



# **2023 Pre-Budget Statement**

**Ministry of Finance Malaysia  
3 June 2022**

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**BUDGET 2023:**  
*STRENGTHENING RECOVERY, FACILITATING REFORMS TOWARDS  
 SUSTAINABLE SOCIO-ECONOMIC RESILIENCE OF KELUARGA MALAYSIA*

**Focus of Budget 2023**

<u>Themes</u>				
<u>Priorities</u>	<b>Rakyat</b>	<b>Business</b>	<b>Economy</b>	<b>Government</b>
Reinforcing the Momentum of Economic Recovery	Building on growth, to create jobs and raise income	Bolstering Tourism and affected sectors post COVID-19	Leveraging on comparative strength - Islamic economy	Improving public service delivery and ease of doing business
Strengthening Economic Resilience	Strengthening social protection	Enhancing SME competitiveness	Reducing disparities between regions and communities through inclusive development	Ensuring food security
	Targeting assistance to mitigate higher cost of living	Boosting productivity including through digitalization		Strengthening resilience of public health
Implementing Comprehensive Reforms	Enhancing liveability towards holistic wellbeing	Catalysing new growth areas and moving up the value chain	Promoting green growth & sustainable development	Enhancing governance and disaster risk management

**Economic Outlook and Fiscal Position**

Building on Global Economic Recovery	Managing downside risk arising from geopolitical uncertainties and volatilities	Mitigating inflationary pressures of high commodity and food prices	Balancing growth and fiscal consolidation
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# Introduction

## Preamble

1. To share the direction and focus for the 2023 Budget, the Pre-Budget Statement is issued for the second time, in accordance with the Government's commitment to improve transparency and governance of the budgetary process. The transition from recovery to reform initiatives is a key focus for the 2023 Budget in comparison to the 2022 Budget. As the recovery momentum gains traction in the post-COVID-19 period, the Government will focus more on reforms to improve the rakyat's wellbeing particularly income and social protection, the competitiveness of Malaysian businesses and move up the value chain, and to strengthen the nation's resilience against future shocks while consolidating the Government's fiscal position. Budget 2023 will also face the challenges of increased geopolitical uncertainty and its impact on the global growth outlook, which has led to global inflationary pressures especially relating to commodity and food prices and supply disruptions, and, in the Malaysian context, more targeted and sustainable subsidy management.

2. During the pandemic, billions of ringgit were made available and injected into the economy to prevent a more severe recession. As a result, the country's economy was able to quickly recover, achieving 3.1% growth in 2021 compared to a contraction of 5.5% in 2020. This achievement was made possible by various economic stimulus and assistance packages, as well as the Government's expansionary fiscal and accommodative monetary policies, which have put the economy firmly back on a recovery growth trajectory. In 2022, the economy is expected to grow at a rate of 5.3 to 6.3%.

3. The Budget 2023 will continue to prioritise people's wellbeing and economic reforms to ensure more sustainable economic growth in the medium term. Inclusiveness will also be prioritised, with a focus on ensuring the country's fiscal sustainability while also making sure a fair and equitable distribution of wealth. Recognising the significant impact of geopolitical uncertainties and climate risks on the country, sustainability measures will be included in the Budget 2023. This post-COVID-19 period is critical for implementing reforms that will strengthen Malaysia's resilience to future shocks and position our nation to be relevant and competitive in

the face of new challenges, as well as to continue our journey to becoming a high-income country in the medium term. During the preparation and finalisation of the Budget 2023, the Government is committed to undertake extensive public engagement and stakeholder syndication in order to obtain inputs and recommendations in line with the identified priorities for the Budget 2023.

### **Budget 2022 Key Focus Areas**

4. The Budget 2022 theme, “Keluarga Malaysia, Makmur Sejahtera”, is based on three key pillars namely Recovery, Resilience and Reform. These pillars form the foundation of Budget 2022’s strategy, which focuses on three objectives, namely: The Rakyat’s WellBeing, Resilient Businesses, and A Prosperous and Sustainable Economy. Based on these objectives, approximately RM332.1 billion was allocated in Budget 2022, the highest allocation provided compared to previous Budgets, demonstrating the Government’s commitment to a strong economic recovery.

### **Current status of key initiatives implemented under Budget 2022**

5. In line with the main focus of Budget 2022, the implementation of Budget 2022’s initiatives are categorised into three (3) main segments namely People, Business, and Economy. In this regard, the Budget 2022 Monitoring Committee, chaired by YAB Prime Minister and coordinated by the Ministry of Finance, closely monitors 282 strategic initiatives with an estimated RM112.5 billion allocation.

6. Among the initiatives are JaminKerja Keluarga Malaysia, which aims to guarantee 600,000 job opportunities with an allocation of RM4.8 billion, and SemarakNiaga, which provides financing and guarantees worth more than RM40 billion to support businesses recover and rebuild their capacities and competitiveness. As of April 2022, more than 149,000 rakyat had secured jobs through JaminKerja Keluarga Malaysia initiatives, and more than 33,000 businesses benefitted from SemarakNiaga.

7. In addition, 8.6 million rakyat have benefitted from the RM1.9 billion Bantuan Keluarga Malaysia initiative. Furthermore, approximately 1.7 million youth have received e-Pemula assistance worth RM150 per person. As of April 2022, more than RM260 million was spent on the e-Pemula initiative. Overall, 257 of the 282 strategic

initiatives monitored by the *Jawatankuasa Pemantauan Bajet 2022* had begun, with the remaining 25 to be launched in the second half of the year.

## **Current status of key initiatives implemented under the stimulus and assistance packages**

### **2021 Stimulus Package**

8. As part of the Government's efforts to ensure the rakyat's wellbeing, business continuity, and economic resilience, four additional economic assistance packages were announced in 2021, namely the Bantuan Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI), Program Strategik Memperkasa Rakyat dan Ekonomi (PEMERKASA), PEMERKASA Plus and Pakej Perlindungan Rakyat dan Pemulihan Ekonomi (PEMULIH). To date, the Wage Subsidy Programme, Electricity Bill Discount, Micro Credit Financing Programme, Biodiversity Protection and Patrol Programme and Sustainability Bonds have all met their objectives.

9. Out of 21 initiatives announced under PERMAI with a total allocation of RM15 billion, 17 have been completed and met their objectives, including BPN 2.0, Free Internet, and rescheduling and extending the moratorium period for loans.

10. PEMERKASA, with an allocation of RM20 billion, comprised a total of 37 longer term initiatives of which 20 are still on-going, such as Program Tunas Usahawan Belia Bumiputera (TUBE) dan the Automation Digitalisation Facility (ADF).

11. PEMERKASA Plus was announced with an allocation of RM40 billion, consisting of 14 initiatives, of which one remains ongoing. One of the main initiatives which was successfully implemented was the Targeted Repayment Assistance with an estimated value of RM30 billion.

12. In PEMULIH, a total of 43 strategic initiatives were monitored and tracked including 6 long term and 10 short term initiatives which are still in progress. Some of the completed strategic-based initiatives in PEMULIH include the Employee Provident Fund (EPF)'s i-Citra Withdrawal aimed to support the livelihood of EPF account holders and the Food Basket programme which was distributed through members of Parliament.

## **Current Economic and Fiscal Position**

### **Global economic scenario**

13. In its latest outlook, the International Monetary Fund (IMF) revised downwards its projection for global economy to 3.6% in 2022 after recording a strong growth of 6.1% in 2021. The downward revision in growth outlook was on the back of possible worsening of the war in Ukraine, escalation of sanctions on Russia, the possibility of more lockdowns as part of the strict zero-COVID-19 strategy in China, as well as uncertainties of the emergence and spread of new strains of the virus. Subsequently, world trade growth, which accelerated by 10.1% in 2021, is also expected to be lower at 5% in 2022.

14. The IMF also projects global crude oil prices to remain high at an average of USD107 per barrel in 2022 exacerbated by the geopolitical tensions in Ukraine. Fuelled by high commodity and food prices, the inflation is projected at 5.7% in advanced economies and 8.7% in Emerging Markets and Developing Economies (EMDEs).

### **GDP performance review for 2022**

15. After experiencing significant supply and demand shocks triggered by the COVID-19 pandemic in 2020, economic activity improved in 2021 with GDP growth rebounding to 3.1% (2020: -5.5%), mainly supported by a turnaround in private sector spending following less restrictions, better adjustments to the new norm, improved compliance to the standard operating procedures (SOPs) and rapid vaccination progress. The gradual improvement in income and labour market conditions during the year had provided support to household spending. Meanwhile, investment activity benefitted from continued capital spending especially in the manufacturing sector, alongside higher capital spending by firms on automation and digitalisation. In addition, robust external demand also provided additional support to Malaysia's economic growth in 2021.

16. Malaysia's economy opened the 2022's economic performance strongly with GDP's growth stood at 5% in the first quarter of 2022 (Q1 2022). The favourable



performance was supported by both domestic and external demand, as well as continued reduction in unemployment. All of this was attributed to the Government's consistent policy support, particularly initiatives under an expansionary Budget 2022 which has been in full swing since start of the year, as well as the spill over effect from Budget 2021 and previous stimulus and assistance packages. Throughout Q1 2022, monthly GDP grew with a rising trend at 4.3% in January, 5.2% in February, and 5.4% in March. On the monetary policy front, the hike of the Overnight Policy Rate (OPR) in May 2022 by 25 basis points to 2.00% from the record low of 1.75% held since 7 July 2020, indicated that domestic growth is on a firmer footing. This increment is intended to ensure a sustainable economic growth amid price stability. Nevertheless, even with this increase, given pre-COVID-19 OPR levels were significantly higher at 3%, the monetary policy stance remains accommodative to support the growth momentum.

17. The pace of economic recovery in Malaysia is projected to gather further momentum amid the reopening of the economy and international borders. With better COVID-19 management and higher vaccination rates, the Government expects less disruption to domestic economic activity and spending in the event of resurgences. Furthermore, initiatives such as the EPF special withdrawal facility and the Government cash assistance will further support the economic growth momentum. The expansionary 2022 Budget and the resumption of projects with high multiplier effects will continue to support growth, which will be underpinned by implementation of development programmes under the 12th Malaysian Plan, 2021 – 2025 (12MP). Together with strong external demand from major trading partners, the economy is on track to meet the 5.3% to 6.3% GDP growth forecast in 2022.

18. However, as a highly open economy, the pace of Malaysia's economic recovery is dependent on global economic developments. Geopolitical tensions, for example, have caused economic pressures on multiple fronts, most notably an increase in global inflation as commodity prices continue to rise. Furthermore, the risk of tighter global financial conditions, labour shortages and rising cost of living may pose a challenge to the nation's economic recovery efforts.

19. Nevertheless, the Government will continue to monitor the various economic risks and effectively manage any external shocks that may affect the wellbeing of people and businesses. The Government's medium-term priority is to implement

structural reforms by, among others, increasing productivity and sustaining innovation; promoting regional collaboration to ensure resilient infrastructure development and energy provision; enhancing the social protection system; strengthening human capital development as well as enhancing transparency and accountability of public institutions. These measures will further improve policy certainty and investors' confidence, thus strengthening the country's economic resilience for Malaysia to continue becoming an attractive investment destination.

## **Fiscal outlook**

20. In line with projected economic recovery, the fiscal deficit for the 2022 Budget was targeted at 6.0% of GDP following better global economic prospects and the gradual reopening of economic and social sectors on the domestic front. In comparison, IMF estimates fiscal deficit of emerging and developing Asia at 7.6% for 2022. As at end-April 2022, the fiscal position continues to improve, given the strong domestic economy which contributed to a surge in revenue collection, coupled with high commodity prices. However, operating expenditure also increased, particularly due to the current fuel subsidy mechanism, which mitigated rising inflationary pressures domestically. The Government also continued to provide fiscal support to protect the people and businesses as well as supporting the economic recovery momentum through initiatives under the COVID-19 Fund and the implementation of Government development projects. Overall, the better revenue performance, coupled with rigorous expenditure management and sustained growth trajectory is expected to mitigate the risk of fiscal slippage and keep the deficit target on track at 6% of GDP.

21. Current geopolitical tensions have elevated the fiscal risks on multiple fronts, particularly from rising commodity prices, global supply chain disruptions as well as tightening monetary policy. Despite Malaysia's position as a net oil exporter, the impact of higher crude oil price on oil related taxes is offset by to the significantly higher fuel subsidies. The increase in revenue from commodity-related taxes is insufficient to finance the increase in subsidies, particularly petroleum products and cooking oil stabilisation scheme (COSS), which is projected to increase to RM30 billion compared with the budget estimate of RM4 billion. This shortfall is expected to be cushioned by other additional revenues including tax measures announced in the Budget 2022 such as the Prosperity Tax, Special Voluntary Disclosure Programme for

indirect taxes and the expansion in the scope of sales and services tax. The Government is currently planning to enhance subsidies through a more targeted approach to enhance spending efficiency and minimise leakages whilst ensuring subsidies reach target groups and achieve intended objectives.

22. The Parliament has approved the debt limit increase in 2021 to enable the Government to strengthen the domestic economy and support the momentum of recovery and development expenditure needs under the 12MP. As at end-April 2022, the total debt of the Federal Government stood at RM1,015.7 billion or 62% of GDP with the statutory debt at RM958.5 billion or 58.5%, below the statutory debt limit of 65% of GDP. With the yield of government papers rising this may impact the debt servicing capacity of the Government, however this risk will be cushioned by better revenue prospects. In this regard, the Government will continue to manage its expenditures and proactively engage market players to ensure effective communication and policy transparency. Furthermore, the issuance of U.S. Dollar Sustainability Sukuk by the Government in 2021 has paved the way for more diversified financing sources, whilst anchoring investors' confidence of Malaysia. The Government is planning to issue Ringgit-denominated Sustainability Sukuk in the second half of this year, signifying Malaysia's contribution in supporting the sustainable development agenda.

23. Moving forward, fiscal consolidation plan will be further intensified towards achieving the fiscal deficit target of 3.5% to GDP in 2025 as outlined under the 12MP. Fiscal reform initiatives will be continued to strengthen the financial position by improving fiscal governance, broadening the revenue base and optimising expenditure. These include introducing the Fiscal Responsibility Act, formulating a Medium-Term Revenue Strategy and reviewing public spending. These measures are imperative to rebuild the fiscal space and strengthen the fiscal position, thus allowing the Government to implement counter-cyclical measures, increase economic resilience and ensure sustainable debt levels.

# Tax Revenue Strategy

## Tax revenue performance status for 2022

24. The estimated target for tax revenue collection as set out in Budget 2022 is RM171.4 billion or 10.5% of GDP. This includes collection of Direct Taxes of RM127.3 billion and Indirect Taxes of RM44.1 billion. As of April 2022, Direct Tax collection stood at RM45.6 billion or 35.8% of the target, while Indirect Tax collection recorded RM17.3 billion or 39.4% of the target.

25. Revenue collection up to April 2022 was higher than expected and subsequent collection is expected to be better than the Budget 2022 estimate in line with improved economic recovery and higher business and leisure activities.

## 2022 tax measures

26. As the country moves into the recovery phase, tax measures estimated at RM6.2 billion were announced in Budget 2022 with the main focus on additional revenue collection and while continuing assistance to affected groups and sectors. Key initiatives introduced include:

### The rakyat's wellbeing

- Individual income tax relief for full medical check-up expenses is expanded to cover the cost of check-up or consultation service related to mental health from psychiatrists, clinical psychologists and registered counsellors.
- Special individual income tax relief of up to RM2,500 for the purchase of mobile phones, computers and tablets is extended until 31 December 2022.
- Expanding individual tax relief of up to RM4,000 for EPF contributors to also include voluntary contributions, such as those who are self-employed or in the gig economy.
- Extending individual income tax relief of up to RM3,000 for fees paid to registered childcare centres or kindergartens until the year of assessment 2023.
- Removal of Real Property Gains Tax from the disposal of real property in

the 6th year onwards by Malaysian citizens, permanent residents and other than companies.

#### Resilient businesses

- Extending the tax deduction of up to RM300,000 on the cost of renovating and refurbishing business premises until 31 December 2022 in order to comply with relevant SOP requirements such as ventilation and customer seating.
- Under Safe@Work, a further tax deduction of up to RM50,000 on rental expenses of employees' accommodation premises will be extended until 31 December 2022.
- Deferment of income tax instalment payments for micro small and medium enterprises for six months until 30 June 2022.
- Income tax exemption for organizers of arts and cultural activities as well as international sports and recreational competitions until the year of assessment 2025.
- Exemption on entertainment duty for entertainment activities in all Federal Territories will be extended until 31 December 2022.

#### A prosperous and sustainable economy

- Introducing the Special Voluntary Disclosure Program by the Royal Malaysian Customs Department in phases with a penalty remission incentive of 100% for the first phase and a penalty remission of 50% for the second phase. Tax remission will also be considered for certain cases. Additional revenue of RM1 billion is targeted from this programme.
- Imposition of Cukai Makmur at 33% on companies with chargeable income of more than RM100 million for the year of assessment 2022.
- Sales tax imposed on goods not exceeding RM500 from abroad sold online by seller and sent to consumers in Malaysia via air courier service.

### **Managing revenue leakages**

27. Under the Budget 2022 t, several initiatives were introduced to curb elements of revenue leakage or harmful practices that relate to cross-border tax evasion and double non-taxation. These initiatives include the removal of the tax exemption on foreign-source income received in Malaysia by Malaysian tax residents, the

introduction of a Tax Compliance Certificate as a pre-condition for tenderers to participate in Government procurement and the implementation of the Tax Identification Number (TIN).

28. Through amendments in the Finance Bill 2021, the Inland Revenue Board Malaysia (IRBM) is able to address the issues of revenue leakages through the introduction of a new provision which empowers IRBM to request for a taxpayer's bank account information from financial institutions for the purpose of making an application to the court for a garnishee order. Also, certain payments made to resident agents, dealers or distributors who are individuals and who have received more than RM100,000 will be subject to a 2% withholding tax.

### **Malaysia's commitment at the international level**

29. Malaysia has always been responsive to current changes in the internationally agreed tax standards to ensure a competitive environment to attract foreign and domestic direct investment as well as to prevent cross-border tax evasion activities. Malaysia joins the OECD Inclusive Framework (IF) as an associate member of Base Erosion and Profit Shifting (BEPS) in 2017 and has implemented the four (4) minimum standards of the BEPS Action Plan, while continuing to review the rest of the Action Plan under Malaysia's domestic laws.

30. As Multinational Enterprises (MNEs) depend heavily on digitalisation, existing tax policies need to be reviewed to prevent revenue leakage and profit shifting. In addressing these challenges, the Government and OECD are currently discussing the implementation of taxation on the digital economy under the BEPS Action Plan 1 and have agreed to implement the Two-Pillar approach, namely Pillar 1 and Pillar 2. These pillars are expected to be implemented starting 2023.

31. Pillar 1 highlights the allocation of taxing rights and seek to undertake a review of the profit allocation and nexus rules to a country that was previously subject to the application of the concept of permanent establishment, either through domestic legislation or which has been agreed through a bilateral taxation agreement subject to prescribed conditions.

32. Pillar 2 introduces a minimum effective tax rate at the global level of 15% to ensure a level playing field between countries in attracting foreign direct investment. It aims to prevent harmful tax planning that can lead to tax base leakage and profit transfer to countries with low tax rates subject to set conditions.

33. Currently Malaysia is reviewing technical details of two pillars including the possibility of introducing Qualified Domestic Minimum Top-up Tax (QDMTT) under the Pillar 2.

## **Strategies to increase tax revenue**

### e-Invoicing

34. To support growth of the digital economy, the Government intends to implement e-Invoicing in stages in effort to enhance the efficiency of the country's tax administration management. It is in line with the 12MP, where the focus is on strengthening the digital services infrastructure and digitalising tax administration.

35. The implementation of e-Invoicing will improve the quality of services and reduce compliance costs to taxpayers as well as increase the efficiency of business operations. Based on the studies made on international tax administrators, the e-Invoicing streamlines and strengthens the national tax system, increases tax transparency and provides a more accurate assessment of compliance risk. This e-Invoicing initiative will also support the use of TIN which will be implemented in Malaysia from year 2022 as a measure to expand the income tax net.

## **Strategies to strengthen the tax system**

36. The Government will continue to implement the tax reform initiatives that were proposed by the Tax Reform Committee which focuses on measures to broaden the tax base such as undertaking a review on broad-based incentives, reliefs and deductions. Tax administration will be further improved through comprehensive registration of taxpayers; better training of tax personnel; improved registration of cross-border trade; strengthened audit and investigation; and enhanced legal certainty for taxpayers.

## Expenditure Strategy

### 2022 expenditure performance

37. As at end-April 2022, performance of total expenditure which includes the COVID-19 Fund stood at 35.2% of the total budget allocation (as shown in Table 1).

**Table 1:  
Expenditure Performance for Operating Expenditure (OE), Development Expenditure (DE) and COVID-19 Fund January – April 2022**

<b>Component</b>	<b>Initial Allocation (RM billion)</b>	<b>Expenditure (RM billion)</b>	<b>Percentage (%)</b>
<b>Operating Expenditure</b>	233.5	87.5	37.5
<b>Development Expenditure</b>	75.6	23.2	30.7
<b>COVID-19 Fund</b>	23.0	6.2	27.0
<b>Total</b>	<b>332.1</b>	<b>116.9</b>	<b>35.2</b>

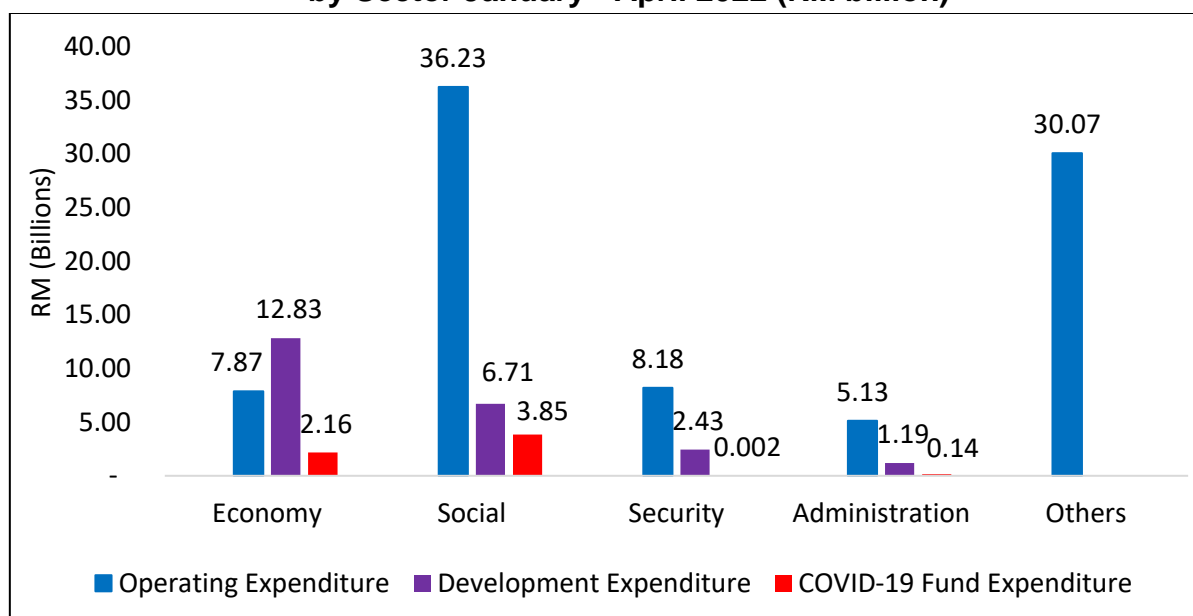
Source: JANM's Expenditure Performance Report (April 2022)

38. In line with the focus to ensure the wellbeing of the rakyat, the operating expenditure recorded RM87.5 billion mainly for the social sector as illustrated in Table 1. This includes expenditure for the education subsector, attributed to the full resumption of face-to-face learning in all education institutions. In addition, the payment for subsidies and social assistance particularly fuel subsidies remain significant.

39. The Government is committed to revitalising the economy as well as enhancing the wellbeing and inclusivity of the rakyat. In this regard, RM23.2 billion or 30.7% of development expenditure was channelled to the economic sector in the first four months of 2022.



**Chart 1:  
Operating Expenditure (OE), Development Expenditure (DE) & COVID-19 Fund  
by Sector January - April 2022 (RM billion)**



Source: JANM's Performance Report (April 2022)

40. Meanwhile, a total of RM6.2 billion was disbursed through the COVID-19 Fund. The largest share was attributed to the social sector which encompassed the payment of Bantuan Keluarga Malaysia, which benefitted around 9.6 million recipients.

41. In line with the spirit of Keluarga Malaysia, the Government has also provided additional allocation to address the rising cost of living, increase in global commodity prices as well as the impact of recent floods experienced nationwide. The additional allocation was mainly for petrol subsidies, COSS, chicken and egg subsidies as well as for flood relief. Consequently, total expenditure for 2022 is expected to increase significantly arising from these unanticipated subsidies. Assuming the current global commodity prices level remains, and the Government maintains current subsidised prices, there will be potentially a RM30 billion increase in subsidies expenditure.

### **Public expenditure strategy – optimising and controlling expenditure**

42. In developing the public expenditure strategy, emphasis will be given towards supporting fiscal reforms to rebuild the Government's fiscal space in the post pandemic period. Given the expected persistent high global commodity and food prices, the key priority will be to undertake a more targeted approach to subsidies,

especially for the vulnerable. Furthermore, the Government will continue to optimise expenditure as well as reduce wastages and leakages in ensuring value for money spent.

## **Focus of Budget 2023**

### **Macroeconomic outlook for 2023**

43. In 2023, the IMF projects the global economy to grow by 3.6% while world trade is expected to expand by 4.1%. The global crude oil price is forecast to remain elevated at an average of USD93 per barrel and the global inflation rate is projected at 4.8%.

44. Following the transition to the endemic phase and the reopening of international borders in 2022, the Malaysian economic growth is expected to maintain its positive trajectory in 2023, mainly driven by domestic demand. According to the IMF's Article IV Consultation Staff Report released in April 2022, the Malaysian economy is projected to remain resilient at 5.7% in 2023 while headline inflation is forecast to moderate at 2% in 2023. The growth will be mainly supported by further expansion in domestic demand primarily private consumption and private investment which are expected to grow by 5.7% and 8.2%, respectively.

45. On the supply side, the services and manufacturing sectors will continue to spearhead the economy especially by strategic and high impacts industries. The convergence between automation and digitalisation with traditional sectors will drive greater advancement in machinery and equipment, medical devices, automotive and ICT, as well as further enhancement of the digital economy especially through the promotion of digital healthcare and adoption of autonomous delivery vehicles. This development will provide further impetus for growth in both services and manufacturing sectors. Meanwhile, the continuation of high multiplier infrastructure projects including the Pan Borneo Highway, East Coast Rail Link (ECRL) and Mass Rapid Transit (MRT) will continue to boost investment in line with relaxation of SOPs particularly in the construction sector as well as the reopening of international borders.

46. Private investment will be further supported by the Government's measures to promote quality investments which emphasise sustainable development. Priorities will be given to new and existing high value-added and technology-driven growth areas that include manufacturing of high-tech semiconductor, which in turn will create greater job opportunities and improve income prospects. This goes in line with expected robust external demand across all sectors, particularly in the semiconductor industry, emanating from the fast acceleration of digitalisation and a global technology upcycle that would propel Malaysia's exports, especially of electrical and electronic (E&E) products.

47. Private consumption is anticipated to be sustained in line with higher employment and disposable household income. As private expenditure is expected to drive growth, the Government will continue to provide a conducive environment to promote a more sustainable and inclusive economic growth. Furthermore, public sector capital spending will continue to complement the private sector with the resumption of projects with high multiplier effects and the accelerated implementation of development projects under the 12MP. In addition to the public transport and infrastructure projects, the Government aims to improve the country's digital infrastructure through the implementation of programmes under the Jalinan Digital Negara (JENDELA) plan.

48. Furthermore, the Government will undertake measures to lift our long-term growth potential and create quality, high paying jobs for Malaysians. These include, generating more inclusive growth by ensuring our talent pool is future-ready particularly through upskilling and reskilling as well as enhancing the social protection framework to be more targeted. Accelerating digitalisation and making technology as core enabler of an innovation-based growth strategy as well as advancing the Environmental, Social and Governance (ESG) agenda will also continue to be top priorities.

49. Nonetheless, the near-term downside risks are expected to remain in 2023 especially in terms of prolonged global uncertainty in supply chains, commodity and food prices, as well as global financial conditions. The Government will continue to monitor various economic risks and ensure that policy decisions effectively manage any external shocks that may affect the overall well-being of people and businesses.

## **Budget 2023 themes – Strengthening Recovery, Facilitating Reforms Towards Sustainable Socio-Economic Resilience of *Keluarga Malaysia***

50. The 2023 Budget will be formulated based on the following three (3) priority areas:

- a. Reinforcing the momentum of economic recovery by ensuring it is not just a recovery in GDP terms but also a job and income recovery for Malaysians and businesses.
- b. Strengthening economic resilience against future shocks through reforms towards better social protection especially of vulnerable segments of society, a stronger public health system, more sustainable fiscal position to provide buffers against future shocks and by undertaking more targeted forms of subsidies and assistance.
- c. Implementing comprehensive reforms in the economic and social aspects for businesses, priority sectors and the nation to emerge more competitive globally while advancing its sustainable development agenda.

51. Essentially, the 2023 Budget will continue to support growth and focus on reforms to elevate the rakyat's wellbeing, income and social protection, to improve the competitiveness of Malaysian businesses and move up the value chain, in addition to strengthen the nation's resilience against future shocks and consolidate the Government's fiscal position.

## **People**

### **Raising income**

52. The health of the labour market, among others, is monitored through the growth of the median monthly salaries and wages. As of 2020, the monthly median salaries and wages at the national level was recorded at RM2,062, which had contracted by 15.6% from the previous year due to the impact of the COVID-19 pandemic (2019: RM2,442). Similarly, the monthly median household income was RM5,209 in 2020 (2019: RM5,873) with most income generated was in the form of paid employment.

53. Moving forward, in 2023, economic activities are expected to be fully normalised with improving consumer sentiments and increasing labour demand. Therefore, more job opportunities are expected to be available in the market while the income prospect is projected to improve, coupled with a more manageable inflation outlook. To achieve these outcomes, various initiatives and strategies to increase the income of the rakyat will be continued. Among others, the main initiatives will focus on continuing the upskilling and reskilling programmes, enhancing productivity through digitalisation of economic activities and ensuring a decent wage among citizens including through a revision in the minimum wage. In addition, strategies to expedite automation and high-value added in production activities will also be strengthened to encourage the creation of more high-paying jobs.

54. To further improve the wellbeing of the rakyat, the Government will continue attract more investment. In achieving this, the business and investment environment will be further improved to ensure investment activities will generate positive externalities which eventually translated to higher disposable income for the rakyat. To ensure a more balanced development nationwide, the Government aims to attract high quality investment to all economic corridors. Therefore, emphasis will be given on improving business ecosystem, creating more jobs and improving infrastructure in less developed regions or states, namely Sabah, Sarawak, Kelantan, Terengganu, Kedah, and Perlis.

### **Holistic wellbeing**

55. The Government's agenda for inclusive development aspires to promote holistic wellbeing for the rakyat, enhancing the environment to live, work and play. Such an ambition requires the development of liveable communities, which includes providing access to quality housing, education, healthcare, security and transportation. The Education and Health Ministries will continue to be recipients of the largest operating expenditure reflecting the importance given to universal access to quality education and healthcare, with increased emphasis on educating talent to be future ready and focusing on preventative healthcare in the context of non-communicable diseases (NCDs). A gender responsive budgeting approach will also be undertaken recognising the differences in outcomes, thus requiring potentially customised approaches in areas such as welfare, health, safety, employment and entrepreneurship programmes.

## **Social protection**

56. The pandemic has made clear the need for more integrated, target-specific and effective measures to ensure the welfare of the people are protected. While the Government continues to focus on reducing the financial burden of the people, the provision of direct cash assistance to vulnerable groups will be enhanced and more targeted, especially to the elderly, school students, persons with disabilities (PWDs), indigenous people and single mothers. In addition, continued efforts will be undertaken to manage the rising cost of living and reduce its impact on the people.

57. The pandemic has also highlighted that lower income groups and the informally employed were most at risk from economic shocks. Hence, the social safety net programmes and the social protection system are also designed to protect the people from various vulnerabilities. A good social protection system also promotes social insurance to everyone who are registered with the public employment services agencies or retirement savings schemes, diminish people's exposure to risks, and enhance their capacity to protect themselves against hazards or loss of income. Therefore, the Budget 2023 will focus on increasing the coverage of such protection, especially among the self-employed and informal sector workers.

58. Towards optimising on Malaysia's potential workforce, Budget 2023 will also provide specific focus on facilitating employment or re-employment of segments particularly, unemployed graduates, women who left the labour market, PWDs and the long-term unemployed. Interventions will include reskilling in line with sectoral demands and jobs according to localities. Increasing the female labour force participation rate will require interventions including facilitating access to quality and affordable childcare.

## **Targeted assistance**

59. It is estimated that more than half of subsidies provided by the Government have benefitted the higher income or the T20 household income group. Therefore, the Government will engage with various stakeholders to explore ways to implement more targeted assistance in the 2023 Budget. Particularly, cash assistance programmes as well as fuel subsidies will be improved via more effective distribution mechanisms. These mechanisms are anticipated to provide assistance to those who are most in

need of Government assistance. Overall, a more targeted assistance will be undertaken in ensuring that the Government is able to provide the optimum social safety net for vulnerable groups without compromising its fiscal position.

60. With global inflationary pressures expected to persist, the Government is committed to mitigate the challenge of the rising cost of living on the rakyat, especially the more vulnerable segments of society. The Government will continue to intervene where necessary to mitigate sharp rises in the price of essential goods while ensuring the Government's resources are spent on those who truly need it through targeted subsidies. The 2023 Budget will also focus on ensuring the security essential foods at reasonable prices.

## **Business**

### **Small and medium enterprise competitiveness**

61. Given the significant contribution of small and medium enterprises (SMEs) towards the economy, the Government will more greatly emphasise the development of SMEs to be more competitive and resilience. The COVID-19 crisis has directly impacted all business segments and uncovered the serious shortcomings among the SMEs, especially in terms of the high reliance on informal sources of funding, paucity of technology adoption and investment in research and development (R&D), as well as the lack in effective integration of SMEs with global value chains.

62. Therefore, resilience building among SMEs is vital. The Budget 2023 will focus on strategies to restore business capabilities and enhance the competitiveness of industries. Concerted effort will be made to enhance the knowledge, digital capabilities as well as managerial practices of SMEs. In this regard, the Government will focus on strengthening programme coordination across ministries to ensure swift implementation of various initiatives. Also, specific measures to foster linkages between the SMEs and the innovator community (MNCs and academia) will be prioritised to encourage and incentivise the adoption of innovative processes by the SMEs. In addition, initiatives to encourage SMEs to embrace ESG practices and undertake more green investment will also be promoted .. Collectively, these efforts

will will accelerate the creation of high growth local start-up industries and innovative firms that will drive Malaysia's economic transformation.

## **Productivity**

63. Given the importance of increased digitalisation and automation in strengthening competitiveness, efforts will be intensified to enable all sectors to benefit from digital transformation promotion strategies. Firm-level productivity improvement will continue to be focused through coaching interventions in implementing innovative and productive activities in driving automation adaptation, particularly in labour-intensive industries. Cooperation between various ministries and relevant agencies will be further intensified in creating an integrated digital ecosystem to boost national productivity.

## **Tourism industry recovery**

64. The Government has launched the Tourism Recovery Plan (TRP) 2022 to increase the mobility of Malaysians to travel and spend by offering discounts, vouchers and rebates involving two clusters namely the Land Transport Cluster and the Tourism Association Cluster. This initiative will be gradually expanded in 2023 to include Air Transport Clusters and Accommodation Clusters. The TRP also aims to revitalise the tourism industry as well as restore tourist confidence in a given destination. Recovery measures will be targeted to cater to the needs of tourists, including higher demands for improved safety and hygiene measures. These include providing better quality products and services, enhancing the sustainability of tourism products, strengthening brand positioning and promotion, instituting governance reforms and intensifying domestic tourism.

## **New growth areas**

65. Malaysia aspires to become a high-income nation by 2025. Nonetheless, the path towards achieving this goal is not without its challenges. Global supply shocks, rising inflationary pressures, evolving economic landscapes and uneven recovery among countries pose potential risks to Malaysia's economic growth and development momentum. Considering these global challenges as well as the nation's comparative advantage, current requirements and future trends, six main new growth areas have



been identified to accelerate Malaysia's transformation into a high-income nation. These new growth areas, encapsulated in the Industry4WRD, Shared Prosperity Vision 2030, the 12MP and National Investment Aspiration (NIA) include advanced E&E, aerospace, the biomass industry, chemicals and chemical products, pharmaceuticals as well as the digital economy.

66. The E&E industry continues to be the key driver of Malaysia's industrial development and contributes significantly to GDP growth, export earnings, investment and employment. It has also been Malaysia's largest export earner for decades. In 2021, the industry contributed RM455.7 billion in export value and equivalent to 42.7% of all manufactured goods exported. It also accounted for a remarkable 7.6% of Malaysia's GDP in the same year, producing components such as semiconductors for mobile devices, automotive and computer parts. This exhibits that Malaysia has a strong E&E industry that could be scaled up further on new and emerging products such as embedded software, Micro Electro-Mechanical System (MEMS) & Sensors, compound semiconductors, imaging technologies as well as batteries and energy management.

67. The E&E industry can be considered a success story for Malaysia, which saw Penang being dubbed "The Silicon Valley of the East", while the industry began to contribute significantly to the domestic economy. Moving forward, the Government will focus on promoting advanced E&E and the industry's capacity to value add. In this regard, the Government will continue to build a sound ecosystem to create more high-end jobs in the local E&E industry, including by improving the education system particularly to address talent mismatch.

68. The aerospace industry is also identified as a key focus area. The Malaysian Aerospace Industry Blueprint 2030 envisages for Malaysia to be the main aerospace nation in Southeast Asia and subsequently become an integral part of the global market by 2030, with an expected annual revenue of RM55.2 billion and more than 32,000 high income jobs created. The blueprint encompasses five (5) key subsectors, which include maintenance, repair and overhaul (MRO), aero manufacturing, system integration, engineering and design services as well as education and training.

69. Being the second-largest palm oil producer globally, with a total plantation area of 5.7 million hectares, the biomass industry has also been identified as another key new growth for the nation. Greater focus will be given to developing high value-added products and services while increasing the utilisation of high value-added biomass products. This would entail formulating a comprehensive biomass policy and developing local technology through R&D&C&I. Subsequently, new jobs will be created, and the environment will be protected following lower greenhouse gas emissions.

70. Malaysia's chemical industry plays an important role in the manufacturing sector as well as to national growth, contributing 10.5% to the sector and 2.6% or RM35.5 billion to GDP in 2021. The sector also accounted for 5.7% of total export value in the same year, with a contribution valued at approximately RM70.7 billion. Moving forward, the industry has the potential to expand by producing new and emerging products such as speciality chemicals, green chemicals, specialised plastics and more.

71. The pharmaceutical industry in Malaysia also has huge potential and can be developed further to produce more sophisticated drugs and medicines through local research and development and innovation. The pandemic has highlighted the need to build the capacity of the domestic pharmaceutical industry in facing new pandemic or diseases in the future, with minimal reliance on foreign made pharmaceutical products.

72. The advancement of technology and the ever-changing global economy has highlighted the urgency for the nation to keep pace and adopt a proactive approach towards the digital economy. Continued cross-collaboration between the 12MP, the Malaysia Digital Economy Blueprint (MyDIGITAL), the National Policy of 4IR and other Government initiatives will drive the adoption of digitalisation, technologies and efficient cyber security practices. Initiatives to boost digitalisation and advanced technology adoption will be emphasised. These initiatives, including the implementation of 5G, which will be led by Digital Nasional Berhad (DNB), are expected to provide an enabling environment for the growth of the digital economy.

## **Economy**

### **Inclusive development**

73. In line with Tindakan Pembangunan Bumiputera 2030, the Budget 2023 will increase the role of Bumiputera in the national economy to improve income distribution among communities in Malaysia. In addition, focus will be given to vulnerable groups in order to ensure fair and equitable opportunities for them to participate in national development.

74. In addressing the disparity between states and regions in Malaysia, the Government will ensure that a more balanced development is achieved through better allocation of development resources as well as improved digital connectivity. Towards this end, the roll-out of digital technology will incorporate digital inclusion policies and be made more affordable. This initiative will encourage the wider society, especially those in the rural areas, to be better served through digital applications, products and platforms.

### **Green growth and sustainable development**

75. As the world faces a multitude of environmental issues, including biodiversity loss and climate change, Malaysia is not spared from experiencing its negative impacts. As part of the global efforts in addressing these issues, Malaysia stands committed to achieve our commitments to the United Nations Framework Convention on Climate Change (UNFCCC), our targets under the UN Sustainable Development Goals (SDGs) and our pledge to be a Net-Zero GHG Emissions Nation by as early as 2050. The implementation of the three pillars of the 12MP (economy, social and environment) will ensure that the Nation continues to develop and achieve commendable economic growth, while leaving no one behind in the process, with greater protection and enhancement of the wellbeing of society at all levels, as well as ensuring the proper management of our natural resources and persistent preservation of the environment. Focus will be given on protecting and conserving sources of clean water, providing adequate food and energy while minimizing environmental degradation, and to develop healthy urban environments while conserving critical natural habitats and resources.

## **Islamic Economy**

76. According to the State of the Global Islamic Economy 2022 Report, Malaysia has emerged on top out of 81 countries in the Global Islamic Economy Indicator for the ninth straight year. Given this fact, there is a dire need for Malaysia to live up to this recognition and consistently raise the economic value and competitiveness along the whole supply chain of Islamic economy. Therefore, the Budget 2023 will focus on enhancing the business environment, especially in building the talent, scale and capacity of various Islamic products and services such as tourism, fashion, cosmetics, pharmaceutical, media and recreational services.

77. Being the world's leader in Islamic finance, Malaysia has a robust alternative financing options ranging from Islamic banking and capital market, social capital and fintech. In terms of the development of Islamic social capital, the Government will continue to promote the innovative integration of Islamic redistributive mechanisms in the form of zakat, waqaf, and sadaqah with markets and technology, which are increasingly becoming a significant enabler for Islamic social finance. This emerging financing option presents itself as a unique and powerful tool to supply social capital to the underserved segments of the society and create a significant impact to socio-economic development, bring about stability and likewise, spur sustainable practices and outcomes. In addition, the Government will leverage technology to deliver shariah-compliant financial solutions, products, services and investments in developing a conducive Islamic fintech ecosystem that connects entrepreneurs, investors, and the talented human capital along with the regulators to drive financial inclusion in Malaysia. This initiative will strengthen the potential of Malaysia to become the global Islamic fintech hub.

## **Food security**

78. The challenge in assuring food affordability, availability and accessibility has become prominent due to rising food prices following the current geopolitical tensions and global inflation. Therefore, it is critical to increase domestic food production, especially paddy, fruits and vegetables, livestock, and fisheries to ensure self-sufficiency as well as safeguard the nation from external volatility. In addressing this challenge, the Government has established the National Agro-Food Policy 2021 – 2030 (NAP 2.0) and the National Food Security Policy Action Plan 2021 – 2025. These

policies aim to create a sustainable, resilient, and technology-driven agro-food industry that prioritises food security while promoting the nation's economic growth and wellbeing.

79. In this regard, the agro-food industry will be supported by enhanced productivity achieved through the implementation of best practices, modernisation and smart farming particularly through the adoption of 4IR technologies. Furthermore, the Government will continue to improve food-related supply chain in promoting price stability.

## **Government**

### **Governance**

80. In ongoing efforts to strengthen public sector governance and enhance institutional reform initiatives, the National Anti-Corruption Plan (NACP) was launched in 2019 to fight corruption and improve integrity. The 5-year plan outlined 6 priority areas to be given focus on, namely political governance, public sector administration, public procurement, legal and judicial, law enforcement and corporate governance. The NACP initiatives are still being pursued and the progress of implementation by relevant agencies are consistently monitored to ensure the initiatives are in line with the NACP.

### **Public service delivery**

81. The Government will continue to prioritise transformation of the public service delivery to be more efficient and effective in meeting the needs of the people. Emphasis will be given on developing high-performing public services, improving the efficiency of service delivery, and strengthening accountability and transparency of governance. Efforts to increase digital technology utilisation among the civil servants will be intensified to improve the quality of service and productivity of government services.

82. In ensuring that the public service remains relevant, the public service ecosystems and mechanisms will be strengthened through better cooperation and coordination between the Government and the stakeholders to realign the service delivery to be more facilitative and data-driven to ensure a robust evidence-based policy making process is practised. In shaping a new landscape of the public service, size, structure and function of government agencies will need to be redesigned to address the issues of duplication and over lapping of service delivery. In this regard, human capital investment of Malaysia's public sector will be emphasised to increase the sophistication and specialisation of skills among the public servants who will eventually deliver better services hence promoting an efficient and effective public service delivery.

83. The experience of the COVID-19 crisis and 2021 floods demonstrated the importance of a whole of nation approach where among others private sector healthcare capacity was utilised to complement public healthcare and in delivering flood relief, the combination of Federal Government, state government, corporates and NGOs helped to expedite delivery of flood relief. Going forward, Budget 2023 will continue to explore areas to strengthen public private collaboration in the delivery of public services including exploring alternative service delivery mechanisms leveraging on NGOs and civil society to support delivery of social programmes.

### **Disaster risk management**

84. While Malaysia has seen an increase in natural disaster occurrences in the past few years, notably with the recent floods and landslides that have hit several parts of the country, efforts have been undertaken by the various relevant ministries and agencies in facing these disasters. Measures will be put in place to develop proper integrated early warning systems as well as the implementation of flood mitigation projects in high-risk areas. Attention will also be given to strengthen the Government's early response measures and coordination whenever Malaysia is faced with these disasters.

## **Strengthening resilience of public health**

85. The COVID-19 pandemic has proven that the country's health system needs to be enhanced in ensuring that various quality services can be delivered to the people. In addition, the sustainability of the country's health system will be more secure and health crises that may arise in the future can be addressed more effectively. In this regard, the Government's view that investment in health is vital for the prosperity of the people and the development of the country. As such, the Government will empower primary health as the front line for healthcare services. Initiatives that play a role in providing holistic health management services, more robust and promotive wellness programmes and disease prevention through community health will be introduced. Not to forget, poor clinics in the country will be upgraded gradually. In addition, the Government will focus on the improvement of buildings and health facilities as well as the adaptation of new technologies and precision medicine. Furthermore, the Government will focus on the social agenda as well as healthcare to the elderly generation so that they can live a prosperous and healthy.

86. The Government will further strengthen its public health function, especially in disease surveillance and crisis preparedness in the future in ensuring the country is able to overcome such crises without affecting the wellbeing of the people and the country's economy. In the era of the Industrial Revolution 4.0, the efficiency of the national health system can be improved through organised and extensive digitization of health information. Data sharing and service integration between various public and private sector service providers will take place efficiently and securely. Therefore, the people will be able to experience the continuity of health services with complete information when getting services from various facilities. The use of big data and artificial intelligence as well as comprehensive analytics will strengthen evidence-based policy planning.

## Conclusion

87. The Budget 2023 will be prepared to reinforce the Malaysia's recovery both in terms of returning economic performance and the lifestyle of the rakyat back to pre-pandemic norms following the reopening of most economic sectors since end of 2021. Several subsectors are expected to continue showing better performance including natural gas, food manufacturing, petrochemicals, E&E, residential buildings, finance, insurance and private health services. In addition, the transition phase to endemic as well as the easing of several more COVID-19 related restrictions including the reopening of the country's borders to foreign travellers will further stimulate the country's economy going forward.

88. Consequently, economic activities are projected to recover strongly, most notably the tourism industry, resulting in greater demand for labour to support the expansion of business operations. The labour market continues to improve with the national unemployment rate falling from 4.6% in the 2021 to 4.1% in Q1 2022.

89. The IMF projects Malaysia economy to grow at 5.7% in 2023. Thus, a key focus of the Budget 2023 is to reinforce Malaysia's recovery leveraging on global growth and opportunities. Beyond recovery, Budget 2023 will also transition towards initiating reforms to facilitate better job and income opportunities, enhance rakyat's wellbeing as well as promote inclusive and sustainable socio-economic development for Keluarga Malaysia. With heightened geopolitical tensions and high global commodity and food prices, Budget 2023 will need to also strengthen Malaysia's resilience against downside risks and help mitigate the impact of global volatilities and inflation on Keluarga Malaysia.

90. The Budget 2023 will emphasise a more sustainable fiscal position by improving revenue and expenditure efficiency, improving the rakyat's wellbeing through increasing the income of the rakyat, improving social protection and providing government assistance in a more targeted manner, in addition to driving the business sector by enhancing the competitiveness of small and medium enterprises, increasing productivity, and focusing on the new growth opportunities.

91. In ensuring that the specific programmes are implemented efficiently and



effectively in 2023, the Government will undertake various engagement and consultative sessions regularly. The Whole-of-Nation approach will be applied where the relevant government agencies are required to obtain input and suggestions from various stakeholders to ensure that the drafted budget is comprehensive and inclusive in line with the “Keluarga Malaysia” spirit. It is the Government’s hope that the publication of this Pre-Budget Statement will assist in providing guidance on the priorities of the Budget 2023, towards focusing inputs and proposals from the public and stakeholders, in order to formulate a Budget that best meets the needs of the public, business community and the Government.