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Economic Management and Outlook

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Overview

Malaysia's strong economic performance over the last few decades underscores the effectiveness of the Government's economic policy. The creditable performance of the economy in the first two quarters of 2008 in an environment of heightened uncertainty further exemplifies the pragmatism and proactiveness of the Government. Uncertainties amid an environment of rising crude oil prices and risks of sharp adjustments in the financial markets as well as inflationary pressures were matters of concern in the 2008 Budget. As the year unfolds, these concerns have now turned into issues leading to a moderate global economic outlook. Given the current scenario, economic management in 2008 are focused on mitigating these risks and enhancing domestic resilience to promote growth and development across the country. The programmes implemented in 2008 are essentially designed to bring about greater peace, harmony and prosperity as well as enhance the well-being of all Malaysians.

Moving forward, 2009 is expected to witness a gradual recovery in global growth and an easing of inflationary pressures in the domestic economy. These developments together with the strategies introduced in the 2009 Budget will enable the economy to expand in an environment of low unemployment and price stability. Essentially, this requires all Malaysians to remain steadfast and united in meeting the current economic challenges.

Performance Review

The global economy continues to adjust under the impact of continued uncertainty in the financial markets as well as high global commodity prices. The inflationary pressure following these developments brought about a moderation in the growth of major economies, leading to a downward revision in global growth estimates. The International Monetary Fund revised downwards the 2008 global growth forecast from 4.8% to 4.1% and global trade estimates from 6.7% to 5.6%.

Despite the slowdown in global growth, domestic demand in developing countries remains strong, particularly with China hosting the 2008 Olympics in August and India having strong private consumption. Faced with mounting energy and food prices, the Southeast Asian region is expected to register moderate growth. In tandem with these developments, the Malaysian economy is expected to expand moderately. With the proactive initiatives introduced by the Government to meet current challenges, the economy is expected to expand by 5.7% in 2008.

Fiscal Operations in 2008

The persistent increase in global prices of crude oil led to an untenable increase in the direct subsidy for fuel in the country. The Government restructured the fuel subsidy to ensure a more efficient distribution of subsidies and curb leakages. However, the essential industries, namely, transport and fishing, will continue to benefit from preferential fuel prices. Despite the increase in retail prices of fuel, the amount of subsidy remains high. Additional funds were also committed to address food supply shortages in line with the National Food Security Policy and to provide subsidies for essential food items. These measures largely contributed to the increase in the Government's operating budget.

With these developments and the need to accommodate new development priorities, the Federal Government account is expected to register a deficit of 4.8% of Gross Domestic Product (GDP) or RM34,462 million compared with 3.2% of GDP or RM20,658 million in 2007. The deficit remains manageable and will be financed by borrowings from non-inflationary domestic sources. Given the high savings rate and ample liquidity in the financial system, the borrowings are not expected to crowd out private sector's access to funds. The Government will continue to observe fiscal discipline in managing its financial resources.

Federal Government revenue is expected to register growth of 15.5% to RM161,558 million compared with RM139,885 million in 2007. The strong revenue collection is on account of robust increase in oil related revenues, firm commodity prices, imposition of windfall tax on certain industries and improved tax administration. Total Federal Government expenditure is also expected to increase by 20.5% to RM197,211 million contributed largely by a 22.6% increase in operating expenditure. Apart from expenditure on locked-in items such as emolument, debt service charges, pensions and gratuities, substantial amount of funds were allocated for food and fuel subsidies. The additional expenditure was to mitigate the impact of higher costs, particularly on the low- and middle-income groups. Operating expenditure is focused on programmes and projects aimed at continuously improving the public sector delivery system to enhance the overall efficiency and competitiveness of the economy.

Development expenditure is also expected to increase in 2008 by 14.0% to RM46,258 million with the ongoing implementation of the Ninth Malaysia Plan (9MP) projects and the costs increases following higher prices of building materials. Development expenditure will focus on building the long-term productive capacity of the economy. As such, the emphasis will continue to be on basic infrastructure, including upgrading the public transport system and utilities, improving social amenities in rural areas, enhancing agricultural production and productivity as well as accelerating human capital development.

Continuing the National Mission

The five strategic thrusts of the National Mission, as enunciated in the 9MP, continues to provide the framework for guiding policy and assessing the progress achieved thus far. The Mid-Term Review of the 9MP took into account challenges to the domestic economy, leading to a reprioritisation of projects and reassessment of the broad macroeconomic targets for the medium term. The long-term goal of achieving a developed nation status by the year 2020 remains intact. Strategic and pragmatic measures were introduced to address immediate concerns in the economy.

The 2008 Budget with the theme "Together Building the Nation and Sharing Prosperity" encapsulates the objectives and aspirations of the National Mission. This theme was translated through three main strategies, namely, enhancing the nation's competitiveness, strengthening human capital development and ensuring the well-being of all Malaysians.

Enhancing the Nation's Competitiveness

National competitiveness, which refers to the ability of the nation to create and maintain an environment which sustains increasing value creation for firms, can only be realised by moving the economy up the value chain. Consistent with this, migration to higher value added and knowledge intensive activities along the value chain was achieved in several industries in new key sectors. In the services sector advancements were made in several niche areas such as tourism, Islamic finance as well as information and communication technology (ICT).

To facilitate private investment activities, the Government implemented many pro-business policies, including reducing the corporate tax rate progressively from 28% to 27% in 2007, 26% in 2008 and 25% in 2009 and introducing improvements in tax administration. The Government continued to support and encourage private sector activities by reducing the cost of doing business and improving the efficiency of the public delivery system. Following these developments, total investments grew 5.8% in the first half of 2008 on the back of strong domestic and foreign direct investment. Higher capital spending was recorded in most economic sectors, particularly in manufacturing, services, construction and mining. In addition, the incremental capital output ratio (ICOR), which measures capital efficiency improved to 3.5 compared with the 9MP target of 4.6.

Strengthening Institutional and Implementation Capacity

An efficient public service is a key factor in ensuring a conducive environment to attract private investment. Towards this, efforts were taken to streamline regulatory and administrative procedures, increase ICT applications and improve the supporting infrastructure. The Government established a Special Task Force to Facilitate Business (PEMUDAH), comprising high-level officials from both public and private sectors to facilitate all aspects of doing business by improving public sector work processes and procedures.

In its first year of establishment, PEMUDAH introduced several improvements in processes and procedures. Streamlining and eliminating redundant internal processes and increasing the use of electronic facilities reduced the time taken by the Inland Revenue Board (IRB) to make tax refunds. Similarly, process improvements and better coordination between the IRB and the Valuation and Property Services Department resulted in significant improvements in the turnaround time for stamp duty assessment. To further facilitate the private sector to interface with government agencies for approvals, licenses and permits, the Business Licensing Electronic Support Services (BLESS), an on-line business facility, was developed. BLESS became operational in the Klang Valley on 11 February 2008. For a start, it covers the manufacturing sector involving 84 different licenses across 75 government agencies, local authorities and technical committees. The BLESS initiative will be extended to the construction and hotel sectors and is expected to be fully operational by June 2009.

To facilitate the investment community in the employment of expatriates as well as to attract and retain knowledge and skilled workers, various measures were undertaken by the Immigration Department. Improvements to its delivery system included expediting application processing, extending work permits of expatriates from two to five years and setting up Executive Counters in all State Immigration Offices. In addition, PEMUDAH also published a “Guidebook on the Employment of Expatriates: Processes and Procedures” to clarify and assist the expatriate community and investors in all aspects of expatriate employment.

In the effort to create a more business friendly operating environment, PEMUDAH is currently focusing on issues relating to enforcing contracts, logistics and customs, registering property, incorporation and closing a business, the foreign investment committee and government procurement. The outcome of these initiatives is expected to improve Malaysia’s position in the World Bank’s Doing Business ranking and the Institute for Management Development’s World Competitiveness Report. Currently, Malaysia is ranked 24 out of 178 countries in the doing business ranking and 19 among 55 economies in the world competitiveness report.

Significant improvements were made on matters pertaining to land transactions. A flying squad was established with the recruitment of 1,006 contract staff and placed at various district and state land offices to tackle the huge backlog of cases involving land transfer, charging and leasing of land and tenancy, which stood at 1.6 million cases throughout the country as at 31 December 2006. As at 31 December 2007, almost all cases were resolved while the remaining 989 cases are still pending registration. In addition, the processing time for strata titles was reduced to 170 days from 261 days, and land acquisition to three months from nine months. Meanwhile, adoption of ICT-based processes also enabled on-line collection of quit rents and printing of bar codes on land titles to prevent fraud.

Promoting Niche Tourism

Tourism is an important industry in the services sector in terms of foreign exchange earnings, entrepreneurship development as well as business, employment and income generation. Given its contribution and its potential in generating growth, the Government continues to promote the industry. Specific tourism products promoted include eco-tourism, edu-tourism, sports tourism, Malaysia My Second Home (MM2H) and health tourism. Given the accessibility to National Parks, jungles and wildlife viewing, eco-tourism is actively promoted to attract tourists to explore the rich biodiversity, rain forests, caves and natural heritage of the country. At the same time, the MM2H programme enables tourists to assimilate and experience the Malaysian culture and way of life on a longer-term basis. Community-based tourism products such as homestay programmes are being intensified to rejuvenate the rural economy as well as increase community participation and rural household incomes. Promotional efforts are also directed at tapping the high-yielding markets of health and education tourism. In its efforts to boost the industry further, the 2007 Visit Malaysia Year programme was extended to August 2008 while the states of Kedah, Kelantan and Terengganu launched similar programmes in 2008. The industry also continues to benefit from the Government efforts to promote Malaysia as the preferred destination for Meetings, Incentives, Conventions and Exhibitions. During the first six months of 2008, tourist arrivals totalled 11 million compared with 10.7 million in corresponding period of 2007.

Advancing the Information and Communication Technology Industry

ICT is an enabler to improve the nation's competitiveness towards achieving a higher value added economy. Taking into account the importance of this industry, the Government's pro-business policy and ongoing initiatives continue to facilitate the development of the ICT industry. These include capacity building, creating a rich multimedia content environment as well as enhancing communication services and product offerings.

Broadband connection is recognised as a catalytic platform to boost productivity and competitiveness as well as support the development of new industries. To move towards a knowledge-based economy and narrow the digital divide, the Government aims to increase the broadband penetration rate to 50% of households by 2010. In line with this target, the Government introduced several measures including the last-mile infrastructure tax allowance, sales tax and import duty exemptions on broadband equipment as well as tax deductions to employers on broadband benefits provided to employees. Consequently, the broadband penetration rate increased to 16.5% in 2007 compared with 11.0% in 2006.

To further accelerate broadband penetration, the Government initiated a public-private partnership with Telekom Malaysia (TM) to rollout High Speed Broadband (HSBB) infrastructure. The HSBB infrastructure will be developed at an estimated cost of RM15.2 billion over a 10-year period. The project will be implemented in three phases. Once fully implemented, the project will provide world-class infrastructure for applications and content development, thus reinforcing Malaysia's competitiveness.

To further develop the local animation and creative content industry as well as increase local expertise, the Government, via the Multimedia Development Corporation, established the Malaysian Animation Creative Content Centre and eContent Fund in 2007. These initiatives provide local animators, visual effects artists and multimedia students with a centralised facility for digital content development. A sum of RM86 million was allocated for the eContent Fund to build capacity for the industry. As of end-June 2008, 46 applications amounting to RM43 million were approved. The Government also launched the Networked Content Development Grant of RM20 million in July 2007 to encourage the creation, production and distribution of highly creative, original and marketable networked content for domestic and international markets. As at end-May 2008, six companies were given grants amounting to RM4 million.

The Multimedia Super Corridor (MSC) Malaysia initiative entered its 12th year of operations. The local ICT industry is increasingly successful in developing world-class products and services and is ready to penetrate the global market. Furthermore, the hosting of the World Congress on Information Technology in May 2008 at Kuala Lumpur provided a platform for more international ICT companies to invest and collaborate with local companies.

To further develop MSC Malaysia, the International Panel of Advisors continue to advice the Government on strategic policies to advance Malaysia's position in a rapidly developing ICT environment and applications. Suggestions at the 11th Meeting in May 2008, include inculcating innovation at all levels to enhance wealth creation, expanding flagship applications to include agriculture as well as managing energy resources. In addition, it was also suggested that the nation leverages on its multicultural diversity and position Malaysia as the preferred hub for creative multimedia content development.

Developing Islamic Finance

Guided by a clear long-term vision to become a competitive Islamic financial hub, Malaysia is now at the forefront of Islamic finance development. In the Islamic bond *(sukuk)* market, more than 60% of the world's outstanding *sukuk* issues originated in Malaysia. In terms of product development, the world's first Islamic Real Estate Investment Trust (REIT) and Asia's first Islamic Exchange Traded Fund were listed in Malaysia. In addition, 86.0% of the listed counters on Bursa Malaysia are *Syariah* compliant, thus contributing to a vibrant Islamic asset management industry. The establishment of the International Centre for Education in Islamic Finance continues to bridge the global demand for and supply of Islamic finance experts. In 2008, to further strengthen the Islamic capital market, the Government introduced guidelines and best practices for the development of the Islamic venture capital industry. In addition, three leading financial institutions were granted approval to establish Islamic fund management companies in Malaysia. The Government will continue to support the development of Islamic finance by facilitating growth and enhancing linkages with other Islamic financial centres. The Government will also continue to promote Malaysia as a global centre for Islamic financial product development.

Refocusing the Agriculture Sector

The main thrust of agriculture sector development is to enable the sector to become one of the major sources of economic growth. Currently, growth in this sector is contributed mainly by agricultural industrial commodities, particularly palm oil, rubber and saw logs as well as strong growth in the fisheries and livestock subsectors. To further boost the agriculture sector, the Malaysian Agrifood Corporation Berhad (MAFC), a wholly-owned subsidiary of *Khazanah Nasional Berhad*, was incorporated in 2006. The MAFC acts as a catalyst in modernising the nation's agro-food supply chain and distribution system to bring it towards global standards in safety and quality. With an initial approved investment of RM252 million, MAFC has undertaken several initiatives in line with these objectives. These include, initiatives to boost agriculture production under controlled environment, corporate contract farming, high land crop research and development collaboration and seed farms. Supply chain initiatives include, setting up two sourcing centres, two consolidated packaging and processing centres, one distribution centre as well as the operation of 55 cold trucks. MAFC also made inroads in developing local marketing channels largely in the hypermarket and food sector while international efforts have led to new markets in Singapore and the United Kingdom (UK). In addition, MAFC also provides support services to ensure that the quality and safety of farm produce meet global standards. In this regard, certifications such as *Skim Amalan Ladang Malaysia* (SALM), ISO 9001 and Hazard Analysis and Critical Control Point (HACCP) systems for farms and supply chain were introduced.

Other initiatives in 2008, include increasing padi production and fish landings as well as encouraging cultivation of flowers, fruits and vegetables. To increase padi production, the Government provided several incentives, which include increasing the guaranteed minimum price of padi to RM750 per tonne, as well as incentives for planting, fertilisers and productivity improvements. With regard to the fishing industry, several projects were implemented, including fresh water fish breeding in Sungai Como, Terengganu and Tasek Temenggor, Perak, tiger prawn breeding in Sungai Nipah, Selangor as well as ornamental fish breeding in Bendang Man and Sungai Tengas, Kedah.

Efforts were also taken to diversify the export base of the floriculture industry. New markets include New Zealand, United Arab Emirates, European Union (EU) and China. With regard to fruits and vegetables, the implementation of several Integrated Farming and Permanent Food Production Parks raised the value added in the subsector. In addition, efforts were also taken to promote new sources of growth, particularly kenaf cultivation, deep-sea fishing and seaweed production.

As a longer-term strategic response, the National Food Security Policy addresses the issue of consistent and sufficient food supply as well as access to food. Strategic food items covered in the food security policy are rice, fish and aquaculture products, poultry and meat as well as vegetables. The Policy will also address the complex and interrelated issues of production costs, land constraints, aging farming population, availability of quality seeds and breeder animals, agricultural infrastructure as well as research and development (R&D) and innovation. A sum of RM2.5 billion was allocated in 2008 for the initiatives under this Policy.

Financing New Sources of Growth

The development of new sources of growth in high technology and knowledge intensive areas such as biotechnology, new agriculture, ICT and creative multimedia require a financing environment that is innovative and risk taking. In this regard, the Government continues to promote the venture capital (VC) industry, which serves as catalyst to nurture concepts up to commercialisation. To complement private initiatives, the Government established several VC companies, namely, the Cradle Fund (CFSB), Malaysia Venture Capital Management (MAVCAP), Malaysian Technology Development Corporation (MTDC), Malaysian Life Sciences Capital Fund (MLSCF), *Kumpulan Modal Perdana (KMP)* and Malaysia Debt Ventures (MDV). CFSB specialises in pre-seed investments, while MAVCAP focuses on investments in the local ICT sector. MTDC, amongst others, concentrates on funding companies in biotechnology, life sciences and agriculture. The MLSCF which is co-managed by MTDC specialises in investments in agriculture as well as industrial and healthcare technology. Meanwhile, KMP manages VC for technology transfer, while MDV provides financing for high value added ICT, biotechnology and other high growth industries.

CFSB, with a fund size of RM100 million, provides grants to transform technology-related concepts into commercially viable ventures. As of July 2008, 247 concepts were funded of which 52 were successfully commercialised. MAVCAP, with a RM1 billion fund, is the largest ICT VC firm in the country. To date, it has funded 119 entrepreneurs, while six companies were successfully listed in Malaysia, Singapore, the UK and Australia. The MTDC, with a fund of RM1 billion, approved investments amounting to RM448.9 million to 19 non-ICT companies. The MLSCF with funds totalling USD150 million approved investments amounting to USD85 million, while KMP with a fund size of USD50 million invested in 38 companies in the United States (US), China and Malaysia. The MDV with a revolving fund of RM1.6 billion, extended loans amounting RM2.3 billion to 234 companies.

Nurturing Biotechnology

The National Biotechnology Policy was formulated to unlock the rich biodiversity in the country, create a talent pool of scientists, researchers and entrepreneurs, as well as develop products and services to move the economy up the value chain. The Malaysia Biotechnology Corporation (BiotechCorp) was established to spearhead the realisation of the Biotechnology Policy objectives. Since its establishment, the BiotechCorp undertook initiatives to accelerate the building of a network of biotechnology companies under the BioNexus status. Companies with this status are eligible for privileges under the BioNexus Bill of Guarantees, grants and tax incentives.

This model has proven to be successful and continues to attract national and international interests. As at end-June 2008, 71 BioNexus companies were nurtured with a total investment of RM1.3 billion with participation from established biotechnology companies in the US, Taiwan and India. These companies are involved in a significant range of activities across the spectrum of agriculture, healthcare, industrial biotechnology and bioinformatics while creating new employment for over 1,000 knowledge workers. BioNexus companies are also eligible for seed funding, R&D matching and International Business Development grants. As at end-June 2008, grants amounting to RM39.7 million were approved to 18 companies.

In commercialising R&D, the BioNexus Partner Programme leverages on the capabilities and infrastructure of existing public institutions. To date, eight universities and two research institutes are involved in the programme to promote greater collaboration and access to technology infrastructure and facilities. BiotechCorp also completed a significant technology acquisition as a strategy to hasten commercialisation. Prospects for further development of the biotechnology industry are bright following the completion of six international collaborations at the Bio San Diego in July 2008 with companies from the US, France, Italy, Korea and India. These collaborations are expected to bring in investments totalling RM1 billion by 2011.

Intensifying Renewable Energy Initiatives

Promotion of renewable energy (RE) is one of the strategies to reduce emission levels and dependence on fossil fuels. In tandem with this objective, the Malaysia Building Integrated Photovoltaic (MBIPV) project was initiated by the Government in July 2005. This project will serve as a test bed to encourage wider acceptance among the public and accelerate the development of a sustainable local market, thereby reducing the long-term costs of solar photovoltaic technology. By 2010, the MBIPV project is expected to increase installed solar BIPV capacity by 330% and reduce unit cost by 20%. As of June 2008, about 100 homes and buildings were equipped with solar BIPV systems, under the SURIA 1000 programme. Under this programme, residential and commercial property owners are able to obtain a rebate of between 40%–75% on the BIPV equipment and installation costs. Results from the SURIA 1000 programme indicate that consumers are willing to pay up to 50% of the total investment for a BIPV system. With these developments, the BIPV unit costs was reduced by about 12%. In addition, three international solar companies are expected to invest more than RM12 billion and create about 5,000 new jobs in this high technology industry. Other potential sources of renewable energy include, biomass and biogas. In this regard, two power generation demonstration projects using empty fruit bunches and palm oil effluents as feed stock are under construction in Negeri Sembilan. These projects will help to establish the techno-economic viability, design, development as well as sustainable operations and maintenance of biomass/biogas based power generation as a source of renewable energy.

Developing Small and Medium Enterprises

Small and Medium Enterprises (SMEs), which account for 99% of business enterprises, play a pivotal role in providing employment and generating growth in the economy. Accordingly, in the quest to move the economy up the value chain, it is imperative that the SMEs are able to compete in an increasingly liberalised environment and continue to play an important role in the economy. The Government is committed towards the development of a robust and competitive SME sector. Towards this, the Government established the SME Bank to nurture and meet the unique needs of the SMEs. In addition, there are currently 31 different funds available at several

Government agencies and departments to assist these enterprises. In 2008, the Government announced two new facilities totalling RM1.2 billion to assist the SMEs modernise and sustain their operations in an environment of rising business costs. Other services provided include advisory services in the area of business, financial management and technology.

Strengthening Human Capital Development

The Mid-Term Review of the 9MP focuses on five main strategic thrusts to develop human capital, namely, improving education quality and accessibility; making national schools the choice of Malaysians; creating tertiary education institutions of international standing; nurturing quality R&D and enhancing scientific and innovative capabilities; and fostering a tolerant society with a sense of belonging and patriotism. Towards this, the 2008 Budget introduced several measures including enhancing R&D and commercialisation activities in four research universities, upgrading and expanding *Universiti Malaysia Kelantan, Universiti Darul Iman Malaysia* and *Universiti Pertahanan Nasional Malaysia* as well as polytechnics and community colleges.

Enhancing Human Resource Development

In order to improve the employability of local graduates, all 20 public universities revised their curricula to include exposure to human, entrepreneurship and English language skills. Such exposure provides them with the confidence and ability to adapt in a competitive working environment. In addition, the ongoing academic training schemes in public universities led to an increase in PhD-qualified lecturers. With the number of PhD holders in public universities increasing by 18.0% to 6,109 in 2007, the quality of teaching and research in these institutions are expected to improve further.

To meet the needs of the industry for skilled workers, the Government continues to promote vocational and technical programmes at various levels. For those who are not academically inclined, *GIATMARA* offers skills-based training in several vocations including carpentry, plumbing, wiring, welding and printing. These courses not only meet the industry needs but also prepare the trainees to be self-employed. In the first quarter of 2008, about 10,000 trainees enrolled for various courses in 183 *GIATMARA* centres. In addition, the National Dual Training System was introduced to produce skilled workers to meet present and future industrial needs. Under this system, 70%–80% of the training is carried out at the industry level while the balance is carried out at the institutes focusing on basic and theoretical aspects. In this regard, as at July 2008, a total of 612 companies provided training to 3,558 apprentices.

Programmes under the Ministry of Youth and Sports include *Program Latihan Belia Niaga* and *Program Latihan Belia Tani*. Under these two programmes, a total of 102 courses involving 7,000 participants have been planned, of which 2,049 participants have undergone the training as at 10 June 2008. Programmes under the Ministry of Entrepreneur and Co-operative Development are geared towards nurturing entrepreneurship and promoting business skills. The courses are designed to assist new start-ups as well as strengthen and enhance the capabilities of existing entrepreneurs. As at end-March 2008, a total 4,725 participants were provided with exposure and training on entrepreneurial networking.

To meet the demand for knowledge workers, MSC Malaysia established the Industry-Academia Collaborations (IAC). This initiative, among others, is designed to enhance lecturers' knowledge and skills through the Train-the-Trainer programme as well as provide industry-specific apprenticeship and hands-on experience to students. In 2007, with the collaboration of world-renowned ICT companies, 225 students and lecturers underwent industry relevant training in India. In 2008, about 100 companies are expected to provide training opportunities to 3,000 knowledge workers and 100 lecturers. In addition, the curricula of institutes of higher learning will continue to be aligned with industry-relevant modules. The IAC collaborative efforts to train lecturers in Contact Centre industry skills will also help to produce about 1,000 Contact Centre professionals annually. At the same time, efforts are underway to produce 1,500 Very Large Scale Integration (VLSI) engineers by the year 2009.

To upgrade the knowledge and skill level of the work force and enhance the competitiveness of the economy, the industry-funded Human Resource Development Fund (HRDF) was established in 1993. This provided greater flexibility for employers to choose training and advanced educational programmes for their staff. In the first half of 2008, RM186 million was approved under the Fund to train 379,326 employees. In addition, 18,669 trainees enrolled in various skills training centers of the Ministry of Human Resources. To enhance the knowledge base of the work force, especially in new and high technology areas, the Human Resource Development Berhad Act, 2001 was amended to enable employees to utilise the HRDF to pursue Masters or Doctoral Degrees. Currently, 14 employees are pursuing their postgraduate studies under this programme.

Promoting Research, Development and Commercialisation

The Government continues to support research, development and commercialisation (R&D&C) activities. In this respect, several funds were established to create a vibrant R&D&C culture and develop human capital in science and technology. Priority is given to research in renewable energy and agro-biotechnology. Of the total R&D&C allocation administered by the Ministry of Science, Technology and Innovation, 36.0% was allocated for the Science Fund, 58.0% for the Techno Fund and the balance for the Inno Fund. The Science Fund concentrates on basic and applied sciences, while the Techno Fund is available for the development of cutting edge technologies in six technology clusters, namely, agriculture, biotechnology, ICT, industry, sea to space as well as science and technology services. The Inno Fund, on the other hand, enables the development of new or improved products, processes or services with elements of innovation for commercialisation. Under the Science Fund and Techno Fund, 136 projects with commercialisation potential were identified and out of these, 53 projects were successfully commercialised.

In addition, a RM194 million fund was established at the Ministry of Agriculture and Agro-Industries. This fund focuses on agro-food R&D activities, particularly in critical research, frontier science, technology gaps and top-down research. These activities are expected to enhance the nation's food production, accelerate transfer and commercialisation of technology as well as increase the export of high value added agriculture products.

Ensuring the Well-Being of All Malaysians

The Government remains committed to the development thrust of growth with equity. For this, various strategies were introduced to ensure better accessibility to utilities, housing and healthcare; extend roads to rural areas; and improve public transportation and road safety. Measures were taken to provide a safe and secure environment for the people as well as empower women, protect children and enhance the role of youth in society. The sound economic growth in 2007 facilitated greater distribution of income and opportunities for all Malaysians. There was an improvement in employment pattern, corporate equity ownership and incidence of poverty. At the same time, greater participation of *Bumiputera* entrepreneurs and enterprises in various economic activities were evident. The 2008 Budget initiatives and the implementation of projects in the growth corridors are expected to bring about balanced development across the country.

Commitment to Poverty Eradication

The Government remains committed to poverty eradication in its development strategy. Programmes to eradicate poverty are spread across several ministries and agencies and coordinated by the Implementation and Coordination Unit of the Prime Minister's Department. As part of the mandate to ensure that targets for poverty eradication are met, efforts have been redoubled at all levels to strengthen the poverty eradication mechanism.

Realising that the effectiveness of programmes and projects is very much dependent on a comprehensive database on the poor, the Government initiated the *e-kasih* Project, a centralised integrated databank on the poor. The *e-kasih* databank is an important tool for strategic planning, implementation and monitoring of programmes to eradicate poverty, particularly hardcore poverty. It also serves as a reference for all government agencies that are involved in assisting the poor. With an updated database, the Government will be in a better position to channel assistance, avoid duplication and help the poor move out of poverty.

In addition, to ensure that policy intentions and approaches are well understood at all levels, a Poverty Outreach Kit has been produced and distributed to all government agencies. The Government also embarked on a Poverty Mapping Programme which, when fully developed, will integrate with the *e-kasih* System. The Poverty Mapping programme will enable the Government to identify marginalised areas and redirect infrastructure and services to help improve the quality of life and generate economic opportunities. These initiatives are expected to contribute significantly to the eradication of hardcore poverty by the end of 2010.

For the urban poor, the Government undertook several programmes, including Rental Assistance and Family Financial Relief Plan. Under these programmes, families were provided with financial aid to help with rental, education, childcare and dialysis treatment. In 2007, a total of 21,144 families and individuals benefited from these programmes. During the first five months of 2008, a total of 5,222 families and individuals received similar assistance.

The *Amanah Ikhtiar Malaysia* (AIM) microcredit programme has proven to be a successful model. As at June 2008, it extended microcredit to over 190,900 recipients helping the poor and low-income group to improve their socio-economic circumstances. The urban microcredit scheme, launched in June 2008 with a RM100 million allocation, targets the poor and low-income group in urban areas. The programme will be implemented initially in Kuala Lumpur and the Klang Valley.

Extending the Social Assistance Programme

With the objective of creating a caring society, the Government's social assistance programme provides assistance to children, single mothers, senior citizens, the disabled as well as the poor to enable them secure a decent quality of life (refer feature article, *The Social Assistance Programme*). In recognition of the importance of the family unit in providing care and support to critically ill family members, financial assistance is also made available to them. In addition, victims of natural disasters and emergencies, such as flood and fire are also provided assistance to overcome temporary setbacks. A total of 28,011 children, 28,020 senior citizens and 16,542 disabled received assistance in 2007. Prosthetic aid was distributed to 1,166 individuals while 44,235 victims of natural disasters were provided emergency assistance. Going forward, the Government will ensure that the social assistance programme will be extended and benefit all eligible citizens. Towards this end, under the '*Program Cari'* the Government will act proactively to identify individuals who are eligible for assistance under the programme.

Bridging Socio-Economic Disparities

Persistent inequalities in income, employment and ownership will negatively affect growth, national unity and social stability. In the light of this, the Government continues to emphasise the necessity of balancing growth with equity. In this respect, the Government allocated a total of RM533 million for projects to improve basic

The Social Assistance Programme

Introduction

Social assistance programmes are aimed at mitigating the adverse effects of poverty and sudden increase in prices of necessities on the poor and vulnerable groups. These programmes include temporary arrangements, along with existing social protection measures such as food subsidies as well as assistance for the aged, disabled, chronically ill, and victims of natural disasters and emergencies. In addition, such programmes help redistribute income and resources and enable the needy adjust to structural reforms in the economy. The Malaysian social assistance programme, among others, help reduce transitory poverty, prevent poor people from falling into deeper poverty and provide a foundation for them to move out of poverty. This programme evolved over time and is currently provided in the form of assistance, subsidies and incentives.

Approaches to the Social Assistance Programme

Assistance

Various agencies and ministries administer and provide assistance in the form of cash transfers, transfers in-kind and fee waivers. In the education sector, access to free education is available to students at primary and secondary levels, while tertiary education is highly subsidised. School children from poor households benefit from free meals, uniforms and modest stipends. At the same time, the Government implemented many schemes to help the poor and needy, including senior citizens and the disabled (OKUs). Assistance is also available to victims of natural disasters, such as floods and fires.

The Government continues to provide scholarships for students at both domestic and foreign universities and colleges. The amount of scholarships has increased over the years benefiting thousands of students each year. In this respect, students from rural and poor families are accorded special consideration. This helps ease the financial burden of households, particularly the poor and vulnerable groups.

In recognition of the importance of the family unit in providing a supportive environment, financial assistance is provided to assist poor and needy children remain under the continuous guardianship and care of family members. Financial assistance is also targeted at encouraging families to foster children and enable them to grow up in a family environment. To ensure early intervention as well as treatment and rehabilitation of children with disabilities, the provision of allowances enable them to attend community-based rehabilitation centres. In tandem with the Government’s objective to provide education for all, financial assistance is extended to children from low-income families to attend school. Citizens aged 60 and above, as well as poor and without family support, receive welfare assistance enabling them to enjoy a better quality of life within their own communities.

Three schemes are available for OKUs and care providers. To encourage OKUs to work, a regular monthly allowance is made available. Financial assistance is also extended to care providers of OKUs and the chronically ill. In addition, recognising that OKUs may need financial assistance to purchase artificial limbs and improve their mobility, self-esteem and quality of life, aid is provided to cover the full costs of the prosthetics.

Victims and families of natural disasters and emergencies are provided assistance at relief and evacuation centres to overcome temporary setbacks. For those in need of immediate financial assistance following an emergency, a one-off payment is also made available. In addition, longer-term assistance enables victims rebuild their lives.

Apart from direct assistance, there are programmes targeted at creating income-generating opportunities. For recipients who are able and capable, a launching grant is made available for them to embark on small businesses and become self-reliant. Children of welfare recipients, school dropouts and the unemployed are given an apprenticeship allowance to enable them to participate in vocational or on-the-job training. *Table 1* provides a selection of social assistance schemes under the Department of Social Welfare (DSW).

TABLE 1:
Selected Federal Financial Assistance Schemes Under the Department of Social Welfare

No.	Scheme	Objective	Rate
1	Financial Assistance for Children	Assist poor and needy children to remain under the continuous guardianship and care of family members	RM100 per child per month; Maximum of RM450 per family per month
2	Financial Assistance for Senior Citizens	Assist poor senior citizens without family support to enjoy a better quality of life in their own communities	RM300 per person per month
3	Incentive Allowance for Disabled Workers	Encourage OKUs to work	RM300 per person per month
4	Financial Assistance for the Care Providers of Bedridden, Disabled and Chronically ill	Ease the financial burden of care providers of OKUs and chronically ill who are bedridden	Limited to RM300 per caregiver per month
5	Financial Assistance for Foster Children	Encourage fostering of children in need of care so that they have a chance to grow up in families as an alternative to admission into children's homes	RM250 per person per month up to a maximum of RM500 per family per month
6	Apprenticeship Allowance	Encourage the children of the clients of DSW, school dropouts and the unemployed to attend vocational or on-the-job training	RM200 per person per month
7	Allowance for Disabled Children Attending the Community-Based Rehabilitation Centres (CBR) of DSW	Encourage parents to send their disabled children to CBR centres so that they will have early intervention, treatment and rehabilitation	RM150 per person per month
8	Launching Grants	Encourage clients of DSW to start small businesses and enable them to be productive and independent	Up to maximum of RM2,700 per person (one-off)

No.	Scheme	Objective	Rate
9	Financial Assistance for the Purchase of Artificial Limbs and Orthopaedic Aids	Assist poor OKUs to purchase devices such as artificial limbs and orthopaedic aids as recommended by doctors and medical specialists to enhance their mobility and quality of life	Actual cost
10	Assistance for School-going Children	Assist the children of low-income parents or guardians with many dependants	- Transport fees - Bicycles - School Uniform RM180 – RM220 per family
11	Emergency Assistance	To assist those in need of immediate financial assistance	Up to maximum of RM300 per person/family (one-off)

Source: Department of Social Welfare, Malaysia.

Subsidies

Subsidies reduce the cost/price of an activity/product compared with market prices. On the one hand, it enables consumers to benefit from low prices of necessities, while on the other, it enables producers to supply essential goods and services with fair returns. Subsidies also help to stabilise prices and contain inflationary pressures. In this context, subsidies are provided for diesel and petrol to maintain the pump prices for transport and taxi operators, fishermen and vessel owners. Similary, prices of natural gas for vehicles and industries are also subsidised. These, in turn, facilitate economic expansion in an environment of stable prices.

To mitigate the impact of high pump prices of petrol and diesel, cash rebates to eligible vehicle owners are provided for a one-year period commencing 1 April 2008. Price subsidies for padi, fertilisers and seeds were extended to assist farmers. Subsidies are also provided to stabilise cooking oil prices, interest rate for loans in promoted sectors, tolls, East-coast rail transport and rural air services in Sabah and Sarawak.

Incentives

Incentives are aimed at encouraging farmers to increase their output and income. In this respect, to mitigate the impact of rising costs, several incentives are currently available. These include incentives to increase padi production, incentives for other food crops as well as for marketing and distribution of farm products. In addition, incentives are also made available to convert idle land for food cultivation. For households, under the *Kempen Bumi Hijau*, incentives are provided to encourage them to grow vegetables and rear livestock for their own consumption.

Conclusion

The existing social assistance programme covers a wide spectrum of society with special emphasis on the poor, OKUs and other vulnerable groups. With the increase in the cost of living, the Government reviewed the programme. Following this review, the 2009 Budget will introduce new measures to enhance the social assistance programme and strengthen its delivery mechanism with the ultimate objective of ensuring all eligible Malaysians benefit from the programme.

infrastructure, utilities and social amenities among the less developed states. About 3,475 projects in rural areas are scheduled to be completed in 2008, which would provide better amenities to the people in rural areas.

To address the difficulties faced by those without fixed income to own houses, such as petty traders, farmers and fishermen, the Government introduced the Housing Loan Guarantee Scheme. Under this Scheme, they will be able to buy low- and medium-cost houses with the loan guaranteed by *Syarikat Jaminan Kredit Perumahan Berhad*, a wholly-owned Government company. Currently, this scheme is available through *Bank Simpanan Nasional* and *Bank Islam* and 581 applications involving a loan amount of RM25.5 million were approved as at 15 August 2008.

Although microenterprises comprise about 80% of all SMEs, the financial institutions contribute only 13% of financing to these enterprises. To address the need for adequate and continuous access to financing, the Government approved a comprehensive microfinance institutional framework to promote the development of a sustainable microfinance industry. Under this framework, development financial institutions and credit cooperatives will complement the efforts of existing microfinance programmes, such as AIM and *Yayasan TEKUN Nasional.* Under the framework, access to finance is made simple with minimal documentation.

In the context of regional balance, the five growth corridors, namely, Iskandar Malaysia, Northern Corridor Economic Region (NCER), East Coast Economic Region (ECER), Sabah Development Corridor (SDC) and Sarawak Corridor of Renewable Energy (SCORE) will be developed based on their natural resource endowments and economic potentials. The generation of employment and additional income in these corridors will further accelerate poverty eradication, restructuring of society and overall wealth creation. As at July 2008, a total of RM36.6 billion or 78% of targeted investments for Iskandar Malaysia were committed. The investments were mainly in manufacturing, property development and infrastructure.

Efficient Public Transport System

An efficient public transport system contributes to productivity improvements. Accordingly, several measures are in place to make public transportation the preferred mode of travel. Several projects are underway, especially in the Klang Valley and Penang. These include the extension of the Kelana Jaya Line and the Ampang Line. Additional trains will also be placed in service by the third quarter of 2009. These developments will result in a two-fold increase in capacity. The acquisition of the KL Monorail system completed at end-2007 brought all major urban rail systems under the aegis of *Syarikat Prasarana Negara Berhad*. It is now in a better position to integrate all three urban rail services in the city and provide mass urban public transport in the Klang Valley. To meet growing demand, the capacity and service networks of RapidKL and RapidPenang were expanded.

The construction of the RM570 million Integrated Transport Terminal at Bandar Tasik Selatan, which commenced in November 2007, is expected to be completed by end-2010 and accommodate up to 200,000 pasengers a day. This strategically located disabled-friendly terminal will cater for bus and taxi services between the city and the southern region. This terminal will integrate the services between the Light Rail Transit (LRT), *KTM Komuter* and Express Rail Link with ample facilities for parking, commercial activities, bus and taxi stops.

Keretapi Tanah Melayu Berhad (KTMB) service capacity will also be expanded with the completion of three projects, namely, the Electrified Double Tracking Projects between Sentul and Batu Caves (completion 2009), Seremban-Gemas (completion 2012) and the Ipoh-Padang Besar (completion 2013). In addition, due to the growing demand for commuter services in the Klang Valley, the Government also approved the procurement of 10 electric multiple units. This is expected to further enhance *KTM Komuter* services in the Klang Valley.

Improving Public Facilities and Amenities

In 2007, the Government introduced the Public Sector Infrastructure Maintenance and Public Sector Basic Infrastructure Programmes. These programmes were introduced to ensure that existing public facilities are well maintained and kept in good condition at all times, while new facilities continue to be built. These two programmes focus on small public infrastructure projects like the building and upgrading of village roads, drainage, bridges, jetties, public halls, sports and religious facilities. These projects, though generally small, have a significant impact in improving the quality of life of the people, especially those living in the rural and at the fringes of urban areas. As at June 2008, under the Public Sector Infrastructure Maintenance Programme, 2,952 projects were approved involving an allocation of RM160.3 million, of which 1,332 projects were completed while 1,517 are being implemented. Meanwhile, under the Public Sector Basic Infrastructure Programme, a total of 5,987 projects were approved involving an allocation of RM353.3 million, of which 3,783 projects were completed, while 1,958 projects are being implemented throughout the country.

Inculcating Corporate Social Responsibility

The Government announced several measures to encourage public listed companies (PLCs) to initiate corporate social responsibility (CSR) programmes and the call received encouraging response. *Bursa Malaysia* issued a CSR Framework in September 2006 to guide PLCs in their CSR best practices. The Framework focuses on four main areas, namely, environment, workplace, community and the marketplace. As a follow-through, the 2008 Budget requires all PLCs to disclose their CSR activities in their annual reports, beginning 2008.

Based on the 2007 CSR Status Report, PLCs made a good start in emulating international best practices though there remain areas for improvement. The Report revealed that environment and diversity are two key areas where CSR activities can be further improved. Towards this end, organisations such as the Securities Commission, *Bursa Malaysia*, and non-governmental organisations (NGOs) are expected to play a greater role and further enhance CSR practices in the country.

Economic Performance

The strong economic performance in the first half of 2008 was supported by robust domestic economic activities augmented by the favourable external sector. Consumption in the first half was mainly driven by firm commodity prices and the continuing effect of the civil servants' salary adjustment. In addition, investment including imports of capital and intermediate goods, recorded strong growth during the period. At the same time, exports of goods and non-factor services registered high growth rates.

Going forward, growth in the second half is expected to moderate following the slower external sector as well as the pass-through effects of the higher pump prices of petrol and diesel in the country. The Government restructured the fuel subsidy system with effect from 5 June 2008 to encourage efficiency and curb leakages in the distribution of subsidies. As fuel and food are core elements in the average household budget, higher fuel prices along with other price increases will reduce net disposable income and affect consumption. To mitigate this adverse impact, the Government announced a RM5 billion cash rebate programme for eligible motorcycle and motorcar owners. As of 21 August 2008, a total of RM1.6 billion was disbursed to 3.7 million vehicle owners.

In the business sector, rising intermediate input costs and higher inflationary expectations might dampen investment activities. Increasing costs of doing business and margin compression could erode corporate profits and cause a cut back in output, thereby reducing investment spending further. In addition, there are concerns about slower expansion in the external sector brought about by the slower growth among Malaysia's trading partners. Given this scenario, the Malaysian economy is expected to grow moderately in the second half of 2008.

For the year as a whole, the Malaysian economy is expected to expand by 5.7%. The services sector, with an anticipated growth of 7.1%, will continue to be the major contributor to real GDP growth supported by intermediate services comprising finance and insurance, real estate and business services, transport and storage as well as the communication industry. On the demand side, growth will be driven by private consumption expenditure and contribute 3.4 percentage points to GDP growth. Nominal Gross National Product (GNP) is estimated to increase 11.6% to RM700,832 million, with per capita income increasing 9.3% to RM25,274 (2007: 10.7%; RM23,114). In terms of purchasing power parity (PPP), per capita income is expected to increase 14.7% to USD16,617 in 2008 (2007: 19.1%; USD14,483).

Moving Forward into 2009

Issues and Opportunities

Global fuel, food and financial market turmoil continue to be the main issues for economic management in 2009. The price of crude oil began to rise in the second half of 2007 with West Texas Intermediate hitting a high of USD145.3 on 3 July 2008. At about the same time, the sub-prime crisis with its roots in falling US housing prices led to high default rates. The ensuing credit crunch further exacerbated the crisis. Food prices also started to rise on the back of higher demand and supply constraints stemming from natural disasters such as floods and draughts. In addition, supply was also constrained by the conversion of agricultural land for industries and housing and competition of food crops for biofuels. The convergence of these events led to increased inflationary pressures and dampened the 2008 global growth outlook. While these issues are expected to ease in the second half of 2009, they may still pose significant challenges to the domestic economy and thus require a proactive stance by the Government to mitigate their adverse impact.

Hike in Fuel Prices

The significant and persistent rise in crude oil prices was attributed to several mutually reinforcing factors. These include increased demand, constrained supply and geopolitical tensions in some oil producing countries. Speculative activities and the continued decline in the value of the US dollar are often cited as additional contributory factors. Though there is hardly a consensus on the reasons for the increasing crude oil prices, there is much more congruence on the impact of high oil prices on the world economy. In the immediate term, high oil prices may dampen growth, while in the longer term, structural adjustments might be necessary to enable economies to return to their potential growth paths.

The domestic economy is not insulated from high crude oil prices, which poses a strain on government finance. The persistent increase in global prices of crude oil led to an untenable increase in fuel subsidy, compelling the Government to review the fuel subsidy programme. Despite this review, high crude oil prices continue to challenge fiscal management.

Higher Food Prices

Food prices started to rise significantly since the beginning of 2007, largely due to higher demand as well as higher oil prices which led to cost increases in fuel, fertilisers and pesticides. In addition, supply was affected by adverse weather and diversion of food crops for biofuel production. Export curbs by some food producing countries to ensure domestic food security further exacerbated price pressures. The prices of some food commodities like rice eased as export curbs were lifted on better-than-expected harvests. However, prices are expected to remain elevated as farm input costs and demand remains high.

The impact of high global food prices transmitted into the domestic economy as importers passed on the increase to consumers and producers. To cushion the impact of high food prices on the average family, the Government provided subsidies for basic food items such as, cooking oil, wheat flour, rice and bread. In addition, these items continued to be under price control together with sugar and condensed milk. Although the rise in food price is a global phenomenon, a long-term national strategy focusing on productivity and supply is necessary to ensure that domestic food prices are kept stable.

Greater Financial Volatility

Following the sub-prime crisis, credit conditions remain tight in the US and the EU, while consumer sentiments continue to weaken. Tighter credit conditions as well as concerns on mortgage debt and the health of financial institutions, coupled with the slump in the US housing sector, further dampened financial market sentiments. These concerns spread throughout the global financial markets as investors reacted to the fallout from the credit crunch causing further financial turmoil.

The Malaysian banking and financial sector did not have direct exposure to the various instruments related to sub-prime mortgages in the US. The banking sector remains robust with all key indicators remaining strong. However, a more globally integrated economy implies that the local market performance will continue to be affected by global developments through the trade and investment channels.

Challenges to Fiscal Management

The combined impact of higher prices of crude oil and food places pressure on fiscal management. Even with the increase in pump price, the fuel subsidy remains high. Additional funds are also committed to address national food security concerns as well as cater for additional subsidies on bread and flour. Furthermore, Government projects were not spared from the effects of rising world prices that fed into construction costs.

The increase in prices places additional pressure on the well-being of all Malaysians, particularly the poor, low- and middle-income groups. To mitigate the price impact and sustain the well-being of this vulnerable group, the Government needs to channel additional resources for its social assistance programme. This, in turn, imposes additional pressure on fiscal management.

These challenges provide significant opportunities for the Government to assess the adequacy of existing policies and programmes and formulate strategic policy responses. A positive outcome from the global food price increase is the emphasis on the agriculture sector to boost food production. Additional resources are being allocated to increase food crop acreage and agriculture productivity. Another positive outcome from the hike in global crude oil prices is the review on fuel subsidy, the first step in formulating a long-term policy on fuel subsidy and tariff structure that is more responsive to fluctuations in world oil prices.

Recognising the need for a holistic response to these challenges, the Government established the Economic Council to provide advice on strategic policy responses as well as propose specific measures to help mitigate the impact of global events on the domestic economy. The Council, chaired by the Honourable Prime Minister, with representatives from the Government, private sector, academicians, unions and NGOs will take a macro view of the issues confronting the nation. The Council will closely monitor trends and developments in the global and domestic economies and propose strategies to sustain economic growth by promoting domestic and foreign investment. It will identify approaches to contain inflationary pressures, ease supply constraints as well as review the subsidy and price control systems to ensure that distortions in the domestic economy are minimised. In addition, it will also propose a comprehensive social assistance programme to mitigate the impact of high prices on the poor, low- and medium-income group.

Strategic Response in 2009

The current economic issues will persist beyond 2008 and continue to affect global economic performance in 2009. This calls for the pragmatic management of the domestic economy. While ensuring a conducive environment for continued growth and macroeconomic stability, the

Government will continue to be caring, responsible and responsive to the needs of all Malaysians. Therefore, the 2009 Budget is essentially people centered and guided by the five thrusts of the National Mission, namely, moving the economy up the value chain; raising the capacity for knowledge and innovation and nurturing 'first class mentality'; addressing persistent socio-economic inequalities, constructively and productively; improving the standard and sustainability of the quality of life; and strengthening institutional and implementation capacity.

Improving the Well-Being of Society

To improve the living standards, the Mid-Term Review of the 9MP reiterates the Government's commitment to improve accessibility to quality education and health care, enhance the provision of affordable and quality housing as well as increase the coverage of water and electricity supply to the poor. In addition, the network of transport facilities will be extended, public safety enhanced and the environment protected. Given the challenges of rapid socio-economic development and its impact on the family, policy initiatives will be taken to promote a more caring society.

In keeping with these policy objectives and to mitigate the impact of higher prices, especially among the vulnerable group, the 2009 Budget will expand and enhance the social assistance programme. Towards this end, the eligibility criteria for welfare assistance will be reviewed and the aid quantum enhanced. The review will take into account family circumstances, such as household income, number of school-going children and infants in the family. This will ensure better targeting of the social assistance programme and enable all eligible citizens to benefit from this programme. The Government will continue to raise the quality of life of its citizens through the provision of adequate, quality and affordable housing to low- and medium-income earners. The Housing Loan Guarantee Scheme will be expanded to include more banks and enable greater reach to the target group. To improve the coverage of public utilities in rural and remote areas, the Government will commit additional resources for water supply and rural electrification projects, particularly in Sabah and Sarawak.

Although the poverty eradication programmes have shown creditable results, the Government is aware that more needs to be done to cushion the impact of the increasing cost of living. Therefore, the Government will continue to allocate resources for income-generating projects to enable the poor and the vulnerable groups to have opportunities to improve their household income. Programmes that have proven to be effective such as AIM will be extended to urban areas throughout Malaysia. To encourage people to undertake small home-based and petty trading activities, the Government will facilitate the issuance of licences and permits.

Regional development will continue to focus on raising the standard of living as well as addressing socio-economic imbalances across regions and states. In this context, the implementation of growth corridor projects is expected to bring about greater development across states in the country. Sabah and Sarawak with high incidences of both hardcore and overall poverty will benefit from the SDC and SCORE. The Government will fast-track rural infrastructure projects, such as roads, electricity, water supply and drainage, as well as provide incentives to attract investments into these corridors.

To meet the increase in demand for public transportation, the Government will continue to improve the quality and efficiency of the transport industry through fiscal incentives. In addition, significant resources will be allocated to ensure that public transport is further improved in terms of coverage, connectivity and timeliness.

Meanwhile, the proposed Public Land Transport Commission, announced in 2008 and to be operational in the first half of 2009, will ensure that the transport industry has a clear and focused policy guideline and a stable operational environment. This will enable key players to undertake long-term strategic decisions on investments in the transport industry, thereby enabling the public to benefit from an integrated and seamless public transportation system. These initiatives are consistent with the long-term goal of increasing the public transportation usage from the current level of about 20% to 30% as targeted in the 9MP. At the same time, a Transport Master Plan will be developed to provide, *inter alia*, an institutional framework and a comprehensive guide for policy makers and other stakeholders for the long-term development of the sector.

Enhancing National Competitiveness

The Mid-Term Review of the 9MP reemphasises three key strategies to move the economy up the value chain, namely, enhancing productivity and competitiveness, generating new sources of growth and expanding into new markets. These strategies are expected to transform the nation into a high-income economy and enhance the well-being of society. In this regard, the Government will continue to provide a pro-business and investor-friendly environment. Infrastructure investments will act as a catalyst to attract both foreign and domestic investments, particularly in the services sector and knowledge-based industries. To increase the competitiveness of domestic firms, fiscal incentives will focus on encouraging greater capacity building and productivity-enhancing activities. The Government will continue to improve the delivery system through several initiatives as well as enhance transparency and accountability of the public sector.

The Government is committed to increase the opportunity for entrepreneurial activity in the country. The granting of business licenses and permits will be relaxed and access to funding enhanced. Special incentives will be provided to encourage entrepreneurship among unemployed graduates. A vibrant and competitive REITs industry provides investors with opportunities to invest in the real estate sector and enables portfolio diversification. To create a more attractive REITs industry and further boost the property sector, the Government will encourage the unlocking of property values through REITs. Towards this, the Government will provide appropriate incentives to make the REITs industry attractive and regionally competitive.

SMEs continue to be the backbone of the economy. Moving these enterprises up the value chain will enable the economy to generate higher value added activities and at the same time provide greater employment opportunities. Given that SMEs are widely distributed across the country, their expansion will also contribute to balanced growth across the states in the nation. To further strengthen SMEs, the Small and Medium Industry Development Corporation was rebranded as the SME Corporation to coordinate the development of SMEs across all sectors. The Government will continue to encourage SMEs to enhance their operations, marketing skills and productivity through fiscal incentives, while ensuring that the banking system remains friendly to their financial needs.

Building Capacity for the Future

The transformation towards a knowledge-based economy as well as the promotion of new sources of growth and the development of regional growth corridors have increased the demand for skilled and knowledge workers in the country. Accordingly, human capital development that responds to market demand is vital to support the quest to move the economy up the value chain. To facilitate this, the 2009 Budget will allocate 23.2% of the total budget or RM47.8 billion for primary and secondary schools as well as for skills training institutes and institutions of higher learning.

Public institutions of higher education play a key role in supplying the knowledge workers in the economy. Public sector universities will be encouraged to collaborate with industry players to strengthen curricula and design training programmes that expose students to the latest practices and technology of the industry. To encourage the universities to remain at the forefront of research and innovation, academicians will be provided with opportunities to subspecialise and undertake postdoctoral research. To support the demand for middle-level skilled workers, the training capacity and quality of public sector technical and vocational training institutions will be enhanced. This will be implemented through the creative sharing of resources among skills centers and streamlining of training programmes to ensure that they meet industry needs.

Strengthening Economic Resilience

The focus of the 2009 Budget on enhancing competitiveness, improving the quality of life and building capacity for the future are designed in part to strengthen the nation's resilience. Another important aspect to economic resilience is the strength of the Government's financial position. In the wake of elevated fuel and food prices, the Government took proactive steps to sustain economic growth and improve the well-being of citizens. This is expected to widen the Federal Government Budget deficit to 4.8% of GDP in 2008. With the anticipated gradual recovery in the global economy and the implementation of the 2009 Budget strategies, the Government will be back on track towards fiscal consolidation.

To achieve this, fiscal discipline will be the guiding principle for financial management at all levels of the Government. The Government will continue to curtail discretionary and avoidable expenses. Expenditure items will continue to be scrutinised to ensure value for money. The Government will continue to review and streamline programmes undertaken by several agencies and Ministries that have the same target group as beneficiaries to ensure more efficient allocation and utilisation of resources.

Concerted efforts will be taken to improve tax buoyancy by raising the efficiency of revenue-collecting agencies. This will involve enhancing the capabilities of officers as well as providing adequate facilities and systems at all levels of the Government. Recognising the need for a diversified source of revenue, the Government will take measures to widen the tax base as well as ensure adequate returns on investments. In this regard, Government-owned companies will be required to have written dividend policies to ensure greater transparency, improve investor relations and provide a higher benchmark for corporate governance.

The budgeting process will place greater emphasis on the evaluation of Government programmes and projects to ensure that they deliver value-for-money outcomes. A properly designed evaluation methodology and institutionalised implementation will guide policy-making and adjustments of ongoing programmes. This will ensure that programmes and activities continue to be relevant, appropriate and effective in meeting identified objectives and targets. The current budgeting framework incorporates concepts related to budgeting for results and systematic performance measurement. These elements will be reemphasised and evaluation will be institutionalised as a critical component and contributor to effective policy-making at all levels.

Prospects

With resilient domestic demand, supportive fiscal stance and proactive measures proposed in the 2009 Budget, the economy is expected to expand by 5.4% in 2009. This translates to an 8.1% growth rate in nominal per capita income, rising from RM25,274 in 2008 to RM27,334 in 2009 or in PPP terms from USD16,617 to USD17,549. In tandem with the Government's efforts to ensure fiscal sustainability, the fiscal deficit will again begin to consolidate to 3.6% of GDP. Malaysia's balance of payments position is expected to remain strong with the current account recording a surplus for the 12th consecutive year. The current account surplus amounting to 15.9% of GDP will emanate from the goods and travel account.

With the pragmatic policy initiatives and programmes in motion, the delicate balance between ensuring price stability and sustaining economic growth will enable all Malaysians to enhance their well-being in a secure, peaceful and prosperous environment. In addition, the policies are also designed to strengthen the nation's economic resilience. While the Government is focused on these objectives, its realisation is contingent upon all Malaysians remaining steadfast and united.