MACROECONOMIC STABILITY FOR GROWTH

2

I. INTRODUCTION

2.01 The Malaysian economy registered credible growth during the Eighth Plan period despite uncertainties in the global environment arising from the September 11 incident in 2001, wars in Afghanistan and Iraq as well as the severe acute respiratory syndrome (SARS) in 2003 and crude oil price upsurge in 2004-2005. The expansion was broad-based with all sectors registering positive growth. The economic fundamentals remained strong. Inflation and unemployment rates were low. The current account of the balance of payments strengthened and national savings remained high. Progress was also made in developing a knowledge-based economy.

2.02 During the Ninth Plan period, macroeconomic management will focus on ensuring macroeconomic stability to maintain the economy on a sustainable growth path. Private domestic demand is expected to register a strong growth that will enable the Government to continue with its pragmatic fiscal management. An appropriate monetary policy will be implemented to promote growth and price stability. Emphasis will also be given towards enhancing productivity and innovative capacity.

II. REVIEW OF MACROECONOMIC PERFORMANCE, 2001-2005

2.03 During the Eighth Plan period, gross domestic product (GDP) in real terms grew at an average rate of 4.5 per cent per annum supported by domestic demand and exports. Per capita gross national product (GNP) in current terms increased by 5.7 per cent per annum to RM17,687 in 2005. Per capita GNP in terms of purchasing power parity increased to US$10,318 in 2005 due to lower inflation and a stable exchange rate.

Domestic Economy

Productivity and Efficiency

2.04 As the economy progressed towards becoming more knowledge-based, productivity and efficiency further improved. The total factor productivity (TFP) contribution to GDP increased to 29.0 per cent compared with 24.0 per cent achieved during the Seventh Plan period, as shown in *Table 2-1*. The contribution of labour to GDP was also higher at 33.2 per cent. However, the contribution of capital to GDP at 37.8 per cent was lower than the 45.2 per cent achieved during the Seventh Plan period, indicating the economy was gradually shifting towards productivity-driven growth. The lower incremental capital output ratio (ICOR)[1] at 6.2 during the Eighth Plan period compared with 8.6 in the Seventh Plan period indicated an improvement towards efficient utilisation of capital.

TABLE 2-1

CONTRIBUTION OF FACTORS OF PRODUCTION, 1996-2010

Factor	*Achieved*				*Target 9MP*	
	7MP		*8MP*			
	% of Contribution to GDP	*% of GDP*	*% of Contribution to GDP*	*% of GDP*	*% of Contribution to GDP*	*% of GDP*
GDP	***4.8***	***100.0***	***4.5***	***100.0***	***6.0***	***100.0***
Labour	*1.5*	*30.8*	*1.5*	*33.2*	*1.8*	*29.9*
Capital	*2.2*	*45.2*	*1.7*	*37.8*	*2.0*	*34.3*
TFP[1]	*1.1*	*24.0*	*1.3*	*29.0*	*2.2*	*35.8*

Source: Economic Planning Unit

Notes: [1] Total factor productivity (TFP) is estimated using the Cobb-Douglas production function by subtracting from total growth, the portion which is accounted for by increases in labour and capital.

Knowledge-Based Economy

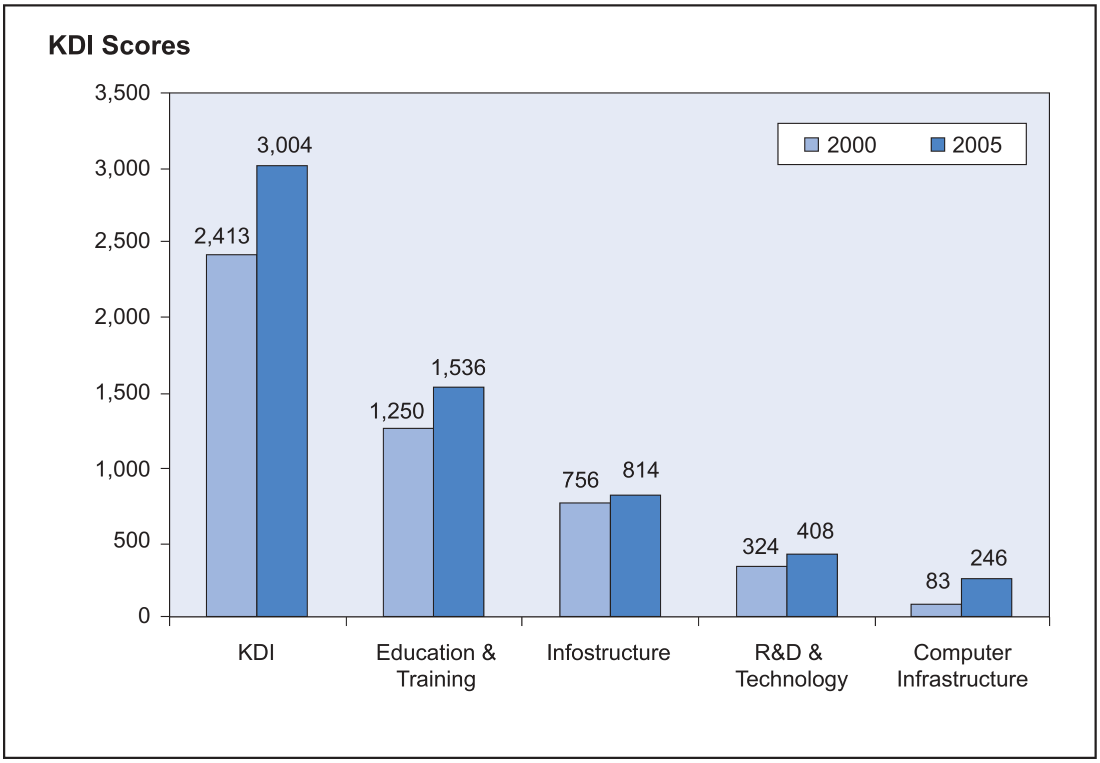
2.05 The knowledge-based economy development index (KDI)[2] was developed by the Government to monitor the progress of the economy towards becoming more knowledge-based. The overall KDI increased by 591 points from 2,413 in 2000 to 3,004 in 2005 with improvements recorded in all areas, as shown in *Chart 2-1*. The most significant improvement was in respect of computer

[1] Based on a 3-year moving average.

[2] The KDI was developed to assess Malaysia's readiness to become a knowledge-based economy. It also compares Malaysia's position relative to 21 other countries, which are mainly developed countries. The KDI is derived from selected key factors required to drive a knowledge-based economy, namely computer infrastructure, infostructure, education and training as well as R&D and technology. Currently, 21 indicators are used to construct the KDI.

CHART 2-1

THE KNOWLEDGE-BASED ECONOMY DEVELOPMENT INDEX: MALAYSIA, 2000 AND 2005



Source: Economic Planning Unit

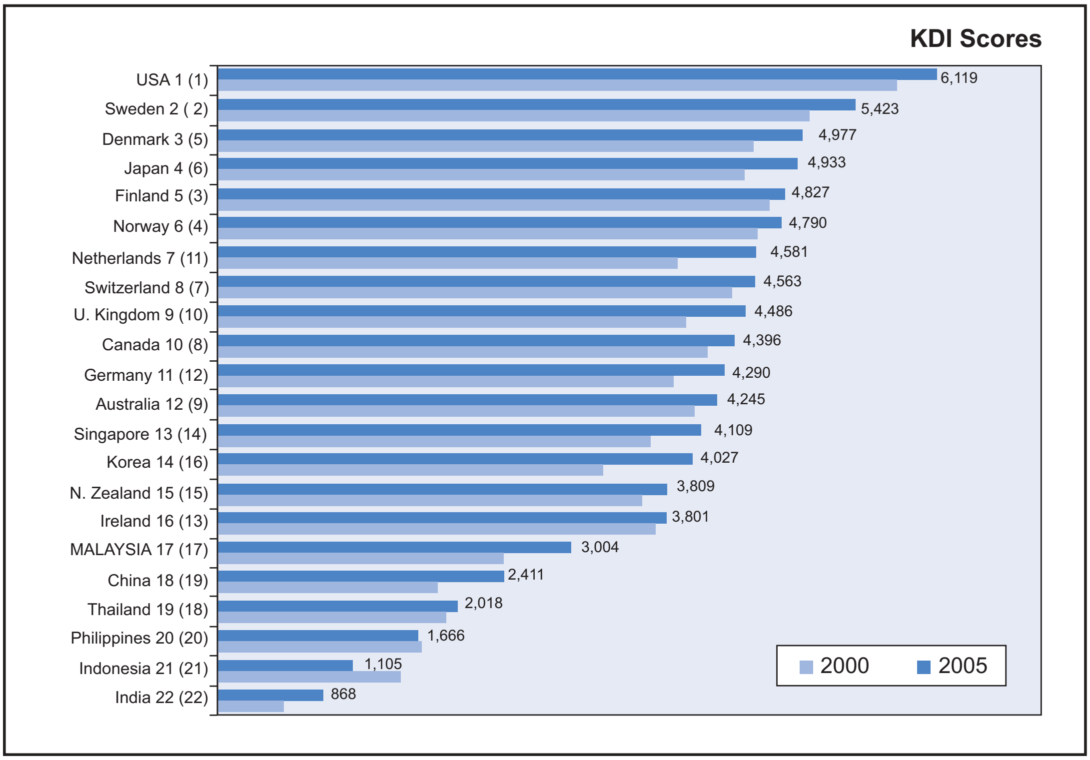
infrastructure, which registered an increase of 196.4 per cent in terms of scores between 2000 and 2005, followed by research and development (R&D) and technology at 25.9 per cent and education and training at 22.9 per cent. In terms of KDI by countries, Malaysia remained at 17th position in 2005, as shown in *Chart 2-2*.

2.06 An assessment of the knowledge readiness based on the level of knowledge content[3] was also undertaken across ten manufacturing and eight services industries. It was found that all the industries that were assessed had built a certain level of knowledge competency and capability as well as embarked on some form of knowledge acquisition, generation and sharing activities. Overall, the information technology services, chemical, telecommunications, tertiary

[3] The assessment is based on a survey of 1,819 firms undertaken in 2003. A total of 21 high powered variables reflecting knowledge enablers and actions were used to assess the level of knowledge content of the selected industries. The results are extracted from the Knowledge Content in Key Economic Sectors Report, 2004.

CHART 2-2

THE KNOWLEDGE-BASED ECONOMY DEVELOPMENT INDEX BY COUNTRY, 2000 AND 2005



Source: Economic Planning Unit

Notes: Numbers in brackets are 2000 rankings.

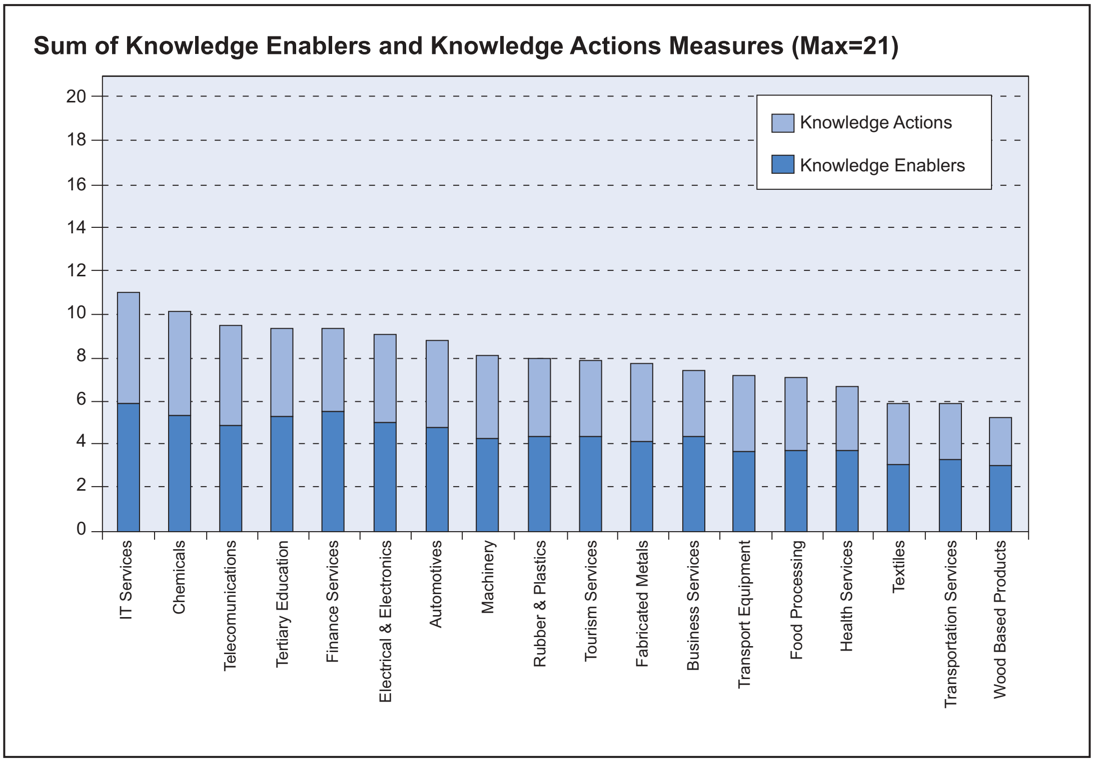
education and financial services industries exhibited better knowledge readiness, as shown in *Chart 2-3*. In terms of knowledge enablers, all industries were generally better with respect to technology and infostructure, and providing a supportive knowledge environment compared with their human resource capability and the presence of knowledge leadership. In terms of knowledge actions, all industries performed well with respect to knowledge utilisation, moderately for knowledge sharing and acquisition but were generally weak in knowledge generation.

Sectoral Output

2.07 Measures undertaken to stimulate the economy along with a better external environment and favourable commodity prices contributed to improved sectoral performance during the Plan period, as shown in *Table 2-2*. The *services sector* was the major contributor to GDP growth, growing at an average annual rate of 6.1 per cent. Its share of GDP increased to 58.1 per cent in 2005. The finance, insurance, real estate and business services subsector recorded

CHART 2-3

AGGREGATE KNOWLEDGE CONTENT MEASURES BY INDUSTRY, 2002



Source: Economic Planning Unit

the highest growth at an average rate of 8.1 per cent per annum. The transport, storage and communications subsector expanded at an average rate of 6.6 per cent per annum in line with the rise in trade and travel activities. The wholesale and retail trade, hotels and restaurants subsector recorded an average annual growth of 4.3 per cent during the Plan period, supported by increased consumer and tourism activities, particularly during the 2004-2005 period.

2.08 The *manufacturing sector* achieved a growth rate averaging 4.1 per cent during the Plan period and its share to GDP increased to 31.4 per cent in 2005. The capacity utilisation rate in the manufacturing sector remained high averaging 80 per cent per year. Growth was led by resource-based industries[4], which recorded an average growth of 5.0 per cent per annum. The main contributors to growth were the chemical products, food processing, rubber products and paper products subsectors. The non-resource-based industries[5] grew at an

[4] This comprised food processing, beverages and tobacco, wood products, paper products, chemical products, petroleum products, rubber products and non-metallic mineral products.

[5] This comprised textiles and apparel, basic metal, metal products, machinery, electronics, electrical machinery, transport equipment and other manufactures.

TABLE 2-2

GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN, 2000-2010

Sector	*RM million (in 1987 prices)*			*% of Total*			*Average Annual Growth Rate (%)*			*Contribution to Growth (%)*	
							8MP		*Target 9MP*	*Achieved 8MP*	*Target 9MP*
	2000	*2005*	*2010*	*2000*	*2005*	*2010*	*Target*	*Achieved*			
Agriculture, Forestry, Livestock and Fishing	18,662	21,585	27,518	*8.9*	*8.2*	*7.8*	*2.0*	*3.0*	*5.0*	*0.3*	*0.4*
Mining and Quarrying	15,385	17,504	20,675	*7.3*	*6.7*	*5.9*	*2.9*	*2.6*	*3.4*	*0.2*	*0.2*
Manufacturing	67,250	82,394	113,717	*31.9*	*31.4*	*32.4*	*4.0*	*4.1*	*6.7*	*1.3*	*2.1*
Construction	6,964	7,133	8,451	*3.3*	*2.7*	*2.4*	*2.5*	*0.5*	*3.5*	*0.0*	*0.1*
Services	113,408	152,205	208,086	*53.9*	*58.1*	*59.2*	*5.2*	*6.1*	*6.5*	*3.4*	*3.8*
Government Services	14,331	19,831	24,759	*6.8*	*7.6*	*7.0*	*4.5*	*6.7*	*4.5*	*0.5*	*0.3*
Business and Non-Government Services	99,077	132,374	183,327	*47.1*	*50.5*	*52.2*	*5.3*	*6.0*	*6.7*	*2.9*	*3.4*
Electricity, Gas and Water	8,278	10,860	14,450	*3.9*	*4.1*	*4.1*	*5.8*	*5.6*	*5.9*	*0.2*	*0.2*
Transport, Storage and Communications	16,858	23,163	31,984	*8.0*	*8.8*	*9.1*	*5.8*	*6.6*	*6.7*	*0.5*	*0.6*
Wholesale and Retail Trade, Hotels and Restaurants	31,116	38,437	53,456	*14.8*	*14.7*	*15.2*	*3.6*	*4.3*	*6.8*	*0.6*	*1.0*
Finance, Insurance, Real Estate and Business Services	26,755	39,568	55,385	*12.7*	*15.1*	*15.8*	*7.0*	*8.1*	*7.0*	*1.1*	*1.1*
Other Services	16,070	20,346	28,052	*7.6*	*7.8*	*8.0*	*5.0*	*4.8*	*6.6*	*0.4*	*0.4*
(-) Imputed Bank Service Charges	15,832	23,876	32,707	*7.5*	*9.1*	*9.3*	*7.3*	*8.6*	*6.5*	*0.7*	*0.6*
(+) Import Duties	4,721	5,083	5,556	*2.2*	*1.9*	*1.6*	*6.3*	*1.5*	*1.8*	*0.0*	*0.0*
GDP at Purchasers' Value	**210,557**	**262,029**	**351,297**	***100.0***	***100.0***	***100.0***	***4.2***	***4.5***	***6.0***	***4.5***	***6.0***
Primary Sector	34,047	39,089	48,193	*16.2*	*14.9*	*13.7*	*2.4*	*2.8*	*4.3*	*0.4*	*0.6*
Secondary Sector	74,215	89,527	122,168	*35.2*	*34.2*	*34.8*	*3.8*	*3.8*	*6.4*	*1.3*	*2.2*
Tertiary Sector	113,408	152,205	208,086	*53.9*	*58.1*	*59.2*	*5.2*	*6.1*	*6.5*	*3.4*	*3.7*
Adjusted for Import Duties less Imputed Bank Service Charges											
Primary Sector	32,456	37,912	44,974	*15.4*	*14.5*	*12.8*	*2.2*	*2.5*	*4.2*	*0.4*	*0.6*
Secondary Sector	70,747	83,510	114,009	*33.6*	*32.9*	*32.5*	*3.7*	*3.5*	*6.3*	*1.1*	*2.0*
Tertiary Sector	107,355	140,607	192,314	*51.0*	*53.7*	*54.7*	*5.0*	*5.7*	*6.3*	*3.0*	*3.4*

Source : Economic Planning Unit and Department of Statistics average rate of 3.5 per cent per annum. Despite recording a moderate growth averaging 3.0 per cent per annum, the electronics subsector remained the largest contributor, accounting for 28.0 per cent of manufacturing value added in 2005.

2.09 The *agriculture, forestry, livestock and fisheries sector* recorded an average growth of 3.0 per cent per annum. Growth was contributed by the agricultural industrial commodities and food subsectors, which grew at an annual average rate of 3.8 per cent and 1.7 per cent, respectively. Palm oil value added increased by an average rate of 6.2 per cent per annum to remain as the major contributor, accounting for 36.7 per cent of total agriculture sector value added in 2005. In the food subsector, vegetable and fruit production recorded an average annual growth of 13.8 per cent and 9.8 per cent, respectively. The livestock subsector grew at an average rate of 6.6 per cent per annum while the fisheries subsector recorded a negative growth of 0.9 per cent per annum.

2.10 The *mining sector* grew at an average rate of 2.6 per cent per annum. Production of crude oil and condensate increased by 1.3 per cent per annum from 681,000 barrels per day (bpd) in 2000 to 727,000 bpd in 2005. Prices of crude oil were volatile, particularly in 2004 and 2005, which saw the prices of the premium 'light sweet' grade, namely Tapis Blend (the Malaysian benchmark) and West Texas Intermediate (WTI) increasing to US$55.70 and US$56.67 per barrel, respectively, in 2005 compared with an average price of US$24.91 and US$25.24 per barrel, respectively, in 2001. Natural gas production also increased by an average rate of 5.8 per cent per annum to 5,800 million standard cubic feet per day (mmscfd) in 2005.

2.11 The *construction sector* recorded a marginal growth averaging 0.5 per cent per annum due to the slowdown in civil engineering activities during the second half of the Plan period. Growth was contributed by the continued demand in the residential property subsector arising from higher disposable income and attractive financing packages.

Aggregate Demand

2.12 Aggregate demand grew at an average rate of 5.5 per cent per annum in real terms. *Private investment* contracted by an average rate of 1.0 per cent per annum, as shown in *Table 2-3 and Chart 2-4*. This was due to the large contraction of 19.9 per cent in 2001 and 15.1 per cent in 2002 attributed to weak external demand and lower inflows of foreign direct investment (FDI). Nevertheless, private investment rebounded and grew at an average rate of 18.1 per cent per annum during the 2004-2005 period as businesses gained confidence in the strength of the economic expansion. Steady inflows of FDI in the manufacturing, mining and services sectors during the 2004-2005 period also contributed to better performance of private investment. In nominal terms, private investment totalled RM175.9 billion, lower than the RM288.6 billion achieved during the 1996-2000 period. Investment in the manufacturing sector accounted for 33.9 per cent of total investment, followed by services 21.6 per cent, construction 19.7 per cent, mining 14.5 per cent and agriculture 10.3 per cent.

TABLE 2-3

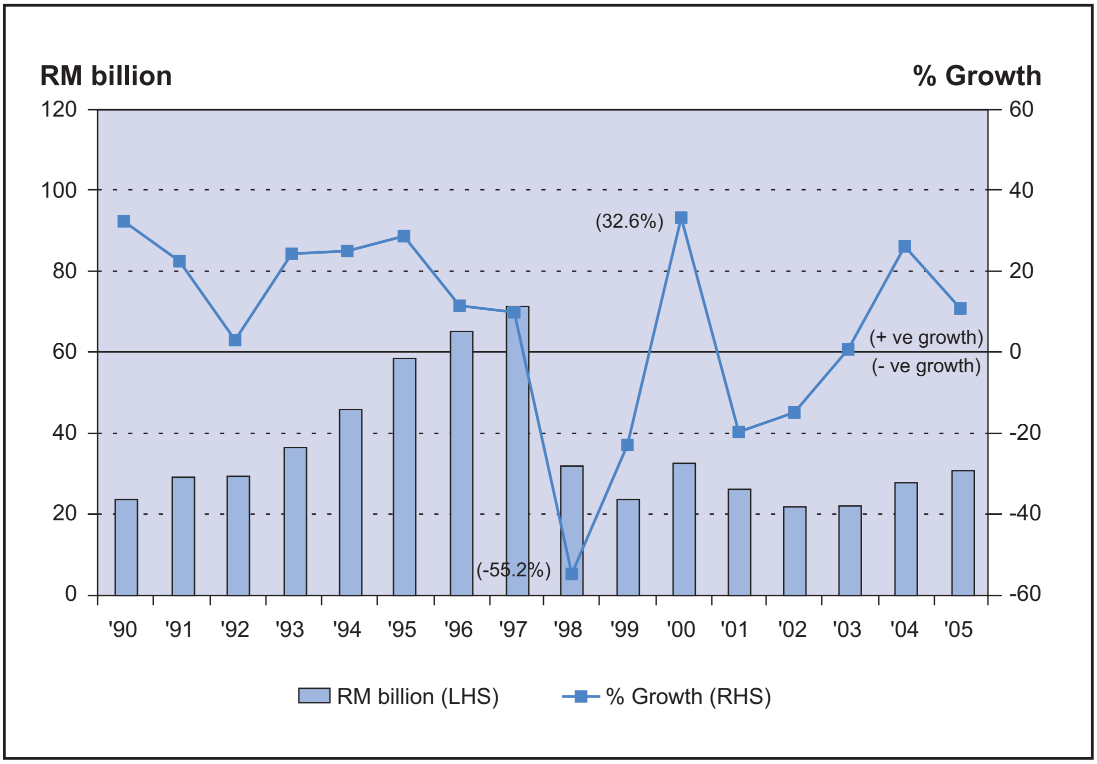
GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 2000-2010

Category	RM million (in current prices with 1987 prices in italics)			Average Annual Growth Rate (%)			% of GDP		
				8MP		Target 9MP			
	2000	2005	2010	Target	Achieved		2000	2005	2010
Consumption	181,031	280,468	428,653	*7.4*	*9.2*	*8.9*	*52.7*	*56.7*	*59.4*
	119,238	*169,993*	*233,074*	*6.1*	*7.4*	*6.5*	*56.6*	*64.9*	*66.3*
Private	145,355	215,876	340,376	*6.5*	*8.2*	*9.5*	*42.4*	*43.7*	*47.1*
	95,370	*131,266*	*182,888*	*5.2*	*6.6*	*6.9*	*45.3*	*50.1*	*52.1*
Public	35,676	64,592	88,277	*11.0*	*12.6*	*6.4*	*10.4*	*13.1*	*12.2*
	23,868	*38,727*	*50,186*	*9.4*	*10.2*	*5.3*	*11.3*	*14.8*	*14.3*
Gross Fixed Capital Formation	87,729	98,930	148,169	*0.9*	*2.4*	*8.4*	*25.6*	*20.0*	*20.5*
	64,840	*70,175*	*102,512*	*0.9*	*1.6*	*7.9*	*30.8*	*26.8*	*29.2*
Private	44,102	43,769	76,170	*-2.4*	*-0.2*	*11.7*	*12.8*	*8.9*	*10.5*
	32,596	*31,047*	*52,700*	*-2.3*	*-1.0*	*11.2*	*15.5*	*11.8*	*15.0*
Public	43,627	55,161	71,999	*3.8*	*4.8*	*5.5*	*12.7*	*11.2*	*10.0*
	32,244	*39,128*	*49,812*	*3.8*	*3.9*	*5.0*	*15.3*	*14.9*	*14.2*
Change in Stocks	5,981	-1,059	126	-	-	-	*1.7*	*-0.2*	*0.0*
	3,383	*-1,708*	*104*	-	-	-	*1.6*	*-0.7*	*0.0*
Exports of Goods and Services	427,004	609,133	923,484	*2.7*	*7.4*	*8.7*	*124.4*	*123.2*	*127.9*
	246,158	*316,959*	*445,625*	*2.0*	*5.2*	*7.1*	*116.9*	*121.0*	*126.9*
Imports of Goods and Services	358,530	492,928	778,213	*2.3*	*6.6*	*9.6*	*104.5*	*99.7*	*107.8*
	223,062	*293,391*	*430,018*	*1.9*	*5.6*	*7.9*	*105.9*	*112.0*	*122.4*
GDP at Purchasers' Value	**343,215**	**494,544**	**722,219**	***5.2***	***7.6***	***7.9***	***100.0***	***100.0***	***100.0***
	210,557	***262,029***	***351,297***	***4.2***	***4.5***	***6.0***	***100.0***	***100.0***	***100.0***
Net Factor Payments	-28,909	-21,470	-39,542	-	-	-			
	-19,270	*-13,999*	*-23,484*	-	-	-			
GNP at Purchasers' Value	**314,306**	**473,074**	**682,677**	***5.4***	***8.5***	***7.6***			
	191,287	***248,030***	***327,812***	***4.3***	***5.3***	***5.7***			
GNP Per Capita at Purchasers' Value (RM)	13,378	17,687	23,573	*3.2*	*5.7*	*5.9*			

Source: Economic Planning Unit and Department of Statistics

CHART 2-4

PRIVATE INVESTMENT, 1990-2005



Source: Economic Planning Unit

2.13 *Public investment* grew at an average annual rate of 3.9 per cent compared with the revised target[6] of 3.8 per cent and its share of GDP remained at 14.9 per cent in 2005. Capital expenditure of the non-financial public enterprises (NFPEs)[7] remained high during the Plan period, growing at an average rate of 11.3 per cent per annum, mainly due to upgrading and capacity expansion, particularly by *Petroliam Nasional Berhad* (PETRONAS), *Tenaga Nasional Berhad* (TNB) and *Telekom Malaysia Berhad* (TM).

2.14 *Private consumption* recorded a strong growth averaging 6.6 per cent per annum compared with the revised target of 5.2 per cent and its share of GDP increased to 50.1 per cent in 2005. *Public consumption* also registered a higher growth averaging 10.2 per cent per annum compared with the revised target of 9.4 per cent. This was attributed to higher Federal Government expenditure

[6] Refers to the targets in the Mid-term Review of the Eighth Plan.

[7] The inclusion of enterprises in the list of NFPEs was based on the criteria that the Government equity was at least 51 per cent and the turnover value was at least RM100 million or having a significant impact on the economy, including large borrowing needs and huge capital expenditure. There are 30 entities currently included in the list.

on emoluments as well as supplies and services in line with efforts to continuously upgrade the Government administrative machinery and delivery system.

Resource Balance

2.15 During the Plan period, the high level of savings was maintained, as shown in *Table 2-4*. National savings, averaging 36.3 per cent to GNP, enabled Malaysia to finance its economic growth from domestic sources. Investment as a percentage of GNP declined from 29.8 per cent in 2000 to 20.7 per cent in 2005, resulted in a surplus resource balance at 16.4 per cent to GNP in 2005 compared with 10.3 per cent in 2000.

TABLE 2-4

RESOURCE BALANCE, 2000-2010
(% to GNP)

Sector	*2000*	*2005*	*2010*	*Cumulative*	
				8MP	*Target 9MP*
Public					
Savings	*17.6*	*16.5*	*13.9*	*15.3*	*15.2*
Investment	*13.9*	*11.7*	*10.5*	*14.0*	*10.9*
Resources Balance	***3.7***	***4.8***	***3.4***	***1.3***	***4.3***
Private					
Savings	*22.5*	*20.6*	*21.2*	*21.0*	*21.0*
Investment	*15.9*	*9.0*	*11.2*	*9.6*	*10.4*
Resources Balance	***6.6***	***11.6***	***10.0***	***11.4***	***10.6***
Total					
Savings	*40.1*	*37.1*	*35.1*	*36.3*	*36.2*
Investment	*29.8*	*20.7*	*21.7*	*23.6*	*21.3*
Resources Balance	***10.3***	***16.4***	***13.4***	***12.7***	***14.9***

Source: Economic Planning Unit

Price Development

2.16 Inflation, as measured by the *consumer price index* (CPI) registered an average growth of 1.8 per cent per annum during the 2001-2005 period, as shown in *Table 2-5*. The core inflation, which is inflation excluding items under the Price Control Act 1946 and Price Control Order (Goods Under Price Control) 2000, also recorded an average growth of 1.5 per cent per annum during the Plan period. The rural CPI increased by an average rate of 1.7 per cent per annum and the urban CPI 1.8 per cent during the 2001-2005 period, due to higher prices for food, beverages and tobacco, transport and communications,

TABLE 2-5

PRICE DEVELOPMENT, 2001-2005

Item	*Growth Rate (%)*					*Average Annual Growth Rate (%), 2001-2005*
	2001	*2002*	*2003*	*2004*	*2005*	
Consumer Price Index (2000=100)	***1.4***	***1.8***	***1.2***	***1.4***	***3.0***	***1.8***
of which:						
Food	*0.7*	*0.7*	*1.3*	*2.2*	*3.6*	*1.7*
Gross Rent, Fuel and Power	*1.4*	*0.7*	*0.9*	*1.0*	*1.2*	*1.0*
Medical Care and Health Expenses	*2.9*	*2.4*	*1.7*	*1.4*	*1.6*	*2.0*
Transport and Communications	*3.6*	*6.6*	*1.6*	*0.8*	*4.4*	*3.4*
Consumer Price Index by Region (2000=100)						
Rural	*1.3*	*1.5*	*1.0*	*1.4*	*3.2*	*1.7*
Urban	*1.4*	*2.0*	*1.2*	*1.4*	*3.0*	*1.8*
Core Consumer Price Index (2000=100)[1]	***1.1***	***1.5***	***1.0***	***1.4***	***2.6***	***1.5***
Consumer Price Index by Lower Income Groups (2000=100)[2]	***1.2***	***1.4***	***1.2***	***1.7***	***3.2***	***1.7***
Producer Price Index (1989=100)						
of which:						
Domestic Economy	*-5.0*	*4.4*	*5.7*	*8.9*	*6.8*	*4.0*
Local Production	*-6.1*	*5.7*	*6.8*	*10.3*	*7.9*	*4.8*
Imports	*-0.4*	*-0.7*	*0.8*	*2.0*	*1.5*	*0.6*
GDP Deflator (1987=100)	***-2.9***	***3.7***	***3.5***	***6.2***	***4.5***	***3.0***

Source: Economic Planning Unit and Department of Statistics

Notes: [1] This index excludes items under Price Control Act 1946 and Price Control Order (Goods Under Price Control) 2000.
[2] Refers to income groups earning less than RM1,500 monthly.

medical care and health expenses as well as miscellaneous goods and services. Producer prices, as measured by the *producer price index* (PPI), grew at an average annual rate of 4.0 per cent during the Plan period, largely due to higher prices for commodity-related products following the higher prices of crude oil during the 2004-2005 period and crude palm oil in 2004.

Public Sector Account

2.17 There was a turnaround in the *consolidated public sector account* from an overall deficit during the 2001-2003 period to an overall surplus during the 2004-2005 period. The improvement was due to the NFPEs current surplus, which expanded from RM28.5 billion in 2000 to RM63.8 billion in 2005. The increase was attributed to higher earnings from telecommunication and utilities, oil and gas activities as well as higher prices of crude oil. The public sector account recorded an overall surplus of RM7.0 billion or 1.4 per cent to GDP in 2005, as shown in *Table 2-6.*

TABLE 2-6

CONSOLIDATED PUBLIC SECTOR ACCOUNT, 2000-2010

Item	RM million					% to GDP			Average Annual Growth Rate (%)	
				Cumulative						
	2000	2005	2010	8MP	9MP	2000	2005	2010	8MP	9MP
General Government[1]										
Revenue	76,002	122,612	171,530	533,155	779,468	22.1	24.8	23.8	10.0	6.9
Operating Expenditure	64,445	108,414	148,846	442,036	655,321	18.8	21.9	20.6	11.0	6.5
Current Surplus	11,557	14,198	22,684	91,120	124,147	3.4	2.9	3.1	4.2	9.8
NFPEs Current Surplus	28,462	63,762	77,712	218,734	351,092	8.3	12.9	10.8	17.5	4.0
Public Sector Current Surplus	40,019	77,960	100,396	309,854	475,239	11.7	15.8	13.9	14.3	5.2
Development Expenditure	50,440	70,954	89,747	339,777	396,112	14.7	14.3	12.4	7.1	4.8
General Government	27,079	30,973	46,547	178,673	218,013	7.9	6.3	6.4	2.7	8.5
NFPEs	23,361	39,981	43,200	161,104	178,099	6.8	8.1	6.0	11.3	1.6
General Government Overall Surplus/Deficit	-15,522	-16,775	-23,863	-87,554	-93,866	-4.5	-3.4	-3.3		
NFPEs Overall Surplus/Deficit	5,101	23,781	34,512	57,630	172,993	1.5	4.8	4.8		
Public Sector Overall Surplus/Deficit	-10,420	7,006	10,649	-29,923	79,127	-3.0	1.4	1.5		

Source: Economic Planning Unit and Ministry of Finance

Notes: [1] General Government comprises the Federal Government, State Governments, Local Authorities and Statutory Bodies.

2.18 Federal Government *revenue* registered an average annual growth of 11.4 per cent during the Plan period, as shown in *Table 2-7*. The increase was attributed to higher revenue collected from petroleum tax, export duties, excise duties as well as returns from investment. *Operating expenditure* of the Federal Government expanded at an average annual rate of 11.6 per cent from RM56.5 billion in 2000 to RM97.7 billion in 2005. The expansion was attributed to higher expenditure on supplies and services as well as subsidies. Taking into account the *development expenditure* amounting to RM170.0 billion, the overall Federal Government fiscal deficit declined from 5.7 per cent to GDP in 2000 to 3.8 per cent to GDP in 2005. Outstanding debt increased to RM228.7 billion or 46.2 per cent to GDP in 2005. Of the total, 86.9 per cent was domestic debt while 13.1 per cent was external debt.

External Sector

International Trade

2.19 During the Plan period, total trade expanded at an average rate of 7.2 per cent per annum from RM684.7 billion in 2000 to RM967.8 billion in 2005, as shown in *Table 2-8*. *Gross exports* grew at an average rate of 7.4 per cent per annum to RM533.8 billion in 2005, as shown in *Table 2-9*. With this performance, Malaysia was ranked the 18th largest exporter, contributing 1.5 per cent of world exports.

2.20 Manufacturing exports grew strongly, averaging 6.2 per cent per annum during the Plan period. Electrical and electronic products continued to be the mainstay of manufactured exports, although its share decreased to 65.8 per cent in 2005 from 72.5 per cent in 2000, as shown in *Chart 2-5*. Exports of agriculture and forestry products expanded at an average rate of 10.3 per cent per annum to account for 7.0 per cent of total exports attributed to higher exports for palm oil and rubber. Exports from the mining sector grew at an average rate of 14.3 per cent per annum, attributed to increased demand for crude oil and liquefied natural gas (LNG) as well as escalation in world crude oil prices from an average of US$30 per barrel in 2000 to US$55.70 per barrel in 2005.

2.21 *Gross imports* increased at an average rate of 6.9 per cent per annum during the Plan period particularly due to capital expansion in the manufacturing and services sectors. Import of intermediate goods grew at an average rate of 5.8 per cent per annum to account for 71.0 per cent of gross imports while import of capital goods grew by an average rate of 6.6 per cent per annum and constituted 14.0 per cent of total imports in 2005. Import of consumption goods increased by an average annual rate of 7.6 per cent to account for 5.7 per cent of gross imports at the end of the Plan period, as shown in *Table 2-10*. The import intensity declined from 51.1 per cent in 2000 to 49.9 per cent in 2005, reflecting an increase in the utilisation of locally produced components.

TABLE 2-7

FEDERAL GOVERNMENT EXPENDITURE AND FINANCING, 2000-2010

Item	*RM million*					*% to GDP*			*Average Annual Growth Rate (%)*	
				Cumulative						
	2000	*2005*	*2010*	*8MP*	*9MP*	*2000*	*2005*	*2010*	*8MP*	*9MP*
Revenue	61,863	106,304	152,070	461,390	683,137	*18.0*	*21.5*	*21.1*	*11.4*	*7.4*
Operating Expenditure[1]	56,547	97,744	135,723	396,722	595,529	*16.5*	*19.8*	*18.8*	*11.6*	*6.8*
Current Surplus	5,316	8,561	16,347	64,668	87,608	*1.5*	*1.7*	*2.3*	*10.0*	*13.8*
Gross Development Expenditure	27,941	30,571	41,650	170,000	200,000	*8.1*	*6.2*	*5.8*	*1.8*	*6.4*
Direct Expenditure	26,304	28,839	40,450	160,432	193,568	*7.7*	*5.8*	*5.6*	*1.9*	*7.0*
Gross Lending	1,637	1,732	1,200	9,568	6,432	*0.5*	*0.4*	*0.2*	*1.1*	*-7.1*
Loan Recoveries	2,909	3,250	1,000	7,548	4,744	*0.8*	*0.7*	*0.1*	*2.2*	*-21.0*
Net Development Expenditure	25,032	27,321	40,650	162,452	195,256	*7.3*	*5.5*	*5.6*	*1.8*	*8.3*
Overall Surplus/Deficit	-19,715	-18,761	-24,303	-97,784	-107,648	*-5.7*	*-3.8*	*-3.4*		
% to GDP	*-5.7*	*-3.8*	*-3.4*	*-4.8*	*-3.4*					
Sources of Financing										
Net Foreign Borrowing	864	-3,503	-	7,269	1,344	*0.3*	*-0.7*	*0.0*	-	-
Net Domestic Borrowing	12,714	12,700	24,303	81,057	106,304	*3.7*	*2.6*	*3.4*	-	-
Change in Assets[2]	6,137	9,564	-	9,421	-	*1.8*	*1.9*	*0.0*	-	-
Total Debt[3]	125,626	228,670	351,318	228,670	351,318	*36.6*	*46.2*	*48.6*	-	-
Domestic	106,805	198,670	319,974	198,670	319,974	*31.1*	*40.2*	*44.3*	-	-
External	18,821	30,000	31,344	30,000	31,344	*5.5*	*6.1*	*4.3*	-	-

Source: Economic Planning Unit and Ministry of Finance

Notes: [1] This excludes transfers to Development Fund.
[2] A negative sign indicates accumulating of assets, a positive sign indicates draw down in assets.
[3] End of period.

TABLE 2-8

DIRECTION OF TRADE, 2000-2005

Direction	RM million						% of Total				Average Annual Growth Rate (%), 2001-2005		
	Exports		Imports		Total Trade		Exports		Imports				
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	Exports	Imports	Total Trade
ASEAN[1]	99,028	139,208	74,940	110,823	173,968	250,031	26.5	26.1	24.1	25.5	7.0	8.1	7.5
Singapore	68,574	83,333	44,696	50,828	113,270	134,161	18.4	15.6	14.4	11.7	4.0	2.6	3.4
Indonesia	6,484	12,580	8,623	16,566	15,107	29,145	1.7	2.4	2.8	3.8	14.2	13.9	14.0
Thailand	13,485	28,723	11,987	22,889	25,472	51,612	3.6	5.4	3.8	5.3	16.3	13.8	15.2
Philippines	6,558	7,476	7,562	12,192	14,120	19,668	1.8	1.4	2.4	2.8	2.7	10.0	6.9
European Union	51,019	62,629	33,527	50,512	84,546	113,142	13.7	11.7	10.8	11.6	4.2	8.5	6.0
United Kingdom	11,566	9,470	6,080	6,522	17,646	15,992	3.1	1.8	2.0	1.5	-3.9	1.4	-1.9
Germany, Fed. Republic of	9,336	11,259	9,282	19,265	18,618	30,524	2.5	2.1	3.0	4.4	3.8	15.7	10.4
United States of America	76,579	105,033	51,744	55,918	128,323	160,951	20.5	19.7	16.6	12.9	6.5	1.6	4.6
Canada	3,043	2,847	1,445	2,133	4,488	4,980	0.8	0.5	0.5	0.5	-1.3	8.1	2.1
Australia	9,210	18,042	6,052	8,171	15,262	26,213	2.5	3.4	1.9	1.9	14.4	6.2	11.4
Selected North East Asia countries	103,784	149,105	117,828	169,236	221,612	318,338	27.8	27.9	37.8	39.0	7.5	7.5	7.5
Japan	48,770	49,918	65,513	62,982	114,283	112,899	13.1	9.4	21.0	14.5	0.5	-0.8	-0.2
China, People's Republic of	11,507	35,221	12,321	49,880	23,828	85,101	3.1	6.6	4.0	11.5	25.1	32.3	29.0
Hong Kong China	16,854	31,205	8,557	10,797	25,411	42,002	4.5	5.8	2.7	2.5	13.1	4.8	10.6
Korea, Republic of	12,464	17,945	13,926	21,604	26,390	39,549	3.3	3.4	4.5	5.0	7.6	9.2	8.4
Chinese Taipei	14,189	14,813	17,511	23,974	31,700	38,787	3.8	2.8	5.6	5.5	0.9	6.5	4.1
South Asia	10,529	21,245	3,030	4,504	13,558	25,749	2.8	4.0	1.0	1.0	15.1	8.3	13.7
India	7,312	14,972	2,748	4,164	10,059	19,136	2.0	2.8	0.9	1.0	15.4	8.7	13.7
Central and South America	5,633	6,169	2,587	6,786	8,220	12,955	1.5	1.2	0.8	1.6	1.8	21.3	9.5
Africa	2,996	7,649	1,421	2,511	4,417	10,160	0.8	1.4	0.5	0.6	20.6	12.1	18.1
Others	11,449	21,866	18,886	23,415	30,335	45,278	3.1	4.1	6.1	5.4	13.8	4.4	8.3
Total	**373,270**	**533,790**	**311,459**	**434,010**	**684,729**	**967,798**	**100.0**	**100.0**	**100.0**	**100.0**	**7.4**	**6.9**	**7.2**
South Countries[2]	68,156	139,911	55,900	137,907	124,056	277,818	18.3	26.2	17.9	31.8	15.5	19.8	17.5

Source: Department of Statistics

Notes: [1] Includes all ASEAN member countries.
[2] Includes ASEAN other than Singapore; South Asia, North-East Asia other than Japan, Hong Kong China, Republic of Korea and Chinese Taipei; West Asia; Central and South America; Africa; and Oceania exclude Australia and New Zealand.

TABLE 2-9

MERCHANDISE TRADE, 2000-2005

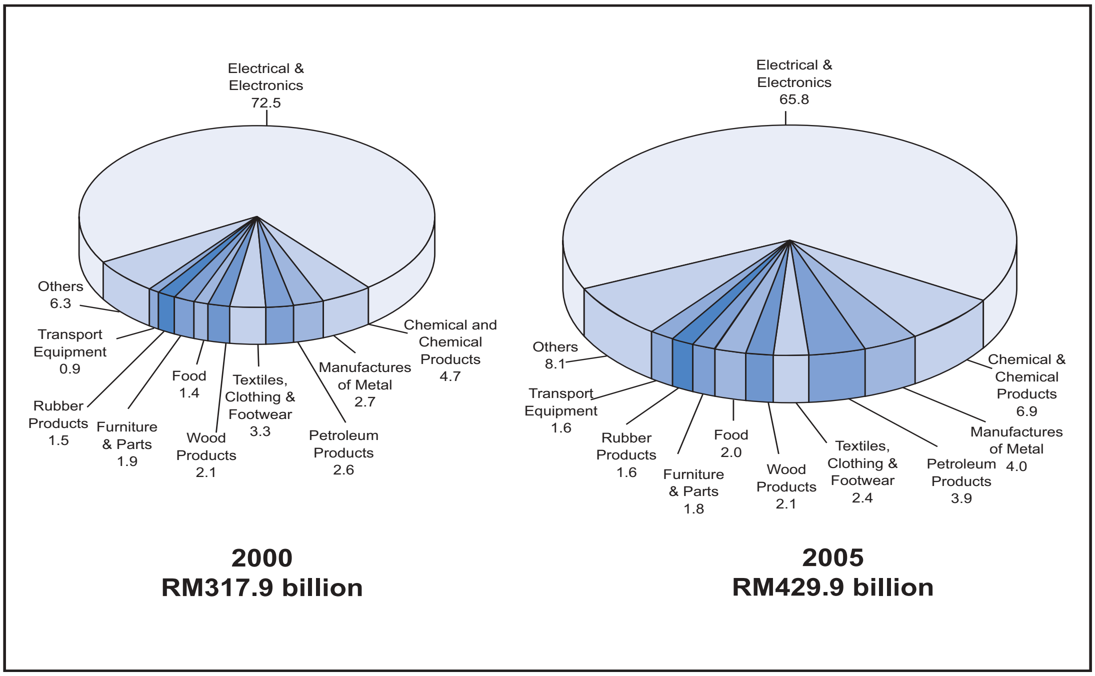
Item	*RM million*		*% of Total*		*Average Annual Growth Rate (%), 2001-2005*
	2000	*2005*	*2000*	*2005*	
Gross Exports					
Agriculture	22,892	37,421	*6.1*	*7.0*	*10.3*
Mining	26,877	52,321	*7.2*	*9.8*	*14.3*
Manufacturing	317,908	429,873	*85.2*	*80.5*	*6.2*
Others	5,593	14,175	*1.5*	*2.7*	*20.4*
Total	**373,270**	**533,790**	***100.0***	***100.0***	***7.4***
Gross Imports					
Capital Goods	44,171	60,734	*14.2*	*14.0*	*6.6*
Intermediate Goods	232,687	308,335	*74.7*	*71.0*	*5.8*
Consumption Goods	17,040	24,600	*5.5*	*5.7*	*7.6*
Other[1]	11,043	18,479	*3.5*	*4.3*	*10.8*
Retained Imports	304,941	412,148	*97.9*	*95.0*	*6.2*
Import for Re-Exports	6,518	21,862	*2.1*	*5.0*	*27.4*
Total	**311,459**	**434,010**	***100.0***	***100.0***	***6.9***

Source: Department of Statistics

Notes: [1] Dual use goods, goods not elsewhere stated and transactions below RM5,000.

CHART 2-5

GROSS EXPORTS OF MANUFACTURED GOODS, 2000 AND 2005
(% of Total)



Source: Department of Statistics and Bank Negara Malaysia

TABLE 2-10

GROSS IMPORTS BY END USE AND BROAD ECONOMIC CATEGORIES, 2000-2005

Item	*RM million*		*% of Total*		*Average Annual Growth Rate (%), 2001-2005*
	2000	*2005*	*2000*	*2005*	
Capital Goods	**44,171**	**60,734**	***14.2***	***14.0***	***6.6***
Capital Goods (except transport equipment)	41,899	53,939	*13.5*	*12.4*	*5.2*
Transport Equipment, Industrial	2,272	6,795	*0.7*	*1.6*	*24.5*
Intermediate Goods	**232,687**	**308,335**	***74.7***	***71.0***	***5.8***
Foods and Beverages, Primary, mainly for Industry	1,868	3,747	*0.6*	*0.9*	*14.9*
Foods and Beverages, Processed, mainly for Industry	1,968	4,605	*0.6*	*1.1*	*18.5*
Industrial Supplies, n.e.s., Primary	6,269	8,895	*2.0*	*2.0*	*7.2*
Industrial Supplies, n.e.s., Processed	62,134	87,704	*19.9*	*20.2*	*7.1*
Fuel and Lubricants, Primary	5,380	15,229	*1.7*	*3.5*	*23.1*
Fuel and Lubricants, Processed, Others	6,709	12,263	*2.2*	*2.8*	*12.8*
Parts and Accessories of Capital Goods (except transport equipment)	144,232	163,660	*46.3*	*37.7*	*2.6*
Parts and Accessories of Transport Equipment	4,127	12,232	*1.3*	*2.8*	*24.3*
Consumption Goods[1]	**17,040**	**24,600**	***5.5***	***5.7***	***7.6***
Foods and Beverages, Primary, mainly for Household Consumption	2,131	3,403	*0.7*	*0.8*	*9.8*
Foods and Beverages, Processed, mainly for Household Consumption	4,329	5,877	*1.4*	*1.4*	*6.3*
Consumer Goods, n.e.s.	10,484	15,002	*3.4*	*3.5*	*7.4*
Durables	2,022	3,514	*0.6*	*0.8*	*11.7*
Semi-Durables	4,366	4,671	*1.4*	*1.1*	*1.4*
Non-Durables	4,096	6,817	*1.3*	*1.6*	*10.7*
Dual Use Goods	**6,393**	**11,308**	***2.1***	***2.6***	***12.1***
Fuel and Lubricants, Processed, Motor Spirit	2,469	6,424	*0.8*	*1.5*	*21.1*
Transport Equipment, Passenger Motor Cars	3,924	4,884	*1.3*	*1.1*	*4.5*
Goods, n.e.s.	**158**	**563**	***0.1***	***0.1***	***29.0***
Transactions Below RM5,000	**4,492**	**6,608**	***1.4***	***1.5***	***8.0***
Retained Imports	**304,941**	**412,148**	***97.9***	***95.0***	***6.2***
Import for Re-Exports	**6,518**	**21,862**	***2.1***	***5.0***	***27.4***
Total Gross Imports	**311,459**	**434,010**	***100.0***	***100.0***	***6.9***

Source: Department of Statistics

Notes: [1] Includes transport equipment for non-industrial.
n.e.s. - not elsewhere stated.

Balance of Payments

2.22 The overall *balance of payments* strengthened throughout the Plan period. The current account recorded its highest surplus of RM77.8 billion in 2005 or 16.4 per cent to GNP arising from the large surplus sustained in the goods account and improvements in the services account deficit, as shown in *Table 2-11*. The surplus in the goods account expanded to RM126.5 billion in 2005, accounting for more than 26.7 per cent to GNP during the Plan period.

Table 2-11

BALANCE OF PAYMENTS, 2000-2010

Item	*RM Million*			*Cumulative RM billion*	
	2000	*2005*	*2010*	*8MP*	*Target 9MP*
Goods and Services	**68,474**	**116,206**	**145,270**	**422.0**	**681.4**
Goods	**79,144**	**126,455**	**149,809**	**470.7**	**713.6**
Exports	374,033	536,931	804,753	2,109.0	3,477.7
Imports	294,889	410,476	654,944	1,638.3	2,764.1
Services	**-10,670**	**-10,249**	**-4,539**	**-48.7**	**-32.3**
Transportation	-11,736	-15,707	-26,677	-69.9	-113.1
Travel	11,158	18,117	34,443	82.3	145.3
Other Services	-10,030	-12,311	-11,914	-59.4	-62.5
Government Transactions	-62	-350	-391	-1.7	-1.9
Income	**-28,909**	**-21,470**	**-39,542**	**-119.2**	**-160.7**
Compensation of Employees	-975	-482	-1,267	-4.8	-4.9
Investment Income	-27,934	-20,988	-38,275	-114.5	-155.8
Current Transfer	**-7,313**	**-16,963**	**-14,549**	**-59.6**	**-80.3**
Current Account	**32,252**	**77,772**	**91,180**	**243.1**	**440.4**
(% to GNP)	*10.3*	*16.4*	*13.4*	*12.7*	*14.9*
Financial Account	**-23,848**	**-41,819**		**-65.6**	
Direct Investment	6,694	2,711		22.7	
Abroad	-7,699	-12,931		-34.2	
In Malaysia	14,393	15,642		56.9	
Portfolio Investment	-9,395	-11,881		17.1	
Other Investment	-21,147	-32,649		-105.4	
Official Sector	3,936	-10,931		-11.4	
Private Sector	-25,083	-21,718		-94.0	
Errors and Omissions	-12,107	-23,133		-24.7	
Overall Balance	**-3,703**	**12,820**		**152.8**	
Reserve Assets					
Central Bank Reserves[1]	113,541	266,334			
Months of Retained Import[1]	4.5	7.8			

Source: Economic Planning Unit and Department of Statistics

Notes: [1] Refers to end of period.

2.23 The deficit in the services account narrowed from RM10.7 billion in 2000 to RM10.2 billion in 2005. Policies to promote the export of services such as education and healthcare as well as information and communication technology (ICT) services contributed to the improvement in the services account deficit. Higher net receipts in the travel account reflected the increase in the number of tourist arrivals as well as foreign exchange earnings from education and healthcare services. Nevertheless, other components of the services account, particularly transportation and other services continued to register net outflows. The deficit in the income account remained large throughout the Plan period, averaging RM23.8 billion per annum, mainly due to the repatriation of profits and dividends accruing to foreign investors. Net outflows of transfer payments were also higher.

III. MACROECONOMIC FRAMEWORK FOR THE NINTH MALAYSIA PLAN, 2006-2010

Macroeconomic Strategies

2.24 Macroeconomic management for the Ninth Plan will focus on maintaining the macroeconomic stability to consolidate the economy on a sustainable growth path for the achievement of distributional goals as well as improvement in the quality of life of the population. The objective is to strengthen further the economic fundamentals to deal effectively with downside risks and maximise opportunities from the rapid globalisation and liberalisation process, remove imbalances as well as enhance economic resilience and competitiveness. The key macroeconomic strategies to be implemented during the Ninth Plan period are as follows:

- *achieving a credible growth rate while maintaining strong economic fundamentals;*
- *strengthening competitiveness to sustain demand for Malaysian products and services;*
- *enhancing higher contribution to growth from private sector and government-linked companies (GLCs) and attracting quality FDI to accelerate progress towards higher technology activities and expand market linkages;*
- *promoting the development of new sources of growth in the agriculture, manufacturing and services sectors as well as broadening the knowledge-based economy;*
- *raising the efficiency of capital, productivity of labour and the contribution of TFP; and*
- *sustaining pragmatic fiscal management and implementing appropriate monetary policy to support domestic economic activities.*

International Economic Outlook

2.25 The growth prospects for Malaysia in the Ninth Plan are premised on favourable developments in the domestic and international environment. On the international front, the world economy is forecast to grow at an average rate of 4.3 per cent per annum during the 2006-2010 period, as shown in *Table 2-12*. With this growth projection, demand for Malaysian exports from China, the United States of America (US) as well as other traditional and new trading partners, is expected to remain strong.

2.26 Global inflation is projected to remain moderate. The CPI in advanced economies is projected to increase at an average rate of 2.0 per cent per annum while the CPI in emerging and developing economies is expected to grow higher at 5.3 per cent per annum during the 2006-2010 period. Prices of commodities such as vegetable oils, rubber, tin and crude oil are expected to remain stable but at higher levels. The crude oil market is expected to remain tight in the medium term. Thus, crude oil price is projected to average US$58 per barrel during the Ninth Plan period.

TABLE 2-12

WORLD ECONOMIC OUTLOOK, 2001-2010
(average annual growth rate, %)

	2001-2005	*2006-2010*
WORLD OUTPUT	***3.8***	***4.3***
Advanced Economies	*2.1*	*2.8*
Other Emerging Economies and Developing Countries	*5.8*	*6.0*
WORLD MERCHANDISE TRADE VOLUME	***5.2***	***7.1***
Imports		
Advanced Economies	*4.0*	*5.7*
Other Emerging Economies and Developing Countries	*9.2*	*10.9*
Exports		
Advanced Economies	*3.5*	*6.0*
Other Emerging Economies and Developing Countries	*9.2*	*9.8*
WORLD PRICE IN US DOLLARS		
Manufactures	*5.8*	*0.9*
Oil	*15.8*	*0.8*
Non-Fuel Primary Commodities	*6.2*	*-2.5*
CONSUMER PRICES		
Advanced Economies	*1.9*	*2.0*
Other Emerging Economies and Developing Countries	*6.1*	*5.3*

Source: World Economic Outlook, September 2005, International Monetary Fund

2.27 World trade is expected to grow at an average rate of 7.1 per cent per annum during the Plan period due mainly to increased trade integration arising from bilateral and multilateral initiatives. An important development is the increasing number of regional trading agreements (RTAs) and bilateral free trade agreements (FTAs) that will enhance trade and investment flows.

Malaysian Economy

2.28 The Malaysian economy is projected to grow in line with its potential output[8]. Private expenditure will be the main impetus to growth. The Government will adopt a pragmatic approach in its fiscal management while remaining supportive of private sector initiatives. With improved productivity and efficiency, inflation is expected to increase moderately. The unemployment rate is expected to remain low due to concerted efforts to create more job opportunities in all sectors of the economy.

2.29 The economy is projected to grow at an average rate of 6.0 per cent per annum with price stability. This growth will be supported by domestic demand with strong private investment and consumption. Per capita GNP in current terms is projected to increase by an average rate of 5.9 per cent per annum to RM23,573 in 2010. Per capita GNP in terms of purchasing power parity is expected to increase to US$13,878 in 2010.

Productivity and Efficiency

2.30 With the economy becoming more knowledge-based, the TFP contribution to GDP is projected to be higher at 35.8 per cent, as shown in *Table 2-1*, in line with the strategy to promote a productivity-driven growth. The enhancement of TFP contribution will be undertaken through programmes to upgrade skills and management capabilities, develop a more creative and skilled workforce, improve the level of educational attainment, intensify R&D and innovation activities and increase utilisation of technology and ICT in all sectors of the economy. In this regard, the private sector will be encouraged to assume a leading role.

2.31 Efficiency of capital is expected to improve further with increasing efficiency in the production process and productive utilisation of assets. The ICOR is expected to be better, averaging 4.6 compared with 6.2 recorded during the Eight Plan. Consequently, the contribution of capital to GDP is estimated at 34.3 percent. The contribution of labour to GDP is projected at 29.9 per cent with improvements in the quality of the labour force through education and training to meet the demands of a knowledge-based economy.

[8] Potential output is defined as the level of output that is consistent with the productive capacity of an economy. Conceptually, the level of potential output is determined by the growth of non-inflationary trend levels of physical capital and the labour force as well as the rate of technological advancement.

Sectoral Output

2.32 On the supply side, growth will be supported by expansion in the manufacturing, services and agriculture sectors. Policies and strategies will be directed towards enhancing competitiveness as well as focusing on productivity and transition into higher value added and knowledge-based activities. These include efforts to strengthen small and medium enterprises (SMEs) and increase its contribution to growth.

2.33 The expansion of the *manufacturing sector* during the Plan period will be guided by the Third Industrial Master Plan (IMP3), 2006-2020. This sector is expected to become more dynamic and competitive and projected to expand at an average rate of 6.7 per cent per annum with growth emanating from the entire value chain. Emphasis will be on strengthening existing industries while harnessing new sources of growth focusing on niche products for selected markets. The private sector will be encouraged to improve their R&D capacity, technical and managerial core competencies and develop new high value products and brands with export potential. A competitive, innovative and technologically strong SMEs sector will be developed. In the resource-based industries, the food processing subsector will be strengthened to meet increasing demand for agriculture produce such as palm oil, vegetables, fruits and fish for the domestic and export markets. In addition, the development of biotechnology will further boost the advances in the manufacturing sector. Other resource-based industries such as chemicals and other chemical products, rubber processing and rubber products will continue to remain important in enhancing the value added of the manufacturing sector.

2.34 In the non-resource based industries, the electronics subsector is expected to pick-up during the first half of the Plan period following the up-cycle in global electronics demand, particularly for integrated circuits, optoelectronics, electronic discretes, sensors and wireless products. East Asia and the US are expected to be the major source of demand. In line with this, the electronics subsector is estimated to grow at an average rate of 7.7 per cent per annum during the Plan period and constitutes 29.4 per cent of the total manufacturing value added in 2010. The liberalisation of the automotive industry is expected to stimulate the production of motor vehicles and components for the domestic and regional markets.

2.35 The *services sector* is expected to sustain its growth momentum at an average rate of 6.5 per cent per annum during the Plan period. The growth will be derived from the finance, insurance, real estate and business services as well as the wholesale and retail trade, hotels and restaurants subsectors.

2.36 The finance, insurance, real estate and business services subsector is projected to grow at an average rate of 7.0 per cent per annum. The phased implementation of the Financial Sector Master Plan and the Capital Market Master Plan will place Malaysia as an emerging advanced financial market. The banking industry will be encouraged to strengthen group rationalization to enhance efficiency and improve risk management. Growth in the banking industry will emanate from the increase in income from fee-based and interest-based banking services. The Islamic financial system and the capital market will be further developed to take advantage of their potential and serve as new sources of growth. The use of e-banking and e-commerce is also expected to gain greater prominence during the Plan period. The insurance industry is expected to expand further following consolidation efforts by stakeholders to accelerate the pace of its development.

2.37 In moving towards a knowledge-based economy, new activities are expected to be generated in business services, particularly ICT services such as software and content development as well as Internet-based services and e-commerce solutions. During the Ninth Plan period, efforts will be undertaken to further harness ICT as a new source of wealth creation and to sustain Malaysia's position as a hub for a competitive global multimedia, shared services and outsourcing. This include the provision of improved incentives and the review of related laws and regulation which will provide a more conducive environment for investment in this subsector. In addition, the implementation of parallel efforts in nurturing human resources, building local content, strengthening intellectual property right protection, enhancing security and increasing e-enabled activities will contribute to the growth of this subsector.

2.38 The wholesale and retail trade, hotels and restaurants subsector is expected to increase at an average rate of 6.8 per cent per annum due to increasing domestic demand and the expansion of new distribution modes. Efforts to enhance Malaysia's position as an international tourist and shopping destination as well as the promotion of domestic travel and tour industry will also contribute to the growth of this subsector. During the Plan period, this subsector will continue to be transformed into a vibrant sector to provide better services. This includes sale of products and services through e-commerce, which is expected to accelerate during the Plan period.

2.39 Growth in the transport, storage and communications subsector is projected to remain robust at 6.7 per cent per annum. Major sources of growth are expected from the communications and transportation industries. The growth in the communications industry will emanate from the increased usage of cellular and its related services, broadcasting as well as Internet services, particularly e-banking, e-commerce and multimedia applications. New sources of growth such as third-generation (3G) mobile phone, terrestrial digital television and Internet telephony services are expected to gain more prominence.

2.40 The transportation industry is expected to benefit from the continuous expansion of international trade and the travel industry. Smart-partnerships between Malaysian port operators and foreign partners are expected to generate more cargo shipment and transhipment in regional markets and other international destinations. The increases in shipping services, particularly by MISC and efforts undertaken by Malaysia Airlines and AirAsia to expand their destinations are expected to contribute to the better performance projected for the transportation subsector. To facilitate better and easier access and linkages, provision of more rural roads and the restructuring of the urban public transportation will be undertaken.

2.41 The *agriculture sector* is expected to grow at an average rate of 5.0 per cent per annum. Target specific policies and strategies will be implemented to expedite the transformation of this sector into a modern, dynamic and competitive sector. The emphasis will be on *New Agriculture* involving large-scale commercial farming and participation in high quality and value-adding activities. Measures will also be undertaken to expand the use of better clones, seedlings or breed, adopt new technology and knowledge-based agriculture, gazette the necessary land for agricultural zoning, land consolidation as well as promote better coordination in project planning and implementation, extension services, quality control, financing and marketing.

2.42 The main sources of growth for the agriculture sector are palm oil, rubber and food subsectors. The production of crude palm oil is projected to increase to 19.6 million tonnes in 2010. The price of rubber is expected to remain favourable during the Plan period. In this regard, the production of rubber is expected to reach 1.3 million tonnes in 2010. The food subsector is expected to contribute 43.6 per cent to agriculture value added in 2010. Emphasis will be given to the production of livestock, fish, particularly deep-sea fishing and aquaculture as well as high value fruits and vegetables. Measures will also be undertaken to revive the cocoa industry through the rehabilitation of cocoa farms with better clones and farming techniques.

2.43 The *mining sector* is expected to expand at an average rate of 3.4 per cent per annum with the increase in condensate and natural gas production from the Third Malaysia Liquefied Natural Gas (MLNG 3) plant in Bintulu, Sarawak and from the Malaysia-Thailand Joint Authority located offshore in the Gulf of Thailand as well as the development of small gas fields offshore of Peninsular Malaysia. The production of crude oil and condensates is projected to increase to 882,000 bpd. The development of new oil fields in deep water areas offshore Sabah is expected to contribute towards a sustainable supply of crude oil and gas.

2.44 During the Plan period, the average growth of the *construction sector* is expected to be 3.5 per cent per annum. The implementation of infrastructure projects as well as residential and commercial development are expected to generate growth for this sector. For housing, among others, *Syarikat Perumahan Negara Berhad* will continue with its efforts to develop more affordable housing units, particularly for the low-income group. Among the new infrastructure projects that will be implemented are construction works on roads, airports, water supply and rail-based transportation.

Aggregate Demand

2.45 On the demand side, growth will be driven by strong domestic demand. *Private investment* is projected to grow at an average rate of 11.2 per cent per annum, as shown in *Table 2-3*. Its share to total investment is expected to increase from 44.2 per cent in 2005 to 51.4 per cent in 2010. In nominal terms, total private investment in the Ninth Plan period is projected to be RM310.0 billion or averaging RM62.0 billion per annum, higher than the RM175.9 billion achieved during the Eighth Plan period. Of the total private investment, 32.6 per cent is expected to be invested in manufacturing, 29.9 per cent in services, 14.3 per cent in construction, 12.9 per cent in mining and 10.3 per cent in agriculture.

2.46 To achieve the private investment target, efforts will be focused on enhancing the private investment climate. Measures will be undertaken to streamline the public sector delivery system to be more effective and reduce the cost of doing business. Emphasis will be especially given to human capital development through quality education and training to ensure a supply of highly knowledgeable and globally competitive individuals. Efforts will also be geared towards the provision of a range of support services to facilitate development of high value products with export potential. For greater SMEs participation, accessibility to funding will be expanded to include cash-flow based funding by the SME Bank as well as the provision of more integrated assistance packages.

2.47 The introduction of private financing initiatives to finance some of the Government development projects is expected to boost private investment further. While domestic investment is expected to assume a greater role, FDI will continue to be important, particularly for technology transfer as well as accessing global markets. Greater efforts will be undertaken to attract FDI, particularly in the high value added and technology-intensive industries.

2.48 *Public investment* is projected to grow at an average rate of 5.0 per cent per annum. The share of public investment to GDP is expected to decline to 14.2 per cent in 2010. To improve the quality of spending, development expenditure will focus on projects that will generate maximum multiplier effects as well as extensive geographical spill overs. These projects include human resource development as well as the provision of social and physical infrastructure, particularly in the rural areas to improve accessibility and further reduce poverty. In addition, the Government will also facilitate programmes to expand the productive capacity of the economy and the development of a knowledge-based economy through technology deepening and increasing investment in R&D and innovation activities.

2.49 *Private consumption* is targeted to grow at an average rate of 6.9 per cent per annum, higher than the growth achieved during the Eighth Plan period. The expansion is due to the increase in disposable income and the continued improvement in consumer confidence underpinned by sustained employment growth and favourable commodity prices. In line with this projection, per capita private consumption is expected to increase at an average rate of 7.8 per cent per annum from RM8,071 in 2005 to RM11,753 in 2010. The share of private consumption to GDP is expected to increase to 52.1 per cent in 2010.

2.50 *Public consumption* is projected to grow at an average rate of 5.3 per cent per annum, lower than the 10.2 per cent per annum recorded during the Eighth Plan period. This reflects the effectiveness of public expenditure emphasizing value for money.

Resource Balance

2.51 The resource balance position during the Plan period augurs well for the sustained growth of the economy. Gross national savings is expected to average 36.2 per cent of GNP and investment at 21.3 per cent, as shown in *Table 2-4*. The growth in overall savings is expected to come from private savings attributed to higher income and wealth generation. The high savings rate will enable Malaysia to finance domestic investments without substantially relying on foreign borrowings. New investment instruments will be introduced to mobilise savings for investment requirements.

Price Development

2.52 Growth with price stability is essential in improving the quality of life of the population. Efforts will continue to be undertaken during the Plan period to maintain a low rate of inflation and stable prices. To reduce pressure on prices, the Government will implement measures that will contribute towards ensuring sufficient supply of products and services to meet the increasing demand. The state governments will be encouraged to facilitate the expansion in the production of fruits, vegetables and livestock as well as aquaculture activities. In addition, GLCs as well as agricultural associations and cooperatives will be encouraged to participate in large scale food production. More *pasar tani* will be opened throughout the country to provide an alternative avenue for access to more affordable products. The Green Book Programme will be revitalised to promote cultivation of food crops at the community level. Where feasible, households will be encouraged to grow their own greens for daily consumption. Other anti-inflationary measures include the close monitoring of price movements, averting irresponsible price increases and preventing restrictive sales practices. Measures to improve the cost of doing business, including ensuring wage increases are in line with productivity growth, are also expected to reduce pressure on prices. In addition, the Government will ensure the growth of money supply is consistent with price stability. Consumers will be encouraged to practise prudent spending to avoid wastage.

Public Sector Account

2.53 During the Ninth Plan period, the *consolidated public sector account* is expected to register an overall surplus of RM79.1 billion or 2.5 per cent to GDP, as shown in *Table 2-6*. The size of the surplus is expected to increase from RM7.0 billion or 1.4 per cent to GDP in 2005 to RM10.6 billion or 1.5 per cent to GDP in 2010. The development expenditure of the public sector is expected to increase from RM70.9 billion in 2005 to RM89.7 billion in 2010.

2.54 The overall Federal Government fiscal deficit is expected to be RM107.6 billion or 3.4 per cent to GDP in the Ninth Plan period, lower than the 4.8 per cent to GDP in the Eighth Plan period. The deficit is expected to reduce gradually from 3.8 per cent to GDP in 2005 to 3.4 per cent to GDP in 2010. Domestic borrowings will be utilised to finance the deficit. In managing the fiscal deficit, focus will be on enhancing the revenue base as well as improving the efficiency and effectiveness of Government expenditure.

2.55 Total Federal Government *revenue* is expected to grow at an average rate of 7.4 per cent per annum during the Ninth Plan period from RM106.3 billion in 2005 to RM152.1 billion in 2010, as shown in *Table 2-13*. Measures will be implemented to enhance the tax administration system through improving the capacity of the tax collection agencies. Efforts will also be taken to review the tax structure and system with a view to broadening the tax base. Tax revenue is expected to increase at 6.7 per cent per annum from RM80.6 billion in 2005 to RM111.7 billion in 2010, attributed to better revenue collection projected for company and individual income taxes, import duties and excise duties. Non-tax revenue including dividends from PETRONAS and GLCs is expected to increase at an average rate of 9.4 per cent per annum from RM25.0 billion in 2005 to RM39.3 billion in 2010.

TABLE 2-13

FEDERAL GOVERNMENT REVENUE, 2000-2010

Item	*RM million*					*Average Annual Growth Rate (%)*	
				Cumulative			
	2000	*2005*	*2010*	*8MP*	*9MP*	*8MP*	*9MP*
Total Revenue	61,863	106,304	152,070	461,390	683,137	*11.4*	*7.4*
Direct Taxes	29,156	53,543	71,541	231,711	315,884	*12.9*	*6.0*
Income Taxes	27,017	50,789	67,845	219,783	299,756	*13.5*	*6.0*
Company	13,905	26,381	35,721	120,172	154,751	*13.7*	*6.2*
Individual	7,015	8,649	12,277	44,934	52,067	*4.3*	*7.3*
Petroleum	6,010	14,566	18,752	52,005	88,044	*19.4*	*5.2*
Cooperative and Holding	87	1,193	1,094	2,672	4,894	*68.8*	*-1.7*
Stamp duties	1,799	2,460	3,251	10,232	14,221	*6.5*	*5.7*
Other Direct Taxes	340	295	445	1,697	1,906	*-2.8*	*8.6*
Indirect Taxes	18,017	27,051	40,180	114,176	173,433	*8.5*	*8.2*
Export Duties	1,032	2,085	2,879	6,511	13,847	*15.1*	*6.7*
Import Duties and Surtax	3,599	3,385	4,137	18,039	18,939	*-1.2*	*4.1*
Excise Duties	3,803	8,641	13,783	28,973	58,284	*17.8*	*9.8*
Sales and Services Taxes	7,669	10,291	15,626	50,198	66,473	*6.1*	*8.7*
Other Indirect Taxes	1,914	2,648	3,755	10,453	15,891	*6.7*	*7.2*
Non-Tax Revenue	14,092	25,052	39,335	107,757	189,746	*12.2*	*9.4*
Licences and Permits	5,548	8,332	10,451	33,948	47,615	*8.5*	*4.6*
Services Fees	576	842	1,153	3,568	5,015	*7.9*	*6.5*
Interest and Returns from Investment	7,383	14,849	26,250	66,236	130,750	*15.0*	*12.1*
Fines and Penalties	419	594	786	2,681	3,469	*7.3*	*5.8*
Other Non-Tax Revenue[1]	166	436	695	1,324	2,897	*21.3*	*9.8*
Non-Revenue Receipts[2]	598	657	1,015	7,747	4,074	*1.9*	*9.1*

Source: Economic Planning Unit and Ministry of Finance

Notes: [1] Includes returns from sales of goods, rentals and income from Malaysia-Thailand Joint Authority (MTJA).

[2] Includes revenue from Federal Territories.

2.56 *Operating expenditure* of the Federal Government in the Ninth Plan is estimated to amount to RM595.5 billion or 19.1 per cent to GDP, growing at an average rate of 6.8 per cent per annum from RM97.7 billion in 2005 to RM135.7 billion in 2010, as shown in *Table 2-14*. Emphasis will be given to the maintenance of facilities, buildings and infrastructure as well as improvement of the quality and efficiency of the delivery of public services. Fiscal discipline will be further enhanced to prioritise and ensure cost effectiveness of expenditure. Policies on subsidies and transfer payments will be reviewed as part of the measures to reduce the financial burden of Government as well as promote productivity and competitiveness.

Table 2-14

FEDERAL GOVERNMENT OPERATING EXPENDITURE, 2000-2010

Item	RM million					Average Annual Growth Rate (%)	
				Cumulative			
	2000	*2005*	*2010*	*8MP*	*9MP*	*8MP*	*9MP*
Operating Expenditure	56,547	97,744	135,723	396,722	595,529	*11.6*	*6.8*
Emoluments	16,357	25,587	34,677	108,772	154,647	*9.4*	*6.3*
Supplies and Services	7,360	17,984	28,943	70,557	119,384	*19.6*	*10.0*
Debt Service Charges	9,055	11,604	18,877	52,373	79,449	*5.1*	*10.2*
Pension and Gratuities	4,187	6,808	9,638	28,583	41,905	*10.2*	*7.2*
Grants to State Government	2,077	2,616	3,374	12,183	14,136	*4.7*	*5.2*
Asset Acquisition	572	1,603	2,440	7,083	10,374	*22.9*	*8.8*
Subsidies	4,824	13,009	6,404	29,712	30,941	*21.9*	*-13.2*
Other[1]	12,115	18,533	31,370	87,459	144,694	*8.9*	*11.1*

Source: Economic Planning Unit and Ministry of Finance

Notes: [1] Includes grants to statutory bodies, scholarships and educational aid, operating grants to primary and secondary schools as well as refunds and write-offs.

2.57 The *development expenditure* ceiling is RM200 billion. Economic and social programmes will continue to receive the major portion of the allocation. Allocation in the economic sector will be mainly channelled to agriculture, commerce and industry, infrastructure as well as utilities while the social programme will focus on human resource development and improvement of basic amenities. Emphasis will be given to programmes that improve the standard and quality of life, especially of the poor.

2.58 Expenditure efficiency will continue to be enhanced, including the use of cost-benefit analysis and output impact analysis. Priority of programmes and projects will be based on achieving policy objectives with maximum benefit, high multiplier effect and minimum leakages. A total approach to programme and project effectiveness will be adopted to include minimum variation from approved scope and costs as well as taking into consideration the requisite operating expenditure. To ensure value for money, emphasis will be placed on the implementation of the open tender system.

2.59 The current surplus of *NFPEs* is expected to increase from RM63.8 billion in 2005 to RM77.7 billion in 2010, totaling RM351.1 billion during the Ninth Plan period. The development expenditure of NFPEs is expected to register an average annual rate of 1.6 per cent, increasing from RM40.0 billion in 2005 to RM43.2 billion in 2010, totaling RM178.1 billion in the Ninth Plan period.

External Sector

International Trade

2.60 During the Ninth Plan period, total trade is anticipated to breach RM1 trillion. *Gross exports* are expected to grow at an average rate of 8.5 per cent per annum while imports expand by 9.8 per cent per annum. The progressive liberalisation of trade in goods and services under the World Trade Organisation (WTO) and ASEAN Free Trade Area (AFTA), the scheduled implementation of the ASEAN Economic Community (AEC) as well as the commitments to tariff reductions under bilateral trade arrangements will open up more markets for exports of goods and services from Malaysia. Intra-ASEAN trade is expected to increase substantially with the expected full implementation of AFTA by 2010 and the AEC, offering access to a large integrated market of more than 530 million population. In addition to traditional markets, efforts will be undertaken to enhance trade links with non-traditional and new emerging markets.

2.61 The export of manufactures is expected to expand by an average rate of 9.3 per cent per annum during the Plan period, with earnings increasing from RM429.9 billion in 2005 to RM670.8 billion in 2010, as shown in *Table 2-15*. The major manufactured products exported will include electrical and electronic products, chemicals and chemical products, petroleum products, food, textiles, clothing and footwear, wood products, manufactures of metal and transport equipment. The growth of manufactured exports reflects the sustained expansion in demand from traditional as well as new and non-traditional markets such as China, India and Eastern Europe. In addition, the deepening and broadening of the manufacturing base will also help to boost manufactured exports.

2.62 Agricultural exports are expected to grow at an average rate of 8.0 per cent per annum during the Plan period, contributed by the positive growth in the export value of rubber, palm oil, cocoa and forestry products as well as food produce. Exports from the mining sector are expected to increase by an average rate of 2.1 per cent per annum mainly on account of the higher export of crude oil.

Balance of Payments

2.63 The current account of the *balance of payments* is expected to register a surplus of RM91.2 billion in 2010, as shown in *Table 2-11*. The goods account is projected to continue to record a surplus of RM149.8 billion or 21.9 per cent of GNP at the end of the Plan period. This surplus is partly due to better commodity prices and terms of trade.

TABLE 2-15

COMMODITY PRODUCTION AND EXPORTS, 2000-2010

Commodity	*2000*	*2005*	*2010*	*Average Annual Growth Rate (%)*	
				8MP	*9MP*
Agriculture					
Palm Oil					
Production ('000 tonnes)	10,842	14,961	19,561	6.7	5.5
Exports ('000 tonnes)	8,863	13,073	15,156	8.1	3.0
Unit Value (RM/tonne)	1,122	1,456	1,764	5.3	3.9
Value (RM million)	9,948	19,036	26,735	13.9	7.0
Rubber					
Production ('000 tonnes)	928	1,124	1,293	3.9	2.8
Exports ('000 tonnes)	978	1,128	1,319	2.9	3.2
Unit Value (RM/tonne)	263	513	391	14.3	-5.3
Value (RM million)	2,571	5,787	5,156	17.6	-2.3
Sawlogs					
Production ('000 cubic metres)	23,074	21,334	19,475	-1.6	-1.8
Exports ('000 cubic metres)	6,484	5,759	4,727	-2.3	-3.9
Unit Value (RM/cubic metres)	384	428	444	2.2	0.7
Value (RM million)	2,489	2,465	2,100	-0.2	-3.2
Sawntimber					
Production ('000 cubic metres)	5,590	4,872	5,024	-2.7	0.6
Exports ('000 cubic metres)	2,876	3,686	2,837	5.1	-5.1
Unit Value (RM/cubic metres)	1,050	1,099	1,056	0.9	-0.8
Value (RM million)	3,020	4,051	2,995	6.0	-5.9
Cocoa					
Production ('000 tonnes)	70	28	57	-16.8	15.3
Exports ('000 tonnes)	11	50	17	34.5	-19.5
Unit Value (RM/tonne)	2,878	5,422	6,024	13.5	2.1
Value (RM million)	33	50	128	8.9	20.5
Mining					
Crude Oil and Condensates					
Production ('000 barrels per day)	681	727	882	1.3	3.9
Exports ('000 barrels per day)	346	369	489	1.3	5.8
Unit Value (RM/tonne)	854	1,609	1,338	13.5	-3.6
Price (US$/barrel)	30	56	55	13.3	-0.4
Value (RM million)	14,241	28,508	31,447	14.9	2.0
LNG					
Production ('000 tonnes)	15,430	21,948	26,470	7.3	3.8
Exports ('000 tonnes)	15,430	21,948	26,470	7.3	3.8
Unit Value (RM/tonne)	740	947	890	5.1	-1.2
Value (RM million)	11,422	20,790	23,558	12.7	2.5
Tin					
Production ('000 tonnes)	6.3	2.8	3.1	-15.0	2.2
Exports ('000 tonnes)	21	34	29	10.3	-3.1
Unit Value (RM/tonne)	21,089	27,828	28,641	5.7	0.6
Value (RM million)	435	935	824	16.6	-2.5
Manufactured Exports (RM million)	**317,908**	**429,873**	**670,767**	**6.2**	**9.3**
Other Exports (RM million)	**5,593**	**14,175**	**20,127**	**20.4**	**7.3**
Gross Exports (RM million)	**373,270**	**533,790**	**803,949**	**7.4**	**8.5**

Source: Economic Planning Unit, Department of Statistics, Ministry of Agriculture and Agro-Based Industry and PETRONAS

2.64 The services deficit is expected to narrow further to RM4.5 billion by 2010 due to continuous efforts to promote tourism and the increase in the export of services including education, healthcare as well as computer and information services. The private sector will be encouraged to leverage on the AFTA to export their services by investing in quality enhancement and product innovation. In addition, the development of ICT products and related services is expected to strengthen the growth in exports of computer and information services.

2.65 The income account is projected to remain in deficit at RM39.5 billion in 2010, mainly attributed to higher profits and dividends accruing to foreign investors. Nevertheless, the Government will continue to encourage foreign investors to retain part of their profits for reinvestment purposes.

IV. INSTITUTIONAL SUPPORT

2.66 The macroeconomic planning and management of the economy during the Ninth Plan period will be steered by the Economic Planning Unit (EPU), the Ministry of Finance and Bank Negara Malaysia through the inter agency planning groups. The Department of Statistics will be responsible for the collection and dissemination of data for planning and monitoring of economic performance. The Implementation Coordination Unit together with EPU and the respective ministries and agencies will undertake continuous project monitoring and output impact analysis. To ensure cost effectiveness and compliance with established standards and quality, the Standards and Costs Sub-committee of the National Planning Development Committee will be strengthened.

2.67 A high-level Implementation Committee, chaired by the Prime Minister, will be established to monitor the overall performance and effectiveness of programmes and projects by sector in achieving the policies and strategies outlined in the Ninth Plan. An evaluation framework will be drawn-up by EPU to facilitate output impact analysis of the programmes and projects.

V. CONCLUSION

2.68 Despite the adverse external environment in the first half of the Eighth Plan period, the economy achieved credible growth with strong fundamentals. The main challenge during the Ninth Plan period is to sustain a higher contribution from the private sector to growth, in particular private investment. Given the openness of the Malaysian economy, initiatives to enhance competitiveness will continue to be a priority. In addition, measures to contain inflation will be strengthened to ensure that growth is accompanied by price stability. Therefore, efforts will be undertaken to further strengthen the economic fundamentals as well as provide the enabling environment for private investment. This is crucial in ensuring the long-term sustainability and resilience of the economy in line with the first thrust of moving the economy up the value chain under the National Mission.