PREFACE

MINISTER OF FINANCE
MALAYSIA

A Revered Malaysia, A Dynamic Economy, A Prosperous Society

On 9 May 2018, the Pakatan Harapan coalition made history by winning the 14th General Election and forming the new Government. The new administration is focused on raising the economic wellbeing of the people, restoring fiscal health and implementing various institutional reforms to improve accountability and transparency. Such structural changes will ensure sustainable growth, the stability of the capital market and the monetary sector, and will also transform Malaysia from a global kleptocracy into a rules-based democracy.

The objective of enhancing the people's economic wellbeing would only be meaningful if their purchasing power can be increased and their living costs contained. One major people-centric initiative to achieve that goal was the zero-rating of Goods and Services Tax (GST) from June to August 2018. The GST was later abolished on 1 September 2018 and it has since been replaced with the less burdensome Sales Tax and Service Tax (SST).

While the Federal Government's revenue will be reduced by RM17 billion in 2018 as a result, it has helped to lessen the tax burden, reduce price rises and give the money back to the people. Following the zerorisation of GST, the inflation rate dropped for three consecutive months and hit 0.2% year-on-year by August 2018, among the lowest monthly rates since 2009. This has spurred private consumption growth.

To optimise public expenditure and resources, the Government has restructured all of its ministries and agencies. Furthermore, the Government will run on the principle of Competency, Accountability and Transparency (CAT) to safeguard national interests and future-proof the public sector from abuses and corruption. These initiatives, together with various institutional reforms like the separation of roles between the Prime Minister and Finance Minister, will restore public confidence in the Government.

At the global stage, despite headwinds due to trade wars, volatile commodity prices, financial market uncertainties and geopolitical tensions, the IMF forecasts global GDP growth to expand by 3.7% in 2018 and 2019. Amid the trade wars, Malaysia should position ourselves as a safe haven for foreign companies in line with ASEAN as a Zone of Peace, Freedom and Neutrality (ZOPFAN).

The Malaysian economy is projected to grow by 4.9% next year, with services and manufacturing driving the expansion. This is an acceleration from the anticipated 4.8% growth in 2018. The expansion of the services sector will be supported by rising demand in the wholesale & retail trade; finance & insurance; information & communication; as well as food & beverages and accommodation subsectors. Meanwhile, the manufacturing sector will be driven by export-oriented industries, particularly with the rising global demand for E&E products. Agriculture and mining sectoral growth will improve after a weak 2018 due to supply shocks and inclement weather, while the construction sector will grow at a moderate pace.

On the demand side, private sector expenditure will remain as the key driver of growth following record high consumer and business sentiments. Private consumption expansion will take place on the back of stable employment and wage growth, while private investment growth will be supported by a conducive business environment. Public sector expenditure will be optimised without affecting public service delivery. Despite heightening trade tensions, the external sector is expected to expand, albeit at a slower pace.

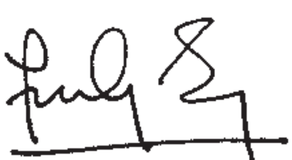
The Government recognises that as a small and open economy, Malaysia would benefit immensely from greater global integration. Malaysia will continue to adopt an open trade and investment regime to promote high-quality economic growth, attract strategic investment, create skilled jobs and embrace Industrial Revolution 4.0. Malaysia would pursue greater trade integration with ASEAN and other groupings as a way to diversify our trading partners and explore new markets.

The Government will also pursue sustainable development goals by accelerating the adoption of green technology while protecting and conserving natural resources for the benefit of future generations.

In pursuing sustainable growth that can help Malaysia escape the middle-income trap, the private sector must play a leading role. The Government seeks to forge an entrepreneurial state through a 4P Partnership involving the public sector, the private sector, professionals and people. While the Government will continue to invest in education and public infrastructure, the private sector must spearhead and operate various 4P Partnership initiatives.

For Malaysia to wake up from its slumber and roar again as an Asian Tiger, there must be clarity and certainty in policymaking to create a conducive business environment that can engender confidence among the public and investors. A rules-based government focused on institutional reforms, sustainable economic growth and economic wellbeing of the people will provide clarity, certainty and confidence.

Sayangi Malaysiaku!



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