

Malaysia: Mid-term review of the 12th Malaysia Plan

Revised strategies and targets to align with post-pandemic conditions and MADANI Economy

3 focus areas; 17 ‘Big Bolds’; enhancing efficiency of public service delivery is key enabler

To boost high growth high value in energy, tech & digitalisation, E&E, agriculture & agro-based

Introduction

The mid-term review (MTR) of the 12th Malaysia Plan (12MP) was tabled in Dewan Rakyat yesterday, with revised policies and strategies over 2023-2025 based on the theme “Sustainable, Prosperous, High-Income Nation”, to align with the aspiration of MADANI Economy framework. The revised policies and targets have also taken into account changes during and post pandemic era as the original plan and targets were formulated prior to the pandemic.

The framework of the MTR outlines strengthening efficiency of public service delivery as the key enabler to achieve its goal. This will involve efforts to improve governance and institutional framework, as well as legislation related to corruption and rent-seeking. There are 17 Big Bolds (key measures) involving 71 strategies under the new framework, to catalyse development of the three focus areas for the remaining of the plan period of the 12MP from 2023-2025.

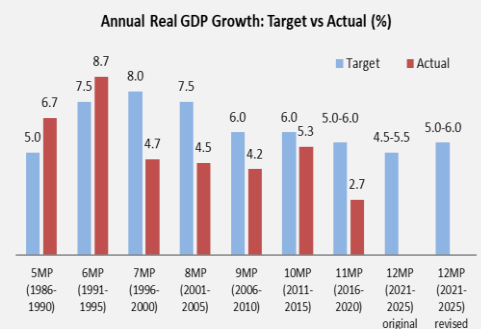
Key highlights and thoughts

1. **The economy is expected to grow between 5.0%-5.5% per annum for the period 2023-2025 (2021-2022: +5.9%),** driven by domestic demand particularly from the private sector. This is above HLBB’s expectations that GDP growth will normalise to 4.0-5.0% over the said period. Efforts will be intensified to improve labour productivity, which is estimated to grow at 3.8% per annum to support growth (2021-2022: +3.7%).

Item	Average Annual Growth Rate, %				
	Eleventh Plan 2016-2020	Twelfth Plan			
		Original Target 2021-2025	Progress 2021-2022	Revised Target 2023-2025	
Private Expenditure	4.0	5.4	6.1	6.1	6.1
Consumption	4.8	5.8	6.4	6.1	6.2
Investment	1.2	3.8	4.9	6.4	5.8
Public Expenditure	-0.8	3.4	3.1	2.2	2.6
Consumption	3.1	3.7	5.5	1.7	3.2
Investment	-7.9	2.6	-3.3	3.9	1.0
Net Exports	-0.3	3.1	-2.5	3.4	1.0
Exports of Goods and Services	0.3	5.8	16.5	2.2	7.7
Imports of Goods and Services	0.4	6.1	18.5	2.1	8.3
Gross Domestic Product	2.7	4.5 - 5.5	5.9	5.0 - 5.5	5.0 - 6.0

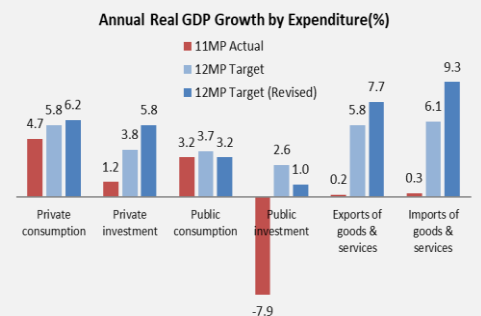
Source: Ministry of Economy

Figure 1: Real GDP growth (actual vs target) – 5MP to 12MP



Source: Ministry of Economy

Figure 2: Private-sector expenditure growth has been revised higher



Source: Ministry of Economy

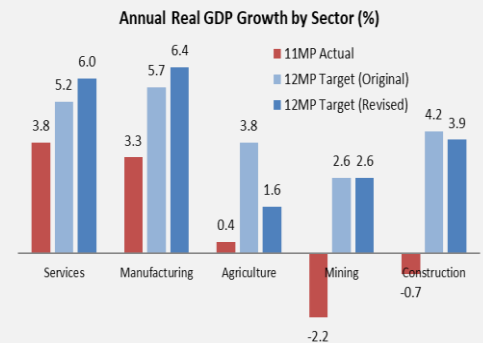
2. On the supply side, sectoral reforms will be accelerated by boosting the **high growth high value (HGHV)** industries related to **energy, technology and digitalisation, E&E, agriculture and agro-based, and non-radioactive rare earths** and these are expected to support targeted growth of all sectors.

Item	Average Annual Growth Rate, %				
	Eleventh Plan	Twelfth Plan			
		Original Target	Progress	Revised Target	
	2016-2020	2021-2025	2021-2022	2023-2025	2021-2025
Agriculture	0.3	3.8	-0.02	2.7	1.6
Mining and Quarrying	-2.1	2.6	1.8	3.1	2.6
Manufacturing	3.2	5.7	8.8	4.9	6.4
Construction	-0.6	4.2	-0.2	6.7	3.9
Services	3.8	5.2	6.5	5.7	6.0
Electricity, Gas and Water	3.7	4.8	3.1	4.7	4.1
Wholesale and Retail Trade, Food & Beverage and Accommodation	3.8	5.0	7.8	6.3	6.9
Transport and Storage, Information and Communication	4.7	7.2	8.8	7.0	7.7
Finance, Insurance, Real Estate and Business Services	3.6	5.7	5.3	5.7	5.6
Government Services	4.6	3.7	5.2	4.1	4.5
Other Services	2.0	3.7	3.0	4.0	3.6

Source: Ministry of Economy

3. The services and manufacturing sectors will remain as the drivers of growth for the economy, with the former and latter expected to grow at an annual average rate of 5.7% and 4.9% for the period 2023-2025 (2021-2022: +6.5% and +8.8% respectively).
4. Within the **services** sector, support measures will be intensified to support the **tourism, creative industry, halal, ICT services and within the financial industry, financial technology and sustainable financing, including Islamic finance**. The electricity subsector will be enhanced by increasing renewable energy (RE) capacity with the target of 31% in 2025, and emphasis will be on increasing uptake of **solar, hydropower, and bioenergy as well as expediting development of new and nascent energy resources, particularly hydrogen**. These focuses are in line with the Madani initiatives as well as the National Industrial Master Plan 2030.
5. The drivers to the **manufacturing** sector will stay with E&E, with measures 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**. Efforts will also be undertaken on strengthening knowledge-intensive industries, including the **M&E, petroleum as well as chemicals and chemical products** as well as production and installation of **energy-efficient vehicles, including electric and hybrid vehicles**.

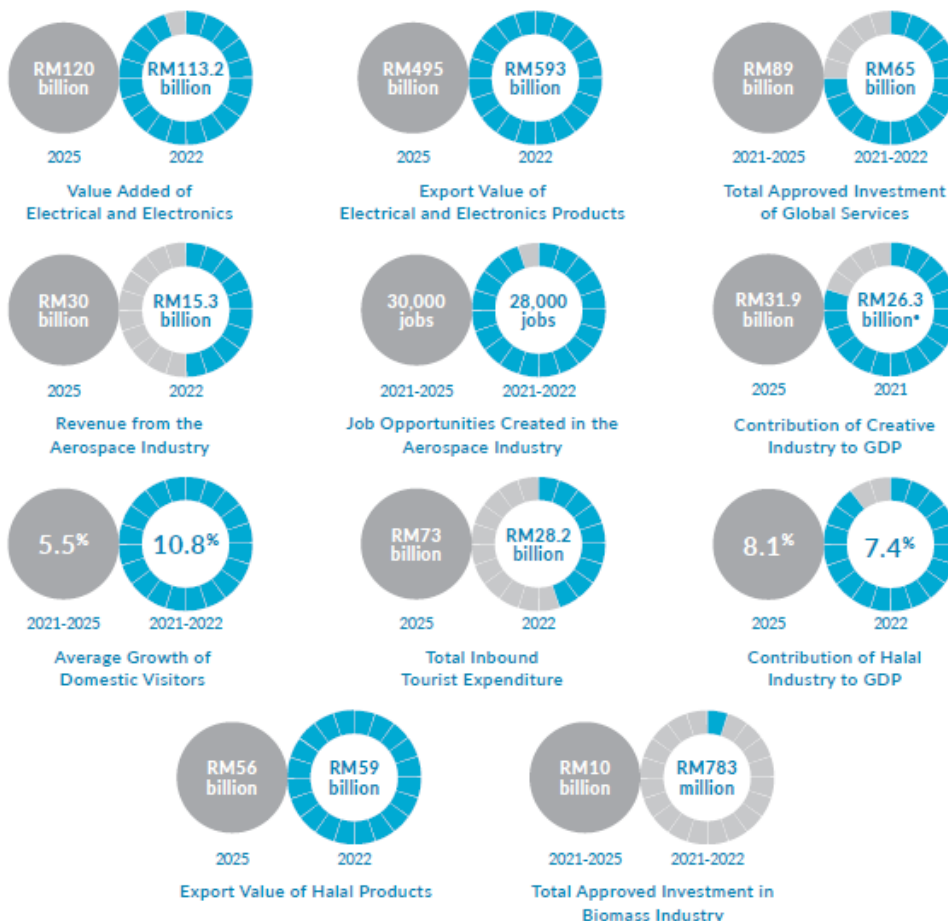
Figure 3: Services and manufacturing sectors remained the main growth drivers



Source: Ministry of Economy

6. The focus on the **agriculture** sector will be on **smart farming technologies**, increasing high value crops and optimising food production areas. These measures are expected to increase the share of agrofood subsector to approximately 57% of the total agriculture value-added in 2025.
7. The **construction** sector will be driven by civil engineering and residential building subsectors, with strategic initiatives focus on **affordable housing and green construction** products.
8. The **mining** sector will be driven by natural gas production but the Government will develop a new business model to promote growth in the **rare earths** industry.

Accelerating the Development of Strategic and High Impact Industries



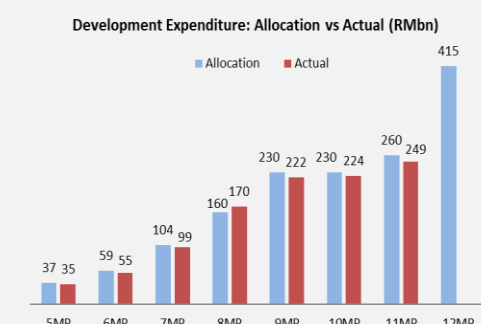
Source: Ministry of Economy

9. A **progressive wage model** will be introduced to accelerate wage growth and compensation of employees (CE) to GDP. In this context, the Government will continue to cap the number of foreign workers to not exceed 15% of the total workforce. This plan will include implementing a multi-tier levy mechanism, which could potentially increase labour costs for the construction and plantation industries.

10. From the **fiscal/ financing** angle:

- The Government maintained its fiscal deficit target of 3.0%-3.5% of GDP for 2025.
- The Government raised its development spending (DE) for 2021-2025 by RM15bn to RM415bn. With 33.9% of the DE spent, the government upwardly revised its allocation for DE to RM90bn/annum for the period 2023-2025 (Original target: RM80/bn). The **construction** sector is the key beneficiary of the **higher DE and allocation will be prioritised in the six less developed states, namely Kedah, Kelantan, Perlis, Sabah, Sarawak, Terengganu.**
- To widen its tax base, the government is planning to introduce **capital gains tax** in 2024. Economic Minister Rafizi Ramli also added that he does not rule out the re-introduction of GST although no decision has been made at this juncture. We believe that this will not be introduced in Budget 2024 given that time will be needed to implement the appropriate systems across the nation.
- To ensure prudent spending, the Government will rationalise its subsidy spending through Targeted Subsidies, which may include electricity, diesel, petrol and other social assistances. It is estimated that this could potentially save RM20bn to the government coffers.

Figure 4: Total Development Expenditure of RM415bn under 12MP; annual allocation of RM90bn for 2023-2025



Source: Ministry of Economy

Federal Government Financial Position

Item	RM million					RM million				
	Actual				Revised Target	Eleventh Plan	Twelfth Plan			
	2015	2020	2021	2022			2025	2016-2020	Original Target	Progress
	2015	2020	2021	2022	2025	2016-2020	2021-2025	2021-2022	2023-2025	2021-2025
Revenue	219,089	225,070	233,752	294,357	316,384	1,155,194	1,227,816	528,109	904,832	1,432,941
Operating Expenditure	216,998	224,600	231,515	292,693	311,263	1,146,574	1,231,517	524,208	901,168	1,425,376
Current Balance	2,091	470	2,237	1,664	5,121	8,620	-3,701	3,901	3,665	7,565
Gross Development Expenditure	40,768	51,360	64,257	71,574	73,283	248,507	400,200	135,831	264,376	400,207
Less: Loan Recoveries	1,483	1,259	990	1,407	1,046	6,849	3,100	2,397	2,779	5,176
Net Development Expenditure	39,285	50,101	63,267	70,167	72,236	241,658	397,100	133,434	261,597	395,031
COVID-19 Fund	-	38,019	37,711	30,979	-	38,019	47,000	68,690	-	68,690
Overall Balance	-37,194	-87,650	-98,741	-99,482	-67,116	-271,057	-447,801	-198,223	-257,932	-456,155
% to GDP	-3.2	-6.2	-6.4	-5.6	-3.5--3.0	-6.2	-3.5--3.0	-5.6	-3.5--3.0	-3.5--3.0

Source: Ministry of Economy, Ministry of Finance

Appendix – Selected Key Targets of 12MP
Focus Area 1: Strengthening sustainability

GDP growth (2021-2025%)
 Average annual inflation rate (2021-2025)
 Percentage of fiscal balance to GDP (2025)
 Renewable energy installed capacity (2025)
 Average private investment in current prices (2021-2025)
 GDP per capita gap between Central and Sabah regions (2025)
 Recycling rate of household waste (2025)

Focus Area 2: Building a prosperous society

Hardcore poverty (2025)
 Unemployment rate (2025)
 Affordable housing (2025)
 Malaysian Wellbeing Index Growth (2021-2025)
 HEIs and Public TVET Graduate Employability (2025)
 Hospital beds per 1k population (2025)
 Internet coverage in populated areas






Focus Area 3: Achieving High-Income Nation







GNI per capita (2025)
 Contribution of digital economy to GDP (2025)
 Gross expenditure on R&D to GDP (2025)
 Ranking in Corruption Perceptions Index (2025)
 Share of CE of GDP
 Share of MSMEs to GDP (2025)
 End-to-end online Federal Government Services (2025)







Source: Ministry of Economy

Targets	Achievements as of 2022
5.0% to 6.0%	5.9%
2.8% to 3.8%	2.9%
-3.5% to -3.0%	-5.6%
31%	24.3%
RM278bn	RM243k
1: 1.9	1: 1.9
40%	33.2%
0%	6.2%
3.3%	3.9%
500k	
1.4%	1.3%
86.7%	90.2%
2.06	2.07
100%	96.9%
RM61k	RM53k
25.5%	23.2%
2.5%	1.0%
Top 30	61
40%	32.4%
41%	38.4%
80%	81.3%

Appendix – 17 Big Bolds and 71 Strategies

Big Bold	Main Strategies/Initiatives
 Governance and Institutional Framework	<ul style="list-style-type: none"> Strengthening governance and integrity to rebuild trust and confidence of the <i>rakyat</i> Improving the institutional framework to enhance efficiency of public service delivery Enhancing the role of the Special Task Force on Agency Reform (STAR) Developing the Landslide Early Warning System (SAATR) to improve disaster management
 Legislation Related to Corruption	<ul style="list-style-type: none"> Strengthening the regulatory framework in improving accountability and transparency Introducing an integrity plan based on the core values of MADANI Enacting laws related to anti rent-seeking
 Fiscal Sustainability and Financial System	<ul style="list-style-type: none"> Introducing the fiscal responsibility act Accelerating the drafting of the government procurement act Broadening the revenue base Realigning surplus funds under federal statutory bodies and Government-linked companies Enhancing cost-effective project implementation Strengthening Malaysia as a global Islamic financial centre
 HGHV Industry Based on Energy Transition	<ul style="list-style-type: none"> Implementing National Energy Transition Roadmap (NETR) Creating electricity exchange system to enable cross-border RE trading Increasing RE capacity - solar, hydro, bioenergy and hydrogen Introducing natural gas roadmap Accelerating the preparation of regulatory framework for carbon capture, utilisation and storage (CCUS) Formulating long-term low emissions development strategy (LT-LEDS) Implementing carbon pricing Accelerating ESG adoption
 Targeted Subsidies	<ul style="list-style-type: none"> Retargeting all types of subsidies such as electricity, diesel and RON95 Developing data repository on households, <i>Pangkalan Data Utama</i> (PADU)

Big Bold	Main Strategies/Initiatives
 <p>Enculturation of MADANI Society</p>	<ul style="list-style-type: none"> Developing a progressive society Building self-identity based on <i>Rukun Negara</i> Fueling the spirit of nationalism and unity through the flagship <i>Kembara Perpaduan</i> programmes Developing <i>insan MADANI</i> by inculcating the elements and values of <i>Maqasid Syariah</i> Enhancing inclusive participation in sports
 <p>Social Protection Reform</p>	<ul style="list-style-type: none"> Strengthening the national social protection system through a life-cycle approach Formulating guidelines on informal workers for more comprehensive social protection Expanding the <i>Inisiatif Pendapatan Rakyat</i> (IPR) programme to cover the hardcore poor, poor and B40 to increase income
 <p>Housing for the Rakyat</p>	<ul style="list-style-type: none"> Accelerating the transition from ownership concept to shelter Introducing attractive and sustainable housing financing packages Harnessing the potential of retirement villages
 <p>Strengthening Healthcare Services</p>	<ul style="list-style-type: none"> Strengthening the financing of health protection Expanding the MADANI medical scheme Introducing leasing mechanism for the procurement of health equipment Establishing a national institute of mental health
 <p>Strengthening National Security and Defence</p>	<ul style="list-style-type: none"> Enhancing national border security Strengthening readiness and capabilities in managing security threats Establishing Prison Incorporated as a coordinator in improving prisoner rehabilitation programmes
 <p>Digital- and Technology-Based HGHV Industry</p>	<ul style="list-style-type: none"> Accelerating digitalisation through Government Technology (GovTech) Accelerating National Digital Identity implementation Implementing national-level digital leadership and upskilling programme Strengthening tech start-up ecosystem - focusing on angel investors and seed funding Strengthening the INNOVATHON programme as a platform to promote innovation

Big Bold	Main Strategies/Initiatives
 <p>High Value E&E HGHV Industry</p>	<ul style="list-style-type: none"> Strengthening front end manufacturing ecosystem to accelerate industry transition towards higher value chain Emphasising on high value added activities in integrated circuit design, engineering design and wafer fabrication Enhancing quality investment that prioritise advanced technology
 <p>HGHV Agriculture and Agro-Based Industry</p>	<ul style="list-style-type: none"> Strengthening modernisation in the agriculture sector through private investment to accelerate adoption of smart farming technology Diversifying agro-based industries to reduce dependency on food imports Promoting low carbon agriculture practises Expanding implementation of the <i>Program Inisiatif Usahawan Tani</i> (INTAN) programme under IPR as a strategy to strengthen food supply chain and increase income
 <p>Rare Earths HGHV Industry</p>	<ul style="list-style-type: none"> Developing a comprehensive business model for rare earths covering upstream, midstream and downstream Preparing detailed mapping of rare earths resources in states that have potential rare earths resources Revising the National Mineral Policy 2 to support and set the direction of the mineral industry including rare earths Enhancing research research & development & commercialisation & innovation (R&D&C&I) to promote local rare earths output and product
 <p>Empowering MSMEs and Social Enterprises</p>	<ul style="list-style-type: none"> Integrating MSMEs into domestic and global supply chain Promoting alternative financing for MSMEs Accelerating MSMEs productivity growth through technology adoption Scaling up MSMEs through smart ventures Encouraging social enterprises to venture into innovative social entrepreneurship projects Optimising waqf potential for enterprise development
 <p>Streamlining the Public Transport Network</p>	<ul style="list-style-type: none"> Improving first- and last-mile connectivity through the expansion of the Bus Rapid Transit (BRT) and intracity bus services Strengthening passenger mobility data Increasing accessibility and connectivity to facilitate better movements of people and goods Implementing green aviation by increasing the efficiency of air traffic management
 <p>Future-ready Talent</p>	<ul style="list-style-type: none"> Implementing a progressive wage policy Accelerating the implementation of multi-tier levy Conducting continuous upskilling and reskilling Introducing Academy in Industry (Aii) programme as a government and industry collaboration platform

Source: Ministry of Economy

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