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CHAPTER 1

Economic Management and Prospects

Ekonomi MADANI: Towards a more Sustainable and Prosperous Malaysia

The Government has unveiled the Ekonomi MADANI: Memperkasa Rakyat framework with the vision of 'Building a Better Malaysia Together'. Harnessing the untapped potentials to achieve collective goals under this framework is a shared national aspiration. This comprehensive policy framework represents the unwavering commitment to ensure a sustainable and prosperous nation. The

framework lays the foundation for Malaysia to ascend on its development trajectory and to regain the nation's status as an Asian Tiger.

At its core, the framework concentrates on leveraging Malaysia's innate strengths to enhance the national competitiveness. Simultaneously, it places a profound emphasis on fiscal sustainability measures, good governance practices, and efficacious service delivery. Furthermore, this framework is responsive to the current challenges faced by the rakyat, particularly the escalating cost of living, while addressing pertinent structural issues related to wages and productivity.

INFORMATION BOX 1.1

Ekonomi MADANI: Memperkasa Rakyat

Introduction

The Ekonomi MADANI: Memperkasa Rakyat framework was launched by YAB Dato' Seri Anwar Ibrahim on 27 July 2023. This framework focuses on two main objectives, namely restructuring the economy and improving the quality of life of all Malaysians. The overarching goal of the framework is to build a better and sustainable Malaysia. The framework is envisaged to be implemented through the whole-of-nation approach which requires the mobilisation of resources and collective efforts from various stakeholders including the government, private sector, government-linked companies (GLCs), non-governmental organisations (NGOs) and rakyat as a whole.

In the pursuit of this framework, the Government emphasises on enhancing two main thrusts, namely, "Raising the Ceiling" to strengthen the economy and grow the wealth of the nation; and secondly "Raising the Floor" to ensure quality and equitable benefits for all as shown in Figure 1.1.1. The framework consists of both short- and medium-term measures to drive the achievement of these two thrusts. The framework will serve as a foundation and complement recently announced policies, including the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP 2030) and the Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan).

FIGURE 1.1.1. *Ekonomi MADANI Framework*



Source: Prime Minister's Office of Malaysia

Envisioned Targets

The framework is a holistic approach designed to address various challenges and concerns. The short-term measures aim to address pressing issues that directly affect both the rakyat and the economy, while the medium-term measures focus on raising the country's performance in various aspects.

Short-Term Targets

The framework sets short-term targets for the improvement of various ongoing initiatives to address pressing issues affecting the rakyat and businesses. These efforts include:

- i. Accelerating the implementation of projects, particularly those aimed at upgrading dilapidated schools and clinics. Various efforts have been undertaken, such as increasing allocations, simplifying procurement procedures, and delegating powers to the implementing authorities to expedite the execution of the projects; and
- ii. Eradicating hardcore poor through the roll-out of Inisiatif Pendapatan Rakyat to provide opportunities to increase and diversify income that enables financial independence and resilience. The Payung RAHMAH Concept has also been introduced to ease the financial burden of the rakyat and continues to be strengthened in addressing the cost of living challenges.

Medium-Term Targets

On a larger scale, the Ekonomi MADANI framework outlines the country's economic direction with medium-term targets to raise the performance of the country in various aspects. The framework sets seven key performance indicators to be achieved by Malaysia within a period of 10 years, as shown in Figure 1.1.2.

FIGURE 1.1.2. Seven Key Performance Indicators



Source: Prime Minister's Office of Malaysia

Main Thrusts

The thrusts are structured to achieve the targets to build a better Malaysia, which is supported by Focus 1: Malaysia - Leading Asian Economy and Focus 2: Elevating Quality of Life for The Rakyat.

Focus 1: Malaysia - Leading Asian Economy

To position Malaysia as a leader in the Asian economy, the economic structure requires a transformation from a labour-oriented to an innovation-led economy driven by highly productive and internationally competitive firms. This effort will involve the revitalisation of the industrial sector, more efficient resource allocation and distribution of goods and services, to drive towards vibrant economic growth supported by more sustainable fiscal policy. In achieving this, the main initiatives are as follows:

i. A Regional (ASEAN) Agenda

For Malaysia to achieve an annual GDP growth between 5.5% to 6%, the country needs to foster greater economic integration with the neighbouring countries; nurture more highly competitive local companies to penetrate the ASEAN market; and facilitate trading activities, especially in facing the global supply chain issues. Furthermore, the country needs to increase its global competitiveness; focus on higher value-added activities or economic sophistication; and strengthen outcome-based tax incentives that support companies with high-impact activities.

ii. Malaysia as an Investment Destination

In promoting Malaysia as a prime investment destination, efforts need to be intensified in upgrading the industrial areas with more resilient and sustainable infrastructure. Likewise, greater emphasis must be placed on strengthening the investment promotion agencies and reviewing investment incentives to generate high-paying jobs and fully utilise local resources.

iii. *Internationalising Local Start-ups and Small and Medium Enterprises (SMEs)*

The GLCs are encouraged to continuously drive domestic direct investment (DDI) and support the development of local vendors in strategic sectors such as E&E, the digital economy and aerospace. This effort will push more start-ups and Bumiputera SMEs to venture into new growth areas. In addition, the Government also aspires to boost export growth as well as spawn more successful local unicorns and public-listed companies, among others, through the enhancement of the R&D&C&I ecosystem. In this respect, a conducive financing ecosystem and dynamic financial market will be needed to support these efforts.

iv. *Leader of the Global Islamic Economy*

As Malaysia solidifies its position as the leader of the global Islamic economy, the comprehensive financial ecosystem will be modernised, centering on the *Maqasid Shariah*¹ principles. In line with the Ekonomi MADANI framework, the Government will collaborate with Islamic financial industry players to offer more digitalised, innovative and diversified Islamic financial instruments by leveraging Islamic social finance such as *zakat*, *waqf* and *sadaqah*. A sustainable and effective Islamic finance that encompasses the *halal* and *tayyib*² principles will be aligned with the growing global environmental, social and governance (ESG) funds.

v. *Micro Entrepreneurs and the Informal Sector*

The development of micro-enterprises and the informal sector are essential to encourage wider participation of entrepreneurs while adding value to the economy. However, access to financing remains crucial to ensure the success of micro, small and medium enterprises (MSMEs) as well as the informal sector, particularly in the adoption of digitalisation and other emerging trends. Therefore, microfinance institutions and established start-ups will be the game changers to encourage both MSMEs and the informal sector to innovate through alternative financing such as equity crowdfunding (ECF).

vi. *Green Growth for Climate Resilience*

In the country's endeavour towards achieving net-zero aspiration by as early as 2050, low-carbon and climate-resilient elements will be emphasised in Malaysia's development planning to shape a more efficient and sustainable economic landscape. Under the NETR, the Government aims to accelerate the energy transition to ensure a continuous and sustainable supply of clean energy for all. This aspiration will include increasing renewable energy generation capacity, installation of solar panels on government buildings, as well as renewable energy trading policy through the electricity market system. The Government will also continue to spearhead efforts to pioneer the hydrogen economy and carbon capture, utilisation and storage (CCUS) while continuously providing incentives specifically to encourage such new green growth activities.

¹ *Maqasid Shariah* refers objective of Shariah to the preservation of religion, life, intellect, lineage and wealth (property).

² *Tayyib* refers to wholesome, pure, healthy and safe.

vii. *Land Use and Food Security*

Malaysia will reassess the approach towards land use to balance between developmental, agricultural and conservation needs. This is crucial in ensuring the optimisation of the land to address food security while conserving biodiversity assets. In this endeavour, the Government will further improve the self-sufficiency ratio (SSR) and enhance food security by optimising the use of existing agricultural land through technology adoption, improving irrigation infrastructure as well as providing financing facilities, particularly for modern agricultural technology applications. In addition, the creation of nature-based solutions through conservation and reforestation efforts will be intensified to improve environmental integrity.

Focus 2: Elevating Quality of Life for the Rakyat

Recognising the need to raise the standard of living for all Malaysians, the Ekonomi MADANI framework will emphasise on building a more equitable and prosperous society with a fair distribution of wealth. This aspiration will be achieved through the following strategies:

i. *Job Opportunities with Meaningful Wages*

In achieving a more balanced economic sharing, the Government will improve policies to increase wage growth, which includes reviewing the minimum wage and relevant laws to warrant a better working environment as well as exploring the implementation of a progressive wage model. These measures aim to increase the share of compensation of employees to 45% of GDP to be at par with developed countries. Furthermore, the Government will implement multi-tiered levy to reduce the dependency on low-skilled foreign workers while encouraging automation.

ii. *Equal Opportunity*

Malaysia will continue efforts to reduce inequality across gender, race and background to ensure inclusive growth. Priority is given to hardcore poor and marginalised groups by giving more assistance and equitable opportunities for education. Efforts will also be continued to intensify entrepreneurial training and strengthen financing programmes for specific groups, especially women and youth. Besides, a region-specific industrial policy will foster the niche areas within states to narrow regional development gaps. The world-class infrastructure in major cities will be further enhanced to increase urban liveability and sustainability as well as boost attractiveness as an investment hub. Legal and regulatory aspects as well as support programmes will be improved to increase women's participation in the labour market by strengthening the Care-Economy initiatives such as affordable childcare centres.

iii. *Social Protection for All*

The comprehensive social protection system will be enhanced through three broad areas, namely social insurance, social assistance and labour market intervention to safeguard the rakyat from unforeseen circumstances. These initiatives include gradually expanding the coverage of the Employees Provident Fund (EPF) and Social Security Organisation (SOCSO)

to the informal sector as well as enhancing cash assistance programmes and the Rahmah programme to provide a higher social protection floor. In addition to building retirement resilience, the Government also continues to intensify the labour market by raising wages through upskilling and reskilling programmes.

iv. *Healthcare Service Reforms*

The Government remains committed to improving the rakyat's overall wellbeing by providing universal access to quality healthcare services. In this respect, a whole-of-society primary healthcare approach will be adopted to create a more sustainable, resilient, and quality healthcare system. The rakyat will be further inculcated to embrace a self-reliant transition from the treatment of diseases to the disease prevention concept, in order to improve, protect and maintain their health. In this regard, the Government will commit to 5% of healthcare expenditure to GDP as stipulated in the Health White Paper.

v. *Educational and Human Resource Reforms*

Various efforts have been made to provide comprehensive education facilities and a conducive learning environment which is accessible to all. These efforts include expediting the implementation of school projects, improving conditions of dilapidated schools as well as broadening internet access through the JENDELA project. Furthermore, tertiary education and lifelong learning programmes, including TVET, will be reviewed to be more demand-driven in producing future-proof talent required by the industries.

vi. *Infrastructure and Public Transportation*

The Government will take immediate action to optimise all existing assets related to rural roads and urban public transportation systems to reduce traffic congestion, increase connectivity and enhance mobility. The management of land public transport will be consolidated to increase cost-effectiveness and improve last-mile connectivity. In addition, the air connectivity network as well as land transport infrastructure in major cities will also be improved.

vii. *Basic Amenities*

The Government remains steadfast in offering world-class universal basic infrastructure for the rakyat including access to the continual supply of quality water, electricity and internet. In addition, flood mitigation projects will be expedited to ensure local communities are cushioned from the severe impact of floods or any disruptions to access basic amenities.

viii. *Affordable Housing for All Malaysians*

The National Housing Policy (2018 – 2025) is formulated to ensure the adequacy of the housing supply, and fostering safe, healthy and harmonious living environment. In realising this policy, an action plan is being developed to ensure more meaningful parameters are set to strike a balance between median house prices and median income level. In addition, the provision of public housing will also be improved while the rental market will be revitalised to meet the demand. The Government will also facilitate the buyers to secure home financing by providing up to 120% credit guarantee under the Syarikat Jaminan Kredit Perumahan Berhad (SJKP).

Good Governance to Restore Confidence

Good governance and efficient public service delivery form the foundation to gain the trust of all stakeholders to support and undertake collective action towards the required transformation. Structural and institutional reforms of the Parliament, media and public services will strengthen governance and institutional capacities. An agile public service delivery supported by the digitalisation agenda is imperative to drive economic transformation while adapting to the evolving global realities.

The Government will also focus on progressively enhancing Malaysia's fiscal sustainability by implementing various revenue and expenditure strategies. A more sustainable, efficient and targeted subsidy mechanism is pertinent to address leakages and wastages.

Conclusion

The Ekonomi MADANI framework is envisioned to propel Malaysia's economic development. The framework, which is anchored on "Raising the Ceiling" and "Raising the Floor", aims to enhance the nation's economic prosperity and promote greater inclusivity in wealth distribution, thereby improving the living standards of the rakyat. This whole-of-nation approach is expected to uphold the spirit of unity and good governance, supported by an agile and collaborative delivery system to drive overall economic growth. Ultimately, the successful implementation of the Ekonomi MADANI framework will revive Malaysia as Asia's most important economic axis, restoring the nation's dignity and glory.

Outlook

Global Economy

As the world endures constant changes with varying paces of growth across the globe, the global economy is anticipated to exhibit moderate growth after experiencing a period of economic downturn. The growth pace is projected to persist across most regions in the upcoming years. Lingering uncertainties have prompted the IMF¹ to project the global growth outlook to 3% in 2023 and 2024 (2022: 3.5%). Nevertheless, it remains constrained due to heightened downside risks, particularly tightening of monetary policies to ease inflationary pressures, hence, impeding a robust global economic recovery. Meanwhile,

world trade growth is also expected to moderate to 2% in 2023 amid prolonged geopolitical tensions and to record 3.7% in 2024.

The evolving global landscape is poised to exert a significant influence on businesses of all sizes and affect the standard of living. In addition, escalating supply chain security concerns could prompt the imposition of trade and investment restrictions, potentially impacting the growth prospects of others. While the global challenges stemming from the crisis still persist, it offers countries the opportunity to foster growth and innovation through the formulation of effective strategies aimed at achieving more sustainable and robust growth.

¹ Refers to World Economic Outlook report published in July 2023.

Domestic Economy

Despite escalating uncertainties in the global landscape, Malaysia's economy remains resilient. The GDP is forecast to expand by approximately 4% in 2023 and between 4% and 5% in 2024. The Government acknowledged the World Bank's forecast that Malaysia's growth will be 4.3% in 2024, which is slightly higher than its initial estimate. This is in line with Malaysia's 2024 growth projection, which will be achieved through robust domestic demand, effectively offsetting the challenges posed by the moderate global growth, supported by the implementation of measures in the new National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030), and the Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan).

Furthermore, Malaysia's domestic demand in 2023 continues to be buoyed by expansion in consumption and investment spending. This is also supported by favourable labour market condition and easing inflationary pressures as well as vibrant tourism activities. The surge of private investment is attributed to the multi-year execution of infrastructure ventures and sustained capital investments in the services and manufacturing sectors. The robust activity in private sector expenditure is expected to offset the effects of moderate public spending in 2023.

In 2024, private sector expenditure remains as the main contributor in driving economic activities owing to stronger domestic demand. In addition, Government initiatives to support household spending through cash transfers to targeted groups and the growing social commerce trend are expected to boost private consumption. Meanwhile, private investment is poised to accelerate further driven by improved business environment in consonance with positive response towards Government's strategies and measures in attracting high-tech and high-value investments via the NETR and NIMP 2030.

On the supply side, services and manufacturing sectors continue to be the primary engines of growth in 2023. The services sector performance is driven by tourism subsectors, resulted from higher tourist arrivals and improved consumer spending. However, the manufacturing sector is expected to register a modest growth amid sluggish external demand. Likewise, agriculture sector is projected to expand moderately contributed by the oil palm, other agriculture and livestock subsectors, while the mining sector is anticipated to decline due to lower external demand for liquefied natural gas (LNG). On the other hand, the construction sector is expected to record better performance supported by the acceleration of ongoing infrastructure and utilities projects.

In 2024, the wholesale and retail trade subsector will remain as the key contributor to the services sector, underpinned by the expansion in retail segment through digital transactions. In addition, the domestic-oriented industries are backed by higher output in high growth high value (HGHV) industries which will drive the manufacturing sector, in tandem with the implementation of initiatives under the NETR, NIMP 2030 and MTR of the Twelfth Plan as well as Chemical Industry Roadmap 2030. Agriculture sector remains steady partly attributed by expected increase in oil palm production and crude palm oil (CPO) prices. The mining sector is forecast to recover mainly contributed by the new gas field projects such as Gansar, Jerun and Kasawari. Meanwhile, the construction sector continues to grow supported by growth in all subsectors, partly by the increasing demand in renewable and clean energy as well as decarbonisation, in line with the green economy agenda.

In 2023, exports have contracted in tandem with the global economic and trade slowdown, primarily influenced by China's slower-than-anticipated economic growth and moderate commodity prices. In contrast, the current account surplus is expected to expand,

driven by a narrowing deficit in the services and primary income accounts. However, the outlook for 2024 indicates a gradual upswing, attributed to improved global trade and prospects in the commodity sector.

Monetary and Financial Developments

The current monetary policy stance remains accommodative and supportive of the economy in tandem with the assessment of the inflation and growth prospects. The financial sector is envisaged to remain resilient and stable, driven by a robust banking system which continues to support financial intermediation activities, benefitting from positive growth projections and an improving labour market. Simultaneously, the capital market remains vibrant in fostering Malaysia's prosperity, inclusivity, and sustainability by leveraging thought leadership, intensifying innovation, and diversifying the market's range of products to remain competitive. Going forward, the Malaysia's Capital Market Masterplan 2021 – 2025 and Financial Sector Blueprint 2022 – 2026 will continue to serve as invaluable guiding documents, setting forth the visions and strategies for the development of the capital market and financial sector.

Updates on the Budget 2023

In line with the forward-looking vision under the Malaysia MADANI concept, the formulation of Budget 2023 was premised on the three pillars, namely inclusive and sustainable economic growth, institutional reform and good governance, as well as combatting inequality through social justice. In pursuit of this vision, a substantial total allocation of RM386.3 billion has been allocated in Budget 2023, with RM289.3 billion designated for operating expenditure (OE) and RM97 billion specifically channelled towards development expenditure (DE). As of July 2023, 49% of the

total allocation has been utilised, with RM166.7 billion spent for OE, while the remaining was for DE.

Pillar 1: Inclusive and Sustainable Economic Growth

Towards achieving an inclusive and sustainable economic growth, a series of measures have been laid to focus on sustainable fiscal conditions, rakyat's wellbeing, effective disaster risk management, and high-impact investments. Under the fiscal legislative reform, the enactment of the Public Finance and Fiscal Responsibility Act (FRA) this year will enhance the credibility of fiscal policy conduct towards achieving long-term public finance sustainability and macroeconomic stability. This act serves as a robust fiscal management framework, with an emphasis on good governance, accountability, and transparency in managing public finance.

Comprehensive measures were implemented to support businesses and the needs of the rakyat, with a special focus on micro, small, and medium enterprises (MSMEs) that were badly affected by the pandemic. As of July 2023, Bank Simpanan Nasional (BSN) extended a financing facility amounting to RM145.3 million, benefitting 4,747 entrepreneurs, including hawkers. Furthermore, through the TEKUN Nasional financing schemes, a substantial 80% of RM263.9 million was disbursed to empower 16,960 young entrepreneurs, primarily for the acquisition of assets and working capital. Additionally, small and medium enterprises (SMEs) could tap into a RM9.7 billion financing facility provided by BNM, along with a maximum guarantee facility of 90% from Syarikat Jaminan Pembiayaan Perniagaan (SJPP) for a total loan up to RM20 billion. As at end-July 2023, a total amount of RM5.7 billion was successfully guaranteed, directly benefitting over 7,000 SMEs. These comprehensive measures signify continuous efforts towards fortifying the economic backbone of the nation.

In bolstering the nation's responsiveness to natural disasters and calamities, the Government is committed to enhancing disaster risk reduction, management, and preparedness through a multifaceted approach of programmes and incentives. In pursuit of long-term flood mitigation goals, the year 2023 witnessed the initiation of various projects centred on flood management strategies, dual-purpose flood mitigation reservoirs, and integrated river basin management endeavours in Johor, Selangor, and Kelantan. Simultaneously, approximately RM1.5 billion was allocated to National Disaster Management Agency (NADMA), the armed forces, Fire and Rescue Department, as well as RELA to elevate the country's rescue teams' disaster response. Additionally, a total of RM1.6 million was channelled through the Malaysian Incentive Community Empowerment (MyICE) programme, in collaboration with relevant NGOs aimed at empowering 159 communities, as the first line of defence against natural disasters. These concerted efforts underscore a resolute commitment to safeguard lives and livelihoods during times of crisis.

Moreover, the Government has proactively promoted sustainability within the business community by supporting sustainable technology start-ups, facilitating the adoption of low carbon practices by SMEs, and fostering the growth of sustainable green economy. Notably, the Low Carbon Transition Facility (LCTF) initiated by BNM has proven to be instrumental in aiding local SMEs undertaking sustainable start-up ventures and implementing environmentally conscious practices. As of July 2023, 144 applications have been approved amounting to RM273.3 million.

Furthermore, recognising the potential of the Islamic economy, the Government is committed to leveraging its strengths by exploring innovative financial instruments including development of underutilised registered *waqf* lands. In this regard, a substantial allocation of RM200 million has been dedicated to develop

waqf land in Penang, with a projected gross development value exceeding RM1 billion. This investment underscores the Government's dedication to unlocking the untapped potential of the Islamic economy and promoting sustainable development through innovative and prudent financial strategies.

Pillar 2: Institutional Reforms and Good Governance to Restore Confidence

In a concerted effort to bolster the long-term sustainability of the nation and strengthen public confidence, solid institutional reforms and commitments to good governance are vital to elevate the efficiency and effectiveness of the public service delivery. The Budget 2023 has outlined a comprehensive set of measures on accelerating public infrastructure project implementation, empowering public-private partnership, prioritising the digital agenda as well as strengthening the role of government-linked companies (GLCs) and agencies. These strategic measures are envisioned to shape a dynamic and resilient foundation for the nation's growth trajectory, demonstrating a strong commitment to transparency and accountability in the pursuit of economic progress.

In expediting the execution of public infrastructure projects, significant improvements have been instituted to enhance the transparency of government procurement, including simplification of procedures and processes, particularly for smaller projects by introducing flexibility and exceptions to Treasury Instruction 182. The initiative empowers ministries and agencies at the state and district levels in Sabah and Sarawak, through the technical departments to implement projects with a threshold value of up to RM50 million. Meanwhile, RM2.6 billion has been disbursed as of August 2023 to rehabilitate dilapidated schools and clinics, maintain and upgrade federal roads, enhance

and construct new rural roads, and install street lights in high-risk areas. These projects underscore the Government's unwavering commitment to uplifting critical public infrastructure, thus bolstering community wellbeing and augmenting nationwide development.

The Budget 2023 places a significant focus on human capital, particularly the development of TVET graduates with skillset tailored to industry demands through collaboration of 50 companies primarily GLCs with TVET institutions. These institutions include community colleges, industrial training and national youth skills institutes. As of July 2023, 10 Management of Change (MoC) agreements have been signed that outline the agreed scopes of collaboration, covering transfer of knowledge, sharing of equipment, and development of curriculum. Furthermore, in order to bolster industrial cooperation, RM17 million has been spent for the National Dual Training System (SLDN), benefitting over 8,000 trainees. Concurrently, as at end-July 2023, RM2.6 million has been spent under the Academy in Factory (AiF) programme to train 20,000 trainees on the jobs. These programmes reflect the Government's dedication to enhancing the skillset and employability of TVET graduates, contributing to a dynamic and skilled workforce that are crucial for the nation's progress.

In the effort to encourage youth to enhance skills and promote higher wages in the private sector, RM55.3 million has been allocated for a partnership programme with industry players aiming to employ 17,000 TVET graduates. More than 6,500 TVET graduates have benefitted since its launch in May 2023. Furthermore, the Government remains dedicated to creating meaningful employment opportunities for vulnerable groups, such as gig workers, school leavers and unemployed graduates. As of July 2023, over 760,000 participants were enrolled in upskilling and reskilling training programmes, with funding from the Human Resource Development Fund amounting to RM900.8 million.

As Malaysia gears up for higher tourists arrival, the Government is intensifying efforts to fortify the tourism sector in conjunction with the Visit Malaysia promoting campaign. A notable allocation of RM65 million has been directed towards programmes and activities centred around promoting culture and heritage as well as enriching the tourist experience. Additionally, pivotal infrastructure projects are underway to mitigate traffic congestion in popular tourist destinations. These initiatives encompass the construction and enhancement of roads in high-traffic areas like Cameron Highlands and Melaka. Moreover, strategic projects include the development of new roads and bridges to connect Port Dickson and Sepang, as well as the enhancement of the North-South Expressway, with an initial focus on Johor for Phase 1. These infrastructure improvements underline the Government's dedication to providing a seamless and enjoyable experience for tourists, improving accessibility and connectivity across the nation's vibrant tourist spots.

In advancing the national digitalisation agenda, RM199 million has been channelled through the JENDELA initiative to boost internet penetration, aiming for full 4G coverage across all populated areas in Malaysia. Additionally, an expansion of fibre broadband accessibility is projected to reach 9 million premises by 2025. As of December 2022, 4G coverage has reached an impressive 96.9% of populated areas, benefitting approximately 7.7 million premises with access to fibre broadband. In the course of this initiative, Phase 2 of JENDELA will concentrate on reaching the remaining rural and remote areas, ensuring inclusivity in the digital landscape. Furthermore, by the end of 2022, the rollout of the 5G network has reached 47.1% of total populated areas, surpassing the initial target of 37.9%. This progress underscores the Government's dedication in providing widespread, high-quality digital connectivity to propel Malaysia into a technologically advanced future, fostering innovation and catalysing economic growth.

The Government has taken significant measures to bolster the role of the National Cyber Security Agency (NACSA) as the agency is tasked to spearhead efforts in enhancing the country's legal framework and coordinating initiatives to combat cyber security threats effectively. An allocation of RM10 million was dedicated to the development of the National Scam Response Centre (NSRC), which is scheduled to be fully operational by the end of 2023. For the period from October 2022 to June 2023, the NSRC managed to address more than 15,500 online fraudulent activities. Additionally, in strengthening the security of customers' online banking experiences, BNM has mandated a "kill switch" policy for all banking institutions. This strategic policy has been successfully implemented by several banks, reinforcing the security measures and raising customers' confidence in online banking transactions. These multipronged strategies underline the Government's commitment in fortifying cyber security and preserving the integrity of the nation's digital landscape.

The Government is committed to fuel innovation within start-up companies and bolster the local enterprise ecosystem. The government-linked investment companies (GLICs) and GLCs have emerged as pivotal players with significant venture capital investments. Khazanah, through Dana Impak has allocated RM1 billion, earmarked to support local start-up companies, demonstrating a clear commitment to nurturing innovation and entrepreneurship. Simultaneously, Ekuiti Nasional Berhad (Ekuinas) has diligently managed the Dana Asas, amounting to RM100 million to accelerate companies' growth and enhance Bumiputera equity. Furthermore, an additional RM40 million is offered to MSMEs through the Malaysian Co-Investment Fund (MyCIF) by the Securities Commission (SC) in the form of equity crowdfunding (ECF) and Peer-to-Peer Financing (P2P). These combined initiatives underscore a comprehensive approach by the Government and relevant bodies to actively promote a thriving start-up ecosystem, propelling innovation and economic growth in Malaysia.

Pillar 3: Combatting Inequality Through Social Justice

The Budget 2023 is focused towards pursuing institutional reforms and advocating social justice. Key initiatives are aimed at eradicating hardcore poverty, mitigating the effects of the rising cost of living, fostering harmony and unity within society, and ensuring the provision of high-quality basic amenities for all. Towards these, the Inisiatif Pendapatan Rakyat (IPR) programme is introduced to eradicate hardcore poverty and raise the income of the poor and vulnerable families. A sum of RM750 million has been allocated for this initiative through three sub-programmes, namely Inisiatif Usahawan Tani (INTAN), Inisiatif Usahawan Makanan (INSAN) and Inisiatif Operator Perkhidmatan (IKHSAN). As of July 2023, all initiatives have been implemented with a total disbursement of RM82 million that benefitted more than 3,000 recipients.

Furthermore, the Government has pledged to continue implementing a range of initiatives in the form of cash assistance and in-kind transfers to assist the vulnerable households. As of July 2023, RM10.4 billion of cash assistance has been transferred to 15.9 million recipients from the hardcore poor families, B40 households, youth and students in higher education institutions. This includes Sumbangan Tunai Rahmah (STR), Rahmah Basic Contribution (SARa) and eBeliaRahmah initiatives. In addition, to ease the financial strain on the M40 group, the income tax rate for resident individuals is reduced by 2% for the chargeable income range of RM35,000 to RM100,000. Meanwhile, the Government also introduced the Payung Rahmah initiative to alleviate the rising cost of living. This includes the Rahmah Menu, engaging over 15,000 eateries to provide affordable complete meals at RM5 as well as the Rahmah Sales Programme, with an allocation of RM100 million, offering essential goods at up to 30% lower prices than the local market.

The Community Drumming Programme continues to enable rural and remote area residents especially in Sabah and Sarawak to purchase seven essential items at government-set reduced prices. These items namely coarse refined white sugar, cooking oil, wheat flour, rice, liquefied petroleum gas, RON95 petrol, and diesel. On top of the subsidies provided to these items, the Government absorbs the transportation and distribution costs to ensure the price remains affordable for the residents. In 2023, this programme was given an additional allocation of RM25 million compared to RM200 million in the previous year, with the scope expanded to 25 new zones including Paloh and Passin in Sarawak, Pasir Raja in Terengganu, and Kuala Krai in Kelantan.

Amid the harsh impact of the pandemic, the social protection system is enhanced to include self-employed individuals with social insurance coverage under the Self-Employment Social Security Scheme (SESSS). Under this initiative, the Government provided RM100 million to incentivise self-employed contributors, covering 80% of the contributions for Skim Pekerjaan Sendiri (SPS) Padanan Caruman and 100% for SPS MADANI. As at end-July 2023, RM38.6 million has been disbursed, benefitting more than 180,000 recipients. In addition, the Government continues to provide various social programmes which include for disabled workers, non-working disabled individuals, indigenous communities, SME women entrepreneurs, senior citizens, and private care institutions for senior citizens, children and persons with disabilities operated by NGOs with an allocation of about RM2 billion. As of July 2023, a sum of RM1.1 billion has been disbursed to these groups.

In providing accessible healthcare, the MADANI Medical Scheme was introduced in June 2023 with an allocation of RM100 million. This initiative facilitates acute primary care treatment for the B40 at private clinics and at the same time reduces congestion at the emergency department in public hospitals.

Additionally, the Peduli Kesehatan Scheme (PEKA B40) allocates RM80 million to offer extensive healthcare support. The scheme encompasses health screenings and incentives for completing cancer treatments, and transportation support to the public health facilities. As at end-July 2023, more than RM50 million has been disbursed for these programmes. Furthermore, tax relief threshold on medical expenses has been increased from RM8,000 to RM10,000 for the 2023 assessment year. The relief was extended to cover the cost of rehabilitation treatment for children with learning disabilities such as Down Syndrome, Autism, and Specific Learning Disabilities.

In the effort to bolster the agriculture sector and address the food security concern, RM1 billion is provided under the BNM's Agrofood Financing Scheme. As of July 2023, RM266.7 million has been disbursed to 372 recipients. Moreover, to further augment agricultural production, the Government has earmarked RM40 million to collaborate with several state governments to implement agro-food projects and support technology adoption. In addition, in order to assist paddy farmers in enhancing productivity, various subsidies and incentives totalling RM1.6 billion have been provided including seeds, fertilisers and prices.

In pursuing the development of Sabah and Sarawak, a total of RM6.5 billion and RM5.6 billion, respectively were assigned under the development allocation for 2023. Efforts are underway to accelerate the construction of public infrastructure projects in Sabah and Sarawak including the Sabah Pan-Borneo Highway and Sarawak-Sabah Link Road. Moreover, public amenities in Sabah and Sarawak particularly in rural area have also been improved with the expansion of road and street lighting; improving water and electricity supply as well as increasing of healthcare facilities and schools. As of July 2023, a total of RM1.9 billion and RM2.2 billion has been spent on development in Sabah and Sarawak, respectively.

Economic Management

Having effectively managed the most severe impacts of the COVID-19 pandemic, Malaysia's economy is now confronted with persistent uncertainties stemming from prolonged geopolitical tensions, global inflationary pressures, monetary policy tightening and the increasingly adverse effects of climate change. In response to these multifaceted challenges, the Government's efforts are anchored towards prudent fiscal management, quality investment, digital economy and food security. Similarly, the Government is determined to rebuild investor confidence by undertaking institutional reforms, focusing on transitioning to green economy, promoting practices of good governance, streamlining public service delivery, and advocating wage growth. Efforts are also undertaken to protect the most vulnerable groups in the society by actively addressing the challenges posed by the rising cost of living, striving for balanced regional development, expanding the social protection system, and upgrading the quality of infrastructure.

Opportunities and Challenges

Sustainable Economic Growth

Fiscal Sustainability

Long-term fiscal sustainability is important for the Government to continue supporting inclusive and sustainable economic growth. The ongoing effort to improve fiscal position will focus on improving revenue mobilisation, eliminating spending leakages and wastages, managing debt effectively and increasing investor confidence in the long term. The upcoming FRA will further enhance and strengthen the governance and fiscal discipline in managing the nation's finances. While the economy is showing recovery momentum, external challenges, such as the global economic slowdown and persistent geopolitical tensions are expected to pose risk to the fiscal position, trade, investment, and economic

growth. Thus, a more sustainable fiscal position enables the Government to respond to changes in economic conditions and provide a buffer to the economy and the rakyat against adverse shocks.

Quality Investment

Creating a desirable investment ecosystem necessitates comprehensive policies to attract capital, stimulate innovation, and generate well-compensated employment. Enhancing the nation's capacity to harness quality investments particularly through R&D can nurture innovation and bolster trade activities. Additionally, it is important for the nation to adapt to the dynamics of the global economic and geopolitical shifts to enhance competitiveness as well as attract and sustain top-tier investments.

In 2023, Malaysia's ranking in the World Competitiveness Yearbook (WCY) by the International Institute for Management Development (IMD), improved to 27th from 32nd in 2022. Key strengths include cost competitiveness in terms of prices, robust infrastructure, and favourable tax policies. However, specific challenges pertaining to the need for a future-ready talent pool, investment-friendly ecosystem and comprehensive regulatory reforms at both national and sub-national levels have to be addressed to enhance the ease of doing business. This involves foreign direct investment (FDI) and domestic direct investment (DDI) that will elevate human capital quality, promote R&D, and drive digitalisation initiatives. As the world moves towards sustainability and decarbonisation, progress in the field of sustainable, low carbon and resilient investment have now become another focus area.

In addition to attracting investments from larger corporations, it is crucial to provide ample business and investment opportunities to MSMEs, which currently constitute approximately 97.4% of total establishments and contribute more than 38% to the GDP. Given the substantial role and potential to fortify the local economy, nurturing MSMEs

through high value-added activities and high-tech investments are essential. Encouraging closer linkages with both foreign and domestic investors will further bolster the growth and sustainability of MSMEs, ultimately enhancing the overall economic landscape.

Digital Economy

Digital economy is an important enabler to drive Malaysia towards equitable, inclusive, and sustainable growth. As envisaged in the MTR of the Twelfth Plan, the digital economy is expected to contribute at least 25.5% to the overall GDP by 2025 and position Malaysia as the regional leader by 2030. These targets will be supported by high internet penetration rate which currently recorded at 96.9% and faster internet connection with the average speed of more than 110 Mbps. In addition, a significant leap towards technological advancement in the public sector has also been achieved through the digitalisation of Federal Government online services.

However, challenges related to the digital divide persist due to limited broadband coverage and internet connectivity in underserved areas. Thus, it is crucial to bridge inequalities in the utilisation of digital product and service across different societal segments by facilitating wider access to financing for businesses and intensifying digital skills. Furthermore, there is a need to address regulatory concerns, especially regarding personal data protection and cyber security as a result of the current fragmented regulatory framework, which may impede the development of the digital economy. In this regard, a comprehensive solution to address these concerns is essential in ensuring an inclusive digital transformation for the country, thus harnessing the potential of the digital economy to achieve a sustainable nation.

Food Security

The agro-food subsector remains pivotal in ensuring food security to support domestic consumption. Despite the strides made in producing food, Malaysia is still relying on imports to meet domestic needs. For

instance, domestic rice production declined by 6.6% in 2022, with a concurrent increase in the imports of rice by 4.8%. This situation was exacerbated by a decrease in the self-sufficiency ratio (SSR) of rice to 62.6% in 2022 (2021: 65.2%). Additionally, the reduction in land designated for agriculture, particularly for paddy cultivation, further aggravated the food security and self-sufficiency challenges. Climate change, characterised by irregular weather patterns, amplifies the threats to crop yields and livestock production. To address these multifaceted issues, the measures outlined in MTR of the Twelfth Plan emphasise on the adoption of a comprehensive and timely strategy to address food security. These strategies also include enhancing agricultural practices, optimising sustainable land use, adopting climate-resilient strategies as well as harnessing technological advancements to secure a stable and self-sufficient food supply for the nation.

Institutional Reforms

Transition to Green Economy

Malaysia's transition to a green economy presents a host of intricate challenges due to its heavy reliance on fossil fuels, which exposes the nation to economic vulnerabilities as global demand shifts towards renewable energy sources. To navigate this transition effectively, it is imperative for the country to diversify its energy sources and invest in sustainable infrastructure, while ensuring a just transition for carbon-intensive industries and MSMEs. Additionally, as a mega-biodiverse nation bestowed with rich ecosystems, Malaysia faces the critical task of managing its land use effectively and sustainably preserving its natural heritage. Achieving a green economy in Malaysia requires determined efforts to overcome these formidable hurdles. Success hinges on a strategic approach that harmonises economic development with environmental stewardship and social inclusivity, necessitating comprehensive policies, greater public awareness, and robust international collaborations in forging a sustainable future for the nation.

FEATURE ARTICLE 1.1

Just Transitions for a Sustainable Future

Introduction

Amid the pressing need globally to combat climate change and its widespread repercussions, the concept of “Just Transitions” has emerged as a key guiding principle for nations to facilitate the move towards a sustainable future. According to the United Nations, developing countries may require a greater focus on adaptation and resilience-building given higher rates of poverty and informality, greater vulnerability to shocks and greater reliance on agriculture and tourism, and in some cases fossil fuels. Addressing investment and technology gaps within the constraints of developing countries’ macroeconomic realities will be imperative. However, achieving a just and effective transition will require an even greater emphasis on social transformation and safety nets. This emphasis will be enshrined in a framework that leaves and pushes no one behind, and works through and across value chains to uphold human and labour rights. Furthermore, a greater understanding of the transnational impacts of Just Transition is essential, including the impacts on trade.

This concept underscores the essential interplay surrounding nation building, climate mitigation and adaptation as well as social justice. In the case of Malaysia, a nation blessed with social unity and wellbeing, ecological diversity and abundance as well as progressive economic and technological advancements, the concept of Just Transitions forge a pathway towards a sustainable future that leaves no one behind. Overall, the intricacies of Just Transitions emphasises the imperatives of harmonising climate action and social equity guided by its core principles. The transformative approach will address the impending challenges by reviewing policies and enhancing governance while capitalising emerging opportunities.

Understanding the Need for a Just Transition

The climatic events and geopolitical shifts have been forcing nations to respond diversely in order to manage resource availability and avoid falling into a recession. The threats of global warming continue to increase, thus adversely affecting the world’s climatic systems. This has led to the world experiencing extreme weather conditions which have contributed towards the increase of natural disaster incidents and severity, health risk, shortage of food and water supply as well as rising inflation. Global energy usage is increasing exponentially, and so are its prices. The ongoing Russia-Ukraine conflict continues to disrupt the flow of basic resources and supply chains globally. Human migration is increasing as many have to flee from the said challenges in search of a better living. In addition, the world is still recovering from the recent global pandemic, with many still on alert. Thus, energy, water, food and border security continuously become major concerns for nations as they move towards decarbonisation, resilient growth, and sustainable development.

As the world reacts to these challenges, unilateral actions are being undertaken, translating into increasing economic pressures globally. The European Union (EU) has just implemented new trade regulations, the Carbon Border Adjustment Mechanism (CBAM) and EU Deforestation-free Regulation (EUDR), which will affect many products and businesses coming into the EU.

Other countries are also looking into introducing similar regulations which further highlight the need for readiness by Malaysian industries to prepare for climate transition. Many multinational corporations' headquarters are bound by the home-country environmental, social and governance (ESG) laws and regulations, obligating compliance across the entire value chain. International investors are also increasingly looking to support strong ESG portfolios.

Due to these emerging trends, many nations are pushing to promote sustainable and ethical governance in policies and implementations. Delays in responding to these global developments will see nations be left behind and would incur significant economic costs. Therefore, an enabling environment is needed to expedite the shift from a fossil fuel-driven economy to one propelled by cleaner energy in a manner that fosters inclusive and enduring economic growth.

Scientific evidence unequivocally attributes the lion's share of historical responsibility to the developed world. While each country assumes a role in tackling climate change, developed countries are better equipped to aid global efforts aimed at mitigating climate change and adapting to its ramifications. Recent economic crises due to the COVID-19 pandemic and geopolitical tensions, accentuate the urgency for developed nations to support their less-developed counterparts in these endeavours. Such support is crucial in ensuring an equitable transition across countries, a principle stipulated under the Paris Agreement¹, which acknowledges the diverse responsibilities and capabilities concerning this shared challenge.

Malaysia's Perspective: Challenges and Opportunities

The impacts of climate change are no longer abstract and are vividly real, particularly for vulnerable communities across the world, including Malaysia. Rising sea levels, intensified monsoons, and erratic weather patterns disrupt livelihoods and degrade local ecosystems. In 2022, the nation was hit with severe floods, storms and landslides. Within this year, we are seeing temperatures soar, and as a result, energy and water use have also increased. These ramifications disproportionately burden those with limited resources and information access, which could result in socio-economic inequalities. Consequently, the imperative to address climate change converges with the urgency to ensure that the transition towards sustainability does not exacerbate these disparities.

Although it is vital to transition to a sustainable future, there are economic and social challenges that need to be addressed. Malaysia's just transition approach involves maximising the social and economic opportunities of climate action while minimising its impact and delicately managing any challenges. At its core, this concept champions social justice and wellbeing by ensuring all levels of the rakyat are supported through various policies and actions. In the effort of decarbonisation, there is a dire need to ensure a just transition for all by integrating the elements of climate mitigation and adaptation as well as resilience management. As Malaysia aspires to align its development with environmentally responsible practices, it must also account for the potential impacts on employment, communities, technological advancement and economic stability.

¹ The Paris Agreement is an international treaty under the UNFCCC adopted in 2015 that aims to combat climate change by limiting global warming to well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees Celsius while promoting climate resilience and cooperation among nations.

Equally pivotal are environmental justice and equity, especially in balancing the complexity of reducing environmental impacts with mitigating adverse environmental consequences on society. The demand for energy, water and food further accentuates the significance of having a just transition. Vulnerable communities are often the most susceptible to disruptions of these vital resources. Deliberate planning and collective endeavours are pivotal in building resilience to benefit all segments of society, while ensuring continuous availability of these resources.

Technological advancements and innovations will offer some relief to these challenges. Clean energy technologies, sustainable agricultural practices, and circular economy ecosystems carve a path towards an economically viable future while mitigating environmental repercussions. Opportunities for economic expansion and sustainable development are flourishing. Green jobs, investments in renewable energy, and judicious urban planning hold the potential to usher in economic prosperity while curbing carbon emissions and enhancing societal wellbeing. Hence, greening the economy will improve the ability to increase energy efficiency and reduce waste as well as manage natural resources sustainably, while generating quality green jobs that will contribute to poverty eradication and social inclusion.

Malaysia's Just Transition Journey

The journey towards a just transition draws strength from both global and local frameworks. International accords, most notably the Paris Agreement, set the stage for a united climate action. As a signatory, Malaysia has pledged to curtail carbon emissions and bolster resilience. These global commitments lay the groundwork upon which national and regional policies, supportive of a just transition, are constructed to undertake the multifaceted approaches in various fields.

As a fast growing, progressive and innovative nation, Malaysia has always been at the forefront of sustainability. At the national level, the Twelfth Malaysia Plan, 2021 – 2025 (Twelfth Plan) delineates a trajectory towards sustainable development, inclusive growth, and environmental safeguarding. This comprehensive policy framework incorporates the principles of a just transition by recognising the interdependence of economic, social, and environmental objectives. Every industry in all sectors across the value chains has a role to play in advancing a just transition. While a just transition is relevant for all sectors, the approach is unique to local circumstances and business activities.

In realising these endeavours, a collaborative effort involving many different ministries and agencies is pivotal in coordinating and implementing these initiatives. Malaysia will expedite the assimilation of sustainable practices by fostering collaborations between the federal and state governments including local authorities, as well as between the public and private sectors, with the participation of civil societies. With Malaysia's growing economy and population, coupled with increasing temperatures in the region, the energy sector will assume the most pivotal role in ensuring this just transition.

i. Charting Malaysia's Energy Future

The energy sector emerges as the epicenter of transformative shifts. Energy consumption is vital to economic growth, yet the historical global reliance on fossil fuels has forged the current state of climate change. The National Energy Policy 2022-2040 (DTN) and National Energy Transition

Roadmap (NETR) as well as various policies and economic instruments collectively propel Malaysia towards attaining its long-term renewable energy (RE) objectives, primarily through harnessing solar, hydro and biofuels. These policies will also encourage the usage of rooftop solar and large-scale solar farms, coupled with investments in battery storage systems and the growing hydrogen economy.

In Malaysia's efforts to ensure the fruits of economic growth are distributed equitably across regions and communities, special attention must be directed towards key industries poised to be adversely affected. Existing energy sector policies, like the DTN and NETR, highlights measures to sustain the oil and gas sector while reducing reliance on coal. This energy transitional process necessitates the need to support the sector's shift towards a lower-carbon growth model while concurrently minimising workforce implications through comprehensive and continuous upskilling and reskilling programmes within the energy industry ecosystem. However, it needs to be reminded that the impacts will extend beyond the oil and gas sector. Thus, it is imperative to prepare other industries for the impending low-carbon transition.

ii. Strengthening Malaysia's Business Ecosystem

As countries worldwide embark on decarbonisation amid a highly interconnected world, international pressures favouring robust climate action are beginning to influence Malaysia's domestic industries. The CBAM is an example of a unilateral regulatory instrument that will potentially impact Malaysia's trade balance by levying a carbon tax on EU-selected imports. Apart from the EU, several countries are already considering similar regulations, which would impose greater threats to Malaysia's exports.

Measures must be accelerated to strengthen Malaysia's industries and businesses to proactively prepare for the CBAM and other similar regulations, such as the EUDR, imposed by trading partners. These measures are outlined in the New Industrial Masterplan 2030 (NIMP 2030), targeted at advancing local economic complexity, encouraging innovation, enabling supply chain security, embracing technology and digital transformation as well as focusing on sustainable practices and green initiatives. Adhering to robust ESG principles and facilitating investments in the low-carbon economy will drive industries to curtail their carbon footprint, particularly in carbon-intensive sectors. This transition encourages job creation conducive to the decarbonisation of diverse industrial activities and supply chains, encompassing mainly energy, transportation, construction, and agriculture sectors.

iii. Conducive and Green Labour Market

Central to the success of a just transition are principles of fair labour policies and practices as well as quality work. However, sustainability policies and regulations may impose additional burden to the established industries and potentially displace jobs. As sectors evolve and industries transform, safeguarding the rights and wellbeing of workers becomes paramount. Integrating the needs of workers and industries into any transition planning will mitigate the uncertainties and facilitate a smoother pathway. This action encompasses the importance of investing in education, training and skill enhancement opportunities to prepare workers for the growing green industries, hence empowering them to flourish in a dynamic landscape. These workers would benefit from repurposing current expertise into cleaner energy options like solar or hydrogen, thus ensuring a continuity of their careers and livelihoods.

iv. A Robust Carbon Accounting Ecosystem

With the emerging pressures of international carbon regulations as well as increasing local disclosure requirements, there is a need to establish a robust and comprehensive carbon accounting ecosystem² to support domestic industries and businesses. In both situations, local businesses are required to calculate and report carbon emissions associated with the production process. This ecosystem provides businesses, regardless of scale, with the tools to evaluate and accurately report their greenhouse gas emissions which will promote greater accountability as businesses champion decarbonisation targets. The ecosystem requires concerted efforts from both the public and private sectors to boost businesses in this endeavour. Simultaneously, this exercise amplifies the supply and demand for domestically generated carbon offset and carbon credit activities, channeling additional funds towards low-carbon initiatives, encompassing energy sector decarbonisation as well as investments in nature-based solutions and conservation.

v. The Crucial Role of the Financial Sector

The financial sector emerges as a pivotal catalyst in facilitating the transition. Initiatives spearheaded by Bank Negara Malaysia (BNM), the Securities Commission and Bursa Malaysia has rolled out the Climate Change and Principle-based Taxonomy (CCPT), Sustainable and Responsible Investment (SRI) guidelines and disclosures that mitigate financial risks intertwined with climate change and sustainability. Concurrently, Malaysia's role as the leader in Islamic finance will further strengthen the nation's financing capabilities which amplifies support for sustainability and a just transition, especially through the country's complete and comprehensive Islamic finance ecosystem, anchored by the strategy to mainstream value-based finance. The Value-based Intermediation (VBI) initiative, SDG-aligned financing as well as the Value Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides, have been introduced to integrate ESG risk considerations in financing and investment decisions. This is supported by diverse market players, continuously working towards innovative financial instruments to deploy different forms of capital to support sustainability.

Today, Malaysia's Islamic financial institutions continue to deliver positive impact to the economy and society via value-based finance for productive purposes such as pioneering green and sustainable sukuk, *waqf* and *musharakah mutanaqisah* home financing³ as well as greening value chain finance programmes to assist SMEs in implementing impactful, long-term changes in greening their operations. BNM has also deployed blended finance and non-debt funding facilities to improve business saviness and financial resilience of SMEs to elevate their contribution to sustainable economic growth. Through a greater understanding of *Maqasid Shariah*, Islamic finance can be fortified to balance between the social and environmental needs with economic development.

² includes carbon calculators, verifiers, standards and guidelines, auditors, registry, etc.

³ A *musarakah* may be entered into by two or more parties on a particular asset or venture which allows one of the partners to gradually acquire the shareholding of the other partner through an agreed redemption method during the tenure of the *musarakah* contract. Such arrangement is commonly referred to as *musharakah mutanaqisah* (diminishing partnership).

vi. Societal Engagement: The All-Inclusive Approach

Malaysia's just transition journey will effectively address climate change through a holistic societal approach, entailing the active involvement of the rakyat. In turn, the Government through collaborative efforts with relevant stakeholders will ensure the needs of the rakyat are fulfilled amid the transition to low-carbon. Initiating awareness campaigns about climate change and its repercussions constitute the preliminary stride towards integrating the urgency for action within the public consciousness. On top of that, strengthening the social safety net with enhanced safeguards for the low- and middle-income categories can mitigate the financial and economic risks associated with climate change and the low-carbon transition. This will therefore protect these groups from economic shocks and inflationary pressures that may materialise in the future. The introduction of carbon pricing instruments, complemented by the rationalisation of subsidies will generate funding that will be redirected towards strengthening the nation's energy, food and water security, hence bolstering Malaysians' livelihoods.

vii. Pioneering a Regional Just Transition

With Malaysia's strong foundation in economic growth, sustainability, Islamic financing and nature-based solutions, Malaysia possesses the potential to play a leadership role within the region as a climate pioneer. As fellow ASEAN nations embark on their individual low-carbon transitions, collaborative efforts in emissions reduction, renewable energy proliferation, and economic instruments can set the stage for regional climate endeavours. Further to the development of a standardised ASEAN-level climate taxonomy, the discourse on the establishment of a universally applicable carbon pricing mechanism will also galvanize the region's climate action efforts while preparing for the coming challenges.

Conclusion

Within the realm of climate action and equitable development, in line with the Ekonomi MADANI framework, a just transition approach will guide Malaysia moving forward. This approach holds the promise of harmonising these issues as the nation grapples with the entwined challenges of achieving a high-income nation status while managing its natural heritage as well as safeguarding the rakyat. It becomes imperative for individuals, governments, corporations and civil societies to unite in shaping Malaysia's development trajectory.

The urgency of the climate crisis demands resolute action, and a just transition provides a framework for action that traverses borders and sectors. It demands a collective commitment from local communities to global platforms, encapsulating a future where social fairness and environmental sustainability intertwine seamlessly. Guided by the principles of Just Transition and the Ekonomi MADANI framework, Malaysia charts a development trajectory leading to a sustainable future that is comprehensive and environmentally conscious, through the equilibrium between economic growth, climate mitigation and adaptation as well as social justice.

Good Governance

Good governance is crucial to instil confidence and trust among stakeholders, which reflects effective government administration. The WCY IMD 2023 report identifies areas that require improvement, particularly in enhancing government legislation related to businesses and societal frameworks. Thus, there is a need to enhance civil society and citizen involvement in policymaking. In addition, the Principles of Good Governance (PGG) for GLICs provides a framework that guides baseline governance and sustainability practices. This guideline represents an initiative aimed at elevating corporate governance, with a particular emphasis on ESG considerations.

Public Service Delivery

In ensuring public service delivery is efficient and effective, efforts have been focused on raising service quality through investments in human capital development and digitalisation. The achievement of these objectives demands a comprehensive approach, which requires improved governance, reduced bureaucracy, increased transparency, heightened accountability, enhanced capacity building, and a steadfast commitment in meeting the needs of the rakyat. In order to gear the transformation process towards digitalisation, the public sector must be agile and keep abreast to this trend. This will require a more strategic human capital recruitment process

while necessitating a plan for reskilling of the current workforce. Aligned with the Government's vision to rebuild a dynamic civil service, governance standards for leadership and decision-making need to be refined. Therefore, providing ample training and career growth opportunities is imperative for maintaining a competent workforce.

Wages

Malaysia has seen a significant economic growth and achieved upper middle-income economy status over the last 30 years. However, the growth has yet to be translated into equitable income distribution for workers. Compensation of employees (CE) has remained low, reflecting a persistent structure of a low-wage labour market. Currently, CE hovers around 35% to GDP, compared to 40% targeted by 2025. The mean wage growth of 4.3%², only resulted in an average annual increment of RM106 for workers. This modest increment is not sufficient to support households, particularly the low-income earners to achieve a decent standard of living. The issue of low wages has led to limited local workforce engagement in lower occupation categories, increasing dependence on low-skilled foreign workers and hampering labour productivity. Addressing the low-wage concern is crucial for Malaysia to unlock the full potential of its human capital and achieve balanced economic growth, which will benefit all segments of society and promote inclusive development.

² Refers to wage growth for Malaysian citizens only during the period from 2010 to 2021.

INFORMATION BOX 1.2

Wages as a Source of Growth*In collaboration with Khazanah Research Institute (KRI)***Introduction**

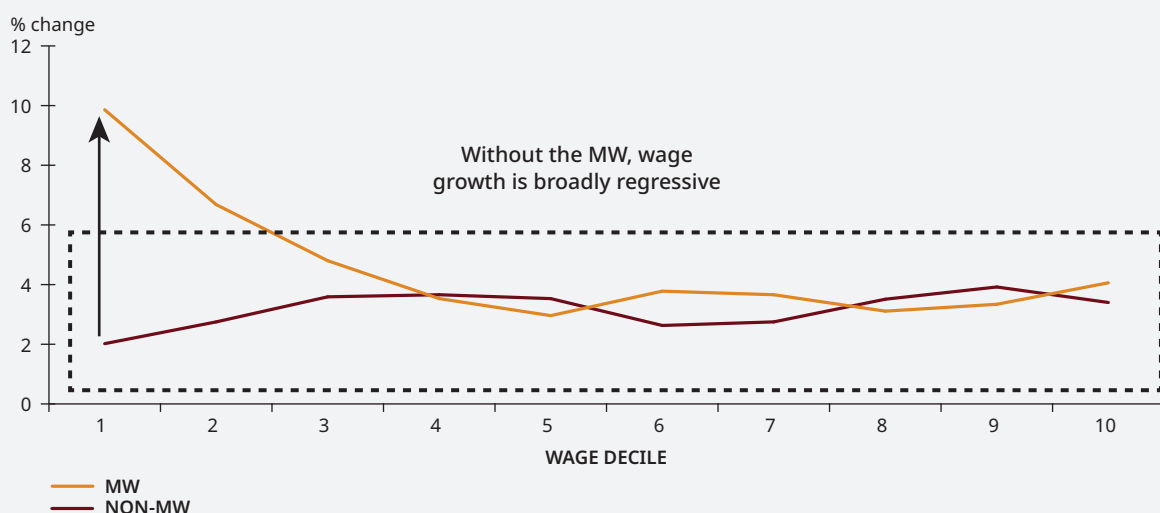
As Malaysia aspires to become a high-income nation, various measures have been undertaken to accelerate the shift to high technology and knowledge-intensive economy. The initiatives have borne fruits as evidenced by the encouraging economic growth trend recorded over the past few decades. Nonetheless, the absolute benefit of the growth has yet to be translated into fair income distribution, including the need to address the longstanding low labour income issues.

Malaysians are finding it increasingly difficult to cope with the rising costs due to structural wage stagnation, thereby placing an added burden on the Government to provide subsidies and cash transfers to alleviate pressures on the rakyat. The introduction of the minimum wage in 2013 was a significant progressive step, but more needs to be done if the Ekonomi MADANI framework's target of raising compensation of employees to 45% of GDP is to be realised.

Distribution of wages in Malaysia - wage growth and inequality from 2010 to 2019

A study by Khazanah Research Institute (KRI) in 2023 on wage growth from 2010 to 2019 produced three key findings. First, the Malaysian labour market is dependent on policy interventions such as the minimum wage to ensure equitable and inclusive wage growth. The study also finds that wage growth is suppressed and broadly regressive without policy measures. Figure 1.2.1 highlights the impact of the minimum wage on low wage earners by comparing wage growth rates across wage deciles between the years in which the minimum wage was introduced or increased (MW periods),

FIGURE 1.2.1. Percentage Change in Real Monthly Individual Wage Growth by Wage Decile, 2010 – 2019

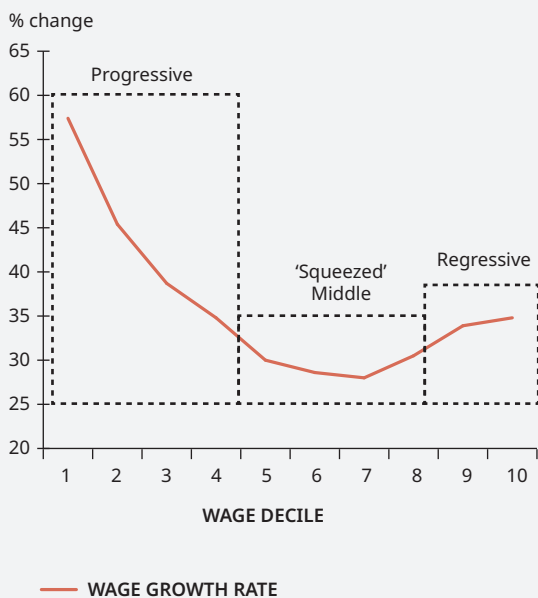


Source: Khazanah Research Institute and Department of Statistics, Malaysia

and the years before or without an increase in the minimum wage (non-MW periods). The analysis indicates that wage growth for the bottom 30% of wage earners was dependent on the minimum wage implementation. Without the Government’s directive to employers, the wage level would have remained suppressed.

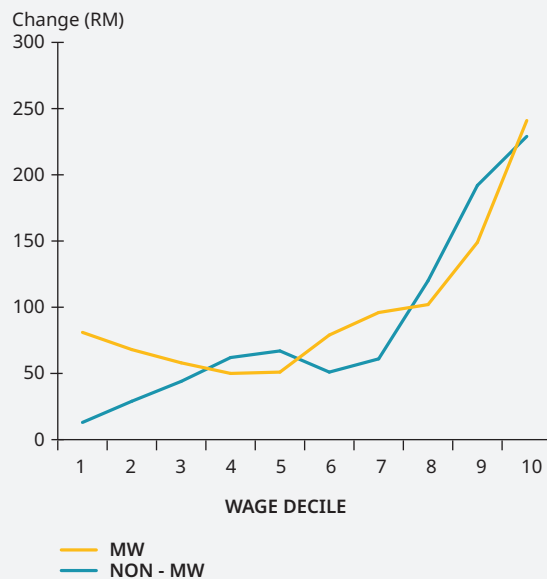
Second, the effects of the minimum wage are limited to the lowest wage earners, with the middle wage earners experiencing the lowest growth during the period, as depicted in Figure 1.2.2. In ringgit terms, the wage growth of the middle wage earners is even lower than the growth of the lowest 30% wage earner group, as shown in Figure 1.2.3.

FIGURE 1.2.2. Percentage Change in Real Monthly Individual Wage Growth by Decile, 2010 – 2019



Source: Khazanah Research Institute and Department of Statistics, Malaysia

FIGURE 1.2.3. Absolute (RM) Change in Real Monthly Individual Wage by Decile, 2010 – 2019



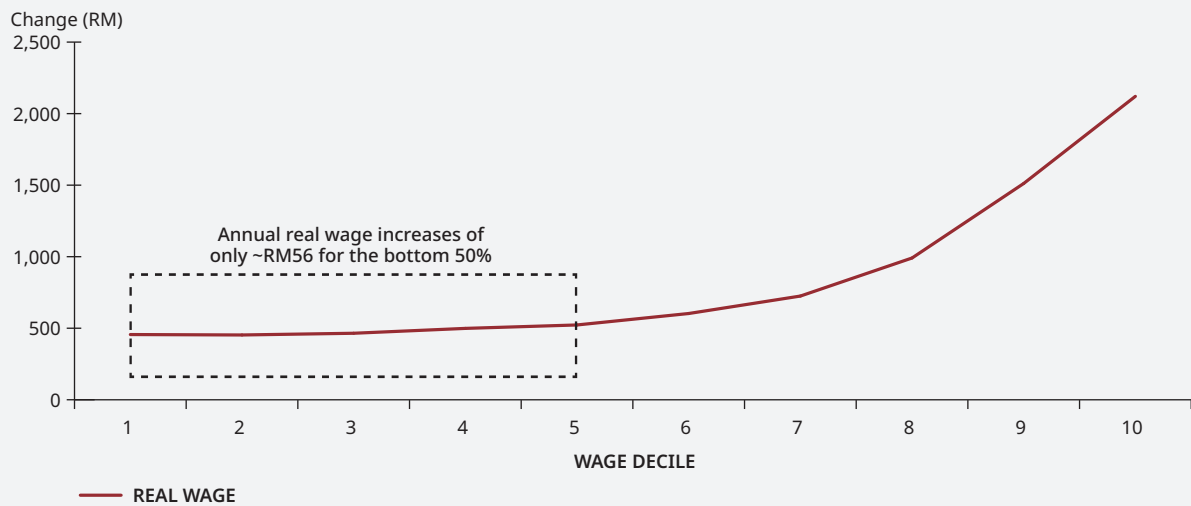
Source: Khazanah Research Institute and Department of Statistics, Malaysia

Third, wage stagnation¹ is found to be a central feature of the Malaysian labour market despite the effects of minimum wage. The bottom 50% of workers only experienced an increase of the real monthly wage by approximately RM500 during the 2010 – 2019 period, which translates to a rough increase of RM56 per year, as illustrated in Figure 1.2.4.

These findings provide a basis to comprehend the vulnerability of Malaysian households when confronted with the rising costs, as their wage increments have arguably been insufficient to provide a buffer against future shocks.

¹ The definition of wage stagnation varies by context but is most commonly defined as a situation whereby wage growth is slower or barely keeping pace with the rate of inflation or cost of living.

FIGURE 1.2.4. Absolute (RM) Change in Real Monthly Individual Wage by Decile, 2010 – 2019



Source: Khazanah Research Institute and Department of Statistics, Malaysia

Low starting salaries among graduates

An individual's starting wage plays an important role in determining their overall wage trajectory (Guvenen et al., 2019), and fresh graduates in Malaysia faced stagnant wage outcomes over the past decade (Rahim, M.A.R.A. and Suhaimi, S.A., 2022). Over 70% of working graduates earned below RM2,000 per month, and concerningly, the percentage of those earning between RM1,000 and RM2,000 has increased from 43.7% in 2010 to 54.6% in 2020, as depicted in Figure 1.2.5.

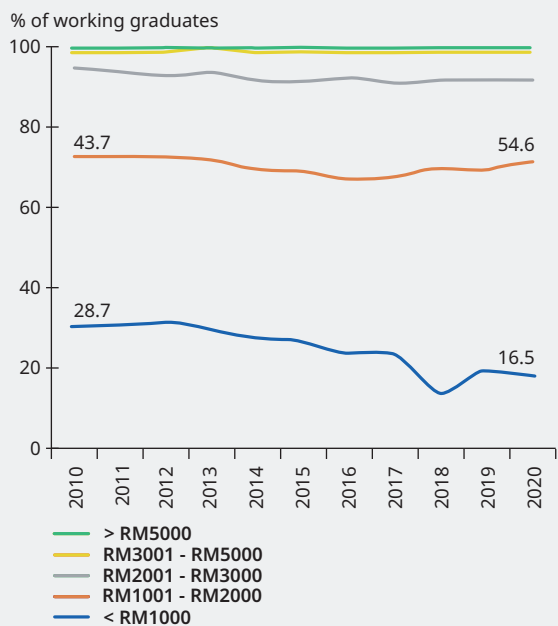
Similarly, between 2019 and 2020, there was a decline in graduates earning above RM2,000 by 2.3%, while those earning below the minimum wage grew from 48.8% to 51.1%, as shown in Table 1.2.1. The scenario suggests that majority of tertiary-educated graduates entered the job market at below the living wage² as stipulated by Belanjawanku 2022/2023. With a relatively lower starting wage, the graduates could consequently suffer low increments and may take a longer time to reach a sufficient level.

The labour market's inability to pay the fresh graduates adequately, is nested within a larger structural challenge of job creation. The employment share of labour-intensive traditional services, such as wholesale and retail trade; accommodation, food and beverages; as well as administrative and support service activities, has grown over the past two decades (Tumin, S.A., 2021; Rahman, A.A. and Schmillen, 2020). The concentration of new jobs in these sectors has resulted in elevated skills-related underemployment³ rates among graduates, whereby the rate has increased from 24.5% in 2017 to 33.9% in 2021 (DOSM, 2022a).

² The Belanjawanku 2022/2023 report by Employees Provident Fund (EPF) estimated at RM2,600 for a single adult car owner residing in Klang Valley in 2022 – 2023.

³ Skills-related underemployment is defined as those with tertiary education but working in semi-skilled or low-skilled occupations.

FIGURE 1.2.5. Percentage of Working Graduates by Monthly Income Range, 2010 - 2020



Source: Khazanah Research Institute and Ministry of Higher Education, Malaysia

TABLE 1.2.1. Percentage of Working graduates by Monthly Income, 2019-2020

INCOME RANGE	2019	2020
Less than RM1,500	48.8	51.1
RM1,500 - RM2,000	20.0	20.0
More than RM2,000	31.2	28.9
Total	100.0	100.0

Source: Khazanah Research Institute and Ministry of Higher Education, Malaysia

Consequences of low wages

While structural challenges are a source of the wage conundrum, dismal wage levels are themselves at the root of trends that feed back into Malaysia's structural problems. Two prominent trends that are linked to the lack of well-paying employment are brain drain and the increasing levels of non-standard employment such as gig work. Brain drain, though not rare from a global perspective, severely inhibits the economic and social potential of developing countries (Gibson and McKenzie, 2010).

Based on a study by the World Bank in 2010, about 54% of Malaysia's brain drain, were in Singapore. Meanwhile, a report by the Institute for Labour Market Information and Analysis (ILMIA), Ministry of Human Resources (MOHR) in 2019 reported that Malaysians who work in Singapore consist of two groups; those who live in Malaysia but work in Singapore (commuters) and those who live and work in Singapore (residents). Among the commuters, 58% of them worked in semi-skilled occupations and 10% in low-skilled occupations. On the other hand, 58% of the residents were typically tertiary-educated and primarily worked in skilled occupations which are managers, professionals, and associate technicians.

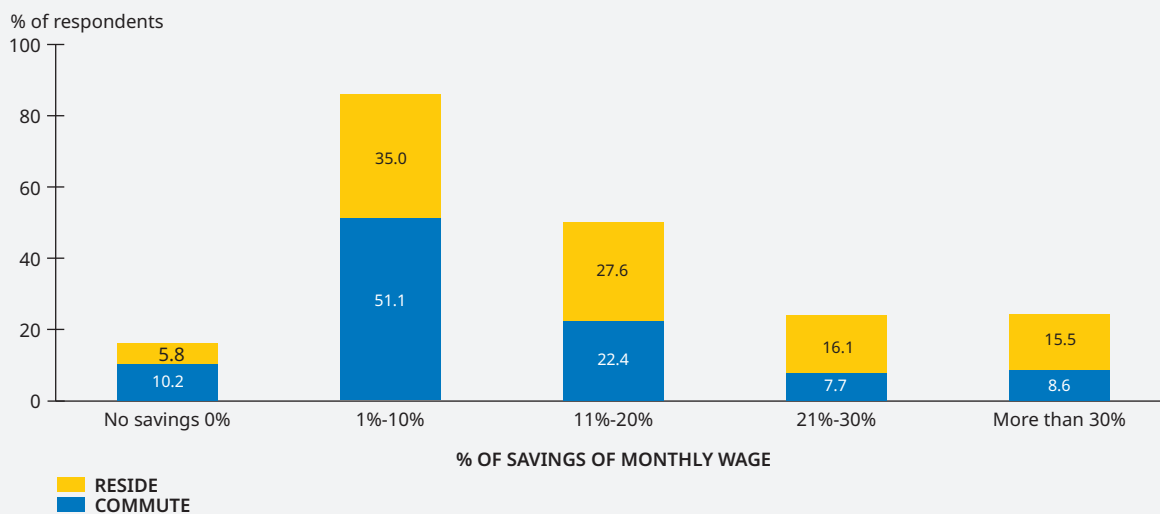
Higher salary is the predominant motivator in pulling Malaysians to work in Singapore. Findings from interview sessions conducted by ILMIA highlight that Malaysians were offered higher salaries and compensation for the same job. Meanwhile, the MEF Salary Survey for 2022 shows that a manager in the manufacturing industry receive a basic monthly salary of RM10,304, while a similar role in Singapore offers SGD7,532, which is equivalent to RM24,695⁴. Likewise, a clerk in the administration and support services would earn a monthly wage of RM2,065 as compared to

⁴ Referring to exchange rate of SGD1 = RM3.2787 as of 29 December 2022.

SGD2,000 in Singapore, while the accommodation and food and beverages subsector paying nearly five times more in Singapore (Malaysian Employers Federation, 2023; Ministry of Manpower, 2023; DOSM, 2022b). The wage discrepancies between Malaysia and Singapore is applicable to a wide range of occupations and industries.

On another aspect, Malaysians working in Singapore had been able to save a sizable share of their earnings with 51.1% of commuters managed to save around 1% - 10% of their monthly salaries, while nearly 60% of residents have been saving more than 10% (Figure 1.2.6). Meanwhile in Malaysia, Bank Negara Malaysia in 2023 reported that only 36% of Malaysian households would be able to sustain expenses for the next three to six months in the event of a loss of income. As a rule of thumb, Belanjawanku report has suggested the use of a 45/35/20 rule whereby 45% of an individual's budget should be allocated for necessities, 35% to commitments and 20% to savings. Stagnant wages make it increasingly difficult for individuals and households to save and cope with rising costs.

FIGURE 1.2.6. Percentage of Savings of Monthly Wage by Residents and Commuters, 2018



Source: Institute of Labour Market Information and Analysis and Ministry of Human Resources, Malaysia

Another consequence of the wage issue is the increasing number of SPM leavers opting for gig work such as p-hailing or e-hailing⁵ services, instead of continuing their education or developing core skills and capabilities in a career track. An estimated 26% of employed persons were involved in gig work in 2020 (Azahar, S., 2020), and preliminary estimates indicate that the gig sector can provide a monthly income that is competitive compared to the starting salaries of fresh graduates (Goh and Omar, 2019). Other contributing factors include the unavailability of job opportunities as well as the belief that furthering their studies does not guarantee quality jobs (Mutalib, H., 2022). However, the precarious nature of gig work poses a significant risk in the long term. The lack of regulatory oversight in ensuring decent work standards, and difficulties in extending social assistance to gig workers renders many of them 'invisible' and remain outside the formal system (Hamid, H.A. and Sazali, N.T., 2020). Furthermore, the expansion of gig work may not yield favourable returns to the economy if it translates to an increasing share of the workforce foregoing long-term investments in skills and capabilities.

⁵ P-hailing refers to food, drink, and parcel delivery by motorcycle. E-hailing is defined as a transport service offered by private vehicles through an online application.

Positive spillovers from higher wages

The issue of low wages in Malaysia is normally linked to the economy's productivity challenges, with the implied argument that employers should wait for productivity to rise before increasing the wages. This approach ignores the fact that providing higher wages is part of the solution to productivity challenge. If Malaysia aims to escape the low-wage, low-profit, and low-productivity trap, a cheap labour model of business and economic growth must be counteracted through a concerted effort to raise wages.

Rising wages have been part of the economic and industrial transitions of Asia's highly advanced economies (Wade, 2004) and nations need to embrace a vision of wage growth as being a source, rather than just a consequence, of economic growth. According to a study by KRI in 2019 on the consumption patterns of Malaysian households, it is found that only the top 30% of households demonstrated spending patterns that were reflective of "middle-class"⁶ aspirations, which is an indication that raising the wages of Malaysia's low- and middle-income earners holds the potential to increase the size of the domestic market and benefit local businesses. In 2022, The Centre for Future Labour Market Studies (EU-ERA) modelled the effects of higher wages on Malaysia's domestic economy through a Computable General Equilibrium⁷ model and found that wage growth could have positive effects on other macroeconomic indicators as illustrated in Table 1.2.2.

TABLE 1.2.2. *EU-ERA's Simulation of the Economic Impact of Higher Wages*

3%	4%	5%	INCREASE IN TOTAL WAGE
+5.6%	+6.0%	+6.5%	GDP (current price)
+4.2%	+4.8%	+5.4%	Labour productivity
-2.2%	-2.4%	-2.5%	Income inequality (Gini index)

Source: The Centre for Future Labour Market Studies (EU-ERA) and Ministry of Finance, Malaysia

Conclusion

Policy interventions are required to improve wage outcomes. Evidence-based analysis has indicated that the minimum wage is a crucial intervention in the labour market to raise wages of the low-income workers and reduce wage inequality. The primary lesson of the minimum wage is that progressive, consultative and decisive measures are required to improve the equitability and inclusiveness of the economy. Therefore, the focus of current policy efforts needs to ensure significant improvements in the median wage level in the coming years. If the minimum wage is effective in raising wages at the lower end of the distribution, then additional measures should be targeted towards the middle wage earners.

Such effort will require close collaboration between the Government, employers and labour unions to ensure sustainability and effectiveness. The Ekonomi MADANI framework stresses the need for a whole-of-nation approach with a focus on empowering the rakyat in the hopes of 'Building a Better Malaysia Together'. Therefore, employers and businesses, in particular, need to embrace wage growth as a source of business and economic transformation.

⁶ Middle-class is defined as households that are able to maintain or invest further in their upward mobility as well as protect themselves from risky scenarios.

⁷ Simulation results are derived based on CGE model. It produces a projection of economic, social and environmental indicators up to 2030. The model assumes that increases in wage rates induce additional consumption by households, therefore resulting in additional output and profit for firms.

Combatting Inequality

Cost of Living

The Government is dedicated to alleviate the burdens of the rakyat, particularly the vulnerable groups amid rising cost of living. According to the Asian Development Bank, the surge in the cost is forcing a significant portion of the population into economic hardship, necessitating concerted efforts to enable the less fortunate to survive in the environment of elevated prices and economic uncertainties. The cost of living significantly impacts the affordability of Malaysian households, especially those in the urban areas, as many have tight financial commitments including loans. Addressing this issue is essential in ensuring financial stability and a decent quality of life for the rakyat.

Balanced Regional Development

Balancing regional development is essential for Malaysia to achieve equitable growth across states and regions. Despite of the Government's efforts in the past, disparities continued to persist, evidenced by regional inequalities, low urban resilience, obstacles to rural development, and underutilisation of opportunities in sub-regional cooperation. Such imbalances lead to issues including rural-urban migration, increased living costs, income inequality, and urban poverty. To achieve a balanced regional development, a comprehensive strategy is needed, encompassing targeted investments in underdeveloped regions, improved connectivity, support for local industries, and the creation of employment opportunities.

Social Protection System

The presence of various government agencies that look into social protection and the absence of an overarching policy

have hampered coordination efficiency. The situation is further aggravated by the differing objectives and monitoring methods used by these agencies, resulting in fragmentation and overlapping of programmes as well as higher implementation costs. Furthermore, numerous databases hinder data integration and system interoperability, thereby undermining effective targeting mechanisms. These problems have led to inclusion and exclusion errors, causing resource leakages and reducing assistance efficiency and coverage. In this respect, the COVID-19 pandemic has inadvertently pushed the need for a comprehensive social protection system without undermining fiscal sustainability. The establishment of the system, along with the harmonisation of the objectives and mechanisms among the responsible agencies will enhance efficiency, reduce costs, as well as provide better coverage and support for those in need.

Quality Infrastructure

Quality infrastructure provides the foundation for economic activities, essentially by increasing connectivity and accessibility of amenities and services to the rakyat. While a majority of the rakyat enjoy convenient access to basic amenities such as clean water, electricity, internet connectivity, and transportation networks, disparities persist due to varying development levels across the country. For instance, while most states have access to clean water, yet certain states such as Kelantan, Sabah, and Sarawak still require more coverage. Therefore, bridging these accessibility gaps is essential to ensure equitable development and enhance the quality of life for all Malaysians. Meanwhile, investing in high-quality infrastructure, particularly public transportation system can stimulate economic activities and attract investors to create job opportunities, while delivering improved public services.

Strategic Initiatives – Budget 2024

Ekonomi MADANI serves as the foundational framework towards building a better Malaysia together by re-establishing Malaysia as a leading economy in Asia and ensure a high quality and just life for the rakyat. The ambitions of Ekonomi MADANI have been subsequently reflected and elaborated in policy documents, namely the NETR, NIMP 2030 and MTR of the Twelfth Plan. Likewise, the Budget 2024 is geared towards articulating immediate initiatives and reforms for implementation in 2024, as initial steps towards realising the aspirations of Ekonomi MADANI.

In line with Ekonomi MADANI, the Budget 2024 has three focus areas, namely delivering reforms to enhance governance and public delivery system; transforming the economy and businesses, in addition to elevating the wellbeing of the rakyat.

Looking ahead towards 2024, Malaysia faces the challenge of both a less robust global economic outlook combined with Malaysia's fiscal constraints. Beginning 2024, fiscal reforms are necessary to provide the fiscal room to support economic growth and restructuring while also attending to the needs of the rakyat. Towards this, the Government has committed to the FRA, continues its commitment to gradually reduce the fiscal deficit and rationalise subsidies to be more targeted. Institutional reform will also be undertaken towards greater governance and enhancing the effectiveness of public delivery and implementation of Government initiatives.

The transformation of the economy envisioned under the Budget 2024 aims to initiate reforms to kickstart the implementation of the NETR, NIMP 2030 and MTR of the Twelfth Plan. Towards this, incentives and funding will be provided to promote greater economic

complexity, digitalisation, green growth and inclusive growth across the nation. Initiatives will also be undertaken to strengthen Malaysia as an internationally competitive investment destination and to enhance ease of doing business. Greater empowerment of SMEs will be emphasised through facilitating SME financing, competitiveness, human capital upskilling and export orientation. Malaysia will also aim to energise innovation in Islamic economy, particularly in Islamic Finance and halal products. In addition, the transformation of the economy will need to be supported by greater efforts to strengthening economic sustainability and security, particularly in food and energy.

Encapsulating Ekonomi MADANI's aims to "raise the floor", the Budget 2024 sets out initiatives to elevate the rakyat's quality of life in concomitance with "raising the ceiling" of Malaysia's economic potential. A higher quality of life encompasses the creation of meaningful jobs with decent wages, inclusivity and equal opportunity, universal access to education and healthcare, world-class basic utilities, and a more comprehensive social safety net for all Malaysians. This includes ensuring the lower income groups continue to be assisted with the challenges of cost of living, in conjunction with the transition towards targeted subsidies.

This holistic restructuring of Malaysia's economy as envisioned in the Ekonomi MADANI framework requires a whole-of-nation approach. The Government's approach will aspire to build greater partnerships with the industries and the rakyat towards realising Ekonomi MADANI. At the same time, collaborations will also be forged with state governments and NGOs to meet national development needs.

The Budget 2024 therefore marks the start of Malaysia's journey to rebuild a sustainable, inclusive, and buoyant economy as envisioned in the Ekonomi MADANI framework.

INFORMATION BOX 1.3**Mid-Term Review of the Twelfth Malaysia Plan***In collaboration with the Ministry of Economy***Introduction**

The Twelfth Malaysia Plan, 2021 – 2025 (the Twelfth Plan), is a medium-term plan with the objective of achieving ‘A Prosperous, Inclusive, Sustainable Malaysia’. Since its implementation, Malaysia has registered commendable socioeconomic development, particularly in spurring economic recovery post-pandemic COVID-19 despite experiencing several global and domestic challenges. Nevertheless, continuous effort needs to be intensified to ensure the targeted outcomes of the Twelfth Plan are achieved. Thus, a review of targets, policies and strategies of the Twelfth Plan is imperative in ensuring Malaysia remains on the right growth trajectory.

The Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan) encompasses revised policies and strategies in line with the ‘Ekonomi MADANI: Memperkasa Rakyat’ (Ekonomi MADANI) framework to regain honour and dignity of the rakyat as well as transform Malaysia into a prosperous and high-income nation. Under the theme ‘Sustainable, Prosperous and High-income Nation’, the MTR of the Twelfth Plan introduces a total of 17 Big Bolds as strategic initiatives that serve as the main catalysts in accelerating efforts to reform the socioeconomic development in line with the Malaysia MADANI aspiration. The MTR of the Twelfth Plan is set to be the foundational document to steer and elevate the nation’s development status as well as empower the rakyat.

Progress of the Twelfth Malaysia Plan

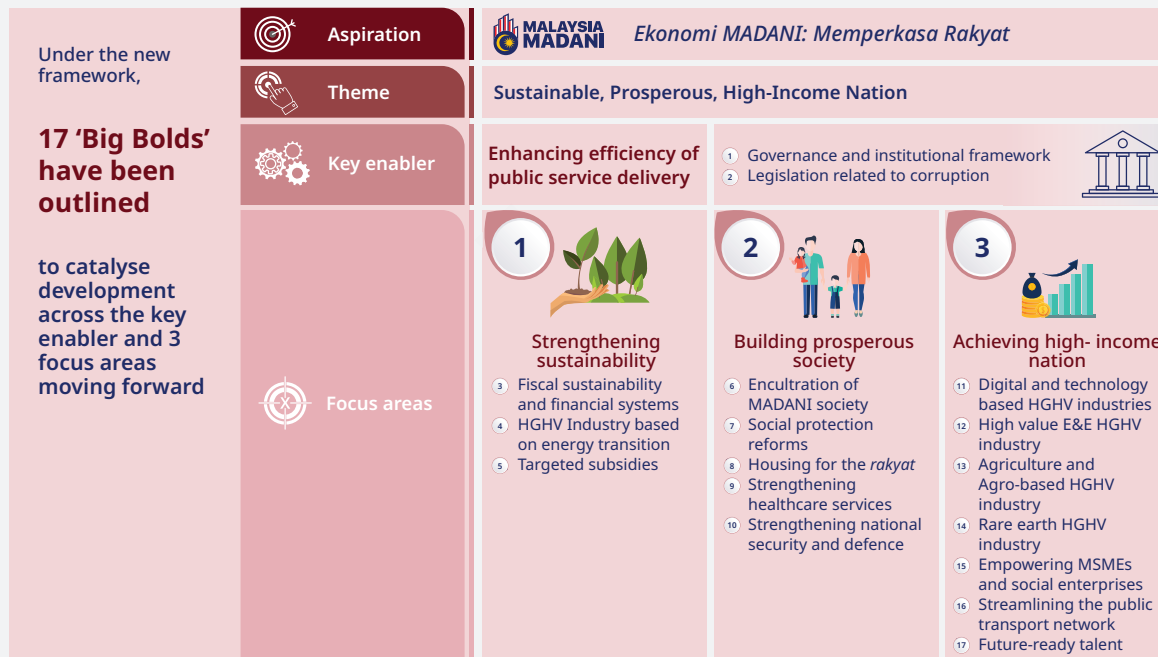
Various measures have been implemented to propel Malaysia towards a more robust growth trajectory, yielding achievements across various key indicators. Among notable accomplishments include a 4.2% increase in GDP during the first half of 2023; a commendable labour market productivity growth of 3.7% annually during 2021 and 2022; a reduction in the unemployment rate to 3.5% in Q2 2023; and a decline in the inflation rate to 2% in August 2023, the lowest since September 2021. Furthermore, the gross national income (GNI) per capita rose significantly, reaching RM52,968 (USD12,035) in 2022 compared with RM42,838 (USD10,191) in 2020. Malaysia also ranked favourably in Human Development Index (HDI) 2022, standing at 62 out of 191 countries, while the Malaysian Well-being Index (MyWI) indicator recorded an annual increase of 1.3% in 2021. Additionally, the average monthly household income saw an encouraging improvement, reaching RM8,479 in 2022 from RM7,901 in 2019. These achievements demonstrate positive economic growth and development trends in Malaysia.

Framework of The Mid-Term Review

The central tenets of Malaysia MADANI’s aspiration, coupled with the strategic framework of Ekonomi MADANI serve as the foundational pillars of the MTR of the Twelfth Plan that would eventually lead to a better quality of life for the rakyat. The overarching theme of the MTR of the Twelfth Plan is underpinned by the key enabler, which is enhancing efficiency of public service delivery with three main focus areas, namely strengthening sustainability, building a prosperous society and achieving high-income nation. The 17 Big Bolds will catalyse the socioeconomic development in the remaining period of 2023 – 2025 through a set of main strategies and initiatives¹ across the three main focus areas as highlighted in Figure 1.3.1.

¹ There are 71 key strategies and initiatives discussed in the main document of the MTR of the Twelfth Plan.

FIGURE 1.3.1. Framework of the Mid-Term Review of the Twelfth Malaysia Plan



Source: Ministry of Economy, Malaysia

Way Forward

Macroeconomic Prospect

Looking ahead to the remaining period of the Twelfth Plan, the economy is poised to grow ranging from 5% to 5.5% annually, driven primarily by domestic demand, with a notable contribution from private sector spending. In addition, there will be concentrated efforts to enhance labour productivity that is projected to increase by 3.8% annually. This anticipated improvement in the labour market is instrumental in achieving the targeted share of compensation of employees (CE) set at 40% of GDP by 2025. Furthermore, the GNI per capita is anticipated to reach RM61,000 (USD14,250) by 2025 while inflation rates are expected to remain within the range of 2.8% to 3.8%.

On the supply side of the economy, the services and manufacturing sectors will continue to serve as the principal sources of growth. Additionally, it is anticipated that robust growth in the civil engineering and residential building subsectors will play a pivotal role in supporting the recovery of the construction sector for the remaining period of the Twelfth Plan.

Enhancing Efficiency of Public Service Delivery

The Government will focus on enhancing value-based governance by improving accountability and transparency as well as strengthening and acculturating integrity in public service. These strategies will be supported by two Big Bolds, namely Governance and Institutional Framework as well as Legislation related to Corruption.

Digital transformation will be further accelerated by improving end-to-end online services and boosting data sharing arrangements, in line with the whole-of-nation approach. The modernisation of the public service will be continued through the Government Technology (GovTech) initiative. In

addition, *Pangkalan Data Utama* (PADU) will be developed as a data repository to support accurate and transparent distribution of targeted subsidies and assistances in addressing socioeconomic issues at individual household level, under the Big Bold Targeted Subsidies.

Institutional and business framework will continue to be strengthened by reviewing structure and function of ministries and agencies as well as enhancing ease of doing business. Further to this, the Government will prioritise on improving the effectiveness and efficiency of budget and project management for better service delivery through the Big Bold Fiscal Sustainability and Financial System.

Main Focus Areas

Three main focus areas outlined in the MTR of the Twelfth Plan are strengthening sustainability, building a prosperous society and achieving high-income nation.

Strengthening Sustainability

The MTR of the Twelfth Plan maintains a steadfast focus on bolstering sustainability through several key objectives encompassing the promotion of economic growth; the enhancement of fiscal sustainability; and the acceleration of the transition towards an economy that is resilient and future-ready. In accelerating the effort to drive economic growth, focus will be given on five high-potential sectors, namely renewable energy; technology and digital; E&E; agriculture and agro-based as well as rare earth industries. Furthermore, fiscal sustainability will be strengthened by reinforcing fiscal governance, broadening the revenue base, recalibrating subsidies, improving budget management, and enhancing the management of debt and liabilities.

In advancing sustainability, energy transition has become a significant avenue for Malaysia to unlock the green growth potential. This transition includes a transformation towards a high growth high value (HGHV) industry, with a particular emphasis on Energy Transition as one of the prominent initiatives to address the challenges of climate change and other environmental challenges. Furthermore, an efficient natural resource management will be further optimised with a priority on conserving natural ecosystems and strengthening water management practices to prevent the exploitation and loss of resources, thus ensuring maximum returns to the economy. Additionally, there will be a concentrated drive to expedite the implementation of SDGs and encourage the adoption of ESG practices. This will comprise policies and regulatory frameworks as well as support services to encourage businesses to adopt sustainable business practices.

Building a Prosperous Society

The efforts to build an inclusive and more resilient society will continue to be pursued during the remaining period of the Twelfth Plan. Meanwhile, in addressing and preventing poverty, efforts will be intensified towards increasing income and improving standard of living. The Government is determined to narrow the income disparity while addressing the regional development imbalance.

Big Bold Social Protection Reform aims to improve efficiency and effectiveness in assisting the poor and vulnerable. This reform, which is currently being studied will be implemented holistically at the Federal and state levels. The MTR of the Twelfth Plan also outlines strategies in maintaining peace and stability that include safeguarding national sovereignty as well as intensifying efforts in crime prevention and rehabilitation. These strategies will be supported through the implementation of the Big Bold Strengthening National Security and Defence.

Moreover, another Big Bold is on Strengthening Healthcare Services that will be implemented to enhance the wellbeing of the rakyat. Leasing of medical equipment will be introduced as a measure to ensure availability of the best state-of-the-art medical equipment to the rakyat. In addition to this, increasing the supply of and improving access to quality and affordable housing will be emphasised. Big Bold Housing for the Rakyat will be implemented by shifting the focus from ownership to shelter.

Achieving High-income Nation

A comprehensive set of measures will be implemented to fortify Malaysia's economic resilience towards attaining a high-income nation status. These measures will focus on bolstering the resilience of sectoral and strategic industries; enhancing competitiveness to foster sustainable growth; optimising the effectiveness of financial support mechanisms; and formulating strategic plans for industrial estates and food production areas. Additionally, steps will be taken to reduce barriers that hinder the scalability of micro, small and medium enterprises (MSMEs) by integrating them into domestic and global supply chains and fostering accelerated productivity growth among MSMEs.

Furthermore, the growth of Digital- and Technology-Based HGHV Industries will be prioritised, supported by the formulation of digitally inclusive policies and the development of a conducive infrastructure. Similar emphasis will also be placed on building resilient transport and logistics infrastructure. Moreover, a holistic development approach for the non-radioactive rare earth industry will be implemented, aligning it with the Big Bold Rare Earths HGHV Industry initiative, to maximise the industry's economic contribution. Concurrently, initiatives will be enhanced to promote technology adoption, digitalisation, talent acquisition, value chain augmentation, and governance enhancement, all geared towards driving competitiveness and ensuring sustainable growth.

As a strategy to expedite economic growth, several key enablers such as talent development, technology, research, development, commercialisation and innovation (R&D&C&I), digitalisation, and transport and logistics infrastructure will be fortified. Within this strategy, a progressive wage model will be introduced to stimulate wage growth and address the issue of CE as a share of GDP. An action plan will also be devised to ensure that the percentage of foreign workers does not exceed 15% of the total workforce. Ultimately, in ensuring a more holistic development, there will be concentrated efforts to promote regional balance and inclusivity. These efforts will include initiatives aimed at enhancing regional economic potential, accelerating sustainable urban and rural development, and optimising opportunities arising from subregional cooperation.

Conclusion

The MTR of the Twelfth Plan highlights the progress for 2021 – 2022, outlines issues and challenges that need to be addressed as well as paves the way for 2023 – 2025 towards a sustainable, prosperous and high-income nation. During the review period, economic growth was commendable amid the challenging environment. The implementation of all development initiatives needs to be accelerated in ensuring domestic and global challenges are managed effectively. The successful implementation of the 17 Big Bolds is imperative in driving the efforts towards attaining the set targets, in line with the 'Ekonomi MADANI: Memperkasa Rakyat' framework.

Focus 1: Restructuring the Economy to Boost Growth

The Budget 2024 builds the foundation for a sustainable development agenda that aligns with the NETR, NIMP 2030, and MTR of the Twelfth Plan, as guided by the Ekonomi MADANI framework. These policies, specifically the NIMP 2030, will support the Government's efforts to reform the industries by nurturing higher economic complexity and aggressively embracing technological innovation and product sophistication. In this regard, focus will be given to HGHV industries and several sectors such as aerospace, E&E, chemicals, pharmaceuticals, and clean energy to propel Malaysia towards technological advancements and competitiveness.

A favourable business environment is imperative to foster a more interconnected and vibrant domestic economy. These will be achieved by leveraging robust infrastructure, a large talent pool, abundant natural resources, as well as vast technological adoption, digitalisation and innovation. Acknowledging the contributions of MSMEs to the economy, a diverse array of programmes and projects is poised for implementation to bolster the competitiveness. However, limited access to financing and shortage of skilled workers persist as major impediments to business expansion. Thus, the Government remains committed to offer financing facilities and talent development programmes, which will be key components of the Budget 2024.

As Malaysia aims to rank among the top 30 economies in the world within the next decade, the nation must possess the traits of advanced and high-income economies that are characterised by innovation-led and knowledge-intensive economic activities, advanced technology, robust infrastructure, and skilled workforce. By prioritising these strategic imperatives, Malaysia is poised to boost its competitiveness, amplify productivity, and

foster prosperity through sustainable economic growth to position the country towards a thriving future globally.

Harnessing its strategic positioning in the dynamic Southeast Asian region, Malaysia maintains a steadfast commitment and stands ready to benefit from the expanding trade prospects within ASEAN to emerge as the key regional industrial hub. Therefore, the Government remains committed to boost both DDI and FDI to uphold Malaysia's status as the preferred investment destination. The strategy includes streamlining the investment promotion agencies, simplifying administrative procedures, and revising relevant laws and regulations to create a more investor-friendly environment. Additionally, the Government will formulate and refine industrial and investment policies tailored to regional needs and developmental stages in reducing development gaps and economic disparities.

Special attention will be given to attract investments in emerging sectors such as E&E, digital economy, and aerospace, with GLICs and GLCs driving the development of local vendors and DDI. In addition, the implementation of outcome-driven tax incentives will catalyse businesses towards impactful ventures and generate high-income employment opportunities. The Government has also embarked on several measures to promote Malaysia as the preferred investment destination, which include the establishment of special financial zones in Johor and the Klang Valley to attract global investors and knowledge workers. This effort encompasses the upgrading of existing industrial infrastructure to adopt eco-friendly practices while simultaneously intensifying human capital development to meet investors' demand. Collectively, this comprehensive ecosystem sets a solid benchmark to boost investor confidence, which in turn, will propel sustainable growth and solidify Malaysia's position as a key player in the regional and global economy.

Smart Industry, often referred to as Industry4WRD, is reshaping the landscape of manufacturing, distribution, and product innovation. The combination of digitalisation and mechanisation within smart industries holds immense potential and bodes well with the nation's vision of ascending to a high-income and knowledge-driven economy. Various initiatives are in place to expedite digital adoption and automation. The Government continues to support policies that promote manufacturing transformation, advance economic complexity and technological adoption, as well as prioritise economic security and inclusivity to ensure a digitally vibrant and sustainable nation. These strategic endeavours are poised to propel Malaysia forward, bolstering the nation's competitiveness on the global stage while preserving our commitment to sustainability and inclusivity.

In line with the commitment to technological advancement and innovation, the Government will cultivate a conducive and enabling environment aimed at encouraging industries to adopt cutting-edge technologies and innovative business models. This encompasses a multifaceted approach, which promotes investment in R&D, enhances digital infrastructure, and streamlines cyber security laws to ensure the security of smart industries. Moreover, educational and training programmes will be transformed to equip the workforce with the necessary digital skills and provide robust support mechanisms for businesses, particularly the SMEs. Likewise, the regulatory framework will continuously be reviewed to stay abreast with the rapid technological changes, while fostering collaboration among regulators, research institutions and industry players to stimulate seamless integration of new technologies across jurisdictions.

Malaysia takes pride in its leading role among Asian economies in the pursuit of green growth and climate resilience. Remarkable advancements were made in the adoption of sustainable practices across various sectors, encompassing substantial investments in renewable energy, the implementation of energy-efficient measures, extensive reforestation initiatives, and the promotion of eco-friendly urban planning. The Government is also committed in advancing the commercialisation of green hydrogen, in view of its potential as a competitive clean energy solution for Malaysia which aligns with the net-zero aspirations. In line with the long-term commitment to environmental sustainability, the Budget 2024 will continue to encourage businesses to embrace ESG principles, aiming at increasing the competitiveness to meet the global standards. These initiatives entail the establishment of pertinent policies and regulatory frameworks, as well as substantial funding directed towards promoting green growth and low-carbon transition. In addition, the provision of relevant data and reports is crucial in assessing and accounting the carbon emission level in accordance with international best practices. These concerted green efforts underscore the determination to champion sustainability agenda, positioning Malaysia as the frontier among the developing countries.

As aspired by the Ekonomi MADANI framework, efforts will be directed towards asserting Malaysia's position as the leader in driving innovations for the global Islamic economy. At present, the global halal market is estimated to reach a staggering USD7.7 trillion by 2025. This creates a golden opportunity for Malaysia to secure a more substantial share of the global halal market by enhancing the competitiveness of domestic halal industry. The strategy encompasses a comprehensive array of *halalan toyyiban* activities and Islamic financial

innovation, pursuant to the *Maqasid Shariah* principles. Thus, emphasis will be placed on streamlining the halal certification process, providing financial support mechanisms to boost innovation and productivity, and intensifying marketing strategies to penetrate both local and international markets. As Malaysia enjoys a mature Islamic finance ecosystem with dynamic players, innovative Shariah-compliant products and comprehensive enabling environment, efforts will be geared towards utilising the value-based finance to support the halal industry. This strategic cluster will not only bolster Malaysia's global leadership in Islamic finance and halal industries, but also reinforce its prominence of the halal ecosystem.

Optimal land use is central in safeguarding food security in Malaysia, which will influence production levels that contribute towards the sustainability of food supply. Given the significant impact of food prices amid the rising cost of living, the Government is committed to promote a higher SSR across a broader spectrum of food items. The initiatives include optimising the use of existing plantations, expanding food crop areas, and diversifying land use by repurposing idle land into productive farmland for food crops. Furthermore, the Government aims to bolster the resilience of the agro-food sector through the adoption of agricultural technology, with a specific focus on enhancing smallholder productivity. Thus, the Government will continue to provide financial support in incentivising farmers and investors to engage in food crop cultivation and adopting modern agricultural technology applications. These measures will reduce Malaysia's dependence on food imports and minimise reliance on migrant labour, bolstering self-reliance and reinforcing food security for the nation.

Focus 2: Raising the Rakyat's Standard of Living through Social Justice

In improving the wellbeing of the rakyat, the Government remains steadfast in its commitment to fortify and target social assistance programmes, particularly for the vulnerable groups. This entails enhancing existing initiatives such as cash transfers, in-kind assistance, subsidies as well as income protection and retirement programmes. Furthermore, social insurance programmes will undergo enhancements to expand coverage, guaranteeing that Malaysians accumulate sufficient retirement savings. Efforts will also be continued to strengthen labour market interventions through retraining programmes, hence safeguarding employment prospects for workers amid adverse circumstances. The overarching goal is to maintain an inclusive and equitable social protection system that shields the rakyat from the burdens of rising living costs and unforeseen hardships. These measures reflect the Government's commitment to deliver social protection more efficiently and cohesively, ensuring cost-effectiveness while minimising fragmentation and the likelihood of inclusion and exclusion errors.

Despite the formalisation of many informal sector participants during the COVID-19 pandemic, the Government is committed to enhance the wellbeing of informal sector workers particularly in the context of social insurance and protection. To achieve this goal, the Government will promote greater coverage of self-employed individuals, including gig workers in the informal sector, contributing to the Self-Employment Social Security Act 2017 [Act 789] and retirement schemes. This step will ensure these workers have a robust safety net and protection during unforeseen circumstances.

Additionally, to promote ease of doing business, regulations related to business and licensing approvals will be enhanced to encourage and streamline the formal sector business registrations and employment processes. This comprehensive approach aims to strengthen social security and promote a thriving formal sector for the benefit of all stakeholders.

The Government remains committed to provide equal opportunities for all segments of society, irrespective of gender, race, or income group. Recognising the importance of enhancing skills among specific groups, a particular focus will be given to women and youth to bolster the employability and income prospects. Measures will be undertaken to provide a more conducive working environment to further support women participation in economic activities and encourage mothers to return to work. This includes simplifying registration processes, establishing additional childcare facilities at workplace, and reinforcing flexible working arrangements. Furthermore, employment rules and regulations will be reviewed to protect and increase the wellbeing of women employees. In line with this effort, the Government aims to streamline workplace facilities and infrastructure to be more inclusive, sensitive to disabilities, and gender-responsive. Additionally, efforts will continue to be focused on the Bumiputera Empowerment Agenda while providing sufficient support to all ethnicities to promote the rakyat's upward mobility. These holistic measures reflect Malaysia's commitment in fostering a society where every individual can thrive and contribute to the nation's prosperity.

Education and training are central in building workforce readiness. Hence, the Government is committed to ensure universal access to high-quality education and training. The

teaching and learning delivery system will be reformed to ensure learners gain knowledge and skills that are aligned with employment needs. Furthermore, adequate funding will be provided to ensure continuous access to quality education. Basic education will be strengthened to improve child development from the early stage. School facilities and infrastructure will be upgraded, particularly in dilapidated schools. Internet connectivity will also be improved to facilitate online learning. Likewise, tertiary programme curriculum will be tailored to be more demand-driven through strategic collaborations with industry players, ensuring graduates are industry-ready. Additionally, lifelong learning programmes will be enhanced, providing upskilling and retraining initiatives to keep the workforce up-to-date with the rapidly evolving market demands, nurturing a highly skilled and adaptable workforce.

Increasing healthcare quality continues to be a priority, focusing on rendering quality healthcare services. Hence, facilities and equipment will be upgraded as well as ensuring an adequate number of healthcare professionals, particularly those in the rural areas, to create a conducive healthcare environment. Meanwhile, care services will also be enhanced as Malaysia is moving towards an ageing nation. The healthcare programmes for the elderly will be strengthened and healthcare services will be digitalised. Additionally, early detection initiatives and efficient responses to infectious disease outbreaks will be continued with the establishment of the National Disease Control Centre. Mental and emotional wellbeing awareness programmes will be sustained, and the community-based healthcare system will be empowered, ultimately improving the overall quality of life for Malaysians.

FEATURE ARTICLE 1.2

Towards Equitable Development: Targeted Social Assistance

Introduction

The aftermath of the COVID-19 pandemic has had a profound impact on the population, posing greater challenges to the recovery journey. This is especially true for individuals and families in poor and vulnerable households, as emphasised in the Malaysia Economic Monitor by the World Bank in February 2023. Several studies highlighted that pre-existing issues particularly on cost of living, low savings rate and low wages that were evident even before the pandemic, have been further exacerbated. Consequently, these factors continue to impede the progress of household recovery efforts. Higher prices posed challenges to households with varying degrees of severity among different income groups. Lower-income households allocate a larger portion or 23.1% of their monthly expenditure to food, in contrast to middle-income (17.1%) and higher-income households (11.2%) (DOSM, 2022). This discrepancy implies that when inflation primarily affects prices of food items, it will disproportionately affect the lower-income households making them more susceptible to the pressure of cost of living (BNM, 2018).

The cost of living has also contributed to the low savings rate further influencing the ability of households to withstand economic shocks. A survey conducted in 2022 revealed that 63% of respondents can only survive three months (RinggitPlus, 2022) or less with their savings, compared with 53% in 2019 (RinggitPlus, 2019). This suggests that the number of respondents with dire emergency savings has increased. When it comes to retirement savings, a substantial 51.5% (equivalent to 6.7 million) of Employees Provident Fund (EPF) members under the age of 55 presently maintain remarkably low savings, amounting to less than RM10,000 (BNM, 2023). This situation points to a further decline in the sufficiency of retirement savings since the pandemic. Prior to the pandemic, it was noted that 70% of EPF members below the age of 54 have less than RM50,000 in savings, with the bottom 20% averaging a mere RM6,909 – a level of concern that was already noteworthy as EPF members at the age of 55 are required to have basic savings of at least RM240,000 (EPF, 2019).

Further to this, wages in Malaysia remain low and sticky. The Department of Statistics Malaysia (DOSM) through Employee Wages Statistics (Formal Sector) Report revealed that in the first quarter 2023, 35% of workers earn less than RM2,000 a month. The report also showed that the median wage does not increase much across age groups, with those below 20 years old earning a median wage of RM1,500 a month and reaching RM3,500 between ages 45 and 49.

The confluence of issues above can pose an economic shock to vulnerable individuals and be detrimental for their overall wellbeing. To cushion these effects, social protection is needed to act as an economic stabiliser to safeguard the wellbeing of the rakyat. This paper will provide insights into the relationship between cash transfer-based social assistance and household resilience as an avenue to strengthen the social protection system. The following sections will share potential policy intervention to improve the wellbeing of the rakyat. By reviewing Malaysia's social assistance framework and drawing from global best practices, the Government will provide a potential roadmap for the development and implementation of a more targeted, comprehensive and sustainable social assistance policy.

What is social protection?

The International Labour Organization (ILO) defines social protection as the set of public measures that a society provides for its members to protect them against economic and social distress. The definition often varies from one country to another due to diverse range of initiatives falling under the umbrella of social protection. To make a distinction, the social protection system in Malaysia consists of three broad areas, namely social assistance, social insurance and labour market intervention as highlighted in Figure 1.2.1.

FIGURE 1.2.1. Malaysia's Social Protection Framework



Source: Ministry of Finance, Malaysia

Social assistance is designed to transfer resources to the right segments of the population (either cash transfer or in-kind transfer) which can be universal, categorical or income-tested. Social assistance also consists of subsidies offered by the Government such as fuel and food subsidies. Social insurance falls within the realms of EPF and Social Security Organisation (SOCSO) contributions in which employees and employers make on a regular basis as well as Government pensions. On the other hand, labour market intervention are policies that facilitate full or productive employment through Active Labour Market Policies (ALMPs), labour exchanges and market demands. This includes upskilling and reskilling programmes as well as wage subsidies that encourage labour mobility.

These three components combined make up the social protection framework. If conducted in tandem with each other, the positive externalities are wide ranging which include poverty reduction, economic stability, human capital development and social mobility, among others.

When designing a robust social protection framework, governments must ensure long-term sustainability and continuity. Countries capable of formulating universal social protection rely on governments with substantial and sustainable income-generation capacity. For countries with limited fiscal space, the policy design must be balanced accordingly. The comparison of existing social protection modalities across countries as shown in Table 1.2.1.

TABLE 1.2.1. Comparison of Social Protection Modalities

MODEL	NORDIC	ANGLO-SAXON	CONTINENTAL/ BISMARCKIAN	MEDITERRANEAN/ SOUTH
Country	Northern Europe and the North Atlantic includes Denmark, Finland, Iceland, Norway and Sweden	The United Kingdom, the United States, Canada, New Zealand, Australia and Ireland	Germany, Austria, Switzerland and Czech Republic	Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia
Poverty Rate	Low	Low	Medium	High
Taxation Rate	High	Medium	Medium/High	Low
Key Features	Comprehensive assistance ⁶ coverage funded by the governments	Combination of targeted assistance and comprehensive assistance	Some social assistance programmes but heavily supported with social insurance and labour market intervention	Mostly catered by family unit welfare system however the government does have cash assistance for the elderly
Main Funding	Solely government	Combination of government and citizens (social insurance programmes)	Dependency on social insurance	Government, private sector and informal (family transfers)
Advantages	Thorough and progressive	Comprehensive given the low taxation rates	Favours the working group in particular	Catered more towards the elderly
Disadvantages	Implementation may be difficult for developing countries	Can lead to lack of financing in the long term	May cause dependency on social insurance	Does not factor in other vulnerable groups beyond old age

Source: Popova et al. (2013)

Although Malaysia's current approach mirrors the Anglo-Saxon model, its coverage is more limited compared to what the model offers. This highlights the need for a review of the social protection policy and in particular Malaysia's social assistance (cash transfer) programmes.

The State of Social Assistance in Malaysia

An analysis of Malaysia's social assistance programmes has demonstrated several gaps that stem from two issues. First is due to the fragmented nature of social assistance programmes involving 167 schemes that are currently being implemented by 17 ministries and agencies. This fragmentation has led to overlapping programmes causing both inclusion and exclusion errors. According to a survey conducted in 2018 by UNICEF, it was found that 35% of families that received financial aid were not eligible (inclusion error) and more concerning, 34% of households did not receive financial aid despite being eligible (exclusion error) (UNICEF, 2018).

Second, Malaysia's social assistance programmes do not have legal commitments nor backed by strong financial resources resulting the programmes to be less sustainable in the long term. Apart from Sumbangan Tunai Rahmah (STR), most of the social assistance programmes are only targeted at the hardcore poor who are considered eligible based on the poverty line index. This may lead to some vulnerable households in the B40 groups being left behind.

For the year 2023, a total of RM63.8 billion (approximately 3% of GDP) is allocated for subsidies and social assistance. Almost 60% of the total allocation will be utilised for broad-based fuel and electricity subsidies, while the remaining is meant for social assistance mainly in the form of STR as well as assistance programmes for welfare and education. Although spending on subsidies and social assistance increases every year, its share to GDP for the period 2020 to 2022 is small, with an average of 2.2%. This figure is significantly smaller compared to OECD nations which typically spend 10% of GDP in 2022 (OECD, 2022) on cash benefits only.

The gaps in Malaysia's cash transfer-social assistance programme has also been highlighted in international indices such as the ILO's World Social Protection Report 2020 – 2022 (ILO, 2021) and Asian Development Banks' Social Protection Indicator (ADB, 2019). Malaysia received a social assistance score of 2.1¹ which lags significantly behind its ASEAN peers such as Singapore (100), Thailand (54.3), Viet Nam (24.6), The Philippines (22.4), and Indonesia (16.5). This score suggest that Malaysia has a coverage issue where certain segments of the vulnerable groups do not have adequate support in terms of cash transfer programmes.

Cash Transfers Still Remain Effective

Despite the current gaps in Malaysia's cash transfer programme, the effectiveness cannot be overlooked. A study conducted in 2017 on Malaysia's cash's transfer programme (ISIS, 2017) found that the Bantuan Rakyat 1 Malaysia (BR1M) has benefitted millions of recipients a year, helping to alleviate inequality by increasing the disposable income of B40 household groups and spurring local economic multipliers. Based on international standards, the scale of successful programme has generally been about 4% to 30% of household expenditure. While the amount of BR1M barely reaches the low end of the scale, it is more than enough to solidify its position in Malaysia's policy toolkit.

Globally, cash transfers continue to be an instrumental component of social assistance. Selected best practices are highlighted in the Table 1.2.2 which have been showcased by the World Bank, ILO, OECD and UNICEF as successful cash transfer programmes.

There are some key findings that can be observed based on the above programmes. Most importantly, social assistance have positive spillover effects beyond economic stability. Looking at the cases of Brazil and Mexico, the cash transfer programmes not only provided monetary support to low-income families, but its conditionality factor played a crucial role in enhancing years of education and health among children. The Australian and Kenyan experience highlights that categorical cash transfers can assist the most vulnerable groups throughout their life cycle

¹ Proportion of vulnerable persons receiving benefits: ratio of social assistance cash benefits recipients to the total number of vulnerable persons.

TABLE 1.2.2. Global Best Practices

NATION	AUSTRALIA	MEXICO	BRAZIL	THAILAND	KENYA
Name of Programme	Income Support Programme	Prospera	Bolsa Familia	Thailand's Child Support Grant	National Safety Net Programme (NSNP)
Target Group	Elderly, people with disability, children and caregivers	Children	Children	Children	Hardcore poor, children, people with disability and elderly
Innovative Approach	Categorical targeting the most vulnerable groups of the population	Conditionality based on school attendance and doctor check ups	Conditionality on school attendance and vaccination	Shift to universal targeting	Categorical targeting the most vulnerable groups of the population
Impact	Solidified the government's commitment to build a strong social security safety net that protects vulnerable Australians	Additional 12 months of schooling and decline of 11.8 percentage points in the incidence of anaemia among children under age two	Inequality has been cut by 17% in just five years and the poverty rate has fallen from 42.7% to 28.8%	Thailand is at an inflection point where the government can afford universal child allowance due to the birth rate decline. Opportunity cost for nurturing children	Cash transfers have positive impacts without creating dependency. Beneficiary households are less likely to be extremely poor as they use the aid for food and health expenditure
Cost of Programme (% of GDP)	8.2	0.4	0.4	0.2	0.3

Source: World Bank, ILO, OECD and UNICEF (2013, 2014, 2022)

where beneficiaries were shown to spend the aid on necessities such as food and health. Thailand's child allowance is a recent example of universality as they provide cash transfers for all children regardless of income to protect the future generation. The decision by Thailand's Government is supported by a growing body of evidence which found that cash transfers for children, even relatively small amounts, can improve child health, nutrition and development (National Library of Medicine, 2019).





Improving Malaysia's Cash Transfer Programme

Malaysia has made significant progress in its developmental journey since 1957. With the onset of the New Economic Policy followed by the National Development Policy, National Vision Policy, Malaysia's Shared Prosperity Vision of 2030 and most recently Malaysia MADANI, the country continues to make headways in achieving its goal of becoming a high-income and inclusive economy.

As the country develops and transitions, the social assistance programme should also evolve to reflect the development path of Malaysia. Such plans and efforts for more effective social assistance are highlighted in the Twelfth Malaysian Plan and are also aligned with the Sustainable Development Goals (SDGs). Specifically, they will contribute to achieving the target of SDG1 (no poverty), and SDG10 (reduced inequalities).

Malaysia’s current cash transfer programme is focused more on charity-based models which can leave certain segments of the population without adequate coverage. For instance, although Malaysia provides child and elderly allowances, it only targets the hardcore poor population as shown in Figure 1.2.2.

FIGURE 1.2.2. Current Coverage of Cash Assistance Programmes by Household Income Excluding STR

	HARDCORE POOR	B40	M40	T20
 Children	✓	✗	✗	✗
 Pregnant Women	✗	✗	✗	✗
 People with Disability	✓	✓	✓	✓
 Elderly	✓	✗	✗	✗

Source: Ministry of Women, Family and Community Development, Malaysia

It is imperative for Malaysia to transition from narrowly-targeted and stigmatising approaches to a more comprehensive developmental programme. In other words, instead of explicitly targeting poverty, focus will be given on addressing underlying vulnerabilities. In this regard, risks associated with the life cycle such as: childhood, maternity and old-age; coupled with the risks of disability can be targeted with a more holistic cash transfer programme. The shift into this developmental model can help reduce exclusion errors associated with poverty targeting whilst allowing for administrative simplicity and efficiency. The developmental model can also improve social contracts² as the Government can uphold its responsibility to safeguard the wellbeing and security of citizens since anyone can become vulnerable at any point of their life.

Moving forward, a potential developmental model comprised of a combination of income-tested as well as categorical base programmes can be an optimal solution in addressing vulnerable groups. An example of such a model is shown in Table 1.2.3.

² Building trust between Government and citizens. Social contract in a country impacts the design of social protection programmes and the awareness process.

TABLE 1.2.3. Example of Monthly Cash Transfer Programmes

PROPOSED PROGRAMME	TARGET GROUP	CONDITIONALITY
INCOME-TESTED		
Hardcore Poor Allowance	Households earning less than RM1,198 a month (hardcore poor)	Must submit a tax file and be verified by IRB
Low Income Allowance	All B40 households	
CATEGORICAL		
Child Allowance	All children below 6 and those enrolled in public schools only	Programme allowed to continue the following year based on vaccination and school enrolment.
Old Person Allowance	All elderly people aged 65 and above	None
Maternity Allowance	All pregnant women	None
People with Disability Allowance	Those registered under JKM	None

Source: Ministry of Finance, Malaysia

Transforming Social Assistance Delivery to Ensure No One is Left Behind

It is crucial for the Government to relook, reform and redesign the delivery of social assistance, particularly cash transfers to ensure inclusive and equitable protection. This includes introducing an overarching act to oversee social protection as a whole for social assistance, social insurance and labour market intervention. Without this act, accountability of social assistance programmes in particular, will continue to remain ambiguous and thus impacting effective implementation, including cash transfer programmes.

The implementation of cash transfer programmes can be centralised under a single existing agency to address fragmentation issues, reduce implementation costs and standardise eligibility criteria for income-tested aid. The proposed agency can also act as the primary access point to social assistance services where potential beneficiaries can apply via a simplified application process.

To ensure successful implementation, an autonomous data management approach is needed to automate, consolidate and integrate all data management tasks, which can reduce inadvertent errors. This necessitates the establishment of data classification framework to safeguard privacy within data sharing arrangements as well as to ensure data integrity and adherence to standard data formats.

Most importantly, in achieving inclusive and equitable protection for all, the key determinants are commitment, consistency and political will to conduct a rationalisation exercise. The Government is cognisant that rationalising subsidies in total at this juncture may have an adverse impact

on citizens by elevating their cost of living. However, to remain fiscally responsible, a staggered process should be adopted via a two-pronged approach by first reviewing and consolidating existing cash transfer programmes followed by subsidy rationalisation and widen the revenue base.

Conclusion

The shift to the developmental cash transfer programme will ensure support and assistance to vulnerable individuals and families according to their life cycles and household circumstances in line with the spirit of the Ekonomi MADANI framework. The programme will also provide a broad and long-term approach as compared to the existing programmes that primarily focus on meeting immediate basic needs. In addition, the programme can have a significant impact on social mobility, reducing income inequality, and fostering overall economic development. To begin this endeavour, we will require the commitment and consistency of a unified Malaysia to advocate for better social assistance. For without commitment, we will never start and without consistency we will never finish.

The Government is dedicated in ensuring that every segment of society benefits from the nation's economic prosperity, irrespective of gender, ethnicity, socio-economic status, or geographical location. Currently, there exists a disparity between the market price of houses and what is affordable by the rakyat. To enhance access to affordable housing, the Government will streamline and accelerate the development of affordable housing in strategic locations, including for Program Rumah Mesra Rakyat, Residensi Wilayah, and Program Perumahan Rakyat (PPR). Moreover, the progressive initiative will be continued under the National Housing Policy (2018 – 2025), which outlines specific parameters related to housing supply, particularly affordable housing. Hence, strategic collaborations with financial institutions will be strengthened to offer attractive, flexible, and innovative financing schemes. In addition, a review of existing housing financing programmes is required, ensuring sustainable housing solutions for low and middle-income households to attain affordable homes.

As Malaysia strives to attain high-income status, the efficiency of the transportation and logistics sectors is paramount to achieve increased productivity and growth through enhanced connectivity. Therefore, the

Government is committed to the development of sustainable, integrated, safe, reliable and affordable transportation and logistics infrastructure. These robust infrastructures not only facilitate seamless mobility but also promote clean, convenient, and efficient modes of transport and adaptive to climate change. In addition, availability of world class infrastructure such as airports, ports, highways and railways further reinforce Malaysia's attractiveness as a preferred investment destination. Thus, it is imperative that the quality of transportation and logistics infrastructure is elevated, as it lays the foundation for long-term economic growth and the wellbeing of the rakyat.

In line with the commitment to create a more liveable environment, the provision of basic amenities will be prioritised, aimed at providing high-quality, gender-sensitive, disability-friendly, and elderly-supportive infrastructure. This includes ensuring access to treated clean water and energy supply, particularly in rural areas of Kelantan, Sabah and Sarawak. To guarantee the safety and security of the public infrastructure, regular maintenance and upgrading will be undertaken. Additionally, efforts to expand affordable internet access will be pursued.

Efforts also will be intensified to attract high-quality investments that generate well-paying jobs. Strategies to expedite the automation and adoption of advanced technologies in production processes will be strengthened to boost productivity. Meanwhile, the review of the minimum wage is expected to uplift the livelihoods of low-paid workers, reflecting continuous commitment towards higher and fair compensation. Additionally, employers should view higher wages as catalysts for business productivity growth³, encouraging engagement of the locals in 3D jobs and reducing dependence on low-skilled foreign workers. These measures collectively aim to bolster earnings, thereby empowering the workforce and fostering social mobility.

Focus 3: Good Governance through Efficient Service Delivery

An effective governance ecosystem that is centred on efficiency, integrity, and transparency principles, demands unwavering commitment from all stakeholders. Thus, the initiatives under the Budget 2024 will concentrate on reforming the ecosystem such as fortifying parliamentary and legal institutions; digitalising government services; reinforcing social resilience; ensuring fiscal sustainability; enhancing legislations; and optimising public service delivery.

At the institutional level, the primary objective is to fortify democratic elements through systematic integration of public consultation processes, transparent channels of communication, and rigorous quality audits. These initiatives will raise awareness on new and existing policies as well as gain support from all stakeholders and public to be more engaged in policy formulation and implementation process. Furthermore, special attention will be given to protect and promote children's rights, aligning with the international commitments under the United

Nations' Convention on the Rights of the Child. Meanwhile, to bolster access to legal aid services, particularly in rural areas of Sabah and Sarawak, effort will be undertaken to raise the understanding of the rakyat on the country's legal and judicial institutions.

Recognising the vital role of social protection in bolstering community resilience, the Government is committed to augment the efficiency and effectiveness of various implementing agencies through the *Pangkalan Data Utama* (PADU) as the national repository of socioeconomic data. This strategy is crucial to support accurate and transparent distribution of socioeconomic assistance and targeted subsidies in eradicating poverty, thus enhance the social protection system within the society.

An effective fiscal policy requires a proactive and more holistic approach of fiscal management, encompassing prudent measures, credible institutional and governance structure, as well as transparent reporting. Therefore, the Government's fiscal policy is aimed at strengthening public finances and rebuilding fiscal buffers to supporting the economic growth. The Government will continue to pursuing fiscal reform initiatives by enacting the FRA, enhancing revenue mobilisation, broadening the tax base, optimising expenditures effectively, and formulating the Government Procurement Act (GPA), guided by the Medium-Term Fiscal Framework. These efforts are aimed at ensuring long-term fiscal sustainability and supporting the nation's development agenda.

Enhancing governance with strong ethical foundations, as well as fostering accountability, transparency and integrity among public servants, is vital in serving the interests of the nation. As outlined in the National Anti-Corruption Plan (NACP) 2019 – 2023, the Government will intensify efforts to combat corruption mainly by upholding the rule of law,

³ Analysis by EU-ERA in 2022 showed that increasing wages can create a positive cycle where higher wages lead to increased productivity. Every percentage increase in wages could expand labour productivity by 2.2% compared to every percentage increase in labour productivity will merely increase wages by 0.2%.

restructuring the public service administration, fostering the concept of good governance and integrity within the business environment.

In boosting the productivity and efficiency of public services, it is imperative to foster the culture of innovation, active public engagement, inter-agency collaboration, and effective leadership. Efforts will emphasise on streamlining the functions and roles of agencies, empowering governance, reducing bureaucracy, enforcing accountability, promoting transparency, and enhancing public trust. Furthermore, the Budget 2024 will empower the Special Task Force on Agency Reform (STAR) to continue its effort on improving efficiency of work processes and encouraging collaborative efforts among ministries and agencies.

The Government remains steadfast towards digital transformation through process re-engineering, as evidenced by the implementation of Government Technology (GovTech). Public services that are people-centric, readily available, efficient, transparent, and user-friendly are the driving force behind this strategic approach. The Government will focus on single digital identity initiative, which facilitate self-verification and identification via online services. This aspiration will fortify the Government's commitment to effective governance and prudent resource allocation.

Conclusion

The nation's strong economic fundamentals coupled with strategies and programmes as outlined in the Budget 2024, will continue to support the momentum of the economy to grow with the estimated range of 4% to 5% in 2024. Hence, the Ekonomi MADANI framework, which aimed at building a better Malaysia together, underscores the collective commitment and dedication from all stakeholders to ensure the successful realisation of the economic development goals and national aspirations. In this context, the Government will facilitate industry transformation and productivity growth through the formulation of evidence-based policies and the provision of a conducive business environment.

The Budget 2024 will prioritise initiatives that nurture future generation and improve standard of living. The Government will focus on efficiency in the implementation of initiatives and programmes through empowering good governance and fostering an agile public service delivery. Collectively, adopting a whole-of-nation approach will elevate the overall competitiveness and safeguard the nation's wealth, ultimately enhancing the wellbeing of the rakyat towards sustainable, prosperous, and high-income nation.

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