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PERDANA MENTERI MALAYSIA**

**Venue : Sheraton Imperial Hotel, KL**

**Date : 07/03/2014**

**Title : THE NATIONAL ECONOMIC SUMMIT**

Bismillahirrahmanirrahim.

Assalamualaikum Warahmatullahi Wabarakatuh,

Good Evening and Salam Satu Malaysia.

**Yang Berhormat Dato' Sri Ahmad Shabery Cheek;**

Minister of Communication and Multimedia,

**Yang Berhormat Cabinet Ministers;**

**Yang Berbahagia Tan Sri Jeffrey Cheah;**

Chairman of ASLI,

**Yang Berbahagia Tan Sri Michael Yeoh;**

CEO of ASLI,

Your Excellencies,

Distinguished guests,

Ladies and gentlemen.

1. I would like to thank BERNAMA and ASLI for organising this Economic Summit, and for inviting me to address it.

2. Over the past few months, Malaysia's economy has been a hot topic. Everyone is talking about subsidies, tolls, and taxes. Politicians and pundits are making various claims about why prices are rising or what should be done.

3. I understand that the rakyat feel pressure from rising costs and of course as eluded businesses are facing rising cost as well. Understand that people see prices going up but do not see why. I understand that some people think we are doing too much, in terms of reform, too fast.

4. That is why I wanted to take this opportunity to speak through this platform to the rakyat. Today, I will explain the challenge facing our nation, why we as the government has to act, and what we are doing to help. And I will show how we are building a stronger and more prosperous Malaysia.

Ladies and gentlemen,

5. Since independence, economic development has brought better jobs and brighter prospects for the Malaysian people. We are healthier, better educated and better off than ever before.

6. This has been achieved thanks to hard work by the rakyat, the entrepreneur skills of the rakyat, commitment of the rakyat – and careful planning and effective delivery by the government. Throughout history, the government has guided the nation's growth, with strategic plans to keep the economy on track.

7. This approach has been successful. Over the past thirty years, overall poverty has fallen 97%. We have ended extreme poverty. Life expectancy has increased by 7 years; average schooling has increased by 5 years. Since 1992, household income has tripled. We have made a real difference – to the prospects for ordinary people, and to the lives of the poorest in our society.

8. But progress comes with a price. For decades, the government's subsidy bill has been rising. In 2010, we spent 15% of our budget on subsidies and incentives. By 2012, that had reached 21.4% - or 44 billion ringgit. As market prices have increased, the cost of subsidies has risen exponentially. And many of these subsidies were blanket subsidies – which means everyone received them, including foreigners, businesses, and billionaires. And they are not equitable – for example, with petrol subsidies, the bigger the car, the more you benefit.

9. That meant money that could have been spent on productive investments such as building more schools and training for the younger people was being used to pay for cheaper fuel for tourists and expatriates. And the costs were adding up. In 2009, our budget deficit – the gap between what we earned and what we spent – was 6%. The cost of subsidies was one of the factors driving up our deficit.

10. A budget deficit by itself is not always a bad thing. Malaysia has been in deficit since the late 1990s, and it has not stopped us from developing. And many successful developed countries have high debts.

11. But there are times when debt and deficit can become dangerous. As we know from the 1997 crisis, things can change very fast. If the global economy is not doing well, people will think twice about investing in nations whose deficits are too large. Even our local investments will be deterred. Markets that think if a country cannot pay its debts, they charge a much higher interest rate. Worse still, if sentiment turns against a country, it can trigger capital flight – and in today's interconnected world, that can happen in the blink of an eye.

12. When that happens, the results can be devastating. In the recent financial crisis, some European countries had their credit ratings slashed. Borrowing costs soared, and debts spiralled out of control, scaring off foreign investors and putting currencies under pressure. And it was the people who suffered most.

13. They lost their jobs – in some European countries, one in three people are unemployed. They lost their safety net, as governments were made to cut funding for public welfare and even pension for some countries. And they lost their independence, as they were forced to give up control over their economic destiny to the IMF.

Ladies and gentlemen,

14. As Prime Minister, my ultimate responsibility is to protect the people of Malaysia. I will never allow our nation's progress, the wellbeing of our people, or our sovereignty to come under threat. That is why this government has acted to keep our finances under control.

15. Four years ago, we began to reform subsidies, reducing payments for sugar and fuel. And we used the savings not only to reduce our deficit – but also to open new 1Malaysia clinics, and create more scholarships for students. By moving from blanket to targeted subsidies, we freed up money to spend on public health, education and infrastructure for both urban and rural areas that are very much needed. Even in Kelantan they want new highway.

16. However, the cost of subsidies kept rising, and it became clear that Malaysia's economic position was becoming unsustainable. Investors, banks, and ratings agencies began focusing on Malaysia's debt, deficit – and our subsidy bill. One rating agency in fact gave us an early warning, a pre- cursor.

17. It is tempting to say 'we don't need to worry about what some foreign analysts think – we should just focus on supporting the rakyat'. But this misses a critical point.

18. Like other countries, we need investment to prosper. We need the market to have confidence in Malaysia. Foreign and domestic investments help Malaysian businesses to grow, creates Malaysian jobs, and develops Malaysia's economy. It helped build Kuala Lumpur's skyline, Iskandar's waterfront, and Kuantan's industrial park. It helped build the railways and the highways that move us around the country. And investments created hundreds of thousands of well-paid jobs, as international firms set up factories, offices and headquarters in Malaysia. Foreign and domestic investments are vital. We must ensure we keep Malaysia attractive for both.

19. Like other countries, we also borrow money to pay for things – like new roads or hospitals. We finance this spending by selling government bonds; a promise that we will pay in future.

20. And like other countries, we must act to strengthen our finances. Because investment and borrowing both depend on one thing: confidence. The people who invest in Malaysia, or buy our bonds, must have confidence that Malaysia is a country which can pay its bills.

21. That means showing that we can take the difficult decisions needed to bring debt and spending down, and increase our income. And that is why, in September last year, we announced further steps to reform the subsidy program, and introduce a GST – not all at once, but as part of a phased programme to strengthen our national finances.

22. The GST is a 6% tax on goods and services which, contrary to what some say, will replace the existing service and sales tax – not add to it.

23. Many goods and services will be covered under the GST, but many will be exempt or zero-rated – including basic foods like rice, flour, and oil; and essential services like household water supplies and public transport. Out of 193 countries in the world, 160 have some form of GST or VAT. We need this new and more equitable tax, because only 1 in 10 Malaysians pay income tax. If our economy is to continue to grow strongly, we need to not only cut unproductive spending, but also to broaden our revenue stream, allowing us to invest in the future. GST will enable us to increase our development spending. Instead of subsidies, we will spend more money on productive investments – on infrastructure, on schools, and on healthcare, even fighting crime which require money at the end of the day.

Ladies and gentlemen,

24. I did not take the decision to reduce subsidies – or to introduce the GST – lightly. I thought long and hard about the risks, and the possible impact on the rakyat. But I judged that we had to act: to guarantee our future, security, independence and growth which must be sustainable.

25. Malaysia is on a journey. The destination is clear: high-income nation, advanced economy status. Just like any journey, there may be some bumps along the way. We may need to adjust our course to avoid roadblocks. But the important thing is our destination remains the same.

26. When the Cabinet approved the subsidy reforms, we did so on the back of strong recommendations from the Treasury, Bank Negara, and the Economic Planning Unit. And we did so with our eyes firmly on our destination.

27. Governing is about taking decisions which are right for tomorrow, not just for today. Failure to act now would be irresponsible. As a politician, it would be easy to make cheap promises, offer people whatever they want, and deal with the consequences later. But leadership is about doing what is right, not what is easy. If we ducked the decisions now, our development would suffer. I am prepared to put the nation's long-term interests before my own short-term popularity. And I am confident that the reforms will work. Because our economic record speaks for itself.

28. In turbulent years, the government has kept our economy safe and strong. When I took office, the world was in the middle of a deep financial crisis. Many countries were on the brink of disaster. Yet our economy continued to grow. Since 2009, our GDP grown by an average of 5.7% per year, and household income is 24% higher.

29. The latest subsidy reforms have already been welcomed by investors and ratings agencies. Our budget deficit is falling: it is now 3.9%, lower than our own target of 4%. We are on the way to a balanced budget by 2020. And despite what some pundits are saying, Malaysia's economy continues to grow.

30. GDP was up 5.1% in the last quarter – more than expected. Retail sales, construction, trade, and exports are all rising. Last year saw record trade, the highest in our history – and record private investment, which grows Malaysian businesses, including the small and medium sized companies that employ millions of Malaysians.

31. This growth and this investment brings better jobs, and new opportunities. Behind the big numbers, things are getting better for Malaysian households too. Average wages continue to rise: last year salaries grew on average by 6%, much more than inflation, which was 2.1%.

Ladies and gentlemen,

32. For many Malaysians, things are getting better. But I know that it does not always feel that way. And I understand that talk of GDP growth and economic trends can

seem irrelevant when households are trying to make ends meet. So let me conclude by explaining what we are doing to help.

33. First, the government continues to help Malaysians with the cost of living. This year, we will spend more than 40 billion ringgit on food, fuel and education subsidies, and on support for lower income households. But by switching from blanket subsidies to more targeted support, we are getting better value for money.

34. This year, increased BR1M payments reached some 7 million Malaysians, including for the first time those earning between 3,000 ringgit and 4,000 ringgit per month. BR1M is fair and progressive – it is given on the basis of need alone, and it is working: since the last payment, some 17,000 people's monthly income has increased, and they have moved out of the low income bracket.

35. Over the next five years, we will increase BR1M to 1,200 ringgit per year, to help cushion the blow of rising living costs. We are offering financial aid of up to 30,000 ringgit for new low-cost houses built under the MyHome scheme, to help more Malaysians move into safe, modern homes. We have opened 1Malaysia shops to help with the cost of basic goods, and 1Malaysia clinics to make healthcare more affordable. And we have introduced a minimum wage, to protect low earners and guarantee a basic standard of living.

36. We are also helping middle-income households, with a 1% tax reduction, and a special 2,000 ringgit tax exemption for those earning up to 8,000 ringgit a month. And we are working with employers to make sure they play their part. Malaysian workers take home around a third of our GDP as wages; in advanced economies, that figure is closer to half. The people and the government are investing in Malaysia's future – companies must step up and make a contribution, too, by ensuring the pay gap between the executive boardroom and the factory floor does not rise. But the gap can be reduced over time.

37. And as more Malaysians pursue higher education, we have begun a series of intensive projects to help graduates get their careers started. Over their lifetimes, graduates will likely earn more than non-graduates, but it can be difficult to match skills to needs especially the business sector. So we are working on programmes such as

Skim Latihan 1Malaysia and SAY 1 Malaysia, to upskill our graduates and prepare them for entry to the workplace.

38. We are also focusing on making government more efficient. The Chief Secretary is acting on the 2012 General Auditor Report. It is wrong to say we have not acted on the report. We are cutting government electricity use by five per cent, cutting transport costs, and cutting the entertainment budgets for ministers. And we are improving overall efficiency through the government transformation programme.

39. We are also ramping up the fight against corruption. Corruption is an age-old problem, and combating it is one of my priorities. If we are to succeed as a nation in this endeavour, we must work together across the political divide to make corruption socially unacceptable. In government, for example, procurement is now basically through open tender and competitive bidding. Corruption must be dealt with at all levels – not just the big fish, but also the low-level graft that affects people’s daily lives.

40. Some claim that if we could somehow stop corruption completely – overnight – we would not need subsidy reform or the GST. But we must be honest. We cannot click our fingers and make corruption disappear in a day, a month, or a year. And so we must tackle corruption, reform subsidies, and introduce the GST to make the budget balanced.

41. Take Hong Kong. In the 1970s, it was plagued by corruption; today, it is one of the least corrupt cities in the world. But this success was won over decades. Yes, we must tackle corruption – and yes, we must reform our finances. Unless we act on both fronts, our economy will weaken, and investors and lenders will think twice about investing in Malaysia.

42. We are also directly tackling rising prices. The measures we have taken are already starting to bear fruit. And we are keeping a close eye on markets for any attempts at price gouging. If we see prices rising by more than they should, we will not hesitate to step in and protect Malaysian consumers. The Malaysian Competition Commission will continue to protect the competition process for the benefit of businesses, consumers and the economy.

43. We are also preparing our workforce to thrive in new industries. The government's economic transformation programme is not just about numbers; it is about creating new kinds of jobs, and preparing Malaysians to seize the new opportunities that will arise. Sixty years ago, people worked mainly in the fields. 30 years ago, in factories. Today, many work in offices. We must be prepared for the next shift. The jobs of the future, the jobs that today do not exist – the jobs our children will have – need investment and skills.

44. Take the story of Kabilah Hussein, a seaweed farmer from Sabah. A few years ago, she was struggling to make enough money to survive. But by taking her business online, she now employs half her village, and sells to countries around the world. I want more people like Kabilah to be able to take advantage of new opportunities. That is what the economic transformation programme is all about.

Ladies and gentlemen,

45. I know people are worried about rising prices. We have always said that prices will rise when subsidy reform takes effect. But it is important to remember why.

46. If our debts and deficits were allowed to grow unchecked, Malaysia's economy would have been at risk, affecting the lives and incomes of millions. We have taken a calculated decision to act; because to do nothing would be irresponsible.

47. Since independence, we have achieved great things. But we cannot take success for granted. Economic conditions can change overnight; we must be prepared. We must make savings today, so that we are stronger tomorrow. And we should do so on our terms. As the Malays proverb says: '*sediakan payung sebelum hujan*'.

48. The subsidy reforms are part of a carefully formed and long-standing plan to make our economy fairer, stronger, more stable and sustainable. That means people will continue investing in Malaysian businesses and creating Malaysian jobs. It means Malaysia's extraordinary development will continue, with more opportunities for our children and a better standard of living for all. And the plan is working.

49. We are listening to people's concerns, and we will make adjustments to our policies when they are needed. Just like driving on the highway, if you find traffic in one lane, you shift gears and change lanes; but your destination remains the same.

50. Our destination remains the same. We are on the brink of developed nation status. If we commit, together, to building a stronger economy for Malaysia, the rewards will be great. By moving from blanket subsidies to targeted support, we are helping those who need it most. By strengthening our economy, we are ensuring our country stays on track to reach high-income status. By getting our finances under control, we are investing in the future – of our families, our communities, and our nation.

Thank you.

Wabillahitaufik Walhidayah Wassalamualaikum Warahmatullahi Wabarakatuh.