



**ADDRESSING
THE RISING
COST OF LIVING**

MINISTER'S FOREWORD

Message by the Honourable **Tan Sri Dato' Haji Muhyiddin bin Yassin** Deputy Prime Minister

The Addressing the Rising Cost of Living National Key Result Area (COL NKRA) was introduced in July 2011, two years after the Government Transformation Programme (GTP) was first launched, making it the seventh NKRA. This was done in response to the rakyat's concerns over the rising prices of essential items, which is due to escalating global fuel and food prices. The government recognised the need for an immediate response to ease the financial burden and implemented various initiatives to provide relief.

The government has always played a pro-active role in

managing the rising cost of living, even before this NKRA was introduced. For 2011, the government spent a total of RM 20.3 billion in providing subsidy for fuel alone.

The GTP 2.0 will continue with the existing initiatives as it was introduced one year ago. Apart from that, in cases where the cost of living rises substantially and if the situation warrants, the government will further develop and introduce assistance programmes, not limited to financial assistance. We are committed to ensuring that all Malaysians enjoy a sustainable standard of living.



Looking back at the GTP 1.0 (2010 - 2012)

Introduced in July 2011, the COL NKRA has already delivered fast results to the country's working and middle class. As global food and energy prices continue to increase and impact the living costs of average Malaysians, this NKRA seeks to offer immediate relief for the rakyat via immediate-term measures, while assessing strategies that will address the rising cost of living over the long term.

The various government assistance programmes have helped over 5 million

households and over 6 million primary, secondary and tertiary school students defray living costs in a variety of ways. In addition, through initiatives such as Klinik 1Malaysia, Kedai Rakyat 1Malaysia (KR1M) and Menu Rakyat 1 Malaysia, the rakyat now have access to virtually cost-free medical treatment, 30-40% cheaper groceries and affordable meals.

As a result of the measures taken, the COL NKRA recorded a number of Big Wins. Additionally, the efforts taken have driven the government to



formulate further measures under the GTP 2.0 that will help ease the rakyat's burden in a sustainable manner.

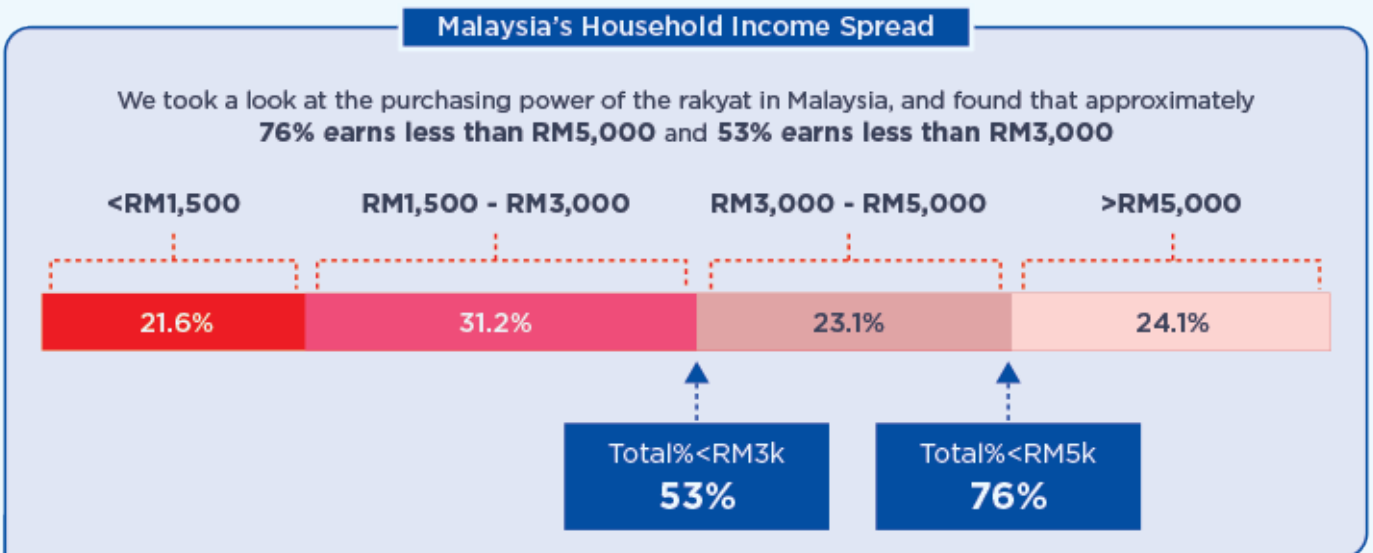


Figure 1: Malaysia's Household Income Spread

SOURCE: Department of Statistics Household Income Survey, 2009

The Government has also expanded its assistance programmes to help students with the cost of education by providing them with book vouchers and a RM100 cash assistance payment.

While these short-term impact initiatives have helped the NKRA score a number of Big Wins in the GTP 1.0,

the Government has also started to look into long-term structural changes that will help address the cost of living issue in the long run. These include studying and addressing leakages in the food supply chain, factors contributing to skyrocketing prices of homes, as well as studying the country's subsidy programme.



For example, a drastic increase in the cost of building materials such as cement, steel and sand have contributed to the higher cost of

homes, which have made them forbiddingly expensive for low- to medium-income earners (See Figure 2 below). Other factors such as increased

demand for properties, and a lack of affordable housing is exacerbating the issue.

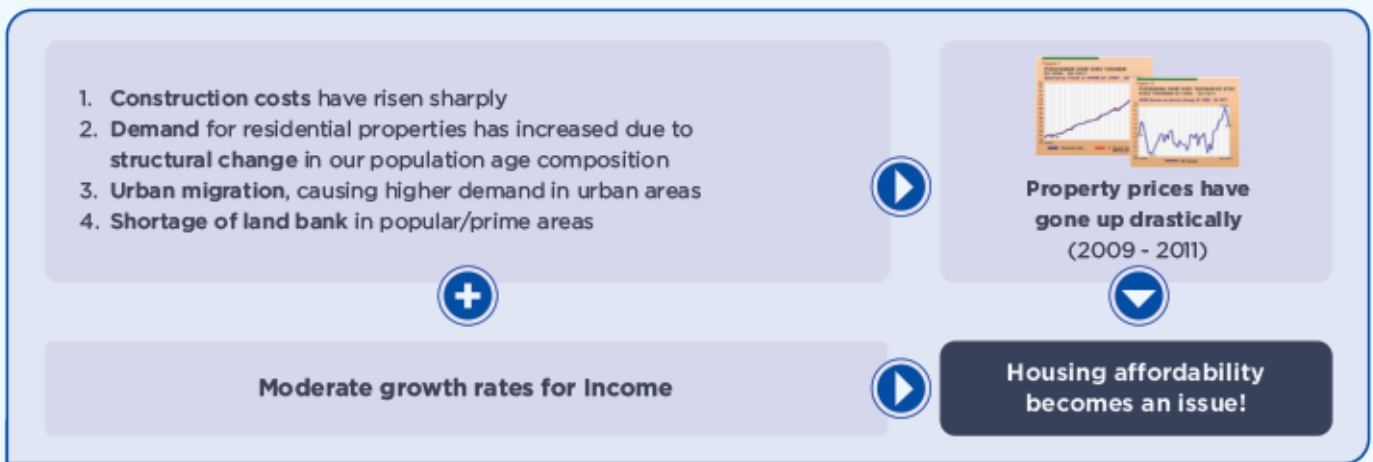


Figure 2: With rising property prices and coupled with moderate growth rates for income, housing affordability has become an issue

The Perumahan Rakyat 1Malaysia (PR1MA) programme, targets this issue by boosting the supply of affordable housing for middle-income earners thereby allowing greater home ownership and to fill the gap in supply. The programme is to be expanded in the GTP 2.0.

In the case of food items, such as cooking oil, leakages from illegal activities such as smuggling exacerbate already high prices caused by external factors. As goods are subsidised at the producer's level, goods that end up in the hands of non-Malaysian residents

directly translates into a lost subsidy as well, which is why the supply chain has to be tightened.

The same argument holds for fuel products in the country, such as petrol, diesel and natural gas where cross-border smuggling remains a pressing challenge. The subsidy bill for fuel alone in 2011 cost more than RM20 billion, which is not sustainable in the long term.

Since household incomes are not rising as fast as prices – and with the aspiration of a high-income nation still

several years away – the short-term measures need to be continued in the GTP 2.0 to ensure that all Malaysians have access to the basic necessities of home, food and medical services.

BIG WIN 1 Provided financial assistance to working class households

Under the Bantuan Rakyat 1Malaysia (BR1M) initiative, the Government offered a RM500, one-off financial aid to households earning RM3,000 and below. Announced in December 2011, the Government set aside a budget of RM2.6 billion for BR1M, reaching 5.2 million Malaysian households.



BIG WIN 2 Reduced education costs

A major success under the COL NKRA has been the abolishment of government school fees beginning in 2012. Public education in Malaysia is, for the first time, free. Other measures taken to reduce the burden of education costs are:

- RM530 million in funds channelled to 5.3 million primary and secondary students, providing RM100 in cash aid to fund back-to-school costs and other expenses
- RM260 million of RM200 Bantuan Buku 1Malaysia book vouchers distributed to 1.3 million students in public and private local institutions of higher learning, matriculation streams and Form 6



Another example is the Baucar Buku 1Malaysia (BB1M), the book voucher assistance for students of both public

and private local institutions of higher learning.

BIG WIN 3 Established affordable options for medical treatment and necessities

In order to provide the rakyat with affordable alternatives for necessities, the Government has established:

- Klinik 1Malaysia, providing affordable and virtually costless treatment at a charge of RM1, while senior citizens receive treatment for free
- Kedai Rakyat 1Malaysia, offering groceries at a 30-40% lower price than at conventional stores
- Menu Rakyat 1 Malaysia, a pre-packaged menu at a standard rate of RM2 for breakfast and RM4 for lunch in West Malaysia and RM2.50 for

breakfast and RM5 for lunch in East Malaysia.

In addition to the Big Wins above, other initiatives such as the Menu Rakyat 1Malaysia, Perumahan Rakyat 1Malaysia, Kedai Rakyat 1Malaysia and Kebajikan Rakyat 1Malaysia were also implemented.

Introduction to the GTP 2.0 (2013 - 2015)

Case for Change

The COL NKRA was introduced in response to growing concern among Malaysians over the rising cost of living, which is due mainly to the rapid increase in commodities prices that reached new highs in 2011. The rising cost of living was also seen in similar developing nations, as cost of living increases in tandem with the growth in income level. Measures under this NKRA focus on food, transport and housing - the three categories that account

for 55.3% of Malaysian household expenditure.

This new addition to the GTP Programme takes a very different approach from the other six NKRA's. Where the other NKRA's were deterministic, laying out concrete pathways and outcomes, the COL NKRA is reactive in that its measures are borne out of a close study of the economic environment.

Going forward, the government will continue to monitor the situation and implement appropriate interventions as and when necessary. Despite the successes of the GTP 1.0, food and oil prices are only expected to further increase as the world remains highly dependent on these commodities. The COL NKRA must therefore make similar adjustments to ensure that impact of future price hikes will be minimised.



Housing, food and transport accounted for 55.3% of total average Malaysian household expenditure in 2009/10.

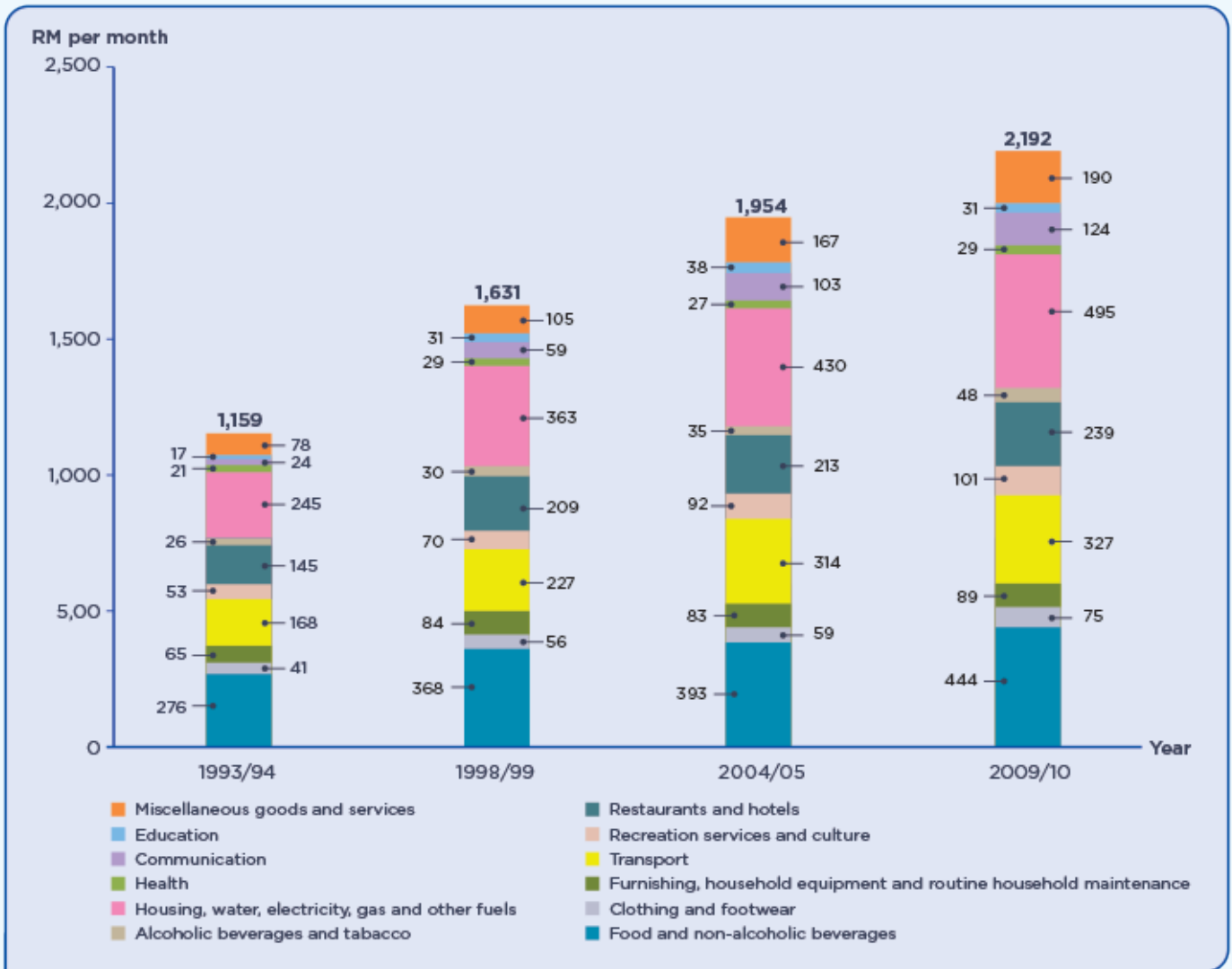


Figure 1: The average household expenditure has been increasing since 1993/1994 with a CAGR of 4.06%

While government subsidies have traditionally been used to mitigate cost pressures on the rakyat, these efforts have proved to be inefficient as subsidies mainly benefit producers

and not the households. In order to streamline the subsidy process, aid must be channelled directly to households, which is what the second phase of this NKRA proposes to do.

As such, the GTP 2.0 will see the COL NKRA reallocate subsidies as well as identify alternative initiatives that will provide households with greater purchasing power in the long term.

Overview

Due to the reactive nature of the COL NKRA programme, the government will continue to further develop and introduce assistance programmes, which are not limited to financial assistance, should the cost of living rise substantially and only in appropriate situations. The Government is also prepared to reintroduce the flagship Bantuan Rakyat 1Malaysia (BR1M)

initiative if the situation calls for further intervention with regard to the price of essential goods and services.

This means the COL NKRA programme is dependent on how the situation develops and as such, efforts undertaken throughout the GTP will also be dependent upon them. We are committed to resolving roadblocks to

ensure initiatives are implemented in an effective and efficient manner.

Initiatives such as the Menu Rakyat 1Malaysia, PRIMA, Kebajikan Rakyat 1Malaysia, Kedai Buku 1Malaysia and Kedai Kain 1Malaysia will continue to be implemented in the GTP 2.0.

Continuation of Government Assistance Programmes in the GTP 2.0

In just over a year since this NKRA's inception, initiatives tailored to bring immediate relief to the rakyat have helped over four million households and

over six million students. Government assistance programmes such as Klinik 1Malaysia, KR1M and MR1M have ensured that the rakyat now have better

access to basic necessities such as medical treatment, essential goods and affordable meals.

Klinik 1Malaysia

Since 2010, 111 Klinik 1Malaysia have been established at a cost of RM4.5 million to start the clinics and RM18.5 million to operationalise the clinics. This programme will be continued and expanded in the GTP 2.0 to

ensure that all rakyat have access to affordable basic healthcare. The clinics provide basic outpatient treatment, and functions as information centres providing health notices such as dengue fever outbreaks, as well as general

medical advice. Since its inception, Klinik 1Malaysia have treated over 4.6 million patients.

The target in 2013 is to establish 80 Klinik 1Malaysia.



Kedai Rakyat 1Malaysia (KRIM)

The rationale for the establishment of these mini-markets is to provide essential goods to low-income rakyat located in urban areas. These mini-markets are operated by local superstore operator Mydin, and emphasises the delivery of basic essential needs such as rice, cooking oil, milk powder and diapers. Products sold in KRIM shops are produced by local small and medium enterprises and packaged under the KRIM brand.

The GTP 1.0 saw the introduction of KRIM as well as the preliminary

implementation of two enhancements, which will be completed in the GTP 2.0. The second phase of the KRIM programme will see 'Mom and Pop' stores from rural areas distributing KRIM goods in their own district in order to expand the reach of KRIM products to those who need them the most. The third phase will see the KRIM franchise open to the general public thereby creating more business opportunities for the country.

There are presently more than 45 KRIM stores nationwide, and the goal is to

reach 85 by the end of this year. More information on KRIM products and prices can be found at <http://www.1pengguna.com>, which is the Government's consumer information website.

The target for KRIM is to establish 50 stores every year until 2015.



Perumahan Rakyat 1Malaysia (PR1MA)

Perumahan Rakyat 1Malaysia (PR1MA) Bhd was established under the PR1MA Act 2012 to plan, develop, construct and maintain affordable lifestyle housing for middle-income households in key urban centres.

The Prime Minister is fully aware of the financial pressures faced by the urban, middle-income population due to Malaysia's rapid urbanisation. His vision is to rebalance assistance to the rakyat in both rural as well as urban areas. PR1MA is one of various initiatives implemented to help the rakyat manage the cost of living in urban areas. While other public housing providers are mainly catering for lower income groups, PR1MA will be the first that exclusively targets this middle segment

with affordable homes ranging from RM100,000 to RM400,000.

The PR1MA programme is also aimed at community integration and will be a catalyst for wealth creation for PR1MA home buyers at the end of the moratorium period.

Key eligibility criteria:

- Individuals or Families (husband and wife) with a household income of between RM2,500 and RM7,500.
- Those working or currently living near the development locations or those planning to live or work there.
- Individuals currently owning no more than one property

PR1MA homes will be allocated through an audited balloting process. A 10-year moratorium will be imposed and homes have to be owner occupied.

PR1MA's target is to build 850,000 homes over a period of 10 to 15 years. The first phase of homes will be launched in key urban areas such as the Klang Valley, Johor Bahru, Seremban, Kuantan, Kuching and Miri. The second phase will focus on suburban areas. For the next three years, PR1MA targets to launch a total of 60,000 units (home and commercial); six new 10,000-unit projects in 2013, seven 20,000-unit projects in 2014 and seven 30,000-unit projects in 2015.

Kebajikan Rakyat 1Malaysia (KARISMA)

KARISMA is the Government's welfare programme launched in September 2011, and is targeted at the underprivileged, including senior citizens, the disabled, children and single mothers. Widows of policemen and military personnel are also eligible to receive the financial aid under this programme. The goal is

to provide financial assistance ranging from between RM100 and RM450 a month to the recipients.

In 2012 itself, a total of RM1.4 billion has been budgeted for KARISMA and will be distributed through existing programmes run by the Ministry for

Women, Family and Community Development, Yayasan Kebajikan Negara (National Welfare Foundation), and the National Population and Family Board (Lembaga Penduduk dan Pembangunan Keluarga Negara).

Kad Siswa 1Malaysia

The Ministry of Domestic Trade, Co-operatives and Consumerism created the Kad Siswa 1Malaysia (KADS1M), or the Graduate's 1Malaysia Discount Card, to further help alleviate the cost of living for students in institutions of higher learning in both public and private sector throughout the country.

KADS1M is given free to all students in institutions of higher learning that fulfills these criteria:

- Enrolled in long term courses for a duration of 1 year and above (certificates, diploma, and degree);
- Full time students; and
- Citizens of Malaysia

Discounts offered by companies participating are for selected goods and services that are subjected to the rate and terms set by the individual companies. For full information on the company, discount rate and terms of discount, please visit <http://www.1pengguna.com/kads1m>.



Menu Rakyat 1Malaysia

Menu Rakyat 1Malaysia aims to help low-income earners and students by providing affordable breakfasts and lunches not exceeding RM2 and RM4 respectively for West Malaysia and RM2.50 and RM5 for East Malaysia. This programme is implemented in collaboration with private restaurants

and food operators who participate on a voluntary basis. There are presently 2,400 participants of this programme, and the goal is to raise the number to 3,000 by the end of 2012. Information about the location of participating premises nationwide, food menu and price monitoring can be found at the

official website
<http://www.1pengguna.com>

The target for MRIM is the introduction of 1,000 new locations every year until 2015.

Kedai Buku 1Malaysia

This programme will be established in 2013 to further complement the Bantuan Buku 1Malaysia programme. It shares a similar objective with the

original programme, namely to alleviate the cost associated with education. The objective's coverage will be further expanded to include primary and

secondary students as well. Further details of the programme will be announced soon.

Kedai Kain 1Malaysia (KK1M)

Similar to KR1M, KK1M will see textile shops set up under the KK1M brand to offer more affordable products to the rakyat. On July 14, 2012, the first outlet was opened in Hulu Langat,

Selangor. The target is to establish six more outlets this year and to set up another 30 outlets in 2013 in Peninsular Malaysia.



Subsidies for Essential Items

The Government subsidy bill has been on an increasing trend since 2009 due to the global fluctuation of fuel and food prices. Presently, the Government subsidises two essential groups of items:

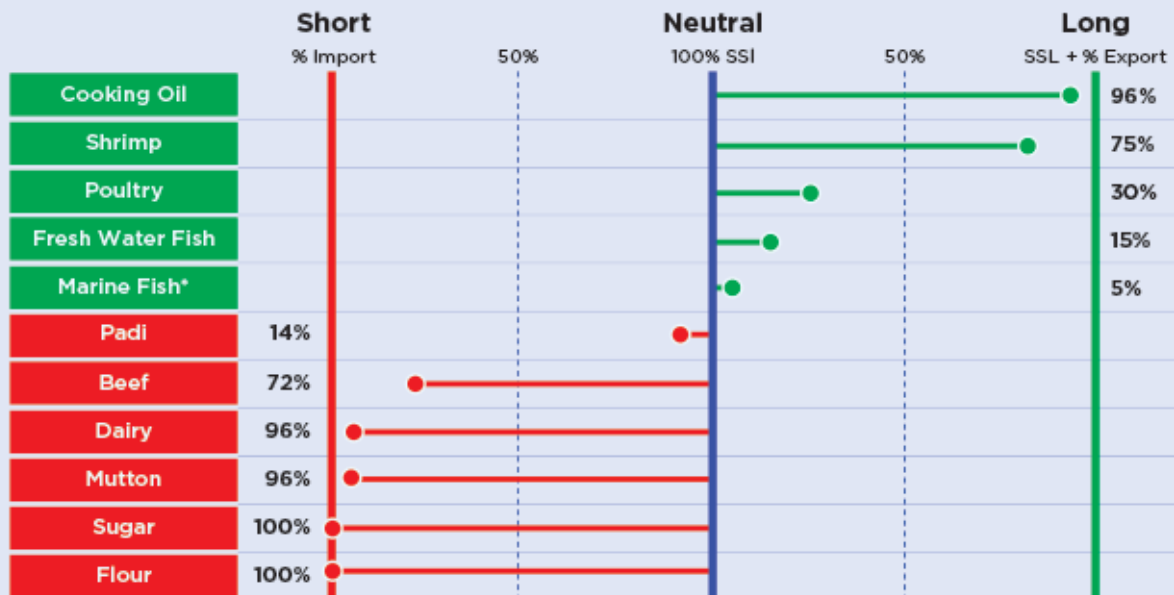
- **Food**
Sugar, flour, cooking oil, rice
- **Fuel**
RON95 petrol, diesel, cooking gas

For 2012, the subsidy for fossil fuel (petrol, diesel and LPG) is expected to cost RM19.5 billion. An estimated RM2.4 billion will go towards subsidising food products. Despite the high cost of subsidies, the Government is still committed to assist the rakyat by deferring the implementation of subsidy rationalisation.



Food Security

Recommended SSL 'positioning' to take for the key food items by 2020



* Marine Fish position to be finalised after the completion of the Coastal Maximum Sustainable Yield Survey

Reliance on imported food items including raw ingredients has resulted in the increase of the food bill in overall household expenditure. Malaysia imported RM3.4 billion of processed food in 2011, and has only attained a self-sustainable level (SSL) for a handful of raw ingredients for cooking.

The Food and Security Lab has analysed Malaysia's supply and demand for each category of food, taking into account criteria such as the country's competitiveness in producing food against neighbouring farming countries, and made the following findings:

- Malaysia is able to produce high-quality poultry products at a competitive cost, and, in the long term the country should be able to produce a surplus over and above local demand. Similar studies were

Increasing local productivity

Under NKEA Agriculture, only well-run and top-performing private companies were selected to become anchor companies to market and distribute produce to supermarkets. These anchor companies play the role of vertically integrating the production process, i.e. from seed to production until marketing and export. It is the hope that existing farmers will be able to benefit from the transfer of skills and technology from the existing anchor companies when the initiative has been integrated with the NKEA.

conducted for other categories of food.

- Land allocated under the National Physical Plan needs to be reallocated to set appropriate allocation levels at both the federal and state levels.
- The food value chain, i.e. farming, wholesaling, retail distribution and sales of produce, need to be better coordinated to alleviate concerns that farmers further up the value chain do not benefit equitably.

The recommendations from the Food Security Lab were greatly considered, and the possibility of greater integration with the NKEA Agriculture Entry Point Projects has also been taken into account. This would subsequently allow the private sector to take the lead in implementing these projects via prudent public investments.

The scope of NKEA Agriculture will also be expanded to encourage local farmers to work as contract farmers for the anchor company's flagship. This will not only increase the revenue to the farmers but at the same time ensure cheaper farm produce due to increased farm production.

At the same time, existing small- and medium-scale processed food producers will be provided a common facility that allows them to gain access to equipment and improve standards



The initiatives are divided into two major components:

- Increasing local productivity
- Integrating the value chain

to increase consumer confidence in their produce. By adhering to strict food preparation procedures (i.e. Good Manufacturing Practice, HACCP) which will be set up through the anchor company, small-scale food producers can utilise their facilities for a reasonable fee. This initiative is an ongoing Entry Point Project under NKEA Agriculture.

Integrating the value chain

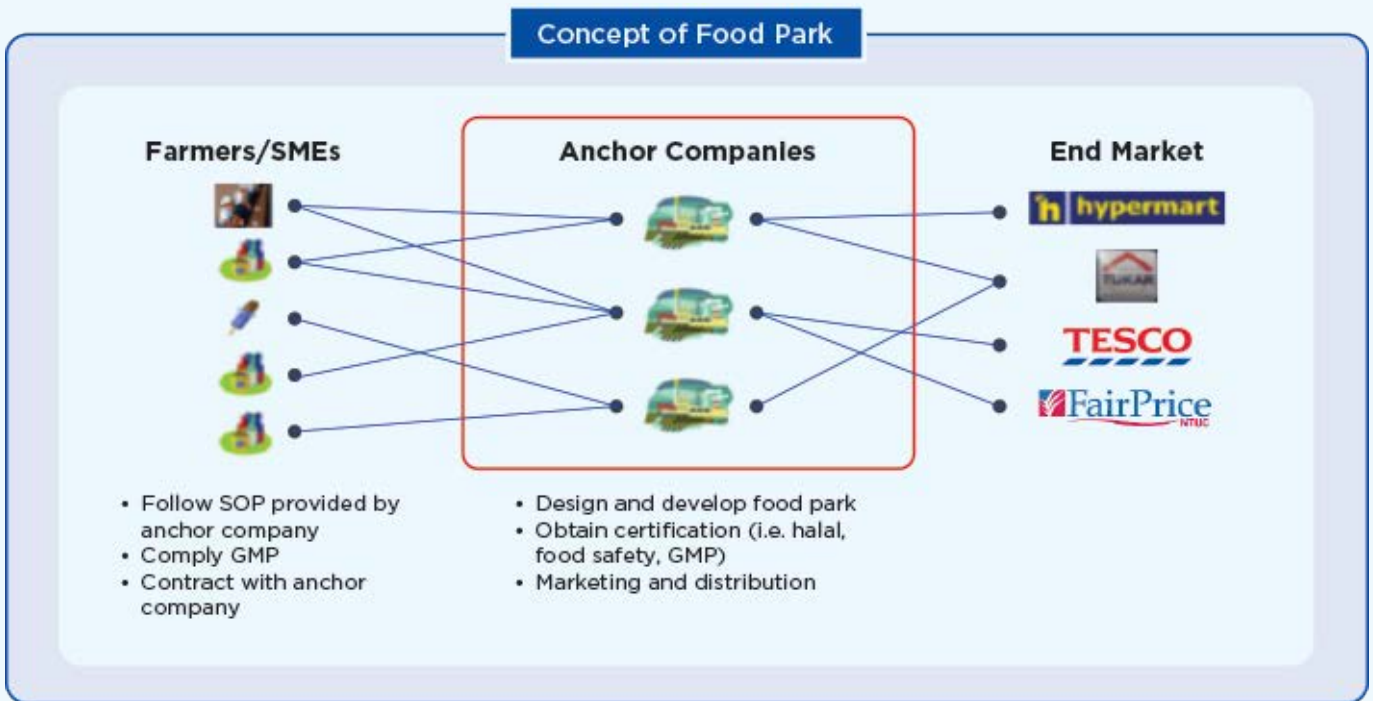
The goal is to reduce the price of raw ingredients by increasing their supply. Another factor that affects retail pricing is the number of middlemen within the supply chain who takes the products from the farm to the consumer. The Government has thus established multiple retail points such as Pasar Tani, Agro Bazaar and KRIM in an effort to mitigate handling charges.

With increased production from the farm, the anchor company will be

paired with government agencies such as FAMA and the Ministry of Domestic Trade, Co-operatives and Consumerism to market directly to the consumer. It is expected that retail prices will be reduced by 5% to 8%.

On processed food, initiatives such as Produk 1Malaysia will be further expanded. By establishing guidelines for 1Malaysia products, a greater number of rakyat will be able to enjoy access to cheaper food items. This effort, coupled

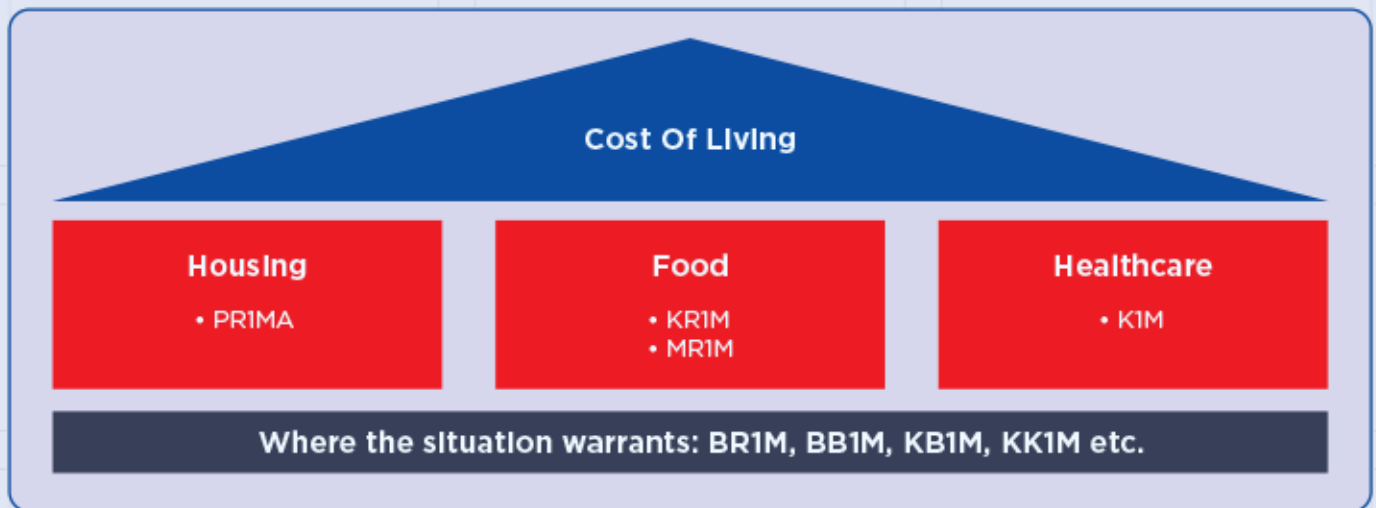
with the integration of small-and medium-scale food processors with an anchor company, will make a wider and cheaper selection of processed food available.





Summary of Initiatives

Under the GTP 2.0, the COL NKRA will use a multi-pronged approach aimed at managing the impact of the rising costs of goods and services, and will continue to be reactive in nature. These efforts will look to contain household spending on food, housing and transport to about 50% of household income.



Targets for COL NKRA Initiatives				
		2013	2014	2015
KR1M	New KR1M shops	50	50	50
MR1M	New participating outlets	1,000	1,000	1,000
K1M	New K1M clinics	80		
PR1MA	New projects launched	6	6	7
	Number of home units	8,600	10,200	11,400
KK1M	New KK1M shops	30		