GOVERNMENT OF MALAYSIA CONFERENCE

Malaysia

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Maybank IB Research

Government of Malaysia Conference

Malaysia: A New Dawn

Optimistic in over-coming challenges

In his Keynote Address at yesterday's "Malaysia: A New Dawn" Conference, Honourable Prime Minister Tun Dr Mahathir Mohamad shared on the challenges of the new Government, but is optimistic that the new Government will overcome these challenges. The Conference, which saw an attendance of >1,200 investors (including foreign investors), ended with a key positive take-away: *That the new Government is committed in taking the country forward with growth as a major agenda*.

Major macro take-aways

We summarise four major macro take-aways: (i) the new Government is considering new sources of revenues to repay its MYR1tr debt/liabilities as well as outstanding tax refunds, which could include new taxes and asset sales; (ii) the Government is committed to fiscal consolidation over the longer term, but the budget deficit could be above 3% of GDP in the short term, in our view, as the target set by the previous Government is no longer realistic in view of "legacy issues"; (iii) the Government's balance sheet should be much strengthened after it adopts "accrual accounting" in 2021 from the current "cash-based accounting"; (iv) Malaysia's underlying strength - moderate non-resident holdings of domestic financial instruments, adequate international reserves, manageable external debt as well as household & corporate debt - is the key line of defence against potential headwinds.

Key sector takeaways

Telco: A relatively pro-consumer stance on fiber broadband services was reiterated, along with the Government's expectation that increased take-up of services would help to offset the impact of lower prices on telcos' profitability. **Power:** Limited disclosure on electricity industry reforms as plans are still being formulated, but the overall impression was one of pragmatism. **Infra:** Toll abolishment will be deferred until the country's financing standing improves, while the Pan Borneo Highway Sabah and Sarawak will continue to be implemented. **Property:** Home ownership remains the key priority especially for the lower and middle-income population, while making properties more affordable through cost control measures is a core focus area.

Setting the stage for the 11MP MTR, 2019 Budget

Positively, the Government's "big" message from yesterday's Conference is its commitment in taking the country forward with growth as a major agenda. What was lacking from the Conference were key macro forecasts and details on policy measures which we now expect to be unveiled in the upcoming 11th Malaysia Plan (2016-2020) Mid-Term Review on 18 Oct, and 2019 Budget on 2 Nov. We make no change to our GDP forecasts (2018/2019E: +4.8%) and sector/stock calls for our Research Universe.

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Keynote Address

Honourable Prime Minister, Tun Dr Mahathir Mohamad

Optimistic in over-coming challenges. In his Keynote Address, Honourable Prime Minister Tun Dr Mahathir Mohamad shared on the challenges of the new Government especially on the debt it inherited, but is optimistic that the new Government will be able to overcome these challenges, with the country having a track record of growing its economy. Tun reassured that the new Government will be business-friendly.

- **Challenges that the new Government inherited.** Malaysia's past economic growth under the previous government, while "all right", has however decoupled from the people due to the high cost of living, which was pressuring on the average wage earners. The new Government has been finding it "tough", as it has inherited an economy which has been disoriented, with major challenges in the civil service and a high debt.

- **New taxes and asset sales to pay off the debts.** The government's priority is to rebuild. On this note, the new Government is considering new sources of revenues to repay its MYR1tr debt/liabilities as well as outstanding tax refunds. This could include new taxes and asset sales including land sales to the locals, the latter as a form of monetisation of its assets.

- **Malaysia has survived from past economic problems**. Based on the country's track record, Tun feels that Malaysia can overcome its current set of challenges. Tun is aware that economic growth must continue, a necessity, in order to bring down the country's debt/GDP ratio. Tun has invited investors to contribute towards the country's growth during his working trip to US and UK. Tun reassured that the Government will be business-friendly.

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"Crouching Tiger, Hidden Dividends"

Finance Minister, YB Lim Guan Eng

Challenging external environment, characterized by unsynchronised growth among the major economies; downside risks from trade and geopolitical tensions; rising interest rates and tightening monetary policies that led to headwinds on emerging markets in terms of capital outflows and currency pressures.

But manageable impact on Malaysia so far, thanks to underlying strengths, namely steady growth path; diversified economy and exports; favourable labour market conditions in terms of low jobless rate and robust private sector wage growth; sustained current account surplus; flexible Ringgit exchange rate system with value that will eventually reflect fundamentals; and sufficient external reserves buffer.

Despite risk from US-China trade war, there are opportunities, namely interests from China's manufacturers to diversify to ASEAN market as well as FDI from OECD countries to relocate from China.

Growth with equality. Guiding principle of Pakatan Harapan (PH) Government's economic policies is a private sector-led growth that is balanced with improving people's well-being via equitable sharing of growth dividends. The private sector-led economy include reduction of government's direct participation in the equity market so as to boost free-float factor and market liquidity, thus reducing the crowding out of private sector investors.

Some hints and clues on upcoming Budget 2019 on 2 Nov 2018, namely:

- **Budget deficit could be above 3% of GDP in the short term in our view, as the target set by the previous Government is no longer realistic in view of "legacy issues",** e.g. MYR1tr government debt and liabilities, and the outstanding MYR35b GST and income tax refunds which may take up to three years to resolve. **But the Government is committed to fiscal consolidation over the longer term.**
- **Fiscal reforms will cover both revenues and expenditure.**
    - **There is a need for sufficient and stable revenue sources**, hence the Tax System Review Panel (TSRP) to reform the tax system to minimize tax losses; review tax incentives; diversify revenues; and make the tax system progressive. ***Our view on the points about diversifying revenues and making the tax system progressive plus the above-mentioned "growth with equality" - and given the impact of GST abolition and SST re-introduction - will fuel speculation about asset monetization and new income and wealth-based tax measures in Budget 2019.***
    - **On spending, the focus is "bigger bang for the bucks"**, not austerity. Public Finance Committee is established to strike a balance between fiscal discipline and productive public spending and investment. Meanwhile, the cost reduction in major infrastructure projects (e.g. KVLRT 3, KVMRT 2) is to manage Government's operating expenditure and debt. Procurements will be improved in terms of transparency and governance e.g. revamp Public-Private Partnership (PPP) by ending the practice of direct negotiations and land swaps as payments, and adopt open tenders and competitive bidding. The Government will adopt "accrual accounting" in 2021 from current "cash-based accounting".

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Special Address

Bank Negara Governor, Datuk Nor Shamsiah Yunus

In her Special Address, Governor Datuk Nor Shamsiah outlined BNM's views on Malaysia's economic outlook, the strong fundamentals fortifying Malaysia's resilience and the underlying strength as the key defence against potential headwinds. Monetary policy in Malaysia will continue to be determined by the balance of risks between growth and inflation outlook.

Malaysia's economic outlook. The International Monetary Fund (IMF) projected global growth at +3.7% for 2018 and 2019 (revised from +3.9% respectively) with easing but supportive global trade. Domestic demand will continue to drive Malaysia's growth in 2018 and 2019 with steady growth path spearheaded by the private sector together with moderate inflation. This is supported by favourable labour market conditions with higher overall employment and wage growth as well as improving consumer sentiments. While the MYR depreciated against the USD due to ongoing policy normalization in the US and capital outflows from the region, domestic financial condition have remained stable; helped by domestic institutional investors providing the unique buffer to offset large outflows.

Strong economic fundamentals to face global and domestic headwinds. This is supported by diversified structure of the economy and exports, sustained current account surplus, sound banking sector and business friendly policies. Stress test affirms financial institutions' resilience to withstand severe shocks under adverse macroeconomic and financial conditions.

Underlying strengths as key defence. Malaysia' underlying strength is the key line of defence against potential headwinds; the strength includes moderate non-resident holdings of domestic financial instruments, adequate international reserves, manageable external debt as well as household & corporate debt:

- **Moderate non-resident holdings**. Stable foreign holder profile and Malaysia's strong financial and banking system reduce the risks of non-resident outflows. Majority are long-term stable investors.

- **International reserves remain adequate** to provide sufficient buffers against external shocks and capital outflows, and external assets by banks and corporations can be drawn upon to meet external debt obligations.

- **Manageable external debt**. External debt as at 2Q 2018 stood at USD229.2b (64.7% of GDP) and skewed towards long term tenures. About 69.3% of short term (ST) external debt is by banks, whereby about half are stable intragroup placements and less susceptible to sudden withdrawal shocks. Meanwhile, 29.2% of the ST external debt is by private corporations. Foreign currency exposure is manageable as 31% of external debt is denominated in MYR.

- **Manageable household (HH) and corporate debt**. BNM estimated that debt-at-risk (DAR) is well contained as DAR for borrowers with negative financial margin are only 8.7% for HH debt and 7.7% for corporate debt.

Risks to growth are rising trade protectionism and slower global growth. The Governor stressed on the importance of fiscal sustainability and improved income level to sustain growth. Hence the importance of education, ensure graduate skills match business requirements, reduced dependence of cheap foreign labour, increase productivity and ensure inclusive growth.

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In Conversation with …

Minister of Communications and Multimedia, YB Gobind Singh Deo

An overall pro-consumer tone. The overriding themes for YB Gobind's session were of promoting competition and internet access for all. The Minister is comfortable with the new level of prices and speeds of retail fiber broadband. This has vindicated his initial view that halving prices and doubling speeds was possible. Rollout of broadband services in rural areas will remain on the Ministry's agenda, with USP funds to be more efficiently deployed when needed. For telcos' profitability, the Minister expects increased subscribers to offset the impact of lower prices.

Helping to resolve bottlenecks. The Ministry is aware of the prevailing issues and bottlenecks pertaining to fiber broadband rollout. These issues will be naturally resolved if the Minister is successful with his plan to re-classify internet facilities as utilities. In the interim, the government is looking to leverage on existing infrastructure to improved coverage. This is why Tenaga has been invited to conduct feasibility studies on opening its fiber network for commercial use via a pilot project in Melaka.

Keeping options open. Longer term, the Minister remains open to all options pertaining to operating structure for the telecom industry, including that of a national fiber-co and increased foreign participation.

Sneak preview of the National Fiberisation and Connectivity Plan (NFCP). The regulator is presently developing the NFCP, which while prioritizing fibre, is overall technology-agnostic. Some initial targets of the NFCP are:

- A baseline broadband coverage at 98% in populated areas by 2023.
- Broadband at a minimum speed of 30 Mbps to be achieved via the deployment of the 700 MHz spectrum.
- 1Gbps internet services for selected high-impact and strategic industrial areas by 2020, and all state capitals by 2023.
- 70% of all schools, government offices, hospitals, clinics, police and fire stations will be served by fiber networks.
- The phasing out of copper networks by 2023.
- Cyberjaya and Putrajaya will be designated as 5G testbed areas, with MCMC leading 5G trials.

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In Conversation with …

Minister of International Trade and Industry, YB Ignatius Darell Leiking

Unify the house, restore confidence and attract investments. In conversation with YB Datuk Ignatius Darell Leiking, he shared some insights on his first 3 months on the job as the Minister of International Trade and Industry:

- **Addressing internal inefficiencies.** For a start, MITI has been instructed to reply or acknowledge all queries from its stakeholders within seven days of receipt. This will allow MITI to address concerns of investors and businesses and potentially facilitate policies that would restore business confidence in the country. MITI is also looking at the current situation of multiple investment promotion agencies (IPAs) at federal, regional (development corridors) and state levels to reduce duplications and unnecessary competition, as well as standardize incentives and streamline approvals.

- **Human capital is Malaysia's greatest resources.** Brain drain is a key concern and resulted in many successful Malaysian individuals and businesses relocating abroad. The Minister stressed that Malaysia's greatest asset is the diversity and dynamics of its people, and a revamp of the education system could take Malaysia further in rebuilding the nation's human capital. At the same time, the Minister took note of unemployed graduates in professional courses who can be diverted into skilled jobs via training and vocational courses. This also serves as a tool to reduce reliance on foreign workers in certain skilled jobs. The Minister also encouraged corporates to employ locals to prove their capabilities in a fair environment.

- **Malaysia is committed to free - and fair - trade**. The country is in the midst of ratifying and negotiating trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP – Malaysia needs to ratify 17 laws), Regional Comprehensive Economic Partnership (RCEP) and with EU. But there must also be fair trade, among others, to ensure sector and industry liberalization as well as increase in imports and FDI arising from free trade agreements does not come with high socio-economic (e.g. survival of domestic SMEs), legal (e.g. investors-state dispute settlement issue) and environmental (e.g. pollution) costs.

- **Strengthen ASEAN integration amid US-China trade war and risk of rising protectionism.** Despite US-China trade war, the Minister feels that ASEAN countries should strengthen the region's integration to drive economic growth, among others via common projects. To this end, PM Mahathir envisioned the third national car project to also be an ASEAN car which could see components being sourced within ASEAN. At the same time, this project is yet again stressed to be privately driven but facilitated by the government in terms of regulatory framework and licensing.

- **Incentives to reflect Government's current financial situation.** In consideration of the government's current fiscal constraints, incentives by MITI to attract investments will have to be rebalanced i.e. more exemptions rather than grants, and measured against the direct and indirect benefits to the economy. For instance, revenue impact of tax exemptions for investment can be offset by tax revenues from job creations as well as output and export increases.

Ivan Yap (ivan.yap@maybank-ib.com)

"Opportunities & Challenges for the New Malaysia"

Panelists:

- **Dr Bernard Ng, Principal Economist, Asian Development Bank**
- **Lim Chee Sing, Asiamoney Ranked Senior Economist**
- **Donald Hanna, Chief Economics CIMB**
- **Dr Chua Hak Bin, Macro Thematic Economist, Maybank**
- **Peck Boon Soon, Chief Economist, RHB**

Moderator: Tan Sri Dato' Dr Munir Majid Abdul Majid, Chairman, ASEAN-BAC

Growth prospect remain solid for Asia. The session started with affirmation of solid growth prospect for Asia at +6.0% growth projected for 2018 and +5.8% for 2019. Nevertheless, the ongoing US-China trade tension creates global uncertainty and rising vulnerability hence posing risk to growth. Latest ADB projections showed that the US and China are the two countries to be affected the most from the bilateral trade friction with relatively small impact on other countries. In fact, other countries could benefit from potential increase in investment as Chinese firms re-direct their investments overseas.

Focus on fiscal sustainability. Fiscal sustainability should be the main focus of the Government and it should ensure no excessive spending and wastage. Hence, the Government should limit the scope of its involvement in the economy and let the private sector to drive economic activities and growth. Transparency in terms of both Government assets and liabilities should also be adopted to ensure fiscal sustainability. It was suggested that Malaysia introduces limits on fiscal deficit (as ratio of GDP) as done in Singapore and Indonesia, and on government debt guarantees.

Private sector-led growth conundrum. While the government aspires to promote private sector activities and reduced government's involvement in the economy, recent policy decisions are seen as "contradictory" such as the third national car project that involves Khazanah, the abolishment of selected toll roads and the telco prices/fees adjustments which should be determined based on market prices. In addition, to promote private investments, government policies should be based on needs rather than being race-based and politically-driven. Similarly, low wage, cheap foreign labour and low productivity remain as the main causes of low private sector expansion in Malaysia.

SMEs and opportunities in digital economy. The Panel cites recent study that showed ASEAN's SMEs digital integration could accelerate intra-regional trade and growth and stimulate GDP uplift of USD1.0tr across ASEAN by 2025. Furthermore, digital businesses can be based anywhere, and Malaysia with its business-friendly policies, locational and cost advantages, as well as demographic diversity should take advantage to attract digital entrepreneurs. Nevertheless, the commonly cited issue by the SMEs in Malaysia is the difficulty in accessing financing which in turn are blamed on the poor transparency in their financial reporting, risking SMEs being left behind in the digital economy's leap. One of the Panel members suggests for banks to consider "reputational capital" via the social media references and comments, to evaluate SMEs' loan applications, similar to cross-checking with the loan applicants' suppliers and customers.

Identify additional sources of Government revenues. To create additional sources of revenue for the Government, the panel suggested among others, higher stamp duty on property purchases by foreigners, introduction of inheritance tax, equity tax, carbon tax and tax on online/e-commerce transactions.

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Lunch with …

Minister of Transport, YB Anthony Loke

Holistic approach to reduce bureaucracy and raise efficiency. YB Anthony Loke shares the MOT's transformation initiatives since taking over office. MOT now sees itself as a service provider to the nation; whereby a well-functioning transport industry will be an engine of growth for the economy, tourism and the well-being of the 'rakyat'. Second, MOT's responsibility has expanded to include the public transportation portfolio — previously overseen by the PMO (Prime Minister's Office). Third, the Ministry will reduce 'prohibitive' regulation in order to spur growth and will focus more on qualitative and safety measures.

The problems faced by the transport industry are complex and multi-dimensional. MOT is actively engaging with all the stakeholders in pursuit for solution/s. The impression given by the Minister is that all parties are willing to compromise in order to expedite a solution. The next 12-months will be very interesting as many on-going negotiations would have reached a final outcome.

Some key takeaways:

- **Airport Operating Agreement (OA) to be amended.** Government will remove the burden of expansion Capex due to budgetary constraints and this will be taken up by the respective airport. MAHB will likely be compensated with longer duration concession period and/or lower user fee. The monopolistic nature of MAHB will be broken as airports will be unbundled and each airport will operate under a regulated asset based (RAB) model. This means the practice of identical passenger service charge (PSC) across all airports will change. Government aims to finalize this OA revision by early 2019. ***In our view, this development looks favourable for MAHB as it ensures acceptable returns for its investments and more efficient use of its capital.***

- **Aviation Council to be setup soon,** consisting of members from the airlines, airports, travel agencies, ground handlers and MATTA to discuss on pertaining issues and derive a collective view. The Council will be chaired by YB Anthony Loke himself. Industry players are not allowed to grouse their complaints publically until it has been discussed in the Council.

- **Rail development will continue**. The rail network management will be centralized to a single agency. This should help to reduce duplications, enhance efficiency and reduce operating cost. KTMB's role will be refocused to an operator only – which is its forte – and other Capex heavy requirements will be undertaken by the Government. The Minister also stated that land belonging to KTM will be monetized for commercial and affordable housing developments.

- **Measures will be taken to boost seaport efficiency.** The Minister states that the main grouse by the industry is too much bureaucracy caused by reporting to multiple agencies. MOT will form a coordinated central agency in order to boost the overall seaport efficiency.

- **Induce usage of public transport**. MOT will put a proposal to the Cabinet to offer a MYR100 monthly pass to access all forms of public transportation in the Klang Valley. The idea is to make public transportation very attractive and convert more people to become public transport users. There was no explanation on how the Government intends to fund this heavily subsidised monthly pass.

(Mohshin Aziz (mohshin.aziz@maybank-ib.com)

Lunch with …

Minister of Energy, Science, Technology, Environment and Climate Change, YB Yeo Bee Yin

Limited disclosure on electricity industry reforms. The Malaysia Energy Supply Industry (MESI) 2.0 initiative is still being formulated, with early details targeted for release in early 2019. As such, the Minister is not ready to disclose details. In terms of broad agenda, MESI 2.0 aims to accomplish three objectives:

- Encourage competition along the value chain.
- To increase capacity for renewables.
- Incentivise energy efficiency among consumers.

A push for renewables. The Ministry is targeting to grow renewables' proportion of generation mix from 2% presently to 20% by 2025-2030, with the caveat that there will be significant improvements in storage technology that will enhance generation cost competitiveness. Renewables will lower the overall vulnerability to fluctuating fossil fuel prices, allowing for more stable tariffs. The Minister does not intend for renewable energy to be heavily subsidised, as such artificial growth cannot be sustained. The immediate near-term focus is to explore large-scale renewable projects that are viable under similar levelised tariffs as fossil fuel-based plants. Should the improvement in storage technology not happen as envisaged, the renewable mix target will be reviewed.

A more pragmatic approach towards R&D. Pertaining to the Minister's Science portfolio, application for research grants from the government will need to be substantiated with proof of industry collaboration going forward. The Minister is of the view that research undertaken has to be relevant so that it can generate value-add for the economy. Separately, scientific equipment owned by the government will be made available for leasing by interested parties in order to generate more bang-for-buck.

Committed to environment targets. The Environmental Ministry remains committed to a 35% reduction in carbon intensity (carbon dioxide emission as a ratio to GDP) by 2030 (from 2005 levels) as stipulated by the Paris Agreement (with a further 10% reduction if international technology transfer happens). The Minister is presently building capability in the Ministry for the sourcing of international green funding. On execution, the Ministry will adopt a strategy of enforcement, engagement and education. The reduction of plastic usage is an area of focus for the Minister, with possible disincentives relating to single-use plastic to be announced in the near future.

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"Improving Efficiency and Value Addition in Malaysia Agri & Commodity Sector"

Panelists:

- **YB Sim Tze Tzin, Deputy Minister of Agriculture and Agro-based Industry**
- **Datuk Wira Azhar Abdul Hamid, Chairman, FGV Holdings**
- **Dato' Lee Yeow Chor, Chief Executive Officer, IOI Corporation and Chairman, Malaysian Palm Oil Council**
- **Renaka Ramachandran, Chief Financial Officer, Sime Darby Plantation**

Moderator: M.R. Chandran, Advisor, Roundtable on Sustainable Palm Oil (RSPO)

Huge opportunities in agrofood with business friendly incentives, while achieving food security. YB Sim highlights Malaysia is a net-importing country for agrofood products with a high import bill of MYR51.3b while exporting only MYR31.8b, translating into a net trade deficit of MYR19.5b in 2017. Coupled with rising global population growth and Malaysia's geographical advantage sandwiched between the high population nations of India, China and Indonesia, the Ministry of Agriculture (MOA) has identified investment opportunities in the ruminant industry (i.e. beef), input industry (i.e. animal feed), forticulture, R&D, technology & mechanization, tropical fruits (i.e. durian, mangosteen), and aquaculture. For instance, Malaysia imports nearly 77% of its beef consumption, 50% of its milk, and 93% of its cheese.

Besides readily available strong technical support at the various governmental organizations (like MARDI), there are various tax incentives to encourage agrofood investments. Among others, they include 100% income tax exemption for 10 years for new projects for approved food production projects under Income Tax Act 1967, and 100% income tax exemption for 5 years for expansion projects. In short, the Government wants to attract more investment and talent into agriculture sector to boost productivity and export.

Need for an industry re-boot. Datuk Wira Azhar of FGV Holdings is of the view that:

(i) Malaysian companies and authorities need to take the necessary steps to improve productivity and efficiency (via technology advancement) given Malaysia's stagnating FFB yields;

(ii) the Government should formulate policies to further encourage investments in value-added downstream industries (especially specialty products). Malaysia is losing too much of the value in palm oil by exporting crude palm oil; and

(iii) the palm oil industry should work together to proactively address the negative perception of palm oil. If the industry does not work together, "we will all lose".

Re-visit long-term sustainable initiatives. Dato' Lee of IOI Corp provided three suggestions for the agro-based industry:

(i) introduce differentiated policy for the agriculture industry, allowing workers to stay longer (beyond the usual 2+1 year contracts) and provide upward mobility for foreign workers as this will help improve overall productivity at the estates, especially for the palm oil industry;

(ii) centralized smallholders schemes like FELDA and FELCRA which had served their purpose in eradicating poverty in the past may no longer serve the aspiration of the new generations of settler-entrepreneurs. The Government should consider releasing these land for the cultivation of other crops; and

(iii) creating value through well-coordinated certification scheme for other crops (similar to Malaysian Palm Oil Certification Council, and Malaysian Timber Certification Council) to promote sustainable cultivation of other crops to appeal to international buyers.

Driving sustainability through innovation. Ms Renaka of SDPL reckons SDPL's newly researched high yielding GenomeSelect planting material that has the potential to yield 11t/ha of oil is the solution to sustainable development. By 2023, SDPL reckons it will have sufficient high yielding seedlings to replant its entire operations. In Malaysia alone, the higher oil yields achieved are equivalent to 50,000 ha of new land. And if maximized across Malaysia, Indonesia and PNG, this is equivalent to 100,000 ha of new land. Besides higher yielding materials, SDPL is also rolling out mechanization and innovation initiatives in the field and mills to drive efficiency.

A new vision required. Moderator M.R Chandran highlights the need for Government-initiated total restructuring of Malaysia's agricultural and commodities sector that is necessary to realize the industry's economic potential (especially in the downstream segments) and for the sector to be the global stalwart for food, feed, fiber and fuel industries. There are headwinds ahead, therefore, business as usual is not an option.

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"Building Sustaining Infrastructure and Housing"

Panelists:

- **YB Baru Bian, Minister of Works**
- **YB Zuraida Kamaruddin, Minister of Housing and Local Government**

Moderator: Dato' Soam Heng Choon, Chief Executive Officer & Managing Director, IJM Corporation & President, The Real Estate and Housing Developers' Association Malaysia

Responsibilities under Ministry of Works. Federal roads, highways and roads leading to airports, ports and universities all fall under the purview of the Ministry of Works. The ministry is tasked with the implementation of the infrastructure projects as well as maintenance of the assets.

Budget remains a key challenge. The ministry has, under its responsibilities, 19,950km of federal roads, 1,930km of highways and 67 federal buildings to maintain. Of the MYR2b annual budget allocated, YB Baru Bian alluded that his ministry only receive MYR600m-800m (e.30%-40%) from the allocation. As a result, the maintenance backlog is close to 30%. To make things even more challenging, the ministry also been asked to further reduce its spending from the amount it is currently getting, to which YB reassured that the ministry would defend the need for its allocation for maintenance to ensure the safety of fellow road users.

No abolishment of tolls for now. YB Baru Bian reiterated that the abolishment of tolls has been deferred until the financial standing of the Government improves. In the meantime, the ministry is in discussion with the highway concessionaires within the country to look at alternatives such as toll rebates, fixing the toll charges at current rates for the next few years, or even reducing the toll rates.

Pan Borneo Highway Sarawak (PBSH) is progressing. For the Sarawak portion, all 11 packages under Phase 1 (Telok Melano – Miri) have all been awarded out. Works are still on-going albeit with minor delays. YB Baru Bian also clarified that the MYR660m (4%) of cost savings as quoted in '*The Star*' on 8 Oct 2018 is still in the proposal stage and only refers to a selected portion of the PBSH, rather than the whole construction cost (e.MYR16.5b) as mentioned in the article.

Pan Borneo Highway Sabah (PBSaH) bogged down by hurdles. YB Baru Bian said that only 12 packages (out of a total of 35) have been awarded out thus far. The main challenge and cause of delay remains the issue of land acquisition/ compensation, which falls under the purview of the State rather than the Federal Government.

Property: The future roadmap. The upcoming new National Housing Policy, which will be announced by end-Oct 2018, will continue to focus on affordable housing. The Government will categorize affordable housing based on three pricing groups i.e. below MYR150k, MYR150k-300k and MYR300k-500k, and the pricing will be determined based on the median income of the area and location of the properties. Elsewhere, the Government may be involved in the development of properties for rent-to-own (RTO) or for rent. It could be via the PPP model and such projects would be done via open tender.

Making properties more affordable. The Government will streamline the government housing agencies and will park them under one roof so to have a better control in terms of pricing, design and supply. This would also create the right volume for the adoption of Industrial Building System (IBS), which would lower the overall construction cost, and hence, the property pricing. Elsewhere, the Government is trying to cut the compliance, land and building material (via zero SST) costs of developers to help reduce property prices. During the panel session, YB Zuraida Kamaruddin has asked developers to give a haircut on property pricing in order to solve the overhang issue.

Ensuring better living environment. Developers were told to integrate the social housing units with open market sale units. No designated land plots for low or low-to-mid cost housing will be allowed. Developers are also asked to provide bigger size (850 sq.ft.) and better facilities as well as maintenance for affordable housing. On the mortgage financing front, MOH is working with the banks on the funding for first-time home-buyers. Elsewhere, there is no concrete plan on the potential imposition of stamp duty on foreign buying as the Ministry is reviewing it now.

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"New Malaysia: Resiliency of the Economy & Credit Profile"

Panelists:

- **Datuk Shahril Ridza Ridzuan, Managing Director, Khazanah Nasional**
- **Richard Record, Lead Economist, Macroeconomics, Trade and Investment Global Practice, World Bank**
- **Tan Kim Eng, Senior Director, Sovereign and International Public Finance Ratings, Asia-Pacific, Standard & Poor's Ratings Services**
- **Michelle Chia, Head of Economics Malaysia, CIMB**

Moderator: Dato' Lee Kok Kwan, President, Financial Markets Association Malaysia

Malaysia's debt profile. The session started with a recap on what makes up the government's MYR1t 'debt': direct debt (MYR687b/50.8%), contingent liability (MYR199b/14.7%) and Public Private Partnership payables (MYR201b/ 14.9%), totaling MYR1,087b/80.4% of GDP. At 50.8%, Malaysia's direct debt/GDP ratio is elevated but not unusually high. This compares favourably with higher-rated nations, as developed countries tend to have higher debt/GDP ratios. But it was also pointed out that debt/GDP is not a single indicator in credit rating as there are other factors to consider, such as the resilience of a country against external shocks, debt maturity profile, rollover risk and the trajectory of debt level.

External indebtedness of Malaysia. Malaysia's total external debts amount to USD229.2b as of end-June 2018. Not all are denominated in foreign currency. Ringgit-denominated external debts account for USD71.5b/31% due to the foreign holdings in local government bonds, while foreign-currency denominated debts account for USD157.7b/69%. The government's share of foreign currency debt is small at USD4b and those in the private sector are backed by matching foreign assets. Malaysia's total external assets amount to USD411.9b. Therefore, FX mismatch is generally not an issue. But Tan Kim Eng pointed out that while FX risk is not an issue, there could be funding risk for the government if foreign investors pull out in a short period of time.

Upside risk to fiscal deficit in 2019 because of tax refunds, but one-off in nature. A question was raised on the MYR35b tax refunds and its impact on fiscal deficit widening risk in 2019. The Panelists pointed out the one-off nature of tax refunds, therefore it may not be taken negatively by market. Key focus should be on the medium-term plan. If debt level increases in the near term, but is expected to decline in the longer term and the fiscal plan is deemed credible, the country's rating may not be penalised. It was indicated that transparency with proper disclosure of debts is important, so that rating agencies can make appropriate assessment.

Onshore liquidity a strength, foreign composition more resilient. The Panelists generally agreed that funding risk for Malaysia is still manageable. Datuk Shahril Ridzuan highlighted that reasonable depth in domestic liquidity is underpinned by a diverse pool of investors e.g. pension funds, banks, insurance companies and asset managers. For example, bid/cover ratios in auctions have been strong in the region of 2.0-2.5x. Also, the composition of foreign holdings have become more resilient as some speculative funds have left the country.

Asset monetization option and Khazanah's portfolio restructuring plan. The government doesn't rely solely on fund raising from bond issuance. The book value of Khazanah and PETRONAS is more than MYR600b, according to Dato' Lee. Datuk Shahril Ridzuan added that Khazanah is in the process of restructuring their portfolios into commercial and strategic activities, which could take 3-5 years. This reduces the perception that the government is having too much influence in the market.

Possible sovereign rating upgrade? Dato' Lee asked Tan Kim Eng about the possibility of a rating upgrade for Malaysia if growth is sustained and debt/GDP comes off. The short answer is "no", because S&P's forecasts have already incorporated an upbeat view on Malaysia. To get an upgrade, the bar is higher and a positive surprise element is needed. One weakness of Malaysia is the low revenue/GDP ratio which has fallen over the past 5-6 years. There is room to improve on the revenue side. With this, more can be achieved such as nation building, education reform and infrastructure development without threatening the stability of the balance sheet.

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Up Close and Personal with …

Datuk Seri Anwar Ibrahim, President-Elect of People's Justice Party (PKR)

Looking after the welfare of the less fortunate. In his brief session, Datuk Seri Anwar Ibrahim spoke on one key issue – "empathy". He emphasized on the need to address socio-economic inequality for the poor and marginalized. His thoughts on this agenda are summarized as follows:

- **Re-shaping the socio-economic imbalances conundrum**. There is a need to look after the poor and marginalized. For that to happen, past policies and practices need to be reviewed and updated with a new and improved version to meet current challenges.
- **Advocating a need-based approach.** In general, policies will be formulated, based on a "need-based basis". In order to meet the objective, the 'method' will have to be meritocracy-driven, transparent and inclusive.

Datuk Seri Anwar is also of the view that Malaysia can only excel if it is committed to reforms.

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"New Malaysia: Forging Ahead Together"

Panelists:

- **YBhg Tan Sri Datin Paduka Rafidah Aziz, Independent Non-Executive Chairman and Director of AirAsiaX**
- **YB Tony Pua, Political Secretary to Minister of Finance**
- **YB Nik Nazmi Nik Ahmad, Vice President, People's Justice Party (PKR)**
- **Datuk Dr. Rais Hussin Mohamed Ariff, Chairman, Policy & Strategy Bureau of Parti Pribumi Bersatu Malaysia**

Moderator: Ibrahim Suffian, Co-Founder & Director of Programs, Merdeka Centre for Opinion Research

Government finances stretched but still potent. YB Tony Pua stated that the Pakatan Harapan (PH) coalition had underestimated the national debt before GE14. Therefore, some promises in the PH manifesto are unfulfilled (e.g. abolishment of tolls). That said, he believes Malaysians will give the PH Government leeway to improve national finances and fulfill all the promises in the PH manifesto. The PH government intends to generate revenue without overly taxing the people. For example, it is studying the privatization of Khazanah Nasional and Permodalan Nasional Berhad non-core assets. While newswires have reported the review of MRT and LRT projects, Tony Pua stated that the PH Government is not against these projects per se, but their existing contracts which are overpriced and will eventually lead to high fares and low throughput. While government finances are stretched, the PH Government will propose social safety nets (e.g. insurance for the B40 income group) during the upcoming Budget 2019 on 2 Nov 2018.

PH government intends to fulfill all promises in its manifesto. Dr. Rais Hussin stated that the people are holding the PH government accountable for its manifesto. He also stated that a lot of thought was put into crafting the PH manifesto despite accusations to the contrary. Each PH party was consulted over a period of eight months and independent researchers were consulted as well. The PH manifesto is based on publicly available information and considered people's basic needs (e.g. jobs, cost of living) and aspirations. Dr. Rais Hussin also lamented that many people misunderstood or did not read the PH manifesto carefully by expecting the promises in it to be fulfilled immediately after GE14. Rather, he stated that it is a 'work in progress' as fulfilling the promises in the PH manifesto will take time. In time, he believes that all promises in the PH manifesto can be fulfilled.

Policies will be people-centric, progressive and equitable. Nik Nazmi continued by stating that most Malaysians are more concerned for bread-and-butter issues than communal ones. The PH government does not intend to implement austerity measures as the people have been contending with stagnant wages and rising inflation for a number of years now. It also views the previous BN government's economic model as being wasteful and not creating enough high wage jobs for Malaysians. Instead, PH will invest in educating a relevant and competitive workforce. Nik Nazmi is cognizant that job losses in the United States and United Kingdom caused changes in governments and Brexit. He states that the experience of both countries is one that Malaysia can ill-afford due to its diverse population. On another note, the PH government is studying lowering the voting age from 21 to 18.

Flexibility and pragmatism in crafting policies is key. Dr. Rais Hussin's assurances notwithstanding, Tan Sri Rafidah Aziz begged to differ and encouraged the PH government not to be beholden to its manifesto. She reasoned that external factors (e.g. slowing global economy) may make it difficult for all promises in the PH manifesto to be fulfilled. Rather, she believes that it is more important to future proof Malaysia's economic competitiveness and this involves planning far into the future. She also espouses policies which are inclusive, pragmatic but yet realistic. The government also ought to encourage and consult the private sector rather than compete with and suppress it. To this end, Tan Sri Rafidah proposed the revival of the Malaysian Business Council and the Malaysian Incorporated (Malaysia Inc.) spirit. The national education curriculum also needs to be revamped for fear that it is not market driven and lacks relevance. Tan Sri Rafidah also advocated deeper regional economic integration to moderate the impact of current global trade tensions. Finally, while the PH government should not be beyond reproach, all criticism ought to be constructive.

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