Strengthening macroeconomic resilience for sustained growth

Overview

Highlights
Tenth Malaysia Plan, 2011-2015: Achievements

Looking back
Tenth Malaysia Plan, 2011-2015: Progress

External environment

Domestic economy

Issues and challenges

Summary of macroeconomic strategies
Eleventh Malaysia Plan, 2016-2020

Macroeconomic prospects
Eleventh Malaysia Plan, 2016-2020

External environment

Multidimensional goals

Macroeconomic strategies to strengthen economic fundamentals

Domestic economy

Conclusion

2

Overview

The economy continues to be resilient in the face of global economic uncertainties which present risks to a relatively small yet open economy such as Malaysia. The nation has weathered several economic shocks in the past, mainly due to solid fundamentals. Going forward, economic fundamentals will continue to be strengthened-robust domestic demand, a diversified economic base, large domestic savings, sustainable fiscal position, low inflation and a sound financial system will ensure resilience against external risks and uncertainties. Stable economic growth will also provide a conducive environment for businesses and investment in the long-term.

During the Tenth Malaysia Plan, 2011-2015, the Malaysian economy expanded at a steady pace despite mixed performance globally. Real Gross Domestic Product (GDP) is estimated to expand by 5.3% per annum with nominal per capita Gross National Income (GNI) expected to increase by 5.8% from RM27,819 (US$8,636) in 2010 to RM36,937 (US$10,196) by 2015. Between 2009 and 2014, the average monthly household income expanded faster at 8.8% per annum. Growth was driven by strong domestic demand, particularly from increased private investment, and a diversified economic base which softened the impact of a challenging external environment. Due to the steady expansion of the economy, the *rakyat* enjoyed improvements in income distribution and low unemployment at 2.9%.

During the Eleventh Malaysia Plan, 2016-2020, the Government will continue to strengthen Malaysia's economic resilience to withstand future economic challenges. The economy is expected to grow at a rate of 5-6% per annum based on sustained domestic demand and increasing contribution from the external sector. In addition, continued structural reforms to strengthen the foundation for economic expansion, including innovation and productivity improvements, will provide further impetus for growth, higher national per capita and household incomes as well as increased wellbeing of the *rakyat*. Monetary and fiscal policies will be implemented to ensure stable prices, exchange rates, and interest rates. Private sector investment will be encouraged to modernise key economic sectors, and the services sector in particular will pivot to focus on high-value, knowledge-intensive services. The Federal Government will balance its fiscal position by 2020 by strengthening the tax base and improving the decision-making process of development allocation for proposed programmes or projects. Exports will be increased by improving product competitiveness, promoting exports of services, and diversifying markets, thus maintaining a surplus in the external account. Productivity improvements through enhanced capital efficiency and the contribution of Multi-Factor Productivity (MFP) will also be a key driver of the nation's economic growth within the Eleventh Plan.

Please refer to strategy paper 1 for further details at www.epu.gov.my

Highlights
Tenth Malaysia Plan, 2011-2015: Achievements

5.3%	RM36,937	RM6,141	7.1%	RM162 billion
Average real GDP growth compared with world GDP growth at 3.6%	National per capita income in 2015 in current prices	Average monthly household income in 2014 from RM4,025 in 2009	Average real private consumption growth	Average private investment in current prices
Real GDP growth	**Per capita income**	**Average household income**	**Private consumption**	**Private investment**

Current account of the balance of payments	Fiscal deficit	Multi-Factor Productivity (MFP)	Inflation	Unemployment
2.0%	3.2%	29.8%	2.5%	2.9%
Ratio of current account of BOP to GNI in 2015	Ratio of fiscal deficit to GDP in 2015	Ratio of MFP to real GDP growth with average MFP growth of 1.6%	Average annual inflation rate	Full employment expected in 2015

Looking back
Tenth Malaysia Plan, 2011-2015: Progress

Real GDP is estimated to expand by 5.3% per annum on the back of increasing domestic demand, supported by solid economic fundamentals and a sound financial system.

During the Tenth Plan, Malaysia's economy grew on the back of increased domestic demand, particularly private investments in the services and manufacturing sectors. Real GDP is estimated to expand by 5.3% per annum during this period, exceeding global GDP growth of 3.6%, and growth of emerging market and developing economies at 5%. The services sector in particular is expected to increase its contribution to GDP - estimated to reach 53.8% in 2015 from 51.2% in 2010.

External environment

The world economy expanded by 3.6% per annum from 2011 to 2014, characterised by mixed performance of major economies. The economies of the five major member countries of the Association of Southeast Asian Nations (ASEAN-5) grew by 5.1%, the United States of America (US) by 2.1% and Japan by 0.7%, attributed to improved labour market conditions, strong domestic demand and encouraging exports. However, the economies of the People's Republic of China (PRC) decelerated to 8% and the Euro Area to 0.3%.

World trade expanded by 4.1% per annum, supported by steady consumer spending in the US and other advanced economies, coupled with sustained export performance in emerging market and developing economies. Meanwhile, world inflation softened, averaging at 4.2% because of the substantial output gap in the advanced economies and falling energy prices.

The final year of the Tenth Plan is expected to be challenging with persistent economic risks, among others, fiscal uncertainties in advanced economies, softening of commodity prices, shifting US monetary policy, economic rebalancing of the PRC and geopolitical tensions.

Domestic economy

Despite mixed global economic performance, Malaysia's economy expanded at a steady rate supported by strong domestic demand and solid economic fundamentals. The diversified economic base and sound financial system also softened the impact of the challenging external environment.

Aggregate demand

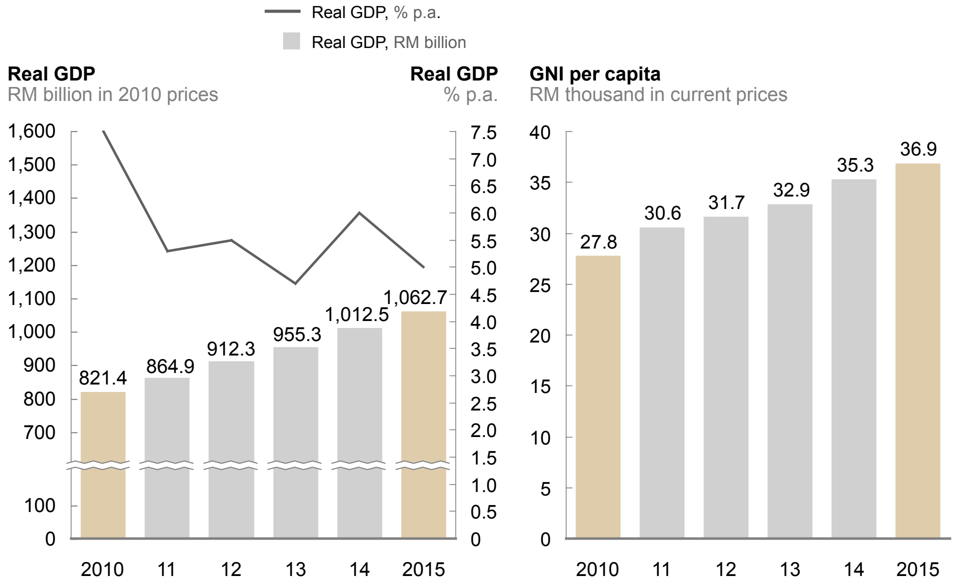
The GDP is estimated to expand by 5.3% per annum in real terms during the Tenth Plan while nominal per capita GNI is expected to increase by 5.8% per annum from RM27,819 (US$8,636) in 2010 to RM36,937 (US$10,196) by 2015, as shown in Exhibit 2-1. This is translated to an increase in average monthly household income at 8.8% per annum from RM4,025 in 2009 to RM6,141 in 2014[1].

The economy was driven by strong expansion in domestic demand, mainly from **private investment** activities. Real private investment is estimated to record a double-digit growth of 12.6% per annum during the Plan period, as shown in Exhibit 2-2, driven by capital spending, particularly in the services and manufacturing sectors. Its contribution to GDP is expected to

[1] Based on Household Income Survey in 2009 and Household Income and Expenditure Survey in 2014 undertaken by the Department of Statistics Malaysia

Exhibit 2-1

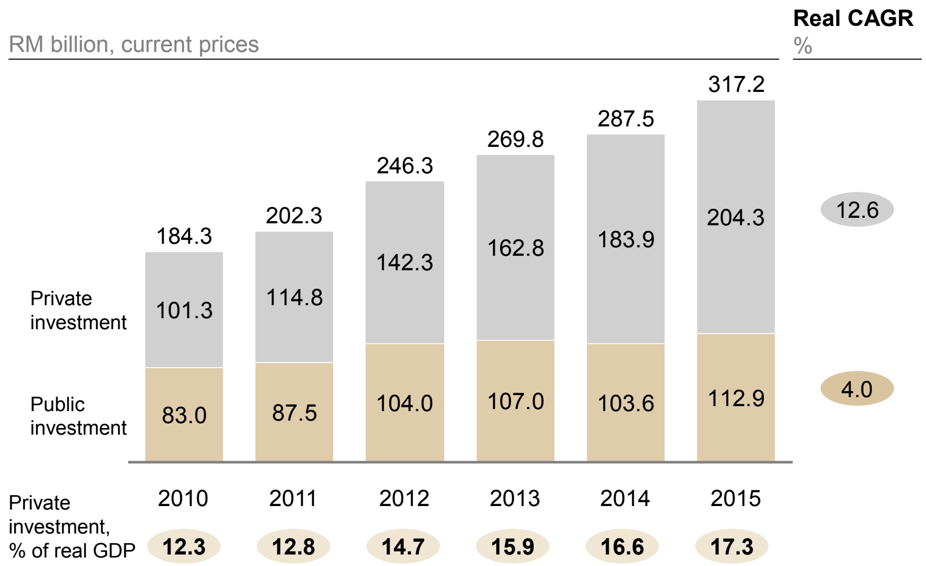
GDP and GNI per capita, 2010-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

Exhibit 2-2

Investment, 2010-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

increase from 12.3% in 2010 to 17.3% in 2015. To further facilitate private investment, a total of RM6.1 billion was disbursed through the Facilitation Fund[2] from 2011 to 2014 for infrastructure, universities, colleges, resorts, mixed development projects, and power plants.

Foreign direct investment (FDI) remained an important source of investment, technology transfer, and access to foreign markets. A total of RM139 billion of FDI was recorded from 2011 to 2014, with Japan, Singapore, and Netherlands being the main contributors.

Public investment is expected to grow at 4% per annum in real terms during the Tenth Plan, spurred by the implementation of large-scale projects, such as the Klang Valley Mass Rapid Transit (KVMRT) Line 1 from Sungai Buloh to Kajang, Electrified Double-Track Railway Ipoh-Padang Besar, Light Rail Transit (LRT) extension from Kelana Jaya and Sri Petaling to Putra Heights, KLIA2 Terminal, Central Spine Road from Kuala Lipis to Bentong, as well as the Regasification Terminal (RGT-1) in Melaka.

Private consumption is estimated to expand by 7.1% per annum, supported by favourable employment and wage conditions. Consumption is not expected to be impacted much by the rationalisation of subsidies and the implementation of the goods and services tax (GST).

Public consumption expanded rapidly by 8.4% during the first three years of the Plan, mainly contributed by higher expenditure on supplies and services as well as salary adjustments for civil servants in 2012. However, its expansion for the overall Plan period is estimated to be lower at 5.5% due to more prudent spending and fiscal consolidation in 2014-2015.

[2] The Facilitation Fund was introduced under the Economic Stimulus Package in 2009 as an initiative to encourage the implementation of private sector projects. Its main objective is to bridge the viability gap in private sector investment in high-value projects that have large spill-over effects and high strategic impact to the economy

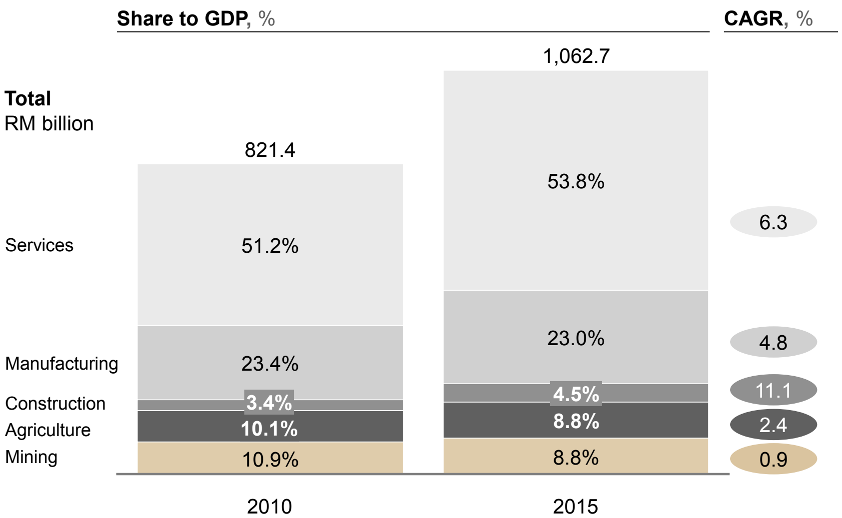
Sectoral output

All sectors of the economy are expected to expand during the Plan period, as shown in Exhibit 2-3. The structure of the economy continues to evolve to become more services oriented. The share of the services sector to GDP is estimated to increase from 51.2% in 2010 to 53.8% by 2015. The share of the construction sector is estimated to increase from 3.4% to 4.5%, while those of the manufacturing, mining, and agriculture sectors are expected to decline. However, the latter three sectors continue to grow in absolute terms and their value added to the economy remains significant.

The **services sector** is estimated to grow by 6.3% per annum during the Tenth Plan. This growth is driven by the wholesale and retail trade subsector, supported by resilient consumer spending as well as the communications subsector, due to the sustained increase in the number of cellular phone subscribers and increased usage of mobile data services. In addition, the accommodation and restaurants subsector is expected to expand further due to higher tourist arrivals

Exhibit 2-3

Real GDP by kind of economic activity, 2010-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

and receipts, while improvements in wholesale and retail trade-related activities boosted the transport and storage subsector. Robust activities in the infrastructure and residential subsectors are expected to spur a double-digit growth of 11.1% in the **construction sector**.

The **manufacturing sector** is estimated to grow at 4.8% per annum, given the resilient domestic demand from higher private investment and strong expansion in the construction-related subsector. This growth is also supported by the recovery in exports, particularly of electrical and electronics (E&E) products. The **agriculture sector** is estimated to maintain its growth momentum of 2.4% per annum, supported by modernisation in the agro-food and industrial commodity subsectors.

The **mining sector** increased marginally by 0.9% per annum mainly due to lower production of crude oil from maturing oil fields. On average, 587,000 barrels per day of crude oil and condensates was produced during the Plan, which is within the production volume set under the National Depletion Policy. Crude oil prices saw extreme fluctuations where the average price of Brent crude oil, the international key benchmark for global crude oil prices, plunged to US$62.2 per barrel in December 2014 from an average of US$110.5 per barrel in 2011-2013. The Brent crude price is expected to stabilise to about US$60 per barrel in 2015. The production of liquefied natural gas (LNG) averaged at 25.2 million tonnes per annum (mtpa) to fulfil contractual demands from Japan, South Korea, Taiwan, and the PRC.

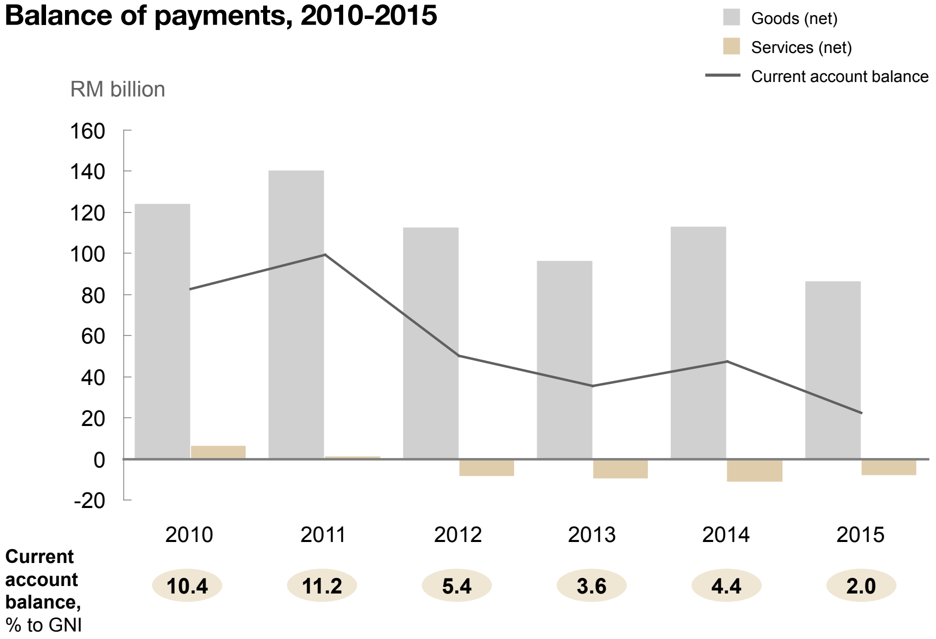
International trade and balance of payments

The contribution of the external sector remains substantial at RM1.6 trillion, equivalent to 135% to GDP in 2015 compared with RM1.3 trillion in 2010 (158% to GDP). Based on the World Trade Organization 2013 report, Malaysia is currently the 25th biggest merchandise exporter contributing 1.2% of total world merchandise exports. The expansion of total exports is expected to be sustained at 4% per annum during the Tenth Plan. Malaysia's major trading partners were ASEAN followed by the PRC, Japan, the European Union (EU), and the US.

During the first three years of the Plan, **gross exports** moderated to 4.1% per annum, mainly due to the contraction in E&E exports by 1.7% and agriculture commodities by 1.2% following weaker external demand. Mineral exports grew at 9.9% supported by 15.4% growth in LNG exports, following higher demand for gas-powered electricity generation in Japan.

Exhibit 2-4

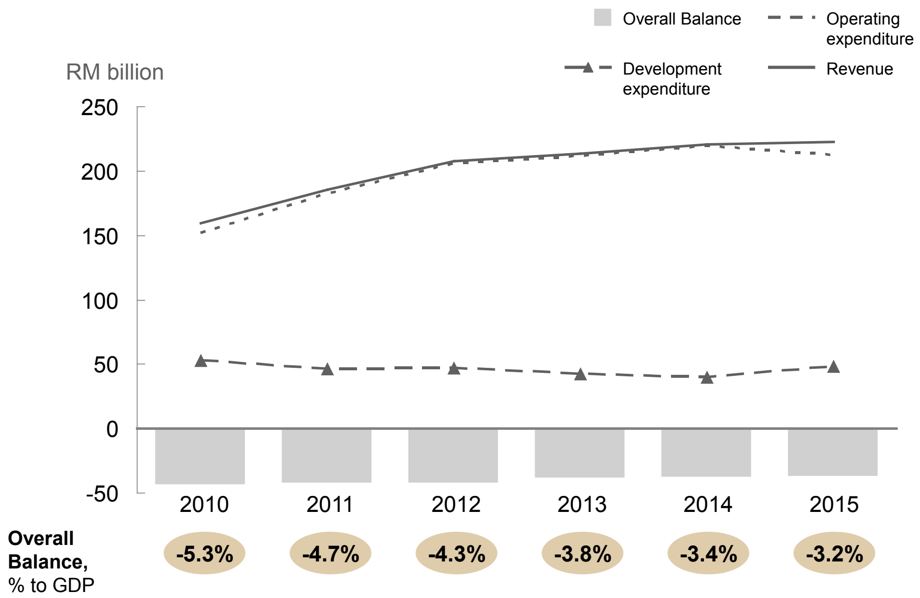
Balance of payments, 2010-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

Exhibit 2-5

Federal Government account, 2010-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit, Ministry of Finance and Department of Statistics Malaysia

Malaysia became a net overall importer of petroleum-related products in 2014, net exporting RM8.8 billion worth of crude oil, but net importing RM9.7 billion of petroleum products. Therefore, the net impact of lower oil prices beginning 2014 has been positive for Malaysia. Given that the share of mineral exports to total exports is only 13.7%, the broader impact of uncertainties in the oil and gas market to the national economy is also limited.

Growth of exports in 2014-2015 is expected to further moderate by 3.9% per annum, mainly due to lower commodity prices. Mineral exports are estimated to decline by 13.7% per annum and agricultural exports by 5.3% per annum. However, manufactured exports are estimated to increase by 7.8% per annum due to sustained demand for E&E products during the same period.

Gross imports are estimated to expand by 6.5% per annum during the Plan period, contributed partly by the increase in imports for re-exports. This accounted for nearly 15% of total imports, following the setting up of the regional oil storage and trading facilities in southern Johor. Imports of capital and intermediate goods contributed to three quarters of total imports.

The **current account of the balance of payments** (BOP) is expected to remain in surplus, albeit narrowing from RM82.8 billion or 10.4% to GNI in 2010 to RM22.4 billion or 2% to GNI in 2015, as shown in Exhibit 2-4. This is attributed to the surplus in the goods account, higher tourism receipts in the services account and improvements in the secondary income account.

Malaysia continues to maintain a strong international reserves position. As of 15 April 2015, international reserves stood at RM391.4 billion (US$105.6 billion), making it 1.1 times the short-term external debt, and sufficient to finance 8.2 months of retained imports.

Federal Government fiscal position

The Federal Government fiscal position was further consolidated in line with the targets set during the Tenth

Plan. The fiscal deficit was reduced from 5.3% to GDP in 2010 to 3.4% in 2014 due to more prudent fiscal management, as shown in Exhibit 2-5. Revenue collection was better than expected from 2011 to 2013 with higher global crude oil prices, strategic divestments by Khazanah Nasional Berhad, and securitisation of Government employees' housing loans. As part of the overall effort to facilitate fiscal consolidation, the Government undertook several structural and institutional reforms during the Plan period, such as establishing the Fiscal Policy Committee, adopting Outcome-Based Budgeting, and implementing GST. Fuel subsidies were further rationalised by the introduction of the managed float system for retail RON95 and diesel prices from December 2014.

Following the falling crude oil prices in 2014, the fiscal deficit is expected to be 3.2% to GDP in 2015 as compared with the target of 3%. Overall, the continued reduction in the fiscal deficit will ensure that the total Federal Government debt does not exceed the self-imposed debt limit of 55% to GDP. By 2015, debt is expected to reach RM622.7 billion (53.3% to GDP) from RM407.1 billion (49.6% to GDP) in 2010. Although the debt level remains elevated, the debt servicing capacity is still within prudent limits, which is capped below 15% of revenue. In 2015, debt service charges are estimated to be 10.9% of revenue compared with 9.8% in 2010.

Inflation and labour market

Although the Government rationalised subsidies for fuel, electricity and sugar, inflation remained moderate at an average rate of 2.5% per annum between 2011 and 2014. The main contributors to inflation were food and non-alcoholic beverages; transport; and housing, water, electricity, gas, and other fuel. These three categories accounted for 80.5% of the overall increase in consumer prices during the period. Inflation in 2015 is expected to be lower between 2% and 3%, mainly due to the decline in global oil prices. This would partly offset some of the impact from the implementation of GST from 1 April 2015.

The economy is expected to continue to be in full employment with the unemployment rate remaining at 2.9% by the end of the Tenth Plan. This is attributed to the steady economic growth and improvements in the labour market. A total of 1.8 million jobs are estimated to be created mainly in the services and manufacturing sectors.

Issues and challenges

Malaysia has continued to strengthen economic resilience through various measures over the last five years. Moving forward, there are still challenges to be addressed. The five key challenges that will be addressed by the Government during the Eleventh Plan are uncertainties in the global economy, lagging productivity growth, inadequate fiscal space, low compensation to employees, and disparity in household income. These challenges can significantly affect the nation's economic performance and its future growth trajectory. Therefore, macroeconomic strategies under the Eleventh Plan will seek to ensure that the economy continues to be resilient.

Uncertainties in the global economy

As a small and open economy, Malaysia is susceptible to global economic risks and uncertainties. The economic shocks experienced in the past few decades were triggered by external factors such as the collapse of world commodity prices in 1985, Asian financial crisis in 1997/1998 and the subprime crisis in 2009. Nevertheless, Malaysia managed to rebound within a year of these crises, which demonstrated its economic resilience. In addition to shorter global economic cycles, Malaysia also faces the prospect of a drastic fall in the prices of major export commodities, depreciation of the ringgit against major currencies, and the risk of economic slowdown of its major trading partners.

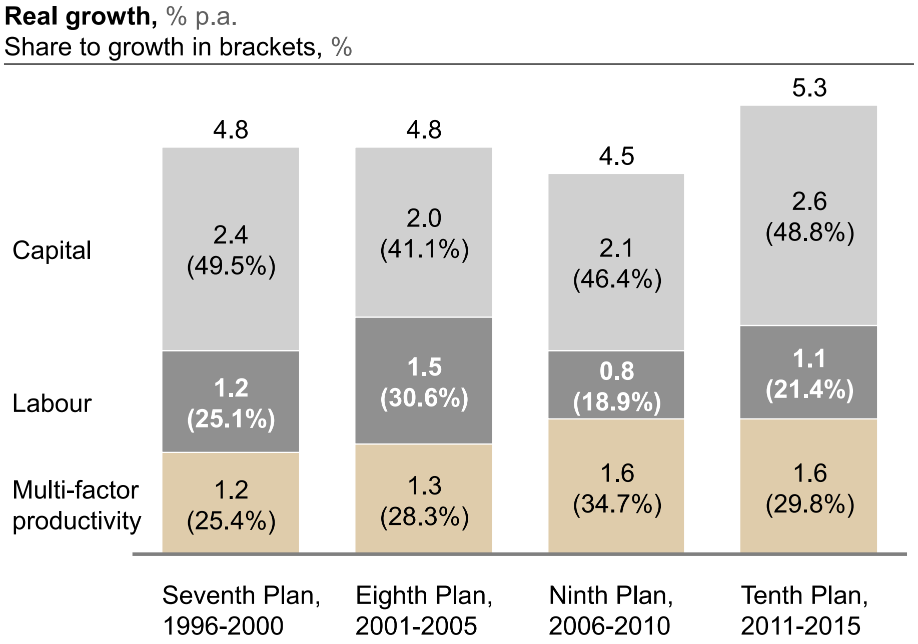
Lagging productivity growth

Since the mid-1990s, Malaysia has focused on increasing innovation and productivity to transform from an input-driven to a knowledge-based economy. However, productivity level still lags behind that of most developed economies. In 2013, Malaysia's labour productivity was only 32.4% that of the US and 56.1% that of South Korea. This is mainly due to the low contribution of MFP[3] to the economy. The Malaysian economy is still driven by traditional factors of production, namely capital and labour, which contributed about 70% of GDP growth, as shown in Exhibit 2-6. Even though labour and capital are still necessary for production, higher

[3] MFP measures the part of economic growth that cannot be explained by the increased utilisation of capital and labour, and is often interpreted as the contribution to economic growth made by factors such as technical and organisation innovation as well as quality of labour. MFP is synonymous to Total Factor Productivity (TFP)

Exhibit 2-6

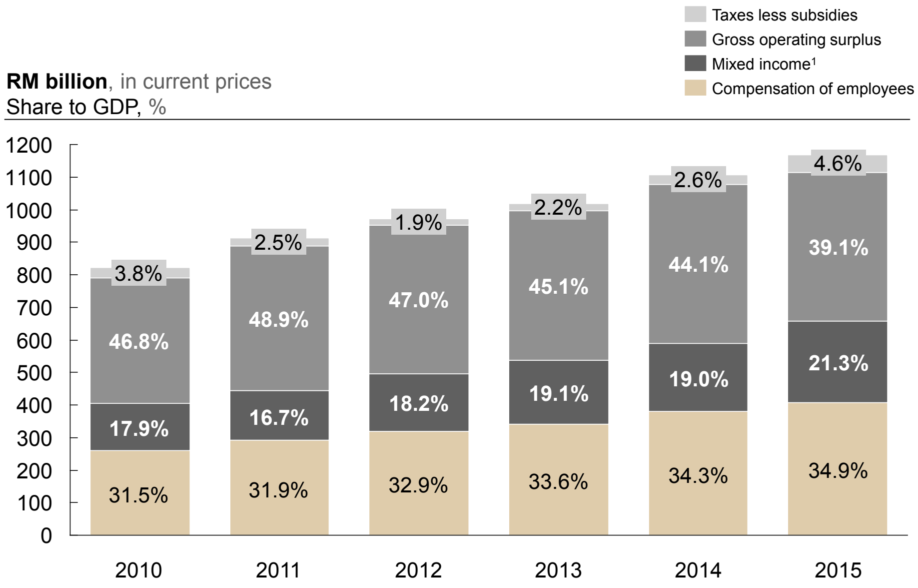
Factors of production, 1996-2015



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

Exhibit 2-7

GDP by income approach, 2010-2015



Notes: Based on GDP in 2010 prices
1 Income earned by self-employed and unincorporated businesses
Source: Economic Planning Unit and Department of Statistics Malaysia

MFP contribution will ensure a more sustainable growth pattern and equitable distribution of wealth in the long run.

Inadequate fiscal space

The Federal Government fiscal account remained in deficit, albeit on a declining trend, throughout the Tenth Plan. Nevertheless, the deficit was financed through non-inflationary means, mainly through borrowing from domestic non-banking institutions and issuing bonds, while keeping to the self-imposed borrowing limit of 55% to GDP. In view of global economic uncertainties, it is imperative that fiscal consolidation measures continue, while also ensuring that there is adequate public funding to support economic growth and deliver quality services to the *rakyat*.

Low compensation to employees

Although economic growth has been accompanied by a reduction in income disparity, a significant gap still exists between the income of capital owners and employees, as shown in Exhibit 2-7. During the 2010-2013 period, the share of Gross Operating Surplus (GOS), which represents income of capital owners, averaged 64.9% of GDP while the Compensation of Employees (CE) was 32.5%. The CE to GDP ratio for Malaysia is lower compared with that of other high- and middle-income countries such as Australia (47.8% of GDP), South Korea (43.2%), and South Africa (45.9%).

Disparity in household income

As the nation continues its stable economic growth, all Malaysians should be given the opportunity to contribute to and participate in the economy. However, certain communities still remain vulnerable to economic risk, particularly the bottom 40% (B40) households. Even though the average monthly income of the B40 households has increased by 12% per annum between 2009 and 2014, its income share of total household income only increased marginally from 14.3% in 2009 to 16.5% in 2014. Further raising the income of B40 households is a priority for Malaysia to achieve more inclusive development.

Summary of macroeconomic strategies Eleventh Malaysia Plan, 2016-2020

Unlocking productivity potential to ensure sustainable and inclusive growth

- Nation-wide productivity agenda and implementation plan
- Enhancing public sector productivity and accelerating regulatory reforms
- Greater collaboration in re-skilling and research
- Ensuring productivity is championed across industries
- Enterprise-level productivity assessments and targets

Promoting investment to spearhead economic growth

- Reducing the cost of doing business
- Providing performance-based incentives for high-income and knowledge-intensive economic activities
- Addressing the talent gap and mismatch
- Improving access to financing for knowledge-intensive industries
- Providing tipping point financing through the Facilitation Fund

Increasing exports to improve trade balance

- Improving the export ecosystem
- Moving up the value chain
- Maximising opportunities with strategic partners
- Increasing external industry expert support

Enhancing fiscal flexibility to ensure sustainable fiscal position

- Enhancing revenue and implementing more prudent spending measures

Multidimensional goals, 2016-2020

GDP growth at **5-6%** per annum

Labour productivity at **RM92,300** by 2020 from RM77,100 in 2015

GNI per capita at **RM54,100** by 2020

Average monthly household income at **RM10,540** by 2020 from RM6,141 in 2014

Compensation of employees to **40%** GDP by 2020 from 34.9% in 2015

Malaysian Wellbeing Index (MWI) to increase **1.7%** per annum

SELECTED OUTCOMES

Macroeconomic prospects, 2016-2020

Investment

9.4% average growth of real private investment

RM291 billion average private investment in current prices

2.7% average growth of real public investment

RM131 billion average public investment in current prices

Consumption

6.4% average growth of real private consumption

3.7% average growth of real public consumption

International trade

4.6% average growth of gross exports

RM57.3 billion trade balance by 2020

RM46.5 billion current account of balance of payments at 2.6% of GNI by 2020

Unemployment

2.8% unemployment rate by 2020 and full employment throughout Plan period

Fiscal position

below 45% Federal Government debt to GDP by 2020

Fiscal position to be balanced by 2020

Macroeconomic prospects Eleventh Malaysia Plan, 2016-2020

GDP growth will be backed by strong domestic demand and expanding external sector, as well as a shift in focus towards multidimensional goals that balance economic growth, wealth distribution, and national wellbeing in line with the people economy.

The Eleventh Plan period is crucial as it is the final Plan before the year 2020, the year by which the nation would have achieved its goal of becoming an advanced and inclusive nation. In line with the priorities of the people economy, the Government will shift towards multidimensional goals for the nation that balance economic growth, wealth distribution, and national wellbeing. Thus, the multidimensional goals set out for the Eleventh Malaysia Plan will encompass macroeconomic targets as well as socio-economic goals of income distribution and wellbeing.

External environment

The Malaysian economy is expected to benefit from more robust global economic prospects, recovery of commodity prices and benign global inflation during the Eleventh Plan. The global economy is expected to strengthen during the period to grow at 3.9% per annum, as shown in Exhibit 2-8. Stronger consumer and business spending in advanced economies, stabilisation and recovery of emerging market and developing economies as well as the easing of fiscal constraints in advanced economies are projected to contribute to the overall stronger global growth.

Exhibit 2-8

World economic outlook, 2011-2020

	Growth, % p.a.						
	Actual				Estimate	Estimate	
Item	**2011**	**2012**	**2013**	**2014**	**2015**	**Tenth Plan**	**Eleventh Plan**
World output	4.2	3.4	3.4	3.4	3.5	3.6	3.9
Advanced economies	1.7	1.2	1.4	1.8	2.4	1.7	2.1
Emerging market and developing economies	6.2	5.2	5.0	4.6	4.3	5.0	5.1
World trade	6.8	2.8	3.5	3.4	3.7	4.0	5.0
Imports							
Advanced economies	5.5	0.9	2.1	3.3	3.3	3.0	4.6
Emerging market and developing economies	9.8	6.0	5.5	3.7	3.5	5.7	6.0
Exports							
Advanced economies	6.3	2.0	3.1	3.3	3.2	3.6	4.3
Emerging market and developing economies	7.4	4.4	4.6	3.4	5.3	5.0	6.0
World price							
Manufactures	6.1	0.6	-1.4	-0.8	-3.3	0.2	0.6
Non-fuel primary commodities	17.9	-10.0	-1.2	-4.0	-14.1	-2.9	-0.7
Oil (US$ per barrel)[1]	104.0	105.0	104.1	96.2	58.1	93.5	70.9
Growth (%)	31.6	1.0	-0.9	-7.5	-39.6	-6.0	5.0
Consumer prices							
Advanced economies	2.7	2.0	1.4	1.4	0.4	1.6	1.9
Emerging market and developing economies	7.3	6.1	5.9	5.1	5.4	6.0	4.6

Notes: [1]The average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices
Source: World Economic Outlook, April 2015, International Monetary Fund

Growth is expected to remain uneven across regions. Advanced economies are projected to record a moderate growth of 2.1% per annum while emerging market and developing economies, particularly in Asia, are expected to grow at a faster rate of 5.1%. World trade is anticipated to expand by 5% per annum, supported by encouraging export growth of 6% in emerging market and developing economies. World inflation is projected to be at 3.5% per annum during the Plan period. There are however, headwinds expected from high household and public debt, rising healthcare costs, lower commodity prices, and geopolitical tensions, which may dampen overall world growth momentum.

Multidimensional goals

Six multidimensional goals have been identified for the Eleventh Plan:

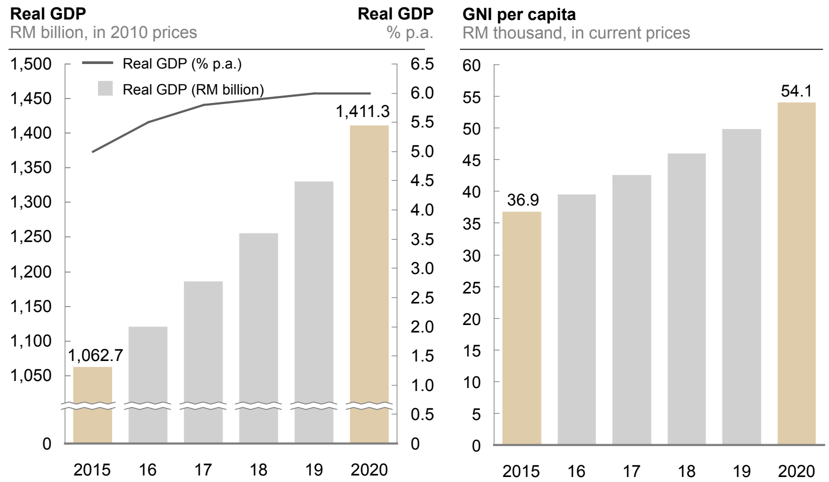
- Real GDP to expand at 5-6% per annum
- Labour productivity to increase from RM77,100 in 2015 to RM92,300 in 2020
- GNI per capita to reach RM54,100 (US$15,690) in 2020
- Average monthly household income to increase from RM6,141 in 2014 to RM10,540 in 2020
- The share of compensation of employees to GDP to increase from 34.9% in 2015 to at least 40% in 2020
- The Malaysian Wellbeing Index (MWI) to increase by 1.7% per annum, an indicator of improvement in the wellbeing of the *rakyat*

During the Plan period, the GDP growth of 5-6% will be anchored by robust expansion in private consumption and investment, resulting in a 7.9% per annum rise in GNI per capita, as shown in Exhibit 2-9. Worker salaries are also expected to rise, resulting in a more equitable distribution of income between capital owners and employees with an increase in the share of compensation of employees to GDP.

Overall wellbeing is expected to improve as a result of rising household incomes and other inclusiveness and wellbeing initiatives. The Malaysian Wellbeing Index is targeted to increase by 1.7% per annum, compared with 1.2% as recorded during the Tenth Plan. Social wellbeing is targeted to improve at a more rapid pace during the Eleventh Plan as compared with the Tenth Plan, reflecting the shift in

Exhibit 2-9

GDP and GNI per capita, 2015-2020



Notes : Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

policy focus towards the people economy.

Macroeconomic strategies to strengthen economic fundamentals

To meet the multidimensional goals, the macroeconomic policy framework for the Plan period will focus on enhancing the resilience of the economy. During the Eleventh Plan, strategies will continue to ensure a conducive and competitive economic environment with stable prices, and supportive levels of interest rates and foreign exchange rates. Four strategies have been identified to strengthen economic fundamentals and maintain economic stability as follows:

- Unlocking the potential of productivity to ensure sustainable and inclusive growth
- Promoting investment to spearhead economic growth
- Increasing exports to improve trade balance
- Enhancing fiscal flexibility to ensure sustainable fiscal position

Domestic economy

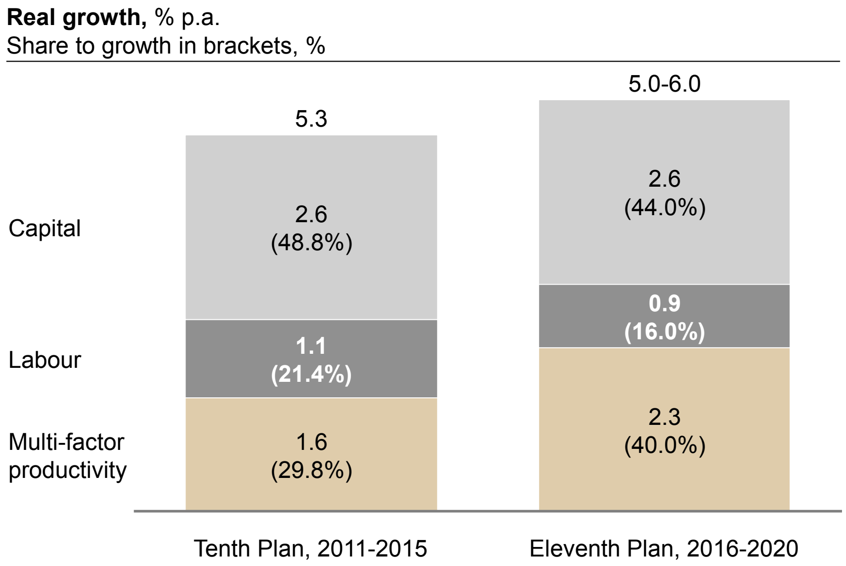
Successful achievement of the multidimensional goals laid out above is contingent on the delivery of overall national macroeconomic targets. A number of key targets are laid out below.

Productivity

GDP growth during the Eleventh Plan will be driven by significant increases in **productivity,** with less dependence on inputs from capital and labour. Increasing productivity is identified as one of the game changers where the contribution of MFP to GDP growth is targeted to increase to 40%, while that of capital is expected to reduce to 44% and labour to 16%, as shown in Exhibit 2-10. Higher productivity growth will be achieved through comprehensive initiatives at all levels and championed by industry players. Industrial productivity will be raised through greater adoption of automation and upgrading of skills. The innovation ecosystem will be enhanced to elevate productivity through new or improved processes and technologies. Strategies at various levels will be implemented to achieve this aspiration.

Exhibit 2-10

Factors of production, 2011-2020



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

National level

- Establishing a nation-wide productivity agenda and implementation plan by formulating a five-year Malaysia Productivity Blueprint, strengthening the governance and institutional mechanism for implementation of productivity strategies and establishing a dedicated national productivity portal
- Enhancing public sector productivity by introducing productivity enhancement key performance indicators (KPIs), accelerating regulatory reforms and rationalising government institutions
- Encouraging up-skilling and re-skilling as well as research through increased industry-academia collaboration, more targeted skills training programmes and increased support for industrial and social innovation activities

Industry level

- Ensuring productivity is championed across industries by appointing productivity champions and customising industry-level productivity programmes

Enterprise level

- Setting up enterprise-level productivity assessments and targets by promoting productivity performance targets, introducing firm-level interventions, promoting health check mechanisms and fostering a productivity-based culture

Aggregate demand

On the demand side, **real private consumption** is expected to increase at an average rate of 6.4% per annum, as shown in Exhibit 2-11. This increase will be supported by higher household income due to stable labour market conditions, increased employment in high-paying jobs, favourable commodity prices and continued direct assistance by the Government to the targeted groups. **Public consumption** is anticipated to grow moderately by 3.7% per annum, in line with greater prudence and commitment to achieve a balanced budget by 2020, without compromising on the quality of public service delivery.

The private sector will continue to play a significant role in steering the nation towards becoming an advanced economy and inclusive nation. **Private investment** is expected to grow at 9.4% per annum, with an estimated average annual investment of RM291 billion in current prices.

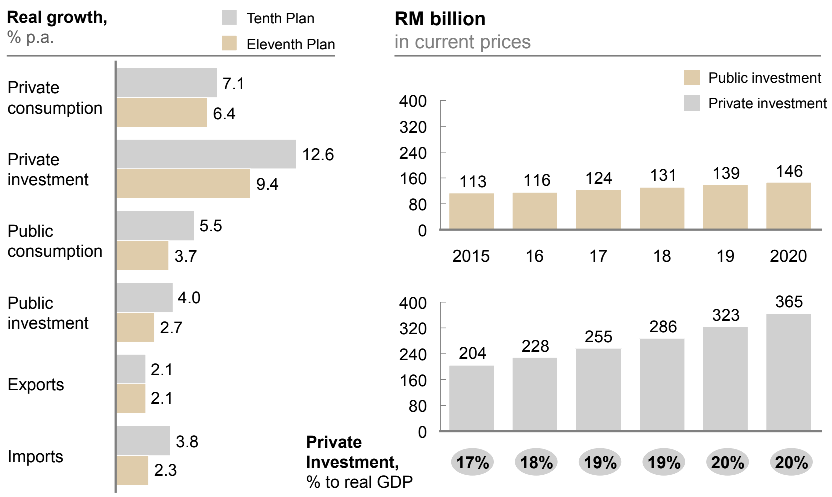
Both domestic direct investment (DDI) and FDI will be promoted. With respect to DDI, small and medium enterprises (SMEs) will be given special focus as they made up 98.5% of total establishments and 59% of total employment in the economy in 2015. Efforts to increase FDI will focus on attracting investments in higher value added and knowledge-intensive employment activities.

The Government will take on more of a regulatory and facilitative role in increasing private investment through targeted strategies such as improving access to financing and improving regulations to be more business-friendly. Five strategies will be implemented to strengthen investment outcomes:

- Reducing the cost of doing business through increased provision of basic infrastructure and facilities, and reviewing bureaucratic regulations
- Providing performance-based incentives for high-income and knowledge-intensive economic activities by reviewing the current investment incentive programme
- Addressing the talent gap and mismatch by establishing a labour market data warehouse, improving the labour market clearance mechanism as well as re-skilling and multi-skilling programmes

Exhibit 2-11

GDP by expenditure, 2011-2020



Notes : Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

- Improving access to financing for knowledge-intensive industries by considering innovative financing options
- Providing tipping point financing through the Facilitation Fund to bridge the viability gap in financing for strategic investment projects

Public investment is anticipated to grow at 2.7% per annum, or an annual average of RM131 billion in current prices, driven by the Federal Government development expenditure and capital spending of non-financial public enterprises (NFPEs). These investments are particularly in the infrastructure, transport, utilities as well as oil and gas industries. Some of the major public sector projects that will be undertaken, include the Pengerang Integrated Petroleum Complex (PIPC) in Johor; Pan-Borneo Highway; KVMRT Line 2 and the roll-out of the High Speed Broadband project phase 2. The Government will take steps to sequence project implementation to ensure sustainable economic growth.

Sectoral output

All economic sectors are expected to record better performance during the Plan period, as shown in Exhibit 2-12. The growth of these sectors will be driven by strong demand, enhanced productivity as well as higher value added and knowledge-intensive activities.

The **services sector** will continue to be the key driver of growth. Growth in the sector is expected to increase significantly by 6.9% per annum, increasing its share to the GDP from 53.8% in 2015 to 56.5% in 2020. The sector is expected to record broad-based growth across all subsectors. The wholesale and retail subsector will continue to be the main contributor, expanding by 5.8% per annum, supported by strategies to modernise the subsector as well as enhance the efficiency and effectiveness of the supply chain. The real estate and business services subsector is expected to expand by 7.9%, followed by the finance and insurance subsector by 6.1%.

The performance of the **manufacturing sector** will be enhanced through a shift towards the production of more complex and diverse products and improving productivity by adopting greater automation and upgrading skills. The sector is expected to record a growth of 5.1% per annum during the Plan period, led by the domestic-oriented subsector, which is expected to increase by 4.4% in line with better business confidence and consumer sentiments. Among the key industries that will drive growth are

Game Changer
Unlocking the potential of productivity

Why is productivity important for Malaysia?

In the past, Malaysia's economic growth has been predominantly input-driven, supported by private investments in industry and public investments in infrastructure, utilities, as well as in schools and hospitals. Despite efforts to improve productivity, Malaysia continues to lag behind many high-income economies. For example, Malaysia's labour productivity level was 32% that of the United States and 56% that of South Korea in 2013. While Malaysia will continue to boost private investment and undertake public investment during the Eleventh Plan, it will place greater emphasis on increasing productivity to achieve a more sustainable, inclusive, and high rate of economic growth.

What will success look like?

During the Eleventh Plan, labour productivity is targeted to reach RM92,300 in 2020 from RM77,100 in 2015, as shown in Table B2-1. In addition, sectoral growth will accelerate due to improvements in productivity.

Table B2-1
Labour productivity, 2010-2020

	RM '000, in 2010 prices							**Growth,** % p.a.	
	Actual					**Estimate**	**Target**	**Estimate Tenth Plan**	**Target Eleventh Plan**
Sector	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**	**2011-2015**	**2016-2020**
Agriculture	51.7	55.3	55.8	56.4	57.5	57.7	68.8	2.2	3.6
Mining and quarrying	1,089	1,064	1,076	1,083	1,114	1,147	1,210	1.1	1.1
Manufacturing	94.4	94.4	94.4	94.8	95.5	98.8	112.1	0.9	2.6
Construction	24.7	25.8	30.0	32.2	35.7	39.1	61.9	9.6	9.6
Services	59.3	60.8	62.4	63.8	66.4	68.1	83.4	2.8	4.1
Total	**68.7**	**69.9**	**71.4**	**72.5**	**75.0**	**77.1**	**92.3**	**2.3**	**3.7**

Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

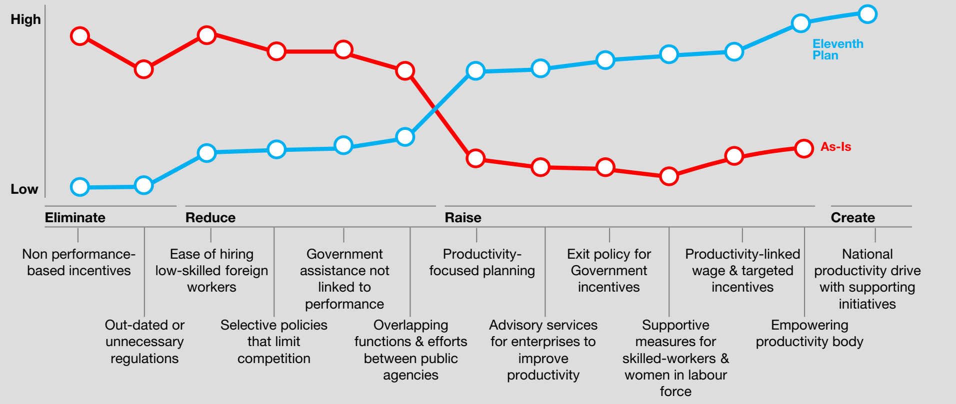
How will this be achieved?

Malaysia's approach to productivity will shift from primarily Government-driven initiatives at the national level to targeted actions across the public sector, industry players, and individual enterprises, with champions identified to role model change and ensure buy-in across stakeholders. Broad-based initiatives will be developed and tailored for each sector with targets set and monitored. At the national level, productivity-linked incentives will be introduced and regulatory reforms will be accelerated. At the industry level, industry champions will spearhead industry-specific productivity initiatives, while at the enterprise level, incentives and up-skilling programmes will be provided. Collectively, these strategies will produce a set of major shifts as laid out below.

	From	To
Approach	Fragmented productivity initiatives, typically at national level	Focused and comprehensive strategies at all levels – national, industry and enterprise
Champion	Led by Government	Spearheaded by industry champions and industry associations and supported by Government via the National Productivity Council
Industry focus	Focused on manufacturing sector and selected services subsectors	Covers all sectors, including agriculture, construction and the public sectors
Programme design	Generic programmes without clear targets Incentives not linked to performance	Programmes closely aligned with industry needs as per relevant industry master plan Programme incentives linked to outcomes
Regulation	Little to no linkages between regulations or policies with productivity	Linkages established between Government regulations or policies with productivity
Oversight	Oversight only at the national level	Increased oversight across national, industry, and enterprise levels

The strategy canvas highlights areas that should be eliminated, reduced, raised or created for this game changer.

Strategy Canvas – Productivity



Where are the best practices in Malaysia?

Productivity levels in Malaysia have increased during the Tenth Plan, but still lag behind most developed economies. To stay ahead of the curve, Malaysia must accelerate productivity growth, particularly by growing capital efficiency and improving MFP. Malaysia's ability to increase its labour productivity growth rate depends on how well it can derive greater efficiency from internal resources such as human capital, innovation, as well as from better practices such as operational excellence. Best practices and innovation for productivity improvement exist in companies and organisations across the nation. The following examples illustrate the range of such practices across different sectors and different types of organisations in Malaysia.

Connecting to the grid

Tenaga Nasional Berhad (TNB) is the largest electricity utility company in Malaysia serving more than eight million customers. It is also a leading utility company in Asia. The process of providing electricity supply connections is a key customer priority for TNB as it affects hundreds of thousands of new customers every year. The process encompasses procedures such as applications, inspections, meter installation, and the final connection works. The number of days and procedures required to set up a supply connection also has an impact on the economic development of Malaysia as these metrics are benchmarked by the World Bank as an important indicator on the ease of doing business in each country.

Over the past few years, TNB has demonstrated how productivity, operational efficiency, and customer service can be improved concurrently. As part of its ongoing transformation programme, TNB focused on streamlining the end-to-end process of supply connection to reduce the number of steps required for application, improve communications with contractors, introduce electronic document management systems, and manage resources more effectively. As a result, the number of days required for an overhead electricity connection reduced from 51 days in 2012 to 32 in 2014, placing Malaysia in 27th place out of 189 countries in terms of speed of getting electricity in the World Bank's Doing Business 2015 report. As of 2015, upon receiving necessary authorisations and user payment, TNB is now able to connect households and businesses to an electricity supply within 7 days – all this at a lower cost to customers.

Source: PEMUDAH Malaysia in Doing Business 2015 report; World Bank Doing Business Report 2015; Tenaga Nasional Berhad Performance Standards (www.tnb.com.my)

Reducing patient wait times

Perdana Specialist Hospital (PdSH) is a hospital under KPJ Healthcare Berhad in Kota Bharu with a maximum capacity of 126 beds. PdSH faced capacity issues due to long patient discharge times of over five hours, resulting in a lack of available rooms and an inability to accommodate new patients. To address this, PdSH adopted "lean" principles and tools such as value stream mapping, particularly to help reduce waiting times for the discharge of post-natal self-paying patients.

A key component of a sustainable healthcare system is the ability to utilise existing healthcare assets well, and to deliver services with greater efficiency. The "lean" methodology can be applied effectively in hospitals to eliminate waste, streamline processes, reduce cycle times, improve the quality of care, enhance satisfaction, and reduce delays for patients.

Over the course of six months, PdSH successfully streamlined and reduced the number of steps in the discharge process by 35% from 31 to 20 steps, as well as shortened average waiting time by 47% from 5 hours 8 minutes to 2 hours 44 minutes. In addition, productivity improvements through value stream mapping helped to eliminate wastage in terms of distance traveled, as well as staff and lift utilisation. By improving the turnover of patients, PdSH not only enhanced overall patient satisfaction, but also increased revenues per bed by 113% from RM313,677 in the first quarter of 2014 to RM674,773 in the second quarter of 2014.

Source: Malaysia Productivity Corporation

Linking performance and productivity

Panasonic Appliances Air-Conditioning is an air conditioner machine manufacturing company based in Shah Alam. In order to support improvements in the productivity and efficiency of its workforce, it implemented the Productivity-Linked Wage System (PLWS) that linked productivity to individual performance and rewards. The PLWS is also a focus area of research conducted by the Malaysia Productivity Corporation (MPC), and is among one of 78 research projects by MPC to improve productivity and innovation nationwide.

The first phase of the initiative by Panasonic (Mind Change) directly linked bonuses and salary increments to company performance, while the second phase (Real Productivity Enhancement) further linked bonuses and increments to individual performance, as well as to a challenging performance index. The PLWS successfully delivered significant improvements on the performance of the company across various dimensions. This included boosting workforce attendance to 98.3%, increasing workforce productivity, improving production quantities, and various other operational metrics.

Source: Malaysia Productivity Corporation

Enhancing productivity in public services

The Kuantan Municipal Council or Majlis Perbandaran Kuantan (MPK) embarked on business process re-engineering to improve service delivery for customers. The e-Licence system was introduced to simplify previously complex procedures for issuance of business premise licences. The concept of "approve first, inspect later" was adopted, and has reduced application and approval time from 21 days to as little as 15 minutes. Online application systems via the MPK portal has also enhanced the user-friendliness of the process. The capacity of MPK to process licences improved from 50 to 1,377 applications per month with a reduction in operational cost of 76%, and at the same time, increased revenues collected by more than 27 times.

The Inland Revenue Board of Malaysia (IRBM) acts as an agent of the Government in providing services in administering, assessing, collecting, and enforcing payment of taxes and duties. IRBM has embarked on several service delivery improvement initiatives by leveraging on ICT innovations, such as e-Filing for electronic submission of tax returns, e-Payment for online payment of taxes, as well as electronic systems for monthly tax deductions and taxpayer registration. IRBM's commitment to innovation has resulted in increased revenue collection and lower operational cost, while optimising resources, time, and working space. In terms of tax arrears, 74.7% of the total amount of arrears or RM6.85 billion was successfully resolved and collected in 2013. Direct tax collection also increased significantly by 358% from RM29.17 billion in 2000 to RM133.70 billion in 2014.

Source: MAMPU; Kuantan Municipal Council; IRBM

Innovating on industrial efficiency

Hartalega is the world's largest nitrile glove producer based in Malaysia. Malaysia is now also the world's largest producer of rubber gloves, with more than 60% of global market share. Hartalega is at the forefront of industry innovations and has the highest productivity performance in the industry. They invest over RM10 million each year into research and development to improve the industrial efficiency of its manufacturing processes. They have introduced innovations such as double former production lines, mechanical stripping systems, glove stacking devices, and dipping simulators. In parallel, Hartalega places heavy emphasis on talent development and skills improvement of their workforce, and collaborates with learning agencies such as Majlis Amanah Rakyat (MARA) and Selangor Human Resource Development Centre (SHRDC).

Hartalega is commissioning their Next Generation Integrated Glove Manufacturing Complex (NGC) comprising 72 high-tech production lines with the fastest line speeds in the industry. The new facilities and increased production capacity are expected to create more than 4,000 new jobs, while reducing manual labour requirements by 24% due to technological advances. Hartalega reports an average ratio of 3.9 workers per million pieces of gloves produced per month, which is substantially better than the estimated industry average of 7.5 workers per million pieces. With the new NGC, Hartalega expects this ratio to improve further to 2.6 workers per million gloves.

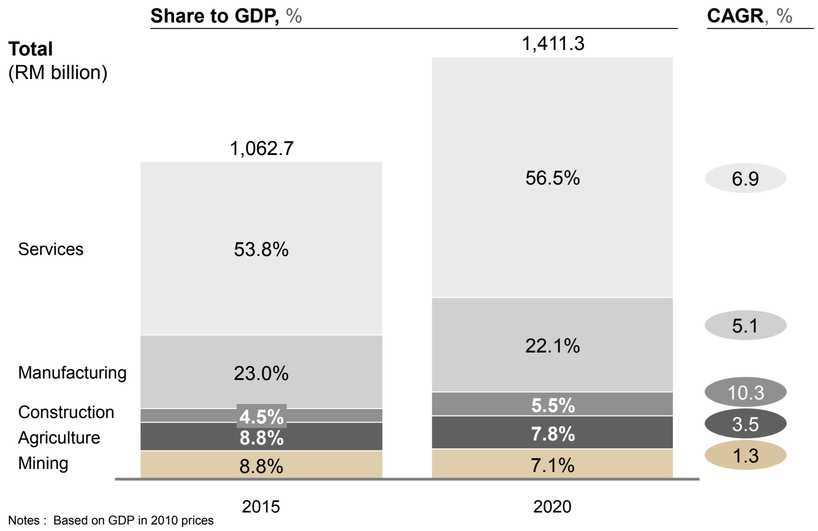
Source: Hartalega annual reports; Invest Malaysia Corporate Malaysia 2014 presentation food, beverages and tobacco; fabricated metal products; and machinery and equipment. Given improvements in external demand, the export-oriented subsector is also expected to expand at 5.5%, including the E&E, petroleum and chemicals, plastic products, and non-metallic mineral products industries.

The **construction sector** is estimated to expand by 10.3% per annum during the Plan period. This is attributed to continued civil engineering works and a growing residential subsector to fulfil the demand for housing, particularly from the middle-income group. Demand for affordable housing by the low-income group will also remain favourable, which will be supported by several Government initiatives, such as Program Perumahan Rakyat 1Malaysia (PR1MA), Rumah Idaman Rakyat and Rumah Mesra Rakyat 1Malaysia. Other subsectors such as civil engineering and non-residential will remain robust in line with the development of major projects such as the Tun Razak Exchange, KL118 Tower, Refinery and Petrochemical Integrated Development (RAPID), and the Pan-Borneo Highway.

The **agriculture sector** is projected to expand by 3.5% per annum. Emphasis will be on increasing productivity through the modernisation of the sector, supported by greater innovation and research and

Exhibit 2-12

GDP by kind of economic activity, 2015-2020



Notes : Based on GDP in 2010 prices
Source: Economic Planning Unit and Department of Statistics Malaysia

development. Focus will be given to the agro-food subsector to ensure the targeted self-sufficiency level of food commodities, such as rice at 100%, vegetables at 95.1%, and beef at 50% are met by 2020. The oil palm subsector is expected to expand by 2.8% with an increasing number of matured plantations, particularly in Sabah and Sarawak. The rubber subsector is also estimated to grow by 7.6% due to the expected price recovery.

The **mining sector** is expected to rebound with a 1.3% growth rate per annum during the Plan period. The production of crude oil and condensates is expected to be at a sustainable level of 612,000 barrels per day, while the production of LNG will increase to 29.3 mtpa with the operation of Train 9 in PETRONAS LNG Complex in Bintulu, Sarawak beginning 2016. The production of crude oil will be supported by anticipated oil discoveries, and marginal fields as well as revival of mature fields made possible with the adoption of new technologies, such as enhanced oil recovery and improved oil recovery, subject to economic viability. The production of natural gas is expected to expand further on account of increased demand, particularly from petrochemicals. Based on 2015 estimates, the reserve life for crude oil will be a further 28 years and 42 years for gas.

GDP by state

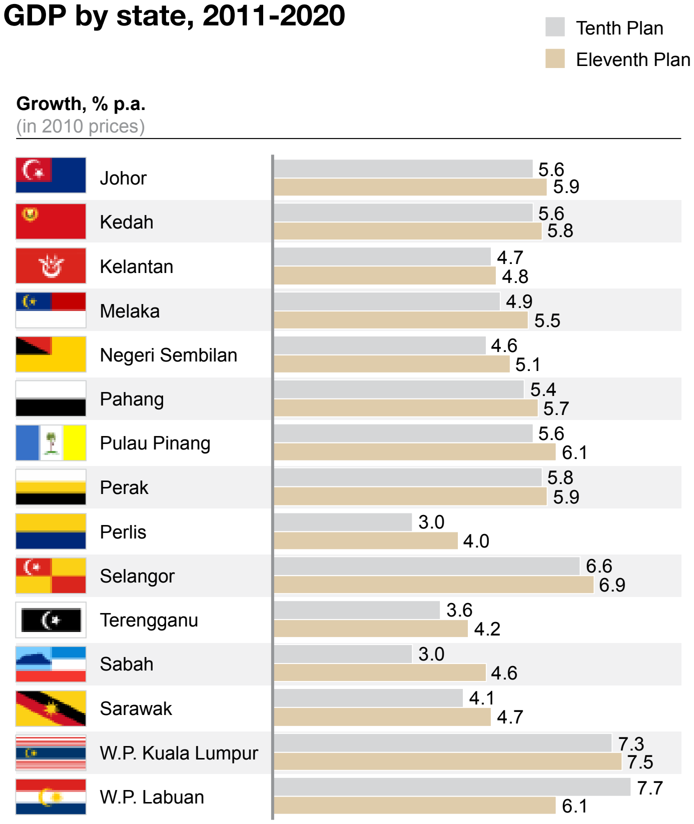
Ensuring geographic balance in economic growth continues to be a priority for the Government. GDP and GDP per capita by state are expected to grow in tandem with national average growth rates, as shown in Exhibit 2-13. Most states will perform better during the Eleventh Plan compared with their performance in the Tenth Plan. In line with the national economic structure, the services and manufacturing sectors are expected to be the main drivers for economic growth at state level. In parallel, all states are expected to record significant improvements in GDP per capita, resulting in higher household income and enhanced wellbeing of the *rakyat* across the nation.

International trade and balance of payments

International trade growth is expected to remain robust, supported by the implementation of the ASEAN Economic Community (AEC) in 2015 as well as bilateral and multilateral trade agreements. These trade arrangements will benefit domestic industries in manufacturing, mining and services sectors, in particular aviation, banking, education, healthcare, information and communications technology (ICT), and tourism. In addition, the formation of the National Export Council (NEC) will further stimulate export growth by facilitating cross-ministry policy coordination and implementation.

With the expected positive global growth outlook and the strengthening of major commodity prices, **gross exports** are projected to register stronger growth of 4.6% per annum, with a focus on increasing higher-value exports. Exports of manufactured goods is expected to grow by 5% per annum, driven by both E&E and resource-based exports. The growth in E&E exports will be led by semiconductor sales following continuous demand for smart devices. Mineral exports growth will be sustained at 3.2% during the Plan period, supported by exports and re-exports of petroleum products, LNG, and chemicals and chemical products. Agriculture exports are expected to improve by 2.3%, led by palm oil.

Exhibit 2-13
GDP by state, 2011-2020



Notes: Based on GDP in 2010 prices
Source: Economic Planning Unit

In tandem with the improved exports performance and domestic economic activities, **gross imports** are estimated to expand by 4.8% per annum. Stronger world demand will encourage more domestic investment that will require imports of more intermediate and capital goods. Imports of consumption goods are also projected to strengthen as Malaysia becomes a high-income economy by 2020. Nevertheless, the trade balance is expected to remain positive with a surplus target of RM57.3 billion by 2020.

During the Eleventh Plan, several strategies will be introduced to spur export growth to improve Malaysia's trade balance. Efforts will also be undertaken to enhance SME contribution to exports to 25% by 2020 from 19% in 2015. The NEC will enhance the contribution of exports to the economy, where several key strategies to spur export growth will be implemented as follows:

- Improving the export ecosystem by upgrading infrastructure and reducing bureaucratic requirements
- Moving up the value chain by encouraging companies to invest in new technologies to participate at the higher end of the global supply chain
- Maximising opportunities with strategic partners to increase trade with the PRC and ASEAN
- Increasing external industry expert support and shifting to more proactive export promotion approaches

The **current account balance of the BOP** is projected to remain in surplus and expected to record RM46.5 billion or 2.6% of GNI by 2020. This is contributed by a higher surplus in the goods account while recording a lower deficit in the services account and primary income, particularly in investment income account. The deficit reduction in the services account will be supported by the increase in tourism receipts and increased activities related to the storage and trading hub at the PIPC. Services exports are also expected to increase with greater internationalisation of the services sector. In order to reduce the deficit in the primary income account, the Government will encourage re-investment of earnings from targeted FDI as well as provide a comprehensive and conducive ecosystem for new investments.

Federal Government fiscal position

The Government is committed towards meeting its fiscal consolidation target of a balanced budget by 2020 by continuing and expanding upon the structural reforms initiated during the Tenth Plan. The main strategy to enhance fiscal flexibility under the Eleventh Plan is to strengthen the efficiency of revenue collection and to undertake more disciplined and prudent use of Government funds. The efficiency and effectiveness of the existing taxation system will be further enhanced, following from the implementation of the GST in 2015.

The introduction of the GST will bring in an estimated average of RM31.4 billion revenue per year over the next five years compared to an average of RM15.5 billion collected through the sales tax and services tax during the Tenth Plan, which will strengthen the fiscal position. This will be further improved by among others, reviewing dividends received from Government-linked companies and undertaking greater joint audit efforts by the Inland Revenue Board and the Royal Malaysian Customs Department. Revenue is targeted to expand by 7.9% per annum and the dependence on oil-related revenue to decline to 15.5% by 2020 from 21.5% in 2015.

Prudent spending practice will be enhanced by among others, further rationalising subsidies, adopting accrual accounting at all government agencies and ministries as well as introducing the Creativity Index to evaluate the socio-economic impact of programmes and projects. The rationalisation of the public service during the Plan period will also contribute towards more moderate operating expenditure.

Development expenditure will be an important instrument to achieve the goal of becoming an advanced economy and inclusive nation that will rely more on productivity improvements, intellectual capital, skills, innovation and technology. As such, development allocation will continue to prioritise non-physical programmes in the Eleventh Plan. The development allocation during the Plan period is estimated to be RM260 billion, where the focus will be on the economic and social sectors. With these measures, the Federal Government total debt is projected to further decline to below 45% of GDP by 2020.

Inflation and labour market

Accommodative monetary policy and administrative measures will continue to ensure price stability. Inflation during the Plan period is expected to remain low, averaging between 2.5% and 3% per annum.

The economy is projected to maintain full employment with an estimated unemployment rate of 2.8% by 2020. Employment is expected to grow at a slower rate of 2.1% per annum to reach 15.3 million by 2020, with additional 1.5 million jobs created. The services sector is expected to contribute 62.5% to total employment, while the manufacturing sector 18.2%. This slower growth corresponds with the improvements in labour productivity and the shift from a labour-intensive economy to a capital, technology and knowledge-based economy. The composition of skilled jobs, such as senior officials and managers, professionals and technicians, and associate professionals, is targeted to reach 35% of employment by 2020.

Conclusion

During the Eleventh Plan, the economy is expected to experience strong growth on the back of continued firm domestic demand and improved external sector. Macroeconomic fundamentals will be further strengthened to enhance economic resilience through a further diversified economic base, larger domestic savings, balanced fiscal position, low inflation, full employment, and sound financial system. Initiatives to enhance productivity at the national, industry and enterprise levels will further boost growth. This will be accompanied by higher national per capita and household incomes as well as improved wellbeing of the *rakyat* in line with the focus on the people economy.