1 ECONOMIC MANAGEMENT AND PROSPECTS

- Overview
- Performance Review – 2016
- Fiscal Operations
- Monetary and Financial Developments
- Update on the 2016 Budget
- Information Box 1: Affordable Housing
- Economic Management – 2017
- Information Box 2: The Impact of 1Malaysia People's Aid Programme on Private Consumption
- Feature Article 1: The Connected Economy

1 ECONOMIC MANAGEMENT AND PROSPECTS

Overview

Malaysia progressed further towards its vision of a high-income and advanced nation despite heightened uncertainties in the external environment. Global growth remains moderate, weighed down by volatility in the financial market, prolonged low commodity prices and slower growth in advanced economies. Given the degree of openness, these uncertainties, to a certain extent, will impact the Malaysian economy through trade and financial channels. Against this backdrop, on 28 January 2016, the Government took pre-emptive measures to recalibrate the 2016 Budget to sustain economic growth and more importantly safeguard the wellbeing of the rakyat. With the addition of 11 new measures to the 2016 Budget, coupled with the nation's strong economic fundamentals, gross domestic product (GDP) will remain on its growth trajectory, recording 4% – 4.5% in 2016.

The programmes and measures introduced in the 2016 Budget to address cross-cutting issues have made significant progress, resulting in a GDP growth of 4.1% in the first six months of the year. On the demand side, private consumption and investment activities supported growth, while the supply side was driven by the services and manufacturing sectors. With better prospects for global growth and international trade, the Malaysian economy is projected to grow 4% – 5% in 2017. Growth will emanate mainly from domestic demand underpinned by strong economic fundamentals as well as supported by rakyat-centric and pro-growth measures in the 2017 Budget.

Performance Review – 2016

Malaysia's 4.1% growth in the first half of 2016 (January – June 2015: 5.3%) was mainly driven by domestic demand, which grew at a steady pace of 5% (January – June 2015: 6.3%) on account of private sector spending. Private consumption expanded 5.8% (January – June 2015: 7.7%), mainly driven by the stable labour market and income growth. Gross fixed capital formation (GFCF) increased 3.2% (January – June 2015: 3.9%), mainly led by private investment activity, which grew 4% (January – June 2015: 7.4%). The surplus in the goods and services account of the balance of payments narrowed to RM31.8 billion (January – June 2015: RM42.8 billion) following weak global demand and declining commodity prices.

On the supply side, all sectors of the economy recorded positive growth except agriculture. The services sector grew 5.4% (January – June 2015: 5.7%) spurred by higher activity in the wholesale and retail trade; information and communication; as well as food & beverages and accommodation subsectors. The manufacturing sector grew 4.3% (January – June 2015: 4.9%), mainly supported by electrical and electronics (E&E) and resource-based products subsectors. The construction sector expanded further by 8.4% (January – June 2015: 7.6%) underpinned by higher activity in the civil engineering and residential segments. Meanwhile, the mining sector grew at a moderate pace of 1.4% (January – June 2015: 7.8%) on account of lower output of crude oil. In contrast, the agriculture sector declined 6% (January – June 2015: 0.3%) due to lower output of crude palm oil (CPO) and rubber.

Fiscal Operations

The Government remains committed to maintaining the fiscal deficit at 3.1% of GDP in 2016. The 2016 Budget Recalibration was a pre-emptive measure in response to the significant decline in government revenue following the steady drop in oil price. The oil price hit an all-year low of USD26.39 per barrel in January 2016. The recalibration exercise was necessary to ensure that the Government's fiscal target remains on track. The recalibration focused on optimisation and reprioritisation of operating and development expenditures to ensure that the Government's financial position remains intact without impacting the growth target. Various revenue enhancement measures were also introduced to generate additional income to cushion the loss of revenue. These include optimising revenue from the redistribution and bidding process of telecommunication spectrum, enhancing foreign workers levy, relaxing the income tax penalty and reducing tax leakages at duty-free islands. Also, the recalibrated budget emphasised on strategic measures to boost exports, attract investment and stimulate tourism in efforts to generate higher economic activity. The recalibration also introduced several measures to increase household disposable income, especially the low-income group.

The Fiscal Policy Committee (FPC) plays a vital role in determining the Medium-Term Fiscal Framework (MTFF). In efforts to strengthen the institutional capacity of fiscal management, the FPC during its second meeting in May 2016 established the Fiscal Risk and Contingent Liability Technical Committee. The committee comprises representatives from Ministry of Finance (MOF), Economic Planning Unit (EPU), Public Private Partnership Unit of the Prime Minister's Department and Bank Negara Malaysia (BNM). The committee is responsible for evaluating the Government's fiscal risks and contingent liabilities as well as proposing appropriate measures.

Monetary and Financial Developments

The monetary policy stance remains consistent towards achieving price stability and sustainable growth. Financial intermediation activities continue to be well-supported by sound financial institutions and ample liquidity. Effective 1 February 2016, BNM reduced the Statutory Reserve Requirement (SRR) from 4.00% to 3.50% to ensure sufficient liquidity in the domestic financial system. The Overnight Policy Rate (OPR) was also reduced from 3.25% to 3.00% on 13 July 2016 to ensure the economy continues to grow on a steady path. In the first eight months of 2016, inflation rose 2.3% compared with the corresponding period last year, led by an increase in prices of food and non-alcoholic beverages, housing, water, electricity, gas and other fuels as well as alcoholic beverages and tobacco. During the same period, the ringgit advanced against most major and regional currencies, amid monetary easing measures in major economies and improvement in global crude oil prices.

In 2015 the Malaysian capital market was the fourth-largest in the region in terms of percentage of GDP. As at end-July 2016, the capital market has grown to RM2.8 trillion with the Islamic Capital Market accounting for 60.7%. On 20 April 2016, the Government successfully issued its fifth US dollar-denominated global sovereign sukuk amounting to USD1.5 billion. The underlying assets of the sukuk comprised 100% non-physical assets, representing a breakthrough in the development of innovative products in Islamic financial market. Malaysia retained its position as the leader in global sukuk, accounting for 53.4% or USD180 billion of the global sukuk outstanding, as at end-June 2016.

Update on the 2016 Budget

The 2016 Budget with the theme "Prospering the Rakyat" prioritised five main strategies, namely strengthening economic resilience; increasing productivity, innovation and green technology; empowering human capital; advancing bumiputera agenda; and easing the cost of living of the rakyat. A sum of RM265.2 billion was allocated for the year with RM215.2 billion (81.1%) for operating expenditure (OE) and RM50 billion (18.9%) for development expenditure (DE). However, in response to the significant drop in crude oil prices which adversely affected total revenue collection, the expenditure envelope was revised downwards by RM13.1 billion to RM252.1 billion. Of this, RM207.1 billion (82.2%) was allocated for OE and RM45 billion (17.8%) for DE.

First Priority: Strengthening Economic Resilience

Given the nation's degree of openness, it is imperative for the economy to withstand the impact of external shocks. In this respect, the 2016 Budget introduced five measures to strengthen the country's economic resilience. The measures include boosting domestic investment; invigorating capital market; energising small and medium enterprises (SMEs); improving infrastructure; as well as promoting and strengthening economic activity.

Measure 1: Boosting Domestic Investment

Several new projects were introduced in the 2016 Budget to boost domestic investment. Among the projects were the Malaysia Vision Valley (MVV), KLIA Aeropolis, Kedah Rubber City and Palm Oil Jetty. The MVV is a public private partnership (PPP) project covering an area of 152,530 hectares from Nilai to Port Dickson. As at end-August 2016, the Comprehensive Development Plan for the project was finalised, while the Master Concept Plan is being prepared. The project is expected to commence in October 2016 and will be completed by 2020. Another project is the KLIA Aeropolis covering 526.1 hectares in Sepang, Selangor. The Master Plan review commenced on 13 March 2016, and the study was completed in September 2016.

Kedah Rubber City is a flagship project to create a world-class integrated city. Located at Ladang Bukit Ketapang, Kuala Nerang, Kedah, this project will focus on developing core rubber industries producing high value-add downstream products from both natural and synthetic rubber. A sum of RM320 million was allocated in 2016 for the project and as at end-August 2016, a sum of RM60.5 million was expended. The project is expected to be completed by 2021. The Palm Oil Jetty project in Sandakan, Sabah involves an allocation of RM20 million. The jetty will facilitate exports and imports of palm oil-related products. Construction works are expected to commence in November 2016 and will be completed by September 2018.

Khazanah Nasional Berhad will invest RM6.7 billion in nine high-impact domestic projects in sectors such as healthcare, education, tourism as well as communication software and infrastructure. Healthcare projects include new hospitals and extension of existing hospitals under IHH Healthcare Berhad in Medini Iskandar, Kuala Lumpur, Klang, Melaka and Kota Kinabalu as well as a new inpatient rehabilitation hospital in Klang Valley. Meanwhile, tourism projects are the Desaru Coast Destination Resort which is expected to be launched by the end of 2016 and the development of Dataran Muzium and Tugu Park in Kuala Lumpur. In addition, RM90 million will be invested in Iskandar Malaysia to attract RM2.2 billion additional private investment in the Business Process Outsourcing subsector by 2020. Khazanah has also established a new Tourism Venture Fund of RM50 million for qualified tourism entrepreneurs in subsectors of eco-tourism, cultural and heritage tourism as well as Sonneratia Capital, a RM50 million co-investment fund, to finance the production of local content for export markets.

Other ongoing projects under the previous budget include the Petronas Pengerang Integrated Complex (PIC) and Samalaju Industrial Park in Sarawak. The PIC will house oil refineries, naphtha crackers, petrochemical plants as well as a liquefied natural gas (LNG) import terminal and a regasification plant. RM28.4 billion was allocated for the project in 2016 and as at end-August, a sum of RM13.6 billion was utilised. On completion in 2019, PIC has a planned capacity to produce 300,000 barrels of refined petroleum products per day and three million tonnes of ethylene, propylene, C4 and C5 olefins per year. Upon completion, the project is expected to create 4,000 employments.

Samalaju Industrial Park (SIP) covering an area of 8,000 hectares in Sarawak is being developed with facilities and utilities like deep sea port, reliable power supply, coastal trunk road and sewerage treatment plant. As at end-August 2016, RM1.7 billion was expended on these projects and the SIP is expected to be completed by 2018.The SIP focuses on new energy-intensive industries and other downstream activities. Since 2009, the SIP has attracted a total of RM70 billion investment and created more than 50,000 jobs.

Measure 2: Invigorating Capital Market

Towards invigorating the capital market, the Government announced incentives in the form of tax deduction on issuance costs of Sustainable and Responsible Investments (SRI) Sukuk and 20% stamp duty exemption on Shariah-compliant loan instruments to finance the purchase of houses. The tax deduction on the issuance of SRI Sukuk is effective from the year of assessment 2016 to a year of assessment 2020. Meanwhile, the 20% stamp duty exemption is effective for housing financing instruments executed on or after 1 January 2016 but not later than 31 December 2017.

Measure 3: Energising Small and Medium Enterprises

Towards energising SMEs, the Shariah-Compliance SME Financing Scheme (SSFS) was established in 2012 to provide financial assistance to Malaysian SMEs. In the 2016 Budget, an additional RM1 billion was allocated for the SSFS. The application period for the assistance was extended to 31 December 2017 with the Government subsidising 2% of the financing profit rate. Since its inception until July 2016, a total of 1,175 SMEs have applied for the scheme and financing amounting to RM2.2 billion was disbursed. At the same time, rebates amounting to RM47.3 million were paid to 822 eligible SMEs.

A total of RM71.3 million was allocated in the 2016 Budget for the implementation of High Impact Programmes (HIPs) under the SME Masterplan. These among others include the Technology Commercialisation Platform whereby a total of 110 SMEs were selected, of which ten companies have commercialised their products. At the same time, the bottom 40% households (B40) group have also benefitted from the Inclusive Innovation Programme. Since its inception in 2015, Malaysian Innovation Foundation has engaged 55 communities, vetted through 430 innovations and approved 16 projects.

In addition, the Go-Export Programme has benefitted 127 companies with export sales of RM30.3 million generated. Meanwhile, the Entrepreneur Acceleration Scheme under SME Bank was launched in March 2016 with an allocation of RM20 million to provide financing to eligible SMEs to further develop their business, accelerate growth and innovation. Currently, SME Bank is engaging with participants to understand their business challenges.

The SME Technology Transformation Fund was launched in March 2016 with an allocation of RM200 million to SME Bank to provide soft loans at 4% interest. The loans are to facilitate SMEs, to enhance their technologies, improve process efficiency and cost management as well as penetrate the export market. Other programmes to assist SMEs are the Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM). Both programmes were continued in 2016 with an allocation of RM18 million. TUKAR modernise traditional retail stores, while ATOM transforms the automotive service and repair workshops. As at end-August 2016, a total of 2,277 shops were modernised under TUKAR, and 806 workshops were transformed under ATOM.

As an additional measure under the 2016 Recalibrated Budget, the Government announced that development financial institutions (DFIs) and Government-owned venture capital funds would increase their funds by RM6 billion for SMEs and start-up companies. As at end-August 2016, EXIM Bank has approved RM478.3 million as banking loans and RM1.7 billion in insurance coverage to SMEs. MAVCAP through GOBI MAVCAP ASEAN Superseed Fund, LP with a fund size of RM60 million will invest in early stage private equity and equity-related instruments in information technology and media telecommunication in the Association of Southeast Asian Nations (ASEAN). As at end-August 2016, seven investee companies with an investment size of RM12 million have benefitted from the fund. At the same time, Cradle Fund Sdn Bhd (Cradle) continues the Cradle Investment Programme Catalyst and the Cradle Investment Programme 500 to facilitate the transformation of innovative technology-based ideas into commercially viable business and to help start-up companies with technology-based products or services to obtain financing. As at end-August 2016, Cradle Fund disbursed grants totalling RM89.2 million for both programmes and RM1.1 million of equity funding to 794 entrepreneurs.

Measure 4: Improving Infrastructure

The Government continues to improve transportation infrastructure, including highways, rail and airports. To reduce traffic congestion in Kuala Lumpur, work on Jalan Tun Razak Traffic Dispersal Project commenced in September 2016. At the same time, construction works on Damansara – Shah Alam Elevated Expressway and Sungai Besi – Ulu Klang Elevated Expressway commenced in August 2016 and will be completed by 2020. The projects are implemented through a PPP.

The Mass Rapid Transit (MRT) and Light Rail Transit (LRT) are among the biggest projects in the nation's history. The first phase of MRT Sungai Buloh – Kajang Line (MRT Line 1 SBK), from Sungai Buloh to Semantan is expected to start operations by December 2016. The remaining alignment from Semantan to Kajang is on schedule and will be operational by July 2017. The MRT Line 1 SBK will serve as a corridor for a population of more than one million. Construction works on the second MRT line, the Sungai Buloh – Serdang – Putrajaya Line (MRT Line 2 SSP) commenced in the second quarter of 2016. The first phase of the MRT Line 2 SSP, from Sungai Buloh to Kampung Batu is expected to start operations in the second quarter of 2021. The remaining alignment from Kampung Batu to Putrajaya Sentral will be operational in the second quarter of 2022. The MRT Line 2 SSP will serve as a corridor for a population of around two million. Meanwhile, the Ampang and Kelana Jaya LRT Line extension projects were completed and operational in June 2016. Work on the 36 kilometre (km) LRT3 or LRT Bandar Utama – Klang Line is expected to commence by end 2016 and be operational by 2020.

The Kuala Lumpur – Singapore High-Speed Rail (HSR) is an alternative mode of public transport connecting seven major cities and towns in Malaysia to Singapore. The Memorandum of Understanding between Singapore and Malaysia was signed on 19 July 2016. The stations that have been identified are Bandar Malaysia, Putrajaya, Seremban, Ayer Keroh, Muar, Batu Pahat, Iskandar Puteri and will traverse across Straits of Johor to Jurong East, Singapore. The distance of HSR is approximately 350 km and is expected to commence operations by 2026.

Efforts are also underway to upgrade infrastructure and facilities at various airports. Earthworks on Mukah Airport in Sarawak were completed in September 2016. Phase 2 of the project which involves the construction of a new terminal, runway and other related facilities is in pre-construction stage and is expected to be launched in February 2017. Similarly, upgrading of Sultan Ismail Petra Airport in Kota Bharu is in the pre-construction stage. Meanwhile, a feasibility study for the extension of the runway at Batu Berendam Airport in Melaka commenced in August 2016 and will be completed by November 2016.

Infrastructure development in rural areas will be accelerated. In this regard, as at end-August 2016, a sum of RM564.2 million was expended to build and upgrade 301 km of rural roads nationwide. At the same time, RM200 million was allocated for the upgrading of roads and drainage system in Federal Land Development Authority (FELDA) settlements. As at end-August 2016, FELDA has committed a sum of RM151.6 million for the building of 866.1 km of roads in the settlement. Another RM742 million was allocated for the Rural Electrification Project. As at end-August 2016, a sum of RM418.7 million was expended on this project, benefitting 17,730 residents. Another RM308.9 million was allocated for the Rural Water Supply Project. As at end-August 2016, a sum of RM184.8 million was expended, benefitting 11,105 rural residents.

In efforts to intensify development in Sabah and Sarawak, the Pan Borneo Highway from Teluk Melano to Miri in Sarawak which covers a total of 1,089 km is ongoing, and as at end-August 2016, a total of 270 km was completed. In Sabah, construction work on the 1,236 km highway from Sindumin to Tamparuli, Tuaran to Kudat and Ranau to Tawau is in progress. As at end-August 2016, a total 117 km was completed.

The Government has allocated RM1.2 billion for various projects and programmes to improve telecommunication infrastructure. These include the Suburban Broadband (SUBB) project which increased the coverage and speed of broadband capacity at suburban areas up to 20 megabits per second (Mbps). As at end-August 2016, a total of 147,286 ports were installed nationwide. Another initiative to improve broadband quality is the Fibre Optic Network Expansion. As at end-August 2016, a total of 432 km of fibre optic backhaul network was upgraded nationwide. A total of 13,402 ports were installed under Rural Broadband (RBB) to provide fixed coverage with speed up to 4 Mbps at selected locations. In addition, 1Malaysia People's Cable System (SKR1M) initiative which involves the installation of submarine fibre optic cables, the construction of Submarine Cable Landing Centres (SCLC) and other related works to connect Peninsular Malaysia, Sabah and Sarawak began in 2014 and is expected to be completed by 2017.

Measure 5: Promoting and Strengthening Economic Activity

The tourism industry is one of the key drivers of economic growth. Towards energising the industry, various programmes were implemented, including Malaysia Inbound Tourism Association (MITA) Tourism Fair 2016 and Malaysian Association of Tour and Travel Agents (MATTA) Fair 2016. As at end-August 2016, a total of RM8.4 million was expended on these programmes. Another initiative to attract tourists is the online visa application system which was implemented on 1 March 2016 at the cost of RM600,000. Currently, the electronic visa (e-Visa) is available for nationals of Bangladesh, China, Hong Kong, India, Indonesia, Myanmar, Nepal, Pakistan and Taiwan. As at end-August 2016, a total of 113,930 e-Visa applications were processed. The Government is targeting to attract 30.5 million tourists in 2016 and as at end-June 2016, a total of 13 million tourists have visited Malaysia.

The Government will continue to ensure adequate and affordable food supply while creating employment and generating income for the rakyat. In this regard, various high-impact programmes such as fruit and vegetable cultivation as well as cage fish farming were implemented in Lahad Datu, Sabah; Tasik Temenggor, Perak; and Kota Tinggi, Johor. Targeted production for these programmes is 67,307 metric tonne and creation of 2,038 new jobs by the year 2020 compared with its current production of 8,493 metric tonne and employment of 466 people. As at end-August 2016, a sum of RM37.3 million was spent on these programmes.

The upgrading of drainage and irrigation in the Integrated Agricultural Development Areas (IADAs) is to ensure sufficient water supply for paddy as well as protect agriculture areas against coastal floods. It comprises several programmes including modernisation of irrigation system for paddy, development of Water Source Programme and flood mitigation programmes in seven existing agriculture areas as well as four new IADAs in Pekan and Rompin, Pahang; Kota Belud, Sabah; and Batang Lupar, Sarawak. As at end-August 2016, RM114.7 million was spent on these programmes. At the same time, the Government continues to provide subsidies totalling RM70 million for agricultural inputs, including fertilisers and pesticides to increase hill paddy production as well as improve the income of farmers in Sabah and Sarawak. The incentive covers an area of 71,000 hectares of which 60,000 hectares are in Sarawak and 11,000 hectares in Sabah. As at end-August 2016, RM17.6 million was expended benefitting 16,154 farmers.

The Government is committed to improving and strengthen the nation's export promotion programmes. In this regard, the Malaysia Promotion Programme, Services Export Fund and Market Development Grant were introduced in the 2016 Budget with a launching fund of RM80 million. Malaysia Promotion Programme promotes Malaysian manufactured goods, services, tourism and investment under one roof and is currently available in Shanghai, London and Melbourne. Meanwhile, Services Export Fund provides reimbursable grants and soft loans to service providers expanding and venturing into international markets. As at end-August 2016, a total of RM19.1 million was disbursed to 47 service providers.

To accelerate the capacity of SMEs and Mid-Tier Companies (MTCs) to export goods and services, particularly export ready companies venturing into new products and new markets, the Government continues with several programmes, including the Go-Export Programme as well as Mid-Tier Companies Development Programme. As at end-August 2016, a total of RM24.3 million was disbursed to stakeholders. Furthermore, to enable Malaysian companies to penetrate international markets where compliance to international standards is a prerequisite, incentive for the establishment of Independent Conformity Assessment Body (ICAB) was announced in the budget. ICAB offers independent conformity assessment services on conformance to international specifications or safety standards. The guideline is available from the Malaysian Investment Development Authority's (MIDA) website from 13 May 2016.

In the 2016 Budget Recalibration, the Government announced several additional measures to safeguard the wellbeing of the rakyat. In this respect, to boost household disposable income, the employees' contribution to the Employees Provident Fund (EPF) was reduced by 3% beginning March 2016 until December 2017. As at end-August 2016, 44% of EPF members have opted for this option. At the same time, to assist the middle-income households, a special tax relief of RM2,000 for individual taxpayers with a monthly income of RM8,000 or below was announced. This special tax relief provides two million taxpayers with savings up to RM475 per taxpayer.

Several measures were introduced to strengthen Government finances. To reduce leakages, effective 1 November 2016, the selling channel of cigarettes and liquor is limited to duty-free outlets licensed by the Royal Malaysian Customs Department (RMCD). Meanwhile, free duty treatment on imported vehicles in duty-free islands of Labuan, Langkawi and Tioman was tightened. Another measure to optimise revenue is through spectrum reallocation by redistribution and bidding process. In line with the Government's prudent spending initiative, the Guideline on Measures to Optimise Government Spending was issued in March 2016 on overseas travel, utilities, event management, office rental, outsourcing and personnel management.

Second Priority: Increasing Productivity, Innovation and Green Technology

Productivity increased during the Tenth Malaysia Plan (10MP) but lags behind many advanced economies. In the next four years, productivity is targeted to grow 3.7%. In this respect, three measures were introduced, namely accelerating innovation and entrepreneurship; leveraging advancements in technology; and inculcating green technology.

Measure 1: Accelerating Innovation and Entrepreneurship

The Ministry of Science, Technology and Innovation (MOSTI) was allocated RM1.3 billion to make the nation a competitive technology hub in the region. As at end-August 2016, a sum of RM37.3 million was expended on various programmes, including the Human Capital Development Programme in Science, Technology and Innovation (STI). In addition, the Commercialisation of eDirectory which provides information on research, development and commercialisation was introduced. Meanwhile, the Scientific Committee on Antarctic Research (SCAR) 2016 with the theme "Antarctica in the Global Earth System: From the Poles to the Tropics" was successfully held from 20 to 30 August 2016.

To spur commercialisation of research and development (R&D) products by local research institutions, the Malaysian Innovation Agency (AIM) through the Strategic Investments in Innovative Companies Programme has committed investment amounting to RM276.7 million in 11 companies, across multiples of National Key Economic Areas (NKEAs). In 2016, an additional RM50 million was allocated to AIM, and as at end-August 2016, RM32 million was committed for investment in five companies. Another RM200 million was allocated by Malaysia Debt Ventures Berhad (MDV) for the Funding Scheme for Technology and Innovation Acceleration to create regional champions. As at end-August 2016, a sum of RM30 million was earmarked for financing to four companies.

In efforts to make Malaysia a leading regional entrepreneurship hub, an allocation of RM35 million was made to Malaysian Global Innovation and Creativity Centre (MaGIC). In this respect, several programmes, including ASEAN Centre of Entrepreneurship (ACE), StartUp Exchange Programme, MaGIC Accelerator Programme, StartupDB and MaGIC Central were implemented. ACE is a one-stop service platform for South-east Asian start-ups for networking across the region. As at end-August 2016, ACE has established links with ASEAN and non-ASEAN partners including Rehoboth Business Incubator in the Republic of Korea as well as the ASEAN Entrepreneur Foundation in Hong Kong. ACE will also be implementing the StartUp Exchange Programme with its regional partners Global Entrepreneurship Program Indonesia in Indonesia and c-ASEAN in Thailand. This programme will commence beginning third quarter 2016.

At the same time, MaGIC Academy and Social Enterprise Academy has upskilled and trained more than 13,000 entrepreneurs through more than 180 workshops and boot camps held across six cities in the country. Also, an exclusive partnership was established with Stanford University where 90 entrepreneurs have gone through the e@Stanford and Stanford Go2Market programmes to validate and strengthen their businesses. Furthermore, 12 Malaysian university lecturers were sent to Stanford University as part of the Stanford Technology Ventures Program to improve education in entrepreneurship. Besides that, MaGIC Accelerator Programme provides access to participants to mentorship and workshops from industry experts and seasoned entrepreneurs. As at end-August 2016, MaGIC Accelerator Programme admitted 150 start-ups from more than 20 countries. MaGIC also offers a co-working space in MaGIC Cyberjaya campus that houses more than 150 entrepreneurs to enhance the entrepreneurship ecosystem across Malaysia and is in the process of launching Borneo744, a creative entrepreneurship hub in Kuching. MaGIC has also launched StartupDB, a comprehensive database of start-up information to provide global visibility with more than 2,000 businesses registered. A comprehensive resource portal (MaGIC Central) too was set up to connect entrepreneurs to agencies. As at end-August 2016, a sum of RM29 million was expended on these programmes.

Measure 2: Leveraging Advancement in Technology

SME Bank allocated RM500 million in 2016 for the Industrialised Building System (IBS) Promotion Fund Financing Programme to promote IBS in the construction sector. The programme provides soft loans to SMEs for the purchase of fixed assets, renovation of factory and working capital. As at end-August 2016, loans totalling RM15 million was expended.

Measure 3: Inculcating Green Technology

The Government is committed to reducing the intensity of greenhouse gas emission to 40% of GDP by 2020 from the 2005 level. Among programmes under this initiative is the Electricity Mobility Action Plan including energy audit process. Energy audit and retrofit on air-conditioning system and lighting systems on Government buildings are ongoing. The total allocation for the project was RM26.1 million and as at end-August 2016, a sum of RM5.3 million was spent.

The Green Technology Financing Scheme (GTFS) was established in 2010 to accelerate the expansion of green technology industry by providing easier access to financing. Under the scheme, the Government provides 60% guarantee on loans or financing amount and a rebate of 2% on interest or profit rate charged by financial institutions. Project proponents can be users and producers of green technology and can apply for loans or finance up to RM10 million and RM50 million, respectively. Since its implementation, a total of 509 applications were processed by GreenTech Malaysia carrying a total project value of RM20.8 billion with a total Green Technology cost of RM7.8 billion. The scheme was extended until 31 December 2017. As at end-August 2016, a total of 226 projects were financed at a total cost RM2.4 billion.

Third Priority: Empowering Human Capital

Human capital is an important contributor to economic growth. Recognising its importance, the 2016 Budget introduced five measures to empower human capital. The measures are improving the quality of education; strengthening higher education; transforming technical and vocational education and training (TVET); empowering youth, community and non-government organisations (NGOs); and creating a quality workforce.

Measure 1: Improving Quality of Education

Under the Malaysian Education Blueprint 2013 – 2025, a sum of RM41.3 billion was allocated in 2016 to build 30 primary, 27 secondary and five fully residential schools; four MARA Junior Science Colleges (MRSM); as well as to provide basic facilities and infrastructure. As at end-August 2016, construction works is at the pre-execution stage. An allocation of RM500 million was also provided to national schools, national-type Chinese schools, national-type Tamil schools, religious schools, fully residential schools, national religious assisted schools, registered Sekolah Pondok and national-type Chinese secondary schools or Conforming schools for the development and maintenance of education facilities. At the same time, various programmes are in progress in pre-schools nationwide. These include the National Key Result Area (NKRA): Education-Preschool Programme which aspires to increase national pre-school enrolment rate and improve the overall quality of pre-school education. Concurrently, as at end-August 2016, a sum of RM12.9 million was expended on Pre-School Per-capita Grant, while another RM66.6 million and RM3.2 million was spent on Pre-School

Food Aid and Pre-School Curriculum Aid Programmes, respectively. These programmes have benefitted 200,699 pre-schoolers in 6,048 Government and Government-aided schools.

Several initiatives were introduced to increase proficiency in Malay and English languages including curriculum transformation, capacity building and engagement of consultants, experts and assistant teachers. As at end-August 2016, a total of 100 Fulbright English Teaching Assistants from American Universities were placed in 100 schools in eight states namely Kedah, Kelantan, Pahang, Perak, Perlis, Sabah, Sarawak and Terengganu. Towards improving the students' passing rate in the Malaysian Certificate of Education (SPM) English Paper, 170 teachers in upper secondary schools in all states are scheduled to attend the English Proficiency Enhancement in Schools Programme (PPKBIS). At the same time, the Dual Language Programme (DLP) and Highly Immersive Programme (HIP) were introduced to improve English proficiency among students. As at end-August 2016, a total of RM4.6 million was spent on the DLP involving 296 daily schools, 15 religious schools and 68 full boarding schools. After the implementation of the HIP pilot programme in 94 schools in six states, namely Negeri Sembilan, Pahang, Perak, Perlis, Sabah and Sarawak, the programme was expanded to an additional 1,106 schools nationwide in July 2016.

The RM100 schooling assistance to all students was also continued to ease the burden of schooling expenses for households with monthly income below RM3,000. As at end-August 2016, RM324.5 million was disbursed to 3.2 million students across the country. Furthermore, the supplementary food programme which initially provided meals during recess time to students from low-income families was expanded to include breakfast. As at end-August 2016, RM315.7 million was expended on this programme benefitting 547,110 students nationwide. In addition, the RM250 1Malaysia Book Voucher (BB1M) was provided to 1.2 million students in private and public higher educational institutions, including pre-university students.

Measure 2: Strengthening Higher Education

The Government continued the scholarship programmes through several ministries, namely the Public Service Department (JPA), Ministry of Education (MOE), Ministry of Higher Education (MOHE) and Ministry of Health (MOH). The programmes under JPA include the National Scholarship Programme, Special Engineering Programme, Bursary Programme, Post-Bursary Programme, Domestic Degree Programme and B40 Bursary Programme. Full scholarships were provided under the B40 Bursary Programme, while others are convertible loans. As at end-August 2016, RM684 million was expended benefitting 48,830 students. Scholarships under the MOE were provided through various programmes including the Federal Scholarship Programme, Bursary Programme and Excellent Student Programme. As at end-August 2016, a sum of RM133.1 million was disbursed benefitting 159,483 students. Under the MOHE, scholarships were provided for Bumiputera Academic Training Scheme (SLAB), Sub-Specialisation and Post-Doctoral (SKPD), My Brain Science, Sports and Commonwealth programmes. As at end-August 2016, a sum of RM62.2 million was disbursed benefitting 2,307 students. Meanwhile, scholarships by the MOH were provided mainly for medical officers and paramedic training. As at end-August 2016, RM153.5 million was disbursed to 3,822 MOH personnel and 14,884 trainee paramedic.

Measure 3: Transforming Technical and Vocational Education and Training

The Government is committed to transforming TVET to become a key area for improving the quality of employees. For this purpose, the Government allocated a sum of RM4.8 billion to 545 TVET institutions through Human Resources Development Fund (HRDF), Skills Development Fund Corporation (SDFC) and Department of Skills Development (DSD). In this respect, HRDF introduced the Recognition of Prior Experiential Learning (RPEL) in April 2016 for local employees under the B40 category. The function of RPEL is to provide recognition and endorsement to the skills and experiences of local employees based on predetermined set of criteria by the Malaysian Skills Certificate (SKM) Level 4 of the DSD. As at end-August 2016, RM515,850 was expended benefitting 100 employees. At the same time, the HRDF's Graduates Enhancement Programme for Employability (GENERATE) is specifically designed to enhance the employability of graduates. Under this programme, graduates are equipped with high-end skills, competencies and relevant experience required by industries. As at end-August 2016, RM1.7 million was expended on this programme benefitting 160 unemployed graduates.

Measure 4: Empowering Youth, Community and NGOs

The Government recognises the contribution of youth to development. To further encourage their contribution, an allocation of RM280 million was made for technical and vocational training in National Youth Skills Training Institutes (IKBN) and National Youth Advance Skills Training Institutes (IKTBN). As at end-August 2016, RM114.8 million was expended on various technical and vocational training. In addition, a sum of RM155.4 million was allocated for the preparation of athletes for the 29 SEA Games and the 9 ASEAN Para Games in Kuala Lumpur in 2017 as well as for the Podium Programme (Elite Athletes). The training programmes involve 755 athletes and 105 coaches, participating in 140 local and 478 international competitions. The Podium Programme is one of eight initiatives under the High-Performance Framework with the overall objective of achieving sporting excellence for the country. The targets of the programme include winning Malaysia's first gold medal at Tokyo Olympics in 2020, restoring top ten standing at 2018 Asian Games in Jakarta-Palembang and 2018 Commonwealth Games in Gold Coast and achieving ten top six world ranking athletes. As at end-August 2016, RM55.7 million was expended on these programmes.

The Government continues to encourage the involvement of NGOs in community development programmes under the Ministry of Women, Family and Community Development (KPWKM). The programmes are divided into eight priority areas, namely Family; Parenting; Fatherhood; Pre-Wedding; Strengthening Marriage; Teens Programme; Reproductive Health; and HIV/AIDS Prevention. As at end-August 2016, a sum of RM2.1 million was channelled to 73 NGOs.

Measure 5: Creating a Quality Workforce

To retrain retrenched workers, 30% of the HRDF was allocated for training programmes and the 1Malaysia Outplacement Centre was established in March 2016. The centre aims to provide job counselling and planning, job matching and training programmes. HRDF is currently partnering with over 40 companies in several sectors, including oil and gas (O&G), manufacturing, information technology, hospitality and retail. A total of 23 training courses were approved and as at end-August 2016, a total of 564 participants are undergoing training with HRDF registered training providers.

The Special Programme Intended for Community Enrichment (SPICE) aspires to improve the wellbeing of people in Sabah and Sarawak. Training courses offered are customised to the needs of local industries. The programme is targeted at B40 households, school leavers and potential entrepreneurs. The SPICE commenced in Sarawak on 23 April 2016 with 50 trainees, and as at end-August 2016, a total of 15 courses was conducted benefitting 4,843 participants.

The Government through its agencies will train an additional 15,000 participants under the 1Malaysia Training Scheme (SL1M). The scheme is targeted at graduates with difficulties in securing jobs. Through this programme, graduates are trained up to a period of 12 months with two months of soft-skills training and maximum ten months on-job training. At the end of the programme, graduates will be absorbed as employees in the company or assisted in securing jobs in other companies. From January to August 2016, government-linked companies (GLCs) have spent RM153 million on this programme benefitting more than 9,000 graduates.

The Women Director's Programme (WDP), which aims to increase the number of women in key decision-making positions especially in the private sector, was launched in 2012. Subsequently, the Government launched the Advanced Women's Director's Training Programme (AWDTP) in 2015 with the objective of enhancing the knowledge and skills of women leaders from the WDP. As at end-August 2016, there were 49 placements of women on the board of public listed companies from the AWDTP.

Fourth Priority: Advancing Bumiputera Agenda

In line with the Government's inclusive and sustainable growth policy, the 2016 Budget introduced several initiatives to empower the Bumiputera community, including in Sabah and Sarawak. Among the targets under this initiative are to increase Bumiputera equity ownership to at least 30% and raise the participation of Bumiputera in skilled occupation to at least 60% by 2020. In this respect, Ekuiti Nasional Berhad (EKUINAS) which was formed on 1 September 2009 has established five funds to promote equitable and sustainable Bumiputera economic participation. These include three direct investment funds and two outsourced funds. In 2016, an additional RM300 million was allocated to the fund. As at end-August 2016, the fund has a total invested capital of RM2.9 billion.

An allocation of RM150 million was also made to Pelaburan Hartanah Berhad (PHB) to increase equity ownership and strengthen Bumiputera entrepreneurship and business activities. PHB is the sponsor of Amanah Hartanah Bumiputera (AHB), the trust fund that seeks to invest primarily in real estates in Malaysia. Currently, AHB receives a steady stream of rental income from 15 commercial properties. In 2016, the fund size was further increased from 2 billion to 3.5 billion units. In addition, the minimum investment entry has now been reduced from RM500 to RM100 per person, while the maximum investment was raised from RM400,000 to RM500,000 per person. As at end-August 2016, PHB has invested all of the RM150 million allocated.

Bumiputera Agenda Steering Unit (TERAJU) was allocated RM150 million to implement various programmes, including High-Performing Bumiputera Companies (TERAS), National Entrepreneurship Institute (INSKEN) and Bumiputera Entrepreneurs Startup Scheme (SUPERB). The main objective of TERAS is to facilitate the expansion of high-performing Bumiputera companies. As at end-August 2016, RM3.7 billion was raised from several banks for TERAS financing facilities. Of this, RM1.3 billion was extended to 302 companies. TERAJU also collaborates with relevant agencies, including entrepreneur development agencies, incubators authorities and financial institutions to encourage participation of Bumiputera in Sabah and Sarawak through fund provision and capacity development programmes. In 2016, TERAJU provided financial assistance amounting to RM336.2 million to 6,476 new and existing Bumiputera entrepreneurs for the procurement of equipment, packaging machines and working capital. Meanwhile, the INSKEN which was established in 2014 is the centre for entrepreneurship development and capacity building programmes dedicated to Bumiputera-owned SMEs. INSKEN conducted several training programmes in collaboration with various agencies and in 2016 is focusing on entrepreneurship training programmes to TVET graduates. As at end-August 2016, a total of 142 programmes were conducted benefitting 11,684 participants. Meanwhile, the SUPERB programme is an innovative business idea competition held over a quarterly period where winners receive grants of up to RM500,000. The programme is targeted at 200 start-ups involving participants aged between 18 and 40 years old. As at end-August 2016, a total of 111 winners from eight competitions were awarded grants amounting to RM50.5 million.

Another RM250 million was allocated to Perbadanan Usahawan Nasional Berhad (PUNB) to empower Bumiputera community through entrepreneurial programmes. The allocation of RM175 million in 2016 was distributed to seven programmes, namely SME Scheme, PROSPER Retail, PROSPER Wholesale, PROSPER Young Entrepreneur, PROSPER Property, Apprentice Graduate and Training Development. The SME Scheme aims to increase the number of Bumiputera SMEs in manufacturing and services sectors, while the Prosper programmes are aimed at developing and assisting Bumiputera entrepreneurs to enhance their competitiveness and participation in the wholesale and retail trade subsectors. The Apprentice Graduate Programme aspires to produce dynamic and resilient young budding entrepreneurs in the same subsectors, while training development is aimed at enhancing entrepreneurial knowledge and skills in developing and expanding businesses. As at end-August 2016, a sum of RM142.1 million was expended on these programmes.

Through Bumiputera Education Steering Foundation, the Government introduced a multitier Bumiputera education scheme to assist students from poor households. Under the first tier, Peneraju Tunas Azam places students with poor academic performance at centralised hostels to attend primary and secondary schools. As at end-August 2016, 323 students have benefitted from this programme. Peneraju Tunas Geliga, the second tier, places students with average academic results in Primary School Achievement Test (UPSR) in MRSM, boarding schools or daily schools. Enrolment in this programme commenced in September 2016. The third tier is Peneraju Tunas Potensi for students with average academic performance in SPM/Malaysian Higher School Certificate (STPM). They are provided with opportunities to pursue tertiary education at local and foreign universities. The programme commenced in March 2016 with 177 students. The total allocation for the three schemes was RM51.4 million, and as at end-August 2016, a total of RM23.3 million was expended. Meanwhile, Peneraju Skil is a non-academic scheme for youths, including school drop-outs to be trained in industries such as O&G, business services and tourism. The total allocation for this programme is RM50.3 million and as at end-August 2016, a sum of RM10.3 million was expended benefitting 993 students. At the same time, Peneraju Profesional is targeted at upskilling talent through professional certification in high impact industries such as business and financial services. The total allocation for the programme was RM31.8 million and as at end-August 2016, a sum of RM20.3 million was expended benefitting 743 participants.

To further strengthen the Bumiputera community, the Government through Majlis Amanah Rakyat (MARA) continues to provide education sponsorship to 72,000 Bumiputera students for tertiary education at local and overseas colleges and universities. For this purpose, a total of RM1.8 billion was allocated, and as at end-August 2016, RM1.7 billion was spent.

Fifth Priority: Easing Cost of Living of the Rakyat

Rising cost of living which refers to the increasing expenditure in maintaining a certain standard of living is a concern, particularly among the low-and-middle-income groups. Towards elevating living standards and enhancing the wellbeing of the rakyat, four measures were introduced in the budget. The four measures are increasing the quality of life of B40 households; providing affordable houses; providing quality healthcare services, and ensuring the welfare of the less fortunate and persons with disabilities (PWDs).

Measure 1: Increasing Quality of Life of B40 Households

The Government continues to focus on increasing the quality of life of the B40 households. In this regard, RM500 million was allocated to National Entrepreneurial Group Economic Fund (TEKUN Nasional), of which RM450 million was for Bumiputera entrepreneurs, while RM50 million was for Malaysian Indian entrepreneurs. TEKUN Nasional provides various microfinance facilities, including TEKUN Niaga, TEMAN TEKUN and Tekun I-Factoring to small-scale Bumiputera entrepreneurs. As at end-August 2016, TEKUN Nasional disbursed RM464 million to 36,462 entrepreneurs. At the same time, to assist Malaysian Indian entrepreneurs, TEKUN Nasional established the Indian Entrepreneur Development Scheme in 2008 and as at end-August 2016, a total of RM39.5 million was disbursed to 1,785 entrepreneurs.

1Malaysia Hawkers and Petty Traders Foundation (YPPKM) was established in February 2015 to manage and coordinate soft loans to Chinese hawkers and petty traders. Effective April 2016, the maximum loan amount was increased from RM15,000 to RM20,000. As at end-August 2016, YPPKM disbursed RM16 million benefitting 1,100 hawkers and petty traders. Towards improving the livelihood of the rakyat, particularly in 613 New Villages, a total of RM58.8 million was allocated for 764 projects including construction and upgrading of roads and drainage system, community halls, basketball courts, recreational parks and gateway arches. Apart from infrastructure projects, the Government also allocated RM8.7 million to help poor New Village residents in upgrading their houses. A total of 1,019 households has benefitted from this programme. In addition, soft loans amounting to RM20 million were approved to New Village residents to finance business activities and upgrade houses.

In efforts to enhance the well-being of the Orang Asli community, an allocation of RM300 million was provided for poverty eradication and welfare programmes. In this regard as at end-August 2016, a sum of RM75.7 million was spent on improving basic infrastructure, including construction of roads, schools, houses, one-stop centres, public amenities as well as the provision of electricity supply. Other initiatives include supplementary food assistance, pocket money and school transport fares, which benefitted 41,657 students. Meanwhile, under the Orang Asli Economic Development Project, 579.2 hectares of rubber and oil palm plantations as well as cash crops were developed in Orang Asli settlements in Kelantan, Melaka, Negeri Sembilan, Pahang, Perak and Selangor.

To mitigate the rising cost of living of low-income households, effective 1 July 2016, the national minimum wage was increased from RM900 to RM1,000 per month for Peninsular Malaysia and from RM800 to RM920 for Sabah, Sarawak and Labuan. The measure has benefitted 1.7 million employees nationwide.

1Malaysia People's Aid (BR1M) programme is another initiative which provides assistance to low-income households, including single individuals. In 2016, the Government increased the BR1M payment from RM1,000 to RM1,050 for all participants in the e-Kasih database. BR1M was also increased from RM950 to RM1,000 for households with a monthly income of RM3,000 and below. For households earning between RM3,001 and RM4,000 BR1M was increased from RM750 to RM800, while for single individuals aged 21 and above it was increased from RM350 to RM400. The disbursement of BR1M was made in four stages: on 28 January, 28 April, 15 June and 28 September 2016. As at end-September 2016, a total of RM5.4 billion was disbursed to 4.2 million households and 3.1 million single individuals. Meanwhile, the Family Bereavement Scheme introduced in 2015 which entitles the next of kin of BR1M recipients to receive RM1,000 was continued in 2016, benefiting 38,620 individuals.

To enable B40 households to earn a higher income, RM50 million was allocated for the Career and Skills Training Programme as well as the Income Increment Programme. The Career and Skills Training Programme provides assistance to the targeted group to enrol in skills training courses. Meanwhile, the Income Increment Programme provides financial assistance for participants to carry out economic projects in various sectors. As at end-August 2016, RM34.8 million was expended on these programmes benefitting 4,493 participants. In tandem with efforts to raise the income of B40 households through participation in the digital economy, the Government expanded the eRezeki and eUsahawan programmes nationwide. As at end-August 2016, more than 13,404 individuals were involved in the programme. Consequently, the income of 4,756 participants has increased with additional monthly sales of RM2 million for TVET students and RM13.3 million for micro-entrepreneurs. Furthermore, Capacity and Capability Enhancement Programme for Special Group is another initiative to improve the skills of the B40 households, particularly single mothers, orphans, high-risk youth and school drop-outs. In this respect, a sum of RM65 million was allocated for this programme. As at end-August 2016, RM61.2 million was distributed to related agencies and NGOs for the implementation of the programme.

In recognition of the contribution of civil servants in developing the nation as well as enabling them to adjust to the rising cost of living, several measures were introduced to improve the remuneration system in the public sector. Effective 1 July 2016, civil servants were provided with a salary adjustment equivalent to one annual increment according to grade. Other initiatives include improvements to schemes of service as well as setting a minimum starting monthly salary of RM1,200 and a minimum rate at RM950 for pensioners with at least 25 years of service. At the same time, contract of service officers with at least 15 years of service was offered permanent post. In aggregate, the Government spent RM1.6 billion on these initiatives which benefitted 1.6 million civil servants, 252 schemes of service, 50,000 pensioners and 10,000 contract officers. In addition, in January 2016, the Government provided a special cash assistance of RM500 to civil servants and a special payment of RM250 to pensioners, with a total expenditure of RM1 billion.

The Government has implemented several measures towards improving the income and productivity of smallholders and rubber tappers. The measures include Rubber Replanting Area Development Programme, Productivity Improvement and Smallholders Development Programme, Sequential Rubber and Oil Palm Aid Replanting Programme, Rubber to Other Crops Replanting Programme, Oil Palm Replanting Scheme and New Oil Palm Planting Scheme. As at end-August 2016, a sum of RM665.6 million was disbursed to 133,982 smallholders. To mitigate the impact of low rubber prices on income, the Government has improved the rubber production incentive (IPG). The activation price of IPG for SMR20 was raised to RM5.50 per/kg (f.o.b) or RM2.20 per/kg for farm-gate. Through this initiative, smallholders with an average holding size of 2.2 hectares and annual production of 3,000 kg/hectares of cuplumps currently earn a monthly income of RM1,210 compared with RM1,100 previously.

Towards improving the income of paddy farmers, the Government has implemented a paddy grading initiative as well as improved the Paddy Price Subsidy Scheme (SSHP). Paddy grading is based on standardisation of paddy prices at RM1,200 per metric tonne. To complement this initiative, the Government raised the rate of SSHP from RM248.10 to RM300 for every metric tonne. This initiative has enabled farmers to earn an additional income of RM296.50 per season. As at end-August 2016, a total of 197,789 farmers has benefitted from these initiatives. As an extra measure, the 2016 Budget Recalibration provided paddy farmers with an additional cash of RM50 for every metric tonne of cleaned paddy as an input incentive for paddy production. As at end-August 2016, a total of RM66 million was disbursed to 104,610 farmers. In addition, several new measures were introduced in the recalibrated budget to mitigate the rising cost of living. These include the establishment of MyFarm Outlets that offers agricultural produce such as fish, poultry, meat, vegetables and fruits at prices between 5% and 20% below market prices. The first outlet commenced operations in Presint 7, Putrajaya in March 2016. The outlet was expanded to two other locations, namely Rural Transformation Centre (RTC) Kelantan and Manjung, Perak. As at end-August 2016, a total of RM2.4 million was disbursed for this programme.

Measure 2: Providing Affordable Houses

Over the last few years, various house ownership programmes were introduced to enable the rakyat to own affordable houses. Among the initiatives is the 1Malaysia People's Housing (PR1MA) programme which provides affordable houses for households with a monthly income between RM2,500 and RM10,000. As at end-August 2016, a total of 96,254 units were under construction and 10,000 units are expected to be completed by the end of 2016. Furthermore, to ease the burden of first-time house buyers, the Government launched the First House Deposit Financing Scheme (MyDeposit) on 7 April 2016. The scheme provides up to 10% or a maximum of RM30,000, whichever is lower for down payment and is only available for houses priced at RM500,000 and below. As at end-August 2016, 1,624 buyers benefitted from this programme. Furthermore, under the 2016 Budget Recalibration, houses priced RM300,000 and below are only available to first-time house buyers. In efforts to encourage the construction of such houses, effective 2016, the 3% deposit on total development cost with the Ministry of Urban Wellbeing, Housing and Local Government (KPKT) was exempted.

For the low-income group, the 1Malaysia People-Friendly Houses (RMR1M) was introduced to enable land owners to build houses on their land. Since the commencement of the programme in 2002, a total of 36,316 houses were completed, and as at end-August 2016, a total of 1,626 houses were under construction mostly in Johor (325), Terengganu (299), Perak (209) and Kedah (132). At the same time, to resolve squatters' resettlement and house ownership issues among low-income earners, the Government implemented the People's Housing Programme (PPR) nationwide. In 2016, the Government aims to build 13,130 apartment units and 5,542 units of terrace houses for squatters and low-income households with a monthly income of less than RM2,500. Since the programme started in 2002, a total of 80,252 houses were completed and as at end-August 2016, 8,928 unit apartments and 2,452 units of terrace houses were under construction. Meanwhile, 4,202 unit apartments and 3,090 units of terrace houses are in the planning stage.

The Government remains committed to resolving abandoned housing projects, particularly low and medium-cost private housing projects. The Government embarked on this initiative in 2009 and as at end-August 2016, 182 or 80% of the total abandoned housing projects were resolved, benefitting 32,641 buyers. Meanwhile, a total of 20 projects involving 4,610 buyers are in various stages of construction, while another two projects with an allocation of RM20 million are being revived.

To provide a conducive and comfortable living environment for residents in low- and medium-cost houses, the Government continues to allocate funds to 1Malaysia Maintenance Fund (TP1M) for maintenance and refurbishment of public houses and Housing Maintenance Programme for private houses. As at end-August 2016, a sum of RM45 million was utilised to fund 88 projects benefitting strata residents, while RM21.6 million was disbursed for maintenance and refurbishment of 62 strata residential areas.

To increase home ownership among the second generation settlers of FELDA, Federal Land Consolidation and Rehabilitation Authority (FELCRA) and Rubber Industry Smallholders Development Authority (RISDA), the Government continues to implement various initiatives. These include the FELDA Next Generation Housing Project (PGBF), FELCRA Second Generation Housing Project and RISDA Second Generation Housing Project. As at end-August 2016, a total of 8,470 houses under PGBF are under construction mainly in Wilayah Kuantan, Pahang (1,904); Wilayah Raja Alias, Negeri Sembilan (1,683); Wilayah Johor Bahru, Johor (1,499) and Wilayah Jengka, Pahang (1,270). With regard to FELCRA, as at end-August 2016, a sum of RM4 million was spent on the development of 1,183 houses mainly in Tembeling Tengah, Pahang (230), Tembangau, Pahang (216), Bukit Sedanan, Melaka (106) and Lekir, Perak (102). Meanwhile, RISDA Second Generation Housing Project was launched in August 2016, and the construction of 100 houses commenced in September 2016.

To enable the Orang Asli community to live in comfortable houses, the Government has introduced the Housing Assistance Programme (PBR). Under the programme, 512 units of houses will be built in Orang Asli settlements. Construction work in Kelantan, Negeri Sembilan, Pahang, Perak and Selangor commenced in May 2016 and is expected to be completed by November 2016. Besides the PBR programme for Orang Asli, the Government also provides financial and management assistance through the same programme for rural poor and hardcore poor households. The initiative focuses on building or repairing houses for senior citizens, infirm and disabled, and single mothers. As at end-August 2016, RM123.3 million was disbursed benefitting 5,972 participants.

For civil servants, the 1Malaysia Civil Servants Housing (PPA1M) project was introduced in 2013. As at end-August 2016, a total of 18,162 units were under construction, and 499 units have obtained the Certificate of Completion and Compliance. Meanwhile, 17,665 units were granted the Development Order approval and 6,045 units the Building Plan approval. The Government targets to build 100,000 units by 2018 with prices ranging between RM90,000 and RM300,000.

Info Box 1

Affordable Housing

Introduction

Over the years, the demand for houses remains strong underpinned by rising number of households, which increased to 7.4 million in 2015 (2010: 6.6 million) and a high proportion of young working age population[1] (25.7%). In addition, rapid urbanisation and economic opportunities have attracted the low- and middle-income groups to move into cities, thus creating higher demand for affordable houses, especially in the urban areas. Since affordability is a function of income and prices, many low-income households, especially from the urban areas, are unable to own houses due to low income[2] coupled with high house prices. Between 2009 and 2014, average house prices rose at a compounded annual growth rate (CAGR) of 7.9%, exceeding the growth in average household income of 7.3% during the same period (BNM, 2015).

The imbalanced growth between house prices and income has affected the affordability of houses, especially among the low- and middle-income earners. According to the International Housing Affordability Survey an affordable housing market is one with a median multiple[3] of 3.0 and below. With the median multiple at 4.4, on aggregate houses in Malaysia are considered as seriously unaffordable, while across the key states there has been an uneven pace of growth between house prices and income as shown below:

TABLE 1

Housing Affordability

	Median Multiple Affordability (2014)	Affordability Rating
Kuala Lumpur	5.4	5.1 & above Severely unaffordable
Pulau Pinang	5.2	
Johor	4.2	4.1 to 5.0 Seriously unaffordable
Malaysia	**4.4**	
Selangor	4.0	3.1 to 4.0 Moderately unaffordable
Melaka	3.0	3.0 & below Affordable

Source: Bank Negara Malaysia 2015 and Khazanah Research Institute 2015.

Measures to Address the Increasing Demand for Affordable Housing

Towards addressing the increasing demand for affordable housing, the Government has implemented the National Housing Policy and established the National Housing Council. The objectives are to provide a high quality and environmentally sustainable housing scheme, streamlining the delivery system and cultivating a vibrant housing industry.

The Government has embarked on several measures to address the mismatch between demand and supply in the housing market. On the demand side, the Government has introduced several measures to provide better access to house financing and subsidy schemes such as My First Home, MyDeposit, My Home, Youth Home, Housing Credit Guarantee and withdrawal from Account 2 of Employees Provident Fund (EPF). On the supply side, the Government has taken initiatives to increase the provision of affordable housing through various programmes.

As of December 2015, a total of 183,755 units (17%) of affordable houses has been completed, while 214,011 units (19.3%) were under construction and 309,571 units (27.8%) still at the planning stage.

[1] 24 – 39 years old.
[2] Malaysian's median monthly income is RM4,585, while B40's median monthly income is RM2,629 (HIS, 2014).
[3] Median multiple is also known as the house-price-to-income ratio, defined as the ratio of median prices for the housing market to the median gross annual household income. This means that to own a house priced at RM540,000, household income should be at least RM15,000 a month.

TABLE 2

Affordable Housing Programmes

Projects	Description	Implementing Agencies
People's Housing Programme (PPR)	Provide houses ranging between RM30,000 and RM35,000 in Peninsular Malaysia and RM42,000 in Sabah and Sarawak for low-income earners and squatters with income below RM2,500.	Ministry of Urban Wellbeing, Housing and Local Government
Housing Assistance Programme (PBR)	Provide financial and management assistance to build new or repair existing houses. The allocation for a new house is from RM21,000 to RM50,000, while to repair dilapidated or damaged house is up to RM12,000. The target groups are the hardcore poor registered with the e-Kasih system.	Ministry of Rural and Regional Development
1Malaysia People-Friendly Houses (RMR1M)	Enable low-income individuals (with monthly income between RM750 and RM3,000) to build houses priced at RM65,000 (Peninsular Malaysia) and RM79,000 (Sabah and Sarawak) on their land with the Government subsidising RM20,000.	Syarikat Perumahan Negara Berhad
Federal Territories Affordable Housing (RUMAWIP)	Provide and develop affordable houses below RM300,000 per unit for households with income below RM15,000 and below RM10,000 for single inviduals in Federal Territories. The projects are managed by local authorities namely Kuala Lumpur City Hall, Perbadanan Putrajaya and Perbadanan Labuan.	Ministry of Federal Territories
People's Dream Houses	Develop affordable houses with prices not exceeding RM350,000. Households with income of RM10,000 and below are among those eligible to apply.	Syarikat Perumahan Negara Berhad
1Malaysia People's Housing (PR1MA)	Plan, develop and construct affordable houses ranging between RM100,000 and RM400,000 in key urban centres. Targeted buyers are households with income between RM2,500 and RM10,000.	Perbadanan PR1MA Malaysia
1Malaysia Civil Servants Housing (PPA1M)	Provide affordable houses priced 20% to 30% lower than the market value for civil servants with monthly income of less than RM10,000.	PPA1M Unit, Prime Minister's Department

Meanwhile, to deter speculative activities, the Government has abolished the Developer Interest Bearing Scheme (DIBS), which causes house prices to be higher as developers absorb the loan interest of house buyers during the construction period and subsequently factor it in the house prices. Instead, the Government encourages build-then-sell (BTS) concept where the financing loans do not commence until properties are completed. In this regard, home buyers are not liable for any losses should property projects be abandoned during the construction period since the loans are not disbursed. The Government has also introduced measures such as the 10-year moratorium period to all PR1MA and PPA1M homeowners, which restraint homeowners from selling, renting out or transferring ownership of their homes. In addition, the Government has revised upwards the Real Property Gains Tax (RPGT) as a tax chargeable on the profit gained from the disposal of a property less than 5-years and imposed maximum loan-to-value (LTV) ratio of 70% for the third house financing to curb speculative activities. To strengthen the management and delivery of affordable housing, several measures were introduced, such as establishing National Housing Data Bank (TEDUH) under the National Housing Department (JPN) as an integrated database on housing, accelerating the adoption of industrialised building system (IBS) and increasing efficiency through consolidation of small companies and firms.

Conclusion

There are several challenges in ensuring sufficient affordable houses for the rakyat following overwhelming demand, scarcity of suitable land and escalation of construction material prices. Nevertheless, the Government will continue to provide affordable housing by introducing strategies that benefit home buyers as well as stakeholders, which include developers and financial institutions.

Measure 3: Providing Quality Healthcare Services

The Government remains committed to providing quality healthcare services and facilities to the rakyat. In this regard, RM1.6 billion was allocated for the construction of health facilities throughout the country, including the Kuala Lumpur Women and Children's Hospital, new hospitals in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya and redevelopment of Hospital Kajang. Concurrently, the Government is also committed to building and upgrading rural clinics, health clinics, dental clinics as well as quarters nationwide. Seven new 1Malaysia clinics commenced operations in RTC Sungai Rambai and Batu Berendam in Melaka, Urban Transformation Centre (UTC) Sungai Petani in Kedah, UTC Miri and UTC Sibu in Sarawak, PPR Muhibbah in Kuala Lumpur and RTC Simpang Ampat in Pulau Pinang. As at end-August 2016, there were 145 hospitals, 1,806 rural clinics, 966 health clinics, 56 dental clinics and 341 1Malaysia Clinics in operation. A sum of RM5.7 billion was spent on medicines, consumables, vaccines and reagents for all Government hospitals and clinics nationwide.

Measure 4: Ensuring Welfare of the Less Fortunate and Persons with Disabilities

Several welfare programmes were continued to enhance the wellbeing of the poor, children, elderly and PWDs. The monthly allowance of RM350 for employed PWDs was disbursed to 75,999 recipients, while the RM200 assistance for unemployed PWDs was made to 50,892 recipients. In addition, the assistance of RM300 for the care of bedridden PWDs was made to 25,629 recipients. As at end-August 2016, these assistances amounted to RM391.9 million. At the same time, a sum of RM94.1 million was allocated to the Community Based Rehabilitation (CBR) Centres. The allocation facilitates PWDs to maximise their physical and mental abilities, gain access to regular services and opportunities to integrate with society. As at end-August 2016, a total of 21,204 PWDs in 527 CBR nationwide have benefitted from this programme. Under Children Assistance Scheme, a monthly assistance of RM100 to RM450 was provided to children from low-income families, while poor senior citizens received a sum of RM300 under Senior Citizens Assistance Scheme. As at end-August 2016, the Government has spent RM550.1 million on these schemes, benefitting 78,887 households and 138,029 poor senior citizens.

Economic Management – 2017

Economic management in 2017 will continue to focus on promoting growth and strengthening the country's economic fundamentals to enable the nation to benefit from improving global growth and trade. In this respect, through a process of extensive engagement, the Government has identified several issues that are of concern to the rakyat and business community. At the same time, there is also a need to unshackle the economy from various structural issues which may hamper Malaysia's long-term growth potential. From a broader perspective, these issues are also opportunities for the Government to strengthen domestic demand as the engine of economic growth and unleash the true potential of the domestic economy.

Issues and Challenges

External Environment

The global economy is expected to improve in 2017, mainly attributed to better growth in the United States (US) as well as stronger performance in the emerging market and developing economies. Meanwhile, world trade is expected to expand in line with the improvement in global demand. However, downside risks remain including the possibility of a sharper slowdown in China, volatility in the global financial markets, continued low commodity prices, prolonged low global inflation as well as escalating geopolitical tensions.

Domestic Economy

Private consumption is the biggest component of domestic demand contributing 3.1 percentage points to real GDP growth during the first half of 2016. At the same time, household debt as at end-June 2016 stood at 88.9% of GDP. The risk stemming from elevated household indebtedness is that private consumption could come under pressure at a time when there is a need for domestic demand to drive growth in the face of moderate external demand. In 2015, private investment was at RM198.8 billion. The positive trend continued in the first six months of 2016, with private investment reaching RM114.8 billion. Despite the achievement, there are several challenges in attracting investment. These include rising global competition for foreign direct investment (FDI) as well as the lack of innovation capabilities, business sophistication and low labour productivity in the domestic economy. Concerning productivity, Malaysia still lags behind many high-income countries. Reports suggest that Malaysia's labour productivity was 32% that of the US and 56% that of Republic of Korea. Malaysia's ability to increase its labour productivity depends on how well it can obtain greater efficiency from internal resources, particularly human capital, innovation and operational efficiency.

The export sector has made considerable progress in expanding the product and market mix. Although Malaysia's involvement in the Global Value Chains (GVCs) is relatively high, domestic value-added in high-tech exports is low. Furthermore, exports of services have not reached its full potential. At the same time, rising import bills, particularly for consumption and capital goods may lead to the narrowing of trade balance.

On the supply side, the services sector remains the key driver of the economy and leading generator of job opportunities. In 2015, the sector accounted for 53.5% of GDP, 11.7% of country's total exports and provided 8.3 million jobs. The sector is being geared to account for 56.5% of GDP, 11% of exports and provide 9.6 million jobs by 2020. However, several important issues including the low adoption of information and communications technology (ICT), particularly among SMEs have to be addressed to achieve these targets. On the manufacturing sector, the majority of manufacturers continue to face stiff competition from low-cost producers and inefficiencies associated with low-skilled and cheap labour. At the same time, the biggest challenge for the high-end manufacturing subsector is to produce new, complex and skill-intensive products.

Human Capital

Human capital is an important enabler of economic growth. However, about 72.6% of the workforce is SPM level or below qualified. Over the years, various programmes have been implemented to accelerate human capital development. A key initiative in this respect is TVET. However, TVET programmes are fragmented, lack specialisation and no unified rating system for performance. Furthermore, most of the trainers at various TVET centres lack the necessary skill and industry experience. Other issues concerning human capital include dependency on foreign workers, shortages of skilled workers, youth unemployment and low female labour participation rate.

Wellbeing of the Rakyat

The Government continues to pursue the inclusive growth policy by providing equitable access and opportunities for all Malaysians to partake in economic development. Consequently, the rakyat today enjoy a higher quality of life through better access to education, healthcare, infrastructure and social services. To further enhance the wellbeing of the rakyat, the Government will intensify its efforts in addressing several issues and challenges.

Although the living costs in major Malaysian cities are low compared with other main cities in the region, the main concern of the rakyat, particularly the B40 is the rising cost of living. On the one hand, the increase in prices of essential goods and sluggish growth in income are the main challenges for the lower income group. On the other hand, global economic uncertainties and low labour productivity weight in pressure on producers in the form of higher production costs and less revenue. Furthermore, profiteering by irresponsible firms along the supply chain adds unnecessary cost to consumers. Together, these factors contribute to the rising cost of living.

Affordable housing is another major concern of the rakyat. There are several underlying factors driving the mismatch between demand and supply of affordable houses in Malaysia. These include the rising number of households, rapid urbanisation, speculative activities as well as poor management resulting in delays and abandoned projects. If the mismatch is left unattended, it may lead to deeper imbalances in the property market, with negative spillovers to other sectors of the economy.

Although Malaysia has achieved a commendable status in the provision of health services and facilities, changes in circumstances pose new challenges in improving the services to the rakyat. Particularly, the increasing prevalence of non-communicable disease (NCD), ageing population, ineffective and inefficient private spending with implications on financial protection are issues of concern. Also, tax collection is the main source of finance of the health system. With low oil prices, the Government has lost a significant amount of oil-related revenue. The share of oil-related revenue to total revenue declined from 35.8% in 2011 to 21.5% in 2015 and is expected to drop further to 14.6% in 2016. While the timely introduction of the Goods and Services Tax (GST) in April 2015 is expected to generate RM38.5 billion in 2016 and cushion the drop in oil-related revenue of RM30.9 billion, the provision of a world-class healthcare service and facilities require a new business model to ensure fiscal sustainability.

Strategic Initiatives - 2017 Budget

The wellbeing of the rakyat is the main priority of the 2017 Budget while sustaining economic growth. Given the Government's inclusive and sustainable growth policy, the budget will unveil measures to stimulate economic activities to generate benefits for the rakyat as well as the economy as a whole. Furthermore, efforts will be intensified to strengthen human capital, the knowledge and skills embodied in individuals, to enable the rakyat to contribute and share in the rewards of economic growth and prosperity. At the same time, efforts in improving public service delivery will remain a priority. Collectively these initiatives will strengthen the nation's economic fundamentals and competitiveness bringing further benefits to the rakyat.

Rakyat First

The ultimate objective of the Government is to enhance the living standards of the rakyat. In this regard, the 2017 Budget adopts a two-pronged approach by introducing measures to increase income and manage the rising cost of living. From the income perspective, the budget will focus on raising the disposable income of the rakyat, particularly the B40 and middle 40% households (M40). The BR1M introduced in 2012 will be continued while allocations will also be made for upskilling, reskilling and entrepreneurship training. About mitigating the rising cost of living, the Government will focus on rakyat-centric programmes. In this respect, the existing subsidy programmes including for paddy farmers and fishermen as well as for cooking oil and toll rates will be continued. In response to the overwhelming request by the rakyat to make houses affordable, the existing business models of housing programmes will be enhanced to eliminate inefficiencies in the housing subsector. At the same time, funds will also be allocated for the maintenance of public and private houses. Allocations will also be made for the provision of quality healthcare services to the rakyat. In aggregate, these measures will elevate the living standards of the rakyat.

Info Box 2

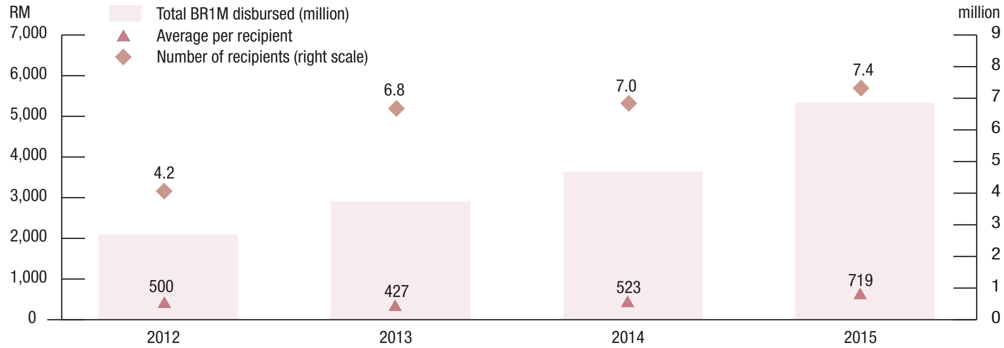
The Impact of 1Malaysia People's Aid Programme on Private Consumption

Introduction

1Malaysia People's Aid (BR1M) was introduced in 2012. BR1M is a form of conditional cash transfer as cash payment is provided to those households and individuals earning monthly income below RM3,000 and RM2,000, respectively. In 2014, BR1M assistance was extended to households with a monthly income between RM3,000 and RM4,000. The purpose of BR1M is to ease the burden of rising cost of living by offering assistance to households that fall into the low-income group. The direct impact of BR1M is the increase in household disposable income, which in turn, creates spillover effect on private consumption and output of industries that produce consumer goods.

CHART 1

Total BR1M Disbursed and Number of Recipients 2012 – 2015



Source: Ministry of Finance, Malaysia.

DIAGRAM 1

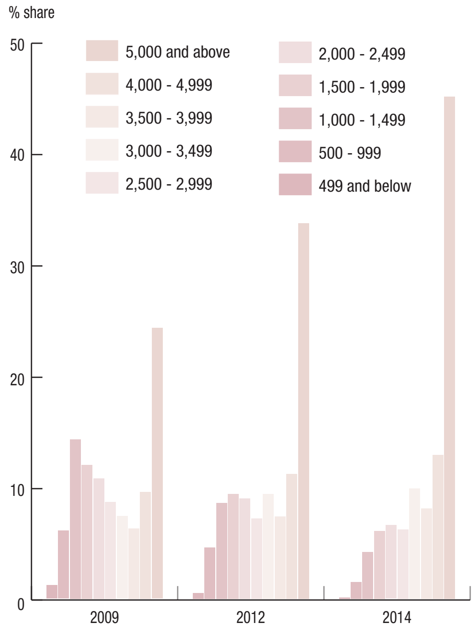
Spillover Effect of BR1M on the Economy

Impact on Household Income

The implementation of BR1M has partly contributed to the reduction in the share of household with low-income. In 2014, the share of households earning below RM3,000 nearly halved to 24.3% (2009: 52.7%), while households earning between RM3,000 and RM5,000 has increased significantly to 30.6% (2009: 23.1%). With the rising household income, incidence of poverty had been reduced to 0.6 in 2014, while Gini Coefficient improved further to 0.401 during the same period, indicating the narrowing of income inequality (2009: 3.8; 0.441). This is in line with the nation's socio-economic development agenda to enhance inclusivity.

CHART 2

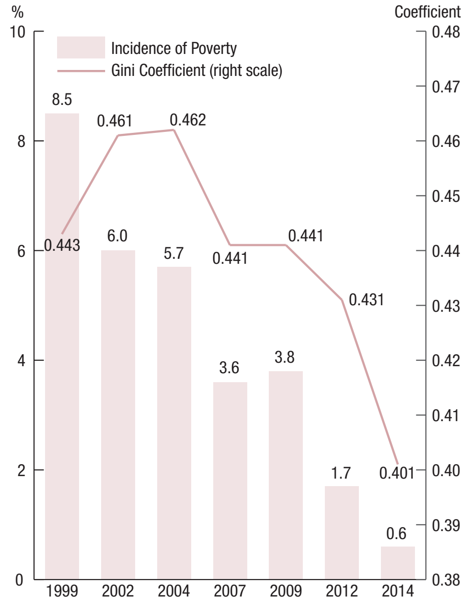
Household by Income Share (RM)



Source: Economic Planning Unit, Malaysia.

CHART 3

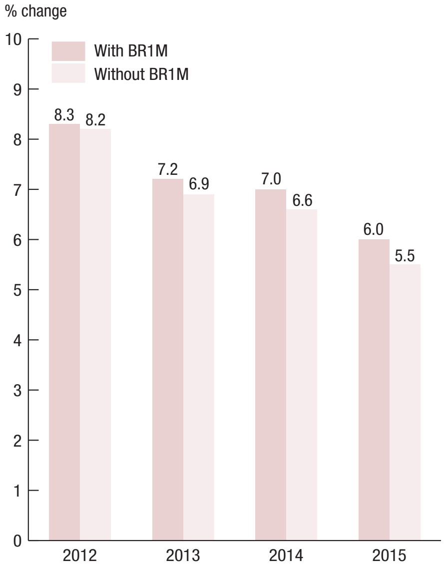
Incidence of Poverty and Gini Coefficient



Source: Economic Planning Unit, Malaysia.

CHART 4

The Impact of BR1M on Private Consumption Growth
(at constant prices)



Source: Ministry of Finance, Malaysia estimates.

Impact on Private Consumption

Household disposable income is the main determinant of private consumption, accounting for an average of 67.4% of growth in private consumption. The increase in earnings of the lower-income households, will likely contribute to the growth in private consumption as they have a higher marginal propensity to consume. A study by Bank Negara Malaysia[1], indicates that households earning less than RM1,000 per month will, on average, spend RM0.81 out of RM1.00 of additional income, which is much higher compared to the RM0.18 for households earning more than RM10,000 per month. As such, between 2012 and 2015 BR1M has resulted in an increase in private consumption by 7.1% on average compared with 6.8% without the cash transfer.

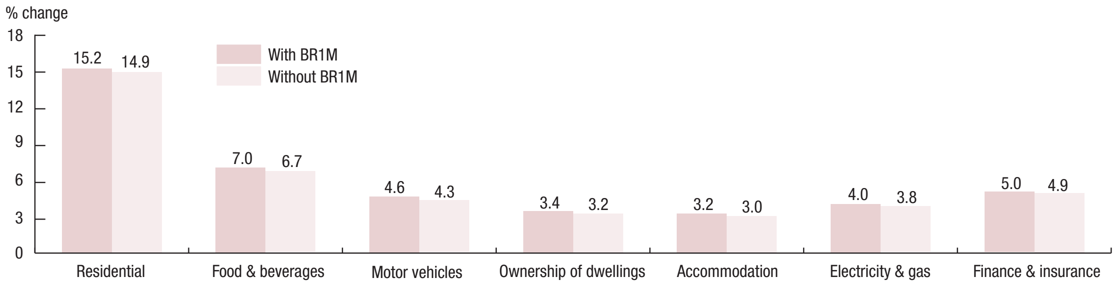
Impact on Consumption-Related Industries

BR1M also indirectly promotes the growth of industries that produce consumer goods. This is evident with the increase in output of consumer-related industries such as residential, food & beverages, motor vehicles, ownership of dwellings, accommodation, electricity & gas as well as finance & insurance.

[1] Bank Negara Malaysia, 2013.

CHART 5

Impact of BR1M on Output
(average increase, 2012 – 2015)



Source: Ministry of Finance, Malaysia estimates.

Conclusion

BR1M cash transfers were intended to mitigate the impact of high cost of living on bottom 40% households (B40). The immediate impact of BR1M is reflected by an increase in household disposable income of the B40, which in turn translates into higher purchase of essential items such as food and housing. This can indirectly spur the domestic economic activities through an increase in production of consumer goods.

Accelerating Economic Growth

The role of domestic demand, in the context of moderate global growth, is critical to sustaining the momentum of economic growth. In this respect, measures to strengthen the nation's economic fundamentals will feature prominently in the budget as an avenue to further boost investor sentiment and attract domestic and foreign direct investment. At the same time, allocations will be made to accelerate investment, provide infrastructure and review corridor development plans. Also, measures will be introduced to invigorate the capital market as well as empower exporters to scale up their operations by looking beyond traditional markets. On the supply side, the focus of the budget will be in areas with high multiplier effects such as tourism, digital economy, SMEs, entrepreneurship as well as R&D.

Empowering Human Capital

The Government will continue to allocate funds to the education sector to equip students from preschool to tertiary levels, including TVET with the necessary knowledge and skills to enable them to excel in their chosen profession. In this regard, the focus of the 2017 Budget will be on bringing better outcomes by strengthening the teaching profession and school performance, improving education facilities and transforming TVET to meet industry demand. At the same time, to leverage the social and economic benefits of the Connected Economy, the Government will allocate funds for coding programmes across schools and institutions nationwide. Concerning TVET, the Government will intensify collaboration with industry to increase students' intake, improve the quality of programmes and institutions as well as improve the overall branding and profile of TVET. To enhance the employability of graduates, the Budget will place greater emphasis on improving soft and entrepreneurial skills such as problem-solving, analytical thinking, innovation and creativity, as well as English language proficiency.

Strengthening Inclusive Development

The Government will continue to focus on enhancing inclusiveness to ensure all citizens enjoy the fruits of growth and development regardless of gender, ethnicity, socio-economic status and geographic location. Accordingly, the Budget will allocate funds for the construction of new roads and upgrading of existing roads including ex-logging roads, particularly in Sabah and Sarawak as well as Orang Asli settlements in Peninsular Malaysia. Funds will also be provided to expand the rural water supply and rural electricity supply programmes. At the same time, to enable the safe, efficient and fast flow of people and goods within Malaysia, the Budget will allocate funds for the provision of sufficient and affordable access to transportation. In tandem with the Government's efforts in creating safer living spaces and environments for the rakyat, funds will be allocated to enable enforcement agencies, private players and the public to enhance crime prevention programmes. At the same time, to encourage Malaysians to adopt a healthy and active lifestyle, the Budget will allocate funds for various sporting activities nationwide. Also, the Budget will focus on strengthening the nation's resilience against climate change and natural disasters, promoting renewable energy and encouraging the use of energy-efficient vehicles.

Feature Article 1

The Connected Economy

Introduction

The advancement in information and communications technology (ICT) as well as the availability of a wide range of digital devices have allowed for greater participation in the economy. In particular, the internet, one of the platforms of virtual connectivity is the most powerful mechanism that can perfectly match buyers and sellers. Its economic impact is highly significant driven by growing number of users, high speed and ubiquitous access.

Globally, there were 3.4 billion internet users in 2015 and the number is expected to increase to 9 billion in the next 10 years. Meanwhile, the number of connected devices on the Internet of Things (IoT) is expected to reach 200 billion by 2020. The number of mobile phone subscriptions worldwide has reached 93% of the world's population. In Malaysia there are about 21 million internet users while the mobile penetration rate has reached 143.8% of the population. The large subscription base is supported by higher demand for connected devices such as smartphones and tablets.

What is Connected Economy?

The rise of applications such as Facebook, Airbnb and Uber has created virtual communities larger than some nations. As at end-June 2016, there were 1.7 billion Facebook users, surpassing the 1.4 billion population in China and 1.3 billion in India. The data flows from these applications are important to trade, innovation, entrepreneurship, economic growth and prosperity. The benefits of these data flows will spur innovation in fields such as artificial intelligence, robotics, IoT, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, material science, energy storage and quantum computing. These digital forces shape the Connected Economy, defined as the economic value creation spurred by the hyper-connectivity of people, businesses and government.

Digital Innovation and Disruption

The expansion of digital technologies has transformed business landscapes. Mobile devices, social networking, Cloud Computing and other technologies are transforming the relationship between businesses and customers. Advancement in technology facilitates businesses, with the internet being the most powerful source of information and marketing tool. Furthermore, businesses are forced to innovate due to the challenges from technology, globalisation and urbanisation among emerging economies. The competition between brands is not only confined to products or service quality but mainly on the customer interface. Attracting future customers would depend on the ability of businesses to predict, adapt and service their needs. Disruptive innovations such as Uber, Skype, Spotify and Alibaba are appearing across the globe, making traditional business models irrelevant.

Government Initiatives

The Government recognises the importance of digital technologies as an enabler to achieve higher growth. In this regard, the Government is stepping up efforts to ensure that public agencies and businesses embrace and capitalise on the digital disruptions. Emphasis is given on four areas namely, IoT, Big Data and Analytics (BDA), Cloud Computing and eCommerce as well as niche areas where Malaysia has comparative advantage.

Broadband access and adoption are crucial to seize the full benefits of the Connected Economy. Broadband will enable greater use of ICT, which in turn will boost productivity and raise a nation's overall competitiveness. The Government is aware that affordable and fast broadband access can provide new opportunities for businesses, especially small and medium enterprises (SMEs) and the rakyat. Towards achieving this objective, the National Broadband Initiative (NBI) was launched in 2010 to ensure accessible and affordable high speed internet for the rakyat, focusing on rural areas, schools and low-income groups. As of 2015, 77.3% of households in Malaysia have access to broadband services.

To further strengthen rural connectivity, the following initiatives have been implemented:

- 1Malaysia Internet Centres, which provide internet access to underserved communities. Each centre is equipped with broadband connection and computers to allow rural communities to enjoy the benefits of internet. In 2015, there were 657 such centres throughout Malaysia;

- Mini Community Broadband Centres, a project under Universal Service Provision (USP) located within 120 Information Department offices all over the country; and

- eRezeki and eUsahawan programmes to uplift the bottom 40% households (B40) community and micro-entrepreneurs.

The most critical component to remain competitive in the Connected Economy is to build a sustainable pool of talent. Realising this, Malaysia is investing heavily in building, attracting and retaining talent through various initiatives such as:

- Digital.Tech@Schools, a curriculum embedded in public schools to teach digital competency skills;

- Digital Maker Movement in schools to encourage digital innovation at an early age;

- enhancement of analytics curriculum in institutions of higher learning in collaboration with industry, which targets to produce 2,000 data scientists and 20,000 data professionals by 2020;

- upskilling programmes in targeted technology areas in collaboration with globally renowned providers such as Coursera and Johns Hopkins University; and

- Multimedia Super Corridor (MSC) Malaysia programme, facilitating the hiring of foreign expatriates to attract global talents to be based in Malaysia.

These talents will naturally evolve from digital consumers to digital producers, hence contributing towards economic growth driven by digital technology.

The Way Forward

Various initiatives have been undertaken to transform the nation into a Connected Economy. However, Malaysia is still facing key challenges such as low technology adoption among SMEs; digital disparity between urban and rural areas as well as between Peninsular Malaysia and Sabah and Sarawak; and high cost and slow internet speed. Amid the rapid advances in digital technology, rakyat must leverage the social and economic benefits from the Connected Economy to improve their wellbeing and simplify their daily transactions. The Government will constantly formulate and refine policies as well as regulations to meet challenges and opportunities brought about by the Connected Economy. In addition, focus will also be given on shifting the society from being content consumers to content producers to generate more income.

Improving Public Service Delivery

Under the inclusive and sustainable growth policy, a strong fiscal position is a prerequisite for the Government to elevate the quality of life of the rakyat. The Government is committed to staying on its fiscal consolidation mode and achieve a near-balanced budget by 2020. In this regard, aligning operating and development expenditure to revenue is key to the 2017 and consecutive budgets. Accordingly, the budget will intensify efforts to enhance revenue collection and optimise expenditure. Revenue enhancement initiatives will include increasing the tax buoyancy by promoting high value-add activities and generating high-income jobs, broadening the tax base, and reducing leakages and tax evasion. At the same time, outlays will be targeted to meet priority objectives and expenditures efficiently executed. Furthermore, to ensure higher returns on investment, development expenditure will be limited to rakyat-centric and high-impact projects. These measures will be carried out without compromising on the quantity and quality of services rendered by the Government. Concurrently, initiatives will be introduced to provide seamless delivery of services as well as achieve increased customer satisfaction.

Prospects for 2017

Given the nation's strong economic fundamentals coupled with the 2017 Budget strategies and programmes, the economy is expected to expand between 4% and 5% in 2017. The expansion translates into gross national income (GNI) per capita growth of 5% from RM37,812 to RM39,699. On the demand side, growth will emanate from domestic demand, particularly private consumption and private investment expenditures which are expected to expand 6.3% and 5.8%, respectively. In tandem with higher investment activities, the savings-investment gap is expected to narrow to 0.5% – 1.5% of GNI (2016: 1% – 1.5%). Inflation will remain manageable, while the economy continues to operate under full employment. All sectors of the economy are expected to contribute to growth, with the services and manufacturing sectors spearheading the expansion. With the Government's commitment to enhancing revenue and rein in expenditure, the fiscal deficit is expected to improve further to 3% of GDP. These developments will strengthen the economic fundamentals and augurs well for a nation in transition from an upper-middle to a high-income and advanced nation.