

SPECIAL ADDRESS BY THE PRIME MINISTER

2016 BUDGET RECALIBRATION

THURSDAY, 28 JANUARY 2016

12.00 PM

PICC HALL

Bismillahir Rahmanir Rahim

Assalamualaikum Warahmatullahi Wabarakatuh and Salam 1Malaysia

YAB Datuk Seri Dr. Ahmad Zahid Hamidi
Deputy Prime Minister

YB Dato' Seri Ahmad Husni Hanadzlah
Finance Minister II

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Chief Secretary to the Government of Malaysia

Ladies and Gentlemen,

I. Introduction

1. *Alhamdulillahil Rabbi A'lamin wa biHi nastain.* Blessings and peace be upon Prophet Muhammad SAW.
2. I begin by reciting the translation by the *ulama* with reference to the words of *Allah Ta'ala* in *Surah Al-Insyirah* that with each difficulty surely there is ease or happiness.
3. We should place such confidence in ourselves as well as in the administration and management of the Government.
4. As the old Malay saying goes, the coast changes with the tide. Thus, I wish to make a special address today as the 2016 Budget is also subject to challenges in the global economic environment.
5. Today I wish to highlight and share with you an explanation, comparison and clarification as well as measures undertaken to address various challenges that the nation has and is experiencing for the last two decades.

6. We are grateful to *Allah SWT* for among those present today are leaders and administrators, civil servants, captains of industry, corporate figures, representatives from foreign missions, non-governmental organisations (NGOs) and volunteers.
7. All are here today for this special address to understand the Government's action in recalibrating and restructuring several economic measures, particularly with regard to the 2016 Budget.
8. Of importance, the recalibration and restructuring of the Budget are centred on two main pillars. First, to ensure the economy remains on a strong growth trajectory, and second, to protect and safeguard the welfare and wellbeing of the rakyat.
9. In tandem with the People First concept, the measures that I will announce soon is a comprehensive summary after taking into account ideas and views that I have received.
10. This was complemented by several engagement sessions with various economic stakeholders including Government-Linked Companies (GLCs), economists as well as industry experts.
11. The Government has also received excellent ideas from various levels of NGOs, representing consumers, esteemed businessmen and directors of commercial banks.
12. The majority of them are here with us this afternoon. Thank you for your inputs.

Indeed, we are all doing this together for our nation.

II. Comparison of the Economic Scenario Since 1997/1998

13. First, let us reflect on the economic scenario during the Asian financial crisis from 1997 to 1998.

14. In 1997/1998, the country experienced an economic recession with GDP recording a negative growth of 7.4%.
15. We should not forget that among the significant effects of the recession were the sharp retrenchments; increase in inflation; reduction in international reserves to RM59 billion; and the Kuala Lumpur Stock Exchange (KLSE) index plummeting to reach 260-point level.
16. Many companies went bust. Furthermore, some of our children including *Sijil Pelajaran Malaysia* (SPM) school leavers and young graduates had their dreams and aspirations to continue their studies abroad crushed as the Government then could not afford to finance them.
17. Given the situation, the leadership of the Government then took drastic measures including implementing capital controls and currency pegging at 3.80 ringgit to the US dollar.
18. Banking institutions were rationalised and private sector loans were restructured through the establishment of Danaharta and Danamodal. The Government also implemented a stimulus package of RM7 billion to revive the domestic economy.
19. The nation again faced an economic recession in 2008/2009 due to the subprime crisis in the US which impacted the global economy as well as the steep increase in global crude oil prices reaching USD130 per barrel compared with an average of USD70 per barrel in 2007.
20. The country's exports declined by more than 15%. This affected consumer and business sentiments.
21. During that time, I had just been appointed as the Minister of Finance and without hesitation took immediate measures by announcing the first economic stimulus package amounting to RM7 billion in November 2008.

22. A few months later, a second stimulus package of RM60 billion was undertaken in March 2009 to continue to stimulate domestic economic activity. The second stimulus package also involved initiatives and collaboration between the Government and the private sector.
23. In addition to the stimulus packages, upon assuming the nation's leadership and until today, the Government planned and implemented several initiatives under the National Transformation Policy (NTP).
24. The Government launched the Government Transformation Programme (GTP) and the Economic Transformation Programme (ETP) to elevate Malaysia to a developed and high-income country by 2020.
25. Among the achievements of the transformation include strong GDP growth averaging 5.6%; reduction in Government fiscal deficit from 6.7% to 3.2% as well as manageable inflation rate.
26. We are grateful that hardcore poverty has almost been eradicated. In addition, 1.8 million job opportunities were created and rakyat 1Malaysia initiatives and programmes were introduced such as 1Malaysia People Assistance (*Bantuan Rakyat 1Malaysia* or BR1M), 1Malaysia Book Voucher (*Baucar Buku 1Malaysia* or BB1M), *Kedai Rakyat 1Malaysia* (KR1M), *Klinik 1Malaysia* and affordable housing.
27. Life is not always smooth sailing. Looking back at the scenario in 2015, Malaysia faced several daunting challenges that were unexpected and beyond our control.
28. Crude oil prices declined from USD100 in 2014 to USD48 per barrel in 2015. Crude oil prices have since continued to fall resulting in the recalibration of the 2015 Budget.
29. Last year, the country's oil-related revenue fell by almost RM14 billion. Thus, on 20 January 2015, on behalf of the Government, I presented the

recalibration of the 2015 Budget by rationalising government expenditure as well as revising the fiscal deficit target from 3% to 3.2% to GDP.

30. I would like to emphasise that the recalibration of the 2015 Budget was supported by initiatives such as the rationalisation of fuel subsidy which was implemented earlier although it was an unpopular decision.
31. All praise is due to Allah, these measures have been successful in mitigating the impact from declining oil prices and global economic uncertainties.
32. Indeed, international rating agencies such as Moody's, Standard & Poor's and Fitch remain confident in the nation's strong economic fundamentals and financial position by maintaining a good credit rating.
33. Based on these factors, I am confident that the economy will record a growth of 5% and the fiscal deficit at 3.2% of GDP as targeted for 2015. The GDP growth for 2015 will be announced next month.

III. Latest Economic Scenario

34. The global economy is expected to be more challenging in 2016. The latest data by the International Monetary Fund (IMF) indicates that the global economy will grow at a slower pace from 3.6% to 3.4%.
35. Meanwhile, world trade is anticipated to moderate from 4.1% to 3.4%. This is on account of several economies such as South Africa, the US, Brazil and China which are also expected to grow at a slower pace.
36. This trend proves that we are not alone in facing the global economic challenges. Other countries too are affected by the current economic uncertainties.
37. World crude oil prices have continued to plummet below USD30 per barrel. As of yesterday, Dated Brent crude oil prices dropped to USD31 per barrel, a

reduction of 35% compared to the assumption of USD48 during the tabling of the 2016 Budget.

38. These developments have a significant effect on the nation's revenue. The economy of oil producing countries has also been adversely affected.
39. Furthermore, the US dollar continues to strengthen compared to other currencies. Among the currencies affected are the Brazil real (-23.2%), China renminbi (-5.7%), Canadian dollar (-11.3%), Russian ruble (-29.3%), and Singapore dollar (-5.6%).
40. Meanwhile, the ringgit too has depreciated by 11.3% against the US dollar from 3.77 in June 2015 to 4.25 on 27 January 2016.
41. In fact, the ringgit is undervalued and does not reflect the true economic fundamentals. However, the ringgit is expected to better reflect the strength of the economic fundamentals when global financial markets stabilise and oil prices recover to more reasonable levels.

IV. New Measures

42. These developments have increased uncertainties in the global economy and impacted the domestic economy as well as resulted in the rising cost of living of the rakyat.
43. Recognising this, and as a responsible Head of the Government together with the Deputy Prime Minister and Cabinet Ministers, today, we are taking proactive action to announce the implementation of measures under the recalibrated 2016 Budget.
44. These initiatives are very important to ensure sustainable economic growth, and more importantly, to safeguard the wellbeing of the rakyat. I am confident that together we can overcome these difficult challenges again.

We have done it before, God willing, we can do it again.

45. Similar to the situation last year, I wish to reiterate that the nation is neither in economic nor technical recession.
46. In fact, with our efforts and prayers, the domestic economy continues to remain strong and resilient, capable of facing global economic uncertainties.
47. In addition to the measures in the 2016 Budget, I am pleased to announce 11 restructured and recalibrated measures to ensure the economy and financial position remain on the right trajectory.
48. **Measure 1:** The Government agrees to reduce the employees' contribution to the Employees Provident Fund (EPF) by 3% beginning March 2016 to December 2017. However, the contribution by employers will remain. This measure is expected to increase private consumption expenditure by RM8 billion a year.
49. **Measure 2:** The Government will provide a special tax relief of RM2,000 to individual taxpayers with a monthly income of RM8,000 or below for the year of assessment 2015.

Through this measure, although the Government will forego revenue of RM350 million, it will provide individual tax savings of up to RM475 which will benefit two million taxpayers.

50. **Measure 3:** To reduce the cost of daily basic necessities for the rakyat, the Government will implement the following:
 - i. The Government will liberalise the control on import quotas or Approved Permits (APs) on eight agricultural produce for a temporary period to ensure consistent supply.

The produce includes raw coffee beans, buffalo meat, beef and mutton. At the same time, quality and safety requirements on imported goods will continue to be given priority;

- ii. Federal Agricultural Marketing Authority (FAMA) will establish markets or MyFarm Outlets that sell agricultural produce directly such as fish, poultry, meat, vegetables and fruits at prices between 5% and 20% below market prices. For a start, the first outlet will be opened in Precinct 7, Putrajaya in March and expanded nationwide to 10 other locations in town centres this year;
 - iii. To ensure that the rakyat enjoy fair prices of goods, I have directed the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) to identify more fair price shops including foreign and local hypermarkets. Thus, fair price shops will be increased from 640 to 1,000 shops this year;
 - iv. At the same time, MDTCC will step up enforcement and take legal action on non-ethical businessmen who take the opportunity of profiteering;
 - v. To safeguard the paddy farmers as well as to increase paddy production, the Government will provide an additional cash of RM50 for every metric tonne of cleaned paddy as an input incentive for paddy production. At the same time, the Government will improve the implementation of paddy grading through a standard grading system; and
 - vi. The Government is very concerned for the rakyat who are affected by the increase in the cost of living, particularly the hardcore poor. Thus, MyBeras programme will be introduced where every registered hardcore poor household will be supplied with 20 kilogrammes of rice every month until December 2016 to reduce the burden of poor households.
51. **Measure 4:** With immediate effect, for all new housing projects, the Government mandates that all houses priced up to RM300,000 be limited to first-time house buyers only.

The Government will also organise Integrated House Ownership Expo Roadshows which offer houses under the National Housing Department (JPN), 1Malaysia People Housing Programme (PR1MA), Syarikat Perumahan

Negara Berhad (SPNB), *Perumahan Penjawat Awam 1Malaysia* (PPA1M) and state agencies as well as the private sector. More than 100,000 housing units will be offered under the programme.

In addition, for houses priced at RM35,000 under the People's Housing Programme (*Projek Perumahan Rakyat* or PPR), I am pleased to announce that the Government through Bank Simpanan Nasional (BSN) and Bank Rakyat will offer a financing package at 4% involving a fund totalling RM400 million. This initiative will benefit more than 10,000 house owners.

52. **Measure 5:** As announced in the 2016 Budget, 30% from the levy contribution to the Human Resources Development Fund (HRDF) amounting to RM200 million will be provided to enhance the competency and skills of employees through reskilling and upskilling, including retrenched workers.
53. **Measure 6:** To enhance the efficiency and amount of tax collection, the following measures will be implemented:
- i. The Government will double compliance and auditing efforts on tax evaders;
 - ii. The Government to give special consideration on relaxation for penalty on taxpayers to encourage them to come forward and declare their past years' income. The tax arrears must be settled before 31 December 2016;
 - iii. For duty-free islands, to reduce leakages which resulted in revenue loss of nearly RM1 billion, the Government will restructure the selling channel of cigarettes and liquors limited to duty-free outlets licensed by the Royal Malaysian Customs Department (RMCD);
 - iv. The free duty treatment on imported vehicles in duty-free islands will be tightened.

However, the restructuring of sales on cigarettes, liquors and vehicles will not affect the tourists and locals who are residing in these duty-free islands;

- v. The Government will optimise the revenue from the telecommunication spectrum through a redistribution and bidding process which will be implemented soon; and
 - vi. To invigorate economic activity, the Government will develop several strategic areas owned by the Government through a bidding process.
54. **Measure 7:** Under the initiative of the Deputy Prime Minister, as the Chair of the Foreign Workers Committee, the Government will streamline the management of the foreign workers system whereby the levy will be clustered into two categories only. This does not include the foreign domestic maid category.

In addition, the Government has agreed to implement the Rehiring Programme to provide opportunities for Foreign Workers Without Permits (PATI) in the country to be given valid work permits. The implementation of this programme is to fulfil industry demand as well as to enable the Government to ascertain the number of PATI in the country for the purpose of security monitoring.

55. **Measure 8:** The Government will be more prudent in spending, particularly on supplies and services; continue efforts to rationalise the provision of grants to Government Trust Funds, federal statutory bodies and GLCs; as well as rationalise and restructure entities, including Companies Limited By Guarantee (CLBG) and statutory bodies.
56. **Measure 9:** With regard to development expenditure, focus will be given to projects and programmes that are rakyat-centric, as well as with high multiplier effect and low import content.

Physical projects that will be prioritised include construction of affordable houses, hospitals, schools, roads and public transport as well as security. The implementation of non-physical projects and projects that are still under study will be rescheduled. This measure is expected to involve a reduction in cash flow commitments up to RM5 billion and does not affect the economy and the rakyat.

57. **Measure 10:** Development financial institutions (DFIs) and Government-owned venture capital funds (VCs) will increase their financing funds by RM6 billion to provide financing to small and medium enterprises (SMEs) and startup companies.
58. **Measure 11:** I urge the GLCs to implement the initiative to narrow the income gap between higher management and employees gradually. The private sector is also urged to implement the same initiative. This will be monitored by the Economic Planning Unit (EPU).
59. More focus will be given to the tourism sector as the increase in tourist arrivals will stimulate domestic economic growth, particularly in the current economic scenario. The promotion of domestic tourism will be intensified through organising sales of integrated domestic holiday packages.
60. In addition, the Government will facilitate the entry of foreign tourists by expediting the implementation of eVisa to several countries which have been identified.
61. As an additional measure, I am pleased to announce that tourists from China do not require a visa to visit Malaysia or Visa Free, commencing from 1 March to 31 December 2016, subject to specific conditions for a period of stay not exceeding 15 days.
62. Although the global economic situation and the decline in crude oil prices have an impact on the nation's revenue which is estimated to fall by RM7 to RM9 billion compared to the estimated revenue with crude oil price at USD48

per barrel, the Government will not compromise on doing the right thing for the nation and the rakyat.

63. BR1M and welfare assistance programmes will continue to be implemented. I would also like to emphasise that the Government will maintain the current rate of the Goods and Services Tax (GST).
64. The Government will continue to spend prudently by prioritising projects and programmes with high impact centred on the philosophy of the people economy.
65. This will not involve the emoluments of civil servants and pensions of retirees as well as not affect the delivery mechanism of the Government. In fact, the Government will not terminate the services of any civil servants, including those appointed on contract basis.

Furthermore, the Government will continue the implementation of one annual increment for civil servants on 1 July 2016, as promised in the 2016 Budget.

66. These prudent measures are expected to save RM9 billion in operating expenditure and development expenditure.
67. Regardless of what happens, the Government assures it is committed in the education and future of our children. In this regard, the Government agrees to continue four programmes under the sponsorship of the Public Service Department (PSD) for 2016 as follows:

First, the National Scholarship Programme for 20 top SPM students to pursue study at renowned universities globally.

Second, the Special Engineering Programme for 200 students to Japan, Korea, Germany and France.

Third, the Bursary Graduate Programme for 744 students to pursue undergraduate studies in public universities and private institutions of higher learning in the country; and

Fourth, the new intake of 8,000 students will be awarded scholarships to pursue undergraduate studies in the country.

68. Furthermore, the allocation for the National Higher Education Fund (PTPTN) financing totalling RM5 billion will continue to be channelled to undergraduates.

69. To intensify investment in human capital, the MyBrain15, Academic Training Scheme for Bumiputera (SLAB) and Academic Training Scheme of Public Higher Education Institutions (SLAI) programmes will be continued.

70. Currently, 25,000 students are pursuing studies under these programmes. The Government has agreed to the increase of 15,000 new students for the MyMaster programme, 5,000 for MyPhD, and 300 for SLAI. These programmes will be given an additional allocation of RM300 million.

71. I wish to emphasise that:

First: After taking into consideration the current economic scenario, the Government has decided to revise the 2016 forecast of GDP growth to 4% - 4.5% and the assumption for average Dated Brent crude oil price at USD30 to 35 per barrel;

Second: The Government is committed to fiscal consolidation measures for 2016, that is, to achieve a fiscal deficit target of 3.1% to GDP;

Third: The national debt level will continue to be reduced and will not exceed the prudent level of 55% to GDP;

Fourth: The Government will neither impose capital control nor peg the ringgit;

Fifth: Maintain an accommodative monetary policy and interest rate at a level that supports domestic economic activity; and

Sixth: Ensure sufficient liquidity in the financial system. Recently, Bank Negara Malaysia (BNM) announced a reduction in statutory reserve requirement (SRR) from 4% to 3.5%.

72. Clearly, the Government will not waiver from its stance on fiscal and monetary policies to ensure the strength of the economy.
73. The Government is also concerned over the lifestyle of the rakyat who live beyond their means. In this regard, the Credit Counselling and Debt Management Agency (AKPK) under BNM will assist borrowers with difficulties in managing their debt obligations through restructuring their existing loans. The good news is that all these services are provided free.
74. For viable SMEs and companies that face financial problems due to the current environment, the Government provides a negotiation mechanism through the Small Debt Resolution Scheme and the Corporate Debt Restructuring Committee under BNM.
75. In terms of investment, I wish to emphasise that the Government remains committed to achieving the targeted private investment totalling RM215 billion this year.
76. For example, the implementation of major projects such as Mass Rapid Transit (MRT) and Light Railway Transit (LRT), Pan-Borneo Highway, Malaysian Vision Valley, Cyber City Centre, RAPID Pengerang and High-Speed Rail will be continued.

77. To enhance strategic linkages between urban and rural areas, the Government will build another 10 Urban Transformation Centres (UTCs) in Labuan, Sungai Petani, Miri, Sibul, Kota Bharu, Kuala Terengganu, Tawau, Keningau, Seremban and Kangar.
78. In addition, four new Rural Transformation Centres (RTCs) are expected to be completed this year in Jawi, Pulau Pinang; Rembau, Negeri Sembilan; Sungai Rambai, Melaka; and Betong, Sarawak.
79. To penetrate international markets, MATRADE and SME Corp will intensify the mid-tier and Go-Export programmes. In addition, to enhance the credit guarantee facility for trade, EXIM Bank will increase its funds for financing by RM500 million.
80. As a trading nation with an open economy, the Government will expand exports to other markets. We have to explore new markets through participation in free trade agreements (FTAs) such as the ASEAN Economic Community (AEC) and the Trans-Pacific Partnership Agreement (TPPA) as well as the upcoming Regional Comprehensive Economic Partnership (RCEP).
81. With regard to the TPPA which was passed by *Dewan Rakyat* late yesterday, the allegation by some quarters that we have compromised national sovereignty and were apologetic in defending the Bumiputera agenda during the negotiations with TPPA members were unfounded.
82. It is noteworthy that the Government's efforts and firmness during the negotiation process with the members of the TPPA have resulted in the acceptance of the Bumiputera policy as part of the terms of the Agreement at the international level.
83. Thus the Bumiputera Agenda is no longer a national agenda, but has now been elevated and recognised globally.

V. Conclusion

84. An advanced nation is not solely due to good and appropriate policies but also the contribution from all segments of society.
85. We all have a shared responsibility irrespective of the private sector, Government, NGO, youth and women, and regardless of whether one is a chief executive officer, director, support staff, worker or a small sundry shop owner.
86. Overall, the five key salient points are summarised as follows:
- First: The recalibrated measures announced are proactive, transparent and realistic in tandem with the current global economic challenges;
- Second: The economy remains resilient and continues to expand driven by domestic economic activity;
- Third: The wellbeing of the rakyat will continue to be prioritised and Government service delivery will not be compromised;
- Fourth: The Government is committed to implementing the fiscal consolidation measures; and
- Fifth: The recalibration of the budget is centred on the principle of shared responsibility from all segments of society.
87. In brief, the restructuring and recalibration of the 2016 Budget is similar to last year. It is not a new budget. It is within the range of initiatives and allocation of the 2016 Budget approved by Parliament.
88. It is clear that matters related to the nation's economy and finance is not easy to digest and understood by all levels.

89. In fact, these issues are not solely the responsibility of the nation's administration at the highest level.
90. Borrowing the words of wisdom from the learned ones, in life and livelihood, in a country with a government, everyone must play his part, helping each other through thick and thin. That is our source of strength.
91. Hence, I hope that every segment plays its part in explaining the current economic situation and initiatives of the Government to further strengthen the economy as well as safeguard the wellbeing of the rakyat.
92. This means that all groups from the Government administration to the learned ones need to explain in greater detail the current situation and challenges to all parties from top to bottom, engaging in discussions in *mamak* stalls over *teh tarik* to the best of their abilities.
93. With that, we hope our great grandchildren will recognise all our achievements for Malaysia's continuity which is not our right but the right of the future generation.
94. We hold to the saying of the elders: it is better to be silent rather than speak empty words and to give voice to useful matters. Do not ask what the nation has done for you but ask what we have done for the nation.
95. In essence, the challenges confronting us currently are not due to the failure of the Government to plan, but are on account of the global economic crisis which is beyond our control.
96. Indeed, every decision that we make today is the best for the rakyat and will surely be recorded in history. Furthermore, Malaysia is neither a failed state nor a bankrupt nation as alleged.
97. In fact, the reality is the economy is stable with strong growth as well as resilient and competitive.

98. Let us together pray to the Almighty to overcome all problems and enjoy security, peace and harmony.

Thank you.