

ECONOMIC MANAGEMENT AND PROSPECTS | 1

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Overview

Malaysia's macroeconomic management in 2015 focuses on strengthening the resilience of the economy, managing the impact of external vulnerabilities and safeguarding the well-being of the rakyat. During the course of the year, there were several challenges facing the global economy. Uncertainties from the impending monetary policy normalisation in the United States (US); faster-than-expected slowdown in some emerging economies; sharp and prolonged decline in commodity prices; as well as increasing volatility in financial markets are the main near-term downside risks. Given the high degree of openness of the Malaysian economy and financial system, the nation is not entirely insulated from these global developments. Following these heightened uncertainties, the Government on 20 January and 14 September 2015 announced several proactive measures to ensure the economy remains on its growth trajectory. These measures are a testament to the Government's commitment in prioritising the interest of the rakyat as announced in the previous budget themed "Budget 2015: People Economy". In contrast to the capital economy, which emphasises large-scale public and private investment projects, the people economy focuses on wage earners, small businesses, the informal sector and the rakyat. The people economy is an integral part of the National Transformation Policy (NTP) which consolidates several innovative transformation programmes to bring about structural changes and strengthen macroeconomic foundations towards enabling the economy to achieve its vision of an advanced and high-income nation by 2020.

The Government's transformation initiatives and pre-emptive measures partly cushioned the domestic economy from the effects of weaker external demand and enabled it to record a creditable growth of 5.3% in the first half of 2015. Over the past few years, the various programmes under the NTP have strengthened public finance and developed a more diversified economic structure with domestic demand as a key driver of growth. Fiscal reforms, including subsidy and expenditure rationalisation, the implementation of the Goods and Services Tax (GST) and other revenue enhancement measures, have improved the financial position of the Government. This provides the Government greater flexibility to respond and manage challenges as well as accords fiscal space for new measures to drive the economy. On the economic structure, while the mining and commodity sectors have an important role in the economy, the services, manufacturing and construction sectors now account for more than two-thirds of the economy. Indicative of the leading role of the private sector in the economy, the share of private gross fixed capital formation (GFCF) has once again surpassed public GFCF since the introduction of the Economic Transformation Programme (ETP) in 2010. At the same time, exports have become more diversified both in terms of products and markets. Meanwhile, the strong financial and banking system continues to facilitate orderly and efficient financing of domestic economic activity.

Inflation remains benign and labour market conditions continue to be favourable. In aggregate, Malaysia's strong macroeconomic fundamentals have enabled the nation to remain on a steady growth trajectory.

With the external environment remaining volatile and uncertain, the 2016 Budget will continue to promote the people economy by strengthening the nation's economic resilience, towards the ultimate objective of prospering the nation and enhancing the well-being of the rakyat. Furthermore, being the first year of the Eleventh Malaysia Plan (11MP), the 2016 Budget will emphasise value innovation, particularly high impact at low costs and rapid execution. The various initiatives under the 2016 Budget supported by strong economic fundamentals will help the nation to weather the challenges in the external environment as well as enable the economy to register steady growth in 2016.

Performance Review – 2015

The Malaysian economy grew by 5.3% in the first half of 2015, driven by resilient domestic demand. Private sector expenditure contributed 5.3 percentage points to growth. Private investment and consumption remained robust growing by 7.5% and 7.6%, respectively. On the supply side, growth was mainly driven by the services and manufacturing sectors contributing 3 and 1.1 percentage points, respectively.

On the external front, Malaysia continues to be impacted by slower global growth and regional trade. Hence, the trade performance remained subdued during the first eight months of 2015 with exports and imports contracting by 1.4% and 2%, respectively (January – August 2014: 9.5%; 6.1%). Although weighed down by weak commodity prices, the steady demand for electrical and electronic (E&E) products saw exports of manufactured goods registering positive growth during the period. The current account posted a surplus of RM17.6 billion or 3.2% of Gross National Income (GNI) in the first half of the year (January – June 2014: RM34.5 billion; 6.6%).

With strong economic fundamentals, including resilient domestic demand, diversified sources of growth, low unemployment rate and benign inflation coupled with pro-growth fiscal and accommodative monetary policies, real GDP is projected to grow between 4.5% – 5.5% in 2015 (2014: 6%). Nominal GNI is estimated to increase by 5.5% to RM1.13 trillion with income per capita rising by 4.2% to RM36,397 (2014: 8.6%, RM1.07 trillion; 7.2%, RM34,945).

Fiscal Operations

Fiscal policy is designed to sustain the growth momentum, increase the nation's competitiveness and ensure the well-being of the rakyat, while remaining committed to strengthening the Government's fiscal position. In this

regard, the Government will continue its fiscal consolidation efforts through consistent structural reform initiatives. The reform initiatives include improvements to fiscal policy governance through the establishment of the Fiscal Policy Committee (FPC), rationalisation of subsidies and the implementation of the GST. The FPC continues to assess various issues and make decisions in ensuring fiscal sustainability. In this respect, FPC has endorsed the Medium-Term Fiscal Framework (MTFF) as a tool to formulate fiscal strategies and determine indicative multi-year expenditure ceilings over the medium term. With respect to subsidy rationalisation, the managed float fuel pricing mechanism for retail prices of petrol RON95 and diesel introduced since December 2014 has enabled the implementation of a more targeted subsidy mechanism. The GST, a major reform in the tax system, was introduced in April 2015 to diversify sources of revenue, broaden the tax base and enhance the efficiency of the tax system.

The Federal Government revenue in 2015 is expected to increase marginally by 0.8% to RM222.5 billion, amid lower collection from oil-related revenue. Similarly, total expenditure is estimated to increase moderately by 0.6% to RM260.7 billion, resulting in a budget deficit of 3.2% of GDP (2014: 3.4%). Total Federal Government gross borrowings for 2015 will amount to RM96.5 billion.

Monetary and Financial Developments

The monetary policy focuses on supporting growth of the Malaysian economy amid increasing volatility in international financial markets. The inflation rate in the first eight months of the year was lower than the corresponding period of 2014 due to lower fuel prices. The Overnight Policy Rate (OPR), unchanged at 3.25% since July 2014, remains accommodative and supportive of economic activity.

During the first eight months of 2015, the regional currencies, including the ringgit depreciated as the US dollar strengthened on improving economic activities and expectations of an interest rate hike. This has led to significant portfolio outflows from emerging and regional financial markets. Other reasons for ringgit depreciation were declining global commodity prices, yuan devaluation, narrowing trade surplus and domestic factors.

In spite of heightened volatility in global financial markets, the domestic financial system remains resilient and continues to have ample liquidity to support real sector activities. The banking system remains sound and well-capitalised with the key capital ratios well above the required regulatory minimum levels.

In the first six months of 2015, Malaysia commanded 54.9% of the global sukuk market share. With its fourth issuance of a US dollar-denominated sovereign global sukuk amounting to USD1.5 billion in April 2015, Malaysia

reinforced its position as a global leader. The established expertise in the sukuk market offers opportunities for domestic financial players and professional service firms to profile and enhance their global capabilities in providing Islamic financial advisory and services at the international level. Leveraging its role as the lead issuer in sukuk, Malaysia remains well placed to make further strides in Islamic finance.

Update on the 2015 Budget

With the theme People Economy in the 2015 Budget, the Government introduced seven strategies to develop and prosper the nation. The strategies are strengthening economic growth; enhancing fiscal governance; developing human capital and entrepreneurship; advancing Bumiputera agenda; upholding role of women; developing national youth transformation programme; and prioritising the well-being of the rakyat. In line with these strategies, RM260.7 billion was provided for the year with RM213.3 billion (81.8%) for operating expenditure (OE) and RM47.4 billion (18.2%) for development expenditure (DE). In response to uncertainties in crude oil prices, the Government revised the expenditure envelope downwards by RM13.2 billion compared with the initial allocation of RM273.9 billion announced during the 2015 Budget.

First Strategy: Strengthening Economic Growth

The Government is committed to providing a conducive and comprehensive ecosystem to accelerate economic growth. To realise this strategy, 11 measures were introduced to strengthen several strategic sectors including services, financial, manufacturing and creative industry. The strategy also covers initiatives to strengthen public and private investment, small and medium enterprises (SMEs) as well as innovation and commercialisation.

Invigorating Services Sector

To further boost the contribution of the services sector and achieve the target of 56.5% to GDP by 2020, the Government has introduced five initiatives, namely implementing the Services Sector Blueprint; setting up a RM5 billion Services Sector Guarantee Scheme (SSGS); establishing the Research Incentive Scheme for Enterprises (RISE); reintroducing the Services Export Fund (SEF); and strengthening the Franchise Development Scheme. The Services Sector Blueprint was launched on 16 March 2015 with a special committee formed to oversee the implementation of the Blueprint. Meanwhile, the SSGS was set up and as of July 2015, a total of 30 financial institutions have signed up to jointly promote the scheme. In addition, the Government has expanded the RISE, which enables local companies to hire experienced researchers to undertake research and enhance technology absorption effectively. To assist Malaysian service providers to continue expanding and venturing into international markets, the SEF was reintroduced in May 2015. The fund totalling RM300 million will be provided in the form of grants and

soft loans. The Government has also strengthened the Franchise Development Scheme which is expected to benefit 40 franchisors to venture overseas.

Strengthening Islamic Financial Market

The Government is committed to improving and strengthening the Islamic financial market. In this regard, the Investment Account Platform (IAP) was introduced with an initial start-up fund of RM150 million. The IAP is a new shariah-compliant investment platform which aims to attract participation from individual and institutional investors to invest and boost the development of SMEs. A centralised multi-bank platform has been established to operate the IAP which is currently being developed and targeted to be rolled out in January 2016.

The Government is also committed to boosting the domestic sukuk and bond market as a funding mechanism for the private and public sectors. In this regard, the Exchange Traded Bond and Sukuk (ETBS) was established to facilitate the listing and trading of sukuk and bonds. Efforts have been taken to develop both supply and demand by engaging issuers as well as educating institutional and retail investors. The listing and trading of Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) on ETBS will create a vibrant secondary market for sukuk and bonds. Meanwhile, in May 2015, Khazanah Nasional Bhd issued a Sustainable and Responsible Investment (SRI) Sukuk worth RM100 million. The innovative sukuk will be used to fund school programmes through a Public-Private Partnership with the Ministry of Education.

Accelerating Public and Private Investment

The Government continues to promote public and private investment by implementing various strategic infrastructure projects in order to maximise economic and social benefits, including highways and railways as well as the Mass Rapid Transit (MRT) and Light Rail Transit (LRT) projects. Highways are necessary to cater for the higher traffic volume as well as to enhance connectivity and shorten travelling time. In addition, to further reduce congestion on public roads as well as encourage more people to use public transport in the Klang Valley, the MRT project was undertaken while the LRT projects has been expanded. This is expected to benefit more than two million commuters in the Klang Valley. Meanwhile, rail tracks affected by floods in the East Coast are being repaired and upgraded. The public transport and infrastructure projects are at various stages of implementation and are expected to be fully completed by 2022.

The oil, gas and energy (OGE) sector is one of the National Key Economic Areas (NKEAs) which aims to attract investment, increase job opportunities and promote technology transfer to make Malaysia an oil and gas industry hub in the Asia-Pacific region by 2017. Under this initiative, Pengerang Integrated Petroleum Complex (PIPC) was identified as one of the Entry Point Projects (EPPs) to spur downstream activities. Two major ongoing

projects in the PIPC are the Pengerang Integrated Complex (PIC) consisting of Refinery and Petrochemical Integrated Development (RAPID) and its associated facilities by PETRONAS, and the Pengerang Deepwater Petroleum Terminal (PDT). The PIC involves various projects such as Projek Air Mentah RAPID, 1st Gas Turbine for electricity supply as well as a refinery and petrochemical integrated development project. These projects are expected to be completed in 2019.

Increasing Capacity of High-Speed Broadband

To enhance high-speed broadband (HSBB), several measures have been implemented to increase the service capacity at hotspots, particularly cybercities, cybercentres and technology parks in major cities and townships. As of June 2015, the Government has completed the installation of 3,056 HSBB ports, 28% rollout of the submarine cables and 165 communication towers.

Boosting Tourism Industry

The tourism industry has been identified as a key driver of the services sector. To support the Malaysia Year of Festivals (MyFEST) 2015, various programmes have been implemented to boost foreign tourist arrivals as well as promote domestic tourism. These programmes include Go ASEAN TV Channel, Digital Marketing, the NKEA Tourism and new events for MyFEST 2015. As of August 2015, a total of RM202 million has been expended on these programmes. In tandem with these initiatives, the Government is targeting to attract 29.4 million and 63.7 million of foreign and domestic tourists, respectively with an estimated revenue of RM132 billion in 2015. In the first quarter of 2015, a total of 6.5 million foreign tourists visited Malaysia.

Developing Small and Medium Enterprises

SMEs continue to play a crucial role by creating job opportunities and contributing to GDP. To accelerate the participation of SMEs in economic activity, the Government has introduced several programmes, including the Soft Loans Scheme for Automation and Modernisation (SLSAM), Microcredit-Financing Loan as well as Microcredit Scheme for Chinese hawkers and petty traders. By providing soft loans for manufacturing companies to acquire fixed assets, the SLSAM aims to encourage innovation, automation and adoption of new technologies. As of August 2015, a total of RM147.1 million has been disbursed to 59 companies.

Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) has introduced a Microcredit-Financing Loan facility for various target groups, including the armed forces veterans and young professional entrepreneurs. As of August 2015, TEKUN Nasional has disbursed RM272.7 million, benefiting 24,990 entrepreneurs. At the same time, to assist hawkers and petty traders among the Chinese community, the Yayasan Penjaja dan Peniaga Kecil 1Malaysia was established to manage the RM30 million microcredit facility. As of August

2015, a total of 435 applications were received, of which 41 applicants were provided loans amounting to RM600,000.

Developing Innovation and Commercialisation

Towards developing a knowledge-friendly ecosystem and enhancing the productivity of SMEs, a Public-Private Research Network (PPRN) was launched in February 2015 through a strategic collaboration between higher education and research institutions, industries and government agencies. The SMEs will identify areas with potential productivity gains while the PPRN will provide grants and match the SMEs with a team of experts to develop state-of-the-art technology. As of July 2015, RM7 million has been expended with 196 projects successfully matched, involving 127 companies, 17 public universities and four private universities.

The Government is committed to spurring innovation and commercialisation. In this regard, under the Technology Commercialisation Platform Programme, a total of RM23.2 million has been channelled to 21 companies as of July 2015. The programme aims to remove market barriers to innovation by providing access to a range of services such as infrastructure support, financing and capacity building.

Second Strategy: Enhancing Fiscal Governance

The Government is committed to strengthening its fiscal position even though uncertainties in the external environment continue to pose challenges. In the pursuit of long-term fiscal sustainability and macroeconomic stability, emphasis is given to ensuring the well-being of the rakyat and reducing the fiscal deficit to achieve a balanced budget by 2020. In this regard, among the strategic measures undertaken were the subsidy rationalisation programme and implementation of the GST.

As part of the subsidy rationalisation programme, the Government has implemented a managed float fuel pricing mechanism for RON95 and diesel to determine the retail prices based on market prices. Under this new mechanism, fuel subsidies were scrapped, which in turn, will be channelled to social and development programmes. The implementation of GST is part of the Government's overall tax reform measures towards making the tax system more transparent, effective, and efficient as well as generating a stable source of revenue.

Mainstreaming National Blue Ocean Strategy

The National Blue Ocean Strategy (NBOS) framework was introduced to accelerate the outcomes of the NTP by consolidating all programmes to ensure high-impact, at low cost and fast execution. Through the NBOS, the Government has established the Urban Transformation Centres (UTCs), a one-stop centre in major cities which provide a wide range of services of government agencies, non-governmental organisations (NGOs) and the private sector. The UTCs utilise refurbished existing government

buildings and operate seven days a week from 8.00am to 10.00pm. The UTC programme is recognised as one of the most successful NBOS initiatives and was awarded the Prime Minister Innovation Award in 2014. Furthermore, based on the effectiveness of UTCs in service delivery, the Government will expand the outreach of these services to several strategic locations. As of September 2015, a total of 10 UTCs are in operation.

The NBOS was also expanded to encourage skills upgrading and enhance employability of graduates through collaboration between the public and private sectors. In this regard, the 1Malaysia Skills and Employability Scheme was introduced to address the unemployment issue among graduates. These programmes offer streamlined, targeted and industry-relevant skills to enhance employability. In this regard, 10 Government agencies have collaborated in providing relevant industrial placements to trainees. As of August 2015, RM3 million has been spent, benefiting more than 2,100 trainees.

Third Strategy: Developing Human Capital and Entrepreneurship

Human capital development is imperative in accelerating sustainable and inclusive economic growth. Recognising the importance of ideation, creativity and innovation as well as skills to drive the knowledge economy, several measures were introduced during the 2015 Budget. These include strengthening teaching professionalism and school performance, empowering trust schools and building new schools, mainstreaming technical and vocational education development and improving education facilities.

Strengthening Teaching Professionalism and School Performance

The Government introduced the District Transformation Programme to empower District Education Officers to provide teaching support to principals and teachers. Furthermore, to improve teaching quality and student outcomes, more than 1,200 positions for School Improvement Specialist Coaches+ (SISC+) and 339 School Improvement Partners+ (SIPartners+) were created. As of August 2015, more than 1,100 SISC+ and 300 SIPartners+ were appointed. They have assisted more than 39,000 teachers through coaching and mentoring sessions. As of August 2015, a total of RM14.2 million has been spent on these programmes.

Empowering Trust Schools and Building New Schools

The Government has expanded the Trust Schools Programme under the Public-Private Partnership initiative. In this regard, the Government provides funding and resources for day-to-day operations, while the private sector contributes additional resources to accelerate student quality and outcomes. As of August 2015, there were 50 Trust Schools nationwide with 18 schools in Johor, Sarawak (12), Selangor (9), Sabah (5), Kuala Lumpur (4), Perak (1) and Negeri Sembilan (1) with RM6.8 million expended on the programme. Meanwhile, 12 new schools comprising

Info Box 1

Malaysia Expatriate Talent Service Centre (MYXpats Centre)

Transforming Expatriate Immigration Services

In the past, dialogues with industry have raised the issue of immigration services for skilled expatriates as being not customer friendly, involving lots of paperwork and with inconsistent approval timelines, often taking more than a month. With the economic transformation requiring skillsets that were not always available from the Malaysian labour force, it is therefore important to ensure an efficient public service delivery of immigration services for skilled expatriates.

To address the issue, the Ministry of Home Affairs, Immigration Department and Talent Corporation Malaysia Bhd (TalentCorp) joined forces to deliver customer-centric services through a fully online application process which enables fast approvals. Previously, the Immigration Department was organised on a product-centric basis with Employment Pass, Professional Visit Pass and Social Visit Pass for expatriates handled by different departments.

- **Expatriate Services Division**

In June 2014, YAB Prime Minister launched the Expatriate Services Division (ESD), a transformation towards a more customer-centric approach, whereby all immigration services relating to skilled expatriates will be handled by the ESD.

- **Enhanced Online Application Process**

In the past, all applications for Employment Pass are submitted manually and employers were required to submit related company information for every application of the employment pass. Through the newly launch ESD, employers would only need to upload their company documentation once for online registration. To date, more than 7,000 employers have been registered, while more than 42,000 Employment Pass applications have been processed.

- **Malaysia Expatriate Talent Service Centre (MYXpats Centre)**

Jointly staffed by TalentCorp and the Immigration Department, the MYXpats Centre has been fully operational since June 2015. The MYXpats centre was established with a client charter to process within five working days all Employment Pass applications submitted online by employers registered with the ESD. Currently, more than 80% of employment pass applications are approved within the client charter timeline.

Moving Forward

The opening of MYXpats Centre marks yet another critical milestone in facilitating top foreign talent for leading investors and employers. The centre will benefit from the collaboration, collective experience and knowledge of all three agencies to create an efficient and service-driven expatriate application process.

Source: Talent Corporation Malaysia Bhd.

seven primary schools, three secondary schools and two boarding schools, will be constructed in Sarawak (6), Selangor (3), Johor (2) and Melaka (1). These schools are expected to be completed in 2018.

Mainstreaming Technical and Vocational Education

By 2020, at least 60% of jobs in the economy will require technical and vocational qualifications. To meet this demand, the Government continues to emphasise technical and vocational education and training (TVET) programme by implementing the Vocational Education

Transformation programme. In this regard, the Government has implemented a Conversion Project which involves upgrading of vocational schools to vocational colleges. As of August 2015, 80 vocational schools (89.9%) have been upgraded, involving RM8.7 million.

The demand for TVET programme has increased as a result of growing interest among students in vocational education. To meet this demand, through the NBOS framework, the Government has obtained the cooperation of public skills training institutes to provide places, including sharing of facilities, equipment and human resources. In addition,

the 'buying places' scheme has been established to increase venues for training by collaborating with several private training institutions. As of August 2015, the total enrolment for TVET programme stood at 8,585 students, with RM49.8 million spent.

Fourth Strategy: Advancing Bumiputera Agenda

The Government continues to empower the Bumiputera community through various programmes and enhance their participation in economic development in line with inclusive growth. Among the initiatives introduced in the Budget, include increasing equity ownership, strengthening entrepreneurship and SMEs as well as developing human capital.

Increasing Equity Ownership of Bumiputera

To advance the Bumiputera agenda, the Government continues to strengthen Bumiputera corporate equity ownership. In this regard, Ekuiti Nasional Bhd (EKUINAS) is tasked to increase Bumiputera corporate equity and promote sustainable economic participation. Since its inception in 2010, EKUINAS has invested RM2.5 billion in potential growth-stage companies, including oil and gas (O&G), services and healthcare sectors.

Strengthening Bumiputera Entrepreneurship

To strengthen Bumiputera participation in the entrepreneurship ecosystem, the National Entrepreneurship Institute (INSKEN) under Unit Peneraju Agenda Bumiputera (TERAJU) continues to lead and coordinate entrepreneurial learning and development initiatives. INSKEN launched the BisKaunselor programme in August 2015 to train and upskill 400 business counsellors. These counsellors will assist 5,000 entrepreneurs to sharpen their entrepreneur skills and develop sustainable business plans. In addition, INSKEN500 was established to provide training sessions to at least 500 companies in collaboration with Malaysian Global Innovation & Creativity Centre (MaGIC), SME Corp, MyIPO and universities. Furthermore, INSKEN organised the Global Entrepreneurship Monitor (GEM) public-sharing session in May 2015 in collaboration with University Tun Abdul Razak to share and utilise findings from the GEM research. As of June 2015, RM15 million has been expended on these programmes.

In continuous efforts to accelerate innovative and creative business ideas from startup companies operating for less than three years, TERAJU has organised the Bumiputera Entrepreneurs' Startup Scheme (SUPERB) competition with grants up to RM500,000 for the winners. Applications are submitted via online pitch video and evaluated through a screening process, boot camps and pitching sessions. Since its inception in 2013, a total of RM30 million has been awarded to 60 winners.

To increase the capacity of Bumiputera companies to penetrate international markets, in August 2015, TERAJU launched a pre-export programme for High-Performing Bumiputera Companies (TeraS), in collaboration with the

Malaysian Design Development Centre. As of June 2015, RM10 million has been provided to companies in halal food and beverage industries.

In ensuring a minimum of 50% Bumiputera strategic participation in mega projects of RM500 million and above, the Government has expanded the carve-out and compete programme to include private-initiated and state government projects. As of June 2015, 11 projects have been identified under the carve-out and compete programme. These include MRT Sungai Buloh – Kajang Line (MRT Line 1), Menara Warisan Merdeka and Malaysian International Exhibition Centre.

Bumiputera SMEs

The Government remains committed to enhancing the capabilities and expertise of Bumiputera companies to expand their businesses and be globally competitive. Towards this end, the Al-Ansar Bumiputera fund was established in April 2015. The fund, a shariah-compliant Restricted Investment Account (RIA), aims to assist Bumiputera entrepreneurs or SMEs by providing financing between RM50,000 and RM1 million. As of June 2015, RM9.1 million has been expended on the initiative.

Developing Bumiputera Human Capital

The Government continues to emphasise on developing Bumiputera human capital by providing education loans to further their studies in both local and overseas institutions. As of August 2015, RM1.9 billion has been spent on the initiative. In addition, to meet the increasing number of loan applications, the MARA-Bank Scheme was launched in July 2015. The scheme is a smart partnership between MARA and several local financial institutions to provide education loans for all levels of higher education, both locally and abroad.

At the same time, Yayasan Peneraju Pendidikan Bumiputera has been tasked to implement various initiatives to increase access to education at all levels. In this regard, Peneraju Tunas programme provides education scholarships for post-UPSR and post-SPM students from households with a monthly income below RM4,000. Meanwhile, *Peneraju Skil* and *Peneraju Profesional* programmes offer education and training scholarships as well as loans for youth in professional certification programmes or technical fields. In addition, *Skim Prihatin Pendidikan 1Malaysia* provides education loans for students pursuing an undergraduate or a masters degree. As of August 2015, a sum of RM28.4 million has been expended on these programmes benefiting 4,522 students.

To boost the number of certified Bumiputera accountants from 8% in 2014 to 25% by 2020, the Government launched the Centre of Professional Accountancy in March 2015 in collaboration with Malaysian Institute of Accountants. As of June 2015, 330 students have enrolled in professional accounting programmes, including the Certified Accounting Technicians (CAT) and the Association of Chartered Certified Accountants (ACCA).

Development in Sabah and Sarawak

In efforts to achieve balanced development and inclusive growth, several initiatives are ongoing in Sabah and Sarawak. In this respect, the 1,663-km Pan-Borneo Highway was launched in March 2015. The project commenced with the upgrading of the existing 1,090-km single-carriageway road from Telok Melano to Miri in Sarawak into a dual-carriageway road with an estimated development cost of RM16.1 billion. The project is expected to be completed by 2020. As of August 2015, the project from Nyabau Junction to Bakun Junction in Telok Melano is under construction with RM58.6 million expended.

The establishment of the Eastern Sabah Security Command (ESSCOM) is a pre-emptive measure to enhance security at the Eastern Sabah Security Zone (ESSZONE). As of August 2015, a total of 11 projects are being implemented, namely setting up a General Operations Force (PGA) camp at Beluran; a maritime base for Malaysian Maritime Enforcement Agency (APMM) at Semporna, an accommodation block and defence post for Malaysian Armed Forces (ATM) at Lahad Datu, three security bases at Semporna and Sandakan, purchase of vehicles and equipment for ESSCOM and other security forces operation, and increase radar capacity. Land acquisition and infrastructure construction are in progress to build an ATM Camp at Felda Sahabat in Lahad Datu. In addition, the Government has increased the presence of security personnel in the ESSZONE.

To standardise the prices of basic essential goods between Peninsular Malaysia, Sabah and Sarawak, and ease the cost of living for residents in rural and remote areas, the Government continues to implement the Price Uniformity Programme through several measures such as transport subsidy, 1Malaysia 1Harga programme and Mobile Kedai Rakyat 1Malaysia. As of July 2015, RM38.6 million has been expended for Sarawak and RM40.1 million for Sabah. The Government has also established additional Kedai Rakyat 1Malaysia (KR1M) and as of July 2015, 19 KR1M have been established in Sabah and 30 in Sarawak.

Fifth Strategy: Upholding Role of Women

Women play a pivotal role in national development. However, their participation in the labour force and in decision-making positions remains low. In this regard, the Government continues to facilitate women to return to the job market through the 1Malaysia Support for Housewives (1MS4HW), which contains four programmes, namely the Income Generating Programme, registration and placement of housewives through JobsMalaysia portal, Survivor Skills for Women Programme (SS4W) and Housewives' Enhancement and Reactivate Talent Scheme (HEARTS). As of August 2015, a total of RM0.9 million has been disbursed benefiting more than 320 participants. In addition, Talent Corp has established the Women Career Comeback Programme which aims to recruit and retain women on career breaks, and provide

career opportunities for women looking to return to work. Various programmes have been implemented, including workshops as well as job fairs. As of June 2015, more than 62 women professionals have been placed via these programmes.

Through the Women Directors' Programme (WDP), the Government aims to achieve at least 30% participation of women in strategic decision-making positions. Under the programme, candidates are provided with specific board skills training in order to develop a pipeline of suitable candidates for Government-linked companies and the private sector. Since its inception in 2012, a total of 974 women directors have been trained with 32 of them serving in public-listed companies. Meanwhile, the Government continues to implement the Single Mother Skill Incubator (I-KIT) and Women Entrepreneurship Incubator (I-KeuNITA) programmes which provide training, including entrepreneurship, agribusiness and tourism-related activities. In the first six months of 2015, a total of 725 women have participated in both programmes.

Amanah Ikhtiar Malaysia, in collaboration with the Secretariat for the Empowerment of Indian Entrepreneurs, has broadened the Skim Pinjaman Ikhtiar to eradicate poverty among Malaysian Indian women. As of June 2015, a total of 8,121 women have participated in the scheme. The highest participation was from the vulnerable group with a monthly household income of RM821 to RM3,499 (4,375 participants); followed by entrepreneurs with income level of RM3,500 and above (3,515 participants); as well as poor and hardcore poor groups with a monthly household income of RM820 and below (231 participants).

To promote a work-life balance and increase bonding between mothers and their children, the Government has enhanced the Childcare Leave Benefit for civil servants. Effective 1 January 2015, female civil servants are given the flexibility to take unpaid childcare leave that is not tied to the duration of maternity leave. They can return to work and resume the childcare leave later, subject to a maximum of 365 days and not limited to the number of children. This leave is also extended to mothers with step children, legally adopted children, foster children and children with disabilities. To encourage the establishment of more childcare centres at the workplace in the private sector, the Government is reviewing the existing guidelines to allow employers to set up childcare centres at multi-storey buildings. As of August 2015, about RM4.2 million has been spent on all these programmes.

Sixth Strategy: Developing National Youth Transformation Programme

The Government recognises the role of youth as future leaders in nation building. Towards achieving this objective, the Government has introduced the National Youth Transformation Plan; 1Malaysia Youth City; Youth Housing Scheme; and Sporting Nation Programme.

Info Box 2

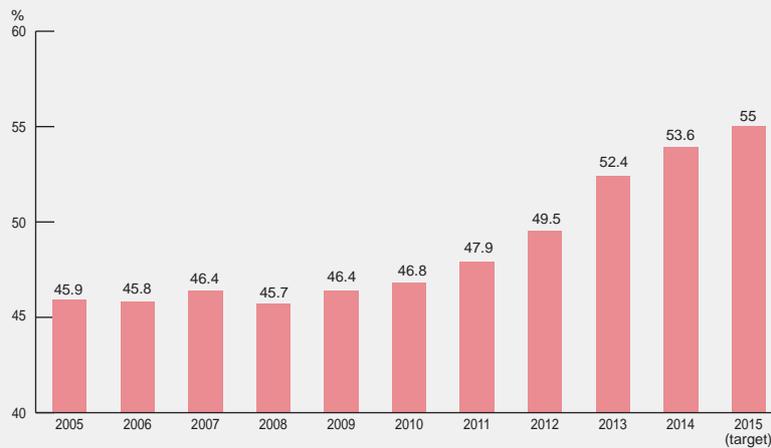
Women in the Workforce: The Drivers of Economic Growth in Malaysia

Introduction

Up to 2009, the female labour force participation rate (LFPR) has remained stagnant, hovering at around 46%. Through various initiatives undertaken by the Government, the female LFPR has progressively increased to 53.6% in 2014, which translates to an additional 600,000 women in the labour force.

CHART 1

Women Labour Force Participation Rate in Malaysia 2005 – 2015



Source: Department of Statistics and Economic Planning Unit.

Key Factors Driving the Increase in Female LFPR

The increase in the female LFPR has been driven by a combination of factors arising from both Government's initiatives and efforts by private sector employers, as follows:

Increased Level of Education Among Women

In recent years, there has been an increase in the number of female students pursuing post-secondary education. A large proportion of Malaysian graduates are women, with 63% graduating from public universities in the 2013/2014 academic year. The analysis by level of educational attainment shows that tertiary educated women are far more likely to participate in the labour force than school leavers regardless of their age. Hence, the higher numbers of women graduates have contributed to raising the overall female LFPR.

Enhanced Job Creation in the Services Sector

Between 2008 and 2014, 75% of job opportunities created were in the services sector, particularly in administrative and support services, health and education, with women comprising approximately 50% of the total workforce. Employment opportunities in the services subsectors are generally less physically demanding, coupled with the availability of flexible work arrangements in contrast to other sectors such as construction, thus providing a more conducive work environment for women.

Development of Women Entrepreneurs

Under the Budget 2015, RM2.3 billion was allocated to the Ministry of Women, Family and Community Development to intensify the involvement of women in the job market and to promote entrepreneurial activities. These include providing opportunities for single mothers who are interested to become entrepreneurs under the Single Mother Skill Incubator Programme (I-KIT), Women Entrepreneurship Incubator Programme

(IKKeuNITA) and Women Core Development Programme. In addition, RM30 million was allocated to Amanah Ikhtiar Malaysia (AIM) to inculcate the spirit of entrepreneurship among Indian women. These efforts have helped to uphold women's role in the economy as well as contributed to the increase in the female LFPR.

Promoting Flexible Work Arrangements Among Employers

Launched in July 2013, flexWorkLife.my, a collaboration between the Ministry of Women, Family and Community Development and Talent Corporation Malaysia Bhd (TalentCorp), aims to build a network of employers by featuring case studies, best practices and success stories from employers who have flexible working arrangements, work-life practices or parent-friendly facilities in their workplace.

The case studies serve as a guide to other employers to enhance their work-life practices to better retain their talent, especially women. To date, TalentCorp, in collaboration with the Malaysian Employers' Federation (MEF), has organised workshops in Kuala Lumpur and Johor Bahru with participation from 461 companies to advocate the need for flexible work arrangements. Close to 20 companies have piloted various forms of flexible work arrangements ranging from staggered hours, flexi hours and telecommuting.

Career Comeback Programme

As part of the Budget 2015 measures, the Career Comeback Grant was launched in March 2015 with the aim to encourage employers to recruit Malaysian women who are keen to return to work after a career break. Two types of grant are made available to employers:

Resourcing Grant: For companies which implement or enhance a programme or campaign to recruit women on a career break. The grant offers co-funding of 75% of the cost incurred to run the programme.

Retention Grant: For successful recruitment and retention of women returnees for more than 6 months. The grant amount is equivalent to a returnee's one month salary.

In less than six months after its launch, 45 companies across multinational companies (MNCs) and local companies have successfully recruited more than 60 women under the Career Comeback Programme.

Conclusion

Malaysian women have successfully made significant gains in the workplace, bridging diversity gaps and rising to leading positions. In recent years, the Government has intensified efforts to enhance their participation in the workforce. Moving forward, it is imperative for private sector employers to collaborate and support the Government's focus on diversity in the workplace. The greater inclusion of women talent into the workforce will contribute to realising their potential, raising family income and improving business performance.

Source: Talent Corporation Malaysia Bhd.

National Youth Transformation Plan

The role of youth in national development can be further enhanced through various activities, including volunteerism, leadership and entrepreneurship. With regard to volunteerism, the National Service Training Programme (PLKN) has been transformed to the National Service Training Programme 2.0 (PLKN 2.0) which comprises eight modules including Fit4Life, Malaysiaku, Be Safe and Be Alert. The PLKN 2.0 also offers training at skill institutes up to 24 months. The programme is expected to commence in January 2016. A PLKN Pilot Programme will be conducted from 17 October to 16 December 2015 to identify potential positive impacts and obstacles of the modules. Meanwhile, Yayasan

Khidmat Negara, which aims to infuse volunteerism among PLKN graduates, will be launched in January 2016.

To nurture youth volunteerism and social inclusion, the Government will continue to implement the Rakan Muda Programme, Projek Angkat dan Upaya (PADU), the Perdana Youth Award, Unity Camp Programme, MyCorps Programme and 1Malaysia for Youth (1M4U). For the Rakan Muda Programme, as of August 2015, RM5.4 million has been spent on developing a new portal, organising the Showcase of Talent and rebranding the programme. In addition, PADU was launched on 18 November 2014 to train young social workers to engage youths at risk to involve in productive and social activities. As of August

2015, RM4.7 million has been spent on the programme. The Government will continue to organise the Perdana Youth Award as recognition of the involvement of youth in volunteerism programmes and as of August 2015, RM1.2 million has been utilised. Meanwhile, the Unity Camp Programme aims to instil the spirit of unity among youth aged between 15 and 20. The programme is scheduled to commence in November 2015. Furthermore, MyCorps and 1M4U are expected to participate actively in all national volunteerism activities.

The Government is also taking efforts to strengthen youth leadership capabilities and skills through a proposed National Youth Leadership Academy. In this regard, the National Youth Skill Institute (IKBN) at Port Dickson in Negeri Sembilan will be upgraded as a youth leadership training academy by 2018, with six major initiatives, including an updated leadership module. In addition, as part of the transformation process, a Double-Shift Programme with industry-driven courses was introduced in July 2015 to ensure the youth are provided with adequate skills and knowledge to enter the job market. Currently, there are more than 14,000 full-time students and 1,400 students attending short-term courses in all IKBN. Meanwhile, transformation efforts through three Boot Camps have been conducted with more than 90% of the participants securing jobs. In the entrepreneurship category, the Government has introduced the Youth Agropreneur Programme for youth aged between 18 and 40. The programme, among others, provide training, soft loans and grants. As of August 2015, RM2.1 million has been distributed to 142 recipients.

1Malaysia Youth City

The Government also aims to provide a comprehensive ecosystem for youth to enhance their capabilities in several aspects, including work, business and entrepreneurship as well as enjoy better housing, recreational and sports facilities. For this, three 1Malaysia Youth City (1MYC) will be established, namely in Tanjung Malim, Perak and Lundu, Sarawak while the location in Sabah is being identified. As part of the 1MYC, the existing rest house in Tanjung Malim is being upgraded into an Art Hub at a cost of RM0.5 million.

Youth Housing Scheme

To facilitate youth to own houses, the Government on 1 July 2015, launched the Youth Housing Scheme. The initiative is a smart partnership between the Government, Bank Simpanan Nasional (BSN) and Employees Provident Fund (EPF) to provide financial assistance to youth. As of September 2015, 163 loan applications amounting to RM41.4 million have been approved.

A Sporting Nation

To achieve the aim of transforming Malaysia into a sporting nation, the Government will implement the Sporting Nation programme. The programme advocates several

measures, including the Malaysian Talent Identification Programme (MyTID), the new National Sports Module, FitMalaysia Programme and the National Sports Day. The MyTID Programme aims to create a large pool of young talents to compete on par at international level. As of September 2015, a total of 105,641 Year 1 primary students nationwide have been screened, of which the top 25% will be selected to pursue advanced training in 2016. Meanwhile, as of August 2015, a total of 3,806 teachers from 1,276 schools have been trained in the Trainers Programme. The new National Sports Module launched on 12 February 2015, aims to improve the quality of six high-performance sports, namely football, cycling, badminton, *sepak takraw*, aquatics and athletics. As of August 2015, a sum of RM18 million has been spent on this measure. Meanwhile, the FitMalaysia Programme was launched in 10 states with 253,025 participants. As of August 2015, a sum of RM1.9 million has been expended. As for the fourth measure, to encourage healthy lifestyle and enhance unity among various communities through sporting activities, the Government has announced the second Saturday of October as the National Sports Day.

Seventh Strategy: Prioritising the Well-Being of the Rakyat

Recognising that the benefits of economic growth should be felt and enjoyed by all segments of society as envisioned under the people economy, the Government remains committed to easing the burden and enhancing the well-being of the rakyat. Efforts will also be intensified to improve the food supply chain, price uniformity, public transport system, healthcare services and facilities, home ownership, rural facilities and infrastructure, water supply, peace and security as well as enhance spiritual well-being.

Schooling Assistance and 1Malaysia Book Voucher

To ease the financial burden of parents with school-going children, the Government continues to provide RM100 to all primary and secondary school students. A total of 5.1 million students have benefited from this cash assistance programme. Similarly, the 1Malaysia Book Voucher worth RM250 has benefited more than 1.3 million students in tertiary education.

Strengthening Food Supply Chain

The Government will continue to ensure adequate and affordable food supply for the rakyat. In this regard, the number of fishermen markets has been increased from five to 65 locations to enable inshore fishermen to sell directly to consumers. As of August 2015, a sum of RM3.1 million has been expended benefiting more than 4,600 fishermen. Similarly, the number of farmers' markets has been increased from 549 to 592 which sell fresh products at affordable prices as most traders obtain supplies directly from farms. In addition, several programmes were introduced to promote local produce and keep prices affordable. This includes the

price reduction campaign targeting 73 types of produce at farmers' markets throughout the country as well as in 85 FAMA Trading Operation Centres. Both programmes have attracted a total of 26,101 traders. As of June 2015, a total of RM1.5 million has been spent on both programmes.

To increase food supply, the National Farmers Organisation (NAFAS) provides financing services to members with short-term and long-term loans for leasing of machinery, venture investment and other investment activities. As of July 2015, NAFAS has disbursed RM59.4 million loans to its members. In addition, to improve paddy production, the Government has established four new Integrated Agriculture Development Areas in Pekan and Rompin (Pahang), Batang Lupar (Sarawak) and Kota Belud (Sabah). This initiative has increased paddy cultivation areas from 684,545 to 686,050 hectares, with RM18 million disbursed for the programme, as of August 2015.

Development and Welfare of Fishermen

The Government remains committed to enhancing the well-being of the fishermen, whose income is seasonal and subject to weather conditions. In this regard, the Government has increased the monthly living allowance of inshore and offshore fishermen from RM200 to RM300 and RM250, respectively. As of August 2015, the scheme has benefited 50,521 fishermen. For the new full-time inland fishermen¹, the monthly allowance of RM200 has been disbursed benefiting 3,445 fishermen. To diversify and stabilise fishermen income, the Government encourages fishermen to venture into aquaculture activities. Towards this end, a total of RM20 million was distributed to 406 fishermen as of August 2015.

Price Uniformity and Kedai Rakyat 1Malaysia

The Price Control and Anti-Profitteering (PCAP) Act 2011 is an important mechanism to monitor prices nationwide. On 14 January 2015, OPS CATUT was launched to beef up enforcement to deter profiteers from taking advantage of GST implementation. As of September 2015, more than 1.5 million inspections have been carried out nationwide. A total of 2,063 notices were issued to traders under Section 21 of PCAP Act 2011 on suspicion of profiteering. Meanwhile, the Government has established a Special Anti-Profitteering Court to speed up the prosecution process.

To control and monitor price of goods, 1,218 Price Monitoring Officers (PPH) are tasked to monitor more than 500 items ranging from groceries, household appliances and cooked food. Following the implementation of GST, the PPH now monitor price changes of 10,000 items. In line with the NBOS, powers were delegated to 605 village heads to carry out enforcement under the PCAP Act 2011, Control of Supplies Act 1961, and Weights

and Measures Act 1972. Meanwhile, to further strengthen price monitoring, Consumer Squads comprising volunteers were formed to assist in monitoring the prices of goods and services, and as of August 2015, there were 233,243 volunteers involved. At the same time, to reduce the cost of living, the Government will establish more KR1M. As of September 2015, the total number of KR1M stood at 169 nationwide, including eight KR1M² which were established in 2015.

Improving Public Transport System

An efficient, reliable, comfortable and seamless public transport system is essential to improve the mobility of people and goods, particularly in cities and metropolitan areas. The Government has improved intercity and stage bus services as well as Electric Train Service (ETS). To increase public transport usage, the intercity bus service offers a discounted monthly fare of 30% on three bus routes, namely Rawang – Kuala Lumpur; Klang – Kuala Lumpur and Seremban – Kuala Lumpur. In addition, the Government has launched the Stage Bus Services Transformation (SBST) programme in Kangar which offers wider coverage at 337 km compared with 124 km previously. Meanwhile, in July 2015, the ETS was extended to the Northern Sector, namely Ipoh – Padang Besar; KL Sentral – Padang Besar and KL Sentral – Butterworth. As at end September 2015, the new ETS routes recorded ridership of 170,312. Commencing October 2015, the ETS was extended to the Southern Sector, namely Gemas – Butterworth and Gemas – Padang Besar.

Special Assistance to Rubber and Oil Palm Smallholders

Declining rubber prices have affected the income of smallholders. To safeguard their well-being, the Government has implemented measures to support income as well as increase the production of rubber. The measures include a one-off special assistance; Regulating Rubber Prices at Farm Gate Mechanism (MKSHG), Rubber Production Incentive (IPG), and Rubber New Planting and Replanting (TBTSG) programme. The one-off special assistance of RM500 has been given to 308,872 smallholders and rubber tappers. In addition, the MKSHG was introduced to regulate farm gate price and reduce intermediaries in the supply chain. The Malaysia Rubber Board has encouraged the establishment of smallholder cooperatives to purchase and sell directly to processors for better prices. For this, the cooperatives have been provided soft loans for working capital and as of August 2015, RM520,000 has been disbursed to seven cooperatives.

The IPG aims to incentivise rubber smallholders when the Free-on-Board (FOB) price of Standard Malaysian Rubber 20 (SMR 20) falls below RM5.10 per kg or cuplump price at farm-gate price level of RM2.00 per kg. This will ensure continuous rubber production and supply of raw material

¹ Refers to fishermen who depend on inland fishery sources such as rivers and lakes.

² The new KR1M are in Baling and Sik (Kedah), Ijok (Selangor), Bachok (Kelantan), Bandar Seri Iskandar and Sungai Rapat (Perak), Sungai Plan (Sarawak) and Kudat (Sabah).

for downstream activities. In addition, when the price reaches RM8.25 per kg, the smallholders will contribute to the IPG fund, thus ensuring long-term sustainability to finance the IPG scheme. The scheme has been implemented beginning September 2015. Furthermore, the TBTSG programme has been implemented nationwide to ensure adequate production of rubber and rubber-based raw materials to meet domestic demand. As of August 2015, a total of RM140 million has been disbursed on the programme.

The Government continues to provide new planting and replanting incentives under Skim Tanam Baharu Sawit Pekebun Kecil (TBSPK) and Skim Tanam Semula Sawit Pekebun Kecil (TSSPK). As of August 2015, a total of 35,529 hectares under the TBSPK and 36,007 hectares under the TSSPK have been planted, with RM464.6 million spent. Furthermore, to increase export of crude palm oil (CPO) as well as reduce domestic stocks, the Government waived the CPO export duty from 1 September 2014 until 28 February 2015.

Healthcare Services and Facilities

The Government remains committed to providing quality healthcare services and facilities for the rakyat. In this regard, RM577.1 million has been utilised to construct health facilities throughout the country, including initial work and planning for Hospital Dungun in Terengganu, Hospital Seri Iskandar in Perak and 20 health clinics as well as three dental clinics. As of August 2015, there were 324 1Malaysia Clinics in operation including six new clinics, exceeding the target of 290 clinics.

A sum of RM19.4 million has been spent under the National Dengue Strategic Plan (NDSP) to prevent and control dengue in the country. The NDSP consists of seven strategies, namely dengue surveillance, integrated vector management, patient treatment, outbreak response, research, social mobilisation and communication as well as reducing the number of dengue cases in the Klang Valley.

Welfare of Women, Family and Community

The Government continues to provide assistance to the poor, children, elderly and people with disabilities (OKU) to ensure their well-being. As of June 2015, a total of RM741.6 million has been disbursed to registered recipients. In addition, the Government has increased the daily food allowance from RM8 to RM16 for 8,700 residents in 63 institutions under the Social Welfare Department. As of June 2015, a total of RM2.4 million has been spent on the food allowance. Meanwhile, the annual grant for the National Council for Persons With Disabilities has been increased from RM500,000 to RM1 million. This will enable the Council to enhance its services to the target group. As of June 2015, the Government has spent RM271,000 for these purpose.

Based on the current composition of the population, Malaysia will be an aging nation by 2035. To ensure that there are sufficient avenues for senior citizens to interact and socialise in the community, the Government has established senior citizen centres called *Pusat Aktiviti Warga Emas* (PAWE). A total of five new centres have been built in addition to 45 operating nationwide. As of June 2015, a total of RM1.5 million has been channelled to the existing centres. In addition, a special *Unit Penyayang Warga Emas* has been formed at eight PAWE and three old folks' homes to provide free transportation to hospitals, clinics and other public locations.

A high-quality preschool system is vital to nurture potential future leaders for the country. Towards this, the Government has disbursed RM345.7 million, including to the private sector for the establishment of preschools. In line with the aspiration to provide high-quality early education at Tabika KEMAS and TASKA Permata KEMAS, a total of 367 graduate teachers and 9,939 teachers' assistants have been appointed. As of June 2015, there were 219,224 and 8,628 pre-schoolers enrolled at Tabika KEMAS and Taska Permata KEMAS, respectively with RM68.4 million spent. In addition, there were 1,781 Tabika Perpaduan and 41 Tabika Permata Perpaduan premises with an enrolment of 40,000 and 900 children, respectively with RM98 million spent as of July 2015. Meanwhile, a total of 88 Pusat Anak Permata Negara (PAPN) are in operation with 2,593 students and 468 teachers. Another five PAPN³ will be established by November 2015. As of June 2015, a total of RM24.1 million has been expended.

Home Ownership

To address the issue of affordable home ownership, various programmes and projects have been implemented. This includes the 1Malaysia People Housing Programme, under Perumahan Rakyat 1Malaysia Corporation (PR1MA), which targets to build 210,000 houses by 2018 with prices ranging between RM100,000 and RM400,000. To enable more people to benefit from this initiative, the household income threshold was raised from RM8,000 to RM10,000. As of August 2015, a total of 560 units were completed, while 41,263 units are under construction and 120,751 units in the planning stage. As of August 2015, a total of RM1.2 billion has been spent on the programme.

To cater for the housing needs of low-income earners and resettlement of squatters, the Government through the People Housing Programme (PPR) provides them with an option to purchase or rent PPR houses. As of August 2015, a total of RM209.6 million has been spent to develop 15,996 units, of which 4,266 units are for rental and 11,730 units for sale.

The Government also continues to implement Rumah Mesra Rakyat 1Malaysia to assist low-income groups such as fishermen, farmers and poor families who do not own houses, or live in dilapidated houses, or own land

³ PAPN at Subang (Selangor), Lumut (Perak), Jeram (Selangor), Langkawi (Kedah) and Kuala Krai (Kelantan).

without resources to build houses. As of August 2015, a total of 2,183 houses were under construction, costing RM142.2 million. Meanwhile, under the Rumah Idaman Rakyat programme, 6,296 houses will be built nationwide with 60% priced below RM250,000 and 40% between RM250,000 and RM350,000. The project targets middle-income earners and first-time buyers. As of August 2015, a total of 1,801 units⁴ were under construction. In addition, Rumah Aspirasi Rakyat provides opportunities for youth to own houses at discounted prices in urban and rural areas. As of August 2015, there were 22 ongoing projects comprising 11,872 units with an estimated cost of RM2.6 billion. To enable youth to own their first house, particularly for the newly employed, the Government has improved the terms and conditions of Skim Rumah Pertamaku. This includes increasing the age of qualified buyers from 35 to 40 years and capping the maximum selling price at RM500,000 compared to the previous maximum of RM400,000 as well as without having to come up with a down payment. As of July 2015, a total of 463 loans with a value of RM100.2 million have been approved.

Rural Facilities and Infrastructure

The Government remains committed to providing and upgrading rural facilities and infrastructure, particularly in Sabah and Sarawak. As of August 2015, a total of 318.6 km of rural roads have been completed at a cost of RM618.6 million. To improve electricity connection and duration, the Government has successfully provided 24-hour electricity for 4,957 houses with RM401.8 million spent. With regard to water supply, a total of 4,751 houses have been provided with access to treated water supply at a cost of RM156 million.

National Water Blueprint

Water shortage and issues related to non-revenue water (NRW) are some of the main concerns faced by the Government. To address these concerns, the Government has embarked on a National Water Blueprint to ensure sustainable long-term water supply. In the Klang Valley, efforts are being taken to increase the supply of treated water, upgrade treatment plants and other facilities. In this regard, the Langat 2 Treatment Plant with a capacity of 1,130 million litres daily, costing RM4 billion, is under construction to address water supply shortage. In addition, the Government has implemented several measures, including establishing leakage control zones as well as undertaking pipe replacement to reduce NRW losses. As of August 2015, 50% of the NRW projects have been completed at a cost of RM65 million.

Peace and Security

The Government will increase the number of police officers, police patrols and build more police stations to improve public safety in the country. In this regard, an additional

6,000 police officers were recruited. Several new police stations, including headquarters and training centres are being constructed in Johor, Sabah, Sarawak, Selangor, Perlis, Kedah, Negeri Sembilan, Pahang and Perak. As of July 2015, a total of RM245.3 million has been spent on these projects. To further increase the efficiency of crime prevention, an additional 818 motorcycles have been procured at a cost of RM15.1 million. In addition, the Government has implemented various initiatives under the National Key Result Area (NKRA) crime reduction programmes, including increasing close circuit television (CCTV) in local authorities; vehicle theft prevention programmes; street crime reduction programmes; Rakan Cop; Triage Counselling; and Feet-on-Street programmes to increase police omnipresence. As of August 2015, a sum of RM25.3 million has been spent on these programmes.

The People Volunteer Corps (RELA) has been established to support the security forces in preserving law and order. RELA's role is being further enhanced through training and capacity building programmes. As of August 2015, eight programmes, including Crisis Management, Firearm Handling and Leadership courses have been conducted involving RM6.3 million.

Al-Quran Printing Centre

The Nasyrul Quran Complex, the second largest Al-Quran printing centre in the world, was launched in July 2015 at Putrajaya. Upon completion in December 2016, the centre will have the capacity to print three million copies a year, of which 40% will be distributed to countries such as Cambodia, China, Kazakhstan and Russia. As of July 2015, RM11 million has been disbursed for infrastructure works.

Housing for Civil Servants

The Government is committed to improving housing facilities for civil servants. Under the 1Malaysia Civil Servants' Housing Programme (PPA1M), a total of 10,905 units are under construction at several locations, including Bukit Jalil (Kuala Lumpur), Papar (Sabah) and Bukit Pinang (Kedah), while 7,872 units will be built in Putrajaya. In addition, the Government has spent RM33.3 million on repair and maintenance of quarters for military, police, teachers and medical staff nationwide, including for works under MyBeautiful Malaysia Programme.

Bantuan Rakyat 1Malaysia

The Government continues to implement Bantuan Rakyat 1Malaysia (BR1M) to alleviate the burden of low-income households. In 2015, the Government increased the BR1M payment from RM650 to RM950 for households with a monthly income of RM3,000 and below, as well as from RM450 to RM750 for middle-income households earning

⁴ The units are in Semeling (Kedah), Ulu Kinta (Perak), Jasin (Melaka), Chaah (Johor) and Bentong (Pahang).

between RM3,001 and RM4,000. The disbursements were made in three instalments in January, May and September 2015. In addition, the BR1M for single individuals aged 21 and above with a monthly income below RM2,000 was increased from RM300 to RM350. As of August 2015, a total of RM3.5 billion has been disbursed benefiting 4.7 million households and 2.7 million single individuals. Meanwhile, in 2015, the Government replaced the group takaful insurance (i-BR1M) with the Family Bereavement Scheme, which entitles the next of kin of BR1M recipients to receive RM1,000.

Economic Management – 2016

The Malaysian economy is expected to grow at a steady pace, mainly supported by domestic demand. However, the challenges confronting the economy in 2015 are expected to persist in 2016. In particular, heightened volatility in financial markets; declining commodity prices; strengthening of the US dollar; and the slowdown in China, are anticipated to have direct and indirect impact on the Malaysian economy, primarily through trade and financial channels. Given these developments, the challenge for Malaysia is to further enhance the resilience of the domestic economy while ensuring the sustainability of public finances.

Issues and Challenges

External Environment

Global growth is expected to remain moderate in 2016 with a modest pickup from 3.1% in 2015 to 3.6% in 2016. In advanced economies, GDP growth is expected to increase by 2.2% (2015: 2%), primarily led by the US. In emerging markets and developing economies, GDP is expected to increase by 4.5% (2015: 4%) on account of gradual improvement, particularly in Russia and Brazil. However, risks are tilted to the downside, including the impending monetary policy normalisation in the US; continued appreciation of the US dollar; soft commodity prices; concerns about lower-than-expected growth in China; and geopolitical tensions, particularly in the Middle East. Thus, the external sector's contribution to Malaysia's economy is expected to remain modest in 2016, with the current account posting a lower surplus, in the range of 0.5% – 1.5% of GNI. Against this backdrop, the growth momentum of the Malaysian economy will hinge on domestic demand to enable the nation to remain on a steady growth trajectory.

Domestic Economy

Private consumption is the largest component of domestic demand contributing 3.9 percentage points to real GDP growth during the first half of 2015. The more moderate expansion of private consumption during the first half was due to consumers adopting a 'wait and see' attitude and cautious spending, as they adjust to the implementation of

GST. Following the weaker sentiment, some of the private consumption indicators recorded a slower growth in the same period. Unemployment has also increased mainly due to the shrinking number of job vacancies as well as some retrenchments. At the same time, wage growth as measured by aggregate real wages in the manufacturing sector, grew moderately by 2.3% in the second quarter of 2015 (Q1 2015: 5.3%).

Private investment reached a record high of RM183.9 billion in 2014. Of this, 81% was from domestic sources while the remaining from foreign direct investment (FDI). The positive trend continued in the first six months of 2015, with private investment reaching RM108.5 billion. This outcome is the result of various initiatives by the Government to promote investment. Despite the achievement, issues and challenges still remain. The challenges in promoting private investment include increasing global competitiveness, lack of innovation capabilities and business sophistication, inadequate quality of education, insufficient research and development, and low labour and total factor productivity.

On the supply side, the services sector remains the main driver of the economy and leading generator of job opportunities. In 2014, the sector accounted for 54% of GDP, 15% of the country's total exports and provided eight million jobs. The sector is being geared to account for 56.5% of GDP, 19% of exports and provide 9.3 million jobs by 2020. To achieve these targets, several important issues have to be addressed, including skill shortage and mismatch. This is further compounded by the lack of access to soft technology and low adoption of information and communication technology (ICT), particularly among SMEs. With respect to the manufacturing sector, even though the sector has undergone great progress for more than three decades, the majority of manufacturers continue to focus on assembly operations. The inability to move up the value chain is mainly due to its heavy reliance on low-waged unskilled labour. Studies indicate that the easy availability of low-skilled workers is part of the reasons for the reluctance of SMEs to invest in technology and move up the value chain. Despite the availability of incentives, grants and funding support, manufacturers have not optimised the opportunities to move up the value chain. Likewise, the agriculture sector continues to rely on low-skilled foreign labour resulting in low use of technology and adoption of best practices. This has resulted in low productivity and competitiveness. In the construction sector, companies continue to face labour shortage including for skilled workers. The problem is exacerbated further by poor participation from Malaysians, who generally shun the dirty, difficult and dangerous jobs (3D).

The export sector has made considerable progress in expanding the product mix, retaining its traditional markets and gaining a firm foothold in new, and fast-growing emerging markets. However, a key concern is the inability of local exporters to forge a strong presence in the global value chain, especially in cutting-edge technologies and

new growth areas. Furthermore, under-utilisation of existing free trade agreements (FTAs); insufficient motivation to embark on greater automation and technology upgrade; and shortage of skilled workforce are among the factors impeding the move towards high-value exports.

Human Capital

Human capital, encompassing knowledge, talents, skills, abilities, experience, intelligence, training, judgement, and wisdom possessed individually and collectively in a population, is an important contributor to economic growth. Although substantial investment has been made on education and skill training, challenges still persist, particularly issues related to quality of education, English proficiency, industry-ready talents, brain drain, competency, soft skills, skills mismatch and job hopping.

The education system has served the country well in its progression to upper middle-income nation. However, studies indicate that compared with regional and developed countries, performance of Malaysian students in science and mathematics has been declining. Furthermore, employers argue that Malaysian employees lack English proficiency and confidence as well as soft skills such as communication, creativity, innovation, teamwork and leadership.

Following several measures by the Government, the female labour force participation rate has improved to 53.6% in 2014. However, it remains low compared with other countries in the region such as Hong Kong (54.6%) and Singapore (58.6%). Among problems faced by women include inflexible working hours, lack of opportunities for re-employment and insufficient opportunities for career advancement to top and strategic positions in organisations.

Another area of concern is the high number of foreign workers in the economy and the high dependency of industries on them. It is argued that the high number of unskilled foreign workers enables employers to keep wages low with minimal training and few incentives, which leads to lower overall productivity. Furthermore, the ease of employing foreign workers has discouraged industries to invest in automation and upgrade existing machinery and technology.

Consequently, these factors have negatively affected labour productivity. While productivity level in Malaysia has increased during the Tenth Malaysia Plan (10MP) it still lags behind many high-income countries. Reports indicate that Malaysia's labour productivity was 32% of the US and 56% of South Korea. Malaysia's ability to increase its labour productivity depends on how well it can derive greater efficiency from internal resource, particularly human capital, innovation and operational efficiency.

Well-Being of the Rakyat

Ultimately, all Government programmes, projects and initiatives are designed to enhance the well-being of the rakyat. The rakyat today enjoy better public services

and facilities, including healthcare, transport, education, and public safety and security. While efforts to further enhance service delivery and facilities are ongoing, the rakyat continue to face several issues and challenges in their daily lives.

During the period 2011 to 2014, inflation remained moderate at an average rate of 2.5% per annum. During the first eight months of 2015, inflation was at 1.9% (January – August 2014: 3.3%). While inflation remains low, rising prices, particularly food and non-alcoholic beverage will impact the well-being of the low-income and vulnerable group.

Affordable housing is another major concern of the rakyat. Housing prices have gone beyond the affordability of most segments of the society. Prices of residential properties, particularly in preferred locations such as Kuala Lumpur and other major areas in Johor and Selangor have appreciated by 9.9% per annum since 2010. There are several underlying factors driving prices. These include the rising cost of construction materials, mismatch between demand and supply, especially for low and medium-cost houses in urban areas, speculative activities as well as poor project management resulting in delays and abandoned projects.

Malaysia's water consumption is high and increasing every year as a result of population growth, urbanisation and expansion in economic activities. As of 2013, a total of 95.1% of the population received treated water supply with most urban areas recording more than 99% coverage. However, for Kelantan, Sabah and Sarawak supply coverage remained below 80%, with Kelantan registering only 63.4%. Low water coverage is due to geographical factors such as rough terrains and remote locations as well as the availability and preference for alternative sources. Although data indicates excellent water supply coverage in urban areas, several states in recent years have experienced water shortages, particularly during peak periods.

A world-class public transport system, which enables efficient movement of people and goods, is imperative as the nation moves towards an advanced and high-income nation. Despite various efforts by the Government to improve public transport, commuters continue to face increasing levels of traffic congestion in large and medium-sized cities, lack of connectivity, and low levels of public satisfaction with available public transport services.

Public safety and security is vital to generate economic growth and enhance the well-being of the rakyat. Various crime prevention programmes have been implemented to reduce the crime rate in the country. As a result, the Government has successfully reduced the crime rate by over 40% in the past five years. However, the Safety Perception Index indicates that the rakyat's perception of feeling safe remains low at 39%. Furthermore, crime is getting more complex and sophisticated with new challenges emerging, particularly through social media.

Info Box 3

eRezeki Programme

Background

The primary objective of eRezeki Programme is to accelerate B40's participation in the digital economy, by enabling them to earn additional income via digital means, especially opportunities offered by crowdsourcing models. Through this programme, participants from B40 will be profiled, trained and assessed on their ability to perform digital micro tasks sourced from both international and local markets. While simple micro tasks, such as photo moderation and image categorisation, are generally suitable for the general B40 population, the higher value and expertise-based tasks can be introduced to B40 with higher qualification, including the underemployed and students in tertiary institutions.

Participants

Participants will be selected from B40 households. Since the programme is about using digital technology in a productive way, the B40 target audience is segmented as follow:

- i. IT Literate and Skilled B40
Example: unemployed graduates, underemployed workers, single parents and retirees.
- ii. IT Literate and Low-Skilled B40
Example: blue-collared workers, factory workers, housewives and disabled people.
- iii. IT Illiterate and Low-Skilled B40
Example: labourers, traditional farmers and fishermen.

Key Activities

Key activities under the eRezeki programme include the following:

- i. *eRezeki* Outreach: Targeted outreach programme via channel partners such as community leaders, associations, universities and colleges (e.g. UiTM, UTM, Kolej Komuniti), foundations, and state governments;
- ii. Digital Worker Recruitment: Process to train, assess and qualify B40 to become digital workers which is conducted mainly at eRezeki Centres; and
- iii. Digital Worker On-boarding: 'Internship' and experimental period where qualified B40 workers requiring hand-holding will be monitored over a certain period of time until they are able to perform and consistently deliver good quality of work.

eRezeki Centres are also being set up in strategic locations, namely Alor Setar, Kuantan, Kuala Terengganu and Kuala Lumpur to address technological challenges faced by the B40. These centres are meant to serve as a one-stop centre accessible to B40 to carry out the above key activities. The eRezeki Programme is expected to train 35,000 B40 participants by 2018.

	2016	2017	2018
Number of new trained and qualified B40	16,000	20,000	35,000
Number of B40 with an increase in income	20,000	40,000	80,000
Additional income to B40 (RM)	33 million	80 million	230 million
Estimated budget (RM)	11.5 million	10.7 million	13 million

The budget will be used for outreach programme, profiling and training as well as assessing B40 participants' ability as digital workers. A small portion of the budget will also be utilised to market and source suitable digital tasks from overseas.

Achievements (as of 30 September 2015)

Launched Date	17 June 2015
Number of B40 registered participants	18,000 participants
Number of eRezeki centres	5 centres
Number of B40 with an increase in income	9,500 participants
Cumulative value of income	RM7.5 million

The incidence of poverty has decreased to 0.6% in 2014 (2012: 1.7%) with Sabah registering a significant decline to 4% (2012: 8.1%). However, Pahang, Perak, Sarawak, Kelantan, Labuan and Sabah recorded poverty rates above the national level. Furthermore, despite the reduction in the incidence of poverty from 1% in 2012 to 0.3% in 2014 in urban areas, about 63% of the 2.7 million B40⁵ households live in these areas. The B40 group, who are dependent on government assistance, are most vulnerable to any shocks in the economy. Furthermore, 26.3% of Malaysians or 7.9 million people live in rural areas, including in Sabah and Sarawak, with varying levels of accessibility to peri-urban areas, infrastructure, social amenities and economic opportunities. This reflects the importance of promoting inclusive and balanced development in enhancing the well-being of rural communities.

Strategic Initiatives – 2016 Budget

External and internal factors pose great challenges as the country strives to achieve an advanced and high-income nation status by 2020. To overcome these challenges, there is a need to strengthen domestic resilience to enable the nation to capitalise on the recovery when the global economy picks up pace. In this respect, the 2016 Budget will focus on strengthening economic resilience; ensuring inclusiveness; enhancing human capital; and increasing productivity, innovation and green technology; as well as safeguarding the well-being of the rakyat. Programmes and allocations in 2016 will be guided by the people economy, while the design and implementation of programmes will focus on value innovation, namely high-impact programmes at low cost and fast execution.

Strengthening Economic Resilience

Taking into cognisance the weaker external environment, the Government will implement policies that will further strengthen the resilience of the domestic economy. In this respect, efforts will be taken to boost consumption by raising disposable income through creating more jobs and addressing the rising cost of living. With regard to investment, efforts will be undertaken to increase investors' confidence, by providing a conducive environment for investments to flourish. Efforts to attract FDI will be further intensified, targeting higher value-added and knowledge-intensive industries. In spurring domestic investment, SMEs will be guided and incentivised to invest in technology, optimise opportunities to move up the value chain, and actively participate in the global supply chain. The Government will continue to prudently allocate funds for public investment projects under the 11MP.

To sustain the role of the services sector as the key driver of growth, the Government will accelerate the implementation of the Services Sector Blueprint as well

as the Logistics and Trade Facilitation Masterplan. Within the services sector, greater emphasis will be given to the development of industries with high knowledge intensity and linkages with the rest of the economy as well as industries that generate high-income jobs. Simultaneously, the manufacturing sector will be transformed into a sector that adopts greater automation and a skilled workforce. The competitiveness of Malaysian products and services will be further enhanced through intensified efforts to build globally recognised brands in order to penetrate export markets. Furthermore, initiatives endorsed by the National Export Council (NEC) will be expedited to leverage an improving external environment. These proactive measures will position Malaysian companies to fully benefit from trade agreements which unlocks new markets for domestic businesses.

The development of the five economic corridors initiated under the Ninth Malaysia Plan (9MP) to bridge development imbalances across regions will be intensified to transform the corridors into strategic investment regions. The Government will continue to improve infrastructure as well as upgrade talent and skills of rakyat to meet the rising demand from the regional economic corridors.

Ensuring Inclusiveness

To promote inclusiveness and balanced development, the Government will enhance the living standard and quality of life of the rakyat, including Sabah and Sarawak. To improve the movement of people and goods the Government will construct the Pan-Borneo Highway comprising 1,090-km in Sarawak and 706-km in Sabah. The Government will strive to improve the income of the B40 and M40⁶ households by creating more job opportunities and encouraging entrepreneurship. Furthermore, income support will be continued through the social safety net. Likewise, the entrepreneurship programme will be strengthened in rural areas. In addition, the Government will continue to expand the provision of utilities such as water and electricity to rural areas as well as build more rural roads to enhance connectivity and mobility. The Government will also emphasise and strengthen need-based programmes especially for youth, women, children, senior citizens and the OKU. The Bumiputera agenda will be further enhanced to strengthen their participation in economic activities through several initiatives, including empowering human capital, increasing corporate equity and wealth ownership, and strengthening the effectiveness of Bumiputera-oriented programmes.

Empowering Human Capital

The Government will continue to emphasise human capital development to ensure the workforce is well equipped with the right knowledge and skills. Towards this, the

⁵ B40 refers to bottom 40% household income group with income up to RM3,855 (based on Household Income and Expenditure Survey 2014).

⁶ M40 refers to middle 40% household income group with income between RM3,860 and RM8,319 (based on Household Income and Expenditure Survey 2014).

education system will be continuously improved and English proficiency enhanced to ensure Malaysian students are on par with international students. Furthermore, to meet the needs of the industry, efforts will be intensified to improve the quality and quantity of TVET and Science, Technology, Engineering and Mathematics (STEM) graduates. Several measures will also be introduced to enhance the employability of graduates, through the 1Malaysia Training Scheme (SL1M) and the Graduate Employability Management Scheme (GEMS). Meanwhile, the Human Resources Development Fund (HRDF) will be enhanced to facilitate re-training and up-skilling of workers.

Enhancing Productivity, Innovation and Green Technology

The Government is committed to boosting productivity through intensifying knowledge, innovation and technology adoption. In this regard, the Government will continue to promote re-skilling and up-skilling programmes to increase labour productivity. Meanwhile, to assist businesses, especially the SMEs, the Government will continue to fund the Working Capital Guarantee Scheme, Domestic Investment Strategic Fund and High Impact Project Fund. The Government is also committed to protecting the environment. Towards this, the Government aims to reduce the Green House Gases emission intensity to 40% of GDP by 2020. Other initiatives include conservation of natural resources, strengthening resilience against climate change and natural disasters, promoting renewable energy, and encouraging the use of energy-efficient vehicles.

Safeguarding the Well-Being of the Rakyat

The Government will continue to adopt a holistic approach to safeguard the well-being of the rakyat. To meet the housing needs of the rakyat, the Government will provide financing facilities to low and middle-income households as well as expanding the rent-to-own programme to the low-income group. In addition, the private sector will be encouraged to play a larger role in building and maintaining affordable houses. The 2016 Budget will also improve the access to quality healthcare through building and upgrading more health clinics and 1Malaysia Clinics. Meanwhile, to facilitate the mobility of people and goods, the Government will continue to develop

a public transport system that enhances connectivity across transport modes and regions as well as increase the frequency and reliability of services.

In ensuring the safety and security of the rakyat, the Government will enhance its efforts in combating crime. The omnipresence of police will be increased through redeploying more personnel and improving the capacity and capability of Royal Malaysia Police (PDRM). In addition, to promote crime awareness in the community, an integrated approach involving government agencies and NGOs will be adopted. To strengthen national security, the Government will continue to upgrade security assets as well as improve the effectiveness of ATM and APMM related programmes.

Prospects for 2016

The Malaysian economy is expected to remain steady in 2016, with real GDP growth between 4% – 5% led by domestic demand. Private sector expenditure will remain the main driver of growth with private consumption and investment expected to grow by 6.4% and 6.7%, respectively. Meanwhile, Government expenditure is forecast to expand, albeit at a moderate pace, in line with efforts to strengthen the fiscal position. On the supply side, growth is expected to be broad-based, with all the sectors registering positive growth. Malaysia's external position is forecast to remain positive supported by better prospects for global growth and trade.

Against this backdrop, the nominal GNI per capita is expected to increase by 5.6% from RM36,397 in 2015 to RM38,438 in 2016. With total investment surpassing savings, the savings-investment gap is expected to narrow between 0.5% – 1.5% of GNI.

The economy will continue to operate under conditions of full employment with the unemployment rate remaining below 4%. Despite a weak ringgit, inflation is expected to remain benign attributed to low oil prices and the waning impact of GST. For 2016, inflation is expected to range between 2% – 3%. The Government remains committed to fiscal consolidation. The fiscal deficit is expected to further decline to 3.1% of GDP in 2016 (2015: 3.2%) while the Federal Government debt level will remain manageable within the prudent limit of 55% of GDP.