2 Malaysia

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I. Introduction

"**Malaysia, Truly Asia**" captures and expresses the crux of the country's unique diversity. Malaysia is one of the countries consist of a multi-ethnic and multi-religious in Southeast Asia and has a robust economy. Malaysia consists of two parts: West Malaysia (Peninsular Malaysia) and East Malaysia or Malaysian Borneo (Sabah, Sarawak & Labuan). Peninsular Malaysia is located partly on south of Thailand and northern of Singapore. While Malaysian Borneo is located on the northern one-third of the island of Borneo, bordering Indonesia, Brunei, and the South China Sea. Malaysia consists of 13 states and 3 federal territories, where Kuala Lumpur is Malaysia capital city. The institution of constitutional monarchy remains one of the core institutions in the system of parliamentary democracy practiced in Malaysia until nowadays.

Since gaining independence in 1957, Malaysia has successfully diversified its economy from one that was initially agriculture and commodity-based, to one that now plays host to robust manufacturing and service sectors, which have propelled the country to become a leading exporter of electrical appliances, electronic parts and components. Essentially, Malaysia is rich in mineral resources and mining. Malaysia's key natural resources include large reserves of natural gas, petroleum, copper, tin, bauxite and iron ore. Mineral production contributed a lot to Malaysia's economy which leading exporter of tin, rubber, palm oil, and tropical hardwood. Investment in the country's mining sector was mostly made to carry out the exploration and production activities of oil and natural gas.

Presently, services sector & manufacturing sector continued as the main impetus to the economic growth followed by the mining & quarrying sector and agriculture sector and lastly construction sector. However, in economy, like many across the world today, Malaysian also has experienced a downturn because of the COVID-19 pandemic, which attack since March, 2020.

In term of participation in international organization, Malaysia is a founding member of the Association of Southeast Asian Nations (ASEAN) since 1967. Malaysia joined to be member of the Asia-Pacific Economic Cooperation (APEC) since 1989 and member of Organization of Islamic Cooperation (OIC). As a former British colony, Malaysia also a member of the Commonwealth. Malaysia is affiliated with the United Nations (UN) and many of its specialized agencies, including The United Nations Educational, Scientific and Cultural Organization (UNESCO), World Bank, International Monetary Fund (IMF) and many more.

I.1 Summary of Malaysia's History

In 2020, Malaysia celebrated 63 years of independence from the British colonization. Malaysia's history is said to have started from the Sultanate of Malacca which was around 1400 AD. At the time of its glory, the Sultanate Territories covered most of the East Coast of Peninsular Malaysia and Sumatra. Malacca emerged as a glorious Government because of its strategic location which was the meeting point between East Asia and the Middle East. This situation allowed Malacca to emerge as a major trading centre for spice trade, especially in Southeast Asia. Islam was the main religion which emerged and became the main religion of the residents because the Ruler himself had professed the religion.

In 1511, Malacca fell into the hands of the Portuguese and that was the beginning of the colonial era in Malaya. After that, Malaya fell into the hands of the Dutch in 1641 and British in 1824 through the Anglo–Dutch Treaty. British colonization was the longest compared to others. The British had integrated all the Malayan administration which was previously managed by the Malay Rulers with the help of state dignitaries. The British interference had awakened dissatisfaction among the local population.

During the 1920s and 1930s, many residents of Malaya had started to receive education, either from the Middle East or local education. As a result, this educated group had appeared to fight in the name of nationalism. When the people of this country were so eager to end the invasion, they were jolted by the

Japanese landing at the end of 1941 which brought Malaya to another colonial era. Japan had occupied Malaya until 1945 before surrendering as a result of the bombings of Hiroshima and Nagasaki.

Japanese resignation has given space to the Communist Party of Malaya (PKM) to control Malaya. PKM has launched attack on Malaya through violence, they had murder three European rubber farm managers in Sungai Siput, Perak. Thus, in June 1948, Sir Edward Gent has declared emergency over Malaya. PKM did not succeed Malaya and the British returned powerful. British Military Administration or BMA is between the end World War II and establishment of the Malayan Union. On 1st April 1946, The British established the Malayan Union. However, this idea got a fight from the Malays for abolition the royal institutions and the Malays privileges.

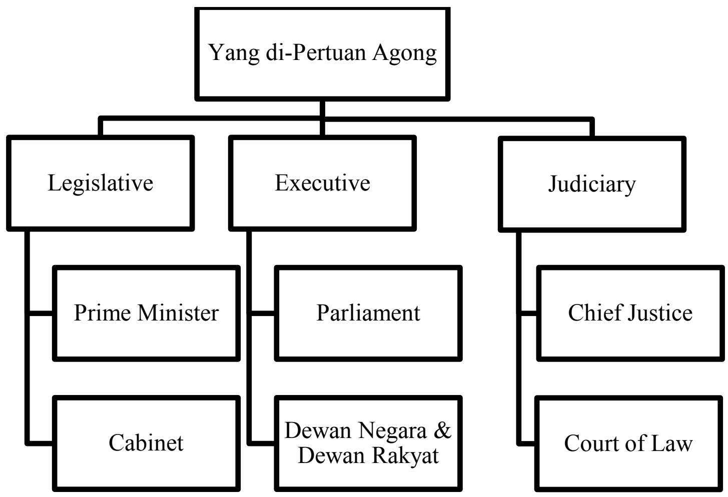
The emergence of Tunku Abdul Rahman had given a silver lining to the struggle of the Malayan nationalists when his action of forming the Alliance Party (Malay: Parti Perikatan) had started to open the eyes of British to allow the Malayans to govern their own country. The unity between the three major ethnic groups namely Malays, Chinese and Indians led to the London Agreement that was signed on 8 February 1956 and had given signs that Malaya will achieve independence on 31 August 1957. Upon returning Tunku Abdul Rahman Al-Haj from London, Tunku has made a declaration independence of Malaya in Padang Bandar Hilir, Melaka on 20 February 1956. On 27 May 1961, Tunku Abdul Rahman Putra Al-Haj has suggested the merger of five colonies namely the Malaya, Singapore, Sabah, Sarawak and Brunei to form a new country.

On 9 July 1963, representatives of the British government, Malaya, Sabah, Sarawak and Singapore except Brunei caused the matter cannot be avoided. The desire for forming a state called 'MALAYSIA' is achieved on 16 September 1963. However, on 9 August 1965, Singapore separated from Malaysia to become an independent and sovereign state until today.

I.2 Government of Malaysia

The Government of Malaysia, officially the **Federal Government of Malaysia** *(Malay: Kerajaan Persekutuan Malaysia),* is based in the Federal Territory of Putrajaya. Malaysia practices Parliamentary Democracy with Constitutional Monarchy and His Majesty the King as the Paramount Ruler. The nine Malay States (Sultanates) are constitutionally headed by a traditional ruler of royal descent also known as the Council of Ruler. The representative head of state is the king, (who is chosen every five years on rotational basis among the ranks of the rulers of the nine Sultanates). The Federal Constitution was legislated with the setting up of conditions for this system to exist. One of the characteristics of Parliament Democracy is the separation of powers into three parts which are the Legislative, Judiciary and Executive. The highest legislative body of the country that consists of three main components which is His Majesty the King, Senate and House of Representative. Executive power is vested in the cabinet led by the prime minister, who is the head of government. Judiciary is a body of judges in a constitutional system where judges are given the power to interpret and execute the law.

Figure 1: Chart Representing the Separation of Power in Malaysia



I.3 Political situation in Malaysia

Malaysia has had a multi-party system since the first direct election of the Federal Legislative Council of Malaya in 1955 on a first-past-the-post basis. Malaysian politics has been relatively stable over the last decades. The ruling party was the Alliance Party (Malay: *Parti Perikatan*) coalition ruled the country since its independency from Britain in 1957 and from 1973 onwards, its successor, the Barisan Nasional (National Front) coalition. The Barisan Nasional (BN) government together with its predecessor, served for 61 years and was one of the world's longest serving governments. But it lost its hold of the parliament for the first time in Malaysian history in the 14th general election that was held on 9 May 2018. Former Prime Minister Tun Dr. Mahathir Mohamad at the age of 92 returned to the office as the leader of the Pakatan Harapan coalition 15 years after his first tenure, became the oldest head of government in the world.

The Pakatan Harapan (PH) coalition currently consists of Democratic Action Party (DAP), People's Justice Party (PKR) and National Trust Party (AMANAH), The Malaysian United Indigenous Party (BERSATU) with Sabah Heritage Party (WARISAN) and United Progressive Kinabalu Organization (UPKO) as confidence-and-supply partner. The coalition governed the country from 10 May 2018 until 24 February 2020, when Tun Dr. Mahathir Mohamad resigned as Prime Minister of Malaysia. While the opposition is predominantly made up of National Front (BN), Pan-Malaysian Islamic Party (PAS), Sarawak Parties Alliance (GPS), Sabah United Alliance (GBS), Sarawak United Party (PSB), and other smaller parties. The Messianic narrative hit its limits in February 2020 when Mahathir resigned, the PH coalition split, and the government collapsed. A faction of BERSATU party helped form a governing coalition with UMNO and other parties in a fantastic power game, taking power in March without an election.

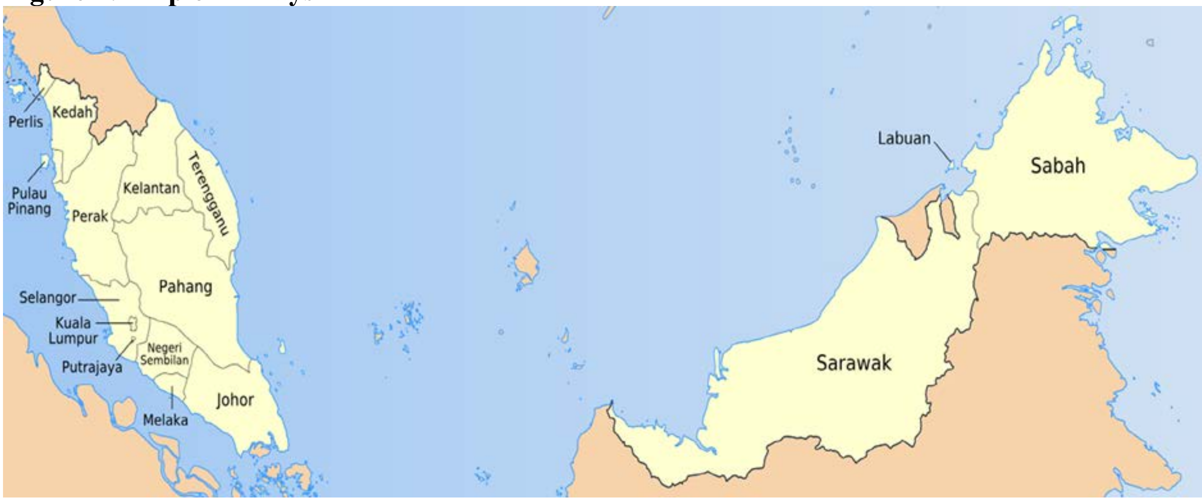
Today, Tan Sri Muhyiddin Yassin, the new prime minister, is in a tough position. In March 2020, shortly after his appointment, Muhyiddin took over Bersatu and expelled its president, Mahathir. Bersatu is now divided between those who support Mahathir (the founder), most of whom have left the party, and Muhyiddin. It does not match UMNO's machinery and influence. The Covid-19 pandemic offered Muhyiddin an opportunity to delay promised democratic reforms. Muhyiddin is squeezed between a split opposition (led by Mahathir and Anwar) and the pressure of his strongest government allies, UMNO and the Islamic Party of Malaysia (PAS). He lacks a simple parliamentary majority or strong support from his own government, so he does not have the requisite power to press for reforms. As his government has concentrated exclusively on urgent responses to the pandemic, Muhyiddin's own political policy still remains vague. These tensions could precipitate the dissolution of Parliament and an early election in the aftermath of the public health crisis, when the economic recession hits all layers of Malaysian society more profoundly.

I.4 Geography and climate

Malaysia is located close to the Equatorial line, Latitude 1° and 7° North and Longitudes 100° and 119° East. Malaysia is the 68th largest country in the world in term of land which is covers an area of 330,548 square kilometers (127625 square miles)[11]. There are the two parts of Malaysia – East Malaysia (Sabah & Sarawak, Federal Territory of Labuan) which in total cover area 198,444 square and West Malaysia (Peninsular Malaysia) total cover is 132,104 square kilometers. The Malaysian capital, Kuala Lumpur, lies in the western part of the peninsula, about 40 km (25 miles) from the coast; the administrative centre, Putrajaya, is located about 25 km (16 miles) south of the capital. West Malaysia makes up around 40 percent of the total land area of the country, whereas the remaining 60 percent makes up for East Malaysia. The South China Sea separate between East and West Malaysia by about 640 km (400 miles).

[11] https://www.worldometers.info/geography/largest-countries-in-the-world/

Figure 2: Map of Malaysia



Source: Wikimedia Commons

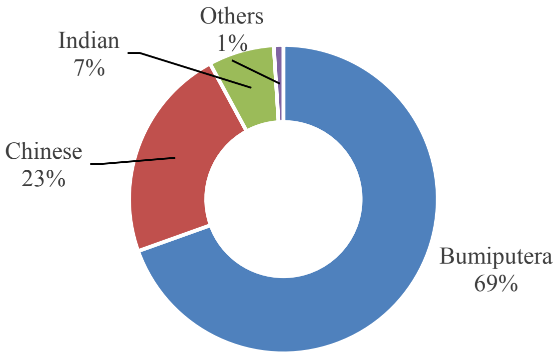
Malaysia experiences hot and humid weather throughout the year. The average daily temperature across Malaysia is between 21°C and 32°C. The highest temperature recorded in 2019 is 38°C and the lowest temperature recorded is 17.6°C. Typically, the Malaysian climate is influenced by the winds blowing from the Indian Ocean (Southwest Monsoon - May to September) and the South China Sea (North-Eastern Monsoon - November to March). Its annual rainfall is 80 percent a year which is between 2000mm to 2500mm. In 2019, district of Mulu in Sarawak holds highest rainfall in a year with 4,343.54 mm and district of Kuala Pilah in Negeri Sembilan holds the lowest rainfall in a year with 1,308.26 mm. Interestingly, lightning strikes in Malaysia are a very common occurrence due to its tropical climate and location with highest number of days with lighting in a year is 318 days. While, Malaysia's thunderstorms are spectacular, violent and very frequent which has an average of 226 days of thunderstorms in a year in 2019.

I.5 Demographics & Population

The Malaysian population consists of people of different races, religions and race. The largest group of Malaysians consist of three main races, namely the Malays, Chinese and Indians. Orang Asli are the natives in Peninsular Malaysia and is generally divided into three major groups, namely the Negrito, Senoi and Proto-Malay. Sabah's population consists of 32 ethnic groups and the major ethnic is Kadazandusun while Sarawak population consists of 27 ethnic groups and Iban is the major ethnic group. Bumiputra includes Malay, native of Sabah and Sarawak, Orang Asli (aboriginal groups).

In 2020, the prefix data of the population in Malaysia is estimated at 32,657,300 with 29.696 million are citizens and 2.96 million are non-citizens. Of the 29.7 million citizens' population, the composition of the Bumiputera population recorded 69.6 percent in 2020. However, the Chinese and Indian ethnic composition 22.6 percent and 6.9 percent, while Others remained at 1.0 per cent. Based on the latest statistics, composition of Male in Malaysia is 16.8 million people, while the Female consists of 15.9 million people. For year 2020 was the year that Malaysia will do census for the 6th times in the history.

Figure 3: Chart of Main Ethnic Group Composition (estimated 2020)



Source: Department of Statistic Malaysia.

I.6 Culture

A unified Malaysian culture is something only emerging in the country. Malaysia has a multi-ethnic, multicultural, and multilingual society. In Malaysia, Malays, Chinese and Indians and other race live in a pluralistic society. Each ethnic group has been able to retain its cultural identity through maintaining and being allowed to maintain their individual languages, religion and traditions. Malaysia's brand of multiculturalism endeavors to consider diversity as a positive resource, with government policy promoting tolerance between the major ethnic groups to maintain a harmonious and unified society. With this harmonize culture create Malaysia as country's that has a unique diversity.

I.7 Language

Based on the Article 152 of the constitution, it explains that the Malay language known as the official language is the language that cannot be disputed on its functions and its role as the national language. The position of the Malay language as the official language stabilized further with the National Language Act 1967. Its importance as a language of knowledge and the medium of teaching and learning has also led to the Education Act 1961 (revised 1996). But at the same time other languages used by other races in Malaysia, is free to be used such as Mandarin by the Chinese and Tamil by the Indians. Apart from that, English had still dominated the language in the trade and industry sector in the country. The Malaysian Government also encourages its people to master other international languages particularly, in tourism and international trade.

Additionally, as a unique diversify country, many other languages are also used in Malaysia, which contains speakers of 137 living languages. Peninsular Malaysia contains speakers of 41 of these languages. The native tribes of East Malaysia have their own languages which are related to, but easily distinguishable from, Malay. Iban is the main tribal language in Sarawak while Dusunic languages are spoken by the natives in Sabah. Chinese Malaysians predominately speak Chinese dialects from the southern provinces of China. The more common dialects in the country are Cantonese, Mandarin, Hokkien, Hakka, Hainanese, and Fuzhou. Tamil is used predominantly by Tamils, who form a majority of Malaysian Indians. Other south Asian languages are also widely spoken in Malaysia, as well as Thai. A small number of Malaysians have Caucasian ancestry and speak creole languages, such as the Portuguese based Malaccan Creoles, and the Spanish based Chavacano language.

I.8 Religion

Islam is the religion of the Federation but every person is freedom to profess and practice his/her own religion according to the constitution in Malaysia. According to the Population and Housing Census 2010 figures, ethnicity and religious beliefs correlate highly. Approximately 61.3% of the population practice Islam, 19.8% practice Buddhism, 9.2% Christianity, 6.3% Hinduism and 1.3% practice Confucianism, Taoism and other traditional Chinese religions. 0.7% declared no religion and the remaining 1.4% practiced other religions or did not provide any information.

II. Overview of Macroeconomic Activity and Fiscal Position

II.1 Macroeconomic Activity

The main objective of Malaysia's macroeconomic policy is to promote the highest sustainable rate of growth consistent with exchange rate and price stability, while at the same time keeping control on inflationary trends and improving external balances. From the past year, the economy growth in Malaysia in the good shape. However, in year 2020, the COVID 19 pandemic has generated unprecedented repercussions for the global economy. The Malaysian economy also experienced the full impact of the COVID-19 pandemic. Typically, the real gross domestic product (GDP) in Malaysia was shrinking sharply compared with last year 2019. The contraction was mainly attributed to the imposition of the Movement Control Order (MCO) to contain the outbreak throughout the year since March 2020. Though affecting all sectors in the economy, the move was necessary to flatten the COVID-19 curve and save lives. Hence, the Malaysian government has announced several stimulus packages totaling RM305 billion to support both households and businesses. Reinforced by the reopening of the economy in phases, growth is expected to improve gradually during the second half of the year, cushioning the significant contraction in the first half. Thus, Malaysia's GDP is expected to contract by 4.5% in 2020 (2019: 4.3%), before expected rebounding between 6.5% – 7.5% in 2021.

Table 1: Malaysia Key Economic Indicators

Malaysia Key Economic and Forecast	2018	2019	2020[1]	2021[2]
Domestic Production ((% Change)				
GDP (constant 2015 price)	4.7	4.3	-4.5	6.5 - 7.5
GDP (current price)	5.5	4.4	-4,7	8.6 - 9.6
National Income and Expenditure (% Change)				
Gross National Income (constant 2015 price)	3.6	4.8	-3.9	6.2
Gross National Income (current price)	4.7	4.9	-3.7	7.8
Gross National Saving (current price)	-4.3	-2.5	-11.0	2.0
Per Capita Income (current price, RM)	43,089	45,212	43,350	46,101
Federal Government Finance				
Overall Balance (RM million)	-53,385	-51,498	-86,450	-84,840
Federal Government Debt	741,049	793,998	874,276	-
Labour (% Change)				
Labour force	2.0	2.0	1.0	1.1
Unemployment	3.3	3.3	4.2	3.5

[1] Estimate
[2] Forecast
Source: Ministry of Finance, Malaysia; Department of Statistics of Malaysia.

With the bold and swift measures undertaken, Malaysia has been recognized as one of the most successful countries in managing the socio-economic impact of the pandemic. Although domestic demand is expected to remain soft throughout 2020, there are signs of recovery in the second half of the year, particularly in private consumption. On the external front, the collapse in global demand and world trade led to a decline in exports during the year. However, current account of the balance of payments is expected to remain in surplus. On the supply side, all sectors are expected to contract, affected by the unprecedented crisis. Nevertheless, the pace of improvement gathered momentum in the end of 2020, especially in the services and manufacturing sectors, with the resumption of economic activities.

A. Overview on Malaysia Economic Performance 2019

Malaysia's GDP expanded by 4.3 percent in 2019 as compared to 4.7 percent in the preceding year which is in 2018. The Services and Manufacturing sectors remained as the key driver of the supply side with a combination share of 81.1 percent to the economy. While for Agriculture sector and Mining & Quarrying, each contribute 7.1 percent respectively. However, for Construction sector its share only 4.7 percent to GDP. In 2019, the Malaysia's GDP in current prices amounted to RM1.51 trillion and for constant prices recorded RM1.42 trillion. Gross National Income (GNI) per capita increased to RM45,212 from RM43,089 in 2018.

Table 2: GDP by Sector

	2019 Share of GDP (%)	2020[1] Share of GDP (%)	Change (%)	
			2020[1]	2021[2]
Services	57.7	58.1	-3.7	7
Manufacturing	23.4	22.6	-3.0	7
Agriculture	7.1	7.4	-1.2	4.7
Mining	7.1	6.9	-7.8	4.1
Construction	4.7	4.0	-18.7	13.9
GDP	**100**	**100**	**-4.5**	**6.5-7.5**

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding and exclusion of import duties component.
Source: Ministry of Finance, Malaysia; Department of Statistics of Malaysia.

B. Malaysia Economic Performance 2020

The COVID-19 outbreak has changed the economic landscape in terms of production level, household spending, investment and labour market. In the third quarter of 2020, a continuous recovery is seen in the country's economic performance amid the challenges to contain the spread of COVID-19 pandemic through various phases of Movement Control Order (MCO) effective from 10th June 2020 with the reopening of economic activities and lift the ban on interstate travel. As more economic sectors resumed, the unemployment rate expectedly slightly dropped to 4.2 in end of the year 2020.

The services sector was affected largely due to worldwide travel bans, domestic movement restrictions and quarantines, which severely affected the tourism-related subsectors and airlines. Among the subsectors that have been severely affected include wholesale and retail trade, food & beverages and accommodation, transportation and storage as well as real estate and business services. Nevertheless, the information and communication subsector expanded as online transactions increased significantly during the MCO. The services sector is expected to record a smaller decline of 1% in the second half of the year, reflecting the gradual resumption of economic activities. Overall, the sector is projected to contract by 3.7% in 2020 before rebounding by 7% in 2021.

With the normalisation of economic activities in 2021, all subsectors are projected to record positive growth. Within the export-oriented industries, the Electrical & Electronic (E&E) cluster was severely affected as global demand decelerated sharply. Domestic-oriented industries also recorded sluggish growth, with transport equipment; and non-metallic mineral products, basic metal and fabricated metal products segments registering a double-digit contraction. Overall, for the year, the manufacturing sector is expected to decline by 3%. The manufacturing sector is forecast to rebound by 7% in 2021, driven by steady improvement in both the export- and domestic-oriented industries. The E&E segment is projected to accelerate in line with the digital transformation as WFH and virtual communication become part of new business practices. Higher demand for integrated circuits, memory and microchips within the global semiconductor market will further support the segment. The production of chemical and rubber products is expected to expand rapidly in tandem with the increase in demand for disinfectants, sanitisers and rubber gloves. With the economic recovery, consumer-related products will benefit from higher household disposable income, while construction-related products will be supported by major infrastructure and affordable housing projects.

The oil palm subsector was affected even before the pandemic, attributed to dry weather and cutbacks in fertilisers by smallholders in 2019. The rubber subsector also declined due to unfavourable weather and low rubber prices. The agriculture sector was further affected by the MCO, which led to lower production across most of the subsectors. Hence, the agriculture sector is projected to decline by 1.2% in 2020. The agriculture sector is expected to turnaround by 4.7% in 2021, supported mainly by higher production of palm oil and rubber. The oil palm subsector is anticipated to rebound following improvements in global demand, particularly from China and India.

The mining sector affected by the slump in global demand due to business closures as well as the reduction in travel and transport activities. The sector was further weighed down by the temporary shutdowns of several oil and gas (O&G) facilities for maintenance purposes. With the COVID-19 pandemic crushing demand, storage facilities filled rapidly, and Brent crude oil price fell to its lowest level at USD17.32 per barrel (pb) on 21 April 2020 before stabilising at about USD40 pb. The mining sector is anticipated to contract by 7.8% in 2020. Nonetheless, the sector is expected to rebound by 4.1% in 2021, supported by the recovery in global demand for crude oil and condensate as well as liquified natural gas (LNG). Brent crude oil price is expected to improve in 2021 to an average of USD42 pb and recover to pre-pandemic level in the medium-term.

Overall, for the year 2020, the construction sector is projected to contract by 18.7%. The construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector. Among the major infrastructure projects include Mass Rapid Transit 2 (MRT2), Light Rail Transit 3 (LRT3), West Coast Expressway (WCE) and Bayan Lepas Light Rail Transit (LRT) as well as Pan Borneo and Coastal Highways in Sarawak. Utility projects include the Langat 2 Water Treatment Plant, Baleh Hydroelectric Dam and Sarawak Water Supply Grid Programme (Phase 1). The residential subsector is anticipated to improve, supported by various measures taken by the Government to address the property overhang situation. Among the measures include the extension of HOC, exemption of RPGT, the introduction of RTO scheme as well as reduction of foreign ownership threshold. The performance of the non-residential subsector is expected to recover marginally, supported by on-going commercial projects, including Bukit Bintang City Centre, Cyberjaya City Centre, Forest City and Malaysia Vision Valley 2.0.

II.1.1 International Environment

A. Trade Balance

i) Malaysia Export & Import

In 2019, Malaysia's trade surplus continued to record double-digit growth for 3 consecutive years, widening by 17% to RM145.66 billion compared to RM123.78 billion in 2018. This was the largest trade surplus since 2009, representing Malaysia's achievement of 22nd consecutive year of trade surplus. Resulting from the softer global demand amid trade tensions and unfavourable external economic conditions, total trade contracted by 2.3% to RM1.835 trillion. Exports decreased marginally by 1.7% to RM995.07 billion, from the preceding year while imports declined by 3.5% to RM849.41 billion. For year 2019, lower trade was recorded with Singapore, Hong Kong, France, Thailand and Japan. Nevertheless, higher trade was registered with the United States (US), the United Arab Emirates (UAE), the Philippines, Cambodia, Mexico and the United Kingdom (UK).

Table 3: External Trade

(RM Million)

	2018	2019	2020[1]	2021[2]
Total Trade	**1,888,391**	**1,844,483**	**1,738,477**	**1,805,749**
Gross exports	**1,003,587**	**995,072**	**943,761**	**968,793**
of which:				
Manufactured	837,071	840,586	808,851	828,862
Agriculture	67,001	1091876	1206819	1446901
Mining	89,907	1157178	1132688	1535816
Gross imports	**879,804**	**849,411**	**794,716**	**836,956**
of which:				
Intermediate goods	462,212	467,211	437,406	460,280
Capital goods	112,453	100,179	87,642	100,219
Consumption goods	73,031	74,155	74,718	76,967
Trade balance	**123,783**	**145,661**	**149,045**	**131,838**

[1] Estimate
[2] Forecast
Source: Department of Statistics, Malaysia, MATRADE and Ministry of Finance, Malaysia.

In 2020, gross exports in Malaysia are projected to decline by 5.2% weighed down by global supply disruptions as a result of the unprecedented crisis. Consequently, exports of manufactured goods are estimated to contract by 3.8% following lower demand for electrical & electronic (E&E) and non-E&E products. Nonetheless, exports of agriculture goods are anticipated to rise by 0.7%, buoyed by palm oil and palm oil-based, agriculture products. Exports of palm oil are projected to increase with higher demand, particularly from China, India and the Netherlands. The exemption of export duties on CPO, crude palm kernel oil as well as refined, bleached and deodorised (RBD) palm kernel oil is also expected to support the exports of palm oil. In contrast, receipts from natural rubber are anticipated to drop in 2020. Exports of mining goods are projected to decrease further dragged down by exports of crude petroleum and liquefied natural gas. The slowdown in demand from global industrial, travel and transportation activities as well as price slump are the main reasons for the downtrend in exports of mining goods.

Gross exports are expected to rebound by 2.7% in 2021, benefiting from the recovery in global trade and supply chains. Exports of manufactured goods are anticipated to turnaround by 2.5%, supported by improved demand for E&E and non-E&E products. Higher demand for semiconductor, telecommunication equipment parts as well as automatic data processing equipment in line with the global digital transformation and 5G roll-out is expected to expand the exports of E&E. Similarly, exports of the non-E&E are expected to improve contributed by higher demand for chemicals and chemical products, rubber products and manufactures of metal. Exports of agriculture goods are projected to expand by 4.4% in 2021, led by an increase in demand for palm oil and palm oil-based agriculture products as well as natural rubber. In line with the recovery in world economic activities and improvement in crude oil prices, export earnings from mining goods are projected to recover by 2.1%, contributed by higher demand from major markets for crude petroleum and LNG.

Gross imports are projected to contract by 6.4% in 2020 due to lower imports of intermediate and capital goods as a result of slower economic and investment activities. Gross imports are expected to turnaround by 5.3% in 2021, supported by an increase in all types of imports. Imports of intermediate goods are projected to rise by 5.2%, mainly attributed to expansion in the manufacturing and construction sectors. Similarly, imports of capital goods are projected to expand by 14.3%, following improvement in investment activities and the continuation of strategic projects. Imports of consumption goods are expected to increase by 3%, led by higher demand from households as consumers' confidence improves and income increases.

Table 4: Change (%) External Trade

	2019 Change (%)	2020[1] Change (%)	2021[2] Change (%)
Total Trade	**-2.1**	**-5.7**	**3.9**
Gross exports	**-0.8**	**-5.2**	**2.7**
of which:			
Manufactured	0.4	-3.8	2.5
Agriculture	-1.6	0.7	4.4
Mining	-9.3	-21.8	2.1
Gross imports	**-3.5**	**-6.4**	**5.3**
of which:			
Intermediate goods	-10.9	-12.5	14.3
Capital goods	1.1	-6.4	5.2
Consumption goods	1.5	0.8	3.0
Trade balance	**17.7**	**2.3**	**-11.5**

[1] Estimate
[2] Forecast
Source: Department of Statistics, Malaysia, MATRADE and Ministry of Finance, Malaysia.

B. Balance of Payment

Overall, in 2019 the increase in net export of good and services are expected to contribute to the widening of the current account surplus to RM50.85 billion or 3.5% of GNI. The goods and services account are expected to record higher surplus of RM112.4 billion mainly supported by an increase in exports of manufacturing goods coupled with a significant decline in imports of capital good amid moderating investment activities.

Table 5: Current Account of Balance of Payments

Item	2018 RM Million Net	2019 RM Million Net	2020[1] RM Million Net	2021[2] RM Million Net
Balance on goods and services	101,456	112,412	80,599	82,463
Primary income	-51,586	-40,267	-23,686	-41,558
Secondary income	-19,282	-21,294	-8,458	-20,628
Balance on current account	**30,5884**	**50,850**	**48,455**	**20,277**
% of GNI	**2.2**	**3.5**	**3.4**	**1.3**

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistic and Ministry of Finance, Malaysia.

However, in 2020, the current account surplus is expected to narrow to RM48.5 billion or 3.4% of GNI. This is primarily due to the widening deficit in the services account despite a higher surplus in the goods account and a lower deficit in income account. The goods account is anticipated to record a higher surplus of RM130.9 billion as exports are projected to outpace imports. The services account is expected to post a wider deficit of RM50.3 billion, mainly due to the decline in receipts in the travel and transport accounts. The travel account is anticipated to record a deficit of RM10.9 billion for the first time since 1989, on account of a significant decline in tourist arrivals as international borders are closed to contain the COVID-19 pandemic. The deficit in the transport account is projected to reach RM26.8 billion due to lower earnings from freight charges, airline passenger fares, airport and port charges, such as aircraft landing and parking, ship docking and cargo handling provided by domestic companies. The other services account is expected to record a lower deficit due to declining outflow of payments for construction, financial as well as maintenance and repair services.

The primary income account is projected to register a lower deficit of RM23.7 billion in 2020, mainly with lower payments accruing to foreign direct investors in Malaysia due to sluggish performance of construction and manufacturing sectors. The investment income payments are expected to record a decline of RM65.6 billion. Compensation of employees is expected to record a smaller deficit following a larger decline in payments, reflecting slower domestic economic activities.

The outflows of secondary income account, which primarily consist of remittances, are expected to decline to RM34.6 billion as the income of foreign workers is affected during the MCO. At the same time, inflows of secondary income account are anticipated to increase to RM26.1 billion following a one-off receipt, contributing to a lower deficit of RM8.5 billion in secondary income account

As at 30 September 2020, Malaysia's international reserves amounted to RM436.5 billion or USD105.0 billion, adequate to finance 8.4 months of retained imports and 1.1 times the short-term external debt (end-December 2019: RM424.1 billion; USD103.6 billion; 7.5 months; 1.1 times).

C. Foreign Direct Investment (FDI)

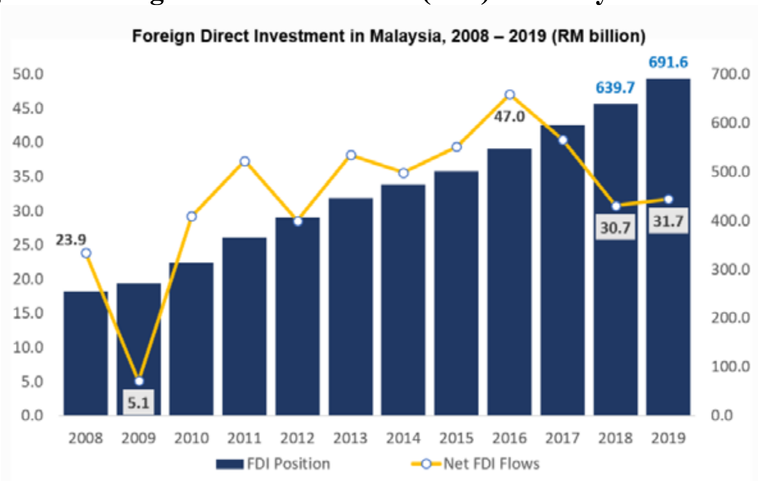
Foreign Direct Investment (FDI) flows in Malaysia expanded to RM31.7 billion in 2019 as compared to RM30.7 billion in 2018, an increase of 3.1 per cent due to higher injection of equity from Japan precisely in health activity. In terms of position, FDI surged to RM691.6 billion as at end of December 2019 (2018: RM639.7 billion). Meanwhile, investment income decreased to RM58.7 billion from RM60.2 billion in 2018.

FDI flows was mainly channelled to Services sector, particularly in health, real estate and financial activities. Manufacturing sector was the second highest, mainly in the form of debt instruments and equity in refined petroleum and electric & electronic products; followed by Mining & quarrying sector. Major contributors by country for FDI flows in 2019 were Japan, Hong Kong and Netherlands.

As at end of 2019, the accumulated FDI in Malaysia increased to RM691.6 billion (2018: RM639.7 billion), supported by Services and Manufacturing sectors. Singapore, Hong Kong and Japan were the top countries for FDI position.

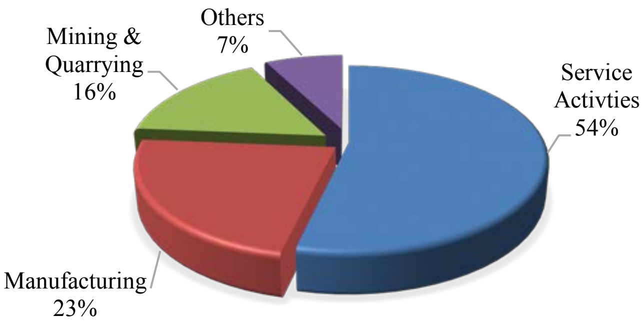
Meanwhile, investment income decreased to RMM58.7 billion from RM60.2 billion in previous year, due to lower income received by foreign companies. Manufacturing (RM28.1 billion) and Services (RM23.9 billion) were the main sectors for FDI income.

Figure 4: Foreign Direct Investment (FDI) in Malaysia



Source: Department of Statistics, Malaysia.

Figure 5: FDI Flows by Sector in 2019



Source: Department of Statistics, Malaysia.

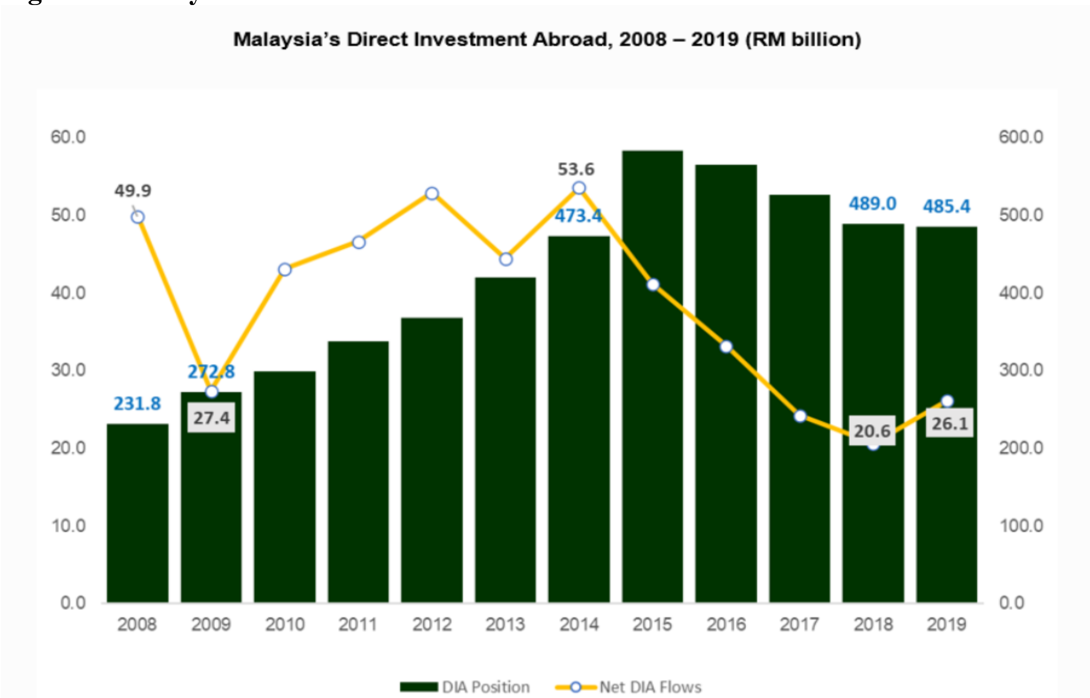
Meanwhile, until third quarter of 2020, Foreign Direct Investment (FDI) position in Malaysia registered RM689.1 billion (Q2 2020: RM696.5 billion) of which Manufacturing sector was the highest contributor at RM266.0 billion (38.6%), followed by Financial & insurance/ takaful activities (24.2%) and Mining & quarrying sector (6.1%). Asia remained as the top region with a value of RM372.3 billion (54.0%) and the top FDI countries were from Singapore (21.7%), Hong Kong (12.5%) and Japan (10.8%).

D. Direct Investment Abroad (DIA)

Malaysia's DIA in 2019 recorded an outflow of RM26.1 billion compared to RM20.6 billion in 2018. For the first time, Brazil became the top country for DIA particularly investment relate to oil and gas industry. As at end of 2019, DIA position stood at RM485.4 billion. In terms of income, DIA registered a value of RM28.8 billion. In 2019, DIA flows was mainly channeled to Services sector, particularly in Financial activity. Mining & quarrying was the second contributor, followed by Manufacturing sector. The top countries for DIA flows were Brazil and Canada.

DIA position decreased to RM485.4 billion from RM489.0 billion in previous year. The main sector for DIA position was Services while the top countries were Singapore and Indonesia. In terms of income, DIA increased to RM28.8 billion and mainly generated in Services sector, particularly in Financial activity. The next contributor was Mining & quarrying.

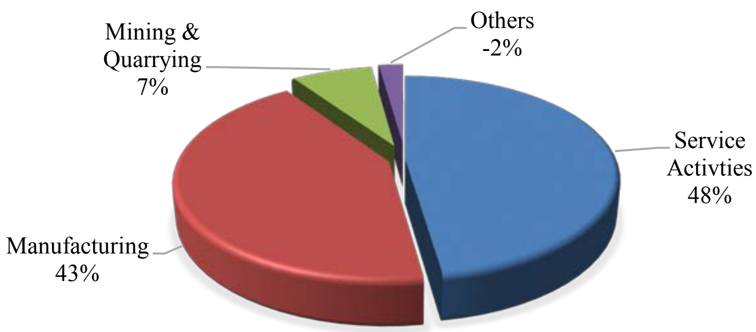
Figure 6: Malaysia Direct Investment Abroad



Source: Department of Statistics, Malaysia

Meanwhile, Direct Investment Abroad (DIA) position recorded RM510.8 billion (Q2 2020: RM521.9 billion), mainly contributed by Financial & insurance/takaful activities (43.2%), followed by Mining & quarrying (14.6%) and Agriculture (8.6%). In regards to regions, Asia held the largest DIA position with a share of 51.6 per cent, while Singapore (20.5%), Indonesia (9.3%) and Cayman Islands (7.1%) remained as the top DIA destinations.

Figure 7: DIA Flows by Sector in 2019



Source: Department of Statistics, Malaysia.

II.1.2 Domestic Environment

A. Economic Growth

Compared to year 2018 & 2019, Malaysian GDP rate were at 4.7 % and 4.3% respectively. However, Malaysia's GDP is expected to contract by 4.5% in 2020. Domestic demand is expected to contract by 3% in 2020, with private and public sectors' spending declining by 3.2% and 2.1%, respectively. In the first half of 2020, domestic demand declined significantly amid restricted movements to contain the COVID-19 pandemic. Nevertheless, the announcement of various stimulus packages and the gradual resumption of economic activities are expected to restore business and consumer confidence in the second half of the year contract by 3.0% and expand further by 6.9% in 2021.

Table 6: GDP by Aggregate Demand for 2019 – 2021 (at constant 2015 prices)

	Share (%) of GDP	Change (%)		
	2020	2019	2020[1]	2021[2]
Domestic demand	**95.5**	**4.3**	**-3.0**	**6.9**
Private expenditure	**76.6**	**6.2**	**-3.2**	**7**
Consumption	61.1	7.6	-0.7	7.1
Investment	15.5	1.6	-11.7	6.7
Public expenditure	**18.9**	**-2.8**	**-2.1**	**6.7**
Consumption	13.0	2.0	1.6	2.0
Investment	6.0	-10.8	-9.3	16.9
External sector[3]	**5.5**	**9.7**	**-24.9**	**4.1**
Export	57.8	-1.3	-13.4	8.7
Import	52.3	-2.5	-11.9	9.2
GDP	**100.0**	**4.3**	**-4.5**	**6.5-7.5**

[1] Estimate
[2] Forecast
[3] Goods and non-factor services
Note: Total may not add up due to rounding and excluding change in stock component
Source: Department of Statistics, Malaysia, and Ministry of Finance Malaysia.

Private consumption declined during the first half of 2020, affected by the implementation of the MCO. However, household spending is anticipated to pick up during the second half of the year, on the back of various stimulus packages aimed at providing support to households and businesses. The measures include a moratorium on loan repayments, temporary optional reduction in employees' contributions to the Employees Provident Fund (EPF) and discounts on electricity bill as well as low interest rates. As a result, private consumption is projected to rebound in the second half, cushioning overall consumption activities, which is expected to record a marginal decrease of 0.7% in 2020. Private consumption is anticipated to increase by 7.1% in 2021, mainly supported by higher disposable income arising from buoyant domestic economic activities, stronger export earnings, accommodative financial stance, extension of tax relief on childcare and favourable stock market conditions. Better job prospects, following broader improvement in the economy and measures addressing employability, are also expected to contribute to household spending. Furthermore, the expected recovery in the tourism-related industries following tax incentives on domestic tourism expenses for households will also provide additional impetus to private sector spending. As the nation rapidly shifts towards adopting digitalisation, the broader availability of various e-commerce platforms and rollout of 5G technology will facilitate economic activities

Private investment is expected to contract by 11.7% in 2020. The significant decline was due to weak demand and tight liquidity as businesses were closed down for weeks following the MCO and uncertainties in the financial markets. Nonetheless, with various measures taken to revitalise and accelerate businesses, private investment. Among the measures include the establishment of funds to support digitalisation, especially for SMEs, as well as tax incentives to attract foreign direct investment (FDI) and assistance to sustain businesses. In addition, the Malaysia Mudah (#MyMudah) initiative and the establishment of the Project Acceleration and Coordination Unit (PACU) will reduce bureaucracy to facilitate business operations and boost private investment activities. With these policies in place and coupled with spill-over effects from the fiscal injection, private investment is expected to rebound by 6.7% in 2021.

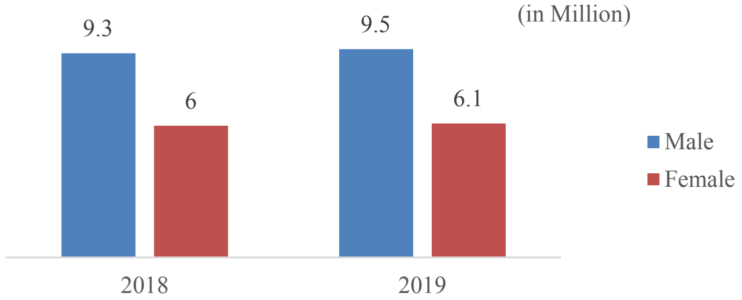
Public consumption is anticipated to increase by 1.6% in 2020, with higher expenditure on emoluments mainly to meet the staff requirements in critical sectors. Public consumption is expected to expand by 2% in 2021 with the Government continuing to further improve public services delivery and optimising spending.

Public investment is projected to decline by 9.3% in 2020 on account of lower capital outlays, especially in the first half of the year. However, the Malaysian Federal Government initiatives are expected to support public investment to expand by 16.9% in 2021. For instance, the implementation and acceleration of investment in infrastructure, such as small-scale projects under the economic stimulus packages and the National Fiberisation and Connectivity Plan (NFCP).

B. Labour Market

Labour force in Malaysia increased 2.0% to nearly 15.6 million persons in 2019 as compared to 15.3 million persons in 2018. Employed person increased 297.4 thousand persons in 2019. Labour force participation rate (LFPR) in 2019 increased 0.4 percentage points to 68.7% as compared to 68.3% in 2018. Hence, the remaining 31.3% of the working age population was outside the labour force. The unemployment rate remained at 3.3% in 2019. Female LFPR rose 0.4 percentage points to 55.6% in 2019. The participation of female in the labour market for the prime age groups namely 25 to 34 years (73.7%), 35 to 44 years (68.0%) and 45 to 54 years (58.9%) were higher as compared to female LFPR at the national level i.e 55.6%. The participation rate of male labour force was 80.8% 2019, increased 0.4 percentage points as compared to the previous year. The LFPR for age group of 15 to 24 years recorded the highest increase of 2.2 percentage points to 53.2%. Age group of 25 to 34 years also recorded an increase 0.4 percentage points to 96.1%. Overall, male LFPR was still higher than female for all age groups.

Figure 8: Labour Force in Malaysia 2019



Source: Department of Statistic Malaysia.

For the meantime, the labour market deteriorated in the first half of the year 2020 as economic activities were severely disrupted by COVID-19 pandemic. Although employment was still recording a positive performance with 71,300 new jobs generated. During the period, the services sector was the largest source of employment, accounting for 9,548 thousands people of total employment, followed by manufacturing 2,564 thousands people and 1,644 thousands people in agriculture sectors. However, the closure of business operations and cost-cutting measures undertaken by firms due to the MCO have weakened aggregate demand. As a result, lesser employment opportunities were created as compared with the pre-COVID-19 period. This has caused a spike of 30% in unemployed persons, which led the unemployment rate to soar to 4.3% or 670,200 persons.

C. Price

The Consumer Price Index (CPI) shrank by 1% during the first eight months of 2020, and the trend is expected to continue for the rest of the year. The contraction was due to lower pump prices on account of weaker global crude oil prices as well as the discount given on electricity bills as part of the stimulus measures. However, the core index increased by 1.2%, indicating sustained domestic demand along with the gradual resumption of economic activities. In 2021, inflation is expected to normalise at 2.5% in line with better economic prospects and higher crude oil prices.

The Producer Price Index (PPI) by local production declined by 2.4% during the first eight months of 2020 and is expected to remain stable due to low input costs. This is attributed to weaker global commodity prices, particularly that of crude oil and natural gas. The PPI by sector was weighed down, particularly by a significant contraction. in the mining sector (-32.7%) followed by a contraction in other sectors, namely water supply (-0.6%), manufacturing (-0.2%) and electricity and gas supply (-0.2%). In contrast, the index for agriculture, forestry and fishing sector rose by 12.5%. The PPI is expected to improve in 2021 following the projected recovery of the domestic and global economy.

Table 7: Producer Price Index, January – August 2019 and 2020 (2010 = 100)

	Weight[1]	Change (%)		Contribution to CPI Growth (percentage points)	
		2019	2020	2019	2020
CPI	**100.0**	**0.5**	**-1.0**	**0.5**	**-1.00**
PPI	**100.0**	**-2.0**	**-2.4**	**-1.96**	**-2.39**
Agriculture, forestry and fishing	6.730	-10.3	12.5	-0.66	0.74
Mining	7.927	-3.8	-32.7	-0.30	-2.50
Manufacturing	81.571	-1.1	-0.2	-0.92	**-0.16**
Electricity and gas supply	3.442	1.6	-0.2	0.06	-0.01
Water Supply	0.330	-2.1	-0.6	-0.01	0.00
PPI by stage of processing	**100.00**	**-2.0**	**-2.4**	**-1.96**	**-2.39**
Crude material for further processing	16.410	-5.7	-12.4	-0.97	-2.04
Intermediate material, supplies and components	56.119	-1.6	-0.3	0.05	0.08
Finish goods	27.471	0.2	0.3	0.05	0.08

[1] Based on Economic Census 2016

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia, and Ministry of Finance Malaysia.

II.1.3 Fiscal position

Firstly, the 2019 fiscal position set a new base for consolidation. The Malaysian government resumed its fiscal consolidation trajectory after an adjustment in 2018, taking into account the disclosure of several off-budget commitments. The 2019 budget deficit target was met, with the overall deficit reduced to 3.4% of GDP from 3.7% in 2018. The lower fiscal deficit was achieved on the back of higher-than-expected Sales Tax and Service Tax (SST) collection, supported by stable domestic consumption and expenditure rationalisation. The Malaysian Government has also disbursed more than 80% of the outstanding income tax and Goods and Services Tax (GST) refunds from its tax refund trust fund after verification and auditing process.

An effective fiscal policy that strikes the right balance between growth considerations and fiscal sustainability is crucial for Malaysia to achieve macroeconomic stability and sound public finances. Therefore, the fiscal stance needs to be more flexible and operate on the efficacy of tax and expenditure measures in charting the nation's development path. This is particularly important at a time when Malaysia is facing the impact of the unprecedented COVID-19 pandemic that has severely affected economies and trade globally.

The revenue performance in Malaysia in 2020 is expected to be negatively affected amid slower domestic economic activities and lower crude oil prices assumption due to the COVID-19 pandemic. The revenue shortfall, estimated at around 20% from the budget estimates, will be cushioned by additional dividends and a special contribution from Government's entities, such as Petroliam Nasional Berhad (PETRONAS), Khazanah Nasional Berhad (KHAZANAH) and Retirement Fund (Incorporated) (KWAP). Total revenue is revised to be lower at RM227.3 billion or 15.8% of GDP as compared to the budget estimates at RM244.5 billion. In contrast, total expenditure is expected to increase by 6% or RM17.7 billion to RM314.7 billion compared to initial estimates of RM297 billion. The net increase is due to the fiscal stimulus injection of RM38 billion off-set by savings of RM20.3 billion from the revision of existing programmes and projects, as well as the shortfall in spending from budget estimates. Total savings from operating expenditure (OE) is anticipated at RM9.3 billion, which include fuel subsidies, supplies and services and grants to statutory bodies. The balance of RM11 billion is from the expected shortfall in development expenditure (DE) following the revision and rescheduling of several projects due to the MCO. The OE is estimated to be rationalised by 5.9% to RM226.7 billion from original estimates at RM241 billion, mainly due to savings and reclassification of development-related items. The DE is expected to decrease by 11% to RM50 billion from budget estimates of RM56 billion after taking into account spending shortfalls and the reclassification of several development-related items from OE. The spending for the stimulus packages and recovery plan under the newly created COVID-19 Fund will be based on an estimated disbursement at RM38 billion with the balance will be carried over the following years. Overall, the Malaysian Federal Government's fiscal deficit is expected to increase to 6% of GDP, reflected by the pump-priming measures and lower GDP estimate and revenue collection. Consequently, excluding debt service charges, the primary balance is estimated to record a higher deficit of 3.6% of GDP.

Table 8: Malaysian Federal Government Financial Position

	2019	2020[1]	2019	2020[1]	2019	2020[1]
	RM Million		% Change		% Share of GDP	
Revenue	264,415	227,270	13.5	-14.0	17.5	15.8
Operating expenditure	263,343	226,720	14.0	-13.9	17.4	15.8
Current balance	**1,072**	**550**			0.1	0.0
Gross development expenditure	54,173	50,000	-3.4	-7.7	3.6	3.5
Less: Loan recovery	1,603	1,000	103.4	-37.6	0.1	0.1
Net development expenditure	52,570	49,000	-4.9	-6.8	3.5	3.4
COVID-19 Fund[2]	-	38,000				2.6
Overall Balance	**-51,498**	**-86,450**			**-3.4**	**-6.0**
Primary Balance[3]	**-18,565**	**-51,505**			**-1.2**	**-3.6**

[1] Revised estimate

[2] A specific trust fund established under Temporay Measures for Government Financing (Coronavirus Disease 2019 (COVID-19) Act 2020 to finance economic stimulus package and recovery plan

[3] Excluding debt service charge.

Source: Ministry of Finance, Malaysia.

A. Tax Revenue

Malaysia Federal Government's revenue in 2020 is projected to decrease by 14% (2019: RM264.4 billion) to RM227.3 billion as a result of lower tax collection. Tax collection continues to be the major contributor to Federal Government's revenue despite the impact of COVID-19 and lower estimated average crude oil price of USD40 per barrel, with an estimated collection of RM153.3 billion or 67.4% to total revenue, although lower than the previous five-year average of 75.8%. Consequently, total revenue as a percentage to GDP is expected to be lower at 15.8%, of which tax revenue constitutes 10.6%, while non-tax revenue represents 5.2%.

Table 9: Malaysian Federal Government Revenue 2019-2020

	2019	2020[1]	2019	2020[1]	2019	2020[1]
	RM Million		% Change		% Share of GDP	
Tax Revenue	**180,566**	**153,260**	**3.7**	**-15.1**	**68.3**	**67.4**
Direct Tax	134,723	115,105	3.6	-14.6	51.0	50.6
of which:						
CITA	63,751	59,385	-4.1	-6.8	24.1	26.1
Individual	38,680	35,906	18.6	-7.2	14.6	15.8
PITA	20,783	8,551	3.5	-58.9	7.9	3.8
Indirect tax	45,843	38,155	4.1	-16.8	17.3	16.8
of which:						
SST	27,668	24,533	7.7	-11.3	10.5	10.8
Excise duties	10,511	8,507	-2.5	-19.1	4.0	3.7
Import duty	2,733	2,035	-5.7	-25.5	1.0	0.9
Export Duty	1,126	802	-31.0	-28.8	0.4	0.4
Non-tax revenue	**83,849**	**74,010**	**42.5**	**-11.7**	**31.7**	**32.6**
of which:						
Licences and permits	14,499	13,237	3.4	-8.7	5.5	5.8
Investment income	60,058	48,666	88.3	-19.0	22.7	21.4
Total revenue	**264,415**	**227,270**	**13.5**	**-14.0**	**100.0**	**100.0**
% share of GDP	**17.5**	**15.8**				

[1] Revised estimate

Source: Ministry of Finance, Malaysia.

Direct tax, which accounts for 50.6% of total revenue, is expected to decrease by 14.6% to RM115.1 billion (2019: RM134.7 billion). Collections from all direct tax components are projected to decline primarily due to weak economic activities which affected businesses and individuals' incomes as well as lower crude oil price assumption. Companies income tax (CITA), the major contributor to total revenue, is estimated to be lower at RM59.4 billion (2019: RM63.7 billion), which is about 21% shortfall from the original estimate of RM75.5 billion. This is mainly due to lower business income resulting from decelerating economic activities in line with the global movement restriction and preventive measures. In addition, the reduction in revenue collection is partly attributed to several tax incentive announced under the economic stimulus packages. These include deferment of tax payments for all businesses in the tourism sector until December 2020, postponement of tax payments from April to June 2020 for small and medium enterprises (SMEs), and extension of tax incentive period for accelerated capital allowance on capital expenditure on machines and equipment. Other tax measures include stamp duty exemptions for sale and purchase as well as home financing agreement, individual income tax reliefs on domestic travel spending, and the Real Property Gains Tax (RPGT) exemptions on disposal profits from 1 June 2020 until 31 December 2021.

Individual income tax is anticipated to decline by 4% to RM35.9 billion compared with the original estimates of RM37.4 billion. The main factors affecting the collection performance are higher retrenchment incidence as well as salary reductions and unpaid leave offers by employers to manage cash flows and ensure business continuation. Petroleum income tax (PITA) is forecast to decline significantly by 58.9% to RM8.5 billion (2019: RM20.8 billion) in tandem with the lower estimated average crude oil price at USD40 per barrel and slower demand. Other direct tax collections, including stamp duty and RPGT, are estimated to be lower at RM8.2 billion, following the exemptions announced in the economic stimulus packages.

Indirect tax, which constitutes 16.8% of total revenue, is estimated to decrease by 19.4% to RM38.1 billion compared with the original estimate of RM47.3 billion, with all components are expected to decline. Sales Tax and Service Tax (SST) are expected to be lower at RM24.5 billion (2019: RM27.7 billion) with sales tax collection projected to reduce by 21.4% to RM12.1 billion (2019: RM15.4 billion). This is in line with the Government's initiative to provide tax exemptions for the purchase of locally assembled and fully-imported passenger cars under the PENJANA package. Excise duties collection is estimated at RM8.5 billion (2019: RM10.5 billion), a reduction of 19.1% mainly due to the suspension of operations of a majority of motor assembly plants during the Movement Control Order (MCO) period from March to May 2020. The lower average crude oil price assumption of USD40 per barrel in 2020 coupled with decreased export volume are expected to reduce export duty collection by 28.8% to RM0.8 billion (2019: RM1.1 billion). In addition, other tax exemption measures announced under the economic stimulus packages, which include tourism tax and service tax on hotel accommodation, are expected to further reduce the indirect tax collection. Non-tax revenue is envisaged to register RM74 billion (2019: RM83.8 billion), largely contributed by higher dividends from PETRONAS amounting to RM34 billion, of which RM10 billion is a special payment mainly from their divestment exercise in 2019. The Government has received RM3.5 billion from Bank Negara Malaysia and is expected to receive dividends from Khazanah Nasional Berhad amounting to RM2 billion. In addition, a special payment of RM5 billion was received from the Retirement Fund (Incorporated) (KWAP) to partly finance the current year's retirement charges. In contrast, receipts from licences and permits are estimated to decline by 8.7% to RM13.2 billion (2019: RM14.5 billion), mainly due to lower proceeds from petroleum royalty.

Petroleum-related revenue is forecast to decline by 40.3% to RM50 billion in 2020 (2019: RM83.8 billion), due to exclusion of special dividend for tax refund as well as reduction in PITA and royalty amounting to RM8.5 billion and RM4.2 billion, respectively, based on lower global crude oil prices. Consequently, the share of petroleum-related revenue is also expected to decline from 31.7% in 2019 to 22% in 2020. Given the significant impact of the economic slowdown, non-petroleum revenue is estimated to decrease by 1.8% to RM177.3 billion (2019: RM180.6 billion), cushioned by special payments from government entities. As a percentage to GDP, non-petroleum revenue is forecast to increase by 0.3 percentage points to 12.3% from 2019 position (12%).

B. Expenditure

The Federal Government total expenditure allocation for 2020 is revised upwards to RM314.7 billion from the initial budget estimate of RM297 billion. The net increase of RM17.7 billion is derived from the fiscal stimulus injection estimated at RM38 billion and savings from expenditure amounting to RM20.3 billion. These savings are generated from reviewing existing programmes and projects, as well as the shortfall in spending due to savings in expenditure and delayed progress in the implementation of projects during the movement control period. About 55% or RM11 billion of the savings is attributed to the shortfall in development expenditure (DE). The balance of RM9.3 billion is from savings in operating expenditure (OE), which include reductions in fuel subsidies, supplies and services, and grants to statutory bodies. Excluding the economic stimulus packages and recovery plan, the total revised allocation for 2020 is estimated at RM276.7 billion. Of these, OE constitutes RM226.7 billion or 15.8% of GDP, while DE at RM50 billion or 3.5% of GDP. Except for charged expenditure and transfer payments, which account for 27.8% of total expenditure, the social sector will continue to receive the bulk of the allocation at 37.9% or 7.3% of GDP. This is followed by economic (16.2%; 3.1% of GDP), security (10.9%; 2.1% of GDP) and general administration (7.2%; 1.4% of GDP) sectors.

Operating Expenditure (OE) for 2020 is revised downwards by 5.9% or RM14.3 billion to RM226.7 billion from the initial allocation of RM241 billion. The downward revision is partly due to savings, particularly on fuel subsidies following lower global crude oil prices and reduction of grants to statutory bodies with high reserves. In addition, savings are also generated from lower supplies and services outlays especially repairs and maintenance as well as professional services and reclassification of several development-related items to DE. The revised OE of RM226.7 billion in 2020 is lower by 13.9% (2019: RM263.3 billion). This is mainly due to the absence of the one-off outstanding tax refund allocation of RM37 billion. Emoluments are estimated to increase to RM82.6 billion, mainly due to the annual salary increments. Likewise, retirement charges are expected to increase to RM27.1 billion on the back of special cash assistance to pensioners and to accommodate the rising number of pensioners. Debt service charges are estimated to escalate further by 6.1% to RM34.9 billion in 2020. In contrast, supplies and services are projected to be lower at RM30.1 billion. The outlays for subsidies and social assistance are estimated to contract by 15.7% to RM20.1 billion, as opposed to RM23.9 billion in 2019. The decrease is particularly due to lower fuel subsidies outlays as a result of declining global crude oil prices. In addition, Cost of Living Aid (BSH) is estimated at RM5 billion (2019: RM4.5 billion), which would benefit about 5 million recipients.

Table 10: Malaysian Federal Government Operating Expenditure by Component 2019-2020

Component	2019	2020[1]	2019	2020[1]	2019	2020[1]
	RM Million		**% Change**		**% Share of GDP**	
Emoluments	**80,534**	**82,611**	**0.7**	**2.6**	**30.6**	**36.4**
Retirement charges	25,894	27,055	2.8	4.5	9.8	11.9
Debt service charge	**32,933**	**34,945**	7.8	6.1	12.5	15.4
Grants and transfers to state governments	7,574	7,749	-0.4	2.3	2.9	3.4
Supplies and services	31,507	30,101	-10.7	-4.5	12.0	13.3
Subsidies and social assistance	23,901	20,145	-13.1	-15.7	9.1	8.9
Asset acquisition	770	650	72.1	-15.6	0.3	0.3
Refunds and write-offs	893	987	1.1	10.5	0.3	0.4
Grant to statutory bodies	13,780	14,040	0.1	1.9	5.2	6.2
Others	45,557[2]	8,437	367.3	-81.5	17.3	3.8
Total	**263,343**	**226,720**	**14.0**	**-13.9**	**100.0**	**100.0**
% Share of GDP	**17.4**	**15.8**				

[1] Revised estimate
[2] Including a one-off allocation for outstanding tax refunds
Source: Ministry of Finance, Malaysia.

Development Expenditure (DE) in 2020 is revised downward to RM50 billion from the original estimates of RM56 billion (2019: RM54.2 billion). The downward revision is due to the deferment and slower progress of several projects during the movement control period. However, the lower DE is partially offset by the reclassification of several development-related items from OE. Of total DE, RM47.5 billion comprises direct allocation, while RM2.5 billion is in the form of loans to state governments and Government-linked entities. In comparison to 2019, expenditures are expected to be lower across all sectors, except for the general administration sector. The economic sector continues to remain as the sector with the largest share of DE at 57.1%, followed by social (26.1%), security (11.1%) and general administration (5.7%) sectors. The outlays for the economic sector are projected to register at RM28.5 billion, primarily for upgrading public transportation and communication connectivity infrastructure, improving public utilities, enhancing agriculture and rural development as well as intensifying trade and industrial activities. The transport subsector is allocated RM10.2 billion, mainly to finance the construction of the Pan Borneo Highway, electrified double track project, Mass Rapid Transit 2 (MRT2) and Klang Valley Double Track Phase 1 (KVDT1) infrastructure and system upgrades. Energy and public utilities, as well as agriculture and rural development subsectors, are allocated RM3.6 billion and RM3 billion, respectively. Among key projects and programmes include construction and upgrading of sewage treatment plant as well as water distribution system for rural areas, settlers' development programme, strengthening paddy farming productivity and Monsoon Season Aid. Overall spending for the social sector is expected to contract by 9.8% to RM13.1 billion in 2020. Education and training, as well as health and housing subsectors, continue to receive the highest allocation. A sum of RM5.9 billion will be channelled to the education and training subsector, particularly for construction, upgrading and refurbishment of schools, teachers' quarters and tertiary institutions; extension of infrastructure and facilities for teaching hospitals; expanding training and education programmes; enhancing technical and vocational education and training (TVET) programmes; and providing education loans. Nevertheless, the health subsector expenditure is estimated to record an increase of 57.8% to RM2.9 billion. The spending is mainly for construction and upgrading of hospitals and clinics, including the Tanjung Karang Hospital, Kemaman Hospital and Sabah Dental Specialist Centre.

Meanwhile, the outlays for the housing subsector are expected to decrease by 30% to RM1.5 billion in contrast to 2019. Projects and programmes under this subsector include the construction of affordable homes for civil servants and People's Housing Programme (PPR). The security sector is provided with an allocation of RM5.6 billion in 2020. The expenditure is aimed at strengthening and intensifying the country's defence and internal security. The outlays are mainly for acquisition and enhancement of military and security equipment; ongoing construction of offices, quarters and camps; and maintenance of integrated communication systems. The general administration sector's allocation is expected to increase by 3.1% to RM2.9 billion with the bulk of the outlays is meant for comprehensive network systems, asset management as well as upgrading of Government offices and equipment.

Table 11: Malaysian Federal Government Development Expenditure by Sector 2019-2020

	2019	2020[1]	2019	2020[1]	2019	2020[1]
	RM Million		% Change		% Share of GDP	
Economic	**31,300**	**28,525**	**-13.3**	**-8.9**	**57.8**	**57.1**
of which:						
Transport	13,750	10,195	-19.1	-25.9	25.4	20.4
Trade and industry	3,054	2,438	21.6	-20.2	5.6	4.9
Energy and public utilities	2,760	3,586	8.5	30.3	5.1	7.2
Agriculture and rural development	2,314	3,016	8.5	30.3	4.3	6.0
Environment	1,723	1,734	3.5	0.6	3.2	3.5
Social	**14,484**	**13,058**	**12.5**	**-9.8**	**26.7**	**26.1**
of which:						
Education and training	7,629	5,871	17.3	-23.1	14.1	11.7
Health	1,827	2,883	3.0	57.8	3.4	5.8
Housing	2,126	1,491	65.4	-29.9	3.9	3.0
Security	**5,614**	**5,557**	**13.9**	**-1.0**	**10.4**	**11.1**
General administration	**2,775**	**2,860**	**26.7**	**3.1**	**5.1**	**5.7**
Total	**54,173**	**50,000**	**-3.4**	**-7.7**	**100**	**100**
% share of GDP	**3.6**	**3.5**				

[1] Revised estimate
Source: Ministry of Finance, Malaysia.

C. COVID-19 Fund

In 2020, Malaysian Government has established a COVID-19 Fund to enable a structured monitoring and transparent reporting of the implementation of programmes and projects under the economic stimulus packages and recovery plan. A total of RM45 billion of fiscal injection is allocated under the Fund, which consists of RM3.2 billion for PRE, RM21.8 billion for PRIHATIN, RM10 billion for PRIHATIN SME+ and RM10 billion for PENJANA. In addition, Malaysian Government has announced another RM10 billion in September for the enhancement of existing economic stimulus programmes, namely the BPN, PRIHATIN Special Grants, and WSP. Of the total allocation, RM38 billion will be disbursed in 2020 with the bulk of allocation channelled for BPN and WSP. The balance of RM17 billion is expected to be spent in 2021 mainly on WSP, small scale infrastructure projects, SME soft loans and food security. The COVID-19 Fund is a temporary fund which spans over three years until end of 2022. Annual financial statement of the COVID-19 Fund, which records its actual spending performance will be tabled to Parliament of Malaysia.

D. Financing

In 2020, the Malaysian Federal Government total gross borrowings are expected to increase by 31.5% from the original estimate to record RM181.5 billion or 12.6% of GDP. Nevertheless, sufficient liquidity in the domestic market has enabled the Government to swiftly raise its borrowings and is well positioned to manage the cash flow requirements. Of the total gross borrowings, RM94.7 billion will be utilised for principal repayments while RM86.5 billion for deficit financing. The principal repayments comprise maturing Malaysian Government Securities (MGS) of RM30.7 billion, Malaysian Government Investment Issues (MGII) totalling RM40 billion, Treasury bills amounting to RM21 billion, Government Housing Sukuk (SPK) of RM2.7 billion and offshore loans totalling RM333 million.

Table 12: Malaysian Federal Government Financing, 2019 - 2020

	2019	2020[3]	2019	2020[3]
	RM Million		% Share of GDP	
Gross borrowings	**134,782**	**181,496**	**100.0**	**100.0**
Domestic	**127,478**	**181,466**	**94.6**	**99.98**
MGS	57,200	73,000	42.5	40.2
MGII[1]	58,500	76,466	43.4	42.1
Treasury bills	11,778	32,000	8.7	17.6
Offshore	**7,304**	**30**	**5.4**	**0.02**
Market loans	7,170	-	5.3	-
Project loans	134	30	0.1	0.02
Repayments	**83,050**	**94,748**	**100.0**	**100.0**
Domestic	82,723	94,415	99.6	99.6
Offshore	327	333	0.4	0.4
Net borrowings	**51,732**	**86,748**	-	-
Domestic	44,755	87,051	-	-
Offshore	6,977	-303	-	-
Change in assets[2]	**-234**	**-298**	-	-
Total deficit financing	**51,498**	**86,450**	-	-

[1] Including Sukuk Prihatin in 2020

[2] (+) indicates a drawdown of assets; (-) indicates accumulation of assets

[3] Estimate

Source: Ministry of Finance, Malaysia.

Domestic borrowings will remain as the primary source of funding, estimated at RM181.5 billion or 99.9% of total gross borrowings, while the balance of RM30 million will be drawn down from offshore project loans. In 2020, the issuance of MGS is expected to register RM73 billion or 40.2% of total gross borrowings, while MGII at RM76.5 billion or 42.1%. Additionally, Treasury bills of RM32 billion, which was raised for cash and liquidity management, has doubled compared to the average issuance over the past five years.

In terms of borrowing operations, public auctions will remain as the Government's primary method of issuance. In 2020, the issuance process via auctions constitutes 90% of total issuances. The Malaysian Government received a total bid of RM229.1 billion for market issuances of RM102.3 billion during the first three quarters, representing a bid-to-cover (BTC) ratio of 2.24 times. The bid amount was higher despite the domestic economic slowdown during the movement control period from March to June 2020. This indicates the Government's ability to manage surging borrowing needs to finance stimulus packages via short- and medium-term debt instruments.

The domestic government debt market recorded net foreign fund outflows of RM16.6 billion during the first quarter of 2020 over concerns about domestic uncertainties due to change in Government, the economic impact of COVID-19 pandemic and fears of a global recession. However, foreign holdings showed a positive trend in the second quarter with a net inflow of RM11.4 billion, the highest net inflow since last quarter of 2019 (RM14.4 billion).

By way of for Shariah-compliant instruments, the Government sukuk issuance is expected to increase by 49% in 2020. The issuance of MGII is expected to account for 42.1% of total gross borrowings, while Malaysia Islamic Treasury Bills (MITB) at 10.5%. Strong demand for Shariah compliant government papers was eminent due to lower sukuk issuances by the private sector in the domestic market. The current market dynamics have supported the Government's strategy of maintaining a balance between conventional and Islamic issuances, while also emphasising on cost-effectiveness and meeting investors' demand. On 22 September 2020, the Federal Government completed the issuance of Sukuk Prihatin with a maturity period of 2-year at an annual coupon rate of 2%. This issuance provides the platform for retails and corporates to also contribute to financing the measures to mitigate the COVID-19 crisis. The Sukuk was oversubscribed by 1.3 times at RM666.4 million, from the initial offering of RM500 million. Proceeds from the issuance will be channelled to the COVID-19 Fund, which was established to finance economic stimulus packages and recovery plan.

Gross offshore borrowings in 2020 are expected to be minimal due to the absence of new market issuances. The drawdown of an existing bilateral project loan is expected to be at RM30 million from the Japan International Cooperation Agency to finance its technical cooperation programme with a public university

E. Malaysian Federal Government Debt

The Malaysian Federal Government debt is governed under several legislations, namely the Federal Constitution, Financial Procedure Act 1957 [Act 61] and specific Acts which are related to borrowings and debt. In terms of domestic instruments, conventional papers, which comprise of MGS and Malaysia Treasury Bills (MTB), are regulated under the Act 637 and the Treasury Bills (Local) Act 1946 [Act 188], respectively. Similarly, the Islamic papers, namely MGII and MITB, are administered under Act 275. Meanwhile, Malaysian Federal Government offshore borrowings is governed under the External Loan Act 1963 [Act 403]. These Acts provide a guideline on issuances, utilisation of proceeds and outstanding debt ceiling, which also serve as fiscal rules and discipline in ensuring more prudent and sustainable debt management.

Table 13: Malaysian Federal Government Debt 2019 - 2020

Component	2019	2020[2]	2019	2020[2]	2019	2020[2]
	RM Million		% Share		% Share of GDP	
Domestic debt	**764,223**	**845,026**	**96.4**	**96.7**	**50.6**	**58.7**
Treasury bills	**4,500**	**2,400**	0.6	2.8	0.3	1.7
MSG	394,133	436,660	49.7	49.9	26.1	30.3
MGII[1]	338,800	360,266	42.7	41.2	22.4	25.0
SPK	26,800	24,100	3.4	2.8	1.8	1.7
Offshore borrowing	**28,765**	**29,250**	**3.6**	**3.3**	**1.9**	**2.0**
Market loans	23,347	23,895	2.9	2.7	1.5	1.6
Project loans	5,418	5,355	0.7	0.6	0.4	0.4
Total	**792,998**	**874,276**	**100.0**	**100.0**	**52.5**	**60.7**
Memorandum item: Non-resident holdings of ringgit-denominated debt securities	186,493	193,212	24.4	22.9	12.3	13.4

[1] Including Sukuk Prihatin in 2020
[2] End-September 2020
Source: Ministry of Finance, Malaysia.

As at end-September 2020, the Federal Government debt registered RM874.3 billion or 60.7% of GDP. The debt comprises 96.7% of ringgit-denominated securities and the balance in foreign currency, reflecting ample domestic liquidity supported by a developed domestic debt market and robust institutional investors. This allows the Federal Government to raise its financing needs domestically, thus reducing the exposure to foreign exchange risk.

Domestic debt increased to RM845 billion as at end-September 2020 (end-2019: RM764.2 billion) comprising MGS which amounted to RM436.6 billion and MGII totalling RM360.3 billion. The MGS remained as the primary debt instrument at 49.9% of total Federal Government debt followed by MGII with a sizeable share of 41.2%. The Government is committed to promoting Shariah-compliant financing to enhance the vibrancy of the Islamic financial market and strengthening its position as the leading global hub for Islamic finance. Treasury bills, namely MTB and MITB, are short-dated securities with maturity ranging between 90 to 365 days. These instruments are issued periodically at a discount through competitive auction to finance cash flow requirement.

As at end-September 2020, outstanding Treasury bills stood at RM24 billion, representing 2.8% of total Federal Government debt, with MTB constitutes RM6.5 billion while MITB stood at RM17.5 billion. In addition, SPK was issued by the Government to finance the civil servant’s housing loan. This instrument was issued before the establishment of the Public Sector Home Financing Board (LPPSA), which is a self-funding entity. The remaining balance of SPK stood at RM24.1 billion or 2.8% from total Federal Government debt as at end-September 2020.

Offshore borrowings, which comprises market securities and project loans, remained stable at RM29.3 billion, well below the statutory limit of RM35 billion. The composition of foreign denominated borrowings was mainly in US dollar (54.6%) and yen (44.8%). In terms of instruments, market securities which consist of global sukuk and Samurai bond stood at RM23.9 billion. Meanwhile, outstanding project loans via existing bilateral and multilateral financing arrangement registered RM5.4 billion to fund programmes and projects for universities, sewerage plants and water transfer infrastructure. Financing costs for domestic debt instruments are expected to contribute the largest share at 97.7% while the balance is for offshore borrowings.

Despite the unprecedented crisis that impacted the global economy, non-resident holdings remain substantial at RM206.3 billion or 24.2% from the total Federal Government debt. Long-term and institutional investors continue to represent sizeable holdings at 12.7% (RM108.2 billion), while the balance of 11.5% (RM98.1 billion) consists of fund managers and banking institutions. Additionally, support from non-resident in MGS holdings remained stable, constituting 37.3% of total MGS outstanding (end-2019: 41.6%).

The external debt coverage includes public and private sector offshore borrowings, nonresident holdings of ringgit-denominated securities, non-resident deposits and other external debt. As at end-June 2020, external debt increased to RM1 trillion or 69.7% of GDP. Overall, the increase was mainly contributed by the net issuance of international bonds and notes from public enterprises and private sectors. However, the increase was partially offset by withdrawal from non-resident holdings of domestic debt securities and deposits. The largest component of external debt is offshore borrowings, which increased to RM624.3 billion, with a share of 62.2%.

The medium- and long-term offshore borrowings accounted for RM383.2 billion, while short-term debt registered RM241.1 billion. The increase was mainly contributed by higher non-financial corporation borrowings, primarily for foreign assets acquisition and intragroup borrowings among banks and non-banking private sector. The other component of external debt is non-resident holdings and deposits, which represents ringgit-denominated external debt and deposits in domestic banking institutions. This component comprised RM295.4 billion or around 30% of the total external debt, which among others include non-resident holdings of government papers which stood at RM181.2 billion or 22% of total Federal Government domestic debt.

Thus, the foreign holdings are not exposed to the valuation effects from the movements of ringgit. In general, Malaysia's external debt position remains manageable. The external debt with medium- and long-term tenure accounted for 58.7% of total external debt, indicating a low refinancing risk. Furthermore, the availability of sizeable external assets is able to cushion the impact from external risks, demonstrating the nation's financial resilience.

Table 14: Malaysian Federal Government External Debt 2019 - 2020

Component	2019	2020[3]	2019	2020[3]	2019	2020[3]
	RM Million		% Share		% Share of GDP	
Offshore borrowing	**560,708**	**624,334**	**59.3**	**62.2**	**37.2**	**43.3**
Medium and long-term debt	**344,322**	**383,169**	36.4	38.2	22.9	26.6
Public sector	128,743	154,413	13.6	15.4	8.6	10.7
Federal Government	24,021	25,077	2.5	2.5	1.6	1.7
Public corporations	104,722	129,336	11.1	12.9	7.0	9.0
Private sector	215,579	228,756	22.8	22.8	14.3	15.9
Short-term debt	216,386	241,166	22.9	24.0	14.3	15.9
Non-resident holdings of ringgit-denominated debt securities	**201,015**	**196,632**	**21.3**	**19.6**	**13.3**	**13.7**
Medium and long-term debt	193,270	186,748	20.5	18.6	12.8	13.0
Federal Government	182,151	176,001	19.3	17.5	12.1	12.2
Others[1]	11,119	10,747	1.2	1.1	0.7	0.8
Short-term debt	7,745	9,884	0.8	1.0	0.5	0.7
Non-resident deposits	**102,928**	**98,821**	**10.9**	**9.9**	**6.8**	**6.9**
Others[2]	**80,767**	**83,168**	**8.5**	**8.3**	**5.3**	**5.8**
Total	**945,419**	**1,002,956**	**100.0**	**100.0**	**62.6**	**69.7**

[1] Including private sector and public corporations

[2] Comprise trade credit, IMF allocation of Special Drawing Right and miscellaneous

[3] End-June 2020

Note: Total may not add due to rounding
Source: Ministry of Finance, Malaysia.

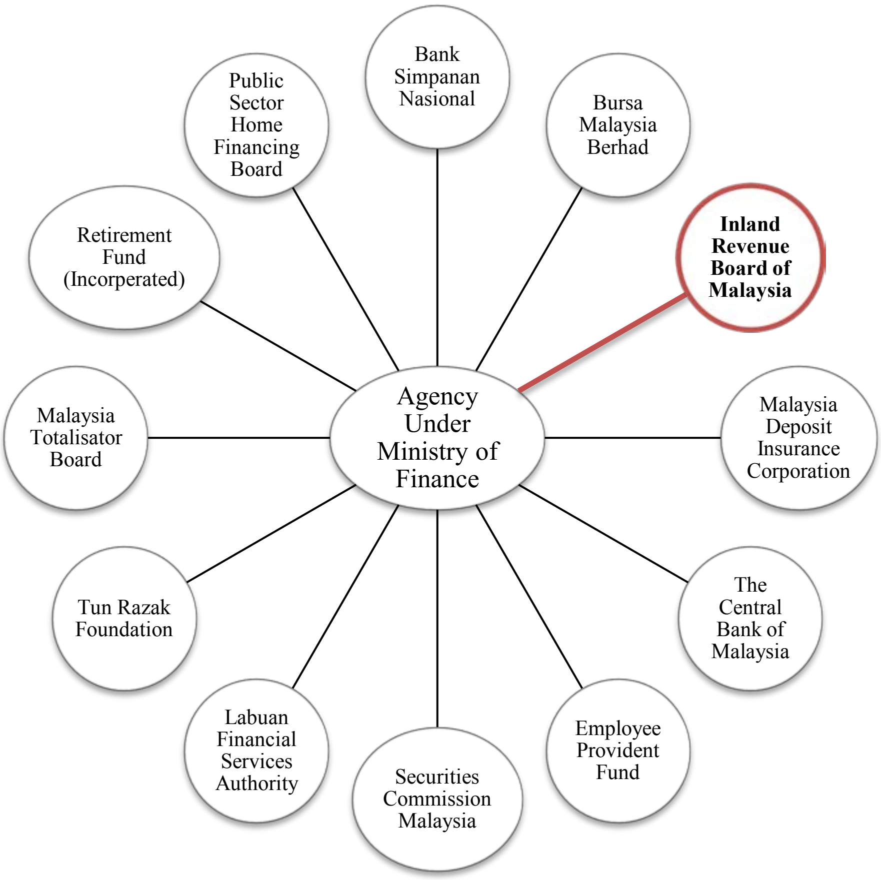
III. Tax structure

In Malaysia, the authorized bodies that administrate Malaysian tax system are the Inland Revenue Board of Malaysia, abbreviated IRBM and the Royal Malaysian Customs Department, abbreviated RMCD.

III.1 Inland Revenue Board of Malaysia (IRBM)

On the March 1, 1996, the Department Inland Revenue Malaysia became the Inland Revenue Board of Malaysia (IRBM) which is now what it is formally known as today. IRBM in Malaysia is one of the main agencies responsible for collecting revenue for the Ministry of Finance (MOF). IRBM is administrating the nation's direct tax policy.

Figure 9: Agency under Ministry of Finance (MOF)



Source: Ministry of Finance, Malaysia and Inland Revenue Board of Malaysia.
Notes: Since 2015 it unveiled a new beginning for the IRBM when, on 30 December 2014, Parliament of Malaysia passed the Inland Revenue Board of Malaysia (Amendment) Act 2015 [Act A1475] to amend Act 533 related to its establishment as a statutory agency. The Amendment Act made the IRBM a self-financing and autonomous agency. It gave the IRBM the freedom to determine its direction including the management of its own revenue source, remuneration (salaries and compensations) and human resources (services and postings) without having to refer to any central agency such as the Public Service Department or the Ministry of Finance for consent. The IRBM's main revenue is the Agency Fee received from the Federal Government for its services as set out in Section 10 of the Inland Revenue Board of Malaysia 1995. The estimated calculation of the receivable agency fee from the government is based on the estimated amount of gross tax collection revenue in a year.

A. Responsibilities & Laws of IRBM

IRBM's responsibility is to improve on the quality and the effectiveness of tax administration in Malaysia. The main roles and responsibilities of IRBM can be classify as being responsible for the overall administration of direct taxes which fall under the following acts:

a. Income Tax Act 1967 (Act 533);
b. Petroleum Act (Income Tax) 1967;
c. Real Property Gains Tax Act 1976;
d. Stamp Act 1949;
e. Labuan Offshore Business Activity Tax Act 1990;
f. Promotion of Investment Act 1986.

B. Functions of the Board

As a board, IRBM has a number of duties which they are tasked with carrying out. IRBM is responsible for the following functions and duties:

a. To act as agent of the Government and to provide services in administering, assessing, collecting and enforcing payment of income tax, petroleum income tax, real property gains tax, estate duty, stamp duties and such other taxes as may be agreed between the Government and the Board;
b. To advise the Government on matters relating to taxation and to liaise with the appropriate Ministries and statutory bodies on such matters;
c. To participate in or outside Malaysia in respect of matters relating to taxation;
d. To perform such other functions as are conferred on the Board by any other written law;
e. May act as a collection agent for and on behalf of any body for the recovery of loans due for repayment to that body under any written law.

C. Power of Board

Apart from the function of board, IRBM also has a responsible for the following powers:

a. To enter into contracts;
b. To utilise all property of the Board, movable and immovable, in such manner as the Board may think expedient including the raising of loans by mortgaging such property;
c. To engage in any activity, either alone or in conjunction with other organizations or international agencies, to promote better understanding of taxation;
d. To provide technical advice or assistance, including training facilities, to tax authorities of other countries;
e. To impose fees or charges for services rendered by the Board;
f. To grant loans to employees of the Board for any purpose specifically approved by the Board;
g. To provide recreational facilities and promote recreational activities for, and activities conducive to, the welfare of employees of the Board
h. To provide training for employees of the Board and to award scholarships or otherwise pay for such training; and
i. To do anything incidental to any of its powers.

D. Members of Board IRBM

According to Subsection 6(1) of the Inland Revenue Board of Malaysia 1995 (Act 533) states that the Board Shall consist of the following members in order carrying out the functions of the Board:

a. The Secretary General of Malaysian Treasury and shall be IRBM Chairman;
b. Attorney General or its representative;
c. Director General of Public Services or its representative;

d. Not more than two (2) Government representatives who are appointed by the Minister of Finance; and
e. Not more than three (3) representatives from the private sector who are influential or experienced in matters related to finance, commerce, taxation or law, appointed by the Minister of Finance.

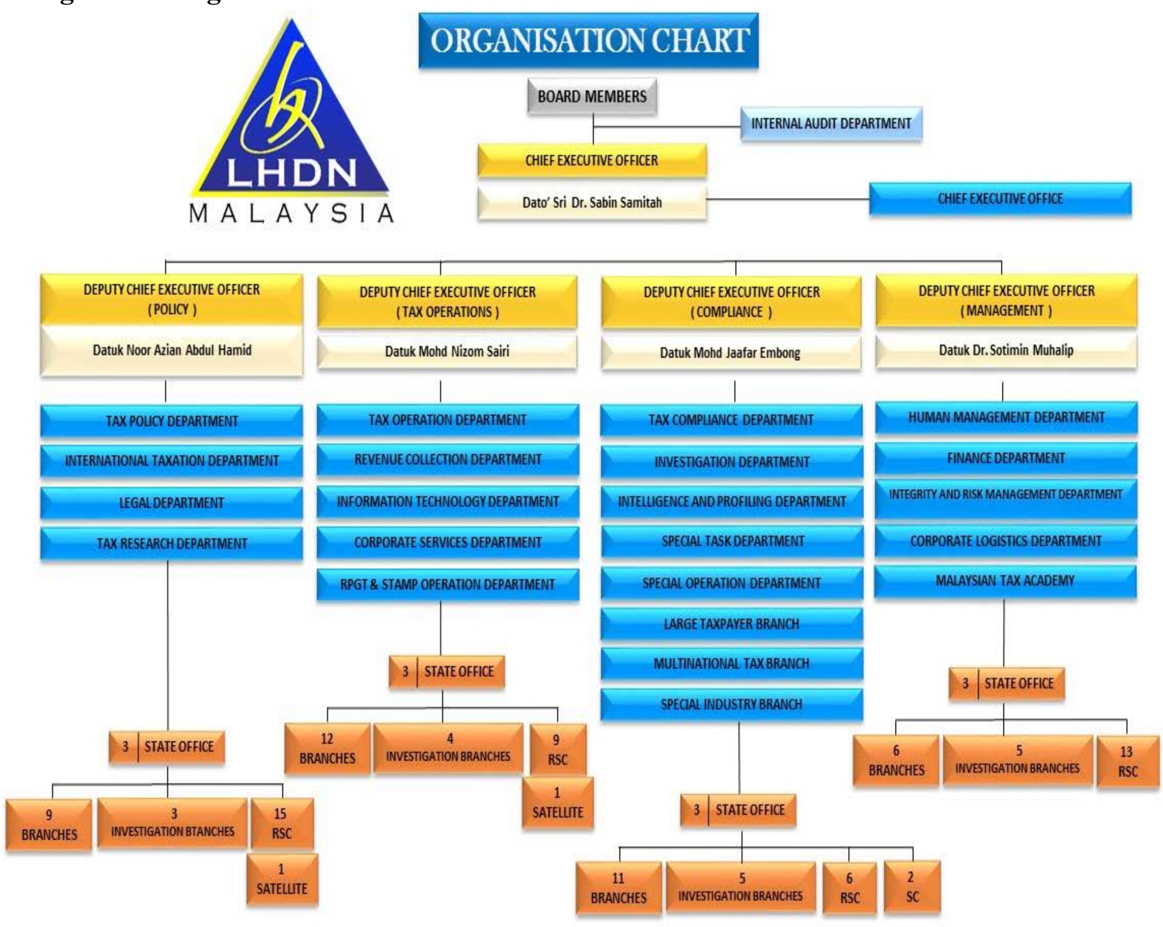
The total number of Board Committee in IRBM was 9 members (including IRBM CEO)

E. IRBM Organizational Chart

IRBM was led by Chief Executive Officer (CEO) and assisted by four (4) Deputies; Policy, Tax Operation, Compliance & Management. The main role of the Chief Executive Officer as the Director General of the Inland Revenue under Section 134 (1A) of the Income Tax Act 1967 (Act 53) is to manage and collect tax. At the same time, under Section 6A (1) of Act 533, the Chief Executive Officer is also responsible for the administrations of the daily operations. Both roles are effectively implemented in line with the strategies and policies as well as to provide supervision, guidance, advice and leadership to the senior management.

Currently, the CEO/Director General for IRBM is YBhg. Dato' Sri. Dr. Sabin Samitah. In overall IRBM has 23 Departments (Including 1 Chief Executive Office), 12 States Offices, 17 Investigation Branches, 38 Region Branches, 43 Revenue Service Centre, 2 Satellite Offices, 2 Contact Centers & 2 Stamps Centers.

Figure 10: Organizational Chart of IRBM



Source: Inland Revenue Board of Malaysia.

F. Direct Tax Collection Revenue

Until the end of 2017, IRBM has succeeded collected tax revenue of Ringgit Malaysia (RM) 123,312 million or 97.33% of target. Realization of tax revenue in 2017 grew by 8.22% compared with 2016. More details about comparison of direct tax collection by component as follows:

Table 15: Comparison of Direct Tax Collection by Component in 2016-2017

Direct tax component	2016 RM Million	2017 RM Million	% Change
Individuals	29,603.47	31,901.57	7.76
Companies	65,974.74	68,801.94	4.29
Stamp Duty	5,674.04	5,670.32	(0.07)
Withholding Tax	2,549.36	3,266.38	28.13
RPGT	1,491.67	1,697.98	13.83
Cooperatives	89.71	74.48	(16.98)
Other Taxes	90.09	86.69	(3.77)
Other IT - Sec 124	46.18	51.23	10.94
Petroleum	8,425.76	11,760.92	39.58
Gross Collection	**113,945.02**	**123,311.51**	**8.22**

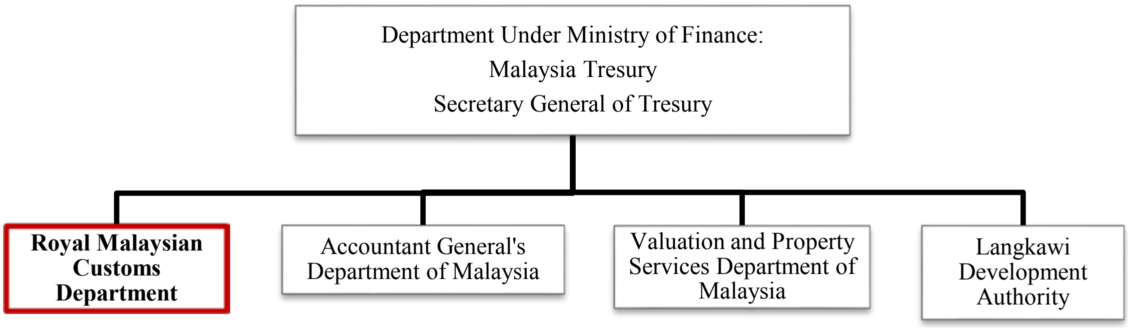
Source: Annual Report 2017, Inland Revenue Board of Malaysia.

Note: Annual Report for IRBM only available and published until 2017. For 2018 and above it still pending for Parliament of Malaysia approval.

III.2 Royal Malaysian Custom Department (RMCD)

The Royal Malaysian Customs Department (RMCD) is the Malaysian government agency responsible for administrating the nation's indirect tax policy, border enforcement and narcotic offences.

Figure 11: Department under Ministry of Finance (MOF)



Source: Ministry of Finance, Malaysia.

A. Responsibilities & Laws of RMCD

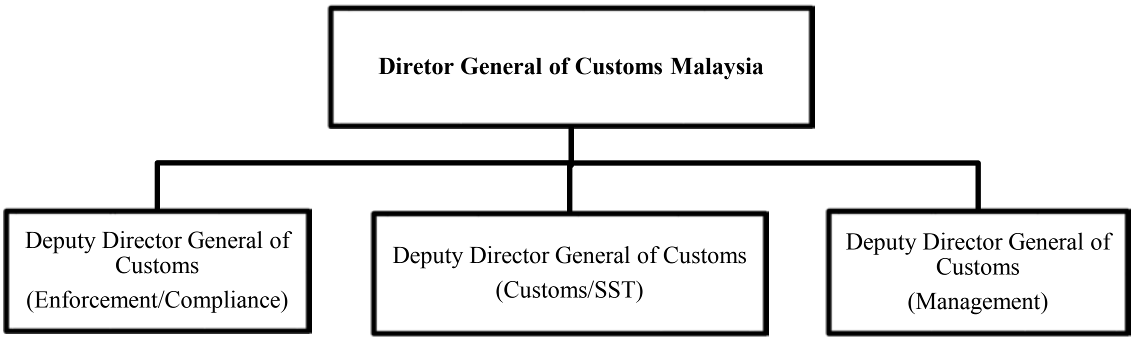
The RMCD is responsible for the administration of the following laws:

i) Custom Act 1967;
ii) Excise Act 1976
iii) Goods and Services Tax Act 2014; (Repeal)
iv) Free Zones Act 1990;
v) Goods Vehicle Levy Act 1983;
vi) Windfall Profit Levy 1998;
vii) Sales Tax Act 1972 (until 31 March 2015);
viii) Service Tax Act 1975 (until 31 March 2015).
ix) Sales Tax Act 2018
x) Service Tax Act 2018

B. Function of RMCD

- Responsible in Collecting National Revenue in the form of Import Duty, Export Duty, Excise Duty, Sale and Service Tax, Good and Services Tax, Windfall Profit Levy, Goods Vehicle Levy, Non-revenue Tax and State Tax / Trust Money.
- Enforcing the Customs Act 1967, Excise Act 1976, Free Zone Act 1990, Goods Vehicle Levy Act 1983, Windfall Profit Levy 1998 And Goods Tax Act and Services (GST) 2014, Sale and Service Tax and other enforcement law related.

Figure 12: RMCD Organizational Charts (Top Management only)



Source: Royal Malaysian Custom Department

III.3 Tax Specific Analysis

III.3.1. Self-Assessment System (SAS)

A. Background

Self-Assessment system (SAS) was implemented to replace the official assessment system which effective year 2001 for companies, 2004 for business, partnership, co-operative and salaried individual.

Underneath the SAS, taxpayers are expected to compute their tax liability based on the tax laws, guidelines and ruling issued by the IRBM so that, the burden of computing the taxpayer's liability is shifted from the IRBM to the taxpayer and accordingly. However, the tax returns submitted will be subject to reviewed by the IRBM.

By the implement of SAS, objectively it can enhance the tax administration to be more efficiency and effectively at the same time it can inculcate a practice of voluntary compliance by the taxpayers.

B. Corporate Income Tax

i) Registration Income Tax number for Companies

Registration of company's tax file is the responsibility of the individual who managing and operating the company. Where a company commenced operations; they need to apply for registration of a tax file. Companies, limited liability partnerships, trust bodies and cooperative societies which are dormant and/or have not commenced business are required to register and furnish Form E (Employer) with effect from Year of Assessment 2014[12]. New companies can register company income tax number by using online system (e-daftar) or by visit to the nearest IRBM branch.

ii) Estimate of Tax Payable

Under the SAS, every company is required to determine and submit in a prescribed form (Form CP204) an estimate of its tax payable for a year of assessment, 30 days before the beginning of the basis period. However, when a company first commences operations (i.e. during the first basis period), the estimate of tax payable must be submitted to the IRBM within 3 months from the date of commencement

[12] Filing Programme for Return Forms in the Year 2020.

of its business and thereafter no later than 30 days before the beginning of the basis period.

With effect from YA 2006 and subsequent years, the estimate of tax payable for that year cannot be less than 85% of the revised estimate of tax payable for the immediate preceding year of assessment or if no revised estimate is furnished, cannot be less than 85% of the estimate of tax payable for immediate preceding year of assessment. A company is still required to submit the prescribed Form CP204 within the stipulated deadline even if it expects its estimate of tax payable to be NIL.

A company first commence operations in a year of assessment and the basis period for that year of assessment is less than 6 months, that company is not required to furnish an estimate of tax payable or make installment payment for that year of assessment with effect from YA 2011.

With effect from 30 December 2014, in order to be exempted from filing a tax estimate for a period of 2 years commencing from the year of assessment in which a SME commences operations, the SME must be a tax resident and incorporated in Malaysia.

The tax estimate or revised tax estimate must be submitted by way of an electronic medium or electronic transmission starting YA 2018. Each month instalment is due and payable to the IRBM by the 15th day of the following month.

iii) Revision of Estimate of Tax Payable

Under Section 107C(7) of the ITA 1967, every company is allowed to revise its estimate of tax payable by submitting a Form CP204A in the 6th month and/or 9th month of its basis period from YA 2003 onwards. Where the revised estimate exceeds the amount of instalments paid to date, the difference shall be payable in the remaining months of the instalment scheme. Conversely, when instalments paid to date exceed the revised estimate, the company may discontinue its original instalment scheme.

iv) Tax Return

Under the self-assessment system, all companies must file the tax returns within 7 months from the end of the accounting period (S77 (1A), ITA 1967) from YA 2003 onwards. For example, a company with an accounting period ending on 31 January must file its tax return to the IRBM by 31 August. Effective Y/A 2014, the tax return must be submitted by way of an electronic medium or electronic transmission (e-Filing).

v) Corporate Income Tax Rate

For both resident and non-resident companies, corporate income tax is imposed on income accruing in or derived from Malaysia. The current corporate income tax rates are provided in the following table:

Table 16: Income Tax Rate - Companies

Types of Companies	Y/A 2019	Y/A 2020
Resident company with paid up capital of RM2.5 million and below at the beginning of the basis period*		
- On first RM500,000 chargeable income	17%	
- On subsequent chargeable income	24%	
Resident company with paid up capital of RM2.5 million and below at the beginning of the basis period and having gross income from source or source consisting of a business of not more than RM50 million for the basis period for a Y/A*		
- On first RM600,000 chargeable income		17%
- On subsequent chargeable income		24%
Resident company (other than described above)	24%	24%
Non-resident company/branch	24%	24%

* Such company does not control, directly or indirectly, another company that has paid-up capital of more than RM2.5 million, and is not controlled, directly or indirectly, by another company that has paid-up capital of more than RM2.5 million.

Source: Inland Revenue Board of Malaysia.

B. Individual Income Tax

i) Overview of Individual Self-Assessment System (SAS)

Tax administration under SAS for the individuals (include salaried individual and sole-proprietors) and for partnership is based on the concept **Pay, Self-Assess and File** which can be clarify as:

Pay: Monthly salary deductions are made for individuals having employment income by the employer, or through instalments by themself for individuals who having business income.

Self-Assess: Taxpayers has to compute their own taxes.

File: Taxpayer must submit their Income Tax Return Form (ITRF) via manual or online (e-Filing) to the IRBM together with the payment for the balance of the income tax payable to meet any shortfall in the monthly payments or a claim for repayment if there is an overpayment.

ii) Registration Income Tax number for Individual

New individual tax payer can register their income tax number by using online system (e-daftar) or by visit to the nearest IRBM branch.

iii) Individual Tax Estimation

For salaried individuals, income tax will be deducted through the monthly salary deductions under the Monthly Tax Deduction (MTD) scheme. Employer must make the MTD deduction from the remuneration of employee in each month and the employer shall pay to the Director General, not later than the fifteen day of every calendar month by using online form e-CP39.

However, for individuals other than salaried individuals, the IRBM may issue a prescribed form (Form CP500) setting out the estimate of tax payable (ETP) under an instalment scheme. ETP is determined by the IRBM based on the tax assessed in the preceding year. The taxpayer is required to pay the ETP in 6 bi-monthly instalments as directed by the IRBM commencing from the month of March. Each instalment payment accompanied by a remittance slip (Form CP501) must be paid to the IRBM within 30 days from the due date.

iv) Filing of Tax Returns

Every individual must file a tax return to the Director General by 30 April of the following year unless that individual with no chargeable income receives a waiver from the Director General or has business income. However, the deadline for a person carrying on a business, such as sole proprietor, partnership, club association and Hindu joint family to submit their income tax return form is 30 June of the following year. Methods of Filing Income Tax Return Form:

a. By manual prescribed form and need to be submitted or sent by post to IRBM Tax Information and Record Management Division
b. By electronic filing system i.e. e-Filling; or
c. By m-Filling system via mobile devices.

Meanwhile, with effect from YA 2013, taxpayers who file income tax returns before the expiry of the stipulated due date will be given compensation of 2% per annum on the amount of tax refunded late by the IRBM computed on a daily basis commencing 1 day:

a. After 90 days from the due date for e-Filing;
b. 120 days from the due date for manual tax filing.

With effect from YA 2013, salaried individuals may elect not to file a tax return provided that they meet the conditions specified according to the Income Tax Act 1967 (ITA 1967). Where an employee meets the conditions and no return for that year of assessment has been furnished by that employee, the total amount of the MTD deducted shall be deemed to be the tax payable of the employee for that year of assessment. This also called as MTD as final tax. However, the Director General retains the power to raise adeemed assessment or an additional assessment and disregard the total amount of MTD deducted as the final tax payable for that year of assessment

v) Individual Income Tax Rate

Tax rate for individual was charge based on both progressive and flat rates and individual's duration and type of work in the Malaysia.

According to the Malaysian 2020 budget, Malaysian government raising the maximum an individual could pay to 30 percent from its earlier 28 percent which affected tax rates between 2019 and 2020.

Table 17: Income Tax Rate – Resident Individuals

Chargeable Income		Y/A 2018 to YA 2019		Y/A 2020 onwards	
		Tax Rate	Tax Payable	Tax Rate	Tax Payable
	RM	%	RM	%	RM
First	2,500	0	0	0	0
Next	2,500	0	0	0	0
On	5,000		0		0
Next	5,000	1	50	1	50
On	10,000		50		50
Next	10,000	1	100	1	100
On	20,000		150		150
Next	15,000	5	450	3	450
On	35,000		600		600
Next	15,000	10	1,200	8	1,200
On	50,000		1,800		1,800
Next	20,000	16	2,800	14	2,800
On	70,000		4,800		4,600
Next	30,000	21	6,300	21	6,300
On	100,000		10,900		10,900
Next	50,000	24	12,000	24	12,000
On	150,000		22,900		22,900
Next	100,000	24	24,000	24	24,000
On	250,000		46,900		46,900
Next	150,000	24.5	36,750	24.5	36,750
On	400,000		83,650		83,650
Next	200,000	25	50,000	25	50,000
On	600,000		133,650		133,650
Next	400,000	25	104,000	26	104,000
On	1,000,000		237,650		237,650
Next	1,000,000		280,000	28	280,000
Exceeding	2,000,000	28		30	

Source: Inland Revenue Board of Malaysia

Generally, an individual is a non-resident under Malaysian tax law if he/she stay less than 182 days in Malaysia in a year, regardless of his citizenship or nationality. Non-resident individual is taxed at a different tax rate on income earned or received from Malaysia.

Table 18: Income Tax Rate – Non-Resident Individuals

Types of Income	Rate (%)
Business, trade or profession Employment Dividends Rents	30
Public Entertainer Interest	15
- Royalty - Payments for services in connection with the use of property or installation, operation of any plant or machinery purchased from a non-resident - Payments for technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme - Rent or other payments for the use of any movable property	10

Source: Inland Revenue Board of Malaysia.

III.3.2 Tax Audit

A. Nature

IRBM carries out 2 types of audits namely desk audit and field audit. The former will involve the review of documents / information obtained by correspondence and interviews at the IRBM's offices whilst the latter would entail a visit to the taxpayer's premises for a detailed review of all relevant documents. Cases for audit are selected through the computerised system based on risk analysis criteria and on various criteria such as business performance, financial ratios, type of industry, past compliance records, third party information, etc.

Once a taxpayer is selected for an audit, the IRBM will inform the taxpayer via a telephone call followed by an official notification letter sent via mail or fax. The period between the date of notification and the audit visit is 14 days. A shorter period of notification may be fixed by IRBM with the consent of the taxpayer. The scope of a tax audit under SAS normally covers a period of 1 to 3 years, unless there are valid reasons to go beyond that period. The time frame for the conclusion of a tax audit is normally within 3 months. The IRBM will notify the taxpayer if it requires more than 3 months to be completed.

Programme for Monitoring Deliberate Tax Defaulters ["MDTD"] was introduced to monitor taxpayers who have failed to comply with the laws, i.e. those who have committed offence in furnishing incorrect information in their income tax returns, including omission of business code or use of wrong business code. These non-compliant taxpayers will be removed from listing of MDTD if the monitoring finds that they no longer commit offences in the subsequent years of assessment. With effect from 1 January 2014, the time-bar for tax audits is reduced from 6 years to 5 years.

Based on Malaysian Budget 2020, with effect from Y/A 2020, the tax payer who is seeking to appeal against an assessment after expiration of the period to make an appeal using Form Q, may within 7 years after the end of that period, make a written application in the prescribed Form N to the Director General for an extension of period allowed to file the prescribed Form Q. The IRBM issued a revised for Tax Audit Framework is effective 1 April 2018.

C. Penalty Provision

a. Penalties for omission / non-disclosure

Under the tax audit system, the IRBM has also introduced a new penalty regime for non-disclosure and omission of information that affects a taxpayer's tax liability. The penalty regime is summarized as follows:

Table 19: Penalty Rate

Types of Voluntary		Penalty Rate
Voluntary disclosure before selection for audit	Within 60 days from due date for furnishing the return from	10%
	More than 60 days but less than 6 months from the due date for furnishing the return form	15.5%
	> 6 months and above	35%
Non-disclosure (discovery during audit)		100% of tax undercharged (may consider for 45% for 1st offence)
Repeated offences under the MDTD cases		100%

Source: Inland Revenue Board of Malaysia.

b. Penalty for not providing reasonable facilities and assistance

Under Section 116 of the ITA 1967, failure by a taxpayer to provide reasonable facilities and assistance to the IRB when conducting an audit is an offence and upon conviction, the taxpayer may be liable to a fine of between RM1,000 to RM10,000 or face imprisonment for a term not exceeding 1 year or to both.

c. Failure to keep sufficient records

Under Section 119A of the ITA 1967, the company or persons responsible, upon conviction will be liable to a fine of between RM300 to RM10,000 or face imprisonment for a term not exceeding 1year or to both.

D. Appeal against an Assessment

If a taxpayer is dissatisfied with an assessment deemed to be served on him/her, the taxpayer should file an appeal by submitting a Form Q within 30 days of the assessment being served on him/her, i.e. within 30 days of the date of submission of the tax return. Specific details and the grounds of appeal should be stated in the Form Q.

In the event the IRBM is unable to reach an agreement with the taxpayer, the case will be forwarded to the Special Commissioners. Effective Y/A 2009, taxpayers with no chargeable income can file an appeal by using the Notification of Non-Chargeability instead of notice of assessment. The appeal is to be filed through the Director General using Form Q.

Effective 1 January 2012, the issuance of Notification of Non-Chargeability is extended to the following cases:

(i) persons exempted from tax under the ITA 1967 or the Promotion of Investments Act 1986 (PIA 1986);

(ii) persons with no statutory income from a business source but assessment has been made in respect of other sources of income.

III.3.3 Summary Tax Investigation Framework

Instead of conducting the normal tax audit, one of the methods of enforcement carried out by IRBM is tax investigation to make sure compliance with tax laws. Tax offences such as non-compliance and tax evasion will be dealt with in accordance with the provisions of ITA 1967 and other acts administered by the IRBM. A taxpayer who is convicted of an offence is liable to a penalty, fine and/or imprisonment. IRBM issued a revised Tax Investigation Framework, which takes effect from 15 May 2018.

A. Investigation Activities

Tax investigation is examination of books, documents, objects, articles, materials and things (hereinafter referred to as 'documents') relating to a taxpayer’s business and financial matter, including personal documents. This examination is carried out to determine that the correct amount of income is reported, and the tax thereon is charged and paid in accordance with the tax laws and regulations.

Investigation is conducted to gather admissible evidence with a view towards prosecution and conviction of tax offences in court in accordance with the provisions of ITA (or other acts in paragraph 2.2), Penal Code [Act 574], Criminal Procedure Code [Act 593], Evidence Act 1950 [Act 56], Whistleblower Protection Act 2010 [Act 711] and other relevant acts.

C. Period of Investigation

There is no limitation to the period of investigation in cases of fraud, willful default or negligence. Assessment can be raised at any time in accordance with subsection 91(3) of ITA.

D. Offences and Penalties

Willful evasion is an offence under Section 114 of the ITA. Any person guilty of the offence shall, on conviction be liable to a fine of not less than RM1,000 and not more than RM20,000 or to imprisonment for a term not exceeding three years or to both and shall pay a special penalty of treble (300%) the amount of tax which has been undercharged.

III.3.4. Real Property Gains Tax Rates and Exemptions

Real Property Gains Tax (RPGT) is charged on gains arising from the disposal of real property, which is defined as any land situated in Malaysia and any interest, option or other right in or over such land. RPGT is also charged on the disposal of shares in a real property company (RPC). A RPC is a controlled company holding real property or shares in another RPC of which the defined value is not less than 75% of the value of the company's total tangible assets.

With effect from 1 January 2019, a tax rate of 10% was imposed for a holding period exceeding 5 years for companies. Individual who are Malaysian citizen or permanent residents will be subject to RPGT at the rate 5% for holding period exceeding 5 years. Individual who are not Malaysian citizens or permanent resident will be subject to RPGT at the rate 10% for holding period exceeding 5 years. The RPGT rates Y/A 2020 is set out as table below:

Table 20: RPGT Rates for Year of Assessment 2020

Disposal Period	Part I	Part II	Part III
	Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	Company incorporated in Malaysia or trustee of a trust [eg: company, co-operative, association, society and organization]	Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	30%	30%	20%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	5%	10%	10%

Source: Inland Revenue Board of Malaysia

RPGTA has several provisions for exemption and among the provisions are:

1. Exemption under Paragraph 2 of Schedule 4 RPGTA

The exemption of Paragraph 2 of Schedule 4 is available to individual only and is allowed as follows:

a. Disposal of the whole share owned by individual
The exemption is RM10,000 or 10% of the chargeable gain, whichever is greater.

b. Disposal of part of the whole share owned by individual (with effect from 31.12.2015)
If an individual dispose part of his entire share, the exemption allowed is as follows:

$$\frac{A}{B} \times C$$

where,

A - Is part of the area of the chargeable asset disposed
B - Is the total area of the chargeable asset
C - RM10,000

or

10% x chargeable gain, whichever is greater.

2. Exemption from gain on disposal of a private residence under Section 8 of the RPGTA

a. Exemption is granted on gain derived from disposal of a private residence. Individual is entitled to the exemption once in a lifetime.
b. A private residence is defined as a building or part of a building in Malaysia owned by an individual and occupied or certified fit for occupation as a place of residence
c. Exemption under Section 8 can only be granted on conditions:

i. The individual is a Malaysian citizen or Malaysian permanent resident;

ii. Exemption is granted for a private residence only; and

iii. Election for exemption must be made in writing and is irrevocable. No further exemption will be given for the disposal of other private residences.

d. No election can be made where an exemption has been granted to an individual under the repealed Land Speculation Tax Act 1974 in respect of the disposal of a private residence**.**

III.3.5 International Taxation

A. Automatic Exchange of Information (AEOI)

i) Foreign Account Tax Compliance Act (FATCA)

FATCA, which affects Financial Institutions ("FIs") worldwide, aims at reducing tax evasion by US persons. It requires Financial Institutions outside the US to provide information regarding their customers who are US persons to the US Internal Revenue Service ("US IRS"). A 30% withholding tax is imposed on the US source income of any FI that fails to comply with this requirement.

On 30 June 2014, Malaysia reached an agreement in substance on a Model 1 IGA with the US to implement FATCA. Accordingly, Malaysia has been included in the US Department of Treasury's list of jurisdictions that are treated as having an IGA in effect with the US. Under the terms of the Malaysia-US IGA ("Agreement"), Reporting Malaysia-based Financial Institutions ("MYFIs") will provide Inland Revenue Board of Malaysia (IRBM) with the required account information of US persons. IRBM will then exchange that information with the US IRS. The IGA is however still in the process of finalisation. The US Treasury through their letter dated 25th April 2017 has agreed that Malaysia remains on the Treasury IGA list and continues to be treated as if it has an IGA in effect. The date for submitting the 2014, 2015, 2016, 2017, 2018, 2019 and 2020 reportable information and NIL Returns under FATCA to IRBM has been tentatively deferred to 30 June 2021.

ii) Common Reporting Standard (CRS)

The CRS was developed by the Organisation for Economic Cooperation and Development (OECD) to put a global model of automatic exchange of information into practice for the purpose of tax compliance. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions.

Under the CRS, Malaysian Financial Institutions (MYFIs) are required to collect and report to Inland Revenue Board of Malaysia (IRBM), financial account information on non-residents. IRBM will exchange this information with the participating foreign tax authorities of those non-residents.

More than 100 jurisdictions have committed to exchange the CRS information. Malaysia has committed to exchange the CRS information from 2018 and would also be receiving financial account information on Malaysian residents from other countries' tax authorities. This will help ensure that residents with financial accounts in other countries are complying with their domestic tax laws and act as a deterrent to tax evasion.

iii) Country-by-Country Reporting (CbCR)

The Base Erosion and Profit Shifting (BEPS) *Action Plan* recognised that enhancing transparency for tax administrations by providing them with adequate information to assess high-level transfer pricing and other BEPS-related risks is a crucial aspect for tackling the BEPS issues. Action Plan 13 provides a template for multinational company to report annually and for each tax jurisdiction in which they do business the information set out therein. This report is called the Country-by-Country Reporting (CbCR).

CbCR has been introduced in the Final Report on BEPS Action Plan (BEPS) Action 13 published by the Organisation for Economic Co-operation and Development (OECD) in October 2015, as part of the three-tiered approach to transfer pricing documentation. The three-tiered standardised approach to transfer pricing documentations are represented by Master File, Local File and CbCR. The purpose is to enhance the transparency for tax administration, taking into consideration the compliance costs for businesses.

In Malaysia, CbCR is governed by two separate laws; one only applicable to Labuan entities carrying on a Labuan business activity in the Federal Territory of Labuan (hereinafter referred to as "Labuan") and the other applicable to non-Labuan entities. The implementation of CbCR will take effect for financial year starting on and after 1 January 2017. The Country-by-Country Report (CbCR) will then be exchanged with relevant tax authorities which has an International Agreement and qualifying Multilateral Competent Authority Agreement (MCAA) in place with Malaysia.

B. Double Tax Agreements

Instead of domestic law and regulation, IRBM also comply with all Double Taxation Agreements (DTAs) signed by the Malaysian Government with governments of foreign countries**.** The status of Malaysian DTAs is as follow:

Table 21: Effective Double Taxation Agreements

No.	Country	Rates (%)			
		Dividend	Interest	Royalties	Technical Fees
1	Albania	NIL	10	10	10
2	Australia	NIL	15	10	NIL
3	Austria	NIL	15	10	10
4	Bahrain	NIL	5	8	10
5	Bangladesh	NIL	15	10	10
6	Belgium	NIL	10*	10	10
7	Bosnia Herzegovina	NIL	10	8	10
8	Brunei	NIL	10	10	10
9	Canada	NIL	15	10	10
10	Chile	NIL	15	10	5
11	China	NIL	10	10	10
12	Croatia	NIL	10	10	10
13	Czech Republic	NIL	12	10	10
14	Denmark	NIL	15	10	10
15	Egypt	NIL	15	10	10
16	Fiji	NIL	15	10	10
17	Finland	NIL	15	10	10
18	France	NIL	15	10	10
19	Germany	NIL	10	7	7
20	Hungary	NIL	15	10	10
21	Hong Kong	NIL	10	8	5
22	India	NIL	10	10	10
23	Indonesia	NIL	10	10	10
24	Iran	NIL	15	10	10
25	Ireland	NIL	10	8	10
26	Italy	NIL	15	10	10
27	Japan	NIL	10	10	10
28	Jordan	NIL	15	10	10
29	Kazakhstan	NIL	10	10	10
30	Kyrgyz Republic	NIL	10	10	10
31	Kuwait	NIL	10	10	10
32	Loas	NIL	10	10	10
33	Lebanin	NIL	10	8	10
34	Luxembourg	NIL	10	8	8
35	Malta	NIL	15	10	10
36	Mauritius	NIL	15	10	10
37	Mongolia	NIL	10	10	10
38	Morocco	NIL	10	10	10
39	Myanmar	NIL	10	10	10
40	Namibia	NIL	10	5	5
41	Netherlands	NIL	10	8	8
42	New Zealand	NIL	15	10	10
43	Norway	NIL	15	10	10
44	Pakistan	NIL	15	10	10
45	Papua New Guinea	NIL	15	10	10
46	Philippines	NIL	15	10	10
47	Poland	NIL	15	10	10
48	Qatar	NIL	5	8	8

49	Romania	NIL	15	10	10
50	Russia	NIL	15	10	10
51	San Marino	NIL	10	10	10
52	Saudi Arabia	NIL	5	8	8
53	Seychelles	NIL	10	10	10
54	Singapore	NIL	10	8	5
55	Slovak Republic	NIL	5	10	5
56	South Africa	NIL	10	5	5
57	South Korea	NIL	15	10	10
58	Spain	NIL	10	7	5
59	Sri Lanka	NIL	10	10	10
60	Sudan	NIL	10	10	10
61	Sweden	NIL	10	8	8
62	Syria	NIL	10	10	10
63	Switzerland	NIL	10	10	10
64	Thailand	NIL	15	10	10
65	Turkey	NIL	15	10	10
66	Turkmenistan	NIL	10	10	NIL
67	United Arab Emirates	NIL	5	10	10
68	United Kingdom	NIL	10	8	8
69	Uzbekistan	NIL	10	10	10
70	Venezuela	NIL	15	10	10
71	Vietnam	NIL	10	10	10
72	Zimbabwe	NIL	10	10	10

Source: Inland Revenue Board of Malaysia, as at July 2020.
Notes:
(*) Withholding tax rate of 10% is only applicable for interest payment paid or incurred by an enterprise in an industrial undertaking.
(i) There is no withholding tax on dividends paid by Malaysia companies.
(ii) To claim the DTA rate, please attach the Certificate of Tax Residence from the country of residence.
(iii) Where the rate provided in the ITA 1967 is lower than the DTA rate, the lower rate shall apply

Table 22: Effective Double Taxation Agreements (Limited Agreements)

No.	Country	Rates (%)			
		Dividend	Interest	Royalties	Technical Fees
1	Argentina	NIL	15*	10*	10*
2	United States of America	NIL	15*	10*	10*

Source: Inland Revenue Board of Malaysia, as at July 2020.
Notes: (*) The withholding tax rate on interest, royalties and fees for technical services is as provided in the ITA 1967.

Table 23: Effective Double Taxation Agreements (Income Tax Exemption Order)

No.	Country	Rates (%)			
		Dividend	Interest	Royalties	Technical Fees
1	Taiwan	NIL	10	10	7.5

Source: Inland Revenue Board of Malaysia, as at July 2020.

C. Transfer Pricing

Transfer pricing generally refers to intercompany pricing arrangements for the transfer of goods, services and intangibles between associated persons. Ideally, the transfer price should not differ from the prevailing market price which would be reflected in a transaction between independent persons. The Malaysian Transfer Pricing provision is according to the Section 140A in the Income Tax Act 1967 and the Transfer Pricing Rules 2012 and set out under the Organization for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines. Although some parts of the guidelines have been adopted directly from the OECD Transfer Pricing Guidelines, but there may be areas which differ to ensure adherence to the Income Tax Act 1967 (the Act) and Inland Revenue Board of Malaysia (IRBM) procedures as well as domestic circumstances.

D. Mutual Agreement Procedure (MAP)

The Article on Mutual Agreement Procedure (MAP) in Malaysia's Tax Treaties allows the Malaysian Competent Authority (CA) to interact with CAs of Treaty Partners with the intent to resolve taxation not in accordance with the provisions of the tax treaty. This includes international tax disputes involving double taxation and inconsistencies in the interpretation or application of the tax treaty on a mutually-agreed basis. The MAP mechanism is independent from the legal remedies available under domestic law.

The MAP Article in Malaysia's Tax Treaties also allows the Malaysian CA to negotiate Bilateral Advance Pricing Arrangement (BAPA) and Multilateral Advance Pricing Arrangement (MAPA) with CA of Treaty Partners. BAPA/MAPA offers assurance that the future set of criteria for the determination of arm's length price/profit on controlled transactions over a fixed period of time will be accepted by the tax administrations of both Malaysia and its relevant Treaty Partners. The MAP Guidelines are applicable to BAPA/MAPA and has to be read together with the Advance Pricing Arrangement (APA) Guidelines.

E. Advance Pricing Arrangement (APA)

An advance pricing arrangement (APA) is an arrangement between a taxpayer and the Director General of Inland Revenue (DGIR) or between Competent Authorities that determines the transfer pricing methodology to ascertain the prospective arm's length transfer prices of specified related party transactions between the taxpayer and its foreign affiliates over a specified period of time, under specified terms and conditions. APAs are intended to provide certainty to the taxpayers with regard to their transfer pricing policies and alleviate costly and time-consuming transfer pricing audits and examinations.

In addition to unilateral APA, IRBM also accept applications for bilateral APA (BAPA) and multilateral APA (MAPA) with its treaty partners. A permanent establishment/ branch in Malaysia may only apply for a BAPA/ MAPA through an application by its principal to the CA of the treaty partner country where the principal resides.

Further information on APA is outlined in the Income Tax (Advance Pricing Arrangement) Rules 2012, Income Tax (Advance Pricing Arrangement) (Amendment) Rules 2017 and Advance Pricing Arrangement Guidelines 2012.

F. Multilateral Instrument (MLI)

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) is one of the outcomes of the OECD/G20 Project to tackle Base Erosion and Profit Shifting (the "BEPS Project"). It is an agreement negotiated under Action 15 of the BEPS Project. Implementation of the Final BEPS Package will require changes to the bilateral tax treaties. Bilateral updates to the treaty network would be a very burdensome and time-consuming exercise, thus the MLI Convention is seen as the solution as it allows jurisdictions to swiftly amend their double taxation avoidance agreements (DTAs) to implement the tax treaty related BEPS recommendations.

Malaysia was involved in the development of the MLI with more than 100 jurisdictions in the Ad Hoc Group. The negotiation of the MLI text was concluded on 24 November 2016 in Paris. The first signing ceremony was held on the 7th of June 2017 whereby 67 countries and jurisdictions signed the MLI, covering 68 jurisdictions (including Hong Kong

III.3.6 Good and Services Tax (GST)

Currently in Malaysia, GST has been repealed with effect from 1 September 2018. However, any liability incurred may be enforced or any GST due, overpaid or erroneously paid may be collected, refunded or remitted under the repealed GST Act 2014 (repealed Act) as if the repealed Act had not been repealed. The taxpayer needs to furnish the tax return and payment of GST to the Director of General of Customs not later than 120 days from 1 September 2018.

III.3.7 Sales Tax and Service Tax (SST)

A. Sales Tax

Sales tax shall be charged and levied on all taxable goods:

(a) Manufactured in Malaysia by a registered manufacturer and sold, used or disposed of by him; or
(b) Imported into Malaysia by any person

The sales tax registration threshold is RM500,000.00

B. Service tax

Service tax shall be charged and levied on:

a) Any taxable services provided in Malaysia by a registered person in carrying on his business; or
b) Any imported taxable services.

The term "taxable services" refers to supplies of services that are liable to service tax, outlined in the First Schedule of the Service Tax Regulations 2018. On the other hand, the term "imported taxable services" refers to any taxable services acquired by any person in Malaysia from any person who is outside Malaysia.

Starting first 1 January 2020, services tax on digital services will be imposed of at rate 6%, if acquired by consumers in Malaysia, where the foreign service providers of the same are required to register and charge service tax accordingly.

C. Rate of Tax

i) Sales Tax

Sales tax would only be imposed on taxable goods, unless otherwise exempted, at rate of 5%, 10% or a specific rate.

Table 24: Major Export Product (2019)

Categories	**Description**
Exempted	• Meat, seafood, vegetable, coffee, tea, rice, fruit, spice, flour, salt, sugar, milk, bread, sausages, etc. • Textbook, exercise book, folder, note book, etc. • Badminton racket, balls, etc. • Truck, motorcycle, etc. • Exportation of goods (to be substantiated by Customs Form No. 2) • Building materials • Bricks, blocks, tiles, etc.
5%	• Fruits and certain foodstuffs • Hams, smoked fish, butter, honey, potatoes, etc • Strawberries, etc
10%	• All taxable goods which are not otherwise prescribed
Specific rate	• Benzene, petroleum, diesel, etc.

Source: Royal Malaysian Customs Department of Malaysia.
Note: The above list is not exhaustive.

ii) Service Tax

The rate of services tax in Malaysia is fixed at 6%. A specific rate of RM25 is imposed upon issuance of principal or supplementary credit card or charge card services.

III.3.8 Malaysian Tax reform in response to COVID-19 Pandemic

The COVID-19 pandemic turned into a global crisis as nations began to restrict the physical mobility of people and movement of goods and services, which in turn impacted businesses and economies as a whole. In order to protect the people, supporting businesses and strengthening the economy, Malaysian government via Ministry of Finance announced tax reform. Tax developments in response to COVID-19 can be summarized as follows:

i) Business Income Tax

- Companies are allowed to revised their tax estimates in the month of their 3rd instalment payment, if the 3rd instalment payment falls in 2020.
- Accelerated capital allowance will be given for qualifying capital expenditure incurred on machinery and equipment including Information and Communication Technology Equipment from 1 March 2020 to 31 December 2021 where the annual allowance will be increased to 40% (current rates range from 10% to 20%), with initial allowance of 20%.
- A tax deduction of up to RM 300,000 will be given for expenses incurred on renovation and refurbishment of business premises from 1 March 2020 to 31 December 2021.
- A double deduction will be given on pre-commencement expenses incurred by International Shipping Companies for setting up regional offices in Malaysia where the application should be made to Malaysian Investment Development Authority not later than 31 December 2021.
- A tax deduction / capital allowance will be given for expenses incurred on disposable / non-disposable personal protective equipment or other relevant equipment.
- Donations / contributions in cash / in-kind to fight against the COVID-19 outbreak are allowed as tax deductions
- Accrued interest income of financial institutions from loans or financing involved with the moratorium from 1 April 2020 to 30 September 2020 would only be taxable upon receipt or when it becomes receivable on or after 1 October 2020.
- Annual income tax rebate of up to RM20,000 for the first 3 Years of Assessments ("YA") will be given to an SME established and in operation between 1 July 2020 and 31 December 2021.
- Foreign companies that relocate their business operations into Malaysia and have made new investments in the manufacturing industry will be taxed at a rate of 0% for the following periods:
  i) 10 years for capital investment between RM300 million to RM500 million
  ii) 15 years for capital investment above RM500 million

provided that the companies relocate and commence their operations within 1 year from the date of approval and the committed capital investment is made within 3 years. This is applicable to applications made from 1 July 2020 to 31 December 2021.

An existing company in Malaysia will be granted a 100% investment tax allowance for a period of 5 years if it relocates its overseas manufacturing facilities back into Malaysia where the application should be made from 1 July 2020 to 31 December 2021.

- A special reinvestment allowance ("RA") will be given for qualifying expenditure incurred by companies engaging in manufacturing and selected agriculture activities from YA 2020 to YA 2022 (whose RA incentive period has expired).
- A further tax deduction will be given to employers who adopt flexible work arrangements effective 1 July 2020.

ii) Filing/Payment Deadline Extension

Automatic deferment of Monthly Tax Instalment Payments (CP204) for Companies:

- 9 Months from 1 April 2020 to 31 December 2020 for tourism Industry.

iii) Personal Income Tax

- Special tax relief up to RM1,000 will be given to individuals on domestic travel expenses incurred from 1 March 2020 to 31 December 2021.
- Early withdrawals of contributions of up to RM1,500 from Account B of Private Retirement Scheme from 30 April 2020 to 31 December 2020 would be exempted from withholding tax.
- Individual income tax exemption of up to RM5,000 will be given to employees who receive a handphone, notebook or tablet from their employer effective 1 July 2020.
- The income tax relief given to parents on fees paid to childcare centres or kindergartens will be increased from RM2,000 to RM3,000 for YA 2020 and YA 2021.

- A special tax relief of up to RM2,500 will be given to individuals on the purchase of a handphone, notebook or tablet effective 1 June 2020.

iv) Stamp Duty

- A loan/financing instrument relating to restructuring or rescheduling of a business loan/financing between a borrower/customer and a financial institution which is executed from 1 March 2020 to 31 December 2020, is exempt from stamp duty provided the existing agreement has been duly stamped and the application is submitted with a letter of offer from the financial institution. [Gazetted]
- A stamp duty exemption will be given on instruments executed by SMEs for mergers and acquisitions taking place between 1 July 2020 and 30 June 2021.
- Loan agreements and instruments of transfer relating to the purchase of residential property under the Home Ownership Campaign 2020/2021 valued at more than RM300,000 but not more than RM2.5 million executed between an individual named in a sale and purchase agreement and a qualifying party, would be exempt from stamp duty. Full exemption on loan agreements and exemption is limited to the first RM1 million of the house price and 3% stamp duty will be imposed on the price exceeding RM1 million for instruments of transfer.

v) Real Property Gains Tax

- Disposal of residential property (maximum of 3 units) by an individual from 1 June 2020 to 31 December 2021 would be exempted from real property gains tax.

vii) Customs/Import and Other Miscellaneous Taxes

- Service tax exemptions are given to hotel and other similar establishments for taxable services provided from 1 March 2020 to 30 June 2021.
- Subject to conditions, import duty and sales tax exemption on equipment and machines are given to port operators an application is submitted from 1 April 2020 to 31 March 2023.
- Expansion of the value-added activities permitted in the Licensed Manufacturing Warehouse and the Free Industrial Zone to include supply chain management, strategic procurement operation and total support solutions effective from 1 April 2020. In addition, it was proposed in the Malaysian 2021 Budget announced on 6 November 2020 that the value-added and additional activities permitted be increased from 10% to 40% of the company's annual sales value, effective for applications received by the Royal Malaysian Customs Department from 7 November 2020.
- Review of conditions to purchase duty free goods from duty free shops at international airports in Malaysia by persons entering Malaysia effective from 1 April 2020.
- Sales tax exemption of 100% and 50% are given for the purchase of locally assembled cars and imported passenger cars respectively from 15 June 2020 to 31 December 2020.
- Accommodation premise operators are exempted from charging Tourism Tax from 1 July 2020 to 30 June 2021.
- 100% export duty exemption are given on crude palm oil, crude palm kernel oil and refined bleached deodorized palm kernel oil from 1 July 2020 to 31 December 2020.
- Acquisition from local registered manufacturers and importation of face masks (under certain tariff codes) are exempted from Import Duty and Sales Tax from 23 March 2020 and 1 July 2020, depending on the tariff code of the masks.
- Subject to meeting conditions, acquisition from local registered manufacturers and importation of prescribed taxable personal protective equipment and consumables to be contributed to the Ministry of Health are exempted from Import Duty and Sales Tax.
- Subject to meeting conditions, manufacturers of hand sanitizer (under tariff code 3808.94.9000) are eligible for Import Duty, Excise Duty and Sales Tax exemptions on the raw materials (undenatured ethyl alcohol and denatured ethyl alcohol) where application should be submitted to the Ministry of Finance.
- It was proposed in the Malaysian 2021 Budget announced on 6 November 2020 that Sales Tax exemption for the purchase of locally assembled buses by bus operators (including chassis fitted

engine and air conditioner) be extended for another 2 years to 31 December 2022 and application should be submitted to the Ministry of Finance.

Notes: All tax developments above were updated as at 2 December 2020 and subject to any change in the future.

IV. Country Specific Fiscal Issues

IV. 1 Managing Fiscal Policy during COVID-19

The COVID-19 pandemic has carried about greater issues in managing public finances and heightened fiscal risk exposure especially in 2020. Among others, the major risk factors include a protracted economic downturn, a prolonged pandemic period and lower crude oil prices. These will result in reduced revenue collection, while higher expenditure is needed to pump-prime the economy through countercyclical measures. Consequently, these issues will increase the debt level and may temporarily disrupt the medium-term fiscal consolidation path. In the past decade, the Malaysian Government has successfully consolidated its fiscal deficit. From a high of 6.7% of GDP in 2009 following the Global Financial Crisis, its fiscal deficit was halved to 2.9% in 2017. This was a result of concerted fiscal reform initiatives including revenue diversification and enhancement, spending optimisation and effective debt management. These reforms provided additional fiscal space that enabled the Government to manoeuver during emergency periods. Higher public spending coupled with declines in fiscal revenues, however, has led to a narrowing of fiscal space. Therefore, reallocating expenditures towards priority areas, identifying new sources of non-tax revenue, and amending statutory limits on borrowing could help to temporarily expand fiscal space.

The International Monetary Fund (IMF) has estimated a total fiscal injection of USD11.7 trillion or nearly 12% of global GDP by sovereigns across the globe. Most countries have further eased the fiscal rules and activated their exit clause. Meanwhile, Malaysia has introduced stimulus packages and economic recovery plan worth RM295 billion comprising fiscal and non-fiscal measures around 20% of GDP, with direct fiscal injection of RM45 billion. Simultaneously, the Parliament has passed an act on temporary measures for Government financing of COVID-19 in September 2020. The act among others stipulates to temporarily increase the combined outstanding debt of MGS, MGII and Malaysian Islamic Treasury Bills (MITB) limit from 55% to 60% of GDP and to establish a dedicated trust fund to implement all the stimulus measures within three years. The upward revision of the debt limit has provided fiscal space for the Government to fund the stimulus packages and implement economic recovery measures. Subsequently, on 23 September 2020, the Government announced an additional RM10 billion to further enhance existing measures, namely the Bantuan Prihatin Nasional (BPN), PRIHATIN Special Grants and the Wage Subsidy Programme.

In addition, the overnight policy rate (OPR) was reduced by a cumulative 125 basis points to 1.75% by the Monetary Policy Committee (MPC) in the first nine months of 2020. This OPR reduction has provided additional policy stimulus to accelerate the pace of recovery while reduce the future cost of borrowing to the Government. Other monetary measures include financial relief, regulatory and supervisory measures, and adjustments to the Statutory Reserve Requirement (SRR) in March and May 2020. In particular, the adjustments to the SRR and flexibility to banking institutions to use MGS and MGII to fully meet the SRR compliance were part of the continuous efforts to ensure sufficient liquidity to support financial intermediation activities.

IV. 2 Inflation

According to IMF Malaysia Country Report 2020, headline inflation was 0.7 percent in 2019, reflecting declining global oil prices, moderating wage growth, extension of seasonal price controls, and the replacement of the Goods and Services Tax (GST) with the smaller-base Sales and Service Taxes (SST) in 2018. However, based as at November 2020 by Department of Statistic Malaysia, the headline inflation recorded at -1.7% and core inflation 0.7%. This was the ninth straight month of deflation and the steepest since June amid ongoing COVID-19 disruption and inflationary pressure remains affect for consumer and economic sectors.

IV.3 Other issues.

A. Tourism-related Subsectors Decline

The tourism industry, with a share of 15.9% of GDP, is one of the main contributors to the services sector in 2019. Domestic tourists contributed RM92.6 billion while international tourists spent RM89.4 billion in 2019. The implementation of the MCO in Malaysia and the closure of international borders to contain the virus outbreak have affected people's movements and activities, particularly in tourism-related sub-sectors. According to Malaysia Association of Hotels, hotel booking cancellations from January 2020 to 20 March 2020 breached over 193,000 rooms, which translates into RM76 million losses in revenue for the industry. At the same time, the hotel occupancy rate dropped from 61.6% in January 2020 to 25% in March 2020. With the gradual recovery of the economy, the accommodation industry started to pick-up with the occupancy reaching 42.1% from 30 August to 5 September 2020. In addition, the Malaysian aviation industry is projected to lose RM13 billion in 2020 as air travel plummeted following international travel restrictions. As it is still uncertain when a vaccine for COVID-19 will be available and made accessible to all, the tourism industry is facing a bleak near term future.

B. Food Insecurity

Although the Malaysian Government continues to focus on the development of the agriculture sector, food insecurity remains an issue. The 2019 Global Food Security Index ranks Malaysia at 28th position, which is lower compared to other nations with lesser natural resources (Economist Intelligence Unit, 2019). Furthermore, the 2019 Self-Sufficiency Ratio (SSR) indicates that Malaysia has yet to be self-sufficient in some of its staple foods (Department of Statistics Malaysia, 2020). For example, in 2019, Malaysia's rice production is sufficient to meet only 70% of domestic demand. Other food items with lower SSR includes sweet potato (81.7%), coconut (68.2%), cabbage (36.2%), mango (32.1%), chilli (30.8%) and ginger (16.2%). Factors contributing to the unattractive supply of staple foods include low wages in the agriculture sector, the prevalence of pests and diseases, lack of technology adoption and low interest among the younger generation in the agriculture sector.

C. Rising Cost of Living

Achieving a developed, high-income, and an inclusive nation must be accompanied with higher purchasing power. Unfortunately, the rising cost of living remains a critical concern among the rakyat, particularly the low-income group. From 2016 to 2019, the Consumer Price Index rose by 1.8% while the median household income increased by 3.9%. The World Bank (2019) reports that although the median income continued to outpace inflation, the income growth for low-income Malaysians slowed between 2014 and 2016. The report also highlights the disparity in purchasing power of households in different parts of the country. Poor financial planning, growth in household indebtedness and unaffordable housing are among the key factors affecting the cost of living. Furthermore, the mean income of the top 20% (T20) and the bottom 40% (B40) of households widened from RM8,679 in 2009 to RM15,354 in 2019. This signifies the widening of the income gap between the two groups.

D. Insufficient Affordable Housing

By any standards, home ownership in Malaysia can be considered high at 76.9% of households in 2019. Nevertheless, affordable housing remains a concern despite various affordable housing programmes being implemented, complemented by the provision of financing facilities for affordable housing as well as rental and rent-to-own housing programmes. Khazanah Research Institute (2019) reported that the median multiple affordability for Malaysia increased from 4.1 to 5.0 from 2002 to 2016. According to the World Bank (2019), the median multiple of more than 3.0 is considered unaffordable. This indicates that house prices in Malaysia are generally unaffordable, mainly due to house prices rising faster than income growth. The median house price from 2012 to 2014 rose at a compound annual growth rate of 23.5%, while the median household income expanded significantly slower at 11.7% (Khazanah Research Institute, 2019). Since 2014, house prices have moderated following the measures undertaken by the Government. However, houses remain unaffordable for the majority of the rakyat.

V. Conclusion: Where We Stand and Where We Go?

Year 2020 marks the end of Vision 2020 and the Eleventh Malaysia Plan, 2016-2020 period. As a continuation, a post-2020 development plan with a clear strategic direction will be formulated to set the way forward for national development agenda along with the implementation framework over the next decade. This is to ensure an inclusive and meaningful socioeconomic development towards a more prosperous society.

Meanwhile, the 2021 Budget emphasises four broad areas - caring for the people, steering the economy, ensuring sustainable living and enhancing public service delivery. Caring for the people with the impact of the pandemic lingering in 2021, the well-being of the people remains the priority of the Government. In the 2021 Budget, efforts will be streamlined towards addressing employment issues, enhancing social safety net and strengthening human capital. Measures will also be formulated to facilitate the upward mobility of the people. The Malaysian Government will continue to engage various stakeholders, including the private sector and civil society as development partners in nation-building. In the effort to achieve upward mobility, the focus will be on enhancing reskilling and upskilling programmes. These include, among others, providing coordinated training programmes and improving existing courses to meet the demand of industries and prepare for challenges of the Industrial Revolution 4.0 (IR4.0). In addition, the education system will be enhanced to facilitate online learning. School curriculums will also place greater emphasis on living skills such as entrepreneurship and social skills.

During the transitional year of 2021 from crisis to recovery, the Malaysian Government will continue to focus on the recovery measures to revitalise the economy, support business activities and protect the well-being of the citizen. The Malaysian Government will shift from broad-based support to a more targeted fiscal support with measures directed towards fulfilling the essential needs of the citizens, retaining employment and ensuring continuity of businesses. Allocations will be channelled towards more targeted programmes and projects with high multiplier impact to ensure value-for-money. The Malaysian Government will continue to invest in public infrastructure projects to support the economy and stimulate growth in these challenging times.

The Malaysian Federal Government's revenue is forecast at RM236.9 billion or 15.1% of GDP in 2021. The higher revenue projection is based on the expected increase in tax revenue collection to RM174.4 billion, and the estimated non-tax revenue of RM62.5 billion. Total expenditure is estimated at RM322.5 billion or 20.5% of GDP. Operating Expenditure (OE) is budgeted at RM236.5 billion and Development Expenditure (DE) at RM69 billion, while the remaining RM17 billion is for COVID-19 Fund disbursement. The OE is mainly for emoluments, debt service charges as well as supplies and services. The DE allocation will be mainly steered towards accelerating impactful public infrastructure projects, primarily for transport and connectivity, such as Mass Rapid Transit 2 (MRT2), Pan Borneo Highway and National Fiberisation and Connectivity Plan (NFCP) as well as for education and training, particularly in the reconstruction of dilapidated schools. In addition, the Malaysian Government will provide a sizeable allocation to ensure better quality healthcare and accessibility to health services for ongoing projects including the construction of pathology laboratories and procurement of medical equipment. The implementation of programmes and projects will continue to be aligned with the nation-building agenda that is based on sustainable development. The Malaysian Government will ensure a swift implementation of the economic stimulus packages and recovery plan under the COVID-19 Fund. Among programmes and projects under the Fund include the Wage Subsidies Programme, consolidation of cash assistance programmes under the Bantuan Prihatin Nasional (BPN), small-scale infrastructure projects, as well as food security programme. Despite taking into account additional economic stimulus package, the 2021 fiscal deficit is expected to reduce to 5.4% of GDP with the primary deficit estimated at 2.9%. Nevertheless, the Malaysian Government is committed to gradually consolidate its deficit level in the medium-term and resume its fiscal consolidation trajectory without disrupting the momentum of economic recovery and long-term development agenda.

The Medium-Term Fiscal Framework (MTFF) provides a macro-fiscal projection over three years. The set targets for revenue and expenditure will serve as guidance for the Government's medium-term fiscal path. Hence, the MTFF is an important tool for fiscal policy management, which promotes fiscal discipline, ensures appropriate resource allocation and forecast beyond the annual planning horizon. The

2021 – 2023 MTFF is based on the updated macroeconomic and fiscal assumptions after taking into account the impact of the COVID-19 crisis. The revised MTFF assumptions include real GDP growth of between 4.5% and 5.5% (nominal GDP growth: 5.5% and 6.5%), crude oil prices between USD45 and USD55 per barrel and crude oil production of 580,000 barrels per day. In the medium-term period, total revenue is expected to reach RM731 billion or 14.7% of GDP, contributed mainly from non-petroleum revenue which is forecast at RM609.7 billion or 12.3% of GDP. Petroleum-related revenue is projected at RM121.3 billion or 2.4% of GDP. The Government will enhance its revenue by exploring new sources, widening the revenue base, improving tax administration and adopting the Medium-Term Revenue Strategy (MTRS).

As 2021 is the first year of the Twelfth Malaysia Plan, 2021-2025 (12MP), the strategic measures in the 2021 Budget will support the overarching aim of the Plan. The Twelfth Malaysia Plan (12MP) will be aligned with the shared prosperity initiative encompassing three dimensions, namely economic empowerment, environmental sustainability and social re-engineering. The economic empowerment dimension will include new sources of growth, including Industrial Revolution 4.0, digital economy, aerospace industry, integrated regional development as well as growth enablers such as sustainable energy sources and infrastructure connectivity. The environmental sustainability dimension, among others include the blue economy, green technology, renewable energy as well as adaptation and mitigation of climate change. The social re-engineering dimension comprises enhancing societal values, improving purchasing power of the people, building resilient Bumiputera community, strengthening social security networks and improving the wellbeing of the people.

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