



Budget sets tone for recovery

Measures cover job creation and business incentives, development

Report by
GANESHWARAN KANA
ganeswaran@thestar.com.my



PETALING JAYA: Budget 2021, Malaysia's largest budget allocation in history, will be a key instrument that sets the tone for an accelerated economic recovery next year.

Experts have lauded the measures introduced under the Budget, which covers a wide spectrum in boosting private consumption, creating jobs, incentivising businesses to invest and driving development projects.

Speaking with *The Star*, Alliance Bank chief economist Manokaran Mottain said Budget 2021 is tailored well to steer the country out of the current recessionary pressures.

For context, the domestic economy entered a technical recession after the country's real gross domestic product (GDP) contracted for two consecutive quarters.

For full-year 2020, the Finance Ministry predicts the economy would shrink by 4.5% year-on-year (y-o-y) owing to the adverse effects of the Covid-19 pandemic.

"Supported by measures under Budget 2021, the possibility of a "V-shaped" recovery remains possible, although it still depends on how the virus is contained," said Manokaran, adding that the economy may expand by 5% to 6% in 2021.

He pointed out that Budget 2021 meets the needs of the rakyat through measures to create and retain jobs, as well as cash handouts.

Meanwhile, Bank Islam Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said Budget 2021 shows the government has been trying its best to alleviate the financial burden of Malaysians and at the same time keep close tabs on budget deficits.

He added that the sizeable allocation would translate into a larger impact to the economy compared to

interest rate cuts.

"Measures such as reduction in the EPF contribution rate, withdrawal from Account 1 from EPF, cash transfers as well as a tax cut for chargeable income of RM50,001 to RM70,000 should be able to accelerate private consumption.

"This is especially true when Malaysia has one of the highest marginal propensity to consume 0.598 which means for every RM1 rise in income levels, it would result in a 59.8 sen increase in spending," he said.

Mohd Afzanizam expects the Malaysian economy to grow by 6.5% to 7.5% in 2021, in light of the positive developments such as high efficacy Covid-19 vaccines, favourable commodity prices and the likely change in the US' international trade direction as Joe Biden wins the US presidency.

Domestically, unemployment figures have been trending down.

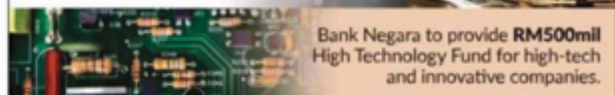
"We could expect more demand for skilled workers. Prior to the pandemic, two thirds of vacancies are skewed towards elementary jobs. The shift will take some time to happen," said Mohd Afzanizam.

MIDF Research economist Mazlina Abdul Rahman expects a "U-shaped" recovery in 2021, with the economic rebound to be underpinned by gradual normalisation in economic activities and labour market conditions, coupled with improvements in external conditions.

"We project GDP growth at 7% for next year which falls between the Finance Ministry's and Bank

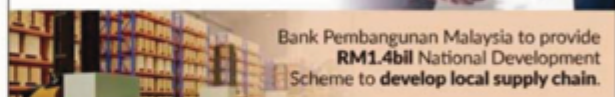
Measures under Budget 2021 to spur investments

RM1bil special incentive package for high value-added technology.



Bank Negara to provide **RM500mil** High Technology Fund for high-tech and innovative companies.

RM500mil allocation for bumiputera entrepreneurs to increase their involvement in key sectors.



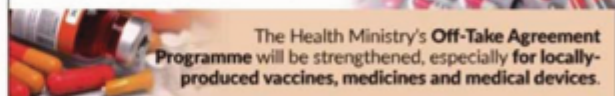
Bank Pembangunan Malaysia to provide **RM1.4bil** National Development Scheme to **develop local supply chain**.

RM2mil to improve Internet connectivity in 25 industrial parks.



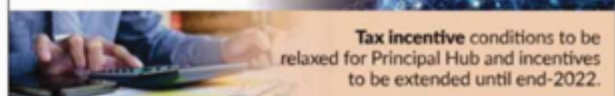
RM100mil for maintenance of industrial parks.

Manufacturers of pharmaceutical products to enjoy **tax rate of 0% to 10% for 10 years** if they invest in Malaysia.



The Health Ministry's **Off-Take Agreement Programme** will be strengthened, especially for **locally-produced vaccines, medicines and medical devices**.

Concessionary tax rate of 10% for 5 years for the establishment of Global Trading Centre



Tax incentive conditions to be relaxed for Principal Hub and incentives to be extended until end-2022.

The Star graphics

Negara's expectations of 5.5% to 7.5% growth. However, the figure is yet to reach the potential GDP growth we are supposed to achieve without the pandemic," she said.

Mazlina said Budget 2021 contains numerous pro-consumption initiatives, which would raise disposable income or take-home pay of Malaysians next year.