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Budget for growth

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Budget for growth

BUDGET 2024 touches on a few key areas the government believes will drive the transformation and growth of Malaysia's economy, as well as strengthen the nation's competitiveness in the global market. We present some of the highlights here:

Energy transition

THIRD-PARTY access (TPA) to the national electricity grid is a tricky issue. It needs to happen in order to hasten investment and innovation that will be driven by the private sector in building up the country's renewable energy (RE) base.

However, this means nudging the owner of the grid, Tenaga Nasional Bhd (TNB), to open up the grid to third parties on fair access terms and it can only be done by the Energy Commission (EC), which is an agency of the government.

Budget 2024 notes that the TPA concept will continue in the form of the Corporate Green Power Programme (CGPP).

Recall that Malaysia has a 800-megawatt (MW) CGPP programme, of which the EC has already allocated the bulk of it to 22 bidders.

Under the CGPP, participants are able to produce RE and sell it to their off-takers via the grid. However, it is not a full-blown TPA in the sense that there is a limitation of the 800MW that can flow through the grid.

A full-blown TPA is when the wheeling charges by TNB are made clear for RE producers to pay and use the grid.

Budget 2024 says the government will continue to explore the TPA model and develop appropriate implementation methods for the TPA to drive investments in the RE sector. That clearly indicates the EC will be coming up with the TPA terms soon.

Meanwhile, the budget also repeated the proposal to allocate RM2bil for an energy transition fund. As explained earlier by the government, this money is a form of catalytic blended finance to support private financing for projects that are marginally bankable or yielding below-market returns.

The question is how easily accessible this RM2bil will be to the private sector.

The budget also mentions that RM200bil is being allocated by financial institutions for industries to move into a low-carbon economy. But as we currently know, the funding gap for energy transition remains big and it is left to be seen how aggressive this funding will be.

Capital gains tax

AS expected, a 10% capital gains tax is being proposed in the budget for the sale of shares in private companies, with a few notable exceptions. This doesn't come as a surprise as it was mooted by the government earlier.

After taking into account the input of all stakeholders, the government is proposing a 10% tax on the net profit from the sale of shares in a privately held company and this will take effect from March 1, 2004.

Exemptions the government will consider include private companies that are approved to list on Bursa Malaysia or those that are undergoing internal restructurings as well as those that involve investments by approved venture capital funds. These exemptions are crucial so that it does not penalise capital raising by growth companies.

It is aimed at taxing more mature companies and rightly so, as some vendors could be earning hefty sums in selling their established businesses. It is also assumed that aside from venture capital funds, private equity funds will also be exempted from this tax. If not, it would be a big disincentive for private equity to be active in Malaysia.

Recall that there has been discussions whether Malaysia should impose a capital gains tax from the sale of listed shares in the country. Promoters of this view say that it is only fair for those making profits from their stock market gains to be taxed on it.

They add that since many investors also lose money on the local stock market, it sort of balances things out, as their losses can be offset against the tax from their gains.

Detractors say such a tax would depress our already dampened stock market, chasing both local and foreign investors away. Some even reckon the fact that the total tax receipts will be small compared to the loss in market capitalisation of the local bourse if such a tax is to be imposed.

Consolidating venture capital ecosystem

IN the tech space, one notable proposal is for two investment bodies that currently come under the Finance Ministry to be placed under the purview of Khazanah Nasional Bhd.

Budget 2024 is proposing that in order to strengthen the venture capital environment, Penjana Kapital and Malaysia Venture Capital Management (Mavcap) be placed under Khazanah. It looks like the government is looking at consolidating these bodies.

Khazanah itself has its own venture capital fund called Dana Impak, which has a RM6bil commitment over five years to invest in the digital society, quality health and education as well as food and energy security.

Sources say the plan is to merge all three bodies into one stronger venture capital outfit. It is possible that the move is in line with the government's plan to have a single window.

Recall that Economy Minister Rafizi Ramli is advocating a single window for startups in Malaysia. He has pointed out that there are at least 14 different government agencies in the startup ecosystem.

He envisages this single window to have everything related to startup and with agencies operating within their clusters of responsibilities to be connected to it.

Rafizi eschews the situation where startups have to spend a lot of time and effort looking for the support from a variety of government agencies and has also pointed out that a complicated system gives incentives to the wrong people to thrive.

The merger or at least parking of these three government-funded venture capital funds under Khazanah does seem in line with the single-window move. The only thing that does not sit well is that the people within those organisations do not seem to know the game plan.

Perhaps that is to follow after this budget proposal. Communication and buy-in from all stakeholders will be crucial for this single-window plan to work nicely.

Meanwhile, the government has strengthened its resolve to reform various government agencies and institutions including the merger of three development financial institutions (DFIs) through the merger of Bank Pembangunan Malaysia Bhd, Small Medium Enterprise Development Bank Malaysia Bhd (SME Bank) and Export-Import Bank of Malaysia Bhd (Exim Bank).

In 2019, the government announced plans to consolidate four DFIs including Danajamin Nasional Bhd to enhance the DFI ecosystem.

The first phase of the merger was completed in November 2021, involving Bank Pembangunan acquiring all shares of Danajamin.

The emphasis on the reformation in Budget 2024 indicates a possible acceleration of the merger move.

The second phase involves the merger of Exim Bank and SME Bank into the earlier merged entity.

The merged DFIs will enhance lending capacity to industries and businesses, especially SMEs that are facing difficulties in getting funding from financial institutions.

Islamic finance boost

THE government has proposed to give tax exemptions for income generated from the selling of Islamic securities as part of its efforts to enhance the syariah-compliant stock market.

It has also allocated RM20mil to support research and innovation within the Islamic economy.

Additionally, to support the development of Labuan International Business and Financial Centre as an Islamic financial centre, it is also proposing to tax-exempt for five years all Labuan entities that carry out Islamic finance-related businesses such as Islamic digital banking and Islamic digital token production.

Industry players say this is timely as Islamic finance has seen growth that has outpaced its conventional peers, currently making up around 40% of total financing in the country.

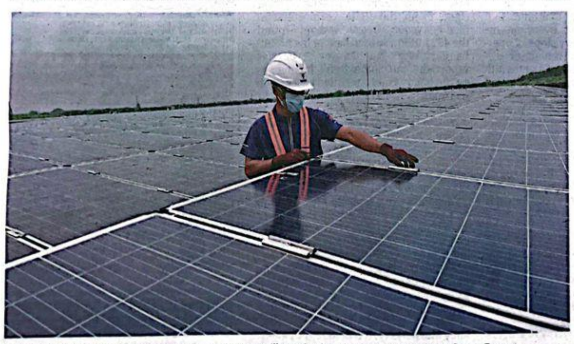
According to the Finance Ministry's 2024 Economic Outlook report, total Islamic financing outstanding expanded by 9.1% to RM884.1bil as at end-July, outpacing growth within the traditional banking sector.

Within Malaysia's capital market, the Islamic capital market continues to play a key role.

Yields that are seen as competitive alongside strong regulatory processes are among the factors that have been supporting its growth.

"Efforts to boost the Islamic finance is a move in the right direction as over time, the sector is expected to play an even more

New facility: Port Klang will be bolstered by the proposed development of a third port terminal in Carey Island in Klang.



Green initiative: The third-party access concept will continue in the form of Corporate Green Power Programme where participants can produce and sell renewable energy to their off-takers via the grid.