



MINISTER of FINANCE II

An exclusive report to be distributed with ***THE INDEPENDENT***

Topics for an interview with

YB Dato' Seri Haji Ahmad Husni bin Mohamad Hanadzlah

Minister of Finance II

World Report: The Malaysian economy registered a 4.6% growth rate in 2008 amidst the international financial turmoil and rapid deterioration in global economic conditions. With the introduction of two stimulus packages worth Rm67 billion and their full implementation, when do you think Malaysian economy will start to show positive signs of recovery?

Dato' Seri Haji Ahmad Husni: The economy has begun to recover as evidenced by our 4th quarter 2009 GDP of 4.5%, registering GDP growth for the entire year of 2009 at -1.7%. This is higher than our earlier estimate of -3.0%.

World Report: What are your previsions when it comes to GDP growth for 2010? And, what are the Ministry's previsions in terms of unemployment and inflation figures for the years 2009 & 2010?

Dato' Seri Haji Ahmad Husni: While the official forecast remains at 3.0%, barring external circumstances, we are comfortable of meeting our soft target of 6.0%. For 2010, the unemployment target rate is 3.9% whilst inflation is expected to increase slightly in 2010 as the base effect unwinds and the impact of higher imported food and commodity prices set in. As for 2009, unemployment was recorded at 3.9% and inflation at 0.6%.

World Report: What effects are the packages going to have on your fiscal deficit? And, is your Administration considering an additional stimulus package to boost spending if the economic recovery is slow?

Dato' Seri Haji Ahmad Husni: Our fiscal deficit stands at 7.0% of GDP. We intend to reduce it to 5.6% this year. Presently, we have no plans for any additional stimulus measures. Nevertheless, due to the relatively low deficit, we have room to introduce measures if and when required.

World Report: What wealth Malaysia is generating is definitely not well distributed (as it is also not well redistributed). With the New Economic Policy still in place there is barely any room to avoid positive discrimination in favour of ethnic Malays, will you continue to favour affirmative action based on ethnic origin instead of on performance and intellectual capacity? Do you feel your fiscal policy is improving the life of the average man on the street?

Dato' Seri Haji Ahmad Husni: The Prime Minister has stated that meritocracy is a principle we believe in. Nevertheless, the NEP is still valid in terms of allocating resources to the Bumiputras whose economic status and performance is still below the national average. However, we are aware that there are also pockets of the same in all ethnic groups.

The NEP will need to be re-looked at in regards to its methods of implementation. We have introduced several administrative rulings, for example, all procurement tenders will no longer be negotiated directly unless the tender is for the provision of defence and security products and services. The rest will be going through the tender process.

As you can see from our last budget, we have allocated the highest to the education sector, more than health and education combined. As for education, RM30 billion is allocated to enhance primary and secondary school education nationwide. Individuals earning less than RM24,000 will be free of income tax, existing personal tax relief on life insurance premium and EPF contribution will be increased by RM1,000 to RM7,000. Broadly speaking, we are always cognisant of the people's welfare.

***World Report:* What is your message to British investors regarding the opportunities Malaysia offers in these tough economic times?**

Dato' Seri Haji Ahmad Husni: Malaysia and Britain have a long-standing relationship, in commerce, trade, investment and culture. We believe these ties will continue to grow in importance especially in view of Britain's success in the areas of the new sectors such as green energy, new media, and other innovative and creative industries as well in the existing traditional sectors with new areas of growth, e.g. Islamic finance.

***World Report:* With conglomerates such as Khazanah, Petronas, Permodalan Nasional Bhd or LTAT, public sector weight on the economy is large. Please reason on the role of GLCs and on why they do not have a negative effect on competition, prices, industry development and corruption.**

Dato' Seri Haji Ahmad Husni: In terms of competition, please understand that a number of these GLCs provide basic services, e.g. telecommunication, energy, public transportation and airline companies. As you know, these companies require very high capital expenditure. Malaysia is too small a country to have too many competitors in this space. Nevertheless, when we see that competition can benefit the consumer, we do open up, e.g. the provision of 3G broadband services, and we have allowed competitors to the national airline, MAS.

World Report: Malaysia is taking a strong and aggressive stand on Islamic Finance and it want to be a real global champion. Proof of this is that the country is already the world's largest Sukuk market in terms of outstanding size and issuance. What is your assessment regarding the importance of Islamic Finance?

Dato' Seri Haji Ahmad Husni: Islamic Finance can be positioned globally as a viable alternative to conventional finance. In the aftermath of the financial crisis in the West, we can see many are looking for answers in terms of the true economic value of banking and financial transactions. For instance, in Islamic finance, all transactions must be based on a real economic activity. This avoids financial engineering of the sort that is removed from activities that actually provide economic good to the community. Islamic finance is also one of the few propositions that Malaysia holds a definitive advantage, globally. We intend to retain this position, especially so as we move to a service-oriented economy.

World Report: Malaysia is also well positioned to provide the linkages through Islamic finance to support the increasing flow of investment between Asia and other parts of the world, particularly the Middle East and the UK. Do you see Malaysia becoming a regional hub for Islamic Finance?

Dato' Seri Haji Ahmad Husni: We are working very hard for Malaysia to be a regional centre for Islamic finance. We continuously expand our linkages with various jurisdictions to facilitate the growth of Islamic finance, beyond the Middle East. We have an agreement with Hong Kong, for example, which allows mutual recognition of Shariah-compliant investment products between our two jurisdictions.

World Report: Bank Negara Malaysia and the UK Trade and Investment agency recently signed an agreement to develop a framework for promoting future cooperation in the field of Islamic finance. What are your expectations on the agreement?

Dato' Seri Haji Ahmad Husni: The United Kingdom is a major financial centre and it has a relatively active Islamic finance industry. We believe that the cooperation is mutually beneficial to both jurisdictions, complimentary. We certainly can provide some technical expertise to the UK in this regard and we can also expect to receive from the UK collaborative initiatives to expand cross-border transactions.

World Report: Malaysia's budget invests heavily in infrastructure, higher education, and in creating a business friendly environment conducive to greater local and foreign investment. Already, these policies are paying dividends, with Malaysia rising to the rank of 21st on World Economic Forum's "2008-9 Global Competitiveness Report". Will you continue to invest 20-25% of the National Budget in Education?

Dato' Seri Haji Ahmad Husni: As we plan to become a high income economy by the year 2020, we're transforming our economy into one that based on knowledge, creativity and innovation, and so education will

remain our top priority. Nevertheless, we acknowledge that much of our resources have been spent on hard infrastructure, i.e. on the physical construction of universities and other institutions of learning. Moving forward, we would like to see resources in building up the quality of our soft infrastructure, i.e. research and development activities, training of members of the academia etc.

***World Report:* Please describe the progress Malaysia is making in migrating from a labour intensive economy to a knowledge-based economy high with high added value industries.**

Dato' Seri Haji Ahmad Husni: The transformation needs to be done gradually. We still have industries that are highly dependent on (imported) labour. In the palm oil plantation sector, it is impossible to mechanise the process of picking the fruit bunches, for example, unlike wheat or corn. Certainly, we would like to see the small and medium size industries to move up the value chain. Our construction industry can certainly evolve to the level of the famous Japanese and Korean construction companies. We have received positive comments from the local sector, saying that they should just as well receive incentives just as the foreign companies do. We are looking into this.

***World Report:* What incentives can British companies expect when they set up operations in the country?**

Dato' Seri Haji Ahmad Husni: Malaysia and Britain have a long-standing relationship, notwithstanding in the areas of trade and investment. As I mentioned earlier, we can custom-tailor incentives to suit any particular package of incentives to companies that we think is the right fit for our economy.

World Report: What accomplishments have you achieved during your first 100 days in office?

Dato' Seri Haji Ahmad Husni: I cannot take sole credit in this stance. As you are well aware, the Prime Minister is the primary Minister of Finance. Together we have introduced the no direct negotiation rule. We have also pushed out the stimulus package effectively, making sure that the all of the allocation goes down into the real economy in a fast and efficient manner.

World Report: Thank you for your comments.