

Malaysian Budget 2022

Labour Market Outlook

Strengthening Recovery, Building Resilience and Driving Reforms

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About EU-ERA

EIS-UPMCS Centre for Future Labour Market Studies (EU-ERA) is a state-of-the-art research centre in Malaysia, focusing on labour market research and analytics. It was established based on a smart collaboration between the Employment Insurance System (EIS) at the Social Security Organisation (SOCSO) and Universiti Putra Malaysia Consultancy & Services (UPMCS).

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About this Labour Market Outlook 2022

This document is prepared to provide EU-ERA perspectives on the labour market's key direct and indirect measures in 2022, reflected in the Malaysian Budget 2022. It presents a brief assessment of how the government's direct and indirect measures in the Budget proposal will shape the Malaysian labour market in 2022.

Direct measures refer to initiatives and incentives that will directly affect the labour market, such as short-term employment programmes, and upskilling and reskilling programmes.

Indirect measures concern the labour market implications induced by non-labour interventions such as infrastructure development, investment, and financial and tax incentives for businesses.

Altogether, our assessment indicates that Budget 2022 addresses the critical needs for the recovery and strengthening foundations for a sustainable labour market. This document starts with a brief assessment of the labour market condition in 2021, followed by the main insights drawn from the assessment.



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2021

Labour Market Condition in 2021

The progress towards labour market recovery in 2021 is affected by the non-pharmaceutical containment measures. The unemployment rates were steadily decreased from 4.88% in January to 4.52% in May 2022. However, the unemployment rates started to increase in June by 4.78% and reached their highest peak at 4.84% in July 2021 due to the tightened containment measures. Similar observations hold for the retrenchment of the private workers. The number of loss of employment (LOE) captured by the Social Security Organisation (SOCSO) from June to September exceeds the statistics in May 2021.

The labour market is expected to show a continuous recovery as the economic activities rebound following the National Recovery Plan (NRP) progress. Almost all states had progressed into the third and fourth phases under the NRP, enabling more sectors to resume their operations, thus positively contributing to the labour market recovery. This progress was further strengthened by the pharmaceutical measure, whereby the adult population's vaccination rate has exceeded 80%. Unemployment rates are predicted to reduce from the average of 4.67% in Q3-2021 to 4.31% in Q4-2021, implying an improvement in the labour market condition. Nevertheless, achieving the pre-crisis level of unemployment is still far-reaching because the progress is disrupted by the series of containment measures to flatten the COVID-19 curve.

The government's active interventions are necessary to improve and stabilise the labour market in 2022. Early this year, our estimates for the unemployment rates expected a rebound between 4.2% to 4.3% in 2021, considering that GDP growth lies between 6.5% and 7.5%. However, by considering the imposition of prolonged non-pharmaceutical containment measures in mid-2021, the average unemployment rate is adjusted slightly higher, around 4.5% to 4.6%. Moving forward, job creation and retention programmes that complement reskilling and upskilling are the key focused areas in 2022.

More key insights into the Malaysian labour market progress in connection to the economic growth in the third quarter and outlook for the fourth quarter of 2021 will be detailed in the upcoming issue of the [Quarterly Labour Market Perspectives](#).



2022

Key Labour Market Reflections in 2022

Our perspective on the following key reflections are made solely based on the contents of the Budget 2022 speech and touchpoints. It may not necessarily reflect the overall landscape of labour market.

The year with actual economic and labour market recoveries. Budget 2022 is important for economic and labour market recoveries as the expected recoveries in 2021 were affected by the non-pharmaceutical containment measures to curb the spread of COVID-19. In 2022, the economy is forecasted to expand around 5.5% to 6.5%, and with these rates, the unemployment rate is projected to be around 4.0% - implying significant labour market recoveries. Fairly to note that these expectations are made based on the view that the government will no longer impose large-scale non-pharmaceutical containment measures in 2022. If not, we are likely to repeat the situation in 2021 and thus putting high risks to the labour market.

Job creation and continuous support to sustaining jobs is the key priorities. Given the estimates of unemployment rates in 2021 to be around 4.5% and 4.6%, the key priorities are to create jobs and retain the current workforce, which is complemented by reskilling and upskilling. Under the Jamin Kerja Keluarga Malaysia (JaminKerja), the government in 2022 will guarantee 600,000 job opportunities with an allocation of RM4.8 billion. For the job creation effort, the real challenge for the government is to create “real” jobs for the people as the capacity of our economy to generate jobs under the normal economic conditions has been around 326,000 for the past 10 years.

Limited spaces for addressing structural issues. In the situation of a high unemployment rate, labour market structural issues such as under-employment, wage differentials, and demand-supply mismatch may not be addressed extensively until the economy achieves substantial recoveries. Supply-side wage interventions such as increasing the minimum wage threshold may be an efficient strategy to be implemented as the business damages, especially for

micro, small and medium enterprises (MSMEs), are still wounded and need continuous treatments. The revision of minimum wages for the targeted groups, sectors and geographical locations could be considered, but it must be carefully addressed if it is to be implemented.

Labour market interventions to support 12th Malaysia Plan (2021-2025). There is a clear short-term policy intervention to support the targets of the medium-term policy in the 12th Malaysia Plan. One of the 12th Malaysia Plan priorities in the labour market is to facilitate the labour force participation for women through home-based economic activities and strengthen the support environment. DANANITA and TEKUNITA under entrepreneurship programmes and MyKasih Capital Programme under the home-based income generation initiative are among the women empowerment measures included in Budget 2022.

Indirect measures that will shape the labour market. There are numerous incentives and initiatives proposed in Budget 2022 that will indirectly affect the labour market. Among the areas that will indirectly affect the labour market are the tourism industry's recovery, foreign investment, and sustainability agenda. The extent to which the indirect measures impact the labour market depends on the interaction between the supply and demand of labours and the businesses nature. For example, the promotion of foreign investment in the technologically oriented sectors will drive the demand for high skilled workers. The adoption of sustainable and low carbon practices such as increasing recycled and renewable energy use is likely to induce the demand for green jobs. Thus, as far as the labour market is concerned, indirect measures should also be taken into consideration in the policy assessments.

Fiscal Highlights

Continuous expansionary fiscal policy.....

Active government interventions to stimulate economic growth is needed to speed the recovery magnitude. With the allocation of RM332.1 billion, Budget 2022 is the largest government expenditure in history. The fiscal deficit (allocation *minus* revenue) is expected to reduce from RM101.5 billion in 2021 to RM98.1 billion, contributed by the increase in revenues RM13.0 billion. As a result, the ratio of fiscal deficit-to-GDP (current price) is projected to decline from 6.5% in 2021 to 6.0% in 2022, implying a stabilisation of the federal government's fiscal condition.

.....with the primary goal of boosting economic activities, improving income and unemployment, and strengthening the economic foundations.

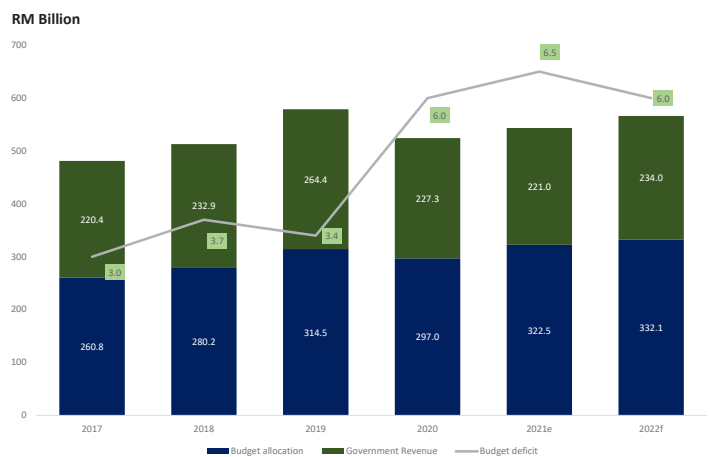
Government prioritises direct fiscal support to income and employment of households, and businesses, aiming to establish a solid foundation for the recovery. As long as the government anchors spending decisions in a sound medium-term fiscal framework and interest rates remain lower than the economic growth rate, the continuous fiscal support need not pose problems for debt sustainability.

The winner should not take it all and the loser should not stand small.

Taxing financial winners from the COVID-19 crisis and redistributing the revenues to the losers is an equitable approach. This approach is more pronounced applied in the case of personal tax; the richer will pay more income tax than the poorer. It has been observed that companies in sectors such as rubber processed, banks, IT services, online purchases, and delivery services have certainly made excess profits compared to others during the pandemic. Thus, the introduction of a windfall tax or *Cukai Makmur* in Budget 2022 is the right move by the government.

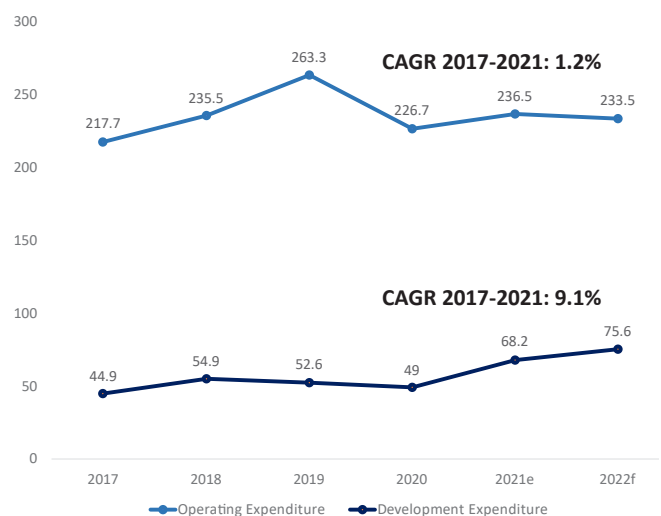
01

Figure 1 Budget Allocation, Government Revenue and Budget Deficit, 2017 - 2021 (RM billion)



02

Figure 2 Operating and Development Expenditure, 2017 - 2021 (RM billion)



Notes:

e = estimate

f = forecast

Budget deficit in Figure 1 is expressed in the percentage of deficit-to-gross domestic product (in current price).

Source:

Budget speeches from 2017-2021, Ministry of Finance
Economic Reports, Ministry of Finance

Labour Market Highlights

Significant labour market recovery

Labour market conditions are expected to recover considerably in 2022 as the unemployment rate is projected to decline and reach 4.0%, considering the GDP growth hovers around 5.5% to 6.5%. This projection almost mirrors our estimate between 4.13% and 4.04%, with the GDP growth between 5.5% and 6.5%. Given the considerable economic growth and strong support from job creation and job retention programmes in Budget 2022, more unemployed workers are expected to return to formal sectors.

Building job opportunities and job security remain a top priority

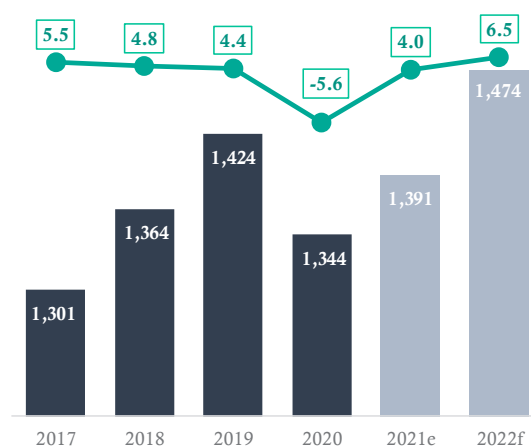
The labour market condition shows signs of recovery, but the journey to restore employment to the pre-crisis levels is still far-reaching. The recovery progress in 2021 is affected by a series of prolonged non-pharmaceutical containment measures, which started in mid-2021, pushing the unemployment rates to be around 4.5% to 4.6%. Hence, policy intervention is still needed to help create and secure jobs. Several main programmes designed in Budget 2022 will assist in tackling this issue and building a better future work.

Limited spaces for structural interventions in the situation of the high unemployment rate

Labour market structural issues such as under-employment, wage differentials and demand-supply mismatch could not be addressed extensively until the economy is fully recovered. Efforts to address the structural issues such as wage rates may not be the right time yet and are likely to create distortions to the labour market if they are to be implemented during the recovery periods.

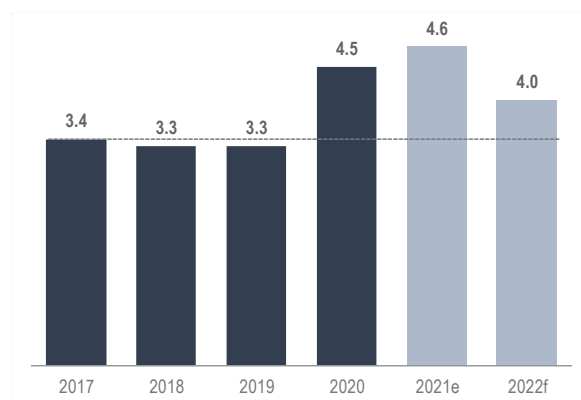
03

Figure 3 GDP at Constant 2015 Price, 2017 – 2021 (RM Billion)



04

Figure 4 Unemployment Rate, 2017 – 2021 (%)



Notes:

e = estimate

f = forecast

The dotted line in Figure 4 indicates the normal unemployment rates experienced by Malaysia, registered around 3.2% to 3.4%.

Source:

GDP estimates and forecasts for 2021 and 2022 are sourced from the Ministry of Finance

Unemployment rates in 2021 are estimated by EU-ERA and that of 2022 sourced from the Ministry of Finance

BUDGET 2022 DIRECT MEASURES TOWARDS LABOUR MARKET



01 Job Creation & Retention

The fact is that the unemployment rate in 2021 will not rebound to the pre-crisis level and is expected to record above 4.0%. Thus, key priorities in 2022 are to promote job creation and job retention agenda.

Implementation of Skim JaminKerja Keluarga Malaysia (JaminKerja) to provide 600,000 new job opportunities through RM4.8 billion government expenditure.

JaminKerja incentives of RM2 billion via SOCSO to increase employment opportunities for 300,000 job seekers

20% of the monthly salary for the first six months and 30% for the other six months, with a salary of RM1,500 and above.	
Jobseekers	Individual aged 16-50 years old who are not actively working.
Replacing foreign with local labours	Additional 10% from the salary will be given for 12 months.
30% of the monthly salary for the first six months and 40% for the other six months.	
Vulnerable groups	Unemployed individual/graduate for more than 6 months, army veterans, Orang Asli, ex-convicts, disabled person registered under JKM, participants of SOCSO Return To Work programme, employees aged 50 years and above
Women	Unemployed woman for more than 1 year (including career break period), single mother and housewives.
Major sectors	Digital skills related (ICT) and tourism.
RM900 monthly allowance for 6 months.	
Apprentice	School-leavers and graduates aged 18-30 years old. Job offer is for Executive position.
RM600 monthly allowance for 6 months through Gig sector working incentive.	
Involving jobseekers from various categories	<p>Person experiencing LOE, vulnerable groups, employees experiencing unpaid salary, unemployed individual/graduate for more than 30 days, housewife with low-income.</p> <p>Additional RM200 will be given if gig workers are able to make more than RM2,500 per month or working for more than 120 hours monthly.</p>

Continuation of Short term Employment Programme (MySTEP) with an allocation of RM1.8 billion

Generating 50,000 job opportunities under the public sector and 30,000 job opportunities under GLCs on contract basis from January 2022.

220,000 trainees to undergo various upskilling and reskilling programmes with a total allocation of RM1.1 billion

Upskilling and reskilling programmes	Agency	Target
HRDC	HRDC	36 thousand
Regional Corridor	Corridor	16 thousand
PRUV-ATM	Perhebat	5 thousand
SLDN Plus	JPK	10 thousand
KPT-CAP	KPT	20 thousand
KPT-PACE	KPT	45 thousand
TVET Training	JPPKK	25 thousand
MITI Reskilling	MITI	24 thousand
MDEC	MDEC	12 thousand
Upskilling for Deeptech and Future Skills	MOSTI	5 thousand
Peneraju Skills and Peneraju Teknologi	JPM	3 thousand
Pusat Pembangunan Kemahiran Negeri	FMSDC	5 thousand
PERKASA TVET	PTPK	13 thousand
Program Inkubator Graduan Kreatif	MyCreative Ventures	1 thousand

Riuh Keluarga Malaysia programme will be introduced to create 5,000 new job opportunities in the creative industry

Investment loan matching fund amounting to RM20 million expected to generate 5,000 new job opportunities.



02 No One's Left Behind, Expanding Social Protection

The i-Saraan initiative was implemented to encourage informal sector workers to save for retirement through Employees Provident Fund (EPF) contributions. The government will match a minimum of 15% from the voluntary contributions made by the informal sector workers limited to a maximum of RM250 per year.

- The government will expand the beneficiaries of this initiative to include those aged between 55 and 60 years.
- A total of RM30 million will be provided and is expected to benefit more than 100,000 existing and new participants.

Expansion of Social Security Organisation (SOCSO) protection to cover 9 new categories of self-employed, which expected to benefit more than 810,000 self-employed.

- Artists
- Hawkers
- Fishermen
- Farmers
- Travel agents
- Persons with Disability
- Orang Asli
- Native of Sabah and Sarawak
- Community Rehabilitation workers

The government will increase the salary ceiling of the insured from RM4,000 to RM5,000 to improve the social security coverage for the 9 million workers covered by SOCSO.

The government will continue providing enhanced Job Search Allowance (JSA) to both contributors and non-contributors with a total allocation of RM300 million.

- **For SOCSO contributors:** Allowance will be given based on 80% of the first month's salary, 50% of the second to sixth month's salary and 30% of the remaining three months' salary.
- **Non-SOCSO contributors:** Allowance of RM300 will be given for a period of 3 months.

Social Security Organisation (SOCSO) protection for creative industry worth RM5 million.



Expansion of Social Security Organisation (SOCSO) protection to cover 9 new categories self-employed.



The government will continue providing enhanced Job Search Allowance (JSA) to both contributors and non-contributors with a total allocation of RM300 million.



03 Short-term Training Programmes

Provision of RM6.6 billion to strengthen the education field and Technical and Vocational Education and Training (TVET). Additional programmes worth RM200 million include:

- PERKASA TVET Program for short term training for 13,000 trainees (RM100 million).
- National Dual Training System (SLDN) programme under JPK for 10,000 trainees (RM60 million).
- TVET programme under JPKK for 25,000 trainees (RM50 million).



Provision of RM6.6 billion to strengthen the education field and Technical and Vocational Education and Training (TVET)

04 Facilitating Women's Participation in the Labour Market

Women on Board. Appointment of at least one female director for all public listed companies.

To encourage women to return to the workforce through the JaminKerja programme. Incentives in the form of 30% of the monthly salary for the first six months and 40% for the other six months will be given for the hiring of women who are unemployed for more than 1 year (including career break period), single mothers and housewives.

To boost women's participation in the economic sector through, among others, youth leadership training and entrepreneurship programmes:

- RM5 million will be allocated to Women Leadership Foundation.
- RM230 million will be provided to support women entrepreneurs, particularly those affected by the COVID-19 pandemic, as well as to expand their business activities through, among others, the DANANITA programme under MARA and TEKUNITA under TEKUN.
- The government will implement the MyKasih Capital Programme, which includes basic business capital assistance, guidance and training to promote online business involving 5,000 participants with an allocation of RM6.25 million.



RM230 million will be provided to support women entrepreneurs, particularly those affected by COVID-19 pandemic.

05 Strengthening Youth Economy

- The private sector is urged to provide an allowance of at least RM900 to students that undergo industrial training.
- The government will increase the monthly incentive to RM900 for up to 6 months for employers who employ apprentices coming from school leavers and graduates aged 18 to 30 years old.
- Financing scheme for youth entrepreneurs by Bank Simpanan Nasional (BSN) and Agrobank with an allocation of RM150 million.



The government will increase the monthly incentive to RM900 for up to 6 months for employers who employ apprentices.

06 Take Home Income

- The minimum employee EPF contribution rate reduction from 11% to 9% will be extended up to June 2022, involving a potential value of RM2 billion.
- The Monsoon Season Assistance continues next year to help ease the living burden of 320,000 smallholder farmers who lost income during the monsoon season with an allocation of RM190 million.



The minimum employee EPF contribution rate reduction from 11% to 9% will be extended up to June 2022.

07 Mobilising 'Hidden' Labour Force

To encourage employers to provide employment opportunities for the vulnerable groups:

1. JaminKerja Initiative will cover 30% of the employee's salary for the first 6 months & 40% of employee's salary for the last 6 months. The vulnerable groups include:
 - Individuals/graduates unemployed for over 180 days
 - Army veterans
 - Orang Asli
 - Inmates/Individuals under parole
 - Disabled person registered under the Social Welfare Department
 - Participants in SOCSO Return To Work Programme
 - Employees aged 50 years and above
2. To provide jobs for persons with disabilities, a special quota of 1% under the MyStep Programme is specifically allocated.
3. Programmes to empower the involvement of local communities, veterans and Orang Asli as biodiversity guardians through the additional recruitment of up to 1,000 patrollers (RM37 million).



To provide jobs for persons with disabilities, a special quota of 1% under the MyStep Programme is specifically allocated.

08 Demand-driven Employment Creation

- To fulfil skills requirements especially in high value-added industries, an allocation of RM80 million will be prepared through the Ministry of International Trade and Industry (MITI) to train 20,000 workers to support industrial clusters.
- RM50 million will also be provided through state skills development centres, such as in Sarawak, Johor and Penang, to improve the TVET skills of 5,000 workers in areas such as oil and gas welding, industrial automation and mechatronics.



RM50 million will also be provided through state skills development centres.

09 Targeted Wage Subsidy Programme (WSP)

- The continuation of the Wage Subsidy Programme (WSP) targeted for the tourism industry players who experienced a decline in revenue of at least 30%. The RM600 million allocation will benefit more than 26,000 employers and 330,000 employees.



The continuation of the Wage Subsidy Programme (WSP) targeted for the tourism industry players who experienced a decline in revenue of at least 30%.

10 Labour Market Related Tax Relief

- The government proposes to expand the tax relief of up to RM4,000 to EPF contributors, including voluntary contributions, such as those who are self-employed in the gig economy.
- To further encourage private employees to contribute to SOCSO and protect those who lose their jobs, the tax relief limit will be increased from RM250 to RM350. The scope of relief for SOCSO contributions will also be expanded to cover employee contributions through the Employment Insurance System (EIS).
- To encourage Malaysians to pursue training programmes and acquire new knowledge, the limit of individual income tax relief for up-skilling and self-enhancement course fees will be increased from RM1,000 to RM2,000. It will also be extended to the year of assessment 2023. In addition, those who undertake courses with any professional bodies will be eligible for tax relief of up to RM7,000.
- The extension of tax incentive for the Structured Internship Program until the year of assessment 2025. This incentive is also extended for students in the Master's Degree, Professional Certificate and Malaysian Skills Certificate Levels 1 and 2.



The government proposes to expand the tax relief of up to RM4,000 to EPF contributors, including voluntary contributions, such as those who are self-employed in the gig economy.

BUDGET 2022 INDIRECT MEASURES AFFECTING LABOUR MARKET



01 Accelerating Recovery for Tourism Industry

1. Specific financing for the tourism sector of RM600 million under PENJANA Tourism Financing and Bank Pembangunan Malaysia Berhad (BPMB) Rehabilitation Scheme.
2. Special assistance to more than 20,000 tour operators registered under the Ministry of Tourism, Arts and Culture for a period of three months with an allocation of RM85 million.
3. Granting of matching grants to companies who organize programmes related to arts and culture with an allocation of RM50 million.
4. Incentive for the purpose of promotional activities as well as domestic tourism with an allocation of RM60 million
5. Special individual income tax relief for domestic tourism expenses up to RM1,000 will be extended until the year of assessment 2022.
6. The government will strengthen Malaysia's position as a preferred health tourism destination with an allocation of RM20 million to the Malaysia Healthcare Travel Council.
7. The government also proposes to extend several tax incentives, including income tax exemption for organizers of arts and cultural activities as well as international sports and recreational competitions until the year of assessment 2025.



Specific financing for the tourism sector of RM600 million under PENJANA Tourism Financing.



02 Enhancing MSMEs and Entrepreneur Roles in the Economy

1. The continuation of Shop Malaysia Online and Go-eCommerce Onboarding campaigns with an allocation of RM250 million which has benefited more than 500,000 local entrepreneurs.
2. SME Techno Entrepreneur Incentive Programme to increase crop production and food processing through the application of technology for the benefit of 140 agri-entrepreneurs.
3. Financing package of RM40 billion under the Semarak Niaga Keluarga Malaysia Programme (or SemarakNiaga) aims to benefit businesses of all sizes through direct loans, financing guarantees and equity-based schemes.
4. Microcredit financing worth about RM1.8 billion will be provided through various agencies such as TEKUN, Agrobank, BSN, Bank Rakyat and Bank Negara Malaysia to support and assist the microentrepreneurs.
5. RM200 million and RM145 million are allocated for the Chinese and Indian community under SME Entrepreneur Financing Scheme and TEKUN.
6. In support of social finance initiatives, the government will also allocate RM20 million to help expand the i-TEKAD programme, which offers initial capital, microcredit and structured training to microenterprises.
7. To assist companies facing gearing or leverage problems, funding worth RM2.1 billion will be allocated to support equity and quasi-equity investment schemes. SME Bank will lead this initiative in collaboration with TERAJU and BSN with a fund worth RM600 million. Similarly, BPMB will also allocate RM500 million for its Rehabilitation and Support through Equity scheme (or RESET) in addition to BNM's Business Recapitalisation Fund worth RM1 billion.
8. Syarikat Jaminan Pembiayaan Perniagaan (SJPP) will enhance the financing guarantees scheme to enable SMEs to obtain financing, especially during difficult times with an additional guarantee limit of RM10 billion to provide guarantees for loans that are being rescheduled and restructured for companies in need with RM2 billion being dedicated to Bumiputera businesses.



The continuation of Shop Malaysia Online and Go-eCommerce Onboarding campaigns with an allocation of RM250 million which has benefited more than 500,000 local entrepreneurs.



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03 Adopting Technology and Digitalization in the Industry

1. MyStartup Strategy will be executed in line with the aim of the Malaysia Digital Economy Blueprint to benefit over 2,500 companies and create 5,000 job opportunities.
2. An amount of RM30 million will be prepared to implement the Innovation Hub: Industrial Revolution 4.0 under Technology Park Malaysia as an innovation ecosystem one-stop centre with the development of new emerging technology clusters such as drones, robotics and autonomous vehicles. This hub is expected to benefit and provide exposure to 10,000 potential entrepreneurs.
3. Allocation of RM45 million as a technological transformation incentive for SMEs and mid-stage companies in the manufacturing and services sector, in line with IR 4.0 or Industry4WRD.
4. Smart Automation matching grants with an allocation of RM100 million will be provided to 200 companies in the manufacturing and services sector to automate their business processes.
5. A matching grant of RM100 million will be provided to Bumiputera SMEs to explore business opportunities in the aerospace segment.

04 Moving Towards Sustainable Malaysia by 2030 in line with SDGs

1. The Voluntary Carbon Market (or VCM) initiative will be launched under the advocacy of Bursa Malaysia. This initiative acts as a voluntary platform for carbon credit trading between green asset owners and other entities transitioning towards low-carbon practices.
2. BNM will provide a Low Carbon Transition Facility with a fund value of RM1 billion, which will be based on matching fund arrangement with participating financial institutions to help SMEs adopt sustainable and low carbon practices such as by increasing the use of sustainable raw materials and renewable energy.
3. The government proposes to provide import duty, excise duty and sales tax exemptions on EVs. Road tax exemptions of up to 100% will also be given to the vehicle owners. Additionally, individual income tax reliefs of up to RM2,500 will be given for the purchase and installation, rental and hire-purchase of EV charging facilities, as well as payment of EV charging facility subscription fees.



Smart Automation matching grants with an allocation of RM100 million will be provided to 200 companies in the manufacturing and services sector to automate their business processes.



BNM will provide a Low Carbon Transition Facility with a fund value of RM1 billion to help SMEs adopt sustainable and low carbon practices .



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