

THE 2008 BUDGET SPEECH

By

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**INTRODUCING THE SUPPLY BILL (2008)
IN THE DEWAN RAKYAT
7 SEPTEMBER 2007**

**'TOGETHER BUILDING THE NATION
AND SHARING PROSPERITY'**

Mr. Speaker Sir,

I beg to move the Bill intituled **"An Act to apply a sum from the Consolidated Fund for the service of the year 2008 and to appropriate that sum for the service of that year"** be read a second time.

INTRODUCTION

In the name of Allah, the Most Gracious and the Most Merciful.

2. Praise be to Allah, for enabling me to present the 2008 National Budget in this Honourable House. The year 2007 is momentous as we celebrate the nation's 50th year of independence. The 2008 Budget is, therefore, particularly significant as it is the first Budget as we enter the second 50 year-phase as an independent nation.

3. In the first five decades of independence, the nation has achieved significant progress amidst peace and prosperity. As we enter the next 50 years, it is important that we leverage on the strength of our diversity and remain united in our quest towards achieving developed nation status.

4. Malaysians have undoubtedly enjoyed a substantial improvement in their quality of life since independence. Per capita income has increased 26 fold from RM790 in 1957 to RM20,840 in 2006. From a situation where more than half the population lived in poverty, we have now successfully reduced the incidence of poverty to below 6%.

5. In the past 50 years, the nation had achieved remarkable economic growth with the Gross Domestic Product (GDP) increasing by 6.3% per annum. Our strong growth was achieved amidst low inflation as well as full employment. We have faced a number of crises during our journey. However, with the wisdom and courage of the nation's leadership, together with the undivided support of all Malaysians, we have succeeded in placing the economy on a stronger foundation. Economic growth for 2007 will remain strong at 6%.

6. Our economic fundamentals continue to strengthen. The current account in the balance of payment registered a surplus for the past nine consecutive years since 1998, with the surplus at 16.8% of Gross National Product for 2006. The national savings rate has continued to remain high at 37% of GDP. Foreign direct investment (FDI) inflows have remained strong. We have succeeded in providing world-class infrastructure facilities to support industrial development.

2008 BUDGET

7. The year 2008 is the third year of the Ninth Malaysia Plan (9MP), a Plan which is premised on the thrusts of the National Mission, as follows:

- First: To move the economy up the value chain;
- Second: To raise the capacity for knowledge and innovation and nurture first class mentality;
- Third: To address persistent socio-economic inequalities constructively and productively;
- Fourth: To improve the standard and sustainability of quality of life; and
- Fifth: To strengthen the institutional and implementation capacity.

8. The theme of the 2008 Budget, *Together Building The Nation and Sharing Prosperity*, reflects the Government's aspiration that wealth of the nation continues to grow and benefit all Malaysians. Only in this way will our economic development be meaningful, with all Malaysians living in prosperity and harmony.

9. The Budget will focus on three main strategies, namely:

- First - Enhancing the nation's competitiveness;
- Second - Strengthening human capital development; and
- Third - Ensuring the well-being of all Malaysians.

FIRST STRATEGY: ENHANCING THE NATION'S COMPETITIVENESS

Providing a Conducive Environment for Private Investment

10. Private investment continues to be the catalyst of the nation's economic growth. Growth in private investment in the 9MP has accelerated, increasing by 7% in 2006 compared with 1.2% per annum during the Eighth Malaysia Plan. Private investment is anticipated to grow at a strong rate of 7.1% this year. The Government is confident that this momentum will accelerate in the coming years.

Competitive Tax Regime

11. The Government is committed to provide a conducive investment climate for the private sector. An important step in this regard is to ensure that the nation's corporate tax regime remains competitive. Currently, corporate tax is based on the imputation system. Under this system, tax is applied on profits at the company's level and again on dividends at shareholders' level, taking into account taxes already paid by the company. This system involves significant cost of compliance and administration to keep track of taxes paid at each level.

12. To improve the efficiency and simplify the administration of corporate tax, the Government will implement a single-tier tax system, effective from the year of assessment 2008. Under a single-tier tax system, profits are only taxed at the company's level and dividends received are exempted from tax. With the single-tier system, dividends can be more easily distributed. A transition period of 6 years will be provided to ensure smooth implementation of the single-tier system.

13. In the 2007 Budget, I had announced the reduction in corporate tax from 28% to 27% for the year 2007 and 26% for 2008. To enhance the nation's competitiveness and spur the growth of private investment, I propose a further reduction of the corporate tax to 25% in 2009. I am confident that this reduction will have spill-over effects in terms of economic growth and employment opportunities. The reduction in corporate tax and the introduction of the single-tier system will enable higher dividends to be distributed to shareholders.

Strengthening the Public Service Delivery System

14. An efficient public service is a key factor in ensuring a conducive environment to attract private investment. The Government has taken numerous measures to ensure the efficiency of the delivery system, including the establishment of the Special Taskforce to Facilitate Business (PEMUDAH). This Taskforce, which includes representatives from the private and the public sectors, focuses on aspects related to enhancing the efficiency of public service delivery as well as improving the nation's competitiveness. I am pleased that in the six months since its establishment, several improvements have already been implemented. Among these are:

First: Reducing the period for refund of income tax from six months to between 14 to 30 days for e-filing applications;

Second: Immediate registration of companies compared with three days previously; and

Third: Reducing the approval time for the Environmental Impact Assessment from three months to five weeks.

15. The direct participation of the private sector in PEMUDAH had led to greater improvements in the delivery system. Among the improvements proposed by PEMUDAH were measures to expedite the transfer of property. I wish to announce that effective 1 January 2008, private valuation will be allowed for purposes of assessment in stamp duty payment. This will enable the transfer of property to be executed pending the final valuation from the Valuation and Property Services Department.

16. PEMUDAH is reviewing the procedures for the issuance of business licenses and permits with the objective of reducing the number, as well as shortening the processing period through the greater use of ICT. Initially, this will apply to licenses and permits issued for the manufacturing sector and hotels. In addition, the number of documents used by government departments will be streamlined. As a start, the Customs Department will merge 16 customs forms into four, effective 1 January 2008.

17. The participation of the private sector in the implementation of the Certificate of Completion and Compliance (CCC) system has improved the public delivery system. In this regard, the Government accepted the certification by the private sector professionals on the basis of accountability and mutual trust. Recognising the higher responsibility placed on professionals and the need to protect consumer interests, the Government proposes tax deduction for premiums paid on professional indemnity insurance. In addition, to ensure greater accountability, the Government proposes that all professionals and consultants be subject to service tax.

Simplifying Issuance of Work Permit and Visa for Skilled Workers

18. The quality of human capital, especially of professionals and skilled workers, is critical in attracting greater investment flows. As such, apart from enhancing domestic human capital, the Government will encourage and facilitate the entry of knowledge workers who can value add to the nation's economy. Towards this, the Immigration Department will shorten the processing period for the issuance of work permit to 7 days for skilled workers, compared with 14 days previously.

19. The Immigration Department will also introduce a new category of visa for business travellers, which will provide for a longer validity period. In addition, other features to facilitate easier entry will be introduced. All these measures will be effective 1 January 2008.

20. Currently, multinational companies (MNCs) are increasingly setting up regional offices in Malaysia, which requires their skilled personnel to travel frequently to Malaysia. It is important, therefore, to facilitate their entry into the country. Hence, beginning 1 January 2008, the process for obtaining professional visit passes for knowledge workers will be streamlined by enabling applications to be made in Malaysian embassies and consulates overseas.

21. The Government had introduced multiple entry visas (MEVs) for Indian and Chinese nationals. Currently, such visas can only be applied in the country of origin. The Government has now decided that Indian and Chinese nationals can apply for MEVs in the country where they are residing or working. Initially, this facility will be made available in international financial centres, such as New York, London, Hong Kong and Singapore, effective 1 January 2008.

Enhancing Competitiveness of the Capital Market

22. The Malaysian capital market has evolved to become an important source of capital for corporates. Its rapid development has contributed towards enhancing investors' confidence in the economy, in particular foreign investors. This is clearly reflected in the strong performance of Bursa Malaysia. Since early this year, the Kuala Lumpur Composite Index has moved up significantly, reaching 1,299 points on 6 September 2007. Market capitalisation has exceeded RM1 trillion. Currently, the Malaysian capital market is among the largest and most vibrant in South East Asia.

23. Among the factors that contribute to the capital market performance is the success of the GLC Transformation Programme. Market capitalisation of 45 GLCs increased by RM129 billion, an increase of 61% since the launch of the programme in May 2004. The GLC transformation has benefited many stakeholders, including customers, workers, suppliers and the *Bumiputera* business community, as well as the Government. Other private companies have also succeeded in their transformation processes. I am confident that well before 2020, a number of Malaysian companies, including GLCs, will emerge as regional champions, competing alongside MNCs.

Strengthening Corporate Governance

24. Good corporate governance is key to maintaining investors' confidence in our market. I would like to commend the Securities Commission (SC) for their prompt action in dealing with corporate accounting frauds. All parties must be more vigilant in their effort towards enhancing corporate governance. Towards this end, the Government will establish a Public Companies Accounting Oversight Board under the auspices of the SC. This Board will be responsible to monitor auditors of public companies to ensure that the quality and reliability of audited financial statements is enhanced.

25. The Code of Corporate Governance is being reviewed to improve the quality of the Boards of public-listed companies (PLCs) by putting in place the criteria for qualification of directors and strengthening the audit committee, as well as the internal audit function of PLCs. The amended Code will be implemented from 1 October 2007. To ensure the effectiveness of the audit committee of PLCs, executive directors will no longer be allowed to become members of the audit committee. In addition, the internal audit function will be mandated for all PLCs, and the Board of Directors will be responsible for ensuring the adherence to the scope of internal audit functions, as specified by SC.

26. Companies and intermediaries that demonstrate high standards of corporate governance and market conduct will be accorded the 'green lane' status. These include shorter timeframe for the processing of their corporate proposals, as well as a longer period of licensing. For intermediaries, the period of licensing will be increased from one year to three years and for individuals, two years.

Encouraging Mergers & Acquisitions

27. As a measure to enhance the quality of PLCs in Bursa Malaysia, the Government has given stamp duty exemption on instruments related to mergers and acquisitions (M&As) of PLCs, approved by SC up to 31 December 2007. To encourage more PLCs to undertake M&A, the stamp duty exemption will be extended to 31 December 2010.

28. Currently, there are more than 1,000 vendors in the oil and gas sector licensed by PETRONAS. However, many of them operate mainly for domestic market. These companies should merge to be more competitive globally. Therefore, the Government proposes stamp duty exemption be given on all instruments relating to mergers of such vendors implemented by 31 December 2010.

Investment Management Companies

29. To encourage the development of the fund management industry, the following measures will be implemented:

First: Foreign ownership on fund management companies and REITs management companies will be allowed up to 70%. The minimum Bumiputera ownership requirement will remain at 30%; and

Second: The SC will facilitate the licensing process as well as all dealings with other Government agencies to expedite the approval process for the establishment of fund management businesses in Malaysia.

Competitive Commission Structures

30. To encourage greater direct retail participation in share investment and trading as well as the greater use of technology in the capital market, the commission rates for internet trading and cash upfront transactions will be fully negotiable. This measure will further reduce the cost of transactions. In addition, clearing fees will be reduced from 0.04% to 0.03%, with a maximum fee of RM1,000. The minimum broking charges per transaction is fixed at RM40. These measures will be effective from 1 January 2008.

Positioning Malaysia as International Islamic Financial Centre

31. In line with the objective of Malaysia International Islamic Financial Centre (MIFC), the Government will introduce several measures, as follows:

- First: Islamic fund management companies will be allowed to be wholly owned by foreigners;
- Second: A sum of RM7 billion fund will be channelled by EPF to be managed by Islamic fund management companies;
- Third: Islamic fund management companies will be allowed to invest all their assets abroad; and
- Fourth: Fund management companies will be given income tax exemption on all fees received in respect of Islamic fund management activities, until year of assessment 2016.

32. In the context of developing Malaysia as an international Islamic financial centre, it is important that we involve a broad based participation of leading global experts in Islamic finance. Thus, the Government proposes that income tax exemption be given to non-resident consultants with the required expertise in Islamic finance.

Promoting Investments from the Middle East

33. To attract greater investments from the Middle East, the Government has provided tax incentives for existing stockbroking companies to set up Islamic stockbroking subsidiaries. To further encourage greater flows of funds from the Middle East to Malaysia, three new stockbroking licenses will be issued to leading stockbroking companies that are able to source and intermediate business and order flows from the Middle East.

Takaful Industry

34. The *takaful* industry, established since 1985, has grown and now has assets valued at RM7.6 billion. To further promote the *takaful* industry, the Government proposes several enhancements in the tax treatment, including tax deduction on the share of distributed profits.

Increasing the Competitiveness of Labuan as an Offshore Financial Services Centre

35. In the light of greater global competition, we need to ensure that Labuan remains competitive as an international offshore financial centre. Given that investors in Labuan undertake a wide range of financial services, a flexible tax regime is necessary. In this regard, the Government proposes that Labuan offshore companies be given the option to be taxed under the Income Tax Act 1967, in addition to the existing options.

Stimulating Property Sector

36. To promote the growth of the property sector, I had recently announced the exemption of real property gains tax. To further stimulate the property sector in particular housing, the Government proposes that a 50% stamp duty exemption on documents of transfer be given for the purchase of one house of not more than RM250,000 per unit. This measure will reduce the cost of purchasing a house by up to RM2,000.

37. The Government will continue to ensure greater *Bumiputera* participation in the property sector. In this regard, *Pelaburan Hartanah Bumiputera Berhad* (PHBB) has acquired several strategically located properties for the development of major commercial projects. Among the commercial projects include Penang Sentral, which is an integrated transport and logistics terminal in the Northern Corridor Economic Region (NCER). In addition, an initial fund of RM400 million has been earmarked by PHBB to increase *Bumiputera* property investment in Iskandar Development Region (IDR).

38. In the 2007 Budget, a strategic investment fund was established, with an initial allocation of RM200 million, to provide a catalyst for early investments in the priority sectors of IDR. This fund has successfully attracted the private sector to invest more than RM1 billion in terms of education related projects, such as a private university for IDR. The Government will provide an additional RM100 million, particularly for investments in healthcare services related projects.

Agricultural Sector

39. The main thrust of agriculture sector development is to enable this sector to become one of the major sources of economic growth. For this purpose, a sum of RM6.5 billion is allocated for the agriculture sector. Among the programmes to be implemented, include increasing paddy production as well as encouraging cultivation of floriculture, herbs and spices. For the fishery sub-sector, allocations will be provided to increase revenue of fish landing and output of the fishery industry as well as to develop the aquaculture industry under 39 high-impact projects. Allocation is also given for the development of the livestock industry.

40. In addition, several new sources of growth in the agriculture sector have been identified, such as the pioneer project of virgin coconut oil processing, commercialising *nira nipah* products and breeding of Boer goats. Allocations will also be provided to pioneer organic fertilizer production, utilisation of fertigation technique in planting and mechanisation and automation for farmers.

Biotechnology Sector

41. In the context of supporting private sector initiatives in the biotechnology industry, the Government will continue to provide infrastructure and technological facilities. For this purpose, a sum of RM236 million is provided in the 2008 Budget. Among the projects are the acquisition of technology, development of biodiversity research centre and biotechnology commercialisation centre as well as anti-cancer compound research. To encourage cooperation between biotechnology companies and local universities, Bionexus status companies will be allowed to use the laboratories and research facilities at local universities, thereby optimising the capacity of research laboratories and facilities at local universities.

Development of ICT

42. The Multimedia Super Corridor (MSC) initiative has entered its 11th year of implementation. The local ICT industry has become increasingly successful in developing world-class products and services, and Malaysian ICT companies are ready to penetrate the global market. The Government will support this effort by intensifying international promotion efforts to enable domestic MSC companies to secure more international projects.

43. To further promote MSC internationally, the Government will host the World ICT Week in Kuala Lumpur in May 2008. Various international ICT conferences and exhibitions will be held, including the World Congress on Information Technology 2008, the conference on United Nations Global Alliance on ICT for Development and MSC International Advisory Panel Meeting. More than 5,000 domestic and international participants are expected to take part in these programmes. It is hoped

that more international ICT companies will invest and collaborate with local companies.

44. Several measures will be taken to further enhance Cyberjaya's attraction as a major Cyber City, able to attract world-class technology companies. This includes the construction of an international school, affordable homes as well as increasing the security level in Cyberjaya.

Tourism Sector

45. Malaysia has succeeded in attracting a large number of tourists during the Visit Malaysia Year 2007. As of June 2007, 10.7 million tourists visited Malaysia compared with 8.6 million during the same period in 2006. This is a commendable achievement. To further increase the country's attraction as a major tourist destination, RM858 million is allocated for the implementation of various programmes, including the provision and upgrading of tourism facilities as well as diversification of tourism products. An allocation of RM22 million is provided to increase homestay activities in 47 selected villages. In addition, the development of ecotourism projects will be undertaken to generate income for the rural community, including *Orang Asli*.

Promoting Small and Medium Enterprises (SMEs)

46. The Government has provided several incentives to SMEs, given their potential to spearhead economic growth. Recognising that SMEs may face cash flow constraints at the initial stages of operations, the Government proposes giving them flexibility to pay taxes at the end of financial year instead of monthly instalments. This flexibility is for a period of 2 years from the date of commencement of operations.

SECOND STRATEGY : STRENGTHENING HUMAN CAPITAL DEVELOPMENT

Mr. Speaker Sir,

47. Human capital of high quality is critical in ensuring that Malaysia achieves its objective of becoming a developed nation. Hence, the quality of education as well as training will continue to be given emphasis.

Strengthening Primary and Secondary Schools

48. A sum of RM30 billion is allocated to the Ministry of Education. This sum has been allocated taking into account the implementation of the Education Development

Blueprint, which includes *Program Sekolah Cemerlang*, improving the quality of teaching as well as narrowing the rural-urban education gap. To further enhance the quality and performance of schools, 60 schools have been selected to become cluster schools in 2008. An allocation of RM500,000 will be provided to each cluster school for co-curriculum activities, training as well as educational equipment.

Free Education For All

49. The Government has progressively increased the access as well as reduced the cost of education. Last year, the examination fees for PMR, SPM and STPM were abolished. The only remaining fees are the examination fee for *Sijil Tinggi Agama Malaysia* and the annual fee for primary and secondary schools. Effective 2008, all these fees will be abolished.

50. I also wish to announce that, beginning the 2008 school session, the Text Book Loan Scheme will be provided to all students, irrespective of their families' income and with no restrictions on the number of eligible children. With this, 5.7 million students will benefit from this Scheme compared with 4.5 million students currently. With these measures, schooling in Malaysia is now completely free.

51. The active participation of students in co-curriculum activities, such as uniformed bodies, associations and clubs as well as sports, is important for character building and developing leadership qualities among students. To ensure every student has the opportunity to participate in uniformed activities, the Government will provide a free uniform for one activity for school students from families with a monthly income of RM1,000 and below.

Important Role of Teachers

52. In recognising the important role of teachers, the Government will:

First: Increase the allowance for special education teachers, from RM100 to RM250 per month;

Second: Raise the allowance for graduate substitute teachers from RM85 to RM150 per day; and

Third: Provide an allowance of RM60 per hour for degree holders and RM50 per hour for diploma holders teaching Chinese and Tamil languages in national schools.

53. Retired teachers, given their expertise and vast experience, can continue to contribute in the field of education. Retired teachers will, therefore, be recruited to train teachers and serve as substitute teachers.

The Role of Charity Organisations in Education

54. The Government recognises that a number of primary and secondary schools have been funded and well managed by trust and charitable bodies. To support their efforts, the Government proposes that these schools be given income tax exemption. This exemption will benefit particularly Chinese and Tamil schools, as well as religious schools.

Strengthening Higher Education

55. The Higher Education Strategic Plan was launched on 27 August this year. This Plan aims to transform the higher education sector to produce highly knowledgeable and first class human capital as well as develop world-class higher education institutions.

56. A sum of RM12 billion is provided for the implementation of various higher education projects and programmes, including:

First: Enhancing research, development and commercialisation activities (R&D&C) in four Research Universities;

Second: Increasing the allocation to *Universiti Teknologi MARA* to achieve the target of 200,000 students by year 2010;

Third: Upgrading and expanding *Universiti Malaysia Kelantan*, *Universiti Darul Iman* and *Universiti Pertahanan*; and

Fourth: Re-branding of community colleges through preparatory courses at diploma level, establishing new community colleges and intensifying collaboration with private companies.

57. Currently, the Public Service Department (PSD) and MARA sponsor more than 90,000 students in local universities. However, the number of students sponsored in certain specialised fields is still inadequate. Therefore, the Government will increase the number of undergraduate students sponsored by PSD in local universities from 5,000 students to 10,000 annually, beginning 2008.

Increasing Scholarships Rates

58. Taking cognisance of the rising cost of living for students, the Government will increase the cost of living allowance (COLA) between 23% to 84% for students in local higher learning institutions, including those attending preparatory and language courses. These new rates will be effective beginning the first semester 2007 session and will benefit more than 90,000 students.

59. The Government at present sponsors a total of 17,000 students in universities overseas. The Government has already increased the COLA for students studying in Australia, New Zealand, Egypt and South Korea in 2006. Effective September 2007, the Government will increase the COLA for students in the United States, United Kingdom and Canada by up to 97%, almost double the current rate.

Enhancing Skills Training

60. A sum of RM2 billion is allocated to various government training agencies to increase the number and quality of trained workers, in line with the needs of the labour market. Of this, RM480 million is allocated for GiatMARA and Industrial Training Institute (ILP) training programmes, as well as skills training in the National Youth Training Institute.

61. To enhance the capacity of training institution, RM550 million is allocated to upgrade polytechnic and community colleges. A sum of RM750 million is allocated for the construction of Advanced Technology Training Centre (ADTEC) in Taiping and an ILP in Marang. This allocation is also utilised for the upgrading of ILPs and ADTECs throughout the country and for the construction of 8 MRSMs, 4 MARA Skills Training Institutes (IKMs) and 28 GiatMARA centres.

62. The scope of the Human Resource Development Fund (HRDF) will be expanded to provide greater flexibility for employers to choose training and advanced education programmes for their staff. For this purpose, the Human Resource Development Berhad Act, 2001 (Act 612) will be amended to allow employers to provide financial assistance to:

- First: Enable their employees to pursue Masters or Doctoral degrees, especially in new and high technology areas;
- Second: Train employees despite the employer having outstanding unpaid levies or outstanding interest on levies; and
- Third: Provide practical training at their premises to students of universities or training institutions.

63. To address the shortage of skilled workers in the construction sector, the scope of utilisation of Construction Industrial Development Board (CIDB) fund will be enhanced. For this purpose, CIDB will implement the Masterskills Training Programme, encompassing management skills and physical construction. In 2008, CIDB will allocate RM100 million to train 50,000 workers under this programme.

Life Long-Learning

64. I have always emphasised the need to continuously value add ourselves. To promote a culture of life-long learning among Malaysians, the Government proposes tax relief of up to RM5,000 on education fees be extended to all post graduate studies.

Research, Development and Commercialisation

65. The Government will step up efforts to intensify research, development and commercialisation activities, particularly the commercialisation of home-grown R&D. In 2008, a sum of RM230 million is allocated for the Science Fund, RM300 million for Techno Fund and RM546 million for research institutions. To simplify and expedite the disbursement for agriculture R&D, a sum of RM300 million will be transferred from the balance of the 9MP ceiling of the Science Fund and Techno Fund to the Ministry of Agriculture.

66. The Government will continue to support R&D and commercialisation activities. Presently, the royalty distribution of commercialising R&D is 50% to research institutions and the balance being shared between the research institutions and the researchers. To promote commercialisation, as well as provide further incentives to researchers, the rate for royalty payment to researchers will be increased to 80% and the balance for research institutions.

67. Technology Licensing Offices (TLOs) have been established at institutions, such as SIRIM and Universiti Sains Malaysia. These TLOs have been effective in coordinating R&D activities and patent applications. More TLOs will, therefore, be established in other research centres and public universities.

Human Capital Development in ICT

68. To ensure an adequate supply of high-skilled workers to meet the demand of the ICT industry, a Knowledge Workers Development Institute will be established in Cyberjaya. The MSC Malaysia Digital Animation Centre will be set up in Cyberjaya, to support the development of the digital animation industry as well as increase local expertise in the area.

Nurturing A Knowledge-based Society

69. In line with efforts to establish a knowledge-based economy and narrow the digital divide, the Government has targeted to increase the broadband penetration rate to 50% of households by 2010, from 12% currently. For this, an effective public-private partnership will be required to accelerate the rollout of broadband. As part of this effort, developers will be encouraged to provide telecommunication infrastructure in new housing areas. The Government will closely monitor the rollout of broadband by service providers.

70. The Government also proposes that:

First: Last mile network facilities providers be given Investment Allowance of 100% on capital expenditure incurred for broadband up to 31 December 2010;

Second: Import duty and sales tax exemptions be given on broadband equipment and consumer access devices; and

Third: Tax deduction be given to employers on benefits in kind in the form of new computers and payment of broadband subscription fees for employees. Such benefits in kind received by the employees will also be tax exempt.

THIRD STRATEGY : ENSURING THE WELL-BEING OF ALL MALAYSIANS

Adequate Affordable Housing

71. An important dimension in improving the quality of life, particularly for the low income group, is the provision of adequate affordable housing. In line with this, the Government will accelerate the implementation of low and medium-cost housing programmes.

72. A sum of RM381 million is allocated for the implementation of low-cost housing programmes. From this, RM191 million is allocated for the *Program Perumahan Rakyat (PPR) Disewa* while RM190 million is allocated for PPR *Bersepadu*. Currently, 12,000 units of PPR *Disewa* and 25,000 units of PPR *Bersepadu* are being built.

73. *Syarikat Perumahan Negara Berhad (SPNB)* will also expedite the construction of housing for the low income group, as follows:

First: Rehabilitation of 6,000 units in abandoned housing projects;

Second: Construction of 36,000 units of affordable homes; and

Third: Construction of 4,000 units of *Rumah Mesra Rakyat*.

74. The Government recognises the difficulties faced by those without fixed income, such as farmers and small traders, to obtain bank loans to finance their purchase of low and medium-cost houses. These include those who have the capacity to repay their housing loans but are unable to provide proof of their income stream. As such, the Government will establish a fund to provide guarantees to banks, which provide loans to this group. For a start, RM50 million is allocated to provide such guarantees to Bank Simpanan Nasional and Bank Islam Berhad, effective 1 January 2008. The Government is confident that this facility would be effective in enabling home ownership among the low income group without fixed income.

75. For many of us, a house is a very important asset. A house, not only appreciates in value over time, but also provides security for our future well-being. Housing loan repayments, however, is a major financial commitment. To ease the burden of loan repayment, I wish to announce that the Government will allow EPF contributors to make monthly withdrawals from the balance in Account 2. The scheme will be effective 1 January 2008 and is for the financing of one house.

76. This is a major move, which will benefit 5 million active EPF contributors. This scheme will enable contributors to own better houses than they could otherwise afford as well as lessen their monthly financial obligations. This scheme will make available up to RM9.6 billion annually for the purchase of houses.

77. The construction of 9,600 units of quarters have been completed in 2007 to provide adequate housing for civil servants throughout the country, while 13,000 units are expected to be completed in 2008. The Government has allocated a sum of RM887 million in 2008 to build more quarters for civil servants nationwide.

Efficient Transportation System

78. The Government recognises the importance of an efficient public transportation system, especially for the low income group, overcome traffic congestion and improve productivity. Towards this, the Government has taken several measures to implement a comprehensive public transportation system, including rail and bus network in major cities. Over the next four years, a sum of RM12 billion will be expended to improve the public transportation system in Kuala Lumpur and Penang. To alleviate traffic congestion in Penang, the Penang Outer

Ring Road (PORR) will be implemented on a tender basis shortly. Public transportation in other major cities will also be improved.

Balanced Regional Development

79. An important agenda of the Government is to ensure that development is spread throughout the country. Towards this end, the economic corridor development continues to be intensified, beginning with the IDR and the NCER. I am glad that these two initiatives have been well received by all Malaysians. The East Coast Economic Region as well as the Sabah Corridor and the Sarawak Corridor will be launched soon.

80. The Government will continue to intensify efforts to further develop Sabah and Sarawak. A sum of RM4 billion is allocated to implement several projects to improve the quality of life in Sabah. Among the major projects are the construction of Jalan Kota Marudu-Ranau, Sandakan Northern Ring Road, upgrading of Jalan Kota Belud-Langkon, provision of rural health services, hospital facilities, low-cost housing, electricity and water supply, as well as upgrading of roads and railway.

81. A sum of RM4 billion is provided for the implementation of development projects in Sarawak. Among the major projects are construction of Jalan Kota Samarahan-Gumpeh, upgrading of Jalan Kuching-Sibu, provision of rural health services, *Universiti Putra Malaysia*, IKM in Bintulu, electricity and water supply projects, sewerage as well as replacement of Batang Lupar Bridge in Samarahan. These projects will improve the well-being of the people of Sarawak.

82. Beginning 2006, the Government commenced the implementation of electricity supply projects for schools in Sarawak, with an allocation of RM1 billion. These projects are expected to be fully completed by the end of this year. Similar projects will also commence in Sabah in 2008.

83. To further promote tourism activities in Sabah and Sarawak, RM200 million is provided under the Tourism Infrastructure Fund, managed by Bank Pembangunan Malaysia Berhad. Priority will be given to tourism projects which leverage on the rich natural endowments of Sabah and Sarawak.

84. Efforts will continue to be taken to improve the income and standard of living of *Bumiputeras* in Sarawak, including *Iban*, *Bidayuh*, *Melanau* and *Melayu*, as well as *Kadazan-Dusun*, *Melayu*, *Bajau* and *Murut* in Sabah. For this purpose, a sum of RM800 million is provided for Sarawak and Sabah. Among the programmes to be implemented, particularly for the low income group, include housing, skills and entrepreneurship training, water and electricity supply, roads, as well as pre-school education.

Eradicating Hardcore Poverty

85. The Government is fully committed to eradicate hardcore poverty by 2010. In line with this, a sum of RM214 million is allocated for *Skim Pembangunan Kesejahteraan Rakyat*. The Government will focus, among others, on measures to increase household income, strengthen human capital development, as well as provide housing assistance to the hardcore poor. In addition, a sum of RM117 million is allocated for *Program Pengurangan Kemiskinan* and *Program Lonjakan Mega*. These are integrated development programmes to generate income for the population in less developed and remote areas.

Urban Poverty

86. Measures to eradicate urban poverty will continue to be given emphasis, including the construction of adequate low-cost houses, provision of job opportunities as well as improved public transport and facilities. To encourage individuals to be self-employed, various entrepreneurship and skills training programmes have been provided. For this, existing facilities in urban areas will be improved to provide training for school dropouts to acquire skills to enable them to be gainfully employed, particularly those who did not complete PMR and SPM. In this respect, the Government will provide RM30 million for NGOs to undertake special training programmes, as well as extending the Community College and the GiatMARA programmes to urban areas.

Rural Development

87. The Government is committed to reducing the development gap between rural and urban areas. Towards this, several measures have been undertaken to improve the quality of life of the rural communities through the provision of basic infrastructure, such as roads, water and electricity supply. In addition, ICT facilities have also been extended to rural areas. In 2008, a sum of RM680 million is provided for the construction of rural and village roads, RM462 million for rural water and electricity supply projects as well as RM70 million for social amenities and RM15 million for ICT education in rural areas. In addition, the Malaysian Communications and Multimedia Commission has allocated RM45 million for the implementation of SchoolNet project to provide internet services to schools.

Improving the Quality of Life of Orang Asli

88. The Government is committed to improving the quality of life of *Orang Asli*. Towards this end, RM170 million is provided to the Department of *Orang Asli* Affairs to carry out numerous programmes and projects. A sum of RM50 million is provided for Housing Assistance Programme and social amenities in *Orang Asli* settlements.

Youth and Sports

89. Youths must be inculcated with leadership qualities and positive attitudes. In this regard, youth and sports programmes are vital in character building. A sum of RM984 million is allocated to implement various youth and sports development programmes, including *Program Rakan Muda*. In addition, a sum of RM677 million is provided for training 110,000 youths under the National Service Training Programme. To encourage sports among Malaysians, a sum of RM217 million is provided to finance sports-related projects, including maintenance and upgrading of state and community sports complexes and facilities. In addition, to promote healthy lifestyle among Malaysians, the Government proposes that individual tax relief of up to RM300 a year be given on the purchases of sports and exercise equipment.

Women, Family and Community

90. An underlying strength of Malaysia has been the participation of women in the nation's development. The ability and capacity of women have been harnessed fully without any form of discrimination. We should be proud of the achievements of women in Malaysia compared with many other countries. Women continue to be given equal opportunity to hold important posts. The Government will ensure that their talent and potential continue to be harnessed.

91. In 2008, an allocation of RM782 million is provided to the Ministry of Women, Family and Community Development. Among the programmes and projects to be implemented are skills training and capacity building, particularly single mothers.

92. The Government will encourage more mothers to provide childcare services at home. These home-based services will provide job opportunities for housewives to operate these centres and, at the same time, enable more women to join the workforce. For this purpose, the Government will provide an initial allocation of RM10 million to NGOs to provide training to housewives in baby and childcare.

93. Early education is vital in moulding children to become useful citizens. In this regard, pre-school education programme will be expanded with the construction of 280 new TABIKA throughout the country, with an allocation of RM105 million. With this, the number of TABIKA will increase to more than 7,600 to accommodate 300,000 children between 4 to 6 years. A sum of RM270 million is provided as allowances for KEMAS contract staff and RM134 million is for additional food, per capita grants, as well as programmes to increase academic qualification for TASKA and TABIKA teachers. In 2008, three *Pusat Anak Permata Negara* will be operational, bringing the total to 15 centres to assist and facilitate the early childhood education process.

94. To promote family values and financial security, the Government proposes full stamp duty exemption be given on the transfer of property from husband to wife. In cases where the wife wishes to transfer property to the husband, the same exemption applies.

Well-being of Senior Citizens

95. Many pensioners depend on income from their savings to meet their financial needs when they are not working. In order to improve returns on their savings, a RM2 billion bond will be issued by Bank Negara Malaysia to be subscribed by senior citizens aged 55 years and above, who do not have permanent jobs. The maximum limit per person is RM50,000, with a maturity period of three years and a rate of return of 5% per year. Similar bonds have been issued amounting to RM3.5 billion.

96. To reduce the financial burden of the poor and needy senior citizens, the Government will increase their allowance from RM200 to RM300 per month, effective from 1 January 2008.

97. The Department of Welfare operates nine *Rumah Seri Kenangan* throughout the country, which provide accommodation for 2,000 senior citizens. In addition, 148 homes for the elderly are operated by the NGOs for 3,700 senior citizens. To expand existing capacity, the Government will assist NGOs by providing a matching grant of RM25 million.

Assistance For The Disabled

98. The Government will continue to assist the disabled. In this regard, the Government will:

First: Increase the disabled workers monthly allowance from RM200 to RM300; and

Second: Provide special assistance of RM300 per month for eligible persons taking care of the disabled, who are bed-ridden and patients suffering from chronic illness.

Third: Allow tax deduction on renovation costs in the work place incurred by employers for the disabled to encourage the private sector to hire more disabled workers.

99. The disabled are part of our human capital. Their skills and capabilities should be harnessed for the good of our nation. For certain positions, such as toll booth operators, factory assembly workers and telephonists, I believe they should be given

priority. I, therefore, call upon all employers to provide disabled Malaysians more job opportunities.

Provision of Health Services

100. The Government will implement appropriate measures to ensure all Malaysians continue to have access to adequate health services. For this, a sum of RM13 billion is allocated for improving the quality of hospital services, purchasing medical supply and health equipment. Among the major projects to be implemented in 2008 are the construction of Ulu Kinta Allied Health Science College, Kuala Pilah Nursing College, Kluang Hospital, Tampin Hospital, Cheras Rehabilitation Hospital, as well as Kuala Lumpur Women and Children Hospital.

101. An allocation of RM76 million is provided for effective containment of contagious diseases, intensive care unit services and dialysis in government hospitals. The Government will also train additional nurses in private training centres to meet the shortage of nurses.

102. To retain medical specialists in government hospitals or clinics, the Full Paying Patient (FPP) scheme will be implemented in hospitals. The medical specialists will receive a portion of the payment, effective 1 January 2008.

103. To encourage private sector to invest in laboratories of international standards for testing of medical devices, the Government proposes Pioneer Status of 100% or Investment Tax Allowance of 60% for 5 years be given to companies undertaking such investments.

Inculcating Corporate Social Responsibility

104. The Government will continue to emphasise corporate social responsibility (CSR) by companies, especially PLCs. The Government believes that companies involved in CSR activities will benefit in the long run, apart from contributing towards the well being of the community.

105. The Government had announced in the 2007 Budget that all PLCs are required to disclose CSR activities in their annual financial reports. Beginning financial year 2008, PLCs will be required to disclose their employment composition by race and gender, as well as programmes undertaken to develop domestic and *Bumiputera* vendors. The private sector should leverage upon the strength of Malaysia's diversity by employing Malaysians from all ethnic groups.

106. The Government recognises that the private sector has been successful in effectively implementing CSR projects for the benefit of the low income group.

Hence, the Government will support the efforts by establishing a CSR fund, with an initial sum of RM50 million, to jointly finance selected CSR projects. These include repairing dilapidated houses for the poor and create more employment opportunities.

107. The Government appreciates private sector initiatives in providing public facilities, which provide significant benefits to the local community, such as the construction of overhead bridges and playgrounds. Therefore, it is proposed that tax deduction be given on such investments, even if these investments also benefit the companies.

108. The PINTAR programme was launched to enable GLCs to adopt schools. At the launch of NCER in Perak, I had announced that the PINTAR programme will be extended nationwide and involve other private companies. To ensure the successful implementation, the Ministry of Finance will establish a permanent secretariat for PINTAR. Among the new initiatives to be undertaken in 2008 will be the donation of used computers to adopted schools.

Public Safety

109. Public safety is critical in ensuring economic development and quality of life of Malaysians. The Government is committed to combat crime in our society. A sum of RM6 billion is allocated to the Royal Malaysian Police (PDRM) in 2008.

110. Police presence and visibility will be increased, particularly in crime-prone areas. In line with this, the capacity and efficiency of PDRM will be enhanced with the recruitment of 60,000 new personnel over the next five years. Investigating officers and assistant investigating officers will be supplied with an additional 2,000 national cars and 1,600 laptops. In addition, 1,900 motorcycles will be provided to increase police presence. PDRM will also set up a Mobile Forensic Unit in each police contingent.

111. The Government will install a larger number of closed circuit televisions linked to police control centres. I would like to call upon all Malaysians to support the police in their effort to eliminate crime by providing relevant information and, at the same time, assist in crime prevention. To assist the private sector to enhance security at their sites, in particular at factory premises, Accelerated Capital Allowance over a year will be given for the purchase of security and surveillance equipment.

Nurturing Maintenance Culture

112. Every Malaysian should be imbued with good maintenance culture. This is essential to reduce costs of repair and increase the efficient utilisation of public infrastructure. To attain this objective, a shift in mindset is required at all levels of Government and also the private sector. We can reap the full benefits of our first class infrastructure only if it is accompanied by a first class maintenance culture.

113. The Government will continue to ensure that the allocation for public maintenance will be utilised efficiently and effectively by implementing agencies. The allocation for maintenance continues to be increased. In 2008, a sum of RM9.7 billion is allocated for various types of maintenance work. To ensure that the allocation is fully utilised, ministries and agencies will not be allowed to vire funds to other activities. Action will be taken against government servants who neglect their duties with respect to maintenance.

Restructuring the Water Supply Industry

114. Access to clean water is a basic need. The Government has successfully increased the coverage of water supply, with 95% of Malaysians having access to clean water supply, a two fold increase compared with 48% in 1970. However, there is an increasing need to build up capacity to meet the growing requirement for water. The Government has, therefore, initiated a restructuring exercise to make water supply services more reliable and sustainable. This restructuring entails, among others, Pengurusan Aset Air Berhad (Pengurusan Air), a fully owned Federal Government company, taking over water-related loans from the state governments totalling RM7.6 billion. I am confident that all state governments will cooperate in this restructuring effort to enable expeditious implementation of the scheme.

Conservation and Preservation of Environment

115. The Government is committed to ensure a balance between physical development and preservation of the environment. The phenomena of climate change and environmental pollution poses a challenge at the global and regional levels, both for developed and developing countries. This should be addressed firmly and courageously by every sector and each citizen.

116. A sum of RM1.1 billion has been allocated for flood mitigation programmes in *Sungai Muda, Sungai Kelantan, Sungai Damansara, Sungai Prai* and Kuala Lumpur Flood Mitigation Project to reduce the occurrence of floods throughout the country. Meanwhile, an allocation of RM120 million is provided for preservation and cleaning as well as beautification programmes of rivers throughout the country.

117. To further promote energy efficiency and the use of renewable energy, the Government proposes several significant improvements in terms of tax incentives, including increasing the Investment Tax Allowance on expenditures for energy conservation and energy saving initiatives for company use.

118. Malaysia has the potential to gain from investments made to reduce greenhouse gas emission that contribute to global warming. Under the Kyoto Protocol, companies that succeed in reducing emission of greenhouse gases are given a certificate of Certified Emission Reduction (CER) which can be traded. To encourage companies to participate in this project, income derived from trading of CER certificates will be given tax exemption.

Enriching Culture, Arts and Heritage

119. Malaysia has a rich culture of arts and heritage which should be appreciated by all Malaysians. A sum of RM733 million is allocated for culture, arts and heritage programmes. Among the programmes are the upgrading of the National Library and the provision of training and advisory services under the Arts and Culture Sponsorship Scheme. Funds will also be provided to FINAS and the National Textile Museum.

Important Role of Civil Service

120. The Government appreciates the important role of civil servants and will continue to take steps to improve performance and welfare of civil servants. I had announced a salary increase for civil servants of between 7.5% to 42%, as well as an increase in the COLA. These increases involve an additional expenditure of RM8 billion annually. I am confident the salary and COLA increases will motivate civil servants to improve their productivity and quality of work.

121. Raising the level of performance of the civil service is critical in sustaining the competitiveness of the nation, especially in the context of increasing globalisation. The Government has been successful in transforming GLCs to adopt the culture of high performance, including the use of key performance indicators (KPIs). Following this successful implementation, it is timely for best practices and the culture of high performance be adopted in the civil service to drive further improvements in performance.

122. As a start, Secretaries General of ministries and Heads of Services will be offered a three-year contract and their performance rewarded based on KPIs. This contract will be offered to officers who are currently serving in the Diplomatic and Administrative as well as in other relevant services. Apart from ensuring excellent service, the contract period of three years will provide adequate time for them to plan

and execute projects effectively. This scheme will be effective from 1 January 2008. I am confident that the public will benefit greatly from the enhanced efficiency of government services.

123. To ensure efficiency of administration, the Government has appointed Grade 41 officers to fill up the vacancies on a contract basis. Many of these contract officers have exhibited high work performance and proven their suitability to be appointed to permanent posts. These contract officers will be absorbed into the civil service upon recommendation by heads of departments.

THE 2008 BUDGET ALLOCATION

124. Government expenditure will continue to focus on capacity building to support sustainable economic growth through provision of infrastructure, public facilities, education and social services, including health and welfare of Malaysians. For the strategies and programmes which I have announced, I proposed that, a sum of RM176.9 billion be appropriated in 2008 Budget, 10.9% higher compared with 2007. Of this, RM128.8 billion is for Operating Expenditure while RM48.1 billion for Development Expenditure.

125. Under Operating Expenditure, RM64 billion or 49.6% is for Fixed Charges and Grants, RM36.2 billion for Emoluments, RM25.5 billion for Supplies and Services, RM2.1 billion for Purchase of Assets and RM1.13 million for other expenditures.

126. For Development Expenditure, the largest allocation of RM20.6 billion is for the economic sector comprising agriculture, industry and infrastructure sectors. A sum of RM15.6 billion is allocated to the social sector encompassing education, health and housing. The security sector is given RM7 billion, while administration is provided with RM2.9 billion and for Contingencies, RM2 billion.

127. The Government's objective is to progressively reduce the fiscal deficit, while, at the same time, ensure the continuation of the growth momentum. The Government has successfully reduced its fiscal deficit from 5.5% in 2000 to 3.3% of GDP in 2006. For 2007, the deficit is expected to be reduced further to 3.2%. In this regard, the Government will continue to enhance its efficiency and effectiveness of revenue collection, while at the same time, ensure prudent management of its expenditure. The Government is fully committed to continue improving its fiscal position. In this regard, the fiscal deficit will be further reduced to 3.1% in 2008.

ECONOMIC PROSPECTS

128. The global and regional economic outlook is expected to be more challenging and uncertain. However, with the policies and strategy in the 2008 Budget, the

nation's growth prospects will continue to remain strong, with growth projected between 6.0% to 6.5% in 2008. This growth will be driven by stronger private investment and consumption, as well as public consumption. Private investment is expected to expand at 9.5% while private consumption at 7.9%. Per capita income is projected to increase by 6.8% to RM23,864 and in terms of purchasing power parity equivalent to USD14,206.

129. The services sector is expected to grow at 8.6% underpinned by tourism, transportation, finance and banking, property, education, health and ICT activities. The recovery in demand for electrical and electronic products is expected to contribute to the growth of manufacturing sector at 3.8%. The construction sector, which includes property development, will grow more rapidly at 6.3% following the increase of civil engineering activities as a result of the implementation of the 9MP projects. The agriculture sector is projected to grow 3.5% and focus will be given to the commercialisation of plantation and livestock sectors.

CONCLUSION

Mr. Speaker Sir,

130. We are grateful to God that we have successfully developed the nation over the years. With steadfast determination and collaboration between the leaders and the people, this country has achieved rapid and holistic transformation over the past five decades. We have built capacity through investments in physical infrastructure, education and training, as well as public facilities. Our development philosophy of growth with equity has enabled all Malaysians to benefit from the nation's rapid economic expansion and wealth creation.

131. With the strong foundation that we have built, we are confident of achieving greater success towards realising the National Mission. When Malaysia attains Vision 2020 and achieves a developed nation status, it will be yet another glorious moment in the history of our nation's economic development.

132. Let us place our faith and trust in Him and seek guidance for continued peace, progress and prosperity in the years ahead.

Mr. Speaker Sir,

I beg to propose.