CHAPTER 1

Economic Management and Prospects

CHAPTER 1

Economic Management and Prospects

Ekonomi MADANI: Prosperous Nation for the Well-Being of the Rakyat

Serving as a catalyst for reform initiatives, the Ekonomi MADANI framework provides a policy direction, aimed at addressing structural economic issues, advancing economic and fiscal sustainability ultimately leading to improving the rakyat's well-being. The implementation of the Framework is supported by the rollout of strategies outlined in several policy documents, notably the Mid-Term Review of the Twelfth Malaysia Plan, 2021 – 2025, the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030). Together, these policies form a cohesive action plan to boost Malaysia's competitiveness and economic resilience to achieve sustainable and inclusive growth towards becoming a high-income nation.

The Budget 2024 strategically allocates resources towards achieving the seven key performance indicators of the Framework as shown in Figure 1.1, which have been divided into three main focus areas, namely 'Good Governance' for service agility; 'Raising the Ceiling' for boosting economic growth; and 'Raising the Floor' for lifting the rakyat's standard of living. Despite global challenges, the bold efforts under the Framework to restructure the economy, including measures announced in the Budget, have facilitated Malaysia's continued economic expansion. Overall, this has laid a strong foundation for continued growth and development, setting Malaysia on the path towards a more resilient and sustainable future.

FIGURE 1.1. *Seven Key Performance Indicators*

Source: Prime Minister's Office of Malaysia

Seven Key Performance Indicators

Top 30 Largest Economy

Presently, Malaysia is ranked as the 36th largest economy in the world with a nominal GDP of USD415.6 billion compared to United Arab Emirates (USD504.2 billion) at the 30th position (IMF, 2024). Malaysia aims to achieve substantial headway to be among the top 30 largest economies, focusing on meaningful regionalisation, prioritising economic complexities and moving up the value chain. Concurrently, economic structural reforms are also being actively implemented to speed up the transition towards achieving the country's goal of becoming a high-income economy.

In pursuit of this aim, Malaysia is investing in human capital, infrastructure and technology, while boosting competitiveness and modernising institutions. One of the main priorities will be continuing to promote investment in advanced technologies such as blockchain, artificial intelligence (AI) and big data analytics, aimed at advancing high-value industries and creating skilled and high-income jobs. To date, the country has successfully attracted large FDI focused on the global AI boom with foreign technology companies such as Microsoft, ByteDance and Google. At the same time, focus is given to strengthen the domestic direct investment (DDI) as per the Government-linked Enterprises Activation and Reform Programme (GEAR-uP) in which RM120 billion will be invested by government-linked investment companies (GLICs) and government-linked companies (GLCs).

Top 12 in Global Competitiveness

Malaysia was ranked 10th in 2010 by the World Competitiveness Ranking (WCR) of the International Institute for Management Development (IMD). Since then, the country has experienced gradual descent in its position, dropping to 34th in 2024. As Malaysia aims to be ranked among the top 12 in global competitiveness, it is vital for the country to reassess its strategies and focus on diversifying its economy as well as boosting innovation through investments in R&D. Recognising the importance of a favourable business environment, streamlining business regulations and enhancing digital infrastructure will also be crucial in facilitating businesses to benefit from a wider market access. In addition, continuous private sector engagements are crucial in shaping effective regulatory reforms, especially in providing constant feedback on policies that are practical and relevant to the needs of businesses and the public.

Top 25 on the Human Development Index

The Human Development Index (HDI) assesses and compares countries' overall development and well-being which provides a rounded view of human development. This incorporates key dimensions such as long and healthy life, being knowledgeable, and having decent standards of living. In the 2023/2024 HDI, with a score of 0.807, Malaysia ranked 63rd out of 191 countries and was categorised as 'Very High Human Development' (HDI of 0.800 and above), typically exhibiting high standards in life expectancy, education, and income. Even though Malaysia is within the same category as top-ranked nations such as Germany, Singapore, Australia, Republic of Korea and Japan, these countries scored higher than 0.920 and generally have advanced healthcare systems, high quality of life, and high-income economy. Hence, these countries serve as benchmarks for Malaysia in the effort to improve human development indicators, eventually reaching the top 25 of the HDI.

Increase Labour Income Share to 45%

The Ekonomi MADANI framework aspires to elevate the labour income share to 45% of GDP by 2033 in a bid for greater economic equity. In 2023, Malaysia's labour income share stood at 33.1%, which reflects a significant gap between the economic wealth generated and the equitable distribution to workers. To address this, Malaysia continues to implement various measures to enhance workers' income and welfare. These include promoting high-paying jobs and strengthening labour rights for fair compensation. Additionally, investing in education and skills development will help workers access better employment opportunities and advance their careers. By focusing on these initiatives, the Framework seeks to not only raise the labour income share but also drive a more inclusive economic growth trajectory.

Improve Malaysia's Position in the Corruption Perception Index to Top 25

Malaysia demonstrated significant performance in combatting corruption by an improvement in the Corruption Perception Index (CPI) ranking from 61st in 2022 to 57th in 2023, out of 180 countries. Towards achieving Malaysia's target to be among the top 25 nations in the CPI ranking, the Government launched the National Anti-Corruption Strategy (NACS) 2024 – 2028, in continuation of the National Anti-Corruption Plan 2019 – 2023. The NACS provides detailed framework and trajectory to combat corruption, aiming to strengthen integrity and accountability in the country. This effort also indicates the Government's commitment to tackle the detrimental impact of corruption, with the ultimate goal of promoting fairness and transparency in governance.

Towards Fiscal Sustainability, Targeting Deficit of 3%, or Better

In achieving fiscal sustainability, the Government needs to reassess the nation's priorities, especially by focusing on revenue enhancement mechanisms and improving spending efficiency. In 2023, Malaysia's budget deficit was 5% of GDP and is expected to be further reduced to 4.3% in 2024. This deficit level is expected to be improved to 3% or lower in the medium-term, by undertaking several key measures in line with the Public Finance and Fiscal Responsibility Act 2023 [Act 850] to enhance fiscal discipline and ensure sustainable public finances. This Act will ensure fiscal consolidation by enhancing revenue and balancing resource allocation efficiently, broadening the revenue base and the implementation of subsidy rationalisation to reduce leakages. The Government is also focusing on managing public debt by adhering to fiscal rules and targets.

Increase Female Labour Force Participation Rate to 60%

The Framework aims to boost the female labour force participation rate to 60% by 2033, which stood at 56.2% in 2023. The lower participation rate is due to several factors such as limited access to childcare, unattractive wages and insufficient support for work-life balance. To bridge this gap, comprehensive measures need to be further strengthened, including expanding affordable and high-quality childcare services, instituting flexible work arrangements, and enforcing policies that promote better wages. Additionally, initiatives to enhance women's access to professional development opportunities remain essential.

Outlook

Global Economy

The IMF projects global growth to be at 3.2% in 2024, despite the prolonged geopolitical tensions and a high interest rate environment. It is then expected to remain stable at 3.3% in 2025, driven by modest growth in trade and investment. Economic activities are more balanced across countries as cyclical factors dwindle and activities become better aligned with their economic potential. Global trade strengthened in the first half of 2024 and is expected to continue towards the end of the year and expand in 2025. Meanwhile, global inflation is projected to moderate, averaging 5.9% in 2024 and improve further to 4.4% in 2025. As inflationary pressures remain persistent, central banks will continue to adopt a careful stance on adjusting monetary policies.

Domestic Economy

In 2024, Malaysia's economy is forecast to expand between 4.8% and 5.3%. Growth will be propelled by robust domestic demand and recovery in exports. Consumer spending is expected to remain resilient, supported by improvements in labour market conditions and vibrant tourism-related activities. Investment will be driven by new and ongoing projects by both the private and public sectors, supported by the implementation of key national policies and initiatives, including the NETR and the NIMP 2030. From a sectoral perspective, the services and manufacturing sectors remain the primary engines of growth. Meanwhile, the construction sector is projected to achieve stellar performance, supported by a broad-based expansion across all subsectors.

The growth in 2025 is projected between 4.5% and 5.5%, supported by a resilient external sector, benefitting from improved global trade and stronger demand for E&E goods, leveraging the country's strategic position within the semiconductor supply chain. Additionally, robust domestic demand, fuelled by strong private sector expenditure, will support the expansion, through continued implementation of key national master plans and ongoing initiatives. A pertinent initiative which is GEAR-uP, will synergise efforts across government-linked entities to catalyse growth in high growth sectors, encompassing energy transition, advanced manufacturing, food security, healthcare, Islamic finance and biopharmaceuticals. The potential investment from this initiative is expected to amount to RM120 billion over the span of five years. On the production side, most sectors are expected to expand, highlighting the resilience and agility of Malaysia's economy.

Monetary and Financial Developments

The monetary policy continues to support economic growth while ensuring price stability. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% since May 2023. The domestic financial market, backed by a strong banking system and vibrant capital market, will continue to play a significant role as a financial intermediary to support the growth momentum. Meanwhile, the ringgit regained its traction reflecting increased investor confidence in the domestic economy, stemming from the articulated policy path by the Government through the Ekonomi MADANI framework. Moving forward, concerted efforts by financial regulators and industry players to offer wide range of innovative products including blended financing, new platforms such as social impact exchange and voluntary carbon market, as well as enhanced regulation and supervision, will further contribute to the resiliency of Malaysia's financial market.

Updates on Budget 2024

Budget 2024, themed 'Economic Reforms, Empowering the People' is the second MADANI Budget presented as a continuation of the Ekonomi MADANI framework, launched on 23 July 2023. All efforts are aligned to the seven key performance indicators and the three main focus areas of the Framework. The Government allocated RM393.8 billion, of which RM303.8 billion is for operating expenditure and RM90 billion for development expenditure. The Ministry of Finance, through Unit Pantau MADANI, monitors the overall budget performance that includes 376 strategic initiatives with an estimated allocation of RM100.2 billion, of which RM30 billion represents financing guarantees. As of end-July 2024, RM20.1 billion was spent to implement 305 initiatives, of which a total of RM16.9 billion was for the implementation of 50 high-impact initiatives, benefitting the rakyat.

Focus 1: Good Governance for Service Agility

In assessing the impact of various initiatives, several studies such as public expenditure review and tax reforms, as well as addressing inequality in Malaysia have been conducted on the need of institutional reforms to address key challenges. These studies include enhancing revenue sustainability, strengthening social protection, improving governance of GLCs, and managing national debt. Ongoing efforts aim to curb revenue leakage by streamlining tax incentives and optimising stamp duty collection. In addition, tax administration is bolstered through the simplified tax return process and centralised collection. Efforts are also underway to expand the social protection system, thereby increasing coverage for informal sector workers and senior citizens. In the effort to increase the financing mobilisation and efficiency of development financial institutions (DFIs), Bank Pembangunan Malaysia Berhad, SME Bank and EXIM Bank are being merged to streamline their functions. Furthermore, the venture capital ecosystem is strengthened by consolidating Penjana Kapital and Malaysia Venture Capital Management Berhad (MAVCAP) under Khazanah Nasional Berhad.

In an effort to improve efficiency in spending, the Government implemented subsidy rationalisation in phases, which include the chicken, egg and electricity subsidies. Meanwhile, the subsidised diesel price has been replaced with the Automatic Pricing Mechanism (APM). At the same time, the Government introduced the BUDI MADANI programme, which is to channel diesel subsidies to eligible groups in Peninsular Malaysia. As of end-July, around 120,000 applications have been approved, providing RM200 monthly or RM2,400 annual cash assistance to citizens owning individual diesel vehicles, as well as farmers, breeders, and registered commodity smallholders. The targeting of subsidy diesel and electricity tariffs are expected to save Government's spending by RM8 billion in 2024.

The Government has been continuously reforming its governance efforts, which includes the improvement of procurement processes to expedite project implementation. For instance, the threshold for direct appointment and quotation has been increased to RM200,000 and RM1 million, respectively, for the procurement of maintenance and repair works to upgrade dilapidated government clinics and facilities. This improvement delegates the authority to ministries in managing procurement within the revised limit.

Furthermore, the Government is committed to reduce bureaucracy and accelerate project delivery. To this end, the Special Task Force for Agency Reform (STAR), led by the Chief Secretary to the Government, has expedited project implementation aimed at addressing the issue of overcrowding at hospitals and improving the condition of schools and clinics. In 2024, STAR's mandate was expanded to include the acceleration of lift maintenance projects and refurbishment of civil servant quarters.

Focus 2: Restructuring the Economy to Boost Growth

One of the key policies that drives the national economy is the NIMP 2030, which is intended to boost the manufacturing sector and manufacturing-related services industry. Aimed at increasing value-added in manufacturing sector by 6.5% annually or reaching RM587.5 billion by 2030, Budget 2024 allocated RM200 million as seed funding. This allocation is targeted to catalyse the inflow of investments amounting to RM95 billion by 2030. To date, high-value industries especially semiconductor, data centres and cloud computing, have been attracting significant investments.

Essentially, the NETR outlines Malaysia's path to accelerate energy transition efforts for the nation, focusing on six key areas and 10 flagship pilot projects such as Hybrid Hydro Floating Solar, Integrated Renewable Energy Zone, and Biomass Co-Firing. To catalyse these energy transition projects, the Government established the RM2 billion National Energy Transition Facility (NETF). This facility is targeted to draw in investments that will shift Malaysia's energy industry towards a high-value green economy, contributing to the creation of jobs and reduction in greenhouse gas (GHG) emissions.

FEATURE ARTICLE 1.1

National Energy Transition Roadmap (NETR): Energising the Nation, Powering the Future

(In collaboration with Ministry of Economy, Malaysia)

Introduction

YAB Prime Minister in January 2023 launched six core values under the MADANI aspiration, namely Sustainability (keMampanan); Prosperity (kesejAhteraan); Innovation (Daya cipta); Respect (hormAt); Trust (keyakiNan); Care and compassion (Ihsan). The aspiration is being supported by the rollout of the Ekonomi MADANI framework, the Mid-Term Review of the Twelfth Malaysia Plan, 2021 – 2025 the National Energy Transition Roadmap (NETR), and the New Industrial Master Plan 2030 (NIMP 2030). These policies and roadmaps are designed to transform Malaysia into a sustainable and thriving nation, where the rights of individuals, society, and the environment are well-balanced and respected.

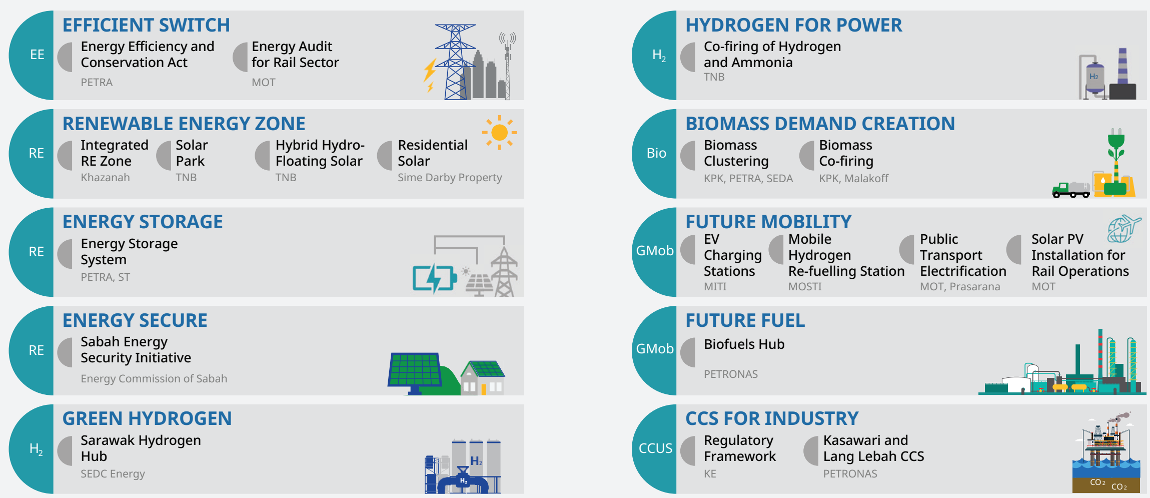
On the sustainable environmental front, Malaysia is committed to promoting low-carbon and climate-resilient policies, with energy transition serving as a crucial lever to accelerate these efforts. Energy transition is a structural shift in energy sector towards cleaner sources, increased use of renewable energy (RE), and a significant reduction in carbon emissions. The ongoing transition is expected to take place at an accelerated pace, driven by rapid technological progress and implementation of strong climate change policies. In response to the complexities of energy transition and the need to balance energy security, access to affordable energy, and environmental sustainability, the Government introduced the NETR in August 2023. The Roadmap, which works in parallel with the initiatives under the National Energy Policy (DTN) 2022 – 2040 and the NIMP 2030, aims to further amplify Malaysia's commitments to achieve the net-zero aspirations by 2050.

The NETR was developed to steer Malaysia's shift towards a high-value green economy. The Roadmap outlines 10 flagship catalyst projects and 50 key initiatives under six energy transition levers, namely energy efficiency (EE), RE, hydrogen, bioenergy, green mobility, as well as carbon capture, utilisation and storage (CCUS) to unlock economic opportunities and reduce carbon emissions. These flagship catalyst projects are championed by various entities, including PETRONAS, TNB, Khazanah, and SEDC Energy. The successful implementation of the NETR is expected to increase the GDP contribution from RM25 billion in 2023 to RM220 billion in 2050, with 310,000 job opportunities will be generated. It is also expected to reduce greenhouse gas (GHG) emissions by 32% in energy sector from 259 megatonne of carbon dioxide equivalent ($MtCO_2eq.$) in 2019. In addition, the Roadmap outlines the phasing out of coal as energy source by 2050, with natural gas being the primary contributor of the total primary energy supply mix at 56% while renewables, namely solar, hydro, and bioenergy contributing 23%.

Current Progress

The NETR flagship catalyst projects and initiatives, championed by different entities both in the public and private sectors, demonstrate the varying and unique approaches in advancing Malaysia's energy transition. The 10 flagship catalyst projects and initiatives serve as pathfinders to explore new economic opportunities in supporting the nation's green growth for climate resilience through energy transition. The projects and initiatives are illustrated in Figure 1.1.1.

FIGURE 1.1.1. *Flagship Catalyst Projects and Initiatives*



Source: Ministry of Economy, Malaysia

Most of the 10 flagship catalyst projects and initiatives implementation are on schedule. The Energy Efficiency and Conservation Act 2023 has been enacted, while the bill on CCUS is scheduled to be tabled by the end of 2024. Additionally, another notable progress is the completion in the construction and commision of 2% biomass co-firing system in Tanjung Bin Power Plant. The co-firing initiative with a target capacity of at least 15% biomass by 2027 is anticipated to substantially reduce CO_2 emissions, equivalent to planting approximately 141 million mature trees. The introduction of Corporate Renewable Energy Supply Scheme (CRESS) in July 2024 enabled the companies to supply or acquire green electricity through the national grid network system. The Scheme is an important enabler for several the NETR projects as an off-take mechanism.

Another significant progress is the development of the Large Scale Solar Photovoltaic (PV) Plant – Fifth Competitive Bidding Round offered by the Energy Commission in April 2024. These solar power plants with a total combined capacity of 2,000 megawatt (MW) are scheduled to commence operations in 2026. Likewise, TNB is advancing its RE initiatives with the commencement of the

Hybrid Hydro-Floating Solar PV project at its hydro dam lakes, with a total planned capacity of 2,500MW. This project, starting with an initial 30MW at the Chenderoh Hydro Dam in Perak, is set to expand to other locations, including the Temenggor Hydro Dam in Perak and Kenyir in Terengganu by 2027.

In addition, YAB Deputy Prime Minister Datuk Seri Fadillah Yusof during the 6th International Sustainable Energy Summit (ISES) in Kuala Lumpur in August 2024 has announced the allocation of up to 190MW of feed-in tariff (FiT) quota for biogas, biomass, and mini-hydro projects to diversify the RE generation sources.

Aligning with the NETR, the Government in Budget 2024 announced a few fiscal and non-fiscal initiatives. The announced initiatives and current progress are in Table 1.1.1.

TABLE 1.1.1. *The NETR Initiatives and Current Progress*

No.	Initiatives	Progress
1.	The Government will provide RM2 billion under the National Energy Transition Facility (NETF) through financial institutions to facilitate national energy transition initiatives.	Ministry of Economy in the midst of finalising the terms with strategic financial institution partners which will be concluded by the end of 2024.
2.	Improve the implementation of the Corporate Green Power Programme as one of the Third-Party Access (TPA) model implementation methods.	Ministry of Energy Transition and Water Transformation (PETRA) has announced the CRESS in July 2024 to enhance corporate companies' access to RE. Through the concept of open grid access, corporate companies can directly obtain RE from identified generators with TPA, and these RE generator can also supply renewable electricity to corporate users through TNB grid network with a set system access charge.
3.	The investment of more than RM170 million by leading companies such as TNB and Gentari to install 180 electric vehicles (EV) charging stations.	As of end-July 2024, 148 locations across the country are equipped with public EV charging stations. A total of 481 EV charging bays have been installed by TNB and Gentari.
4.	Introduced the Electric Motorcycle Usage Incentive Scheme to the rakyat with an annual income of below RM120,000 to encourage the use of electric motorcycles. This Scheme with an allocation of RM20 million provides up to RM2,400 rebate to buyers.	The scheme is open for online application since 8th December 2023 until 31st December 2024 or until all the RM20 million allocation for EV motorbikes rebates have been redeemed.
5.	Putrajaya will be modelled as Malaysia's low-carbon city. The installation of solar panels on the roof of Government buildings will begin through the collaboration with TNB and Gentari.	The solar installation and operation is expected to commence in fourth quarter of 2024. To date, 11 locations for the installation of solar PV systems have been identified.

Source: Ministry of Finance, Malaysia

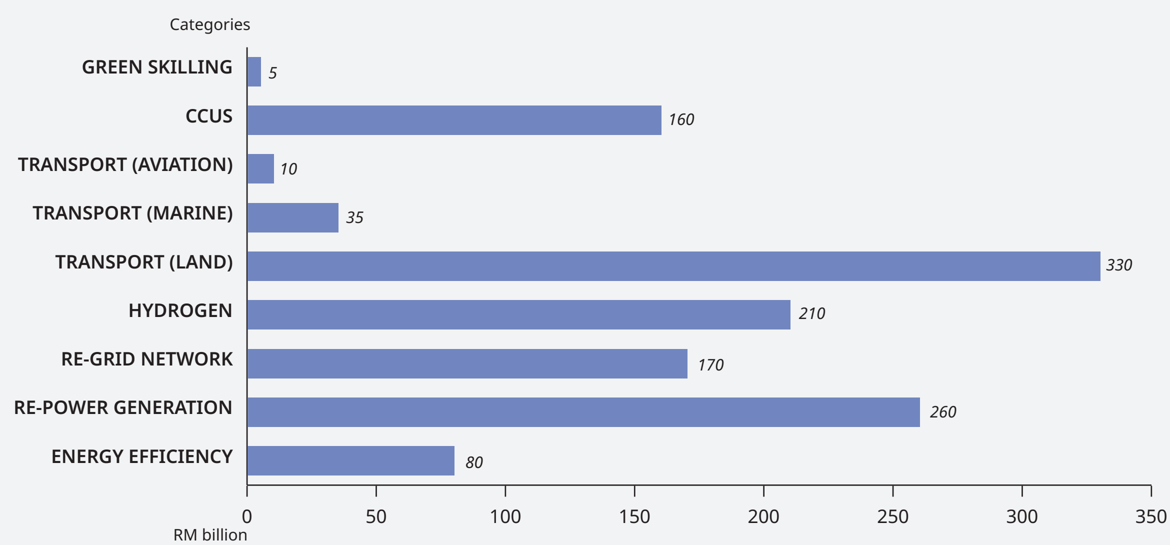
Moreover, several new policies and initiatives have been introduced to support the national energy transition agenda including the National Biomass Action Plan 2023 – 2030. The Plan focuses on biomass business models; financing mechanism and investment incentives; and commercialisation strategy, with the aim to harness abundant biomass resources to be converted into biofuel and bioenergy. Another initiative is the newly established Energy Exchange Malaysia that acts as a marketplace to enable the trading and exporting of green electricity to neighbouring countries through a bidding mechanism, which will further boost RE development and regional cooperation on cross-border energy trading. All in all, these initiatives underscore Malaysia's commitment to transition towards RE, benefitting both the environment and the economy.

Issues and Challenges

The NETR is envisioned as a catalyst to accelerate Malaysia's green and sustainable growth agenda. However, the realisation of this vision faces several key challenges, including the high cost of energy transition, lack of awareness and demand, technical and commercial feasibility issues, the undesirable consequences associated with fossil-fuel transitioning campaign on Malaysia's economy, as well as global uncertainties.

The high cost of energy transition, which requires total financing of at least RM1.2 trillion is one of the main challenges in achieving the targets outlined in the NETR by 2050. About 63% of this funding is primarily needed for RE and green mobility.[1] Investments in RE, which includes power generation and grid network will involve expanding solar PV and hydropower as well as enhancing grid infrastructure. Meanwhile, green mobility funding focuses on expanding public transportation, boosting domestic EV production, and increasing EV charging infrastructure. Significant investments are also necessary to scale up nascent hydrogen and CCUS technologies, alongside commitments to improve energy efficiency, advance sustainable aviation and marine transports, as well as establishing green skilling programmes. For a developing country like Malaysia, the required investment is simply too huge and taxing. Figure 1.1.2. below shows the energy transition financing needs:

FIGURE 1.1.2. *Malaysia's Energy Transition Financing Needs by Categories, 2023 – 2050*



Source: Ministry of Economy, Malaysia

[1] MoF classifies RE-Grid Network and RE-Power Generation as RE, whereas Transport (Aviation), Transport (Marine) and Transport (Land) as Green Mobility.

Another significant challenge is the lack of awareness and demand due to misconceptions on the benefits of transitioning to sustainable energy. It is often perceived that sustainable energy is costly and less reliable compared to conventional sources. This has resulted in the averseness of industries, businesses and households to invest and procure energy-efficient technology and products.

Both technical and commercial feasibility also pose significant challenges to the energy transition. Shortage of expertise, particularly in green technologies, and the high capital expenditure as well as scarcity of resources would further impede the pathway to net-zero. For example, in the production of hydrogen, the availability of electrolysers, as an essential component in splitting water, is limited in the global market. On another note, the development of the CCUS in Malaysia is yet to reach commercial scale, due to challenges arising from both the technology's nascent status and associated high cost.

Another inevitable challenge is the international commitment to move away from fossil fuels, as deliberated at the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC – COP28). This historic milestone has intensified the call to reduce investments in fossil fuel industries particularly in energy sector. While this supports the net-zero transition pathway, the challenges for Malaysia is to ensure the economic activities will not be affected with the call since energy is one of the key enablers for economic growth.

The successful implementation of the NETR could be further impeded by global uncertainties, including geopolitical conflicts, which may disrupt supply chains and slow down the transition effort. The uncertainties may also affect the appetite of investors for high-risk, capital-intensive investments in energy transition financing.

Way Forward

In response to the high cost of energy transition, Malaysia may need to consider a blended financing approach, which include equity crowdfunding, venture capital, philanthropic contributions, and multilateral development funds. The NETF, which was unveiled under Phase 2 of the NETR in August 2023, has been designed as a catalytic blended finance platform, aimed at expediting the mobilisation and deployment of capital. The Facility will enhance the accessibility of funds, streamline investment processes, and ensure a seamless financial flow to finance energy transition projects. The NETF also demonstrates the Government's commitment to support marginally-bankable projects or those yielding below-market returns due to varying barriers. This initiative could reduce investment risks and enhances its attractiveness.

The NETF establishes collaboration with strategic partners to support the following:

i. Improve project quality, reduce cost, and increase the likelihood of success of the projects or initiatives;

ii. Increase public-private partnership (PPP) and yield potential benefits such as efficient procurement, well-planned maintenance, and good service quality;

iii. Ease of access to private finance to reduce the total funding requirement for the project owners; and

iv. Expand opportunities for interested parties to participate in Malaysia's energy transition journey, including local lenders, investors, and new entrants.

Malaysia underscores the importance of substantial financial support and access to relevant technologies in its journey towards energy transition and economic transformation. Article 4.7 of the UNFCCC states that the ability of developing countries to fulfill their commitments is contingent on the obligations of developed countries to provide financial resources and technology transfers. Therefore, Malaysia remains consistent with the stance that developed nations have an obligation to provide funding and technology transfer to support Malaysia's transition.

As highlighted earlier, energy transition projects are still surrounded by apprehensions on the commercial viability, either due to being technologically immature or yet to reach commercial scale. However, acknowledging the potential for the projects to achieve commercial scale, government support is pertinent, both financial and non-financial, to accelerate the adoption and commercialisation of green technology, hence contributing to the nation's sustainable future.

Malaysia has taken a firm position that climate commitment should not entail reducing carbon emissions at the expense of economic growth, or vice versa. Instead, the country will take every opportunity to continue engaging all stakeholders and ensure every action, including the adoption of low-carbon technologies, contributes to sustainable development and supports a just transition.

Conclusion

The Government is committed towards ensuring energy transition that is fair, inclusive and equitable, while balancing the energy trilemma, namely energy security, affordability, and environmental sustainability. The NETR outlines the intended direction of the nation in exploring new energy sources, developing future capabilities and shaping market demand in a green economy. This further supports Malaysia's commitment to a just energy transition that benefits the rakyat, creates business opportunities and supports technological innovation through a whole-of-nation approach.

In line with the Putrajaya Low Carbon Green City initiative, 11 locations have been selected for solar roof installations through a collaboration between TNB and Gentari. These solar roofs help lower GHG emissions, decrease carbon footprint, support climate change mitigation efforts, thereby reducing operating costs. Moreover, the Government is also promoting the green economy through the development of a high-tech hub with the establishment of the Kerian Integrated Green Industrial Park (KIGIP). This park will provide opportunities to expand the E&E cluster by creating synergies in the northern region. Designed as a green and smart industrial model powered by renewable energy (RE), KIGIP will incorporate a 700 acre solar farm, contributing to Malaysia's 2050 net-zero aspiration.

Meanwhile, the Government provided over RM59 billion in grants, loans and financing guarantees for micro, small, and medium enterprises (MSMEs) to bolster business capacity and drive income growth. As of end-July 2024, a total of RM2.9 billion was approved for over 20,800 borrowers. In addition, the micro loan schemes under Bank Simpanan Nasional has provided RM245.7 million to over 6,500 borrowers, covering hawkers, traders, micro-entrepreneurs, gig workers and new graduates. Meanwhile, Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) has guaranteed 10,153 SMEs' loan financing with a total amount of RM10.9 billion. Syarikat Jaminan Kredit Perumahan Berhad (SJKP) has approved RM2.8 billion as a housing financing credit guarantee, benefitting 8,644 individuals.

Focus 3: Raising Rakyat's Standard of Living

In elevating the rakyat's standard of living to a more meaningful level, various measures have been laid out through cash assistances, financing facilities as well as the provision of seamless communication infrastructure and infostructure. The Government also enhanced the provision of cash transfers for the Sumbangan Tunai Rahmah (STR) programme, involving the allocation of RM8 billion, benefitting 8.5 million recipients in 2024. As of September 2024, RM5.3 billion has been disbursed in three phases. Additionally, the allocation for Sumbangan Asas Rahmah (SARA) rose to RM740 million from RM130 million, benefitting around 810,000 recipients. Concurrently, the Government expanded the Bantuan Awal Persekolahan (BAP) to all students, with an allocation of RM788.1 million, benefitting over 5 million students, covering a disbursement amount of RM775.6 million to ease school-related expenses.

Furthermore, to provide immediate flexibility for financial support, the Employees Provident Fund (EPF) introduced the Flexible Account in May 2024, allowing members to make withdrawals as needed. As of end-July 2024, the EPF has approved 3.28 million withdrawal applications totalling RM8 billion, representing 66.9% of the total Flexible Account balance. In addition, to ensure members' financial security after retirement, contribution to Account 1 was raised from 70% to 75%. Meanwhile, the Inisiatif Pendapatan Rakyat (IPR) received an additional RM500 million this year. As of end-July 2024, around 4,500 individuals have participated in the programme, with a total expenditure of RM337.3 million.

In bridging the rural-urban divide and expediting the implementation of essential projects in villages, the Government launched the Kampung Angkat MADANI initiative that covers provision of basic infrastructure and amenities. With a RM100 million allocation or up to RM2.5 million per village, the initiative aims to improve rural living conditions through a whole-of-nation approach. As of end-July 2024, RM86.3 million has been channelled to relevant ministries and agencies for project implementation in 43 villages. The Government has allocated RM1 billion for the Program Sejahtera Komuniti MADANI (SejaTi MADANI) for communities to generate income in the agriculture and food, sewing and handicrafts, herbal and health, tourism and hospitality, as well as green and recycling areas. Under this programme, grants ranging from RM50,000 to RM100,000 are provided to empower 10,000 communities through these areas.

Economic Management

Malaysia's economy will remain on a positive growth trajectory in 2024, driven by strong economic performance, despite ongoing uncertainties in the external environment. In response to these challenges, the Government is committed to support the economy towards becoming a prosperous nation through prudent fiscal policy, promoting value-based investments, and ensuring a resilient agricultural ecosystem. Similarly, the Government continues to enhance the country's competitiveness by promoting technology advancement, adopting circular economy principles for resource efficiency, and improving quality governance that drives innovation-led competitiveness. The Government also remains committed in ensuring the rakyat benefits from the nation's wealth and prosperity through sustainable and inclusive growth by addressing the low-wage structure, investing in quality infrastructure, and managing the rising cost of living, that supports economic growth and social stability. Together, these efforts create solid fundamentals for sustainable development and national prosperity.

Opportunities and Challenges

Prosperous Nation

Fiscal Sustainability

The Government continues to emphasise on prudent fiscal policy, while remain supportive of nations' development momentum towards realising the objectives of the Ekonomi MADANI framework. Nevertheless, the journey to rebuild fiscal buffer and ensure fiscal sustainability is even more challenging, with the global economy outlook clouded with geopolitical conflicts, heightened the risk to global trade and investment flows, as well as financial market and commodity prices volatilities. The Government has outlined comprehensive policy measures to enhance fiscal responsibility, particularly with the enforcement of Act 850 in managing public finances in a more accountable and transparent manner. Simultaneously, the stronger-than-expected economic growth coupled with stable inflation environment has enabled the Government to gradually intensify efforts to generate sustainable revenue stream and enhance spending efficiency, signifying commitment towards maintaining fiscal consolidation trajectory thus improving fiscal sustainability and debt management.

Value-based Investment

The country's diversified economy, vibrant manufacturing sector, seamless connectivity to global trade networks and supply chains, as well as strategic location within ASEAN present compelling investment opportunities. This is complemented by Malaysia's prominence in Islamic finance as well as the rising demand for green, social, and sustainability project-related financing in line with value-based investment, thus generating long-term financial returns while creating a positive impact on society and the environment.

Food Security

The agrofood subsector is still reliant on imports, as reflected by the two-fold increase in imports from RM38.8 billion in 2013 to RM78.7 billion in 2023. This poses a challenge which is crucial for Malaysia's food security. Consequently, Malaysia is exposed to global market risks, further complicating efforts towards self-sufficiency rate (SSR). For example, rice production fell from 1.6 million tonnes in 2022 to 1.4 million tonnes in 2023, while imports of rice rose to 1.3 million tonnes. In addition, mutton had the highest import dependency ratio (IDR) of 89.6% in 2023 with production of 4,368 tonnes and imports of 36,852 tonnes. The below target of SSR is further aggravated by, among others, poor irrigation, coupled with urbanisation and unsustainable farming practices that have led to land degradation. Economic challenges, including rising costs, market fluctuations, and limited access to technology have also hindered farming profitability. Against this backdrop, Malaysia can leverage the high growth high value (HGHV) initiatives to modernise the agriculture sector by adopting modern and low carbon agriculture as well as increasing the involvement of young agropreneurs.

Country's Competitiveness

Technological Enhancement

Technological enhancement brings challenges as it widens the digital divide across regions and socioeconomic groups. In bridging the inequalities, the Government rolled out fifth-generation (5G) infrastructure and internet connectivity and continued to further improve its coverage. With the rapidly evolving technological ecosystem, there is a need to strengthen governance and oversight to manage the risks, which include, data privacy, cybersecurity threats, and ethical issues. While technology impacting employment and displacing traditional jobs, it creates new opportunities in technology-centric jobs such as young technopreneur and digital nomad. Hence, continuous upskilling and retraining are pertinent to provide a balance ecosystem in ensuring competitiveness.

Circular Economy

Circular economy offers not only significant opportunities but also presents notable challenges. Malaysia can reduce waste generation by embracing circular practices such as recycling, reusing, and remanufacturing. The Government has launched the circular economy policies regarding waste management and manufacturing sector with the aim to address waste management challenges and promote green industrial practices across the value chain. Adopting circular business models encourages innovation for businesses to stay competitive in the global market by lowering production costs and offering sustainable products that meet international demand for eco-friendly solutions which align with the Sustainable Development Goals (SDGs) 2030 agenda. However, a comprehensive regulatory framework needs to be established to support the circular economy ecosystem. Therefore, concerted effort from various government agencies, industry players, and civil society is crucial to create a cohesive strategy.

INFORMATION BOX 1.1

Biochar: The Ripple Effect for Sustainability

(In collaboration with EXIM Bank)

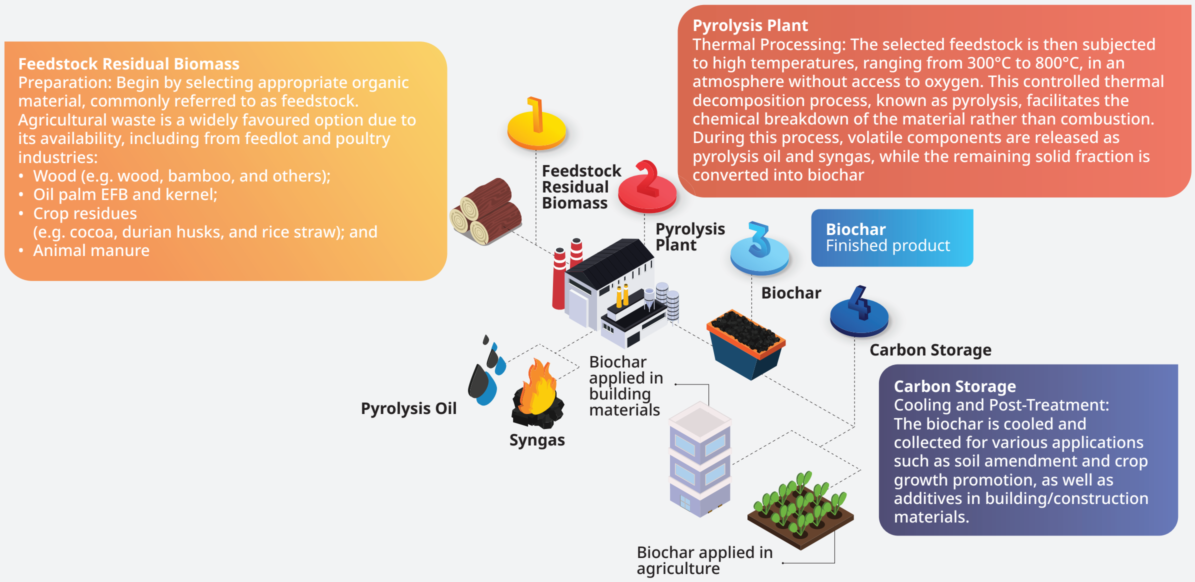
Malaysia is committed to achieving net-zero greenhouse gas (GHG) emissions by 2050 through various mitigation efforts to reduce carbon concentration from the atmosphere. Biochar has emerged as one of the solutions to address climate change and promote sustainable development particularly in managing organic agricultural waste disposal which is often disposed through environmentally harmful methods. International Biochar Initiative states that 2.6 gigatonnes of biochar could potentially store up to 6% of global emissions annually. This amount is equivalent to approximately three billion tonnes of carbon dioxide (CO_2), or the total annual emissions of 803 coal-fired power plants.

In addition, the National Biomass Action Plan 2023 – 2030 has identified the potential to optimise agricultural by-products such as oil palm empty fruit bunches (EFB), kernels, cocoa pod husk and pulp, rice straw, durian husks, as well as animal manure, to be converted into biochar. The utilisation of agricultural by-products, which help promote resource efficiency and reduce waste, is also generating additional revenue streams for farmers. Therefore, it could be worthwhile exploring the potential of the biochar industry in pivoting towards a bio-based economy and at the same time working towards achieving the net-zero emission target.

Biochar and Its Potential

Biochar is a charcoal produced by heating organic biomass such as wood, crop residues, or animal manure in an atmosphere without access to oxygen through a process called pyrolysis. This is also known as the Biochar Carbon Removal (BCR) process, scientifically termed Pyrogenic Carbon Capture and Storage (PyCCS), as illustrated in Figure 1.1.1.

FIGURE 1.1.1. *Biochar Carbon Removal Process*



Source: World Economic Forum

Biochar has been acknowledged for its role in emissions avoidance through multiple functions. In Malaysia, biochar's applications could potentially seize the following environmental opportunities:

Land Regeneration: Degraded lands, including those affected by deforestation, stand to gain considerably from the application of biochar. This versatile material boosts water retention, fosters the growth of beneficial microbes, and enhances soil structure, thereby facilitating the restoration of native vegetation and promoting biodiversity. The application of biochar offers a promising solution by improving soil health, which can lead to increased crop yields and contribute to a more sustainable and resilient industry. As Malaysia produces significant amounts of agricultural waste, such as EFB, instead of burning this waste, which leads to air pollution, it can be productively turned into biochar as part of the circular economy.

Repurpose Old Mining Sites: Abandoned mining sites often leave behind barren landscapes and contaminated soil. When applied as compost during forest restoration, biochar can promote the growth of plants and the remediation of contaminated soil. The increased vegetation cover can further reduce soil erosion and improve air quality.

Increase Biodiversity: Improved soil health fostered by biochar application can promote the growth of a wider variety of plant life. This increased biodiversity will further attract a wider array of pollinators, leading to a healthier ecosystem.

Reduce Water Pollution: The ability of biochar to absorb and retain nutrients can reduce agricultural runoff, which often carries pollutants into waterways. This has a positive impact on water quality and the health of aquatic ecosystems.

Enhance Climate Resilience: Biochar-amended soils can retain water more effectively, making them more drought-resistant. This is crucial in the face of climate change, where extreme weather events, such as drought, are expected to occur more frequently.

Global Biochar Development

Several countries have explored the potential of biochar in achieving net-zero GHG emissions. Some achievements and progress from selected countries are shown in table 1.1.1.

TABLE 1.1.1. *Selected Global Biochar Development Progress*

No	Region/Country	Progress
1.	**European Union**	Developed the European Biochar Certificate as the leading certificate standard for biochar production.
2.	**United States**	The Government has been funding biochar research, while private sector investments are pioneering large-scale biochar production and application projects.
3.	**Australia**	The Government has been supporting biochar research through various funding initiatives and policy frameworks aimed at promoting sustainable agriculture. Australia's Rural Research and Development Corporations provide financial support for biochar projects addressing key agricultural challenges.
4.	**Japan**	Integrates biochar into its waste management and climate change strategies.
5.	**South Korea**	Implements finance and policy-based actions to create infrastructure for a sustainable livestock manure-based biochar market.
6.	**Thailand**	Promotes the cultivation of biochar for small-scale farmers in Chiang Mai and has been able to turn food waste into biochar.

Source: Multiple sources

Biochar Opportunity in Malaysia

Malaysia could leverage the benefits of biochar by establishing a certified biochar plant to attract investment in promoting a biochar ecosystem that could create demand from potential local and international off-takers. In order to capitalise on biochar's potential in the country, among the practices that can be considered are:

1. Introduce a comprehensive framework for biochar industry, which outlines the policy, regulatory practices, and industry standards, to promote a sustainable biochar industry that aligns with the country's environmental and economic goals;

2. Develop certification programmes for biochar products and facilities to ensure quality control, assess the environmental impacts, and comply with safety regulations;

3. Foster strong partnerships in collaboration with leaders in biochar technology which can significantly advance the country's biochar sector. These partnerships can provide access to advanced technologies, best practices, and expertise to ensure high standards and effectiveness in biochar production; and

4. Strengthen public-private partnerships by forming strategic collaboration with prominent domestic and international players, including research institutions and industry experts to leverage their expertise, resources and technological advancement.

By leveraging opportunities and learning from the experiences of others, Malaysia can provide the platform to attract both investors and key ecosystem participants in the biochar sectors. This will demonstrate Malaysia's commitment to advancing sustainability and innovation.

Conclusion

Biochar offers a unique opportunity to advance Malaysia's green economy agenda and contribute to the nation's commitment to sustainable development. The potential of biochar as a new source of sustainable investment in Malaysia requires further understanding, highlighting the dual benefits of GHG storage and land rehabilitation. It is imperative that stakeholders across government, industry, and research institution to collaborate in driving this transformative agenda as a whole-of-nation effort. In this regard, Malaysia can create a ripple effect that not only enhances the nation's environmental resilience but also sets a global example of how integrated efforts can lead to substantial progress in combating climate change.

Quality Governance

The quality of governance depends on visionary leadership, effective policy implementation, efficient bureaucracy, and transparency. As the Government seeks to achieve a high-income nation status, quality governance is paramount to ensure economic stability and development progress. In this endeavour, Special Cabinet Committee on National Governance (JKKTN) is established to curb corruption, law reforms to modernise outdated regulations and institutional improvement. Corruption and lack of accountability could lead to inefficiencies and inequities enforcement of laws, compromised public trust, and hindered economic progress. Hence, the Government must strengthen institutional integrity, enhance public sector accountability, and promote wider engagement in governance processes.

Innovation-led Competitiveness

Innovation-led competitiveness requires businesses and economies to adapt to the rapidly evolving global market development. Malaysia has emerged 33rd out of 133 countries on Global Innovation Index (GII) 2024, its highest ranking since 2016. Malaysia remains second among the most innovative countries in the Upper Middle-Income Countries category and ranked first in three critical sub-indicators, namely graduates in sciences and engineering, high technology and creative product exports. Malaysia needs to continue boosting investment in R&D, which currently was 1% of GDP for Gross Domestic Expenditure on R&D (GERD). However, investing in innovation requires substantial financial resources, particularly in R&D due to the fast pace of technological advancements, necessitating continuous investment and adaptation to maintain a competitive edge.

Rakyat's Well-being

Wage Structure

On average, Malaysia has achieved significant economic growth over several decades. In line with this achievement, the Government has continuously implemented upskilling and retraining initiatives to meet industry demand and encourage wage increment. Furthermore, a pilot project on progressive wage policy has been introduced, which is also intended to increase wages in line with workers' performance. Despite these efforts, the labour market continues to face low wage levels, with median and mean wages rising by only around 4% annually[1]. The benefits of growth have not been equitably distributed among workers, as evidenced by stagnant labour income share. While the tripartite social consultation mechanism has effectively supported low-paid workers, certain segments of workers, particularly workers who are not represented by union, have not benefitted from structured wage increment[2] over the years. Therefore, institutional reform is essential to establish a more supportive mechanism, which can significantly improve the wage structure.

Cost of Living

Rising costs of food, housing, transportation, healthcare and education have contributed to the financial strain of households. These costs can be particularly burdensome for vulnerable families, making it harder for low- and middle-income households to save and invest as they spend a large proportion of their income on necessities. These situations have exacerbated socioeconomic disparities, impacting overall quality of life. The effect of rising cost has highlighted the need for comprehensive policy measures to improve living standards. Hence, initiatives by the Government, among others, the Payung RAHMAH initiative, STR, and targeted social assistance programmes, will cushion the impact of rising cost of living among the vulnerable groups.

Quality Infrastructure

Being the backbone of the country's development, the Government continuously prioritises upgrading infrastructure and expanding its network, particularly for federal and state roads as well as key infrastructure projects. However, quality infrastructure remains a challenge in the rural and underserved areas, contributing to regional disparities across regions in Malaysia. In addition, balanced development across the country is pertinent to ensure the rakyat has quality and reliable access to fundamental amenities such as treated water, electricity, internet connectivity, and transportation networks.

The Government is also steadfast in improving healthcare facilities and services whereby the healthcare sector was given high priority with an average share of 9.9% of total allocation over the last five years. While Malaysia's healthcare system is affordable and universally accessible, rising healthcare costs, emerging and re-emerging diseases, illnesses as well as sedentary lifestyles have posed a challenge in providing affordable and efficient public healthcare service. This highlights the need for comprehensive reforms to improve service quality and access, health insurance policy as well as public awareness towards healthy lifestyle.

The education sector faces issues, among others, dilapidated school facilities and the digital divide, particularly in remote areas. These issues have hampered effective teaching and learning and contribute to low student

[1] Median and mean wage growth for citizens during the period from 2010 to 2022 is 4.1% and 4.3%, respectively.
[2] Malaysia Trade Union Council (MTUC) on 17 August 2024 demanded employers in the private sector for compulsory annual wage increment for workers.

outcome, especially in Sabah and Sarawak. In this regard, focus has been given in Budget 2024 to improve school infrastructure and ensure sufficient access to education at all levels, including TVET programmes.

Strategic Initiatives – Budget 2025

Towards achieving sustainability and inclusivity, the Government will continue to implement strategies and programmes to sustain the momentum of economic growth and safeguard the well-being of the rakyat. In this regard, Budget 2025 will continue to emphasise 'Raising the Ceiling' by transforming the economy, 'Raising the Floor' by improving quality of life as well as reforming the public sector.

Raising the Ceiling: Transforming the Economy

Budget 2025 aims to transform Malaysia into a competitive and world-class investment destination to drive sustainable economic growth. By prioritising digital economy and innovation-led industries, the nation will be able to enhance productivity, foster technological advancement, and attract high-quality investments. As a global leader in Islamic finance, Malaysia continues to reinforce its position by expanding the financial ecosystem and creating new opportunities and renewed emphasis including in halal, low-carbon and green economies. Additionally, empowering MSMEs to become regional champions will further stimulate economic growth and resilience. Ensuring the sustainability of the economy remains central to this transformation, enabling Malaysia to thrive in a rapidly evolving global landscape.

Competitiveness and World-Class Investment Destination

In line with the Government's aspiration to shift towards greater economic complexity and ascend the value chain, the Government will provide specific incentives and financing to accelerate the implementation of strategies in the NETR and the NIMP 2030. These policies align with global market demand in attracting potential HGHV investments, creating high-paying jobs and strengthening Malaysia's position in the global supply chain. By leveraging these policies, Malaysia can provide a conducive environment for value-based investments that not only ensure economic prosperity but also promote environmental sustainability and social equity.

Through Budget 2025, GLICs and GLCs will complement the Government's efforts to drive the growth of HGHV industries by accelerating DDI, including venture capital. In this regard, the collective strength of GLICs and GLCs will be mobilised through GEAR-uP, thereby attaining synergies in driving high-impact investments, fostering innovation, and enhancing governance while contributing to national development goals. At the same time, the GLICs and GLCs will be encouraged to intensify commitments towards community engagement, focusing on community-based activities and improving the well-being of stakeholders.

The Government is committed to enhance Malaysia's global competitiveness in attracting high quality investment. Towards this, Budget 2025 proposes several measures aimed at promoting technology and digital adoption among industries, while strengthening research, development, commercialisation and innovation (R&D&C&I). Against this backdrop, the Government will prioritise measures towards improving the ease of doing business, particularly expediting approvals for the establishment of new businesses and expansion of existing investments.
To achieve this goal, the Joint Committee on National Competitiveness will develop a comprehensive plan to foster innovation, streamline regulatory frameworks, and enhance public-private collaborations to position Malaysia as a competitive and attractive destination.

INFORMATION BOX 1.2

Enhancing Competitiveness for a Favourable Business Environment

(In collaboration with the Malaysia Productivity Corporation)

Introduction

A nation's global competitiveness hinges on its ability to create an environment where businesses can thrive, innovate, and contribute to sustainable economic growth. In today's rapidly evolving global economy, ease of doing business is among the critical determinants of a nation's economic success. A favourable business environment, where regulatory processes are streamlined and transparent, significantly enhances a country's ability to attract investment, foster innovation and drive productivity growth. In addition, the World Bank (2021) highlights that complex regulations and bureaucratic inefficiencies can stifle entrepreneurship, deter investment and slow economic progress.

Importance of Ease of Doing Business

A stable political environment, coupled with supportive and proactive policies, plays a crucial role in creating a business-friendly ecosystem. Generally, a country's ease of doing business is influenced by several factors, including availability of infrastructure, ease of access to finance, efficiency and transparency of regulatory processe as well as the speed of obtaining necessary permits and licences. Meanwhile, technological advancements contribute significantly to drive ease of doing business. The digitalisation of regulatory processes allows for more efficient interactions between businesses and government agencies, leading to faster processing time and lower cost associated with compliance. These aspects are directly linked to ease of doing business which foster productivity growth, a cornerstone for a nation's long-term economic development. In essence, productivity growth is integral in the development process as it amplifies economic output, raises living standards, and enhances global competitiveness.

Malaysia Through the Global Lens

Globally, the business environment is shaped by a range of challenges and opportunities. Trade barriers, protectionist policies, and the shifting dynamics of global supply chains can create obstacles for businesses. However, these challenges also present opportunities for countries to position themselves as attractive destinations for investment and trade.

Meanwhile, the 2024 World Competitiveness Ranking (WCR) by the International Institute for Management Development (IMD) states that emerging markets such as Brazil, China, India, Indonesia and Türkiye have experienced rapid growth and development in recent decades after undertaking improvements at various levels. Subsequently, these countries are now global key players in investment, trade, and innovation, adhering to international quality and sustainability standards, while preserving their distinct cultural, institutional, and regulatory environments.

The World Bank's Doing Business in Malaysia 2020 report has identified obstacles in several areas and highlighted opportunities for improvement drawing on local and international best practices. Among the proposed strategies include addressing cross-cutting issues which require strong and decisive leadership from both federal and state policymakers. This involves the need for greater coordination among agencies; consistent application of laws and regulations; and expanded focus to secondary cities[1] to implement reform initiatives.

Recognising these obstacles, Malaysia has been proactively improving its ease of doing business as part of the overarching strategy to boost competitiveness. The country's strategic location in Southeast Asia, coupled with its robust infrastructure and skilled workforce, positions Malaysia as an attractive destination for businesses seeking to expand in the region. Hence, the country needs to continue focusing on regulatory reforms which can reduce the cost of doing business and enhance productivity in order to maintain and strengthen this position.

As a trading nation, Malaysia has a significant role in the global economy, owing to its openness in trade and investment. The country is signatory to several bilateral and regional trade agreements thus facilitating a wider market access. This will support Malaysia's continuous efforts to enhance its business environment, hence improve global competitiveness. Recognising the importance of a favourable business environment, the Government has implemented initiatives to simplify business regulations, shorten the processing time, and reduce compliance costs towards enhancing overall efficiency. The objective of these initiatives is not only to improve global rankings, but also to establish an environment where businesses can operate smoothly and competitively. By consistently facilitating businesses, Malaysia aims to create a more dynamic and competitive economy that can adapt to challenges and opportunities of the global marketplace. Malaysia aspires to regain its position to be among the top 12 most competitive economies globally over the next decade. Therefore, the Government has placed emphasis on regulatory reforms to ensure Malaysia will be more appealing to foreign and local investors.

Initiatives towards Global Competitiveness

Malaysia's Position in Global Competitiveness Ranking

The 2024 WCR report evaluates and ranks the competitiveness of global economies based on factors related to economic performance, government efficiency, business efficiency and infrastructure. Over the past two decades, Malaysia's best performance in terms of competitiveness ranking was when the country improved from the 26th position in 2005 to the 10th position in 2010. This was driven mainly by the country's efforts in strengthening its business-friendly policies, streamlining regulatory processes, reducing bureaucratic hurdles, and enhancing public-private sector collaboration. The initiative was facilitated by the Special Task Force to Facilitate Business (PEMUDAH), which was established to improve the ease of doing business.

Malaysia's ranking in the WCR Report has gradually slipped, reaching 34th in 2024, as shown in Figure 1.2.1. This downward trend was contributed by declining in subfactor ranking such as productivity and efficiency, technological infrastructure as well as business legislation. The deterioration is mainly related to the unoptimised reallocation of economic resources, low productivity growth, limited technology creation and the weak regulatory framework. Labour market issues such as skill gaps and low wages have also contributed to the state of competitiveness of the country. This decline underscores the need for Malaysia to reassess its competitiveness strategies to meet the targets set out in the Ekonomi MADANI framework.

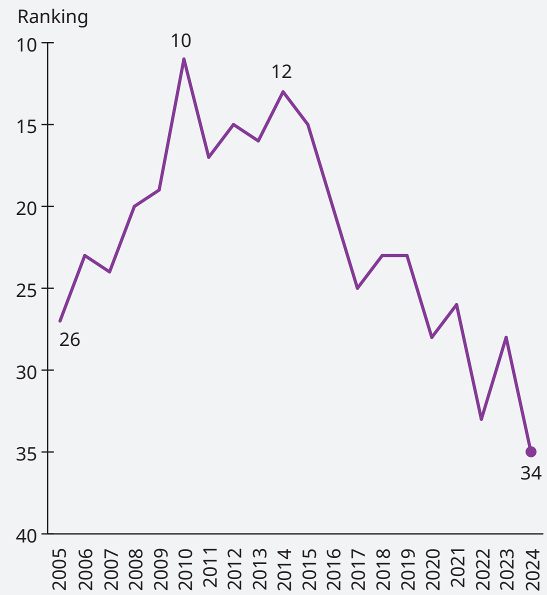
[1] Refer to other cities in Malaysia besides the major cities consist of Georgetown, Johor Bahru, Kota Kinabalu, Kuantan dan Kuching.

Initiatives to Improve Business Regulatory

Following the 2024 WCR report, the Malaysia Productivity Corporation (MPC) has identified five measures that Malaysia must pursue to improve competitiveness as follows:

- Update policies and regulations to improve global competitiveness;
- Increase investment in R&D to boost business resilience;
- Optimise the labour market to maximise workforce productivity;
- Leverage advanced technologies to accelerate productivity growth; and
- Mitigate increasing costs through strategic productivity enhancements.

FIGURE 1.2.1. *Malaysia's Competitiveness Ranking*



Source: The International Institute for Management Development (2005-2024)

To facilitate Malaysia's continuous regulatory improvement, the MPC collaborates with various government agencies and the private sector to ensure regulations remain supportive to business growth. In this regard, the National Policy on Good Regulatory Practice (NPGRP)[2] was designed to promote transparent and efficient regulatory processes that are aligned with business needs. This process involves continuous review and improvement by organisations such as local authorities, in which regulations are assessed and revised accordingly, to prevent it from becoming a barrier to productivity and growth, ultimately promoting competitiveness.

Malaysia has implemented key initiatives to enhance its ease of doing business aimed at intensifying trade and investment, particularly through targeted regulatory reforms, which include:

- The Kulai Fast Lane (KFL) initiative, which has significantly shortened the processing time for construction permits from 24 – 36 months to 14 months. The duration covers regulatory processes from submission of development plans until starting of operation. This initiative resulted in attracting investments amounting RM40.7 billion, and the creation of 7,000 highly skilled job opportunities. This improvement is part of efforts towards positioning Kulai as a preferred investment hub in Johor.

- The streamlining of export[3] licensing regulations for limestone products has reduced the approval process from six months to only two months. The validity of licences has also been extended from six to 12 months. These improvements have led to a 50% increase in limestone exports, with a value reaching RM6 billion in 2023.

[2] NPGRP acts as an instrument to formalise the development processes of quality regulations, which provides guidance on the implementation of Good Regulatory Practice (GRP) for government institutions in developing policies and regulations.
[3] Permits for limestone exports require approval from various agencies including the Land and Mines Office, Department of Minerals and Geosciences, Royal Malaysian Customs Department and state governments.

- The SMARTGPB system has modernised customs clearance at Licensed Manufacturing Warehouses (LMWs). Previously, the manual approval process required three to seven days. Since the introduction of digitalisation and the application of a risk-based approach in 2022, 80% of applications are now automatically approved within a minute. This initiative, initially piloted in Penang and now being expanded nationwide, has resulted in annual compliance cost savings of RM200 million for LMW companies.

- The Xpats Gateway has transformed the expatriate application approval process by integrating processes of 25 regulatory agencies into a 'single-window' platform. As a result, the approval time has been shortened from six months to only five days for the fast-track process or 15 days for the normal track. This expedited process has enabled 18,000 companies to meet their demand for skilled talents, with over 120,000 local jobs expected to be created, particularly in the high growth high value (HGHV) sectors.

- Guidelines for advertising on digital platforms by private hospitals have been significantly improved. They are now allowed to publicly share comprehensive and evidence-based content, including patient testimonials, evidence-supported superlative statements, and detailed professional profiles. Professional images can occupy up to one-third of the advertisement space. These changes have resulted in a 51% increase in health tourism and generating an additional revenue of RM700 million between 2021 and 2022.

These success regulatory reforms demonstrate Malaysia's commitment to creating a more business-friendly environment, facilitating the smooth operation of businesses, and promoting both domestic and foreign investments across key sectors.

Way Forward

As the WCR provides a comprehensive analysis of how various economies optimise their resources and strive towards efficiency, Malaysia stands to gain valuable insights from the best practices of other nations. Among the top performers in the WCR report including Singapore, Switzerland and Ireland have set exemplary benchmarks in regulatory efficiency, transparency and the use of digital tools to facilitate business operations. By adopting similar strategies and with continuous commitment to adapt and innovate, Malaysia can enhance its regulatory framework, hence boost its global competitiveness.

Collaboration with the private sector is crucial in shaping effective regulatory reforms, especially in providing feedbacks on policies that are practical and relevant to business and public needs. Industry leaders have consistently emphasised the need for a more transparent, predictable, and efficient regulatory environment, as well as increased utilisation of digital platforms to reduce complexity in regulatory submissions and approvals. These efforts will improve compliance and reduce costs while ensuring regulations are transparent and enforced.

Regulatory bodies play an important role in ensuring economic activities are functioning efficiently. In this regard, a whole-of-nation approach across regulatory practices is pertinent in streamlining procedures and harmonising regulatory reforms to ensure smooth and effective business processes. In addition, a high-level task force is required to review strategies based on the competitiveness factors and monitor the implementation of the revised strategies to enhance national competitiveness. Furthermore, MPC will continue the micro-level analyses of competitiveness indicators to assess and refine Malaysia's regulatory practices. These analyses will help to address the gap and ensure the regulatory reforms effectively address challenges faced by businesses.

Conclusion

As Malaysia continues to pursue its goals to be among the top 12 most competitive economies globally under the Ekonomi MADANI framework, a holistic approach is crucial to uplift the rank of the competitiveness factors which covers economic performance, government efficiency, business efficiency and infrastructure. The journey towards a more competitive economy requires continuous efforts to streamline regulations and reduce bureaucratic barriers through proactive collaboration with the private sector, improve productivity growth, enhance technology innovation and empower local talent. Through these comprehensive efforts, Malaysia will strengthen its global competitiveness and secure its position as a leading destination for investment and trade in ASEAN region.

With the full recovery of the travel and tourism industry globally, Malaysia is poised to benefit from the anticipated influx of tourists. Budget 2025 will focus on upgrading facilities and systems at all entry ports in enhancing Malaysia's readiness to leverage the hosting numerous nationwide meetings, incentives, conferences and exhibitions (MICE) at both international and regional scales including the Malaysia's 2025 ASEAN Chairmanship and various 2025 visit state year programmes. The Government will also intensify efforts to promote Visit Malaysia Year 2026 through strategic advertising and promotional activities, as well as increase Malaysia's visibility at the World Expo. This will restore international tourist arrivals to the pre-pandemic period and reaffirm Malaysia's status as one of the top tourism destinations globally.

In diversifying the tourism industry further, the Government will capitalise on the Malaysia My Second Home (MM2H) programme to attract high-net worth foreign nationals to reside in Malaysia on a long-term basis. Enrolment will be facilitated through favourable conditions to encourage higher participation in this programme, targeting retirees, expatriates, medical tourists and foreign investors. The focus on MM2H will generate spillover effects to the domestic economy, particularly in the real estate, healthcare, and education, further strengthening Malaysia's standing as a preferred second home destination.

In increasing the productivity and efficiency of business operations, Budget 2025 will strengthen the implementation of good management practices, thus promoting environmental, social and governance (ESG) and adopting advanced technologies among companies and industries. In addition, existing regulations will be reviewed to increase the country's overall competitiveness. In this regard, bureaucratic processes will be streamlined further to expedite the implementation of projects. Moreover, measures such as the enhancement of the administrative system, digitalisation of public services and implementation of flexible regulations will be continued to improve governance towards strengthening the country's competitiveness.

Malaysia's logistics industry will be further improved with the enhancements in transportation infrastructure, towards efficient connectivity and accessibility. Budget 2025 will continue to promote investment in improving infrastructure, leveraging on advanced technologies while developing skilled talents in relevant fields who are competent to support the modern logistics industry, thus positioning Malaysia as a competitive logistics hub in the region.

Digital and Innovation-Led Industry

Budget 2025 will also lay the foundation for a digital and innovation driven economy positioning the country towards achieving a high-income nation. In this regard, the Malaysia Digital Economy Blueprint (MyDIGITAL) will support the Government's effort to become a regional leader in digital economy by 2030. The Blueprint will significantly benefit Malaysia's MSMEs through enhanced digital adoption, improved infrastructure, expanded market access, empowered upskilling and retraining, and strengthened cybersecurity as well as increased productivity and competitiveness. Accordingly, GEAR-uP will focus on encouraging connections between HGHV industries and MSMEs along the supply chain through digital platforms.

The Government will prioritise cyber security throughout the digital infrastructure network which connects all users, towards a safe and secure ecosystem that will contribute to increased investor and business confidence. Furthermore, through the National Cyber Security Agency (NACSA), the Government will cooperate with stakeholders to address cyber security threats by ensuring compliance to the Cyber Security Act 2024 [Act 854]. This will include building the capacity of the entire government machinery by undertaking a cyber risk assessment and audit exercise to enhance the resilience of digital infrastructures.

It is paramount to provide continuous and uninterrupted connectivity across the nation by expanding the communication network to cover all blind spots, particularly in promoting investments in data centres, cloud computing, and other technology-driven services. This encompasses having comprehensive and reliable internet infrastructure that facilitates innovation and adopting advanced technologies such as robotics, AI and the Internet of Things (IoT), which are appealing to investors looking for cutting-edge environment.

In addition, Budget 2025 will entail efforts to position Kuala Lumpur as a top 20 global startup hub by 2030 through the KL20 initiative. This initiative aims to create a conducive environment, fostering investment and deal-sourcing opportunities for venture capitalists as well as encouraging more funding for startups to drive innovation in Malaysia.

Overall, the Government will emphasise continuously improving regulations to keep pace with technological advancements and ensuring a supportive business environment in addressing disparities in digital access and literacy.

Global Leader in Islamic Economy

Bolstering Malaysia as a global leader in Islamic economy is one of the key initiatives under the Ekonomi MADANI framework. This includes positioning Malaysia as a regional hub that promotes the expansion of Islamic finance. Therefore, the Government is committed to continue advancing innovation, focusing on value-based reforms and attracting private sector and international funding. Towards this, Budget 2025 will support efforts by key players which include financial institutions, investors and scholars in Islamic finance to strengthen Malaysia's credentials as an innovator and leader in sustainable finance and development.

In addition, the Government will leverage Islamic social finance instruments and other Islamic risk-sharing and innovative financial instruments, such as waqf and *sadaqah* as well as Islamic venture capital to address the funding gap in developing Islamic businesses and enhancing the well-being of the rakyat. To scale up financial intermediation, guidelines such as Value-based Intermediation (VBI) and

Sustainable Responsible Investment (SRI) will be constantly improved. This initiative will support the national agenda in achieving the SDGs while promoting high-potential ventures.

Being the leader in the halal industry, the Government will continue simplifying the halal certification process by standardising procedures among states, leveraging digital applications in streamlining documentation, conducting efficient audits and leveraging technologies to increase security and traceability along the supply chain. In addition, the Government will push for the greening of the halal industry by integrating sustainable practices to adhere to the *toyyib* concept. Clear guidelines and training support will be provided through collaboration with industry partners to further strengthen the ecosystem.

MSMEs as Regional Champions

The MSMEs are crucial to the economy in creating jobs, fostering innovation, and contributing to economic growth. As such, the Government, through Budget 2025, will continue providing financing schemes through DFIs. In addition, co-funding, equity crowdfunding (ECF), peer-to-peer (P2P) lending, and guarantee schemes will be continued in partnership with private financial institutions to strengthen the funding ecosystem and ease of access to financing at each stage of the business growth cycle. This will unleash the potential of MSMEs to participate in the global supply chain, comply with the ESG requirements, capitalise technologies and digitalisation as well as retain critical talent.

To enhance entrepreneurship among the Bumiputera, Budget 2025 will provide microfinancing for Bumiputera MSMEs through DFIs and relevant agencies to spearhead transformative initiatives as provided in the Bumiputera Economic Transformation Plan 2035 (PuTERA35). The Government will also promote alternative sources of funding, especially through venture capital and angel investors, to facilitate business incubators and platforms to connect with other businesses and potential customers. In developing Bumiputera MSMEs further, the Government will encourage anchor companies that are undertaking public projects to source supplies and raw materials from qualified and competent Bumiputera companies. This initiative can also be further enhanced by strengthening vendor development programmes to develop and train more Bumiputera entrepreneurs.

Economics of Sustainability

Budget 2025 will support commitments to expand RE sources, energy efficiency initiatives as well as the conservation and sustainable management of natural resources. These measures are designed to lower operational costs, enhance energy consumption efficiency, increase competitiveness and reduce the environmental footprint of Malaysia's growing economy. A core component of sustainability will be the principle of circular economy, moving away from traditional, linear 'take-make-use-dispose' models, towards more innovative and efficient practices. Through the Circular Economy Blueprint for Solid Waste (2025 – 2035) and Circular Economy Policy Framework for Manufacturing Sector, efforts will be intensified to increase the national recycling rate.

The agriculture sector will also be strengthened through innovation and re-engineering along the agrofood value chain, maximising resource efficiency and minimising waste, thereby contributing to the nation's food security. The Government will enhance water irrigation infrastructure as well as encourage the adoption of technology and sustainable agriculture practices to increase crop yield and resilience. Continuous efforts to increase preparedness in facing natural disasters will be undertaken to reduce the risk on farmers. Furthermore, improved infrastructure and supply chains, such as better roads and storage facilities, will enhance the distribution and marketing of agricultural products. In addition, regional and international cooperation will be leveraged to intensify the sharing of knowledge, resources, and technologies, making the agriculture sector more robust and less vulnerable to global market fluctuations. These combined efforts will help Malaysia achieve greater food security and self-sufficiency.

Raising the Floor: Improving Quality of Life

A prosperous nation provides the opportunity for citizens to thrive, by realising the unique potential and contributing to the strength of communities. Thus, initiatives under Budget 2025 will concentrate on undertaking a holistic and inclusive approach to governance, focusing on the social, economic and political stability. This approach supports the national strategy to 'Raising the Floor', which aims to create a more equitable society by uplifting those at the bottom of the economic spectrum, ensuring everyone possesses adequate levels of dignity and economic security. In ensuring that Malaysia is on its development trajectory to continuously prosper, the Budget emphasises providing respectable jobs and decent standard of living; ensuring equality and inclusivity; enhancing universal access to quality education and healthcare services; advancing world class rakyat-centric infrastructure; improving social protection; preserving national heritage and *muafakat*; as well as safeguarding national sovereignty and *maslahah*.

Respectable Jobs and Decent Standards of Living

In creating more skilled job opportunities in the country, attracting quality investment in high-tech and innovative industries is fundamental. Strategies will be rolled out under Budget 2025 to improve the business environment by streamlining regulatory processes and targeted incentives to drive economic growth through a more competent and adaptable workforce.

The Government will also continue to intensify efforts to enhance standards of living by promoting decent wages. In expediting efforts to provide a more holistic wage ecosystem and lessen wage disparities, the current role of the National Wages Consultative Council will be further strengthened, including benchmarking against similar organisations such as the Fair Work Commission, Australia and the National Wage Council, Singapore.

Additionally, the Government will improve collective bargaining coverage through better tripartite collaboration to enhance wage structure and non-wage benefits. The Government is exploring the provision of starting salary guidelines, taking into consideration various aspects, including workers' educational qualification, experience, skills category, and location for better compensation. Under the GEAR-uP, GLICs and GLCs are also committed to set an example for the corporate sector in ensuring all employees within their organisations and ecosystems receive a decent monthly living wage, with future adjustments aligned with productivity improvement. Collectively, these measures will help build a more balanced wage-setting mechanism that can significantly boost productivity and business expansion, ultimately leading to higher compensation of employees and foster inclusive economic development.

INFORMATION BOX 1.3

Raising the Floor: The Need for More Meaningful Wages

Introduction

Every worker deserves a meaningful life by earning decent wages, which is sufficient to cover expenses and improve livelihood. Decent wages refer to a level of compensation that allows workers and their families to maintain reasonable standards of living. It is a fundamental aspect to achieve decent living, which is central to economic and social development as well as to advance social justice. Wages also play an essential role in reducing poverty and inequality as well as ensuring a decent and dignified life (International Labour Organisation, 2024).

Wage is an important source of growth and has been identified as a fundamental lever in addressing certain structural economic issues. More than 70% of compensation of employees (CE)[1] comprise wage components. Analyses by the Centre for Future Labour Market Studies in 2022 and Khazanah Research Institute (KRI) in 2023 shows that a higher CE has positive spillover effects in enhancing productivity, female labour force participation, technology adoption as well as reducing informality, inequality, brain drain, and reliance on low-skilled foreign workers in the economy.

The Twelfth Malaysia Plan, 2021 – 2025 and the Ekonomi MADANI framework have set the CE of GDP targets at 40% by 2025 and 45% by 2033. Hence, numerous strategies have been implemented to strengthen institutional reforms and restructure the economy to uplift the well-being and dignity of the rakyat through more meaningful wage levels. Initiatives to upskill and reskill workers as well as improve productivity have been enhanced to transform the wage ecosystem to be more supportive, thereby enabling workers to receive a more progressive and competitive wage.

This article provides a brief overview of Malaysia's current wage policies, wage-setting mechanisms and the narrative of wage structures across various aspects of the economy.

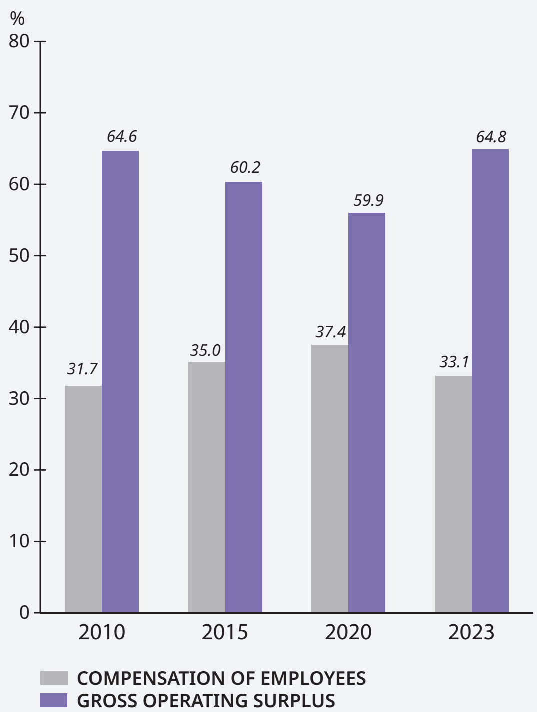
Synthesis and Summary

In Malaysia, employees are compensated based on wage payment setting mechanisms with their respective employers. These mechanisms have become increasingly diverse and governed by various acts and guidelines. The most common mechanism is based on mutual contract of service under the Employment Act 1955 [Act 265] or through collective bargaining between employers and trade unions. Strong unions would be able to represent workers to negotiate for improved wages and benefits, leading to higher compensation and better employment outcomes. The study by KRI estimated that the collective bargaining coverage in Malaysia was around 0.4% in 2018, much lower than the OECD average of 32.1%.

Another mechanism is performance-based such as the productivity-linked wage system that was introduced in the 1990s aimed to align workers' compensation more closely with their productivity levels. Meanwhile, the statutory minimum wage policy, implemented on January 2013, was designed to provide fair compensation among the low-wage earners.

[1] Includes remuneration, in cash or in-kind as well as employers' social contribution payable for employees.

FIGURE 1.3.1. *Compensation of Employees and Gross Operating Surplus*



Source: Department of Statistics, Malaysia

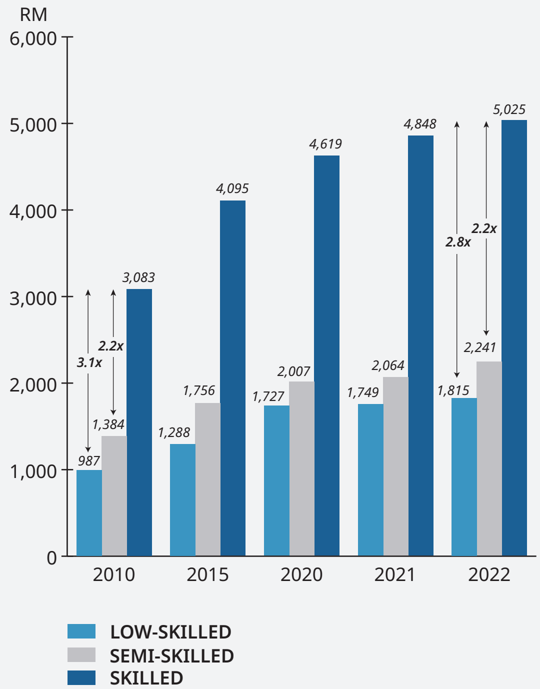
TABLE 1.3.1. *Compensation of Employees by Selected Countries*

	2020	2021	2022	2023
Malaysia	*37.4*	*35.1*	*32.3*	*33.1*
Philippines	*34.8*	*36.7*	*36.4*	*35.5*
Singapore	*42.8*	*37.6*	*35.1*	*38.5*
Republic of Korea	*48.2*	*46.7*	*47.5*	*47.9*
Australia	*48.2*	*47.7*	*45.8*	*45.9*
Netherlands	*50.6*	*48.2*	*47.1*	*47.0*
Canada	*52.3*	*50.4*	*49.2*	*51.1*
United Kingdom	*52.0*	*50.6*	*49.2*	*49.5*
Germany	*54.4*	*53.0*	*52.2*	*52.4*
United States	*54.6*	*53.2*	*52.2*	*53.1*

Source: Department of Statistics, Malaysia

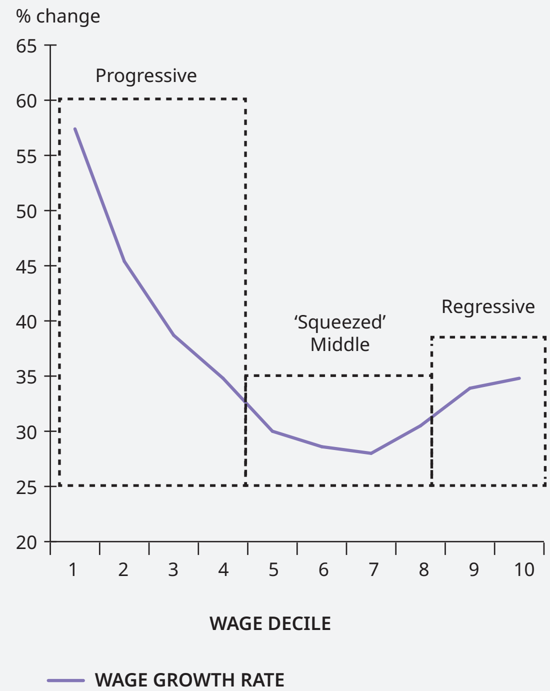
Nonetheless, the average wage growth has remained low over the past decade. The benefits of growth, measured by CE, also remained stagnant and to some extent was much lower in comparison with other countries. The wage gap and significant disparities are still prevalent among workers across skills category, location, sectors, occupation, and educational attainment. These situations continue to pose a challenge in 'Raising the Floor' as envisaged in the Ekonomi MADANI framework.

FIGURE 1.3.2. *Mean Monthly Wage by Skills Category*



Source: Department of Statistics, Malaysia

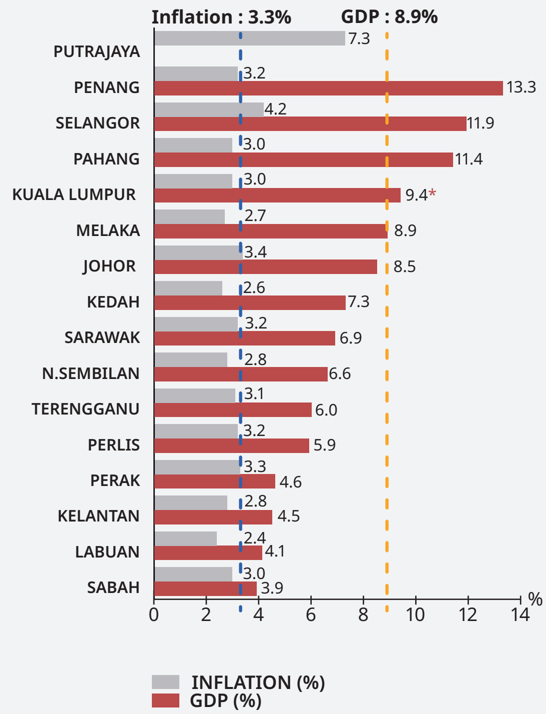
FIGURE 1.3.3. *Percentage Change in Real Monthly Individual Wage Growth by Decile, 2010 – 2019*



Source: Khazanah Research Institute and Department of Statistics, Malaysia

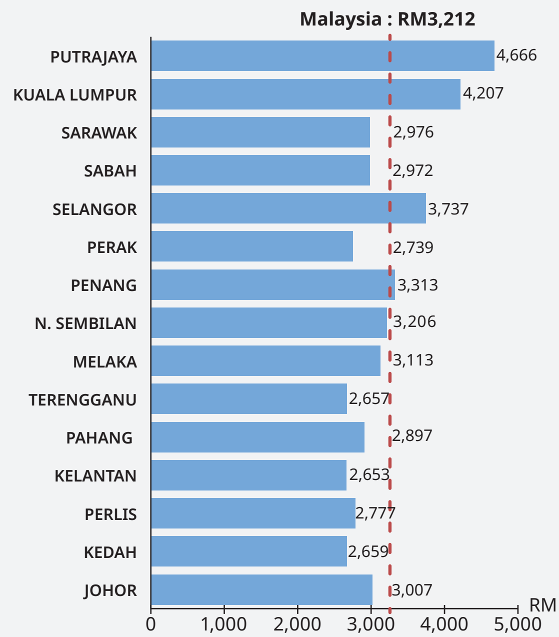
… skilled-workers have benefitted more from economic advancements, while the minimum wage policy has raised the wage level among low-paid workers, but certain segments of workers are still receiving lower share of benefits from economic growth, particularly among the 'squeezed middle-wage earners' …

FIGURE 1.3.4. *Gross Domestic Product and Inflation, 2022*



Note: *includes Putrajaya
Source: Department of Statistics, Malaysia

FIGURE 1.3.5. *Mean Monthly Wage, 2022*

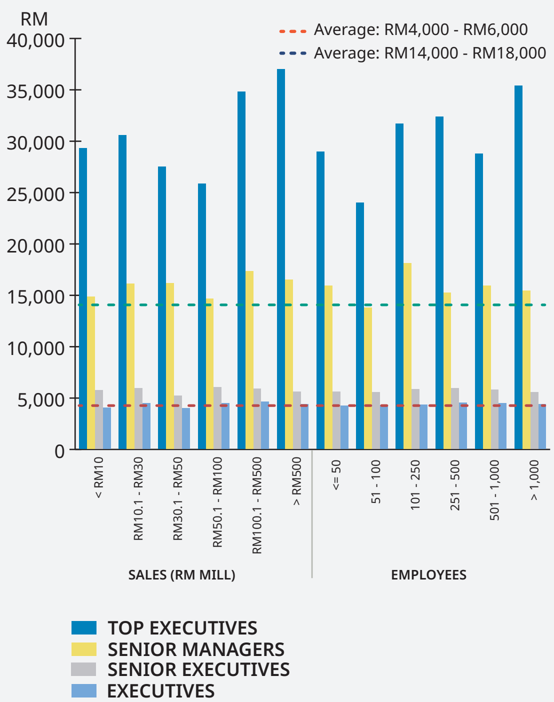


Source: Department of Statistics, Malaysia

… theoretically, higher economic activities should be reflected through higher wages that directly influence the purchasing power and aggregate demand. Nevertheless, increased demand for goods and services may also increase prices[2]. This is mirrored in states such as Kuala Lumpur, Putrajaya and Selangor. On the other hand, lower economic activities in less developed states[3], coupled with low cost of living may result in workers receiving lower wages, thus hindering the realisation of a more inclusive development and better quality of life …

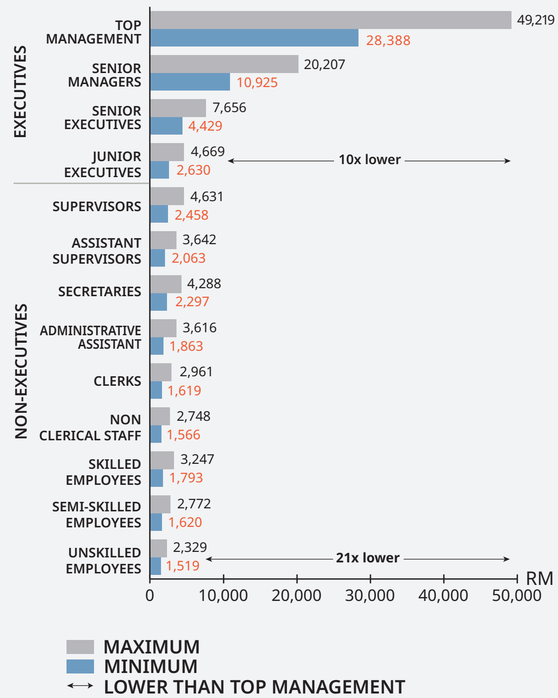
[2] Wage-price spiral is a macroeconomic theory explaining the cause-and-effect relationship between rising wages and prices, or inflation. As rising wages increase disposable income, demand for goods rises, thus triggering prices for goods to move higher.
[3] For this analysis, less developed states refer to states with GDP growth of less than Malaysia's real GDP (8.9%).

FIGURE 1.3.6. *Average Monthly Basic Salary by Size of Companies, 2022*



Source: Calculation by Ministry of Finance based on Malaysian Employers Federation survey

FIGURE 1.3.7. *Average Monthly Salary Range for Executives and Non-Executives, 2022*

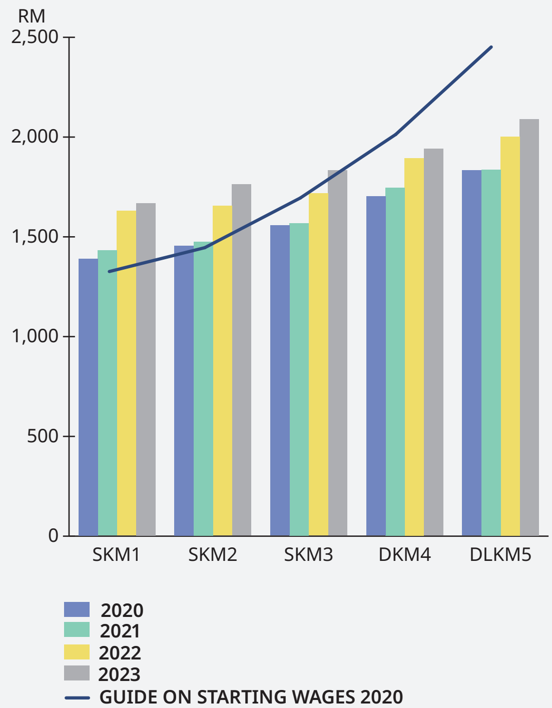


Source: Calculation by Ministry of Finance based on Malaysian Employers Federation survey

... by size of companies, on average, there is no significant wage difference among the workers, particularly executives and senior executives. This reflects that larger corporations[4] also may not necessarily translate their higher earnings into higher wages. In terms of level of occupation, top management received wages 20 times more than non-executives and 10 times more than junior executives. If these wage gap issues are not addressed, the aspiration of 'Raising the Floor' under the Ekonomi MADANI framework will be difficult to achieve within the intended period.

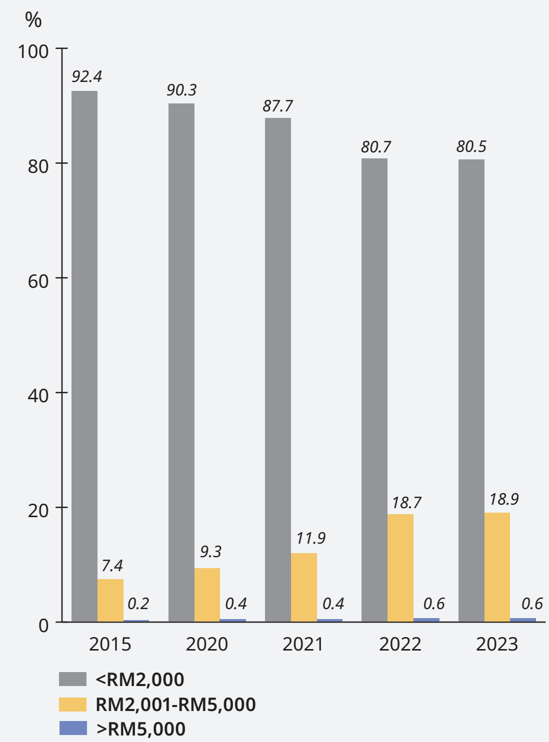
[4] SME Corp. defines SMEs as companies with sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers (manufacturing); or sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers (services and others). Therefore, companies beyond these thresholds are considered large corporations.

FIGURE 1.3.8. *Monthly Basic Salary by Sijil Kemahiran Malaysia*



Source: Ministry of Human Resources and calculation by Ministry of Finance based on Malaysian Employers Federation survey

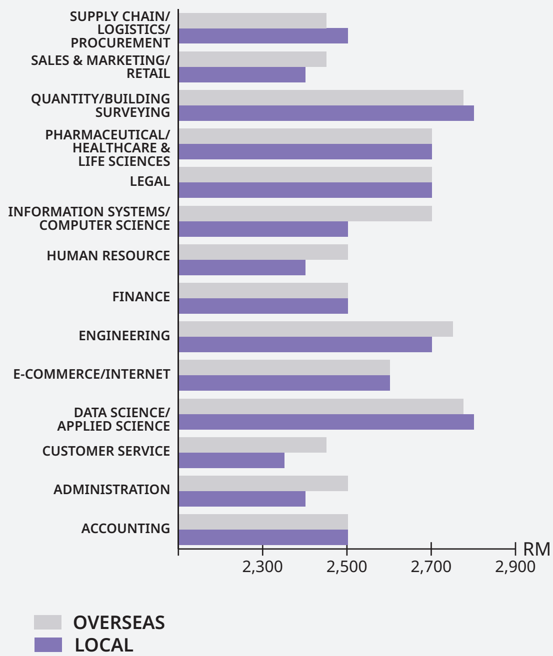
FIGURE 1.3.9. *Share of TVET Graduates by Starting Salary*



Source: Calculation by Ministry of Finance based on Ministry of Higher Education graduates tracer study

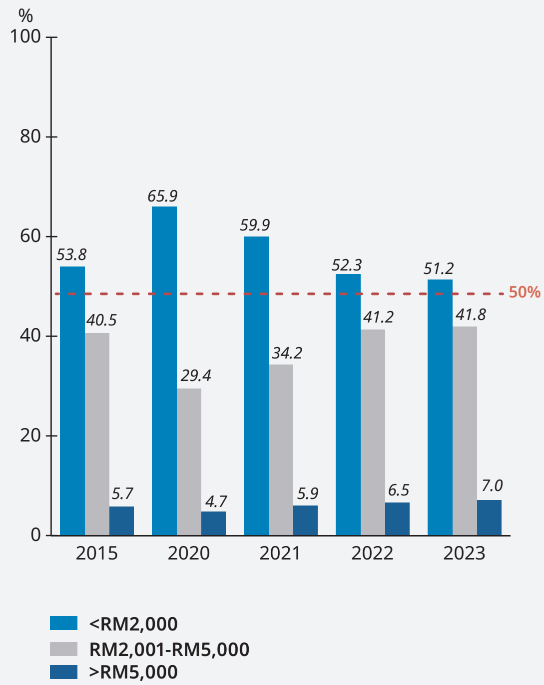
Government policies in promoting technical and vocational education and training (TVET) related occupations as a career of choice among youth is also a continual challenge as graduates with TVET or skills qualification are earning relatively unattractive wages. Even though there has been an increase in the share of TVET graduates receiving wages of more than RM2,000, the proportion of those receiving below RM2,000 is still substantial ...

FIGURE 1.3.10. *Monthly Basic Salary for Newly Recruited Local and Overseas Graduates, 2021*



Source: Calculation by Ministry of Finance based on Malaysian Employers Federation survey

FIGURE 1.3.11. *Share of Graduates by Starting Salary*



Source: Calculation by Ministry of Finance based on Ministry of Higher Education graduates tracer study

... on another note, newly recruited graduates receive relatively similar wage level, irrespective of whether they are local or overseas graduates. Nevertheless, over the past decade, more than 50% of fresh graduates have been drawing a starting salary of below RM2,000 a month ...

TABLE 1.3.2. *Minimum Monthly Expenses in Major Cities, 2022/2023*

CITIES	SINGLE		MARRIED COUPLE			SINGLE PARENT		SENIOR CITIZEN	
	PUBLIC TRANSPORT	OWN CAR	0 CHILD	1 CHILD	2 CHILD	1 CHILD	2 CHILD	COUPLE	SINGLE
Klang Valley	1,930	2,600	4,630	5,980	6,890	4,740	5,650	3,210	2,520
Georgetown	1,830	2,430	4,360	5,640	6,370	4,460	5,190	3,140	2,450
Johor Bahru	1,760	2,290	4,110	5,360	6,100	4,200	4,940	3,020	2,330
Malacca City	1,730	2,270	4,010	5,140	5,850	4,020	4,720	2,830	2,180
Seremban	1,720	2,300	4,170	5,400	6,130	4,250	4,980	2,910	2,250
Kota Kinabalu	1,710	2,230	4,000	5,130	5,840	4,000	4,710	2,930	2,290
Kuantan	1,710	2,230	3,910	5,030	5,740	3,900	4,610	2,780	2,130
Ipoh	1,680	2,270	3,970	5,140	5,850	4,020	4,730	2,840	2,190
Kuching	1,680	2,210	3,920	5,020	5,720	3,890	4,590	2,790	2,160
Kuala Terengganu	1,630	2,160	3,820	4,920	5,610	3,820	4,510	2,730	2,090
Kota Bharu	1,540	2,110	3,750	4,830	5,520	3,720	4,400	2,690	2,050
Alor Setar	1,530	2,060	3,680	4,760	5,430	3,660	4,340	2,630	2,020

Source: Employees Provident Fund, Malaysia

... it is evident that the majority of fresh graduates entered the job market with insufficient earnings to cover minimum monthly expenses[5] to have a decent standard of living or meaningful life, as proposed in Belanjawanku 2022/2023. According to KRI (2023), as an individual's starting salary plays an important role in determining their overall wage and career progression, low starting pay would not only lead to low wage increments, but also take much longer for working individuals to reach a sufficient level of earnings.

Conclusion

In conclusion, despite the existence of diverse wage-setting mechanisms, Malaysia's current wage structure still exhibits significant disparities across various aspects. Certain segments of workers, particularly among tertiary graduates, continue to receive less competitive wages, which poses challenges for individuals striving to lead more meaningful lives. If the goal of 'Raising the Floor' as envisaged under the Ekonomi MADANI framework through higher wages is to be successfully realised, policy and institutional reforms are essential to enable efficient wage governance in an integrated manner and whole-of-nation approach. Therefore, there is a need for standard wage-setting guidelines to improve the wage structure in Malaysia.

[5] The Belanjawanku 2022/2023 report by Employees Provident Fund (EPF) estimated that minimum monthly expenses for single adult owning a car and residing in major cities in Malaysia is more than RM2,000.

Equality and Inclusivity

Budget 2025 will give due focus to the Orang Asli community, persons with disabilities (OKU) and other vulnerable groups to reduce inequality and enhance inclusivity. The Government will continue to provide a specialised education system and infrastructure to enhance the economic participation of these targeted communities, through job and entrepreneurship opportunities as well as wage equality. The Budget will provide various support to encourage participation of women in the labour market. Among others, the Government will incentivise employers hiring women returning from career breaks, employment matching services, enhance affordable facilities for care services as well as flexible work arrangements to attract and retain talent. Widening civil society engagement and supporting grassroots initiatives that advocate for the needs and rights of these communities can also help build a more inclusive and equitable society.

Universal Access to Quality Education and Healthcare Services

In enhancing education learning outcomes, the teaching and learning delivery ecosystem will be transformed to ensure all students gain the critical knowledge and skills necessary for future development and employment. Hence, the Government will continue allocating sufficient resources through Budget 2025 to guarantee access to quality education for all. Compulsory education will be expanded to mandate all children to complete at least 11 years of formal education. To further strengthen the quality of teaching, the Government will enhance teacher training programmes. Emphasis will also be placed on improving basic literacy and numeracy skills, upgrading facilities and infrastructure particularly in dilapidated schools, providing stable internet connectivity to all schools, as well as expediting the development of new school projects.

In producing competitive skilled talents that meet industry demands, curriculum for tertiary programmes will be better aligned with evolving market needs through strong industry collaboration. Budget 2025 will continue prioritising upskilling and retraining initiatives to equip workers with the latest skill sets necessary for today's job market. Additionally, efforts will be intensified to foster strategic cooperation between industry and academia, ensuring industry-driven TVET programme. As part of a continuous strategy to acknowledge these improvements and elevate TVET reputation as a career of choice, the review of the Guide on Starting Wages[3] should be appropriately considered, taking into account economic progress and rising living costs. The Guide can serve as among the reference points for industries in determining the starting salaries of TVET graduates. The Government will also continue to engage the religious schools, such as *tahfiz*, to offer opportunities to study in TVET institutions while undergoing or after completing the *tahfiz* programme, to enter into professional occupation.

For healthcare, the Government is committed to provide expeditious services to the rakyat, and will significantly enhance the delivery system to achieve universal access to quality services. This includes expanding mobile community services, upgrading equipment and facilities in hospitals and clinics, while ensuring adequate number of healthcare personnel to create a more conducive environment across all centres. At the same time, efforts will also be given to transform the healthcare system from focusing on treating illnesses to

[3] The Guide on Starting Wages 2020 established by the Ministry of Human Resources. It provides information on starting basic wages for a list of 200 selected skills-based jobs that are highly demanded in the labour market by skill level (SKM 1 to SKM 5).

disease prevention. Budget 2025 will ensure the sustainability of public healthcare system through innovative financing in acquiring medical equipment, to address the issue of high cost in procuring and replacing equipment due to rapid advancement of technology.

Quality Basic Infrastructure

The Government is steadfast in improving Malaysia's rakyat-centric basic infrastructure by enhancing urban planning, road access, treated water, and electricity supply in urban and rural areas, with a focus on underserved areas. Under Budget 2025, infrastructure investment, focusing on innovative and cost-effective technologies, will continue to be rolled-out, particularly in remote areas. In this regard, rural development allocation will continue to be provided to address development disparities and improve dilapidated infrastructure. The Government will also provide stable and affordable internet connectivity to enable the rakyat to benefit from digital technology, thereby widening access to socioeconomic activities, ensuring that no one is left behind.

In developing affordable quality housing for the rakyat, Budget 2025 will continue providing safe neighbourhoods with healthy living environments, ultimately contributing to a prosperous society. Attention will also be given to ensure inclusive housing solutions that benefit the elderly as well as marginalised and vulnerable groups. This includes credit guarantee facilities offered for the purchase of houses built on waqf land. In addition, the Government will continue prioritising to provide well-integrated, sustainable, and liveable housing for the low-income group. The Budget will also make home ownership more accessible for the young civil servants.

The Government will also focus on enhancing inter-state mobility, through projects such as the East Coast Rail Link (ECRL), Central Spine Road (CSR) and the Pan Borneo Highway, to boost economic activities. Existing highways will continue to be maintained and upgraded to ensure smooth and efficient transportation, thus improving connectivity as well as facilitating trade, promoting tourism, and overall economic vibrancy. For urban communities, the Government plans to leverage and expand the existing transit system, which includes railways and feeder buses. This expansion aims to provide a more efficient and reliable public transportation network, reduce congestion, and improve accessibility within cities. By enhancing urban transit systems, the Government seeks to promote sustainable urban development, reduce carbon emissions, and improve the quality of life for urban residents, by reducing travel time as well as improving safety and reliability. These efforts are part of a broader strategy to create a well-connected, sustainable, and economically vibrant nation that benefits businesses and the rakyat.

Social Protection and Cost of Living

Improving the well-being of the rakyat is one of the main deliverables set out under the Ekonomi MADANI framework. Budget 2025 will continue to improve the social protection system of the country, particularly to enhance the social safety net and social insurance. Furthermore, the Government will continue enhancing the STR, SARA and BAP as well as expanding Payung RAHMAH Programme to assist the rakyat to reduce the burden of cost of living. In alleviating poverty, the IPR and SejaTi MADANI programmes will be expanded to promote community empowerment in implementing projects that can provide additional income.

In addition, as Malaysia is now an ageing[4] nation, Budget 2025 will further improve the social protection system for the elderly, by enhancing healthcare services and promoting active social activities. The Government will also facilitate senior communities to enhance lifelong learning opportunities and financial literacy. These measures aim to ensure the elderly have access to quality care, remain socially engaged, and lead fulfilling lives.

In ensuring the welfare of the vulnerability of self-employed individuals and gig workers are safeguarded, the Government aims to expand the Self-Employed Social Security Scheme under the Social Security Organisation (PERKESO) by strengthening related policies and laws. Additionally, the Government has taken steps to support low-income groups to be able to access health services through the microinsurance scheme and encourage the wider population to have private healthcare insurance.

[4] According to Department of Statistics, Malaysia, 7.7% of Malaysia's total population aged 65 years and above in 2024.

FEATURE ARTICLE 1.2

Revitalising Malaysia's Social Assistance Initiative: Case Study on Sumbangan Tunai Rahmah Recipients 2024

Introduction

A comprehensive and effective social protection framework is imperative in an emerging economy like Malaysia. The social protection system consists of three broad thrusts, namely social assistance, social insurance and labour market intervention. Based on Household Income Estimates and Incidence of Poverty 2020, the repercussions of the COVID-19 pandemic on households and businesses, witnessed about 20% of households in the middle 40% of income group (M40) falling into households in the bottom 40% of income group (B40) category, which also led to the huge rise in Government spending to cushion the impact of the crisis (World Bank, 2020). Additionally, strict zero COVID-19 measures in China, the effects of the prolonged Russia-Ukraine conflicts, high world commodity prices as well as other global and regional issues are also resulting in supply chain disruptions. This scenario is also led to a significant impact on the increased in the cost of living, including to the M40 group as well as the top 20% (T20) of the households, underscore the crucial need for a more comprehensive social protection system.

The Government dedicates a significant share of the country's fiscal resources towards providing social assistance, aimed at enhancing the well-being of the rakyat. The assistance is distributed in the form of cash and in-kind transfers as well as subsidies. Between 2000 and 2023, the Government spent over RM725 billion on these assistances, with an annual average of RM30 billion. This involves an average expenditure of 13.5% of the total Government expenditure for that period. However, there is still an improvement that need to be undertaken in enhancing programme's effectiveness mainly in addressing rakyat's resilience particularly the vulnerable and people in need[1]. In this regard, revitilising the country's social assistance policy is crucial primarily cash assistance, to safeguard the well-being of the rakyat. This includes the need to look into more inclusive coverage considering those in the "missing middle" that may not even benefit from the social assistence schemes. This article aims to assessing policy insight to strengthen the effectiveness of the programmes towards achieving fiscal sustainability based on study done on the cash transfer programmes specifically the Sumbangan Tunai Rahmah (STR)[2].

Case Study on Social Assistance Programme

Prior to this, an earlier study on Bantuan Sara Hidup (BSH)[3] was conducted from March 2020 to June 2021 by the Ministry of Finance (MoF). The study was to evaluate the effectiveness of the BSH programme, focusing on operational efficiency, delivery methods, and the impact on recipients. The study revealed that the operating costs for BSH were significantly lower than international standards (6%), with only 0.94% of the total allocation being spent on operational expenses in 2020. This low cost was attributed to the efficient method of crediting cash transfers directly into recipients' accounts, which enabled swift and extensive payments across the country. However, the study found minor delays in disbursements and acknowledged challenges faced by rural applicants including difficulties in accessing online information, which potentially exclude eligible

[1] A perspective along with policy recommendations on this topic can be found in the Economic Outlook 2024 Box Article: 'Towards Equitable Development Targeted Social Assistance'. (MoF, 2023).
[2] Previously known as Bantuan Rakyat 1Malaysia, Bantuan Sara Hidup, Bantuan Prihatin Nasional and Bantuan Keluarga Malaysia.
[3] The Study on the Effectiveness of Bantuan Sara Hidup was conducted by the Ministry of Finance, Malaysia in collaboration with the Inland Revenue Board and Universiti Putra Malaysia.

recipients. Additionally, the lack of data integration and interoperability of system were highlighted as significant issues, as these have led to outdated applicant information. In 2023, the operational costs of STR further decreased, with only 0.88% spent from the total allocated amount, and 95% of recipients receiving cash transfers through online platforms.

Despite these challenges, the study found that the BSH programme was well-received and played an important role in Malaysia's poverty eradication strategy without stigmatising the recipients. The financial assistance helped to alleviate the cost of living, including expenses for basic necessities, especially food, utility bills, and other household expenditures. From a health perspective, this assistance programmes contributed to physical well-being, mental health, and emotional state, thus enabling recipients to make sound decisions. Furthermore, this programme had a positive impact on family and community relationships, as well as involvement in community activities.

Following the phase 1 study[4], MoF subsequently conducted this phase 2 study[5] in 2024, which is a STR case study with the purpose of:

- i identifying the expenditure pattern among the STR recipients;
- ii assessing the effectiveness of the STR as well as other cash assistances; and
- iii recommending measures to strengthen the overall effectiveness of social cash assistance programmes through macro-level interventions towards achieving fiscal sustainability.

Methodology

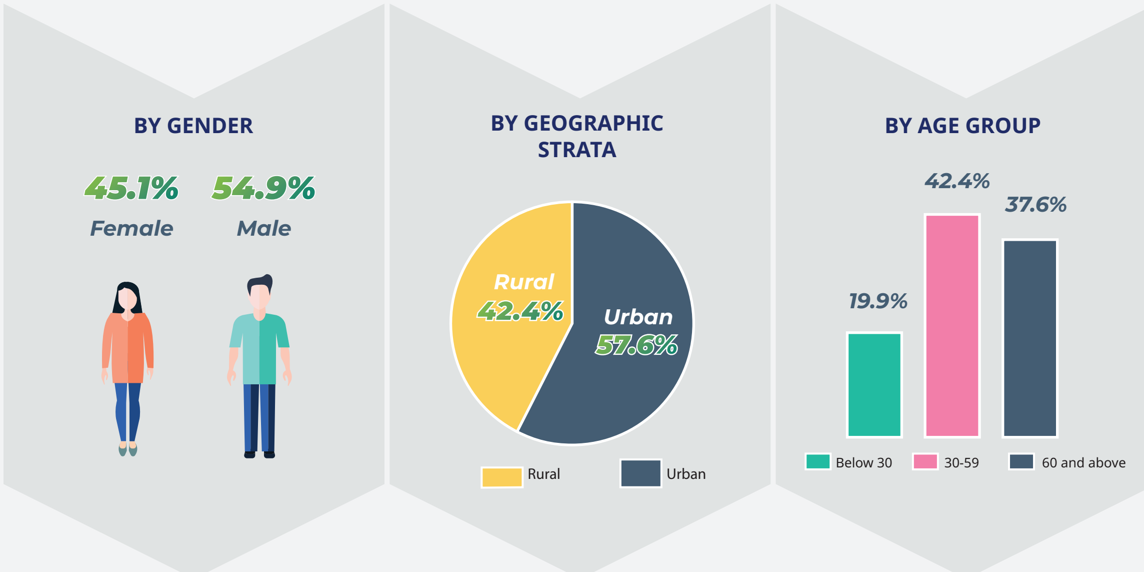
The case study was conducted from February to April 2024 where a total of 417 respondents participated in the study. They were selected across gender, geographical strata, and age groups based on the STR recipients among households from the Household Income and Expenditure Survey (HIES) 2022. The data was collected through surveys conducted via email and telephone interviews as well as secondary data from the HIES 2022. To ensure the accuracy and relevancy of the data, the sample was cross-referenced with the STR records from the Inland Revenue Board (IRB). The survey was divided into three key sections, namely, demographics, expenditure patterns and additional assistance received.

Key Findings

The study found that the respondents consist of 54.9% males and 45.1% females, with a larger portion (57.6%) living in urban compared to 42.4% in rural areas. The age distribution indicates that the majority are within the 30 – 59 age group (42.4%), followed by those who aged 60 and above (37.6%), and a smaller proportion of individuals who aged below 30 years old (19.9%). The demographics of the respondents are shown in Figure 1.2.1.

[4] The Study on Social Assistance Programme to Improve Fiscal Sustainability was implemented in March 2023 consisting of 2 phases. Phase 1 involved literature review and desktop analysis. The findings of the phase-1 study have been published in the Economic Outlook 2024 Box Article: "Towards Equitable Development Targeted Social Assistance". (MoF, 2023).
[5] Study on Social Assistance Programme to Improve Fiscal Sustainability (phase-2) was implemented in collaboration with Department of Statistics, Malaysia and Social Wellbeing Research Centre.

FIGURE 1.2.1. *Demographic Distribution of Respondents*



Source: Ministry of Finance, Malaysia

The study revealed that most income earners who aged 59 years old and below, are either private employees or self-employed (not registered[6]) as shown in Figure 1.1.2. Notably, respondents aged 60 and above continue to participate actively in the economy, with 43.3% still employed, while 36.9% rely on the STR. Further analysis reveals that the average savings for this group is very low (Abd Samad and Mansor, 2013), and many are burdened with financial commitments, such as housing rental expenses.

In addition, the majority only hold Sijil Pelajaran Malaysia (SPM) qualifications or lower. This suggests that a significant portion of respondents entered the labour market with limited educational attainment, which may have constrained their upward mobility and earning potentials. As a result, there is a notable relationship between low educational levels and the prevalence of low-skilled, low-wage employment among these groups. Furthermore, the study found that most respondents with tertiary education are employed in the private sector, often in positions that require minimal qualifications.

[6] Refers to the self-employed in the informal sector that is not registered with the Malaysian Companies Commission, Local Authorities or any professional body.

FIGURE 1.2.2. *Distribution of Respondent's by Age Groups, Type of Employment and Education*

Age group	Occupation	Share (%)
Below 30 years old	Private	73.5
	Self-employed (Not registered)	14.5
	Self-employed (Registered)	4.8
	Government	3.6
	Others	3.6
30 - 59 years old	Private	52.0
	Self-employed (Not registered)	20.3
	Self-employed (Registered)	6.8
	Government	10.7
	Private/ Government pensioner	1.7
	Others	8.5
60 years old and above	Private	18.5
	Self-employed (Not registered)	15.3
	Self-employed (Registered)	7.6
	Government	1.9
	Private/ Government pensioner	16.6
	Elderly	36.9
	Others	3.2

Age group	Highest Certificate	Share (%)
Below 30 years old	Tertiary[1]	33.7
	SPM and equivalence	**47.0**
	PMR/SRP and below	19.3
30 - 59 years old	Tertiary[1]	16.9
	SPM and equivalence	**45.8**
	PMR/SRP and below	37.3
60 years old and above	Tertiary[1]	10.8
	SPM and equivalence	16.6
	PMR/SRP and below	**72.6**

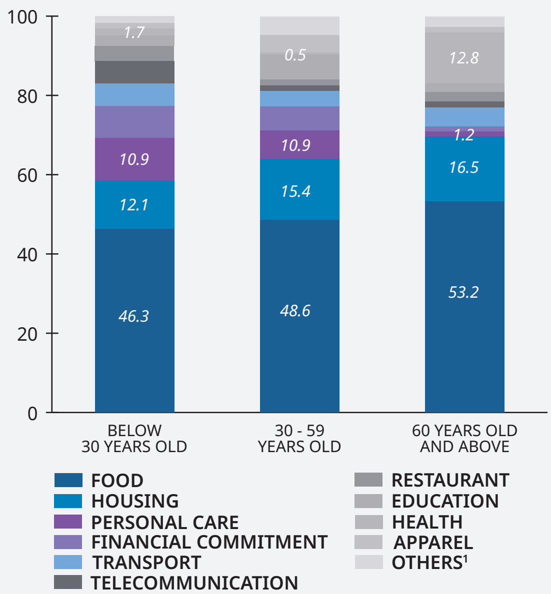
[1] Refers to all-post secondary formal education including public and private universities, colleges and technical training institute
Source: Department of Statistics and Ministry of Finance, Malaysia

The study further analysed the utilisation of the STR and found that it is predominantly allocated towards essential needs. Across all age groups, the main expenditure includes food and beverages (notably rice and fresh chicken), as well as housing and utilities (mainly rental and utility payments). These findings underscore the challenges posed by the rising prices of essential items, with cost of living pressures to households. An analysis of expenditure patterns by age group reveals that respondents under 30 years old tend to allocate their spending primarily to communication-related items. Meanwhile, those aged between 30 and 59 years old focus their expenditures on education and apparel. Notably, for individuals aged 60 and above, healthcare expenses become increasingly significant compared to other age groups, as illustrated in Figure 1.2.3. This demonstrates that the expenditure patterns of recipients vary across age groups, reflecting that STR is primarily allocated to essential needs, tailored to the recipients' current lifestyle.

Furthermore, the study highlights that total expenditure, combined with financial commitments[7] exceed income, resulting in an income deficit across all age groups, as shown in Figure 1.2.4. The most significant deficit is observed in the 30-59 age group, with a shortfall of RM245, followed by the below 30 age group at RM235. The age group above 60 experiences the lowest deficit at RM157. These figures underscore that all age groups face financial strain when encountering expenses such as loans and debts. These findings indicate that households are struggling to balance their income due to the financial commitments, worsened by the rising cost of living. In this context, cash assistance plays a crucial role in alleviating the burden of household expenditure, particularly in acquiring basic needs and mitigating the impact of price increases.

[7] Refers to non-expenditure of consumption such as housing, motor vehicle and personal loans as well as outstanding bills.

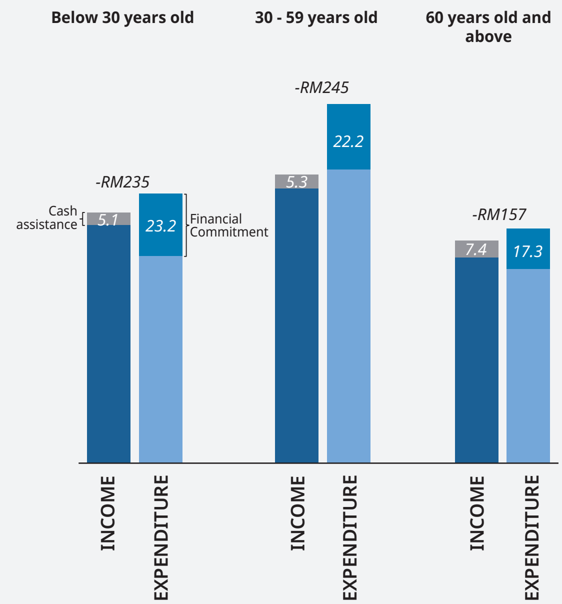
FIGURE 1.2.3. *Expenditure Pattern of the STR Assistance by Age Groups (% Share)*



[1] Others refers to among others, includes housing maintenance, recreation and insurance

Source: Ministry of Finance, Malaysia

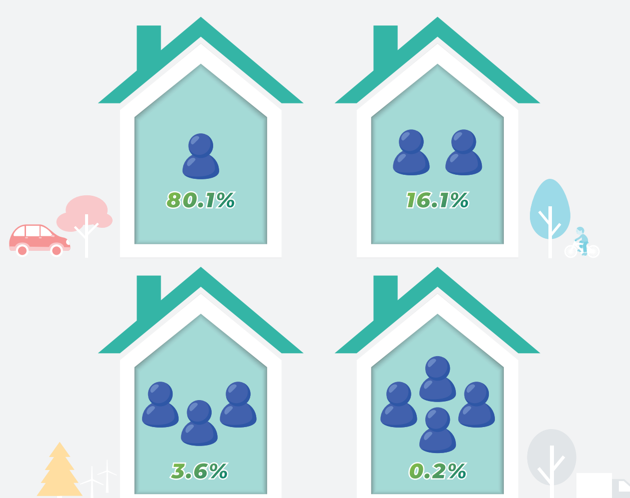
FIGURE 1.2.4. *Income and Expenditure by Age Groups*



Source: Department of Statistics and Ministry of Finance, Malaysia

In the meantime, the analysis indicates that almost 20% of respondents with two or more household members also received the STR, as shown in Figure 1.2.5. Apart from the head of the household, this STR assistance is received by the elderly and single individuals.

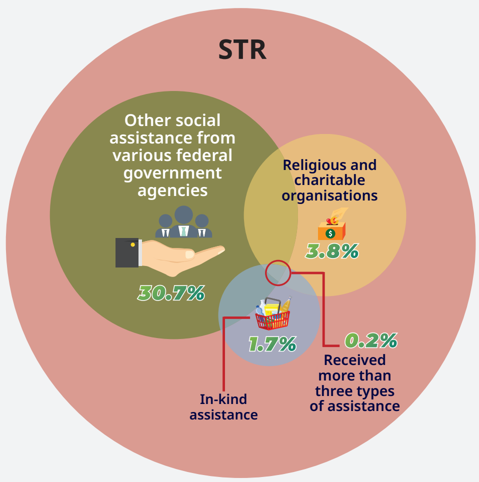
FIGURE 1.2.5. *STR Recipient in a Household (% Share)*



Source: Ministry of Finance, Malaysia

Additionally, the analysis found that 36.2% of households are benefitting from multiple forms of assistance other than the STR. Specifically, 30.7% of households receive social assistance from various federal government agencies[8], followed by religious and charitable organisations[9] (3.8%) and community support programmes[10] (1.7%), as shown in Figure 1.2.6. This illustrates the existence of a layered social safety net to meet different household needs. On the other hand, the analysis also revealed that 1.7% of hardcore poor households only received STR assistance, highlighting the need to ensure inclusive coverage that no eligible individuals are overlooked in the distribution of assistance.

FIGURE 1.2.6. *Assistances Received other than the STR*



Source: Ministry of Finance, Malaysia

Recommendations

Based on the findings, policy recommendations for social assistance programmes in Malaysia are as follows:

- **Strengthening skill**: In addressing the low-wage employment with SPM or lower qualifications, the skill development pathways need to be enhanced, enabling these workers to upgrade their qualifications and improve earning potentials. Moreover, for the self-employed, access to entrepreneurship development programmes, financial support and social protection coverage should be strengthened, aimed at boosting income generation. These initiatives could potentially increase income and reduce long-term reliance on cash assistance. For those aged 60 and above who remain employed, targeted programmes including flexible employment options and more healthcare benefits, will be essential in ensuring their economic stability and well-being.

[8] Includes Bantuan Awal Persekolahan and assistances from Jabatan Kebajikan Masyarakat.
[9] Includes Bantuan Baitulmal and Zakat.
[10] Includes assistances from non-government oganisation such as food basket and other contribution.

- **Quality of life**: Collective action is needed in the effort to address issues regarding high cost of living. These include advocating policies that promote decent living wages, affordable housing and healthy lifestyle. In addition, initiatives aimed at improving financial literacy to empower individuals to manage their finances better are also crucial. Furthermore, a policy review focused on strengthening savings mechanisms for low-income groups, especially among self-employed individuals, can cultivate a savings culture and enhance financial resilience in the long term.

- **Rationalising of the assistance programmes**: A comprehensive review of existing social assistance programmes is imperative for fiscal sustainability. Harmonising policies through a centralised regulatory framework can reduce overlaps as well as enhance inter-agency coordination and efficiency. Introducing an overarching legislation to govern social protection, administered by a single agency, could streamline overlapping programmes and improve take-up rates. A periodic review of current assistance is pertinent to ensure efficient resource allocation, while identifying areas for improvement. Meanwhile, establishing a one-stop centre for social assistance information and registration can further facilitate access to eligible recipients.

- **Database integration**: Adopt an integrated data management system that automates and consolidates all data information to reduce inadvertent errors that led to incidents of inclusion and exclusion errors. Currently, Pangkalan Data Utama (PADU) has been designed to create a centralised and accurate database that can integrate data through the interoperability of existing platforms, under various agencies, such as PDPS, eBantuan and eKasih. This will ensure that the Government can deliver better services to the rakyat through a cohesive digital ecosystem.

- **Alternative funding**: The Government should explore alternative funding for social assistance such as waqf, *sadaqah* and philanthropic financing that could be integrated into the ecosystem. This alternative funding encourages the society to participate in social fund raising.

The findings of this case study are still at a preliminary stage and necessitate further a more comprehensive research to be conducted in the future. To ensure that these findings contribute meaningfully to the formulation of government policy, a more in-depth analysis of the behavioural profiles of STR recipients is essential.

Conclusion

The Government has demonstrated a strong commitment to ensure well-being of the rakyat including through provision of cash assistance. While the Government allocates significant fiscal resources to cash assistance, reforms are essential to enhance programme effectiveness. Looking ahead, Malaysia will continue striving for a more equitable and efficient allocation of resources to uplift quality of life to those in need. Against this backdrop, the focus must shift towards empowering low-wage workers and targeted support for vulnerable groups, while upholding fiscal sustainability.

Preserving National Heritage and Muafakat

The core values of MADANI closely align with the five pillars of the National Principles, fostering a spirit of mannerism, volunteerism, unity, an active and healthy lifestyle as well as embracing Malaysia's rich heritage. Additionally, the agenda of promoting unity in a multicultural society should be emphasised through programmes aimed at strengthening cohesion among Malaysia's diverse communities. This is also consistent with the principles of Syiar Islam, which encourage the practice of *tasamuh* (tolerance) and discourage extremism, preserving *muafakat* and harmony among the rakyat. Budget 2025 will continue to promote these values among the young generation through the education system and sport activities while empowering the communities to preserve and promote Malaysia's diverse cultural heritage, languages, and arts. This multi-faceted approach ensures that the nation's rich traditions are passed on to future generations while simultaneously fostering unity in diversity.

Safeguarding National Sovereignty and Maslahat

Safeguarding national sovereignty and upholding the *maslahat* (public interest) of the rakyat are central to ensuring the security and stability of the nation. The Government's commitment to homeland security and national defence is critical in addressing both internal and external threats, thereby maintaining peace and order. In this regard, Budget 2025 will continue enhancing the capabilities of the defence forces and security agencies to protect its sovereignty, while ensuring the safety and security of the rakyat. Strengthening national borders also remains a priority, particularly in managing cross-border activities through strategic inter-agency cooperation and safeguarding territorial integrity amidst regional and global challenges. In addition, the Government will ensure Malaysia is resilient against impending catastrophes by undertaking emergency control and mitigation efforts in disaster-prone areas to protect lives and minimise disruptions to national development.

Public Sector Reform

Public sector reform is essential in strengthening governance and accountability as well as improving competency and public service delivery. As Malaysia weathers through economic challenges, comprehensive fiscal reforms are necessary to enhance transparency, optimise resource allocation, and maintain fiscal discipline. Strengthening governance frameworks is key to fostering trust in public institutions. Moreover, improving the effectiveness of public service delivery ensures government services are accessible, efficient, and responsive to the needs of the rakyat. In parallel, parliamentary reforms are crucial in enhancing legislative oversight and accountability, reinforcing governance, and fostering greater public engagement in policymaking.

Fiscal Reforms

Amid ongoing global uncertainties, trade tensions, and volatile financial markets, Budget 2025 is formulated to reinforce Malaysia's fiscal sustainability, hence supporting a balanced and an inclusive economic growth. In this context, Act 850 provides clarity in fiscal policy management to enhance fiscal discipline and responsibility. The Act necessitates the Government to diversify its revenue streams, optimise public expenditure, and effectively manage debt levels, with an emphasis on sound fiscal risk management. Therefore, the implementation of fiscal reform initiatives is crucial in ensuring fiscal sustainability, rebuilding fiscal capacity, and fostering resilient long-term economic growth, while safeguarding the well-being of the rakyat.

The path towards fiscal consolidation will be supported by enhancing revenue generation and optimising spending to achieve long-term fiscal sustainability. Hence, the Government will continue to broaden the tax base, establish a fair and equitable tax system, minimise tax leakages, and improve tax compliance.

Measures to enhance tax administration will entail simplifying procedures, enhancing collection mechanisms, as well as leveraging advanced technologies and data analytics. The introduction of e-Invoice will improve transparency and compliance, enabling tax authorities to effectively monitor and verify transactions, while helping businesses reduce administrative burden and enhance overall efficiency.

In addition, the Government consistently reviews the expenditure policy to ensure efficiency, effectiveness and value for money. In terms of resource allocation, policy continuation to shift towards targeted subsidies will enable the Government to reduce wastages and leakages, while providing fiscal space to improve assistance to vulnerable groups. Furthermore, the establishment of a special committee to rationalise the roles and functions of federal statutory bodies will help eliminate redundancies, hence enhancing the quality of public service delivery.

Governance

The Government will further emphasise good governance principles such as accountability, transparency and inclusivity to deliver public services with integrity. Focus will be given on strengthening institutional integrity, enhancing public sector accountability, promoting wider public involvement in governance processes, and addressing issues related to bureaucracy and inefficiencies. In strengthening public service accessibility, efficiency and effectiveness, Budget 2025 will review outdated regulatory and circular processes, strengthen the Good Regulatory Practice (GRP) approach, and expedite business approval processes. Furthermore, the digitalisation of public services through technology adoption in the work process will be further enhanced to accelerate the Government's decision-making process.

The Government will further encourage private investments to fund development of key public infrastructure through the Public-Private Partnership Master Plan 2030 (PIKAS 2030), which intends to achieve a more effective sharing of returns and risks with the private sector towards achieving better outcomes for public services. This will accelerate national development efforts by improving the public-private partnership ecosystem, centralising coordination, developing project diversification, and expediting implementation.

Public Service Delivery

The Government aims to elevate public service delivery in improving the nation's productivity, efficiency and competitiveness such as the STAR initiative. The Public Service Remuneration System (SSPA), effective 1 December 2024, intends to create a more dynamic, professional and efficient civil service. Budget 2025 will support the implementation of the SSPA by providing resources for the new remuneration structure, emphasising performance-based and competency development. This development will not only motivate higher productivity but also enhance the attractiveness of career development in the public sector.

At the same time, the Government is taking measures to strengthen inter-agency cooperation in avoiding duplication and waste of resources. In the course of identifying other cost-saving potentials, the Government will rationalise programmes locally and abroad as well as streamline overseas missions, while implementing job rotation across different ministries and departments for civil servants.

Specifically, all stakeholders will be required to participate in the ongoing Government Technology (GovTech) initiative, to holistically improve the quality of public data and public services. The seamless digital platform will create an interconnected digital ecosystem, enabling the interoperability of various government services in an integrated and secure manner. Pangkalan Data Utama (PADU) will continue to serve as the data backbone for Malaysia, centralising socioeconomic data from all government agencies. GovTech will then leverage this centralised data to create a seamless digital platform for widely accessible, efficient and transparent public services.

Parliamentary Reforms

Parliamentary reforms is currently taking place to strengthen its role as a check and balance on the executive power of the Government in increasing governance transparency and accountability. These reforms are driven by the need to enhance democratic practices, modernise parliamentary processes, and increase public trust in the Government. The reform agenda will develop integrity instruments to ensure better governance and conduct at all levels of government.

Conclusion

The country's steady domestic demand and favourable external sector, coupled with the implementation of measures outlined in Budget 2025, will drive economic growth between 4.5% and 5.5% in 2025. Malaysia aspires to enhance its global competitiveness, improve the rakyat's quality of life, and ensure economic benefits are distributed across all segments of society. In achieving this, the Government will expand a green economy, develop quality infrastructure, enhance border security, promote regional trade and strengthen fiscal sustainability, while fortifying domestic industries through the promotion of broad-based technological advancements, productivity and competitiveness.

Budget 2025 will focus on restructuring the economic foundation to continue driving growth, attracting quality investments, as well as advancing innovation and sustainability across all sectors. In parallel, the Government will prioritise efforts to enhance the rakyat's well-being by improving the social protection system, providing employment with meaningful wages and strengthening policies to facilitate equitable distribution of the nation's wealth. The Government remains optimistic that Budget 2025 will bring Malaysia closer to realising the vision of Ekonomi MADANI framework, supported by a whole-of-nation approach.

References

American Association for the Advancement of Science. (2023, September 13). Towards a sustainable biochar market in Korea. *EurekAlert*. https://www.eurekalert.org/news-releases/1001369

Aurino, E., & Giunti, S. (2021). Social protection for child development in crisis: A review of evidence and knowledge gaps. *The World Bank Research Observer*, 37(2), 229–263. https://doi.org/10.1093/wbro/lkab007

Australia New Zealand Biochar Industry Group. (2023, June 1). *Australian Biochar Industry 2030 Roadmap*. https://anzbig.org/biochar-industry-2030-roadmap/

Bank Negara Malaysia. (2020). A vision for social protection in Malaysia. *Economic and Monetary Review* 2020. https://www.bnm.gov.my/documents/20124/3026377/emr2020_en_box1_socialprotection.pdf

Biochar Malaysia Association. (2021, November 9). *BMAIC 2021: 1st Biochar Malaysia Association International Conference*. https://biocharmalaysia.com/2021/11/09/431/

Carbon Standards International. (2023, April 5). *European Biochar Certificate: Guidelines for a sustainable production of biochar*. https://www.european-biochar.org/media/doc/2/version_en_10_3.pdf

Centre for Future Labour Market Studies. (2023). The need for escaping the wage curse. *Economic Outlook 2023*. https://progressive-wage-hub.euera.org/wp-content/uploads/2023/07/Economic-Outlook-2023-The-Need-for-Escaping-the-Wage-Curse.pdf

Commonwealth Scientific and Industrial Research Organisation. (2022, November 30). *Australia's carbon sequestration potential report*. https://research.csiro.au/tnz/australias-carbon-sequestration-potential/

Department of Statistics Malaysia. (2024a). *Gross Domestic Product Income Approach 2023*.

Department of Statistics Malaysia. (2024b). *Gross Domestic Product (2015 – 2023)*.

Department of Statistics Malaysia. (2024c). *Salaries and Wages Survey Report 2022*.

Economic Planning Unit, Prime Minister's Department, Malaysia. (2021). *Twelfth Malaysia Plan, 2021 – 2025. A prosperous, inclusive, sustainable Malaysia*.

Employees Provident Fund. (2023). *Belanjawanku 2022/2023*.

European Education and Culture Executive Agency. (2024, May 30). Sweden: Social Inclusion – Access to quality services. *In YouthWiki*. European Commission. https://national-policies.eacea.ec.europa.eu/youthwiki/chapters/sweden/46-access-to-quality-services

Global Center On Adaptation. (2024, February 20). *The biochar producers of Chiang Mai*. https://llahub.gca.org/stories/672483c4-0b1f-4763-bc74-cc5adad2fe86

Hogarth, N. J., & Belcher, B. (2013). The contribution of bamboo to household income and rural livelihoods in a poor and mountainous county in Guangxi, China. *International Forestry Review*, 15(1), 71-81. https://doi.org/10.1505/146554813805927237

IMD World Competitiveness Center. (2024). *IMD World Competitiveness Booklet 2024*. https://imd.widen.net/content/rjlc6fl2jl/pdf/booklet_wcy_2024.pdf

International Biochar Initiative. (2024, June 11). *How to make biochar: Biochar technology*. https://biochar-international.org/about-biochar/how-to-make-biochar/biochar-technology/

International Labour Organization. (2024, March 15). *ILO reaches agreement on the issue of living wages*. https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages

Khalidi, J. R., Muthusamy, N., & Rahim, M. A. R. A. (2023a, March). *The returns to Malaysian labour – Part I, wage growth and inequality from 1995 to 2019* (KRI Working Paper No. 3/23). Khazanah Research Institute. https://www.krinstitute.org/assets/contentMS/img/template/editor/Working%20Paper_The%20Returns%20to%20Malaysian%20Labour%20-%20Part%20I.pdf

Khalidi, J. R., Muthusamy, N., & Rahim, M. A. R. A. (2023b, September). *The returns to Malaysian labour – Part II, Wage gaps within and between subgroups from 2010 to 2019* (KRI Working Paper No. 5/23). Khazanah Research Institute. https://www.krinstitute.org/assets/contentMS/img/template/editor/The%20Returns%20to%20Malaysian%20Labour%20Part%20II%20Final.pdf

Khalil, I. A., Ali, M. Y., & Shaiban, M. (2019, November). *Waqf fund management in Kuwait and Egypt: Can Malaysia learns from their experiences*. In *Proceeding of the International Conference on Masjid, Zakat and Waqf (IMAF 2014)* (pp. 69-83). https://conference.uis.edu.my/i-maf/eproceedings/images/eproceedings/2014/wakaf/w07-imaf-2014.pdf

Malaysian Employers Federation. (2024a). *Salary survey for executives (various years)*.

Malaysian Employers Federation. (2024b). *Salary survey for non-executives (various years)*.

Meiwa Corporation. (2024). *Waste to black gold: Brief summary on environmental solutions by a biomass carbonization technology of Japan*. https://www.mofa.go.jp/files/000268774.pdf

Microsoft Corporation. (2023, June). *Microsoft carbon removal: Observations from our third year*. https://query.prod.cms.rt.microsoft.com/cms/api/am/binary/RW16V26

Ministry of Economy, Malaysia. (2023a). *Mid-Term Review of the Twelfth Malaysia Plan, 2021 – 2025. Malaysia MADANI: Sustainable, prosperous, high-income*.

Ministry of Economy, Malaysia. (2023b). *National Energy Transition Roadmap*. https://ekonomi.gov.my/sites/default/files/2023-08/National%20Energy%20Transition%20Roadmap.pdf

Ministry of Higher Education, Malaysia. (2024). *Graduate tracer study (various years)*.

Ministry of Human Resources, Malaysia. (2020). *Guide on Starting Wages 200 Selected Skills Based Jobs*.

Ministry of Investment, Trade and Industry, Malaysia. (2023). *New Industrial Masterplan 2030*. https://www.nimp2030.gov.my

Ministry of Plantation and Commodities, Malaysia. (2023). *National Biomass Action Plan 2023-2030*. https://www.kpk.gov.my/kpk/images/mpi_biomass/27122023-National_Biomass_Action_Plan.pdf

Ministry of Primary Industries, New Zealand. (2024). *Maori Agribusiness*. https://www.mpi.govt.nz/dmsdocument/53421-Maori-Agribusiness-Fact-sheet

Mottain, M. (2021, May 22). Malaysia on track to achieve high-income nation status. *The Star*. https://www.thestar.com.my/business/business-news/2021/05/22/malaysia-on-track-to-achieve-high-income-nation-status

Moya, B. (2023, November 23). *Biochar is carbon removal's jack of all trades. Here's why*. World Economic Forum. https://www.weforum.org/agenda/2023/11/biochar-carbon-removals-jack-of-all-trades-for-immediate-climate-action/

Muzamir, M. Y. (2024, August 18). MTUC: Revise Employment Act to mandate wage increases for private sector. *New Straits Times*. https://www.nst.com.my/news/nation/2024/08/1093098/mtuc-revise-employment-act-mandate-wage-increases-private-sector

Naning, H., & Shafie, N. (2022, October 3). *An inclusive social protection for all: Malaysia's Social Protection Project launched*. United Nations Development Programme. https://www.undp.org/malaysia/blog/inclusive-social-protection-all-malaysias-social-protection-project-launched

Núñez, P. S. (2024, April 11). Sustaining wealth for future generations through Norway's oil surplus (1990–ongoing). *New York University Center on International Cooperation*. https://www.sdg16.plus/policies/sovereign-wealth-fund-norway/

Offset8 Capital. (2024, February 27). *Offset8 announces the first transaction from Abu Dhabi to finance Sawa's $50m carbon credit project in Indonesia*. https://offset8capital.com/news/offset8-announces-the-first-transaction-from-abu-dhabi/

Ogawa, M. (2024). *Introduction to the pioneer works of charcoal uses in agriculture, forestry and others in Japan*. Japan Biochar Association. https://biochar.jp/en/biochar-in-japan/

Prime Minister's Office of Malaysia. (2023, July 27). *Ekonomi MADANI: Memperkasa Rakyat*. https://www.pmo.gov.my/ms/2023/07/ekonomi-madani-memperkasa-rakyat/

Qi, H. E. (2024, June 18). Malaysia ranks 34th most competitive economy in 2024, down seven places. *The Edge Malaysia*. https://theedgemalaysia.com/node/715786

Segal, M. (2024, March 25). Microsoft signs 95,000 ton biochar carbon removal deal with climate solutions startup The Next 150. *ESG Today*. https://www.esgtoday.com/microsoft-signs-95000-ton-biochar-carbon-removal-deal-with-climate-solutions-startup-the-next-150/

Social Wellbeing Research Centre. (2023, April). Protect, Promote and Prevent: Spearheading social protection initiatives for all. *SWRC Social Protection Bulletin*, 3(2). Universiti Malaya. https://swrc.um.edu.my/bulletin/SWRC Social Protection Bulletin Vol 3 No 2 April 2023.pdf

The Next 150. (2024a). *Our projects*. https://thenext150.com/projects/

The Next 150. (2024b, March 21). *The Next 150 inks 6-year agreement with Microsoft for 95,000 high-quality biochar carbon removal credits*. https://thenext150.com/the-next-150-inks-6-year-agreement-with-microsoft-for-95000-high-quality-biochar-carbon-removal-credits/

United Nations Childrens' Fund Malaysia. (2018, February 26). *Children without: A study of urban child poverty and deprivation in low-cost flats in Kuala Lumpur*. https://www.unicef.org/malaysia/sites/unicef.org.malaysia/files/2019-04/UNICEF-ChildrenWithout-EnglishVersion-Final 26.2.18_0.pdf

United Nations Childrens' Fund Malaysia. (2024). *Key findings living on the edge: Longitudinal study on post-COVID-19 impact assessment among low-income households in Kuala Lumpur*. https://www.unicef.org/malaysia/media/4626/file/Living on the Edge (key findings)(ENG).pdf

US Biochar Initiative. (2023). *About us*. https://biochar-us.org/us-biochar-initiative

Wang, H. (2020, October 4). *Bamboo, roads and tourism help a Guizhou village shake off poverty*. CGTN. https://news.cgtn.com/news/2020-10-04/Bamboo-roads-and-tourism-help-a-Guizhou-village-shake-off-poverty-UjlS6psTSw/index.html

Wetzel, D., & Econômico, V. (2013, November 4). *Bolsa Família: Brazil's quiet revolution*. World Bank. https://www.worldbank.org/en/news/opinion/2013/11/04/bolsa-familia-Brazil-quiet-revolution

World Bamboo. (2024, April 30). *12th World Bamboo Congress Taiwan a great success!* https://www.worldbamboo.net/news-1/12th-world-bamboo-congress-taiwan-a-great-success!

World Bank. (2014, November 19). *A model from Mexico for the world*. https://www.worldbank.org/en/news/feature/2014/11/19/un-modelo-de-mexico-para-el-mundo

World Bank. (2018, March 14). *The state of social safety nets 2018*. http://hdl.handle.net/10986/29115

World Bank. (2020). *Doing business 2020*. https://documents1.worldbank.org/curated/fr/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

World Bank. (2021a, March 15). *Aiming high: Navigating the next stage of Malaysia's development*. https://www.worldbank.org/en/country/malaysia/publication/aiminghighmalaysia

World Bank. (2021b, June 9). *Business regulatory environment*. https://www.worldbank.org/en/topic/investment-climate/brief/business-regulatory-environment

World Bank. (2024, April 23). *Malaysia Economic Monitor, April 2024: Bending bamboo shoots: Strengthening foundational skills*. https://doi.org/10.1596/41465