# BELANJAWAN MALAYSIA 2015

## PAKATAN RAKYAT

## ENGLISH VERSION

# Table of Contents

## PREFACE

The Pakatan Rakyat Budget 2015 offers Malaysians a sustainable and people-centric alternative national budget. It is a counter-balance to the impaired financial administration of the Barisan Nasional government. In this document, we will provide a critique of Barisan Nasional's fiscal policies and suggest viable alternatives.

We begin by reflecting upon the reminder of Allah SWT in the Surah Al-Baqarah verse 188:

وَلَا تَأْكُلُوٓا۟ أَمْوَٰلَكُم بَيْنَكُم بِٱلْبَٰطِلِ وَتُدْلُوا۟ بِهَآ إِلَى ٱلْحُكَّامِ
لِتَأْكُلُوا۟ فَرِيقًا مِّنْ أَمْوَٰلِ ٱلنَّاسِ بِٱلْإِثْمِ وَأَنتُمْ تَعْلَمُونَ ١٨٨

*And do not consume another's wealth unjustly or send it [in bribery] to the rulers in order that [they may aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].*

The practice of the Malaysian Opposition in producing an alternative budget is not conventional in most Westminster-based democracies. However, for the purpose of sharing our views and perspectives with the people, we continue to craft the Pakatan Rakyat Budget every year to be scrutinized by the public. As a fiscal tool, the efficacy of any budget must also be thoroughly assessed for good governance.

The Federal Government Budget 2015 will be the last one of the 10th Malaysia Plan (RMK10 2010-2015). Last year, Malaysia's Gross National Income (GNI) per capita was USD10,060 (RM32,134), breaching the USD10,000 mark for the first time. With this achievement, the Federal Government projects Malaysia to achieve the status of both a high-income and a developed nation by the year 2020.

Whilst achieving a high GNI per capita target of USD14,000 or RM48,000 may be possible by 2020, we need more work to achieve 'developed nation' status. To be a truly developed nation, many more critical metrics have to be achieved.

The measure of a developed nation goes beyond one narrow measure of material wealth. The following three components (which also support economic achievement) are critical: the existence of vibrant democratic social and economic institutions, a culture of good governance (with integrity, transparency and accountability), and the supremacy of the rule of law based on social justice for all. For example, living in a 'developed nation' means that people should enjoy an efficient health service that safeguards their wellbeing, and communities should benefit from development projects that are sustainable and which minimize damage to the natural environment.

By such standards, the fact that we may have hit an average household income of RM5,900 a month as recently claimed by a minister, becomes moot. Furthermore, the average income measure also hides tremendous disparity in income attainment as a narrow rich group has been reaping most of the economic gains. Many Malaysians are missing out. Recent government statistics show that there are 7.9 million Malaysians who are eligible to apply for BR1M 3.0 because their household income is below RM4,000 a month. Further statistics show that 78.6% of EPF contributors have an income of less than RM3,000 a month. A shocking 40% of EPF contributors earn less than RM2,000 a month. The widening divide between the rich and poor, urban and rural, and developed and developing, leaves the Malaysian dream of a high income nation based on social justice and income equality, somewhat out of reach.

In addition, we note that the later part of our post-Independence period has been widely acknowledged as a tale of underperformance. While we have overtaken some of our neighbors such as Indonesia, Philippines and Thailand, we have been left far behind by South Korea, Taiwan, Hong Kong and Singapore since the 1980s.

In this Pakatan Rakyat Budget 2015, we will continue to provide macroeconomic projections as well as detailed fiscal analysis. We constructively critique the fiscal practices of Barisan Nasional and explain our vision and policies for Malaysia. We know that the rakyat will be able to distinguish ours as the better of the two different approaches.

This year's budget moves away from focusing on showcase policies and programs which we may implement in a Pakatan Rakyat federal government. Instead, we look at the urgent fundamental issues of governance that need to be addressed under the current government. By focusing on governance, we will pressure the Najib administration into implementing true economic reforms. We will fight and press for, amongst others, reforms in governance, oil and gas revenue, tax policy, Trans Pacific Partnership Agreement or TPPA, living wages and rural development. In so doing, the Pakatan Rakyat Budget 2015 will also show what it takes to be an effective and caring government.

We are confident that with continued constructive pressure on the current administration, some of our proposals contained herein will be implemented. This is our commitment to delivering real social justice outcomes to the rakyat.

Pakatan Rakyat Budget Committee,
Tuesday, 7th October 2014.

## INFOGRAPHICS: PAKATAN RAKYAT TOP BUDGET POLICY PRIORITIES

## MACROECONOMIC OVERVIEW

2015 is expected to be a challenging year. With global uncertainties, in particular the slowdown of China (our biggest trading partner), the disruptions to our economy from the US monetary tapering and the geopolitical risks in the Middle East and Ukraine, and falling oil and commodity prices, most economists are projecting a cautious 5% growth target for Malaysia in 2015.

The Najib administration has continuously missed its own growth targets. It promised an average 6% annual growth in its 10th Malaysia Plan and the reality is that growth has been languishing in the low 4% to middle 5% range. In 2014, we saw better than expected first and second quarters, hitting numbers above 6%. However the 2014 third and fourth quarters are expected to be much slower. As such, most economists are expecting the final growth numbers for 2014 to be in the region of 5.5% to 5.8%.

Underlying the slowing economy is the continuous fall in crude palm oil (CPO) prices in the last six months. In September 2014, CPO prices dipped below the psychological barrier of RM2,000 per tonne. The impact of this drop is significant as palm oil is a RM80 billion annual export industry with some 400,000 jobs linked directly and indirectly to it. We know that most of the 113,000 elderly Felda settlers are engaged in share cropping and as such only realize about half of the net income from FFB sales. This being the case, low CPO prices will result in double the amount of hardship for rural folks. On the back of this bad news, we expect private consumption in the rural areas to drop significantly.

In the urban areas, the macroeconomic numbers are also not rosy. Malaysian household debt is at a very high level, hitting 89.2% of GDP as of July 2014. Data from the Federation of Malaysian Consumers Association (FOMCA) show the breakdown of debts to be as follows: housing loans 29%, car loans 51%, personal loans 15% and student loans 33%. These numbers confirm that in urban areas (where the bulk of private debt is captured) lower income households are experiencing crushingly higher cost of living.

We note that “real” inflation rate, as opposed to the official CPI, is likely to be higher by some 100 to 200 basis points. Prices for food and transport in particular has been steadily rising. According to a Reuter’s economic data report in December 2013, the CPI rose 3.2% whereas inflation for food and transport rose 4.5% and 5% respectively.

On the ground, people are feeling the impact of real inflation. For example, we note with dismay, that the cost of a cup of coffee at KL hawkers has now reach RM1.80, while the cost of one roti canai is now RM1.20. With the introduction of the GST, the price of that cup of coffee could rise to RM2 and roti canai price rise to RM1.30. On GST, we expect a short ramp-up in spending pre-GST followed by a significant drop post-GST. Overall, we expect the distribution and retail sector to underperform in 2015.

In addition, many of the middle class have loaded up on easy credit from quantitative easing (QE) or easy and cheap credit in the years from 2010 to 2013. A large portion of this was used to speculate on property. This has the unintended consequence of pricing out housing for young graduates and also the lower income groups. The middle class are now experiencing withdrawal pangs of the USA’s QE tapering exercise. Whilst the middle class do have a relatively high level of savings, we are uncertain how these savings will stand if there were to be a prolonged property downturn.

The rise in household debt is also mirrored by the continuous rise in government debt. According to some, the government mandated ceiling of 55% under the Loan (Local) Act 1959, may have already been breached in August of 2014. As at end 2013, the amount of government debt was about RM540 billion or 54.7% of GDP. In 2013, contingent liabilities which are either explicitly or implicitly guaranteed by the government was about RM 157 billion, representing another 15.9% of GDP. While we do not expect significant defaults by most of our GLICs and GLCs, the same cannot be said about Najib's prized sovereign wealth fund, the infamous and shadowy 1MDB.

The current debt of 1MDB is estimated to be RM40 billion. In June 2014, it was widely reported that the fund is in high risk of default, having failed to even cover its interest payments. This fund has been singled out by rating agencies and investors as the "poster child" of all that is wrong with the fiscal management of Malaysia by UMNO-BN.

The Malaysian economy has always relied on its one "safety zone" that is trade. We are a trade surplus country and this has generated the positive results in counterpoint to all the other bad macroeconomic news. Based on our track record of trade surpluses, economists are not wrong in saying that it is not all doom and gloom in Malaysia. However we note with worry that our trade surplus is on a downward trend. Our current account surplus has dropped from RM102 billion in 2011 to RM37.3 billion in 2013. We have also seen a steady and consistent rise of our neighbours, rolling about policies and ideas that once powered our economy in the 1980s and 1990s. They have become more competitive and may eventually diminish our trade advantage. Therefore, we have to be careful not to be lulled into the false sense that we can further tolerate fiscal mismanagement so long as we have our exports, especially since a significant portion is commodity-based and facing price downtrend and our manufactures have not sufficiently improved in complexity and value-added.

Malaysia is a middle income nation. Whilst several Asian countries have advanced into the developed nation status, we continue to be stuck in the "middle income trap". The challenge for Malaysia now is to look at how to boost livelihoods and achievements for all Malaysians from the basics of investments, labour, resources and technology. There must be a political will and astute leadership to foster good governance in order to unleash the full potential of our nation. The year 2015 could be a watershed year and it remains to be seen if Malaysia is ready to break-away from the over long shadow of Barisan Nasional administration.

## FISCAL: REVENUE

In projecting the fiscal revenue for 2015, our methodology combines the analysis of fiscal growth patterns, economic data from the Treasury, news and declared policies of the current government.

We note that the government has consistently under-projected its own revenue.

**Massaging Revenue: The practice of UMNO-BN in under-projecting Revenue**

- It is common practice for the Treasury to under-project government revenues. One possible reason for this practice is to allow the federal government to introduce extra spending via supplementary budgets; while not affecting significantly the projected budget deficit and government borrowings.
- If the government revenue is projected more accurately, the projected government deficit may be too low e.g. at 2% instead of at 3.5%. If the government needs to spend more via supplementary budgets, then the financial markets would interpret the change as the government missing its deficit target i.e. a negative sign of fiscal imprudence.
- Table 1 below shows the difference between the projected and actual revenue collected by the federal government from 2008 to 2013. Government revenue was over-projected for 2009 because of the global economic crisis that started in 2008. In other years, actual government revenue exceeded projected government revenue, sometimes as much as 11.8% of almost RM19.6 billion in the year 2011.

| Year | Projected (RM million) | Actual (RM million) | Difference (RM million) | Difference (%) | Projected Increase (%) | Actual Increase (%) |
|---|---|---|---|---|---|---|
| 2008 | 147,093 | 161,558 | 14,465 | 9.83 | | |
| 2009 | 176,220 | 162,100 | -14,120 | -8.01 | 19.80 | 0.00 |
| 2010 | 148,446 | 159,653 | 11,207 | 7.55 | -15.80 | -0.02 |
| 2011 | 165,825 | 185,419 | 19,594 | 11.82 | 0.12 | 0.16 |
| 2012 | 186,906 | 207,913 | 21,007 | 11.24 | 0.13 | 0.12 |
| 2013 | 208,600 | 213,370 | 4,770 | 2.29 | 0.12 | 0.03 |
| 2014 | 224,100 | N.A. | N.A. | N.A. | N.A. | N.A. |

*Projected vs. actual government revenue, 2008 to 2013*

Source: Treasury and Bank Negara Reports

**Projected Government Revenue 2015: RM245 billion**

We reviewed the pattern of revenue in three broad categories, namely Direct Taxes, Indirect Taxes and Non-Tax Revenue based on the latest available data from the Treasury as of March 2014.

| Total Government Revenue, RM million (as of Mar 2014) | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| **CUKAI LANGSUNG/DIRECT TAXES** | **82,138** | **78,735** | **79,009** | **102,242** | **116,939** | **120,523** |
| Cukai Pendapatan/Income Taxes | 78,475 | 74,917 | 74,451 | 96,732 | 110,662 | 113,300 |
| Syarikat-syarikat/Companies | 37,741 | 30,199 | 36,266 | 46,888 | 22,977 | 23,055 |
| Perseorangan/Individuals | 14,966 | 15,590 | 17,805 | 20,203 | 51,288 | 58,175 |
| Petroleum/Petroleum | 24,191 | 27,231 | 18,713 | 27,748 | 33,934 | 29,753 |
| Koperasi dan lain-lain/Cooperatives and others | 204 | 546 | 378 | 357 | 345 | 286 |
| Lain-lain/Others | 1,373 | 1,351 | 1,289 | 1,537 | 2,118 | 2,031 |
| Lain-lain/Others | 3,663 | 3,458 | 4,558 | 5,509 | 6,276 | 7,223 |
| Duti Harta Pusaka/Estate Duty | 1 | 4 | 1 | 1 | 2 | 1 |
| Duti Setem/Stamp Duty | 3,492 | 3,349 | 4,192 | 4,929 | 5,595 | 6,364 |
| RPGT/Real Property Gain Tax | 110 | 42 | 303 | 509 | 608 | 785 |
| Lain-lain/Others | 60 | 62 | 62 | 70 | 71 | 73 |
| **CUKAI TAK LANGSUNG/INDIRECT TAXES** | **30,760** | **28,129** | **30,507** | **32,643** | **34,706** | **35,429** |
| Duti Eksport/Export Duties | 2,779 | 1,152 | 1,810 | 2,081 | 1,968 | 1,930 |
| Getah/Rubber | - | - | - | - | - | - |
| Petroleum/Petroleum | 2,703 | 1,104 | 1,745 | 1,997 | 1,928 | 1,632 |
| Timah/Tin | - | - | - | 0 | 0 | - |
| Minyak Sawit/Palm Oil | 66 | 38 | 52 | 73 | 0 | 0 |
| Lain-lain/Others | 10 | 10 | 13 | 11 | 41 | 298 |
| Duti Import dan Cukai Tokok/Import Duties and Surtax | 2,635 | 2,114 | 1,966 | 2,026 | 2,282 | 2,524 |
| Cukai Eksais/Excise Duties | 10,683 | 10,068 | 11,770 | 11,517 | 12,187 | 12,193 |
| Cukai Jualan/Sales Tax | 8,374 | 8,603 | 8,171 | 8,577 | 9,496 | 10,068 |
| Cukai Perkhidmatan/Service Tax | 3,345 | 3,344 | 3,926 | 4,982 | 5,583 | 5,944 |
| Lain-lain/Others | 2,944 | 2,847 | 2,863 | 3,460 | 3,190 | 2,770 |
| CUKAI LANGSUNG/DIRECT TAXES | 82,138 | 78,735 | 79,009 | 102,242 | 116,939 | 120,523 |
| CUKAI TAK LANGSUNG/INDIRECT TAXES | 30,760 | 28,129 | 30,507 | 32,643 | 34,706 | 35,429 |
| **Jumlah Hasil Cukai/Total Tax Revenue** | **112,898** | **106,864** | **109,516** | **134,885** | **151,645** | **155,952** |
| Hasil Bukan Cukai/Non Tax Revenue | 45,911 | 50,789 | 48,867 | 49,423 | 54,909 | 54,450 |
| Penerimaan Bukan Hasil/Non-Revenue | 985 | 1,346 | 1,270 | 1,111 | 1,360 | 2,968 |
| **JUMLAH HASIL/TOTAL REVENUE** | **159,794** | **158,999** | **159,653** | **185,419** | **207,914** | **213,370** |

*Total government revenue from 2008 to 2013.*

In calculating the 2015 projection, we first looked at growth patterns of all sources of revenue to give a baseline projection for 2014 and 2015. For direct taxes, we focused on Inland Revenue Board (IRB) announcements for 2014 and ran financial models based on the proposed changes on the income tax structure as an off-set to GST in 2015. For Indirect Taxes, we looked at the impact of GST and related pronouncements and news from the government on their targeted additional revenue. On Non-Tax Revenue we looked at PETRONAS and its dividend position (RM27 billion). We also looked at oil futures to project the petroleum royalty. Lastly, we factor in the economic performance of key GLICs and GLCs.

Some of the key factors considered are highlighted below:

1. For 2014, the IRB projects RM140 billion in tax collections, a significant gain from RM129 billion (revised) in 2013. For 2015, with tax reductions for GST off-set and an adjustment to tax brackets, income tax growth may increase albeit at a slower rate to RM145 billion.

2. PETRONAS has announced that dividend payments would likely be capped at RM27 billion for 2015. Oil price futures will continue in the range of USD90 to USD110.

3. GST collection for three quarters of 2015 is estimated to be RM20 billion. After deduction of RM12 billion from sales and service tax, there would be a net gain of RM8 billion for Indirect Taxes for the period of 1st April 2015 to 31st Dec 2015. We base this on two issued statements made in news reports: the first quoted a senior officer from The Royal Malaysian Customs saying that the GST will raise an additional RM5-6 billion; the second quoted the head of Tax for KPMG in Malaysia saying he expects the GST to raise an additional RM9-10 billion of revenue in 2015 alone.

Thus, we estimate total government revenue to be RM245 billion. As stated earlier, based on our observations of the practice of under-projections by the UMNO-BN administration, we expect them to declare a lower projected revenue.

**Projected Pakatan Revenue 2015: RM242 billion**

On the matter of government revenue for 2015, we are opposed to the implementation of the GST at a starting rate of 6%. Our detailed comments and criticisms on the matter can be found on page 31 of this document. Our tax policy will see a Capital Gains Tax for equities (CGT) put in lieu of GST. We view CGT as a widely accepted progressive tax whereas GST is completely regressive in nature. If we were to implement the CGT while maintaining the sales and service tax, there will still be an additional RM3 billion in taxes.

In addition, our tax policy also focuses on eliminating corruption and rent seeking at collection points. For instance, we will never enter into any profit share arrangement with private companies in collection taxes. Instead of privatization or an incentivized concession scheme, we prefer a straight forward service contract model. As such, we strongly condemn and reject the plans of UMNO-BN to profit share tax collection with private companies such as MyEG Services.

By exerting the political will to weed out corruption and rent seeking in revenue collection, we can expect a conservative overall savings of RM1 billion.

One of the most valuable, but undervalued assets belonging to the Federal government is its landholdings. Valuable lands owned by the Federal government are widely regarded to have either been sold or swapped at below-market prices. Among the notable and questionable land deals are the 1MDB TRX deal for TUDM Sungai Besi, the former RRI land to EPF, and the former Tunku Park near Stadium Merdeka to PNB.

On the matter of licenses, we note that many licenses are given out to companies without full and fair payment. For example, there are widespread doubts about: the pay-TV operating license given to Astro and more recently, the Asia Broadcasting Network (ABN) and also the 4G operating license awarded to current telcos and a newcomer, Puncak Semangat. Pakatan Rakyat believes that a more open and public auction system could generate billions in additional revenue. We expect a conservative overall savings of RM3 billion per annum from proper auctioning of land sale and licenses.

Lastly, we will commit to a lower PETRONAS dividend policy at RM25 billion for 2015 and to gradually scale this down to RM20 billion in the following years. We are mindful not to “kill the golden goose,” and we plan to invest these dividends via a heritage fund.

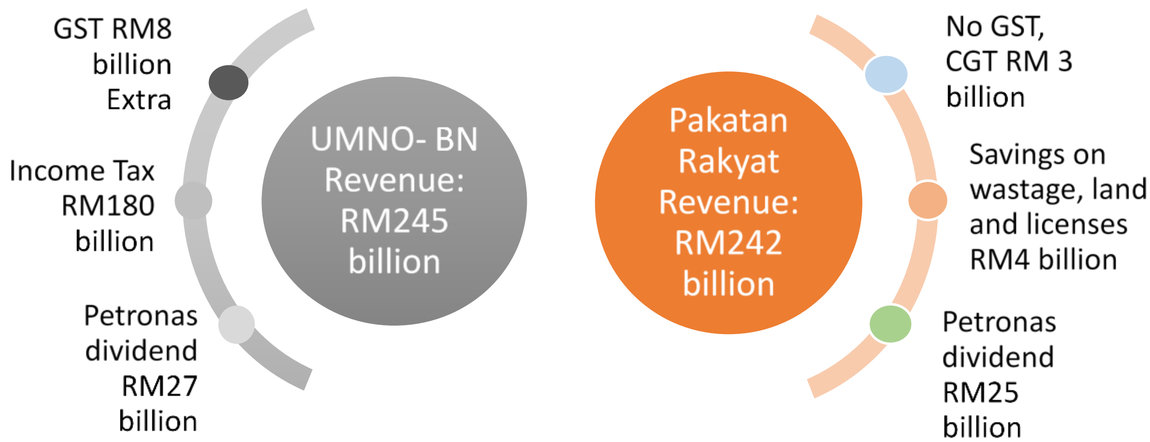
All other revenue sources being the same, our revenue projections amount to RM242 billion in total for 2015.

Pakatan Rakyat endorses some of the views and observations highlighted in Thomas Piketty’s “Capital in the Twenty-First Century”. Moving forward, Pakatan Rakyat acknowledges that income inequality, a chronic socio-economic problem in Malaysia, will continue to stunt socio-economic mobility and further entrench the corrupt positions of the elites in UMNO-BN. Thus we shall give serious consideration to the taxing of capital in order to encourage it to focus on real and productive economic activities. For starters, we propose the implementation of CGT for equity trading.

The ultimate tax policy goal of Pakatan Rakyat is to keep income tax rates relatively low and at the same time increase the tax-to-GDP ratio. In other words, collect more taxes by increasing the number of tax payers but to reduce the tax rate burden per payee overall. In order to do so, we must uplift the poorer majority to earning a living wage, go after the elite tax dodgers, close tax loopholes and better regulate the shadow and non-productive financial activities of the rich and powerful. We must also make tax collection more efficient and less discretionary. Clear regulations and stern enforcement need to be implemented, in order to plug leakages and waste at all collection points.

About 35% of our revenue comes from the oil and gas sector. We must diversify our tax base and move away from our overdependence on oil and gas or risk suffering as a “resource cursed” nation. Our detailed comments and criticisms on this dependency is found in this document on page 28.

There is also a need to increase the contribution of indirect taxes, which are more resilient than direct taxes in recessionary times. However, indirect taxes should focus mainly on asset and capital gains and less on consumption spending. We must work to rebalance the economy through the further diversification of our goods and services; this will then ensure that future taxes are also diversified and more sustainable. Ultimately, our tax policy will determine if we are able to service and pay off Malaysia’s growing mountain of government debt; RM540 billion in 2013 and which is now on the verge breaching the 55% debt ceiling.




## FISCAL: EXPENDITURE

In projecting the fiscal expenditure for 2015, we analyzed the expenditure components and spending growth at every ministry. We factor in news reports and declared policies by the government and note the deliberate policy shifts to pursue more off balance sheet spending and privatizations.

As our previous alternative budgets have done, we will project the UMNO-BN expenditure and our own plan, for comparative purposes. In addition, this document will also identify and analyze patterns of UMNO-BN expenditure.

**Projected UMNO-BN Expenditure 2015: RM283 billion**

Mirroring the under-projection of revenue, UMNO-BN regularly under-projects expenditure too. To authorize increase in subsequent spending, UMNO-BN compels Parliament to rubber stamp supplementary budgets. The process is devious; in many instances, UMNO-BN will first spend the money and then get Parliament to retrospectively approve the money already spent.

It is clear that the pattern of under-projections much loved by UMNO-BN is a blatant abuse of power. It also skews and disguises the true nature of the national budget. This practice makes a mockery of the budget process, discredits the credibility of the nation and does not respect the rakyat. It also puts us on a back foot in terms of our sovereign ratings. See our observations in the box below.

- Similar to the government revenue projections, the expenditure projections are also underestimated. The practice of tabling up to 3 supplementary budgets a year is not uncommon.
- If the budget is carefully crafted, the difference between projected and actual spending should not exceed ±2%. In the case of UMNO-BN, the table below shows that the actual expenditure can

and do swing wildly from 7.1% to 15.8%. Most notable are the big swings in the years of 2008, 2010, 2011 and 2012. We expect that by year end, 2014 will be another swing year.

- This practice of under-projection confirms that the UMNO-BN government has very little financial discipline and is addicted to discretionary spending.

| Year | Projected (RM million) | Actual (RM million) | Difference (RM million) | Difference (%) | Projected Increase (%) | Actual Increase (%) |
|---|---|---|---|---|---|---|
| 2008 | 168,799 | 195,388 | 26,589 | 0.16 | | |
| 2009 | 205,899 | 206,063 | 164 | 0.00 | 0.22 | 0.06 |
| 2010 | 189,499 | 202,929 | 13,430 | 0.07 | -0.08 | -0.02 |
| 2011 | 211,987 | 227,928 | 15,941 | 0.08 | 0.12 | 0.12 |
| 2012 | 230,833 | 249,544 | 18,711 | 0.08 | 0.09 | 0.10 |
| 2013 | 248,643 | 253,480 | 4,837 | 0.02 | 0.08 | 0.02 |
| 2014 | 264,200 | N.A. | N.A. | N.A. | N.A. | N.A. |

*Projected vs. actual government expenditure, 2008 to 2013. 2013 actual expenditures have not been finalized.*

Source: Treasury and Bank Negara Reports

In addition to the above and pursuant to our efforts to identify patterns, we ask four additional questions.

The four questions are as follow:

1. What is the estimated total expenditure for Budget 2015 based on historical data?
2. What are the trends for operational and developmental expenditure?
3. Have civil service emoluments been keeping up with the growth of the national budget?
4. Which ministries have abnormally high or low wages to operational expenditures?

**Question 1:**
**What is the estimated total expenditure for Budget 2015 based on historical data?**

| Year | Est. Expenditure (RM million) | Change | |
|---|---|---|---|
| | | RM million | % |
| 2010 | 191,499 | | |
| 2011 | 213,987 | 22,488 | 11.74 |
| 2012 | 232,833 | 18,846 | 8.81 |
| 2013 | 251,667 | 18,834 | 8.09 |
| 2014 | 264,151 | 12,484 | 4.96 |
| 2015* | 286,340 | 22,189 | 8.40 |
| | 286,472 | 22,321 | 8.45 |

*Estimated government expenditure from 2010 to 2014, and projected expenditure for 2015.*

- The national budget has been growing at a rate of 8.40% (mean) and 8.45% (median) annually. Using these figures, the projected expenditures for Budget 2015 will be between RM286,339,684,000 to RM286,471,759,500 (i.e. approximately RM286.4 billion).

However, we are mindful of one other major factor of expenditure, that is, the deep subsidy cuts pursued by UMNO-BN. We estimate a reduction of overall fuel subsidies by RM6 billion and a likely increase of BR1M costs by another RM3 billion. This means that the projected UMNO-BN expenditure for 2015 amounts to RM283 billion.

Question 2
What are the trends for operational and developmental expenditure?

| Year | Op. Expenditure (RM million) | Change | | Dev. Expenditure (RM million) | Change | | Gap (RM million) | Ratio |
|---|---|---|---|---|---|---|---|---|
| | | RM million | % | | RM million | % | | |
| 2010 | 138,279 | | | 53,220 | | | 85,059 | 2.60 |
| 2011 | 162,805 | 24,526 | 17.74 | 51,182 | -2,038 | -3.83 | 111,623 | 3.18 |
| 2012 | 181,584 | 18,779 | 11.53 | 51,249 | 67 | 0.13 | 130,335 | 3.54 |
| 2013 | 201,917 | 20,333 | 11.20 | 49,750 | -1,499 | -2.92 | 152,167 | 4.06 |
| 2014 | 217,651 | 15,734 | 7.79 | 46,500 | -3,250 | -6.53 | 171,151 | 4.68 |
| 2015* | 242,398 | 24,747 | 11.37 | 44,928 | -1,572 | -3.38 | 197,470 | 5.40 |
| | 243,921 | 26,270 | 12.07 | 44,970 | -1,530 | -3.29 | 198,951 | 5.42 |

*Amounts of operational and developmental expenditures and year-on-year comparison.*

- Operating expenditure is expected to be in the range of RM242,397,918,700 to RM243,921,475,700, with developmental expenditure to be between RM44,928,300,000 to RM44,970,150,000 respectively. This is based on the mean and median percentages of increase from 2010 to 2015. These measures were then used to forecast the operational and developmental expenditure for Budget 2015. This means that the projected 2015 operational to developmental ratio is 86:14.

- The mean and median annual increase of operational expenditure are 12.07% and 11.37% respectively, while the mean and median annual decrease of developmental expenditure are 3.29% and 3.38% respectively.

- The gap between operational and developmental expenditure has been widening from RM85,059,000,000 in 2010 to RM171,151,000,000 in 2014. This gap is expected to be within the range of RM197,469,618,700 to RM198,951,325,700 in 2015.

- The ratio of operational to developmental expenditure has been increasing from 2.60 in 2010 to 4.68 in 2014. The rate of increase in the gap is alarmingly fast.

In theory, as a nation becomes more developed, developmental spending should drop. Another rule is that as old infrastructure degrades, overlaps with newer infrastructure must occur. Thus the infrastructure spending cycle is in the region of seven to ten years. We can observe these cycles in Malaysia with the IPP awards and highway concessions.

We note that since the Najib administration took over, developmental spending in real ringgit terms has been trending downwards from RM53 billion in 2010 to RM46 billion in 2014. If we factor in inflation, the actual value of developmental spending is around RM41 billion, a significant drop of 23% from 2010. In terms of the said ratio, the drop is even more glaring, for every ringgit spent on development in 2014, the government is spending RM4.68 on operational costs. In 2010, the ratio was much smaller at RM2.60 to every ringgit.

In consideration of the above two general rules, we also factored in recent key announcements on developmental infrastructure spending. Herein lies the problem. Malaysia is not yet a fully developed nation and there is therefore no rationale for the ratio and ringgit terms reductions in developmental expenditure. Other than the Klang Valley, Penang and Iskandar Johor, we have not seen any major infrastructure announcements and works. We know that the rural infrastructure and government services (schools, hospital) of the poorest states of Sabah, Sarawak, Kelantan, Terengganu and Kedah are still rudimentary. There is an obvious pent up demand for increased developmental spending in these areas.

We also know that the contractors of big infrastructure announcements such as the MRT/LRT extensions are also facing delayed payments. For both MRT and LRT, the financial exposure to the federal government is both implicit and explicit. This inability of the government to pay contractors on time suggests a credit crunch with the sovereign credit quality under pressure. In the latest Malaysia rating by Fitch Rating in July 2014, the overall outlook remains negative.

Question 3

Have civil service emoluments been keeping up with the growth of the national budget?

| Year | Civil service emoluments (RM million) | Change | | Est. Expenditures (RM million) | Change | | Wage % |
|---|---|---|---|---|---|---|---|
| | | RM million | % | | RM million | % | |
| 2010 | 42,175 | | | 191,499 | | | 22.02 |
| 2011 | 45,585 | 3,410 | 8.09 | 213,987 | 22,488 | 11.74 | 21.30 |
| 2012 | 52,115 | 6,529 | 14.32 | 232,833 | 18,846 | 8.81 | 22.38 |
| 2013 | 58,556 | 6,441 | 12.36 | 251,667 | 18,834 | 8.09 | 23.27 |
| 2014 | 63,554 | 4,998 | 8.54 | 264,151 | 12,484 | 4.96 | 24.06 |
| 2015* | 70,437 | 6,883 | 10.83 | 286,340 | 22,189 | 8.40 | 24.60 |
| | 70,195 | 6,641 | 10.45 | 286,472 | 22,321 | 8.45 | 24.50 |

*Civil service emoluments and annual estimated expenditures, and annual comparisons.*

- Civil service emoluments has been growing at an average rate of 10.83% annually, and 10.45% annually by median. Using these measures, civil service emoluments should be within the RM70,195,494,614-RM70,437,000,164 range in Budget 2015.

- Civil service emoluments has been outpacing budget growth since 2012, and this pattern is expected to hold in 2015.

- As for the proportion of civil service emoluments from the budget, it has been growing from 22.02% in 2010 to 24.06% in 2014.

The above data suggest that the civil service as a group has enjoyed pay increases in the last four years, which has outpaced both inflation and the overall budget growth. However, on the ground, the picture is very different. We learnt that a common complaint of the average civil servant is that they have not seen any significant pay rise. In a news article in September 2014, CUEPACS has confirmed that 60% of the civil servants earns less than RM3,000 a month and that a promotion for the lower rank civil servants usually translates to only RM80 to RM100 increase in pay. As a result, most civil servants, like most Malaysians, are struggling to keep up with price increases for basic goods and food.

There are two possible explanations. The first is that the civil service has continued to grow in numbers, as such, the increased numbers are driven purely by population growth. In 2011, the number of civil servants was reported to be around 1.2 million and this number has since grown to about 1.5 million in 2014; an increase of 100,000 a year. Inversely, we also note that periodically the government has also taken steps to freeze the hiring of civil servants, the last publicly announced action was in June 2011. Since then the government has shied away from making public statements on the matter but the practice of slowing down the rate of intake of civil servants is likely to be a policy fact.

Another explanation to the apparent salary growth is the theory that only the very top civil servants have been experiencing pay increases in leaps and bounds. These high single digit to double digit growths for the elite civil servants may have artificially lifted the average base of total emoluments. We believe that the truth lies in the combination of the above two explanations.

On the matter of civil service emoluments, Pakatan Rakyat will make sure that all future wage increases are distributed fairly between the executives and the lower income civil servants. The emoluments for special agencies and statutory bodies must also be reviewed downwards to ensure fairness to the other civil servants. A comprehensive engagement with CUEPACS will be the starting point in our approach to ensure that our promise of a living wage for all, including civil servants is fulfilled. We also believe that a re-energized private sector led economy will encourage the migration of workers from the public sector to the private sector.

**Question 4**
**Which ministries have the fastest growing allocation, and abnormally high or low wages to operational expenditures?**

- Over 2010 to 2014, the Prime Minister's department has the highest increase in allocations from the national budget, from RM3,955,945,800 in 2010 to RM16,450,557,500 in 2014 (an increase of 415.84%, or RM12,494,611,700). The Ministry of Domestic Trade, Co-operatives and Consumerism has the second highest increase over the same time period: an increase of RM754,844,400 or 300.45%).

- The Ministry of Education consistently has high emoluments to services and supplies ratio. In 2010, it was RM9.42 in wages for every RM1 spent on services and supplies. The Ministry of Home Affairs has a decreasing emoluments to services and supplies ratio: from 2.738 in 2010 to 1.706 in 2014.

- Ministries that have high services and supplies to emoluments ratios are the Prime Minister's Department, Ministry of Plantation, Industries and Commodities, Ministry of Domestic Trade, Co-operatives and Consumerism, and Ministry of Federal Territories.

| Year | 2010 | | 2011 | | Change | | 2012 | | Change | | 2013 | | Change | | 2014 | | Change | | Changes (2010-2014) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimates of Fed. Gov. Expenditure | RM million | % | RM million | % | RM million | % | RM million | % | RM million | % | RM million | % | RM million | % | RM million | % | RM million | % | RM million | Change (%) |
| **Supply Expenditure** | | | | | | | | | | | | | | | | | | | | |
| B.6 Prime Minister's Department | 3,956 | 2.07 | 5,077 | 2.37 | 1,121 | 28.33 | 5,740 | 2.47 | 663 | 13.06 | 5,562 | 2.39 | -177 | -3.09 | 16,451 | 7.07 | 10,888 | 195.75 | 12,495 | 415.84 |
| B.10 Treasury | 2,295 | 1.20 | 2,420 | 1.13 | 125 | 5.43 | 2,597 | 1.12 | 177 | 7.31 | 2,985 | 1.28 | 388 | 14.94 | 3,267 | 1.40 | 281 | 9.43 | 971 | 142.31 |
| B.11 Treasury General Services | 17,783 | 9.29 | 22,035 | 10.30 | 4,251 | 23.91 | 27,066 | 11.62 | 5,031 | 22.83 | 32,689 | 14.04 | 5,623 | 20.78 | 34,574 | 14.85 | 1,885 | 5.77 | 16,791 | 194.42 |
| B.23 Ministry of Natural Resources and Environment | 861 | 0.45 | 917 | 0.43 | 56 | 6.50 | 1,014 | 0.44 | 97 | 10.61 | 1,033 | 0.44 | 18 | 1.80 | 1,112 | 0.48 | 80 | 7.71 | 251 | 129.17 |
| B.25 Ministry of Domestic Trade, Co-opertives & Consumerism | 377 | 0.20 | 1,011 | 0.47 | 634 | 168.36 | 942 | 0.40 | -69 | -6.80 | 1,384 | 0.59 | 442 | 46.91 | 1,131 | 0.49 | -252 | -18.23 | 755 | 300.45 |
| B.41 Ministry of Education | 25,521 | 13.33 | 29,360 | 13.72 | 3,839 | 15.04 | 32,699 | 14.04 | 3,338 | 11.37 | 47,351 | 20.34 | 14,652 | 44.81 | 50,565 | 21.72 | 3,214 | 6.79 | 25,044 | 198.13 |
| B.42 Ministry of Health | 11,179 | 5.84 | 13,239 | 6.19 | 2,060 | 18.43 | 14,998 | 6.44 | 1,759 | 13.29 | 17,353 | 7.45 | 2,355 | 15.70 | 20,498 | 8.80 | 3,145 | 18.12 | 9,319 | 183.37 |
| B.49 Ministry of Higher Education | 8,523 | 4.45 | 10,191 | 4.76 | 1,668 | 19.57 | 10,642 | 4.57 | 451 | 4.43 | 10,745 | 4.61 | 102 | 0.96 | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| B.60 Ministry of Defence | 9,101 | 4.75 | 10,531 | 4.92 | 1,430 | 15.71 | 10,946 | 4.70 | 415 | 3.94 | 11,970 | 5.14 | 1,025 | 9.36 | 13,355 | 5.74 | 1,385 | 11.57 | 4,254 | 146.74 |
| B.62 Ministry of Home Affairs | 6,702 | 3.50 | 8,673 | 4.05 | 1,971 | 29.41 | 9,916 | 4.26 | 1,243 | 14.33 | 10,889 | 4.68 | 973 | 9.81 | 11,961 | 5.14 | 1,072 | 9.85 | 5,259 | 178.48 |
| **Development Expenditure** | | | | | | | | | | | | | | | | | | | | |
| P.6 Prime Minister's Department | 8,238 | 4.30 | 10,779 | 5.04 | 2,541 | 30.85 | 7,772 | 3.34 | -3,008 | -27.90 | 9,062 | 3.89 | 1,290 | 16.60 | 10,581 | 4.54 | 1,519 | 16.77 | 2,343 | 128.44 |
| P.10 Treasury | 1,486 | 0.78 | 494 | 0.23 | -992 | -66.77 | 1,516 | 0.65 | 1,022 | 206.87 | 1,780 | 0.76 | 265 | 17.47 | 1,361 | 0.58 | -419 | -23.56 | -125 | 91.58 |
| P.20 Ministry of Plantation, Industries and Commodities | 372 | 0.19 | 101 | 0.05 | -271 | -72.89 | 636 | 0.27 | 535 | 530.31 | 1,078 | 0.46 | 442 | 69.56 | 713 | 0.31 | -365 | -33.83 | 341 | 191.71 |
| P.23 Ministry of Natural Resources and Environment | 2,694 | 1.41 | 1,413 | 0.66 | -1,280 | -47.53 | 1,436 | 0.62 | 22 | 1.58 | 1,899 | 0.82 | 463 | 32.25 | 1,374 | 0.59 | -525 | -27.65 | -1,320 | 51.01 |
| B.25 Ministry of Domestic Trade, Co-opertives & Consumerism | 52 | 0.03 | 37 | 0.02 | -15 | -29.24 | 60 | 0.03 | 24 | 64.89 | 34 | 0.01 | -27 | -44.49 | 41 | 0.02 | 7 | 22.12 | -11 | 79.09 |
| P.32 Ministry of the Federal Territories | 737 | 0.38 | 220 | 0.10 | -517 | -70.19 | 1,777 | 0.76 | 1,558 | 709.29 | 1,076 | 0.46 | -701 | -39.46 | 1,271 | 0.55 | 195 | 18.09 | 534 | 172.49 |
| P.41 Ministry of Education | 4,998 | 2.61 | 6,403 | 2.99 | 1,405 | 28.11 | 4,582 | 1.97 | -1,821 | -28.44 | 2,119 | 0.91 | -2,463 | -53.76 | 4,035 | 1.73 | 1,917 | 90.47 | -963 | 80.74 |
| P.42 Ministry of Health | 3,584 | 1.87 | 1,984 | 0.93 | -1,600 | -44.63 | 1,873 | 0.80 | -112 | -5.63 | 1,924 | 0.83 | 52 | 2.75 | 1,662 | 0.71 | -262 | -13.61 | -1,922 | 46.38 |
| P.49 Ministry of Higher Education | 4,500 | 2.35 | 2,416 | 1.13 | -2,084 | -46.31 | 2,255 | 0.97 | -161 | -6.66 | 2,971 | 1.28 | 716 | 31.72 | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| P.60 Ministry of Defence | 1,912 | 1.00 | 3,293 | 1.54 | 1,380 | 72.18 | 2,769 | 1.19 | -524 | -15.91 | 3,281 | 1.41 | 512 | 18.49 | 2,745 | 1.18 | -536 | -16.33 | 833 | 143.53 |
| P.62 Ministry of Home Affairs | 1,204 | 0.63 | 864 | 0.40 | -339 | -28.20 | 757 | 0.33 | -107 | -12.43 | 637 | 0.27 | -120 | -15.82 | 647 | 0.28 | 10 | 1.54 | -557 | 53.75 |

*Estimated expenditures of selected ministries from 2010 to 2014.*

| Year | 2010 (RM million) | | 2011 (RM million) | | 2012 (RM million) | | 2013 (RM million) | | 2014 (RM million) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Emoluments | Services & Supplies | Emoluments | Services & Supplies | Emoluments | Services & Supplies | Emoluments | Services & Supplies | Emoluments | Services & Supplies |
| **Operational Expenditure (RM)** | | | | | | | | | | |
| Prime Minister's Department | 816 | 2,241 | 983 | 2,544 | 1,085 | 2,787 | 1,237 | 2,621 | 1,240 | 2,846 |
| Ministry of Plantation, Industries and Commodities | 14 | 23 | 13 | 28 | 16 | 28 | 30 | 37 | 18 | 30 |
| Ministry of Natural Resources and Environment | 465 | 241 | 480 | 271 | 518 | 317 | 547 | 303 | 587 | 320 |
| Ministry of Domestic Trade, Co-operatives and Con | 120 | 141 | 124 | 366 | 131 | 394 | 137 | 379 | 149 | 477 |
| Ministry of the Federal Territories | 25 | 56 | 26 | 66 | 30 | 75 | 30 | 66 | 18 | 65 |
| Ministry of Education | 20,229 | 2,148 | 21,374 | 3,572 | 24,977 | 3,578 | 28,338 | 4,231 | 30,401 | 5,050 |
| Ministry of Health | 6,162 | 4,759 | 6,462 | 6,301 | 7,948 | 6,612 | 9,384 | 7,461 | 11,070 | 8,927 |
| Ministry of Higher Education | 491 | 370 | 583 | 509 | 627 | 578 | 753 | 590 | N.A. | N.A. |
| Ministry of Defence | 4,528 | 4,282 | 4,987 | 5,039 | 5,217 | 5,192 | 6,012 | 5,474 | 6,720 | 5,866 |
| Ministry of Home Affairs | 4,913 | 1,674 | 5,882 | 2,620 | 6,436 | 3,401 | 6,796 | 4,020 | 7,477 | 4,318 |
| **Developmental Expenditure (RM)** | | | | | | | | | | |
| Prime Minister's Department | 0 | 206 | 0 | 884 | 0 | 639 | 0 | 1,251 | 0 | 1,336 |
| Ministry of Plantation, Industries and Commodities | 0 | 250 | 0 | 29 | 0 | 24 | 0 | 132 | 0 | 20 |
| Ministry of Natural Resources and Environment | 3 | 2,304 | 127 | 314 | 2 | 1,226 | 171 | 361 | 122 | 273 |
| Ministry of Domestic Trade, Co-operatives and Con | 0 | 27 | 0 | 0 | 0 | 60 | 0 | 34 | 0 | 5 |
| Ministry of the Federal Territories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ministry of Education | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 101 |
| Ministry of Health | 0 | 251 | 0 | 178 | 0 | 131 | 0 | 1,356 | 0 | 1,006 |
| Ministry of Higher Education | 0 | 316 | 0 | 75 | 0 | 264 | 0 | 13 | N.A. | N.A. |
| Ministry of Defence | 0 | 191 | 0 | 281 | 0 | 309 | 0 | 310 | 0 | 0 |
| Ministry of Home Affairs | 0 | 120 | 0 | 86 | 0 | 76 | 0 | 64 | 0 | 65 |
| **Total Expenditure (RM)** | | | | | | | | | | |
| Prime Minister's Department | 816 | 2,447 | 983 | 3,428 | 1,085 | 3,426 | 1,237 | 3,872 | 1,240 | 4,182 |
| Ministry of Plantation, Industries and Commodities | 14 | 273 | 13 | 57 | 16 | 52 | 30 | 168 | 18 | 50 |
| Ministry of Natural Resources and Environment | 468 | 2,545 | 607 | 585 | 520 | 1,543 | 718 | 664 | 709 | 593 |
| Ministry of Domestic Trade, Co-operatives and Con | 120 | 168 | 124 | 366 | 131 | 454 | 137 | 413 | 149 | 482 |
| Ministry of the Federal Territories | 25 | 56 | 26 | 66 | 30 | 75 | 30 | 66 | 18 | 65 |
| Ministry of Education | 20,229 | 2,148 | 21,374 | 3,572 | 24,977 | 3,578 | 28,338 | 4,231 | 30,401 | 5,151 |
| Ministry of Health | 6,162 | 5,010 | 6,462 | 6,479 | 7,948 | 6,743 | 9,384 | 8,817 | 11,070 | 9,933 |
| Ministry of Higher Education | 491 | 686 | 583 | 584 | 627 | 842 | 753 | 603 | N.A. | N.A. |
| Ministry of Defence | 4,528 | 4,474 | 4,987 | 5,321 | 5,217 | 5,502 | 6,012 | 5,783 | 6,720 | 5,866 |
| Ministry of Home Affairs | 4,913 | 1,794 | 5,882 | 2,707 | 6,436 | 3,476 | 6,796 | 4,084 | 7,477 | 4,382 |
| **Ratio (Services & Supplies/Emoluments)** | | | | | | | | | | |
| Prime Minister's Department | 2.997 | | 3.485 | | 3.157 | | 3.131 | | 3.371 | |
| Ministry of Plantation, Industries and Commodities | 19.972 | | 4.334 | | 3.210 | | 5.595 | | 2.769 | |
| Ministry of Natural Resources and Environment | 5.441 | | 0.964 | | 2.966 | | 0.925 | | 0.837 | |
| Ministry of Domestic Trade, Co-operatives and Con | 1.399 | | 2.952 | | 3.476 | | 3.013 | | 3.231 | |
| Ministry of the Federal Territories | 2.261 | | 2.558 | | 2.496 | | 2.190 | | 3.514 | |
| Ministry of Education | 0.106 | | 0.167 | | 0.143 | | 0.149 | | 0.169 | |
| Ministry of Health | 0.813 | | 1.003 | | 0.848 | | 0.940 | | 0.897 | |
| Ministry of Higher Education | 1.396 | | 1.002 | | 1.342 | | 0.801 | | N.A. | |
| Ministry of Defence | 0.988 | | 1.067 | | 1.055 | | 0.962 | | 0.873 | |
| Ministry of Home Affairs | 0.365 | | 0.460 | | 0.540 | | 0.601 | | 0.586 | |

*Operational, developmental and total expenditures of selected ministries from 2010 to 2014. Services & supplies: emoluments ratios are also indicated in the bottom section of the table. The figures in red are those with unusual ratios.*

When we started analyzing key Ministries, we are somewhat perplexed to see the differing spending patterns emerging from different Ministries. In particular, we were interested in the relationship ratio between emoluments and supplies and services.

In theory, and this is applicable for most businesses and organizations in Malaysia (where wages are relatively low) the ratio between emoluments and supplies and services should be around 1:0.5. In other words, most businesses and organizations here operate on the basis that for every ringgit we spend on employees (emolument) we will spend roughly 50 sen on all other office expenses (supplies and services). Variations to this ratio is expected. For instance, in a low technology factory with high concentration of cheap migrant labour, the spending on employees could be double that of other expenses, with a ratio of 1:1. In areas where there is just a handful of employees and a lot of expensive equipment and high technology, the reverse ratio of 1:2 may apply.

We then paid particular focus on the following two key Ministries:

1. The Prime Minister Department (PMD)
2. The Home Office (in particular the police)

For the PMD, we note that in 2014, for every ringgit allocated for emoluments, the PMD allocated RM2.30 on supplies and services. This is a very high ratio and indicates a high level of discretionary spending in the PMD. It is important to remind ourselves that the PMD does not run any crucial social services like Education, Health or Security. The office is to oversee and coordinate all the Ministries and yet it has a budget equivalent to the Health Ministry that runs hundreds of hospitals and clinics and employs thousands of doctors and nurses.

When we looked at the ratio of the Australian PMO, we find it to be in the polar opposite to Najib's administration. We discovered that for every Australian dollar spent on emolument, the Australian PMO spends a mere 53 cents on supplies and services. The Malaysian PMD has almost five times the allocation for supplies and services than Australia. Even after we factor in on a "dollar to dollar" basis, and the fact that the average wage in Australia is double that of Malaysia (A$6,000 c.f. RM3,000), the Malaysian PMD ratio is still more than twice that of Australia.

For the Home Ministry, we focused on the police and looked at its budget allocation. Conventional wisdom suggests that a good portion of police work is field work and as such, the police force requires more equipment than that of a normal desk job. They should have adequate weaponry and vehicles. We compared the Malaysian police ratio with that of the London Metropolitan Police. We note that for every ringgit spent on emolument, we spend 53 sen on supplies and services. In London, the ratio is 1:0.34. So on paper, we are spending almost double the amount more on supplies and services per policeman than the London police. On the ground, it is hard to believe that the Malaysian police has better and superior equipment than the London police. Go to any police station in Malaysia and the most common complaints from officers are the lack of computers and patrol cars.

In addition, when we factor in the ratio of police to population, we note that Malaysia has a ratio of one policeman to every 290 population (1:290) and the Metropolitan police has a lower ratio of 1:171. In other words, what we have is an undersized police force (the Interpol recommended ratio is 1:250) but a higher supplies and services spending.

The data therefore suggests two possible explanations. First, the relative wages of the London police to equipment is considerably smaller. A RM2,000 computer is “expensive” relative to the average pay of a Malaysian police of RM2,500 per month. For a London policeman this computer will be deemed affordable. Another explanation is that the data clearly suggests a sizeable amount of wastage and leakages in the procurement of supplies and services. To get a proper perspective on the amount involved, for 2014 the Home Ministry has a budget of RM3.4 billion for supplies and services. The most probable explanation would be a combination of the two. Yet, it is undeniable that the Malaysian police is undersized, poorly equipped and poorly paid.

We understand that country comparisons may be fraught with evaluation and measurement problems. After all, no country is ever alike in terms of stages of development and culture. However our simple comparative analysis here supports the need for a lot more transparency and accountability in our fiscal expenditure. After all, expenditure (not revenue) is the feeding trough for corruption, wastage and leakages of UMNO-BN. The numbers provide us directions to look and a means to confirm what we observe on the ground. Our commitment is to reallocate our budget spending within each Ministry so that they are in line with international best practices.

**Projected Pakatan Expenditure 2015: RM273 billion**

On the matter of our expenditure for 2015, we first start at looking at the total supplies and services bill of the government. For 2015, we project supplies and services will amount to RM44.9 billion.

We believe that with a strong political will, we could immediately achieve a conservative 10% savings on all supplies and services. This amounts to RM4.5 billion in savings. Our ultimate goal is to roll out a procurement model as recommended by the Open Government Partnership (OGP). We believe that such a procurement system will eventually see savings up to 20% of current supplies and service bill.

| Expenditure (RM million) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 Low Projection | 2015 High Projection |
|---|---|---|---|---|---|---|---|
| **Supplies and Services** | | | | | | | |
| Operational | 20,880 | 28,165 | 30,506 | 33,720 | 36,565 | 39,595 | 40,487 |
| Developmental | 9,068 | 3,983 | 6,663 | 6,235 | 5,155 | 4,177 | 4,401 |
| **Total** | 29,948 | 32,149 | 37,169 | 39,956 | 41,720 | 43,772 | 44,888 |

*Total supplies and services expenditure for the federal government.*

We continue to reiterate that the Prime Minister Department (PMD) has far too large a budget. We looked at all significant Ministries that have budgets above RM5 billion. By far the largest percentage increase in spending was in the PMD. The PMD has more than doubled its expenditures from RM7.1 billion in 2008 to RM16.5 billion in 2014, an incredible increase of 132%. In comparison, the Ministry of Education, the largest Ministry by overall allocation, only saw a 31% increase in expenditure from the same period of 2008 to 2014.

Projecting ahead, we estimate that the PMD would have a budget of RM17.5 billion for 2015. For Pakatan Rakyat, we propose a progressive scaling down of the PMD to RM10 billion for 2015 and then eventually settling at RM5 billion per annum target budget within a few years thereafter. This scale-down will result in an estimated savings of RM7.5 billion for our 2015 budget.

| Expenditures in Prime Minister's Department (RM) | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Actual | 2014 Projected | 2015 Expenditure Projections Low end | High end |
|---|---|---|---|---|---|---|---|
| **Operational** | | | | | | | |
| 10000 Emoluments | 816,448,700 | 983,484,180 | 1,085,029,400 | 1,249,081,300 | 1,240,425,100 | 1,346,419,200 | 1,373,223,660 |
| 20000 Supplies and Services | 2,240,124,100 | 2,543,887,420 | 2,787,041,500 | 2,627,406,900 | 2,845,837,200 | 2,997,265,475 | 3,076,629,390 |
| 30000 Assets | 19,122,700 | 37,199,200 | 45,061,000 | 42,162,400 | 51,443,900 | 59,524,200 | 60,015,550 |
| 40000 Fixed Charges and Grant | 879,046,100 | 1,511,760,200 | 1,820,233,800 | 1,660,168,900 | 1,729,701,800 | 1,918,705,050 | 1,942,365,725 |
| 50000 Others | 704,200 | 420,000 | 2,185,000 | 2,195,000 | 2,207,000 | 2,218,000 | 2,582,700 |
| **TOTAL** | 3,955,445,800 | 5,076,751,000 | 5,739,550,700 | 5,581,014,500 | 5,869,615,000 | 6,324,131,925 | 6,454,817,025 |
| **Developmental** | | | | | | | |
| 20000 Supplies and Services | 206,466,400 | 883,632,000 | 638,622,736 | 1,250,865,900 | 1,336,130,900 | 1,618,547,025 | 1,684,884,982 |
| 30000 Assets | 7,732,962,300 | 8,179,047,900 | 5,902,355,892 | 4,012,751,900 | 3,869,811,600 | 2,904,023,925 | 2,853,539,454 |
| 40000 Fixed Charges and Grant | 298,515,300 | 1,716,578,000 | 1,230,576,172 | 3,798,000,000 | 5,375,000,000 | 6,644,121,175 | 6,872,531,350 |
| **TOTAL** | 8,237,944,000 | 10,779,257,900 | 7,771,554,800 | 9,061,617,800 | 10,580,942,500 | 11,166,692,125 | 11,410,955,786 |

*Breakdown of operational and developmental expenditure of the Prime Minister's Department.*

Below are some specific areas where we will focus our budget cuts on:

1. A total cancelation of funding for the "brainwashing" programs of Jabatan Hal Ehwal Khas or JASA (RM24m) and Birotata Negara (RM60m).
2. A very drastic reduction in funding for these superfluous and expensive programs: PEMANDU (RM39m), Talentcorp (RM78m).
3. Re-examine funding for Malaysia Nuclear Energy (RM6m), the National Service/Program Khidmat Latihan Negara (RM668m). The key is to prioritise safety, accountability and value for money.
4. Re-examine and drastically reduce grants to GLCs and corporations such as the RM300m development grant that was given to 1MDB in the 2014 budget, the RM939m which was given to KLIAB, the RM200m which was given to Indah Water Konsortium (IWK) and the RM4b in Facilitations Funds in 2014 that was allocated via the Public Private Partnership or UKAS.

We expect the above cuts to result in about RM500 million in savings.

In addition to cutting costs of the above programs, a consolidation exercise of several overlapping agencies needs to be carried out. This consolidation will result in significant cost savings. We have identified the following agencies that have overlapping functions with oversight on the matter of innovation, productivity and entrepreneurship. They include Unit Inovasi Khas (RM106m), Agensi Inovasi Malaysia (RM20m), Malaysia Industry Group for High Technology (RM20m), the Malaysian Productivity

Council or MPC (RM37m) and most recently, the Malaysian Global Innovation and Creativity Center or MAGIC (RM50m). We expect this consolidation exercise to save RM100m.

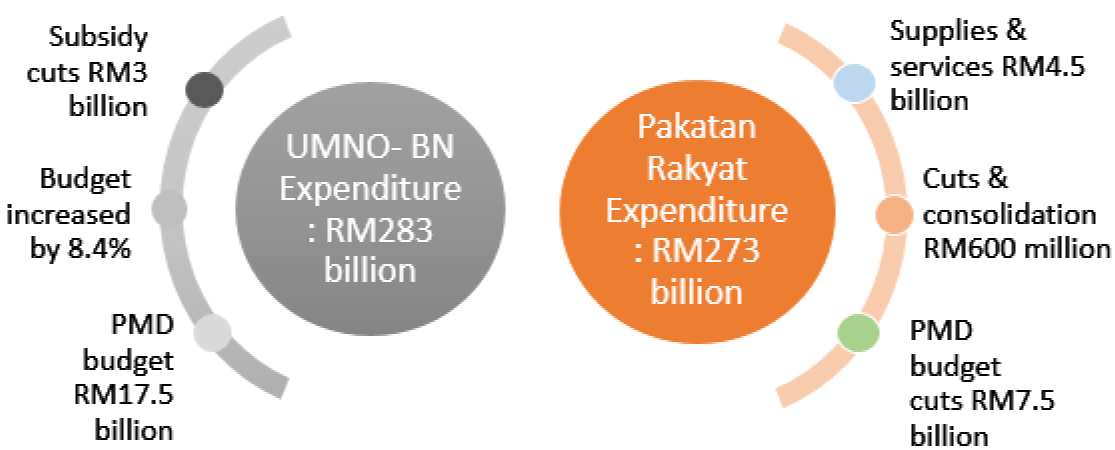
We will also re-examine the spending allocation for the programs and initiatives under the National Blue Ocean Strategy (NBOS) – RM913m in 2014, the National Key Economic Areas (NKEAs) – RM2.17 billion in 2014 and the National Key Results Areas (NKRAs) – RM1.33 billion in 2014. The effectiveness of some of these programs have been called into question, in particular the NKRA for the reduction of crime, where we have clashed with UMNO-BN on the variable statistics and data provided. In total, the NBOS, NKRA and NKEA costs RM4.5 billion annually. We expect the cuts above to save RM1.5 billion.

We also continue to stress that an overhaul of the subsidy mechanisms and programs needs to be carried out. The current system does not inspire confidence and its failures manifest in illegal activities such as cooking oil and diesel smuggling by crime syndicates. Everything else being equal, our expenditure amounts to RM273 billion in total for 2015.

As a matter of principle, our budget strives to reverse the UMNO-BN trend of reducing developmental expenditure. We thus propose for 2015 to start the process of re-balancing the spending between operation and development expenditure to a more reasonable 80:20 ratio, as opposed to the UMNO-BN ratio of 86:14. In particular, we will direct developmental spending to the rural areas of Sabah, Sarawak, Kelantan, Terengganu and Kedah. Within a few years, we aim to normalize to a target ratio of between 70:30 to 75:25.

Finally, we will push for the adoption of the budget process to be more open and transparent. In particular, we will consider recommendations made by the International Budget Partnership, and the use of their Open Government Survey tools. In its latest survey in 2012, the UMNO-BN government stood at an embarrassingly low position of 62 out of 98 countries in the Open Budget Index.

We will also ensure that the same principles of budgetary transparency and accountability be extended to all our GLICs and GLCs, in particular Petronas, which generates 35% of the national revenue. Petronas would do well to adopt the Extractive Industries Transparency Initiative as means to better disclose and plan our decreasing oil and gas revenues. We must prepare for a future without oil and gas, which begins with an honest and transparent budget.



## PROJECTED BUDGET TO GDP

**GDP computation**

After two quarters of relatively strong growth, we expect the last two quarters of 2014 to slow down significantly. As such the growth projections for 2014 is expected to average somewhere between 5.3% to 5.8%. The Governor of Bank Negara, Tan Sri Zeti Akhtar Aziz expects Malaysia's growth rate in 2014 to be at 5.5%. This view is concurred by the Minister-in-charge of the Economic Planning Unit (EPU), Dato Seri Wahid Omar. As for 2015, most banks and economists agree that the growth rate for 2015 is expected to slow to 5.0% or below.

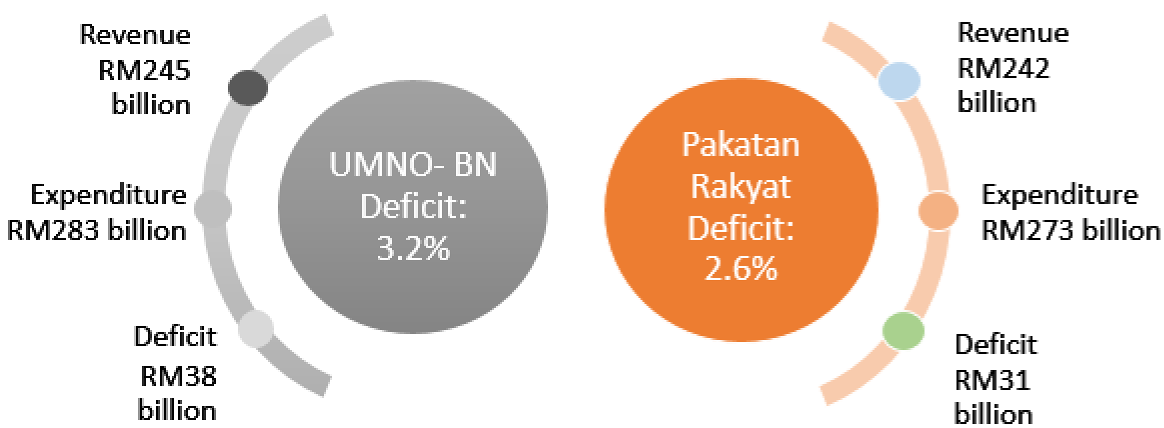
Assuming we take the high end growth rate of 5.8% for 2014 and a projected nominal growth rate of 9.3% (real growth rate + inflation as a proxy for the GDP deflator), we will arrive at the figure of RM833 billion for real GDP (2005 constant prices) and RM1078 billion for nominal GDP for the year 2014. For 2015, based on a projected real growth rate of 5.0% and a projected nominal growth rate of 9.0% (real growth rate + inflation as a proxy for the GDP deflator), we will arrive at a figure of RM875 billion for real GDP (2005 constant prices) and RM1176 billion for nominal GDP.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014F | 2015F |
|---|---|---|---|---|---|---|---|---|
| GDP Nominal (RM million) | 769,949 | 712,857 | 797,327 | 885,339 | 941,949 | 986,733 | 1,078,499 | 1,175,564 |
| GDP Nominal Growth rate (%) | | -7.40% | 11.80% | 11.00% | 6.40% | 4.80% | 9.30% | 9.00% |
| GDP Real (2005 prices, RM million) | 639,565 | 629,885 | 676,653 | 711,760 | 751,934 | 787,611 | 833,292 | 874,957 |
| GDP Real Growth Rate (2005 prices, %) | | -1.50% | 7.40% | 5.20% | 5.60% | 4.70% | 5.80% | 5.00% |
| Inflation Rate | | | | | | | 3.50% | 4.00% |

*Historical GDP data from 2008 to 2013, and projected figures for 2014 and 2015.*

Source: Department of Statistics, Malaysia; World Bank; Asian Development Bank; OKM Analysis

**UMNO-BN vs. Pakatan Rakyat Deficit**



## ECONOMIC MISMANAGEMENT OF BARISAN NASIONAL

Malaysia's current economic rot is neither something new nor unexpected. The rot started almost a decade ago. The causes and the symptoms are well known to most observers and economists. Malaysia is stuck in a middle income trap and with every passing year our economy is finding itself harder and harder to compete with lower cost developing countries.

The prolonged economic sluggishness has caused most ordinary Malaysians to suffer higher cost of living. The average Malaysian worker has seen already low wages falling behind even as corporations and tycoons rake in higher than normal profits. Of late, the people have also suffered a series of price hikes in basic goods. These price hikes are caused by poor economic management and the situation is exacerbated by the precarious finances of the Barisan Nasional government, buckling under a mountain of national debt.

Many economists have prescribed several long-term actions that need to be implemented to take Malaysia out of the rot and to regain our economic competitiveness. These include the following:

1. A total revamp of our education system and learning institutions to produce more technology savvy, creative, innovative and entrepreneurial graduates to lift our economy to the next level.
2. Eliminating the culture of corruption and rent seeking from our economy and to plug all wastage and leakages in the administration.
3. To develop and transform the small and middle enterprises sector into a major economic pillar capable of competing on the world stage.

The Barisan Nasional government has announced various economic plans, targets and incentive programs to bring Malaysia out of the middle income trap. At the start of his term as Prime Minister, Dato' Seri Najib Tun Razak announced his New Economic Model. At the same time, the Federal government announced the 10th Malaysian Plan. In a short space of time, Malaysia was introduced to various abbreviations and jargons, from the NKRA to the ETP. Unfortunately these are now hollow hallmarks of the Najib administration; they sound great, but lack substantive implementation.

After more than five years, it is now clear that the grand economic plans and programs of the Najib administration have failed to lift the economy out of the rot. In fact, ordinary Malaysians have continued to suffer economic hardship as Najib continues to blissfully announce more and more wasteful mega projects.

Why have all these brilliant plans designed at great expense by world renowned management consultants, economists, scholars and members of the Treasury produced little to no meaningful results? Why is the Malaysian trajectory to a prosperous and fair economy for all, drifting further and further away?

To stop Malaysia's economic rot is not an impossible task. Economists and thinkers have made several correct diagnostics and even prescribed credible solutions. The problem is clearly not due to the absence of solutions. The problem is in the leadership. Those entrusted to implement the solutions continue to lack the political will to do the right thing.

Since 2008, the people can compare for themselves the administrative track records of the Pakatan Rakyat states versus that of the Barisan Nasional federal government. In terms of economic administration, it is clear that we are much better. The economic results are not primarily a matter of ideological or policy differences. The results are primarily attributable to the quality, sincerity and credibility of the leaders and lawmakers of Pakatan Rakyat compared to those from Barisan Nasional.

Even with the very best economic plan, if the implementation is entrusted to a corrupt, deceitful government that only serves itself and special interest groups, it will inevitably result in disaster for the nation. A government that is quick to privatize profits and callous in raising the price of basic goods will not possess the heart nor the political will to lift the Malaysian economy out of the current economic rot.

As such, Pakatan Rakyat does not seek competition with Barisan Nasional on who has the ability to write cleverer economic policy per se. What distinguishes us fundamentally from Barisan Nasional is our economic policies are implemented by sincere and credible leaders, grounded on the principles of social justice for the people.

Our primary duty, as the Opposition to the federal government is to question, pressure and make the government of the day accountable to the public. That is why despite all the challenges, we fearlessly continue to expose and fight to stop the bad practices of the Barisan Nasional. Until we rule Putrajaya, if our current efforts can stop some of these bad practices, then perhaps the sluggish Malaysian economy can finally see some light at the end of the tunnel.

We have identified five bad economic practices of the Barisan Nasional. We aim to stop and where possible bring positive changes to these bad practices. These bad practices are as follow:

1. A systemic culture of corruption in the government and the administration of the economy;
2. An unsustainable over dependence on oil and gas revenue;
3. The lack of transparency and incompetence in negotiating the Trans Pacific Partnership Agreement (TPPA); and
4. A regressive tax system that helps the rich and punishes the poor.

Our views and measures to address and rectify these five economic bad practices of Barisan Nasional are discussed in the next few chapters.

## POOR GOVERNANCE

The Federal Government's overall expenditure has risen in the last five years since Dato' Seri Najib Tun Razak became Finance Minister.

There are five main components of the Federal government budget, namely supplies and services, assets, grants/fixed payments, developmental spending and emolument. With poor governance by Barisan Nasional, the first four components (except emolument) remain vulnerable to corruption and leakages.

Even the grants and fixed payments which are said to be less vulnerable to corrupt practices are currently being compromised. After all, there is a yearly increase of the Federal government's expenditure locked into fixed payments for long-term agreements such as building lease concessions, fixed rent, profit indemnity and others.

The Najib administration's inclination towards privatization via public-private partnership (also known as PPP) to build infrastructure and roll out government projects means that the yearly spending on concessions, rent, indemnity and other practices categorized in the national budget as fixed payments, will continue to rise.

Based on data about government expenditure and processes from 2010 to 2014 and a ballpark figure of 30% fixed payments, we can estimate the amount of Federal government expenditure that is exposed to corruption annually. The data is tabled below:

| Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Supplies and Services (RM billion) | 20.8 | 28.2 | 30.5 | 33.7 | 36.6 |
| Assets and Others (RM billion) | 1.4 | 2.1 | 2.6 | 2.2 | 3.0 |
| 30% Fixed payments* (RM billion) | 22.0 | 27.0 | 32.0 | 37.0 | 42.0 |
| Developmental outlay (RM billion) | 47.0 | 48.0 | 47.0 | 45.0 | 42.0 |
| Total | 91.2 | 105.3 | 112.1 | 117.9 | 123.6 |

*Projected federal government expenditure exposed to corruption.*

The Federal Government expenditure that is exposed to corruption is therefore estimated at RM118 billion in 2013 and RM124 billion in 2014. As such, there is a strong case to implement anticorruption measures. A robust and effective program can result in savings and have a tremendous positive effect to the financial position of the Federal Government.

A conservative estimation of the rate of leakage and corruption is about 10% (meaning that for every RM1 spent, 10 sen is lost to corruption). Thus, fighting corruption and plugging this leakage will easily produce projected savings of as much as RM11.8 billion for 2013 and RM12.4 billion 2014. People familiar with the procurement processes of the current Federal government, are likely to believe that the rate of leakage and corruption is much higher than 10%.

Below is a table of potential projected savings that can be achieved based upon different rates of leakages and corruption in Federal Government expenditure.

| Rate of leakage (%) | Total savings yearly (RM billion) | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| 10 | 9.2 | 10.5 | 11.2 | 11.8 | 12.4 |
| 15 | 13.7 | 15.8 | 16.9 | 17.8 | 18.6 |
| 20 | 18.3 | 21.0 | 22.5 | 23.7 | 24.8 |

*Projected savings based on different rates of leakages and corruption in federal expenditure.*

After being battered by prolonged and continuous budgetary deficits, the financial position of the Federal government is now extremely weak. In addition, it is also saddled by an enormous national debt that has almost breached the permitted legal limit. The easiest and most efficient step to take in order to improve this financial predicament without burdening the rakyat would be to declare an all-out war on corruption and leakages. However this step is not being carried out. Ironically, the very reason given by Dato' Seri Najib Tun Razak for cutting various subsidies (resulting in higher prices of goods as well as piling on more burden to the people) is that these measures are necessary in order to reduce the budgetary deficit. This reasoning is flawed as the place to start reducing the deficit must surely be with fighting corruption.

Pakatan Rakyat estimates that the corruption and leakage rate of 10%, is equivalent to 1% of deficit to GDP. Therefore, by eradicating corruption and leakages, the Federal Government's deficit can easily be reduced by as much as 1% of GDP.

By using the following projections and estimates for the year 2015:

1. Nominal Gross Domestic Product (GDP) at RM1,176 billion;
2. Deficit target that was set by Dato' Seri Najib Tun Razak at 3.2%;
3. Total estimates for Budget 2015 that is set to be announced by Dato' Seri Najib Tun Razak at RM283 billion;

Pakatan Rakyat is able to estimate the following reduction to the national deficit from the eradication of corruption and leakages:

| Rate of leakage (%) | Reduction in national deficit to GDP if leakage is eliminated (%) |
|---|---|
| 10 | 1.0 |
| 15 | 1.5 |
| 20 | 2.0 |

*Rate of leakage and the corresponding reduction in national deficit to GDP if leakage is eliminated.*

Most, if not all Malaysians agree that the eradication of corruption and leakages is a national priority. This priority is not just a matter of ensuring a more sustainable economy, but also a basic question of morality and social justice. In this age of information, the people should not tolerate the actions of the elites that continue to misuse power and amass great wealth.

The fight against corruption is going to be a lengthy one and it is insufficient to merely create campaigns and slogans. The fight requires a complete revamp of the system of governance from the ground up. The revamped system must prove effective in both preventing and uncovering corruption, as well as punishing the corrupt.

Therefore, the fight against corruption is essentially a process of forming and reinforcing good governance. This process not only eradicates corruption (consequently reducing the national deficit), but also promotes a new set of values that encourages meritocracy and accountability, which rewards hardwork and creativity.

This value system is needed to create a sustainable economy. The fight against corruption and leakages does not detract from the goal of achieving a developed nation status. In fact it is an essential prerequisite to the very goal. The existence of deep rooted corruption is not only a sign of a weakness in the Barisan Nasional administration, but is also what keeps us away from the same goal of a developed economy.

Unfortunately, the Najib administration continues to neglect the fight against corruption. Its political system, one that is based upon patronage in UMNO-BN, in fact relies upon the expansion of corruption and leakages to sustain itself. At the receiving end of these leakages are the politicians from the ruling party as well as their cronies.

Looking beyond the facade of various costly anti-corruption government campaigns, the real measure of true conviction to combat corruption and leakages should be the total number of politicians that have been accused and charged with bribery since Najib became Prime Minister. Based upon the statistics confirmed by Senator YB Dato' Paul Low in Parliament, in the years between 2010 to August 2013 (nearly four years), only nine politicians have been investigated and only five charged. Even then, there remains a high chance that not one of them will eventually be convicted and punished.

This shameful track record is in line with the overwhelming perception of the majority of Malaysians that politicians, apart from policemen, are the most corrupt in the country. This perception of widespread corruption is confirmed year after year by Transparency International in the publication of the Corruption Perception Index (CPI). According to the CPI 2013, out of a list of 177 nations, Malaysia ranked 53$^{rd}$, far behind Singapore at 5$^{th}$ place. Without good governance, it is not surprising that Malaysia continues to struggle in achieving a developed nation status.

Deep rooted corruption will continue to flourish as long as the Najib administration continues to depend heavily on it for political survival.

Time and time again, the current administration has failed to tackle the national deficit problem without burdening the people. The Najib administration needs to fight corruption instead of the people by way of deep cuts in oil and other subsidies.

Without the political will to fight corruption, a good governance framework cannot take root. The creation of a value system that takes the economy to the next level will never happen. Without good governance, an economic policy however well written and crafted will ultimately fail.

Unfortunately, the fate of billions of our taxpayers' money in this Najib administration's Budget 2015, looks set to continue to fundamentally fail.

## OVER-RELIANCE ON OIL AND GAS REVENUE

Despite having discovered an abundance of oil and gas in our country over 100 years ago, our economy has never relied on this industry as heavily as it does in the last decade or so. Presently, the over-reliance on oil and gas revenue poses a serious threat to our economy as our national oil and gas reserves continue to shrink. As a result of dwindling reserves, PETRONAS has to venture overseas to explore and purchase oil and gas reserves in order to support the nation's financial needs. This means that PETRONAS will need strong financials in order to compete with other global oil corporations.

Since 2008, the Barisan Nasional administration has been relying heavily upon rising crude oil prices to paper over their financial mismanagement. Their dependency on oil revenue is essential as it continues to fail to stop wastage of public funds and create an image of positive economic growth.

In addition to paying a special petroleum tax and petroleum export duty, PETRONAS and other oil and gas companies also pay a huge sum of income tax to the Federal Government. In addition, the Barisan Nasional administration also imposes a hefty fixed dividend upon PETRONAS that is up to 10 times more than the norm.

All in, this creates an unhealthy reliance upon oil and gas revenue, especially from PETRONAS.

Our over-reliance upon the oil and gas industry can be estimated below (all figures in RM billion):

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Estimated Corporate Tax from the oil and gas sector (RM billion) | 11 | 9 | 11 | 14 | 7 | 7 |
| Petroleum tax (RM billion) | 24 | 27 | 19 | 28 | 34 | 30 |
| Estimated sales tax from the oil and gas sector | 1 | 1 | 1 | 1 | 1 | 1 |
| Petroleum export duty | 3 | 1 | 2 | 2 | 2 | 2 |
| Annual dividend of PETRONAS | 30 | 30 | 30 | 30 | 28 | 27 |
| **Total contributions of the oil and gas industry** | 69 | 68 | 63 | 75 | 72 | 67 |
| **Total Federal Government income** | 160 | 159 | 160 | 185 | 208 | 213 |
| % contribution of the oil and gas sector | 43% | 43% | 39% | 41% | 35% | 31% |

*Breakdown of revenue from the oil and gas industry from 2008 to 2013, and % of contribution of the oil and gas to federal income.*

This addiction towards oil and gas revenue is dangerous for two main reasons:

*Firstly,* it paints a false picture that the economy is fundamentally robust and that we can continue to spend recklessly whereas in truth, we are seeing the Federal Government continue to fail in building a more sustainable industry. The industry, as it stands, is extremely volatile. Any fluctuation in global crude-oil prices, along with any consequential geopolitical conflicts can drastically affect the industry's earnings.

*Secondly,* this addiction will continue to greatly weaken the financial position of PETRONAS, since a large portion of its profits will not be re-invested. Subsequently, PETRONAS will slowly lose its ability to compete internationally.

For these reasons, Pakatan Rakyat is of the opinion that the government needs to set a new target to drastically reduce its reliance on oil and gas revenue within the next 5 years. In addition to that, steps to ramp up transparency and accountability in the management of our nation's oil and gas reserves must be taken immediately.

It is unfortunate that many Malaysian companies treat transparency as a management problem that needs to be avoided. This culture, nurtured by Barisan Nasional is ever present in corporate Malaysia. Transparency is often frowned upon, as if it were a cancer to corporate practices.

PETRONAS, as a national icon, ought to adopt transparency as an essential tool to transform its future. By adopting transparency, it will also help the nation towards conforming to corporate best practices.

PETRONAS has seen a change of leadership since Najib came into power. Its current management has introduced some controversial policies, including:

1. Changing its long-term investment strategy of building up foreign reserves to focusing on marginal national fields;
2. Granting risk service contracts (RSC) to connected companies regardless of capabilities or experience. Compared to production sharing contracts (PSCs), RSCs lock in upfront profits to contractors, essentially pushing risks back to PETRONAS.
3. RAPID, a mega petrochemical complex which may have serious environmental impact on the local populace; and
4. Giving an unfair advantage to big oil companies by imposing conditions that only they can fulfil, hence bypassing able local companies from competing.

The need to enforce transparent and accountable measures is urgent. At least one-third of Federal Government annual expenditure is derived from funds from PETRONAS. Moreover, little to none of this precious revenue is being saved and invested for future generations. Our current law only requires PETRONAS to report directly to the Prime Minister. This arrangement has led the Najib administration to a false belief that PETRONAS is his to use as his government's personal bank.

The 2015 Pakatan Rakyat budget places its primary focus upon transparency and accountability in economic governance. This focus is extended to how PETRONAS should be managed.

Pakatan Rakyat will:

1. Launch a public campaign to pressure both the Najib administration and senior management of PETRONAS to compel PETRONAS to join the Extractive Industries Transparency Initiative (EITI) from 2015 onwards. EITI is an international initiative that aims to increase transparency in the management of a nation's natural resources. It achieves this by setting international standards on evaluations and compliance. BP, Exxonmobil and Royal Dutch Shell have all joined the EITI initiative. PETRONAS has not. It is therefore not surprising that Malaysia ranked lower than its neighbours in the 2013 Revenue Watch Institute's list on natural resource management efficiency. Malaysia ranked 34th out of 58 countries, behind Timor Leste (13th), Indonesia (14th) and Philippines (23rd). Even Mongolia is ahead of Malaysia at 26th place. This atrocious ranking needs to be rectified and the government must be made accountable.

2. Introduce a *Private Members' Bill* in the Dewan Rakyat in 2015 to amend the current provisions under the *Petroleum Development Act* 1974.

   The proposed *Private Members' Bill* will include:
   a. The formation of a Select Committee in Parliament consisting of both government and opposition MPs with expertise in the oil and gas industry to oversee PETRONAS;
   b. A compulsory annual audit by the National Audit Department of both PETRONAS and any other oil and gas funds;
   c. Requiring the process of appointing the Chairman and CEO of PETRONAS to be vetted and debated in Parliament;
   d. Requiring PETRONAS to submit an annual report on its financials and performance to Parliament;
   e. Limiting PETRONAS dividend to a fair formula that considers its profits; and
   f. Saving a portion of PETRONAS profits into a special fund that may only be used for purposes approved by Parliament, such as education, human resource development and technology.

Pakatan Rakyat firmly believes that the above drastic steps are needed to curb and turn around the government's over reliance on oil and gas revenue. We sincerely want to see 2015 to be a turning point in building a more sustainable PETRONAS for all Malaysians.

## OUR TAX SYSTEM: CAPITAL GAINS TAX

It is the government's responsibility to ensure that the economy grows at a healthy rate and sufficient space is given for entrepreneurs and businesses to undertake economic activities without undue interference. A competitive business environment will foster growth in the economy, which will lead to more government revenue through increased tax collection. The taxes which are collected should then be used to create a social safety net that protects low-income households in our society.

This is the concept of taxation which is adopted by Pakatan Rakyat. Fairness in the tax system means the poor should not be taxed as much or more than the rich. The GST is a regressive tax, which means the low income groups will bear a higher tax burden than the wealthy. The GST is therefore not fair.

Based on this principle, Pakatan Rakyat stands firm against the implementation of the GST until there is a rise in the rakyat's disposable income level.

The Treasury estimates that a household with monthly earnings of less than RM4,000 will experience an additional annual tax expenditure of between RM140 to RM700. The increase in tax expenditure for households earning RM4,000 and above is estimated at more than RM1,550 per year.

This increase in tax burden threatens to bring those consumers from the lower-income group further down the income bracket as it is estimated that households earning less than RM4,000 a month spend 32.6% on items subject to GST. For middle-income households, up to 60% of goods and services consumed by this group is estimated to be subject to GST.

The Najib administration, which insists on implementing the GST on the 1st of April 2015, is very likely to face serious challenges. If not managed properly, the rakyat, be it the consumer or the business community, will be forced to suffer the heavy economic burden as a consequence.

The challenges following the implementation of the GST are:

1. Price increases that will punish low income families, exacerbated by the withdrawal of fuel subsidies. The distribution of BR1M by the Federal Government is not sufficient to cover the price increases of goods and services, in addition to the fact that not all middle and low income families will receive BR1M. In fact, the shift from fuel subsidies to the more comprehensive BR1M handouts will not change much in a vein similar to the Malay proverb, "That which is pursued is not obtained, that which is possessed is also lost" since the temporary BR1M handouts will not solve the problem of the increase in the cost of living.
2. Potential cash flow problems for business owners. Government implementation must be as smooth as silk to ensure that businesses that are eligible for refunds get them on time, or suffer dramatic impact on their company cash flow. With the high rate of 6% as the introductory GST rate set by the government, the impact of hiccups in its implementation, whether inevitable or not, will be hard to avoid.

3. Housing prices are still exposed to price hikes because they are not categorized as industries being subjected to zero-rated GST taxation. This means that while housing developers and the construction industry cannot impose GST on residential properties, they also cannot make claims on GST charges on building materials. The only option left to the housing developers and the construction industry is to raise housing prices to the consumer in order to preserve their profit margins or to avoid making losses. The same thing will also occur in industries which have been given tax-exempt status but not zero rated status.

We reiterate our belief that the time is not right for GST. Nevertheless, Pakatan Rakyat knows that in reality, the GST will be imposed by the Najib administration due to financial pressures faced by the Federal Government.

In 2015, the focus of Pakatan Rakyat in relation to the GST is as follows:

1. Increase public understanding of GST and raise awareness amongst business owners through the provision of free courses to those who cannot afford to attend GST courses which charges a fee; or those who do not have the opportunity to attend the free information sessions conducted by various government agencies.
2. Strive to provide sectors of public interest with zero-rated status so as to limit the increase in prices.

More importantly, continued pressure needs to be put on the Najib administration to change the tax treatment of the government from one which taxes the poor to one which taxes capital for the sake of protecting the welfare of the poor.

Pakatan Rakyat believes that the Federal Government should introduce taxes aimed at the well-off, such as the Capital Gains Tax (CGT).

*Capital Gains Tax (CGT)*

The French economist, Thomas Piketty shook the world through his book "Capital in the 21st Century" which concluded that the wealth gap that separates rich and poor will worsen in the capitalist system if no specific actions are taken.

Thomas Piketty also suggested that taxes which are more progressive in nature (which taxes the rich and protects the poor) should be introduced and strengthened. Thomas Piketty's call can be more easily understood in the context of Malaysia through the wealth which have been accumulated by the super-rich and the BN cronies while the poor have become increasingly poor and are burdened by a high cost of living.

Following the suggestions of Thomas Piketty, Pakatan Rakyat takes the position that a responsible government will find the fairest ways to tax various forms of capital and profits since these are mostly enjoyed by the wealthy. This is different from the view of Barisan Nasional which protects the wealthy and instead, introduces the GST which are targeted towards the poor and middle income.

If Barisan Nasional continues to use the excuse that GST needs to be implemented because it is also implemented in other countries, then Dato' Seri Najib Tun Razak must explain why he is reluctant to implement the CGT since this is also being implemented in 127 other countries.

In Malaysia, only the capital gains from the sale of properties within 5 years of purchase is taxed (RPGT). The capital gains from other transactions which involve capital such as the sale of stocks, bonds, other financial instruments, companies and other assets (other than property) are not charged any taxes even though these transactions may result in capital gains of many multiples.

The fact is the wealthy will find it much easier to gain access to capital and to participate in business transactions involving capital in order to obtain a profit.

Pakatan Rakyat estimates that the introduction of CGT will be successful initially in raising taxes of as much as RM3 billion in 2015. If the economy continues to expand and grow, the proceeds from the CGT as a result of profitable capital transactions will also increase.

There are some who give the excuse that the introduction of the CGT will result in lower investments. This is a weak excuse given that all European countries which are part of the OECD imposes CGT. In fact, the United States and United Kingdom have one of the highest CGT rates in the world of up to 50.8% for the United States (the fourth highest in the world) and up to 46.7% for the United Kingdom (the eight highest in the world). It is public knowledge that the financial and capital markets in both these countries are among the biggest and most dynamic in the world, which demonstrates that the argument that introducing the CGT will decrease investments has no basis whatsoever.

Pakatan Rakyat proposes the introduction of the CGT in order to tax capital gains made on stock, bond and other capital transactions involving stocks such as the Employee Share Option Scheme (ESOS).

Pakatan Rakyat also proposes that the introduction of the CGT in Malaysia takes into account worldwide 'best practices' including measures which can stabilize the collection of CGT so as to avoid the volatility experienced in places such as California in the United States.

Inheritance Taxes

In other countries, governments impose an inheritance tax on the transferring of assets among the very wealthy. Any transfer of assets in the form of gifts or when a death occurs in the family will be charged inheritance taxes.

Unfortunately, Malaysia does not have any taxes charged on the wealth enjoyed as a result of the transfer of assets among the wealthy.

Taking the United Kingdom as an example, a total of GBP2.7 billion (=RM14 billion) was raised from Inheritance Taxes in 2011. Pakatan Rakyat believes that the imposition of an Inheritance Tax in Malaysia could also raise significant tax revenues.

Hence, Pakatan Rakyat proposes an Inheritance Tax be introduced for the transfer of assets worth RM5 million and above.

## TPPA

Our economy produces more goods and services than our population can consume. Therefore for sustained economic growth we depend largely on international trade. In short, Malaysia is a trading nation.

Pakatan Rakyat believes in free but fair trade. More importantly, we view trade agreements as extremely important documents. Therefore a thorough cost-benefit study on the economic and legal implications of such agreements need to be conducted before any signing. All efforts and adequate resources need to be deployed in helping us with such negotiations. We must also fully engage stakeholders including lawmakers, industries and the rakyat.

The biggest trade issue we face today is the Trans-Pacific Partnership Agreement. The TPPA has been touted as an ambitious 21st century trade agreement. It is a complex trade agreement that goes beyond the traditional sense of trade, tariffs and market access. A sizeable portion of the TPPA focuses on investments, procurement and national sovereignty issues.

The consequence of the TPPA is that these can restrict our economic sovereignty. Essentially, the TPPA seeks to impose an American hyper capitalist economic model upon us. This model is used to regulate trade, set standards and norms which will influence our costs of production and ultimately our competitiveness.

The TPPA is invasive because it seeks to compel nations to amend their national laws to comply with its terms. This challenges the basic concept of national sovereignty and limits public policy space of lawmakers. Contentious chapters include ISDS, intellectual property, costs of medicine, labour and environmental standards.

Malaysia formally joined in the TPPA negotiations in October 2010. We are now entering our 5th year of negotiations. It is alarming that the Barisan Nasional government has achieved so little in terms of preparation and readiness during that period. Without any access to the actual text of the TPPA, how can we, Pakatan Rakyat make an informed decision to support or reject the TPPA? Without relevant and key economic data from the UMNO-BN government we cannot even answer the most fundamental question; whether or not the TPPA will benefit us economically.

In the absence of the texts, the data and other relevant information, we are forced to take a position of continuously questioning the TPPA. The quarrel we have is not with the foreign countries negotiating with Malaysia. These countries are not the ones withholding relevant information from us. Our quarrel is with the UMNO-BN government. The failure to share the texts with our MPs is symptomatic of the style of the UMNO-BN government. It is a failure of transparency and accountability. UMNO-BN has also failed to articulate positions and to defend the interests our industries and the rakyat.

The so called stakeholder engagement process adopted by UMNO–Barisan Nasional in negotiating the TPPA is illustrative of how the government runs this country. No transparency, hence no accountability.

In addition we have incompetency. We do not make these allegations lightly. In the context of the negotiations, we understand that the TPPA texts are meant to be secret and meant to evolve as the negotiations progresses. However within each negotiating country, the government of the day can and do share the texts with other lawmakers, experts and industry leaders provided they first agree to sign binding non-disclosure agreements.

However under UMNO-BN, the overall practice in Malaysia is to remain totally secretive. As far as we are aware, the TPPA texts are only available to a very select few UMNO-BN lawmakers and civil servants. In this respect Malaysia is very unlike other TPPA negotiating nations. Most nations adopt a working united front with all their national stakeholders and then empower negotiators to take a policy stand reflective of its needs and desires.

To date, not one Member of Parliament from Pakatan Rakyat has sighted the texts of the agreement. This complete secrecy from the purview of Parliament continues till today despite the formation of a bi-partisan Parliamentary Caucus for more than a year. The Caucus does not have access to the texts and as such cannot engage in any meaningful policy discussion. We are merely briefed from time to time by the Minister of broad developments and directions.

More worrying is the fact that no substantial resources nor coherent strategy has been adopted by UMNO-BN. This is evident from the fact that the government has not prepared basic resources to support the negotiations. Consider the fact that when asked in Parliament last year, on how many full time trade negotiators are involved in the TPPA, the government could not even produce an actual head count. The Minister could not say if there were 5, 10 or 15 persons working on the TPPA. This inability to give straight answers in Parliament is indicative of the paralysis that is in the government today.

Our reliable sources inform us that there are only 6 full time MITI lawyers, backed by several part time lawyers from relevant ministries. Compared to the USA, their small army of trade negotiators are backed by some 400 cleared advisors, lawyers and experts from corporations and organisations.

Moving on to the question of quality of negotiations, we do not even know if our MITI lawyers are fully trained in international trade matters. All we know is the matter of international trade is highly complex and highly specialized. Despite our suggestions to the Ministry to engage international trade law firms, like White & Case to assist, this has not taken place. If we are entering into a multi-billion dollar trade agreement with wide ranging impacts on our economic competitiveness, shouldn’t we spend at least a few million in expert advice to safeguard our position?

As of July 2013, MITI has not appointed any cleared advisors to help with the TPPA. Cleared advisors are experts from industries brought in to help the government to scrutinize the texts and build strategies. More importantly, these industry specific experts are crucial in designing complex positions to protect the unique interests of each and every one of our industries. For example, the local banking and finance sector will be deeply affected by the TPPA. Logically, it is crucial that specialist banking lawyers and managers from GLC banks such as CIMB and Maybank be cleared to advice and support the trade negotiators from the government. However, for reasons only known to UMNO-BN, this has not happened.

The UMNO-BN government has also shown an inability to produce a comprehensive economic cost-benefit study. Before deciding to join formal negotiations in 2010, the government commissioned a cost-benefit paper prepared by the UNDP. This paper was broad in scope, lacking in very specific details. The content cannot be discussed here as it is subject to a Non-Disclosure Agreement.

Subsequently and upon the urging of Pakatan Rakyat lawmakers in mid-2013, the BN government conceded that it will need more comprehensive cost-benefit papers. The UMNO-BN government then decided to commission two more papers, with limited reference to only SMEs and Bumiputera business interests.

These two new papers were due for completion on December 2013. Despite that, the last interviews with Pakatan Rakyat lawmakers by appointed consultants producing these papers were done only on July 2014; as recent as August 2014, the Minister remarked that the papers are at their final stages.

However, on a periodic basis, the government claims to be inching closer to signing the TPPA, without the benefit of these commissioned analyses. This raises a grave concern whether the cost-benefit papers commissioned by the Barisan Nasional government are merely a public relations exercise designed to placate and mislead lawmakers and the public.

Even at this very late stage, we continue to stress that the most basic economic questions have yet to be answered. As a trading nation, our two biggest exports are oil and gas and palm oil. In the matter of oil and gas, we do not need a trade agreement to gain a preferential trade position for this globally in demand commodity.

However, for our export of palm oil, a RM80 billion export sector, the TPPA can potentially increase our sales. With this in mind, we have asked MITI to explain and provide educated projections of palm oil sales which may result from the signing of the TPPA. It is a basic but important question. For instance, will our palm oil exports increase in the TPPA countries, and if so, by how much? RM1 billion? RM 5 billion? RM 10 billion?

Predictably, no answers have been forthcoming from the government. This is especially worrying since this sector is so crucial to our overall economy and national income. We have not even asked for prospective trade gains of smaller and specialized exports such as shoes, air-cons and pewters.

The only available economic projections available is ironically from the Peterson Institute for International Economics, an American think tank. The Peterson Institute estimates that Malaysian exports will increase by RM26 billion because of the TPPA. What RM26 billion in exports translate to in terms of fiscal revenue for the government is roughly RM260 million in taxes. We know that the total annual Malaysian IT spending, estimated by Gartner Inc, is about RM68 billion a year. If the intellectual property clauses in the

TPPA increases all IT costs by a mere 1%, this will be a RM680 million extra burden on all Malaysians. This single small bump in IT costs is enough to wipe out all potential tax gains that we may get from TPPA.

We haven’t even considered the extra costs to medicine, books, environment, labour and ISDS claims. Where is the economic cost-benefit analysis? Are we willing to sell away our sovereign rights and for what price? For how much export gains? Are we willing to forgo emergency economic measures of capital controls and pump priming for TPPA?

Pakatan Rakyat believes in free but fair trade. The problem is, the way things currently are, we are completely blinded by an incompetent and secretive UMNO-BN in terms of the legal, economic and political implications of signing the TPPA.

## WELFARE BUDGET

A responsible government must ensure that the interests of everyone are included in its economic planning, regardless of social or economic status. Government efficiency can be achieved by balancing the interests of the poor and allowing the entrepreneurial class adequate space and freedom to generate economic activities.

Safeguarding the poor and defenceless is the most essential pillar of any government. Pakatan Rakyat firmly believes that the government should implement policies that actively encourage economic activities. This in turn will benefit the people as the tax collected from such enterprises can then be channelled back to the public to help the poor.

Currently, the Najib administration disingenuously paints a picture that the various programs to help the poor are the cause of our economic malaise. The administration takes the view that subsidies, which are essential for controlling inflation and to help the poor, will destroy the national economy.

Based on statements made by the ministers on the subject matter, one could easily fall under the impression that the basic needs of the people is the root problem and that the nation's economy is entirely sustained by the hard work of ministers.

It is now clear as day that the national economic policies of the Najib administration are decidedly anti-welfare. This is reflected in its policies of cutting subsidies alongside with the implementation of a new GST tax, effectively punishing the people further.

The 2015 Pakatan Rakyat Budget aims to return welfare to its rightful place in the economic plans of the nation. Recognising the need of welfare is not passé and retooling a more effective targeted system of subsidies is not an act of economic futility. This mindset needs to change, we have to return to the roots of democratic governance which is to help the poor and defenceless.

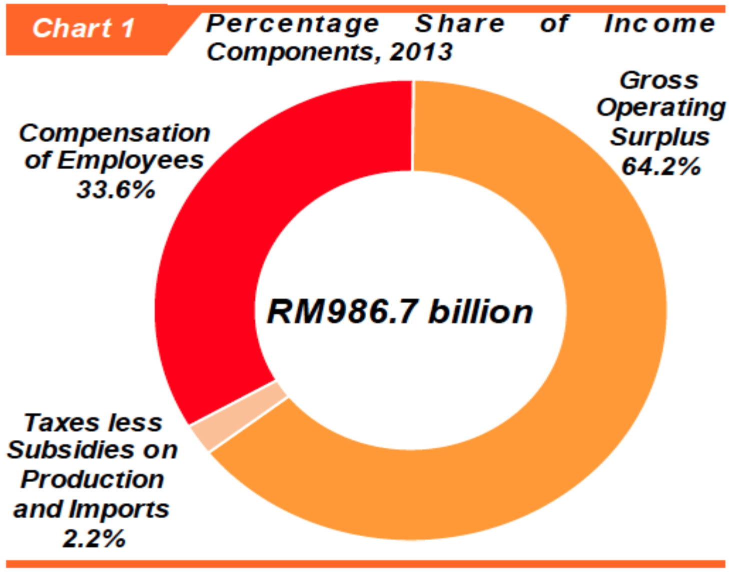
In fact, with a widening income gap between the rich and the poor, such welfare programs are more needed than ever. We need to double up our efforts to strengthen the social safety net of the less fortunate.

Pakatan Rakyat has set 4 primary targets for the year 2015, and they are as follows:

1. Ensure fair living wages to ensure that all workers live a comfortable and dignified life;
2. Defend targeted subsidies for the low-income group as well as the general subsidies so as to prevent price hikes of basic goods;
3. Introduce more house financing schemes as well as more radical public housing developments to help the youth and those in the low-income group; and
4. Develop and improve the rural areas and shield them from the vagaries of the rising cost of living.

These plans are further elaborated in the following sections.

## A CASE FOR LIVING WAGE




Source: Department of Statistics, *National Accounts GDP by Income Approach Report, 2005-2013*.

The amount of Malaysia's Gross Domestic Product (GDP) that went towards salaries and compensation of labour in 2013 was only 33.6%. 2.2% went to taxes, and the remaining 64.2% was gross operating surplus.

This essentially shows that by international standards, Malaysia's share of wages in GDP is very low. The average wage share of other comparable emerging markets is around 58%, with the average wage share for developed countries being around 66%.

With only six years left to reach 'developed nation status' by 2020, we would need to double our wage share in order to get comparable compensation for our labour. The low wage share of Malaysian labour stems from decades of policies suppressing wages, restricting unionisation, and maintaining low-skill jobs dependent upon foreign labour.

Some tycoons have done well out of this, but Malaysian workers and their families are suffering with rising costs. Some workers, as labour monitor Verité and the UN's International Labour Organisation (ILO) have recently pointed out, are even working under forced conditions and exploited at slave wages in Malaysia.

Raising the wages of Malaysian workers is a crucial priority for Belanjawan Pakatan Rakyat 2015. Pakatan Rakyat believes that better wages overall will mean a more prosperous country, less inequality, greater opportunity for social mobility, and less economic anxiety that can be exploited by racist parties and organisations.

This will lead to wealthier families in Malaysia, a stronger middle-class, which subsequently translates to more consumption of Malaysian goods and an expanding market for local producers and entrepreneurs.

It is also fair to raise wages. Productivity and economic growth have been increasing, but wages increases have not kept pace with them. Without a fair rise in wages the incentive for productivity growth will diminish.

Implementing the minimum wage through the National Wages Consultative Council (NWCC) has been a constructive first step in raising wages. While the quantum is not enough to keep pace with the rising cost of living it is an improvement for the lowest income earners.

However, something needs to be done for the rest of the income spectrum that stretches up to the middle class. Making Malaysians wealthier, in a manner that is fair for all involved, will benefit government, business, and workers.

Therefore, in order to ensure that the national income is more equitably shared by Malaysian workers, Pakatan Rakyat proposes that we aim to have 50% of Malaysia's GDP go towards the wages of labour by 2020 (compared to 33.6% in 2013).

This means that the absolute value of the wage share will have to increase at a rate of 15.9% per year between 2015 and 2020. This should not be difficult to achieve given that the average rate of growth in wage share between 2008 and 2013 was 8.7%, with up to a 12.5% increase possible within a single year.

Pakatan Rakyat proposes the following measures:

1. that the scope of the National Wages Consultative Council be expanded to include consultation and consensus-building on overall wage increases, not just minimum wage, between government, industry, labour, and selected representatives from civil society/academia (a 'tripartite plus' system);
2. this tripartite plus system should involve an equal number of representatives from government, business, trade unions, and civil society in order to engage in fair wage bargaining based on consensus; and,
3. restrictions on unionization in commercial sectors (such as electronics) should be lifted.

The tripartite system of achieving consensus on wage increases has succeeded in many countries. The time has come for this approach to be used in Malaysia to achieve fair and decent living wages.

## HIGH COST OF LIVING

The problem of the disparity between rich and poor is worse now than 30 years ago. The daily reality for the Malaysia rakyat is that the poor are getting poorer whilst the rich are getting richer.

The economist Muhammed Abdul Khalid in his book "The Colour of Inequality: Ethnicity, Class, Income and Wealth in Malaysia" outlines the reality of these disparities from the perspective of financial assets (i.e., the capacity to save and invest).

1. More than 53% of the rakyat lack any financial assets. The richest 10% hold 77% of all financial assets in Malaysia. 80% of low-income earners own only 5.5% of total financial assets. More than 70% of the rakyat who hold no financial assets whatsoever are *bumiputera*.
2. Even though Amanah Saham Bumiputra (ASB) was created for *bumiputera*, more than 55% of *bumiputera* lack ASB accounts. The savings of 72% of *bumiputera* that invest in ASB only average

RM554 per person, equivalent to only 2.6% of total ASB savings. Rich *bumiputera* (who constitute only 0.2% of all ASB holders) own 1.5 times more ASB savings than the 80% of ordinary members.

These statistics show that a large share of the population do not have surplus income to save or invest after deducting for debt payments and monthly expenses.

Consequently, any increase in the price of basic goods will produce a significant impact on the rakyat even though Prime Minister Najib has downplayed the recent fuel price increase as only 20 sen.

The 20 sen rise in petrol and diesel prices will have a multiplier effect on the cost of goods and basic services which will swamp ordinary families who are already under pressure.

Thus, subsidies and their role in our economy and society cannot be viewed solely through the lens of deficit management. Policymakers and government need to appreciate how the 20 sen price hike will compound with GST to burden households that are incapable of saving due to a lack of disposable income.

*Price Increases Before GST*

The increase in the inflation rate (Consumer Price Index) of 3.3% in the first half of 2014 compared to the same period in 2013 clearly shows the impact of the government's subsidy rationalization plan on the cost of living. The sub-indices of transport and food prices rose 5.4% and 3.6% respectively.

Imported foods rose in price by an average of 5.4% per annum since 2005. For example, edible oils and fats rose by an average of 5.5% per annum, fruit and vegetables rose by 6.3% per annum and dairy products by 3.6% per annum.

The marked increase in food prices will definitely burden lower income earners more than the rich as the former will pay a larger share of their monthly income towards such goods. The rise in food prices is also evidence of the failure of the Najib Administration to guarantee national food security because of the dependency on food imports whose prices are sensitive to a variety of factors (exchange rates, transport costs, etc.).

Pakatan Rakyat expects that the price of food will continue to rise in 2015 with the implementation of GST.

*Wage Increases Outstripped by Rise in Cost of Goods*

Out of a total population of 29.95 million in 2013, only 13.3 million Malaysians are employed. The average monthly wage in 2013 was RM2,052, out of which ethnic Malaysian-Chinese earned an average of RM2,444, Malaysian-*bumiputera* earned RM2,109, and Malaysian-Indians RM2,032 (based on Department of Statistics data).

The same source shows that the average increase in average annual wages from 2010 to 2013 was only 4% per annum. The wage share of workers as a proportion of GDP was only 33.6%, compared to advanced nations such as Norway (51.3%), Sweden (53.8%) and Australia (48.7%).

The economic policy of the Barisan Nasional, which suppresses wage increases and raises the price of goods, is the main cause of economic pressures on the rakyat.

*Household Debt*

At 140% the ratio of household debt to disposable income in Malaysia is amongst the highest in the world. The largest component of debt is housing loans followed by vehicle loans, credit cards, personal debt and other debts.

At the macro level the total Malaysian household debt has reached 86.6% of GDP from a level of 81% in 2012. This is one of the highest rates in the region compared to higher income nations such as Singapore and South Korea.

These three factors (increase in the cost of goods, the inability of wages to keep pace with such increases, and high household debt) constrict the ability of families to spend and save. Under these conditions any decision by the Federal Government to raise the cost of basic goods, such as fuel prices, will force many families below the poverty line as projected by Associate Professor Dr Fatimah Kari from University Malaya.

*The 20 sen Fuel Price Increase*

Pakatan Rakyat opposes the recent increase in fuel prices because the price of crude oil has fallen from the region of US$110 a barrel to around US$90 a barrel.

The estimated impacts on the financial position of the Federal Government from these shifts are:

1. Fall in world oil prices – because crude oil prices represent the largest part of petrol/diesel costs, the fall in crude oil prices will have a significant impact on market prices of petrol and diesel. Pakatan Rakyat's analysis indicates that the Federal Government would have saved RM810 million from its subsidy bill if the price of petrol and diesel was not increased due to the fall in world crude oil prices.
2. Increasing fuel prices by 20 sen – Aside from the decrease in subsidy payments due to the fall in world oil prices, the decision to increase the price of petrol and diesel will increase the savings on subsidy payments that need to be met by the Federal Government. Pakatan Rakyat's analysis suggests that the government saved RM1.4 billion from October to December 2014.

What will happen to this RM1.4 billion? If world crude oil prices remain around US$90 a barrel the subsidy savings for 2015 could reach RM6 billion.

This RM6 billion in savings is smaller than that which could be saved if just 10% of Federal Government spending leakages were stopped. This 10% would amount to a saving of RM12.4 billion per year as indicated previously.

Millions of households are bearing higher costs of living whilst the Najib Administration fails to curb its fiscal wastage.

Pakatan Rakyat defends the principle that subsidies for the majority of the rakyat are not the main problem facing the Malaysian economy. Subsidies cannot be blamed for all fiscal wrongs. Leakages and corruption that stem from the Barisan Nasional administration are the still main form of fiscal irresponsibility.

In 2015, Pakatan Rakyat will increase its efforts to scrutinise costly Federal Government projects that represent a burden to the rakyat.

The Barisan Nasional approach of cutting subsidies to produce savings cannot compare to the savings that could be gained from curbing leakages. Pakatan Rakyat maintains that savings from disciplining leakages and corruption are sufficient to maintain the price of petrol and diesel at a rate conducive to the rakyat's wellbeing.

## ACCESS TO PUBLIC HOUSING

The cost of owning a home has risen sharply in recent years. (The Housing Price Index is at present 40% higher than it was 4 years ago in 2010.) This has resulted in many not being able to own a home.

While housing prices might have stabilized in recent years, there has still been an 8% increase in the first quarter of 2014 compared to the same period last year. With the introduction of the GST, property firm CH Williams, Talhar & Wong estimates a further increase in housing prices of as much as 8%-10%, with prices for terrace housing increasing by as much as 15%.

The rising house prices results in a difficulty in obtaining housing loans, as many Malaysians do not earn enough to qualify for a loan. Even if a person manages to obtain a loan, the debt that follows is insurmountable and tough to discharge.

Household debts have exceeded the RM854 billion mark in 2013, with as much as RM230 billion (or 27% of it) consisting of housing loans applied for by people with a monthly income of less than RM3,000. With loans amounting to a sum that is 7 times more than their annual salary, this group sees itself getting increasingly marginalized. Financial institutions are unwilling to approve of loans to people falling within this income group as they pose a credit risk to the institutions.

A decision was made to further tighten the terms for financing, including shortening the financing duration to 35 years (from 45 years). This will increase the burden upon individuals seeking to pay off their monthly instalments, and will result in the exclusion of more of the low-income group from obtaining housing financing.

The 2015 Pakatan Rakyat budget takes this into consideration and accepts that this problem can only be resolved through the thorough revamp of the conditions for house ownership as well as financing. It is insufficient to just continue building houses without taking the ability of an individual to obtain a housing loan into consideration.

Therefore, the Pakatan Rakyat budget proposes a three-pronged approach to tackling this problem:

1. Bank Negara Malaysia can consider offering the *Developer Interest Bearing Scheme* (DIBS) to qualifying first-time house buyers so as to remove any obstacles barring the way to obtaining housing financing. In some instances, DIBS can also be used to ensure that administrative costs such as legal

fees are included in the financing package. In addition to the above, the Federal Government should also remove the stamp duty imposed on first time house buyers in order to reduce the overall cost of owning a home.

2. The Federal Government should follow the footsteps of the Pakatan Rakyat Government in Pulau Pinang by introducing a Shared Ownership Scheme (SOS). This will further broaden the composition of home ownership amongst the poor. Under this scheme, houses will be jointly owned by both the government and the buyer because the State Government will provide a loan of up to 30% of the price of the house. Having only 70% of the cost remaining, first time house owners would find it easier to obtain a loan from financial institutions.
3. The Federal Government should also increase the financing provided to Syarikat Jaminan Kredit Perumahan (SJKP) to RM3 billion from the current allocation of RM180 million. This will enable SJKP to broaden its credit guarantee services of up to RM400,000 to encompass not only financial institutions but also first-time house buyers. To qualify, the housing price limit should also be increased from RM100,000 to RM400,000, seeing as it is now difficult to find a house that costs less than RM100,000.

Pakatan Rakyat believes that the Federal Government can learn much from the Pakatan Rakyat government's experience in helping the people obtain their first home.

## HOLISTIC RURAL DEVELOPMENT

Rural areas are decreasing in population but are increasingly being left out of the overall economy. In the 1980s, 70% of Malaysia was categorized as rural. Today the situation has reversed with 72% of Malaysia falling under the "urban" category. Urbanisation is increasing at a rate of 2.4% annually.

According to the Household Income Research conducted in 2012, the average household income for those living in rural areas was RM3,080 a month. This is lower than the average recorded for urban households at RM5,742 per month.

Due to socio-economic factors and the overwhelming concentration of economic activities on urban areas, rural folks are facing the risk of being left behind and entering a state of poverty.

*The Rural Problem*

The lack of development has negatively impacted rural standards of living. In this regard, Pakatan Rakyat is committed to aid and developed rural areas in particular and including the states of Sabah, Sarawak, Kelantan, Perlis, Kedah and Terengganu. In order to find effective solutions to reverse the situation, we need to first understand the problems faced.

The following socio-economic problems require immediate attention:

1. There is a lack of large-scale economic plans for the rural areas. This absence impedes the growth of job opportunities, household income and efficient use of rural resources.
2. Despite being the dominant source of income for rural areas, agriculture still lacks investment the technology to generate job opportunities. This has led to a migration of workers from rural to urban centres.
3. Weak logistics and poor communications infrastructure makes it less attractive for companies to relocate to rural areas despite the relatively low cost of land.
4. A lack of quality education is forcing rural youths to move to cities to obtain quality education resulting in a long term brain drain.
5. A lack of rural housing is also forcing rural youths to migrate.

*Rural Revolution*

The 2015 Pakatan Rakyat Budget recognizes the economic potential of rural areas and that a government has a heavy responsibility to foster a robust rural economy.

This is in line with the administrative principles of Pakatan Rakyat in our Buku Jingga and our Manifesto which pushes for the decentralizing of power to the federated states and even to the districts.

Through decentralization, Pakatan Rakyat will launch programs that will bring about economic, administrative, and educational activities to the rural areas so as to channel back economic power and wealth to the rural areas.

The 2015 Pakatan Rakyat Budget recommends a "*Rural Revolution"* to realise the economic potential of the rural areas.

The primary programs of the *Rural Revolution* are as follows:

1. Permodalan Nasional Berhad (PNB) will be given the role as a federal investment company, to transform agriculture into a national economic pillar. Standards and targets will be set for technological content, job creation and land use efficiency. The goal is to promote agriculture as the primary contributor of food security and subsequently reduce our dependency on imported foods;
2. The promotion of more primary satellite cities outside the Klang Valley and the relocation of government institutions and departments to these cities. This will result in increased economic activities in rural areas surrounding these new satellite cities;
3. The introduction of rural housing, to provide the rural population with cost appropriate homes either for rent or purchase. This program would require the government to provide developers and financial institutions with incentive schemes to encourage them to develop in the rural areas. This could be in the form of tax-reductions, capital incentives and property joint-ventures. Financial institutions would be incentivized (credit guarantees or joint-loans) to provide financing to potential rural house buyers;
4. Better teaching infrastructure and manpower will be deployed. New boarding and semi-boarding school will be built in rural areas, to allow the better schools to collaborate with and improve standards overall;
5. Tax-relief incentives will be awarded to corporations that succeed in maximizing rural land use for agri-business activities that generate high yields. This is aimed at encouraging the joint ventures between local private land-owners and corporations.
6. Reviewing the functions of marketing agencies like FAMA and injecting more expertise to create more effective marketing for rural products.
7. Improving general and communications infrastructure in rural areas.

Pakatan Rakyat believes that the above *Rural Revolution* programs and investments will bring about the much needed positive socio-economic changes to the rural folks.

## CONCLUSION

Pakatan Rakyat's broad criticisms on the UMNO-BN Budget have been consistent and unvaried. This is not due to a lack of creativity on our part but is in fact a denunciation to the fact that the fundamental economic issues on wastage, corruption, opaque and mega deals are still not being addressed.

At the most fundamental level, this document is a critique on governance and style of leadership where the politics is purely transactional and the political will to do right is absent. Rent seekers and corrupt politicians continue to plunder the economy with impunity.

This Pakatan Rakyat Budget 2015 outlines our realistic goals for 2015 and the actions proposed therein reflect our commitment to carry out our duties as Opposition to the government, to fight and ensure that the economic policies in the coming budget are responsible, accountable and serves the greater good of social justice for all. If we can affect one single positive change to governance, it will give Malaysia and its people a new hope.

As such, this Pakatan Rakyat Budget 2015 encapsulates our resolve that we need not wait for the next general election to affect positive changes at the federal government level. We can and must push for change now.

May Malaysia continue to be blessed and its people protected.