

Proposed DAP 2009 Budget Brief



Delivering
**Competency
Accountability &
Transparency**



DAP 2009 BUDGET BRIEF

A. Introduction

The DAP 2009 Malaysian budget brief focuses on the twin challenges of global economic slowdown and our high dependence on oil and gas resources.

(i) Expected Global Economic Slowdown

The International Monetary Fund has announced that there was a 25 per cent chance that global growth would also slump to below three per cent in 2008, which is equivalent of a world recession. The IMF said global expansion over the last several years had rapidly dwindled due to financial turmoil created by the ongoing sub-prime mortgage crisis in the US.

In this crisis which started in 2007, lenders offered loans to higher-risk borrowers who were unable to pay their mortgages when interest rates went up. It has been estimated that this crisis in the US could spawn total losses of \$945 billion.

As a result, housing prices in the US are sliding downward very rapidly resulting in a major stress on the US financial system.

Warren Buffett, often regarded as the world's wealthiest man, said the US economy is still in a recession and unlikely to improve before 2009. Optimism among US Chief Financial Officers have plummeted with three-quarters of them predicting a recession at some point during 2008 and nearly 90 percent say the economy will not rebound until 2009.

Therefore, Malaysia's economy cannot be expected to escape unscathed from the global turbulence. The challenge for Malaysia's 2009 budget is hence how to soften the impact of the global economic slowdown and at the same time cushion its impact on the lower and middle income segments of the *rakyat*.

(ii) High Dependence on Oil & Gas Resources

Based on the latest figures provided by Petronas, Malaysia's government today is even more heavily dependent on oil and gas revenue than ever before. For 2008, oil and gas receipts is expected to contribute in excess of 40% of the Government's revenue, exceeding 37% the year before.

This is a worrying trend in the light of oil reserves which will last for only another 2 decades and Malaysia becoming a net oil importer by 2011.

The relative increase of the oil and gas dependence versus contribution from the other economic sectors effectively means that the rest of our economic activities have not grown by much, if at all. The all-important manufacturing sector which contributes to in excess of 30% of our

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economy, and employs 30% of our workforce, is expected by Bank Negara Malaysia to grow by a shocking 1.8%.

This also provides the basis for the fact that the *rakyat* do not feel any richer despite proclamations by the Government that the economy is doing well, as the rise in income from oil and gas sectors has not filtered down to the masses.

(iii) A Budget based on Competency, Accountability and Transparency (CAT)

The DAP Budget will serve as a distinct departure from the current administration's New Economic Policy (NEP) where racial factors plays the dominant role.

The underlying rationale and approach to our Budget is the "Malaysia Economic & National Unity Strategy" (MENU) which will be based on competence, accountability and transparency (CAT). MENU is a policy to bring about national integration through just and equitable economic policies where the poor, regardless of race, religion or creed are given priority. In Malaysia's context, where the bumiputeras comprises the majority of the poor, particularly those from East Malaysia, they will be the largest beneficiaries of our MENU strategy and its programmes.

At the same time, it is imperative for the Government to build new capacities for the future to ensure that our productivity increase is more than sufficient to replace declining contribution from the oil and gas sector. We will also need to strengthen our social security system to ensure that the poor, less fortunate and under-privileged are not left behind in our pursuit for excellence. The wealth of natural resources on our shores must be shared equitably to make sure that everyone gets to benefit and taste the fruits of our land.

In implementing CAT policies, we must shake off our habit of designing world-class blueprints, only to fail miserably in their implementation. The DAP will put in place a robust system to improve productivity and competitiveness of the government's delivery system.

B. Budget Allocation Overview

Finally, we will utilise responsibly all fiscal measures and tax instruments to ensure that the country does not bury itself in debt and to avoid expenditure on mega-projects which are unlikely to bring significant benefits to the population. Our policies are designed to make ourselves competitive relative to our neighbours as well as to nurture dynamic innovative and entrepreneurial Malaysians.

We are anticipating a small increase in government revenue of approximately 3%, largely driven by oil and gas revenues but limited by a decline in corporate taxes to RM154.5 billion. However, we intend to maintain budget expenditure to RM177 billion as per the Government's budget 2008.

However, the allocations for operational and development expenditure will be restructured to increase the efficiency and effectiveness of government expenditure. Operational expenditure will be reduced from RM129 billion to RM120 billion or a 7% reduction. On the other hand, development expenditure will be increased from RM48 billion to RM57 billion or an increase of 19%.

Reductions in the government operating expenditure which has ballooned by more than 43% since 2005 will be achieved through strict enforcement via the policy of competency, accountability and transparency. The effects of such policies will create greater expenditure savings over the next few years.

Savings from reductions in operating expenditure will instead be channelled towards development expenditure which will have a greater economic multiplier impact. The major beneficiaries of the increase in development expenditure in the DAP Budget 2009 will be the education, transportation and health sectors.

As a result of financial prudence, increasing the effective utilisation of the Government's revenue, the Government will be able to reduce its budget deficit from its estimated 3.1% in 2008 to 1.4% in 2009, without compromising its ability to pump-prime the economy in a weak global economic environment.

C. Key Policies

1. Protect Oil Revenues

DAP intends to legislate the use of oil and gas revenue to ensure that a substantial portion of the revenue is spent on education as well as research and development to build the necessary economic capacity for Malaysia, to ensure that the increases in productivity and innovation will more than compensate for the expected decline in oil revenues.

It is proposed that a minimum of 30% of oil and gas revenues be invested in human capital and research and development, while another 20% be used to strengthen the social security for Malaysians who are in need.

A further 10% shall be locked and invested in an oil stabilisation fund in the shape of the very successful Norway's "Petroleum Fund" managed to protect the needs of our children and future generations to ensure that the economy will be able to withstand shocks to the system, especially when oil revenues run out within 2-3 decades.

Legislating the utilisation of funds will also prevent the misallocation of resources to bailout failed projects or other non-productive sectors ensuring transparency and accountability.

2. Investing in Education

RM45 billion accounting for 25% of the 2009 Budget will be allocated for education and training. The focus of the expenditure will be to enhance the qualitative elements of education instead of the quantitative elements. Of 100 new schools to be built, 25 and 5 will be Chinese and Tamil schools respectively to resolve the often severe overcrowding faced by many of these schools.

In addition, teachers will be given an average of 20% increase in pay-scale in order to attract some of Malaysia's best young talents to join the teaching force. This measure to arrest the decline, and increase the quality of teachers who are responsible for the education of our young ones. This increase in pay-scale is expected to cost approximately RM200 million for the 330,000 strong primary and secondary school teachers.

3. Creating An Efficient Transportation System

The development expenditure for transportation will be increased by 122% to from RM6.7 billion to RM15 billion to develop an holistic, efficient and convenient public transportation system for all congested urban city centres in Malaysia including the Klang Valley, Johor Bahru, Melaka and Penang.

This measure will seek long term solutions towards reliance on private motor vehicles ownership rate in Malaysia, which is among the highest in the world. Besides increasing the productivity of Malaysia's workforce, it will at the same time relieve the burden of the

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middle and lower income groups in the light of rising inflation as a result of significantly higher petrol prices.

A blueprint for the "Valley Circle" rail network will also be developed to improve inter-suburban connectivity, by-passing the congested Kuala Lumpur city centre.

4. **Renegotiating Unfair Contracts**

The Barisan Nasional Government's policies of guaranteeing highway toll concessionaires as well as independent power producers (IPPs) extraordinary profits with grossly unequal contracts with little or no risks to the latter are the clearest cases of the Government failing to protect public interest.

The impact of these policies are increasingly felt today with rapidly rising toll rates and energy prices. It is hence imperative that the Government renegotiate these contracts to protect the interest of the public within a 6 month period.

In the event whereby no significant headway is made in the negotiations, it is proposed that the Government move to acquire the assets of these entities. The resultant savings will then be passed on to consumers or be diverted to other public interest projects, such as the public transport system.

5. **FairWage & Malaysia Bonus**

As part of DAP's philosophy, no person or community in need, irrespective of race or religion will be denied the necessary government assistance. In line with this, the DAP will implement "FairWage", a policy which serves to improve the livelihood of low wage earners above the age of 35, which will at the same time incentivise employers to provide increased employment opportunities.

The FairWage system represents a total reengineering of our existing social welfare systems, and ensures that the most needy within our society will receive the most assistance from the Government. The following provides a summary of what FairWage entails.

1. To increase that take-home pay, workers will contribute a lower rate to the EPF. For with pay below RM900 per month, employee contribution to the fund will be waived while for those with income of not more than RM1,400 per month, the employee's contribution to EPF shall be reduced from the current 11% to 5%.
2. To make them more employable, employers will reduce their rate of contribution to the EPF. For workers above the age of 35 to 55, earning between RM900 to RM1,400 per month, the employer contribution shall remain at the current 12%. For those earning less than RM900 per month in the same age group, the employer contribution shall decline to 10%.

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3. To compensate for the above, the Government will give workers FairWage income supplements to achieve a higher level of income. For workers aged 45 and above, receiving monthly income below RM900 per month, they will receive an annual income supplement of RM2,400. For those workers above the age of 35 earning less than RM1,400 per month will receive RM1,600 per annum. An additional 10% on top of the income supplement shall be applied to those who live in the Klang Valley, Johor Bahru as well as on the Penang Island to cope with the higher cost of living.

Of the supplement, a quarter shall be in cash form, while the balance will be channelled into the EPF accounts. By channelling a larger portion into the EPF, it will help the workers save for their future needs.

Separately, a "Malaysia Bonus" of up to RM1,200 will be granted to Malaysians with income not more than RM3,000 per month.

Also, in order to assist the elderly above the age of 60, many who are having problems making ends meet, those qualified will enjoy an the "Senior Malaysian Bonus" of up to RM1,000. These bonuses are channelled into their respective EPF accounts.

The FairWage policy and Malaysian bonus will cost approximately RM9.3 billion to administer. It is part of the proposed programme to share the fruits of the nation's wealth, particular from the oil and gas sector with all Malaysians in need.

In the longer term, more assistance programmes will be carried out in this grant-based mechanisms which are means tested instead of via subsidies which are distortionary in their impact, and often disproportionately benefiting the wealthy.

6. **Open, Competitive & Transparent Tenders**

It part of our MENU strategy that all Government contracts should be tendered in an open, competitive and transparent manner, in line with our CAT philosophy. All qualified companies shall be provided with equal opportunities to secure Government supply contracts and projects.

To prevent overwhelming disruptions to the current system, this policy which is free from race-based requirements, shall be implemented on a gradual basis, commencing with projects or supply contracts sized above RM10 million for 2009. In view of the challenges brought by globalisation, all tenders shall be made competitive, open and transparent by 2015.

Assuming a conservative 10% savings is achieved via this CAT-based system, this will result in absolute savings in excess of RM5 billion per annum in conjunction with quality improvements on the Government's operational expenditure alone.

7. **Open, Competitive & Transparent Auctions**

Again in line with DAP's CAT philosophy, besides procurement, all sales of state assets, award of licenses and special rights shall be conducted via open, competitive and transparent auctions. All state land for example, must be alienated and sold under a competitive bidding system to ensure highest returns for the state.

In addition, as a part of our new source of revenue as well as to negate the rent-seeking culture, the approved permits (APs) such as those currently issued for free by the Ministry of International Trade & Industry to a select pool of "businessmen" shall be auctioned to the highest bidders instead.

Based on an estimated 70,000 APs issued per annum and a conservative RM25,000 market price, the auction will provide an additional RM1.75 billion to the government coffers.

8. **Seeding Creativity & Innovation**

The transformation of the Malaysian economy into one that is knowledge-based will not succeed without the critical ingredient of innovation and entrepreneurship. Therefore it is proposed that the Government set up a new RM250 million seed fund, STARTUP where we will act as a matching co-investment fund with reputable private investors who will assist in the mentorship of the start up companies.

To encourage private investor participation, losses incurred by such investments shall be tax deductible from the investors' individual or corporate income tax. To further boost entrepreneurship, start-ups shall enjoy full tax exemption on their first RM200,000 chargeable income for each of their first 3 years of assessment.

9. **Revitalising Malaysian SMEs**

Small medium enterprises constitutes approximately 99% of all enterprises in the country. However, their proportionate importance in terms of tax contributions to the Government has clearly declined with the increased dependence on oil and gas revenue.

With substantial increases in the cost of raw materials as well as steep increases in the price of fuel and electricity, many Malaysian SMEs are facing difficulties in maintaining competitiveness.

To revitalise the SME sector, and to assist many SMEs whose counterparts in many countries in the region enjoy significant tax advantages, it is proposed that the tax rate for SMEs on their first RM500,000 chargeable income be reduced to 18% from the current 20%.

In addition, a new partial tax exemption threshold will be set at RM200,000 and taxed at 12%. This means that a SME with a chargeable income of RM900,000 will be taxed at an effective rate of 18%, in line, particularly with its competitors across the causeway in

Singapore. This measure will help make Malaysian SMEs to be more competitive and at the same time attract more SMEs to set up business in Malaysia, creating more employment opportunities.

10. **Restructuring Personal Income Taxes**

DAP is proposing a 1% reduction of the top tax bracket to 27%. More importantly however, there will be a revision and a simplification of the progressive tax brackets which will result in significant reduction in taxes by all.

Most importantly, to assist Malaysians to cope with the rise in living expenses, particularly in urban areas, the first RM15,000 chargeable income will become tax exempt, with the subsequent RM15,000 taxed at 7%. Currently, only the first RM2,500 is tax exempt while the next RM2,500 is taxed at 1%.

Based on the new tax structure, a married worker with RM3,000 pay per month, a full-time housewife who looks after 2 young children will pay no taxes, whereas under the previous tax structure, he will be expected to pay between RM55 to RM445 depending on his insurance premiums and medical expenses for his family, including parents.

11. **Introducing Green Taxes**

The rate of global climate changes is accelerating and it has become absolutely necessary for Malaysia to play its part in protecting the environment. Hence, a "Green Tax" is to be implemented in 2010 whereby a "carbon tax" is charged at RM25 per tonne of CO₂ equivalent, with the exception of methane emissions from the agricultural sector as well as special exemptions for carbon intensive businesses which adopts global best practices on emissions.

In addition, a 5% severance tax shall be imposed on the extraction of metals and forestry products in the country. However, companies which secure certification from The Forest Stewardship Council (FSC) accredited certification bodies will be granted the severance tax exemption for promoting responsible management of the forest.

12. **Increasing Women Workforce Participation**

Women will also benefit significantly with the proposed extension of paid maternity leave from 60 to 90 days if they have worked for at least 180 days prior to delivery with the employer. Their pay for the 3rd month will be shared equally by both the employer as well as the government.

This together with other complementary measures such as increasing childcare facilities in the workplace will play their role in strengthening the bond between the mother and child, promoting strong family values, while at the same time, encourage more women to join the workforce.

As at 2004, Malaysian women participation in the work force stands at 47.3%, significantly below that of our neighbours, Singapore and Thailand at 53.9% and 64.2% respectively.

13. **Reviving the Information Communications & Technology (ICT) Sector**

When the Government launched the Multimedia Super Corridor (MSC) project 10 years ago, it promised to make every effort to grow and support local MSC status companies. However, despite the rhetoric, the Government being the largest consumer of information technology services in Malaysia has not given preference to these companies.

It is therefore important that in this proposed budget, Malaysian MSC status companies be given specific preference in tendering for the Government IT-related contracts to help nurture these companies into successful regional players.

14. **Participation of Civil Society**

Finally, this budget represents a budget which seeks active involvement from the civil society. Instead of attempting to tackle all issues on its own, which the government will not be able to competently and effectively, sizeable grants will be made available to specialist non-governmental organisations (NGOs) to promote, educate and run various social causes and programmes.

RM240 million has been set aside as partial or full grants for NGOs to pursue environmental causes, eliminating poverty, promote healthy living, managing women issues or assisting the disabled, to be disbursed over the next 5 years.