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ECONOMIC PERFORMANCE AND PROSPECTS

Economic Performance and Prospects

Overview

Strong and broad-based growth

Growth of the Malaysian economy accelerated to 6.4% in the second quarter of 2014 from 6.2% in the first quarter, marking the strongest growth since the fourth quarter in 2010, and bringing the first half growth to 6.3%. Growth was supported by resilient domestic demand and reinforced by higher exports. The faster pace of recovery, particularly in the US, UK and selected euro area economies as well as moderate growth in the emerging economies provided strong support to the Malaysian export-oriented industries and trade-related services. Of significance, global semiconductor demand also rebounded strongly as business confidence and consumer spending in the US improved amid diminishing inventory overhang. Consequently, gross exports rebounded strongly by 10.7% during the first seven months of 2014 from a contraction of 2.8% in the corresponding period in 2013.

Meanwhile, the Malaysian economy has benefited from several initiatives and reforms taken over the years to enhance its resilience and competitiveness. Consequently, Malaysia is now well placed to gain further from the gradual global recovery with a more broad-based growth. The nation's strengths include: strong macroeconomic fundamentals such as a diversified economy; low unemployment; strong international reserves; growing role of the private sector as the driver of growth with its share of investment currently accounting for 68.9% of total investment during the first half of 2014; and a healthy financial system to support economic activity. Thus, the domestic economy will continue to expand in the second half of the year, albeit moderately,

mainly due to the high-base effect of export performance from the previous year. For 2014, the economy is projected to grow 5.5% – 6% (2013: 4.7%), which is higher than the initial forecast of 4.5% – 5.5% in early 2014.

On the demand side, growth will be underpinned by resilient consumer spending, strong private investment activity and improving global demand. Consumer spending is envisaged to be sustained, albeit at a moderate pace, supported by favourable labour market conditions, continued wage growth and firm export earnings. Private investment is expected to sustain its strong growth momentum supported by the ongoing projects under the Economic Transformation Programme (ETP) and investment in the regional economic growth corridors. Meanwhile, public expenditure is envisaged to expand at a slower pace in line with the Government's commitment to fiscal consolidation. Public consumption is expected to moderate due to lower growth on emoluments, while public investment will continue to expand supported by higher capital spending of Non-Financial Public Enterprises (NFPEs).

On the supply side, all sectors are expected to record positive growth in 2014, with the services and manufacturing sectors spearheading growth. The services sector is expected to grow strongly, with wholesale trade, transport and storage benefiting from higher trade-related activities. Meanwhile, activities in retail trade, accommodation and restaurants as well as communication are expected to increase amid sustained household spending. The manufacturing sector is estimated to grow at a faster pace on higher exports of electronics and electrical (E&E) products as external demand improves. Sales and

exports of personal computers (PCs) and related parts have rebounded supported by improved global demand and declining inventory. Growth of the domestic-oriented industries such as food and beverage as well as transportation equipment and machinery is expected to remain favourable, in line with resilient domestic consumption and robust private investment. The construction sector is expected to further expand supported by the civil engineering and residential subsectors. The civil engineering subsector will be driven by oil and gas (O&G) as well as transportation projects. Meanwhile, growth in the residential subsector is mainly due to the construction of private residential projects ranging from medium to high-end properties, particularly in the Klang Valley, Pulau Pinang and Johor. Prospects for the agriculture sector in 2014 will also remain favourable, supported by higher production of crude palm oil (CPO) and food, especially poultry, fruits and vegetables. The mining sector is expected to grow backed by the increase in production of natural gas and crude oil (including condensates) following capacity enhancement and new production facilities.

Malaysia's external position is anticipated to remain favourable in 2014 supported by an improving external environment, upturn in global semiconductor sales, as well as resilient domestic and regional demand. For the year, the current account is expected to post a higher surplus of RM53.9 billion or 5.1% of Gross National Income (GNI), driven by a higher surplus in goods and services and a smaller deficit in the primary income accounts amid a marginal increase in net outflows in the secondary income account. Boosted by strong external demand for manufactured products and stable commodity prices, exports are expected to grow 6%. Import growth will remain resilient at 4.3% supported by continued expansion in manufacturing, investment and consumption activities. The services and primary income deficits are expected to improve on account of higher net travel receipts and improved earnings of Malaysian companies

investing abroad. Meanwhile, higher remittances by foreign workers in Malaysia will see a marginally higher deficit in the secondary income account due to the full implementation of the Minimum Wage Policy effective from January 2014. The financial account will see steady two-way flows as foreign direct investment (FDI) is expected to increase underpinned by favourable growth prospects for the economy while Malaysian companies will continue to have a strong presence abroad to improve corporate profitability and increase market share in niche sectors.

Headline inflation averaged 3.3% in the first eight months of 2014 compared with 1.7% during the corresponding period in 2013. Besides increased prices of food due to domestic cost factors, the higher inflation largely reflected the spillover effects of the price adjustment on fuel following the subsidy rationalisation in September 2013 and the electricity tariff hike in January 2014. Producer inflation, as measured by the Producer Price Index, also rose 2.9% in the first seven months of 2014 compared with a decline of 3.7% during the corresponding period in 2013. In tandem with fiscal consolidation, the subsidy on petrol RON95 and diesel was further reduced by 20 cent per litre on 2 October 2014. Based on these developments, inflation is expected at around 3.4% in 2014. With inflation expected to remain above its long-run average, Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25% in July 2014, as a pre-emptive move, to mitigate the risks of economic and financial imbalances that could undermine growth of the economy.

In line with the better economic growth, national income as measured by the nominal GNI, is estimated to expand 10.2% to RM1,049.5 billion in 2014, surpassing for the first time, the RM1-trillion mark (2013: 5.2%; RM952.6 billion), while per capita income will increase 8.9% to RM34,682 (2013: 3.7%; RM31,843). In terms of Purchasing Power Parity (PPP), per capita income is expected to increase 2.2% to USD22,958 (2013: 4.8%; USD22,460).

TABLE 3.1

GDP by Sector
2013 – 2015
 (at constant 2005 prices)

	Change (%)			Share to GDP (%)			Contribution to GDP growth (percentage point)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Agriculture	2.1	3.8	3.1	7.1	7.0	6.9	0.1	0.3	0.2
Mining	0.7	0.7	2.8	8.1	7.7	7.5	0.1	0.1	0.2
Manufacturing	3.5	6.4	5.5	24.5	24.7	24.8	0.9	1.5	1.4
Construction	10.9	12.7	10.7	3.8	4.0	4.2	0.4	0.5	0.4
Services	5.9	5.9	5.6	55.2	55.3	55.4	3.2	3.3	3.1
Add: Import duties	5.8	7.3	-4.2	1.3	1.4	1.2	0.1	0.1	-0.1
GDP	4.7	5.5 – 6.0	5.0 – 6.0	100.0	100.0	100.0	4.7	5.5 – 6.0	5.0 – 6.0

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

Sectoral Performance

During the first half of 2014, all sectors recorded expansion, with growth driven by the services and manufacturing sectors, amid resilient domestic demand and an improving external sector. The services sector expanded further led by strong activity in the wholesale and retail trade as well as communication subsectors. Meanwhile, the manufacturing sector expanded strongly, the highest growth in three years, spurred by higher global semiconductor sales. Growth in the construction sector remained firm supported by an expansion in the residential and civil engineering subsectors. The agriculture sector increased following higher output of palm oil and food commodities, while the mining sector grew marginally driven by higher output of natural gas.

Services Sector

Services sector leads growth

During the first half of 2014, the **services sector** increased further by 6.3% (January – June 2013: 5.5%) supported by strong domestic

consumption and investment activities. In 2014, the services sector is expected to record 5.9% growth, accounting for 55.3% of GDP (2013: 5.9%; 55.2%). The **intermediate services** group is anticipated to grow 5.2% (2013: 5.1%) supported by the communication as well as real estate and business services subsectors. Meanwhile, the **final services** group is expected to increase 6.5% (2013: 5.8%) led by the wholesale and retail trade, accommodation and restaurant as well as other services subsectors.

The *wholesale and retail trade subsector* recorded strong growth of 8.9% during the first half of 2014 (January – June 2013: 5.4%) amid resilient consumer spending. The retail segment increased 10.1% (January – June 2013: 7.1%) attributed to brisk sales in retail outlets such as hypermarkets and large-scale superstores. Since the launch of the Small Retailer Transformation Programme (TUKAR) in January 2011 up to end-July 2014, 1,761 small retailer stores (end-July 2013: 1,381) have been modernised to improve their competitiveness. In addition, the strong growth of the retail segment was supported by 1Malaysia Unified Sales held from 29 June 2014 to 1 September 2014 to attract foreign tourists and locals to shop in Malaysia. Meanwhile, the

TABLE 3.2

Services Sector Performance
2013 – 2015
 (at constant 2005 prices)

	Change (%)			Share to GDP (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Intermediate services						
Finance and insurance	1.8	1.8	1.4	9.1	8.8	8.5
Real estate and business services	7.5	7.5	7.1	5.7	5.7	5.8
Communication	10.0	10.0	9.6	4.1	4.2	4.4
Transport and storage	4.6	5.0	4.7	3.6	3.6	3.6
Final services						
Wholesale and retail trade	6.4	7.7	7.1	14.4	14.7	14.9
Accommodation and restaurant	5.7	6.1	5.9	2.5	2.5	2.5
Utilities	4.1	3.6	3.9	2.5	2.4	2.4
Other services	5.1	4.8	4.5	5.0	5.0	4.9
Government services	8.3	6.1	5.6	8.3	8.3	8.3
Total	5.9	5.9	5.6	55.2	55.3	55.4

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

wholesale segment expanded 8.2% (January – June 2013: 4.9%) due to higher sales of non-agricultural intermediate products, such as petrol, diesel, lubricants and household goods. The motor vehicle segment surged 6.4% (January – June 2013: 1.5%) supported by higher sales of motor vehicles and parts, particularly during the festive season. There were 500 workshops participating in the Automotive Workshop Modernisation (ATOM) project since its inception in January 2011 up to end-July 2014 (end-July 2013: 270). In 2014, the wholesale and retail trade subsector is expected to increase 7.7% (2013: 6.4%) supported by strong domestic consumption.

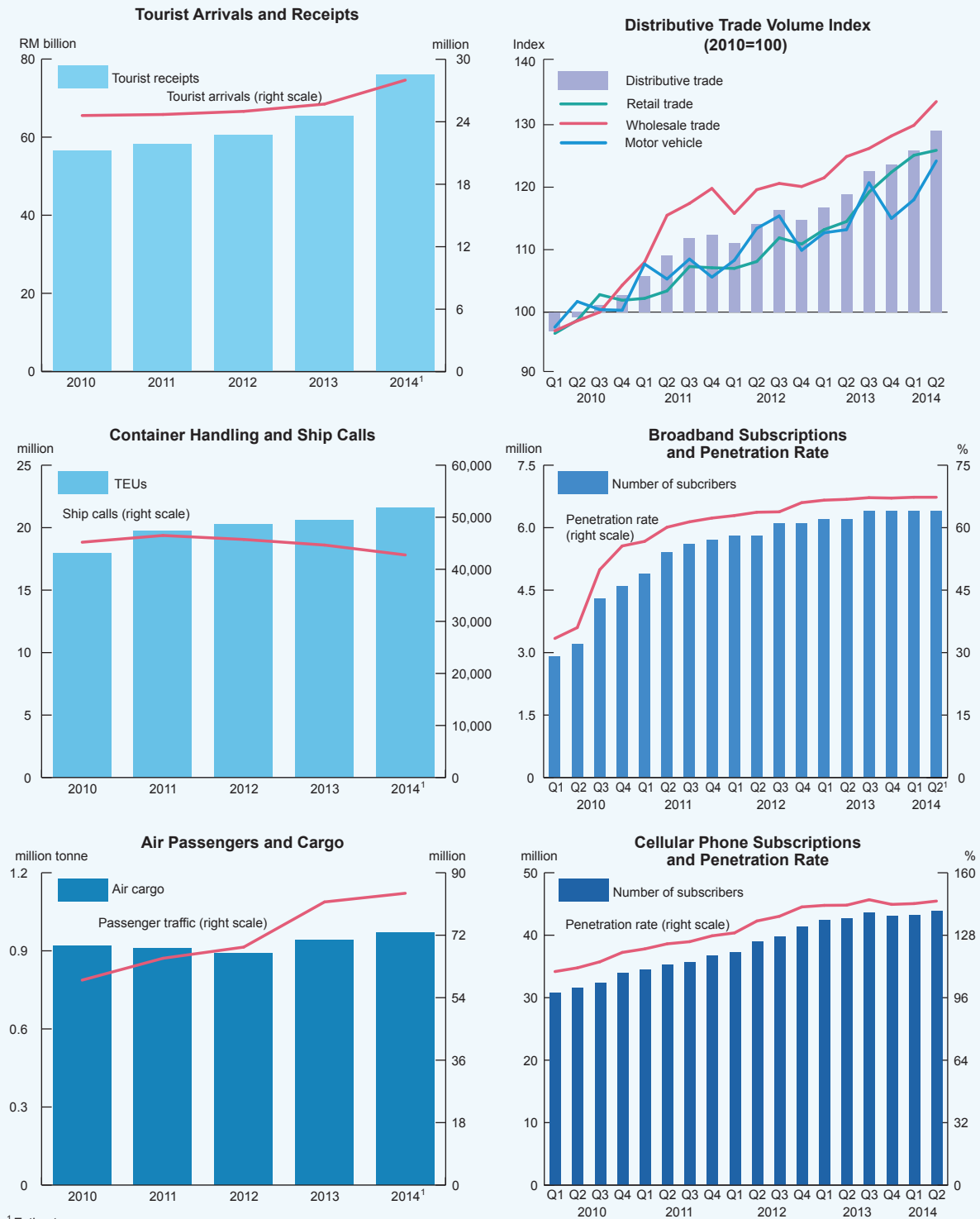
The *accommodation and restaurant subsector* expanded 5.9% during the first half of 2014 (January – June 2013: 5.7%) on account of higher tourism-related activities and restaurant dining. Growth of the subsector was also reflected in the total supply of hotel rooms which rose 3.8% to 197,030 as at end-June 2014 (end-June 2013: 5.4%; 189,843), with Kuala Lumpur

continuing to contribute the highest share at 17.4% (end-June 2013: Kuala Lumpur; 17.1%). In 2014, the accommodation and restaurant subsector is expected to grow 6.1% (2013: 5.7%) supported by higher tourist arrivals and receipts in conjunction with Visit Malaysia Year (VMY) 2014.

Malaysia is celebrating its fourth VMY in 2014 with the theme “Celebrating 1Malaysia Truly Asia” to promote Malaysia's unique heritage, attractions and cultures. During the first five months of 2014, the number of tourist arrivals rose 10.1% to 11.5 million (January – May 2013: 10.9%; 10.5 million), despite some drop in tourists from China following the unfortunate MH370 incident in March 2014. The top three tourist arrivals were from Singapore (5.8 million), Indonesia (1.1 million) and China (0.7 million). Meanwhile, Malaysia remains a favourite holiday destination among Muslim tourists, with arrivals increasing 9.4% to 2.2 million during the first five months of 2014 (January – May 2013: 9.3%;

CHART 3.1

Selected Indicators for the Services Sector



2 million). In this regard, Malaysia's ranking as the world's top halal-friendly holiday destination and the world's second halal-friendly shopping destination has helped to draw in Muslim tourists.

During the first seven months of 2014, the Malaysia My Second Home (MM2H) programme attracted 1,958 participants (January – July 2013: 1,509), mainly from China (49%), Japan (12%) and Bangladesh (9%). In the Meetings, Incentives, Conventions and Exhibitions (MICE) industry, the number of visitors is expected to reach 196,708 from 298 events, generating RM1.5 billion receipts in 2014 (2013: 131,786; 274; RM1 billion). Malaysia is expected to attract 28 million tourists in 2014, generating RM76 billion receipts (2013: 25.7 million; RM65.4 billion) benefiting from a series of year-long special events and festivals as well as attractive promotional campaigns and tour packages.

The *finance and insurance subsector* moderated to 1.5% during the first half of 2014 (January – June 2013: 3%). The finance segment rose 1.4% (January – June 2013: 1.5%) due to the slower growth in net interest and fee-based incomes. During the first seven months of 2014, total loan applications contracted 1.9% to RM463 billion (January – July 2013: -1.8%; RM472 billion), while total loans approved declined 2.4% to RM223 billion (January – July 2013: -2.7%; RM228 billion), partly due to macroprudential measures to rein in household debt. However, loan disbursements rebounded strongly by 13% to RM601 billion (January – July 2013: -3.3%; RM532 billion) largely for working capital to the business sector, with a share of about 57% of total loans disbursed amid favourable economic activity.

The insurance segment moderated to 1.8% during the first six months of 2014 (January – June 2013: 7.9%) following the slower performance of life insurance business. During the first seven months of 2014, new premiums for life insurance decreased marginally by 0.6% to RM4.7 billion (January – July 2013: -0.9%; RM4.7 billion) due to a slight decline in ordinary life insurance

premiums. However, life insurance claims grew more rapidly by 10.2% to RM9.8 billion (January – July 2013: 6.1%; RM8.9 billion) on account of higher medical claims and benefits paid on maturing policies. Meanwhile, gross direct premiums for general insurance grew 5.3% (January – July 2013: 7%) on account of an increase in motor and fire businesses, with motor business continuing to contribute the highest share (46%) of total gross direct premiums. In 2014, the finance and insurance subsector is expected to sustain growth at 1.8% (2013: 1.8%).

The *real estate and business services subsector* expanded 8% during the first six months of 2014 (January – June 2013: 6.7%). During the period, the business services segment recorded 8.9% growth (January – June 2013: 7.7%) mainly driven by higher demand for professional services, particularly engineering services in the construction sector as well as computer services. Meanwhile, the real estate segment grew 5.5% (January – June 2013: 4%) following higher real estate transactions which rebounded by 3.3% to 193,430 (January – June 2013: -13.8%; 187,164) with transaction value recording a double-digit growth of 19% to RM82 billion (January – June 2013: -0.3%; RM69 billion). Despite property prices hovering at a high level, the various cooling measures introduced to curb rising property prices and speculative activities have started to gain traction. This was reflected in the slower increase in residential property prices at 8.1% while transactions fell 2.7% during the first half of 2014 (January – June 2013: 11%; 5.1%). Growth of the real estate and business services subsector is projected to sustain at 7.5% in 2014 (2013: 7.5%).

During the first half of 2014, the *communication subsector* grew 10% (January – June 2013: 9.4%) with the continued increase in the number of cellular phone subscribers as well as higher use of data services. Cellular phone subscriptions grew 2.8% to 43.8 million to reach a penetration rate of 145.5% as at end-June 2014 (end-June 2013: 9.1%; 42.6 million; 143.4%) with the prepaid

segment dominating 82% of total subscriptions. Growth was spurred by increased take-up of affordable smartphones and attractive packages offered by service providers. In addition, higher use of data services was supported by increased third-generation (3G) subscriptions which recorded 18 million in 2013 (2012: 14.5 million).

The broadband segment grew 3.1% to 6.4 million subscriptions with a household penetration rate of 67.2% as at end-June 2014 (end-June 2013: 6.9%; 6.2 million; 66.8%). Growth was largely driven by promotional activities and awareness programmes as well as improved network coverage. The National Broadband Initiative (NBI) was introduced in March 2010 to increase household broadband penetration. The NBI addresses the provision of infrastructure and facilities through the implementation of High-Speed Broadband (HSBB) and Broadband to General Population (BBGP). Through public-private partnership (PPP), the Government has implemented the HSBB project in areas covering inner Klang Valley, Iskandar Malaysia and selected industrial areas. At the same time, under the BBGP initiative, broadband projects will be implemented across the country through various technologies such as Asymmetric Digital Subscriber Line (ADSL), Hybrid Fibre Coax (HFC), High-Speed Downlink Packet Access (HSDPA) and Worldwide Interoperability for Microwave Access (WiMAX). In addition, as at end-June 2014, the HSBB recorded a total of 747,000 subscriptions covering 626,000 homes and 121,000 businesses (end-June 2013: 607,000; 512,000; 95,000).

Meanwhile, to enable rural communities to enjoy the benefits of information and communication technology (ICT), the Universal Services Provision (USP) fund continues to finance projects such as *Kampung Tanpa Wayar 1Malaysia* (KTW1M) and *Pusat Internet 1Malaysia* (PI1M). As at end-June 2014, 4,737 KTW1M and 431 PI1M (end-June 2013: 4,210; 339) were established nationwide. Growth of the subsector

is projected to sustain at 10% in 2014 (2013: 10%) supported by higher usage of cellular and broadband services.

During the first half of 2014, the *transport and storage subsector* grew 4.7% (January – June 2013: 4%) attributed to higher highway, port and airport operations. Growth was also supported by sustained passenger travel and strong trade-related activities. In consonance with resilient domestic economic activity and improving global trade, the subsector is expected to grow 5% in 2014 (2013: 4.6%). The water transport segment contracted 2.7% (January – June 2013: 1.5%) largely due to weaker demand and lower freight rates. However, port activity remained resilient during the first six months of 2014, due to improvement in the freight segment with cargo services posting positive growth. Total container throughput in major ports¹ increased 5.1% to 10.6 million twenty-foot equivalent units (TEUs) (January – June 2013: 0.4%; 10.1 million TEUs). In 2013, Malaysia improved to 5th position (2012: 7th) in the Liner Shipping Connectivity Index (LSCI) by the United Nations Conference on Trade and Development (UNCTAD).

Meanwhile, Port Klang and Port of Tanjung Pelepas (PTP), the leading container ports in the country, remain among the world's top 20 container ports. According to UNCTAD, Port Klang moved up one notch to 12th position, while PTP maintained its 18th position in terms of total TEUs handled in 2013. During the first half of 2014, Port Klang and PTP increased their volumes to 5.2 million TEUs and 4 million TEUs (January – June 2013: 5 million TEUs; 3.8 million TEUs) accounting for 49.4% and 38.2% of total container throughput, respectively (January – June 2013: 49.6%; 37.7%). Recent developments in the global shipping environment have affected the maritime industry. The preference of shipping companies for larger ships to benefit from economies of scale has resulted in shippers moving to ports that can handle huge vessels. In addition, to fill

¹ Port Klang, Port of Tanjung Pelepas, Penang, Johor, Bintulu, Kuching and Kuantan.

up the large-capacity vessels, shipping companies have reduced freight charges leading to a price war as they compete for customers. Meanwhile, the launching of the new Container Terminal 7 (CT7) in Westport on 10 September 2014 is expected to increase the handling capacity to 11 million TEUs a year. Given the higher TEU capacity, Westport is now able to handle 19,000-TEU vessels by year-end. Consequently, total container throughput is expected to increase 4.8% to 21.6 million TEUs in 2014 (2013: 1.5%; 20.6 million TEUs) supported by the increase in handling capacity and improvement in external trade.

The land transport segment continued to record positive growth of 6.2% (January – June 2013: 3.7%) supported by higher freight transported by road in line with improvement in trade-related activity. In the first seven months of 2014, vehicle traffic on tolled highways rose 3.9% to 994.9 million (January – July 2013: 4.7%; 957.5 million) on higher usage during festivities and school holidays. The opening of the Sultan Abdul Halim Mu'adzam Shah Bridge or Penang Second Bridge in March 2014 saw a healthy number of vehicles using it to avoid traffic congestion. Meanwhile, total rail² ridership in the Klang Valley increased 5.9% to 131.4 million passengers (January – July 2013: 12.9%; 124.1 million) due to improved service efficiency and increased frequencies. The 2.14-kilometre (km) extension of Express Rail Link (ERL) from Kuala Lumpur International Airport (KLIA) to Kuala Lumpur International Airport 2 (KLIA2), which commenced operations on 2 May 2014, will also increase rail ridership. Despite the increase in passenger volume for bus³ services by 1.9% to 86.7 million (January – July 2013: 6%; 85.1 million), revenue fell 10.1% to RM148 million (January – July 2013: 47.7%; RM165 million) as RapidKL's bus services are more focused on feeder buses with maximum fares of RM1 compared to buses on main routes (with maximum fares of up to RM3).

Keretapi Tanah Melayu Berhad (KTMB) freight volume rose 10.1% to 3.6 million tonnes during the first six months of 2014 (January – June 2013: 9.4%; 3.3 million tonnes) with revenue rising 9.2% to RM74.3 million (January – June 2013: 10%; RM68.1 million), mainly due to the higher movement of containers and construction materials such as cement and sand. KTM Intercity Service, however, contracted 18% to 1.2 million passengers (January – June 2013: -4.8%; 1.4 million) while revenue declined 17% to RM32.5 million (January – June 2013: -1.6%; RM39.2 million). This was because of the fewer number of coaches in operation due to maintenance issues. Currently, the average number of coaches operating daily is only 75 compared with 105 coaches in 2013. Subsequently, the total revenue from KTM Intercity Service is expected to decline from RM75 million in 2013 to RM45 million in 2014. The Electric Train Service (ETS) ridership on the Kuala Lumpur – Ipoh route, however, increased 11.7% to 812,923 passengers (January – June 2013: 33.6%; 727,087) supported by higher demand. In 2014, the total revenue of ETS is expected to reach RM44 million (2013: RM40.6 million).

During the first half of 2014, the air transport segment expanded 4.9% (January – June 2013: 3.8%) supported by higher tourist arrivals and domestic passengers amid continuous promotion of travel packages with competitive fares by airlines. The air passenger segment continued to record positive growth with total passenger traffic at airports nationwide increasing 10.3% to 49 million during the first seven months of 2014 (January – July 2013: 14.1%; 44.4 million). Likewise, the total number of passengers on domestic carriers⁴ increased 11.3% to 25.6 million passengers (January – July 2013: 13.6%; 23 million). Meanwhile, total air cargo handled at airports nationwide rose 5.6% to 567,303 tonnes (January – July 2013: 4.1%; 537,177 tonnes) on account of higher growth in exports, especially E&E products.

² Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter.

³ RapidKL, RapidPenang and RapidKuantan.

⁴ Malaysia Airlines, Berjaya Air, AirAsia, Firefly, MASwings and Malindo Air.

Improving Urban Public Transport in the Klang Valley – An Update

Improving urban public transport (UPT) is one of the National Key Result Areas (NKRAs) under the Government Transformation Programme (GTP), launched in 2009. The aim is to improve the overall availability and efficiency of UPT, including enhancing connectivity, providing an integrated system and ensuring adequate facilities for the rakyat. Following several initiatives to improve UPT in the Klang Valley, the public transport modal share has increased from 17% in 2010 to 21% in 2013. The target is to raise the public transport modal share to 25% by 2015 and 50% by 2020.

Bus Services

- **RapidKL** was established in 2004 to provide comfortable, reliable and efficient bus services in the Klang Valley. As at end-August 2014, the total bus fleet stood at 1,327, including 70 new midi-buses in 2011 and 400 new 44-seater buses in 2012 plying 164 routes in the Klang Valley. Since acquiring the 470 new buses, ridership on RapidKL has increased from 107.8 million passengers in 2012 to 114.7 million passengers in 2013. During the first seven months of 2014, ridership reached 67.1 million passengers (January – July 2013: 65.7 million).
- The implementation of the **Bus Expressway Transit (BET)** routes began in January 2010. The objective is to reduce public bus journey time by leveraging underutilised highways in the Klang Valley. The BET service has reduced the journey time between 15 and 70 minutes while ridership has increased from 327,844 in 2010 to 641,882 in 2013. As of September 2014, nine BET routes are in operation, namely five in 2010, three in 2011 and one in 2012 while the proposal for the BET 10 route from Equine Park to Putrajaya is still in the pipeline.
- The **Bus Rapid Transit (BRT)** feasibility study has identified 12 potential BRT corridors in the Greater KL/ Klang Valley area. BRT aims to create a dedicated bus right-of-way at main corridors and is a specialised form of bus priority service to meet the high level of passenger demand by incorporating aspects of mass transit. One of the BRT corridors is the Kuala Lumpur – Klang (KL – Klang) corridor, covering a distance of 34-kilometre (km). The alignment, which will pass through three main roads, namely the Federal Highway, Jalan Syed Putra and Jalan Tun Sambanthan, is aimed at benefiting 1.6 million people living along the corridor. The KL – Klang BRT is estimated to save more than one hour of daily travelling time for 600,000 passengers, and is expected to be completed by the middle of 2017. Meanwhile, the elevated BRT Sunway Line is being implemented through a Public-Private Partnership (PPP) arrangement between Prasarana Malaysia Berhad and Sunway Group. The 5.4 km BRT Sunway Line project, which began in March 2013, is expected to commence operations in June 2015. The overall project progress is currently at 64% completion. The line will serve residents in Bandar Sunway and Subang Jaya through seven stations with one Park 'n' Ride facility. The alignment is from KTM Setia Jaya Station to the future Kelana Jaya LRT Line Extension in USJ 6.
- From 2010 to end-August 2014, 1,549 **bus stops** across 12 municipalities have been upgraded and refurbished, namely in Ampang Jaya, Hulu Selangor, Kajang, Klang, Kuala Langat, Kuala Lumpur, Kuala Selangor, Petaling Jaya, Selayang, Sepang, Shah Alam and Subang Jaya. Presently, a total of 5,000 bus stops are being fitted with up-to-date information panels while 136 units of Passenger Information Display (PID), a system to announce the estimated bus arrival time, are being installed at high-catchment bus stops within Klang Valley. The exercise will be completed by end-2015.

Rail System

- The Government has purchased 38 new six-car train sets or Six-Car-Set (SCS) valued at RM1.9 billion, to overcome the shortage of **KTM Komuter** trains as well as ease congestion in the trains. All 38 sets of SCS trains began operations in stages from 2012 until 2013, with ridership increasing 23.4% from 35.6 million in 2011 to 43.9 million passengers in 2013. Currently, a total of 54 sets, a combination of SCS and Electric Multiple Unit (EMU) are utilised to provide 259 services daily. During peak hours, the trains run at a frequency of 15 minutes, and 30-minute frequencies during off-peak hours.
- The 35 new four-car train sets for **light rail transit (LRT)** Kelana Jaya Line became fully operational at the end of 2011 with frequencies improved to 2.38 minutes during morning peak hours. Likewise, ridership on Kelana Jaya Line increased 23.3% from 58 million passengers in 2010 to 71.5 million passengers in 2012 and 34.6% to 78.1 million in 2013. Meanwhile, ridership on Ampang Line rose 17.4% from 51.3 million passengers in 2010 to 60.2 million passengers in 2013 amid increased frequency services. The Ampang Line and Kelana Jaya Line extensions are expected to be completed in March 2016 and June 2016, respectively. The Ampang Line extension is 18.1 km long with 13 new stations, starting from Sri Petaling and ending at Putra Heights. The Kelana Jaya Line extension will begin from Kelana Jaya station and will pass through 12 new stations before ending at Putra Heights Integrated Station, covering a distance of 17.4 km.
- To enhance the capacity of the existing **KL Monorail**, a total of 12 four-car train sets have been procured. The first three sets arrived in April 2014 while the rest are expected to arrive in stages by February 2015. Each four-car train set can accommodate up to 430 passengers and is equipped with better safety features and disabled-friendly facilities, closed-circuit television cameras and smoke detectors. Currently, two of these trains have started testing and commissioning process since September 2014. With the arrival of 12 four-car train sets, ridership is expected to increase 31.9% from 21 million in 2010 to 27.7 million passengers in 2015.
- The 2.14 km extension of **Express Rail Link (ERL)** from Kuala Lumpur International Airport (KLIA) to Kuala Lumpur International Airport 2 (KLIA2) became operational on 2 May 2014. The ridership on ERL has risen 38.3% to 5.6 million passengers during the first eight months of 2014 (January – August 2013: 16.4%; 4.1 million).
- The first line of the **Klang Valley Mass Rapid Transit Project (KVMRT)**, which is the Sungai Buloh – Kajang (SBK) Line, stretches 51 km. It was launched on 8 July 2011 while construction started in 2012. As at end-August 2014, the work progress on SBK Line comprised: 57% completion on trackwork at Sungai Buloh Depot; underground work 65%; and elevated work 40%. The first phase of SBK Line from Sungai Buloh to Semantan will be operational on 31 December 2016, while the second phase from Semantan to Kajang will be operational on 31 July 2017. Upon completion, the line is expected to serve 1.2 million commuters per day along 31 stations, comprising seven underground stations and 24 elevated stations. A total of 58 four-car train sets will run on the SBK Line carrying 1,200 passengers per train set. During peak hours, the frequency will be 3.5 minutes.
- From 2010 to end-August 2014, 18 **Park 'n' Ride** with 7,500 parking bays and other facilities have been completed. New Park 'n' Ride facilities which will provide an additional parking bays, are being built at high-density stations namely LRT Kelana Jaya, ERL Salak Tinggi, KTM Klang and KTM Serdang. Meanwhile, three other KTM Komuter stations namely KTM Rawang, KTM Nilai and KTM UKM Bangi are being upgraded with better Park 'n' Ride facilities. The facilities are targeted to be completed in stages by 2016.

Taxi Services

The main objective of the taxi work stream in GTP 2.0 is to improve the overall quality of taxi services in Malaysia, especially in urban areas. The aim is to raise the standard of at least 25% of Kuala Lumpur budget taxis to be at par with ASEAN Best-in-Class taxis. For 2014, the target is to have 4,100 of KL Budget Taxis achieve this standard. As of July 2014, 1,723 KL Budget Taxis have achieved the target. Meanwhile, the taxi work stream proposes two initiatives as follows:

- The **Centralised Taxi Services System (CTSS)** is a technology infrastructure to monitor taxi services. It integrates and enhances the existing booking and dispatch systems, and facilitates taxi fleet distribution. The CTSS, which is expected to roll out in 2015, is targeted to raise the success rate of meeting passenger bookings (currently at 40%) through improved coordination with drivers within the network.
- A **new business model for taxis** has been introduced to increase the take-home income of taxi drivers by reducing their operating cost. Under the Taxi 1Malaysia project, licences will be offered to individual drivers. The Land Public Transport Commission (SPAD) has launched a fleet of new taxis known as Teksi 1Malaysia (TEKS1M). Through the TEKS1M initiative, 1,000 new Proton Exora will be deployed in 2014. As of September 2014, 803 units of Proton Exora have been registered under individual taxi drivers while the remaining 197 units will be registered in the fourth quarter of 2014.

The *utilities subsector* is expected to grow at a slower pace of 3.6% in 2014 (2013: 4.1%) on account of lower electricity consumption in the residential segment following the increase in electricity tariffs in January 2014. During the first half of 2014, the electricity and gas segment grew marginally by 2.9% (January – June 2013: 4.2%). Meanwhile, in the first seven months of 2014, electricity consumption rose 5.4% to 72,408 million kilowatt-hours (kWh) (January – July 2013: 6.5%; 68,685 million kWh) with the industrial, commercial and mining segment contributing 77.7% to total electricity consumption while domestic and public lighting segment 22.3%. Electricity generation grew 4.2% with maximum distribution at 11,924 million kWh in May 2014 (January – July 2013: 6%; 11,429 million kWh; May). Similarly, gas consumption increased 5.8% to 71.5 million British thermal unit (Btu) (January – June 2013: 8.8%; 67.6 million Btu) with gas sales rising 12.8% to RM1.2 million (January – June 2013: 8.8%; RM1.1 million). In 2014, Gas Malaysia Berhad will build a natural gas pipeline in two new industrial areas, namely Kerteh (Terengganu) and Yong Peng (Johor) with

an estimated length of 101.4 km. The availability of natural gas pipelines in new industrial areas will encourage investors to use natural gas, hence increasing its usage. In addition, the shift from oil-based fuels such as diesel and medium fuel oil to natural gas by the industry will also help reduce air pollution.

Meanwhile, growth of the water segment rose 3% during the first half of 2014 (January – June 2013: 2.9%). Demand for water supply from consumers rose 2.6% to 15,387 million litres per day (mld) (January – June 2013: 1.8%; 14,990 mld). In 2013, water supply coverage for the urban and rural population stood at 97% and 92.5%, respectively with a total coverage of 95.1% (2012: 96.9%; 90.7%; 94.7%). A major initiative by the Government to address the water shortage problem is to increase distributable capacity and existing reserve margin by building new water treatment plants (WTPs) or upgrading existing WTPs. One of the initiatives is the construction of Langat 2 Water Treatment Plant and Distribution System (LRAL2) Phase 1 in Selangor which started in May 2014 and is scheduled for completion in

June 2017. The plant will provide an additional 1,130 mld of treated water to Selangor, Kuala Lumpur and Putrajaya.

During the first half of 2014, the *other services subsector* grew 4.6% (January – June 2013: 5.2%) supported by higher private education and health activities. As at end-July 2014, there were 535 private higher education institutions nationwide (end-July 2013: 517), comprising nine foreign university branch campuses, 92 private universities and university colleges as well as 434 private colleges. Meanwhile, the number of foreign patients in private hospitals is expected to increase to 800,000 generating revenue of RM794 million in 2014 (2013: 770,134; RM690 million). The other services subsector is expected to grow 4.8% in 2014 (2013: 5.1%) mainly driven by high-quality and affordable healthcare as well as an increase in foreign Muslim patients seeking halal health treatment in Malaysia. Meanwhile, the *government services subsector* grew 7.1% during the first half of 2014 (January – June 2013: 7.5%) due to the moderate increase in emoluments as well as supplies and services. In 2014, the subsector is expected to grow 6.1% (2013: 8.3%).

Manufacturing Sector

Stronger manufacturing growth

Value-added of the **manufacturing sector** expanded 7.1% during the first half of 2014 (January – June 2013: 2.1%). Production of the sector rose 6.6% (January – July 2013: 3.5%) supported by resilient domestic demand and recovery in the external sector during the first seven months of the year. Subsequently, the sales value of manufactured products rebounded by 7.7% to RM379.5 billion (January – July 2013: -2.3%; RM352.4 billion). The strong performance of the sector was on account of higher output at 9.4% (January – July 2013: 5.9%) from the domestic-oriented industries, particularly transport equipment, food and beverage.

Output of the **export-oriented industries** expanded at a faster pace of 5.6% (January – July 2013: 2.7%) mainly supported by E&E as well as textiles, wearing apparel, leather products and footwear. The manufacturing sector continued to attract domestic and foreign investment with investment approved by Malaysian Investment Development Authority (MIDA) totalling RM47.4 billion during the first six months of 2014 (January – June 2013: RM22.7 billion), mainly from Japan, China and Germany. Meanwhile, the capacity utilisation rate remained steady at 80.4% during the second quarter of 2014 (Q2 2013: 79.6%) while average wage per employee and productivity improved to RM2,772 per month and 5.9%, respectively during the first seven months of 2014 (January – July 2013: RM2,608; 2.4%). Boosted by favourable domestic economic activity and recovery in the external sector, the manufacturing sector is expected to record a better performance with growth of 6.4% in 2014 (2013: 3.5%).

CHART 3.2

Performance of Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.3

Manufacturing Production Index ¹
January – July
 (2010 = 100)

	Index		Change (%)		Share to Total (%)	
	2013	2014	2013	2014	2013	2014
Export-oriented industries	111.7	117.9	2.7	5.6	73.9	73.2
Electronics and electrical products	113.5	128.6	6.9	13.3	24.3	25.8
Chemicals and chemical products	121.5	121.7	-0.8	0.2	15.4	14.5
Petroleum products	106.2	108.4	0.9	2.0	19.8	18.9
Wood and wood products	98.8	103.8	-2.7	5.1	3.5	3.5
Off-estate processing	98.9	103.8	4.0	5.0	3.9	3.9
Rubber products	131.4	131.0	8.9	-0.3	2.9	2.7
Paper products	112.5	111.0	1.7	-1.3	3.0	2.7
Textiles, wearing apparel, leather products and footwear	102.5	114.2	-2.5	11.5	1.2	1.2
Domestic-oriented industries	117.1	128.1	5.9	9.4	26.1	26.8
Non-metallic mineral and other related products	112.8	118.9	-2.0	5.4	4.2	4.1
Fabricated metal products	156.7	161.2	17.2	2.9	4.3	4.2
Basic metals	100.2	102.1	2.9	1.9	3.6	3.4
Transport equipment	121.7	149.6	9.8	22.9	5.9	6.8
Food products	113.3	123.0	8.2	8.6	5.8	5.9
Beverages	95.2	113.5	-6.5	19.3	0.8	0.9
Tobacco products	114.1	103.3	-10.6	-9.5	0.5	0.5
Others	99.8	107.1	-4.7	7.3	0.9	0.9
Total	113.0	120.5	3.5	6.6	100.0	100.0

¹ Beginning January 2014, the base year of Manufacturing Production Index was revised from 2005 to 2010.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

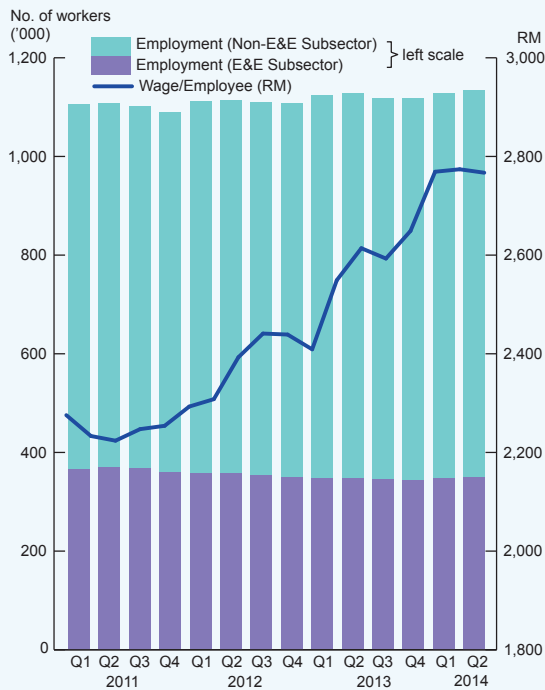
Output and exports of *transport equipment* grew significantly by 22.9% and 11.3%, respectively (January – July 2013: 9.8%; 4.8%) driven by higher production in the shipbuilding segment (59%), manufacture of motor vehicles (12.9%) as well as parts and accessories (10.1%). The automotive segment is the largest in the transport equipment subsector setting Malaysia as the third biggest car manufacturer in the Association of Southeast Asian Nations (ASEAN) region, with 11 car producers and nine motorcycle manufacturers as well as 35,000 parts and accessories manufacturers. Total vehicle sales during the first seven months of 2014 grew 3% to 393,409 units comprising 350,357 passenger vehicles and 43,052 commercial vehicles. This was

in tandem with the aggressive sales campaign and launch of new models by industry players. Vehicle sales are expected to expand further to 675,000 units in 2014 (2013: 655,793 units).

Food production rose 8.6% (January – July 2013: 8.2%) with higher output of refined palm oil (18.2%), rice (17.6%) as well as biscuits and cookies (8.7%). Malaysia's strength as a food producer is gaining momentum with total sales expanding 2.5% to RM20.6 billion (January – July 2013: 0.1%; RM20.1 billion), while food exports increased significantly by 15.7% to RM9.3 billion (January – July 2013: 6%; RM8.1 billion). Output of *beverage* rebounded to record a double-digit growth of 19.3% (January – July

CHART 3.3

Employment and Wages in the Manufacturing Sector



Source: Department of Statistics, Malaysia.

2013: -6.5%) with higher gains in all beverage segments. The positive performance of food and beverage subsectors was on account of the FIFA World Cup 2014 season, festivities and school holidays. However, *tobacco* production contracted 9.5% (January – July 2013: -10.6%) affected by declining local leaf production and the contraband market for cigarettes. In addition, initiatives such as banning smoking in shopping complexes, government premises and other vicinities with central air-conditioning as well as higher tax on tobacco, have impacted the production of tobacco.

The *construction-related industries* registered growth of 3.5% (January – July 2013: 5.7%), with *fabricated and basic metal products* experiencing a lower growth of 2.9% and 1.9%, respectively (January – July 2013: 17.2%; 2.9%). However, the subsector was cushioned by the turnaround in production of *non-metallic mineral and other related products* at 5.4% (January – July 2013:

TABLE 3.4

Manufacturing Output: Construction-related Materials¹ January – July (2010 = 100)

	Change (%)		Share (%)	
	2013	2014	2013	2014
Construction-related materials	5.7	3.5	12.1	11.7
of which:				
Glass and glass products	-15.6	11.7	0.8	0.8
Non-metallic mineral products n.e.c.	1.7	4.0	3.4	3.3
Structural metal products, tanks, reservoirs and steam generators	32.4	3.2	1.6	1.6
Other fabricated metal products, metal working service activities	9.7	2.6	2.7	2.6
Basic iron and steel	5.2	0.1	2.5	2.3
Basic precious and other non-ferrous metals	-1.8	6.3	1.1	1.1

¹ Beginning January 2014, the base year of Manufacturing Production Index was revised from 2005 to 2010.

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

-2%). New orders for construction-related materials increased, mainly driven by ongoing public works. Output of glass products rebounded by 11.7% (January – July 2013: -15.6%) while precast concrete expanded 21.1% (January – July 2013: 9.1%), supported by ongoing infrastructure projects, which include MRT and LRT as well as extension of Duta-Ulu Kelang Expressway (DUKE) and widening of Lebuhraya Utara-Selatan (PLUS).

In the *E&E subsector*, production grew more strongly by 13.3% during the first seven months of 2014 (January – July 2013: 6.9%), mainly driven by electronic components, communication equipment and domestic appliances. The global trend in semiconductor sales has been encouraging in the US, Asia Pacific, Japan and Europe, with the book-to-bill ratio

TABLE 3.5

Manufacturing Output: E&E Subsector¹
January – July
 (2010 = 100)

	Change (%)		Share (%)	
	2013	2014	2013	2014
Electronic components and boards	18.3	16.6	13.8	15.0
Computers and peripheral equipment	3.5	2.6	2.8	2.7
Communication equipment	0.9	28.8	1.3	1.6
Consumer electronics	-22.0	9.3	2.3	2.4
Electric motors, generators, transformers and electricity distribution and control apparatus	-14.1	1.4	0.6	0.6
Wiring and wiring devices	18.9	4.3	0.8	0.8
Domestic appliances	-9.0	38.1	0.3	0.4
Machinery and equipment	-1.3	5.4	2.4	2.4
General-purpose machinery	-1.8	-8.8	1.2	1.1
Special-purpose machinery	-0.8	20.2	1.2	1.3
Total E&E	6.9	13.3	24.3	25.8

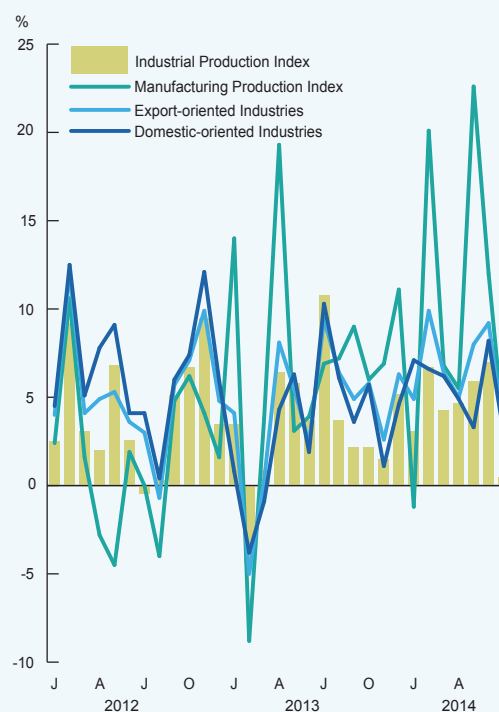
¹ Beginning January 2014, the base year of Manufacturing Production Index was revised from 2005 to 2010.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

increasing above 1 since October 2013. The global sales of semiconductors increased 10.3% during the first seven months of 2014 to about USD188 billion, a record high for the semiconductor industry. The output of printed circuit boards and semiconductor devices rose 53.9% and 10.5%, respectively (January – July 2013: 26.2%; 18.5%) in line with the growing demand for consumer electronics, particularly mobile devices, as well as improving global PC sales. Since early this year, global PC sales rose, albeit on a moderating trend, due to the replacement of PCs with a new operating system. Prices of PCs are also falling, narrowing the price differential with tablets. In contrast, the output of general-purpose machinery decreased

CHART 3.4

Output of Manufacturing Sector
 (% annual change)


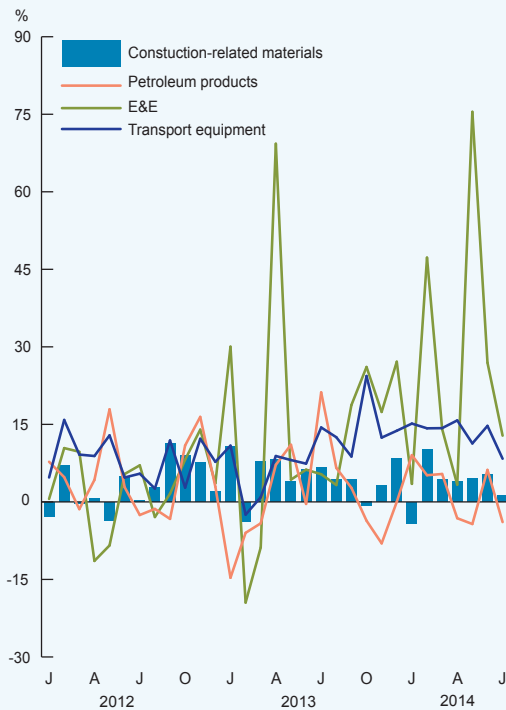
Source: Department of Statistics, Malaysia.

8.8% (January – July 2013: -1.8%) on account of the decline in manufacture of air-conditioning machines (-17.9%) as well as lifting and handling equipment (-8.2%).

Meanwhile, production of *wood products* rebounded by 5.1% (January – July 2013: -2.7%) largely supported by higher output in the sawmilling and planing of wood segment at 25.9% during the first seven months of 2014 (January – July 2013: 22.7%). The positive performance was attributed to vibrant residential and commercial construction activities which contributed to increased use of timber frame and glued-laminated timber for cost savings compared to the use of concrete and steel. Increased demand from major export destinations such as the US, Japan and Australia for Malaysian-made furniture contributed to the higher output, particularly wooden and cane furniture which rebounded by 2.2% (January – July 2013: -12.7%).

CHART 3.5

Performance of Selected Industries (% annual change)



Source: Department of Statistics, Malaysia.

Petroleum output increased 2% (January – July 2013: 0.9%) in line with improved external and domestic demand. The better performance was attributed to higher export production of refined petroleum (23.2%) and residual petroleum products (124.4%). However, production of *rubber products* contracted 0.3% in the first seven months of 2014 (January – July 2013: 8.9%) on account of slower demand for rubber gloves and rubber tyres. The decline in rubber tyres for vehicles was due to the weaker external demand from the automotive industry, particularly from China. Output of other rubber products contracted 3.8% (January – July 2013: 14.8%) following the product shift from rubber-based to plastics, silicones and metal alloys in the manufacture of medical devices.

Production of *textiles, wearing apparel, leather products and footwear* rebounded significantly by 11.5% during the first seven months of 2014

(January – July 2013: -2.5%). The manufacture of spinning, weaving and finishing of textiles turned around by 11.6% while wearing apparel grew 13.5%, respectively (January – July 2013: -17.6%; 1.6%). Turkey, China and the Republic of Korea (ROK) were Malaysia's top three export destinations for textiles. Sales of the subsector rose 14.5% to RM5.5 billion (January – July 2013: 0.9%; RM4.8 billion). This was attributed to companies embarking into technical textile such as geotextile for the construction industry with safety elements embedded into the material. The apparel sector also benefited from contract manufacturing arrangement with producers of high-end international brands.

Agriculture Sector

Lower commodity prices

Value-added of the **agriculture sector** expanded 4.6% in the first half of 2014 (January – June 2013: 3.2%), driven by higher CPO production despite lower rubber output. Livestock and other agriculture, namely fruits and vegetables also recorded positive growth following the Government's measures to increase food production to enhance food security and reduce the food import bill. Initiatives such as the establishment of the Food and Agro Council for Export (FACE) is expected to boost exports and output of fruits. In addition, the implementation of fishermen's market and *Kedai Rakyat Agrobazaar* have contributed to higher production of food. Additionally, output of the sector is expected to increase supported by growing domestic and external demand as well as favourable weather conditions. For 2014, the sector is envisaged to expand 3.8% (2013: 2.1%) following higher output of palm oil and key food commodities such as poultry, vegetables and fruits. The share of the agriculture sector to GDP is estimated to remain at 7%.

Value-added of the **oil palm subsector** rose 8.1% in the first half of 2014 (January – June 2013: 7.6%) following higher CPO production. Production of CPO increased 6.6% to 10.7

TABLE 3.6

**Value-added in the Agriculture Sector
2013 – 2014**

(at constant 2005 prices)

	Change (%)		Share to Total (%)	
	2013	2014 ²	2013	2014 ²
Agriculture	2.1	3.8	100.0	100.0
Oil palm	2.6	6.7	36.6	37.6
Rubber	-10.1	-10.4	7.0	6.1
Livestock	9.4	7.5	12.4	12.8
Other agriculture ¹	8.2	6.2	19.2	19.6
Forestry and logging	-7.7	-4.2	10.1	9.3
Fishing	1.6	2.7	14.7	14.5

¹ Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple.

² Estimate.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

million tonnes during the first seven months of 2014 (January – July 2013: 5.9%; 10.1 million tonnes), on account of higher fresh fruit bunches (FFB) yield per hectare and expanded matured areas in Sabah and Sarawak. Average FFB yield increased to 10.09 tonnes per hectare (January – July 2013: 9.99 tonnes per hectare) amid improved weather conditions in the second quarter. Meanwhile, the oil extraction rate (OER) grew to 20.6% (January – July 2013: 20.2%) supported by stronger FFB yields.

The total oil palm planted areas increased 2.8% to 5.3 million hectares as at end-June 2014 (end-June 2013: 5.2 million hectares) following the opening of 30,544 hectares of cultivated areas mainly in Sabah and Sarawak. Of the total cultivated areas, 28% or 1.5 million hectares are located in Sabah, followed by Sarawak (1.2 million hectares). With the increase in matured areas, higher FFB yields and improved OER, the oil palm subsector is expected to further increase in 2014. In addition, the ongoing

TABLE 3.7

**Palm Oil: Areas, Yield and Production
2013 – 2014**

	2013		2014 ²		Change (%)	
	2013	2014 ²	2013	2014 ²	2013	2014 ²
Planted areas (‘000 hectares)	5,230	5,395			3.0	3.2
Matured areas (‘000 hectares)	4,526	4,691			4.0	3.6
Production (‘000 tonnes)						
Crude palm oil	19,216	19,520			2.3	1.6
Crude palm kernel oil	2,270	2,270			4.9	0.0
Yield (tonnes/hectare) ¹	19.02	19.97			0.6	5.0

¹ Fresh fruit bunches yield.

² Estimate.

Note: Total may not add up due to rounding.
Source: Ministry of Plantation Industries and Commodities, and Ministry of Finance, Malaysia.

implementation of Entry Point Projects (EPPs) under the National Key Economic Area (NKEA) on palm oil to enhance productivity of upstream and downstream activities will further boost the subsector. Thus, the subsector is expected to grow at a faster pace of 6.7% in 2014 (2013: 2.6%).

The average price of CPO strengthened to RM2,542 per tonne during the first eight months of 2014 (January – August 2013: RM2,309 per tonne). However, with production rising sharply in the second quarter coupled with higher inventory level (end-August 2014: 2.1 million tonnes), the price of CPO moderated to RM2,162 per tonne as at end-August 2014. The sharper-than-expected moderation in CPO prices was also due to a surge in global supplies of edible oils, particularly the bumper harvest of soybean in the US. The earlier expectation of the possible onset of El Nino weather phenomenon, which could disrupt production, also did not occur, thus, resulting in subdued CPO prices. Hence, CPO price is expected to moderate in the second half to register an average of RM2,400 in 2014 (2013: RM2,364 per tonne).

TABLE 3.8

**Rubber: Areas, Yield and Production
2013 – 2014**

	2013	2014 ¹	Change (%)	
			2013	2014 ¹
Total areas (‘000 hectares)	1,057	1,078	1.5	2.0
Smallholdings	980	986	0.3	0.6
Estates	77	92	20.3	19.5
Yield (kg per hectare)				
Smallholdings	1,360	1,400	-6.7	2.9
Estates	1,560	1,570	0.6	0.6
Total production (‘000 tonnes)	825	792	-10.6	-3.9
Smallholdings	769	737	-11.0	-4.2
Estates	57	55	-2.7	-3.5
% of world production	6.9	6.9		

¹ Estimate.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Plantation Industries and Commodities, Malaysia.

Value-added of the **rubber subsector** declined 13.3% (January – June 2013: -12.7%) due to lower output and prices. Production of natural rubber dropped 13.2% to 0.3 million tonnes (January – June 2013: 13.9%; 0.4 million tonnes) mainly due to the hot weather conditions and prolonged wintering season during the first quarter of the year. Taking into account the stable prices and improved weather conditions during the second half of 2014, the production of rubber is expected to record a smaller contraction of 3.9% to 792,286 tonnes in 2014 (2013: -10.6%; 824,798 tonnes).

The price of natural rubber (SMR 20) remained subdued at RM5.83 per kilogramme (kg) during the first eight months of 2014 (January – August 2013: RM7.97 per kg), dropping to a low of RM4.65 per kg on 25 September 2014. The lower prices of rubber were partly due to sluggish demand from China’s automobile industry following measures to restrict production of new cars to reduce air pollution and traffic congestion. Hence, rubber prices are expected to remain low and average RM5.00 per kg in 2014 (2013: RM7.81 per kg).

Total rubber planted areas are expected to increase 2% to 1.08 million hectares in 2014 (2013: 1.5%; 1.06 million hectares) following

TABLE 3.9

**Production of Other Agriculture
2013 – 2014**

	('000 tonnes)		Change (%)	
	2013	2014 ³	2013	2014 ³
Cocoa	2.8	3.5	-22.9	24.6
Paddy	2,627	2,594	1.0	-1.3
Livestock				
Meat ¹	295	296	2.5	0.5
Poultry	1,416	1,459	3.0	3.0
Eggs (million)	11,074	11,450	3.4	3.4
Milk (million litre)	79	84	7.1	5.8
Miscellaneous agriculture				
Fruits ²	1,603	1,638	0.5	2.2
Pepper	27	28	1.9	3.8
Vegetables	978	995	0.5	1.7
Coconut (million unit)	647	673	3.7	4.0
Flowers (million cutting)	421	514	0.3	22.0

¹ Including beef, mutton and swine.² Consists of star fruit, papaya, durian, guava, mango, mangosteen, banana, rambutan and pineapple.³ Estimate.

Note: Total may not add up due to rounding.

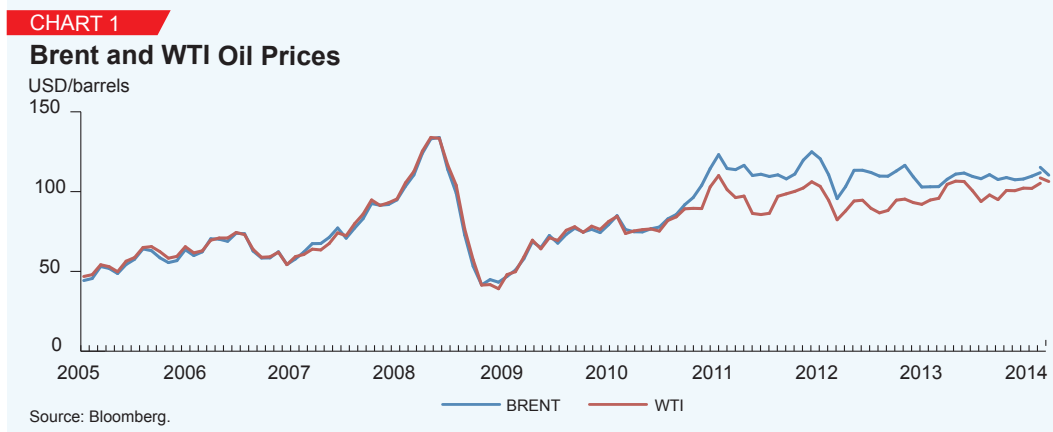
Source: Ministry of Agriculture and Agro-Based Industry, Ministry of Plantation Industries and Commodities, and Ministry of Finance, Malaysia.

the opening of new areas in line with the Government’s target of opening up 30,000 hectares of new areas annually with 90% in Sabah and Sarawak. Meanwhile, rubber replanting is targeted at 40,000 hectares annually.

Production of food commodities comprising mainly other agriculture, fishing and livestock was also higher during the first half of 2014 in tandem with efforts to increase output of agro food and aquaculture as well as enhance food security. Value-added of **livestock subsector** grew 7% (January – June 2013: 7.5%) on account of higher output of poultry (10.2%) and eggs (3.1%) to meet higher external and domestic demand. The **fishing subsector** moderated to 1.3% (January – June 2013: 4%) due to lower aquaculture production and marine fish landings. Meanwhile, **other agriculture subsector** expanded 7.4% (January – June 2013: 8.8%) on account of higher output of vegetables (7.2%), fruits (7.3%) and paddy (5.5%).

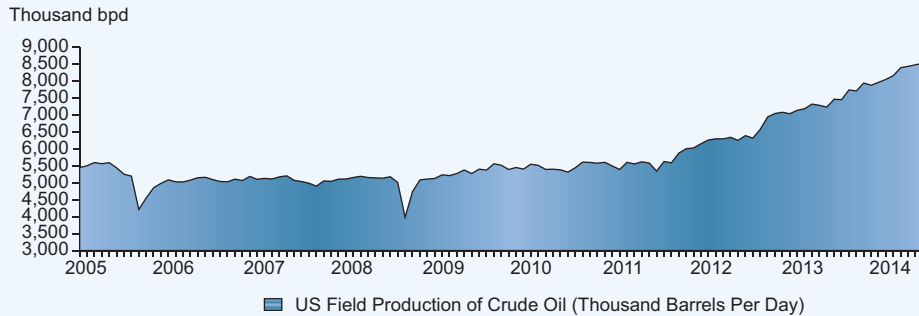
Moderate Global Crude Oil Prices in 2014

- Historically, geopolitical events have led to significant increase in crude oil prices, such as the Gulf War in 1990 and tensions in the Middle East as well as concerns over Iran's nuclear plans and North Korea's missile tests. Speculative activity has also caused oil price hikes, with the price reaching a high of USD145 per barrel in July 2008.
- However, despite the convergence of conflicts in the Middle East and Eastern Europe, there has been no sharp surge in global oil prices in 2014. The price of Brent, the international oil benchmark, has instead eased to an average of USD107.7 per barrel, while West Texas Intermediate (WTI) price edged up 2.7% to USD100.5 per barrel during the first eight months of 2014 (2013: USD108.8 per barrel; USD97.9 per barrel). Since July 2014, oil prices moderated further, with Brent and WTI dropping 4.7% and 6.4% in August 2014 to USD101.9 per barrel and USD96.4 per barrel respectively. The latest trend shows that higher oil prices may no longer be highly correlated with conflicts in the Middle East which produces about 33% of total world output. (Chart 1)



- The more stable global oil price is attributed to the significant increase in production of shale gas and oil, particularly in the US, the world's largest oil consumer. Producers of shale gas and oil in the US have been able to leverage two new viable technologies, namely horizontal drilling to penetrate deep underground shale, and hydraulic fracturing or fracking, to release gas and oil from rock formation.
- According to Robert D. Blackwill and Meghan L. O'Sullivan in a paper titled "*America's Energy Edge*", between 2007 and 2012, US shale gas production grew more than 50% annually to bring its share of total gas production from 5% to 39%. During the same period, fracking yielded an 18-fold increase in production of light tight oil (high-quality petroleum found in shale). This was a turnaround from the long decline in US crude oil production to a growth of 50% between 2008 and 2013. The increase in shale gas and oil output has gained from advances in technology which lower the cost of production. Judging from the speed at which US oil production is rising, the US is set to become a net energy exporter around 2020. Prior to 2011, the production of US crude oil was below 6 million barrels per day (mbpd). It has since steadily increased to average 8.5 mbpd in 2014. (Chart 2)

CHART 2

US Field Production of Crude Oil (2005 - June 2014)

Source: US Energy Information Administration (EIA).

- Although the Organisation of the Petroleum Exporting Countries (OPEC) remains the largest producer of oil, accounting for 40% of total world production, the situation could change in the future as producers around the world increasingly tap shale gas and oil. This will result in world energy production shifting from traditional suppliers such as the Middle East and Russia to new sources like North America (the US and Canada) and Australia, which is set to overtake Qatar as the largest global supplier of Liquefied Natural Gas (LNG). The role of OPEC in balancing the oil market through supply could also be eroded. All these developments could set a new order in global oil trade in the near future.
- Notwithstanding the possibility of a weather-related spike in demand especially during winter, global consumption of oil and gas is expected to remain stable. In its August 2014 report, the International Energy Agency (IEA), lowered its 2014 demand forecast by 1 mbpd to 92.7 mbpd on account of the moderate global recovery in 2014. Additionally, there is increasing efficiency in energy consumption, particularly in the Organisation for Economic Cooperation and Development (OECD) countries, thus exerting less pressure on oil demand.
- Given the weaker global oil demand while the risk of supply disruption is being cushioned by increasing supply, particularly from the shale boom, Brent crude oil is expected to moderate to USD105 per barrel in 2014 (2013: USD108.8 per barrel).

Mining Sector

Higher production of natural gas

Value-added of the **mining sector** grew marginally by 0.6% during the first half of 2014 (January – June 2013: 1.3%) backed by higher production of natural gas amid moderate output of crude oil. During the first seven months of 2014, production of **crude oil (including condensates)** declined marginally by 0.7% to 582,156 barrels per day (bpd) (January – July 2013: 1%; 586,296 bpd), due mainly to lower production from the maturing oil fields during the first quarter. However, output of crude oil (including condensates) expanded by 4% in the second quarter driven by production enhancement efforts and commencement of production from new oil fields. For 2014, production of crude oil (including condensates) is estimated to rebound by 2.1% to 588,000 bpd (2013: -1.6%; 576,000 bpd), following the completion of Gumusut-Kakap Deepwater Development. Meanwhile, the Kebabangan field, which is located off the coast of Kota Kinabalu, Sabah, is expected to come on stream in the fourth quarter of 2014.

Production of **natural gas** declined marginally by 0.4% to 6,275 million standard cubic feet per day (mmscfd) during the first seven months of 2014 (January – July 2013: 7.9%; 6,303 mmscfd) due to the sharp decline in natural gas production in July 2014 (-17.3%). However, for 2014, gas production is projected to increase to 6,298 mmscfd (2013: 6,271 mmscfd) to meet higher demand from the power, industrial and petrochemical industries. Meanwhile, the commencement of Sabah Oil & Gas Terminal will further facilitate the production and export of O&G. For the year, value-added of the mining sector is anticipated to remain steady at 0.7% (2013: 0.7%) on higher output of crude oil (including condensates) and natural gas during the second half of the year.

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas 2013 – 2014

			Change (%)	
	2013	2014 ³	2013	2014 ³
Crude oil				
Production ¹ (‘000 barrels per day)	576	588	-1.6	2.1
Reserves (billion barrels)	5.85	5.79	-1.7	-1.0
Reserves / production (years)	27	28		
Natural gas				
Production ² (mmscfd)	6,271	6,298	4.1	0.4
Reserves (trillion cubic feet)	98.3	100.7	6.7	2.4
Reserves / production (years)	43	42		

¹ Including condensates.

² Excluding flaring and reinjection.

³ Estimate.

Note: Total may not add up due to rounding.

Source: Petrolim Nasional Berhad.

Petrolim Nasional Berhad (PETRONAS) continues to actively explore new fields in Malaysia. As at end-March 2014, exploration activity involved six fields in Sarawak and one in Peninsular Malaysia. The Kapal, Banang and Meranti Cluster Fields Development Project, located in offshore East Peninsular Malaysia, is expected to further boost oil output. Kapal field commenced production in 2013, followed by Banang field in July 2014. Banang field is estimated to produce an average of 6,000 bpd of oil.

Construction Sector

Strong construction activities

The **construction sector** continued to register a double-digit growth of 14.3% during the first half of 2014 (January – June 2013: 12%). During

the period, 19,649 construction projects were undertaken with contract value of RM50.1 billion. The civil engineering subsector contributed 33% to the total construction works, followed by the non-residential (32.3%), residential (29.6%) and special trade (5%). The private sector contributed 71.4% to the total value of construction works. Meanwhile, the higher construction activity was led by the residential and non-residential subsectors, while growth in the civil engineering subsector moderated following the completion of some major projects, including KLIA2, Second Penang Bridge and Manjung coal-power plant. Moving forward, the sector is expected to grow 12.7% in 2014 (2013: 10.9%) and contribute 4% to GDP, supported by ongoing residential, O&G and transportation projects.

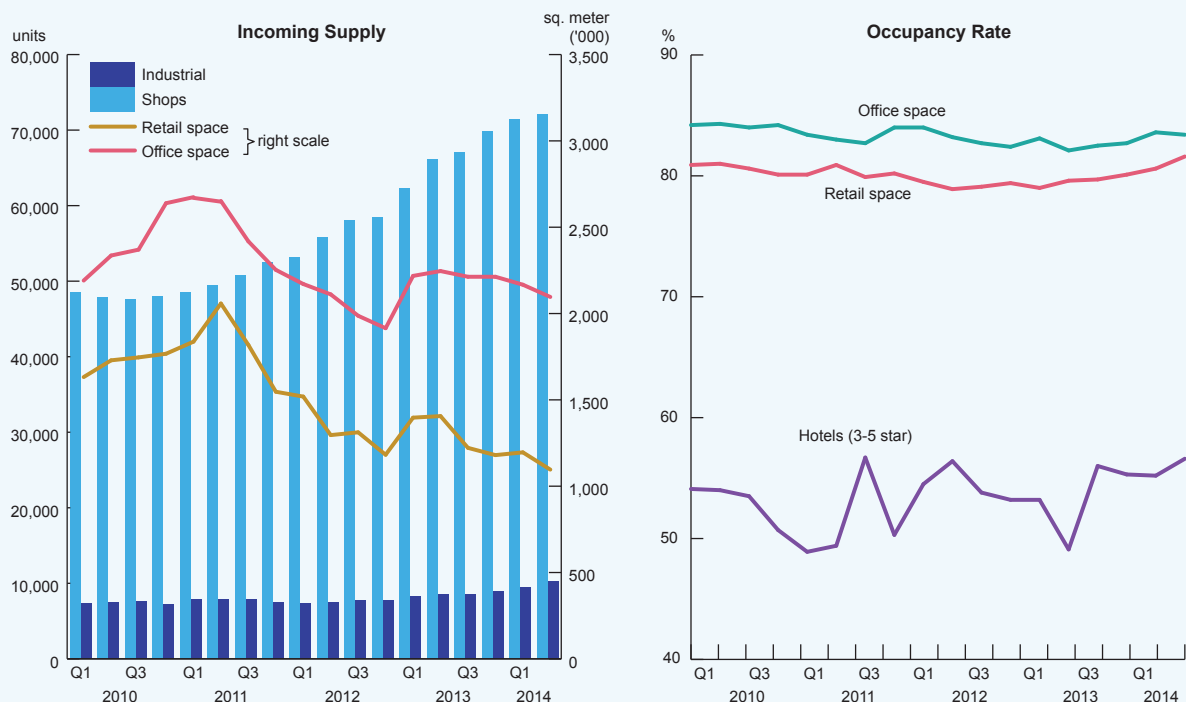
The **civil engineering subsector** expanded 6.3% during the first half of 2014 (January – June 2013: 21.6%). Ongoing civil engineering projects, particularly O&G related activities and

expansion of electricity power stations and transmission lines, will contribute significantly to the subsector. These include the development of Floating Liquefied Natural Gas 1 Project (FLNG 1) and Sabah Ammonia - Urea Plant (SAMUR) projects, and electricity power plants in Manjung and Seberang Prai. Other key projects which will boost growth in the subsector include the ongoing MY Rapid Transit (MRT) Line 1 project and light rail transit (LRT) extension; clean water supply and electrification expansion projects to rural areas especially in Sabah and Sarawak; as well as expansion of Kuantan Port, extension of DUKE and construction of West Coast Expressway and Central Spine Road from Bentong to Kuala Krai.

Growth in the **non-residential subsector** turned around sharply by 14% (January – June 2013: -1%) in line with healthy business activity during the first half of 2014. This was reflected by increased construction activities especially for

CHART 3.6

Supply Indicators of Non-Residential Property



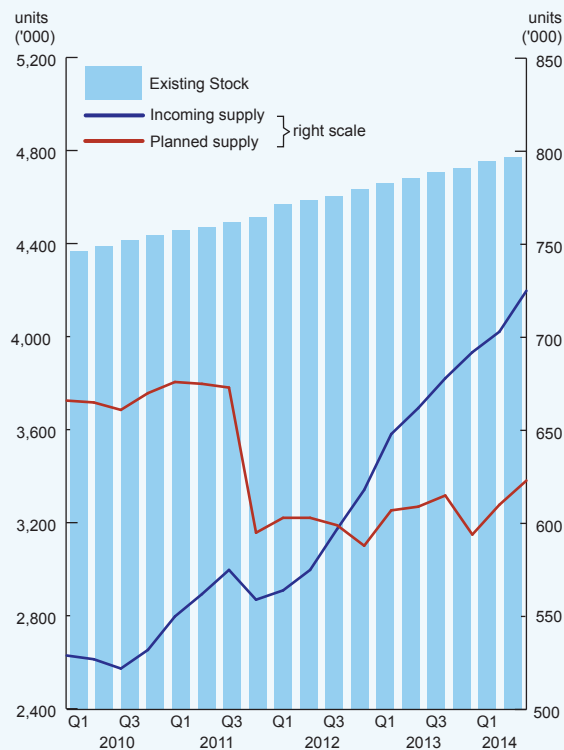
Source: National Property Information Centre.

commercial buildings with the incoming supply of shops increasing to 72,117 units (January – June 2013: 66,167 units). In the public sector, construction was mainly concentrated in building 33 new schools and upgrading facilities in universities and hospitals. Industrial building starts grew significantly by 81.6% to 1,580 units (January – June 2013: 73.7%; 870 units), particularly in Johor, Selangor and Pulau Pinang. Meanwhile, construction starts for purpose-built offices (PBO) decreased substantially to 2,965 square metre (sm) (January – June 2013: 263,284 sm), after experiencing strong growth of 61.2% in PBO starts in 2013. However, the national occupancy rate of office buildings remained stable at 83.4% (end-June 2013: 82%) despite an additional 194,798 sm space. Meanwhile, the incoming supply of shopping complexes declined 22%, while construction starts dropped 64.2% during the first half of 2014. However, the overall occupancy rate remained high at 81.3% (end-June 2013: 79.6%), reflecting strong retail activities supported by resilient private consumption. As at end-June 2014, the stock of shopping complexes and PBO stood at 12.39 million sm and 19.20 million sm, respectively (end-June 2013: 12.18 million sm; 18.87 million sm).

During the second quarter of 2014, the Purpose-Built Office Rent Index Wilayah Persekutuan Kuala Lumpur (PBO-RI WPKL) showed that PBO rentals in Kuala Lumpur continued to remain stable despite announcement of large planned projects such as the Tun Razak Exchange. The PBO-RI WPKL recorded 117 points (Q2 2013: 114.9 points), increasing 1.8% on account of higher growth Within the City Centre (WCC) area. Likewise, the average rental rate of PBO in WCC recorded an increase of 5.8% to RM4.41 per square foot (psf) (Q2 2013: 10%; RM4.10 psf). The average rental of investment-grade buildings in Kuala Lumpur, particularly Kuala Lumpur City Centre/Golden Triangle stood at RM6.18 psf (Q2 2013: RM6.17 psf), indicating stable rentals for offices in good locations.

CHART 3.7

Supply Indicators of Residential Property



Source: National Property Information Centre.

The **residential subsector** expanded strongly by 22.1% during the first half of 2014 (January – June 2013: 15.7%) supported by higher growth in incoming supply at 9.5% (January – June 2013: 15.3%). Meanwhile, new housing approvals increased significantly by 32.6% to 96,115 units (January – June 2013: 6.8%; 72,461 units). Despite the decline in housing starts at 5.3% to 70,346 units (January – June 2013: 21.1%; 74,270 units), residential activity is expected to remain stable. The take-up rate for houses priced between RM500,001 and RM1,000,000, within six months after launch, was lower at 11.6% (January – June 2013: 34.2%) following several measures to cool the housing sector. Meanwhile, the highest take-up rate was recorded for houses priced between RM200,001 and RM250,000 at 49.3%. With regard to the provision of adequate houses for the low-income group, the Government continues

to allocate funds to build affordable houses under various Government programmes, such as *Rumah Mesra Rakyat* (RMR), *Rumah Mampu Milik* (RMM) and *Rumah Idaman Rakyat* (RIR). In addition, in the 2013 Budget, the Government has introduced a new category under *Rumah Mesra Rakyat 1Malaysia*, with sales price between RM45,000 and RM65,000 per unit. Under the new category, the Government will provide a subsidy between RM15,000 and RM20,000 per unit. The Government also allocated RM1 billion under 1Malaysia Housing Programme (PR1MA) to build 80,000 housing units.

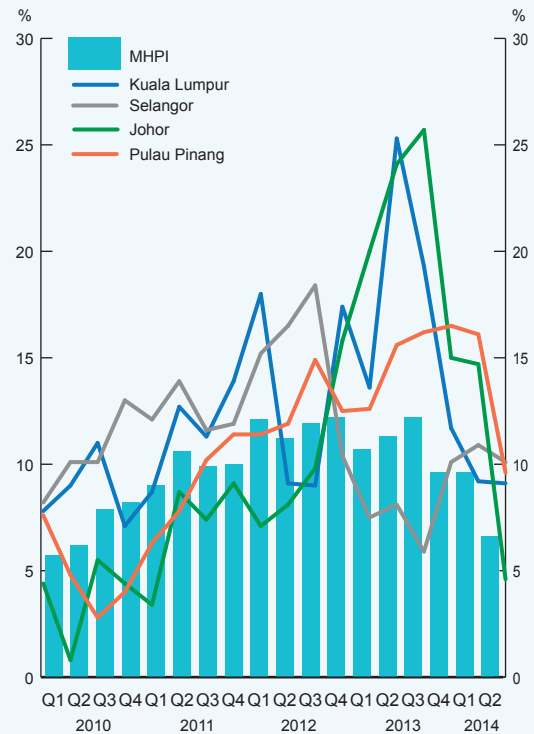
Meanwhile, the value of total property transactions increased to RM82 billion (January – June 2013: RM68.8 billion), with volume expanding 3.3% to 193,405 transactions during the first six months of 2014. Residential property transactions formed the bulk with a share of 63.5%. However, following several cooling measures imposed to curb speculative activity in the property sector, the number of residential property transactions decreased 2.7% in the first half of 2014 (July – December 2013: 5.1%). During the same period, residential transactions declined in Kuala Lumpur (-4.8%) and Selangor (-2.1%), while Johor and Pulau Pinang registered positive growth of 17.5% and 2.7%, respectively. Meanwhile, the residential overhang declined 11.5% to 12,105 units during the first half of 2014 (January – June 2013: -15.1%; 13,673 units), with a total value of RM4.5 billion (January – June 2013: RM5 billion).

House prices in Malaysia continue to rise, albeit at a slower pace, amid several measures to curb rising house prices since 2010. The increase in house prices was driven by strong demand following favourable labour market conditions and growing household income. The Malaysian House Price Index, which measures the change in prices paid for an average house, increased moderately by 6.6% in the second quarter of 2014, compared with 11.3% in the corresponding period in 2013. This was the lowest quarterly rate of increase since the third quarter of 2010.

CHART 3.8

Malaysian House Price Index

(% annual change)



Source: National Property Information Centre.

However, higher-than-average prices were recorded in Selangor (10.1%), Pulau Pinang (9.6%) and Kuala Lumpur (9.1%). The highest price increase was recorded for terrace houses, which grew 8.2% followed by high-rise units (7.9%), detached (2.5%) and semi-detached (2.4%) houses.

Domestic Demand Performance

Resilient domestic activities

On the demand side, growth is expected to be anchored by strong investment and resilient consumption with support from an improving external sector following the recovery in advanced economies. The private sector is projected to remain as the key engine of domestic demand.

TABLE 3.11

GDP by Aggregate Demand 2013 – 2015

(at constant 2005 prices)

	Change (%)			Share to GDP (%)			Contribution to GDP growth (percentage point)		
	2013	2014 ³	2015 ⁴	2013	2014 ³	2015 ⁴	2013	2014 ³	2015 ⁴
GDP	4.7	5.5 – 6.0	5.0 – 6.0	100.0	100.0	100.0	4.7	5.5 – 6.0	5.0 – 6.0
Domestic demand¹	7.4	6.4	6.2	93.1	93.7	94.6	6.8	6.0	5.8
Private expenditure	8.6	7.9	6.9	68.8	70.1	71.3	5.7	5.4	4.8
Consumption	7.2	6.5	5.6	52.0	52.4	52.6	3.6	3.4	2.9
Investment	13.1	12.0	10.7	16.7	17.7	18.6	2.0	2.0	1.9
Public expenditure	4.4	2.3	4.2	24.3	23.6	23.3	1.1	0.6	1.0
Consumption	6.3	2.1	3.8	13.4	12.9	12.8	0.8	0.3	0.5
Investment	2.2	2.6	4.7	10.9	10.6	10.6	0.2	0.3	0.5
External sector	-12.6	2.6	-19.7	7.1	6.9	5.3	-1.1	0.2	-1.4
Exports ²	0.6	3.5	2.1	89.5	87.6	85.0	0.6	3.1	1.9
Imports ²	2.0	3.5	4.0	82.5	80.7	79.7	1.7	2.9	3.2
GDP (RM billion, current value)	986.7	1,078.2	1,175.7						
Change (%)	4.8	9.3	9.0						

¹ Excluding change in stocks.² Goods and non-factor services.³ Estimate.⁴ Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

Amid positive consumer sentiment and growing investor confidence, domestic demand is expected to increase 6.4% and contribute 6 percentage points to real GDP growth in 2014 (2013: 7.4%; 6.8 percentage points). In 2014, GDP is projected to expand 5.5% – 6% (2013: 4.7%), following the stronger growth of 6.3% in the first half of 2014 and expectation of steady growth in the second half of the year.

Private sector expenditure is envisaged to expand 7.9% (2013: 8.6%) driven by consumption and investment spending, with the private sector share to GDP increasing further to 70.1% in 2014 (2013: 68.8%). In line with fiscal consolidation, **public sector expenditure** is expected to expand moderately by 2.3% (2013: 4.4%) due to slower growth in emoluments.

Private investment is expected to remain vibrant with growth of 12% in 2014 (2013: 13.1%), especially in the services and manufacturing sectors. Growth will be supported by various Government initiatives to accelerate private sector participation amid upbeat business confidence following higher export earnings and stable labour market conditions. Capital spending in the services sector will be mainly in consumer-related activities such as wholesale and retail trade, accommodation and restaurant as well as communication subsectors. Meanwhile, investment in the manufacturing sector will be supported by export and domestic-oriented industries. Investment in the export-oriented industries is expected to increase, especially in E&E, particularly in medical device, telecommunication equipment and fiber optic cable segments.

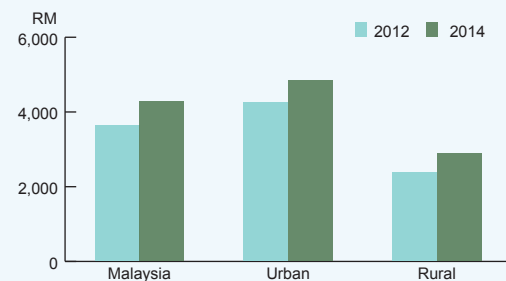
Household Income and Expenditure Survey 2014

The Department of Statistics, Malaysia (DOSM) is conducting a Household Income and Expenditure Survey (HIES) 2014 from January until December 2014. The survey will cover 83,456 households staying in private dwelling throughout the country.

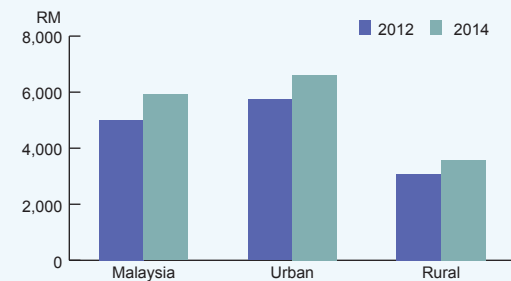
The preliminary report of HIES 2014 is based on information gathered during the first six months of the survey which covered 42,000 households. Among the findings of the report are:

- The median monthly household income rose 8% annually to RM4,258 in 2014 compared with RM3,626 in 2012 while the mean monthly income grew 8.4% to RM5,919 from RM5,000 during the same period in line with the strong economic performance.
- The growth in income benefited both urban and rural households in all states.

Median Monthly Household Income by Strata, 2012 and 2014

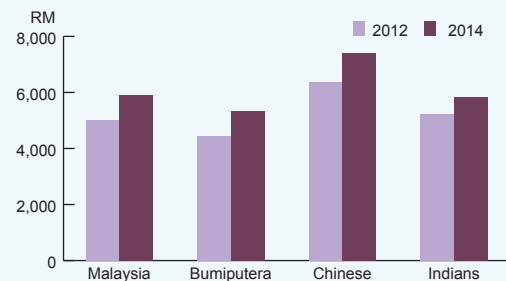


Mean Monthly Household Income by Strata, 2012 and 2014

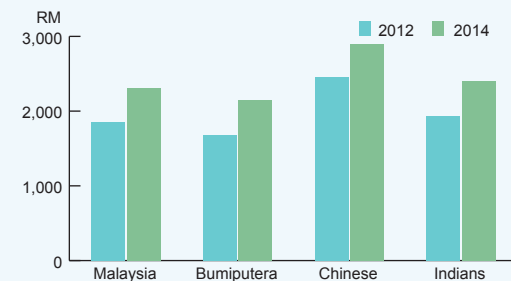


- All ethnic groups benefited from the increase in household income especially the bottom 40% group.

Mean Monthly Household Income by Ethnic group, 2012 and 2014

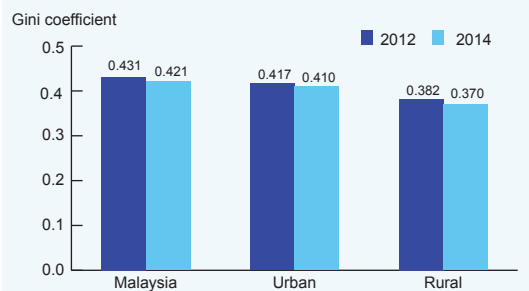


Mean Monthly Household Income for Bottom 40% (B40) by Ethnic Group, 2012 and 2014



- Income distribution has improved as reflected by the lower Gini coefficient from 0.431 in 2012 to 0.421 in 2014.
- The Gini coefficient for urban and rural areas declined from 0.417 and 0.382 in 2012 to 0.410 and 0.370 in 2014, respectively.
- The overall incidence of poverty decreased from 1.7% in 2012 to 1% in 2014, with all states except Sabah recording poverty incidence below 2%. Sabah registered a significant decline from 8.1% in 2012 to 6.4% in 2014.

**Gini Coefficient by Strata,
2012 and 2014**



- Meanwhile, the average monthly household expenditure increased 8.8% annually to RM3,496 (2009: RM2,254). The housing, water, electricity, gas and other fuels category was the main contributor to overall household expenditure with a share of 22.8% followed by food and non-alcoholic beverages (18.1%), transport (15.4%) as well as restaurants and hotels (12.3%).

Source: Department of Statistics, Malaysia.

Furthermore, expenditure in the domestic-oriented industries will be sustained, mainly supported by transport equipment as well as food and beverage subsectors. Hence, the share of private investment to real GDP is anticipated to record 17.7% in 2014 (2013: 16.7%), the highest share since the Asian Financial Crisis in 1997/1998. The robust growth in private investment was reflected by several key investment indicators, such as total loans disbursed to the construction and manufacturing sectors during the first seven months of 2014.

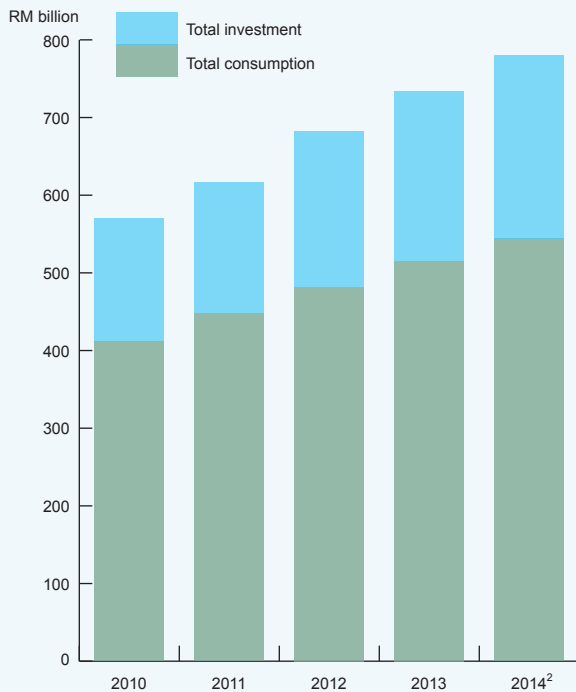
Total investment approvals by MIDA in the manufacturing sector rose to RM47.4 billion in the first half of 2014 (January – June 2013: RM22.7 billion) boosted by higher domestic and foreign investment. Foreign investment, which accounted for 58.9% of the total approved investment, increased 96% to RM27.9 billion (January – June 2013: 62.7%; 11.8%; RM14.3 billion). Japan was the top source of foreign investment, followed by China, Germany and Singapore which together accounted for 79.4% of the

total foreign investment. Meanwhile, approved projects for domestic investment increased significantly to RM19.5 billion (January – June 2013: RM8.5 billion). The bulk of the total investment was in the petroleum and petrochemical, chemical, E&E as well as basic metal industries.

Malaysia remains an attractive destination for FDI despite stiff competition from other emerging economies. According to the World Investment Report 2014 by UNCTAD, Malaysia was ranked the 7th top FDI recipient in Asia, ahead of ROK, Viet Nam and Taiwan. During the first half of 2014, Malaysia recorded net FDI inflow of RM17.2 billion (January – June 2013: RM17.7 billion) supported by inflows of equity capital and continued retained earnings for reinvestment by foreign MNCs operating in Malaysia. Investment was mainly in the services (47.5%), mining (36.4%) and manufacturing (10.5%) sectors. The financial and insurance as well as wholesale and retail trade subsectors collectively contributed 76.3% of investment in the services sector. The major contributors of net FDI inflows were mainly

CHART 3.9

Composition of Aggregat Demand¹ (at constant 2005 prices)

¹ Excluding stocks.² Estimate.

Source: Department of Statistics, Malaysia.

from the Netherlands (RM4.3 billion), Singapore (RM2.7 billion) and Hong Kong (RM1.7 billion). In 2014, FDI is expected to accelerate as the world economic recovery strengthens.

In line with the Government's continuous pro-business initiatives, Malaysia's competitiveness has improved further. In the World Bank's Doing Business 2014 Report, Malaysia's ranking improved to 6th position from 12th position in 2013. This ranking places Malaysia ahead of economies like the UK (10th), Taiwan (16th), Germany (21st), Japan (27th) and Switzerland (29th). Malaysia's strengths include getting credit (1st), protecting investors (4th) and doing trade across borders (5th). Furthermore, Malaysia improved to 15th from 25th position in the 2014 Foreign Direct Investment Confidence Index by A.T. Kearney, which highlighted Malaysia's efforts in building its competitive

position in electronics, automotive, and machinery manufacturing to move up the value chain into high-technology and skill-intensive segments. Malaysia also improved to 12th position from 15th in the 2014 IMD World Competitiveness Yearbook, scoring 5th position in business efficiency, economic performance (9th), Government efficiency (15th) and infrastructure (25th). In addition, Malaysia ranked among the top 20 most competitive economies out of 144 countries surveyed in the Global Competitiveness Report 2014 – 2015 for the first time since 2006. Notably, Malaysia advanced nine positions in the institutions pillar comprising financial market development, efficiency of goods and services market as well as business-friendly institutional framework.

The regional economic growth corridors were established during the Ninth Malaysia Plan (9MP) to reduce regional imbalances as well as bring about equitable growth, investment and employment opportunities. In the first half of 2014, the five corridors registered total committed investment worth RM45.8 billion with the bulk channelled to the East Coast Economic Region (ECER) worth RM20.9 billion. Meanwhile, Iskandar Malaysia registered committed investment amounting to RM14.6 billion, Northern Corridor Economic Region (NCER) RM6.7 billion, Sarawak Corridor of Renewable Energy (SCORE) RM3.5 billion and Sabah Development Corridor (SDC) RM0.1 billion. The committed investment is broad-based across all economic sectors especially in targeted industries, including high-technology, knowledge-intensive and innovation-based industries, mostly in E&E, agro-based, O&G as well as tourism industries.

The ETP continues to record encouraging results attracting RM219.3 billion worth of investment since its launch in 2010. Under a total of 196 initiatives, the committed investment is expected to contribute RM144 billion to GNI and create 437,816 new jobs by 2020. Among the major projects are wafer fabrication in Kulim, developing marginal oil fields in offshore Sarawak and an integrated O&G hub in Labuan.

TABLE 3.12

Investment in Regional Economic Growth Corridors in 2014

Corridor	End-June 2014		Major Projects in Progress
	RM billion Committed	Realised	
Iskandar Malaysia	146.2	69.5	• Southkey Megamall • Dato' Onn Specialist Hospital • Gleneagles Medini Hospital
SDC	128.1	45.4	• Sabah - Sarawak Integrated Oil and Gas Project (SSIOGP) • Sipitang Oil and Gas Industrial Park (SOGIP) – Phase 1 SAMUR • Sandakan City Centre (SCC) • Sabah Agro - Industrial Precinct (SAIP)
ECER	68.8	8.1	• Kuantan Port Expansion - breakwater and external infrastructure • Kuantan Port City - Port link road • Kuala Terengganu City Centre (KTCC) • Ganchong Water Treatment Plant
NCER	47.0	47.0	• Plant expansion in Batu Kawan • Plant expansion in Kamunting • Plant expansion in Kulim High-Tech Park (KHTP) • Plant expansion in Kamunting Raya Industrial Estate
SCORE	32.9	22.0	• Polycrystalline silicone project • Silicone manganese project • Metallic silicone project • Ferro alloy project
Total	423.0	192.0	

Source: Respective regional economic growth corridors.

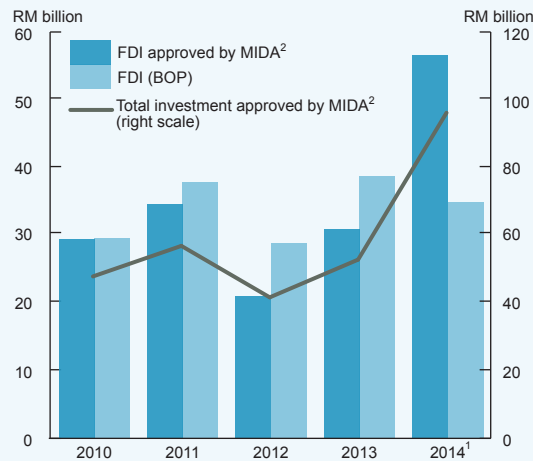
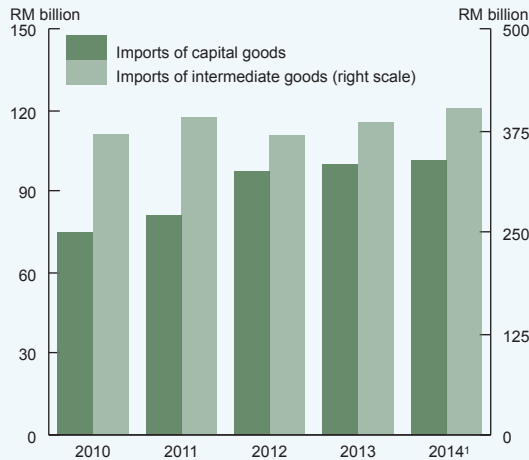
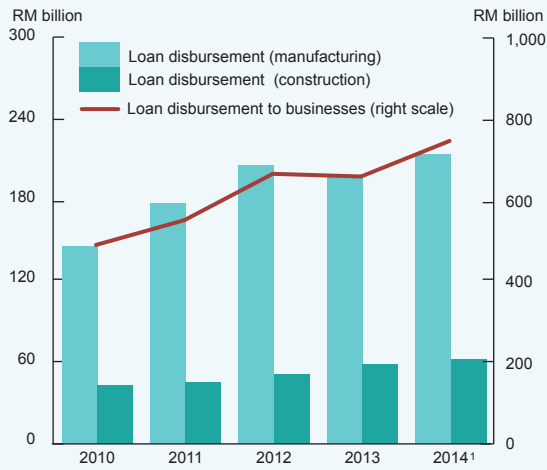
Public investment is anticipated to expand further by 2.6% (2013: 2.2%) supported by higher capital spending of the NFPEs. The investment by NFPEs is mainly channelled into the O&G, transportation and utilities sectors. The bulk of PETRONAS' expenditure will continue to focus on both downstream and upstream activities in the O&G sector. Among the major projects include SAMUR in Sipitang, Refinery and Petrochemical Integrated Development (RAPID) in Pengerang and Floating LNG Project 1 & 2 in offshore East Malaysia. Meanwhile, the capital spending of Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) is mainly on the MRT Line 1 project. The capital expenditure

by Tenaga Nasional Berhad (TNB) is mainly for construction of new power plants for electricity generation to support growing energy demand as well as upgrading transmission and distribution network.

Private consumption is projected to increase, albeit at a slower pace of 6.5%, in 2014 compared with 7.2% in 2013. This was partly attributed to the moderate growth in household spending due to the rising cost of living, as reflected in the above-trend inflation of 3.3% during the first eight months of 2014 (January – August 2013: 1.7%). However, consumption spending continues to be supported

CHART 3.10

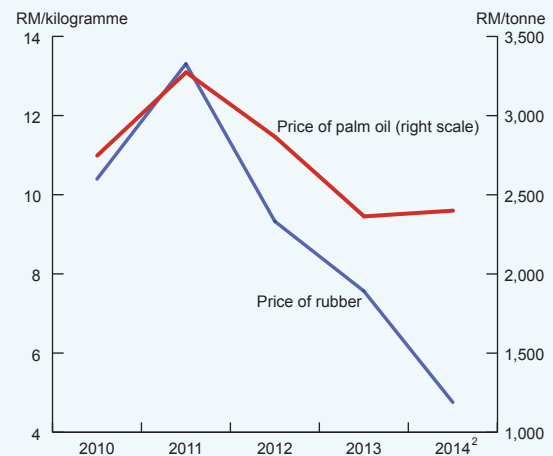
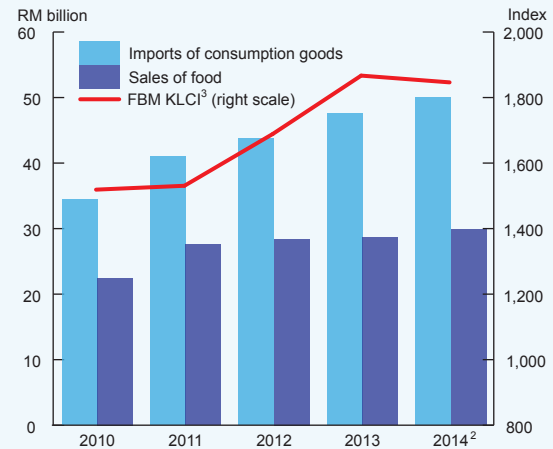
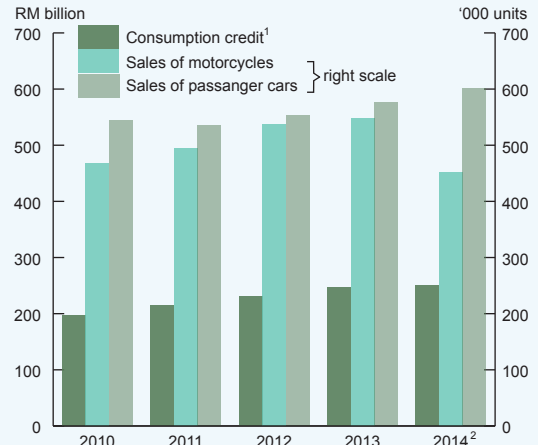
Private Investment Indicators

¹ Estimate.² In the manufacturing sector.

Source: Bank Negara Malaysia, Malaysian Investment Development Authority, Department of Statistics and Ministry of Finance, Malaysia.

CHART 3.11

Private Consumption Indicators

¹ As at end-August 2014.² Estimate.³ As at 30 September 2014.

Source: Bank Negara Malaysia, Bursa Malaysia, Motorcycle and Scooter Assemblers and Distributors Association of Malaysia, Malaysian Palm Oil Board, Malaysian Rubber Board, Department of Statistics and Ministry of Finance, Malaysia.

by stable income growth and strong export earnings. In addition, the Government's cash transfer (BR1M) to targeted households and single individuals as well as bonuses in January 2014 and cash assistance during the Aidilfitri celebration for civil servants, helped to mitigate the impact of higher inflation on household spending. The resilience in private consumption was reflected in major consumption indicators such as imports of consumption goods which grew 7.7%, sales of food (4.9%) and sales of passenger cars (4%) in the first seven months of 2014. Meanwhile, **public consumption** is anticipated to record lower growth of 2.1% (2013: 6.3%), reflecting prudent spending by the Government.

TABLE 3.13

Savings-Investment Gap 2013 – 2015 (in current prices)

	RM million		
	2013	2014 ²	2015 ³
Public sector			
Savings	98,055	85,506	89,198
Gross capital formation	104,552	108,947	116,513
Surplus/Deficit	-6,497	-23,441	-27,315
Private sector			
Savings	199,299	254,948	284,476
Gross capital formation ¹	152,895	177,615	208,113
Surplus/Deficit	46,404	77,333	76,364
Overall			
Gross national savings	297,354	340,454	373,674
(% of GNI)	31.2	32.4	32.5
Gross capital formation ¹	257,447	286,562	324,626
(% of GNI)	27.0	27.3	28.3
Surplus/Deficit	39,907	53,892	49,049
(% of GNI)	4.2	5.1	4.3

¹ Including change in stocks.

² Estimate.

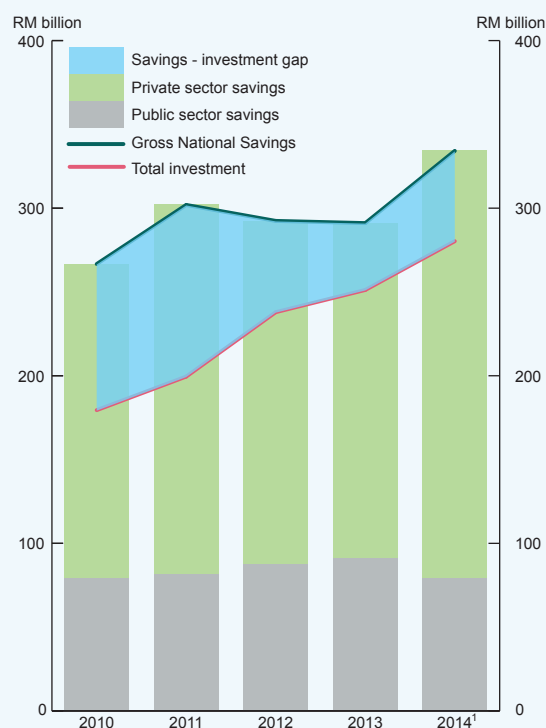
³ Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

CHART 3.12

Gross National Savings and Savings-Investment Gap



¹ Estimate.

Source: Department of Statistics and Ministry of Finance, Malaysia.

National Resource Position

Higher savings-investment surplus

The GNI in current prices is anticipated to strengthen further by 10.2% in 2014 (2013: 5.2%), in line with the expansion in domestic economic activities and higher export earnings. Hence, Gross National Savings (GNS) is projected to rebound by 14.5% to RM340.5 billion, accounting for 32.4% of GNI (2013: -0.4%; RM297.4 billion; 31.2%). The private sector contributed 74.9% to GNS (2013: 67%). With the level of GNS continuing to exceed total investment, the savings-investment gap is expected to register a higher surplus of RM53.9 billion or 5.1% of GNI (2013: RM39.9 billion; 4.2%).

External Sector

In 2014, Malaysia's external sector is expected to remain favourable backed by a strengthening global economy, and reinforced by resurgent demand for semiconductors as well as continued expansion in domestic and regional economic activity. This is expected to have a positive impact on trade, contributing to a higher current account surplus of 5.1% of GNI for the year. Despite the continued uncertainties in the global financial markets, Malaysia is expected to remain resilient supported by sound macroeconomic fundamentals. The high level of international reserves, well-developed capital markets, and the presence of large domestic institutional investors with absorptive capacity, provide a cushion against volatility in capital flows.

Trade Performance

Strong gains in trade

Malaysia's total trade surged, registering strong growth of 8.4% to RM834.1 billion in the first seven months of 2014 (January – July 2013: 0.7%; RM769.6 billion) underpinned by recovery in key advanced economies, resilient regional demand, and partly due to the base effect arising from sluggish exports in the corresponding period last year. Exports rebounded to record a double-digit growth of 10.7%, while imports continued to grow 5.8% resulting in a higher trade surplus of RM48.5 billion. However, with uneven growth anticipated in advanced economies, coupled with rising geopolitical tensions and declining commodity prices, the growth momentum in the second half of the year is expected to moderate.

TABLE 3.14

External Trade 2013 – 2015

	RM million			Change (%)		
	2013	2014 ¹	2015 ²	2013	2014 ¹	2015 ²
Total trade	1,368,883	1,440,023	1,500,326	4.5	5.2	4.2
Gross exports	719,815	762,788	787,197	2.4	6.0	3.2
of which:						
Manufactured	548,344	582,007	600,986	5.1	6.1	3.3
Agriculture	68,843	71,931	74,784	-14.4	4.5	4.0
Mining	97,501	103,739	107,409	3.3	6.4	3.5
Gross imports	649,068	677,235	713,129	7.0	4.3	5.3
of which:						
Capital goods	98,562	100,231	105,900	2.6	1.7	5.7
Intermediate goods	379,351	396,725	420,033	4.3	4.6	5.9
Consumption goods	47,569	50,115	51,345	8.7	5.4	2.5
Trade balance	70,747	85,553	74,068	-26.3	20.9	-13.4

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.15

**Gross Exports
January – July**

	RM million		Change (%)		Share (%)	
	2013	2014	2013	2014	2013	2014
Manufactured	302,762	337,174	-0.3	11.4	76.0	76.4
Agriculture	38,587	40,023	-18.3	3.7	9.7	9.1
Mining	54,091	60,850	-3.5	12.5	13.6	13.8
Others	3,102	3,204	-1.2	3.3	0.8	0.7
Total	398,542	441,251	-2.8	10.7	100.0	100.0

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

For the year, Malaysia's total trade is expected to grow 5.2% to RM1.44 trillion (2013: 4.5%; RM1.37 trillion). Gross exports are anticipated to expand 6% to RM762.8 billion while imports, at a slower pace of 4.3% to RM677.2 billion (2013: 2.4%; RM719.8 billion; 7%; RM649.1 billion). Consequently, the trade surplus is expected to be higher at RM85.6 billion or 7.9% of GDP in 2014 (2013: RM70.7 billion; 7.2%).

Export Performance

Favourable export growth across all sectors

Gross exports rebounded significantly by 10.7% to RM441.3 billion during the first seven months of 2014 (January – July 2013: -2.8%; RM398.5 billion), with manufactured and mining exports rising at a double-digit pace of 11.4% and 12.5%, respectively. While exports of manufactured goods were boosted by the growing demand from advanced economies, mining exports benefited from stable prices and rising external orders. Shipments of agriculture products, however, grew at a slower pace of 3.7%, primarily due to lower receipts of crude natural rubber (-24.6%) while export growth of other commodities remained steady. In 2014, gross exports are expected to expand further in line with improving external

demand, albeit at a more moderate pace, in the second half of the year. Consequently, exports of manufactured and mining products are anticipated to grow 6.1% and 6.4%, respectively (2013: 5.1%; 3.3%). Meanwhile, agriculture exports are expected to rebound sharply by 4.5% (2013: -14.4%) despite moderating commodity prices.

Exports of Manufactured Goods

Robust growth in both E&E and non-E&E exports

Manufactured exports surged 11.4% to RM337.2 billion during the first seven months of 2014 (January – July 2013: -0.3%; RM302.8 billion). The robust growth was buoyed by strengthening demand in the US and EU, reflecting significant exposure of Malaysian exports to the economic performance in the advanced economies. The strength in exports was broad-based with robust growth in both E&E and non-E&E subsectors.

Receipts from **E&E** products grew at an impressive 10.6%, rebounding from a contraction of 2.9% in the corresponding period last year. The steady improvement in the global economy, coupled with a pickup in the ICT industry led to a surge of 20.1% in exports of semiconductor devices (January – July 2013: 0.8%). The

TABLE 3.16

Exports of Manufactured Goods¹ January – July

	RM million		Change (%)		Share (%)	
	2013	2014	2013	2014	2013	2014
E&E	130,187	143,996	-2.9	10.6	43.0	42.7
Non-E&E	172,575	193,178	1.8	11.9	57.0	57.3
Petroleum products	34,918	43,102	12.4	23.4	11.5	12.8
Chemicals and chemical products	27,493	29,345	-0.2	6.7	9.1	8.7
Machinery, appliances and parts	15,506	17,446	1.4	12.5	5.1	5.2
Manufactures of metal	14,600	15,289	21.7	4.7	4.8	4.5
Optical and scientific equipment	11,658	13,831	-12.3	18.6	3.9	4.1
Rubber products	11,041	10,251	-6.5	-7.2	3.6	3.0
Processed food	8,060	9,324	6.0	15.7	2.7	2.8
Wood products	8,082	8,462	-5.9	4.7	2.7	2.5
Textiles, clothing and footwear	5,923	7,034	2.3	18.7	2.0	2.1
Manufactures of plastics	5,978	6,814	1.5	14.0	2.0	2.0
Transport equipment	5,648	6,284	4.8	11.3	1.9	1.9
Iron and steel products	4,562	5,847	-28.4	28.2	1.5	1.7
Jewellery	4,700	3,962	6.6	-15.7	1.6	1.2
Non-metallic mineral products	3,103	3,243	-9.9	4.5	1.0	1.0
Beverage and tobacco	2,132	2,312	6.9	8.4	0.7	0.7
Paper and pulp products	2,043	2,140	1.8	4.7	0.7	0.6
Other manufactured goods	7,128	8,492	0.8	19.1	2.4	2.5
Total	302,762	337,174	-0.3	11.4	100.0	100.0

¹ Based on new classification.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia, Malaysia External Trade Development Corporation.

segment remained the largest component, accounting for 49.4% of total E&E exports during the first seven months of 2014. Higher shipments of semiconductor devices were recorded, especially to major markets such as China, Singapore, Hong Kong and the US. In particular, electronic integrated circuits and photosensitive semiconductor devices accelerated 24.1% and 18.5%, respectively. In addition, the robust demand for mid- to low-end smartphones and tablets, notably in emerging markets has driven higher shipments of telecommunication equipment and parts, which turned around with

a stronger growth of 30.9% (January – July 2013: -9.4%) to the US, Netherlands, Singapore and Mexico.

Non-E&E exports increased significantly by 11.9% to RM193.2 billion (January – July 2013: 1.8%; RM172.6 billion) attributable to stronger receipts across major subsectors except rubber and jewellery exports. Shipments of *petroleum products* continued to rise 23.4% (January – July 2013: 12.4%) largely contributed by higher exports of refined petroleum products (23.2%) to Singapore, Indonesia and Australia.

Exports of *chemicals and chemical products* grew 6.7% (January – July 2013: -0.2%) mainly supported by higher receipts from organic chemicals (6.3%), soap, cleansing and polishing preparations (14.3%) as well as dyeing, tanning and colouring materials (12.8%) to Singapore, India, Indonesia and the US. Meanwhile, exports of plastic products surged 14% (January – July 2013: 1.5%), particularly for packaging, in line with the expansion of E&E products, transport equipment and processed food. Boosted by growing demand from ASEAN, Australia, ROK and China, exports of plastic plates, sheets, film, foil and strip products, grew 22.2%.

Shipments of *machinery, appliances and parts* continued to expand rapidly by 12.5% (January – July 2013: 1.4%) with stronger demand from Singapore, the US, China and Australia. Growth was mainly contributed by specialised machinery for specific industries (16.3%), particularly for civil engineering

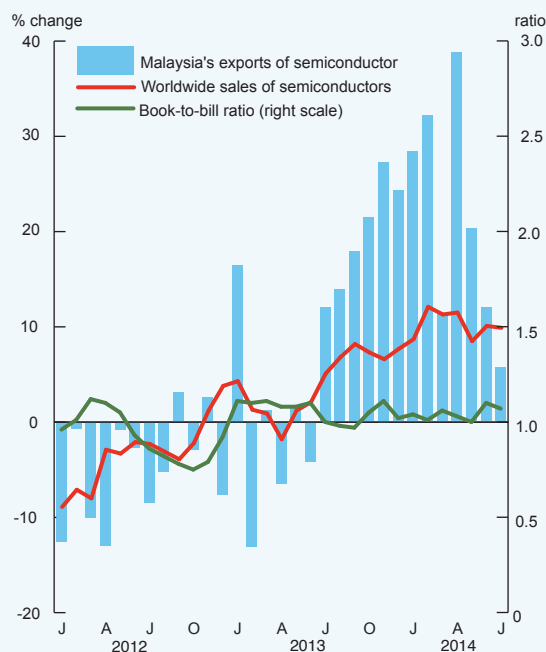
and manufacture of semiconductors as well as general industrial machinery and equipment (9.2%), such as heating and cooling equipment and parts as well as mechanical handling equipment and parts.

Exports of *optical and scientific equipment* rebounded strongly by 18.6% during the first seven months of 2014, after contracting 12.3% in the corresponding period in 2013. The higher shipments were aided by strong external demand from the US, Singapore and China, particularly for measuring, checking, analysing and controlling instruments and apparatus.

Manufactures of metal rose 4.7% (January – July 2013: 21.7%) supported by stronger export demand of non-ferrous metal (12.4%), particularly copper and nickel to China, India, Singapore and Australia. *Iron and steel products* registered a strong rebound of 28.2% (January – July 2013: -28.4%) with higher shipments of tubes,

CHART 3.13

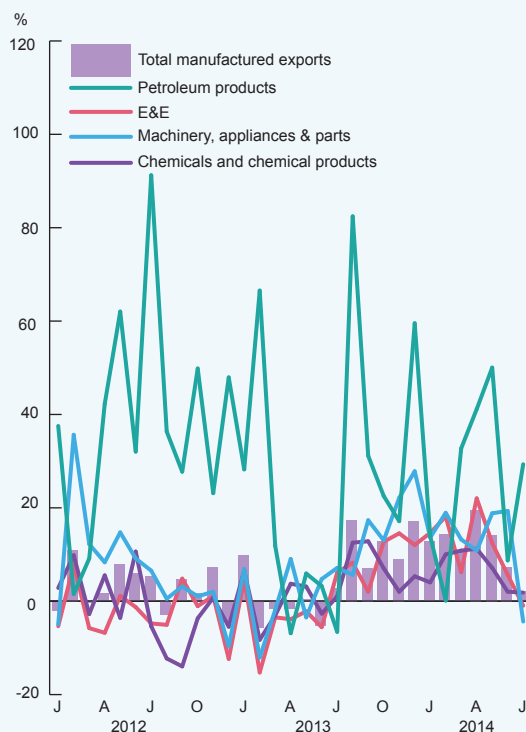
Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and Book-to-Bill Ratio



Source: Department of Statistics, Malaysia, Semiconductor Industry Association, and Semiconductor Equipment and Materials International.

CHART 3.14

Performance of Selected Manufactured Exports (% annual change)



Source: Department of Statistics, Malaysia.

pipes, hollow profiles and fittings to Norway, Thailand and Indonesia. Likewise, exports of *non-metallic mineral products* turned around by 4.5% (January – July 2013: -9.9%), mainly contributed by construction-related materials such as lime, cement, clay and fabricated materials.

Exports of *rubber products* contracted 7.2% (January – July 2013: -6.5%), primarily weighed down by slower exports of rubber gloves and rubber materials. Receipts from rubber gloves dropped 1.7% (January – July 2013: 0.4%) mainly on account of lower sales of medical rubber gloves to Germany, the UK and Brazil while exports of surgical rubber gloves remained stable at 2.4%. The lower average selling prices of rubber gloves amid intensified competition, particularly from China further affected export receipts. Meanwhile, the significant decline in exports of materials of rubber (-28%) was mainly on account of lower shipments to China, the US and Australia. However, exports of articles of rubber remained strong at 16.1%, respectively (January – July 2013: -2.5%).

There were higher export receipts from *processed food* at 15.7% (January – July 2013: 6%), with exports to ASEAN accelerating 7.3%. Stronger gains were primarily attributable to growing demand for edible products and preparations (18.5%) as well as cocoa and cocoa preparations (17.7%). Similarly, *beverage and tobacco* exports remained steady at 8.4% (January – July 2013: 6.9%), supported by higher exports of beverage to Singapore, Indonesia, Thailand and Viet Nam as well as tobacco products to Taiwan, Thailand and Viet Nam.

Shipments of *wood products* rebounded by 4.7% (January – July 2013: -5.9%) mainly driven by stronger export growth of wooden furniture (13.4%) to the US, Japan and Australia. Amid higher demand, exports of bedroom furniture and seats with wooden frame, in particular, increased significantly by 21.6% and 15.2%, respectively. In contrast, veneers and plywood fell marginally by 2.7% owing to lower receipts from

ROK, Taiwan and Philippines despite increased new housing activity in Japan during the earlier part of 2014 which boosted greater demand for plywood products.

Exports of *textiles, clothing and footwear* grew strongly by 18.7% (January – July 2013: 2.3%) with textile as well as articles of apparel and clothing accessory segments expanding 14.1% and 28%, respectively. Turkey was the key export market of textile products such as textile yarn and woven fabrics, absorbing 10.3% of the total shipments, followed by China (8.7%), ROK (7.9%) and Japan (7.6%). Driven by stronger global demand, particularly from the US, Singapore and Belgium, articles of apparel and clothing accessories, especially men's clothing posted higher receipts of 19.8%.

Meanwhile, shipments of *transport equipment* surged 11.3% (January – July 2013: 4.8%) mainly supported by higher exports of aircraft and associated equipment (14.8%) as well as ships, boats and floating structures (25%) to the US, Japan and Thailand. Receipts from *jewellery* exports contracted 15.7% (January – July 2013: 6.6%) largely due to a decline in exports of jewellery of gold, silver, platinum (-14%) and other articles of precious metals (-40.1%) to the United Arab Emirates (UAE), Singapore and Thailand. The contraction was significant, notably during the second quarter of 2014 in tandem with declining gold investment demand globally.

Exports of Commodities

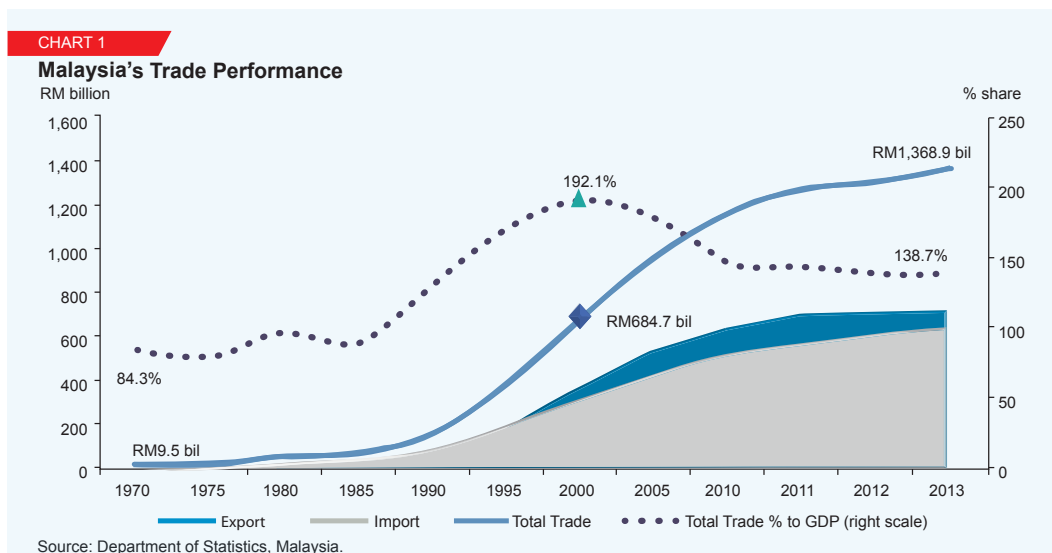
Exports rebound significantly

Export earnings from commodities rebounded by 8.8% to RM100.9 billion during the first seven months of 2014 (January – July 2013: -10.3%; RM92.7 billion) mainly attributed to higher export earnings of palm oil, crude oil and LNG. Export earnings of agriculture goods increased 3.7% to RM40 billion (January – July 2013: -18.3%; RM38.6 billion) on account of higher

Accelerating Export Growth

Introduction

Malaysia is an open economy with trade accounting for about 139% of GDP in 2013. Despite being a small, trade-reliant economy, it is ranked among the top 25 trading nations of the world. Total trade was valued at RM1.4 trillion in 2013. Export performance in the first seven months of 2014 was robust, increasing 10.7% in tandem with the pickup in global demand; broad recovery in advanced economies; recovery in global semiconductor sales; firm commodity prices and strong regional trade. Meanwhile, imports expanded 5.8% during the same period. The export performance bodes well for the Malaysian economy as it reflects strong domestic economic activity and future export capacity. Going forward, the improvement in the external environment will be positive for trade, investment and job creation.



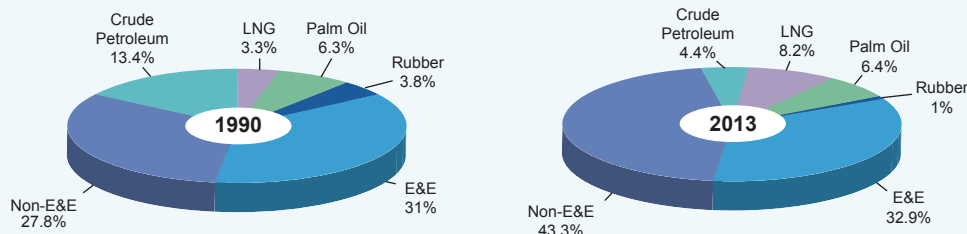
Export Performance

The export sector has remained resilient despite a myriad of challenges in the global environment. This is largely because Malaysia has successfully diversified the composition of its exports and trading partners to become more broad-based, and in line with underlying structural changes in the Malaysian economy. While in the 1960s, exports of primary commodities like rubber, tin, timber, petroleum and palm oil were the mainstay; the manufacturing sector now contributes 76.2% to total exports, from 58.7% in 1990. A crucial development within the manufacturing sector is the gradual diversification that has taken place. Non-electronics and electrical (E&E) manufactured exports have become increasingly important, accounting for 56.8% in 2013 (1990: 47.3%). The shift within manufactured exports augurs well for the economy as it indicative of higher value-add in downstream manufacturing activities. Despite its declining share to manufactured exports, E&E products continue to dominate, accounting for a third of total exports. Meanwhile, exports of commodities, mainly palm oil, crude oil, liquefied natural gas (LNG) and natural rubber have been steadily rising due to global demand for raw materials. They accounted for 20% of total exports in 2013, compared with 26.7% in 1990. Nevertheless, under the National Commodities Policy

(2011 – 2020), the Government is committed to ensuring the commodity-based industries are transformed to be competitive, sustainable, environmentally-friendly and generate new sources of wealth through intensive research, development and commercialisation (R&D&C).

CHART 2

Export by Major Products (% share)

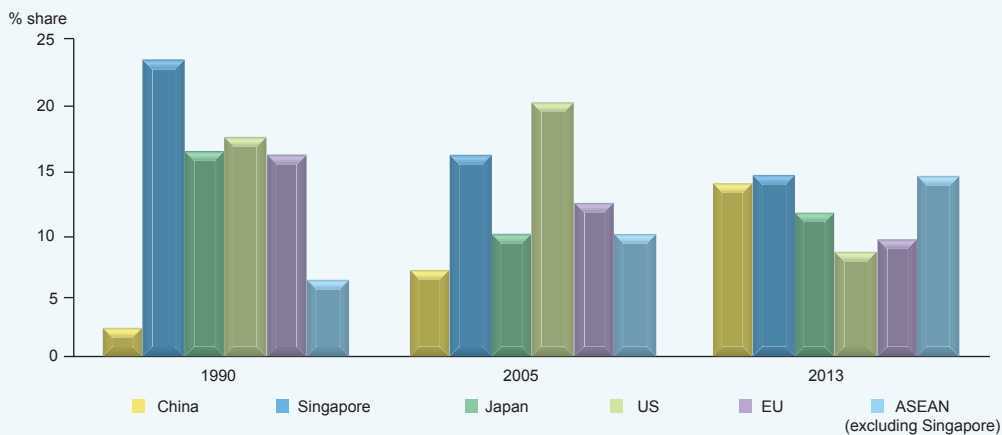


Source: Department of Statistics, Malaysia.

Malaysia's trading partners have become more diversified over the years, with exports to East Asia (excluding Japan) steadily rising from 12.1% in 1990 to 24.4% in 2013. After Singapore, China is Malaysia's largest export destination accounting for 13.5% total exports in 2013. Nevertheless, traditional export markets like Japan (11.1%), the EU (9.1%) and the US (8.1%) remain important as the final destination for many products, including E&E, either as direct exports or as intermediate inputs for economies like China, Taiwan and Singapore. The Association of Southeast Asian Nations (ASEAN), excluding Singapore, has remained a stable market absorbing about 14.1% of Malaysia's total exports. In essence, the diversification in terms of export products and markets has made the Malaysian economy more resilient and hence less vulnerable to external shocks as it is not overly dependent on a single market or product.

CHART 3

Malaysia's Export Destinations



Source: Department of Statistics, Malaysia.

An interesting pattern, however, emerges on closer scrutiny of trade data. The total share of merchandise trade to GDP had increased significantly from 84.3% in 1970 to 192.1% in 2000. Similarly, exports as a percentage of GDP rose from 46% in 1970 to 104.7% in 2000. By 2013, however, the share of merchandise trade to GDP had declined to 138.7%, while exports to GDP, moderated to 72.9%. A number of reasons could be attributed to the declining contribution of exports to GDP, including the increasing importance of domestic demand; loss of competitiveness in certain sectors; rising labour costs; slowing productivity; and tepid global demand in recent years.

The services sector remains the largest contributor to GDP at 55.2% in 2013. Services trade, however, remains persistently in deficit, mitigated only by robust growth in travel receipts. Recent studies indicate that the share of trade in services is not reflective of Malaysia's level of development. It is mainly concentrated in traditional sectors such as transport, travel, and construction while countries at similar levels of development have ventured into modern services including information and communication technology (ICT), high tech-health, accountancy services, engineering and education. While bilateral and regional free trade agreements (RTAs) signed by Malaysia have been a boon to the manufacturing sector, the same cannot be said of services trade. Hence, there is tremendous scope for growth in services export, especially when Malaysia has already made huge strides abroad in diverse fields such as oil and gas (O&G), petrochemicals, Islamic finance, telecommunications, utilities, construction, plantations, property development, transport, logistics as well as maintenance, repair and overhaul (MRO).

Challenges

Strengthening private demand to support growth is imperative. However, to build resilience in the economy, it is also vital that the export sector is enhanced to provide a buffer against shocks, whether from domestic or external sources, including natural disasters. A recent study estimates that a 10% fall in export demand will require a 19% increase in domestic demand to offset the drag on the economy. Further, a strong external sector is a source of employment and foreign exchange; fosters structural changes through technology enhancement, as well as administrative and technical skills upgrading; and generates spillover effects on the rest of the economy.

While the export sector has made considerable progress in expanding the product mix, retaining its traditional markets while gaining a firm foothold in new, and fast-growing emerging markets, it nevertheless faces challenges in sustaining or even accelerating export momentum. Key concerns include:

- sustainability of recovery in advanced economies;
- continued demand for Malaysia's goods and services as China rebalances its growth levers;
- inability of local industry players to forge a strong presence in the global value chain, especially in cutting edge technologies and new growth areas;
- lagging contribution of services export to GDP at 12.9% in 2013 (2000:14.9%);
- under-utilisation of existing free trade agreements (FTAs) to boost exports and investment;
- market share in ASEAN (excluding Singapore) has not grown in tandem with the region's increasing vibrancy;
- shortage of skilled workforce and skills gap in major industries which is impeding quality investment and high value exports;
- over-dependence on foreign labour and insufficient motivation to embark on greater automation and technology upgrade.

Initiatives to Promote Exports

Given the importance of the external sector to economic growth, coupled with a dynamic and competitive global trading environment, it is essential for Malaysian exporters to actively embrace higher value-added activities to remain relevant and competitive. Additionally, the domestic market is small. It is therefore inevitable for industry to venture abroad to boost future earnings and increase shareholder value.

The Government continues to support the business community to boost export performance through several initiatives, including:

- Provide loans/grants to small and medium enterprises (SME) such as Soft Loan Scheme for Automation and Modernisation (SLSAM); Domestic Investment Strategic Fund (DISF); and Technology Acquisition Fund (TAF) to enable them move into high value-added manufacturing activities through acquiring foreign technologies; obtaining international certification; and upgrading machinery and equipment. SMEs are also assisted under the Market Development Grant (MDG) to undertake specific export promotional activities;
- Initiate a mid-tier companies (MTCs) development programme in January 2014 to steer potential MTCs to grow and expand into new markets. MTCs number about 10,000, and have an annual turnover ranging from RM50 million – RM500 million in the manufacturing sector and between RM20 million – RM500 million for other sectors. They are estimated to account for 30% of GDP and employ about 22% of the workforce;
- Introduce “Going Export (GoEx) Programme” under the SME Masterplan (2012 – 2020) designed to facilitate export-ready or promising companies penetrate new markets or sell new products. SMEs that have been identified will be given customised advisory and marketing assistance to improve export performance. The programme aims to increase the export share of SMEs from the current 19% to 25% of GDP by 2020;
- Setup the Food and Agro Council for Export (FACE), a Budget 2014 initiative, to accelerate exports of local agriculture produce and strengthen The Federal Agricultural Marketing Authority’s (FAMA) role in promoting “from farm to export market” concept. FACE has been tasked to oversee promotions and marketing of local produce to boost exports and farm incomes as well as encourage R&D activities to improve quality of agriculture produce. An example is the recent launch of an agrobazaar in Singapore which provides a permanent platform for SMEs and food producers to promote premium agriculture produce in the international market;
- Leverage ASEAN as a platform to deepen regional economic integration; promote tight trade links to access regional and global production networks; and draw quality investment to boost output of goods and services. More than 97% of products, subject to rules of origin, will be traded duty free by 2015, with all duties eliminated by 2018. Ahead of the launch of the ASEAN Economic Community (AEC) 2015, Malaysia has offered five-year multiple entry visas to facilitate movement of business visitors, investors and fund managers from ASEAN, China and India;
- Focus on trade facilitation to expedite, and improve productivity and trade performance through streamlining procedures, elektronification of trade documents and automating processes. Regionally, the ASEAN Single Window to be implemented by 2015 will expedite customs clearance, minimise transaction time, and cut costs. The system calls for submission via single gateway and synchronised processing of data and information; and a single decision-making for customs clearance of cargo;
- Engage actively in FTAs to expand trade and investment opportunities for Malaysian companies as well as build capacity in niche areas through technical cooperation. To date, Malaysia has signed 13 bilateral and regional FTAs covering major trading partners while five are under negotiations;
- Assist companies through the Halal Industry Development Corporation (HDC) to tap into the fast growing global halal market which is estimated at USD2.3 trillion. Malaysia’s exports of halal products amounted to RM32.8 billion in 2013. The main export markets are China, Singapore, the US, Indonesia and Japan. The Halal Fiesta (Halfest) 2014 held in early September showcased local capabilities in producing halal products and services;

- Address skills shortage in industry by encouraging greater collaboration between universities, technical training institutes and industry. This calls for regular review of course content; introducing structured apprentice, internship and attachment programmes; as well as continuous upskilling within the firm and industry;
- Undertake extensive outreach, training and awareness programmes on export and investment opportunities; provide advisory and technical services to the business community and aspiring exporters and investors through various Government agencies including the Malaysia External Trade Development Corporation (MATRADE), Malaysian Investment Development Authority (MIDA) and HDC; and
- Zero-rate exports of goods and services under the Goods and Services Tax (GST), which is to be implemented in April 2015, to make exports more competitive.

Strategies to Accelerate Export Growth

Exports are a key contributor to growth. Mindful of the challenging external environment coupled with growing competitiveness of other emerging economies, Malaysia is nevertheless, well positioned to build on its inherent advantage as a trading nation, to further spur export performance. Feedback from focus group meetings with the private sector and academics indicate several areas that can be further explored or strengthened to complement existing strategies, as follows:

- **Strengthen the existing open and liberal trade and investment policy ecosystem.** A clear, coherent and credible regulatory regime will invite confidence among the business community and potential investors;
- **Prioritise and incentivise the right kind of export-oriented investment in identified sectors to accelerate domestic value-add and technological upgrading, and integrate into the global production chain.** A selective approach could be employed to target new investment that use robotics, artificial intelligence (AI), 3D printing and other high-value, advanced manufacturing. Business opportunities also abound in ICT, green-related products; medical devices and healthcare service; E-Mobility and converging products in chemicals, automotive, aerospace, defence and security;
- **Review and improve fiscal and non-fiscal incentives to attract quality investment in high-end manufacturing and services.** Factors such as political stability; cultural and linguistic diversity; a conducive business environment; public safety; good physical infrastructure, international schools and modern healthcare are crucial;
- **Expedite implementation of the action plan to boost internationalisation of the services sector.** This could be undertaken through addressing funding gaps; building capabilities across the broad spectrum of service providers; establishing partnerships with larger firms to increase competitiveness and productivity; as well as enhancing effectiveness of existing programmes, including training and outreach. Tourism, the most successful services export, can be further boosted through strengthening promotions in existing markets, while undertaking intensive yet targeted efforts to attract new arrivals. Niche tourist products are increasingly sought after by discerning tourists, rather than mass attractions. For instance, Malaysia is ranked among the top Muslim-friendly holiday destinations as it is considered safe, with halal food and services easily available;
- **Scale up services exports by capitalising on Cyberjaya's position as an ICT hub to be a global technology player.** With attractive incentives already in place, Cyberjaya would be able to attract investment in advanced and sophisticated ICT technologies as well as draw high-quality workforce. Focus areas could include information security, creative content, mobile Internet, cloud computing, and big data analytics. Export potential could also be explored in green technology and biotechnology;
- **Accelerate the vendor development programme (VDP) under the purview of Ministry of International Trade and Industry (MITI) to enable SMEs penetrate the international market through large domestic companies and multinationals in areas such as O&G, utilities, automotive and telecommunications.** Forging stronger ties with these companies will enable

SMEs to build capacity and competitiveness to become manufacturers and suppliers of quality components and services to domestic and global markets;

- **Establish a firm footprint in the lucrative halal market.** This can be done by diversifying the export of halal goods and services; building expertise to become the global referral centre and a focal point for professional support services; and wooing foreign investors to use Malaysia as a base to access international markets. While the push to obtain halal certification establishes credibility in business, strengthening business opportunities within the supply chain through capacity expansion of halal parks and logistics will further cement Malaysia's position as the choice location for investment;
- **Review and modernise existing incentives for domestic players that undertake initiatives to raise productivity and improve competitiveness; and venture into niche businesses (eg. through R&D&C; innovation and advanced training).** For instance, Malaysia's expanding rail network provides opportunities to excel in E&E MRO for rail services in the region;
- **Increase broadband penetration and upgrade communication as well as physical infrastructure and facilities in ports, airports, railway stations and other entry and exit points to expand capacity and improve productivity (eg. traffic congestion and poor condition of roads);**
- **Accelerate development beyond Klang Valley and in growth corridors to capitalise on their respective strengths to promote downstream value-add activities and spur higher-value exports (eg. palm oil, cocoa);**
- **Press ahead with a more ambitious agenda as Malaysia becomes the Chair of ASEAN 2015.** Issues to be addressed include reducing non-tariff barriers (NTBs); facilitating recognition of a wider range of professional service providers (currently seven mutual recognition arrangements have been signed); promoting quality services trade in a highly-fragmented services industry; and enhancing cooperation on consumer protection, intellectual property rights (IPR) and competition policy. Efforts must also be intensified to integrate SMEs into the regional and global value chain; and
- **Leverage opportunities offered by China's rapid urbanisation, a booming middle class and growing affluence.** China's pursuit of a more sustainable growth model may dent commodity prices, but this could be mitigated by marketing quality consumption goods and services such as education; healthcare and medical supplies; waste and water treatment; spa and wellness; halal and organic products; as well as quality building materials and interior fittings.

Conclusion

Malaysia must accelerate its participation in the global supply chain to remain competitive and boost export growth. Quality investment in targeted growth areas is essential to generate the much needed higher value added activity. Further, embracing a forward-looking trade and investment regime; leveraging existing FTAs to integrate more deeply into the global production networks; continuous upskilling; as well as targeted technical and advisory outreach services will transform the export structure and lift export performance.

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TABLE 3.17

Primary Commodity Exports January – July

	2013	2014	Change (%)	
			2013	2014
Commodity exports (RM million)	92,678	100,873	-10.3	8.8
Agriculture exports (RM million)	38,587	40,023	-18.3	3.7
Palm oil¹				
Volume ('000 tonnes)	10,003	9,536	2.8	-4.7
Unit value (RM/tonne)	2,456	2,703	-24.0	10.1
Value (RM million)	24,567	25,779	-21.9	4.9
Palm kernel oil				
Volume ('000 tonnes)	671	568	31.2	-15.4
Unit value (RM/tonne)	2,757	4,127	-35.7	43.6
Value (RM million)	1,850	2,344	-15.6	26.7
Saw logs				
Volume ('000 cubic metres)	1,747	1,848	2.9	5.8
Unit value (RM/cubic metres)	581	652	4.7	12.2
Value (RM million)	1,014	1,205	7.8	18.7
Sawn timber				
Volume ('000 cubic metres)	1,156	1,090	-3.3	-5.7
Unit value (RM/cubic metres)	1,250	1,366	6.5	9.3
Value (RM million)	1,444	1,488	2.8	3.1
Rubber				
Volume ('000 tonnes)	460	441	4.0	-4.1
Unit value (RM/kilogramme)	8.76	6.87	-20.9	-21.6
Value (RM million)	4,024	3,031	-17.8	-24.7
Pepper				
Volume ('000 tonnes)	6	8	9.9	27.0
Unit value (RM/tonne)	22,008	27,922	-7.4	26.9
Value (RM million)	134	214	2.3	59.7
Cocoa				
Volume ('000 tonnes)	21	59	-30.1	174.7
Unit value (RM/tonne)	7,871	9,950	-3.2	26.4
Value (RM million)	168	583	-32.3	247.0
Mining exports (RM million)	54,091	60,850	-3.5	12.5
Crude petroleum				
Volume ('000 tonnes)	6,599	7,179	-5.0	8.8
Unit value (RM/tonne)	2,608	2,793	1.7	7.1
Value (RM million)	17,208	20,055	-10.4	16.5
Liquefied natural gas				
Volume ('000 tonnes)	14,499	14,434	10.6	-0.4
Unit value (RM/tonne)	2,295	2,563	-5.9	11.7
Value (RM million)	33,269	36,996	4.0	11.2
Tin				
Volume ('000 tonnes)	18.9	18.8	-23.4	-0.9
Unit value (RM/tonne)	68,692	74,094	3.7	7.9
Value (RM million)	1,300	1,390	-20.6	6.9

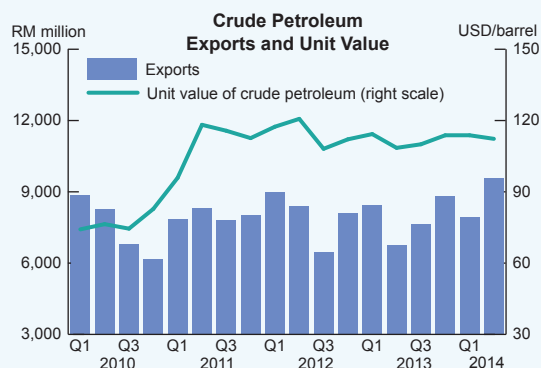
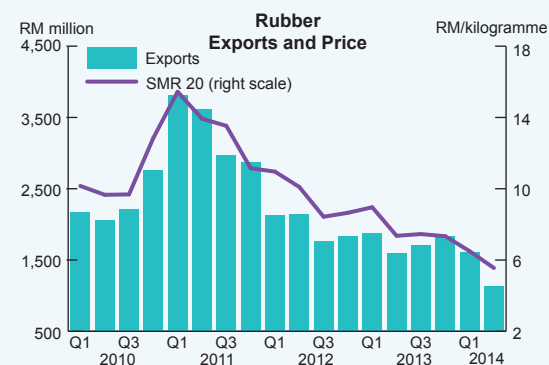
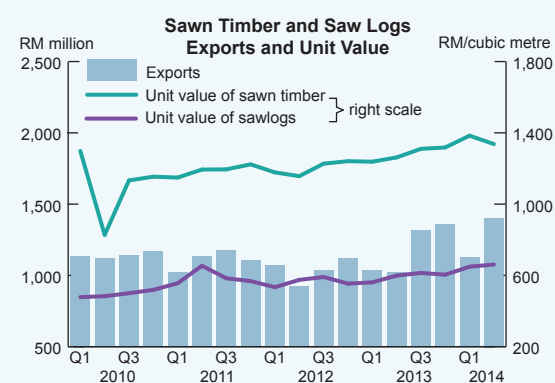
¹ Includes crude palm oil, processed palm oil and stearin.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

CHART 3.15

Primary Commodity Exports



Source: Department of Statistics, Malaysia, Malaysian Palm Oil Board and Malaysian Rubber Board.

shipments of palm oil and other agriculture goods. Meanwhile, export earnings of mining turned around by 12.5% to RM60.9 billion (January – July 2013: -3.5%; RM54.1 billion) largely due to the strong increase in exports of crude oil and LNG.

During the first seven months of 2014, export receipts of **palm oil** rebounded by 4.9% to RM25.8 billion (January – July 2013: -21.9%; RM24.6 billion) due to higher export prices averaging RM2,703 per tonne (January – July 2013: RM2,456 per tonne). Meanwhile, shipments of palm oil contracted 4.7% to 9.5 million tonnes (January – July 2013: 2.8%; 10 million tonnes) due to lower demand, particularly from China. As a measure to reduce the high inventory due to strong output, the Government has exempted export tax on CPO for September and October 2014. The move is expected to boost exports of CPO in the near term.

The export volume of **rubber** contracted 4.1% to 0.4 million tonnes during the first seven months of 2014 (January – July 2013: 4%; 0.5 million tonnes) attributed to lower demand, mainly from China and the US. China remained the largest importer of rubber, with a 50% share of total rubber exports. Lower export prices, which averaged at RM6.87 per kg (January – July 2013: RM8.76 per kg), resulted in the decline in rubber earnings to RM3 billion (January – July 2013: RM4 billion).

Export earnings of **crude petroleum** grew on account of higher regional demand. The export volume turned around by 8.8% to 7.2 million tonnes (January – July 2013: -5%; 6.6 million tonnes), while export prices were higher at RM2,793 per tonne (January – July 2013: RM2,608 per tonne). As a result, export receipts rose 16.5% to RM20.1 billion (January – July 2013: -10.4%; RM17.2 billion). Meanwhile, during the first seven months of 2014, export earnings of **LNG** increased significantly by 11.2% to RM37 billion (January – July 2013: 4%; RM33.3 billion) despite a decline of 0.4% in export volume to 14.4 million tonnes (January – July 2013: 10.6%; 14.5 million tonnes). This is because,

the average export prices increased 11.7% to RM2,563 per tonne (January – July 2013: -5.9%; RM2,295 per tonne).

Import Performance

Continued expansion in imports

Gross imports expanded 5.8% to RM392.8 billion during the first seven months of 2014 (January – July 2013: 4.7%; RM371.1 billion) mainly driven by strong demand for intermediate and consumption goods. Imports of capital goods also remained high.

Led by robust manufacturing and investment activity, imports of **intermediate goods**, which comprised 58.5% of total imports, rose 3.4% to RM229.6 billion (January – July 2013: 1.9%; RM222.1 billion). Of significance, imports of parts and accessories, particularly for use in the E&E and transport equipment subsectors rebounded by 4.7% (January – July 2013: -1.6%). Meanwhile, imports of fuel and lubricants surged 23.7% (January – July 2013: 2.3%) as demand in the domestic transport equipment subsector strengthened. Similarly, strong consumption activity, boosted by major festivities and higher tourist arrivals during the period saw imports of food and beverage turn around to post strong growth of 2.4% (January – July 2013: -19.7%). Cocoa beans, milk and cream (concentrated), cane or beet sugar, as well as wheat and meslin were among the main inputs imported by the industry. In contrast, imports of industrial supplies such as gold, natural rubber and mineral or chemical fertilisers contracted 3.2% (January – July 2013: 8%).

Meanwhile, imports of **capital goods**, comprising 14.1% of total imports, declined marginally to RM55.4 billion during the first seven months of 2014 (January – July 2013: RM56.6 billion) due to lower imports of lumpy items such as aircraft, vehicles and cruise ships compared to the corresponding period last year. However, some items within the subsector posted positive growth such as tractors, tugs and pusher crafts.

TABLE 3.18

**Gross Imports by End Use
January – July**

	RM million		Change (%)		Share (%)	
	2013	2014	2013	2014	2013	2014
Capital goods	56,604	55,447	4.3	-2.0	15.3	14.1
Capital goods (except transport equipment)	45,878	45,845	2.4	-0.1	12.4	11.7
Transport equipment (industrial)	10,725	9,603	13.5	-10.5	2.9	2.4
Intermediate goods	222,129	229,630	1.9	3.4	59.9	58.5
Food and beverage, primary and processed, mainly for industry	10,097	10,335	-19.7	2.4	2.7	2.6
Fuel and lubricants, primary processed and others	27,823	34,423	2.3	23.7	7.5	8.8
Industrial supplies, n.e.s. ¹ primary and processed	101,012	97,768	8.0	-3.2	27.2	24.9
Parts and accessories of transport equipment	10,057	11,743	7.1	16.8	2.7	3.0
Parts and accessories of capital goods (except thermionic valves and tubes)	21,052	16,451	-5.7	-21.9	5.7	4.2
Thermionic valves and tubes	52,087	58,910	-1.5	13.1	14.0	15.0
Consumption goods	27,077	29,157	8.9	7.7	7.3	7.4
Food and beverage, primary and processed, mainly for household consumption	11,552	12,433	6.2	7.6	3.1	3.2
Transport equipment (non-industrial)	735	658	29.3	-10.6	0.2	0.2
Other consumer goods	14,789	16,066	10.3	8.6	4.0	4.1
Durables	3,658	4,305	14.4	17.7	1.0	1.1
Semi-durables	4,591	4,479	15.2	-2.4	1.2	1.1
Non-durables	6,539	7,282	5.2	11.4	1.8	1.9
Others (including dual-use goods)	19,068	18,418	-8.5	-3.4	5.1	4.7
Imports for re-exports	46,223	60,148	25.9	30.1	12.5	15.3
Total	371,102	392,799	4.7	5.8	100.0	100.0

¹ Not elsewhere stated.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Similarly, imports of capital goods (except transport equipment) such as liquid crystal devices (LCD), mobile phones, electrical transformers, machines and mechanical appliances remained firm.

Private consumption remained strong, supported by stable income growth and employment conditions as well as higher tourist spending in the first seven months of 2014. Consequently, imports of **consumption goods** expanded 7.7% to RM29.2 billion (January – July 2013: 8.9%;

RM27.1 billion) on account of higher demand for processed food and beverage (7.6%), mainly meat and food supplements. Higher purchases of durable (17.7%) and non-durable consumer goods (11.4%), in particular, jewellery, watches, orthopaedic appliances, air conditioners, medicaments, and beauty care products also contributed to import growth.

During the first seven months of 2014, imports for **re-exports** posted robust growth of 30.1% to RM60.1 billion (January – July 2013: 25.9%;

RM46.2 billion) due to higher re-exports of refined petroleum products, E&E, tubes, pipes and hollow profiles as well as metals such as refined copper and nickel. Imports for re-exports, which accounted for 15.3% of total imports, (January – July 2013: 12.5%) are projected to grow at a faster pace in tandem with initiatives to develop Malaysia as a regional oil storage and trading hub. For the year, gross imports are anticipated to grow at a slower pace of 4.3% (2013: 7%), supported by demand from continued expansion in domestic and regional economic activities amid better global growth and trade prospects.

Direction of Trade

Trade balance improves significantly

Malaysia's total trade expanded 8.4% to RM834.1 billion during the first seven months of 2014 (January – July 2013: 0.7%; RM769.6 billion), supported by improving external demand, stable commodity prices, upturn in the global semiconductor cycle as well as resilient domestic and regional demand. With export receipts outpacing import growth, the trade surplus surged to RM48.5 billion (January – July 2013: RM27.4 billion).

While Malaysia's major trading partners continue to be China (14%), Singapore (13.6%), Japan (9.6%) and the US (8%), accounting for 45.3% of total trade, efforts have been intensified to further strengthen trade relations with non-traditional markets such as the UAE, Saudi Arabia, Mexico, Bangladesh, Egypt and South Africa. Currently, export items to these markets include jewellery, palm oil, E&E products, as well as machinery, appliances and parts. In terms of regional trade, ASEAN (excluding Singapore) and the EU remain significant, with a share of 13.6% and 9.8% of total trade, respectively.

Trade with **China**, the largest trading partner, grew at a slower pace of 5.9% to RM117 billion during the first seven months of 2014 (January – July 2013: 6.4%; RM110.5 billion), despite

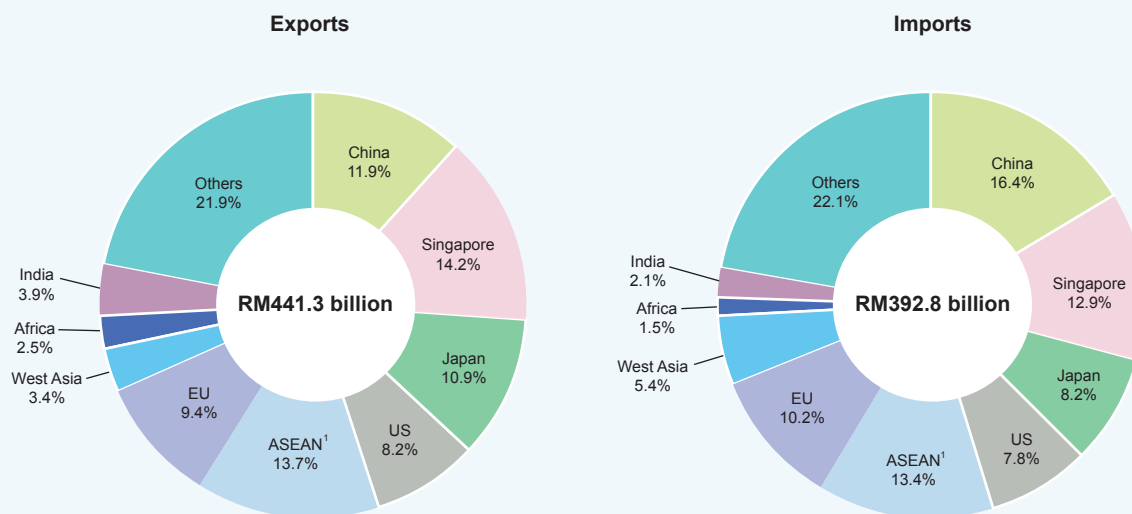
a sharp turnaround in exports. Imports from China moderated to 6.3%, although the value remained high at RM64.4 billion (January – July 2013: 15.2%; RM60.6 billion). E&E products, machinery, appliances and parts, chemicals and chemical products, and manufactures of metal were the main products imported from China during the period. Despite concerns of slower growth in the Chinese economy, exports to China rebounded strongly by 5.4% to RM52.6 billion (January – July 2013: -2.7%; RM49.9 billion) supported by higher demand for E&E products, petroleum products, manufactures of metal and LNG. Semiconductor devices accounted for about 70% of E&E exports to China. Meanwhile, exports of palm oil (-5.5%), chemicals and chemical products (-13.6%), crude rubber (-17.6%) and rubber products (-29%), contracted during the period. With imports growing at a faster pace than exports, the trade deficit with China further widened to RM11.8 billion (January – July 2013: -RM10.7 billion).

During the first seven months of the year, Malaysia's trade with **Singapore** increased further by 7.9% to RM113.5 billion, to record a higher trade surplus of RM12 billion (January – July 2013: 2.5%; RM105.1 billion; RM10.4 billion). Exports to Singapore expanded 8.6% to RM62.8 billion (January – July 2013: 4.7%; RM57.8 billion) while imports rose to RM50.7 billion. The bulk of exports to Singapore comprised manufactured goods, particularly E&E products, of which 66% were semiconductors, and petroleum products. Other exports were machinery, appliances and parts, as well as chemicals and chemical products. Meanwhile, principal items imported from Singapore during the period were refined petroleum and E&E products.

Exports to **Japan** rebounded by 4% to RM48.1 billion in the first seven months of 2014 (January – July 2013: -7.2%; RM46.3 billion) despite slower consumer spending and manufacturing output following the increase in sales tax from 5% to 8% effective from April 2014. In contrast, imports saw a marginal contraction of 0.8% to RM32.1 billion (January – July 2013: -12.6%; RM32.4 billion). Hence, trade with Japan turned

CHART 3.16

Direction of External Trade January – July 2014 (% share)



¹ Not including Singapore.

Source: Department of Statistics, Malaysia.

positive growing at 2% to RM80.3 billion (January – July 2013: -9.5%; RM78.7 billion), with the trade surplus rising to RM16 billion (January – July 2013: RM13.9 billion). Malaysia continues to enjoy a healthy trade balance with Japan. Export gains were mainly driven by higher demand for LNG, which accounted for 50.3% of total exports. This was followed by E&E, mainly semiconductors (40.5%), chemicals and chemical products, wood products, as well as optical and scientific equipment. Imports from Japan comprised manufactured goods such as E&E, machinery, appliances and parts, transport equipment, as well as iron and steel products.

Following the broad recovery in **the US** economy, spurred by increased household and investment spending, exports to the US turned around by 8.3% to RM36.2 billion, while imports amounted to RM30.6 billion (January – July 2013: -5%; RM33.4 billion; RM28.7 billion). With exports posting higher growth despite

strong imports, Malaysia registered a higher trade surplus of RM5.6 billion in the first seven months of 2014 (January – July 2013: RM4.7 billion). Similar to Japan, Malaysia continues to have a positive trade balance with the US. As economic recovery in the US gained momentum with stronger expansion in manufacturing activities, higher shipments of manufactured goods were registered. Further, Malaysia being a part of the global E&E production network, stands to gain from the strong growth in worldwide semiconductor sales. During the period, semiconductor devices accounted for 30.6% of total E&E exports to the US. Other principal export items included chemicals and chemical products; optical and scientific equipment; textiles, clothing and footwear; as well as wood products.

As the most important regional trading partner, trade with **ASEAN (excluding Singapore)** continued to expand 4.3% to RM113.3 billion

(January – July 2013: 1.9%; RM108.6 billion) with all member countries recording positive growth, except Viet Nam. The trade surplus rose to RM8 billion (January – July 2013: RM5.2 billion) as stronger export receipts at 6.5% offset payments for imports. During the period, Malaysia recorded trade surplus with all member countries except Thailand and Viet Nam. Trade with Thailand, the largest trading partner within ASEAN (excluding Singapore), grew 3.4% during the first seven months of 2014. In line with slower economic activity in the economy, shipments to Thailand remained soft, posting a marginal growth of 0.5% while imports expanded 6.5%, leading to a trade deficit of RM134 million (January – July 2013: 2.3%; 2.8%; RM1.2 billion). Major products imported from Thailand included E&E, chemicals and chemical products, transport equipment as well as machinery, appliances and parts. Meanwhile, net trade with Viet Nam remained in deficit as imports remained high at RM9 billion, although some slowdown in growth was seen in the imports of major products such as E&E, crude petroleum and natural rubber. Similarly, exports registered strong growth of 9.5% to RM7.7 billion. Major exports to Viet Nam included E&E products, palm oil as well as chemicals and chemical products.

In the first seven months of the year, total trade with **the EU** rose 7.2% to RM81.6 billion (January – July 2013: 2.9%; RM76.1 billion) on account of a strong rebound in exports while imports remained steady. Despite the fragile recovery across the region, export receipts registered a double-digit growth of 15.9% to RM41.5 billion while imports were sustained at about RM40.1 billion. Germany is Malaysia's main trading partner in the EU, with total trade expanding 6.1%, followed by the Netherlands (19.4%) and France (3.5%). Export gains were reflected in higher shipments of E&E products, palm oil, optical and scientific equipment as well as chemicals and chemical products. E&E accounted for 47.2% of total exports, of which 39.9% comprised semiconductors. As Malaysia has graduated to an upper middle-income status, effective from 1 January 2014, domestic exporters no longer benefit from the Generalised

System of Preferences (GSP) with the EU. As such, Malaysia has to compete with advanced economies for market access into the EU. Despite the termination of preferential tariffs, domestic exporters are expected to reap gains from trade with the EU by being competitive and ensuring resource-based exports are from sustainable sources.

Balance of Payments

Strong current account surplus

The **balance of payments (BOP)** is expected to remain favourable in 2014, with the current account posting a surplus for the 17th consecutive year, on account of continued expansion in domestic and global economic activity coupled with resilient regional demand and a strong rebound in semiconductor sales. As such, a higher surplus in the goods and services account is expected to more than offset continued deficits in the primary and secondary income accounts, leading to a larger **current account** surplus of RM53.9 billion or 5.1% of GNI in 2014 (2013: RM39.9 billion; 4.2%).

Despite the strong current account balance of RM35.8 billion or 7.1% of GNI during the first half of the year (January – June 2013: RM15 billion; 3.3%), the growth momentum of the economy is expected to moderate in the second half of the year, partly due to lower commodity prices and the high-base effect from the corresponding period in 2013. Meanwhile, the financial account will continue to experience sustained two-way flows supported by inflows of FDI and portfolio funds amid strong growth prospects for the Malaysian economy. Outward investment flows are anticipated to be equally strong as Malaysian companies continue to expand and finance operations abroad, reinforced by resident investors seeking to diversify their portfolio assets.

In 2014, the surplus in the **goods and services account** is expected to expand to RM100.8 billion (2013: +RM91.5 billion) in tandem with higher

TABLE 3.19

Current Account of the Balance of Payments (BOP)¹
2014 – 2015
(RM million)

	2014 ²			2015 ³		
	Receipts	Payments	Net	Receipts	Payments	Net
Balance on goods and services	849,489	748,684	100,805	883,152	786,510	96,642
Goods	713,474	600,031	113,443	741,540	631,761	109,779
Services	136,015	148,653	-12,638	141,612	154,749	-13,137
Transport	15,141	47,406	-32,265	16,925	49,434	-32,509
Travel	76,334	40,296	36,039	78,243	42,075	36,168
Other services	44,539	60,951	-16,412	46,445	63,240	-16,796
Primary income	58,048	86,686	-28,638	63,724	91,423	-27,700
Compensation of employees	4,729	8,804	-4,075	5,077	9,413	-4,336
Investment income	53,319	77,882	-24,563	58,646	82,010	-23,364
Secondary income	9,153	27,428	-18,275	9,659	29,552	-19,893
Balance on current account	916,690	862,798	53,892	956,534	907,485	49,049
(% of GNI)			5.1			4.3

¹ In accordance with BPM6.

² Estimate.

³ Forecast.

Note: Total may not add up due to rounding.

Source: Ministry of Finance, Malaysia.

external demand for manufactured products and commodities, coupled with strong domestic and regional economic activity. The surplus in the account will be further supported by higher tourist spending, despite net outflows in the transport account, consistent with improved trade activity. The **services account** is therefore anticipated to record a lower deficit of RM12.6 billion (2013: -RM16.7 billion).

Net inflows in the *travel account* are projected to post a larger surplus of RM36 billion in 2014 (2013: +RM29.4 billion) mainly in conjunction with VMY 2014. Aggressive promotions and attractive travel packages undertaken throughout the year are expected to draw 28 million tourists and generate RM76 billion in foreign exchange. Despite some unfortunate incidents during the first half of the year, gross receipts rose 10.2% to RM36.5 billion (January – June 2013: 13.7%; RM33.1 billion). For the year, travel receipts, the largest revenue earner in the services

account, are set to increase 12.7% to RM76.3 billion (2013: 8.3%; RM67.7 billion). Apart from VMY 2014, sustained efforts over the years to promote Malaysia as a health, education as well as a premier hub for international businesses, conventions and exhibitions, continue to have positive impact on travel receipts. Gross outflows, which include payments for business, leisure, education, health as well as pilgrimage, are anticipated to increase 5.2% to RM40.3 billion (2013: 1.5%; RM38.3 billion) as more Malaysians travel abroad on account of rising affluence and increasingly affordable air travel.

In line with higher trade and investment activities, gross payments for transport services are anticipated to increase 5.4% to RM47.4 billion (2013: 7.7%; RM45 billion) mainly due to continued reliance on foreign freight services. Consequently, the deficit in the *transport account* is expected to widen to RM32.3 billion (2013: -RM30.3 billion) as the bulk of transport payments

are to foreign shippers. However, gross receipts are also anticipated to increase 3.1% to RM15.1 billion (2013: 6.8%; RM14.7 billion) supported by higher earnings from various services, including aircraft landing and parking; port dues; and storage and cargo handling services provided by domestic transport companies. Strong growth in imports for re-export activities related to refined petroleum products and metals mainly in Southern Johor and Port Klang, will also contribute to gross receipts through payments for storage, warehousing and other specialist services related re-export activities. The segment is expected to grow rapidly in consonance with Malaysia's aspirations to be the regional oil storage and trading hub. Meanwhile, the air passenger segment continues to remain buoyant supported by capacity expansion in airport facilities, coupled with enhanced connectivity, increased flight frequencies, competitive air fares and new destination launches which are anticipated to spur growth in transport receipts.

The *other services account* is expected to remain in deficit at RM16.4 billion (2013: -RM15.8 billion) as Malaysia continues to import foreign professionals as well as business and technical expertise. Payments for specialist construction services; royalties and licence fees for the use of intellectual property rights (IPR); as well as trade-related services such as finance, insurance, leasing and telecommunications are expected to contribute to gross outflows.

In anticipation of improved corporate earnings following strong domestic economic activity, investment income accrued to MNCs operating in Malaysia are anticipated to be higher at 6.2% to RM77.9 billion (2013: 3%; RM73.4 billion), contributing to an increase in gross outflows. Similarly, income from portfolio investment accruing to foreign investors are also expected to increase in line with better growth prospects for the Malaysian economy. However, with Malaysian companies also poised to reap higher dividends, profits and interest on their investment abroad, the *investment income account* is expected to improve markedly with a smaller net outflow of

RM24.6 billion in 2014 (2013: -RM30.3 billion). O&G, finance and insurance, telecommunications and construction are some of the subsectors that are expected to contribute to better returns for Malaysian companies investing abroad. Strong regional growth is also expected to enhance business opportunities and improve profitability of these entities. For the year, gross receipts are anticipated to increase 23.8% to RM53.3 billion (2013: 12.5%; RM43.1 billion).

The other component in the primary income account, *compensation of employees* comprises wages, salaries and other benefits earned by residents working abroad or paid to non-residents working in Malaysia. The deficit in the account is expected to be marginally higher at RM4.1 billion (2013: -RM3.8 billion) due to continued dependence on foreign professional and technical expertise in various fields such as mining, construction, finance, education and other professional businesses. Gross inflows from residents working abroad, which have been increasing, are also expected to grow at a steady pace and cushion the deficit in the account. Hence, the **primary income account** is expected to record a smaller deficit at RM28.6 billion for the year (2013: -RM34.1 billion).

Net flows associated with the secondary income account mainly reflect remittances by Malaysians working abroad and repatriation of earnings by foreign workers in Malaysia. The full implementation of the Minimum Wage Policy in January 2014 is expected to see gross outflows increase 9.3% to RM27.4 billion (2013: -0.2%; RM25.1 billion) with rising disposable income. The higher outflows also reflect demand for foreign labour in specific sectors due to higher economic activity. Gross receipts are estimated to grow at a double-digit pace of 20.7% to RM9.2 billion (2013: 13.9%; RM7.6 billion), due to remittances from Malaysians working abroad. As outflows are expected to more than offset transfers from Malaysians working abroad, the deficit in the **secondary income account** is expected to further widen to RM18.3 billion (2013: -RM17.5 billion) for the year.

Malaysia, being a highly open economy, will continue to see steady two-way flows involving cross-border financial transactions between residents and non-residents in the financial account. During the first half of 2014, the **financial account** turned around to record a net outflow of RM49.3 billion (January – June 2013: +RM5.6 billion) due to large outflows in outward direct investment, portfolio investment, and other investment such as extension of trade credit by Malaysian exporters and placement of deposits abroad. However, during the same period, Malaysia continued to attract *inward direct investment* flows amounting to RM18 billion (January – June 2013: RM16.1 billion) supported by higher extension of equity capital to subsidiaries in Malaysia and earnings retained for reinvestment. The main beneficiaries of the net inflows were the services sector, in particular, the finance and insurance subsector as well as mining sector.

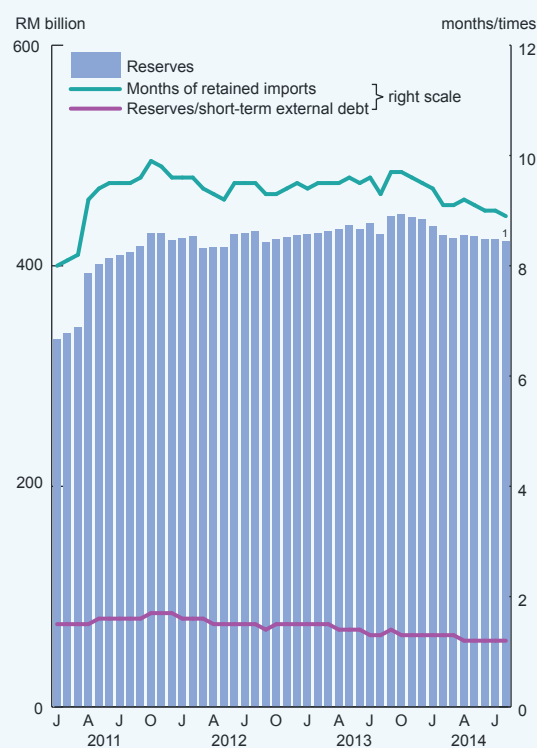
Outward investment flows are expected to be robust as Malaysian companies continue to expand and diversify their businesses abroad mainly in mining, manufacturing, services, plantation agriculture and construction. However, Malaysia is expected to benefit from profits, dividends and interest repatriated by these companies. During the first half of 2014, *outward direct investment* registered higher outflows amounting to RM37 billion (January – June 2013: -RM27.1 billion) on account of higher extension of intercompany loans and equity capital to subsidiaries of Malaysian companies overseas. Investment abroad was predominantly in the mining and services sectors, particularly in financial and insurance as well as information and communication subsectors.

During the first half of 2014, *portfolio investment* also recorded net outflows amounting to RM6.5 billion (January – June 2013: +RM7.2 billion) influenced by a combination of factors such as concerns about the US Federal Reserve's commitment to an accommodative monetary policy; geopolitical tensions in Eastern Europe and the Middle

East; and China's slower growth prospects. During the period, resident institutional investors continued to acquire portfolio assets abroad in anticipation of better returns on equities and debt securities. Similarly, non-resident portfolio inflows rebounded strongly during the second quarter following news of better economic outlook for advanced economies like the US and UK as well as in anticipation of a hike in the OPR by BNM.

Other investment turned around to register higher net outflows of RM22.6 billion during the first half of the year (January – June 2013: +RM10.6 billion) as strong export growth saw Malaysian exporters provide higher credit facilities to their foreign counterparts. The outflows were also attributable to the placement of deposits abroad by the banking sector which outweighed domestic placement of deposits by foreign financial institutions. However, net

CHART 3.17
International Reserves



¹ As at 15 September 2014.

Source: Bank Negara Malaysia.

inflows into the domestic banking sector are on the uptrend signalling confidence in the strong macroeconomic fundamentals of the Malaysian economy. In 2014, other investment are expected to sustain net outflows mainly on account of higher trade credit extended to foreign importers, placement of deposits abroad by the banking sector and net repayments of external loans by the public sector.

As at 15 September 2014, Malaysia's **international reserves** position remained strong at RM422.3 billion or USD131.5 billion. The ample reserves were supported by the continued current account surplus amid net capital outflows. The reserves level is adequate to finance 8.9 months of retained imports and is 3.2 times the short-term external debt (previous definition). Nevertheless, under the redefined external debt, the reserves level is 1.2 times the short-term external debt.

Prices

Higher inflation

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged 3.3% in the first eight months of 2014 compared to 1.7% for the same period last year. This was due to the impact of upward adjustments in fuel prices, electricity tariffs, sugar and cigarettes since September 2013. The major groups that contributed to the overall increase in the CPI were the **food and non-alcoholic beverages; transport; and housing, water, electricity, gas and other fuels groups**, which together accounted for 2.7 percentage points to the CPI increase.

Inflation in the food and non-alcoholic beverages group rose 3.6% and contributed 1.2 percentage point increase during the period (January –

TABLE 3.20

Consumer Price Index (CPI) January – August (2010 = 100)

	Weights	Change (%)		Contribution to CPI growth (%)	
		2013	2014	2013	2014
Food and non-alcoholic beverages	30.3	3.4	3.6	56.7	34.5
Alcoholic beverages and tobacco	2.2	2.8	13.1	3.3	8.6
Clothing and footwear	3.4	-0.6	-0.2	4.5	-0.1
Housing, water, electricity, gas and other fuels	22.6	1.6	3.4	19.5	22.6
Furnishings, household equipment and routine household maintenance	4.1	1.6	1.2	5.1	1.4
Health	1.3	2.0	2.6	1.4	1.0
Transport	14.9	0.6	5.4	4.1	24.1
Communication	5.7	-0.7	-0.6	-2.2	-1.1
Recreation services and culture	4.6	-0.1	1.8	-0.4	2.4
Education	1.4	2.3	2.4	1.7	1.0
Restaurants and hotels	3.2	2.3	4.7	3.9	4.7
Miscellaneous goods and services	6.3	0.7	0.4	2.4	0.9
Total	100.0	1.7	3.3	100.0	100.0

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

August 2013: 3.4%; 1 percentage point) mainly due to a 3.5% price increase in the **food at home** category. Food prices, which registered the most increase, were *meat* (4.2%) as well as *fish and seafood* (5.6%) subgroups. This was partly due to disruption in supply arising from unfavourable weather conditions during the first quarter compounded by strong demand during the festivities and school holidays.

Prices in the **housing, water, electricity, gas and other fuels** group, the second largest component in the CPI basket, increased 3.4% (January – August 2013: 1.6%). The increase was driven by higher prices in *electricity* (6.4%) following the electricity tariff increase effective from 1 January 2014, as well as increase in *actual rental paid by tenants* (3.2%). Meanwhile, prices in the alcoholic beverage and tobacco category registered a significant increase of

13.1% during the period (January – August 2013: 2.8%), following the 14% increase in excise duty for cigarettes on 1 October 2013.

The higher inflation rate was also contributed by a substantial price increase in the **transport** group at 5.4% (January – August 2013: 0.6%). The increase came mainly from higher prices recorded in *fuel and lubricants for personal transport equipment* (8.4%) as well as *repair and maintenance for personal transport* (5%) subgroups. In contrast, prices in the **clothing and footwear** as well as **communication** groups continued to decline 0.2% and 0.6%, respectively (January – August 2013: -0.6%; -0.7%) amid strong market competition.

The CPI for **urban** and **rural areas** increased 3.4% and 3.1%, respectively (January – August 2013: 1.8%; 1.5%). In both areas, price increases

CHART 3.18

CPI in Malaysia

(% annual change)



Source: Department of Statistics, Malaysia.

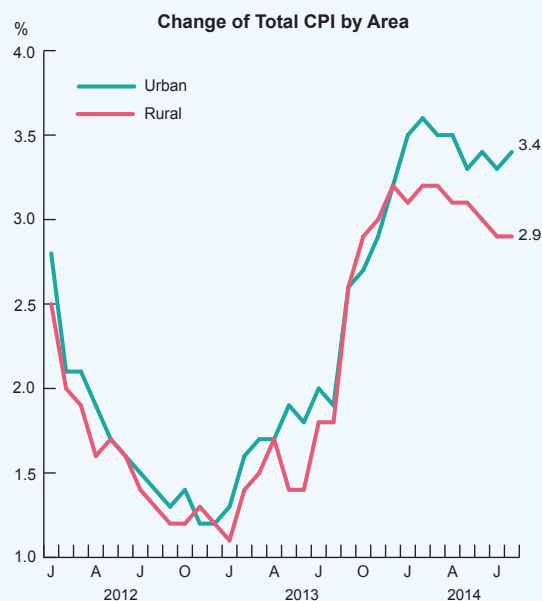
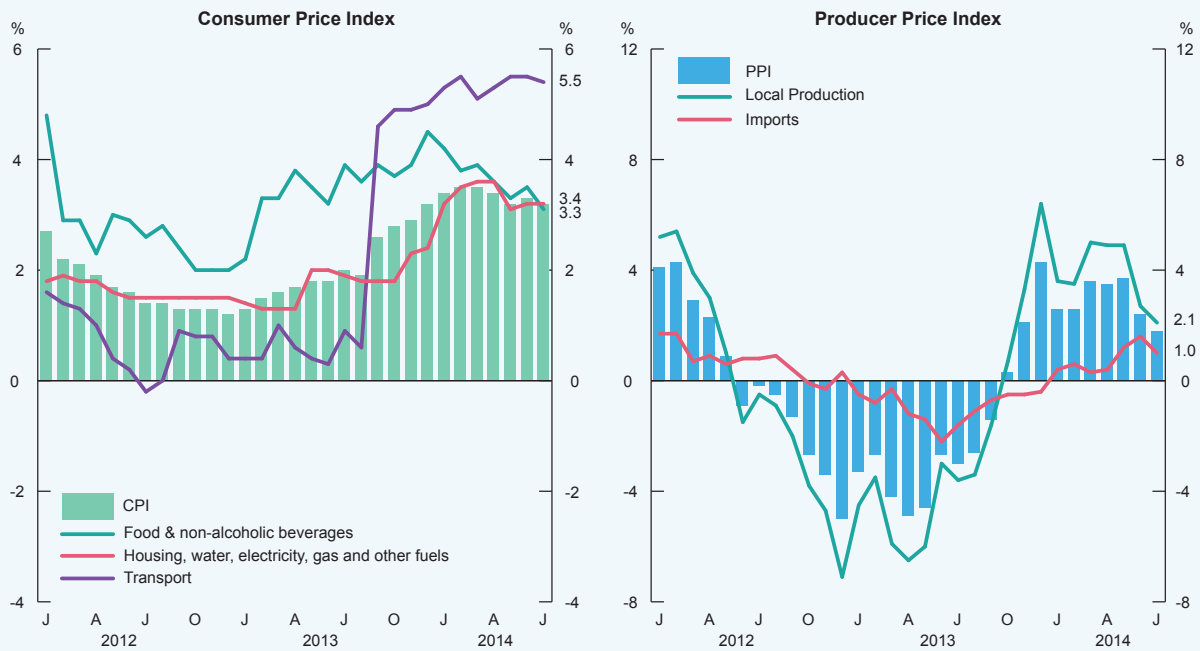


CHART 3.19

CPI and PPI Trends

(% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.21

Producer Price Index (PPI)
January – July
 (2005 = 100)

	Weights	Change (%)		Contribution to PPI growth (%)	
		2013	2014	2013	2014
Domestic economy	100.0	-3.7	2.9	100.0	100.0
Food	5.4	2.6	3.7	-4.1	7.9
Beverages and tobacco	0.9	1.2	4.0	-0.2	1.1
Crude materials, inedible	5.4	-18.3	3.2	38.7	7.2
Mineral fuels, lubricants, etc.	17.4	-3.5	5.4	22.4	42.6
Animal and vegetable oils and fats	4.2	-22.8	16.1	37.0	26.4
Chemicals	7.0	-0.6	2.8	1.1	6.4
Manufactured goods	10.9	-0.3	0.9	0.7	3.1
Machinery and transport equipment	42.9	-0.4	0.3	3.7	4.2
Miscellaneous manufactured articles	5.4	0.0	0.7	0.0	1.1
Miscellaneous transactions and commodities	0.5	-1.4	-1.4	0.2	-0.2
Local production	66.4	-4.7	3.8	90.7	91.8
Imports	33.6	-1.1	0.8	9.3	8.2

Note: Total may not add up due to rounding.
 Source: Department of Statistics, Malaysia.

Managing Rising Cost of Living

Introduction

Malaysia has made significant progress towards achieving a high-income and developed nation by 2020, with the aim of achieving a Gross National Income (GNI) per capita of USD15,000 or RM48,000. Through both the Government and Economic Transformation Programmes that were implemented since 2010, the GNI per capita hit the RM32,144 level as of end-2013, and is well on the way to achieve the threshold targeted.

While higher growth and income may be translated into higher standards of living, however, a significant concern for many households is the expense they incur to buy the goods and services that are necessary to maintain a certain standard of living, which is, the cost of living. Over time, the prices of many of these goods and services tend to rise, putting an upward pressure on the cost of living. This, in turn, increases household spending to maintain the standard of living. Generally, the consumers' cost of living depends on the prices of the many goods and services they consume and the share of each good or service in the household budget.

Household Expenditure on The Rise

According to the Household Expenditure Survey (HES)¹ conducted by the Department of Statistics, Malaysia (DOSM) in 2009/2010, the average monthly household expenditure has increased 12.1% from RM1,953 in 2004/2005 to RM2,190 in 2009/2010. Looking further back at the household expenditure trend from 1993/1994 to 2009/2010, on the whole, the average monthly household expenditure soared 88.6% from RM1,161 to RM2,190 during the period. The expenditure on the four main groups in the consumers' basket of goods and services, which indicated substantial increases are, Housing, water, electricity, gas and other fuels at 102%; Transport, 94.6%; Restaurants and hotels, 64.8%; and Food and non-alcoholic beverages, 60.9%.

However, between 2004/2005 and 2009/2010, the main component of the average monthly household expenditure, namely *Housing, water, electricity, gas and other fuels* at 22.6% of total expenditure, increased 15.1% to RM495 in 2009/2010 from RM430 in 2004/2005. This was followed by *Food and non-alcoholic beverages* (20.3%), which increased 13% to RM444 from RM393; and *Transport* (14.9%) which increased 4.1% from RM314 to RM327.

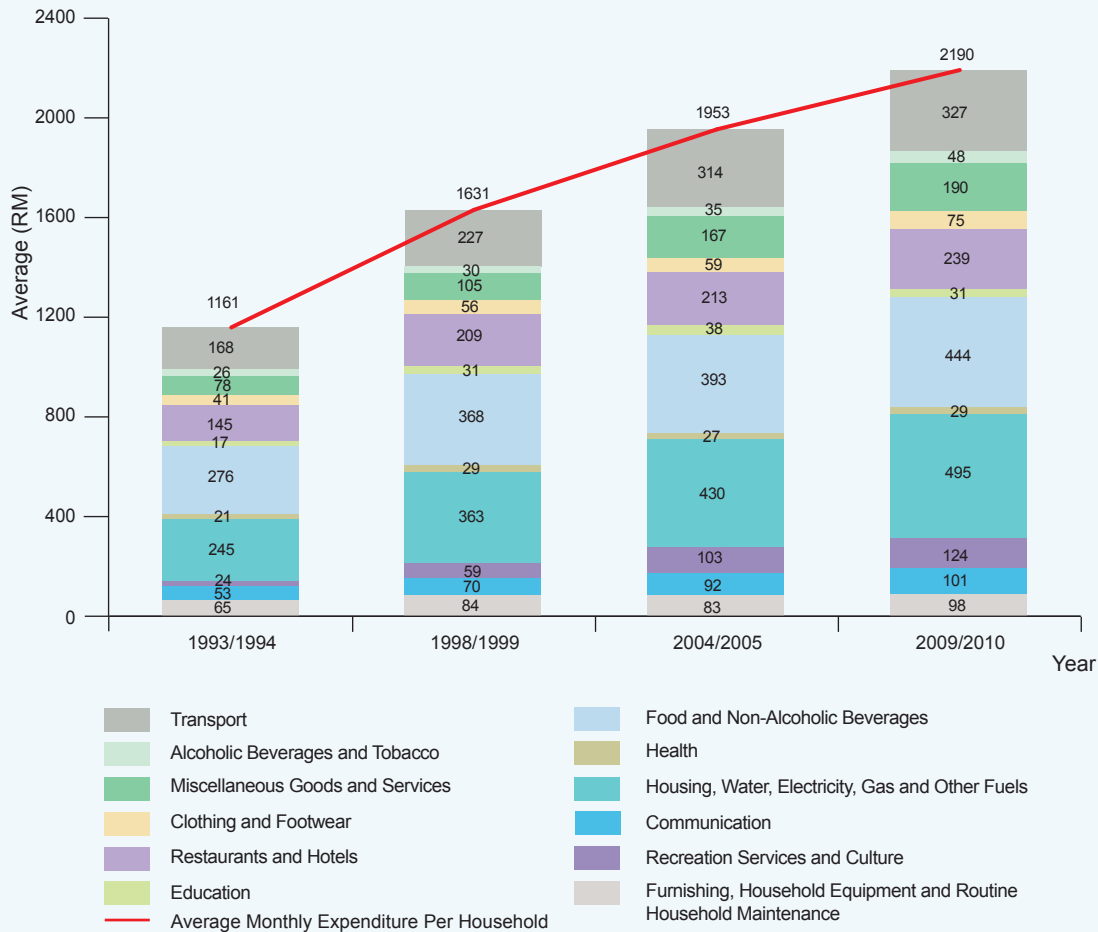
Food is a major component of a household expenditure. The Food and Agriculture Organisation of the United Nations (FAO) Food Price Index showed that while the index has declined from the peak of 240.1 points in February 2011, the index remained high averaging 216.6 points for the period between March 2011 and end-2013. This has an impact on domestic food prices as Malaysia remains a net food importer with an increasing trade deficit of RM10.2 billion in 2008 to RM16.8 billion in 2013. This is supported by the increasing trend in the Producers Price Index (PPI) for the import of food, and is correspondingly reflected in the Consumer Price Index (CPI) for the food and beverage category.

The Government has been providing subsidies to ease the burden of the rakyat, especially the low-income group, thereby reducing the cost of goods and services purchased. These include subsidies for rice, petroleum products and food products as well as subsidy for interest rate charged and for toll roads. However, this has increasingly posed a burden to the Government's fiscal position. Subsidies remain the second largest component of the Government's operating expenditure after emoluments. Of the total subsidy provided, fuel subsidy represents the biggest share, and this

¹ The HES is conducted once every five years and the next survey is being carried out this year. It can be expected that the 2014 HES will register a further increase in the average monthly household expenditure, which has been on an raising trend over the past 15 years.

CHART 1

Average Monthly Household Expenditure by Main Group of Goods and Services, Malaysia 1993/1994 – 2009/2010



Source: Department of Statistics, Malaysia.

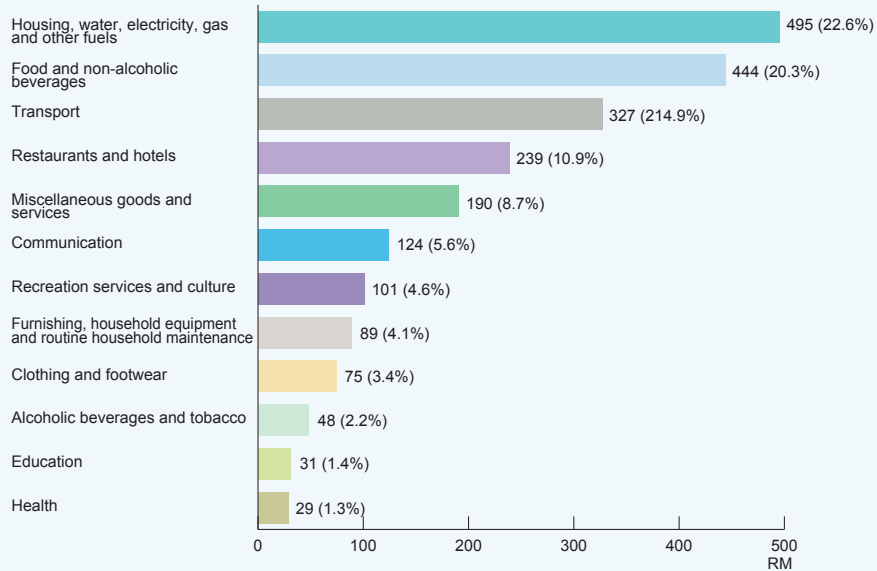
amount increases as global oil prices rise. With the global oil price remaining high, the total fuel subsidy has been increasing correspondingly. Within five years, the total fuel subsidy, which registered RM6.2 billion in 2009 has increased more than four-fold to RM27.4 billion in 2013. This has an impact on the long-term fiscal sustainability and the country's economic growth.

Impact on Low-Income Households

According to DOS' Household Income and Basic Amenities Survey Report 2012, 38.8% of the total households earn below RM3,000 per month. Generally, households in this low-income group spends about one-third of their income on food. Therefore, this group will be more vulnerable when food

CHART 2

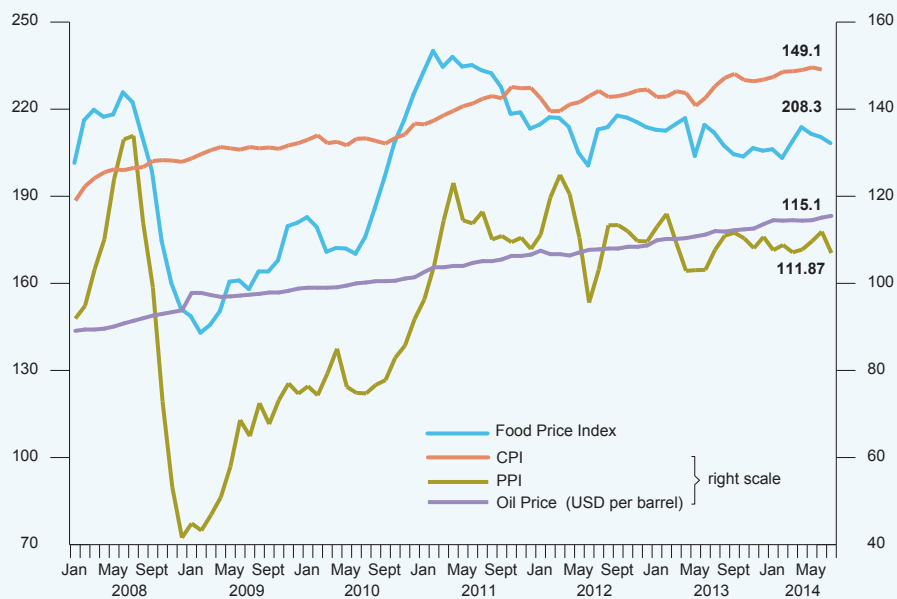
Average Monthly Household Expenditure by Main Group of Goods and Services, Malaysia 2009/2010



Source: Department of Statistics.

CHART 3

Global Food Price Index, Oil Price, Malaysia's Food CPI and Malaysia's PPI for Imports January 2008 – June 2014



Source: Food & Agriculture Organisation, Department of Statistics, Malaysia.

prices increase. In the first seven months of this year, the major contributors to the CPI increase were the Food and non-alcoholic beverage; Transport; and Housing, water, electricity, gas and other fuels groups.

Despite the Government's efforts to ensure that basic goods and services remain affordable for the rakyat, food and fuel prices are subject to factors such as weather shocks, rising demand and supply disruptions, which are beyond the Government's control. Furthermore, the Government recognises that the most vulnerable to the rising cost of living is the low-income group where their income growth has not kept pace with the rise in prices of goods and services. To manage this issue effectively, the Government decided to include Addressing the Rising Cost of Living as one of the National Key Result Areas (COL NKRA) in July 2011, which is part of the Government Transformation Programme (GTP). The aim of the COL NKRA is to implement measures to help the rakyat pay for basic goods and services that have suddenly and quickly increased in price due to external market conditions. In this regard, initiatives identified to help the rakyat included the distribution of targeted cash assistance and the direct provision of goods and services.

Government Initiatives

▪ 1Malaysia Cash Aid (*Bantuan Rakyat 1Malaysia* - BR1M)

The BR1M was designed to help alleviate the burden of low-income households through annual financial assistance. Following the first cash assistance given in 2012, the aid was progressively widened to cover the singles and lower-middle income households in subsequent rounds of assistance given. In the current round of cash assistance, BR1M3.0, the Government also gave a contribution of RM50 to the Group *Takaful Rakyat 1Malaysia* (i-BR1M), to provide protection of up to RM30,000 for each BR1M recipient in the event of death or permanent disability.

Table 1

1Malaysia Cash Aid (BR1M)

	BR1M	BR1M 2.0	BR1M 3.0
Date	April 2012	Feb 2013	Feb 2014
Eligibility	≤RM3,000	≤RM2,000 (singles) ≤RM3,000 (households)	≤RM2,000 (singles) ≤RM3,000 (households) RM3,001 – RM4,000 (households)
Handouts	• RM500 to households	• RM250 to singles • RM500 to households	• RM300 to individuals (earn ≤RM2,000) • RM650 to households (earn ≤RM3,000) • RM450 to households (earn between RM3,001 – RM4,000) • RM50 contribution to the Group <i>Takaful 1Malaysia</i> (i-BR1M)

Source: GTP Annual Report 2013

- Back to School Assistance Programme

The programme helps students prepare for the new school year with a cash assistance of RM100. Every Malaysian student from Primary 1 to Form Five in both public and private schools, totalling about 5.2 million students, receives this assistance yearly.

- 1Malaysia Book Voucher Programme (*Baucar Buku 1Malaysia* – BB1M)

The BB1M, which is similar to the Back to School Assistance Programme, helps defray the cost of education for tertiary students, by subsidising the cost of school books. Some 1.2 million Form Six, matriculation, college and university students of both public and private institutions, received book vouchers worth RM200 in 2012 and RM250 in 2013.

- 1Malaysia People's Shop (*Kedai Rakyat 1Malaysia* – KR1M)

These are Government-initiated convenience stores that offer basic essential goods such as rice, cooking oil, milk powder and diapers at cheaper prices compared with regular grocery stores. Generally, prices of 1Malaysia goods are up to 50% cheaper than comparable goods at conventional stores. Since its launch in 2011, KR1M shops have increased to 139.

- 1Malaysia People's Menu (*Menu Rakyat 1Malaysia* – MR1M)

The programme offers breakfast and lunch at affordable prices of RM2 and RM4, respectively in Peninsular Malaysia, and RM2.50 and RM5, respectively in Sabah and Sarawak. To date, over 4,000 food outlets have participated in the programme.

- 1Malaysia Clinics (*Klinik 1Malaysia*)

The objective of these clinics is to provide fast basic treatment at an affordable price of RM1 per visit, especially in highly populated urban areas. Patients with minor ailments seek treatment in these clinics thus helping to ease pressure on Government hospitals. In 2013, 70 clinics were established, bringing the total number of clinics to 238, since the programme was launched in 2010.

- Enhancing Food Security

Studies were also carried out to analyse the supply and demand for each category of food as well as assessing the country's competitiveness in producing food vis-à-vis other countries. This is with the view of reducing the price of raw ingredients, especially for imported food items by increasing supply. Another factor that affects retail pricing is the number of middlemen within the supply chain. In this regard, the Government has established multiple retail points such as *Pasar Tani*, *Agrobazaar* and Rural Transformation Centre (RTC) in an effort to mitigate handling charges in the supply chain.

Other Initiatives

- Rebate on electricity bills

Domestic consumers are given a monthly rebate of RM20 on electricity bills totalling RM20 and below. The rebate, which has been given since 1 October 2008, is part of the Government's efforts to reduce the financial burden of low-income households.

▪ Affordable Housing

One of the priorities of the Government is to ensure that the rakyat has access to quality and affordable housing. During the past few years, house prices have been soaring, recording an increase of 9.9% in 2011, 11.8% in 2012 and 11.6% in 2013, which have affected the ability of the rakyat to purchase houses.

In 2012 the Government introduced the *Rumah Mesra Rakyat* programme to help the low-income group, who own land, but cannot afford to build a house or live in a dilapidated house, to have access to decent housing. Syarikat Perumahan Negara Berhad (SPNB) has been tasked to build houses costing between RM45,000 and RM60,000 per unit and the purchasers will be given a subsidy of between RM15,000 and RM20,000 on the cost of the house as well as a subsidy of 2% on the interest rate for the loan from the bank to finance the purchase of the house.

In addition, through the National Housing Department, the Rakyat Housing Programme (PPR) which was launched in 2002, continues to provide housing for the poor and low-income group, as well as to resettle the squatters. There are two categories of houses built, that is PPR *Dimiliki* (PPRM) and PPR *Disewa* (PPRS). PPRM houses are sold for between RM30,000 and RM35,000 per unit in Peninsular Malaysia, and for RM40,500 per unit in Sabah and Sarawak; while PPRS houses are rented out at RM124 per month.

Under the 2014 Budget, the Government also introduced the Private Affordable Ownership Housing Scheme (MyHome) with the help of the private sector. The scheme provides a subsidy of RM30,000 for each unit built. In Peninsular Malaysia, houses costing RM80,000 per unit will be sold for RM50,000, while in Sabah and Sarawak, houses costing RM90,000 will be sold at RM60,000 per unit.

▪ Minimum Wage Policy

The Government also implemented the Minimum Wage Policy on 1 January 2013 partly to ensure the basic needs of workers and their families are met. The policy sets a minimum wage of RM900 per month in Peninsular Malaysia, and RM800 for Sabah, Sarawak and Labuan.

▪ Price Control and Anti-Profiteering Act 2010 & Competition Act 2010

The implementation of both the Acts is being strengthened to ensure that businesses do not take opportunities to manipulate and increase prices to make unreasonably high profit, especially when the Goods and Services Tax (GST) is introduced in April 2015; and that businesses do not engage in anti-competitive practices and collude to increase prices.

Conclusion

The Government recognises that managing the rising cost of living effectively remains one of the key priorities as the issue continues to impact a greater section of the rakyat. The Government through the 'Special Cabinet Committee to Address the Rising Cost of Living', chaired by the Deputy Prime Minister, will continue to address this issue in a holistic and integrated manner. This includes coordinating the implementation of policies and programmes of various ministries and agencies involved in reducing the burden of the people.

On the part of the rakyat, they have to be smart consumers and make lifestyle changes and spending habits so that they will not get into debt. Learning to make small adjustments to everyday expenses can make the difference. These include conserving energy to trim electricity bills, using public transport, budgeting each month to avoid impulsive buying which can lead to bigger financial burden in the future.

in the food and non-alcoholic beverage as well as transport groups were the main contributors to the rise in CPI. Meanwhile, on an income basis, the CPI for income groups of **less than RM3,000, less than RM1,500 and less than RM1,000** recorded an increase of 3.4%, 3.3% and 3.1%, respectively (January – August 2013: 1.9%; 2%; 2.1%), due mainly to higher prices in the food and non-alcoholic beverage; housing, water, electricity, gas and other fuels; and transport groups.

The **Producer Price Index (PPI)**, a measure of change in the prices of commodities charged by domestic producers and those paid by importers, increased 2.9% during the first seven months of 2014 compared to a decline of 3.7% during the same period last year. This was mainly due to the base effect and price increases in both **local production** and **import** components. The rise in the PPI was largely attributed to the price increase in the *mineral fuels, lubricants and others* (5.4%) as well as *animal and vegetable oils and fats* (16.1%) groups, which contributed 2 percentage points to the total PPI increase.

The PPI for **local production**, which constitutes 66.4% in terms of weightage in the aggregate PPI, recorded an increase of 3.8% (January – July 2013: -4.7%). This was mainly attributed to the price increase in the *mineral fuels, lubricants and others* group (5.9%), contributing 1.7 percentage points, followed by the *animal and vegetable oils and fats* group (16.7%) with 1.1 percentage point. Higher prices were recorded in all **stages of processing**, with *crude materials for further processing* increasing 7.5%, *intermediate materials, supplies and components* (3.8%) and *finished goods* (1.2%).

The PPI for **imports**, which comprises the remaining 33.6% of total PPI, increased marginally by 0.8% (January – July 2013: -1.1%). This was mainly due to price increase in the *food* group at 3.9%, followed by the *mineral fuels, lubricants and others* group by 2.1%. Both groups contributed 0.2 percentage point each to the index increase.

Labour Market

Positive labour market conditions

The labour market conditions remained stable in the first half of 2014 underpinned by the strong performance in the major economic sectors. During the period, the *labour force* increased 3.5% to 13.9 million persons (January – June 2013: 2.6%; 13.4 million persons) supported by new entrants to the labour market, largely aged between 30 – 34. In line with the strong economic performance, total *employment* grew 3.6% to 13.5 million (January – June 2013: 2.5%; 13 million). The biggest contributor to total employment was the services sector (59.4%) consistent with its role as the driver of growth with a share of 54.9% to GDP. Meanwhile, the manufacturing sector contributed 16.4% to total employment followed by the agriculture sector (12.4%). Overall, the economy continues to operate under the conditions of full employment, with the *unemployment rate* improving to 3% during the first half of 2014 (January – June 2013: 3.1%). Amid resilient domestic activity and an improving external sector, the labour market is expected to remain favourable in 2014, with the unemployment rate at 3.1% (2013: 3.1%).

TABLE 3.22

Labour Market Indicators January – June

	('000)		Change (%)	
	2013	2014	2013	2014
Labour force	13,430.2	13,894.0	2.6	3.5
Employment	13,016.7	13,483.4	2.5	3.6
Unemployment	413.5	410.7	3.1	3.0

Source: Department of Statistics, Malaysia.

The *working-age population* (15 – 64) is expected to increase 1.5% to 20.7 million persons in 2014 (2013: 1.6%; 20.3 million persons), representing 68.7% of the total population. The *dependency ratio*⁵ is anticipated to improve slightly to 45.7 in 2014

⁵ The dependency ratio is the ratio of the non-working age population to the working-age population

(2013: 46) reflecting lesser burden for the working-age population to care for the young and aged. The labour market remained favourable, with the *labour force participation rate* increasing to 67.4% during the first half of 2014 (January – June 2013: 66.2%). The male participation rate declined marginally to 80.4%, while the female participation rate rose to 53.5% (January – June 2013: 80.6%; 50.7%), reflecting the success of measures taken by the Government over the years to attract more women into the job market.

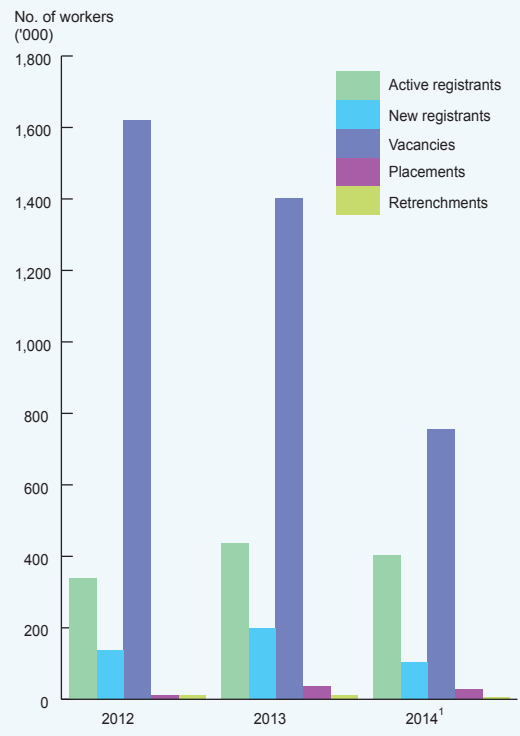
The total job *vacancies* reported by JobsMalaysia stood at 757,031 during the first eight months of 2014 (January – August 2013: 905,882). The manufacturing sector was the biggest contributor with 259,831 jobs, followed by services (186,538), agriculture (162,994) and construction (145,686) sectors. In terms of occupational group, the *elementary occupations*⁶ recorded the highest vacancies at 534,887, followed by plant and machine-operators and assemblers at 85,207 (January – August 2013: 656,676; 79,086). In addition, 21,672 vacancies were recorded for professionals, 13,079 for technicians and associate professionals as well as 3,007 for managers (January – August 2013: 24,115; 17,539; 5,807).

The number of *retrenched workers* declined 17.6% to 6,811 persons during the first eight months of 2014 (January – August 2013: 29.6%; 8,261). The retrenched were mainly plant and machine-operators and assemblers (2,010), technicians and associate professionals (1,140), professionals (884) and managers (835). On a sectoral basis, manufacturing registered the highest number of retrenchments, accounting for 65% of total retrenchments followed by the services sector (30.6%).

The number of *active jobseekers* decreased 1.4% to 401,827 of which 104,779 were new registrants during the first eight months of 2014 (January – August 2013: 20.4%; 407,626; 57,507). Of the total active jobseekers, 62.3% were in the 20 – 24 age group, followed by the

CHART 3.20

Job Market Indicators

¹January – August.

Source: Ministry of Human Resources, Malaysia.

25 – 29 age group (15.9%) and the 15 – 19 age group (11.4%). Most of the registered and active jobseekers were degree holders (34.2%), followed by SPM school leavers (26.9%) and diploma holders (23.5%). In terms of placement, the manufacturing sector absorbed 13,910 jobseekers, followed by services (8,824), agriculture (3,018), construction (1,445) and mining (261) sectors in the first eight months of 2014.

Malaysia recorded *labour productivity growth*⁷ of 2.3% to RM60,437 in 2013 (2012: 2%; RM59,064) contributed by the strong performance of key sectors in the economy, technological progress and improved quality of labour. Productivity in the manufacturing sector grew 5.4% to RM88,389 (2012: 4.5%; RM83,822) boosted by higher productivity in transport equipment, textile and other non-metallic mineral product subsectors.

⁶ Elementary occupations perform single and routine tasks which mainly required the use of handheld tools and in some cases considerable physical effort. Most of occupations in this major group require skills at the first level such as cleaners, helpers and labourers.

⁷ The information is based on Productivity Report 2013/2014 by the Malaysia Productivity Corporation (MPC).

TABLE 3.23

Employment by Industry January – June

	('000)		Share to Total (%)	
	2013	2014	2013	2014
Agriculture, forestry and fishing	1,694.0	1,676.5	13.0	12.4
Mining and quarrying	81.6	77.7	0.6	0.6
Manufacturing	2,183.6	2,207.8	16.8	16.4
Electricity, gas, steam and air conditioning supply	51.4	63.8	0.4	0.5
Water supply; sewerage, waste management and remediation activities	82.6	81.1	0.6	0.6
Construction	1,227.2	1,228.5	9.4	9.1
Services	7,517.7	8,002.8	57.8	59.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,187.2	2,296.7	16.8	17.0
Transportation and storage	595.4	606.8	4.6	4.5
Accommodation and food beverage service activities	1,012.3	1,109.3	7.8	8.2
Information and communication	176.4	208.1	1.4	1.5
Financial and insurance/takaful activities	311.0	307.5	2.4	2.3
Real estate activities	67.3	74.7	0.5	0.6
Professional, scientific and technical activities	311.6	315.2	2.4	2.3
Administrative and support service activities	531.1	633.8	4.1	4.7
Public administration and defence; compulsory social security	778.9	756.4	6.0	5.6
Education	810.4	884.5	6.2	6.6
Human health and social work activities	463.3	518.5	3.6	3.8
Arts, entertainment and recreation	84.9	92.7	0.7	0.7
Other service activities	187.9	198.6	1.4	1.5
Activities of households as employers	175.4	142.5	1.3	1.1
Activities of extraterritorial organisations and bodies	3.1	2.9	0.0	0.0
Total	13,016.7	13,483.4	100.0	100.0

Note: Industry is classified according to the 'Malaysia Standard Industrial Classification (MSIC) 2008'.
Source: Department of Statistics, Malaysia.

In addition, productivity in the services sector improved further by 4.8% to RM63,753 (2012: 1.8%; RM60,848) due to higher usage of ICT to increase output. Labour productivity is expected to grow 2.7% in 2014.

The 2013 Salaries and Wages Survey Report by DOSM showed that the average monthly wage increased 7.1% to RM2,052 in 2013 (2012: 5.6%; RM1,916). Salaries and wages in the mining and quarrying sector recorded the highest monthly average of RM3,663, followed by the electricity,

gas, steam and air conditioning supply (RM3,203) and services (RM2,254) sectors. In contrast, the agriculture sector recorded the lowest average monthly wage at RM1,054.

In terms of the quality of workforce, the education and skill levels of Malaysian workers have increased over time. The number of tertiary educated workforce increased to 3.6 million in the first half of 2014 (January – June 2013: 3.3 million). As with other developing nations, Malaysia too experiences migration of its

talent. To address this issue, Talent Corporation Malaysia Berhad (TalentCorp) has undertaken several initiatives to ensure the availability of talent in line with the needs of the country's economic transformation. This includes the Returning Expert Programme (REP), which seeks to facilitate the return of Malaysian professionals, to contribute to the economy. As at July 2014, 2,950 Malaysian professionals have been approved under the REP. Apart from this, TalentCorp also manages the Structured Internship Programme (SIP) and Graduate Employability Management Scheme (GEMS). SIP provides companies double-tax deduction on expenses incurred in hiring interns under the programme, while GEMS aims to inculcate graduates with industry-relevant technical knowledge as well as essential soft skills for the workplace.

During the first half of 2014, the total registered *foreign workers*⁸ in the country stood at 2 million (January – June 2013: 2.1 million). The employment of foreign labour was largely concentrated in the manufacturing (722,750), agriculture (461,400) and construction (415,599) sectors. By country of origin, 40.4% of foreign workers were from Indonesia, followed by Nepal (20.9%), Bangladesh (14.9%) and Myanmar (7.2%). During the same period, remittances by foreign workers in Malaysia increased to RM13.3 billion (January – June 2013: RM12.3 billion), partly due to the full implementation of Minimum Wage Policy.

The total number of *expatriates* in Malaysia rose to 105,238 in the first half of 2014 from 81,991 in 2013. Expatriates from India remained the highest number at 19,038 persons representing 18.1% of total expatriates in Malaysia, followed by China (11.8%), Indonesia (7.8%) and the Philippines (7.7%). The expatriates were mainly employed in the services (45,516), ICT (18,605) and manufacturing (11,045) sectors. Recognising that highly-skilled expatriates can contribute positively towards economic

development, continuous efforts have been taken to facilitate the entry of expatriates. This includes the establishment of an Expatriate Service Division (ESD) at the Immigration Department in June 2014, which acts as a one-stop centre to approve work permits within five working days compared with one month previously. The initiative is a joint effort between the Ministry of Home Affairs, Immigration Department and TalentCorp.

Prospects for 2015

Malaysian Economy

Economy remains on steady growth trajectory

The economic growth momentum in 2014 is expected to continue in 2015 driven by improving external demand and resilient domestic economic activity. Growth will be private-led in line with the Government's efforts to strengthen the private sector's role in the economy. On the supply side, all economic sectors are expected to record positive growth in 2015, with the services and manufacturing sectors remaining the major contributors to growth. Sustained growth in domestic demand, albeit at a moderate pace, is expected to contribute to the expansion in domestic-related activities. Meanwhile, the export-oriented industries, particularly the E&E subsector will benefit from the improvement in external conditions in line with improving global growth. The agriculture sector is expected to expand on account of higher output of palm oil while the construction sector is expected to record higher growth driven by robust activity in the civil engineering and residential subsectors. Hence, the economy is projected to grow 5% - 6% in 2015.

Although the global economy is expected to sustain moderate recovery in 2015, there remain some downside risks such as: escalation of geopolitical tensions in Eastern Europe and the Middle East

⁸ The foreign workers are registered and issued with Visit Pass Temporary Employment by the Immigration Department, Malaysia.

which could cause oil prices to rise and weigh on global growth; slower growth in emerging economies; and uncertainty over global interest rate normalisation and policy adjustments in the advanced economies which could trigger large capital outflows from emerging markets. In the euro area, some economies remain constrained by fiscal and structural issues which could affect the pace of recovery in Europe.

In 2015, inflation is expected to increase 4% – 5%, largely due to the implementation of Goods and Services Tax (GST) and spillover effect of fuel subsidy reduction in October 2014. Given the subdued external cost pressure, domestic cost remains the major factor that drives inflation in 2015. The implementation of the GST will have a transitory impact on the cost of goods and services. However, the strong capacity expansion over the past years will help to mitigate the cost pressures, while a more cautious stance of consumers would also contribute to moderating demand and hence prevent inflation from becoming more entrenched.

Domestic demand is envisaged to expand, albeit at a moderate pace, underpinned by higher investment and sustained consumption spending. Private investment is expected to remain strong supported by increasing domestic activity and a favourable external sector. Private consumption is, however, expected to moderate below its long-term average, but will continue to support growth. Household spending is expected to moderate amid higher inflation following the implementation of GST. Nevertheless, the impact of higher inflation on consumption is expected to be temporary and will eventually taper off after a few months of the GST implementation. In addition, higher export earnings are expected to boost business earnings and household income and hence mitigate the impact of higher inflation on domestic demand. Consequently, nominal GNI per capita is expected to increase 8.1% to RM37,486 (2014: 8.9%; RM34,682). Income per capita in PPP terms is expected to increase 2.4% to USD23,512 (2014: 2.2%; USD22,958).

Sectoral Prospects

Positive growth across all sectors

On the supply side, all sectors of the economy are expected to remain strong. The services sector will spearhead growth, with all subsectors recording expansion. Growth will be driven by production-related activities such as wholesale trade, transport and storage and reinforced by an improving external sector. Meanwhile, retail trade as well as accommodation and restaurants will be supported by resilient household consumption, albeit more moderately. The manufacturing sector is expected to be bolstered by strong domestic and export-oriented industries in line with growing investment activities and favourable external demand amid continued recovery in the advanced economies and better growth prospects in the region. The construction sector is expected to register solid growth, with increased activity in the construction of civil engineering projects in the O&G sector and residential and non-residential buildings. The agriculture sector is expected to grow supported by higher commodity production and increased output of food commodities. The mining sector is also envisaged to increase on higher production of natural gas as well as crude oil (including condensates).

The **services sector** is expected to grow 5.6% in 2015 (2014: 5.9%), accounting for 55.4% share of GDP (2014: 55.3%), supported by expansion across all subsectors. The wholesale and retail trade as well as accommodation and restaurant subsectors are anticipated to increase 7.1% and 5.9%, respectively in 2015 (2014: 7.7%; 6.1%) driven by strong domestic consumption and higher tourist arrivals following the Malaysia Year of Festivals 2015. The communication subsector is expected to grow 9.6% (2014: 10%) supported by strong demand for cellular and broadband services, amid attractive promotions by the telecommunication industry players as well as the launch of new smartphones and media tablets. Meanwhile, the real estate and business services as well as the transport and storage subsectors is projected to grow 7.1% and 4.7%, respectively (2014: 7.5%; 5%).

Value-added of the **manufacturing sector** is expected to grow 5.5% (2014: 6.4%). Export-oriented industries are envisaged to benefit from improved global trade, while domestic-oriented industries continue to expand in line with better business confidence and consumer sentiment. The E&E subsector is expected to grow further driven by higher demand of semiconductors, electronic components, communication and computer peripherals in line with the continued upswing of global electronics demand. The resource-based industry is anticipated to grow steadily attributed to improved demand of petroleum, rubber and chemical products. With better job prospects and higher disposable income, the transport equipment subsector, particularly the passenger car segment, is expected to expand further. In addition, the construction-related industry is expected to expand, supported by ongoing infrastructure projects such as MRT and extension of LRT.

The **agriculture sector** is expected to register growth of 3.1% in 2015 (2014: 3.8%). Production of CPO is estimated to increase further on account of higher FFB yields due to increased matured areas, particularly in Sabah and Sarawak. Output of rubber is expected to improve to 800,000 tonnes (2014: 792,000 tonnes) in tandem with higher external demand. Food commodities, mainly livestock, other agriculture and fishing will continue to record favourable growth, following various ongoing Government initiatives to ensure sufficient domestic food production.

The **mining sector** is expected to grow 2.8% in 2015 (2014: 0.7%), reflecting higher production of crude oil (including condensates) and natural gas. Increased production of crude oil (including condensates) will be supported by enhanced oil recovery as well as additional fields. Production of crude oil (including condensates) is expected to accelerate in 2015 with the commencement of several new oil fields in 2014. These include Banang Field in offshore Peninsular Malaysia and Kebabangan Field in offshore Sabah. PETRONAS is also planning to ramp up production in Gumusut-Kakap, offshore Sabah from 20,000 bpd to 80,000 bpd in 2015. Meanwhile, natural

gas output is projected to expand further on account of increased demand, particularly from petrochemical and other industries. Global oil prices, while subject to external shocks, are expected to remain stable, albeit on a moderating trend, on account of steady demand and higher supply, particularly from shale O&G among non-OPEC producers. For 2015, Dated Brent and Tapis are expected to trade at an average of USD100 per barrel and USD105 per barrel, respectively.

The **construction sector** is projected to increase 10.7% in 2015 (2014: 12.7%) supported by commencement of some O&G related projects such as RAPID as well as ongoing transportation-related infrastructure projects. Meanwhile, the residential subsector is expected to remain strong in view of the increased demand for housing, particularly from the middle-income group. Demand for affordable housing will remain favourable amid several Government initiatives such as PR1MA, RIR and RMR. The non-residential subsector is also expected to remain stable supported by encouraging demand for industrial and commercial buildings. Major commercial building projects such as the 118-storey Menara Warisan and Bukit Bintang City Centre are expected to contribute to the growth of the sector.

Domestic Demand

Domestic demand drives growth

The major underlying factors that supported resilient domestic demand in 2014 are expected to remain intact in 2015. The private sector will remain the impetus of domestic demand. However, following the strong expansion in 2014, the growth of private consumption and investment is expected to moderate in 2015. While higher inflation arising from GST implementation is expected to temporarily impact domestic demand, high export earnings and increased wages are expected to have positive effects on private investment and consumption. Meanwhile, the public sector remains supportive of growth driven by sustained capital expenditure by both

the Federal Government and NFPEs. Hence, aggregate domestic demand is projected to expand 6.2% (2014: 6.4%).

Private consumption is expected to grow at a slower pace of 5.6% in 2015 (2014: 6.5%) below the long-term average, as consumers remain cautious in spending following the fuel subsidy reduction in October 2014 and implementation of GST starting from 1 April 2015. The impact on consumer spending will be mitigated by the provision of additional cash assistance of RM300 to BR1M recipients and other cash assistance programmes to targeted income groups to help them adjust to the rise in the cost of living. In addition, the review and reduction in individual income tax will ease financial burden of households. Nevertheless, the increase in disposable income underpinned by better employment prospects and continued wage growth is envisaged to support private consumption. Additionally, some front-loading of consumption, particularly on big-ticket items ahead of the implementation of GST, is expected to cushion the moderation in private consumption for 2015.

Private investment is projected to record a double-digit growth of 10.7% in 2015 (2014: 12%), in line with the growing role of the private sector as the engine of growth. Capital expenditure is anticipated mainly in the services sector, particularly in private education, transportation and health subsectors, as well as in the manufacturing sector. In addition, the construction of mega-infrastructure projects such as the MRT Line 1, which is expected to be completed in July 2017, and other projects with long-gestation period, such as RAPID will help to generate positive spillover effects on private investment.

Public consumption is anticipated to register growth of 3.8% (2014: 2.1%), reflecting the spending on supplies and services as well as emoluments. Meanwhile, **public investment** is expected to record a higher growth of 4.7% (2014: 2.6%) as the Government expedites implementation of projects towards the tail-end of the Tenth Malaysia Plan (10MP), particularly in the transport as well as trade and industry

subsectors. Capital expenditure by NFPEs is expected to increase mainly due to upgrading and refurbishment of existing facilities, capacity expansion as well as enhancement of products and services. The expenditure is expected to be channelled mainly to the O&G, transportation, telecommunication and energy sectors.

National Resource Position

Sustained resource balance to support growth

GNI in current prices is expected to expand further by 9.4% in 2015 (2014: 10.2%) following continued growth in the domestic economy. With total consumption spending in nominal terms expected to increase 9.2% (2014: 8.3%), the GNS is projected to expand 9.8% (2014: 14.5%). Consequently, the share of GNS to the GNI is anticipated to increase to 32.5% (2014: 32.4%). After taking into account the higher total investment expenditure at 28.3% of GNI (2014: 27.3%), the savings-investment gap is anticipated to record a lower surplus of RM49 billion or 4.3% of GNI (2014: RM53.9 billion; 5.1%).

External Sector

Lower current account surplus

In 2015, Malaysia's external position is expected to remain strong in line with improved prospects for global growth and trade. Stronger recovery in key advanced economies, resilient regional demand, coupled with stable commodity prices and continued expansion in domestic economic activity will support trade performance. Nevertheless, the trade surplus is expected to be lower at RM74.1 billion (2014: RM85.6 billion) as import growth accelerates and outpaces exports. **Gross exports** are expected to increase 3.2% (2014: 6%) spurred by higher demand for manufactured products, in particular E&E, and steady demand for commodities. **Gross imports** are, however, projected to grow at a faster pace of 5.3% (2014: 4.3%) boosted by higher demand for intermediate inputs and broad-based capital

spending, particularly in the manufacturing and services sectors as well as ongoing implementation of infrastructure projects. Higher investment activity across major sectors by the NFPEs is also expected to contribute to import growth. Demand for consumption goods will be supported by favourable labour market conditions and stable income growth. Manufactured goods are expected to account for 76.4% of total exports, while 73.8% of imports will comprise capital and intermediate goods (2014: 76.3%; 73.4%).

The year 2015 has been designated Malaysia Year of Festivals. Boosted by targeted marketing and promotional activities, tourist spending is expected to remain robust. The extension of the VMY into 2015, coupled with continuous efforts to develop new and strengthen niche tourism products, as well as upgrade existing tourism-related facilities are expected to contribute to higher gross receipts in the travel account at RM78.2 billion (2014: RM76.3 billion). However, given the strong investment and trade-related activities, gross payments for transportation and other services, including professional, technical and business services are projected to remain higher. Hence, the **services account** is expected to remain in deficit at RM13.1 billion (2014: -RM12.6 billion). For the year, the **goods and services account** is projected to

record a lower surplus of RM96.6 billion (2014: +RM100.8 billion) following higher growth in imports, coupled with a sustained deficit in the services account.

The **primary income account** is projected to see a marginally lower deficit of RM27.7 billion (2014: -RM28.6 billion) backed by improved outlook for corporate returns in tandem with a favourable business environment. Reinforced by strong regional growth amid an improving external environment, Malaysian companies investing abroad are expected to repatriate higher profits, dividends and interest. The higher gross inflows are expected to mitigate similar outflows by MNCs operating in Malaysia leading to lower net outflows of RM23.4 billion (2014: -RM24.6 billion) in the **investment income account**. Meanwhile, the continued expansion in domestic economic activity will see a higher demand for foreign labour. In this regard, the **secondary income account** is forecast to register higher net outflows of RM19.9 billion (2014: -RM18.3 billion) due to higher remittances by foreign workers. With the services and income accounts in deficit combined with imports growing at a faster pace than exports, the **current account** is projected to record a lower surplus of RM49 billion or 4.3% of GNI in 2015 (2014: RM53.9 billion; 5.1%).