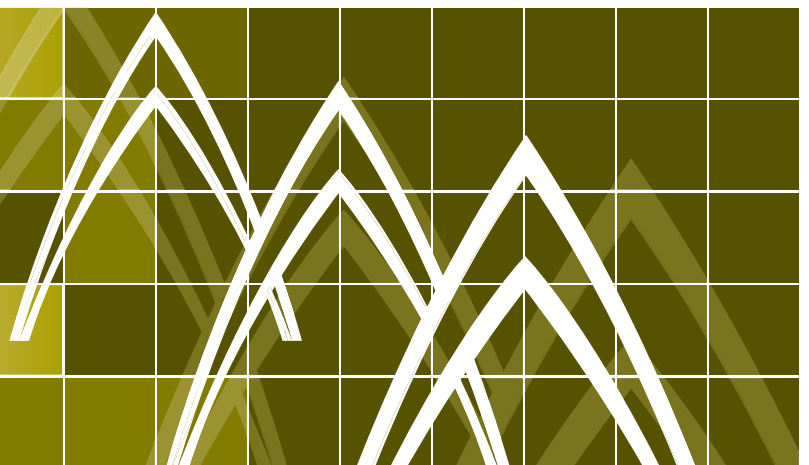


1 **Economic Management and Prospects**





Economic Management and Prospects

Overview

Malaysia's economic fundamentals remain intact despite the challenging external environment. The fallout from the subprime mortgage crisis in the United States (US) led to the collapse of large interconnected financial institutions, which triggered a global recession, the worst since the 1930s. To mitigate the impact on the domestic economy, the Government introduced two stimulus packages as well as pursued an accommodative monetary stance. While strengthening the economic fundamentals, focus is also on building medium to long-term capacity and ensuring the well-being of the *rakyat*. With these measures in place, the economy is expected to contract at a slower pace of 3.0% in 2009 compared with the earlier forecast of between -4.0% and -5.0%.

With signs of global recovery, Malaysia is expected to record modest growth in 2010. Strategies in 2010 Budget will lay the foundation for a high-income economy, generate holistic and sustainable development and focus on ensuring the welfare of the *rakyat*.

Performance Review – 2009

The 2009 Budget was formulated in an environment of global economic uncertainty. With trade almost double of Gross Domestic Product (GDP), Malaysia remains vulnerable to adverse developments in the external sector. Domestically, there were concerns of inflationary pressures and falling global demand on export oriented industries. There were signs that the economy was affected by external developments and the impact became more entrenched soon after the tabling of 2009 Budget. Following this, the Government took fiscal and monetary measures to cushion the impact of the crisis.

Fiscal Operations

Given the sharp decline in external demand and slowdown in private investment, Government intervention was necessary to boost domestic demand. Two economic stimulus packages were implemented. The first package, amounting to RM7 billion, announced on 4 November 2008 was financed through savings from fuel subsidies. Priority was given to programmes and projects with high-multiplier effect and low-import content, which could be implemented expeditiously. A dedicated Technical Committee and a Project Management Unit (PMU) were set up to ensure speedy and effective implementation of the measures by end-2009.

As global economic conditions worsened, a second more comprehensive package of RM60 billion was announced on 10 March 2009. The package involved a direct fiscal injection of RM10 billion in 2009 and RM5 billion in 2010. It focused on easing the burden of the *rakyat*, sustaining credit flows to support private sector activity, job creation and training, as well as building capacity for the future. As at end-September 2009, RM8.2 billion was spent on both packages. With the impact of higher Government spending, GDP contracted at a slower pace of 3.9% in the second quarter. The construction sector benefited the most, registering a rebound in the first quarter and strengthening in the second quarter. Other sectors such as services and agriculture also performed better.

With the additional commitment arising from the stimulus packages, the fiscal deficit in 2009 is expected to widen to 7.4% of GDP (2008: 4.8%). The deficit will be funded entirely from domestic borrowings, given the ample liquidity in the financial system. Despite the higher expenditure in 2009,

the Government will remain prudent in managing its financial resources through measures such as reducing fuel subsidies, curtailing discretionary spending and implementing competitive bidding. Federal Government revenue is expected to increase marginally by 1.4% to RM162.1 billion. The decrease in tax revenue is partly offset by the increase in petroleum-related revenues and non-tax revenue. In 2009, total expenditure is projected to grow 8.9% to RM213.7 billion due to the increase in development and operating expenditure following the implementation of stimulus packages.

Monetary and Financial Developments

Monetary Policy

Monetary policy remains accommodative as reflected in the lower Overnight Policy Rate (OPR) and Statutory Reserve Requirement (SRR). The OPR was reduced 150 basis points between November 2008 and February 2009 to 2.00% and the SRR 300 basis points to 1.00% to reduce the cost of funds and sustain credit flows.

Resilient Financial Sector

The banking sector remains healthy with strong capitalisation and sustained asset quality while the bond and equity markets have developed as important sources of long-term funding. Financing through the banking system and capital market expanded at an average rate of 7.5% during the period 2001 – 2008. In Islamic finance, Malaysia maintained its lead in *sukuk* issuance, accounting for more than 60% of global outstanding *sukuk*.

Initiatives towards strengthening resilience and competitiveness of the financial sector through further liberalisation includes: new licences for conventional and Islamic banks as well as family *takaful*, raising foreign equity limit from 49% to 70% for Islamic and investment banks

as well as insurance companies and *takaful* operators. The deregulation of the Foreign Investment Committee (FIC) guidelines in relation to acquisition of equity stakes, mergers and acquisitions as well as listing of companies, is set to further boost the equity market. The finance and insurance sub-sector grew with its share increasing from 9.2% in 2000 to 11.0% of GDP in 2008.

Strategies Under 2009 Budget

The 2009 Budget with the theme “A Caring Government” was guided by the National Mission. Three strategies were formulated focusing on: ensuring the well-being of *rakyat*, developing quality human capital and strengthening the nation’s resilience.

Ensuring the Well-Being of the Rakyat

The Government continues to allocate resources to ensure inclusive growth, in particular, for the marginalised and vulnerable groups. The Budget among others emphasised: extending microcredit, expanding the social safety net, improving rural infrastructure, encouraging corporate social responsibility, improving public transport, enhancing food security and expanding low-cost and affordable housing programmes.

Extending Microcredit Programmes

Microcredit is offered by *Amanah Ikhtiar Malaysia* (AIM), *Majlis Amanah Rakyat* (MARA) and *Tabung Ekonomi Kumpulan Usahawan Nasional* (TEKUN). In addition, six banking and three development financial institutions (DFIs) provide microfinance. As at end-July 2009, AIM has recruited more than 222,500 members, mostly women with a loan recovery rate of 99%. AIM was expanded to tackle urban poverty through *Program Kewangan Mikro Bandar* (PKMB) in 2008. The programme started with an initial allocation of RM100.0 million, of which RM42.1 million has been disbursed as



at end-August 2009. MARA provides loans of up to RM50,000 with a profit sharing rate of 4.00% per annum. Between 2006 and end-July 2009, about RM689 million was approved to 27,900 entrepreneurs.

TEKUN, since its launch in 1999 to end-July 2009, has provided RM1.4 billion to 186,500 entrepreneurs. Under the second stimulus package an additional RM50.0 million was disbursed to 5,032 participants. Due to strong demand, another RM100.0 million was provided to TEKUN and about 10,000 entrepreneurs are expected to benefit. An additional RM300.0 million was provided to Agrobank to assist farmers and agro-based businesses. As at end-September 2009, a total of 5,430 loans amounting to RM96.0 million were approved. Outstanding micro financing given by nine financial institutions grew 44.8% to RM587.5 million as at end-August 2009.

Expanding the Social Safety Net

Efforts to alleviate poverty were enhanced with the establishment of an integrated poverty information system or *eKasih*. The system facilitates planning, provision and monitoring of social assistance programmes to poor families and the eradication of hardcore poverty by 2010. As at end-September 2009, about 49,500 hardcore poor and 68,000 poor households were on the *eKasih* database. *Projek Cari* launched in July 2008, complements *eKasih* by seeking and identifying isolated and neglected needy cases. As at end-September 2009, about 270,200 cases were reported of which 136,300 qualified for assistance.

Improving Rural Infrastructure

In 2009, RM280.0 million was allocated to implement water supply projects in rural areas. These projects are expected to benefit 47,200 households. As at end-September 2009, RM97.4 million was spent. For rural electrification, RM525.1 million was allocated in 2009 to benefit

about 55,700 households with RM200.0 million spent as at end-September 2009. Under the first stimulus package, RM1.4 billion was earmarked for rural roads and water supply, small business premises and poverty eradication projects. More than 21,000 projects have been identified and a total of RM755.8 million spent as at end-September 2009.

Encouraging Corporate Social Responsibility

The Government introduced several incentives and programmes to encourage corporate social responsibility (CSR) activity. The *Amal Jariah* Programme introduced in 2008 with private sector participation, focuses on repairing dilapidated houses of the hardcore poor. The Government provided RM100.0 million as matching grant in 2009 Budget for this programme to repair 15,000 houses. As at end-September 2009 a total of 8,893 houses have been repaired.

The Promoting Intelligence, Nurturing Talent and Advocating Responsibility (PINTAR) Programme was launched in 2006 as a CSR initiative by government-linked companies (GLCs) to foster academic excellence, particularly among rural school children. PINTAR largely targets under-performing schools in rural areas. To date, 165 schools have been adopted by 22 GLCs and two non-GLCs, benefiting more than 64,000 students. Given its success, the programme will be expanded to cover 480 schools by 2013, with priority given to schools in Sabah and Sarawak. In addition, the first phase of the *Program Sejahtera*, involving 1,000 hardcore poor families was launched in September 2009 with GLCs providing RM40.0 million to eradicate hardcore poverty.

Improving Public Transport

In major cities of developed countries, the ratio of public to private transport usage is high at 40:60 compared with 16:84 in the Klang Valley. To improve and encourage higher usage of

Update on *eKasih* and *Projek Cari*

Introduction

The Government remains committed to eradicate hardcore poverty and reduce overall poverty to 2.8% by end-2010 as targeted under the Ninth Malaysia Plan (9MP) and reiterated under the National Key Result Areas (NKRAs). As part of efforts to reduce poverty, the Government has established social safety net programmes that cut across several ministries and agencies, each maintaining a separate database to cater for their own programmes. For example, the Ministry of Rural and Regional Development (KKLW) maintains a database on rural poor under *Sistem Skim Pembangunan Kesejahteraan Rakyat*. The Ministry of Housing and Local Government (KPKT) collects data on urban poverty for its Urban Poverty Information System. Meanwhile, *eDamak* system is used by the Department of Aboriginal Affairs (JHEOA) to monitor poverty among the *Orang Asli* community. The Social Welfare Department (JKM) maintains *eBantuan*, a database on social welfare aid to needy groups. Therefore, the *eKasih* was initiated to ensure data on poverty programmes are centralised and streamlined.

eKasih

The *eKasih*, an integrated database of poor and vulnerable groups and individuals, was launched in November 2007 and is maintained by the Implementation and Coordination Unit (ICU), Prime Minister's Department (JPM). It serves several objectives as follows:

- i. integrate data on household profile and programmes participants;
- ii. provide data for planning poverty eradication programmes;
- iii. help develop qualifying criteria for assistance and programmes; and
- iv. assist in monitoring and evaluation.

In addition, a mapping system under *eKasih* is currently being constructed to identify poverty clusters and ensure adequate facilities, infrastructure and other forms of assistance are provided to help improve the quality of life. As at end-September 2009, *eKasih* identified and registered a total of 229,723 poor households comprising 49,519 hardcore poor, 68,003 poor and 111,063 vulnerable poor. To ensure that the database captures genuine cases, local leaders as well as government agencies assisted in providing information.

eKasih – Poor Households Position by States As at 30 September 2009

State	Hardcore Poor ¹	Poor ²	Vulnerable Poor ³	Total
Johor	1,502	2,542	5,555	9,599
Kedah	2,228	3,827	6,384	12,712
Kelantan	4,108	7,719	13,718	25,807
Melaka	474	1,157	2,925	4,556
Negeri Sembilan	394	801	3,408	4,618
Pahang	973	1,859	5,766	8,628
Perak	2,099	4,324	7,434	14,107
Perlis	439	1,225	3,290	5,129
Pulau Pinang	645	1,922	8,240	10,817
Sabah	18,295	15,746	13,820	47,862
Sarawak	12,537	14,528	18,740	45,805
Selangor	1,261	2,554	6,210	10,025
Terengganu	4,377	9,322	14,194	28,015
FT. Kuala Lumpur	126	271	860	1,257
FT. Labuan	61	206	514	781
FT. Putrajaya	0	0	5	5
Total	49,519	68,003	111,063	229,723

Poverty Income Line

- ¹ Household with monthly income below RM430 in Peninsular Malaysia and below RM540 in Sabah and Labuan as well as RM520 for Sarawak.
- ² Household with monthly income below RM720 in Peninsular Malaysia and below RM960 in Sabah and Labuan as well as RM830 for Sarawak.
- ³ Household with monthly income above the Poverty Income Line and below RM1,500 in urban areas and RM1,000 in rural areas.

The Poverty Income Line is currently under review.

Source: Implementation and Coordination Unit, Prime Minister's Department Malaysia.



Projek Cari

Projek Cari, an outreach initiative implemented by the JKM was launched on 17 July 2008 to seek and identify isolated as well as neglected needy cases. The Department uses its mobile Caring Services Units, referrals from elected representatives, village heads and non-governmental organisations (NGOs) to help locate needy cases for welfare assistance.

Projek Cari targets:

- i. poor households;
- ii. households with disabled persons and chronically ill members;
- iii. bedridden aged persons or living alone; and
- iv. children not attending school or without identification documents.

With this proactive effort, needy cases who would otherwise be undetected can be provided with appropriate assistance such as cash allowances, prosthetics and better housing for poor households. This enables them to enjoy a decent quality of life. As a result of this initiative, the number of welfare recipients from JKM increased from 159,483 cases in June 2008 to 295,753 cases as at early October 2009. The increase in the number of welfare of recipients during the period was due to 136,270 new approved cases from 270,187 cases detected.

Projek Cari Cases As at 2 October 2009

State	No. Cases Detected	State & Federal Territory	Federal Government Financial Assistance Scheme						Total Cases		
		General Assistance	Children	Aged Person	Disabled Worker Incentive Allowance	BPT ¹	Others ²	Total Cases	Approved Cases	Not Approved	In Process
Perlis	2,596	693	239	154	88	149	254	884	1,577	926	93
Kedah	24,266	1,778	3,234	2,640	572	946	2,446	9,838	11,616	12,194	456
P. Pinang	13,498	1,586	1,357	2,288	705	536	314	5,200	6,786	6,068	644
Perak	24,326	2,510	1,983	2,319	1,644	1,807	378	8,131	10,641	9,107	4,578
Selangor	21,351	456	3,246	4,213	1,588	1,047	814	10,908	11,364	5,471	4,516
FT. K. Lumpur	10,313	2,577	547	763	1,408	271	0	2,989	5,566	1,215	3,532
N. Sembilan	9,901	928	977	1,655	158	209	213	3,212	4,140	2,476	3,285
Melaka	7,726	923	903	1,193	480	169	394	3,139	4,062	2,031	1,633
Johor	18,475	345	2,384	3,988	949	854	564	8,739	9,084	7,214	2,177
Pahang	11,871	1,056	1,167	1,822	568	672	172	4,401	5,457	5,059	1,355
Terengganu	17,108	10,626	1,591	736	796	436	356	3,915	14,541	2,158	409
Kelantan	20,894	2,248	2,908	2,714	865	1,011	999	8,497	10,745	8,890	1,259
Sabah	49,888	1,440	5,758	24,247	26	423	0	30,454	31,894	4,315	13,679
Sarawak	37,499	3,005	1,813	2,589	346	471	372	5,591	8,596	13,697	15,206
FT. Labuan	475	73	75	35	10	7	1	128	201	238	36
Total	270,187	30,244	28,182	51,356	10,203	9,008	7,277	106,026	136,270	81,059	52,858

¹ BPT-Bedridden & chronically ill.

² Others-Unemployed disabled persons, prosthetic aids, emergency relief fund and disaster cases.

Source: Social Welfare Department, Ministry of Women, Family and Community Development, Malaysia.

Conclusion

The implementation of *eKasih* and *Projek Cari* strengthens the delivery of social assistance programmes and ensures that needy groups are not deprived of the necessary assistance and support. These initiatives have contributed significantly in eradicating hardcore poor and help reduce the number of poor households.



public transport, several initiatives are ongoing. The National Land Public Transport Commission (SPAD) will be established to plan, integrate, regulate and improve the overall public transport system. The Integrated Transport Terminal at Bandar Tasik Selatan is expected to be completed by end-2010, while the Light Rail Transit (LRT) extension project is on track with an additional 34.7 km and 26 new stations along the Kelana Jaya and Ampang Lines. Construction will start in early 2010 and is expected to be completed in 2012.

Enhancing Food Security

In early 2008, world prices of food commodities increased due to poor harvests and diversion of food crops for biofuel. This necessitated the introduction of the Food Security Policy, under which several initiatives were implemented. The measures include incentives and additional allocation to increase *padi* output, rice stockpile and production of fruits, vegetables, livestock and fish. Five high-impact projects, including Contract Farming, Permanent Food Production Parks, National Feedlot Centre, Aquaculture Industrial Zones and Agro-Entrepreneur Scheme were given additional allocation to increase food production.

Expanding Low-Cost and Affordable Housing Programmes

Providing adequate, quality and affordable housing, especially for the lower income group remains a priority. In the first stimulus package, *Syarikat Perumahan Negara Berhad* (SPNB) was allocated RM200.0 million to build 2,733 *Rumah Mesra Rakyat*, of which 1,200 units have been completed as at end-September 2009. SPNB is also rehabilitating 4,826 houses in 15 abandoned housing projects. During the Ninth Malaysia Plan (9MP), the Government will build 73,251 units through *Program Perumahan Rakyat*, which will be offered for rental or sale. A total of 11,040 units and 1,914 units will be completed in 2009 and 2010, respectively.

Developing Quality Human Capital

The Government will continue to implement programmes to create a pool of trained and competitive workforce. The shift towards a high-income economy requires expertise in knowledge-intensive and innovation-led sectors. Towards this, measures will be undertaken to attract expertise critical to the nation's development.

Opportunities for Postgraduate Education

Under the second stimulus package, Malaysians are encouraged to pursue postgraduate courses in local universities. A total of RM50.0 million was allocated for the programme to fund the tuition costs. As at mid-September 2009, a total of 7,187 Masters and 452 PhD students benefited from this programme.

Graduate Employability Management Scheme

The large number of unemployed graduates remains a concern. To improve their employability, the Graduate Employability Management Scheme (GEMS) was introduced with the collaboration of GLCs. Under the Scheme, graduates undergo a two and half month soft skills training, followed by six months on-the job training. GEMS is expected to train 12,000 graduates over two years. As at mid-September 2009, RM48.4 million was spent to train 3,367 graduates, of whom 1,119 were placed in 273 companies and agencies.

Nurturing Holistic Development among Children

The Government initiated the Childcare and Early Education Programme (PERMATA) in 2006 with emphasis on holistic development of children as well as participation of parents and the community. This programme, which implements the PERMATA curriculum, was given an allocation RM150.0 million to upgrade the quality of 478 centres covering 18,000 children nationwide, supported by 1,200 teachers. Meanwhile, the *Permata Pintar Negara*



Programme, launched in early 2009 identifies and nurtures gifted children through collaboration between *Universiti Kebangsaan Malaysia* and Johns Hopkins University in the US.

Creating Employment Opportunities

Measures introduced to mitigate difficulties faced by retrenched workers and unemployed graduates include training programmes by Ministry of Human Resource, *Bank Negara Malaysia* (BNM) and Securities Commission (SC). As at end-September 2009, under the train-and-place programmes, about 49,000 participants are expected to be trained and placed in various companies. Currently, 19,380 participants are being trained. The SC and BNM will provide training and on-the-job attachment to 1,000 graduates. As at mid-October 2009, about 233 graduates are being trained under these programmes. Under the second stimulus package, 50,000 vacancies will be filled and 13,000 jobs created on contract basis in the public sector. As at mid-August 2009, over 23,000 vacancies and 10,776 contract jobs have been filled.

Strengthening the Nation's Resilience

The nation's resilience is built on pragmatic policies that focus on areas in which we have competitive advantage such as Islamic finance, tourism and resource-based industries, particularly palm oil as well as oil and gas. Malaysian companies are able to compete regionally and internationally in these industries.

Conducive Environment for Private Investment

In an effort to attract private investment, the Government announced the liberalisation of 27 services sub-sectors with no equity conditions imposed. Further measures include the deregulation of FIC guidelines and the establishment of *Ekuiti Nasional Berhad* (Ekuinas), a private equity fund. With an initial capital of RM500.0 million, Ekuinas will focus on investments

in high growth sectors jointly with the private sector. The Government under the second stimulus package also established *Danajamin Nasional Berhad* in May-2009 to facilitate the private sector raise funds from the capital market by providing financial guarantee insurance. The agency with a paid-up capital of RM1.0 billion has the capacity to underwrite policies of up to RM15.0 billion. Applicants for the guarantee insurance must have an investment rating of at least BBB.

Loan Guarantee Schemes

Two schemes were introduced under the second stimulus package, namely the Working Capital Guarantee Scheme (WCGS) and Industry Restructuring Financing Guarantee Scheme (IRFGS) to ensure continued credit flows to the private sector. Each scheme guarantees loans up to a total of RM5.0 billion. For the WCGS, the Government will guarantee 80% of the loan while for the IRFGS, the Government will guarantee 80% for companies with equity capital of less than RM20.0 million and 50% for other companies. Participating financial institutions will bear the remaining risks. Given the strong response to the working capital scheme, the guarantee limit of the WCGS was increased to RM7.0 billion and the IRFGS scheme reduced to RM3.0 billion. As at end-September 2009, under WCGS, 23.0% of loans were extended to the property and construction sectors and 22.0% to manufacturing, while under IRFGS, 60.0% of the loans were extended to the manufacturing sector.

Strengthening Small and Medium Enterprises Development

In view of the importance of small and medium enterprises (SMEs), recent initiatives to improve access to finance include the establishment of SME Financial Assistance Schemes, SME Assistance Scheme and Micro Enterprise Fund. These funds totalled RM3.4 billion and as at end-August 2009, RM2.2 billion was approved for 12,938 companies.

Accelerating Corridor Development

Five regional corridors were launched in stages since the beginning of the 9MP to bring about greater equity in development and income across regions and states. Under the 9MP, RM7.5 billion was allocated to implement 191 projects in these corridors. In 2009, RM3.4 billion was allocated. Planned investments by the public and private sectors in the corridors totalled RM175.1 billion surpassing the 9MP target of RM145.0 billion.

The Government allocated RM2.4 billion for infrastructure development in Iskandar Malaysia to implement 17 projects, of which 14 are being implemented. The projects include Johor Bahru – Nusa Jaya Coastal Highway, upgrading of Skudai – Senai Highway and Multi-Level Interchange at Bandar Ulu Tiram. As for the Northern Corridor Economic Region (NCER), RM706.0 million is expected to be spent by the Government for agriculture, manufacturing, tourism and capacity building projects as well as upgrading of infrastructure, particularly in the Muda Agriculture Development Authority (MADA) area.

A sum of RM1.6 billion was allocated for the East Coast Economic Region (ECER) to implement 82 projects under 9MP. Work on 37 projects began in 2008, while 13 projects have commenced in the first half of 2009 and the remaining 32 will be implemented by 2010. These include development of commercial farms in Kaprima Valley, Goat Breeding and Research Centre in Ulu Tersat, both in Terengganu as well as a Cattle Research and Innovation Centre in Muadzam Shah, Pahang. For the Sabah Economic Development and Investment Authority (SEDIA), RM1.3 billion was allocated to implement among others, *agropolitan* projects in Pitas, Kota Belud and Kemabung as well as palm oil-based industry clusters. In the Sarawak Corridor of Renewable Energy (SCORE), a sum of RM1.5 billion was allocated for projects, including construction of access roads to the Murum and Baram dams in Kapit and Miri, respectively.

Committed private investments in Iskandar Malaysia total RM38.0 billion, of which 32.9%

was spent as at end-June 2009. These projects include the Asia Petroleum Hub, LEGOLAND theme park, a 70-bed hospital and the NewCastle University Medical Malaysia in EduCity. As for the NCER, projects under implementation include *padi* estate as well as an abattoir and meat processing project in Perak. In the ECER, private sector initiatives include projects related to petroleum-based industrial clusters, automotive industries and palm oil clusters. Investment commitments in the ECER amounted to RM24.0 billion as at end-July 2009.

Realising Tourism Potential

Malaysia's tourism industry performed favourably and was ranked 32 among 133 countries in the 2009 Travel and Tourism Competitiveness Index. Recognising the potential of the industry, particularly the development of niche areas, greater emphasis is placed among others, on healthcare travel, education tourism, Malaysia My Second Home (MM2H) programme as well as promoting Malaysia as a shopping and Meetings, Incentives, Conventions and Exhibitions (MICE) destination.

Under the second stimulus package, RM200.0 million was allocated to upgrade infrastructure at tourist spots, diversify tourism products, improve the homestay programme as well as hosting more international conferences and exhibitions. In early 2009, the MM2H programme was reviewed with the aim of making it more effective, particularly in attracting high net-worth individuals. This includes allowing participants to work in critical sectors and engage in business.

National Key Result Areas

National Key Result Areas (NKRAs) and Key Performance Indicators (KPIs) for ministers and heads of departments have been set to assess performance of service delivery. Six NKRAs were identified, namely crime, corruption, education, poverty, rural infrastructure and public transport. These NKRAs have specific performance targets. Reducing crime rate will ensure the safety and



National Key Result Areas

Introduction

As a major initiative to transform Malaysia towards delivering world class services, the Government embarked on a new paradigm for performance and producing results through the implementation of National Key Result Areas (NKRAs). Representing the nation's top strategic priorities, these NKRAs will focus on outcome-based public service delivery that address the expectations of the *Rakyat*.

NKRA Delivery Principles

Delivery of the NKRAs will be based on four broad principles as follows:

- i. **People First** - to focus on the immediate needs of the *Rakyat*;
- ii. **Collaboration between public and private sector** - to build capabilities for efficient and effective implementation of the NKRAs;
- iii. **Prudent use of resources** - to maximise productivity through efficient utilisation of resources; and
- iv. **Outcomes of highest standards** – to benchmark against international standards.

Components of NKRAs

The NKRAs have a set of Key Performance Indicators (KPIs) to assess, monitor and evaluate the performance of the public sector. The Government announced the implementation of KPIs for Cabinet Ministers on 9 April 2009. A total of six NKRAs have been identified along with the relevant sub-KRAs and KPIs.

NKRAs	Sub-KRAs	KPIs
Reducing Crime	▪ Street crime ▪ Reducing fear of crime ▪ Improve performance of enforcement agencies	▪ Reduction in snatch thefts and unarmed robbery ▪ Increase public confidence on personal safety ▪ Expedite prosecution of violent crime offenders
Fighting corruption	▪ Police corruption ▪ Political corruption ▪ Procurement kickbacks	▪ Improve public perception on corruption
Widening access to quality and affordable education	▪ Performance of primary school students in literacy and numeracy ▪ Proficiency in English ▪ Quality of teachers	▪ Average examination scores ▪ Increase in passing rate in international examinations ▪ Quality of applicants at the entry level
Raising the living standards of low income households	▪ Hardcore poor ▪ Poor ▪ Vulnerable groups	▪ Eradication of hardcore poor ▪ Reduction in number of poor ▪ Increase in house ownership ▪ Increase in disposable household income



NKRAs	Sub-KRAs	KPIs
Improving infrastructure in rural areas	- Road networks - Water supply and sanitation - Electricity supply	- Increase in households living within 5 km of road (paved, gravel) - Increase in households with access to water supply and sanitation - Increase in households with access to electricity
Improving urban public transport (medium-term)	- Taxi service standards - Bus service standards - Rail capacity & coverage - Road congestion	- User satisfaction survey - On-time performance - Peak hour load factor - Average speed during peak hour

In realising these NKRA, some of the major initiatives include the following:-

- i. **Crime**
 - Increase visible presence of the police in public places
 - Install Close-circuit Television (CCTV) and better lighting in crime prone areas
- ii. **Corruption**
 - Declaration of assets
 - Whistleblower policy
- iii. **Education**
 - Compulsory preschool
- iv. **Low-Income Households**
 - Focused and targeted subsidy programme
- v. **Basic Rural Infrastructure**
 - Guaranteed basic infrastructure
- vi. **Urban Public Transport**
 - New rail lines
 - Unified fare and cashless ticketing

In addition to the NKRA, each Ministry has been tasked to identify and implement a set of Ministerial KRAs (MKRAs). The MKRAs are aligned to the NKRA as well as represent the core responsibilities of the Ministry. A total of 110 MKRAs have been identified across all the 24 Ministries of which 49% are people-centric, 28% economy-based, 22% future-focused and 1% others.

A Performance Management Delivery Unit (PEMANDU) under the office of the Minister for Unity and Performance Management will drive and manage as well as ensure the successful delivery of NKRA. The Unit will also set guidelines and monitor compliance to and achievement of MKRAs. The PEMANDU has been structured based on a hybrid resourcing model, comprising best talents from the public and private sectors. It has launched a Government Transformation Programme (GTP) Lab for each of the NKRA. The Labs will further analyse the NKRA to formulate the implementation blueprint.

The NKRA will set the momentum for the transformation of Malaysia from a middle to high-income economy as well as a fully developed nation by 2020.



well-being of the *rakyat* as well as enhance investor confidence. Street crimes will be reduced 20% by end-2010. To address corruption, enforcement will be enhanced, while Government procurement policies and procedures will be adhered to. For education, preschools will be incorporated into the mainstream education system. To help welfare recipients, payments will be made on the first day of the month beginning January 2010.

Infrastructure in rural areas will be improved with the construction of 2,250 kilometres of roads in Sabah and Sarawak. In Peninsular Malaysia, the rural road coverage will be expanded. This will ensure that the *rakyat* have access to a tarred road within 5 kilometres by 2012. Clean water supply for 90% and electricity coverage for 95% of Sabah and Sarawak will be provided by 2012. In Peninsular Malaysia, 7,000 *Orang Asli* families shall have access to 24-hour electricity supply by 2012. Public transport will be improved to ensure higher usage from the current 16% to 25% by end-2012. Towards this, an additional 35 sets of four-car trains will be operating on the Kelana Jaya track by 2012.

Improving Public Service Delivery

The Special Task Force to Facilitate Business (PEMUDAH) achieved significant improvements in enhancing transparency and streamlining processes and procedures. Among these include: reducing time for export clearance and property registration, facilitating e-transactions and the launching of a single identification number for individuals, MyID as well as MyCoID for businesses to interact with Government agencies.

Promoting Automotive Sector

In order to ensure continued development of the domestic automotive sector, a RM200.0 million Automotive Development Fund was allocated under the second stimulus package. This fund will be used to consolidate and rationalise the

PROTON Vendor Scheme, promote exports, build capacity and establish a soft loan scheme for vendors. The consolidation and rationalisation of PROTON vendor scheme with an allocation of RM60.0 million is expected to reduce the number of distributors from 283 to 191 by end-2009. As for the export scheme, RM8.3 million was allocated to Malaysia External Trade Development Corporation (MATRADE), where several initiatives including specialised missions for exports and incoming buyers are being undertaken. To further develop the domestic automotive industry, the auto-scrapping scheme for cars of more than ten years, was initiated to stimulate car sales as well as reduce carbon emission. As at end-August 2009, a total of 7,188 cars were scrapped under the scheme.

Information and Communication Technology Industry

Various initiatives were taken to increase innovation and creativity as well as facilitate access to knowledge and information. As information and communication technology (ICT) is a key enabler in the process, RM2.4 billion will be spent to improve telecommunication infrastructure in rural areas. Meanwhile, RM400.0 million was allocated to further expedite the High Speed Broadband (HSBB) project under the stimulus packages. Implementation of the HSBB project is concentrated in the Klang Valley, Iskandar Malaysia as well as key industrial regions. *Telekom Malaysia* (TM) is scheduled to commence trial runs in selected premises by end-2009 and commercial roll-out is expected in the first quarter of 2010. A total of 1.3 million premises nationwide are expected to have access to HSBB by end-2012. The expansion of Worldwide Interoperability for Microwave Access (WiMAX) services will complement the HSBB project and contribute towards achieving the national target of 50% household broadband penetration by end-2010. Tax incentives were provided to employers on ICT-related expenses incurred in providing benefits to employees and purchase of equipment.

A Networked Content Development Grant as well as an eContent Fund were established to encourage creation, production and distribution of creative, original and marketable content for domestic and international markets. The Multimedia Development Corporation (MDeC) launched the RM75.0 million MSC Malaysia Animation and Creative Content Centre (MAC3) Co-Production Fund in August 2009, aimed at encouraging animation and game houses to engage in co-productions with foreign partners.

Promoting Research, Development and Commercialisation

Research, development and commercialisation (R&D&C) of products and services are crucial in moving the economy up the value chain. Three major funds were established to promote R&D&C, namely the Sciencefund, Technofund and Innofund. These funds are aimed at enhancing linkages between the public and private sectors as well as increase national R&D&C capacity and capability. The Government provided RM2.7 billion for these programmes. Since January 2006 to mid-August 2009, a total of 3,831 projects amounting to RM2.6 billion were approved.

Financing Innovative Firms

Venture capital firms address the problem of financing faced by new technology and knowledge intensive firms. In addition, the presence of a significant number of venture capitalists is essential to encourage the growth of innovative companies. To further develop the industry, the Government provided tax incentives to facilitate investments by venture capital companies. Several public venture capital funds and companies were created to complement private funds. Public funds amount to RM6.9 billion and offers debt and equity financing to technology and knowledge intensive firms at various growth stages. As at end-June 2009, a total of RM4.9 billion have been approved to 937 applicants largely in ICT, biotechnology and life sciences.

Strengthening Airport Infrastructure

Projects identified for implementation on off-budget basis include construction of a new Low-Cost Carrier Terminal (LCCT) at Kuala Lumpur International Airport (KLIA) and upgrading the Penang International Airport. A permanent LCCT building is to be built at a cost of RM2.0 billion and will commence operations by September 2011. The upgrading of Penang International Airport at a cost of RM250.0 million is scheduled for completion by end-2011. Other international airports currently being upgraded include Kuching and Kota Kinabalu. The airports in Batu Berendam, Melaka and Kota Bharu, Kelantan are also being upgraded.

Economic Performance – 2009

The economy contracted in the first half of 2009 due to weak external demand with exports declining sharply by 16.3%. With lower disposable income and cautious spending by households, private consumption fell. At the same time, investments declined significantly and the economy contracted 5.1% in the first half of 2009.

In the second half, the economy is expected to improve following the gradual recovery in the external sector and the impact of the two stimulus packages. For the year, GDP is projected to contract 3.0%. The services and construction sectors are envisaged to be major contributors to economic activity. On the demand side, the economy will be supported by public investment and private consumption. Nominal Gross National Product (GNP) is estimated to contract 4.8% to RM681.0 billion, with per capita income declining 6.7% to RM24,055 (2008: 11.9%; RM25,784). In terms of purchasing power parity (PPP), per capita income is projected to fall 14.7% to USD12,826 in 2009 (2008: 13.7%; USD15,040).

Economic Management – 2010

There is emerging consensus that the global downturn has stabilised with signs of recovery in the second half of 2009. However, there



are concerns of downside risks such as high unemployment, weak private consumption spending, slow credit expansion, low corporate investments and dissipating effects of stimulus spending. These factors could impede economic recovery. On the domestic front, the challenge is to revitalise investments, safeguard the welfare of the *rakyat* as well as manage rising expenditure in the context of declining revenues without compromising Government efficiency and delivery of services.

Issues and Opportunities

A More Stable and Resilient International Financial System

The distress in the financial system of advanced economies spread rapidly into the real economy, triggering a severe global recession. With the experience of the 1997/98 Asian financial crisis, Malaysia is in a better position to weather the current downturn. The banking system remains robust and the credit market continues to function well. Yet, in an increasingly integrated global economy, events and decisions taken in one country can have far reaching systemic implications across the globe. Realising this, Malaysia continues to engage the international community through multilateral and regional forums as well as reiterate the need to have a more stable and resilient international financial system to withstand future systemic shocks and ensure macroeconomic stability.

Leveraging on Asian Growth Prospects

Over time, consumption is expected to shift towards Asia. While the US and Europe will remain the main source of consumption demand, ASEAN, China, India and the Middle East will gain prominence, given their prospects for rapid GDP growth. Malaysia is well positioned to bridge trade flows between the east and west and needs to develop a unique value proposition to attract foreign direct investment. Trade engagement would be more focused to the Asian region and

companies encouraged to expand market and product mix.

Setting the Stage for a High-Income Economy

The Government is committed to transform Malaysia into a high-income economy. The transition will be premised on the ability to innovate, be creative and move into higher valued-added activity. The common denominator in these factors is knowledge and technology. The high-income economy requires a labour force with strong analytical skills and inquiring minds.

In order to facilitate this transition, several areas where Malaysia has competitive advantage have been identified. These include Islamic finance, halal industry, resource-based industries and tourism. In addition, Malaysian companies have an edge in oil and gas, plantation and construction activity, which can be further strengthened and promoted for global expansion. The Government recognises several issues including human capital, fiscal management, liberalisation and private investment must be addressed to expedite the recovery process and set the stage for the transition into a high-income economy.

Human Capital Challenge

The economy continues to be dominated by low-skilled workers resulting in low productivity growth and wage levels. The skills and education level of the workforce need to be upgraded. Graduate employability continues to be a concern as many graduates remain unemployed for extended periods or take up low-skilled jobs.

With the bulk of the labour force having education only up to *Sijil Pelajaran Malaysia* level, the transition to a high-income economy will be challenging. For the transition, efforts must be taken to increase the proportion of the labour force with tertiary education to meet the needs of the new economy. Apart from the infrastructure and access to education and training, an important component in education is quality of teachers. Despite more stringent selection criteria,



improved working conditions and compensation schemes, teaching is not a chosen profession of the top cohort of a graduating class. The low preference for teaching as a career needs to be addressed. The capacity for knowledge generation has not improved as reflected in low patent registration as well as research and development (R&D) activity, largely due to lack of skilled and knowledge workers. There must also be an increase in the number of skilled and technical workers to support high value-added industries. Secondary school students do not consider skills and vocational training as an option though it has promising career prospects. Imbalances between the need for highly skilled workers and the supply must be corrected.

The availability of a large number of low-skilled foreign workers in the country does not encourage employers to upgrade technology, pay better wages and initiate other productivity enhancing measures. Existing labour rules and regulation are more facilitative towards low-skilled foreign workers. There is a need for foreign expertise, particularly in the fast growing knowledge and technology intensive industries. While procedures for employment of expatriates have been eased, there is room for further improvement.

Prudent Fiscal Management

Over the years, the provision of incentives and exemptions has eroded the tax-base. In addition, petroleum-related revenues have increased as a proportion of total revenue, making it vulnerable to volatility in oil prices. Commitments to fuel and natural gas subsidies have further compounded the already strained fiscal space. Despite these factors, the Government embarked on a consolidation path. The deficit was reduced progressively from 5.3% in 2002 to 3.2% in 2007. However, the fiscal deficit widened in 2008 to 4.8% and with additional stimulus spending, it is expected to increase further to 7.4% in 2009. The Government is aware of the adverse impact of continued deficit budgeting and debt accumulation on fiscal sustainability and will resume consolidation when the economy recovers and is on a firmer footing.

Liberalisation Towards a Competitive Economy

Malaysia is committed to progressively liberalise several sectors in the economy in line with the ASEAN Economic Community Blueprint, for a freer flow of goods, services and capital by 2015. Malaysia stands to benefit from the liberalisation of services by tapping opportunities in regional markets. The process will be gradual to ensure Malaysian businesses are ready to compete with regional and international players.

The Need for High-End Investments

Prior to the Asian financial crisis, private investment was the key source of growth, expanding 21.4% on average during the period 1990 – 1997. Growth in private investment has since moderated to an average of 9.4% between 1998 and 2008. Several factors contributed to the low level of investment. These include: market distortions, significant involvement of the Government in economic activity, shortage of skilled workers particularly in technical fields, insufficient R&D investment, low level of productivity, regulatory burden as well as crime and security issues. These issues must be addressed comprehensively to attract investment with focus on competition, human capital, facilitative business environment, institutional factors and adequate infrastructure.

Strategic Response – 2010

The 2010 Budget lays the foundation for the new economic model and the formulation of the Tenth Malaysia Plan. It focuses on moving the nation to a high-income economy by strengthening the private sector as an engine of growth, creating skillful and talented workforce, intensifying R&D activities as well as promoting innovation and creativity. Towards this, emphasis will be on creating a conducive environment for businesses and entrepreneurship to thrive in a more liberalised environment supported by market driven policies. The Government is also committed to consolidate its financial position to



create fiscal flexibility. In line with the concept of 1Malaysia and targets of NKRAs, the welfare of the *rakyat* will be given top priority. Thus, 2010 Budget is formulated with the theme “1Malaysia: Together We Prosper” and supported by three strategies namely, propelling the nation towards a high-income economy, ensuring holistic and sustainable development and focusing on the welfare of *rakyat*.

Towards a High-Income Economy

Revitalising Private Investment

The Government is committed to increase private sector participation in the economy. This will be achieved through improving the investment climate. Barriers to investment including policies, rules, regulations and procedures will be reviewed. Ample opportunities will be created for the private sector by attracting foreign investors to take up equity positions in local companies and encouraging joint venture projects. Under the second wave of privatisation, selected government agencies will be privatised. In addition, customised incentives will continue to be provided to attract investment in the growth corridors.

The financial sector will be enhanced to facilitate efficient intermediation. In this regard, measures shall be taken to enhance access, reduce transaction costs as well as promote stockbroking and fund raising activities. The Government will address issues relating to motor vehicle insurance to ensure basic coverage is affordable. In addition, money lending activities will be closely monitored and regulated to protect consumers.

Greater Thrust for Green Technology and Innovation

The strategies outlined in the National Green Technology Policy will be realised with the formulation of a detailed implementation blueprint. As green technology is a niche growth area, the Government will support its development through various incentives to encourage R&D as well as provide a supportive legal and

regulatory framework. The Government will also lead by encouraging the adoption of green technology in public facilities, including in the design and use of materials that are eco-friendly.

In line with commitments towards greater adoption of green technology and addressing climate change issues, the Government will encourage building owners to convert to “green buildings”. Putrajaya and Cyberjaya will adopt the “green concept” to demonstrate its feasibility.

The ecosystem to encourage financing of innovative, R&D and knowledge intensive companies will be further strengthened. Incentives will be enhanced to increase the number of venture capital companies, including foreign owned. Various R&D grants and funds will be streamlined. Innovation activities will be promoted through the creation of a National Innovation Centre with advisory and developmental functions.

Promoting Niche Growth Areas

Investment in niche growth areas such as Islamic finance, halal industry, tourism, ICT, biotechnology and resource-based industries will be aggressively promoted. In this regard, incentives will be provided for the development of creative content industries, including animation as well as for training to increase local expertise.

High Value-Added Agriculture

The main thrust of agriculture development is to enable the sector to become a major source of economic growth. Towards this, emphasis will be on aquaculture, swiftlet bird’s nest production, floriculture, deep sea fishing and sea weed production. The food supply chain infrastructure will also be improved to enhance the distribution system and exports. Programmes to nurture agro-entrepreneurs will be strengthened.



Strengthening Small and Medium Enterprises

The Government is committed to develop a robust and competitive SME sector. Several incentives will be provided to encourage SMEs modernise and sustain their operations in an increasingly competitive environment. In addition, the numerous grants and loan schemes for SMEs will be rationalised to improve access and effectiveness. Emphasis will be given to improve the business acumen and managerial skills of entrepreneurs.

Ensuring Holistic and Sustainable Development

Strengthening Human Capital Development

The Government will continue to focus on human capital development with emphasis on education. The NKRA target for education is to incorporate preschools into the mainstream education system and ensure pupils are able to read, write and count upon entry into year four. In addition, 80% of children will have access to preschool and 100 schools developed into high performing centres by 2012. Resources will be targetted to enhance graduate employability while technical and vocational training upgraded and promoted. The curricula and internship programmes of universities and training institutes will have greater industry input with added emphasis on soft skills and enhanced R&D collaboration. Efforts to improve the teaching profession include incentives tailored to attract the best candidates. This will help transform existing schools into high performing institutions.

In order to enhance the quality of public sector service delivery, training programmes in public training institutes will be reviewed. Training institutions will be encouraged to collaborate with world renowned training institutions. Civil servants will be exposed to advanced leadership training, policy making and implementation, monitoring, enforcement as well as evaluation of public sector programmes.

Accelerating the PERMATA Programme

The PERMATA programme has been successful in inculcating good learning habits as well as emotional and intellectual development. The programme will be expanded, particularly to rural areas to give children a headstart and bridge the rural-urban performance gap. Under the PERMATA Pintar programme, a purpose-built school for gifted children is expected to be operational in 2011. In addition, several other PERMATA programmes for developing creativity among children, instilling religious and moral values aimed at youth will also be supported.

Improving Public Sector Service Delivery

The 2010 Budget will support activities towards the achievement of the NKRAs and Ministry-level KRAs. The implementation of NKRAs will be supported by a newly formed Performance Management and Delivery Unit (PEMANDU). The Unit will spearhead all activities related to achievement of NKRA goals, develop a monitoring mechanism that is intensive yet transparent and a road-map for implementation. Broader reforms and delivery enhancement will be an integral part of the road-map. Apart from the six NKRAs, PEMANDU will also focus on 1Malaysia and Unity. The public sector service delivery mechanism will be further enhanced. The administrative improvements made by PEMUDAH will be expanded. Rules and regulations will continue to be closely monitored and reviewed with the objective of improving ease of doing business. Concerted efforts will be taken to improve perceptions and confidence in public institutions, particularly enforcement agencies.

A More Focused Fiscal Management

Fiscal policy will focus on ensuring efficient revenue management and value-for-money spending. New funding alternatives including enhanced public-private partnership, monetisation of assets and gradual divestment will be considered. Revenue management will focus on widening the revenue base.



Cost and spending containment will focus on adhering to the Standards and Costs Committee Guidelines to obtain value-for-money. In addition, the fuel subsidy structure will be reviewed to benefit intended target groups. The budgeting process will be improved with emphasis on outcomes that are strategically aligned with national goals and NKRA's. As the economy recovers and is on a sustainable growth path, the Government will resume its facilitative role to promote the private sector as the engine of growth.

Focusing on the Welfare of the *Rakyat*

The welfare of *rakyat* will continue to be the focus of public policy and government programmes. Poverty eradication will continue to receive significant attention and resources. The *rakyat*, in particular those in rural and interior areas of Sabah and Sarawak will have better access to clean water, electricity, education and health facilities in line with the NKRA targets. The participation of women in economic activities will be enhanced through entrepreneur and skills training programmes. To facilitate women to be gainfully employed, the Government will encourage employers to provide childcare facilities at the workplace. Crime and security issues are a significant concern of the *rakyat*. There will be more coordination and mobilisation of resources to increase the visibility of relevant enforcement agencies, particularly in crime prone areas. Public transport will be significantly improved with the establishment of SPAD, which will function as the sole authority for coordinated and integrated development of public transport in the Klang Valley. It will address issues,

including connectivity, timeliness, comfort, safety, disabled-friendly facilities and integration with other modes of transport.

Demographic patterns have changed over the years with about two-thirds of the population living in urban centres. This puts pressure on services like transport, health, education, housing and other amenities in urban areas. In addition, the income levels of a significant segment of urban residents are insufficient to cope with rising cost of urban living. The Government will address these concerns by building more affordable housing and public amenities as well as improving the urban transport system.

Prospects for 2010

With improving domestic and external demand, prudent fiscal stance and measures to strengthen recovery in the 2010 Budget, the economy is expected to grow between 2.0% and 3.0% in 2010 supported by private investment and consumption. Nominal per capita income will increase 2.5% from RM24,055 in 2009 to RM24,661 in 2010 or in purchasing power parity terms from USD12,826 to USD13,177. With reduced Government spending, the fiscal deficit is expected to narrow to 5.6% of GDP. The deficit will be financed through domestic borrowing. The balance of payments is expected to remain favourable with the current account in surplus for 13 consecutive years. The current account surplus of 12.6% of GDP will be contributed by the goods and travel accounts. These developments augur well for the economy and provide a strong foundation for the transition to a high-income economy.

