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ECONOMIC MANAGEMENT AND PROSPECTS

Economic Management and Prospects

Overview

The Malaysian economy is on a stronger growth trajectory in 2014, supported by resilient domestic demand and improved export performance following the global recovery. Domestic economic activity strengthened, supported mainly by vibrant private investment and steady consumption spending. During the first half of 2014, Malaysia benefited from the pickup in advanced economies, particularly the US and UK, and improvements in the euro area. The steady growth of the Asian economies including China, India and major countries of the Association of Southeast Asian Nations (ASEAN) boosted intra-regional trade, which led to the better performance of Malaysian exports. In addition, the upswing in global electronic demand amid declining inventory contributed to the better performance of the external sector.

The encouraging performance indicates that Malaysia is on track towards achieving a high-income and developed nation by 2020. The ongoing implementation of programmes and projects under the Tenth Malaysia Plan (10MP) together with the Economic Transformation Programme (ETP) and Government Transformation Programme (GTP) has resulted in significant economic gains benefiting the rakyat. The Government remains committed to implementing measures to transform and restructure the economy, to ensure sustainability in the long run. In addition, accommodative monetary and fiscal policies will continue to support growth while ensuring the well-being of the rakyat amid the rising cost of living. Given the strong performance in the first half of the year, GDP is expected to register a higher growth between 5.5% and 6% in 2014 (2013: 4.7%). The economy continues to be supported

by strong macroeconomic fundamentals such as high savings and foreign reserves, manageable inflation, stable labour market conditions and a sound financial system.

The 2014 Budget is aimed at ensuring the economy sustains its strong growth momentum; strengthening public finances; enhancing human capital; intensifying urban and rural development; and promoting well-being of the rakyat. A total of RM262.2 billion is provided for the various strategies, programmes and projects. Among the major focus areas include invigorating economic activity with emphasis on the services sector, regional growth corridors and the development of small and medium enterprises (SMEs); further fiscal consolidation to ensure the sustainability of public finances; and greater efforts to enhance well-being of the rakyat. With regard to fiscal operations, the set-up of the Fiscal Policy Committee (FPC) in 2013 has provided a platform to drive comprehensive fiscal reforms to rein in the deficit as well as manage the debt level without jeopardising growth momentum.

Performance Review - 2014

The Malaysian economy registered a stronger-than-expected growth of 6.3% in the first half of 2014. The robust growth was supported by resilient domestic demand and augmented by the strong recovery in exports. The favourable performance was underpinned by strong macroeconomic fundamentals and a diversified economic structure as well as a sound financial system. Of significance, private sector expenditure expanded 8.4% and contributed 71.4% to the economy. Private investment, in particular, surged 13%

to RM78.7 billion during the first half of 2014 with its share to total investment increasing to 68.9%. In tandem with Government transformation initiatives, investment growth is expected to remain strong in the second half of 2014 with private investment expanding more rapidly. On the external front, the recovery in exports was underpinned by the pickup in advanced economies, particularly the US and UK coupled with the upswing in global electronic demand. Consequently, gross exports rebounded strongly by 10.7% during the first seven months of 2014 (January – July 2013: -2.8%). Nevertheless, while the economy is expected to remain on a steady growth path, there are still challenges that need to be addressed, arising from uncertainties in the global economic environment, moderating commodity prices and increasing cost of living. Meanwhile, fiscal and monetary policies will continue to support the growth momentum.

Fiscal Operations

The Government will continue fiscal consolidation measures while supporting economic growth and ensuring well-being of the rakyat, with the target to achieve a balanced budget by 2020. The fiscal reform measures are also aimed to further strengthening the Government's financial position while emphasising the urgency to continue fiscal adjustment measures in meeting medium-term strategies and gradually reduce fiscal deficit to 3.5% of GDP in 2014. This will create fiscal space for the Government to support the economy in the event of external shocks. Furthermore, the Government's firm commitment to fiscal reforms will also boost investor confidence and improve the country's competitiveness. Among the key measures in 2014 include cost-cutting initiatives to rein in discretionary spending as well as optimise government facilities. The FPC, which was established in 2013, plays a lead role in strengthening public finances and ensuring long-term macroeconomic stability. The FPC meets regularly to assess various issues on medium-term fiscal sustainability.

Monetary and Financial Developments

Monetary conditions continue to foster sustainable economic growth with the Overnight Policy Rate (OPR) maintained at 3.00% in the first six months of 2014. However, the inflation rate gradually rose due to higher domestic costs and is expected to remain above its long-run average amid firm growth prospects. As a result, the OPR was increased by 25 basis points from 3.00% to 3.25% on 10 July 2014. The degree of monetary accommodation was also adjusted to mitigate the risks of broader economic and financial imbalances that could undermine the long-term growth prospects of the economy. Nevertheless, at the new level of OPR, the monetary policy stance remains supportive of the economy. Meanwhile, the Statutory Reserve Requirement (SRR) of the banking system is maintained at 4.00%.

The Malaysian financial system remained resilient throughout the first seven months despite episodes of volatility in the global and domestic financial markets. Financial intermediation continued to be well supported by a sound banking system and orderly market conditions. Capitalisation of the banking system remained high with the key capital ratios well above the regulatory minimum levels as at end-June 2014.

Meanwhile, Malaysia continues to play a leading role in further developing the global Islamic finance industry. In the sukuk segment, Malaysia offers a multicurrency platform for international fund raising. The sukuk marketplace is supported by a robust regulatory and supervisory framework, an efficient price discovery platform and a deep primary and active secondary sukuk market. This has attracted foreign issuers to continue using Malaysia as the preferred platform for sukuk issuance. Malaysia leads in global sukuk issuance, accounting for 63% or USD41.7 billion of the total global sukuk issued and 57.3% or USD161 billion of the global sukuk outstanding during the first half

of 2014. Furthermore, the involvement of domestic financial players and professional services firms in providing Islamic financial advisory and services at the international level, attest to Malaysia's expertise in the sukuk market.

Strategic Performance of the 2014 Budget

The 2014 Budget continues to focus on accelerating implementation of national transformation programmes to spur economic growth, strengthen the Government's financial position as well as improve the well-being of the rakyat. These goals are reflected in the theme of the 2014 Budget, "Strengthening Economic Resilience, Accelerating Transformation and Fulfilling Promises". Five thrusts were identified in the Budget, namely invigorating economic activity; strengthening fiscal management; inculcating excellence in human capital; intensifying urban and rural development; and ensuring well-being of the rakyat. In line with these thrusts, the Government provided RM262.2 billion, of which RM217.7 billion and RM44.5 billion were allocated for operating and development expenditure, respectively.

First Thrust: Invigorating Economic Activity

The Government continues to implement pro-growth policies and provide a business-friendly environment to attract investment and enable private sector activity to thrive. To realise this objective, several initiatives were announced in the 2014 Budget, which include invigorating the services sector; promoting the aviation industry and tourism sector; expanding Internet access; and strengthening the logistics sector. Other initiatives include strengthening capital markets; promoting pension schemes; strengthening small and medium enterprises (SMEs); moving up the value chain in the agriculture sector; developing entrepreneurs and accelerating regional development.

Invigorating Services Sector

The services sector remains the driver of growth, contributing 54.9% to GDP in the first half of 2014. Given its importance, the Government has formulated the Services Sector Blueprint 2014 to further develop the sector and strengthen its competitiveness. In this respect, the Blueprint focuses on four areas, namely internationalisation which includes liberalisation and services exports; providing efficient tax and non-tax incentives; developing human capital; and implementing regulatory reform in the services sector. With the implementation of the Blueprint, the services sector is targeted to achieve 60% share of GDP by 2020, on par with developed economies.

Promoting Aviation Industry

The aviation industry in Malaysia has potential to grow significantly as reflected in the increasing number of passengers and cargo handled in airports nationwide for the past few years. To promote the Malaysian aviation industry, the Government is formulating a National Aviation Policy to outline a comprehensive strategic plan and initiatives to accelerate the development of the industry.

In addition, the Government allocated RM493.9 million to upgrade airports in Sabah and Sarawak to improve operational efficiency and cater for increased passenger traffic. The projects include building additional check-in and immigration counters as well as installing closed-circuit television (CCTV) cameras and new escalators in the airports. Of this amount, a total of RM271 million was allocated to upgrade the airports in Kota Kinabalu and Sandakan with RM126 million spent as of August 2014. Meanwhile, RM222.9 million was allocated for the development of Miri, Sibul and Mukah airports. As of August 2014, RM198 million was spent on the projects.

Promoting Tourism Sector

The Visit Malaysia Year (VMY) 2014 is expected to draw 28 million tourists to visit Malaysia. In this regard, the Government has undertaken intensive domestic and international promotional programmes, including the Formula 1 Petronas Grand Prix, Rainforest World Music Festival, Red Bull Air Race 2014 World Championship, KL International Tattoo 2014, World Kite Festival, 2014 FIA Formula E Race and Malaysia Year-End Sale. A sum of RM65.5 million is allocated for tourism programmes and as of August 2014, RM32.5 million has been spent. Despite some unfortunate incidents, Malaysia has been able to attract 11.5 million tourists during the first five months of 2014.

Furthermore, a Special Tourism Infrastructure Fund was established under Bank Pembangunan Malaysia Berhad (BPMB) with a total allocation of RM2 billion, which aims to promote private sector involvement in providing efficient tourism infrastructure. The fund provides financing for the incremental cost of new or existing projects excluding working capital and acquisition of land. The minimum financing is RM5 million, while the maximum financing is RM100 million or up to a maximum of 80% of the total project cost. As of end-July 2014, a sum of RM173 million was disbursed.

Expanding Internet Access

The Government continues to step up efforts to provide broadband connectivity across urban, suburban and rural areas. The first phase of High-Speed Broadband (HSBB) was launched in March 2010 under the National Broadband Initiative (NBI). As of May 2014, the HSBB attracted 732,000 subscribers, with 2.5 million ports installed nationwide. Meanwhile, the Government has initiated the second phase of HSBB to expand coverage mainly in urban areas with Internet speed up to 100 mega bit per second (Mbps). This public-private partnership (PPP) project will provide 250,000 HSBB ports

benefiting 2.8 million households. The project is expected to increase the broadband household penetration rate to 75% by end-2015. As of June 2014, the average national household broadband penetration rate recorded 67.2% with Kuala Lumpur registering the highest rate at 115.7%.

As part of the Government's efforts to bridge the digital divide, the Universal Services Provision (USP) Fund has been utilised to build 1,000 telecommunication transmission towers in remote areas nationwide, with a population of 80 persons per square kilometre (km). As at end-June 2014, 875 towers were built. Meanwhile, the household broadband penetration rate in Sabah and Sarawak was 52.8% and 53.4%, respectively, which is below the national average of 67.2%. Efforts have thus been undertaken to build new underwater cables linking Peninsular Malaysia with Sarawak and Sabah within three years to improve connectivity, reliability and affordability of Internet access in these states. The underwater cables will be connected through five cluster links with an estimated length of 3,500 km.

Strengthening Logistics Sector

An efficient logistics system will facilitate the smooth flow of goods and services within and beyond national boundaries. The sector plays a strategic role in boosting productivity and competitiveness across industries. Recognising its importance, the Government is formulating a logistics sector master plan, which aims to improve competitiveness of the sector and position Malaysia as a regional hub for logistics. The master plan will also emphasise regulatory and institutional reforms as well as facilitate trade.

To encourage the development of the maritime industry, the Government has allocated RM3 billion for the Maritime Development Fund under BPMB to facilitate financing of vessels, land acquisition, infrastructure development, shipbuilding, machinery and working capital for maritime-related industry. The fund offers

Shariah and conventional financing. The minimum financing is RM1 million for working capital, and RM5 million for permanent asset financing. The maximum financing is up to RM500 million for a single customer. As of July 2014, a total of RM17 million was disbursed for financing maritime-related activity.

Strengthening Capital Markets

To enhance the global competitiveness of the capital market, several measures have been undertaken, including promoting Malaysia as a market for Social Responsible Investment (SRI). To meet this goal, the Guideline on Sukuk was revised to include SRI framework to facilitate the creation of an ecosystem conducive for SRI investors and issuers. In line with the rising trend of global green and social impact bonds, the guideline facilitates as well as promotes sustainable and responsible investment. The additional provisions in the revised Guideline on Sukuk include utilisation of proceeds, eligible SRI projects, disclosure requirement, appointment of an independent party and reporting requirements. SRI sukuk may be used to finance projects that conserve energy and use renewable energy such as solar as well as build public hospitals, schools or affordable housing and develop *waqaf* properties. The issuer of an SRI sukuk is required to hire an independent party to evaluate the project and disclose this information in the prospectus, if the sukuk is open to retail investors. Issuers will also have to publish an annual report to detail the amount of funds that have been used on the project. The guideline was enforced on 28 August 2014.

Promoting Pension Schemes

The Government remains committed to a sound and sustainable social framework to ensure adequate retirement savings. In this regard, the 1Malaysia Pension Scheme (SP1M) and Private Retirement Scheme (PRS) have been introduced in 2010 and 2012, respectively. In an effort to encourage more people to participate in the SP1M,

the Government has increased its contribution from 5% to 10% or from a maximum of RM60 to RM120 per year, effective from 1 January 2014. As of end-August 2014, total SP1M registration stood at 72,648 with total savings of RM317.3 million. As for the PRS, a one-off incentive of RM500 is given to contributors aged between 20 and 30 who participate in the PRS scheme with a minimum cumulative investment of RM1,000 within a year. As of June 2014, about 10,000 contributors participated in the PRS scheme. Since it was launched, the total net asset value of the PRS has reached approximately RM418 million from 11 schemes with 44 retirement funds.

Strengthening Small and Medium Enterprises

SMEs play a vital role in supporting economic growth and creating job opportunities. Currently, SMEs account for 97.3% of the total business establishments and contribute 33.1% to GDP. Hence, there is need to strengthen the role of SMEs to enhance their contribution to the economy.

To encourage SMEs move up the value-chain through productivity enhancement measures, the Government has allocated RM100 million under the Soft Loan for SMEs programme. An additional RM10 million was allocated for the Lean Transformation Programme. The programme is expected to equip approximately 300 SMEs with techniques and practical approaches to reduce cost and increase productivity. Apart from development initiatives, the Government also provides training funds for specialised industries such as creative multimedia, tourism and manufacturing, including robotics and machinery. The programme is expected to attract more than 1,300 participants.

In addition, the Government extends assistance to night market traders through the Night Market Traders Entrepreneur Scheme with an allocation of RM100 million to cover business costs, such as working capital, site rental, purchase of raw materials and business equipment. The facility is

targeted to assist registered local entrepreneurs at identified night markets nationwide and is expected to be rolled out in the fourth quarter of 2014.

Moving up the Value Chain in Agriculture Sector

Agriculture remains an important sector in generating income for farmers and fishermen; ensuring sufficient food supply as well as developing the potential in agro-based industries. In this regard, the Government continues to intensify efforts to boost the agriculture sector, particularly through the implementation of high impact and commercially viable projects. In 2014, RM6 billion was allocated for various programmes aimed at moving up the value chain in the agriculture sector. Among the measures implemented include strengthening the strategic role of the Federal Agriculture Marketing Authority (FAMA) through various initiatives to boost the country's exports of local agriculture produce under the concept of "from farm to export market". This includes establishing Agrobazaars abroad, including at Hong Kong to promote Malaysian fruits and agro-based products. The first Agrobazaar was opened in Singapore in June 2014 to market various quality agro-based products and local fruits, especially fruits in high demand such as honey jackfruit, rambutan, mangosteen and durian. FAMA is expected to open more Agrobazaars abroad, including in Hong Kong to promote premium Malaysian fruits and agro-based products. During the first seven months of 2014, exports of fruits increased 44.7% to RM298.8 million.

Meanwhile, for the domestic market, FAMA targets to open additional *pasar tani* (farmers' market) nationwide in 2014 for the rakyat to purchase fresh farm products at competitive prices. Currently, there are 549 *pasar tani* in the country, with 32 new markets opened during the first eight months of 2014, involving 24,979 entrepreneurs. The *pasar tani* has generated sales amounting to RM469 million and is expected to reach RM747 million sales by end-2014. To cushion the burden of rising

food prices, particularly among the low-income group, the Government has launched the *Jimat Belanja Dapur* campaign, which offers discounts between 5% and 20% on 32 selected products sold at *pasar tani*.

In addition, to further boost farmers' income, FAMA has introduced the *Karavan Tani* concept, which promotes mobile sales of farm produce. During the first eight months of 2014, 16 farmers participated in the programme. As for the fresh fruit stall entrepreneur programme, a standard design for fruit stalls was introduced for better display of fruit items to attract customers. Using this new approach, fresh fruit stall operators are able to expand their fruit business and increase revenue through efficient, uniform and effective stall management. The Government targets to open an additional of 100 fresh fruit stalls in 2014. As at end-August 2014, 48 stalls were set up nationwide.

The Government has provided assistance to farmers to help reduce the burden of rising production cost and to protect their livelihood. To meet this objective, RM2.4 billion was allocated for subsidies and incentives, of which RM2.2 billion was for the paddy industry. As at end-July 2014, RM1.3 billion was spent. Meanwhile, to encourage fishermen to be more productive, the Government has allocated RM241 million as an incentive to increase fish landing. The measure benefited 56,000 fishermen during the first half of 2014.

Developing Entrepreneurs

Entrepreneurs play an important role in the economy in terms of contribution to economic prosperity and employment opportunities. Various measures have been undertaken to increase the participation of entrepreneurs, such as improving access to finance as well as skills training and advisory services. In 2013, the Government successfully organised the 4th Global Entrepreneurship Summit (GES), which gathered world leaders, global entrepreneurs and distinguished speakers, to share knowledge and

experience on entrepreneurship. The Government continues to implement several initiatives to drive entrepreneurship, such as the establishment of the Malaysian Global Innovation & Creativity Centre (MaGIC) as well as the 1Malaysia Entrepreneur (1MeT) and the Graduate Entrepreneurship programmes.

MaGIC was established to provide a comprehensive ecosystem for entrepreneurs and to assist them to become global players. In essence, MaGIC provides a one-stop centre for services needed by the entrepreneurs. MaGIC will focus on attracting talented domestic and international entrepreneurs by providing supporting infrastructure and access to startup capital as well as training and collaboration with research centres, universities and international organisations.

In October 2014, MaGIC launched the e@Stanford Programme, a joint-entrepreneurship programme with Stanford University, to boost high-potential local startups where selected entrepreneurs will be sent for intensive exposure at Stanford University followed by networking in Silicon Valley. The Government allocated RM50 million to MaGIC and as of August 2014, RM9.4 million was spent. Meanwhile, the 1MeT programme aims to inspire and cultivate an entrepreneurship culture among youth by exposing them to the core nature of entrepreneurship, types, opportunities and risks in the business environment. Committed 1MeT entrepreneurs will be given further guidance through MaGIC programmes. As of August 2014, more than 7,000 people were trained, exceeding the target of 5,000 people annually.

MaGIC – A Comprehensive Ecosystem for Entrepreneurs

Introduction

Entrepreneurs are important to the economy as their innovation, creativity and willingness to take risks can generate more prosperity as well as contribute to growth and a high-income economy. This can be seen from successful global entrepreneurs such as Steve Jobs, Bill Gates, Mark Zuckerberg and Richard Branson. And closer to home, entrepreneurs such as Tony Fernandes, Syed Mokhtar, Jimmy Choo and Pua Khein-Seng are a source of inspiration to youths and other aspiring entrepreneurs.

Recognising the critical role of entrepreneurs, the Government has thus undertaken several initiatives to drive entrepreneurship. These initiatives range from setting up dedicated entities, providing funds, incentives and capacity-building programmes, as well as establishing special windows in banks to cater for entrepreneurs. The Government is actively promoting entrepreneurship given the huge potential for entrepreneurs to grow and enhance their contribution to the economy in terms of job creation, exports and share to GDP.

Contribution of SMEs

Typically, entrepreneurs begin as startups before expanding to microenterprises (with less than five employees) and later to small and medium enterprises (SMEs). Some successful SMEs will also eventually graduate to public listed companies. SMEs are dominant in the Malaysian economy, accounting for 97.3% of total business establishments. The majority of SMEs are in the services sector. In 2013, SMEs contributed 59% to employment, 19% to exports and 33% to GDP. Under the SME Masterplan 2012 – 2020, the target is to raise the contribution of SMEs to 62% to employment, 25% to exports and 41% to GDP by 2020.

Financing for SMEs

SMEs have access to various sources of financing such as self-funding, Government dedicated funds, banking institutions, venture capitalists, angel investors and crowd funding. Banking institutions remain the main source of financing for SMEs with a share of more than 85%, while Government grants remain the main source of financing for startups at 90%.

MaGIC

Given the need to connect all available entrepreneur resources, address gaps in the ecosystem and drive the nation towards achieving high-income status by 2020, the Malaysian Global Innovation & Creativity Centre (MaGIC) was established. MaGIC is one of the initiatives under the National Blue Ocean Strategy (NBOS). The creation of MaGIC, as a one-stop centre to provide support to the startup ecosystem in Malaysia, is timely in view of the growing emergence of startups that have a faster growth trajectory and usually leverage technology to grow and gain market share regionally or globally. Furthermore, the rapid mobile Internet and cellular penetration in Malaysia at 116% and 143%, respectively, will facilitate entrepreneurs to create scalable companies. MaGIC will focus and nurture entrepreneurs to create high-growth startups, which will also result in Malaysia producing highly-skilled talents. Consequently, this will put Malaysia on the global map as a startup capital in Asia.

Historic Launch

The establishment of MaGIC was announced during the 4th Global Entrepreneurship Summit (GES) held on 11 October 2013 in Kuala Lumpur. MaGIC was given an allocation of RM50 million under Budget 2014 for its operations. Given the urgency to kick-start a comprehensive ecosystem for startups, MaGIC was set up within a short span of time. It was indeed a historic moment when MaGIC was jointly launched by YAB Dato' Sri Mohd Najib, Prime Minister of Malaysia, and US President, Barack Obama during his inaugural visit to Malaysia on 27 April 2014.

Comprehensive Ecosystem

MaGIC is located in Cyberjaya, the nation's global technology hub with more than 500 technology companies that are involved in a range of activities, including startups, creative multimedia, R&D, outsourcing as well as data management. It is thus ideally placed to serve as a one-stop centre to meet the needs of entrepreneurs, leveraging the facilities and dynamism of the IT community in Cyberjaya. MaGIC provides a comprehensive ecosystem for entrepreneurs with facilities such as obtaining funding from banks and venture capitalists; providing accelerators for developing startups to improve products and services; assisting with intellectual property registration; and offering facilities for training, coaching and mentoring. By creating an enabling ecosystem, MaGIC hopes to attract the best local and global talent and assist them to grow into successful entrepreneurs. This will in turn inspire the young people and other budding entrepreneurs to venture into entrepreneurship, thus contributing to increasing the pool of entrepreneurs and helping to transform Malaysia into a dynamic entrepreneurial nation.

Enabling Entrepreneurs to Build High-Growth and Scalable Startups

Given the various entities involved in entrepreneurship development, there is need for MaGIC to differentiate itself. Its focus is thus on providing the necessary support, where entrepreneurs across all sectors in the ecosystem can leverage startup knowledge and skills to build high-growth and scalable businesses. The characteristics of scalable businesses include the following:

- Business models that are scalable and have the potential for global success or impact.
- A wide reach of customers and generally market-share driven.
- Desirable to venture capitalists due to high returns and global scalability.
- The trajectory to maturity takes a shorter span of time.

MaGIC is different from other agencies as it is run by entrepreneurs for entrepreneurs. It encourages and facilitates entrepreneurs to grow beyond local borders and builds a sustainable ecosystem for entrepreneurs to thrive by helping to fill any gaps in a startup's lifecycle – from the ideation phase to assisting entrepreneurs find a viable exit strategy for their business.

Challenges

To better understand the challenges faced by local startups, MaGIC has hosted a series of dialogues with entrepreneurs. Feedback from these dialogues indicate several challenges, such as low visibility of Malaysian success and failure stories; low awareness and availability of accelerator programmes; lack of available mentors to guide and support startups; difficulty in getting MSC-status which accords attractive incentives; costly business registration process and higher rentals in MSC-status buildings; and difficulty to attract and retain talent. Startups also face funding issue as current grants available mostly focus on product development, and not on working capital or human capital needs. Furthermore, there are insufficient seasoned entrepreneur investors while banks are less startup-friendly.

Core Activities

MaGIC has identified three core activities to re-energise and enhance the startup ecosystem:

- “Connect the dots” and map out all resources and programmes that are available for entrepreneurs in Malaysia, and making this information more accessible via MaGIC Central. An online resource tool will be developed as an information and referral platform encompassing all resources available within the Malaysian startup ecosystem.
- “Fill in the gaps” for a sustainable ecosystem by building a critical mass of startups in Malaysia through the ASEAN Accelerator Programme which will be launched in the first half of 2015; and establishing the MaGIC Startup Academy as a skills-learning platform which will provide regional and global exposure to entrepreneurs. The Startup Academy will be launched in October 2014 over a 5-day workshop symposium.
- Inspire through success stories - identifying successful Malaysian entrepreneurs in the past and present that have successfully created innovative solutions to real-world problems, and provide a platform for them to tell their story to inspire the community.

Collaboration With Strategic Partners

Malaysia's collaboration with UP Global and Stanford University is set to strengthen entrepreneurial activity. The collaboration will see UP Global's Southeast Asia office housed in MaGIC, as well as the following programmes with Stanford University:

- i) Stanford Centre for Professional Development – The e@Stanford programme will further boost high-potential local startups where 50 entrepreneurs are sent to Stanford University and Silicon Valley for a 2-week immersion programme.
- ii) Stanford Graduate Business School – The Stanford Go-To-Market 1-week programme is designed to help entrepreneurs with validated ideas to develop their go-to-market plan as well as hone their pitching/presentation skills.

- iii) Stanford Technology Ventures Programme – To provide the faculties of local universities with Stanford University connections to cultivate entrepreneurial mindsets among students.

Other strategic collaborations include Government agency partnerships via MaGIC Central, whereby MaGIC channels enquiries to the respective agencies so that all entrepreneurial concerns are resolved efficiently. Among the Government agencies are Malaysia Debt Ventures Berhad (MDV), Malaysia Venture Capital Management Berhad (MAVCAP), SME Bank, Amanah Ikhtiar Malaysia (AIM), Unit Peneraju Agenda Bumiputera (TERAJU), SME Corporation Malaysia (SME Corp.), Intellectual Property Corporation of Malaysia (MyIPO), Multimedia Development Corporation (MDeC), Federal Agricultural Marketing Authority (FAMA) and Malaysia Investment Development Authority (MIDA).

1MeT

Believing in the creativity, dynamism and potential of youth entrepreneurs, the 1Malaysia Entrepreneur (1MeT) initiative under the Ministry of Finance (MOF) was launched in 2013. 1MeT aims to inspire and cultivate youth entrepreneurs to achieve breakthrough success. Towards this end, 1MeT boot camps have been held nationwide to introduce the core concepts of entrepreneurship to aspiring young entrepreneurs. The target is to equip 5,000 young entrepreneurs with the relevant skills annually. The “committed” 1MeT young entrepreneurs will then be further guided by MaGIC. As of July 2014, more than 10,000 youth have participated in the 1MeT boot camps.

GREAT Platform for Entrepreneurs

The Gathering of Rising Entrepreneurs Act Together (GREAT) 2014, an initiative of MOF, was held over four days in September at MaGIC in Cyberjaya. GREAT, which marked the first ever gathering of entrepreneurs in Malaysia, provided a platform for sharing of knowledge and experience among entrepreneurs, startups and funding entities. The focus was on six areas, namely food, agriculture, technology, lifestyle, creative arts and women entrepreneurship. GREAT is one of the public-private sector collaboration initiatives to help transform Malaysia into an entrepreneurial nation.

Social Entrepreneurship Initiative

As entrepreneurship is not only about making profit, but also to give back to society, MaGIC's programmes will also include a social entrepreneur (SE) initiative. This will involve the creation of a supportive ecosystem for social ventures, including a 50:5,000 SE Fund, which will identify 50 high-growth and high-potential local social enterprises, and help them grow to impact 5,000 lives and more. In this regard, MaGIC will seek public-private-people collaboration to identify and propose creative and sustainable solutions to pressing social and environmental problems.

Conclusion

With several agencies involved in promoting entrepreneur development, much is expected of MaGIC, the most recently established entity. Equipped with a comprehensive ecosystem for entrepreneurs and collaboration with strategic partners, MaGIC is well placed to act as the catalyst to spur entrepreneurship in Malaysia, as well as advancing entrepreneurial activity regionally and globally. The ability of MaGIC to grow a critical mass of innovative and dynamic entrepreneurs, will contribute to economic growth and prosperity as well as make Malaysia a vibrant entrepreneurial nation.

Source: Malaysian Global Innovation & Creativity Centre.

Meanwhile, the Government allocated RM50 million for the Graduate Entrepreneurship Fund under the SME Bank to foster an entrepreneurship culture in Malaysia and reduce graduate unemployment. The facility provides loans from RM200,000 to RM500,000 to facilitate graduates and young entrepreneurs, who are not eligible to borrow from commercial banks or other Government-related funding schemes, to set up businesses. As of June 2014, RM11.02 million was approved to 67 graduate entrepreneurs.

Accelerating Regional Development

The regional corridors aim to achieve balanced development between regions by attracting strategic domestic and foreign investment. Towards this, the Government continues to support the regional development corridors. The Sabah Development Corridor (SDC) was allocated RM134 million to develop agropolitan projects in Kota Belud and oil-palm based industries in Lahad Datu and Sandakan. These projects, which will accelerate regional economic growth through the creation of sustainable agriculture and non-agriculture activities, are also expected to boost private investment in SDC. As of August 2014, RM65.5 million was expended for both projects. Meanwhile, RM597.9 million was allocated to develop the Samalaju Industrial Park and a halal hub in the Sarawak Corridor of Renewable Energy (SCORE) and as of August 2014, a total of RM293 million was expended for both projects. In the East Coast Economic Region (ECER), RM350 million was allocated to expand Kuantan Port and as of August 2014, RM174 million was expended. To promote the ECER as a petrochemical hub and encourage foreign direct investment (FDI) in higher-end application and technology, RM30 million was allocated to build an integrated petrochemical complex in Kerteh. As of August 2014, RM12 million was spent for physical works such as earthwork and basic infrastructure. In addition, the Northern Corridor Economic Region (NCER) was allocated RM10 million to develop satellite farms based on greenhouse concept

and equipped with fertigation system as a new technique to increase the production of high quality agriculture products.

Second Thrust: Strengthening Fiscal Management

Prudent financial management is vital to ensure long-term fiscal sustainability and macroeconomic stability. In this regard, the Government is committed to strengthening its financial position by implementing fiscal reform initiatives. The initiatives comprise measures to enhance revenue collection and improve spending efficiency. Among the key measures include implementing the Goods and Services Tax (GST), continuing subsidy rationalisation, improving budget management, implementing accrual accounting as well as transforming the civil service.

Implementing Goods and Services Tax

The Government will implement GST on 1 April 2015 to streamline the present structure of the consumption taxes, namely sales tax and service tax to make it more efficient, effective and transparent and business friendly. GST will enable the broadening of the tax base in line with the overall Government initiative to strengthen its fiscal position. In this regard, GST will simplify the current consumption tax system, which has multiple rates and different thresholds to a single rate of GST at 6% and single threshold of RM500,000 for businesses to be registered under GST. In addition, the GST model has salient features, which include zero-rated supplies, exempt supplies and standard-rated supplies. To ensure smooth implementation, the GST Act 2014 was gazetted on 19 June 2014, followed by several subsidiary legislations on 1 July 2014.

Currently, the Government is conducting a series of awareness and training programmes on GST for the public and businesses. The aim of these programmes is to assist the public and businesses to better understand the

proposed GST model as well as the mechanism and steps taken by the Government to address issues raised concerning GST implementation. As of August 2014, a total of 5,421 GST trainings and awareness programmes have been conducted nationwide benefiting 383,942 participants. Furthermore, RM250 million was provided by the Government as part of the GST assistance package. The grant comprises RM100 million for training of staff sent by companies and SMEs and the remaining RM150 million for financial assistance to SMEs to purchase GST accounting software. The registration for GST has been opened since 1 June 2014 and as of 1 October 2014, a total of 71,916 businesses were registered. The Government has also organised two major events on GST in September 2014, namely the GST Premier Forum and the International Seminar on GST to increase awareness.

Continuing Subsidy Rationalisation

The Government remains committed to subsidy rationalisation as subsidies, in particular, fuel subsidies constitute the largest portion of the total subsidy bill. In this respect, the Government has embarked on subsidy rationalisation on a gradual basis so as not to burden the rakyat. The sugar subsidy was removed in 2013 while fuel subsidy is being reduced in stages. On 2 October 2014, the Government further reduced the subsidy on petrol and diesel by 20 sen per litre. Ron95 currently retails at RM2.30 per litre while diesel, at RM2.20 per litre. These measures have resulted in savings to the Government, which in turn, will be channelled to socio-economic programmes to enhance productive capacity of the domestic economy and improve the well-being of the rakyat.

Meanwhile, the Government has implemented several assistance programmes to support the low-income group. In order to improve the distribution of assistance, an effective and comprehensive information technology (IT) system is being developed. The Government is also consolidating data of *e-Kasih*, *Bantuan Rakyat 1Malaysia* (BR1M) and other welfare assistance

programmes under a single database. This is to ensure efficient data management, avoid duplication in assistance and capture information of deserving persons who were inadvertently left out. The development of the consolidated database, which began in November 2013, incorporates the *e-Kasih* system and uses the BR1M 2014 information as the core data.

Improving Budget Management

Comprehensive planning and close monitoring will ensure that limited resources are used efficiently and effectively in the implementation of programmes. In this regard, under Outcome-Based Budgeting (OBB) an integrated performance framework has been developed that focuses on detailed planning for implementation and monitoring. All ministries and federal agencies have submitted their performance framework and budget proposals online since the 2013 Budget cycle. There is continued emphasis on improving data quality as it is an integral part of performance management. To further institutionalise concepts, knowledge and references, Centres of Excellence (COE) will be set up at all ministries to continuously develop expertise in areas such as agriculture, tourism and education. This will be undertaken concurrently with the development of the knowledge portal.

In addition, the Government emphasises the effectiveness of the budget expenditure. High-impact projects, which cost over RM100 million, are required to be audited by the National Audit Department (NAD). In this aspect, the NAD has identified 112 projects worth more than RM100 million, of which 40 projects have been audited and will be reported in the Auditor-General's Report 2014. The remaining 72 projects identified, including the MY Rapid Transit (MRT) and River of Life projects, are to be audited over several years of their implementation.

Implementing Accrual Accounting

To reflect a more comprehensive, transparent and efficient financial management system, the Government will implement accrual accounting.

With this, the Government will be able to account for and assess all assets and liabilities as well as realise cost savings, generate revenue and improve asset management. This will lead to improved public service delivery. The Government will report its financial performance on a modified cash basis in parallel with accrual accounting. In this regard, the Accountant-General's Office has conducted intensive outreach programmes including training and seminars for all ministries and agencies to facilitate the migration to accrual accounting.

Transforming the Civil Service

Integrity and compliance to financial procedures are important elements in the transformation of the civil service. These elements are imperative in ensuring proper management of Government resources and reducing wastage. Thus, Integrity Units will be set up in all ministries and agencies. The unit is responsible to ensure good public service practices, particularly promoting excellent work culture, strong moral and ethical values as well as patriotism in order to curb criminal and ethical misconduct. As of July 2014, a total of 414 Integrity Units were established and 35 Malaysia Anti-Corruption Commission (MACC) officers seconded to these units. In addition, under *1Pekeliling Perbendaharaan* (1PP), Treasury Circulars have been harmonised and simplified into seven key categories of financial management. These include Budget Management, Government Procurement, Public Money Management, Financial Governance, Asset Management, Strategic Investment as well as Housing Loan as reference for civil servants to comply with financial regulations and procedures.

Third Thrust: Inculcating Excellence in Human Capital

Education and training are crucial in the development of human capital. In this regard, several measures continue to be undertaken to transform the workforce. These include improving education, starting from preschool to tertiary levels as well as skills training for the workforce. The measures aim to instil excellence in human

capital equipped with knowledge as well as technical and soft skills, apart from inculcating thinking, innovative and creative abilities.

Enhancing Educational Excellence

In the pursuit of educational excellence, emphasis is given to educational transformation through the implementation of the Malaysia Education Blueprint 2013 – 2025. After a year of implementation, several achievements were recorded including a high preschool enrolment of 81.7% involving 793,269 children as well as improvement in basic literacy and numeracy skills among students to almost 99%. In addition, under the District Transformation Programme, Kedah and Sabah recorded outstanding improvement in all national examinations, particularly in Ujian Penilaian Sekolah Rendah (UPSR) compared to the other states. Under Wave 1 (2013 – 2015), the Blueprint aims to ensure all schools achieve minimum quality standards, including numeracy and literacy as well as basic infrastructure. Meanwhile, the appointment and training of principals will be improved and teachers will be upskilled to raise teaching quality.

Early childhood education is a critical component for children's learning development as it provides children with a firm foundation in primary school. The Government is committed to ensuring all children including those with special needs, have access to preschool education regardless of household income, place of residence and ethnicity. Towards this, RM530 million is provided for preschool programmes as well as to set up preschools in national-type primary schools. As of August 2014, RM106.4 million was spent on providing aid for preschool per capita grant, co-curriculum activities as well as food and insurance programmes. The initiative has benefited 196,710 preschool children nationwide.

In addition, focus is given to implementing programmes to enhance the teaching profession with emphasis on teaching skills, improving teaching methods and proficiency in core subjects such as Bahasa Malaysia and English Language, involving an allocation of RM221.1 million. In

this regard, several training programmes have been conducted for teachers, which focus on improving students' bilingual skills such as literacy and numeracy screening (LINUS) as well as upskilling of Bahasa Malaysia and English language teachers programme. To further uphold Bahasa Malaysia and strengthen English Language proficiency, the Government is providing digital software and textbooks, which is carried out in three phases (Phase 1 : 2013 – 2015). Meanwhile, 90 English Language teachers will be recruited under the English Language Teachers from India (ELTI) programme to increase the mastery of English Language among students and enhance teaching effectiveness among Malaysian English Language teachers. These newly recruited teachers will assume the role of a coach and be placed at selected District Education Offices. The selection of districts is based on the results of English Language in Sijil Pelajaran Malaysia (SPM) examination.

Recognising the importance of Internet access as a vehicle for online learning, RM137.2 million was allocated in 2014 to expand Internet access in schools, especially in rural areas, such as the 1BestariNet project. The project provides the baseline bandwidth of between 2 Mbps – 10 Mbps for schools. Under the project, a total of 10,113 primary and secondary Government schools are targeted to be equipped with 4G Internet connectivity and a proven cloud-based Virtual Learning Environment (VLE). The VLE will ensure that students are not confined to classroom and textbooks only but also provide continuous self-learning with teachers acting as facilitators. As of April 2014, a total of 8,774 schools have access to 1BestariNet.

Meanwhile, the RM100 schooling assistance to all primary and secondary school students was continued in 2014 as one of the measures to safeguard students' welfare, especially those from low-income families. As at end-August 2014, a total of RM516.1 million was fully disbursed. In addition, the 1Malaysia Book Voucher (BB1M) worth RM250 was given to all students in pre-

university as well as in public and private higher educational institutions (IPTA, IPTS) to assist in purchasing books and reference materials. As of August 2014, RM325 million was fully disbursed to 20 IPTA, 485 IPTS, 15 matriculation centres and 739 schools (Form Six).

Enhancing Tertiary Education

Tertiary education is imperative towards achieving a high-income economy. Concerted efforts have been undertaken to strengthen IPTA and IPTS to produce the requisite workforce. Through the provision of scholarship and financial aid, the MyBrain15 programme targets to produce 60,000 PhD holders by 2023 as well as increase the number of researchers. The programme encompasses Skim Latihan Akademik IPTA, MyPhD, MyPhD Industry and MyMaster, which are conducted in IPTA and IPTS locally and abroad. As of August 2014, RM266.2 million was spent on the programme, involving 4,989 masters and 1,435 PhD students.

There is need to develop academicians as knowledge generators, disseminators and repository of knowledge as well as preserve their work for the future. In this regard, the Malaysian Citation Centre (MCC) was established to serve as a database of academic papers published in Malaysian scholarly journals. The MCC also aims to improve local university ranking by improving the quality of Malaysian publications to be at par with international publications as well as assist researchers to publish articles in renowned international journals. The Government targets to index 300 local journals by year-end and as of August 2014, a total of 260 local journals (31,521 articles) have been indexed into the MyJurnal system with RM574,700 expended. The MCC also organises training programmes to create awareness and provide advisory services to publishers and editors in the area of online management and publication of journals for institutions of higher learning, government agencies and professional bodies.

Skills Training

As the economy shifts from low-end manufacturing and upstream resource-based activity to high-value manufacturing and service-driven economy, the requirement for a skilled labour force becomes more critical. Therefore, there is a need to continuously improve the quality of skills training programmes as well as equip the training centres with the latest technology to produce a highly-skilled workforce as required by industries. In this regard, the single-tier programme for Malaysia Skills Certificate (SKM) from Level 1 to Level 3 for a duration of six months was implemented in 23 Industrial Training Institutes (ILP) nationwide, which commenced in January 2014. This is in line with the transformation programme to provide a minimum Level 3 training course in all ILP under the purview of the Manpower Department (JTM). As of August 2014, RM2.1 million was expended on the programme benefiting 13,184 students.

In addition, RM178 million was allocated for the procurement of training equipment and upgrading physical training facilities. As of August 2014, RM90.8 million was spent for the purchase of training equipment for 29 Institut Latihan JTM (ILJTM), upgrading of 12 ILJTM, maintenance of training equipment and establishment of a Centre for Instructor and Advanced Skills Training (CIASST) Satellite Campus under the National Blue Ocean Strategy (NBOS).

Meanwhile, to increase the enrolment in the National Youth Skills Institute (IKBN) and Higher National Youth Skills Institute, the Double-Shift programme was implemented to fully utilise training capacity to enrol 15,000 students a year starting with the July 2014 intake. Among the courses offered are automotive, civil engineering, computer technology and multimedia, hotel management, food processing and electrical as well as information technology. During the first intake in July 2014, a total of 2,476 students were enrolled under the programme at 19 training institutes nationwide, involving an allocation of RM15 million.

A total of RM330 million was allocated to the Skills Development Fund Corporation (SDFC), to provide loans and grants for trainees to undergo skills training. The trainees, who comprise SPM and Penilaian Menengah Rendah (PMR) school leavers as well as dropouts, particularly from low-income families will be trained under the Continuous Skills Development Fund for School Leavers, National Key Economic Area (NKEA) Education and Workforce Technical Transformation Programme (WTTP). In addition, the Industrial Skills Enhancement Programme (INSEP) provides training and development programme for unemployed graduates in engineering, information and communications technology (ICT) and management to enhance their employability. As of August 2014, loans (RM254.2 million) and grants (RM39 million) were disbursed, benefiting 17,969 trainees nationwide.

Furthermore, to encourage employers to retrain and upgrade the skills of their employees, apprentices and trainees, RM425 million was allocated to the Human Resources Development Fund (HRDF). Registered employers can draw on the Fund to defray expenses for training and development programmes of their workers. As of August 2014, a total of 226,213 workers were trained under the Fund.

The challenge of balancing between career and family is one of the main reasons for the low participation of women in the workforce, despite the high number of women graduates. In this regard, several measures were introduced such as Flexible Work Arrangements (FWA) in January 2014 to attract and retain talent in the workforce as well as promote a better work-life balance, particularly for working mothers. The Government has engagement sessions with employers on the benefits of implementing FWA and to raise awareness on the availability of the FWA tax incentives. In addition, employers are also encouraged to implement FWA in line with the guidelines and best practices available in the flexWorkLife.my portal.

Fourth Thrust: Intensifying Urban and Rural Development

Economic growth and development must benefit all segments of society. In this regard, the 2014 Budget focuses on various measures to intensify urban and rural development, including programmes under the NBOS, strengthening public transport network, enhancing urban well-being and accelerating rural development.

Leveraging National Blue Ocean Strategy

The Government has adopted the NBOS to deliver programmes and services to the public that have high-impact at low cost and which can be rapidly executed and replicated throughout the country. Through the NBOS, over 80 ministries and agencies are collaborating to formulate and execute creative NBOS initiatives to transform the country. In 2014, the Government allocated RM278 million to implement various programmes under NBOS initiatives including the establishment of additional Urban Transformation Centres (UTCs), Rural Transformation Centres (RTCs) and Mobile Community Transformation Centres (Mobile CTCs).

To ensure the UTCs continue to serve as a one-stop centre incorporating the services of up to 60 public and private organisations, three more UTCs have been built, in Sabah, Johor and Sarawak. The UTC concept is recognised as a new paradigm in delivering services to the rakyat and recently won the 2014 Prime Minister's Innovation Award. As of September 2014, more than six million people used the services of the eight UTCs and one mini UTC in Sentul. Due to the overwhelming response towards the UTCs, another mini UTC in Keramat is expected to be fully operational by end-November 2014. Three more UTCs, one each in Terengganu, Kelantan and Perlis are being planned.

Furthermore, to extend the outreach of services to rural areas, three new RTCs were launched in Napoh (Kedah), Kulaijaya (Johor) and Bandar Al Muktafi Billah Shah (Terengganu), bringing the total to seven RTCs. As of August 2014,

RM27 million was disbursed for the building of the three new RTCs. Another four RTCs will be established in Pulau Pinang, Negeri Sembilan, Sabah and Sarawak. As of July 2014, more than 4.5 million people used the services of the RTCs. In addition, to continue providing key touch-point services to people in rural areas and those living far away from the UTCs and RTCs, three units of Mobile CTCs were deployed in 2014 at a cost of RM1.4 million. As of August 2014, the Mobile CTCs serviced 24 rural areas with another 14 to be covered by year-end.

Strengthening Public Transport Network

A comprehensive and well-functioning public transport system, particularly in cities, is essential to facilitate the mobility of people for their daily activities. This is vital in ensuring cities become attractive to live, work and play, while reducing traffic congestion, pollution and travelling time. Recognising this as a priority, the Government has implemented various projects to improve public transportation so that it is efficient, reliable and has seamless connectivity.

In order to improve intercity railways services, the Government allocated RM2.5 billion in 2014 for the completion of the Ipoh-Padang Besar Electrified Double-Tracking Project (EDTP) and the maintenance of the Seremban-Gemas EDTP with future plans for an extension to Johor Bahru. As of August 2014, RM1.6 billion was expended for these projects. The 329 km Ipoh-Padang Besar EDTP, which began in January 2008, is scheduled to be completed by November 2014. Upon completion, ridership is expected to increase 11% and cargo volume by 56% by 2015. Meanwhile, the Seremban-Gemas EDTP spanning 98 km, which was completed in July 2013, will be extended for another 197 km to Johor Bahru. The project is expected to be completed by 2019.

To encourage more people to use urban public transport, RM62 million was allocated to build park-and-ride facilities in various light railway

transit (LRT), KTM Komuter and Express Rail Link (ERL) stations. As of August 2014, the construction of park-and-ride facilities was completed at LRT Ampang, LRT Asia Jaya, KTM Komuter Padang Jawa and KTM Komuter Section 19 Shah Alam stations, providing a total of 2,407 parking bays. The construction of other park-and-ride facilities is ongoing, including at ERL Salak Tinggi as well as KTM Komuter Klang and Serdang stations, and is expected to be completed in stages by end-2015.

Meanwhile, to further improve taxi services in Malaysia, the Government has allocated RM15.3 million to establish a Centralised Taxi Service System (CTSS). This system will be installed in 37,000 taxis in Klang Valley for Phase 1 before extending to 60,000 taxis nationwide. This comprehensive system is expected to enhance enforcement and monitoring as well as increase connectivity between operators to improve the booking system. The system is being developed and is expected to be operational in the Klang Valley in the third quarter of 2015. It will first be installed in the new Taxi 1Malaysia (TEKSI 1M) within the Klang Valley before extending to other taxis.

To provide quality and comfortable facilities for commuters, RM9 million was allocated to build 'Last City Terminals' or *Hentian Akhir Bandar*, for stage buses in the Klang Valley. Among the locations identified are Section 19 and Section 17 in Shah Alam, PJS3 and Jalan Othman in Petaling Jaya as well as Wira Damai in Selayang. In addition, RM9 million was allocated to establish parkway drop-zones, to improve integration of the existing infrastructure such as bus stops with covered walkways, pedestrian linkages to stations and transit facilities for bus or taxi passengers to board trains. Several existing rail stations located along major highways have been identified for the implementation of parkway drop-zones, namely the Batu Tiga, Serdang and Kampung Dato' Harun KTM Komuter stations. Furthermore, to enable passengers to obtain real-

time information, the Government has allocated RM4.2 million to install bus information panels in 12 local authorities throughout Greater Kuala Lumpur.

In addition, to ensure seamless air connectivity between urban and rural areas in Sabah and Sarawak, the Government has allocated RM130 million to subsidise rural air transport. Currently, a total of 49 routes are served by MASWings for rural air transport in Sabah and Sarawak. As of October 2014, RM81.4 million was spent on this initiative. Meanwhile, RM40 million was allocated to subsidise the uneconomical train routes in the East Coast, namely Pahang and Kelantan. As of August 2014, KTM Intercity runs four local train services between Gua Musang and Tumpat carrying an average of 1,000 passengers daily.

Enhancing Urban Well-being

The Government encourages the establishment of residents' committees to enhance community well-being in urban areas. In this regard, RM63 million was allocated for the activities of Jawatankuasa Perwakilan Penduduk (JPP), which provides a platform for the local communities to participate actively in managing their neighbourhood. Through the JPP, local communities have the opportunity to air their views on issues related to their neighbourhood to the Government authorities. As of August 2014, a total of 650 JPP were established in various residential areas in Melaka, Pulau Pinang, Perak, Perlis and Kedah.

Meanwhile, the growing population and rapid development in urban areas have increased the demand for uninterrupted supply of clean water. In this regard, the Government allocated RM1.2 billion to build and upgrade dams and water treatment plants to reduce water supply disruptions. The initiative also aims to increase the coverage of water supply to 100%, especially in urban areas and raise treated water supply reserves nationwide to 20%. As of August 2014,

a total of RM514.5 million was spent for the implementation of various water supply projects nationwide.

Accelerating Rural Development

The Government continues to focus on rural development to improve the life of the rakyat. In this regard, a sum of RM4.1 billion was allocated to improve basic infrastructure and amenities. Of this amount, RM979.6 million was provided for the construction, refurbishment and upgrading of rural road networks nationwide. As of July 2014, RM585.9 million was spent for building and maintenance of 196.6 km of rural roads.

A sum of RM457 million was allocated for the provision of potable water to 8,000 houses in rural areas nationwide. As of July 2014, RM171.7 million was spent benefiting 3,096 houses. In Sarawak, 30,000 water tanks were distributed to identified rural areas by September 2014 involving an allocation of RM75 million. Meanwhile, RM862.7 million was allocated for the provision of uninterrupted electricity supply to consumers in rural areas in Sabah and Sarawak, Orang Asli settlements in Peninsular Malaysia as well as estates and villages on islands. As of July 2014, 48 electricity supply projects are at various stages of implementation involving RM405.5 million, of which six projects were completed benefiting 4,180 houses. In addition, to reduce the frequent electricity supply disruptions in Sabah, the Government allocated RM265 million to strengthen the generation and transmission system, such as upgrading of the Tenom Pangi Hydro Power Station, construction of Kimanis electricity transmission lines and a main switch station in Sandakan.

To further enhance the well-being of the Orang Asli community, the Government has allocated RM64.7 million for infrastructure and social development programmes. As of August 2014, RM31.6 million was spent on various initiatives, including repair and refurbishment of houses,

provision of public amenities, infrastructure and clean water supply as well as implementing entrepreneurship programme and agriculture projects. These initiatives are expected to benefit 36,700 Orang Asli households throughout Peninsular Malaysia.

Recognising the difficulties faced by the Bumiputera minority in Sabah and Sarawak over the ownership of customary land, the Government has allocated RM40 million for land surveying and ownership verification. As of August 2014, RM30 million was disbursed for land surveying and ownership verification of Sarawak customary land, with 53,076 hectares surveyed. Meanwhile, RM10 million was disbursed for land surveying and ownership verification of Sabah customary land. The allocation is for perimeter survey works of seven new communal titles covering approximately 3,211 hectares, subdivision of 10 communal titles into 881 individual lots covering 2,864 hectares and survey works of occupation lots covering 4,400 hectares. The initiative, which began in 2010, is expected to be completed by 2016 covering 730,000 hectares in Sarawak and 51,678 hectares in Sabah.

To encourage entrepreneurship among rural youth aged 18 to 40, the Government launched the Rural Business Challenge (RBC) in 2012. Subsequently, two business plan competitions were conducted in 2012 and 2013 with 31 winners identified and more than RM36 million of business grants awarded as prizes. The winners' projects under RBC 2012 have started to generate income and produced more than 50 new entrepreneurs and 400 job opportunities. The positive outcomes from the RBCs have resulted in an overwhelming participation in RBC 2014. The winners will be announced by November 2014. As of July 2014, RM9.9 million out of an allocation of RM20 million was spent for the implementation of various RBC programmes including food production, fish farming, auto repair and agro-tourism.

Fifth Thrust: Ensuring Well-being of the Rakyat

The Government continues to emphasise the well-being of the rakyat in line with the “People First, Performance Now” philosophy. Thus, concerted efforts have been taken to improve the quality of life of the rakyat. These include enhancing security and public order, strengthening environmental conservation and resource management, providing quality healthcare, developing national sports as well as enhancing the role of women and well-being of families. Other focus areas include empowering Bumiputera, assisting the disabled (OKU), appreciating artistes as well as enhancing education and entrepreneurship among Malaysian Indians. To lessen the burden of increasing cost of living, emphasis is also given to increasing home ownership among the low and medium-income groups, standardising price uniformity and continuing BR1M.

Enhancing Security and Public Order

The Government continues to ensure a safe environment for the rakyat and the business community. In this regard, the Government has allocated RM8.8 billion to the Polis Diraja Malaysia (PDRM) for the construction of five District Headquarters (IPD), with one each in Pasir Mas, Kota Setar, Johor Bahru Selatan, Nusajaya and Sipitang as well as two new police stations, with one in Pengerang, Johor and the other in Tongod, Sabah. As of August 2014, RM5.5 million was spent on these projects. Meanwhile, the PDRM has procured new equipment and consumables at a cost of RM30 million. By November 2014, a total of 496 CCTV will be installed at 25 local authorities, including Sabah and Sarawak. In addition, the PDRM has procured 1,800 units of high-speed motorcycles at a total cost of RM34 million for Police Motorcycle Patrol Unit to be distributed nationwide. An additional 200 units will be delivered by end-2014.

To reinforce the security of the nation, the Malaysian Armed Forces (ATM) is in the process of acquiring additional defence equipment

such as offshore patrol vessels, aircraft and armoured vehicles. Meanwhile, to continue tightening border security, the Eastern Sabah Security Command (ESSCOM), which was established in March 2013, is enhanced through increased deployment of security personnel, supply of latest equipment as well as building of new police stations. Apart from strengthening national security, these measures will instil confidence among the rakyat, business community and tourists, thus enabling economic activity to flourish.

To improve the transport of school children from army camps and rural areas, the Government has provided school buses to replace the military trucks. The programme has benefited 15,000 students and created 650 new job opportunities. Meanwhile, in appreciation of ATM veterans, the Government continues to provide medical payments, ex-gratia as well as education and welfare assistance. These initiatives have benefited 20,000 veterans with RM57.8 million spent as of August 2014.

Strengthening Environmental Conservation and Resource Management

The Government is committed to achieving a high-income and developed nation by 2020, with sustainable conservation and effective resource management. A key initiative is the establishment of the Malaysian Green Foundation (YaHijau), which will intensify outreach activities to increase and develop green living skills and knowledge through various programmes, such as *Ikrar Amal Hidup Hijau*, Carnival YaHijau and Green Youth Camp. The Government has allocated RM15 million to the Foundation to conduct these programmes. As of July 2014, RM190,000 was expended on these programmes, which received good response from the public.

Meanwhile, the Government is committed to energy efficiency and conservation in Government buildings. To date, four specific initiatives have

been undertaken, namely energy audit, retrofit, replacement of light-emitting diode (LED) lights at selected ministries and solar panel installation at 24 ministries. Currently, all programmes are actively in progress, particularly the procurement and installation processes.

The Government continues to implement flood mitigation projects to assist the rakyat who are constantly affected by floods. In this regard, a sum of RM659 million was allocated for the implementation of 34 flood mitigation projects. Of this, RM185 million was allocated for four major flood mitigation programmes or *Rancangan Tebatan Banjir* (RTB) namely Sungai Muda Kedah, Lembangan Sungai Muar Johor, Sungai Bunus Kuala Lumpur and Pekan Pahang. As of August 2014, RM90 million was spent for the implementation of the RTB projects, which are expected to be completed in stages by 2017. The mitigation projects are expected to reduce the risk of flooding for more than 166,000 people living in these areas. In addition, the Government also provided an allocation of RM89 million for dredging and deepening river estuaries in Sungai Muda Kedah, Sungai Pahang (phase III) Pekan Pahang district, Sungai Besut Terengganu and Sungai Bongon Sabah. As of August 2014, RM54.9 million was expended for the implementation of these projects.

Furthermore, to prevent the recurrence of mud flood disasters, which caused loss of lives and property in Cameron Highland in October 2013, the Government has taken action to widen and deepen Sungai Bertam. The Project will mitigate flash floods and overflowing rivers caused by the release of water from Abu Bakar River Dam to Lembah Bertam area. In this regard, the Government has allocated RM40 million for physical works including land acquisition, soil investigation, relocation of utilities, river reserve demarcation and construction of bridges.

Providing Quality Healthcare Services

The Government remains committed to providing quality healthcare and medical services for the rakyat. For this, RM5.4 billion was allocated for

upgrading Hospital Kuala Lipis and Hospital Kuala Lumpur and the construction of additional blocks in Hospital Jeli, Kelantan and Hospital Queen Elizabeth, Kota Kinabalu. Work on these hospitals is currently at various stages of implementation and is expected to be completed by 2015. Meanwhile, RM15.6 million was allocated for the establishment of an additional 50 unit of 1Malaysia Clinics in 2014. The clinics are at various stages of completion and are expected to benefit 1.5 million rakyat.

In efforts to improve the quality of nursing care and reduce the workload of nurses, RM21 million was allocated for the recruitment of additional nurses. As of August 2014, a total of 6,484 nurses have been appointed from Institut Latihan Kementerian Kesihatan Malaysia and private colleges. In addition, RM7.7 million was allocated for the procurement of medicine and consumables as well as to provide free continuous ambulatory peritoneal dialysis treatment kits for end-stage kidney failure patients. The dialysis kits will enable more than 635 patients to treat themselves at home.

Developing National Sports

The Government has undertaken continuous efforts to pursue excellence in sports. For this, RM239 million was allocated to upgrade sports complexes; establish Pilot Talent Identification Programme in primary schools; and implement the Future Professional Coach Programme to hone the skills of coaches for selected sports. As of July 2014, RM5.6 million was disbursed for the construction of Beluran Sports Complex in Sabah, installing a synthetic football field at IKBN Kg. Bongosu, Temerloh and Jerantut Complex, Pahang; building a covered basketball court in Temerloh, Pahang; and a football field in Kemasik, Terengganu.

In addition, RM49.6 million was allocated to the Sports Trust Fund as of June 2014, for the development of the 2011 – 2014 Elite Athlete Programme as well as medical treatment and research. The Programme was aimed at preparing athletes for the 2014 Commonwealth Games in

Glasgow as well as the 2014 Asian Games in Incheon. The Programme was launched on 1 January 2011 and about 400 athletes and 100 coaches have undergone full time training at national and dedicated training centres both locally and abroad. As of end-June 2014, RM81.5 million was expended on various sports activities.

Meanwhile, Fit Malaysia was launched on 7 September 2014 to inculcate a healthy lifestyle among Malaysians. The programme will be expanded throughout the nation, following the inaugural roadshow in Melaka on 14 September 2014. As of October 2014, almost 50,000 fitness enthusiasts have joined various activities under the programme.

Enhancing Role of Women and Family Well-being

Cognisant of the importance of women's contribution to the economy, programmes for the development of women and family institution were given an allocation of RM2.2 billion in 2014. Among others, the allocation has been utilised for various programmes such as the Women Directors' Programme, Purple DNA Entrepreneurship Programme and setting up additional Pusat Aktiviti Warga Emas (PAWE). The Women Directors' Programme launched by the Prime Minister on 27 June 2011, aims to achieve at least 30% women's participation at decision-making level in the corporate sector by end-2016. As of July 2014, RM320,000 was disbursed for the programme benefiting 797 women.

To enhance women's participation in socio-economic activity, the Purple DNA Entrepreneurship Project was launched in May 2012. The project introduces a special business model for the socio-economic empowerment of groups with special needs, such as participants from Community-Based Rehabilitation (CBR) Programme and residents of welfare institutions. The model is based on the principle of social enterprise and aims to address specific challenges to maximise

socio-economic outcomes. As of August 2014, RM10 million was disbursed for the programme benefiting participants from CBR and residents of welfare institutions under the Department of Social Welfare (JKM).

Meanwhile, to improve the well-being of senior citizens, an additional 23 PAWE were established nationwide. The centres provide outreach and developmental programmes for senior citizens. As of July 2014, there are 45 centres nationwide, which provide various activities and programmes, including religious and recreational activities, therapy and rehabilitation, medical screening as well as relevant training and seminars. As of August 2014, RM670,000 was disbursed to establish 20 new centres.

Empowering Bumiputera

The Government has implemented various programmes to further strengthen the participation of Bumiputera in economic development in line with the Bumiputera Economic Empowerment Agenda, including improving education, equity ownership and entrepreneurship. In education, efforts have been taken by Universiti Teknologi MARA (UiTM) to increase student intake to 250,000 by 2020. This includes both full-time and part-time students as well as working adults to promote lifelong learning. In addition, UiTM has also introduced 581 study programmes, including online and off-campus study programmes to cater for working adults. The enrolment of full-time students increased 11.3% to 186,484 students for the first semester of 2013/2014 session compared to 167,535 in 2010. As of July 2014, RM1.3 billion was disbursed to UiTM.

Towards increasing Bumiputera equity ownership, the Government has allocated RM300 million to the EquiBumi Fund under SME Bank to provide loans to credible Bumiputera SMEs to acquire listed companies or companies with potential to be listed in Bursa Malaysia. To be eligible for the Fund, companies must be registered with the Companies Commission of Malaysia, and be financially viable as well as fulfil the

criteria set by SME Bank. As of June 2014, RM80.7 million was approved for Bumiputera SMEs. In addition, the Government allocated RM200 million to SME Bank to establish a Malay Reserve Land Development Fund. The Fund will provide loan facility for the development of Malay reserve land in strategic areas such as Kampung Baru, Kampung Pandan and Kampung Datuk Keramat. As of June 2014, RM84.9 million was approved for residential and commercial property development.

To develop entrepreneurship skills and assist Bumiputera startups, Skim Usahawan Permulaan Bumiputera (SUPERB) with a RM100 million allocation was established under Unit Peneraju Agenda Bumiputera (TERAJU). SUPERB conducts a business challenge, which aims to support high-impact business proposals from qualified individuals. All entrepreneurs have to pitch their ideas for funding approval. Winners of the SUPERB Business Challenge will be awarded up to RM500,000 per company to develop and commercialise their ideas. As at end-August 2014, 28 entrepreneurs were awarded funds under the scheme. SUPERB also offers developmental services and commercialisation support, which include mentorship, training for competency building and possibly further funds from venture capitalists.

In addition, the Government continues to strengthen the Vendor Development Programme (VDP) to increase competitiveness of Bumiputera entrepreneurs. To encourage more anchor companies to develop local Bumiputera vendors, expenses incurred by anchor companies in implementing VDP are given double tax deduction. The qualifying operating expenses are capped at RM300,000 per annum, which include cost of product development, research and development (R&D), innovation and quality improvement, cost of vendor skills training and lean management system as well as financial management system. As of August 2014, five anchor companies have signed the Memorandum of Understanding (MoU) with the Government under VDP.

Assisting the Disabled

The Government continues to provide support for the OKU, with RM441 million allocated for their development and welfare. As of August 2014, a total of 506,228 OKU were registered with the JKM to obtain the OKU card. Among the registered OKU, learning disorders made up the majority at 36% followed by physical disabilities (32.8%), hearing problems (11.8%), vision impairment (9.4%), mental problems (4.2%), speech disorders (0.7%) and combination of various disabilities (5%). The OKU Card is a confirmation of their status, which enables them to enjoy 25 OKU privileges provided by the Government, including exemptions on MyKad fee, medical bill, import duty on support equipment and driving licence renewal fee.

Appreciating Artistes

Our diverse cultural heritage has enriched the nation and forged shared values towards nation building. The Government appreciates the work of artistes and thus continues to provide financial aid and assistance to them. A sum of RM6 million has been allocated to registered Non-Government Organisations (NGOs) for administration and operation costs. The NGOs are involved in the field of culture, arts and heritage, namely music and theatre; dance and performing arts; crafts; visual arts; journalism; advertisement; cultural heritage; film; fashion and textile; as well as martial arts. Meanwhile, a Culture Evaluation Committee was established under Ministry of Tourism and Culture (MoTAC) to evaluate proposals from NGOs for financial assistance based on specific guidelines. As of June 2014, RM4.5 million was spent benefiting 125 registered NGOs.

Enhancing Education and Entrepreneurship among Malaysian Indians

To promote inclusive development, the Government continues to empower Malaysian Indians. Towards this, the Government has allocated

RM100 million to enhance their education and skills training. For this purpose, the Unit Khas Masyarakat India was established under the Prime Minister's Department to coordinate the implementation of programmes for the Indian community. The i-Sinar programme, a socio-economic development programme, which provides skills training, entrepreneur development, education enhancement, as well as capacity building, was launched on 3 September 2013 for the Indian community. The programme, which is conducted by NGOs, focuses on the poor and low-income households, including youth, single mothers, school dropouts, senior citizens, and high-risk groups. As of August 2014, RM74.6 million was approved to 41 NGOs.

To further enhance the quality of life of Malaysian Indians and ensure their participation in mainstream development, the Government has established the Secretariat for Empowerment of Indian Entrepreneurs (SEED) in August 2012. SEED coordinates initiatives announced by the Government under the Malaysian Indian Economic Conference Blueprint in collaboration with the public and private sectors. The main functions of SEED are credit facilitation, credit risk management, business advisory services, GLC vendor development programmes as well as monitoring and research. Since its establishment, SEED has coordinated funds under various schemes, namely Shariah-Compliant SME Financing Scheme (SSFS), Business Accelerator Programme (BAP), Soft Loan Scheme for SME (SLSME), Enrichment & Enhancement Programme (E²), and *Skim Pembangunan Usahawan Masyarakat India* (SPUMI). An allocation of RM50 million has been disbursed in 2014 for SPUMI, which is under the purview of Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). In addition, loans are also available for Indian entrepreneurs under Amanah Ikhtiar Malaysia (AIM) and as of May 2014, a total of 1,385 applications amounting RM6.4 million have been approved.

Increasing Home Ownership

Continuous efforts have been undertaken by the Government to enable the rakyat to own houses, ensure stable house prices and control

excessive speculative activities. Some of the measures under the 2014 Budget are building affordable houses in collaboration with the private sector, increasing the minimum purchase price of property by foreigners and imposing transparency in property sales price.

The Government remains committed to enabling the rakyat, particularly the poor and low-income households, to own affordable houses. In this regard, RM724 million has been allocated in 2014 to the National Housing Department (JPN) for the construction of affordable housing units under *Program Perumahan Rakyat* (PPR), *Program Perumahan Rakyat Disewa* and *Perumahan Rakyat Bersepadu*. As of August 2014, a total of 16,473 units of houses under PPR, involving an allocation of RM578 million are under various stages of implementation, and are expected to be ready by 2017. In addition, another 7,838 units are being constructed under *Program Perumahan Rakyat Disewa* and *Bersepadu*, with an expenditure of RM99.5 million. The units are expected to be fully completed by 2016.

Meanwhile, the Government continues to allocate funds to build additional *Rumah Mesra Rakyat* (RMR) and *Rumah Mampu Milik* (RMM) across the country for the poor and low-income groups. A total of 30,782 RMR units and 3,795 RMM units were built since 2013, involving an allocation of RM2 billion and RM513.3 million, respectively. As of June 2014, a total of 3,449 RMR units and 2,654 RMM units are under construction and scheduled to be fully completed by 2016. Furthermore, to provide quality houses for the poor and hardcore poor in rural areas, RM179 million was allocated to build and refurbish 8,175 houses under the Housing Assistance Programme. As of July 2014, 4,760 houses were built or refurbished costing RM80.8 million.

The Government also allocated RM488.2 million in 2014 to build 3,000 units of *Rumah Idaman Rakyat* (RIR) for households with a monthly income below RM7,500. As of June 2014, 1,768 RIR units are in the planning stage and construction is expected to commence in the fourth quarter of 2014. In addition, to encourage the private sector to build more quality and

affordable houses for the middle-income group, the Government established the MyHome Scheme in 2014 with an allocation of RM300 million. The scheme aims to facilitate building of 10,000 affordable housing units, by offering a subsidy of RM30,000 for each unit built. The scheme comprises two categories namely MyHome1 and MyHome2. MyHome1 offers subsidies for houses with a market price between RM80,000 and RM120,000 to households with monthly income between RM3,000 and RM4,000. For households with monthly income between RM4,001 and RM6,000, MyHome2 subsidises the purchase of houses priced between RM120,001 and RM200,000. Upon its launch in March 2014, the scheme received overwhelming response from both developers and house buyers. As of August 2014, a total of 62,938 house buyers applied under the scheme while 65 projects with 14,965 units are under various stages of implementation.

Furthermore, for households earning between RM2,500 and RM7,500, the Government has allocated RM1 billion in 2014 for 1Malaysia Housing Programme (PR1MA) to develop 80,000 housing units. Since its commencement in 2012, PR1MA has approved 82,609 housing units to be built in cities and suburban areas, with the average sales price 20% lower than market price. As of end-July 2014, RM501.6 million was disbursed, with 7,336 units under construction while an additional 31,469 units are scheduled to commence by end-2014.

Under the 1Malaysia Maintenance Fund, the Government allocated RM100 million in 2014 to provide maintenance assistance to the private low-cost and medium-low cost flats. Under the Fund, the Federal Government provides 90% maintenance assistance to low-cost housing units and 70% for medium-low cost housing units, while the balance is borne by the residents' Joint Management Body. As of August 2014, RM40.4 million was expended to implement

the maintenance programme at 97 private low and medium-cost housing projects across the country.

In 2014, RM81.9 million was allocated to rehabilitate housing projects under the Abandoned Housing Rehabilitation Programme, which was introduced in 2009. As of August 2014, a number of 157 abandoned housing projects affecting 26,169 buyers have been successfully rehabilitated while another 25 projects are under construction and 30 projects are in the planning stage.

In addition, the Government has established the National Housing Council (NHC) to monitor, coordinate and formulate initiatives towards achieving the Government's aspiration to build one million affordable homes within the next five years. The first NHC meeting was held on 13 February 2014, which involved federal agencies, including JPN, PR1MA and Syarikat Perumahan Negara Bhd (SPNB) as well as state government and the private sector. The Council discussed strategies and action plans to address the rapid increase in house prices as well as to develop the MyHome Exchange, a comprehensive database on the housing sector. The database will provide accurate and comprehensive information to assist the Council to formulate policies relating to the direction and development of the housing industry.

Standardising Price Uniformity

Several measures have been implemented to standardise prices of controlled essential products across the country, particularly in rural and remote areas. In this regard, under the Price Uniformity Scheme, a total of RM331 million was allocated in 2014 for various measures including transport subsidy, "1Malaysia 1Harga" programme and Mobile Kedai Rakyat 1Malaysia (KR1M) initiatives under the NBOS. As of August 2014, RM208.2 million was disbursed and benefited 4.5 million people in rural and remote areas in Sabah, Sarawak, Labuan and several areas in the Peninsula.

Furthermore, the Government allocated RM29.5 million to expand KR1M, which offers a variety of household necessities at prices up to 50% lower than market prices. Since its launch in June 2011, a total of 139 KR1M are in operation nationwide with at least one KR1M for every Parliamentary constituency to alleviate the rising cost of living, particularly among the vulnerable and low-income groups in the urban and rural areas. As of August 2014, 14 new KR1M were opened, mostly in Sabah and Sarawak, while another 22 KR1M are under construction, and an additional five KR1M are in the planning stage.

Continuing Bantuan Rakyat 1Malaysia

The Government continues to implement the BR1M in 2014 to ease the burden of the low income households. BR1M 2014 was improved, including increasing the cash assistance, expanding the categories and introducing the Group Takaful Rakyat 1Malaysia (i-BR1M). The Government increased the BR1M amount from RM500 to RM650 for households with a monthly income of RM3,000 and below. Furthermore, a financial assistance of RM450 was extended to middle-income households with a monthly income of between RM3,001 and RM4,000. In addition, BR1M was increased from RM250 to RM300 for singles aged 21 and above, earning RM2,000 and below per month. As of August 2014, a total of RM3.64 billion has been disbursed for BR1M cash assistance programmes benefiting 4.6 million households and 2.3 million singles.

In addition, a further assistance of RM50 in the form of premium contribution to the i-BR1M was provided to all BR1M household recipients, bringing the total financial assistance to RM700 for the low-income households and RM500 for the lower middle-income households. The measure will provide protection of up to RM30,000 in the event of death or permanent disability between 1 January 2014 and 31 December 2014. As of August 2014, RM197.3 million

was expended for i-BR1M while 10,343 claims were made by BR1M recipients amounting to RM32.8 million.

Economic Management - 2015

The Malaysian economy is expected to sustain its positive growth trajectory in 2015, supported by improved global economic conditions and resilient domestic demand. Nonetheless, as a highly open economy amid an increasingly liberalised global environment, Malaysia remains vulnerable to external shocks. Thus, there is a need to strengthen Malaysia's external resilience through greater trade diversification and investment. This is to ensure that the current account surplus remains strong to face any potential external shocks. On the domestic front, while the nation has made significant progress in terms of economic performance, investment and international ranking in competitiveness, there remain several major issues that need to be addressed. These include income and regional disparities, rising cost of living and shortage of skilled labour. Hence, economic management in 2015 will focus on continuing the economic transformation process to achieve a more equitable and balanced growth in the medium and long term.

Pragmatic macroeconomic policies and a sound financial system are equally important in supporting the economy. In 2015, monetary policy measures will continue to support growth while mitigating risks to economic and financial imbalances that could undermine the long-term growth prospects. Meanwhile, fiscal measures will remain supportive of economic activity and reform initiatives even as the Government continues to further consolidate the Federal Government's financial position. At the same time, policies to promote a more people-oriented economy will be emphasised in order to achieve inclusive growth. Measures will be more targeted to give better benefit to the bottom 40% of households and vulnerable groups.

Issues and Challenges

Economic Resilience

Private investment has re-emerged to become one of the key contributors to growth since 2012. Following its strong growth of 13.1% in 2013, the share of private investment to GDP has increased to 16.7% in 2013 compared with 12.8% in 2010. To accelerate quality private investment in the 12 NKEAs, there is a need to continue focusing on pro-growth and business-friendly policies. Meanwhile, SMEs are reluctant to invest in technology and move up the value chain due to various reasons including easy availability of low-skilled foreign workers and lack of sufficient access to financing.

As an open economy, Malaysia's trade (2013: 139% of GDP) is vulnerable to downside risks in the global environment such as slower-than-expected global growth and trade, geopolitical tensions, uncertain commodity prices and disruptions in supply chain. While export of manufactured goods are strong, the share of service exports to GDP remains low at 12.9% in 2013 (2000: 14.9%).

Under the Services Sector Blueprint, the sector is targeted to increase its contribution to 60% of GDP by 2020 (2013: 55.2%). However, there remain several crucial issues that hamper growth of the services sector, including the fragmented nature of the sector and high concentration of micro-enterprises that rely on low-skilled workers. Meanwhile, the share of highly-skilled workers in the services sector, especially in finance, ICT, healthcare and other professional services remains low. Furthermore, the low adoption of technology and automation among SMEs prevents them from reaping benefits from the rapid advancement in ICT and knowledge economy.

Well-being of the Rakyat

To better measure the level of well-being of the rakyat, the Government has established several indices to evaluate the impact of socio-economic

development policies and programmes on human well-being. The findings show that the national happiness and well-being indices have improved over the period 2012 – 2013. However, Malaysia's ranking in the UNDP World Happiness Report, which takes into account a more comprehensive measurement of well-being and happiness, has dropped to 56th position (5.16 points) in 2013 from 51st position (6.14 points) in 2012. While Malaysia scored well in two parameters, namely social support and GDP per capita, lower scores were recorded in four other parameters, namely healthy life expectancy, freedom to make life choices, generosity and perception of corruption.

Meanwhile, in order to achieve equitable income distribution, the Government continues to pursue the inclusiveness agenda, by providing equitable access and opportunities for all Malaysians to participate in economic development. The household income survey 2014 indicates that average household income has increased 8.4%, from RM5,000 in 2012 to RM5,919 in 2014. Furthermore, the Gini coefficient registered 0.421 in 2014 (2012: 0.431), reflecting an improvement in income disparity among the rakyat. The incidence of poverty at the national level has further declined to 1% (2012: 1.7%), with Sabah recording significant improvement to 6.4% (2012: 8.1%). However, due to rapid development, particularly in the urban areas, the rural-urban income gap ratio showed the income of urbanites was relatively higher at 1:1.85 in 2014 (2012: 1:1.86). Nevertheless, efforts need to be intensified to bridge the regional development gap and the urban-rural divide to reduce income imbalances in the country.

Human Capital Development

Investment in human capital development is an imperative towards achieving a high income, knowledge-intensive and innovation-led economy. Hence, there is a need to equip the workforce with necessary skills to meet the evolving demands of industry, increase productivity and

move up the value chain. Although Malaysia is ranked 12th out of 60 countries in the WCY 2014, labour productivity ranked low at 47th. Further, despite high capital investment, productivity growth remained low at 2.3% in 2013 indicating low technology utilisation and insufficient quality labour.

In addition, the skills mismatch between labour availability and industry requirement remains a concern. Currently, 56% of the workforce have secondary education, and are generally low-skilled workers. Tertiary graduates account for only 24.7% of the workforce. The major weaknesses among workers include the lack of creative thinking, poor communication skills, particularly English proficiency and inability to work with minimum supervision.

Therefore, the curriculum, including the teaching of soft skills, in technical and vocational institutes, polytechnics and universities needs to be strengthened to create a workforce that is technically sound, yet nimble enough to adapt to the changing needs of industry. Malaysia also faces shortage of skilled workers due to the brain drain and low wages. Hence, concerted efforts need to be undertaken to improve the work environment in order to attract, nurture and retain talent. Furthermore, the high dependence on unskilled foreign workers hampers capital intensive and office automation efforts, which are necessary measures to drive the economy to a higher level.

Despite the large number of women graduates, the participation of women in the labour market accounts for only 52.4% in 2013, lagging behind neighbouring countries such as Thailand at 70% and Singapore at 60%. Among the problems faced by working women include the lack of support facilities such as nurseries and childcare centres, inflexible working hours and lack of opportunities for re-employment. Therefore, there is a need to improve women's participation in the labour force to harness their potential and contribute to economic growth.

Rising Cost of Living

Although the country's per capita income has increased, the rakyat, especially the low- and middle-income groups, face difficulty in managing the rising cost of living. This is due to the higher prices of food, transportation, housing and utilities. The fuel subsidy rationalisation in September 2013 and the increase in electricity tariffs in January 2014, have partly contributed to the inflation rate increasing to 3.3% during the first eight months of 2014 (January – August 2013: 1.7%). Further, the recent reduction in fuel subsidy by 20 sen effective 2nd October 2014 is also expected to contribute to inflationary pressures. Although the implementation of GST in April 2015 is expected to see a one-off spike in inflation, the effect is expected to be temporary and will wane off after a few months. This is also the experience of other countries, which introduced GST or increased the rate.

Furthermore, prices of residential properties have been increasing, particularly since 2010 and are affecting home ownership, especially among the low and middle-income groups. House prices, as measured by the Malaysian House Price Index, recorded an average increase of 10% per annum during the period 2010 – 2013. The increase was due to limited supply of houses, speculative activity as well as higher cost of construction materials and energy.

Infrastructure and Infostructure Development

Despite Malaysia's considerable achievements in providing basic infrastructure and public amenities to the rakyat, there are still development gaps between regions, as well as urban and rural areas. Given the rough terrain and remoteness of some areas, the provision of public transport and infrastructure such as roads, railways, ports and utilities remain a challenge. In addition, urban areas still lack efficient public transport system.

The coverage of treated water supply in urban areas is 97% and 92.5% in rural areas in 2013. Despite this remarkable achievement, there are

several issues that affect uninterrupted clean water supply to urban and rural areas, such as pollution, non-revenue water (NRW), insufficient water reserves and high water demand. Some rivers, the main source of treated water, are also polluted. In particular, NRW is a major issue faced by the water utility companies. The estimated level of NRW for 2013 was 36.6% due to factors such as aging and poor maintenance of pipe network, illegal connections and lack of active leakage control. Additionally, treated water supply reserves nationwide have not met the 20% target, thus contributing to water supply disruptions, particularly during peak periods. Furthermore, water demand for daily needs has increased due to the rapidly expanding economy and growing population. Moreover, the current treated water capacity is unable to meet domestic demand causing some states such as Selangor, Penang, Kedah, Perlis and Melaka to experience water shortages.

Several initiatives have been taken to increase broadband penetration and bridge the digital divide. However, there remain some issues such as slow speed, costly broadband connection, cyber security threats and low e-service transactions. With the growing importance of ICT, there is also a corresponding rise in risks and threats to cyber security. Due to the growing demand for e-services by the business community and households, efforts need to be taken to improve broadband services. In addition, the level of ICT awareness remains low in rural areas, despite the Government actively promoting ICT among the rural population. This requires greater efforts to promote usage of ICT applications and make broadband services more affordable, reliable and fast.

Strategic Initiatives – 2015 Budget

The 2015 Budget is the last budget of the 10MP. It will continue to address issues relating to strengthening the growth momentum, reinforcing

sustainable fiscal governance, strengthening human capital and prospering the rakyat. In this regard, the Government will continue to work with the public and private sectors as well as NGOs towards building a dynamic and progressive nation.

Pro-growth policies will be continued to achieve a better balance between the capital economy and people's economy. The capital economy focuses on attracting investments, implementing mega projects, strengthening the financial sector and increasing income per capita. Meanwhile, the people's economy emphasises on projects and programmes that benefit the rakyat, in particular, the low-income and vulnerable groups such as implementing social infrastructure projects and enhancing social safety net. Nevertheless, capital economy initiatives such as the MRT and the Pan Borneo highway will have positive spillover effects on the people's economy such as increased job opportunities, better healthcare and public transport facilities as well as improved income, thus contributing to people's happiness and well-being.

Strengthening Economic Momentum

The Government is committed to formulating policies that will ensure the investment climate remains favourable to the business community, while driving economic transformation and undertaking liberalisation measures. In this regard, the Government will foster a conducive environment that attracts quality investment in services and knowledge-intensive industries to move up the value chain. Growth will be private sector led while the Government will continue to play the role of an enabler. In this regard, the public-private partnership will be continued in the provision of public infrastructure and other strategic projects.

The Government has implemented various initiatives over the years to attract quality investment and these efforts have resulted in Malaysia's improved ranking in many international

The Capital Economy and the People's Economy

Introduction

Malaysia's development thrust is focused on achieving a balance between the capital economy and people's economy. The capital economy is concerned with using financial resources to generate wealth and build big businesses. The returns to capital are high and contribute significantly to GDP growth. Meanwhile, the people's economy focuses on inclusive growth to enhance the well-being of society. People-centric programmes will benefit the rakyat, particularly the low-income and vulnerable groups.

Characteristics of the Capital Economy vis-à-vis the People's Economy

The capital economy comprises large-scale public and private investment projects and deep financial markets. Economic growth and prosperity are more efficiently driven by private enterprises. Consequently, governments usually provide the necessary infrastructure and create an enabling ecosystem to facilitate private industry to flourish. Financial markets including the banking system and capital markets are willing to fund private enterprises with potential and viable projects. The flourishing business sector in return contributes to GDP growth as well as revenue to the government in the form of taxes.

On the other hand, the people's economy comprises wage earners, small businesses, the informal sector and the rakyat. The concerns of the rakyat are household expenditure, cost of living, job security and ensuring well-being of the family. The people aspire for better living conditions, good health services, as well as improved economic and educational opportunities.

The two distinct components – the capital economy and the people's economy are intertwined. The capital economy invests in production activities such as factories, plants, and businesses which provide jobs and income to the people. A key issue is that wage growth does not commensurate with corporate profits. Businesses and factories tend to employ labour at the least cost to maximise profits. Consequently, the returns to labour are generally lower than the returns to capital. Low incomes lead to poor well-being, with the people struggling to cope with the rising cost of living or reasonably fulfil their basic needs.

Balancing the Capital Economy and People's Economy

While acknowledging the importance of a vibrant capital economy, the Government remains steadfast in promoting the people's economy and ensuring the benefits of growth are enjoyed by the rakyat. In this regard, the Government has formulated several policy measures and implemented various transformation initiatives to ensure that economic success and high growth translate to improving the living conditions of the rakyat. The philosophy of People First Performance Now, and the National Transformation Policy initiatives, including the Economic Transformation Programme (ETP), Government Transformation Programme (GTP) and the Community Transformation Programme (CTP) provide further impetus to Malaysia in achieving the goals of high income and inclusive growth.

The ETP, aimed at drawing private investment into sectors that have potential for high returns and job creation, will spur the capital economy. Since the implementation of the ETP, real GDP grew at a steady annual average rate of 5.8% from 2009 to 2013. Growth was driven by private sector investment which increased 18.6% during the same period. In 2013, private investment accounted for 60.5% of total investment. The strong growth in investment has created 1.3 million employment opportunities by end-2013. Meanwhile GNI per capita has increased to USD10,060 in 2013 from USD7,059 in 2009, placing Malaysia on track to achieve the USD15,000 target of high income by 2020.

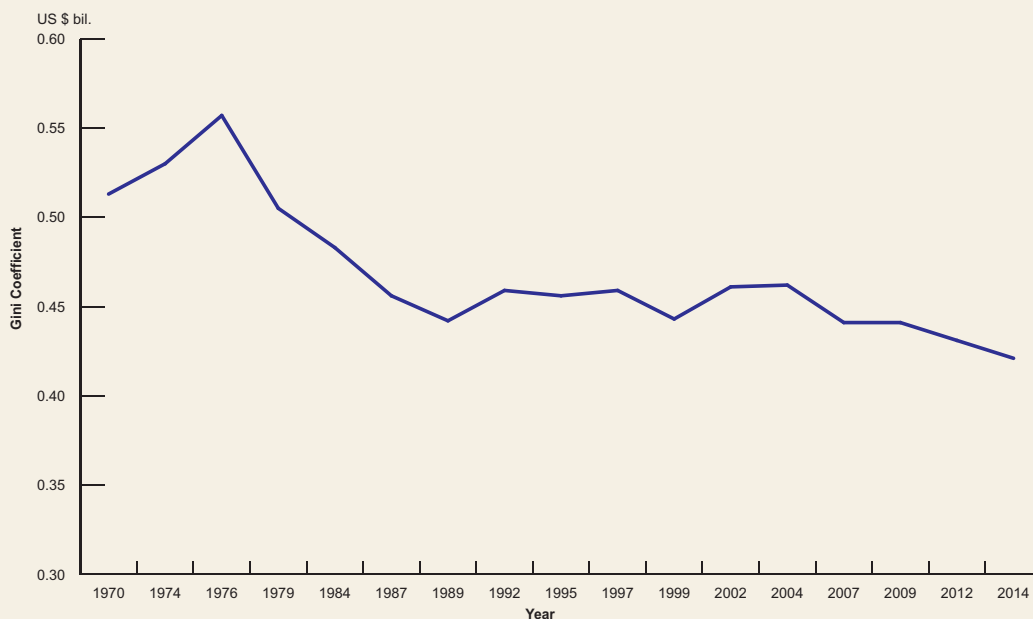
The GTP through seven National Key Result Areas has contributed to the people's economy and lifted the welfare of the people by improving access to essential services and amenities, implementing

income-generating programmes, and establishing a secure environment for communities to live, work and thrive. The CTP addresses rural and urban issues to make the areas more liveable and productive. In addition, the Government continues to allocate at least 26% of development expenditure to the social sector to build or upgrade schools, universities, hospitals and affordable housing. Large public investment infrastructure projects such as the MRT and the Refinery and Petrochemicals Integrated Development (RAPID) in Pengerang, while contributing to the capital economy will have spillover benefits on the people's economy such as creating employment opportunities and improving public transport facilities. Apart from these, the Government supports the people's economy through social assistance programmes such as *Bantuan Rakyat 1Malaysia* (BRIM), school assistance and book vouchers to targeted groups.

The National Blue Ocean Strategy (NBOS), introduced in 2009, has brought another paradigm shift to the civil service and revolutionised the way public projects and programmes are implemented as well as the management of key economic challenges. NBOS initiatives are formulated to bring about changes that have high impact, low cost and rapid execution through collaboration with relevant stakeholders. NBOS also advocates the tripartite engagement of the Government, the private sector and the rakyat to ensure that the programmes are well targeted and enrich the lives of the rakyat.

Consistent with policy measures to develop the people's economy, the mean monthly gross household income increased at an annual rate of 8.4% from RM5,000 in 2012 to RM5,919 in 2014. The median income has also increased from RM3,626 to RM4,258 during the same period, while the income of the bottom 40% of households increased 11.2% from RM1,847 to RM2,312. Consequently, the Gini Coefficient has improved from 0.431 to 0.421. Similarly, the share of compensation of employees has increased from 29.5% in 2005 to 33.6% of GDP in 2013. The Government will intensify efforts to boost the people's economy and increase employees' compensation to 40% of GDP. All these indicators reflect that growth is becoming more inclusive in Malaysia.

CHART 1

Gini Coefficient Malaysia, 1970 – 2014

Source: Post Enumeration Survey, 1970, Agriculture Census 1977, Household Income Surveys and Statistical Compilations - Department of Statistics, Malaysia.

CHART 2

Income Components of GDP at Current Price - Percentage of GDP



Source: National Accounts, GDP Income Approach, Department of Statistics, Malaysia.

Conclusion

High-income status, inclusive growth and shared prosperity are key priorities of the Government. In this regard, the Government has been relentlessly pursuing policy measures to grow and balance the capital economy and the people's economy. The ETP and the Tenth Malaysia Plan development projects are expected to contribute to GNI. Meanwhile, the philosophy of People First, Performance Now, GTP and NBOS will broaden the benefits of growth. These include improvements in public safety and security, household income and consumption, social safety nets and provision of essential services, which will enhance the rakyat's well-being and happiness.

benchmarks. In the recent Global Competitiveness Report 2014 (GCR), Malaysia moved up four notches, from 24th to 20th place. In the A.T. Kearney's 2014 Global Services Location Index, Malaysia is ranked 3rd, after India and China for offshoring destination of choice. According to A.T. Kearney, Malaysia's strengths include political stability and a multilingual workforce. The Government will continue to improve Malaysia's competitiveness by enhancing the investment environment, reducing regulatory

burden, improving public sector service delivery and strengthening the country's technological capabilities to achieve higher productivity growth.

As a trading nation Malaysia is vulnerable to challenges in the external environment. Hence, it is vital to ensure the export sector remains resilient, broad-based and competitive. Measures will be undertaken to strengthen export growth, in particular export of services, through targeted assistance. The Government will continue

to assist exporters diversify the composition of products to focus on higher value-added activities; strengthen their footprint in existing markets; and penetrate new markets. Assistance to the business community includes grants and soft loans; training and awareness programmes on export and investment opportunities as well as advisory and technical services. Other support programmes include organising trade and investment promotion missions, exhibitions and trade fairs.

The services sector, the largest contributor to the economy, will be strengthened through the implementation of the Services Sector Blueprint. The Blueprint addresses several areas that can be further enhanced as well as those that currently impede growth of the sector. These initiatives include introducing financing scheme for SMEs, research incentives as well as promoting the tourism industry. SMEs in the services sector account for the largest share of total enterprises in Malaysia. In this regard, several measures will be implemented to increase innovation; Research, Development and Commercialisation (R&D&C) and productivity among SMEs through greater collaboration with various agencies as well as enhancing laboratory facilities and infrastructure. To support these initiatives, the role of Standards and Industrial Research Institute of Malaysia (SIRIM) will be strengthened through a rebranding exercise.

Another area of potential growth is the Halal logistics sector, which is expected to grow in tandem with the Halal food industry. Malaysia, with its inherent advantages, in particular a globally recognised Halal certification system, has the potential to position itself as the region's Halal logistics hub.

To further strengthen the agriculture sector, the Government will support initiatives to increase agricultural produce as well as intensify marketing such as establishing collection and distribution centres, opening permanent *pasar tani*, and expanding cold room facilities. In addition, to

spur exports of local agriculture produce, the Agrobazaar will be expanded to other strategic international locations. The Agrobazaar provides a permanent platform for SMEs to market premium agriculture products in global markets.

The global Islamic finance industry has been recording tremendous growth averaging 15% – 20% annually over the last decade. In this respect, Malaysia is at the forefront of promoting Islamic finance at the domestic and international levels. The recent launch of the SRI Sukuk Framework is reflective of Malaysia's innovative efforts to introduce Shariah-compliant sustainable and responsible investments. Leveraging Malaysia's robust and comprehensive Islamic finance ecosystem coupled with pro-business environment, efforts will be intensified to promote Malaysia as a preferred destination of Islamic finance. This will include developing new Shariah-compliant products that can cater to evolving market needs. Meanwhile, to further spur SME development, efforts will be undertaken to expand Islamic financing to SMEs, especially those at the startup stage to help them grow and expand.

Reinforcing Sustainable Fiscal Governance

Effective macroeconomic management and fiscal reform measures are crucial for deficit reduction as well as effective debt management. In this regard, the Government will continue its consolidation efforts by reviewing all aspects of fiscal management, including revenue enhancement, ongoing subsidy rationalisation, prudent government spending, increasing efficiency of the public sector and managing off-budget spending. Recognising the need to broaden the tax base and reduce dependence on oil revenue, the Government will implement the GST on 1 April 2015. In this respect, the Price Control and Anti-Profiteering Act 2011 will be fully enforced and the Enforcement Division of the Ministry of Domestic Trade, Co-operative and Consumerism (KPDNKK) strengthened to monitor profiteering activities and ensure a smooth and orderly implementation of the GST.

Meanwhile, fuel subsidy rationalisation will be continued through a more targeted subsidy mechanism.

Meanwhile, the Government will ensure more prudent spending with priority on high-impact projects as well as focus on budget outcomes and efficiency through the full implementation of OBB by 2015. In addition, accrual accounting will be adopted to reflect a more comprehensive and holistic management of government finances. In line with the fiscal consolidation plan, reform initiatives will continue to be guided by the medium-term fiscal framework. The Government will continue to observe its self-imposed guidelines on debt management to ensure debt-to-GDP ratio does not exceed 55% while debt service charges are capped below the threshold of 15% of total revenue.

Strengthening Human Capital

Measures will continue to be undertaken to strengthen human capital at all levels. Enhancing the quality of teaching to ensure better student outcome will be given priority. In line with the Malaysian Education Blueprint, the Government will continue to focus on improving English language proficiency among teachers. Furthermore, the Government will also intensify efforts to increase intake as well as improve student performance in science, technology and mathematics as the nation moves towards a knowledge-based and innovation-driven economy.

The Government will ensure that schools are provided with sufficient infrastructure and facilities including building new blocks, upgrading existing facilities, ensuring proper maintenance of school facilities, reducing number of students per classroom and providing Internet connection. Meanwhile, more Trust Schools will be established in collaboration with parents, the community and the private sector to develop leadership, improve quality of learning and teaching as well as maximise student achievement. Additionally, the Government will ensure that every child

has equal access to education. In this respect, schooling assistance, loans and scholarships will be provided to students especially from low-income families.

To enhance employability of graduates, efforts will focus on improving the quality of graduates. These include regular review of curriculum, strengthening soft skills such as problem-solving, analytical thinking, innovation and creativity as well as language proficiency. As English proficiency is crucial in securing employment and better job prospects, university students will be required to pass the subject.

The private sector has a definitive role to play in training and re-skilling their employees to improve labour productivity and enable them to earn higher wages. Greater collaboration between academia, industry and training institutions will be strengthened to produce the required skills for the industry, including the 12 NKEAs. As part of continuous efforts to improve efficiency in the labour market, the Government will undertake a comprehensive review on the Employment Act 1955 to improve protection for workers and employers in line with international labour standards. In addition, the Employment Insurance Scheme will be introduced to further strengthen the social safety net and make the labour market more flexible.

Recognising that youth represent a significant portion of the population at 45.9%, emphasis will be given to youth development to ensure long-term sustainability of economic growth. In this regard, the 2015 Budget will implement various programmes on youth development. Among the programmes are youth city, housing, skills training and entrepreneurship development.

The Government will intensify efforts to increase the women's participation in the labour force, including reemployment of women into the workforce and preparing professional women to assume higher level decision-making positions in the private sector. Meanwhile, JobsMalaysia will be strengthened to provide more efficient job

matching service in the light of an increasingly demanding job market. The Government will also monitor the enforcement of the Minimum Wage Order to ensure compliance of regulations by employers. Furthermore, a basic health screening programme will be introduced for employees who have not previously undergone medical screening.

Prospering the Rakyat

While it is important to grow the capital economy in terms of investment and generating wealth, equal emphasis needs to be given to the people's economy. The concerns of the people include the rising cost of living, quality of life, safety and security as well as youth and OKU issues.

To cushion the burden of the rakyat due to rising cost of living, the Government will continue to provide various assistance and incentives, particularly to the less fortunate and disabled, single mothers and the elderly. These measures are undertaken to ensure goods and services, including basic needs are available to the rakyat at affordable costs. In this regard, the provision of quality and affordable houses to low- and middle-income groups will continue to remain a priority. In addition, the Government will continue to provide cash transfers such as BR1M, school and other welfare assistance. Furthermore, in view of low commodity prices, which have particularly affected the livelihood of smallholders, the Government will provide a price support mechanism to alleviate their decline in income.

Meanwhile, the Government will continue to strengthen national security by providing additional allocation for the recruitment of security personnel, building new infrastructure and acquisition of latest equipment and assets. In addition, to ensure the national borders are well guarded, ESSCOM will be strengthened with additional security personnel at various levels, including the establishment of *Briged Infantri Tentara Darat*. The Malaysian Maritime Enforcement Agency, which monitors the Malaysian maritime zone

and high seas, will also be equipped with the latest vessels, aircraft and support equipment. These measures will increase preparedness to face any emergency situation and ensure security of the nation.

In addition, allocation will be provided to improve public infrastructure facilities, including better road networks and bridges, train services, ports and airports as well as utilities. Among the high-impact infrastructure projects are the Pan Borneo Highway, MRT Line 2 and River of Life, which will generate economic growth and benefit the rakyat. Meanwhile, to ensure the sustainability of water supply in the long term, the Government will prepare strategic direction for the water industry, explore underground water sources, reduce NRW, and implement best practices of water management for industry and agriculture.

The 2015 Budget will also focus on strengthening health services and recruitment of health personnel, building new hospitals and clinics as well as upgrading existing ones and purchasing new equipment. In addition, sufficient allocation will be provided to address the high incidence of dengue cases as well as provide additional haemodialysis equipment in hospitals.

To bridge the gap between urban and rural communities, development strategies will be enhanced to provide modern infrastructure and facilities as well as strengthen socio-economic development programmes. Towards this, the 2015 Budget continues to focus on high-impact, low-cost and rapidly-executed programmes under the NBOS, which include the Rural Transformation Programme (RTP) and the Urban Transformation Programme (UTP) as well as the GTP. Meanwhile, development in the five regional corridors will be intensified through public and private sector collaboration.

Meanwhile, to harness potential among youth, the Government will encourage more young people to participate in various entrepreneurship programmes at national and international levels. These include entrepreneurship programmes through MaGIC

as well as strengthening engagement with youth entrepreneurs' associations at the ASEAN region. Furthermore, the Government will further strengthen the participation of Bumiputera in economic development in entrepreneurship, equity ownership and education.

In addition, the Government will focus on sports through the development of a Sports Blueprint that aims to achieve excellence in sports and enhance the national image. Furthermore, the rakyat will be encouraged to adopt a healthy lifestyle, which will ultimately ensure wellness and increase productivity. Meanwhile, the Government will increase the number of PAWE as well as financial aid assistance to the OKU.

The realisation of Digital Malaysia will create an ecosystem that promotes the pervasive use of ICT in all aspects of the economy to connect communities globally. In this regard, efforts will be enhanced to increase Internet accessibility and usage of digital technology to connect and empower the Government, businesses and the rakyat. Furthermore, the Government will continue to further encourage the private sector, NGOs, corporate bodies as well as Government-Linked Companies (GLCs) to play a bigger role in development through Corporate Social Responsibility (CSR) activities, such as community development programmes, scholarships, education, sports and environment protection.

Prospects for 2015

The Malaysian economy is expected to sustain its growth momentum in 2015 driven by resilient domestic demand and an improving external sector. Given the better outlook of the global economy and underpinned by the 2015 Budget measures to further support growth and transformation programmes, GDP is expected to expand at a steady pace between 5% and 6% in 2015. However, there remain downside risks on the external front, including slow and uneven growth

in the euro area, increased deflationary pressures in the advanced economies, slower growth in emerging markets and sooner-than-expected normalisation of interest rates in the US, as well as geopolitical tensions that could affect global growth.

On the demand side, growth will be private sector driven, building on the success of various initiatives taken by the Government over the years to provide a conducive environment for private economic activity to thrive. Private investment will remain vibrant and is expected to register a double-digit growth supported by the ongoing implementation of the 10MP, ETP and GTP. Although private consumption is expected to moderate, the favourable employment outlook, Government assistance through cash transfers and lower individual income tax as well as higher household income, are expected to cushion the impact of higher prices on consumption. Meanwhile, public investment will continue to support growth with higher capital spending by the Non-Financial Public Enterprises (NFPEs). On the supply side, all sectors are expected to further expand with the manufacturing and services sectors remaining the drivers of growth, supported by sustained domestic economic activity and higher export-oriented manufacturing activities as well as trade-related services. Malaysia's external position is expected to remain strong in line with improved prospects for global growth and trade. The current account is expected to remain in surplus in 2015.

The Eleventh Malaysia Plan (11MP) will be tabled in 2015 to accelerate the transformation to an advanced nation status. The Plan is expected to focus on further strengthening growth, particularly in services and manufacturing; harnessing human capital; promoting entrepreneurship, particularly among the youths; enhancing environmental management; improving well-being of the rakyat; and enhancing inclusiveness. The 11MP is also expected to promote greater dynamism of the private sector, especially SMEs to boost their contribution to the economy.

Inflation is expected to remain manageable despite trending above the long-term average, partly due to the implementation of GST and the spillover effect of the recent fuel subsidy rationalisation in early October 2014. However, with external prices expected to be subdued, the effect of GST on inflation will be transitory, and is anticipated to return to normal growth in 2016 as domestic cost factors wane. On balance, inflation is expected to increase to 4% – 5% in 2015. Meanwhile, the Government will continue to ensure sufficient supply of essential food items through increased agricultural produce and establishment of more retail outlets such as KR1M and *pasar tani*. Enforcement will also be stepped up to monitor prices and ensure consumers have access to essential items at reasonable prices.

Fiscal policy in 2015 will continue to focus on improving the financial position of the Government while supportive of economic growth and reform

initiatives. With revenue growth surpassing that of expenditure, the deficit in 2015 is anticipated to further decline to 3% of GDP. The total Federal Government expenditure will continue to be stable at RM271.9 billion while revenue is estimated to be higher at RM235.2 billion. The Government remains committed to pursuing a sound fiscal policy and has adopted a multi-pronged approach towards achieving a balanced budget by 2020. These include the implementation of GST, accrual accounting and OBB as well as the adoption of a more targeted fuel subsidy mechanism. Meanwhile, the Government will ensure debt is capped below 55% of GDP while ensuring revenue will be sufficient to meet operating expenditure. Greater inter-agency cooperation will continue to be promoted in the implementation of programmes to avoid wastage and duplication as well as optimise the use of public assets. Through prudent financial management and the implementation of pragmatic policies, the fiscal position of the Government will remain sound.