

20 March 2018

Malaysia

Highest Supplementary Budget In Four Years

The Government has tabled a supplementary budget on 19 Mar, seeking an additional allocation of MYR7.12bn for spending in 2017. The amount is on top of the MYR260.8bn earmarked for Budget 2017, which was presented by the Prime Minister in Oct 2016. We believe it is not an uncommon move by the Government to ask for a supplementary budget as it had been doing so over the past several years. Despite the supplementary budget, in our view, this would not add to the overall budget deficit of MYR39.9bn or 3% of GDP in 2017. This is as the higher expenditure is usually covered from higher-than-expected revenue from other sources.

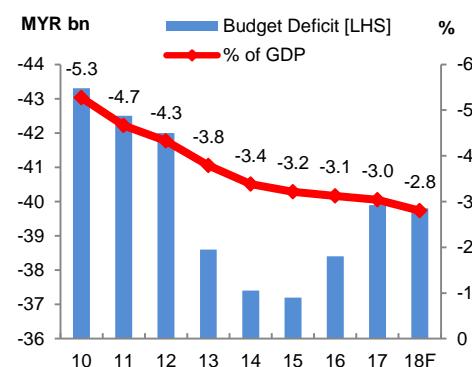
The higher revenue from other sources could likely come from stronger-than-anticipated oil revenue on the back of higher oil prices (average actual Brent Crude price is USD54.80/bbl compared to an estimated USD45.00/bbl during the Budget 2017 announcement and USD50.00/bbl in Oct 2017). Furthermore, due to the surge in oil prices, there was an additional MYR3bn dividend payout by Petronas, bringing the total dividends for 2017 up to MYR16bn. Meanwhile, more stringent tax collection by the Inland Revenue Board and higher GST collection could also have resulted in the higher revenue.

As it stands, the Ministry of Finance (MOF) Economic Report 2017-2018 that was released in Oct 2017 has revised its revenue estimates upward by MYR5.6bn to MYR225.3bn compared to the original budget announcement – we believe the actual finalised figures for 2017 could surprise further on the upside. This would be utilised to finance the supplementary budget. As a result, like in the past, the amount asked in the supplementary budget is not expected to add to the overall budget deficit in 2017 and the deficit would be maintained at MYR39.9bn or 3% of GDP.

This is not the first time the Government has tabled a supplementary budget as the Government has issued two supplementary budgets each year since 2009. The size of supplementary budgets has been on a steady decline from a bloated MYR25.97bn in 2012. This indicates the Government has improved in projecting its budget after taking some measures to do so. Despite issuing supplementary budgets subsequently for the past few years, the Government has kept a good track record without changing its budget deficit numbers since 2011.

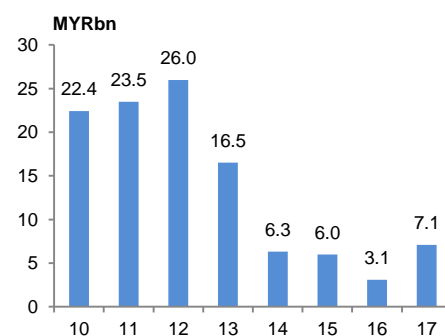
Meanwhile, MOF said the supplementary bill is tabled for expenditure on the services and purposes already specified in Budget 2017, but not fully provided for at that point of time. Of the MYR7.1bn additional spending, the largest allocation is for statutory funds amounting to MYR2.71bn. The Ministry of Education is to receive the second largest allocation of MYR891.1m. Other recipients of the Supplementary Budget 2017 include the Home Ministry (MYR804.2m), Agriculture and Agro-based Industry Ministry (MYR685.4m), Health Ministry (MYR479m), Higher Education Ministry (MYR425.4m), Public Service Department (MYR395.7m) and Foreign Ministry (MYR155.4m).

Government budget deficit



Source: BNM, RHB

Supplementary budget



Source: Ministry of Finance (MOF)

The Malaysian Government's financial position

Brent crude prices	2015 ¹	2016 ¹	2017 ²		2017 ³	
	USD52/bbl MYRbn	USD46/bbl MYRbn	USD45/bbl MYRbn	% chg	USD50/bbl MYRbn	% chg
Revenue	219.1	212.4	219.7	3.4	225.3	6.1
Total expenditure	257.8	251.1	260.8	3.9	265.2	5.7
Opex	217	210.2	214.8	2.2	219.9	4.6
Gross dev. expenditure	40.8	42.0	46.0	9.5	46.0	9.4
Less: loan recoveries	1.5	1.1	0.7	-36.4	0.6	-51.9
Net dev. expenditure	39.3	40.9	45.3	10.8	45.3	11.5
Overall balance	-37.2	-38.7	-40.3	4.1	-39.9	3.7
% to GDP	-3.2	-3.1	-3.0		-3.0	

Note: ¹ Actual figures, ² Budget 2017 announcement, ³ Revised estimate

Source: 2017-2018 Budget, MOF

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20 March 2018

Figure 1: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	4.9	5.0	5.1	5.3	6.4	3.5	3.8	3.6	6.25	4.75	4.25	4.25	13856	13540	13588	13700
Malaysia	5.0	4.2	5.9	5.2	2.1	2.1	3.7	3.0	3.25	3.00	3.00	3.50	4.29	4.49	4.06	3.95
Philippines	5.9	6.8	6.7	6.5	1.4	1.8	3.2	3.3	4.00	3.00	3.00	3.25	46.86	49.62	49.83	49.79
Singapore	2.0	2.4	3.6	3.0	-0.5	-0.5	0.6	1.6	-	-	-	-	1.42	1.45	1.34	1.32
Thailand	2.8	3.2	3.9	4.2	-1.2	0.2	0.7	1.2	1.50	1.50	1.50	1.50	36.02	35.85	32.57	32.10
Vietnam*	6.7	6.2	6.8	6.3	0.6	2.7	3.5	3.4	6.50	6.50	6.00	6.00	22485	22770	22709	22700
China**	6.9	6.7	6.9	6.4	1.4	2.0	1.5	2.3	4.35	4.35	4.35	4.35	6.49	6.95	6.51	6.70

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	-14.6	-3.9	16.2	10.0	-19.9	-4.9	15.6	11.0	4.6	5.0	5.1	5.3	6.2	5.6	5.5	5.4
Malaysia	1.8	1.1	18.9	6.5	0.4	1.9	19.9	6.2	4.5	3.8	5.2	4.5	3.2	3.5	3.4	3.3
Philippines	-5.3	-2.4	9.5	8.0	8.7	18.3	10.2	9.0	-4.4	6.4	6.2	6.2	6.3	5.5	5.7	5.6
Singapore	-7.3	-4.4	8.5	6.7	-12.1	-4.2	10.6	10.9	-5.1	3.7	10.1	7.6	2.0	2.2	2.1	2.0
Thailand	-5.8	0.5	9.9	7.0	-10.7	-3.9	14.7	8.6	0.3	1.6	1.6	2.9	0.9	0.9	1.0	0.9
Vietnam	7.7	9.2	21.4	9.5	10.7	5.6	21.4	8.7	9.8	6.9	10.0	8.1	3.4	3.3	3.5	3.6
China	-2.8	1.8	6.8	5.2	-14.1	3.8	7.3	5.6	6.1	6.1	6.5	5.5	4.1	4.1	4.1	4.1

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017	2018F	2015	2016	2017F	2018F
Indonesia	-2.5	-2.5	-2.6	-2.7	-2.0	-1.8	-1.6	-1.8	106	116	130	147	311	319	335	348
Malaysia	-3.2	-3.1	-3.0	-2.8	3.0	2.4	3.0	2.7	95	95	102	114	194	201	213	222
Philippines	-0.9	-2.4	-2.7	-2.8	2.6	0.2	0.3	0.6	81	81	82	90	77	75	73	71
Singapore	-1.0	1.3	0.5	0.8	19.7	19.0	18.8	17.8	248	247	280	265	-	-	-	-
Thailand	-2.4	-2.6	-1.8	-2.9	8.0	11.4	9.6	8.4	157	172	203	208	147	152	155	159
Vietnam	-5.3	-5.0	-5.3	-5.2	1.4	2.7	1.9	2.1	28	43	40	45	72	76	79	83
China	-3.4	-3.5	-3.6	-3.3	2.8	1.8	1.3	1.1	3330	3010	3140	3000	1416	1400	1450	1400

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	8.0	9.6	11.0	11.9	10.1	7.8	10.0	12.8	94.2	92.7	91.9	94.3	9.0	10.0	11.0	12.4
Malaysia	1.8	1.5	5.7	4.6	7.9	5.3	4.1	5.2	88.7	89.8	90.5	90.9	2.6	3.0	4.7	5.0
Philippines	8.0	14.3	11.9	11.8	12.7	16.1	18.1	18.0	69.0	70.7	74.1	74.1	9.4	12.8	11.9	10.0
Singapore	0.2	2.7	3.2	5.4	0.0	0.5	8.0	5.8	108.5	107.9	104.5	104.9	4.1	8.1	4.1	6.2
Thailand	4.2	3.8	4.1	5.3	5.5	3.6	4.1	5.1	93.5	93.3	93.1	92.9	4.4	4.2	5.2	5.3
Vietnam	13.6	15.0	10.0	11.2	17.2	18.0	15.0	13.5	78.1	79.6	81.0	83.0	13.6	16.0	17.0	18.0
China	12.4	11.0	10.7	9.6	14.3	13.5	12.0	10.3	69.2	70.8	71.7	72.2	13.3	11.3	11.0	10.6

Note: As at 14 Mar 2018

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

20 March 2018

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20 March 2018

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20 March 2018

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20 March 2018

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