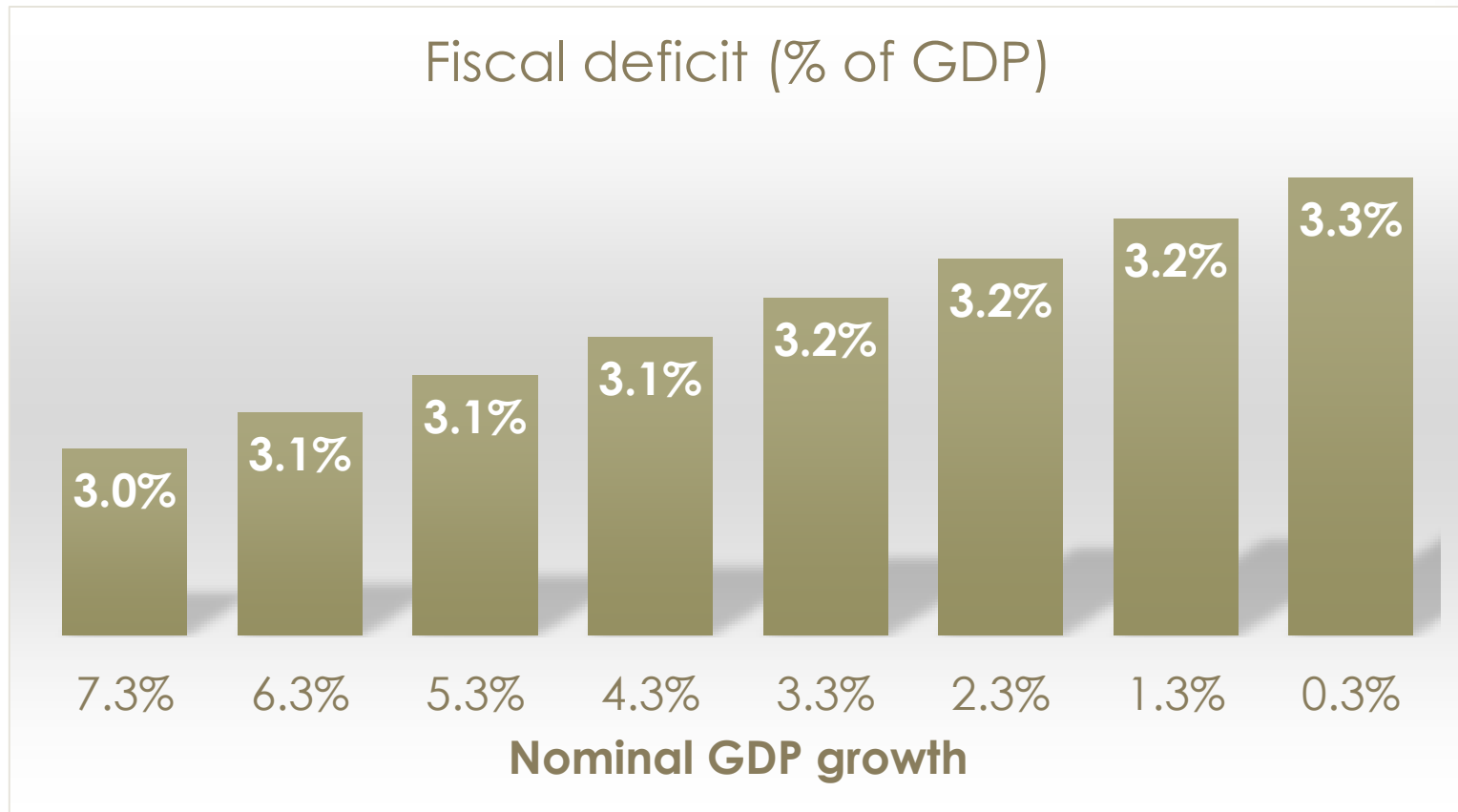
# Is the overall budget achievable?

	2016	2017	% chg	Assessment
Nominal GDP (RM bn)	1,233	1,323	7.3%	GDP deflator projected to increase by 2.7% in 2017 vs 2.3% in 2016.
Revenue	212.6	219.7	3.3%	Half of nominal GDP growth; elasticity about 1
Operating expenditure	207.1	214.8	3.7%	Above revenue growth
Current account	5.5	4.9	-10.9%	Nominal surplus
Development expenditure	45.0	46.0	2.2%	Below OpEx growth
Loan recovery	(0.8)	(0.8)	0.0%	No change
Overall balance	-38.7	-40.3	4.1%	Slight increase in deficit
Fiscal deficit target (% to GDP)	-3.1	-3.0		Reduced fiscal risk due to firmer crude oil price

**ASSESSMENT: Lower fiscal risk in 2017 although long term fiscal challenges remain due to rising contingent liabilities and uncertainties of off-balance sheet funding of mega projects.**

# Are the assumptions realistic?

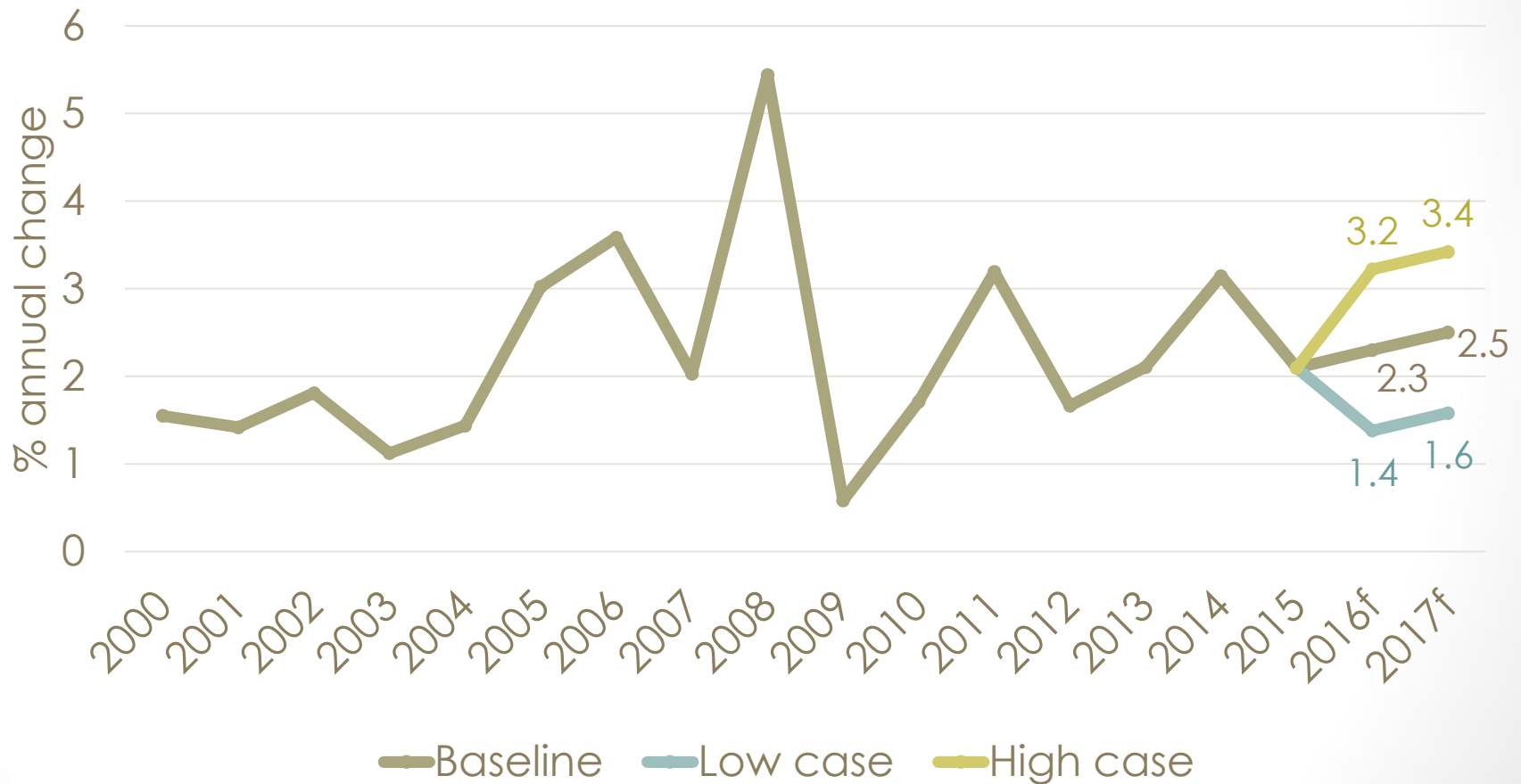
If expected nominal GDP growth is below 7.3%, fiscal deficit target will be derailed.



Source: own calculation

# Inflation risk

Slight uptick in CPI expected in 2017 but remain below historical trend



Source: Department of Statistics Malaysia; own forecasts

# Are the assumptions realistic?

## Summary

- ❑ 2017 GDP growth of 4.0-5.0% are broadly in line with market expectations of 3.8%-4.5% and latest IMF's WEO 2017 forecast of 4.6%.
- ❑ Crude oil price assumption of USD45/barrel is more conservative than private sector expectations of USD50-55 per barrel.
- ❑ Budget assumptions are broadly in line with market expectations.



II

Impact on  
selected  
sectors

## II. Impact on selected sectors

# How much is government spending?

## Development expenditure (RM million)

SECTOR	2015	2016	2017	% change
<b>SECURITY</b>	<b>4,754</b>	<b>5,041</b>	<b>5,287</b>	<b>5%</b>
Defence	4,078	4,140	4,251	3%
Internal Security	676	901	1,036	15%
<b>SOCIAL SERVICES</b>	<b>11,161</b>	<b>10,812</b>	<b>12,181</b>	<b>13%</b>
Education and training	4,758	3,874	5,904	52%
Health	1,442	1,481	1,532	3%
Housing	2,008	2,476	870	-65%
Others	2,953	2,981	3,875	30%
<b>ECONOMIC SERVICES</b>	<b>23,286</b>	<b>27,622</b>	<b>25,863</b>	<b>-6%</b>
Agriculture and rural development	3,105	2,877	2,416	-16%
Public utilities	3,637	3,270	2,582	-21%
Trade and industry	5,638	5,996	4,927	-18%
Transport	6,693	8,419	10,599	26%
Communications	1	22	149	577%
Others	4,212	7,038	5,190	-26%
<b>GENERAL ADMINISTRATION</b>	<b>1,567</b>	<b>1,524</b>	<b>2,671</b>	<b>75%</b>
<b>TOTAL</b>	<b>40,768</b>	<b>44,999</b>	<b>46,002</b>	<b>2.2%</b>

## II. Impact on selected sectors

# How much is government spending?

## Operating expenditure/budget (RM mn)

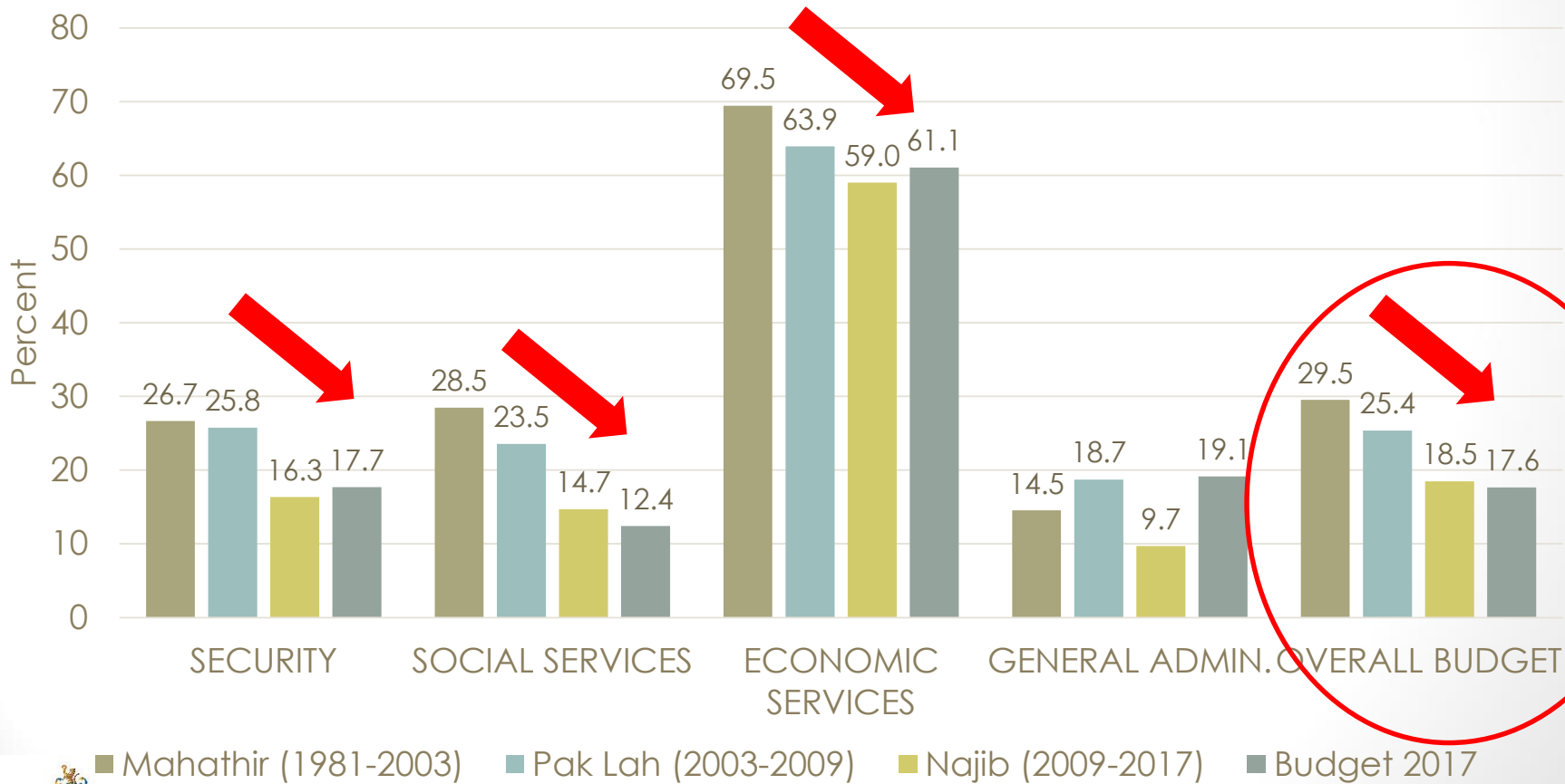
SECTOR	2015	2016	2017	% change
<b>SECURITY</b>	<b>27,182</b>	<b>26,478</b>	<b>24,615</b>	<b>-7%</b>
Defence	13,396	13,171	11,684	-11%
Internal Security	13,786	13,307	12,931	-3%
<b>SOCIAL SERVICES</b>	<b>83,467</b>	<b>81,049</b>	<b>85,976</b>	<b>6%</b>
Education and training	52,059	51,524	52,890	3%
Health	21,924	21,279	23,700	11%
Housing	717	693	722	4%
Others	8,767	7,553	8,664	15%
<b>ECONOMIC SERVICES</b>	<b>20,157</b>	<b>18,951</b>	<b>16,489</b>	<b>-13%</b>
Agriculture and rural development	4,777	4,201	3,823	-9%
Public utilities	246	122	99	-19%
Trade and industry	6,865	5,314	3,044	-43%
Transport	5,518	6,286	6,516	4%
Communications	140	104	98	-6%
Others	2,611	2,924	2,909	-1%
<b>GENERAL ADMINISTRATION</b>	<b>16,712</b>	<b>15,724</b>	<b>11,288</b>	<b>-28%</b>
<b>OTHER EXPENDITURES</b>	<b>69,479</b>	<b>64,924</b>	<b>76,432</b>	<b>18%</b>
<b>TOTAL</b>	<b>216,997</b>	<b>207,126</b>	<b>214,800</b>	<b>3.7%</b>

## II. Impact on selected sectors

# Is the budget allocation efficient?

Higher proportion of development spending generally better for the economy

Share of development expenditure in total spending by sector



■ Mahathir (1981-2003) ■ Pak Lah (2003-2009) ■ Najib (2009-2017) ■ Budget 2017



## II. Impact on selected sectors

# Is the budget allocation efficient?

## How the development budget is allocated

SECTOR	Mahathir (1981- 2003)	Pak Lah (2003- 09)	Najib (2009- 17)	Budget 2017
<b>SECURITY</b>	<b>13.9</b>	<b>13.5</b>	<b>10.4</b>	<b>11.5</b>
Defence	10.9	10.5	8.5	9.2
Internal security	3.0	3.0	1.9	2.3
<b>SOCIAL SERVICES</b>	<b>29.7</b>	<b>32.9</b>	<b>27.9</b>	<b>26.5</b>
Education & training	16.4	17.7	14.6	12.8
Health	3.2	5.0	4.2	3.3
Housing	5.2	4.6	2.6	1.9
Others	4.8	5.6	6.5	8.4
<b>ECONOMIC SERVICES</b>	<b>51.5</b>	<b>46.6</b>	<b>58.0</b>	<b>56.2</b>
Agriculture & rural dev.	10.9	9.1	5.6	5.3
Public utilities	7.9	5.0	9.2	5.6
Trade & industry	11.9	9.4	13.3	10.7
Transport	18.6	21.4	19.4	23.0
Communications	2.1	0.6	0.7	0.3
Others	0.2	1.2	9.8	11.3
GENERAL ADMINISTRATION	5.0	7.0	3.7	5.8
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Peace dividend



Lower education & housing allocations



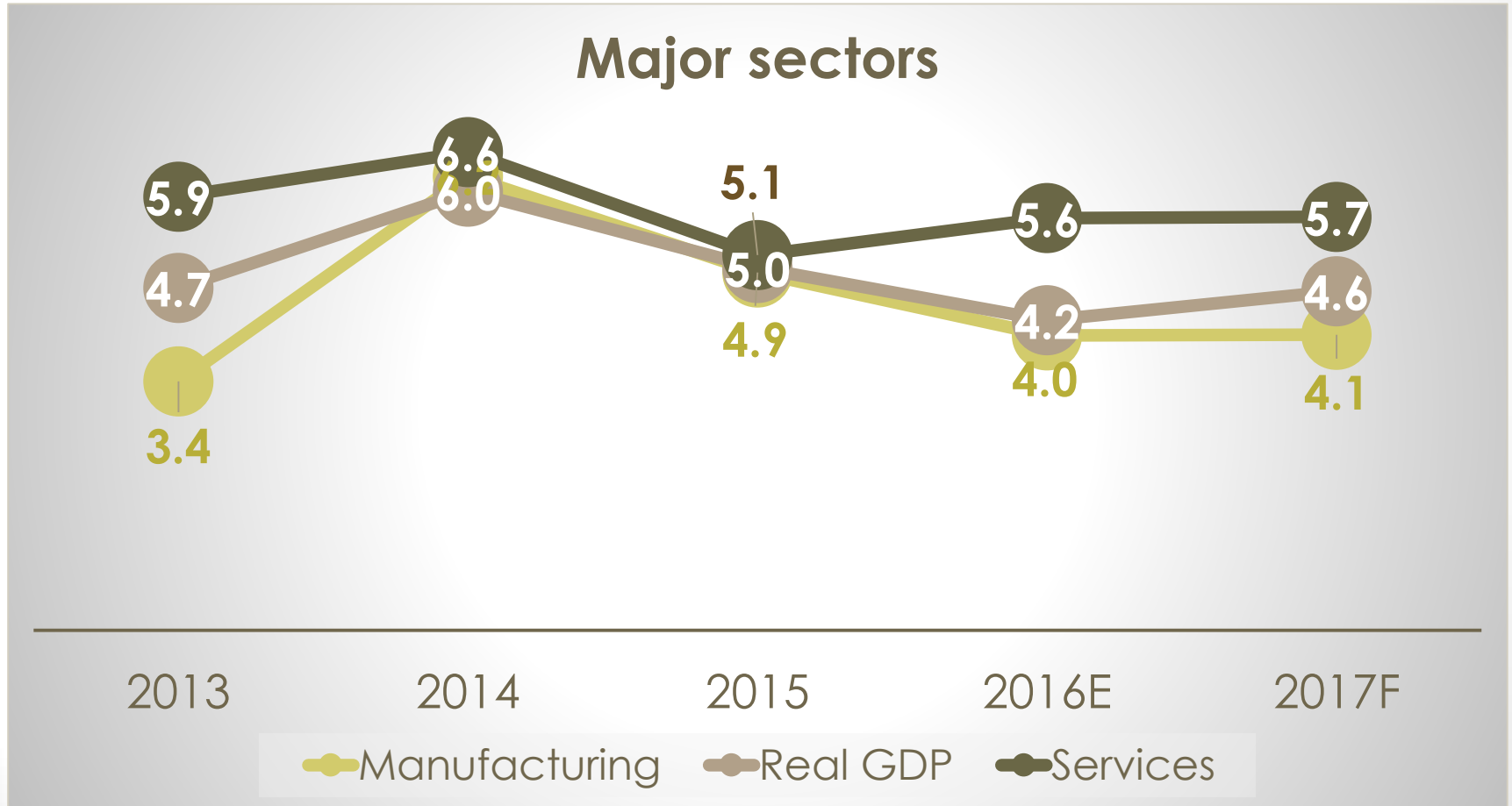
More for utilities, industry & transport



## II. Impact on selected sectors

# What is the expected growth?

Manufacturing (4.1%) and services (5.7%)

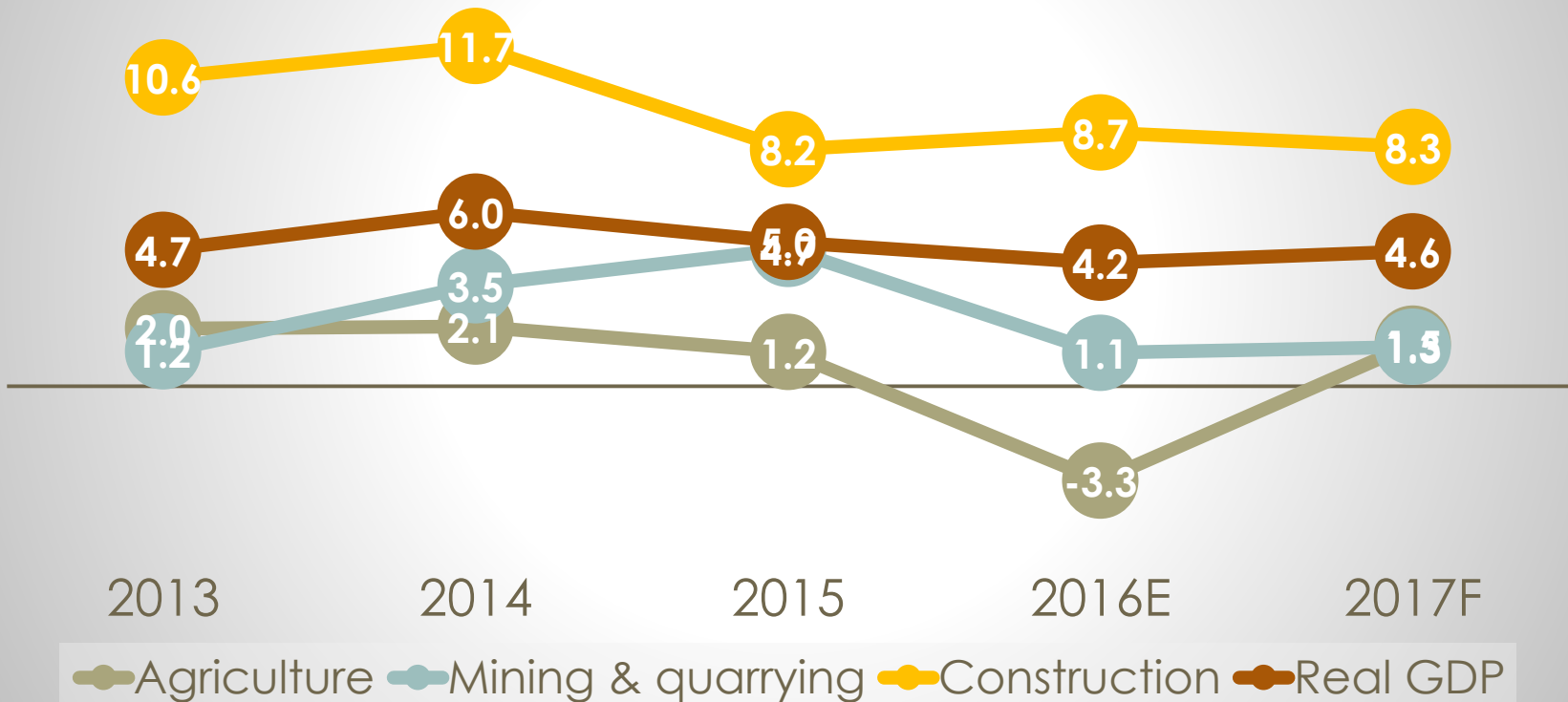


## II. Impact on selected sectors

# What is the expected growth?

Agriculture (1.5%), mining & quarrying (1.5%);  
construction (8.3%)

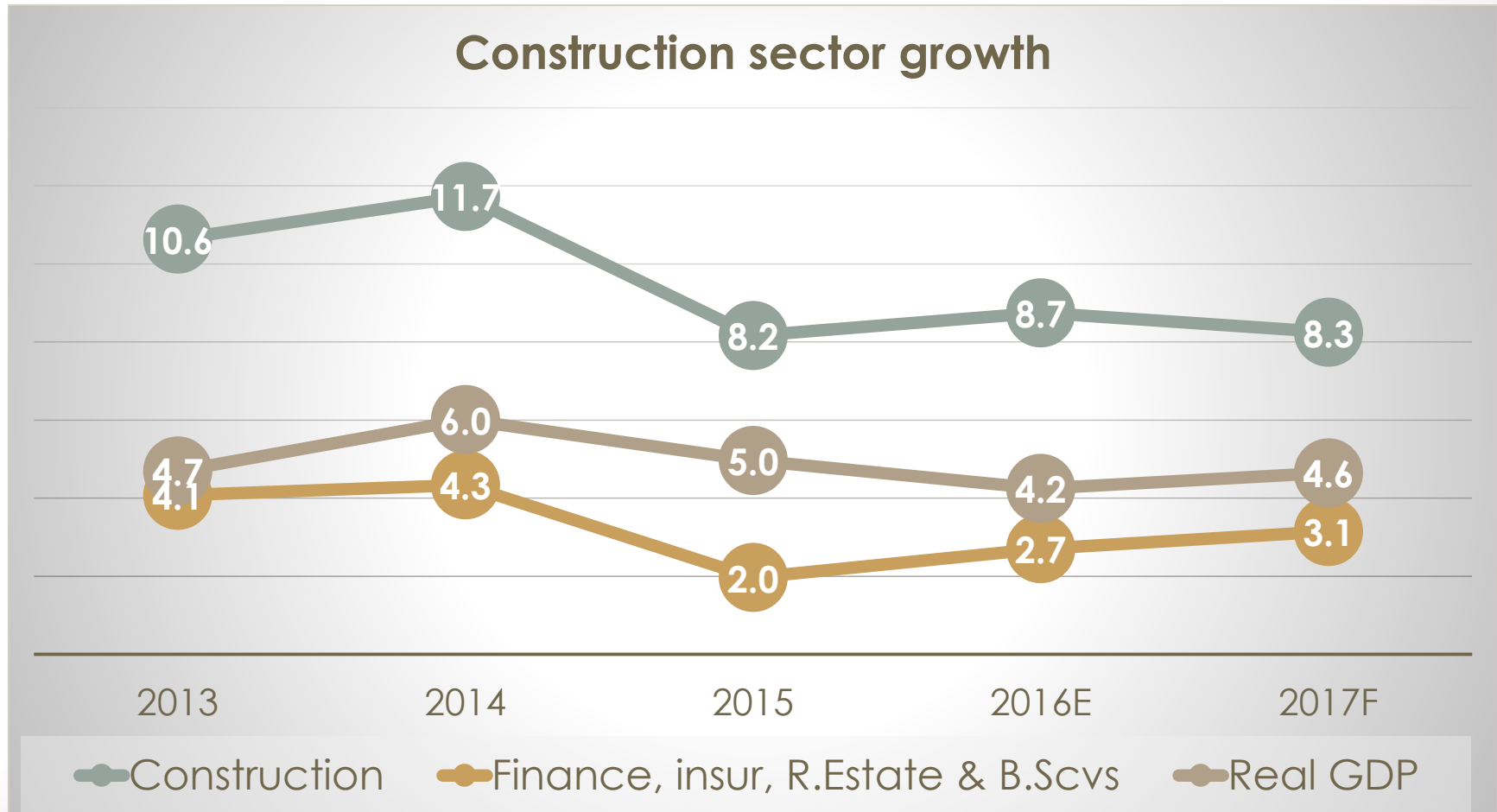
### Minor sectors



## II. Impact on selected sectors

# What is the expected growth?

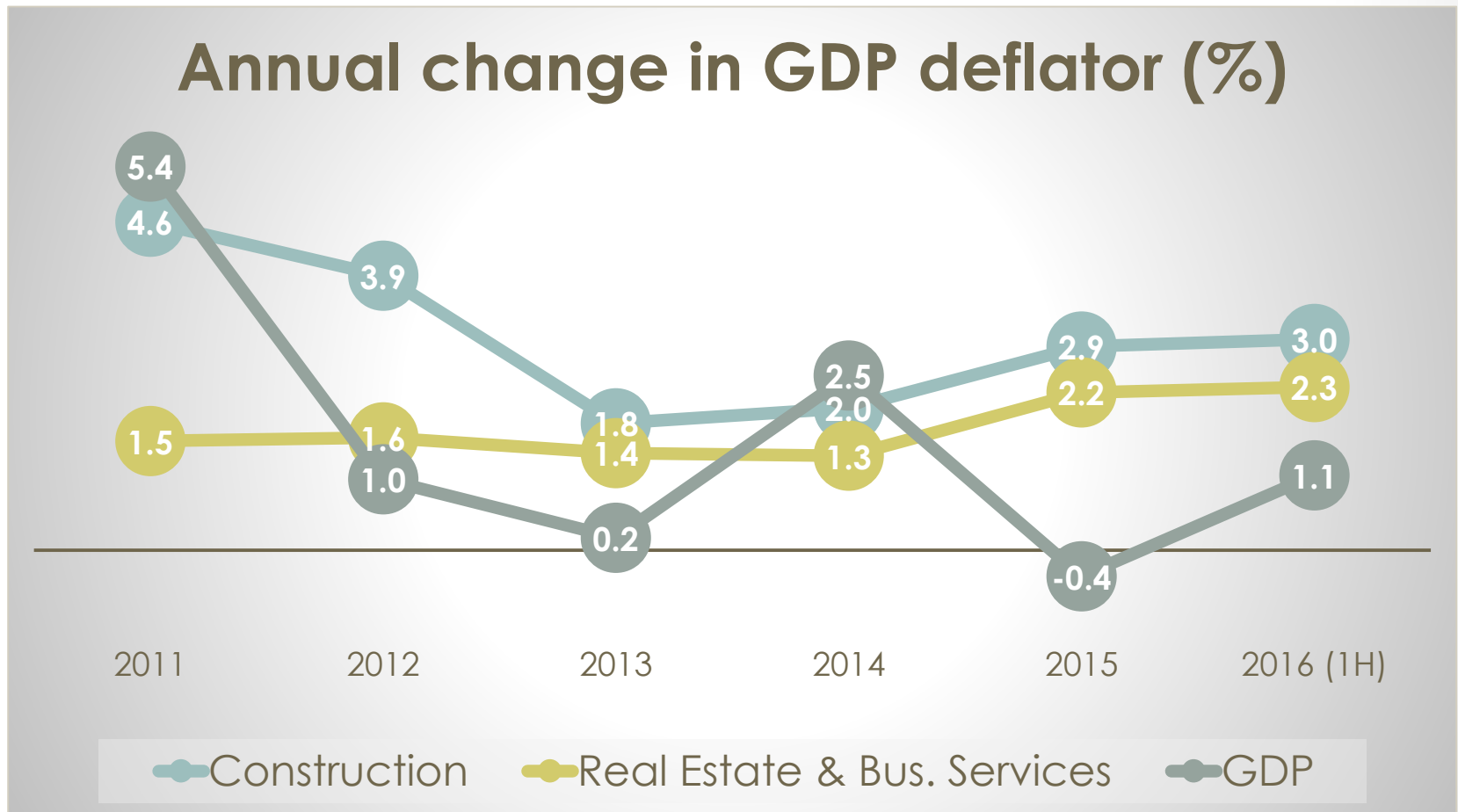
Real estate, construction & property development



## II. Impact on selected sectors

# Price trends

Higher price increases for construction and related services



## II. Impact on selected sectors

# What are the fiscal measures for property sector?

Spending effect



Transaction cost



Access to financing



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## II. Impact on selected sectors

# Property sector

## Rebalancing fiscal support but no major boost

### Increase govt spending

- Govt to build 10,000 houses in urban areas for rental.
- Govt to build 30,000 units PPA1M priced from RM90k to RM300k (20% below market)
- RM200 mn for MyBeautiful New Home for B40. 5000 units priced at RM40-50k. Govt finance RM20k.
- 30,000 houses to be built by GLCs and PR1MA RM150-300k (below market RM250-400k).
- 5000 units of People's Friendly Home (PMR). Govt to subsidise RM20k per unit

### Lower transaction cost

- Stamp duty exemption for houses valued up to RM300k.
- Increase in stamp duty for RM1 mn houses from 3% to 4%.
- Grants of up to RM10k for RA.

### Increase access to financing

- 'Step-up' end-financing for PRIMA programme.
- Increase in public servants' housing loan eligibility from RM120k to RM600k to RM200k to RM750k.

# Construction sector

Boost in transport and education development spending but allocation for housing is lower

## Transportation projects

- ❑ East Coast Rail Line Project (Klang Valley – East Coast 600 km)
- ❑ Restoration of East Coast railway line (Gua Musang – Tumpat)
- ❑ Accelerate construction of Pan Borneo Highway.

## Educational institutions

- ❑ Reconstruct 120 destitute schools
- ❑ Construct 8 new schools and complete 219 schools under construction.
- ❑ Transform 9 Teachers' Training Institutes into Polytechnics and Vocational Colleges



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III

Impact on  
firms and  
individuals

# Support for private consumption

## Households

### I. RAISE DISPOSAL INCOME

- **BRIM (RM6.8 bn)** – higher income transfer to low income households
- **Income opportunities:** MySuria (1,600 houses); Agropreneur (3,000 young entrepreneurs); SOCSO scheme for taxi drivers; B40 (BRIM) RM4,000 rebate for Proton Irix purchase; eUSAHAWAN & eREZEKI (300,000 participants)
- **Subsidies (RM9.7 bn)** – padi farmers (RM1.3 bn); fishermen (RM250 mn), toll & transport (RM885 mn); petrol, cooking gas & electricity bill (RM4.2 bn); interest rates (RM2.4 bn); rubber smallholders (RM510 mn)

BRIM found to be effective in supporting aggregate consumption but allocation is increasing and not well targeted

Large subsidy burden needs trimming but politically challenging to reform

### II. INFLUENCE SPENDING BEHAVIOR

- Lifestyle tax relief of up to RM2,500 (newspapers, computers, sports equipment, smartphones & tablets, internet subscriptions, reading materials, gymnasium membership fees)

Benefit for M40 and T20 groups but tax savings relatively small

# Support for private consumption (cont'd)

## Households

### III. INCREASE SAVINGS/INVESTMENT

- **Increase home ownership** – Step-up end-financing scheme for PR1MA houses; stamp duty exemption for first home ownership
- **Increase supply of affordable homes** – 5,000 MyBeautiful Home for B40; 5,000 Rumah Mesra Rakyat with RM20k subsidy; 30,000 units on government land at RM150k-300k; 9,850 PPR houses; 10,000 houses for rental to youths
- One-off increase in Private Retirement Scheme (PRS) incentive to RM1,000 for PRS contributors.

### IV. ENHANCE LIVING CONDITIONS

- Street lights and LED lights for 7,500 villages; electricity supply to 10,000 houses; upgrade 616 km village roads & bridges; refurbish 17,000 houses in remote villages and Orang Asli settlements; Mesra Rakyat projects; clean water to 5,200 houses; continue 69 flood mitigation plans

**OVERALL IMPACT: Lift to household spending from income support minus subsidy removal estimated at 0.3% of GDP. Key beneficiaries are low income groups and civil servants.**

### III. Impact on firms and individuals

# Impact on firms/businesses

## Firms/Businesses

### Disposal income

- Reduce tax rate from 19% to 18% for SMEs with taxable income up to first RM500k.
- Reduce tax rate between 1-4% points for companies based on increases in taxable income.

### Financing

- RM200 mn WCGS Fund for start-ups.
- Provide guarantee up to RM7 bn under WCGS.
- 2% rebate on interest to SME borrowers under SJPP.

### Other incentives

- Extend double taxation promotion on opex borne by anchor companies for Vendor Development Programme.
- New pass category for Foreign Knowledge Tech Entrepreneurs.
- Incentives for tourism and creative industry, digital economy, agriculture capital markets, exports

**OVERALL IMPACT: More targeted support for SMEs, construction and export sectors.**

# Overall assessment

## **Are assumptions reasonable?**

- Macro assumptions are broadly in line with private sector expectations.

## **Are key priorities met?**

- Commitment to medium term fiscal consolidation
- Mildly expansionary to support domestic demand and projected economic growth
- Support for continuing consumer spending especially by the low income groups
- Provisions to address social concerns over housing, health, security and education being
- Rebalancing of property sector through focus on affordable houses

# Overall assessment (cont'd)

## What are the key risks?

### □ External risks

- under-performance of G3 and Chinese economies
- weak commodity demand and prices
- trade slowdown and rising protectionism
- increased volatility in capital flows and financial markets

### □ Internal risks

- overspending and slippage in fiscal deficit
- potential current account deficit
- deterioration in consumer and investor sentiments
- spike in unemployment due to weaker-than-expected investment

# Thank you

**SUNWAY**  
UNIVERSITY



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Business School

Tel : +603 7491 8622  
Fax : +603 5635 8633  
H/P : +6012 3787866  
Email : [klyeah@sunway.edu.my](mailto:klyeah@sunway.edu.my)  
Website : [www.sunway.edu.my/university](http://www.sunway.edu.my/university)