12ᵗʰ Malaysia Plan Mid-Term Review (2021-2025)

A revised plan to secure high-income status by 2025

SUMMARY

● The Mid-Term Review (MTR) of the Twelfth Malaysia Plan (12MP) evaluates the progress made, recognises the challenges faced, and charts the path to a sustainable, prosperous, and high-income nation. This direction is underscored by 17 "Big Bolds" and 71 main strategies and initiatives, all aiming to realize '*Ekonomi* MADANI: Memperkasa Rakyat'.

● The federal government's revised growth target for the entire 12MP seems rather optimistic, raising it to 5.0% - 6.0% from the original 4.5% - 5.5%. They anticipate a growth acceleration between 5.0% and 5.5% for the remaining period (2023-2025), largely driven by domestic demand. This optimistic forecast also hinges on the acceleration of structural economic reforms, emphasising high-value-added activities on the supply side.

● Overall, we perceive the adjusted growth target for the remainder of the 12MP as somewhat ambitious and challenging to reach. This perspective also takes into account the normalisation effect, noting that the substantial growth observed in 2021 and 2022 was primarily attributed to a lower base effect, pandemic-related stimulus, and the surge in pent-up demand when the economy fully reopened in April 2022.

● The government has set a per capita income target of RM61,000 or USD14,250 (at an exchange rate of USDMYR=4.28) by the end of 2025. Driven by enhanced labor productivity, this target underscores the government's ambition to elevate Malaysia to high-income nation status by 2025. Notably, this new target surpasses the World Bank's minimum income threshold for a high-income nation, which stands at USD13,845 (or RM59,257).

● While there have been enhancements in the delivery system to minimize leakages and wastages, we remain skeptical that the government can achieve its fiscal deficit target of between -3.5% to -3.0% by 2025 without implementing an efficient consumption tax system like the GST. Consequently, we're maintaining our fiscal deficit forecast at between -5.0% to -5.2% of GDP for 2023, with a modest improvement projected in 2024 to fall between -4.5% and -5.0%.

● While we remain somewhat skeptical about the government's plan to create a comprehensive household database for more precise subsidy targeting, we see it as a constructive move towards better fiscal management.

● The government's proposed reforms in social protection and healthcare reforms could elevate the standard of living and diminish inequality. However, on the property front, it is crucial to implement measures that prevent overspending on social housing.

● As the nation strives to achieve high-income status, we believe it's essential for the government to bolster food security. This can be accomplished by providing increased support for farming technology, investing further in research and development, and forging strategic partnerships with the private sector.

Overview

● **The Prime Minister Datuk Seri Anwar Ibrahim tabled a revised Mid-Term Review (MTR) of the 12th Malaysia Plan (12MP) at the Parliament yesterday with an updated approach to bolster Malaysia's economy and elevate the quality of life of its citizen.**

 – It incorporates new policies and strategies to adapt to the goals of '*Ekonomi* MADANI: Memperkasa Rakyat,' a vision and direction by the Unity Government encompassing aspects of justice, diversity, harmony, and progress.

 – With a new theme 'Malaysia Madani: Sustainable, Prosperous, High Income', it is set to initiate 17 Big Bolds and 71 main strategies and initiatives.

● According to the Minister of Economy Rafizi Ramli, the MTR of the 12MP is the starting point for efforts to address major economic challenges of the nation, namely disparity in development and income, limited fiscal space and slow structural transition of the economy.

● Its ultimate goal is to ensure that no one is left behind in reaping the benefits of socioeconomic development and has equal access to opportunity in raising living standards and providing a bright future for future generations, regardless of ethnicity, location, gender, or socioeconomic background.

● The framework of MTR of the 12MP outlines strengthening of the public service as the key enabler by improving the governance and efiiciency of the public service, crucial in tackling the perennial corruption and rent-seeking practices.

Only then, it upholds, will accelerate the implementation of three main focus areas; strengthening sustainability, building a prosperous society, and achieving a high-income nation.

Macroeconomic Prospect

- **The federal government revised its growth projection, with the Malaysian economy expected to expand at a faster pace in the remaining period of the 12MP**

  - **GDP:** Growth is expected to grow between 5.0% and 5.5% per annum in the remaining period (2023-2025), with the 12MP overall target now higher at 5.0% - 6.0% from the official target of 4.5% - 5.5% when it was first published in 2021. This is mainly attributable to higher growth in **domestic demand**, led by private spending.

  - The government projects **private consumption** to expand at an average growth of 6.2% per annum (original 12MP: 5.8%) under the revised target, with 6.1% targeted in the remaining period of the 12MP plan, backed by higher household income and stable labour market conditions. This includes the expectation that the economy will remain in full employment, supported by measures to achieve the target share of employees' compensation to GDP at 40.0% in 2025 (2022: 32.4%) and eventually at 45.0% within ten years. Meanwhile, private investment is projected to grow by 5.8% overall, higher than the initial target of 3.8%.

Graph 1: 12MP Target Growth Comparison (Average annual growth rate, %) (Demand side)

Source: Ministry of Economic Affairs, Kenanga Research
Note: 2015 Base Year

  - **Private investment** growth is set to accelerate further in the remaining period of the 12MP as the government targets 6.4% growth per annum or an average of RM301.0b per year in current prices, supported by faster implementation of new and ongoing projects across key sectors. Similarly, public investment is forecast at 1.0% per annum in the revised 12MP target, with growth to accelerate by 3.9% in the remaining period of the 12MP plan or an average of RM83.0b per year in current prices, attributed to the rise in federal government development expenditure as well as capital expenditure by non-financial public enterprises. In addition, public consumption is expected to expand by 3.2%, lower than its initial target of 3.7%, and to slow further to 1.7% in the remaining period of the 12MP, which reflects the government's forward plan to embark on fiscal consolidation in a bid to strengthen its fiscal position.

  - On the **supply side**, the government is accelerating structural economic reforms, including intensifying high value-added activities related to energy, technology and digitalisation, E&E, agriculture and agro-based, and non-radioactive rare earths. Nonetheless, the services and manufacturing sectors will remain the economy's main driver. Under the revised target, the services sector is projected to chart a solid growth of 6.0% per annum (original 12MP: 5.2%), with the remaining period set to achieve 5.7%. The government also targets an expansion of 6.4% per annum for the manufacturing sector (original 12MP: 5.7%), with the priority given to accelerate the transition towards new sources of growth within the sector, particularly in E&E such as in integrated circuit (IC) design, IC packaging, wafer fabrication, embedded system, testing service and design engineering.
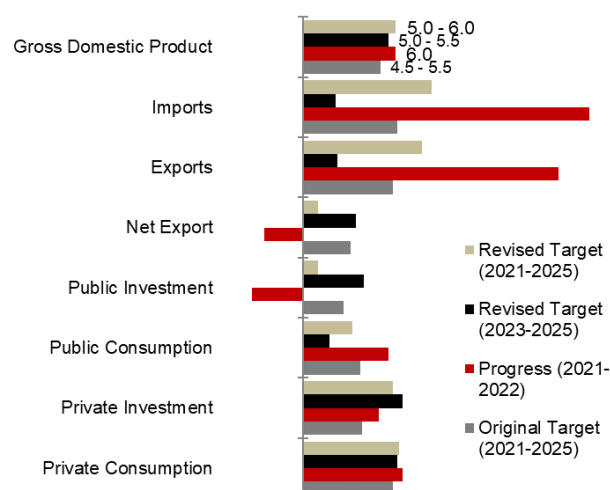
Table 1: Selected Targets of the 12MP

Indicator	11MP Actual	12MP Target	Progress (2021 – 2022)	12MP Revised Target (2023 – 2025)	12MP Revised Target (2021 – 2025)
GDP Growth, per annum	2.7%	4.5% - 5.5%	5.9%	5.0% - 5.5%	5.0% - 6.0%
GNI Per Capita, end period	RM42,838	RM57,882	RM52,968	RM61,000	
Labour Productivity growth, per annum	1.1%	3.6%	3.7%	3.8%	3.7%
Compensation of Employees, end period (% of GDP)	37.2%	40.0%	32.4%	40.0%	
Average Monthly Household Income, end period	RM7,160	RM10,065	RM8,479	RM10,065	
Malaysian Wellbeing Index growth, per annum	0.5%	1.2%	1.3%	1.4%	

Source: 12th Malaysia Plan Mid-Term Review, Kenanga Research

– Overall**, we view the revision to the growth target for the remaining period of the 12MP as slightly higher and would be challenging to achieve judging from the past trend**. This also takes into consideration the normalisation effect given that the higher growth recorded in 2021 and 2022 was largely due to the lower base effect, pandemic stimulus and the positive effect of pent-up demand as the economy fully reopened in April 2022. In comparison, combining our GDP growth projection of 3.5% - 4.0% and 4.9% for 2023 and 2024 respectively, it would bring about an average growth of around 4.3% for the two years. Assuming growth would exceed 5.0% in 2025, the average three-year growth will still be significantly lower than the revised 12MP target (2023-2025: 5.0% - 5.5%).

– **Per Capita Income & Labour Productivity:** A higher per capita income target at RM61,000 or USD14,250 (USDMYR=4.28) by end-2025 underpinned by improved labour productivity. This exceeds the World Bank minimum income threshold of a high-income nation of USD13,845 (RM59,257) or higher as the government aims to bring Malaysia to a high-income nation status as soon as 2025. In retrospect, Per capita income stood at RM52,968 (USD12,035) in 2022, a significant increase from RM46,253 (USD11,163) recorded in 2021. Higher per capita income target is also in line with higher labour productivity growth target of 3.8% (Original 12MP: 3.6%), led by the construction (average: 4.3%; 2021-2022: 0.4%), followed by manufacturing (4.2%; 2021-2022: 5.4%), services (3.8%; 2021-2022: 3.6%), mining (2.8%; 2021-2022: 0.3%) and agriculture (1.4%; 2021-2022: 0.1%) sectors. Efforts to reform the labour market is align with the MADANI Economic framework, which targets a 40.0% share of compensation of employees to GDP by 2025. This also includes the aim of achieving a monthly median salary and wages of RM2,700 by 2025. At the rate the economy is growing and considering potential threats from the external sector that could impede growth outlook in the near term, we believe **Malaysia would still be able achieve high-income status the soonest by 2025.** This is in line with the World Bank projection that the high-come target would be achieved between 2024 and 2028. Nevertheless, we view the target would require a sustained expansion in productivity and an expectation that the global economy will be on a steady expansion by 2025.

– **Fiscal Balance:** There is no change to the fiscal balance target, as the government keeps its previous projection of a deficit between -3.5% and -3.0% of GDP by 2025 (2022: -5.6%). Nonetheless, the government has increased the development spending ceiling by an extra RM15.0b, bringing the total allocation of development expenditure projected to RM415.0b over the 12MP period. So far, the government has spent RM135.8b in the 2021-2022 period, which indicates that the remaining balance of RM279.2b will be allocated at an average of RM93.1b per annum for the remaining three-year period of the 12MP (2023-2025). Despite the status quo projection on the fiscal deficit target, the government has somewhat revised its target for the revenue and operating expenditure components. Revenue is projected to reach RM1.4t under 12MP, higher than its original target of RM1.2t. But, the increase in revenue target was also in line with the rise in the operating expenditure target. Moving forward, towards an efforts on enhancing fiscal sustainability, the government aims to strengthen fiscal governance, expand the revenue base, retarget subsidies, enhance budget management, and improve debt and liabilities management. This includes establishing legislation on fiscal responsibility, developing new acts on debt and procurement, widening the tax base and adopting technology and digitalisation to increase collection. The long overdue targeted subsidies mechanism is also set to be implemented under the remaining period of the 12MP via the *Pangkalan Data Utama* (PADU).

– Despite the improvement in the delivery system to reduce leakages and wastages as well as build fiscal strength, **we still believe the fiscal deficit target of between -3.5% to -3.0% by 2025 will be rather challenging to achieve without an efficient consumption tax system such as Goods and Services Tax (GST).** This is partly because Sales and Services Tax (SST) collection remains lower than the previous GST collection. The resulting shorfall in tax revenue poses structural issues as there is a need for the government to accelerate development spending and cover its increasing expenses, such as emoluments and the effort to increase salaries and wages among government servants. With that said, we still maintain our fiscal deficit forecast of between -5.0% to -5.2% of GDP in 2023, with slight improvement expected in 2024 at a range between -4.5% to -5.0%

Focus Areas

● **To ensure that Malaysia remains on the right growth trajectory towards achieving the aspiration of *Ekonomi MADANI*, the government plans to adopt a strategic approach encompassing three core focus areas. These areas will be underpinned by comprehensive strategies and a wide array of initiatives designed to effectively address the country's key issues and challenges**

– **Strengthening sustainability:** To bolster economic growth, enhance fiscal sustainability, and expedite the transition towards a future-proof economy, the government has devised a comprehensive strategy. This strategy includes an accelerated program of structural economic reforms, a concerted effort to reinforce Malaysia's presence in the global value chain through robust external trade, and the harnessing of untapped economic potential within various regions and states. Central to this approach is the emphasis on nurturing high growth high value (HGHV) industries. To achieve this, the government is actively working to attract more quality investments in technology-based sectors,

leveraging innovation and expertise to drive economic advancement. Also, the government remain committed to a gradual transition into renewable energy sources as part of the country's national energy transition roadmap. Additionally, efforts will be undertaken to implement targeted subsidies that align with broader economic objectives. In this regard, the government will develop a comprehensive household database known as *Pangkalan Data Utama* (PADU) to streamline the distribution of more precisely targeted subsidies and assistance, with an immediate focus on subsidies for electricity, diesel, and petrol. **While we maintain some scepticism about PADU's ability to fully eliminate resource allocation distortions by effectively minimising exclusion and inclusion errors, we view this initiative as a positive step toward achieving a more efficient economy**. The anticipated savings from the subsidy retargeting can be channeled into funding various socioeconomic projects and programs.

– **Building a prosperous society:** To address the multifaceted challenges in reducing poverty, increasing household incomes, improving the standard of living, and narrowing inequality, the government is embarking on a comprehensive set of initiatives. These initiatives includes social protection reforms, the strengthening of healthcare services, and enhancing access to affordable housing. As Malaysia is projected to become a super-aged nation by 2056, it is imperative to implement inclusive social assistance, social insurance, and labor market interventions. This approach is crucial as older individuals without adequate social protection are more vulnerable to poverty. To bolster the silver economy and promote the employment of older workers, the government will incentivise the hiring of elderly individuals. On the healthcare front, a holistic approach will be taken to cater to the needs of older individuals. The *Skim Perubatan* MADANI will continue to provide access to private healthcare services for those with limited financial capability. Also, progressive taxes on unhealthy products will be introduced to encourage healthy ageing. Regarding housing, the government is committed to intensifying efforts to provide quality and decent housing for poor and low-income households through affordable housing programs. The Rent-to-Own housing program will be enhanced to facilitate easier access to home ownership financing. Additionally, new rental tenancy regulations will be introduced to promote rental as a viable alternative to home ownership. **However, we believe that reforming the housing supply side and enhancing the property market efficiency are essential steps that need to be taken by the government as excessive spending on social housing could strain government finances and limit overall societal growth and well-being.**

– **Achieving high-income nation:** To enhance economic resilience, primary focus will be on fortifying the resilience of sectoral and strategic industries, promoting competitiveness to sustainable growth, optimising financial support mechanisms, and strategising the development of industrial estates and food production areas. Apart from emphasis on High Gross Value (HGHV) industries and high techology to achieve higher productivity and income for the nation, the MTR highlights the importance on food security. To highlight, the government will implement measures to promote investment and bolster productivity within the agrofood subsector, leveraging smart farming technologies, expanding high-value crop cultivation, and optimising food production zones. These measures are expected to substantially increase the agrofood subsector's share to approximately 57.0% of the total agriculture value-added by 2025, a significant step toward achieving greater food security. Turning our attention to rice, a critical food item for the country, it is concerning that the country's dependency on imports to meet domestic demand remains high. The self-sufficiency ratio (SSR) for rice decreased to 62.6% in 2022 (from 65.2% in 2021). **This declining trend in food SSR is worrisome, particularly given the ongoing uncertainty in the geopolitical landscape and climate-driven disruptions**. Despite all the measures to increase the area of crops, the government rice production target of above 3.0m tonnes is too ambitious considering that last year, rice output decreased to 1.6m tonnes (2021: 1.7m). However, **with substantial government support for farming technology, increased investment in research and development, and strategic partnerships with the private sector, we remain optimistic that Malaysia can significantly enhance its food security**.

Table 2: Malaysia Plan Achievements since 1981 and 12th Malaysia Plan (12MP) Broad Economic Targets

	4MP 1981-85	5MP 1986-90	6MP 1991-95	7MP 1996-00	8MP 2001-05	9MP 2006-10	10MP 2011-15	11MP 2016-20	Original Target 12MP 2021-25	Revised Target 12MP 2021-25
Demand Side (%YoY) – Avg.										
Consumption	3.7	5.4	8.1	3.3	7.4	6.4	NA	NA	NA	NA
Public Consumption	4.2	3.9	7.8	3.2	10.2	5.5	6.8	3.2	3.7	3.2
Private Consumption	3.7	5.8	8.2	3.4	6.6	6.6	7.1	4.7	5.8	6.2
Gross Capital Formation	5.5	11.7	18.8	-0.1	1.6	5.6	NA	NA	NA	NA
Public Investment	11.5	3.0	14.3	7.2	3.9	5.5	2.7	-7.9	3.7	1.0
Private Investment	1.9	21.1	20.2	-5.0	-1.0	5.9	12.1	1.2	3.8	5.8
Domestic Aggregate Demand	4.1	7.2	12.1	1.4	5.0	6.2	NA	NA	NA	NA
Exports	7.3	14.0	16.2	8.9	5.2	3.5	1.6	0.2	5.8	7.7
Imports	5.0	14.7	19.2	5.4	5.6	2.9	3.1	0.3	6.1	8.3
GDP	**5.2**	**6.9**	**9.5**	**5.0**	**4.5**	**4.5**	**5.3**	**2.7**	**4.5 – 5.5**	**5.0 – 6.0**
Supply Side (%YoY) – Avg.										
Agriculture	3.1	3.6	-0.2	1.8	3.0	3.0	2.6	0.4	3.8	1.6
Mining	6.1	1.2	6.8	2.5	2.6	-0.5	1.2	-2.2	2.6	2.6
Construction	5.3	14.7	11.7	9.0	4.3	1.3	10.6	-0.7	4.2	3.9
Manufacturing	8.2	9.4	14.7	-0.2	0.5	4.4	4.8	3.3	5.7	6.4
Services	6.8	7.1	11.5	5.9	6.1	6.8	6.3	3.8	5.2	6.0
GDP	**5.2**	**6.9**	**9.5**	**5.0**	**4.5**	**4.5**	**5.3**	**2.7**	**4.5 – 5.5**	**5.0 – 6.0**
Per Capita Income (RM)	4,673	5,450	8,894	13,123	16,194	27,819	36,119	42,503	57,882	61,000
Per Capita Income (USD)	1,987	2,060	3,413	3,997	4,267	8,636	9,248	10,111	14,842	14,250
Unemployment rate (%)	5.8	7.3	3.4	2.9	3.5	3.3	3.1	4.5	4.0	3.3
Fiscal Position (End Period)										
Budget Deficit (% of GDP)	-5.7	-2.9	0.8	-5.5	-3.4	-5.4	-3.2	-6.2	-3.5 – -3.0	-3.5 – -3.0
Government Debt (% of GDP)	81.7	79.5	41.1	35.2	43.8	49.6	53.6	62.1	NA	NA

Source: RMKT12, Kenanga Research

Table 3: Framework of the Mid-Term Review of the Twelfth Malaysia Plan

Ekonomi MADANI: Memperkasa Rakyat			
Key Enabler	**Enhancing efficiency of public service delivery** 1. Governance and institutional framework *2.* Legislated related to corruption		
Focus Area	**Strengthening sustainability** 3. Fiscal sustainability and financial systems 4. HGHV Industry based on energy transition 5. Targeted subsidies	**Building prosperous society** 6. Enculturation of MADANI society 7. Social protection reforms 8. Strengthening healthcare services 9. Strengthening national security and defense	**Achieving high-income nation** 10. Digital and technology based HGHV industries 11. High value E&E HGHV industry 12. Agriculture and agro-based HGHV industry 13. Rare earth HGHV industry 14. Empowering MSMEs and social enterprises 15. Streamlining the public transport network 16. Future-ready talent

Source: RMKT12, Kenanga Research

Appendix 1: 17 Big Bolds and 71 Main Strategies and Initiatives

Big Bold	Main Strategies/Initiatives
Governance and Institutional Framework	• Strengthening governance and integrity to rebuild trust and confidence of the rakyat • Improving the institutional framework to enhance efficiency of public service delivery • Enhancing the role of the Special Task Force on Agency Reform (STAR) • Developing the Landslide Early Warning System (SAATR) to improve disaster management
Legislation Related to Corruption	• Strengthening the regulatory framework in improving accountability and transparency • Introducing an integrity plan based on the core values of MADANI • Enacting laws related to anti rent-seeking
Fiscal Sustainability and Financial System	• Introducing the fiscal responsibility act • Accelerating the drafting of the government procurement act • Broadening the revenue base • Realigning surplus funds under federal statutory bodies and Government-linked companies
HGHV Industry Based on Energy Transition	• Implementing National Energy Transition Roadmap (NETR) • Creating electricity exchange system to enable cross-border RE trading • Increasing RE capacity - solar, hydro, bioenergy and hydrogen
Targeted Subsidies	• Retargeting all types of subsidies such as electricity, diesel and RON95 • Developing data repository on households, Pangkalan Data Utama (PADU)
Enculturation of MADANI Society	• Developing a progressive society • Building self-identity based on Rukun Negara • Fueling the spirit of nationalism and unity through the flagship Kembara Perpaduan programmes • Developing insan MADANI by inculcating the elements and values of Maqasid Syariah • Enhancing inclusive participation in sports
Social Protection Reform	• Strengthening the national social protection system through a life-cycle approach • Formulating guidelines on informal workers for more comprehensive social protection • Expanding the Inisiatif Pendapatan Rakyat (IPR) programme to cover the hardcore poor, poor and B40 to increase income
Housing for the Rakyat	• Accelerating the transition from ownership concept to shelter • Introducing attractive and sustainable housing financing packages Harnessing the potential of retirement villages
Strengthening Healthcare Services	• Strengthening the financing of health protection • Expanding the MADANI medical scheme • Introducing leasing mechanism for the procurement of health equipment Establishing a national institute of mental health
Strengthening National Security and Defence	• Enhancing national border security • Strengthening readiness and capabilities in managing security threats • Establishing Prison Incorporated as a coordinator in improving prisoner rehabilitation programmes
Digital- and Technology-Based HGHV Industry	• Accelerating digitalisation through Government Technology (GovTech) • Accelerating National Digital Identity implementation • Implementing national-level digital leadership and upskilling programme • Strengthening tech start-up ecosystem - focusing on angel investors and seed funding
High Value E&E HGHV Industry	• Strengthening front end manufacturing ecosystem to accelerate industry transition towards higher value chain • Emphasising on high value added activities in integrated circuit design, engineering design and wafer fabrication • Enhancing quality investment that prioritise advanced technology
HGHV Agriculture and Agro-Based Industry	• Strengthening modernisation in the agriculture sector through private investment to accelerate adoption of smart farming technology

	• Diversifying agro-based industries to reduce dependency on food imports • Promoting low carbon agriculture practises
Rare Earths HGHV Industry	• Developing a comprehensive business model for rare earths covering upstream, midstream and downstream • Preparing detailed mapping of rare earths resources in states that have potential rare earths resources • Revising the National Mineral Policy 2 to support and set the direction of the mineral industry including rare earths
Empowering MSMEs and Social Enterprises	• Integrating MSMEs into domestic and global supply chain • Promoting alternative financing for MSMEs • Accelerating MSMEs productivity growth through technology adoption • Scaling up MSMEs through smart ventures • Encouraging social enterprises to venture into innovative social entrepreneurship projects
Streamlining the Public Transport Network	• Improving first- and last-mile connectivity through the expansion of the Bus Rapid Transit (BRT) and intracity bus services • Strengthening passenger mobility data • Increasing accessibility and connectivity to facilitate better movements of people and goods • Implementing green aviation by increasing the efficiency of air traffic management
Future-ready Talent	• Implementing a progressive wage policy • Accelerating the implementation of multi-tier levy • Conducting continuous upskilling and reskilling • Introducing Academy in Industry (AiI) programme as a government and industry collaboration platform

Source: RMKT12, Kenanga Research

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