

2019 BUDGET SPEECH

BY

**YB TUAN LIM GUAN ENG
MINISTER OF FINANCE**

**INTRODUCING
THE SUPPLY BILL (2019)**

**IN DEWAN RAKYAT
FRIDAY, 2 NOVEMBER 2018**

**“A RESURGENT MALAYSIA, A DYNAMIC ECONOMY,
A PROSPEROUS SOCIETY”**

Mr Speaker Sir,

1. I beg to move the Bill intituled **“An Act to apply a sum from the Consolidated Fund for the service of the year 2019 and to appropriate that sum for the service of that year”** be read a second time.

INTRODUCTION

2. Greetings, Salam Harapan and Salam Sayangi Malaysiaku, I bid to Mr Speaker, the Honourable Members of Parliament of both the Government and the Opposition and fellow Malaysians. Indeed, we are truly fortunate to have been given the trust, support and opportunity for the Pakatan Harapan Government to reshape the administration of this nation in a more developed, competitive and transparent manner.

3. I stand before you on this momentous day to table Budget 2019 which is the first budget under the Pakatan Harapan Government. I wish to firstly thank the Malaysian people who displayed great tenacity, bravery, and an undying love for the country in replacing a global kleptocracy government with a clean and democratic government. You, the people have created history after sixty-one years by choosing a new government which is led by not only the oldest Prime Minister in the world but also one of the most respected statesmen internationally.

ECONOMIC PERFORMANCE AND CHALLENGES

Mr Speaker Sir,

4. The new Government has inherited a worrying state of financial affairs which was in dire straits. Our actual debt and liabilities as at end June 2018 stand at RM1,065 billion, a debt burden that is nearly RM350 billion higher than that officially disclosed by the previous government. The breakdown constitutes

RM725.2 billion in direct federal government debt, RM155.8 billion in committed contingent liabilities and RM184.9 billion in other liabilities including leased payments for Public Private Partnership (PPP) projects.

5. The trillion ringgit debt was caused by financial scandals disguised as investments and mega debts masked as mega projects. We discovered that the Federal Government was secretly paying for the debts of 1MDB amounting to nearly RM7 billion as at 30 April 2018. Despite that, we have also confirmed that we may be liable to pay up to RM43.9 billion more, to settle all of 1MDB's debts. We discovered aberrant contracts such as the Trans-Sabah Gas Pipeline and Multi-Product Pipeline projects which were to cost approximately RM9.6 billion, where RM8.3 billion has already been paid despite less than 10% of the work being completed. Mega projects such as the East Coast Rail Link (ECRL) will cost up to RM81 billion, and tens of billions of ringgit more in recurring operational losses.

6. Further, the Accountant-General has confirmed the disclosures by both the Royal Malaysian Customs (Customs) and the Inland Revenue Board (IRB) that the Government revenues have been overstated for the past few years, by not paying back the Goods and Services Tax (GST) and Income Tax refunds. As at 31 May 2018, the GST refunds of RM19.4 billion and income tax refunds of RM16 billion, totalling RM35.4 billion of tax refunds. These refunds belong to the tax payers and were misused without their permission or knowledge. Unlike the debts accruing to 1MDB and other financial scandals, which can be repaid over a longer

period of time, the Government has a moral imperative that these tax refunds must be returned in 2019 to their rightful owners, companies and the people of Malaysia.

7. This is the high price that Malaysians have to pay as a result of becoming a global kleptocracy. To restore our fiscal health, the Prime Minister has asked Malaysians to be prepared for sacrifices for the nation. Therefore, while we are committed towards fiscal consolidation, we will equally prioritize economic growth to improve the socio-economic well-being of the rakyat.

Mr Speaker Sir,

8. The International Monetary Fund has revised downwards the global economic growth forecast from 3.9% to 3.7% in 2018. Next year, the global growth is expected to remain at 3.7%. The global trade growth forecast has also been reduced from 4.8% to 4.2% for 2018 and 4% in 2019.

9. The rising prospect of a full-blown trade war between the United States of America (US) and the People's Republic of China (PRC), as well as a hawkish US monetary policy, has already precipitated massive capital outflows from Emerging Markets back into the US. Countries with twin deficits (current account deficit and fiscal deficit) are hit hardest. The Turkish Lira has lost 32.1% of its value this year against the US dollar up to 31 October 2018. Argentina which lost 48.7% on its currency had to raise interest rates to 72% to stem capital outflows. Meanwhile, the Indonesian Rupiah has fallen by 11.3% against the US dollar.

10. Malaysia, as an emerging economy, will face the inevitable prospect of net foreign outflows. While this puts pressure on the Ringgit, confidence in the Malaysian economy and the current account surplus, will provide support to our currency and avoid steep interest rate hikes. As a result, the Ringgit has been one of the best performing Emerging Markets currency this year up to 31 October 2018. We have appreciated against the Indian Rupee by 12.3%, Indonesian Rupiah by 8.1%, Filipina Peso by 3%, China Renminbi by 3.2% and Singapore Dollar by 0.6%.

11. In addition, the Malaysian equity market has also proven to be resilient with the FBM KLCI declining by 4.1% YTD this year as at 31 October 2018, as opposed to the MSCI Emerging Market Index, which has fallen 17.7% since the start of 2018. In the other key regional markets, Singapore has declined by 12.0%, Hong Kong by 18.3%, South Korea by 18.2%, the Philippines by 18.2%, Indonesia by 8% and Thailand by 6.2%. This is a vote of confidence from domestic and foreign investors in the new Pakatan Harapan government.

12. In light of the above global headwinds and consistent with IMF's cut in global economic growth rate, Malaysia will be revising downwards our projected GDP growth rate from the previously announced 5.0-5.5% to 4.8% for 2018. Our exports have continued to grow at 6.9% for the period between January to June this year contributing to a healthy current account surplus of RM18.9 billion or 2.8% of the GDP. As at 15 October 2018, our international reserves are at US\$102.8 billion or RM426 billion,

which is sufficient to finance 7.3 months of imports. Our inflation rate remains low, recording only 1.2% for the period from January to September, allowing our monetary policy to remain accommodative and conducive for economic growth.

13. In presenting this year's Budget, Malaysia is mindful of an increasingly hostile global environment that compels us to prioritise sustainable economic growth as much as urgent fiscal consolidation and discipline. We expect the GDP to continue to grow healthily despite the global economic uncertainties in 2019 at 4.9%.

FOCUS OF THE 2019 BUDGET

Mr Speaker Sir,

14. The theme for the 2019 Budget is "**A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society**" will have three focus areas with twelve key strategies to map out a path to restore the Malaysian economy as an Asian Tiger. The three focus areas are:

- FIRST : TO IMPLEMENT INSTITUTIONAL REFORMS;**
- SECOND : TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS; AND**
- THREE : TO FOSTER AN ENTREPRENEURIAL ECONOMY.**

FOCUS 1: IMPLEMENTING INSTITUTIONAL REFORMS

15. The weakest link in Malaysia's macroeconomic management is in the mismanagement of our public finances, exemplified by the RM50 billion 1MDB scandal and explicitly outlined in the book "Billion Dollar Whale". We shall implement institutional reforms that promote transparent fiscal discipline which will not only prevent repeats of such malfeasance, but also ensure overall macroeconomic stability and the sustainability of our economic growth.

Strategy 1: Strengthen Fiscal Administration

16. **ONE:** The Federal government is implementing a 'zero-based budgeting' exercise for this Budget. Improved effectiveness, greater efficiency and higher cost-savings are achieved by firstly, ensuring spending is justified by objectives rather than the previous year's budget; secondly, review alternative scenarios to achieve the same objectives; and thirdly, all discretionary spending is planned from zero.

17. **TWO:** We will table a Fiscal Responsibility Act by 2021 to avoid reckless mega spending that entails mega debts.

18. **THREE:** We intend to table a new Government Procurement Act next year to govern procurement processes to ensure transparency and competition, while punishing abuse of power, negligence and corruption. Open tenders will not only achieve more value for money for the tax payers, it will also breed a more efficient and competitive private sector.

19. **FOUR:** To ensure full disclosure of our debts and liabilities, as well as the value of our assets, the current cash basis of accounting shall be converted to an accrual basis by 2021.

Mr Speaker Sir,

Strategy 2: Restructuring and Rationalising Government Debt

20. Over the past decade, the Federal Government had increasingly relied on less transparent government guaranteed borrowings or lease financing programmes known as the Public Private Partnership (PPP) projects, to fund its expenditure. The value of the Government guaranteed borrowings increased from RM69.2 billion in 2008 to RM238 billion in 2017, a massive increase of 244%. In contrast, the official federal government debt has only increased by 124% over the same period of time.

21. Essentially, the budget deficits announced and achieved in the previous years never truly reflected the real deficits incurred. Hence, in spite of our best efforts to reduce cost and postpone non-critical expenditures, it was unrealistic to achieve the 2018 deficit target of 2.8%. The 2.8% deficit target can only be attained if we continued the previous practice of hiding our expenses off-balance sheet.

22. Therefore, the fiscal deficit is projected to be 3.7% for 2018. The increase in fiscal deficit arises after we have taken into account previously unbudgeted items such as RM1 billion interest servicing cost for 1MDB debts, RM1.3 billion in compensation for

the acquisition of Eastern Dispersal Link in Johor which was announced last year, RM1 billion for Prasarana, RM1.4 billion for Ministry of Transport rail projects and paying back some GST refunds of RM3.9 billion.

23. For the next three years, the Harapan administration is committed to maintain a path of fiscal consolidation to achieve a deficit of 3.4% in 2019; 3.0% in 2020 and 2.8% in 2021. Over the medium term, we expect the deficit to be reduced further to the region of 2%.

24. Going forward, the Federal Government will still be issuing Government Guarantees, but only for existing infrastructure projects to be completed such as the MRT2 and LRT3 projects, as well as for selected agencies which are able to demonstrate a degree of financial sustainability.

25. To ensure a successful fiscal consolidation exercise on our RM1 trillion debt, this Government will reduce our debt as a percentage of our GDP via the following measures:

26. **ONE:** We will set up a Debt Management Office responsible for reviewing and managing the government and its agencies' current and future debt and liabilities. The Office shall have oversight over debt issuance by the Federal Government, statutory bodies and Special Purpose Vehicles. The government intends to avoid higher debt service charges because of poor coordination of debt issuance. The Office will also streamline Government funding sources as a whole, centralising management of funds such that

statutory bodies with surplus can help meet the funding requirements of other agencies at a more competitive cost.

27. **TWO:** In order to rationalise our debts, we must not only review our existing debts, we must also review our future debt commitments that include recurring operational leases amounting to tens of billions of ringgit. Therefore, the Government has taken the decision to cancel the RM15 billion Multi-Product Pipeline and Trans-Sabah Pipeline projects. The construction of the RM81 billion East Coast Rail Link (ECRL) is suspended, and is pending renegotiation of the cost of the project.

28. We have cancelled the RM60 billion MRT3 project for now, pending the completion of MRT2. We have also postponed the implementation of the Kuala Lumpur – Singapore High-Speed Rail which would have cost us at least RM110 billion.

29. The Government has decided to proceed with several infrastructure projects which will be able to deliver high economic multiplier effects after carrying out renegotiations with the respective vendors. For the 37km LRT3 project carried out by Prasarana Malaysia Bhd, we were able to reduce the overall cost of the project from RM31.6 billion to RM16.6 billion. This represents a savings of 47% or RM15 billion. For the MRT2 project managed by MRT Corp, we have successfully reduced the cost of the construction contract by RM8.8 billion from RM39.3 billion to RM30.5 billion, representing a savings of 22.4%.

30. The Klang Valley Double-Tracking 2 project which was awarded via direct negotiations just before the last general election for RM5.2 billion, has been terminated. The project will be re-tendered via an open tender exercise and is expected to realise a substantial reduction in cost. In addition, various Government agencies are in the process of renegotiating contracts entered into by the previous government amounting to RM19 billion. These RM19 billion contracts were awarded via direct negotiations or limited tenders. The government has left it to the Ministries to decide whether to proceed with these contracts. These projects can continue provided that there is a 10% reduction on the construction cost. The Government expects to save RM1.9 billion from this exercise. The billions of ringgit saved from these projects significantly reduced our future debt burden.

31. **THREE:** The Government will take all necessary actions to recover funds lost and stolen from 1MDB. On 30 October 2018, we have applied to the Courts of England for an order to set aside a Consent Award recorded on 9th May 2017 by an Arbitration Tribunal sitting in London between International Petroleum Company (IPIC) with Aabar Investments PJS, and 1MDB with our Minister of Finance Inc. Malaysia is using fraud as a reason not to pay the balance of the US\$4.32 billion to IPIC or Aabar under the Consent Award, and recover the US\$1.46 billion already paid.

32. The Government is also working hand-in-hand with foreign governments to recover seized cash and assets related to 1MDB. We have successful seized a billion-ringgit luxury yacht,

Equanimity, and will commence its 1-month international auction on 5 November 2018.

33. **FOUR:** The Federal Government will track and publish not only the direct Federal Government debt ratios, but also provide the necessary transparency to disclose our total debt and liabilities. The direct federal government debt of RM687 billion stood as 50.7% of the GDP as at 31 December 2017. The direct federal government debt has increased to RM725 billion as at 30 June 2018, but maintained at 50.7% of the GDP.

34. Once committed contingent liabilities and leased payments are taken into account, our overall liabilities to GDP stands at 80.3% in 2017 and is expected to reduce to 74.6% at the end of 2018. Going forward for 2019, we expect our direct Federal Government debt to GDP ratio to be 51.8% while our total liabilities to reduce to 73.5%.

Strategy 3: Raising Government Revenue

Mr Speaker Sir,

35. To achieve the above objective, we will first, leverage on Government assets and second, review our taxation policies. The measures to leverage on Government assets are:

Leveraging Assets

36. **ONE:** Where the opportunity arises and when the Government is able to realise the full value of our non-core assets, we will seek to reduce our stake in these non-strategic companies and utilise the proceeds to pare down debt.

37. **TWO:** The real Public Private Partnership (PPP) model for public projects based on land swap transactions would be implemented using an open tender mechanism and not direct negotiations. Previously, through the direct negotiation model, the real value of the government land is invariably under-priced while the cost of the public works project is over-priced.

38. The real PPP model based on open tenders will enable the government to achieve the highest revenue for the asset disposed while receiving the best value for the project to be awarded. Based on this new model, twenty-four PPP projects such as schools, army camps, police and fire stations as well as affordable housing, worth RM5.2 billion will be implemented and the Government expects to gain an excess of RM800 million over the cost of the public works from the land sales.

39. **THREE:** We will plan scheduled and staggered land sales via auction to the highest bidders, based on conditions imposed on the land, to maximise revenue for the Government.

40. **FOUR:** To privatise infrastructure assets, the Government intends to set up the world's first "Airport Real Estate Investment Trust (REIT)". The investors of the Airport REIT will receive income arising from user fees collected from Malaysia Airports Holdings

Bhd (MAHB) which has the concession to operate these airports. The Government hopes to raise RM4 billion from selling a 30% stake of the REIT to private investing institutions, while these investors will gain an invaluable opportunity to invest in top quality infrastructure assets. This REIT exercise will only be carried out after the new Regulated Asset Base and user fees structure has been negotiated and finalised.

41. Going forward, the Airport REIT will have the opportunity to raise funds publicly either by issuing new REIT units or via borrowings in order to fund the improvement and expansion of airports, especially those facing over-capacity. This financial structure will significantly reduce the debt burden of the Government to fund all of these projects on its own, while maintaining MAHB as an asset light operator not bogged down by heavy capital investments and debt. Other projects could also benefit from similar funding and investment structures, such as hospitals, or rail infrastructure.

Reviewing Taxation

Mr Speaker Sir,

42. As promised in our Harapan Manifesto, we have Zero-Rated the GST as at 1 June 2018 and replaced the GST Act with the Sales and Services Tax (SST) on 1 September 2018. Under the GST, only 545 items are zero-rated whereas under the SST, almost 10 times the number of items are exempted. Perhaps the biggest impact is to businesses, where 472,000 companies were previously required

to collect GST. In contrast, only around 100,000 companies are required to collect the SST, greatly relieving the burden from many small and medium enterprises. According to an initial study by the Ministry of Domestic Trade and Consumer Affairs, 70% or 291 items from 417 inspected goods and services are found to have a reduction in prices in September 2018 when compared against the prices during the GST regime in May 2018.

43. Nearly all operational issues and teething problems associated with the SST have been resolved by the Customs Department and the Ministry of Finance through public interactions involving 50,000 people and tens of thousands of questions. I have personally attended 18 SST dialogues with more than 15,000 business people nationwide.

44. To further improve the efficiency and effectiveness of the SST, starting 1 January 2019, the Government will grant exemptions for specific business-to-business Service Tax for registered Service Tax entities. This will prevent the increase in the cost of doing business as a result of compounded taxation and protect the competitiveness of our local service industry.

45. To assist the problems faced by small manufacturers who purchase their products from importers instead of other registered manufacturers, the Government will introduce a credit system for Sales Tax deduction starting 1 January 2019. Again, this will prevent compounded taxation and in turn will decrease the cost of doing business.

46. On top of the above, the Tax Reform Committee was set up in September 2018 to identify and propose improvements and additional measures to create a more progressive and effective taxation system. Amongst the tax reforms proposed are:

47. **ONE:** Imported services will be subjected to Service Tax so as to ensure that our local service providers such as architecture, graphic design, Information Technologies (IT) and engineering design services are not unfairly disadvantaged against their foreign competitors starting 1 January 2019.

48. **TWO:** For online services imported by consumers, the foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the transactions with effect from 1 January 2020. Examples of these services will include, but are not limited to downloaded software, music, video or digital advertising.

49. The above measures will neutralise the cost disadvantage faced by physical retailers against their virtual storefront counterparts, especially those operated by foreign entities.

Mr. Speaker sir,

50. **THREE:** The Government will launch a Special Voluntary Disclosure Program to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts.

51. During this year, Malaysia is now a participant of the Organisation for Economic and Co-Operation and Development (OECD) Common Reporting Standards, where we will receive automatic exchange of financial account information (of non-resident persons) with the tax authorities of a person's country of residence.

52. The Special Voluntary Disclosure Program will be offered from 3 November 2018 until 30 June 2019 where taxpayers will receive reduced penalty rates. If disclosure of unreported income is made from 3 November 2018 until 31 March 2019, the penalty will be 10% of the tax-payable. If disclosure is made from 1 April 2019 until 30 June 2019, the penalty will be 15% of the tax-payable. After the program ends on 30 June 2019, the penalty rates will range from 80% to the maximum of 300% as provided for in the existing tax laws. With a clean and transparent government, Malaysians will be more than willing to pay their taxes because they know that the leaders of this Government will not cheat and steal their money.

53. **FOUR:** IRB will scrutinise and investigate unexplained extraordinary wealth displayed by possession of luxury goods, jewellery, handbags or property. The IRB will use all necessary measures permitted by the law to recover such monies, whether in the form of additional taxes, penalties or fines.

54. **FIVE:** The Government will also be reviewing the existing reliefs and incentives under the various tax acts to make them relevant and cut down leakages. The Government will also now

place a time limit on the carrying forward of losses and allowances for tax reliefs to a maximum of 7 years. This would apply to unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses.

55. **SIX:** We will also carry out a thorough review of the over-130 types of fiscal schemes to support investments, administered by 32 approving authorities with the intention to expire incentives which are no longer relevant or are duplicitous.

56. **SEVEN:** The Royal Malaysian Customs after having successfully launched the SST system, will step up enforcement against cigarette smuggling. Currently, the Government collects less revenue due to the widespread availability of much cheaper contraband alternatives or even illicit products packaged with fake custom duty labels. The Government hopes to recover at least RM1 billion in tax losses as a result of clamping down on smuggling and fraudulent activities.

57. **EIGHT:** To encourage domestic tourism, the Government proposes to impose a departure levy for all outbound travellers by air starting 1 June 2019. The proposed rate is 2-tiered, RM20 for outbound travellers to ASEAN countries and RM40 to countries other than ASEAN. The rate proposed is consistent or not more than what many other countries are charging, including Thailand at USD20, Hong Kong SAR at USD15 and Japan at USD10.

58. **NINE:** The Real Property Gains Tax rates will be revised for disposals of properties or shares in property holding companies after the fifth year as follows:

- for companies and foreigners, the rate shall be increased from 5% to 10%; and
- for Malaysian individuals, the rate shall be increased from 0% to 5%. However, low cost, low-medium cost and affordable housing with prices below RM200,000 will be exempted.

59. **TEN:** The stamp duty on the transfer of property valued at more than RM1,000,000 will increase from 3% to 4%.

60. **ELEVEN:** Since 1999, tax exemption for interest earned on wholesale money market funds was granted to develop the unit trust industry. In Malaysia, the growth of these funds has been substantial, at 24% annually since 2010 to achieve a total fund size of RM42.9 billion as at December 2017. Hence the tax exemption granted for these funds will cease beginning 1 January 2019.

61. **TWELVE:** The Labuan International Business and Financial Centre was set up as an offshore and mid-shore services centre to provide a wide range of business and investment structures facilitating cross-border transactions, business dealings and wealth management needs. The Government will continue to enhance Labuan's competitiveness by removing restrictions on

trade in Malaysian Ringgit, transactions between Labuan and Malaysian residents as well as maintaining the current tax rate of 3%. However, the tax ceiling of RM20,000 under the Labuan Business Activity Tax Act 1990 will be removed.

62. **THIRTEEN:** The taxes, fees and levy on the Gaming Industry which have not been increased since 2005 are increased as follows:

- casino license to be increased from RM120 million to RM150 million per annum;
- casino duties to be increased up to 35% on gross collection;
- machine dealer's license to be increased from RM10,000 to RM50,000 per annum; and
- gaming machine duties to be increased from 20% to 30% on gross collection.

However, the number of special draws will be reduced by half.

63. Overall, for 2019, the Federal Government is expecting to receive revenue of RM261.8 billion. This includes a one-off special dividend of RM30 billion from Petronas which will go towards repaying the GST and income tax refunds of RM37 billion. We are grateful that Petronas, as a company has been run in an extremely prudent fashion and has been able to accumulate the above reserves which can be shared with the Government, without jeopardising its ability to invest for its future growth.

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Mr Speaker Sir,

64. Improving the socio-economic well-being of the rakyat will be the key performance indicator of whether this new government is successful. We will seek to meet this objective by ensuring welfare and quality of life, improving employment and employability, enhancing wealth and social welfare protection, raising real disposable income and education for a better future.

Strategy 4: Ensuring Welfare and Quality of Life

65. **ONE:** We will continue the Government support for the B40 households via the “Bantuan Sara Hidup” (BSH) cash grants. However, the program will be targeted to those in need, and enhanced according to the size of the family. Starting January 2019:

- every household with a monthly income of RM2,000 and below will receive the sum of RM1,000;
- households with a monthly income between RM2,001 and RM3,000 will receive RM750;

- while those earning between RM3,001 to RM4,000 monthly will receive RM500.

66. However, for every child 18 years old and below or is disabled in the family (hence, with no age limit), there will be an additional top-up of RM120 per child of up to a maximum of four children. Therefore, in a family of four children with a monthly household income of less than RM2,000, the household will receive a total RM1,480 annually. This is more than the existing RM1,200 BR1M payment for the same household.

67. Hence, 4.1 million households will continue to receive financial assistance from the Government, totalling RM5 billion.

68. **TWO:** For housewives under the e-Kasih programme, we have put in place an EPF i-SURI contribution scheme where we incentivise caring husbands to contribute for their wives' retirement savings with an allocation of RM45 million. For the e-Kasih beneficiaries whose husbands contribute at least RM5 monthly into their wives' accounts, the Government will contribute RM40 a month.

69. **THREE:** The Pakatan Harapan Manifesto has promised to provide targeted fuel subsidy to individual car owners with engine capacity of 1,300cc or less and motorcycle owners of 125cc or less. However, the Government has decided to improve on our promise by expanding the scheme to vehicle owners of 1,500cc and below. Owners with multiple cars will not receive this benefit. The Government has decided that each car and motorcycle owner will

enjoy up to 100 litres and 40 litres of RON95 petrol per month with a subsidy of at least RM0.30 per litre, depending on the market price of petrol. As many as 4 million car owners and 2.6 million motorcycle owners will benefit from this targeted subsidy which will cost the Government the sum of RM2 billion for 2019. Non-subsidised vehicles will have to pay pump prices for fuel determined on a weekly basis based on the Automatic Price Mechanism (APM). This scheme is expected to commence in the second quarter of next year. This new scheme will also ensure that leakages arising from fuel price arbitrage and cross-border smuggling will be stopped.

70. **FOUR:** To minimise the price differences between urban and rural areas in Peninsula Malaysia, as well as in Sabah and Sarawak, the Government will allocate RM150 million to equalise prices of critical goods. They are wheat flour, processed sugar and cooking oil in 1kg packs, local rice with 15% broken grains in 10kg packs, and for RON95 petrol, diesel and liquid petroleum gas (LPG).

71. **FIVE:** The Government is also adopting the latest technology and techniques to be more efficient and effective in price monitoring. Instead of hiring thousands of “price-checkers”, we call upon all consumers to download the Price Catcher mobile application and be part of a vigilant crowdsourcing effort to collect information on the prices of goods and services. This service will benefit not only all consumers in knowing the best prices in town, it will help the authorities monitor against unlawful pricing practices. The Government will allocate RM20 million towards better enforcement.

72. **SIX:** Currently, all households which consume RM20 or less of electricity usage per month are fully subsidised by the Government. The Government intends to make this policy more targeted where only the poor and hardcore poor registered with e-Kasih will qualify. In doing so, the Government is able to increase the subsidy to RM40 per month benefiting 185,000 accounts, with the allocation of RM80 million.

73. **SEVEN:** The Government will identify and collaborate with NGOs and social enterprises to support their efforts in uplifting the underprivileged and marginalised communities. Examples of such partnerships will include the Government procurement of envelopes from Persatuan Pemulihan Orang Kurang Upaya. The government will allocate RM10 million for this initiative.

74. **EIGHT:** Income tax deductions will be provided for contributions from any parties to any social enterprise subject to a maximum of 10% of aggregate income of a company or 7% of aggregate income for a person other than a company.

Strategy 5: Improving Employment and Employability

Mr Speaker Sir,

75. With an unemployment rate of only 3.4%, Malaysia is considered to be enjoying full employment. However, there are structural problems causing long-term unemployment especially among the youth. We will tackle these problems by:

76. **ONE:** The Human Resource Development Fund (HRDF) will launch 2 new programmes, “Apprenticeship” and “Graduate Enhancement Programme for Employability” (GENERATE) to provide skills to school-leavers as well as to increase the marketability of our graduates from the institutions of higher-learning. HRDF will allocate RM20 million in matching grants for these programmes which will benefit at least 4,000 youths.

77. **TWO:** The government will introduce policies to encourage the employment of those past the retirement age of 60. By 2020, there will be an estimated 1 million Malaysians aged between 61 and 65 years old who will still be active and productive. We propose that the employer portion of EPF contributions be cut to 4% from the current 6% effective 1 January 2019. To boost the disposable income of working retirees, it is also proposed that the current mandatory employee contribution for this group be zeroed. We also propose to provide additional tax deduction to employers who employ this group up to a monthly salary of RM4,000. This provides an incentive for employers to hire or retain retirees, particularly among the B40.

78. **THREE:** To ensure that ex-convicts are not left behind as the country moves forward and are able to contribute to economic growth, the Government will provide an additional tax deduction for companies who employ ex-convicts up to a monthly salary of RM4,000 each. I wish to thank those who shared their inputs and suggestions, including this measure, through the Budget 2019 portal.

79. **FOUR:** Amongst the elderly, we also have many government pensioners who are receiving pensions of less than RM1,000 per month. We hear their appeals for assistance. Hence the Government will provide a one-off RM500 assistance to the qualified recipients.

80. **FIVE:** Amidst those working with the Government and serving the nation, there are nearly 30,000 'contract of service' officers who do not enjoy most of the benefits extended to the civil service. As such the Government will allocate RM10 million per annum to make available healthcare service for the parents of these 'contract of service' officers. In addition, these officers may apply for 'Quarantine Leave' when their children suffer from infectious diseases commencing 12 November 2018.

81. **SIX:** The Government currently approves Unrecorded Leave for Muslim officers to perform their umrah for up to 7 days for the entire duration of service. To appreciate the fact that we have 201,600 non-Muslims in the service, the Government has agreed to similarly allow for up to 7 days of Unrecorded Leave throughout the duration of service for the purposes of performing their religious pilgrimage and functions.

82. **SEVEN:** The Government is also cognizant of the need and importance of a living wage in an environment of rising costs. As a first step, the minimum wage shall be raised to RM1,100 per month for the whole of Malaysia starting 1 January 2019.

83. **EIGHT:** To reduce wage disparity, regulations will be implemented requiring public-listed companies in Malaysia to publicly disclose key pay metrics each year in their annual report. This will include 'the lowest wage paid', 'average wage per worker', the 'highest and lowest wage ratio' as well as a statement by the company of how they intend to improve their employees' average pay.

84. **NINE:** The Government will review our labour laws to improve the labour market, workers welfare and ban discriminatory practices by employers. We will also expedite the resolution of industrial disputes between employers and employees by setting up Industrial Appeals Court.

Strategy 6: Enhancing Health & Social Welfare Protection

Mr Speaker Sir,

85. **ONE:** The Government also wants to assist those who have lost employment with the full implementation of the Employment Insurance System (EIS) starting 1 January 2019. The Social Security Organisation (SOCSO) will pay compensation to those who have lost their jobs, including employment-seeking and skills training allowance. The EIS would also provide advice and help these workers find new jobs at the fifty-four SOCSO offices around the country.

86. **TWO:** The Government is committed to helping Malaysian households become more financially resilient through insurance

and takaful protection. Financial emergencies such as a critical illness in the family can cause severe financial stress. Insurance and takaful can act as a safety net by providing financial support and enabling households to get back on their feet especially for the lower income groups. In partnership with the private insurance industry, the Government will pilot a national B40 Health Protection Fund to provide free protection against top 4 critical illness for up to RM8,000 and up to 14 days of hospitalisation income cover at RM50 per day starting 1 January 2019. In other words, hospitalisation income of RM700 per annum is available. We are grateful to Great Eastern Life Insurance for agreeing to contribute the initial seed funding of RM2 billion to this Fund to be managed by Bank Negara Malaysia. We are expecting the fund size to grow with more partnership and contributions with other insurance companies. This is a big step for Malaysia because for the very first time, together with the Employees Provident Fund and the Social Security Organisation, we are starting a more comprehensive social welfare protection coverage, particularly for the middle- and lower-income groups.

87. **THREE:** It is also our wish and intent that as the B40 households learn the benefit of insurance and takaful, they will over time acquire their own protection policies. For this purpose, Bank Negara Malaysia has launched 'Perlindungan Tenang' in 2017 to make available affordable, accessible and simple insurance and takaful products for Malaysians costing as little as less than a packet of cigarettes a month. The Government proposes to waive stamp duty for all Tenang Insurance products for two years beginning 1 January 2019.

88. **FOUR:** To encourage higher insurance take up rate, the combined tax relief for EPF contribution and life insurance or takaful deduction will be separated into RM4,000 for EPF contribution and RM3,000 for takaful or life insurance premiums. For civil servants under the pension scheme, the tax deduction will be up to RM7,000.

89. **FIVE:** The Government will be allocating nearly RM29 billion for Ministry of Health, which is an increase of 7.8% compared to the previous year. This includes an allocation of RM10.8 billion to provide medicine, to upgrade and improve the quality of health services at our clinics and hospitals.

90. **SIX:** The Health Ministry will pilot a nationwide health screening programme, Skim Perlindungan Kesihatan (PEKA) for 800,000 individuals aged 50 and above in B40 households at a cost of RM100 million.

91. **SEVEN:** To protect women's health, we are allocating RM20 million to provide free mammogram screening, PVHPV vaccination as well as pap smear tests for 70,000 women.

92. **EIGHT:** The Government will also allocate RM50 million for the specific purpose of treating rare diseases, Hepatitis C virus, stunted growth among children, providing more haemodialysis treatments and Enhanced Primary Healthcare (EnPHC).

93. **NINE:** The Government will widen the Public-Private Partnership programs where the Government will invest in the healthcare facilities while the private sector will also invest to deliver the best quality of service to the people. The examples of such partnerships include Pusat Katarak Majlis Agama Islam Wilayah Persekutuan (MAIWP), Selayang.

94. **TEN:** Statistics from the Ministry of Health showed that nearly one out of two Malaysians were overweight or obese. Therefore, the Government has decided to add as a start, ‘sugar sweetened beverages’ to the list of manufactured goods subject to excise duty in an effort to help address this issue. The duty proposed will be at RM0.40 per litre to be implemented on 1 April 2019:

- for non-alcoholic beverages containing added sugars of more than 5gm per 100ml drink; and
- for fruit or vegetable juice containing added sugars of more than 12gm per 100ml drink.

95. **ELEVEN:** The Ministry of Health has also set 2045 as the year to achieve our goal to be a “Smoke-free Malaysia”. As such, the Ministry will expand the number of locations where smoking will be disallowed starting 1 January 2019.

96. We can only enjoy the fruits of economic growth and the country’s prosperity if we are safe and secure. The Government will strengthen our national security by allocating development

expenditure of RM5.9 billion to the Ministry of Defence and Ministry of Home Affairs.

Strategy 7: Raising Real Disposable Income

Mr Speaker Sir,

97. Based on the study by Khazanah Research Institute, in 2016, households with income below RM2,000 spent 95% of their incomes in consumption respectively. The income remaining after accounting for inflation is only RM76 in 2016, as compared to RM124 in 2014. The two largest expenditure components other than food, is housing and transport. Therefore, besides attempting to increase real disposable income of ordinary households with the measures mentioned earlier, this Government wants to specifically address the cost and affordability of housing and transport for Malaysians for both the B40s and M40s.

Housing for All

98. We will continue to support the construction and completion of affordable homes with an allocation of nearly RM1.5 billion for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA and Syarikat Perumahan Nasional Bhd to ensure the availability of supply.

99. However, without the necessary availability and accessibility of loans from financial institutions, the supply of these affordable homes will fail to meet the pent-up demand for housing. To assist

the lower income group earning not more than RM2,300 per month to own a house for the first-time, a fund amounting to RM1 billion will be established by Bank Negara Malaysia, to help them to purchase affordable homes priced up to RM150,000. The fund will be made available from 1 January 2019 at participating financial institutions, namely AmBank, CIMB, Maybank, RHB and BSN through a concessionary financing rate as low as only 3.5% per annum. This will significantly reduce the monthly financing instalment of borrowers to own a house, and make it easier to qualify for the required financing. The RM1 billion fund is available for two years or until the allocation is exhausted.

100. For first-time home-buyers purchasing residential properties priced up to RM500,000, the Government will exempt stamp duty up to RM300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020. For first-time home-buyers with household income of RM5,000 or less, the Government will allocate RM25 million to Cagamas Berhad to provide mortgage guarantees to enable borrowers to obtain higher financing from financial institutions, inclusive of down payment support. These measures are expected to give between 7% and 11% cost savings to the house buyers, before taking into consideration any promotional discounts which may be offered by the property developers.

101. In line with the Government's intent to assist civil servants acquiring their homes, the Public Sector Housing Financing Board will extend the loan repayment period from 30 to 35 years for the first loan, and from 25 to 30 years for the second loan.

102. The Government will also allocate RM400 million for the upgrading, repair and maintenance of government housing quarters of the police, armed forces and teachers to improve the living conditions and ensure their fitness for occupation.

103. The Government has already announced that we have exempted construction and building materials from SST. In return, we have secured the commitment from the Real Estate Housing Developers Association (REHDA) that there will be a 10% reduction in the price of houses that are not subjected to price control in new projects.

104. There is an existing over-hang of RM22 billion worth of residential properties as at 31 March 2018, a 65% increase as compared to RM13.3 billion last year. To address this, the Government will for a limited time of 6 months only, starting 1 January 2019, waive all stamp duty charges for first time purchases of homes valued between RM300,001 and RM1 million. This will be part of a National Home Ownership Campaign, where in return, developers will offer a minimum price discount of 10% for these residential properties.

105. Finally, as a demonstration of this Government's willingness to explore new, technology-enabled and innovative mechanisms to solve our housing problems, we will be approving private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first time home buyers. These exchange platforms will be regulated by the Securities Commission

under the peer-to-peer financing framework. As an example, the buyer will be able to acquire a selected property for 20% of the price of the property, while the balance 80% will be fulfilled via potential investors who are interested to fund the acquisition in exchange for the potential appreciation in value of the property over a particular period of time.

106. In simple terms, Ah Chong will be able to own and stay in a RM250,000 property by paying up RM50,000 without having to procure a mortgage. Ali who might only be interested in investing in a new property for capital appreciation will fund the balance of the RM200,000 via the peer-to-peer Property Crowdfunding exchange. This financial innovation will be the first in the world, and if successful, will transform the affordability of homes for first-time home buyers in the country. The first exchange is expected to go live in the first quarter of 2019, after all necessary approvals are obtained from Securities Commission.

Encouraging Public Transport Adoption

Mr Speaker Sir

107. After housing expenses, transport is the next biggest expense item. Many household don't just own one car, they own at least two. The typical monthly expenses for just a Perodua Myvi would be approximately RM900 after taking into consideration the loan instalment, petrol, parking and maintenance. Therefore, a key solution to increasing the real disposable income of Malaysian

households is to migrate from private car ownership to the adoption of public transport.

108. To increase the utilisation of public transport, the Government will allocate RM240 million to introduce a RM100 unlimited public transport pass, to kick off initially on the RapidKL rail and bus network on 1 January 2019. There will also be a RM50 monthly pass available just for RapidKL bus services only. The campaign will be expanded to other bus companies at a subsequent stage. This scheme will immediately increase the disposable income of households by hundreds of ringgit a month.

109. The Government's wholly-owned public transport subsidiary, Syarikat Prasarana Bhd will also seek to improve its bus network by fully utilising and optimising its current fleet of 1,131 RapidKL, 408 RapidPenang, 69 RapidKuantan and 300 MRT feeder buses. The company will also work in partnership with other existing bus companies to manage routes and services as well as cost control, in order to maximise efficiency and the quality of service.

110. The reduction of LRT3 and MRT2 construction cost increases the operational viability of the projects, which in turn translates into lower public transportation fares. This will encourage public transportation usage.

111. Kuala Lumpur City Council, will allocate RM20 million next year to provide additional free GoKL free bus services from the existing 4 routes to further improve public transport coverage in Kuala Lumpur.

112. The Government will also make available RM500 million for a Public Transport Loan Fund with 2% interest subsidy via Bank Pembangunan Malaysia available to taxi and bus companies as well as other public transport operators.

113. The Government will freeze toll hikes on all intra-city tolls around the country for 2019 that will cost the Government approximately RM700 million. The Government will also abolish toll for motorcycles for the First and Second Penang Bridge, as well as the Second Link in Johor, costing approximately RM20 million per annum effective 1 January 2019.

114. In addition, the Government will prioritise solutions for both the Causeway and the Second Link to Singapore to ease congestion and hardship of Malaysians and residents who travel on a daily basis. It will include an allocation of RM10 million to upgrade the Autogate Malaysia Automated Clearance System and M-Bike.

Strategy 8: Education for a Better Future

Mr Speaker Sir,

115. The only sustainable and guaranteed mechanism to achieve higher income growth is through better quality education at all levels. The Education Ministry remains the single largest recipient of Budget allocation at RM60.2 billion or 19.1% of the total Budget 2019. The measures will include:

116. **ONE:** A total of RM2.9 billion will be provided to help students from lower income groups in terms of food, text books and cash assistance.

117. **TWO:** The Government has allocated RM652 million for the purposes of upgrading of schools, as compared to RM615 million allocated in 2018, as follows:

National Schools	RM250 million
Chinese Schools (SJKC)	RM50 million
Tamil Schools (SJKT)	RM50 million
Full Boarding Schools	RM50 million
Maktab Rendah Sains Mara	RM50 million
Government Aided Religious Schools	RM50 million
Mission Schools	RM50 million
Tahfiz Schools	RM50 million
Registered Religious Pondok Schools	RM25 million
Conforming Schools	RM15 million
Independent Chinese Secondary Schools	RM12 million

118. **THREE:** All donations to national schools and public institutions of higher learning (IPTA) registered with the Ministry of Education for the purposes of upgrading infrastructure will be tax exempted starting 1 January 2019. This is to incentivise and recognise Malaysians who contribute directly towards nation building. For the other schools and institutions of higher learning registered with the Ministry of Education, the exemptions will be evaluated on a case-by-case basis.

119. **FOUR:** We will allocate RM100 million towards the reconstruction of dilapidated schools throughout the country, to be funded via competitively-tendered Public Private Partnership projects via land currently owned by the Ministry of Education.

120. **FIVE:** RM206 million will be allocated towards the development and provision of training programs in Polytechnics and Community Colleges.

121. **SIX:** We will also introduce a RM30 million the Training and Vocational Education and Training (TVET) Prestige Fund, a contestable fund where we will encourage the various training institutions to bid for funds to run competitive programs with specific KPIs on job placements for the graduates. There will also be an additional allocation of RM20 million to raise youth competency via a TVET sponsored Bootcamp.

122. **SEVEN:** Research funds amounting to RM400 million allocated will be allocated to our institutions of higher learning via a contestable fund. In addition, RM30 million will be disbursed in

the form of matching grants via the Malaysia Partnerships and Alliances in Research (MyPAIR) program.

123. **EIGHT:** The Government will continue to provide scholarships and lending to all Malaysians via various Ministries and Agencies with a total allocation of RM3.8 billion. RM2 billion of this amount is allocated to provide scholarship for Bumiputeras under the sponsorship of MARA.

124. **NINE:** The Government will allocate RM17.5 million over the next 5 years to Malaysia Professional Accountancy Centre (MyPAC) to produce 600 qualified Bumiputeras accountants towards meeting the goal of 3,000 Bumiputera accountants registered with the Malaysia Institute of Accounts from the 1,554 today.

125. **TEN:** The Government will allocate RM210 million as part of the Bumiputera Empowerment Agenda to strengthen education and human capital development programs via Program Peneraju Tunas, Program Peneraju Skil dan Program Peneraju Profesional which will be managed by Yayasan Peneraju Pendidikan Bumiputera.

126. **ELEVEN:** To ensure the sustainability of the National Higher Education Loan Fund (PTPTN), we plan to introduce:

- progressive loan repayment schedule with a percentage ranging from 2% to 15% of the borrowers' monthly income depending on their income level. This repayment schedule

will only apply to those with at least RM1,000 in monthly income;

- tax relief for companies that help settle all the remaining loans of their employees for the year ending 2019;
- additional individual tax relief for all additional savings deposited in the PTPTN National Education Savings Scheme (SSPN) from RM6,000 to RM8,000;
- discounts on the loan will be given to students from B40 households who have successfully obtained first class honours in their studies;
- writing off the debt of those who are 60 years old and above with monthly income less than RM4,000, benefiting up to 350 debtors and costing RM4.2 million.

127. **TWELVE:** To instil good moral values and a strong sense of patriotism amongst our youth, a new program, PATRIOT will be introduced for youths aged 15 to 30 involving 70,000 participants a year with an allocation of RM70 million.

128. **THIRTEEN:** The Government congratulates all medal winners in the Asian and Asian Paralympic Games that have enhanced the good name of Malaysia and brought international goodwill. The Government is allocating RM100 million to prepare our athletes for the Tokyo Olympics 2020 in hopes of bringing back our first gold medal.

129. **FOURTEEN:** We will also allocate RM10 million for E-Sports to Malaysia Digital Economy Corporation (MDEC), recognising that this is an activity and industry which is increasingly popular among the younger generation involving software engineers and gaming developers.

Upholding Islam

130. As the religion of the Federation, Islam enjoys a unique constitutional position. Allocation for Islamic affairs for both development and operating expenditures has been increased from RM1.1 billion in 2018 to RM1.2 billion in 2019 to ensure the growth of the religion would not be impeded by the challenging economic conditions. Moreover, RM150 million have been made available to carry out programmes such as building mosque and surau across the country, “Khaira Ummah” initiative to train more professionals among the huffaz and religious learning modules using *braille*.

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Mr Speaker Sir,

131. We need to create an environment for our human talent to fulfil their potential. Strong and dynamic economic growth can be found especially by promoting an entrepreneurial state relying on innovation and creativity, and by embracing the new economy and digital economy.

132. The entrepreneurial state model will also adopt a collaborative approach by relying on the 4P partnership involving the Public, Private, Professionals and the People to manage and steer the project. There will be co-financing by the four principal partners but the project will be managed by the private sector or professionals and accountable to both the government and the people.

Strategy 9: Unleashing the Power of the New Economy

Mr Speaker Sir,

Embracing the Digital Economy

133. To support new technology developments and ensure sufficient funding for entrepreneurs via conventional and alternative financing sources, we propose the following initiatives:

134. **ONE:** The many venture capital funds managed by Government agencies – Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn.Bhd, will be streamlined and made more efficient in delivering capital to companies in various stages of financing needs. Therefore, to ensure that the funds are accessible to those who are most likely to succeed, the funding disbursements will be tied to the companies' ability to secure matching funds from the private sector.

135. **TWO:** Government-Linked Investment Funds will similarly allocate RM2 billion in matching funds to co-invest with the private equity and venture capital funds. This Fund will focus on strategic sectors and new growth areas for Malaysia.

136. **THREE:** The Government will allocate RM50 million to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing.

137. The Securities Commission has approved the regulatory framework for these platforms. To date, almost RM170 million have been raised through these crowdfunding platforms, benefitting more than 450 companies across a broad cross-section of sectors. Almost 10,000 investors have participated in these crowdfunding campaigns thus far, where 45% of investors have been youths below the age of 35.

138. **FOUR:** The Capital Markets and Services (Prescription of Securities) Guidelines will be gazetted in early 2019 to set up a new regulatory framework to approve and monitor Digital Coin and Token Exchanges.

139. **FIVE:** To promote Malaysia as the hub and pioneer of the bond and sukuk markets, the Government will:

- extend the double tax deduction policy for additional expenditure incurred when issuing sukuk under the principles of Ijarah and Wakalah, as well as for additional expenditure incurred by the companies issuing retail bonds or sukuk. Both these policies will be made available for 3 years commencing in 2019 as the year of assessment; and
- set up a Special Committee on Islamic Finance led by the Ministry of Finance and comprised of member from Bank Negara Malaysia and Securities Commission.

140. **SIX:** To promote a world-class film production industry in Malaysia, we will continue the Film In Malaysia Incentive (FIMI) with an allocation of RM30 million. Moreover, Khazanah Nasional Berhad (Khazanah) will provide an allocation of RM100 million for FIMI specifically applicable to film production at the Pinewood studio in Iskandar Johor.

141. **SEVEN:** To support the growth of the digital economy, the Government will launch the National Fibre Connectivity Plan in

2019 with an allocation of RM1 billion. The plan will develop our broadband infrastructure to ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas in the country within 5 years as part of the overall plan to achieve world class infrastructure at affordable prices. The Government has also enforced the Mandatory Standards for Access Pricing (MSAP) which will result in fixed broadband prices to be reduced by at least 25% by the end of 2018.

Accelerating Adoption of Industry 4.0

Mr Speaker Sir,

142. The Industry 4.0 blueprint, titled “Industry4WRD” aims to make Malaysia the prime destination for high-tech industries. The Government will initiate the following measures to support Industry4WRD:

143. **ONE:** We will allocate RM210 million from 2019 to 2021 to support the transition and migration to Industry4.0. We will assist the first 500 SMEs to carry out the Readiness Assessment to migrate to Industry4.0 platforms via Malaysia Productivity Corporation.

144. **TWO:** The Government will provide RM2 million in the Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources. In 2019, the Government will make available 250 facilities and 1,200 scientific

equipment and research data for the private sector to access and share. On top of that, we will start a Researcher-Mapping program to place at least 100 researchers at our research facilities with the private sector, with the cost borne by the Government.

145. **THREE:** To incentivise SMEs to invest in automation and modernisation which forms part of the Industry4.0, we have allocated RM2 billion under Business Loan Guarantee Scheme (SJPP) where the Government will provide guarantees of up to 70%.

146. **FOUR:** We will create a RM3 billion Industry Digitalisation Transformation Fund with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad. The purpose of this fund is to accelerate the adoption of smart technology consisting of driving automation, robotics and artificial intelligence in the industry.

147. **FIVE:** MIDA will continue to provide matching grants through its High Impact Fund (HIF) with a specific emphasis of Industry4.0 initiatives. This includes activities such as Research & Development, initiatives to obtain international certification and standards, modernizing and upgrading of facilities and tools and licensing or purchase of new or high technology.

148. **SIX:** Khazanah will lead and develop an 80-acre development in Subang as a world class aerospace industry hub. Khazanah will also work with all relevant agencies, especially MARA to produce high-skilled workers to meet the demands of the industry.

149. On top of these measures, the Government also intends to upgrade the marketability of our graduates and the skill-level of the Industry4.0-related workforce by providing double tax deduction:

- For scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology;
- For company expenses related to participation in the National Dual Training Scheme for Industry4.0 and other related programmes approved by the Ministry of Human Resources, or the Malaysia Investment Development Authority; and
- For company expenses in carrying out structured training programmes for students in the fields of engineering and technology which are approved by the Ministry of Human Resources.

Strategy 10: Seizing Opportunities in the Face of Global Challenges

Mr Speaker Sir,

150. Malaysia will undoubtedly be affected by the US-China trade war given that both these countries are among our top 3 trading partners. However, the trade conflict between China and the United States has also created a unique opportunity for Malaysia,

where we are extremely well positioned as a safe haven for manufacturing investors.

151. Therefore, it is not surprising that Malaysia continues to attract Foreign Direct Investment (FDI) at a healthy rate. From January to August 2018, Malaysia recorded a total of RM61.6 billion in investment approvals, up from RM40.4 billion during the same time period in 2017.

152. The manufacturing sector continues to comprise the largest share of investment approvals – RM49.8 billion, or approximately 81% of total investments. These 411 projects have the potential to create more than 34,000 jobs nationwide. This shows that investor confidence in Malaysia has not wavered after the 14th general election.

153. In the World Bank's Doing Business Report 2019 published this week, Malaysia's ranking jumped from 24th to 15th in the world. To further enhance Malaysia's competitiveness and ease of doing business, MoF and MITI will form a joint task force jointly chaired by both Ministers to drive regulatory reform, particularly in the areas of improving trade processes and tax administration. We will send the signal to the world that we are investment friendly and we are open for business.

154. To increase investments of companies already participating in the Principal Hub, we propose to improve the existing incentives by charging a concessionary 10% income tax rate on the overall

statutory income related to Principal Hub activities for a period of 5 years.

Strengthening Small Medium Enterprises (SME)

Mr Speaker Sir,

155. Small and Medium Enterprises (SMEs) constitute 98.5% of businesses in the country and is the heartbeat of the economy. Therefore, to ensure that they continue to thrive, especially in the key targeted industries, we will implement the following measures:

156. **ONE:** A RM4.5 billion SME Loan Fund will be made available via commercial financial institutions with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP), including RM1 billion for Bumiputera SMEs;

157. **TWO:** The corporate income tax rate for taxable income of up to RM500,000 and SMEs with less than RM2.5 million in paid up capital, will be reduced from 18% to 17%.

158. **THREE:** We will encourage exports through financing by EXIM Bank by making available RM2 billion worth of credit and takaful facilities to the SME exports.

159. **FOUR:** We will be allocating RM100 million to upgrade the capability of the SMEs in the halal industry via various programs in order to increase exports and to make Malaysia a global halal hub by 2020.

160. **FIVE:** There will also be a RM1 billion SME Syariah Compliant Financing Scheme made available via Islamic financial institutions where the Government will provide a subsidy of 2% profit rate.

161. **SIX:** Permodalan Usahawan Malaysia Berhad will also make available RM200 million for the wholesale and retail industry, as well as for the purchase of business premises to be rented to Bumiputera SMEs. Another RM100 million is allocated to TEKUN to finance small entrepreneurs.

162. **SEVEN:** The Government will allocate RM20 million to initiate a 'Buy Malaysian First' campaign to support local products and services. The campaign will be run at the grassroots level to provide a platform for local producers, manufacturers and service providers to market their products and services at hypermarkets, shopping centres and trade fairs. To take the lead, the Ministry of Finance will ensure Malaysian products and services, such as surgical instruments and medical implants which have received international certifications will not be discriminated against in our procurement processes.

163. To ensure the continued upgrading of our local corporations, the Government is also committed to reduce our dependency on low-skilled foreign labour. Therefore, we will implement a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers.

164. The shortage of workers in the agriculture and plantation industry and the decline in prices of agricultural commodities have affected output in these sectors. The Government will assist these two sectors by reducing the extension levy for foreign workers who have served for 10 years or more, from RM10,000 to RM3,500 per worker per annum.

Lubricating the Logistics and Transportation Sector

Mr Speaker Sir,

165. The logistics sector plays an important role in the development of the country, particularly where both exports and manufacturing are key thrusts of the economy. The Government will allocate RM2.46 billion for upgrading and restoration works for railway tracks to upgrade the country's transport infrastructure.

166. The government will also support the development and growth of the Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah as a strategic trading and logistic hub between Malaysia and Thailand. As an initial phase of the project, RM25 million will be allocated to develop a truck depot to catalyse development in the area.

167. The government intends to convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse increased shipping and logistics activities in Port Klang. The new FTZ will

serve as a natural extension to Port Klang Free Zone. The land will be developed through a joint venture or solely by the private sector.

Value-adding Commodities

Mr Speaker Sir,

168. Palm oil and rubber are the two export-oriented commodities which contribute significantly to our economy. The sector also provides a key source of income for our smallholders. In order to raise the demand for palm oil and increase the sustainability of our energy resources, the Government will implement the Biodiesel B10 program (comprising a mix of 10% palm oil) for the transportation sector and B7 for the industrial sector in 2019. In addition, to raise the sustainability and export competitiveness of our palm oil industry, the Government will allocate RM30 million to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification.

169. For the rubber industry, the Government is committed to increase the utilisation of local rubber as a new raw material for various industrial products. As an example, the Government will increase the use of local rubber as a composite material for the construction of roads in Malaysia to increase durability while at the same time reducing maintenance cost. To assist smallholders, the Government targets the use of Cuplumb Modified Bitumen (CMB) to build roads at ports and industrial areas in stages. The Government will allocate RM100 million for this purpose.

170. In addition, the Government will continue to provide Rubber Production Incentive with an allocation of RM50 million to protect the effects of the fall in rubber prices for smallholders. The smallholders would receive supplement income from the fund when rubber prices fall below RM2.20 per kilogram.

171. For the agricultural sector, the Government will allocate

- RM47 million for Research and Development to increase the productivity of our seeds, grains and fruits;
- RM18 million to incentivise the automation of the agrofood industry; and
- RM52 million to implement agricultural and agrofood industry, as well as entrepreneurship training for youths.

Boosting Tourism

Mr Speaker Sir,

172. The tourism industry is a key contributor to our services sector, constituting 14.9% of our GDP or RM201.4 billion in 2017. Given the importance of the tourism industry, especially as a foreign exchange earner, the Government will pay specific attention to achieve the Ministry of Tourism's target of 30 million foreign tourists contributing RM100 billion by 2020.

173. To achieve these goals, the Government will allocate RM100 million in matching grants to the private sector for running promotional and marketing campaigns overseas to increase the number of visitors to the country.

174. The government will provide tax free incentives to Penang's Swettenham Pier in the form of duty-free shops to cater to its booming cruise tourism and develop the tourism potential of Pulau Pangkor by declaring it as a duty free island. The duty-free island status of Pulau Langkawi has been enhanced and will be further expanded.

175. To assist the respective state governments in encouraging tourism activities, the Government will share 50% of the proceeds on tourism tax, estimated at RM50 million, with the states.

176. The Government will also make available RM500 million worth of loan facilities via the SME Tourism Fund with SME Bank at a 2% interest subsidy. This will assist handicraft makers and homestay operators to expand their businesses.

177. Khazanah Nasional Berhad will lead the public-private partnership to redevelopment and restoration of the Sultan Abdul Samad building in Kuala Lumpur into an arts, cultural and heritage hub. Such an urban regeneration project will be carried out by a local heritage company ThinkCity with an international organisation accredited with UNESCO.

178. Medical tourism in Malaysia continues to gain global recognition. The Government will also allocate RM20 million for the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in a year to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism.

Strategy 11: Redefining the Role of Government in Business

Mr Speaker Sir,

179. The business of the Government is not to be in business. Clearly, government owned companies have been competing directly with private companies in non-strategic sectors. The outcome was the apparent ‘crowding out’ of private sector investments where private companies are unable to grow and compete.

180. For an entrepreneurial economy to succeed, the private sector must lead. For a start the Ministry of Finance will set up a Special Task Force to evaluate the role and functions of statutory bodies and companies owned by Ministry of Finance, Inc. to reduce duplication of functions and involvement in areas where the private sector is efficient and competent. Going forward, the Government will focus its expenditure and investments only in strategic sectors and areas where the markets are unable to meet the needs of the people.

181. We will tap on the quality of service and delivery, while making available our capacity and resources to the private sector. As an example, our TVET training institutes can offer the courses run by the private sector to ensure relevance and quality, while in exchange, we can offer our under-utilised infrastructure as shared facilities for them. The same can be done for Pusat Sains Negara and Planetarium at minimal cost to the Government.

Strategy 12: Ensuring Equitable and Sustainable Economic Growth

Mr Speaker Sir,

182. Malaysia can succeed at being a developed high-income nation when there is equitable, inclusive and sustainable growth for all regardless of race and religion.

Ensuring Balanced Development

Mr Speaker Sir,

183. As a responsible Government, we must ensure balanced development throughout the country, especially in the rural regions. Therefore, we will upgrade rural infrastructure facilities by:

184. **ONE:** An allocation of RM926 million to build and upgrade roads and bridges;

185. **TWO:** An allocation of RM694 million and RM738 million to supply electricity and water respectively to rural and remote regions;

186. **THREE:** We will allocate RM85 million to New Villages for the purposes of upgrading and maintaining basic infrastructure such as roads, community halls and open spaces;

187. **FOUR:** There will also be a RM100 million allocation to support the Indian community, including technical and skills training to improve the career advancement opportunities of the Indian youths;

188. **FIVE:** We will allocate RM100 million to strengthen the development of orang asli communities via the construction and upgrading of infrastructure for the supply of water, relocation, education, welfare and economic development.

189. **SIX:** The Government will allocate RM20 million to residents associations registered with the Registrar of Societies to carry out community, security and neighbourhood activities.

190. **SEVEN:** For FELDA developments, we will allocate RM100 million to upgrade roads, RM160 million to carry out water supply projects and RM35 million for buildings and basic infrastructure such as street lights. This represents an overall increase of 51% compared to the previous year's allocation.

191. The Government will continue to ensure the development of Sabah and Sarawak. Development expenditure of RM5,009 million has been allocated to Sabah as compared to RM4,133 million in 2018. As for Sarawak, RM4,346 million has been allocated compared to RM4,336 million in 2018.

192. The Government will continue to implement the Pan Borneo Highway encompassing Sabah and Sarawak, subject to a cost rationalisation exercise. In addition, projects in Sabah and Sarawak will include the construction and upgrading of water, electricity and road infrastructure, health and education facilities as well as the development of the respective economic corridors.

Women in the Workforce

Mr Speaker Sir,

193. Our current women participation rate in the labour force is only 53.5% in 2017 compared to 77.7% for men. Of the number who were not working, 60% or 2.6 million women cited housework as the reason why they did not join the labour force.

194. According to a report recently published by Khazanah Research Institute, raising women's employment level by 30% would raise Malaysia's GDP by around 7 to 12%. Hence, it is imperative for this Government to formulate policies to encourage women to participate in the workforce:

195. **ONE:** We will allocate RM10 million to set up another 50 childcare facilities in Government buildings to ease the burden of working mothers. We will continue to encourage and incentivise the private sector to follow suit to ensure equal employment opportunities for women.

196. **TWO:** The Government is committed towards increasing women participation to 30% at leadership and decision-making levels in companies and organisations. We have led by example by electing the very first female Deputy Prime Minister in Malaysia, accompanied by 4 female Ministers. As of today, 36% of the senior officers in the public sector are women.

197. **THREE:** We will encourage higher women participation among the public listed companies as only 23.2% of the appointed Board of Directors are women today among the top 100 largest companies on Bursa Malaysia. We call upon the private sector to emulate the Government by ensuring the objective of 30% women participation in the Board of Directors is achieved by 2020.

Environment and Energy for the Future

Mr Speaker Sir,

198. The Government is committed to take all necessary measures to protect our Environment, both as a responsibility to and a gift to our future generations. As forest and marine reserves are under the care of the State Governments, the Federal Government will

allocate RM60 million to help fund specific projects by the state governments to protect and expand our existing natural reserves.

199. The Government will take steps to list the Forest Research Institute Malaysia (FRIM) Forest Park in Selangor, and Royal Belum Perak as UNESCO World Heritage Sites.

200. We will allocate RM5 million for micro-grants to implement programs with the cooperation from United Nations Development Program (UNDP), to manage and protect the environment in Orang Asli and Orang Asal communities.

201. In addition, to attract environmentally-friendly investments and to reduce the usage of conventional plastic, the Government proposes Pioneer Status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer.

202. To incentivise investments in green technology, there will be a RM2 billion Green Technology Financing Scheme (GTFS) made available at selected commercial banks where the Government will subsidise the interest cost by 2% for the first 5 years.

203. Bank Pembangunan Malaysia Berhad will also provide a Sustainable Development Financing Fund of RM1 billion to support the Agenda 2030 for Sustainable Development as well as the 17 Sustainable Development Goals (SDG) under the United

Nations Development Programme. To this end, we will provide a subsidised interest rate of 2% as an incentive.

204. In order to encourage the use of green energy, the Government will expand the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets in the MyHijau directory.

Conclusion

Mr Speaker Sir,

205. This 2019 Budget will allocate a total of RM314.5 billion in expenditure as compared to an estimated RM290.4 billion in 2018. From the total, RM259.8 billion is for Operating Expenditure while RM54.7 billion is provided for Development Expenditure. This does not take into consideration the Contingency Fund of RM2 billion.

206. For Development Expenditure, the Economic Sector received the highest allocation of RM29.2 billion encompassing transport, trade, industry, energy and public utilities and agriculture. The Social Sector will receive RM15.2 billion, followed by the Security Sector, RM7.1 billion and General Administration, RM3.2 billion.

207. The Development Expenditure has increased from RM44.9 billion in 2017 to a projected RM54.9 billion and RM54.7 billion in 2018 and 2019 respectively. The key reason is due to a reclassification of what was previously classified as Operating to

Development Expenditure amounting to RM6.9 billion and RM 9.7 billion in 2018 and 2019 respectively.

208. Examples of reclassified items are payments to Prasarana for LRT construction and to Suria Strategic Energy Resources for the gas pipeline projects. They were treated as transfers under operating expenditure when they are actually development expenditures. Other similar expenditures were lease or maintenance payments for the construction of PDRM buildings and capital refurbishment of schools.

209. To ensure that the Government is able to meet the objectives expressed in the Mid-Term Review by the Prime Minister as well as this Budget, we will need to have an effective and efficient public sector. Policy making and implementation must have clarity, certainty and engender confidence. Only then can we build public trust amongst investors and our people in our institutions.

210. We will increase the reach of alternative service providers to reduce the role of the government in providing non-core services. This will be pioneered in the welfare sector by working together with NGOs. For example, children from orphanages will be transferred to family-based care.

211. The Government is allocating RM286.8 million for Malaysian Anti-Corruption Commission operating expenses, an 18.5% increase from RM242.1 million allocated last year. In 2019, the staffing will be increased by 100 personnel. This is to ensure that the MACC has all the necessary resources and manpower to

combat corruption in both the private and public sector, and follow the money trail to recover stolen funds.

Mr Speaker Sir,

212. The Government records its appreciation to the Malaysian Armed Forces, Royal Malaysian Police, Fire Rescue Department, Royal Malaysian Customs Department for ensuring the security, peace and safety of the country. In appreciation of the efforts and dedication of the civil servants and for those serving at grades 54 and below, the Government would like to announce a bonus of RM500. For government pensioners a bonus of RM250 will be paid. Unlike the previous government that likes to make bonus payments only one year later, these bonus payments will be made by the end of December 2018. These bonus payments will cost the Government RM1 billion.

213. The government wishes to thank Malaysians who donated to the Tabung Harapan Malaysia set up to allow Malaysians to display their patriotism by donating to pay off our country's debts. Your love for Malaysia has allowed us to collect RM196.5 million and the Tabung Harapan will be closed on 31 December 2018.

214. There is no doubt that the new Malaysia under the dynamic and forward-looking leadership of Yang Amat Berhormat Prime Minister (Langkawi) has caught the imagination of the rakyat and the world. In fact, there is now renewed confidence in Malaysia that we will overcome our economic challenges and take on a new trajectory of growth.

215. The confidence in Yang Amat Berhormat Prime Minister (Langkawi) and in Malaysia cannot be better expressed than the offer by the Japanese Government to guarantee JPY200 billion of 10-year Samurai bonds, or approximately RM7.4 billion, via Japan Bank of International Cooperation at an indicative coupon of 0.65%. This JPY200 billion Samurai Bond will be issued before March 2019. We wish to record our appreciation to the Japanese government for guaranteeing the JPY200 billion samurai bond.

216. Despite facing fiscal challenges, our financial sector remains healthy and monetary sector is stable. Sustainable economic growth must be maintained to improve economic well-being, and the higher revenues generated will also help to address our public finances.

217. In conclusion, the historic moment on 9 May 2018 will only matter if the government's fiscal health can be restored and the people are better off economically in the form of higher wages, better jobs and more money to spend.

218. As long as we are clean, people-centric and focused on carrying out institutional reforms, we can restore Malaysia back to fiscal health in three years. Let our love for our country unite us, our challenges make us stronger and our confidence awaken Malaysia as an Asian Tiger all over again.

219. Malaysians are special that despite our differences, whether by race, religion or background, we continue to work with and

believe in each other. The choice made by the people has been proven correct yet again yesterday after two former Goldman Sachs bankers, Tim Leissner and Roger Ng, were arrested and charged by the US Justice Department.

220. These are the unscrupulous bankers who engineered the US\$6.5 billion or RM26 billion of 1MDB bonds, by colluding with thieves in Malaysia to steal from the people of Malaysia. Better news yet, Jho Low, the architect of the fraudulent scams, has been indicted in absentia in the United States.

221. To those who have stolen our money, you should not only return the money back but you must also be severely punished. To those who still support these thieves, you should apologise and resign from public office.

222. Malaysia is clean and we are proud that Malaysia is clean again. For those who have strayed, return back to the righteous path. Amar makruf nahi mungkar. Now, Malaysians dare to dream again of our country that belongs to the people and that the future of our children will never be stolen again. Let us begin our journey of hope, “Malaysia Wibawa, Ekonomi Dinamik, Rakyat Sejahtera”

Mr. Speaker Sir,

I beg to propose.