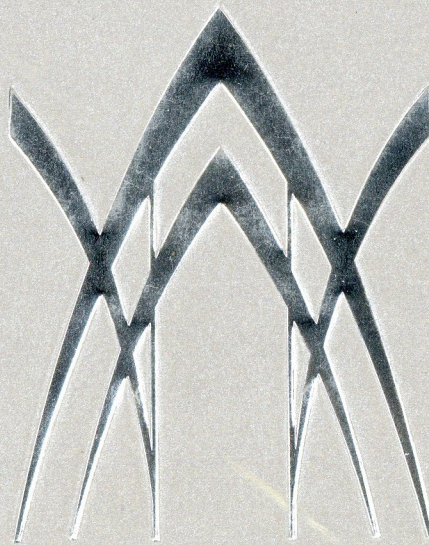


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2012 / 2013



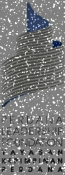
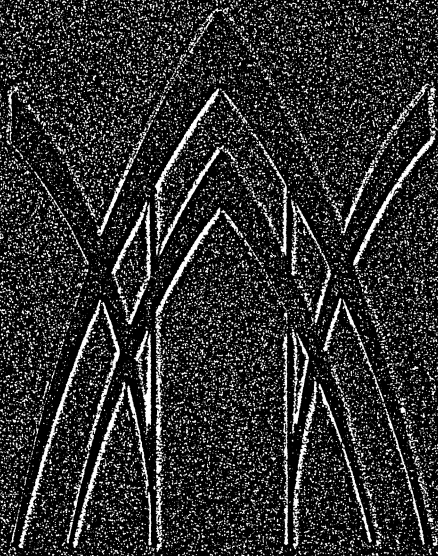
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MINISTRY OF FINANCE
MALAYSIA



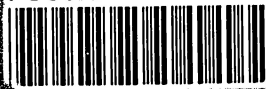
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ECONOMIC REPORT 2012/2013

PUSTAKA PERDANA



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Ministry of Finance Malaysia



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MINISTER OF FINANCE MALAYSIA

PREFACE

In 2012, world economic growth is again shrouded with uncertainties brought about by possible contagion effects of the euro area sovereign debt and banking crises, tepid economic recovery in the US, a slower growth in emerging economies, and political tensions in the Middle East. Despite the challenging external environment, Malaysia's Gross Domestic Product (GDP) expanded 5.1% during the first half of the year driven by strong domestic economic activities. For the whole year, GDP is expected to record a growth of 4.5% – 5% supported by strong domestic activity as well as accommodative fiscal and monetary policies.

We have embarked on various transformation programmes since 2009 to boost our competitiveness and transform Malaysia into a high-income and developed nation by 2020. The transformation programmes have yielded positive results. Malaysia improved its competitiveness ranking from 16th to 14th in the IMD 2012 World Competitiveness Yearbook; is among the top three global services destinations; and remains an attractive destination for foreign investment.

In particular, the progress of the Economic Transformation Programme (ETP) has been encouraging, with the implementation of 138 initiatives valued at RM205.2 billion generating Gross National Income (GNI) of RM136.4 billion and creating 372,181 job opportunities as of 13 September 2012. Meanwhile, building on the success of the Government Transformation Programme (GTP), additional initiatives have been introduced under GTP 2.0 to further improve public transport, rural basic infrastructure and education as well as to combat crime and corruption more effectively.

The Community Transformation Programme (CTP) was introduced to reach out directly to the rakyat and enable all communities to fully benefit from the progress of the nation. The CTP comprises two key initiatives, namely the Urban Transformation Centre (UTC) and the Rural Transformation Centre (RTC). The UTC, which houses federal and state services-oriented agencies and community facilities, will enable the rakyat in urban areas to access public services and enjoy community facilities under one roof. Meanwhile, the RTC is aimed at bringing economic development to the rural population as well as a centre for various services by the Government and the private sector.

We are a caring Government that emphasises the well-being of the rakyat. In this regard, we have introduced several people-centric programmes to benefit all segments of society. Among others, the programmes including *Bantuan Rakyat 1Malaysia* (BR1M)

and 1Malaysia Privilege Card (1MPrivilege) are aimed at alleviating the financial burden of the rakyat. We have also raised the salaries of civil servants to mitigate the rising cost of living and extended the retirement age in line with longer life expectancy. In addition, national minimum wages have been introduced and the retirement age for the private sector extended to 60 years.

Recognising that youths are the nation's most dynamic asset, the Government has introduced several initiatives to enhance their participation in the nation's development and transformation agenda. These include the 1Malaysia For Youth (1M4U) initiative to provide a common platform for youths to carry out volunteer activities for the benefit of targeted communities and social groups; and the *Genovasi* initiative to equip youths with innovative skills for wealth creation besides honing their leadership qualities.

In ensuring sustainable growth and social progress, the Government will be prudent in its financial management and is committed to reducing the deficit and debt levels over the medium term. Amid a challenging external environment, we will continue to undertake various measures to enhance domestic resilience. These measures include further developing human capital, improving rural basic infrastructure, especially in Sabah and Sarawak, spurring domestic investment, strengthening the public-private partnership as well as increasing productivity and innovation.

We have put in place various programmes and introduced several measures to develop the country and improve the well-being of the rakyat. All these efforts require undivided support from all quarters. Let us leverage the strength of our diversity and our solid economic fundamentals towards transforming Malaysia into a high-income and developed nation by 2020.

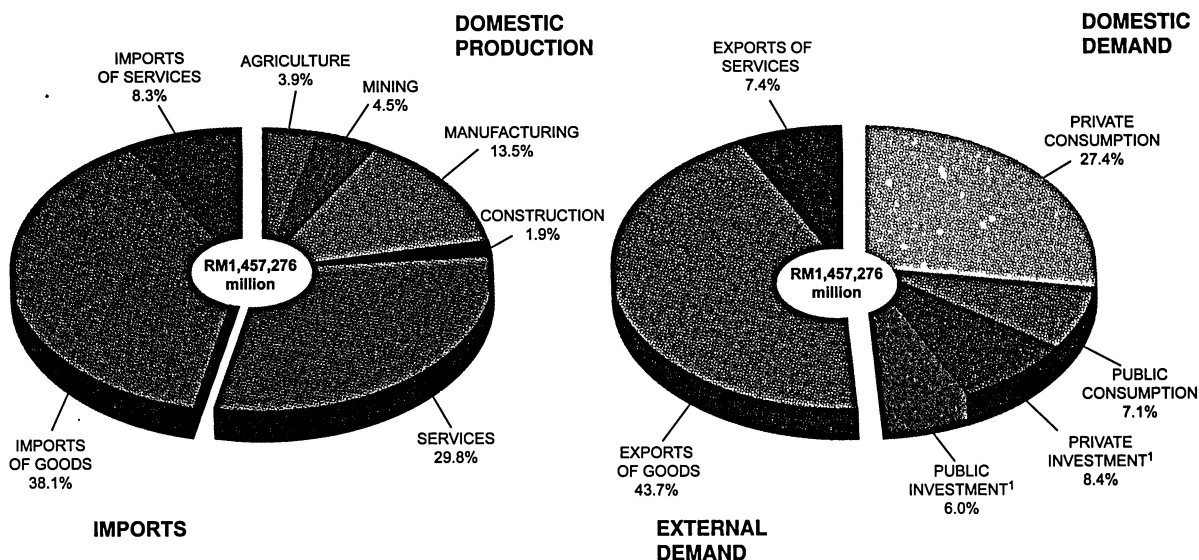
United, we can face challenges and turn our vision into a reality.



Dato' Sri Mohd Najib

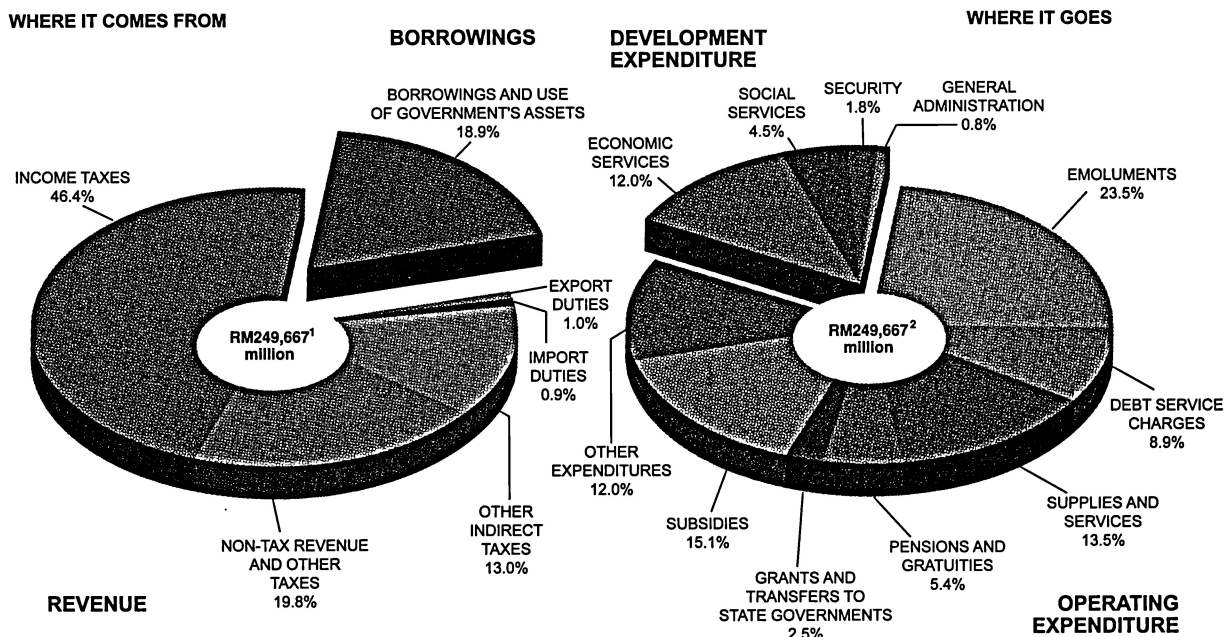
Putrajaya
28 September 2012

THE ECONOMY 2013 AT CONSTANT 2005 PRICES



¹ Includes change in stocks.
Source: Ministry of Finance, Malaysia.

THE FEDERAL GOVERNMENT BUDGET 2013



¹ Includes revenue, borrowings and use of Government's assets.

² Excludes contingency reserves.

Source: Ministry of Finance, Malaysia.



MALAYSIA: KEY DATA AND FORECAST

		AREA Square kilometres					
Malaysia 330,290		Peninsular Malaysia 131,846		Sarawak 124,450		Sabah ¹ 73,994	
		2011		2012 ⁹		2013 ¹⁰	
POPULATION (million)		28.96		29.34		29.71	
		RM million	% growth	RM million	% growth	RM million	% growth
DOMESTIC PRODUCTION							
Gross Domestic Product (constant 2005 prices)		709,261	5.1	743,543	4.5 – 5.0	780,983	4.5 – 5.5
Agriculture		54,299	5.9	54,614	0.6	55,919	2.4
Mining and quarrying		62,334	-5.7	63,299	1.5	65,012	2.7
Manufacturing		178,333	4.7	185,822	4.2	194,890	4.9
Construction		21,370	4.6	24,690	15.5	27,462	11.2
Services		384,272	7.0	405,486	5.5	428,106	5.6
NATIONAL INCOME AND EXPENDITURE							
Gross National Income (current prices)		859,109	11.8	908,154	5.7	979,006	7.8
Final consumption expenditure:							
Public		114,750	18.4	132,394	15.4	131,444	-0.7
Private		418,473	10.8	456,384	9.1	493,795	8.2
Gross fixed capital formation:							
Public ²		83,213	2.7	99,965	20.1	106,077	6.1
Private		111,789	16.6	127,892	14.4	148,434	16.1
Exports of goods and services		806,702	8.2	830,320	2.9	866,064	4.3
Imports of goods and services		666,645	9.5	711,421	6.7	747,805	5.1
Gross National Income (constant 2005 prices)		664,609	4.9	687,271	3.4	736,132	7.1
Gross National Savings (current prices)		304,907	12.1	297,074	-2.6	330,158	11.1
Per Capita Income (current prices, RM)		29,661	10.3	30,956	4.4	32,947	6.4
Purchasing Power Parity, USD		15,190	7.3	15,676	3.2	16,368	4.4
FEDERAL GOVERNMENT FINANCE							
Revenue		185,419	16.1	207,246	11.8	208,650	0.7
Operating expenditure		182,594	20.4	202,617	11.0	201,917	-0.3
Current account surplus		2,825		4,629		6,733	
Development expenditure (net)		45,334	-11.6	46,927	3.5	46,726	-0.4
Overall deficit		-42,509		-42,297		-39,993	
% to GDP		-4.8		-4.5		-4.0	
Domestic borrowings (net)		45,069		43,344		-	
Foreign borrowings (net)		550		-513		-	
Change in assets		-3,110		-534		-	

MALAYSIA: KEY DATA AND FORECAST (cont'd)

	2011		2012 ^a		2013 ¹⁰	
	RM million	% growth	RM million	% growth	RM million	% growth
External debt³	257,362	13.3	269,506	–	–	–
Medium and long-term debt	153,509	4.0	159,286	–	–	–
Federal Government	18,103	8.1	17,907	–	–	–
Non-Financial Public Enterprises (NFPEs)	69,647	-1.0	69,405	–	–	–
Private sector	65,759	8.7	71,975	–	–	–
Short-term debt	103,853	30.7	110,219	–	–	–
Debt service ratio (percent)	10.3		10.5		–	
	RM million		RM million		RM million	
BALANCE OF PAYMENTS (NET)						
Current account	97,108		68,532		71,862	
Goods	148,071		128,813		126,478	
Services	-8,013		-9,913		-8,220	
Income	-21,971		-28,065		-22,788	
Current transfers	-20,979		-22,302		-23,609	
Financial account	22,254		–		–	
Overall balance	94,682		–		–	
	RM million	% growth	RM million	% growth	RM million	% growth
EXTERNAL TRADE						
Total exports	694,548	8.7	712,954	2.7	740,724	3.9
of which:						
Manufactures	504,182	3.3	524,240	4.0	547,784	4.5
Agriculture	91,358	32.9	82,466	-9.7	85,285	3.4
Mining	88,049	20.3	91,039	3.4	91,694	0.7
Total imports	574,232	8.6	611,496	6.5	639,875	4.6
of which:						
Intermediate goods	385,269	5.4	391,357	1.6	403,121	3.0
Capital goods	80,945	9.7	99,674	23.1	110,698	11.1
Consumption goods	41,027	19.0	45,495	10.9	47,991	5.5
Balance of trade	120,316		101,458		100,849	
Total trade	1,268,780		1,324,451		1,380,599	
	Index	% growth	Index	% growth	Index	% growth
PRICES						
Consumer Price Index ⁴ (2010 = 100)	103.2	3.2	104.6	1.9	–	–
Producer Price Index ⁴ (2005 = 100)	127.8	9.0	129.5	1.9	–	–
	Thousands	% growth	Thousands	% growth	Thousands	% growth
LABOUR						
Labour force ⁵	12,645.7	2.3	12,923.9	2.2	13,195.3	2.1
Unemployed ⁵ (Unemployment rate)	390.2	(3.1)	418.9	(3.2)	406.8	(3.1)

MALAYSIA: KEY DATA AND FORECAST (cont'd)

	2011		2012	
	End-July		End-July	
	RM million	% annual change	RM million	% annual change
MONEY AND BANKING				
Money Supply				
M1	235,477	14.5	268,463	14.0
M2	1,127,904	11.6	1,290,030	14.4
M3	1,156,436	11.6	1,312,782	13.5
Banking System (including Islamic banks)				
Deposits	1,204,892	11.3	1,367,597	13.5
Loans	949,864	12.9	1,073,053	13.0
Loans-deposits ratio ⁶ (%)	82.2		82.1	
	July		July	
Interest Rates (average rates, %)				
3-month interbank	3.34		3.17	
Commercial banks				
Fixed deposits				
3-month	3.00		2.98	
12-month	3.23		3.18	
Savings deposit	1.09		1.04	
Base lending rate (BLR)	6.54		6.53	
Treasury bills (3-month)	2.94		3.03	
Malaysian Government Securities⁷				
1-year	2.91		2.98	
5-year	3.49		3.21	
	End-August		End-August	
	RM per unit	% annual change ⁸	RM per unit	% annual change ⁸
Movement of Ringgit				
Special Drawing Rights (SDR)	4.7593	-0.4	4.7599	-0.01
US Dollar	2.9803	5.3	3.1315	-4.8
Euro	4.3171	-7.4	3.9261	10.0
100 Yen	3.8834	-5.4	3.9828	-2.5
Bursa Malaysia				
FTSE Bursa Malaysia Kuala Lumpur Composite Index	1,447.27		1,646.11	
Market capitalisation (RM billion)	1,241.89		1,431.58	

¹ Includes the Federal Territory of Labuan.

² Includes investments of Non-Financial Public Enterprises (NFPEs).

³ For 2012, data is at end-June 2012.

⁴ January to July 2012.

⁵ Estimates by Economic Planning Unit.

⁶ Excludes transactions by financial institutions.

⁷ Market indicative yield.

⁸ Annual rate of appreciation (+) or depreciation (-) of the ringgit.

⁹ Estimate.

¹⁰ Forecast.





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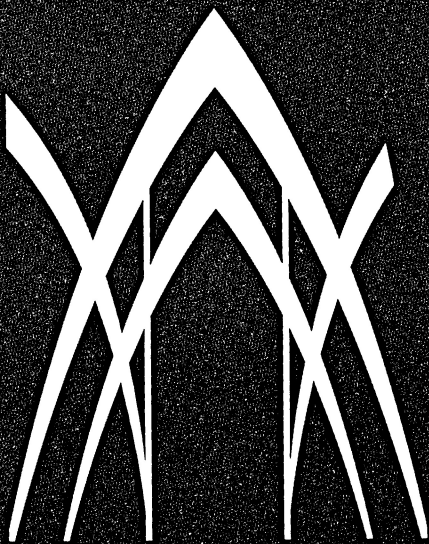
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1

Economic Management and Prospects

ECONOMIC REPORT 2012/2013



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Economic Management and Prospects

Overview

Malaysia made further progress towards a high-income and developed nation in 2012 despite heightened uncertainties in the external sector. Prospects for global growth remain challenging, weighed down by the ongoing sovereign debt crisis in the euro area as well as the slower-than-expected recovery in the United States (US). The spillover from these episodes has affected growth in the advanced and emerging economies to varying degrees, through trade and financial channels. Against this backdrop, the Government introduced the National Transformation Policy (NTP) in the 2012 Budget which consolidates several innovative transformation programmes to strengthen domestic demand and steer the nation in achieving its mission of inclusive and sustainable growth. The timely implementation of programmes under the NTP, including the Tenth Malaysia Plan (10MP) projects, partly cushioned the domestic economy from the effects of a weaker external sector and enabled the nation to record a credible growth of 5.1% in the first half of 2012. With the implementation of programmes under the NTP intensifying and the related multiplier effects gaining traction, the economy is expected to expand further in the second half of 2012 and beyond.

The 1Malaysia, People First, Performance Now principle which permeates all programmes under the NTP is aimed at uniting all Malaysians to face the challenges ahead as a nation. The Government Transformation Programme (GTP), an initiative under the NTP, was launched to strengthen public service delivery to facilitate the outcomes under the seven National Key Result Areas (NKRAs) and 12 National Key Economic Areas (NKEAs). The Economic Transformation Programme (ETP) another effort under the NTP, sets the targets for the development of the NKEAs towards a high-income and developed

economy. Likewise, the Political Transformation Programme (PTP) is aimed at creating a functional democracy by balancing the nation's security needs and individual freedom, taking into account the complex national plurality and threats of global terrorism. To leverage digital technology, an important enabler for the country's transformation, the Digital Transformation Programme or Digital Malaysia was launched in 2011 with strong emphasis on productivity, innovation and creativity. A new initiative under the 2012 Budget is the Rural Transformation Programme (RTP) which complements the national transformation agenda for rural areas.

In addition to the transformation initiatives and active involvement of the private sector in these programmes, Malaysia's strong economic fundamentals provide sufficient buffers against further shocks from the external sector. Despite uncertainties in global growth, the Malaysian economy is expected to expand between 4.5% and 5% in 2012, mainly supported by domestic demand. On the demand side, strong private consumption and investment activities will support growth, while economic expansion on the supply side will be driven by improvements in technology and labour productivity as well as the efficient use of capital. With the external sector gradually improving in 2013, the forecast for the nation's Gross Domestic Product (GDP) growth is between 4.5% and 5.5% mainly driven by domestic demand.

Performance Review – 2012

Fiscal Operations

As an open and trade-reliant economy, Malaysia continues to be affected by the uncertainties and challenges in the global economy. Therefore, fiscal policy initiatives are designed to sustain



the growth momentum in the near term as well as facilitate the long-term transformation of the economy. The Government remains steadfast in its commitment towards prudent financial management. The fiscal deficit is expected to decline further to 4.5% in 2012, with debt-to-GDP ratio of 53.7%. The debt remains sustainable while the deficit will be financed mainly through domestic sources. Given the ample liquidity in the financial system, the borrowings are not expected to affect the private sector's access to funds.

Total Federal Government expenditure is expected to be at RM252.4 billion in 2012 (2011: RM229 billion), an increase of 9.4% over the original estimate of RM230.8 billion. Additional allocations were required during the year for the one-off cash transfers, book vouchers and financial incentives to targeted groups to help ease the rising cost of living; payment of subsidies; improvements in the salary scheme and adjustments in cost of living allowances for civil servants; pension payments; toll compensation; and utilities and general maintenance. Increased commitments undertaken during the year will be supported by favourable revenue collection which is expected to increase 11.8% to RM207.2 billion. Operating expenditure will focus on continuously improving service delivery and the well-being of the rakyat, while development expenditure will be channelled to programmes and projects that enhance the overall efficiency and competitiveness of the economy as well as its long-term productive capacity. Public finances will be strengthened through various measures to ensure fiscal sustainability and boost investor confidence.

The Government has undertaken several measures to ensure public finances remain sound. All programmes and projects are carefully scrutinised and assessed to ensure spending is purposeful. A two-year rolling plan has been introduced to provide flexibility in expenditure management. This affords the Government sufficient space to review policies and priorities to meet the demands of an increasingly challenging economic environment as well as sustain macroeconomic stability. Project implementation is rigorously

monitored to ensure timely completion while Government presence in the economy has been systematically reduced to attract greater private sector involvement. Administrative rules, regulations and procedures are regularly streamlined to improve service delivery and investment climate as well as to contain cost. In addition, the findings in the Auditor-General's report are incorporated to further strengthen the administration and enhance accountability, particularly in procurement. The Government is committed to competitive bidding for procurement of non-strategic goods and services to ensure greater transparency and obtain value-for-money. Government-owned companies are also subject to close scrutiny to ensure they remain viable while meeting their strategic objectives.

Operating expenditure will be reined in through cutbacks in discretionary spending without affecting the quality of service delivery. The size of the civil service will be controlled through audit of posts; redeployment of excess staff; greater inter-agency cooperation and comprehensive use of information and technology (IT) to deliver and assess the effectiveness of public services. Over the medium term, initiatives underway to improve fiscal sustainability include the implementation of accrual accounting in Federal Government; adoption of outcome-based budgeting; and rationalisation of fiscal incentives to industries. Subsidy rationalisation will continue to be holistic and targeted, taking into account the numerous and varied social assistance programmes across agencies. Comprehensive approaches are also being considered to better manage the Government's obligations which have long-term fiscal implications. Areas under close scrutiny include Federal Government debt management strategies; pension liabilities; and administration of housing loan fund for civil servants and higher education student loan fund.

Measures to boost revenue include monetisation of assets through outright sale, lease or joint development; improving efficiency of tax administration and compliance through integrated use of IT; and broadening the coverage of tax audit, investigations and enforcement. Capacity



building for tax personnel will be continuously enhanced. Constructive engagement with the public to raise awareness will also be continued. The comprehensive measures adopted by the Government to enhance its financial position will promote fiscal sustainability over the longer term while providing sufficient flexibility to meet new and unforeseen commitments and challenges during the year.

Monetary and Financial Developments

During the first seven months of 2012, monetary policy was focused on supporting sustainable growth, ensuring price stability and avoiding the build-up of financial imbalances. Given the evolving external and domestic conditions, the Overnight Policy Rate (OPR) was maintained at 3.00%, and the Statutory Reserve Requirement (SRR) at 4.00%.

Despite uncertainties and volatilities in the global financial markets and weakening global growth, the domestic financial system remained resilient due to the strong governance and risk management practices, which resulted in robust balance sheets, strong asset quality and healthy liquidity positions. During the first seven months of 2012, financing through the banking system remained strong with loan applications and disbursements increasing 10% and 20.9%, respectively. As at end-July 2012, the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 14.4% and 12.7%, respectively, well above the current minimum regulatory requirement.

Malaysia continues to be the largest sukuk market in the world, accounting for 71% of the global sukuk issued in the first seven months of 2012. This included the world's single largest sukuk issued by PLUS Berhad in January totalling RM30.6 billion. Total Islamic banking assets grew 20.6% to RM469.5 billion as at end-July 2012. The pioneering initiative by a joint venture between a Malaysian Islamic fund management company and a foreign entity in launching three equity funds which are in compliance with the Undertakings for Collective Investment in

Transferable Securities (UCITS) and Shariah, marked another milestone in efforts to deepen, broaden and further internationalise the Islamic capital market. These UCITS-compliant funds basically have 'European passports' and can be distributed among European Union member states without any additional authorisation.

Strategic Performance of the 2012 Budget

The 2012 Budget with the theme "National Transformation Policy: Welfare for the Rakyat, Well-Being of the Nation" clearly reflects the Government's commitment in ensuring sustainable growth and enhancing the well-being of the rakyat. The Budget focused on five main areas, namely accelerating investment; generating human capital excellence, creativity and innovation; rural transformation programme; strengthening the civil service; and easing inflation and enhancing the well-being of the rakyat. Several projects under the 2012 Budget have been completed while other initiatives are progressing as scheduled.

First Focus: Accelerating Investment

Higher gross fixed capital formation increases a nation's potential output and the overall demand in the economy. Given its importance, the Government has introduced several new strategies to accelerate investment, including liberalising the services subsectors, enhancing private and public sector collaboration, spurring regional development and focusing on developing niche growth areas. Following the implementation of these measures, total investment increased 21.3% in the first half of 2012 (January-June 2011: 6%) driven by a 22.4% growth in real private investment.

Liberalising the Services Subsectors

Under the NTP, the services sector is envisaged to drive the economy towards a high-income and developed nation by 2020. In 2011, the sector accounted for 54.2% of GDP and 53.4% of total employment. To further strengthen the sector,



the Government announced the liberalisation of 17 services subsectors for implementation in 2012. As at end-June 2012, 10 subsectors were opened to 100% foreign equity ownership. These subsectors are telecommunications for category of applications service provider licence; technical and vocational schools; technical and vocational schools for students with special needs; private hospitals; departmental and specialty stores; incineration services; accounting and taxation services; skills training centres; courier services; and international schools. The liberalisation of another seven subsectors¹ will be implemented in stages in 2012. The liberalisation of all 17 subsectors is to be completed by end-2012 together with an additional subsector, that is, quantity surveying services. The liberalisation initiative is expected to further boost investments in the services sector.

Second Rolling Plan

The year 2012 marks the commencement of the second rolling plan (RP2) under the 10MP. The RP2 gives emphasis to high-impact development projects to spur economic growth. Among projects under the RP2 include the Gemas – Johor Bahru double-tracking rail project which is expected to be launched by end-2012. Another project is the 184 kilometre (km) East Coast Jabor – Kuala Terengganu Expressway which is to be completed by 2014. Other projects, namely Segamat – Tangkak Expressway, as well as the Central Spine Expressway and Kota Marudu – Ranau road are expected to be completed by 2015. In addition, with the relocation of the current military and police installations, the redevelopment of Sungai Besi, Kuala Lumpur Air Base into a modern and vibrant township is expected to commence by end-2012.

A sum of RM2.5 billion was allocated for the Public-Private Partnership (PPP) Facilitation Fund in 2012 as a tipping point to assist the private sector undertake high-value strategic projects. As at end-August 2012, RM1.8 billion has been expended on several projects, including the

Kuantan High-Tech Park, Sabah International Convention Centre and Plaza Merdeka Shopping Centre in Kuching, Sarawak. These projects are expected to further enhance private investment activities.

Corridor Development

In tandem with the Government's commitment to leverage the comparative advantage of different regions, the 2012 Budget allocated RM978 million to accelerate development of the five growth corridors in the country. **Iskandar Malaysia** was provided with RM308.5 million for the construction of highways and elevated interchanges. In this regard, the 14.5 km Coastal Highway project costing RM69 million was completed in April 2012. The highway reduces travel time between Johor Bahru, Senai Airport and Singapore to Nusajaya by 15 minutes. In addition, the Marlborough College enrolled its first batch of students in August 2012, while LEGOLAND Malaysia Theme Park and Lifestyle Retail Mall commenced operations in September 2012.

The **Northern Corridor Economic Region (NCER)** was allocated RM51.6 million for the implementation of 20 initiatives, including the development of Kulim High-Tech Park, Pauh Industrial Zone and Selinsing Aquaculture Complex. Of this, RM10.5 million was allocated for the upgrading of infrastructure in Kulim High-Tech Park and the project is expected to be completed by 2013. Furthermore, several private sector-led initiatives, including the Collaborative Research in Engineering Science and Technology (CREST), Infineon Technologies (Kulim) Sendirian Berhad and Panasonic Solar projects are in progress. The **East Coast Economic Region (ECER)** received a further boost of RM349.6 million in the 2012 Budget. A sum of RM13.5 million was allocated for tourism-related projects in Endau-Rompin National Park and Lake Chini State Park as well as for Heritage Tourism in Pekan, Pahang. Another RM44.7 million was allocated for agriculture projects, including the Integrated

¹ The subsectors are legal services; telecommunications for the category of network facilities provider and network service provider licences; private universities; medical specialist services; dental specialist services; architectural services; and engineering services.



Fishery Park in Tok Bali, Kelantan, Integrated Pineapple Farm Development in Rompin, Pahang as well as the Fish Marine Seed and Shrimp Production and Marketing Centre in Merchong, Pahang. Furthermore, in the first half of 2012, ECER attracted investments worth RM10.8 billion in the manufacturing sector as well as in the tourism, aquaculture and education subsectors. Among major investments include a fully-integrated ecotourism resort in Mersing, Johor, an integrated tourism resort in Cherating and a halal gelatine plant in the Gambang Halal Park, Pahang.

An allocation of RM62.3 million was provided for the **Sarawak Corridor of Renewable Energy (SCORE)** for several projects, including the design of access roads and internal roads to the Tanjung Manis Halal Hub, water supply in Samalaju and a feasibility study for a Science Park in Mukah. The design of access roads to the Tanjung Manis Halal Hub will be completed in October 2012. The water supply project in Samalaju is expected to be completed by the second quarter of 2013 and will meet the daily demand of 90 million litres in Samalaju. The **Sabah Development Corridor (SDC)** was allocated RM207 million for several infrastructure and agriculture projects. The infrastructure project for Phase 3A of the Palm Oil Industry Cluster in Lahad Datu will be completed by November 2012 and benefit more than 30 establishments in the industrial area. At the same time, the Keningau Integrated Livestock Centre is expected to be completed by January 2013. On completion, the Centre will have the capacity to produce six million litres of milk annually. Work on the Sabah Creative Content Incubator Centre will be completed by year-end. The Centre will focus on training to meet the demand for animators and designers in the creative industry.

Tun Razak Exchange

In efforts to position Kuala Lumpur as the global centre for international finance, trade and services, the Government launched the Tun Razak Exchange (TRX) on 30 July 2012. The 28.3 hectare project, formally known as the Kuala Lumpur International Financial District, is

expected to attract more than 250 of the world's leading companies to locate at the Exchange. On completion, the project will create about 500,000 jobs, including 40,000 positions for knowledge workers, specifically for financial services. The detailed master plan on the TRX was completed on 19 March 2012 and earthwork on Phase 1 of the project is expected to commence by year-end and will be completed by 2016.

Listing of Felda Global Ventures Holdings Berhad

Felda Global Ventures Holdings Berhad (FGVH) was successfully listed on Bursa Malaysia on 28 June 2012. The FGVH initial public offering (IPO) is the largest in Asia and the second largest in the world as of July 2012, placing Malaysia firmly on the radar of global investors. Following the listing, FGVH has emerged as the world's largest palm oil producer and the third largest listed oil palm operator globally. In conjunction with the listing and in recognition of FELDA settlers' contribution to the development of the country's oil palm industry, the Government announced a payment of RM15,000 for each settler. This measure, which involves an expenditure of RM1.6 billion, will benefit 112,635 settlers nationwide. In May 2012, a sum of RM5,000 was disbursed to the settlers, while another RM5,000 was distributed to their spouses in August 2012. The remaining amount will be disbursed to the settlers' children in October 2012.

Intensifying Small and Medium Enterprise Activities

With the aim of strengthening small and medium enterprises (SMEs), the Government has launched a Shariah-compliant SME Financing Fund of RM2 billion. The scheme is currently managed by 13 Islamic banks with the Government providing a 2% profit rebate. As at end-August 2012, a total of 13 loan applications amounting to RM25.7 million have been approved by the banks. Another initiative to assist entrepreneurs with the capacity and potential to sustain their businesses is the SME Revitalisation



Fund. The Government has also established a RM10 million SME Emergency Fund to assist SMEs affected by natural disasters. This fund channels soft loans of up to a maximum of RM100,000 to affected SMEs through the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) and the Malaysian Industrial Development Finance Berhad (MIDF).

Promoting Tourism

The Langkawi Tourism Blueprint (2011 – 2015) was launched on 8 December 2011 to further boost the tourism industry and promote tourist spending. The Blueprint provides the framework for the redevelopment of Pulau Langkawi to be among the top ten islands and ecodestinations globally by 2015. In this regard, RM111 million was allocated under the 2012 Budget for various projects, including upgrading of iconic Geopark sites in Kilim, Dayang Bunting Island and Telaga Tujuh; improvement of Laman Padi and Makam Mahsuri as living museums; upgrading the Kuah Jetty; and redevelopment of the Langkawi Community College as a tourism academy. In addition, the Malaysia Healthcare Travel Council (MHTC) was corporatised in October 2011 to promote and develop Malaysia as the main destination for healthcare services in the region.

Second Focus: Generating Human Capital Excellence, Creativity and Innovation

With rapid diffusion in knowledge and opening up of markets across the globe, Malaysia faces intense competition from other developing countries. To enable the nation to enhance its competitiveness and sustain economic development, an enabling ecosystem for human capital excellence with creativity and innovation is imperative. Towards achieving this objective over the longer term, the 2012 Budget introduced several strategic initiatives.

Total Innovation Movement

As part of efforts to inculcate science and innovation as a way of life, the year 2012 is earmarked as the Year of Science and National Innovation Movement. Towards this, several

programmes such as the Science and Innovation Carnival and Innovation Walk were carried out across states in the country. To encourage the development of new ideas and commercialisation of innovative products, the Malaysian Foundation for Innovation (YIM) has identified 260 products, of which 14 have been selected for incubation and commercialisation.

An enabling financing ecosystem is a prerequisite for expediting the commercialisation of research outputs. In this regard, the Government has allocated RM30 million for the Market Validation Fund managed by the Malaysian Technology Development Corporation (MTDC) and the Malaysia Innovation Agency. As of July 2012, 358 locally developed technologies from seven universities have been identified for market validation. Of these, 27 technologies are at various stages of commercialisation. In addition, the Shariah-compliant Commercialisation Innovative Fund was launched in May 2012 with an allocation of RM500 million. This fund has been available at selected Islamic banks from July 2012.

The Angel Asian Business Forum 2012, which provides the platform for networking between investors, financiers and entrepreneurs, was held in May 2012 in Kuala Lumpur. The event was attended by about 500 local and international delegates, including corporate investors. Another initiative is the World Innovation Forum and National Innovation Conference and Exhibition which will be held from 1 to 7 November 2012 in Kuala Lumpur. During the forum, students and youths with the best innovative invention will be presented with the Cipta 1Malaysia Award (C1PTA). Currently, the innovative efforts of the rakyat are recognised through various awards, including the National Innovation Award, the Prime Minister's Innovation Award, the Civil Service Innovation Award and the Young Scientist National Award.

Strengthening the Education System

A sum of RM50.4 billion was allocated to the education sector in 2012 to develop talented, creative and innovative students as well as for emoluments. Of this amount, an allocation of RM4.6 billion was provided for the building



upgrading and maintenance of school facilities as well as for non-physical projects such as computer systems, furniture and fittings. The allocation involves 1,969 projects, of which 523 projects have been completed with an expenditure of RM1.3 billion. To cater for the immediate needs of public schools, the Government also provided a special fund of RM1 billion. Of this, RM100 million each was allocated to 822 national-type Chinese schools, 224 national-type Tamil schools, 428 mission schools, 167 Government-assisted religious schools and 32 Maktab Rendah Sains MARA, respectively. The balance of RM500 million was allocated to 1,757 national schools.

In its efforts to ensure all Malaysians, irrespective of their socio-economic background have access to quality and affordable education, the Government has abolished all school fees and will also bear the cost of insurance premiums for all students in public funded schools. This initiative, which involves an allocation of RM150 million, has benefited more than 5.3 million students. At the same time, the Government announced several fiscal incentives for private schools registered with the Ministry of Education. These incentives will further facilitate the provision of quality education at 349 private schools.

The Government also launched the Malaysia Education Blueprint on 11 September 2012 to further enhance the country's education system. The Blueprint contains views, recommendations and feedback on 11 priority areas, including teachers; school leaders; school quality; multilingual proficiency; the role of parents and the community; the efficacy of resources and information; and the administrative structure of the Ministry of Education. The Blueprint will be implemented in three stages over 13 years. The first stage to be implemented from 2013 to 2015 will give priority to high-impact areas without changing the structure of the education system.

Human Capital Development

The Government continues to encourage the private sector to provide structured internship programmes for undergraduates to enhance

their knowledge and skills before entering the job market. In this regard, the 2012 Budget provides double deduction for expenses incurred in the implementation of training programmes by companies. This incentive is effective for year of assessment 2012 until 2016. At the same time, expenses incurred by companies in attending career fairs abroad are also given double deduction. In this regard, TalentCorp has organised a series of international outreach programmes and sessions for Malaysian students in more than 30 cities across 12 countries, including the United Kingdom (UK), Japan and the United Arab Emirates (UAE). As of August 2012, more than 100 Malaysian companies have participated in both physical and virtual career fairs involving more than 3,000 Malaysian students and 2,000 Malaysian professionals. In addition, private companies are also eligible for double deduction on scholarships awarded for year of assessment 2012 until 2016.

Third Focus: Rural Transformation Programme

The RTP, introduced in the 2012 Budget, is another initiative under the NTP to transform the country into a high-income and developed nation. The RTP aspires to attract investment, create economic and employment activities as well as provide opportunities for the younger generation to return, and live and work in rural areas. With the RTP in place, the rakyat in rural areas will continue to benefit from the nation's transformation agenda. Currently, several initiatives under the RTP are being implemented.

Comprehensive Rural Transformation

The 2012 Budget allocated RM30 million for the establishment of Rural Transformation Centres (RTCs) to integrate services, including collecting, processing and distributing agricultural products, banking and insurance and business advisory services; training and skills; as well as providing clinics and retail space. As of August 2012, two RTCs, namely one in Gopeng, Perak and another in Kota Bharu, Kelantan have been established. In addition, several mini RTCs were also established in 2012.



The Professional Services Fund with an allocation of RM100 million was established in April 2012, to encourage professionals to set up firms in smaller towns. Under this fund, Bank Simpanan Nasional (BSN) provides soft loans to professionals at an interest rate of 4%. The scheme is now available at all BSN nationwide. The Government allocated another RM110 million for 11 Agropolitan Projects under the Rural Mega Leap Programme. The programme aims to promote the cultivation of commodity and cash crops as well as aquaculture farming. To date, RM49.8 million has been expended on the cultivation of oil palm, rubber, cash crops and aquaculture benefiting 3,470 farmers. At the same time, the Rubber Industry Smallholders Development Authority (RISDA) was allocated RM140 million to undertake new planting and rubber replanting programmes. During the first seven months of 2012, a total of 1,578 hectares have been planted with rubber trees while another 23,147 hectares of oil palm have been replanted with rubber trees, benefiting 15,255 smallholders.

Rural Basic Infrastructure

A sum of RM5 billion was allocated to strengthen rural basic infrastructure. Of this amount, RM1.8 billion was provided for the Rural Road Programme and Village-Link Road Project. Under these programmes, a road network of 1,350 km will be constructed in Peninsular Malaysia, Sabah and Sarawak. As at end-June 2012, a sum of RM668 million has been expended on the construction of 385 km of roads in Peninsular Malaysia, 152 km in Sabah and 183 km in Sarawak. Another RM2.1 billion was allocated for the expansion of potable water supply to more than 200,000 houses in rural areas, particularly Sabah and Sarawak. As of June 2012, a sum of RM1.2 billion has been spent benefiting 54,262 households. Another RM1.1 billion was allocated for the provision of electricity supply, of which RM590 million was expended benefiting 9,640 houses in rural areas, including Sabah and Sarawak. A further sum of RM50 million

was allocated in 2012 to expand the rainwater harvesting programme in Sabah, which is expected to benefit 38,460 household heads. To address the shortage of potable water in estates, the Government has allocated a sum of RM50 million to connect the reticulation system to the main pipes. The first phase, covering 41 estates at a cost of RM33.6 million, was launched in Ladang Sri Gading, Batu Pahat, Johor on 24 June 2012.

Access to Banking Services in Rural Areas

In tandem with efforts to enhance convenience and outreach to all citizens, including low-income and rural residents, BSN has been entrusted to appoint 5,000 agents in rural areas nationwide over the next three years. Currently, a total of 2,017 non-bank retail outlet operators have been appointed as agents to deliver basic banking services. Among the non-bank retail outlets providing agent banking services include mini-markets, telcos, insurance agencies and Amanah Ikhtiar Malaysia (AIM). To ensure agent banking is conducted in a safe and reliable manner, Bank Negara Malaysia (BNM) issued the Guidelines on Agent Banking to financial institutions in August 2012. The Guidelines specify the requirements to be observed by financial institutions in the areas of governance and oversight, management of agents, customer protection, awareness and education.

Fourth Focus: Strengthening the Civil Service

A dynamic, responsive and excellence-centred public sector is a prerequisite for the nation to achieve its vision of a high-income and developed economy. Civil servants, the backbone of the Government machinery, have continued to play an important role in facilitating the outcomes of the NTP, particularly the GTP. In recognition as well as to further improve the productivity and well-being of civil servants, the Government has implemented several measures in the 2012 Budget.



An Update on the Government Transformation Programme

Introduction

The Government Transformation Programme (GTP), an important component of the National Transformation Policy (NTP), was launched on 28 January 2010 to address the immediate concerns of the rakyat with regard to the provision of public services. Prior to the launch, the Government had engaged the rakyat through various innovative channels to obtain input, including through nationwide surveys, short message services (SMS) and online feedback. The surveys and feedback were evaluated and the most pressing issues were prioritised and implemented under six National Key Results Areas (NKRAs). In July 2011, a seventh NKRA was introduced to address the impact of the rising cost of living on the rakyat. Significant progress under the NKRAs can be shown through the achievements of the National Key Performance Indicators. The full list of targets and achievements is available at www.pemandu.gov.my/gtp/annualreport2011.

GTP 2.0

Given the success of the GTP 1.0 in alleviating the immediate concerns of the rakyat, the GTP 2.0, which covers the period 2013 to 2015, will focus on a broader section of society as well as leverage on non-governmental organisations (NGOs) and the corporate sector as strategic partners in the provision of services. The seven NKRAs will continue to provide the framework to establish and track achievements of the milestones. Each ministry has identified new goals which are aligned to the aspirations under the NTP. The initiatives in the GTP 2.0 are the result of several intensive engagements involving all stakeholders to ensure that the transformation plan is comprehensive. The engagement process for the design and implementation of the GTP Roadmap 2.0 included:

- The Lab Process – an intensive six-week session where key stakeholders brainstormed ideas that best fit the overall theme of the GTP;
- Public Engagements – engagement with the public to solicit input and feedback for initiatives in the GTP;
- Cabinet Day Workshop – The Honourable Prime Minister and Cabinet Ministers were briefed on the implementation plans and initiatives that will be under their purview over the next three years; and
- Open Days – public engagements held in July and August 2012 in Kuala Lumpur, Kota Kinabalu and Kuching to disseminate information on the GTP.

The GTP Roadmap 2.0 Open Days were held on 24 July 2012 in Kuala Lumpur, on 10 August 2012 in Kuching, Sarawak and on 14 August 2012 Kota Kinabalu, Sabah. These events provided the public with details on the targets, deliverables and initiatives for the next phase of GTP. The Open Days were an important opportunity for the Government to obtain feedback, ideas and buy-in from the public. This extensive consultation process will continue throughout the implementation of the GTP 2.0 with other types of public engagement sessions. These sessions will ensure that the GTP 2.0 not only aims at initiatives with the greatest impact, but holds the responsible agencies accountable for successful delivery over the next three years.



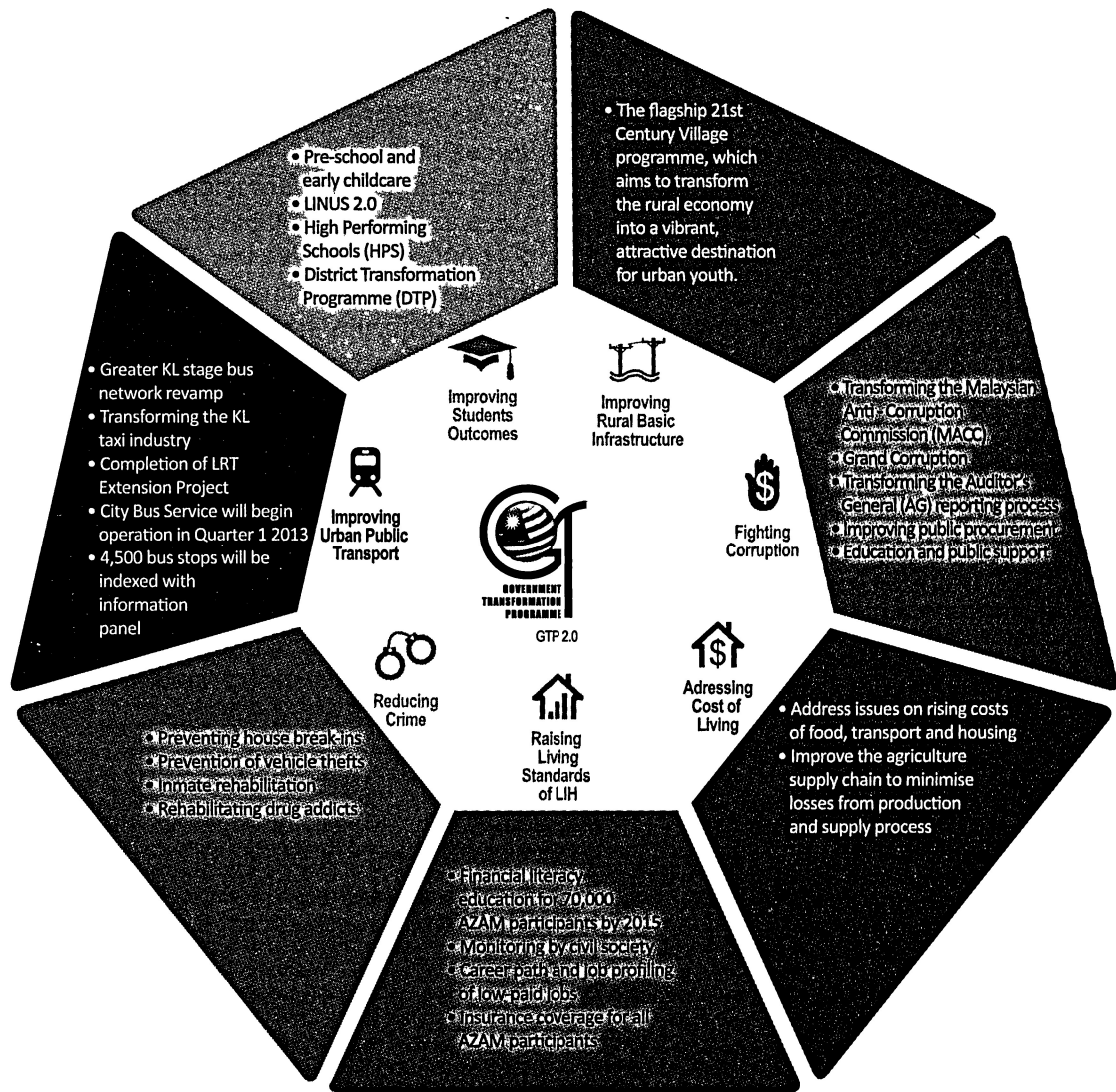
TABLE 1

Highlights of GTP 1.0

National Key Results Areas	Government Transformation Programme 1.0		
	Selected National Key Performance Indicators	2011 Target	2011 Actual
Reducing Crime	<ul style="list-style-type: none"> Reduce Index Crime and Street Crime Increase the number of arrest cases brought to trial 	<ul style="list-style-type: none"> 5%; 40% 20% 	<ul style="list-style-type: none"> 11.1%; 39.7% 23.4%
Fighting Corruption	<ul style="list-style-type: none"> Number of ministries scoring above 90% in the Procurement Accountability Index Transparency International (TI) Corruption Perception Index Score 	<ul style="list-style-type: none"> 19 4.9 	<ul style="list-style-type: none"> 18 4.3
Improving Education	<ul style="list-style-type: none"> Pre-school enrolment rate Cohort 1 (Year 1 students) <ul style="list-style-type: none"> LINUS Literacy rate; LINUS numeracy rate Cohort 2 (Year 2 students) <ul style="list-style-type: none"> LINUS Literacy rate; LINUS numeracy rate 	<ul style="list-style-type: none"> 80% 95%; 95% 90%; 90% 	<ul style="list-style-type: none"> 77.23% 97.5%; 98.6% 91.0%; 95.4%
Raising Living Standards of Low-Income Households	<ul style="list-style-type: none"> Participation of poor households in 1AZAM Programme Develop women entrepreneurs Rehabilitate abandoned houses and build Rumah Mesra Rakyat 1Malaysia 	<ul style="list-style-type: none"> 57,793 1,000 4,965 	<ul style="list-style-type: none"> 63,147 1,100 4,865
Improving Rural Basic Infrastructure	<ul style="list-style-type: none"> Rural roads built (km) Water supplied (Number of households) Electricity supplied (Number of households) Housing delivery (units) 	<ul style="list-style-type: none"> 905 58,087 26,882 9,146 	<ul style="list-style-type: none"> 1,013 73,227 27,004 14,365
Improving Urban Public Transport	<ul style="list-style-type: none"> Public transport modal share Customer Satisfaction Survey Morning peak hours public transport ridership 	<ul style="list-style-type: none"> 21% 50% 346,184 	<ul style="list-style-type: none"> 16.42% 53% 321,487
Addressing the Rising Cost of Living	<ul style="list-style-type: none"> Bantuan Rakyat 1Malaysia (BR1M) Aid to all primary and secondary school students Bantuan Buku 1Malaysia (BB1M) 	<ul style="list-style-type: none"> Household with income RM3,000 and below 5.3 million primary and secondary school students 1.3 million higher education students 	<ul style="list-style-type: none"> RM2.2 billion was provided to 4.3 million households RM545 million was provided to 5.45 million students RM244 million was provided to 1.2 million students



CHART 1
Highlights of GTP 2.0



Source: Performance Management and Delivery Unit (PEMANDU).

Conclusion

Throughout the GTP 1.0, the Government has delivered on its promises to alleviate the main concerns of the rakyat. The resounding success of the GTP is largely attributed to the commitment and dedication of the civil service. With the GTP 1.0 well received by the rakyat, the Government is determined to continue providing high quality deliverables to the rakyat. In this regard, the GTP 2.0 is designed for greater achievements in resolving pressing issues with several new initiatives introduced to further enhance the well-being of the rakyat. The Government will once again provide the same dedication and commitment in fulfilling its promises to the rakyat.



Improvements to Terms of Employment

From 1 January 2012, employees in the public sector received a salary increment of between 7% and 13%, involving an expenditure of RM6.1 billion. In addition, effective from 1 January 2013, all government pensioners are eligible for an annual pension increment of 2%. This will involve an additional allocation of about RM200 million in the first year of implementation. Furthermore, to leverage the expertise and skills of experienced personnel, the retirement age of civil servants was extended from 58 to 60 years effective from 1 January 2012.

In recognition of the support and commitment of civil servants in achieving the targets of the NTP, the Government provided a half-month salary bonus with a minimum payment of RM500 in August 2012. In addition, a special payment of RM500 was given to government pensioners. These measures, which involve an expenditure of RM2.2 billion, benefited 1.27 million civil servants and 657,000 pensioners.

Towards encouraging self-improvement and lifelong learning as well as enhancing the productivity of civil servants, RM200 million was allocated to enable civil servants, including school teachers to further their studies on a part-time basis. The allocation will be used to provide 20,000 scholarships for undergraduate studies, 5,000 Master's degrees and 500 doctoral degrees. These scholarships will be available from October 2012.

Providing a Conducive Working Environment for Security Personnel

In its efforts to further enhance the capability of the Royal Malaysia Police (PDRM), the Government has allocated RM450.6 million to enable PDRM to acquire state-of-the-art technology and equipment as well as to develop and upgrade housing quarters, headquarters, stations and training centres. The allocation also caters for greater collaboration between PDRM and the Malaysian Armed Forces (ATM), Malaysian Civil Defence

Department (JPAM), and People's Volunteer Corps (RELA) in the fight against crime. As at end-June 2012, a sum of RM234 million has been expended on 44 projects, including the upgrading of police headquarters in Bachok, Kelantan and Sipitang, Sabah as well as the construction of the Bukit Kepong Police Museum Gallery in Muar, Johor. In addition, the 1Malaysia Privilege Card was launched on 7 August 2012 to ease the cost of living for security personnel. The Card, which provides discounts in about 20 participating companies, will benefit about 241,000 members of the ATM and PDRM. With regard to the collaboration between PDRM and other government agencies, the joint patrol programme is currently implemented at various locations, including crime hotspots, the Kuala Lumpur International Airport (KLIA) and schools.

Fifth Focus: Easing Inflation and Enhancing the Well-Being of the Rakyat

The Government continues its efforts in providing a conducive ecosystem to enable the citizens to optimise their potentials and enhance their well-being. Towards this objective, several measures were introduced in the 2012 Budget. These initiatives, targeted at the bottom 40% of households and middle-income group, mainly benefited students, youths, women, senior citizens, the disabled and the homeless.

Easing the Rakyat's Cost of Living

In its efforts to mitigate the impact of inflation on the rakyat, the Government has disbursed RM500 to households with a monthly income of RM3,000 and below. The RM2.2 billion initiative under the *Bantuan Rakyat 1Malaysia* (BR1M) programme brought relief to 4.3 million families. In addition, a schooling assistance of RM100 was given to all primary and secondary school students from Year One to Form Five. This measure, which benefited 5.4 million students, involved an expenditure of RM545 million. A further assistance of RM200 in the form of book vouchers was provided to students in public and private institutions of



higher education as well as matriculation and Form Six students. This programme, which involved an expenditure of RM244 million, benefited 1.2 million students nationwide.

Intensifying Production of Food Supply and Agro-Industry

The National Agro-Food Policy 2011–2020 (NAFP) was launched in January 2012 with the objective of ensuring sufficient food supply, increasing the value-add of the agro-food sector, complementing and strengthening the supply chain and providing a knowledgeable and trained labour force. To facilitate these outcomes, RM1.1 billion was allocated in 2012, of which RM19.6 million has been expended on improving paddy yield and the construction of a barrage in the Northern Terengganu Integrated Agriculture Development (KETARA) area, benefiting 2,700 farmers. A further RM24.9 million was allocated for irrigation projects in Sabah and Sarawak involving 3,145 farmers. At the same time, RM552 million was allocated for NKEA projects, including herbal, swiftlet, aquaculture and fish-cage farming. As of July 2012, a total of RM61.4 million has been spent benefiting more than 3,500 farmers.

Efforts are also ongoing to further modernise the agriculture sector. In this respect, the scope under the Commercial Agriculture Fund was extended to include innovative agriculture projects. As at end-May 2012, Agrobank has disbursed RM418.2 million to finance 42 agriculture projects. To ensure sufficient food supply, the Government has extended the contract farming programme with an allocation of RM14 million. In this regard, the Federal Agriculture Marketing Authority (FAMA) has expended RM6.1 million in marketing more than 191,000 tonnes of agriculture produce benefiting 2,453 farmers.

Assistance for Basic Needs

The Government continues to provide rebates on electricity bills for household monthly consumption of RM20 and less. In this regard, RM46.4 million

has been expended since January 2012 benefiting about one million low-income households. A sum of RM1.2 billion was also allocated to the 1Malaysia Rakyat's Welfare (KAR1SMA) programme which provides welfare assistance to the poor, the elderly and disabled. Currently, more than 470,000 individuals continue to benefit from this programme.

Other measures to ease the burden of the rakyat, include increasing the number of *Kedai Rakyat 1Malaysia* (KR1M), opening more *Agro Bazaar Kedai Rakyat*, expanding the number of 1Malaysia products, issuance of 1Malaysia Student Discount Cards (KDS1M) as well as extending and promoting the *Menu Rakyat 1Malaysia* (MR1M). In 2012, a total of RM40 million was allocated for the KR1M programme. Currently, there are 46 KR1Ms and another 39 outlets are expected to be established by year-end. To market agriculture produce and 1Malaysia brand products, the Government launched 19 *Agro Bazaar Kedai Rakyat* in the first seven months of 2012, and another 11 will be set up by year-end. As of July 2012, this programme has benefited 19 entrepreneurs. Furthermore, on 2 July 2012, the Government launched KDS1M in an effort to mitigate the rising cost of living among university students. The Card, which provides up to 60% discounts on purchases, including books, stationery, clothes and food will benefit about 1.5 million students in public and private institutions of higher learning. MR1M which offers popular menu sets at reasonable prices is currently available at 2,390 food outlets and another 610 eateries are expected to provide MR1M by year-end.

Skim Amanah Rakyat 1Malaysia

Skim Amanah Rakyat 1Malaysia (SARA 1Malaysia), launched in January 2012, is a special scheme initiated by the Government to encourage savings and increase the income of the bottom 40% of households. The Scheme provides opportunities to eligible Malaysians to apply for a RM5,000 loan from participating financial institutions to invest in the *Amanah Saham 1Malaysia* (AS 1Malaysia)

