Future-Proofing Economy

Introduction

During the review period of the Twelfth Malaysia Plan, 2021-2025 (Twelfth Plan), the average annual growth rate of the national gross domestic product (GDP) increased by 5.9%, higher than the original target of between 4.5% and 5.5% per annum, despite a challenging environment. The Malaysian economy rebounded and recorded a remarkable growth of 8.7% in 2022 as compared to 3.3% in 2021, in line with the recovery of the world economy. Labour market conditions also improved, leading to an increase in employment. The current account of the balance of payments (BOP) remained in surplus, supported by strong external demand. In addition, the Federal Government fiscal deficit continued to narrow. The wellbeing of the *rakyat* improved as reflected by the Malaysian Wellbeing Index (MyWI) in 2021, in line with the economic progress. Meanwhile, domestic inflation was elevated due to higher global commodity prices, but remained manageable. Despite the overall positive performance, global and domestic issues and challenges remain. Global risks include geopolitical tensions, global trade and supply chain disruptions as well as higher commodity prices and inflation. On the domestic front, among the issues include slow structural economic transition, continued growth disparity between regions and states, and limited fiscal space.

Moving forward, to future-proof the economy, emphasis will be given on economic transformation by enhancing competitiveness and ensuring sustainable growth. Efforts will be intensified in accelerating structural economic reforms, strengthening external trade in the global supply chain, optimising economic potential of regions and states, and managing inflation. In addition, strengthening fiscal governance, expanding revenue, retargeting subsidies and enhancing budget management as well as improving debt and liabilities management will also be emphasised towards enhancing fiscal sustainability and credibility. The Government will continue to emphasise on economic growth, inclusivity and sustainability towards achieving the aspiration of *'Ekonomi MADANI: Memperkasa Rakyat'* and becoming a high-income nation.

Progress, 2021-2022

World Economy

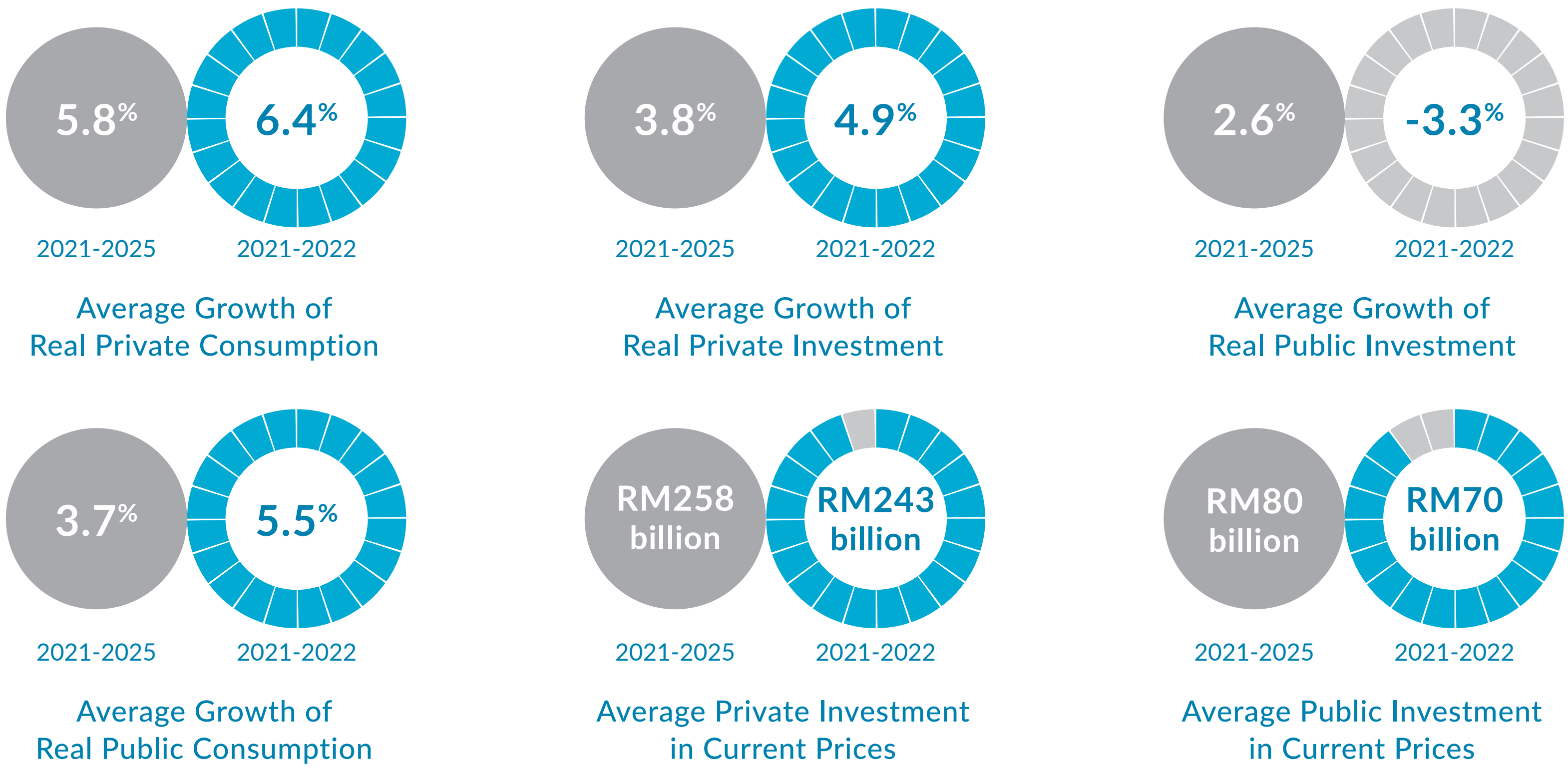
The world economy grew by 4.9% per annum during the review period, indicating global economic recovery from the aftermath of the COVID-19 pandemic. The recovery was supported by the implementation of economic stimulus packages, rollout of vaccination programmes and reopening of economies worldwide. Emerging markets and developing economies grew by 5.4% per annum, while advanced economies rose by 4%. Growth in advanced economies was led by the United States (US), driven by greater business fixed investment as well as research and development spending. World trade expanded by 7.9% per annum, mainly supported by stronger performance of emerging markets and developing economies. Meanwhile, world inflation increased by 6.7% per annum, following prolonged Russia-Ukraine conflict and high commodity prices.

Domestic Economy

During the review period, potential output expanded by 3.8% per annum. The GDP grew by 5.9% per annum, contributed by better labour productivity growth of 3.7% per annum. Private sector remained the driver of growth supported by accommodative monetary and expansionary fiscal policies. Labour market conditions improved, returning to full employment level. Higher labour demand contributed to better salaries and wages, particularly in the manufacturing and services sectors. However, inflation elevated to 3.3% in 2022. Gross national income (GNI) per capita in current prices was higher at RM52,968 (US$12,035) in 2022 compared with RM42,838 (US$10,191) in 2020. The overall wellbeing of the *rakyat* improved, supported by better progress in both economic and social aspects. During the review period, seven out of the 12 macroeconomic targets were achieved, four are on track, while the remaining one is lagging, as shown in *Exhibit 1-1*. In addition, four out of the eight multidimensional goals were achieved, as shown in *Exhibit 1-2*.

Exhibit 1-1
Performance of Selected Macroeconomic Targets

Consumption and Investment



International Trade

5.0%
2021-2025

25.5%
2021-2022

Average Growth of Gross Exports

RM191 billion
2025

RM256 billion
2022

Trade Balance

RM44 billion
2025

RM55 billion
2022

2.2% to GNI
2025

3.2% to GNI
2022

Current Account of Balance of Payments

Unemployment

4.0%
2025

3.9%
2022

Unemployment Rate

Inflation

2.7%
2021-2025

2.9%
2021-2022

Average Annual Inflation Rate

Fiscal Balance

-3.5% to -3.0%
2025

-5.6%
2022

Percentage of Fiscal Balance to GDP

Exhibit 1-2

Performance of Multidimensional Goals

Goals	Performance	Year
4.5% to 5.5% GDP growth per annum	5.9%	2021-2022
3.6% Labour productivity growth per annum	3.7%	2021-2022
RM10,065 Average monthly household income in 2025	RM 8,479	2022
45% Reduction in GHG emissions intensity to GDP by 2030[a]	In progress[b]	
RM57,882 GNI per capita in 2025	RM 52,968	2022
40% Share of compensation of employees of GDP in 2025	32.4%	2022
1:2.5 GDP per capita gap between Central and Sabah regions in 2025	1:1.9	2022
1.2% Malaysian Wellbeing Index growth per annum	1.3%	2021

Notes: [a] Based on emission intensity in 2005.
[b] Latest data will be published in the Biennial Transparency Report Malaysia in 2024.

Achievement of Key Economic Indicators, 2021-2022

Productivity

- Average contribution of multifactor productivity (MFP) to GDP stood at 36.9%
- Labour productivity per worker increased by 3.7% per annum to RM95,858 in 2022 from RM89,179 in 2020
- Labour productivity in the manufacturing sector surged by 5.4% per annum, supported by higher external demand
- Share of compensation of employees (CE) of GDP registered 32.4% in 2022 with the services sector remaining as the largest contributor

Aggregate Demand

- Private consumption grew by 6.4% per annum, contributed by pent-up demand, improved labour market conditions and continued policy support
- Private investment increased by 4.9% per annum or an average of RM243 billion per year in current prices, supported by the acquisition of new machinery and equipment (M&E) and continued investment in physical structures
- Public consumption rose by 5.5% per annum, driven by higher spending on supplies and services
- Public investment contracted by 3.3% per annum. Average public investment recorded RM70 billion per year in current prices, mainly from infrastructure projects, such as the East Coast Rail Link, Electrified Double Track Gemas-Johor Bahru and Pan Borneo Sabah and Sarawak Highways
- Net exports contracted by 2.5% per annum, as imports growth outpaced exports due to strong household spending and higher investment activity

Sectoral Output

- Services sector expanded by 6.5% per annum, led by stronger growth in consumer-related activities
- Manufacturing sector increased by 8.8% per annum, driven by robust demand for electrical and electronics (E&E) products
- Mining sector grew by 1.8% per annum, supported by higher natural gas production
- Agriculture sector contracted marginally by 0.02% per annum, due to weaker oil palm output
- Construction sector declined by 0.2% per annum, attributed to slower activity in the civil engineering and residential building subsectors

Gross Domestic Product by State

- All states recorded positive growth with two states growing higher than national GDP
  - Pulau Pinang grew by 10% and Selangor by 8.5%, driven by the services and manufacturing sectors
- Selangor, Federal Territory (FT) of Kuala Lumpur, Johor, Sarawak and Pulau Pinang remained as the top five contributors of GDP, constituting 67%

International Trade and Balance of Payments

- Gross exports grew by 25.5% per annum, driven by E&E, petroleum and chemical products
- Gross imports increased by 27.1% per annum, following higher demand of intermediate goods for the manufacturing sector and capital goods for investment activities
- Current account remained in surplus at RM55.1 billion or 3.2% to GNI in 2022, supported by the substantial surplus in the goods account

Federal Government Financial Position

- Fiscal deficit as percentage to GDP reduced to 5.6% in 2022, attributed to proactive fiscal reforms and better debt management
- Share of Federal Government revenue to GDP increased to 16.4% in 2022
- Operating expenditure (OE) grew by 14.2% per annum to RM292.7 billion in 2022
- About 94% of the RM144.6 billion development expenditure (DE) allocation was spent
- Federal Government debt stood at RM1,079.6 billion or 60.3% to GDP in 2022

Inflation and the Labour Market

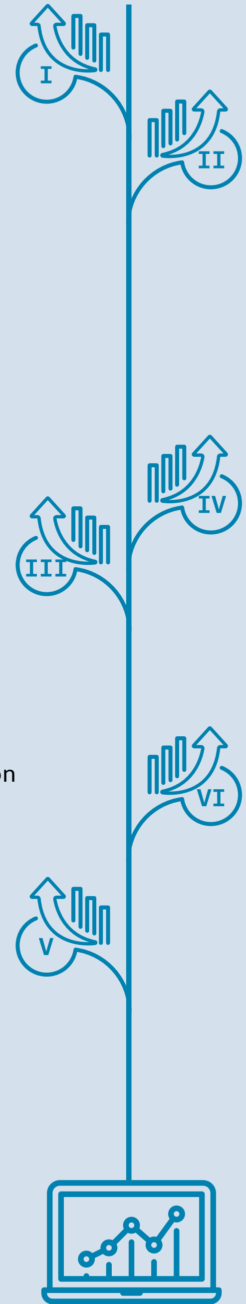
- Average inflation rate increased to 2.9% per annum, mainly attributed to higher food and non-alcoholic beverages, restaurants and hotels as well as transport components
- Labour market conditions improved further with employment growth at 2.2% in 2022
- 327.6 thousand new jobs created with unemployment rate of 3.9% in 2022

Malaysian Wellbeing Index

- MyWI grew by 1.3% from 117.7 points in 2020 to 119.2 points in 2021
  - Economic wellbeing subcomposite index increased by 1% to 127.2 points, due to better income and distribution, improved communication and higher quality education
  - Social wellbeing subcomposite index improved by 1.4% to 114.7 points, attributed to governance, culture and public safety components

Issues and Challenges

During the review period, various measures were undertaken to strengthen economic resilience. Nevertheless, downside risks emanating from global and domestic fronts remain. Among the domestic issues and challenges include slow structural economic transition, disruption in global supply chain, continued growth disparity between regions and states, elevated inflation and limited fiscal space. In addition, the changing population dynamics continue to remain a challenge for economic growth, as shown in *Box 1-1*.



Slow Structural Economic Transition

- Lack of high value-added activities
- Inadequate quality investment
- Slow adoption of advanced technology and digitalisation
- Lack of facilitative business ecosystem
- Low productivity
- Lack of skilled talent

Disruption in Global Supply Chain

- Slower exports growth
- Deeper fragmentation among economies
- Low leverage on trade agreements

Continued Growth Disparity between Regions and States

- Ineffectiveness in maximising development opportunities in regions and states, including border areas
- Inadequate basic infrastructure in less developed states
- Lack of private sector participation in subregional cooperation

Elevated Inflation

- High global commodity prices
- Shortage in food supply
- Volatility of exchange rate

Risks of Population Dynamics

- Risk of slower economic growth
- Risk of declining working age population
- Increase in fiscal burden, including cost of healthcare, long-term care and social protection

Limited Fiscal Space

- Narrow revenue base
- Inefficient subsidies allocation
- Ineffective management and monitoring of the Federal Government expenditure
- Poor management and monitoring of debt and liability

Box 1-1

Socioeconomic Development for an Aged Nation

Malaysia towards an Aged Nation

Population ageing is a global phenomenon in which older persons constitute a high percentage of the total population. Following the demarcation adopted by the United Nations World Assembly on Ageing in Vienna 1982, older persons are defined as individuals aged 60 years and above. Based on this definition, Malaysia will become an aged nation in 2030 when the share of older persons reaches 15% of the total population. Meanwhile, the United Nations defines the ageing level of a nation into three categories, namely as ageing nation when the population aged 65 and above reaches 7% of the total population, aged nation at 14%, and super-aged nation at 20%. Based on this definition, Malaysia became an ageing nation in 2021 and is expected to become an aged nation by 2044 (World Bank, 2023). The Malaysian population by age group is as shown in *Figure 1*.

The transition period of 23 years towards an aged nation for Malaysia is at a faster pace if compared with most Organisation for Economic Co-operation and Development (OECD) countries, which took about 50 to over 100 years. However, the transition period is of a similar pace to the People's Republic of China, Japan and Republic of Korea. In moving towards aged nation, Malaysia is expected to face several challenges such as slower economic growth, declining labour force participation, lower productivity, insufficient retirement saving, higher fiscal commitment, rise in non-communicable diseases (NCDs) and impact on long-term care (LTC) and social protections.

Economic and Fiscal Implications

Declining Labour Force Participation

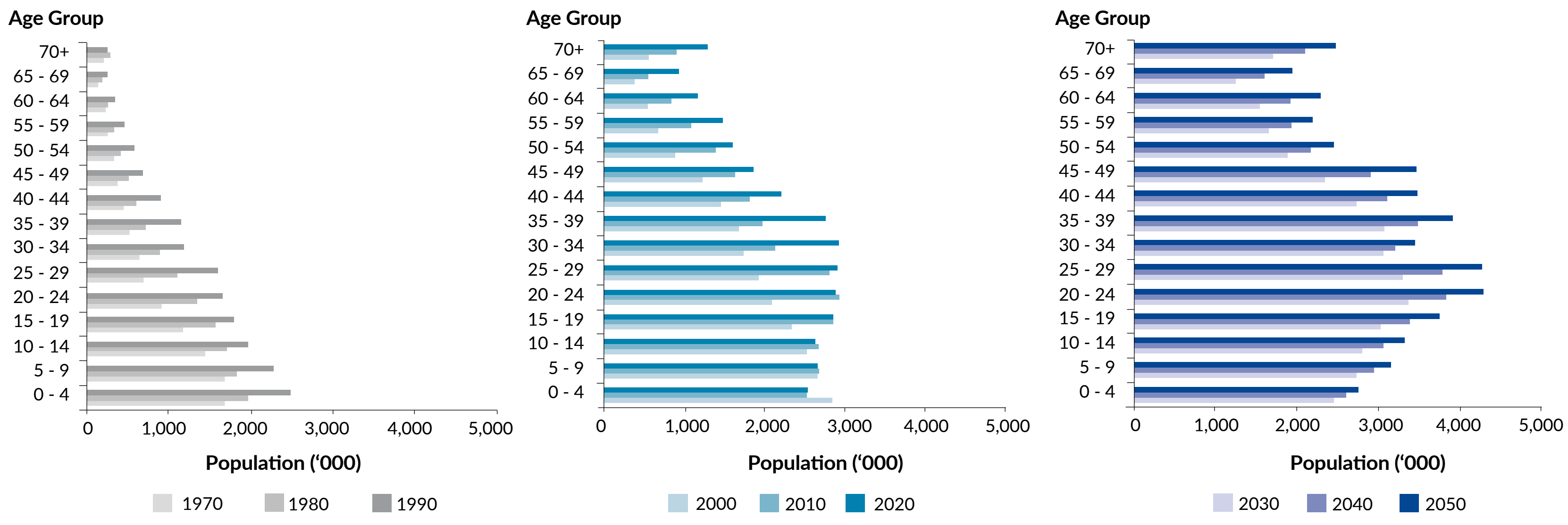
The total fertility rate (TFR) decreased from 4.9 births per woman in 1970 to 1.6[1] in 2022 and expected to reduce further in the future. Meanwhile, the proportion of those below the working age population declined from 45% to 23% in the same period, and this may influence economic and productivity growth. The decline in the working age population will increase demand from industries to hire foreign labour.

Insufficient Retirement Saving

Sufficient retirement savings are crucial for older persons to sustain their quality of life and wellbeing. Older persons with insufficient savings are vulnerable and face difficulties to obtain essential services, such as utilities, healthcare and LTC. In addition, higher cost of living and lack of family support increase the probability of older persons falling into poverty. The savings during the working years will enable the older persons to draw down it for consumption at retirement age. In 2022, about 52% of Employees' Provident Fund (EPF) members have savings of less than RM10,000, whereas 22% have less than RM1,000. Meanwhile, out of 15.7 million members, only 8.4 million members have active accounts. This low savings level indicates that most Malaysians will be vulnerable at the older age.

Figure 1

Malaysia: Population by Age Group, 1970-2050



Source: Department of Statistics Malaysia

[1] Preliminary data.

Higher Fiscal Commitment

Government spending on public healthcare, especially age-related expenditures is estimated to be at 4.3% to GDP in 2050 (World Bank, 2023). This will lead to higher fiscal commitment in providing healthcare services and assistance for the elderly. Meanwhile, older persons without sufficient savings and social protection are at greater risk of poverty, therefore increasing the need for Government assistance. The lower labour force participation and rising number of retirees may reduce Government revenue from labour income, limiting the Government expenditure in funding social services and causing fiscal challenges and budget deficit. In 2022, tax revenue from individual workers contributed about 16% to total tax revenue. In addition, as life expectancy increases, the pension payment will continue to be a pressure on Government expenditure, which is projected to reach 4.4% to GDP by 2050.

Social Implications

Increase in Intergenerational Gap

Changing the mindset, culture and behaviour in society is among the main challenges in preparing the country towards an aged nation. In this regard, the increase in the intergenerational gap may influence the changes in values within society, including the value of respect and compassion for the elderly. Besides, the intergenerational relationships and support between generations are deteriorating in line with modernisation and technological advancements. Furthermore, low emphasis on education in gerontology may hamper the efforts to bridge the intergenerational gap.

Impact on the Healthcare System

Wellbeing of the *rakyat* has improved as a result of advancement in healthcare and medical innovation. However, the rapid increase in NCDs such as diabetes, heart disease and cancer, poses a challenge to the healthcare system, particularly on NCDs prevention and management among older people. In addition, there are also new challenges in meeting the specific needs of older people, such as dementia, palliative care, frailty and mental health. Without healthcare reforms, an increasing older population will pose a significant pressure on the healthcare system.

Impact on Long-Term Care

A rising share of older people and smaller family size will increase the need to expand the formal aged LTC system. As the number of young workers and women participating in the labour force increase, providing informal care for the elderly becomes a challenge, which may result in the increase of older persons living alone or being abandoned. In addition, limited public financing, inadequate human resources as well as unclear standards for attracting, retaining and incentivising professionals and care workers create a stumbling block to a sustainable LTC system.

Inadequate Coverage of Social Protection

The need to provide adequate social protection for the *rakyat* continues to be a challenge as the population ages and life expectancy increases. These include the challenges of reducing the inclusion and exclusion errors in social assistance disbursement as well as expanding the coverage of contributory for retirement income, especially for women and informal workers, including unpaid carers. Insufficient retirement savings and inefficient financial management will affect the income security, which may increase the probability of older people to fall into poverty.

Preparing towards an Aged Nation

In addressing the risks and challenges of population ageing, a national ageing blueprint will be developed to mitigate risks and capitalise on potential opportunities. The blueprint will outline policies, strategies and action plans in preparing towards a healthy, productive and inclusive aged nation.

Economic Opportunities

In promoting older persons to remain in the workforce, incentives will be given to employ older workers with flexible working arrangements and provide a senior citizen-friendly working environment. Experienced older persons with soft skills and expertise will be able to continue contributing to the economy, and this will promote intergenerational learning. In addition, technology and digitalisation will be further enhanced and leveraged to increase the opportunity for older people to continue working. Furthermore, to balance the labour market following the shrinking of the working age population, a comprehensive foreign labour policy will be improved to ensure adequate labour supply in sustaining economic growth.

The care economy will be leveraged to create an inclusive, efficient and sustainable LTC industry. The creation of a conducive market ecosystem will attract private investment, provide quality care and boost the participation of women in the labour market. In addition, investment in research, development, commercialisation and innovation (R&D&C&I) will be promoted to enhance silver economy, especially in the production of elderly-friendly products and services. Meanwhile, progressive taxes on unhealthy products will be explored to promote healthy ageing.

Social Wellbeing

Long-term intervention as well as suitable policies and incentives will be strengthened to slow down the declining fertility rates in addressing the low population growth rate. Intergenerational gaps will be reduced, while noble values, such as respect, compassion and responsibility will be further fostered among younger generations. A comprehensive action plan will be developed to strengthen and transform healthcare service delivery and promote healthy longevity, particularly for the elderly. In addition, an LTC policy that incorporates traditional family support into community-based care will be explored to provide better care for the elderly. This effort will increase the opportunity for women to participate in the labour market. Meanwhile, the national social protection system will be reformed by harmonising social assistance, social insurance and labour market intervention to ensure a holistic protection and leaving no one behind. Inclusive affordable housing will also be provided through retirement villages to foster cohesive communities and create a liveable environment. Provision of infrastructure and basic amenities will also be improved to cater for the needs and comfort of the elderly.

Way Forward, 2023-2025

In the remaining Twelfth Plan period, efforts will be intensified in accelerating structural economic reforms, strengthening external trade in the global supply chain, optimising economic potential of regions and states, and managing inflation. In addition, strengthening fiscal governance, expanding revenue, retargeting subsidies and enhancing budget management as well as improving debt and liabilities management will also be emphasised towards enhancing fiscal sustainability and credibility. These strategies will propel Malaysia in achieving a high-income nation and ultimately becoming among the top 30 economies in the world.

World Economic Outlook

World economy is projected to grow by 3.1% per annum in the remaining Twelfth Plan period, driven by emerging markets and developing economies, particularly the People's Republic of China. Meanwhile, the US economy will lead growth among advanced economies, as shown in *Table 1-1*. World trade is expected to moderate by 3.1% per annum, attributed to several factors that have dampened global demand. High inflation and cost of living, tighter monetary policy, global banking system turmoil, geopolitical tensions, resurgence of COVID-19 cases and emergence of a new global health threat are expected to weigh on world economic outlook.

Table 1-1

World Economic Outlook, 2021-2025

Item	Average Annual Growth Rate, %		
	Actual	Outlook	
	2021-2022	2023-2025	2021-2025
World Output	***4.9***	***3.1***	***3.8***
Advanced Economies	*4.0*	*1.6*	*2.6*
Emerging Market and Developing Economies	*5.4*	*4.0*	*4.6*
World Trade	***7.9***	***3.1***	***5.0***
World Consumer Prices	***6.7***	***5.3***	***5.8***
Commodity Prices			
Nonfuel[1]	*16.9*	*-2.3*	*5.4*
Crude Oil	*51.9*	*-11.4*	*9.9*
Crude Oil Price (US$ per barrel)[2]	82.8	69.7	74.9

Notes: [1] Average based on world commodity import weights.
[2] The average of UK Brent, Dubai Fateh and West Texas Intermediate crude oil prices.
Source: International Monetary Fund, World Economic Outlook (April and July 2023)

Domestic Economic Outlook

Potential output is projected to expand between 5.5% and 6% per annum, attributed to higher productivity. The economy is expected to grow between 5% and 5.5% per annum driven by domestic demand, particularly private sector expenditure, as shown in *Exhibit 1-3*. Private consumption is anticipated to increase at an average annual rate of 6.1%. The increase will be supported by improvement in labour market conditions with the economy to remain in full employment and inflation rate is expected to remain manageable. On the supply side, the services and manufacturing sectors will remain as the main sources of growth. Meanwhile, the construction sector is expected to rebound supported by stronger growth in the civil engineering and residential building subsectors. GNI per capita in current prices is projected to increase by 4.6% per annum to RM61,000 (US$14,250) in 2025, as shown in *Exhibit 1-4*.

Exhibit 1-3

Selected Macroeconomic Targets

Consumption and Investment

6.2% — Average Growth of Real Private Consumption
2021-2025

5.8% — Average Growth of Real Private Investment
2021-2025

1.0% — Average Growth of Real Public Investment
2021-2025

3.2% — Average Growth of Real Public Consumption
2021-2025

RM278 billion — Average Private Investment in Current Prices
2021-2025

RM78 billion — Average Public Investment in Current Prices
2021-2025

International Trade

11.9% — Average Growth of Gross Exports
2021-2025

RM290 billion — Trade Balance
2025

RM51 billion
2025

2.5% to GNI
2025

Current Account of the Balance of Payments

Unemployment

3.3% — Unemployment Rate
2025

Inflation

2.8% to 3.8% — Average Annual Inflation Rate
2021-2025

Fiscal Balance

-3.5% to -3.0% — Percentage of Fiscal Balance to GDP
2025

Exhibit 1-4

Multidimensional Goals, 2021-2025

5.0% to 6.0%
GDP growth per annum

RM61,000
GNI per capita in 2025

RM10,065
Average monthly household income in 2025

3.7%
Labour productivity growth per annum

Up to 45%
Reduction in GHG emissions intensity to GDP by 2030 based on emission intensity in 2005

40%
Share of compensation of employees of GDP in 2025

1:1.9
Central and Sabah

1:2.1
Central and Eastern

GDP per capita gap between regions in 2025

1.4%
Malaysian Wellbeing Index growth per annum

Accelerating Structural Economic Reforms

Intensifying High Value-Added Activities

Sectoral reforms will be accelerated by boosting the high growth high value (HGHV) industries related to energy, technology and digitalisation, E&E, agriculture and agro-based, and non-radioactive rare earths. These five HGHV industries have been identified as part of the Big Bolds in the Mid-Term Review of the Twelfth Plan. The implementation of the reform through these Big Bolds is expected to support the targeted growth of all sectors.

The services sector is expected to grow at an annual average rate of 5.7%, particularly led by consumer-related activities such as in retail trade, accommodation, and food and beverage subsectors, as shown in *Table 1-2*. In this regard, strategic measures will be intensified to expedite the recovery of the tourism industry, rejuvenate the creative industry and strengthen the development of halal industry in optimising the potential of these industries. Efforts will also be undertaken to increase the contribution of the modern services subsector by focusing on the ICT services industry and leveraging on financial technology, as one of the initiatives under the Big Bold Digital- and Technology-based HGHV Industry. In addition, strategies will be enhanced to elevate sustainable financing, including Islamic finance. Meanwhile, the electricity subsector will be enhanced by increasing renewable energy (RE) capacity with the target of 31% in 2025, in line the Big Bold HGHV Industry based on Energy Transition. In this regard, emphasis will be given on increasing uptake of solar, hydropower, and bioenergy as well as expediting development of new and nascent energy resources, particularly hydrogen.

Table 1-2

Gross Domestic Product by Kind of Economic Activity

Item	Average Annual Growth Rate, %		
	Progress	Revised Target	
	2021-2022	2023-2025	2021-2025
GDP	***5.9***	***5.0~5.5***	***5.0~6.0***
Agriculture	*-0.02*	*2.7*	*1.6*
Mining and Quarrying	*1.8*	*3.1*	*2.6*
Manufacturing	*8.8*	*4.9*	*6.4*
Construction	*-0.2*	*6.7*	*3.9*
Services	*6.5*	*5.7*	*6.0*

The manufacturing sector is expected to grow by 4.9% per annum. Priority will be given to accelerate the transition towards new sources of growth within the sector, particularly in E&E. Measures will be undertaken to intensify the production of high value-added and complex products by fostering advanced front-end manufacturing activities and strengthening the overall ecosystem, particularly in integrated circuit (IC) design, IC packaging, wafer fabrication, embedded system, testing service and design engineering. These are part of the initiatives under the Big Bold High Value E&E HGHV Industry. Efforts will also be undertaken on strengthening knowledge-intensive industries, including the M&E, petroleum as well as chemicals and chemical products to support the growth. In addition, low carbon mobility initiative will be enhanced through production and installation of energy-efficient vehicles, including electric and hybrid vehicles. Environmental, social and governance (ESG) adoption will be promoted to achieve the aspiration of net-zero greenhouse gas (GHG) emissions as early as 2050.

The agriculture sector is projected to grow moderately by 2.7% per annum, mainly due to continuously low production of crude palm oil. Greater efforts will be undertaken to transform the agrofood subsector as one of the initiatives under the Big Bold HGHV Agriculture and Agro-Based Industry. Measures will be undertaken to promote investment and increase productivity of the agrofood subsector by utilising smart farming technologies, increasing high value crops and optimising food production areas. The implementation of these measures is expected to increase the share of agrofood subsector to approximately 57% of the total agriculture value-added in 2025 towards achieving food security.

The construction sector is expected to grow at an annual average rate of 6.7%, mainly driven by the civil engineering and residential building subsectors. Acceleration of public infrastructure projects will continue to support the growth of this sector. In addition, the development of affordable housing in strategic locations under several initiatives, including *Residensi Wilayah, Program Perumahan Rakyat* and *Perumahan Inklusif MADANI* will accelerate growth in the residential buildings subsector. Efforts will be intensified to expand the implementation of Industrialised Building System and Building Information Modelling to increase productivity. The implementation of the Government Green Procurement (GGP) Works initiative will also be expanded to promote utilisation of green construction products and foster sustainable growth.

The mining sector is expected to grow by 3.1% per annum, mainly driven by the increase in natural gas production. In this regard, efforts will be undertaken to boost production from the new facilities and projects in the pipeline to support growth. In addition, measures will be undertaken to enhance policy framework and develop a new business model to promote growth in the rare earths industry as one of the initiatives under the Big Bold Rare Earths HGHV Industry.

Attracting Higher Quality Investment

Private investment is expected to grow by 6.4% per annum or an average of RM301 billion per year in current prices, supported by faster implementation of new and ongoing projects across key economic sectors. Efforts will be intensified to promote technology-linked investment in HGHV industries, including E&E, smart farming and RE. In addition, firms will be encouraged to increase investment in M&E to expand capacity and productivity. Furthermore, existing investment initiatives will be reviewed to attract quality investment, which utilise frontier technologies and offer technology transfer. The private sector will be encouraged to intensify green investment in business operations and premises, including for the development and utilisation of RE sources.

The ecosystem and regulations to enable more effective public service delivery and facilitate ease of doing business will be further strengthened through the Special Task Force to Facilitate Business (PEMUDAH). In addition, a comprehensive review and reform of investment policies, including on incentives and institutions will be undertaken under the National Investment Aspirations. In this regard, emphasis will be given to attract quality investment that promote the development of complex products and services, that create skilled and high-paying jobs. Firms will be encouraged to invest in advanced technologies, such as blockchain, artificial intelligence and big data analytics. Meanwhile, the Government will facilitate greater involvement of higher learning institutions, research institutes and the private sector to accelerate research, development, commercialisation and innovation (R&D&C&I) activities. These initiatives will attract higher quality investment, particularly focusing on advanced technology.

Public investment is expected to grow by 3.9% per annum or an average of RM83 billion per year in current prices attributed to the Federal Government DE and capital expenditure by non-financial public enterprises. The Government will continue to implement programmes and projects to expand the productive capacity of the economy. These projects include the opening of new high-tech industrial estates in Kimanis and Kota Belud, Sabah and Chuping Valley Industrial Area in Perlis, as well as expansion of Samajaya High-Tech Park in Sarawak and Tok Bali Industrial Park in Kelantan, besides the construction of Central Spine Road and implementation of *Pelan Jalinan Digital Negara* (JENDELA).

Boosting Productivity

Efforts will be intensified to accelerate productivity in enhancing quality growth. MFP is expected to contribute 42.8% to GDP growth, with labour productivity growth of 3.8% per annum in the remaining Plan period. The collaboration between the government, private sector and academia will be strengthened to further increase productivity at the national, state, sectoral and enterprise levels. The planning mechanism at the national level will be improved by enhancing the governance of the productivity council and related committees to enable better monitoring of the Malaysia Productivity Blueprint (MPB) targets. Meanwhile, the ecosystem at the state, sectoral and enterprise levels will be strengthened. In order to ensure agility, efficiency and effectiveness of regulations, the establishment of MyMudah units will be expanded at all levels of governments as well as business associations.

Efforts will be undertaken to address talent mismatch, boost labour productivity and improve income, which is expected to increase the share of CE of GDP at 40% in 2025 and eventually at 45% within 10 years. These efforts will be further supported by the introduction of a progressive wage model, which is a crucial policy tool to accelerate wage growth. Meanwhile, demand-driven talent development as well as upskilling and reskilling programmes will be intensified. In addition, measures will be implemented to strengthen R&D&C&I activities. The productivity gap between large firms and micro, small and medium enterprises (MSMEs) will be narrowed by adopting technology and digitalisation. Access to financing will also be improved in supporting innovation and skills development. The successful initiatives under the existing productivity nexus will be replicated for the new nexus.

Strengthening External Trade in the Global Supply Chain

Improving Exports Potential

Gross exports is projected to moderate by 3.7% per annum, in line with the global trade prospects. The expected economic recovery of major trading partners will support Malaysian exports, despite global headwinds and geopolitical conflict. In this regard, trade and investment will be enhanced by leveraging trade agreements. The National Trade Blueprint (NTBp) will focus on improving export facilitation, enhancing export capacity and expanding market access to ensure conducive trade ecosystem. Concerted efforts will be undertaken to enhance participation in the global supply chain, advance regional integration and strengthen industrialisation initiatives. Meanwhile, Malaysian products and services will be promoted globally to increase exports market. In addition, a framework for establishing Malaysia as a regional gas market hub will be incorporated in the natural gas roadmap. Efforts will also be undertaken in developing electricity exchange system to enable RE trading.

Reducing Imports Reliance

Gross imports is projected to grow by 3.6% per annum due to steady increases of intermediate and capital goods in supporting manufacturing and investment activities. Focus will be given to enhance domestic industries and create higher demand for locally produced goods to reduce reliance on imported goods. In this regard, existing import policies will be reviewed, particularly to ensure food security and safety as well as boost agrofood production. Overall, trade balance is projected to reach RM290 billion in 2025.

Sustaining Current Account Surplus of the Balance of Payments

The current account of the BOP is expected to remain in surplus at 2.5% to GNI in 2025 contributed by the continued surplus in the goods account and lower deficit in the services account. The improvement in the services account will be supported mainly by higher travel receipts following aggressive tourism promotions. Greater emphasis will be placed on improving the income accounts by encouraging repatriation of profits by Malaysian companies abroad and reducing the outflow of remittances.

Optimising Economic Potential of Regions and States

Accelerating Socioeconomic Development

In the remaining Twelfth Plan period, growth of the regions and states is expected to be within target. Economic potential of the regions and states will be further strengthened to attract more quality investment in niche areas by promoting adoption of advanced technology in the upstream and downstream activities. In this regard, Federal and state regional development agencies will be encouraged to streamline development priorities by leveraging uniqueness and available resources in each state. In addition, basic infrastructure provisions in less developed states will be scaled-up and talent development programmes will be intensified to ensure equal development opportunities and improve regional balance.

Leveraging Opportunities from Subregional Cooperation

Subregional cooperation will be leveraged to optimise economic potential and attract investment into the subregions. Priority will be given to enhance economic activities within the subregions by providing better infrastructure and facilities. In addition, cross-border trade activities will be intensified through a more active participation of local stakeholders, especially the private sector. The socioeconomic development in border areas will be increased by improving security facilities and developing border towns. These will contribute in narrowing the growth disparity and increase the wellbeing of the *rakyat* in the regions and states.

Managing Inflation

Containing Price Pressure and Easing the Burden of the Rakyat

Inflation is expected to be between 2.8% and 3.8% per annum, attributed to the gradual implementation of a targeted subsidy, stronger domestic demand and improvement in the labour market. Efforts will be strengthened to contain inflationary pressures by increasing the stocks of various food items as well as improving distribution efficiency in ensuring undisrupted supply. In addition, concerted measures will be undertaken in addressing price issues to improve purchasing power and wellbeing of the *rakyat*, especially vulnerable groups. In easing the burden of the *rakyat*, the existing mechanism will be reviewed by providing a comprehensive and inclusive social protection system. Measures will be undertaken to develop an integrated database to improve subsidy targeting mechanism, streamline delivery channels and enable implementation of targeted programmes, including the introduction of progressive wage.

Strengthening Enforcement and Consumer Awareness

Monitoring of price control will be intensified, particularly during festive seasons to ensure fair price and avoid profiteering activities. Data-driven mindset will be inculcated to help consumers make better decisions. Consumer awareness will continue to be emphasised to ensure that consumer rights are protected. This include advocating greater consumerism and providing access to information on best and competitive prices of goods and services through various platforms. In addition, consumer related associations and civil society organisations will be empowered.

Improving Federal Government Financial Position

Strengthening Fiscal Governance

Fiscal management will be strengthened by establishing a legislation on fiscal responsibility. This is one of the initiatives under the Big Bold Fiscal Sustainability and Financial System. Efforts will be intensified to expand revenue base, streamline tax reliefs, reduce leakages and spending wastages as well as improve debt management. In addition, Medium Term Revenue Strategy (MTRS) framework will be developed to increase Government revenue, review tax incentives and encourage data sharing among government agencies. Expenditure efficiency will be improved by retargeting subsidy, developing a single window budget application and enhancing the effectiveness of Public Expenditure Review (PER). Furthermore, the Debt Management Committee will be reactivated to monitor the management of debt and liability. In addition, efforts will be undertaken to develop new acts on debt and procurement as well as review public private partnership (PPP) guideline. These measures will strengthen fiscal governance and widen fiscal space towards achieving a fiscal deficit target between 3.5% and 3% to GDP by 2025.

Expanding Revenue

Revenue management will be enhanced to enable better collection, as one of the initiatives under the fiscal Big Bold. The initiatives that will be implemented include widening the tax base as well as adopting technology and digitalisation, among others by diversifying tax resources as well as introducing a special voluntary tax disclosure programme and an electronic invoicing system. In addition, enforcement activities will be intensified to enhance tax compliance and curb leakages. These initiatives are expected to enhance revenue towards achieving fiscal deficit target.

Retargeting Subsidies and Enhancing Budget Management

Measures will be undertaken to ensure prudent fiscal spending. A more targeted subsidy mechanism will be identified to ensure the right target groups benefit from Government assistance. In this regard, a comprehensive household database, *Pangkalan Data Utama* (PADU), as one of the initiatives under the Big Bold Targeted Subsidy, will be developed as central reference for assistance targeting. Meanwhile, implementation of development projects will be monitored thoroughly to reduce spending leakages and wastages. The basic DE will be increased to at least 60% of the total annual DE allocation. Efforts will be undertaken to repurpose unutilised funds of government-linked companies (GLCs) and statutory bodies to optimise available resources. This will ensure efficiency of public expenditure and optimisation of resources for development purposes.

Improving Debt and Liabilities Management

Measures will be implemented in improving debt and liabilities management. In this regard, focus will be given in diversifying debt portfolio and realigning the debt issuance schedules of Government and GLCs. In addition, assessment of risks and liabilities exposure on the commitments of government guarantees and PPP projects will be improved. These measures will ensure debt remains manageable and liabilities exposure contained towards fiscal sustainability and credibility.

Conclusion

During the review period of the Twelfth Plan, the economy increased by 5.9% surpassing the original target. Despite the overall positive performance, domestic issues and challenges remain, such as slow structural economic transition, disruption in global supply chain and limited fiscal space. In the remaining Twelfth Plan period, macroeconomic strategies will focus on accelerating structural economic reforms, strengthening external trade in the global supply chain, optimising economic potential of the regions and states, and managing inflation. In improving Federal Government financial position, efforts will be undertaken to strengthen fiscal governance, expand revenue, retarget subsidies and enhance budget management as well as improve debt and liabilities management. Concerted efforts and effective implementation of these strategies and initiatives will contribute in future-proofing economy towards achieving the aspiration of *'Ekonomi MADANI: Memperkasa Rakyat'* and becoming a high-income nation.

Chapter 2