

## THE 2009 BUDGET SPEECH

by

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PRIME MINISTER AND MINISTER OF FINANCE  
INTRODUCING THE SUPPLY BILL (2009)  
IN THE DEWAN RAKYAT  
29 AUGUST 2008  
A CARING GOVERNMENT**

Mr. Speaker Sir,

I beg to move the Bill intituled "An Act to apply a sum from the Consolidated Fund for the service of the year 2009 and to appropriate that sum for the service of that year" be read a second time.

### INTRODUCTION

In the name of Allah, the Most Gracious and the Most Merciful.

Praise be to Allah, for enabling me to present the 2009 National Budget in this Honourable House.

During the past 51 years, the quality of life of Malaysians has undoubtedly improved. The formula of power sharing and pragmatism has enabled Malaysia to emerge as a politically stable and prosperous nation. Despite the trials and tribulations of 1969, 1972, 1986, and 1997, we have prevailed and grown from strength to strength. Today, as we face a global environment of higher prices and slower economic growth, I am confident, if we remain united, we shall overcome this challenge as well.

The spirit of solidarity is truly tested during difficult times. As we move forward, loyalty to the nation and the sense of unity continue to be indispensable in building a peaceful and prosperous nation. While democracy allows for the expression of different views, we must, however, remain united on fundamental issues of national interest.

The world economy and the financial markets are facing numerous challenges and uncertainties. The global economy has been affected by sharp increases in the price of oil, as well as commodity and food prices. The instability in the financial sector in the United States has affected not only its economy but the European economies as well. Although economic outlook in the Asian region, especially in India and China, remains favourable, inflationary pressures may, to some extent, affect their domestic demand. These global developments would also affect Malaysia.

Notwithstanding this, the Malaysian economy remains strong and resilient. A diversified economy and export market, as well as high international reserves, provide greater flexibility for the economy to face an increasingly challenging external environment.

The Malaysian economy continues to record sustained growth. Strong economic fundamentals, as well as increased domestic demand, have resulted in the gross domestic product (GDP) achieving a growth of 7.1% during the first quarter of this year, and 6.3% for the second quarter of 2008. GDP growth for the first half of this year was, therefore, 6.7%. Although the nation will be somewhat affected by global developments, the Government is confident that Malaysia's economy will continue to remain stable with a GDP growth of 5.7% this year.

### THE 2009 BUDGET

The 2009 Budget is focused on enhancing the well being of all Malaysians. For this purpose, it is crucial to further strengthen our nation's economic resilience to mitigate the adverse impact of an increasingly challenging external environment.

With the theme A Caring Government, and in line with the five thrusts of the National Mission, the 2009 Budget will focus on three specific strategies, namely:

**First: Ensuring the Well Being of Malaysians;**  
**Second: Developing Quality Human Capital; and**  
**Third: Strengthening the Nation's Resilience.**

### **FIRST STRATEGY: ENSURING THE WELL BEING OF MALAYSIANS**

The Government will ensure that all Malaysians continue to benefit from the country's economic growth. In this regard, the Government will implement a broad range of measures to reduce the impact of the higher cost of living, particularly among the lower income group and the vulnerables.  
Social Safety Net

The Government empathises with the difficulties faced by the lower income group, arising from the higher cost of living. In this regard, the Government has raised the eligibility criteria for welfare assistance under the Welfare Department, from a monthly household income of RM400 to RM720 for Peninsular Malaysia, RM830 for Sarawak and RM960 for Sabah. With this increase, the number of eligible recipients is expected to double from 54,000 households to 110,000. This includes an increase in the number of eligible senior citizens from 14,000 to 40,000. For this purpose, an additional RM500 million is allocated.

The Government recognises the contributions of pensioners towards the development of the country. To assist the lower income pensioners to cope with the recent price increases, government pensioners who had served at least 25 years upon retirement, will receive a pension of not less than RM720 per month, effective 1 January 2009. This increase will involve an additional allocation of RM140 million for 2009 and will benefit 75,000 retirees, including those receiving derivative pensions.

The Government has always assisted victims of calamities, such as floods and fire. The Government will now also set up a special fund of RM25 million to channel timely financial assistance to families deprived of their sources of income, particularly arising from accidents to breadwinners.

The Government, together with the corporate sector, has set up several homes under the concept of Rumah Tunas Harapan to provide upbringing in a family setting for less fortunate children. Under this initiative, the corporate sector provides the houses, while the Government bears the operating expenses. Given the heavy responsibility of the caregivers in these Rumah Tunas Harapan, the Government will increase their allowance from RM600 to RM1,000 per month, effective 1 September 2008. In this regard, the Government encourages the private sector to set up more such homes.

### **Eradicating Poverty**

The Government has, through various measures, successfully reduced the incidence of poverty from 5.7% in 2004 to 3.6% in 2007. The number of hardcore poor households has declined by 43% from 67,300 in 2004 to 38,400 in 2007. The Government is confident that the incidence of hardcore poverty will be eradicated by 2010.

The Government will continue to implement programmes to enhance income, as well as provide skills and career development training under the Skim Pembangunan Kesejahteraan Rakyat. In addition, Program Lonjakan Mega Luar Bandar is being implemented in Pulau Banggi, Sabah and Tanjung Gahai, in Kuala Lipis, Pahang. For this purpose, a sum of RM220 million is allocated, benefiting 13,300 households.

With respect to housing, a total of 3,500 new houses were built, and 2,000 houses were repaired under the Housing Assistance Programme during the period 2006 to 2008, to enable hardcore poor to own decent homes. In 2009, an allocation of RM50 million is provided to build 1,400 new houses and repair 1,000

houses. Priority will be given to senior citizens, the disabled and single parents with many dependents as well as victims of natural disasters.

Hardcore poverty in Sabah and Sarawak has been significantly reduced. In Sabah, the number of hardcore poor households has declined from 32,400 in 2004 to 18,100 in 2007, while in Sarawak, from 5,200 to 3,600 during the same period. Measures will continue to be taken to increase income and enhance the quality of life of Malaysians in these two states by improving basic amenities, such as electricity, water and rural roads. For this, RM580 million and RM420 million are allocated for Sabah and Sarawak, respectively.

As part of the Government's effort to further reduce the financial burden of the lower income group, households which incur monthly electricity bills of RM20 or less, will not have to pay for electricity, for the period from 1 October 2008 to end of 2009. The Government will bear the cost of such bills, amounting to RM170 million for the period. A total of 1.1 million households will benefit from this measure.

### **Increasing Disposable Income**

The higher inflation rate has also affected the purchasing power of the lower middle-income group. To assist this group, the Government proposes the current tax rebate of RM350 per person be increased to RM400 for those with taxable income of RM35,000 and below. With this increase, some 100,000 tax payers will be out of the tax net.

In addition, to reduce the tax burden of individuals, especially those dependent on interest income from savings, the Government proposes that all interest income for individuals be tax exempt.

To mitigate the impact of rising prices on consumers, the Government proposes to reduce import duties on various consumer durables from between 10% and 60% to between 5% and 30%. These include blender, rice cooker, microwave oven and electric kettle. In addition, the Government proposes full import duty exemption on several food items, which currently attract import duties of between 2% and 20%. These include vermicelli, biscuits, fruit juices and canned sweet corn.

Currently, private passenger vehicles with diesel engines owned by individuals and companies are subject to a higher road tax compared with those with petrol engines. The Government will reduce the road tax on private passenger vehicles with diesel engines to be the same as those with petrol engines, effective 1 September 2008.

### **Enhancing the Welfare of Employees**

The private sector should make their employee welfare a priority. To support such initiatives, the Government proposes that the travel allowance for commuting to work provided by employers be given full tax deduction, while the employees receiving such an allowance be given tax exemption of up to RM2,400 per year.

In addition, the Government proposes tax exemption be given to employees on the following staff benefits:

First: interest subsidies on housing, motor vehicles and education loans. The tax exemption will be limited to total loans up to RM300,000;

Second: mobile phones, as well as telephone and internet bills paid by the employer;

Third: staff discounts of up to RM1,000 a year on company traded goods;

Fourth: staff discounts on services rendered by the company, such as private schools providing free education to children of their employees; and

Fifth: childcare allowance of up to RM2,400 per year.

Tax exemption on medical benefits provided by employers at present excludes maternity expenses. The Government proposes that the tax exemption be extended to include expenses on maternity. In addition, given the growing acceptance of traditional medicine, namely acupuncture and ayurvedic, the Government also proposes that tax exemption be extended to cover such medical benefits.

To assist civil servants with young children, the Government currently provides a subsidy of RM180 per month towards TASKA fees for those with monthly household income of RM2,000. Effective 1 January 2009, the eligibility criteria will be increased to RM3,000.

Currently, Government servants are given free return airfares to their home states, between Peninsular Malaysia, and Sabah and Sarawak, once every two years. To foster closer family ties, this facility will be provided every year, effective 1 January 2009.

### **Improving Public Transportation**

The Government will continue to encourage greater utilisation of public transportation, in the context of improving the productivity and quality of life. I have recently experienced for myself the condition of the public transportation system in our capital city. I believe, a more efficient, reliable and integrated public transportation, which provides seamless travel and greater frequency of services, is required.

RapidKL and RapidPenang were set up to improve public transportation in the Klang Valley and Pulau Pinang. Currently, RapidKL provides bus services along 166 routes, covering more than 980 housing areas. Of this, 14% are unprofitable social routes not plyed by other public transport companies. This is in line with the Government's aspiration to provide better public transportation for the benefit of Malaysians, especially those in the lower income group. On average, 400,000 passengers use bus services daily, while 350,000 use RapidKL rail services. Overall, RapidKL provides 44% of total public transport services in the Klang Valley.

RapidPenang provides bus services on 33 routes in 106 housing areas with ridership of 46,000 passengers daily, constituting 60% of total bus services in Pulau Pinang. To widen the service network, 200 additional buses will be provided, bringing the total to 350. With this, RapidPenang services will be extended to cover 14 new routes and ridership is estimated to increase to 120,000 passengers daily by end of 2009.

To further improve the efficiency of public transportation, a sum of RM35 billion will be expended during the period 2009 to 2014. This includes projects to enhance the capacity of existing rail services, build new rail tracks, increase the number of buses, as well as provide better infrastructure facilities.

The existing LRT system in the Klang Valley will be extended by 30 km, that is 15 km respectively, for Kelana Jaya and Ampang lines. Upon completion in 2011, the extensions are expected to benefit 2.6 million residents in the Subang Jaya-USJ and Kinrara-Puchong areas, compared with 1.9 million currently.

At the same time, 35 train carriages for the Kelana Jaya Line have been procured costing RM1.3 billion and these trains will be fully operational by early 2010.

With these measures, the capacity of the Kelana Jaya Line will more than double from the current 160,000 passengers daily to 350,000, while for the Ampang Line, it will increase from 150,000 to 280,000.

To further expand the urban rail service network in the Klang Valley, a new LRT line will be built along a 42 km route from Kota Damansara to Cheras. This new line, with a capacity exceeding 300,000 passengers daily, will, upon completion in 2014, provide rail services to more than one million residents in the housing, industrial and financial areas in the vicinity.

The Government also took over the assets and operations of KL Monorail, from a private operator in 2007. Several measures were taken to improve the operational efficiency and maintenance. Following this, the

twelve trains acquired are now fully operational. Since the takeover, total ridership has increased by more than 10% from an average of 51,000 passengers daily to 57,000 currently. This takeover will contribute towards establishing a more integrated urban rail service in the Klang Valley.

The commuter rail services of Keretapi Tanah Melayu Berhad (KTMB) will be upgraded. Towards this end, rehabilitation works are being undertaken on the existing 20 Electric Multiple Units (EMUs) and are expected to be completed in 2009. An additional 13 new units of EMUs will be acquired and be operational by 2011. With this, the capacity of the KTM Commuter is expected to increase from the current 350,000 to 500,000 passengers daily. To expand the commuter rail services network, a 7.5 km Sentul-Batu Caves line is under construction and is expected to be completed by 2010.

In addition, the two major projects being implemented to improve KTMB services are the Double-tracking Electric Rail for Seremban-Gemas and Ipoh-Padang Besar, which are expected to be completed in 2012 and 2013, respectively.

An integrated transport terminal is being built in Bandar Tasik Selatan, to provide facilities for inter-urban taxis and buses, especially from the southern region in the Peninsular. The modern five-floor terminal can accommodate more than 130 taxis and 100 buses, complete with parking facilities and commercial lots, and will provide connectivity to the Ampang Line, ERL and KTM Commuter as well as urban taxis and buses in the Klang Valley. This terminal is expected to be operational in 2011.

To provide facilities for inter-urban taxis and buses from the northern region, a new integrated transport terminal will be built. This terminal will contribute towards further reducing traffic congestion in the heart of Kuala Lumpur.

Public transport operators play an important role in ensuring a comprehensive network of services, as well as providing more efficient, safe and high quality services, both in urban and rural areas. To reduce their operating costs, the Government has recently increased the quota for diesel subsidy for public transportation. In addition, the Government will undertake the following measures:

First: provide a soft loan facility of RM3 billion under the Public Transportation Fund, administered by Bank Pembangunan Malaysia Berhad (BPMB), to finance the acquisition of buses and rail assets; and

Second: reduce toll charges by 50% for all buses, except at border entry points, namely Johor Causeway, Second Link and Bukit Kayu Hitam, for a period of two years, effective 15 September 2008. The Government will provide compensation to toll operators for their loss of revenue, estimated at RM45 million per year.

In addition, bus operators will be given sales tax exemption on the purchase of locally assembled new buses and Accelerated Capital Allowance on the expenditure incurred. Further, the road tax will be reduced to RM20 a year for all bus and taxi operators, including rent-a-car and limousine operators.

The Public Land Transportation Commission will be established under the Prime Minister's Department, to plan, integrate, regulate and improve the overall public transportation services. This single authority is important to facilitate planning and coordination, as well as improve enforcement. The Commission is expected to commence operations by mid 2009.

### **Food Security**

The Government will implement several agriculture programmes to ensure adequate food supply. For this, a sum of RM5.6 billion is provided under the National Food Security Policy, for the period 2008 to 2010. This allocation, among others, is to provide incentives to agriculture entrepreneurs to reduce production costs and encourage higher agriculture output. About 350,000 vegetable and fruit growers, as well as aquaculture and livestock breeders, will benefit from these incentives.

In an effort to increase fish landings, an amount of RM300 million is allocated. Of this, RM180 million is in the form of cost of living allowance to fishermen and fishing boat owners, as well as RM120 million as incentive for fish landings. This will benefit about 100,000 fishermen, including boat owners.

In addition, to increase poultry output, the Government proposes that the expansion of chicken and duck farms be given Reinvestment Allowance of 60% for a period of 15 years.

The Government will provide 220,000 padi farmers throughout the country with incentives to increase padi production, which involves an allocation of RM1 billion. In this regard, more than 1,300 hectares of abandoned land have been identified for padi and other food production, such as fruits, vegetables and livestock.

An allocation of RM475 million is provided in the form of agricultural inputs, fertilizers and pesticides to assist padi farmers. To further assist farmers, the Government proposes that import duty on fertilizers and pesticides be abolished.

### **Generating Income through Micro Credit**

Amanah Ikhtiar Malaysia (AIM) was established to assist poor rural households to augment their income through micro credit financing. Since its inception in 1987, AIM has disbursed loans totalling RM2.5 billion to more than 180,000 poor households throughout Malaysia. Commencing this year, the scope and operations of AIM have been expanded to urban poor. For this purpose, the Government has set up the Urban Microcredit Financing programme, with a revolving fund of RM100 million. Initially, AIM has started its operations in Kuala Lumpur to assist households with monthly earnings of up to RM2,000. The programme will be extended to other urban areas nationwide, beginning 2009.

#### **Enhancing Quality Of Life Of Orang Asli**

The socio-economic status of the Orang Asli community will continue to be elevated to ensure they benefit from the nation's prosperity. In line with this, RM160 million is allocated to provide better education opportunities as well as improve health and basic amenities for the Orang Asli. Major programmes include the establishment of a transit centre of the Department of Orang Asli Affairs in Sungai Siput, Perak, to provide accommodation and medical facilities. In addition, priority will be given to social infrastructure development programmes, including housing assistance, planned resettlement, income generating programmes, as well as training. These programmes will benefit more than 32,000 Orang Asli.

### **Assisting The Less Fortunate**

At present, the Government provides a monthly allowance of RM300 to the disabled who are working. The purpose is to encourage the disabled to be gainfully employed. Recognising that some disabled are unable to work, the Government will now extend a monthly allowance of RM150 to them. In addition, the monthly allowance for disabled students in special education schools, will also be increased from RM50 to RM150, while teaching assistants in these schools will be provided incentive payments of RM200 per month.

### **Providing Low Cost Housing**

During the period 2004 to 2008, more than 100,000 units of low cost houses have been built by various agencies nationwide. In 2009, an allocation of RM330 million is provided to Jabatan Perumahan Negara to complete 4,400 units of Program Perumahan Rakyat (PPR) Disewa, 1,500 units of PPR Bersepadu and 600 units of PPR Dimiliki. In addition, Syarikat Perumahan Negara Berhad will build 33,000 low cost houses.

### **Improving Government Housing Loan**

To encourage home ownership among civil servants, the Government will improve the terms for staff housing loans, as follows:

First: extend the tenure of new housing loans from 25 years to 30 years;  
Second: provide housing loan facility for renovation works on houses not purchased through Government housing loan; and  
Third: extend the housing loan insurance panel to all eligible insurance companies.

At present, the panel is limited to five insurance companies.

### **Reducing Cost Of Home Ownership**

At present, buyers of low cost houses are given full stamp duty exemption on all instruments, including loan agreements. For the purchase of medium cost houses of up to RM250,000, a 50% stamp duty exemption is given only on the instrument of transfer. To further reduce the cost of buying medium cost houses, the Government proposes the 50% stamp duty exemption be extended to loan agreements.

Extending The Housing Credit Guarantee Scheme

In the 2008 Budget, I had announced the Housing Credit Guarantee Scheme (SJKP) to assist those without fixed income to own affordable houses. Under the Scheme, borrowers can obtain housing loans from Bank Simpanan Nasional and Bank Islam Malaysia Berhad to purchase low and medium cost houses. A fund of RM50 million was set up for this purpose. To date, nearly 500 applications valued at RM20 million have been approved. Beginning July 2008, the Government has rolled out the scheme to all local financial institutions. The fund size will be increased to RM100 million, enabling SJKP to guarantee loans amounting to RM2 billion. About 40,000 borrowers will benefit from this facility.

### **Promoting Corporate Social Responsibility**

In the 2008 Budget, the Government had announced the implementation of Program Amal Jariah with a fund of RM50 million to repair dilapidated houses of hardcore poor nationwide. To date, a total of 4,600 houses, with an estimated cost of RM24 million, have been repaired. For 2008, a total of 8,400 houses will be repaired.

The Government calls upon the private sector to contribute to the fund as part of its corporate social responsibility (CSR), to enable the poor to benefit from Program Amal Jariah. In this regard, the Government will provide a matching grant to the private sector for this programme. Initially, RM100 million is allocated for this purpose. About 30,000 dilapidated houses will be repaired.

Currently, tax deduction is given on contributions made by companies for community projects related to education, health, housing, infrastructure and ICT. To further enhance a culture of CSR, the Government proposes that the scope of community projects eligible for tax deduction be extended to include projects to enhance income of the poor, as well as conservation and preservation of environment. In addition, for companies contributing to charitable institutions, the Government proposes that the limit of deduction be increased from 7% to 10% of aggregate income.

Malaysia is one of the largest palm oil producers in the world. To enhance global acceptance of palm oil, there is a need to demonstrate strong social and environmental responsibility in our business practices. In this regard, the Government fully supports the initiative by palm oil plantations to obtain Roundtable For Sustainable Palm Oil (RSPO) certification. The Government will allocate RM50 million to provide a RSPO Fund to support community programmes, such as upgrading of schools in plantations, as well as implementing conservation programmes, such as enhancing biodiversity in plantations.

Enhancing Health Services

The Government will continue to provide free health services for Malaysians. A sum of RM13.7 billion is allocated in 2009 to enhance health facilities and provide equipments, increase supply of medicines, develop human resources, intensify research and enforcement activities, as well as build more hospitals, clinics and quarters.

In line with the Government's effort to encourage healthy lifestyle and curb social problems due to smoking, especially among youngsters and students, the Government proposes that excise duty specific on cigarettes be increased by three sen from 15 sen per stick to 18 sen per stick. With this, the duty for a 20-stick pack of cigarettes is now increased by 60 sen.

To retain the services of medical specialists in the public sector, the incentive allowance for medical specialists will be increased. This will involve 3,800 specialists, with an additional expenditure of RM26 million.

The Government will increase incentive payments for the flying medical teams in Sabah and Sarawak. For medical assistants, the increase is from RM20 to RM30 per return trip and for nurses from RM15 to RM30.

**Improving Public Amenities**

Infrastructure facilities will enhance the quality of life of the rural community. In the 2009 Budget, a sum of RM1.8 billion is provided to increase basic amenities and infrastructure in rural areas. Of this, more than RM1 billion is for projects involving 480 km of rural roads and 1,300 km of village roads. A sum of RM280 million is provided for rural water supply, targeting 30,000 households and RM350 million for rural electricity supply, covering 3,600 households. In addition, RM65 million is allocated for 11,700 public amenities projects in the rural areas.

The Government will intensify efforts to further develop Sabah and Sarawak. For Sabah, an allocation of RM3 billion is given for various infrastructure projects, including 266 km of federal and rural roads, benefiting more than 550,000 residents. The major projects include the construction of Phase II of Jeroco-Lahad Datu road, upgrading and repair works of Jalan Sandakan to Telupid, upgrading Phase II of Jalan Ranau to Tambunan, building the Semporna-Bum-Bum Island Bridge, replacing dilapidated bridges in the interior of Sabah, implementing tourism and ecotourism projects, providing hospital and rural health facilities as well as PPR Disewa.

An allocation of RM3.3 billion is provided for Sarawak to implement various projects, including the construction of 230 km of federal and rural roads, benefiting more than 350,000 residents. Among the major projects are the construction of Jalan Penghubung to the Sarawak New Federal Administrative Centre, Jalan Nangga Buai to Ulu Sepak, Betong, Jalan Awat-Awat to Kuala Lawas, Jalan Tanjong Assam to Saribas, Bengoh Dam in Kuching, an integrated Waste Water Management System in Kuching, PPR Disewa, tourism and ecotourism projects, as well as hospital and rural health facilities.

## **SECOND STRATEGY: DEVELOPING QUALITY HUMAN CAPITAL**

Mr. Speaker Sir,

The Government will continue to implement various programmes towards creating a pool of trained and competitive work force. To achieve this objective, a sum of RM47.7 billion is allocated for education and training, accounting for 23% of the total 2009 Budget allocation.

### **Enhancing Training and Skills Programmes**

A sum of RM2.4 billion is allocated to enhance facilities as well as undertake training and skills programmes. Of this, a sum of RM150 million is to upgrade 13 existing polytechnics as well as 15 community colleges and their branches. With this, the total enrolment is expected to reach 120,000 students, compared to 112,000 currently.

A sum of RM200 million is provided to existing Institut Latihan Perindustrian (ILP) and Advanced Technology Training Centre (ADTEC), as well as for the construction of a new ILP in Marang, Terengganu and an ADTEC in Taiping, Perak. An amount of RM360 million is allocated for Institut Kemahiran MARA (IKM) and Institut Kemahiran Tinggi MARA (IKTM), Kolej Pelajaran MARA (KPM) and Giat MARA projects. The monthly allowance for Giat MARA trainees will be increased from RM100 to RM200.

The Government will increase the number of nurses in public hospitals. A sum of RM70 million is allocated in 2009 to train 5,600 nurses in training colleges under the Ministry of Health, with 2,000 in recognised private training colleges. Furthermore, to cater for the increasing demand for nurses, graduates in related science courses will be allowed to pursue a career in nursing by undergoing a one and a half years diploma in nursing instead of the normal three years. In addition, to improve the skills and quality of nurses, the post of assistant nurses will be upgraded to community nurses, upon completion of a six-month nursing course.

To support the development of regional health tourism in the Northern Corridor Economic Region (NCER), the Government will provide a launching grant of RM30 million towards the establishment of an industry-based not-for-profit training centre. The objective of the centre is to upgrade the skills of existing nurses to meet increasing market demand for specialists in nursing.

The Construction Industry Development Board (CIDB) should take measures to train more workers in the construction industry. For this purpose, I have directed CIDB to provide at least 100,000 industrial training opportunities in technical fields such as welding, management and safety in 2009. Construction workers are encouraged to obtain skills certification through accreditation and skills training conducted by CIDB. The costs of accreditation and skills training for local workers will be borne by CIDB.

### **Improving Quality of Education**

The Ministry of Education is allocated a sum of RM31 billion for the benefit of 5.8 million students. Of this amount, RM1.6 billion is to finance the additional posts created following the opening of 26 primary and 41 secondary schools and the additional expenditure for maintenance, food assistance, scholarship, per capita grant and new equipment.

To meet the need for new schools and replace dilapidated schools, 110 primary and 181 secondary schools will be built. In addition, to ensure that existing schools are well maintained, an allocation of RM615 million is provided. This allocation for maintenance cannot be vired for other purposes.

To improve the quality of learning at institutions of higher learning, an allocation of RM14.1 billion is provided to the Ministry of Higher Education. Of this, RM8 billion is for Operating Expenditure for public institutions of higher learning, RM627 million for polytechnics and community colleges as well as RM37 million for the Malaysian Qualification Agency. A sum of RM4.4 billion represents Development Expenditure, including for the construction of clinical facilities and medical faculties as well as for research training.

### **Expanding the PINTAR Programme**

The Government welcomes the private sector's contribution to complement efforts towards enhancing the quality of education. In this regard, the PINTAR Programme, which involves adopting schools, by GLCs, was launched in 2006. As one of the initiatives under the GLC Transformation Programme, it has successfully involved the participation of 23 GLCs and their subsidiaries, benefiting 152 schools throughout the country, including Chinese and Tamil National Type Primary Schools. Among the achievements are improvements in the average passing rate of students as well as an increase in the number of students achieving excellent examination results.

The PINTAR Programme, which will be expanded to include participation by non-GLCs, will adopt 480 schools nationwide by 2012, with priority given to schools in Sabah and Sarawak. The Government will set up the PINTAR Foundation, with a launching grant of RM20 million to ensure that the implementation is coordinated as the Programme is expanded.

### **Culture of Excellence**

To improve the country's resilience and competitiveness, it is important to instil a culture of excellence and high performance at all levels of the work force, both in the private and public sectors. Towards this end, the implementation of Key Performance Indicators was introduced in the civil service and under the GLC Transformation Programme, with emphasis on performance-based wages at all levels of the workforce.

To support the Government's objective to create a knowledge based economy, it is important to increase the number of professionals serving in Malaysia and to minimise the brain drain. In this regard, the individual income tax rates have to be competitive and attractive. The Government, therefore, proposes that the highest marginal tax rate for individuals be reduced from 28% to 27%, effective the year of assessment 2009. In addition, the marginal tax rate of 13% will also be reduced to 12%, which will benefit the middle income group. These reductions, together with the increase in rebate, which I announced earlier, will benefit all taxpayers.

The Government welcomes initiatives undertaken by private sector employers to recognise the contributions of their workers. For this, the Government proposes that tax exemption on excellent service awards be extended to all awards relating to innovation and productivity.

As human capital is key towards increasing a company's competitiveness, employers should endeavour to recruit the best. In this regard, the Government proposes that recruitment costs, such as payments to employment agencies and participation in job fairs, be tax deductible.

### **THIRD STRATEGY: STRENGTHENING THE NATION'S RESILIENCE**

Despite the expected moderation in global economies, growth remains resilient in this region, particularly in China and India. This resilience provides significant opportunities for growth in selected sectors of the Malaysian economy, as follows:

First: regional services, such as Islamic finance, business process outsourcing, tourism, healthcare and aircraft maintenance, repair and overhaul (MRO);

Second: resource based industries, particularly petroleum and palm oil; and

Third: higher value added manufacturing, such as electronics and biotechnology.

Malaysia has demonstrated competitiveness in these sectors, underpinned by the strength of our professionals, who have excelled and are recognised globally. To further strengthen Malaysia's competitiveness, we need to train larger numbers and upskill existing professionals in growth sectors. Towards this end, the Government has allowed double deduction for courses conducted by INCEIF in Islamic finance. The Government proposes to extend the double deduction to employers for sponsoring their employees to pursue postgraduate studies in areas, such as in ICT, electronics and life sciences. In addition, withholding tax exemption will be given to non-resident experts providing technical training services in these areas.

### **Conducive Environment For Private Investment**

The Government will continue to provide a conducive environment to encourage private sector activities. This includes measures to ensure Malaysia remains the preferred destination for foreign investments. In 2007, FDI inflow was 5.2% of GDP compared to 2% in China and 1.3% in India. Malaysia continues to attract foreign investments in a wide range of industries, especially in oil and gas as well as manufacturing. To further promote private sector investment, the Government proposes that the tax treatment on group relief be enhanced by allowing losses for the purpose of offsetting be increased from 50% to 70%.

The greater utilisation of ICT is essential for businesses to remain competitive. However, the use of ICT requires companies, especially SMEs, to incur large expenses to replace and upgrade ICT assets. To assist the private sector in this regard, the Government proposes that Accelerated Capital Allowance on expenses incurred on ICT equipment, which is currently claimed over two years be accelerated to one year.

To ensure Malaysia remains an attractive investment destination in the region, particularly among multinational companies, the tax framework has to be transparent and business friendly. To enhance certainty on pricing issues for inter-company trades within a group, the Government proposes to introduce an Advanced Pricing Arrangement mechanism. This mechanism is widely practiced in developed countries and has succeeded in resolving issues relating to transfer pricing.

Improving operating efficiency in ports is key to facilitating the growth in the nation's international trade. In this regard, the Government proposes to abolish the import prohibition on cranes used at ports, as well as reduce the import duty from 20% to 5%.

### **Development of Growth Corridors**

The Government remains committed towards corridor development initiatives to ensure more regionally balanced socio-economic development of the nation. The intention is to provide more investment, employment and entrepreneurial opportunities in the various regions. Thus far, all the five economic corridors have been launched and initiatives, as outlined in the respective Development Masterplans, are beginning to be implemented. The five economic corridors are Iskandar Malaysia, NCER, East Coast Economic Region (ECER), Sarawak Corridor of Renewable Energy (SCORE) and Sabah Development Corridor (SDC). In the Midterm Review of the 9MP, an additional ceiling of RM10 billion has been allocated for the development expenditure of the corridors, of which RM6 billion is provided in the 2009 Budget.

To further strengthen private investment in Iskandar Malaysia, an additional allocation of RM300 million is provided under the Strategic Investment Fund. The Fund is to finance the implementation of private-public partnership projects, in the areas of public transportation, healthcare services, education and creative industries. These are priority socio-economic areas, where Government will support the project viability, but with the private sector bearing the project risks. In healthcare, for example, instead of the Government constructing and operating hospitals, the provision of such public services can be partly met through the Government procuring such services from private sector providers.

Iskandar Malaysia will develop an integrated public transportation system, initially focusing on enhancing bus services by working together with existing bus operators. In the area of healthcare, a centre of excellence for postgraduate teaching and research will be established in partnership with private sector hospitals. Iskandar Malaysia will also set up and operate not-for-profit schools, initially on a pilot basis. These schools will have a mixed intake of Government and privately funded students. In addition, a creative cluster will be developed in Iskandar Malaysia, with funds channelled towards enhancing the capabilities of local creative talent.

Among the major projects being implemented in the ECER are Agropolitan in south Kelantan, Besut-Setiu and Pekan, including developing kenaf products. In the context of optimising the natural resources of the state, the Kertih Plastics Industry Cluster will be developed as a downstream industry, to enable the local residents to benefit from the petroleum resources in Terengganu. Similarly, the SCORE will focus on the development of hydroelectric power and coal, petroleum and gas downstream industries, as well as large-scale agriculture.

Towards realising the potential of agriculture in NCER, a number of projects are being implemented, including cattle breeding using the feedlot system in Tobiar, Laka Temin and Cuping, as well as the conversion of about 3,000 hectares of idle land for padi cultivation. In the SDC, a palm oil industry cluster in Lahad Datu and an integrated livestock centre in Keningau are being implemented.

#### **Promoting Tourism**

In the context of the corridor development in Sabah and Sarawak, the Government proposes that new investments by 4-star and 5-star hotel operators in Sabah and Sarawak be given Pioneer Status with 100% income tax exemption or Investment Tax Allowance of 100% for 5 years.

In July 2008, UNESCO listed Melaka and Georgetown as World Heritage Sites for the living culture, history, architecture and diversified culture. This reflects a global recognition of our rich and diversified cultural heritage. To support preservation initiatives, the Government will provide an allocation of RM50 million for conservation works of heritage sites in Melaka and Pulau Pinang, to support activities undertaken by non-governmental organisations (NGOs) and private sector.

### **Promoting Venture Capital Companies**

Many innovative but high risk projects often have difficulty in securing financing. Conventional sources of funding, namely bank borrowings and private debt securities, may not be appropriate for these projects. To facilitate greater investment by venture capital and private equity funds, the Government proposes that venture capital companies that invest at least 30% of their funds in start-up, early stage financing or seed capital be eligible for a 5-year tax exemption.

### **Developing Maritime Sector**

As a major trading nation, the local shipping industry will be promoted to encourage the participation of more local shipping companies in freight shipment. Two funds, totalling RM2.3 billion, were set up under BPMB, namely the Malaysian Shipping Finance Fund and New Shipping Finance Facility to finance purchase of ships. These funds have been fully utilised by 68 shipping and eight shipyard companies. As such, a new RM2 billion fund will be set up to finance the purchase of ships and upgrade shipyards.

### **Promoting Small and Medium Enterprises**

Small and Medium Enterprises (SMEs) play an important role in the economic development of the nation. In order to further enhance the role of SMEs in the economy, the Government recently announced two new funds totalling RM1.2 billion, funded by Bank Negara Malaysia, to assist the modernisation of SME operations, especially for purchase or upgrading of machines and equipment, as well as reducing the impact of price increases. To further support SMEs, the Government proposes all assets in the form of plant and machinery acquired in the years of assessment 2009 and 2010 be given Accelerated Capital Allowance to be claimed within one year. In addition, SMEs are allowed to claim full Capital Allowance on all small value assets within one year.

### **National Energy Plan**

The success of the nation's oil and gas industry has contributed significantly to the country's socio-economic development. PETRONAS has contributed significantly in the form of royalties, taxes, duties and dividend payments to the Government. This contribution has enabled the Government to build infrastructure, and provide better education and health facilities.

While Malaysia has achieved remarkable success in its oil and gas industry, oil and gas remain a finite and depleting resource. Our oil and gas reserves are modest in size and are gradually depleting. While efforts to discover and exploit new reserves are ongoing and have yielded encouraging success, we must accept that domestic reserves may be fully depleted, and when that happens, it will have significant consequences on our economy.

In order to ensure long-term energy security for the nation, we must look for new, long-term solutions for our energy needs. This includes intensifying energy efficiency initiatives to ensure more productive and prudent use of our remaining reserves, while enhancing our efforts on developing viable alternative energy sources, such as solar, wind, and biofuels, apart from exploring nuclear energy. To this end, the Government is currently formulating a comprehensive National Energy Plan that will address these challenges to ensure sustainability and self-sufficiency in energy supply.

To address the price volatility of fossil fuels, various measures have been undertaken to diversify sources of energy and conserve energy. Currently, various incentives are provided for the greater use of renewable energy and energy efficiency. Towards this end, the Government proposes the exemption of:

First: import duty and sales tax on solar photovoltaic system equipment;

Second: import duty and sales tax on intermediate goods such as High Efficiency Motors and insulation materials;

Third: sales tax on locally manufactured solar heating system equipment;

Fourth: sales tax on locally manufactured energy efficient consumers goods such as refrigerators, air-conditioners, lightings, fans and televisions; and

Fifth: 100% import duty and 50% excise duty on new hybrid CBU cars, with engine capacity below 2,000 cc, be given to franchise importers. This exemption is given for a period of two years to prepare for the local assembly of such cars.

### **Towards A Vibrant Capital Market**

Malaysia's capital market has achieved remarkable growth over the years and is currently among the largest in the region. Not only has the market grown substantially in size, new innovative products have been introduced on an ongoing basis to meet the demands of domestic and foreign investors.

To further strengthen the Malaysian capital market and to facilitate domestic intermediaries, such as principal corporate advisors, to expand their international business, the Government proposes that tax exemption be given on fees received by domestic intermediaries, which successfully list foreign companies and foreign investment products in Bursa Malaysia. This measure will also enable domestic investors to acquire shares of foreign companies listed in the local exchange.

In order to enhance Malaysia's position as a hub for Islamic capital markets, the Government proposes that tax exemption be given for a period of three years for fees and profits earned by institutions undertaking activities relating to the arranging, underwriting, distributing and trading of non-ringgit sukuk issued in Malaysia and distributed outside Malaysia.

Apart from this, in order to promote efforts to further diversify and attract more foreign investors to the domestic capital markets, the Government proposes that the current tax rate on dividends received by foreign institutional investors from Real Estate Investment Trusts (REIT) be reduced from 20% to 10%. Recognising that REITs is an attractive investment product for individuals as well, the Government also proposes a reduction in tax rate from 15% to 10%.

### **Ensuring Public Safety**

The Government's objective is to ensure that Malaysians are able to undertake their daily activities in a safe environment. Ensuring such an environment will be a key focus of the Government. For this purpose, a sum of RM5.4 billion is allocated in the 2009 Budget to enhance the capacity of the Royal Malaysian Police (PDRM). Of this, RM4.8 billion is for Operating Expenditure and RM600 million for Development Expenditure.

In 2008, a total of 162 police stations and police bases were set up in crime prone areas in Selangor, Johor, Pulau Pinang dan Federal Territory of Kuala Lumpur. To enhance security, a sum of RM220 million is allocated in 2009 for the construction of police headquarters and stations nationwide.

For the period 2008 to 2010, a total of 22,800 constables and 3,000 inspectors will be recruited. In addition, the special incentive allowance for PDRM personnel will be increased from RM100 to RM200 monthly, effective 1 January 2009.

The Government had provided tax incentives on security control equipment installed in factory premises and vehicle tracking systems to enhance safety of goods. In addition, the Government proposes that all

business premises installed with security control equipment be given Accelerated Capital Allowance, which is fully claimable within one year.

#### Civil Service

The Government appreciates the increased productivity and contribution of civil servants towards national development. The Government will provide a bonus of one-month salary, subject to a minimum of RM1,000 for 2008. The bonus will be paid in two instalments, namely in September and December 2008.

### **2009 BUDGET ALLOCATION**

The fiscal position of the Federal Government has strengthened over the past seven years, with the overall deficit reduced from 5.5% of GDP in 2000 to 3.2% in 2007. This reduction has provided greater flexibility for Government fiscal policy, especially in an environment of greater uncertainties in the global economy as well as increasing prices of goods.

The reduction in fiscal deficit over the last seven years has enabled the Government to implement additional measures to reduce the impact of increasing prices on Malaysians. This involves an additional allocation of RM22.1 billion this year, including RM17.0 billion for fuel subsidy and RM3.6 billion for food subsidy. Apart from these, several major sectors such as education, health, welfare and internal security are also given additional allocation totalling RM1.5 billion.

Taking into account the overall Federal Government revenue of RM161.6 billion and expenditure of RM196.9 billion, the fiscal deficit for 2008 is estimated to increase to 4.8%. However, the Government believes that the high fiscal deficit is a one-off necessity and is committed to reducing the fiscal deficit to 3.6% in 2009.

Given the strategies and programmes that I have tabled, I propose an allocation of RM207.9 billion for the 2009 Budget, which is 5.1% higher than the revised allocation for 2008. Of this, RM154.2 billion is for Operating Expenditure, while RM53.7 billion is for Development Expenditure.

Under Operating Expenditure, RM86.3 billion or 56.6% is allocated for Fixed Charges and Grants, RM38 billion for Emoluments, RM26.5 billion for Supplies and Services, RM2.4 billion for Purchase of Assets and RM1 billion for other expenditures.

As for Development Expenditure, the largest allocation of RM27.8 billion is for the economic sector, comprising agriculture, industry and infrastructure. A sum of RM17.8 billion is allocated to the social sector encompassing education, health and housing. The security sector receives RM4.1 billion while administration, RM2.1 billion, with the balance RM2 billion as Contingencies.

### **2009 ECONOMIC PROSPECTS**

The Malaysian economy is projected to grow by 5.4% in 2009, driven by domestic demand, with consumption and private investment increasing by 6.5% and 5.8%, respectively. Growth is expected to be broad-based with positive contributions from all economic sectors and spearheaded by the services sector, which is projected to grow by 6.9%. This is driven by robust growth in tourism, transportation, finance and banking as well as ICT related industries. External trade will remain buoyant with exports growing at 4.6%.

Per capita income is estimated to increase by 8.1% to RM27,900 or in purchasing power parity terms, equivalent to USD17,600. Inflation in 2009 is expected to moderate, following various Government measures to curb price increases.

### **CONCLUSION**

Mr. Speaker Sir,

The tabling of the 2009 Budget demonstrates yet again that the Barisan Nasional Government is responsive to the concerns of the rakyat and has taken measures to lighten the burden of all Malaysians, particularly the lower income group. The approach taken is focused towards support and assistance, which not only improves the quality of life but also enables all Malaysians to enhance their productivity. This Budget is in line with the medium term plan as articulated in the National Mission and the Ninth Malaysia Plan to further develop the nation towards Vision 2020.

The Barisan Nasional Government will continue to manage the economy responsibly. The Opposition, on the other hand, continues to make populist claims, which, if implemented, would undermine the Government's financial position and bequeath a bankrupt nation to the next generation.

Indeed, it is our collective responsibility to safeguard our political stability. Political parties, NGOs, the private sector and the media must all play their role in creating a nation that is peaceful, strong and united. Political rhetoric cannot contribute to the well being of Malaysians, nor to the economic progress of the nation. Instead, the political culture of extremism will destroy the very fabric of the nation's coherence and prosperity.

I wish to reiterate that the Barisan Nasional Government, which has been given the mandate by the people in March this year, will continue to safeguard political stability and enhance economic prosperity of the nation. Efforts by certain parties to destabilise the country by attempting to seize power through illegitimate means, and without the mandate of the people, must be rejected. We cannot allow uncertainties to continue, as this will adversely affect foreign investment, economic sentiment and the capital markets. I will not allow these disturbances to continue. I will not permit the mandate given by the people to be seized from Barisan Nasional, which had won the last election with a majority of the seats, based on democratic principles. I am confident the people will continue to support the Barisan Nasional Government to govern the nation. We need to get on with the business of governing and not waste any more time with opportunistic threats to seize the people's mandate through undemocratic means.

Since peace and prosperity of the nation is a collective responsibility, the Government requires the understanding and participation of all Malaysians, including those with different political ideologies. Let us together defend the sovereignty and independence of this country of ours. Let us move forward together towards excellence.

And as we move forward, let us pray to God for guidance and blessing. We believe that, ultimately, truth will prevail over falsehood. I pray to God that our future generation will inherit a nation that is peaceful, united and prosperous.

Mr. Speaker Sir,  
I beg to propose.