

# IN SUMMARY

## Malaysia's 2nd Stimulus Package

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Revised growth for 2009	<b>-1 to 1%</b> 3.5% (Nov '08), 5.4% (Budget 2009)	
Additional fiscal spending	<b>RM60bln</b> over 2 years, 9% of GDP RM7bln (Nov '08), RM206bln (Budget 2009)	
Budget deficit	<b>7.6%, 4.8%</b> (Nov'08)	
Measures	<ul style="list-style-type: none"> <li>• Fiscal injection <span style="float: right;">RM15bln</span></li> <li>• Guaranteed funds <span style="float: right;">RM25bln</span></li> <li>• Equity investments <span style="float: right;">RM10bln</span></li> <li>• PFI &amp; off-budget projects <span style="float: right;">RM7bln</span></li> <li>• Tax incentives <span style="float: right;">RM3bln</span></li> </ul>	
Four thrusts	<ul style="list-style-type: none"> <li>• Thrust 1: Training, education, employment creation, retrenched workers welfare &amp; reduction of foreign workers <span style="float: right;">RM2bln</span></li> <li>• Thrust 2: Home ownership, public infrastructure, savings bonds, school facilities, rural areas amenities, Sabah &amp; Sarawak infrastructure, microcredit schemes, retrenched workers welfare <span style="float: right;">RM10bln</span></li> <li>• Thrust 3: Guarantee scheme (working capital &amp; loan restructuring), promote automotive, aviation &amp; tourism sectors, higher windfall profit levy threshold on palm oil, tax incentives (accelerated capital allowance, carry back losses) and reducing time-to-market to access capital market <span style="float: right;">RM29bln</span></li> <li>• Thrust 4: Increase Khazanah's investment funds, aviation &amp; telecommunication infrastructure, PFI (Tanjung Agas industrial park in ECER, biotechnology cluster in IDR, traffic infrastructure system around KL Sentral), enhancing GLCs' CSR activities in human capital, new FIC role &amp; enhancing Government procurement <span style="float: right;">RM19bln</span></li> </ul>	
Impact of global recession on Malaysia	<ul style="list-style-type: none"> <li>• Sharp decline in exports (e.g. Jan '09 down by 27.8%)</li> <li>• Sharp decline in export commodity prices (crude oil and palm oil)</li> <li>• FDI inflows expected to halve ('09: RM26bln, '08: RM51bln)</li> <li>• Unemployment rate to rise to 4.5% ('08: 3.7%)</li> <li>• Global meltdown continues to weaken Bursa Malaysia's performance</li> </ul>	

# What's in store?

## BUSINESSES

### Tax incentive for employing local retrenched worker

- Employers who employ retrenched workers to be given double deduction on remuneration expenses incurred, subject to:
  - The workers being
    - Malaysians
    - employed on a full-time basis from 10 March 2009 to 31 December 2010
    - retrenched from 1 July 2008
  - Remuneration expenses eligible for double deduction
    - do not exceed RM10,000 per month
    - limited up to 12 months remuneration per employee

### PROSPER Graduate Programme (Projek Pembangunan Usahawan Dalam Bidang Peruncitan)

- *Perbadanan Usahawan Nasional Berhad* (PUNB) will expand the scope of the Programme to include those with skills and technical certificates in retail or distributive businesses with training, financing and business advisory services. An additional 400 graduates will benefit from the programme.
- Participants are offered *syariah*-based financing of between RM5,000 to RM50,000 with a repayment period of 3 to 7 years.

### Reduce foreign workers

- Levy on foreign workers will be doubled for all sectors except construction, plantation and domestic maids.
- The levy will be paid by the employers. If the services of foreign workers are prematurely terminated, the levy will be refunded on a pro-rated basis to the employers and the employers' bank guarantees will be returned.
- Freeze on the issuance of licences to foreign labour recruitment agencies and tightening of conditions for recruitment of foreign workers by existing agencies.

### Incentives for banks to defer repayment of housing loans

- Deferred interest income received by financial institutions and banks be taxed only when such interest income is received or paid by the borrower. At present, such interest income is taxed even though it is not received yet.
- The incentive provides for
  - deferment of moratorium on the repayment of housing loan for a period of 12 months approved by banking and financial institutions between 10 March 2009 and 9 March 2010
  - individuals undertaking housing loans who are Malaysians retrenched from 1 July 2008
  - institutions licensed under BAFIA, Islamic Banking Act 1983 and Development Financial Institution Act 1989 and any institution approved by Ministry of Finance

## BUSINESSES (cont'd)

### Working capital guarantee scheme

- Currently, SMEs comprise 99% of total registered businesses in Malaysia, contribute 56% to total employment and account for 32% of GDP.
- The Government will establish a Working Capital Guarantee Scheme totalling RM5bln to provide working capital to companies with shareholder equity below RM20mln to further assist SMEs in the country.
- The guarantee scheme:
  - ratio of 80:20, that is 80% will be guaranteed by the Government and 20% by the financial institutions
  - maximum loan amount of RM10mln
  - maximum repayment period of five years

### Industry restructuring loan guarantee scheme

- The Government will set up an Industry Restructuring Guarantee Fund Scheme totalling RM5bln for loans to increase productivity and value-added activities, as well as for the application of green technology.
- The Scheme structure:
  - for companies with shareholder equity of less than RM20mln, the Government will provide a guarantee based on the ratio of 80:20, with Government guarantee of 80%, and the remaining 20% by financial institutions
  - for companies with shareholder equity of RM20mln or more, the guarantee ratio will be 50:50
  - maximum loan is RM50mln
  - to be repaid within a period of 10 years

### Facilitating access to capital market

- Government, with assistance from *Bank Negara Malaysia* (BNM), to set up Financial Guarantee Institution to provide credit enhancement for firms intending to issue bonds. RM15bln expected to be raised.
- The *Securities Commission* (SC) to reduce companies "time-to-market" in issuing shares to raise funds.
  - Rights issues by listed companies will no longer need approval of the SC
  - Issuance and offerings of equity securities by unlisted public companies will be exempted from seeking SC's approval
  - The Code on Take-Overs and Mergers 1998 will no longer apply to private limited companies to facilitate companies to undertake restructuring as well as take-overs and mergers
  - The SC only needs to be informed of any amendments to the terms and conditions of bonds and *sukuk* issuances, which have already been approved by bond and *sukuk* holders
  - The SC only needs to be informed of any revisions relating to the terms and conditions of bonds and *sukuk* for listing on Bursa Malaysia
  - Convertible and exchangeable bonds will be exempted from mandatory rating requirements

### Reducing cost of doing business

- Exemption on levy payments to the Human Resource Development Fund for a period of 6 months for employers in the textile as well as electrical and electronics industries with effect from 1 February 2009.
- Reduction in the levy payment rate from 1% to 0.5% for all employers for a period of 2 years effective 1 April 2009.

## BUSINESSES (cont'd)

### Accelerated capital allowance

- To promote investments on plant and machinery, the accelerated capital allowance to be given
  - to all businesses on expenses incurred for all plant and machinery between 10 March 2009 and 31 December 2010 - can be fully claimed within 2 years
- Currently, expenses incurred on renovation and refurbishment of business premises are not allowed as a deduction and do not qualify for capital allowance. To promote renovation and refurbishment of business premises, the accelerated capital allowance to be given
  - for expenditure incurred on renovation and refurbishment between 10 March 2009 and 31 December 2010
  - can be claimed within 2 years
  - capped at RM100,000

### Carry back on current year losses

- Current year losses of up to RM100,000 to be carried back to the immediate preceding year.
  - The tax treatment is applicable to all businesses including sole proprietors and partnerships
  - The proposal is effective from assessment year 2009 to 2010
- There is no provision for current year losses to be carried back at the moment.

### Profit levy on oil palm

- Thresholds for windfall profit levy will be increased to:
  - RM2,500 per tonne for Peninsular Malaysia
  - RM3,000 per tonne for Sabah and Sarawak
- At present, a windfall profit levy on oil palm is imposed when the price of crude palm oil exceeds RM2,000 per tonne.

## Private Finance Initiative (PFI)

- RM2bn fund allocated to assist implementation of projects through PFIs and public-private partnerships.
- Private companies will be invited to bid for the funds.
- PFI projects to be implemented must have the following characteristics:
  - the private sector will implement, finance and assume project risks. The project's revenue must be generated principally from the private sector, and not from Government sources
  - Government financial assistance will only constitute a small proportion of the project investment cost. The assistance is intended to act as a tipping point, whereby the assistance enables a marginally non-viable project to become viable
  - projects to be implemented must be in strategic sectors such as education, health and tourism; have high spillover effects; create sustainable job opportunities; and enhance the nation's competitiveness
- Among the projects approved under public-private partnerships are
  - the provision of infrastructure for the Tanjung Agas industrial park
  - a biotechnology cluster in Iskandar Malaysia
  - the upgrade of traffic infrastructure system around KL Sentral
- An effective area for public-private partnership is education.
  - The Government proposes to increase the number of scholarships for entry into local private universities
  - The Government has also received commitment from GLCs to enhance CSR activities in human capital development. For a start, GLCs will establish 10 not-for-profit private schools

## Public sector and Government-linked Companies (GLCs)

### Investments by Khazanah Nasional Berhad

- The investment funds of Khazanah Nasional Berhad will be increased by RM10bln.
  - Will be invested over a two-year period
  - Priority on domestic investments that have high multiplier effects and create more job opportunities
  - Investment focus on strategic sectors, including
    - telecommunications
    - technology
    - tourism
    - agriculture
    - life sciences
    - projects related to Iskandar Malaysia
- Khazanah's investments in 2009 include:
  - RM3bln in the telecommunications sector to improve broadband infrastructure in the country
  - RM1.7bln for the building of infrastructure, hotels, theme parks as well as universities to intensify the development of Iskandar Malaysia
  - agricultural projects to be implemented:
    - a 1,000-hectare prawn aquaculture project in Setiu, Terengganu
    - a 200-hectare modern vegetable-farming project in Cameron Highlands
- Overall, investments by Khazanah and its subsidiaries are expected to create 70,000 job opportunities by 2011.

### Effective management of government financial resources

- The Government will strengthen the value-for-money approach in Government procurement to enhance elements of competition.
  - All Government procurements will be made through open tenders or restricted tenders, except for specific cases
  - Electronic procurement will be expanded through the *e-Perolehan* system to enhance transparency in the management of Government procurements
- To manage costs
  - the implementation of design and build projects will not be allowed except in cases requiring high technical expertise
  - project proposals and any changes to project costs must obtain approval from the Standards and Costs Committee
- Government procurement:
  - the Government has mandated the use of local materials, products or services to give priority to local manufacturers
  - procurement of imported items will only be allowed if they cannot be sourced locally or the cost of local products are too high

### Roles of Foreign Investment Committee (FIC)

- FIC's new role will be monitoring investments at the macro level to make Malaysia a more competitive market.
- At the micro level, FIC will continue to formulate policy guidelines focusing only in sectors of national interest, such as ports and airports, property, defence, public transportation and telecommunications.
- FIC will adopt a more liberal approach.
- The Government is formulating guidelines to reflect its new role.

## INFRASTRUCTURE

### Improving public infrastructure

- Accelerate implementation of projects worth RM8.4bln under the 9MP, which have high local content and multiplier effects, people-centric and can be implemented immediately. Additional RM1.6bln is allocated for funds to promote investments.
- Additional RM200mln allocated to repair and maintain drains and roads.
- RM150mln allocated for renovation, maintenance and repairs of welfare homes, fire and rescue stations and quarters, as well as public toilets in mosques, *surau* and tourist spots.

### Improving school facilities

- RM1.95bln is provided to build and improve facilities in 752 schools, particularly in rural areas as well as Sabah and Sarawak.
- A sum of RM300mln from this allocation will be used to improve facilities in government-aided religious schools, national-type Chinese and Tamil schools as well as mission schools.

### Basic amenities in rural areas

- RM230mln to increase coverage of electricity and water supplies in rural areas, particularly in Sabah and Sarawak.
- RM350mln for construction of rural roads.
- RM500mln for *Program Penyelenggaraan Infrastruktur Awam (PIA)* and *Projek Infrastruktur Asas (PIAS)* projects, with emphasis on programmes in Sabah and Sarawak.

### Development programmes in Sabah and Sarawak

- A sum of RM1.2bln will be allocated.
- Projects and programmes to be implemented in Sarawak include
  - expansion of Sibu Airport
  - deepening works at Miri Port
  - repair and improve infrastructure damaged by floods
  - upgrading of schools as well as construction of Lawas Training Centre, Kota Samarahan Industrial Estate and tourism facilities
- In Sabah, among the main programmes and projects to be implemented include
  - building of Giat Mara centres
  - Kota Kinabalu Electricity Transmission System
  - upgrading of schools, roads and bridges
  - action to resolve issues related to health services in Queen Elizabeth Hospital, Sabah

### Off-budget projects

- Identified investment projects worth RM5bln that will be implemented on an off-budget basis include
  - LCCT at KLIA at an estimated cost of RM2bln
  - expansion of Pulau Pinang Airport at an estimated cost of RM250mln
  - projects to improve telecommunication infrastructure, including broadband libraries, Broadband Community Centres as well as the provision of basic telephony services in 89 districts in rural areas at a cost of RM2.4bln by the Malaysian Communications and Multimedia Commission
  - construction of sky bridges and covered walkways between buildings, especially in the Golden Triangle, Kuala Lumpur at a cost of RM100mln

## HOUSING

### Increasing home ownership

- The Government will provide an additional RM200mIn on top of the RM200mIn allocated to build 6,500 units of *rumah mesra rakyat* by *Syarikat Perumahan Negara Berhad* in the 1<sup>st</sup> Stimulus Package in November 2008.
- Proposed tax deduction up to RM10,000 per year to be given on housing loan interest for house purchased from developer or third party, subject to
  - tax payers are Malaysian citizens and residents
  - limitation of one residential house including flat, apartment or condominium
  - S&P agreement executed between 10 March 2009 and 31 December 2010
  - the deduction given for 3 consecutive years from the first year of housing loan interest paid

## AUTOMOTIVE

### Promoting the automotive sector

- Additional allocation of RM200mIn to the Automotive Development Fund to continue supporting the development of the automotive industry and vendors.
- To establish the Automotive Institute of Malaysia.
- Auto-scrapping scheme for PROTON and PERODUA to stimulate car sales, as well as reduce carbon emission.
  - Joint effort between the Government and the private sector
  - Under the scheme
    - a discount of RM5,000 will be given to car owners, who trade in their cars, which are at least 10 years old, for the purchase of new PROTON or PERODUA cars
    - the Government will finance part of the discount borne by PROTON or PERODUA

## AGRICULTURE

### Microcredit programmes

- An additional RM300mIn is provided for the microcredit programme under AgroBank to assist farmers and agro-based businesses in rural areas as well as RM50mIn for *Tabung Ekonomi Kumpulan Usahawan Nasional* (TEKUN).
- A Fishermen's Welfare Fund will be established and managed by *Lembaga Kemajuan Ikan Malaysia* (LKIM) with an initial allocation of RM2mIn to assist fishermen affected by disasters at sea.

## EDUCATION

### Post-graduate education

- The Government to finance tuition fees and research grants up to RM20,000 for every student pursuing PhDs and up to RM10,000 per student in Masters programme locally.
- 500 places will be provided for studies at PhD level while 10,000 places at Masters level in public institutions of higher education as well as at UNITEN, MMU and UTP.

## AVIATION

### Expanding aviation industry

- Malaysia Airports Holdings Berhad will build and operate a new LCCT at Kuala Lumpur International Airport (KLIA) at an estimated cost of RM2bln, which is expected to be ready in 2011.
- To attract more tourists, a rebate of 50% on landing charges will be given for a period of 2 years effective 1 April 2009 to all airlines that operate from Malaysia.

## TOURISM

### Promoting tourism

- Intensify the implementation of various tourism programmes to leverage on our competitive advantage, including eco-tourism, health and education tourism.
- RM200mln will be allocated to upgrade infrastructure in tourist spots, diversify tourism products, organise more international conferences and exhibitions in Malaysia as well as improve the homestay programme.
- Strengthen the Malaysia My Second Home Programme and consider issuing work permits to skilled spouses of the programme participants.

## CREATIVE INDUSTRY

### Development of creative arts industry

- An allocation of RM20mln is provided to *Radio Televisyen Malaysia* (RTM) to implement several projects to develop the local music industry.

## INDIVIDUALS

### Training and employment opportunities in public & private sector

- 63,000 staff members will be recruited to fill in vacancies and serve as contract officers in various Government agencies.
- 100,000 training opportunities and job placement in the public and private sectors will be created with joint collaboration between government agencies and GLCs and the private sector, including private training institutes. RM700mln allocation for this purpose.

### Government subsidies

- A total sum of RM27.9bln subsidies to be provided for 2009 includes
  - RM674mln subsidies to be allocated to avert price increase for necessities such as sugar, bread and wheat flour
  - RM480mln subsidies to ensure toll rates not increased

### Government savings bonds

- To issue RM5bln syariah-compliant savings bond.
  - 3 years maturity period
  - Open to all citizens aged 21 and above
  - Annual return of 5%, to be paid quarterly to bondholders
  - Minimum investments of RM1,000
  - Maximum investments of RM50,000

### Assisting the less fortunate

- Additional allocation of RM20mln will be provided to improve the facilities of day care centres for the elderly, strengthen the management of women shelter homes and increase facilities for childcare centres under the social safety net programmes.

### Ensuring welfare of retrenched workers

- Existing tax exemption of RM6,000 given on retrenchment benefits be increased to RM10,000 for each completed year of service.

### Attracting high-net-worth and skilled individuals

- A new programme will be introduced where permanent resident status would be considered for
  - high-net-worth individuals bringing more than USD2mln for investments or savings in Malaysia
  - highly skilled foreign professionals

## Economic stimulus packages of selected countries

Countries	USD billion	As % of GDP
US	1,538.0	11.0
China	586.0	16.0
Japan	275.0	1.0
EU	259.0	1.5
Italy	100.9	0.5
France	32.8	1.3
UK	29.7	1.0
Germany	29.0	2.0
<b>Malaysia *</b>	<b>17.8</b>	<b>10.1</b>
Ukraine	16.4	2.4
Hungary	15.7	0.1
Singapore	13.8	10.7
South Korea	11.0	0.0
Netherlands	7.5	1.0
Pakistan	4.6	3.2
Norway	2.9	1.0

Source: NST, 17 Feb 2009 and other relevant sources

\* Total for 1<sup>st</sup> and 2<sup>nd</sup> Economic Stimulus Package = RM67bIn (USD17.8bIn)

