

5

Public Sector Financial Performance

1994 Performance

Overview

The Government continued its policy of fiscal prudence and discipline in the management of public sector finance to further strengthen its financial position as well as to complement its tight monetary policy to further contain excessive demand and moderate price pressures in the economy. The Government's financial management, therefore, continues to focus on strengthening the revenue base and promoting savings to sustain future levels of investment and growth. Towards this end, efforts at restructuring the tax system was further continued in the 1994 Budget with a view to creating a more conducive environment for private sector initiatives and investment while tax reliefs were also given to reduce the burden of the low income group as well as further reduction and abolition of import duties to dampen price increases. On the expenditure side, while tightening further budgetary control on non-productive expenditure, the Government undertook selective expansion in its development expenditure to build up the productive capacity of the economy, particularly on infrastructure to alleviate physical constraints and human resource development to meet manpower requirements, especially for the skilled and semi-skilled. In addition, the Government continues with its effort to 'rightsize' and reduce its financing burden through the acceleration of privatisation programme as well as the consolidation of several government agencies.

These fiscal prudence and expenditure restraints have contributed to the significant improvements in public savings during the year, with the public

Table 5.1			
Consolidated Public Sector Financial Position (RM million)			
	1993 ¹	1994 ²	1995 ³
Current Account:			
General government:			
Revenue	51,913	55,862	57,265
Operating expenditure	38,532	41,523	40,627
Current account balance	13,381	14,339	16,638
Current surplus of NFPEs	7,162	10,193	10,202
Public sector current surplus	20,543	24,532	26,840
Development Account:			
Development expenditure	21,426	27,635	30,372
Overall balance	-883	-3,103	-3,532
% to GNP	-0.6	-1.8	-1.8
Note: ¹ estimated actual. ² revised estimate. ³ Budget estimate, excluding 1995 tax changes.			

sector expected to record another year of large current surplus of RM24,532 million. Revenue of the general government is anticipated to increase by 7.6% while operating expenditure is expected to increase by 7.8%. Consequently, its current surplus is estimated to be slightly higher at RM14,339 million in 1994 (1993: RM13,381 million). In addition, the Non-Financial Public Enterprises (NFPEs) are expected to record another large operating surplus at RM10,193 million, on account of their generally stronger performance. Thus,

¹ Public sector comprises the Federal Government, state governments, local governments, statutory bodies and NFPEs. Public sector excluding NFPEs is referred to as general government.

the public sector current account surplus is estimated to register a surplus of RM24,532 million, higher than the surplus of RM20,543 million in 1993. The higher public sector current surplus expected in 1994 is due to the large current surplus of the Federal Government and NFPEs. Public sector development expenditure in 1994 is, however, expected to increase by 29% from RM21,426 million in 1993 to RM27,635 million as the implementation of Sixth Malaysia Plan (6MP) projects gathers momentum towards the end of the Plan period. The increase is largely on account of higher expenditure by the NFPEs which account for 54.7% of the increase in total development expenditure of the public sector. As a result, the public sector overall balance is expected to record a larger deficit of RM3,103 million or 1.8% of Gross National Product (GNP) in 1994 as against a deficit of RM885 million or 0.6% of GNP in 1993.

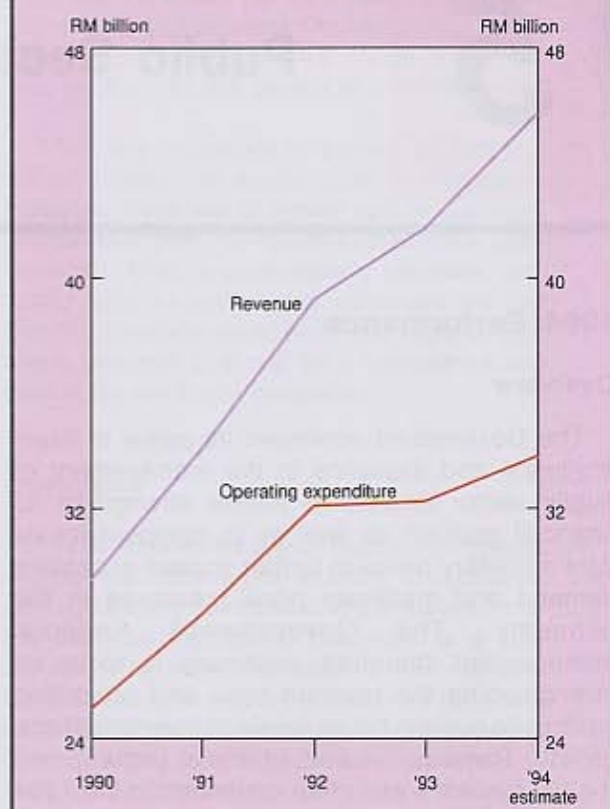
Federal Government

The Federal Government is expected to record a balanced budget for the second consecutive year, with the overall surplus in 1994 envisaged to be even larger compared with that in 1993. With the continued strong performance of the economy, coupled with significant proceeds from privatisation, the Federal Government revenue is expected to strengthen by 9.6% to RM45,692 million against an increase of 6.2% in 1993. On the other hand, the rate of increase in operating expenditure is envisaged to be lower at 4.8% to reach RM33,753 million. As a result, the current account is likely to register another sizeable surplus of RM11,939 million compared with RM9,474 million in the preceding year. With development expenditure increasing by 23.5% to RM12,502 million, the overall balance of the Federal Government is expected to achieve a surplus of RM637 million.

Revenue

On the revenue side, the Government continues to improve its tax structure initiated since 1988 through the introduction of a number of tax measures. The corporate income tax rate was further reduced from 34% in 1993 to 32% in 1994, to make it more competitive with the rates in neighbouring countries. The tax package in 1994 also involved the provision of higher tax relieves

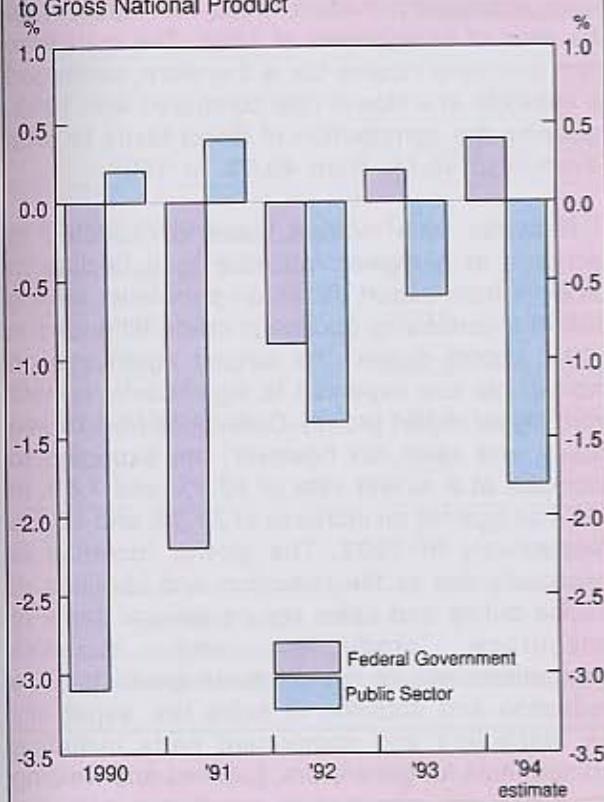
Chart 5.1
Federal Government Finance - Current Account



and greater incentives, while import duties on more than 500 items were either reduced or abolished. Although the tax cuts and relieves would result in a substantial loss of potential revenue of some RM1.9 billion in 1994, the loss was more than compensated by higher tax returns due to the strong performance of the economy as well as greater efficiency of the tax collection machinery.

Federal Government revenue is expected to record a stronger growth of 9.6% to RM45,692 million as against an increase of 6.2% in 1993. The increase is most significant for non-tax revenue, especially receipts from divestment of shares of Tenaga Nasional Berhad (TNB), Telekom Malaysia Berhad (TMB) and Heavy Industries Corporation of Malaysia Berhad (HICOM). As for tax revenue, lower contributions from petroleum-related incomes as well as tax concessions granted in the 1994 Budget dampened the relatively strong performance in corporate and individual income tax collection, resulting in a moderate increase in tax revenue. Petroleum-related incomes are expected to decline

Chart 5.2
Percentage of Overall Deficit / Surplus
to Gross National Product



following lower crude oil prices in 1993 and 1994 which affect petroleum income tax collection, export duties and petroleum royalty. In addition, several concessions granted in the 1994 Budget to moderate inflationary pressures and restructure the tax system to enhance private sector activities and competitiveness are estimated to result in a substantial revenue loss of RM1.9 billion. In relation to GNP, the Federal Government revenue is estimated to decline slightly from 26.9% in 1993 to 26.5% in 1994.

Direct taxes are expected to register a lower rate of increase of 8.6% as against a double digit growth of 10.8% in 1993. A relatively moderate increase anticipated in corporate and individual income tax collection is expected to be further negated by lower contribution from petroleum income tax. Petroleum income tax collection is expected to further decline by 25.4% due to lower crude oil prices from US\$20.74 per barrel in 1992 to US\$18.79 per barrel in 1993 as well as a reduction in production. As for corporate and individual income taxes, the robust economic growth as well as greater efficiency in tax collection machinery have contributed to larger tax collection despite the potential revenue loss of RM472 million arising from the reduction of the company income tax rate from 34% to 32% as well as a potential

Table 5.2
Federal Government Revenue

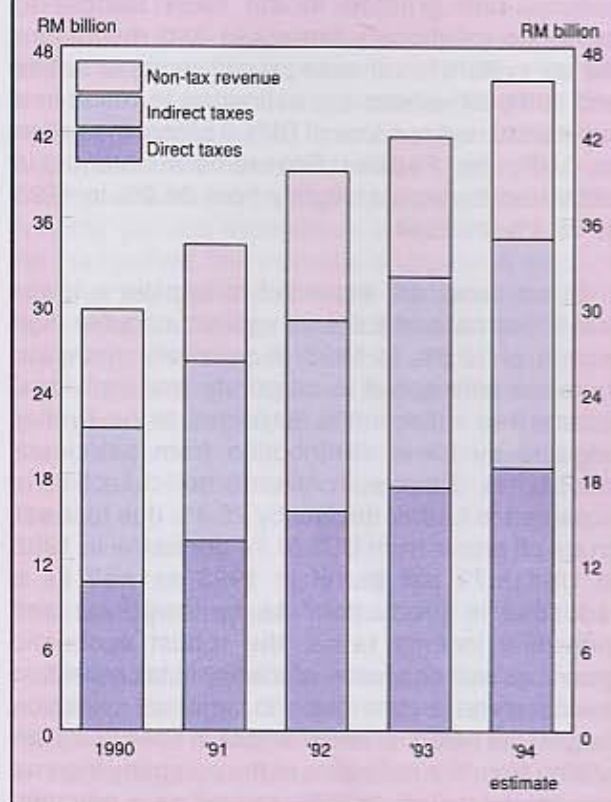
	1993 ¹		1994 ²		1995 ³	
	(RM million)	(%) Change	(RM million)	(%) Change	(RM million)	(%) Change
Total revenue	41,691	(+6.2)	45,692	(+9.6)	47,641	(+4.3)
Total tax revenue	31,900	(+10.9)	34,639	(+8.6)	37,880	(+9.4)
Direct taxes	17,070		18,533		20,186	
Indirect taxes	14,830		16,106		17,694	
Total non-tax revenue	9,791	(-6.6)	11,053	(+12.9)	9,761	(-11.7)

Note: ¹ estimated actual.

² revised estimate.

³ Budget estimate, excluding 1995 tax changes.

Chart 5.3
Major Components of Federal Government Revenue



revenue loss of another RM194 million due to increased deduction for employers' contribution to the Employees Provident Fund (EPF) or any other approved provident funds with effect from the year of assessment of 1994. The collection from company income tax is therefore, estimated to increase at a slower rate compared with 1993, reducing the contribution of direct taxes to total revenue to 40.6% from 40.9% in 1993.

Revenue from indirect taxes is expected to increase at a slower rate due to a decline in receipts from export duties on petroleum arising from the continuing decline in crude oil prices in 1994. Import duties, the largest contributor to indirect tax are expected to significantly benefit from higher import growth. Collections from excise duties and sales tax however, are expected to increase at a slower rate of 10.9% and 7.6% in 1994 as against an increase of 21.3% and 12.5% respectively in 1993. The slower increase is especially due to the reduction and abolition of excise duties and sales tax on several items to encourage production and increase competitiveness of locally made products. The reduction and abolition of sales tax, especially on machinery and component parts including components for generators, turbines and welding machines are expected to result in a potential

Table 5.3
Federal Government Direct Taxes

	1993 ¹			1994 ²			1995 ³		
	(RM million)	(%)	Change	(RM million)	(%)	Change	(RM million)	(%)	Change
Income Taxes	15,658		(+8.9)	16,394		(+4.7)	17,825		(+8.7)
Companies	8,551		(+13.6)	9,540		(+11.6)	10,589		(+11.0)
Individuals	4,248		(+23.5)	4,722		(+11.2)	5,241		(+11.0)
Petroleum	2,859		(-16.3)	2,132		(-25.4)	1,995		(-6.4)
Others	1,412		(+38.3)	2,139		(+51.5)	2,361		(+10.4)
Stamp duty	1,215			1,984			2,202		
Others	197			155			159		
TOTAL	17,070		(+10.8)	18,533		(+8.6)	20,186		(+8.9)

Note: ¹ estimated actual.

² revised estimate.

³ Budget estimate, excluding 1995 tax changes.

Table 5.4
Federal Government Indirect Taxes

	1993 ¹		1994 ²		1995 ³	
	(RM million)	(%) Change	(RM million)	(%) Change	(RM million)	(%) Change
Export duties	1,464	(-13.3)	1,127	(-23.0)	989	(-12.2)
Import duties	4,566	(+4.2)	5,325	(+16.6)	6,014	(+12.9)
Excise duties	3,713	(+21.3)	4,118	(+10.9)	4,579	(+11.2)
Sales tax	3,468	(+12.5)	3,733	(+7.6)	4,114	(+10.2)
Service tax	613	(+90.4)	686	(+11.9)	757	(+10.3)
Others	1,006	(+21.1)	1,117	(+11.0)	1,241	(+11.1)
TOTAL	14,830	(+10.9)	16,106	(+8.6)	17,694	(+9.9)

Note: ¹ estimated actual.

² revised estimate.

³ Budget estimate, excluding 1995 tax changes.

revenue loss of RM121 million and another RM60 million from the reduction of excise duties. Receipts from service tax are expected to increase as a result of the extension and widening of the service tax base to include services provided by dentists, veterinary doctors, parking space and courier services effective from 1 January, 1994. In contrast, export duties are expected to continue to decline by another 23% to RM1,127 million due to decline in export duties on petroleum which accounts for almost the entire collection of export duties.

Non-tax revenue and non-revenue receipts are expected to increase significantly by 12.9% to total RM11,053 million as against a negative growth of 6.6% in 1993. The increase is attributable largely to the proceeds from the sale of Government shares in TNB, TMB and HICOM which together, amounted to RM2.7 billion.

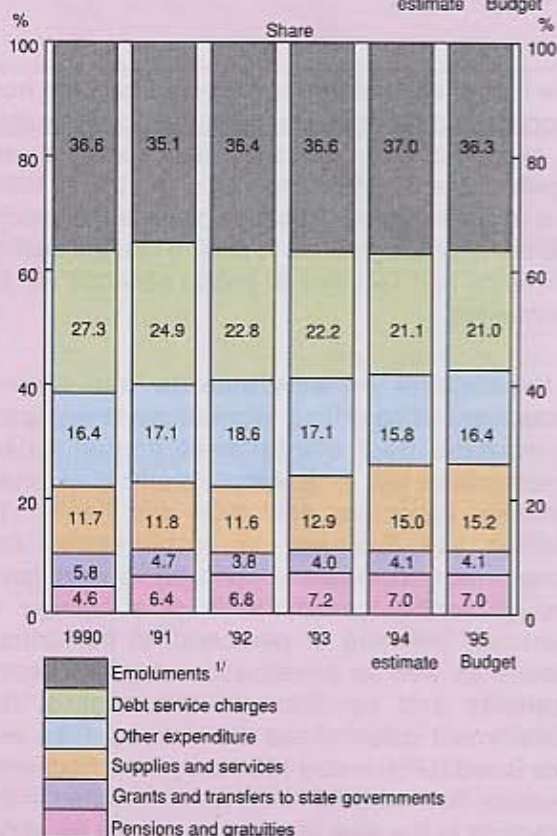
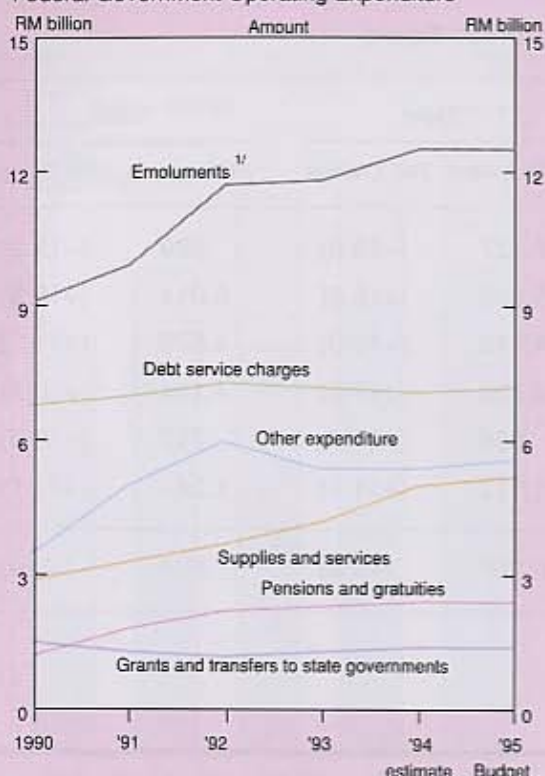
Operating Expenditure

Operating expenditure of the Federal Government is expected to increase by 4.8% compared with an increase of only 0.4% in 1993.

The higher expenditure is expected to come from supplies and services and emoluments. Increases in expenditure for supplies and services, are significant at 21.6% compared with 12% in 1993. This is due to higher allocation given to the special maintenance programme to ensure that the quality, efficiency and facilities of public services will be maintained.

Expenditure on **emoluments**, the largest component of operating expenditure is expected to increase by 5.8% to meet annual salary increments as well as new recruitments in essential services, especially education and health. To contain the increase in emoluments, the Government continues to optimise its work force through further consolidation of a number of agencies, trimming of personnel in non-critical sectors as well as privatisation of public sector agencies and services. In this regard, the Government corporatised the National Padi and Rice Board (LPN) in July 1994 to Syarikat Padiberas Nasional Berhad (BERNAS) which resulted in the reduction in the size of the civil service by about 4,000 staff. In 1993, emolument for LPN costs

Chart 5.4
Federal Government Operating Expenditure



^{1/}Includes emoluments for most statutory bodies

the Government RM54.5 million. In addition, a review of regional development authorities (RDAs), as part of the effort at rightsizing the public services, is still on-going.

Debt service charges, the second largest component of operating expenditure is expected to decline to RM7,136 million, further lowering the proportion of debt service charges to total operating expenditure to 21.1%. This is in line with the Government's objective of reducing the proportion to 20% over time from the highest level of almost 30% during the 1980s. The reduction reflects continued fiscal prudence as well as effective debt management by the Government. At the same time, external debt service charges continue to decline in line with the Government's policy to reduce its external exposure through greater reliance on domestic market for financing as well as prepayment of the more expensive external loans. As a result, external debt service charges are expected to decline by another 18.8%. However, domestic debt service charges are expected to increase by 3.8% mainly due to the substantial increase (61%) in interest payments for loans of the Housing Loan Fund (HLF).

Table 5.5
Federal Government Operating
Expenditure by Object
(RM million)

	1994 Revised estimate	% Share	1995 Budget allocation	% Share
Emoluments	12,488	37.0	12,470	36.3
Debt services charges	7,136	21.1	7,231	21.0
Grants to state governments	1,378	4.1	1,406	4.1
Pensions and gratuities	2,355	7.0	2,413	7.0
Supplies and services	5,047	15.0	5,241	15.2
Subsidies	548	1.6	660	1.9
Others	4,801	14.2	4,974	14.5
TOTAL	33,753	100.0	34,395	100.0

Expenditure on **supplies and services** is expected to increase significantly by 21.6% mainly due to higher supplies and maintenance expenditure of roads, hospitals, schools and other government buildings. Payments for **pensions and gratuities** in 1994 are expected to increase slightly by 1.5% on account of larger contribution to the Pension Trust Fund from RM608 million in 1993 to RM695 million in 1994.

Grants and transfers to state governments are expected to increase by 5.8%. The largest increase is for road maintenance grant and capitation grant. Road maintenance grant remains the largest component under this category of expenditure, amounting to RM419 million or 30.4% of the total grants. Capitation grants, the second largest component, is expected to increase by 8.3% to RM195 million or 14.2% of the total grant due to population increases in the states. Road maintenance grant is also expected to increase by 5.9% as more roads are covered by the grant. Expenditure for **subsidies** is estimated to decline by 7% attributable largely to the decline in padi price subsidies of 2.1% to RM413 million due to lower padi production. In addition, text book subsidy is expected to decline from RM76 million in 1993 to RM60 million as some of the text books under the programmes have already been purchased in 1993. The padi price and text book subsidies account for about 86.3% of total subsidy. Other subsidy components (which include petroleum products subsidy, food subsistence programme and transportation subsidy) are expected to amount to RM75 million or 13.7% of total subsidy.

In terms of sectoral classification, the largest expenditure is for the **social services** sector which is expected to increase by 10.8% and accounts for 34.1% of total operating expenditure. The largest expenditure is the provision for the health and education sub-sectors, particularly for emolument of teachers and medical staff as well as for maintenance of schools and hospitals. In addition, the expenditure for the housing sub-sector is expected to increase significantly from RM52 million in 1993 to RM285 million in 1994 due to the allocation of RM150 million to the Low Cost Housing Fund for the hard-core poor. Expenditure for the **economic services** sector is expected to increase by 31.9% attributable largely to the higher expenditure for the transport sub-sector. Expenditure for the **security** sector is expected to increase slightly by 0.4%, mainly to cater for the purchase of supplies and services. Of this, 63.1% is for the defence sub-sector and the

Table 5.6
Federal Government Operating
Expenditure by Sector
(RM million)

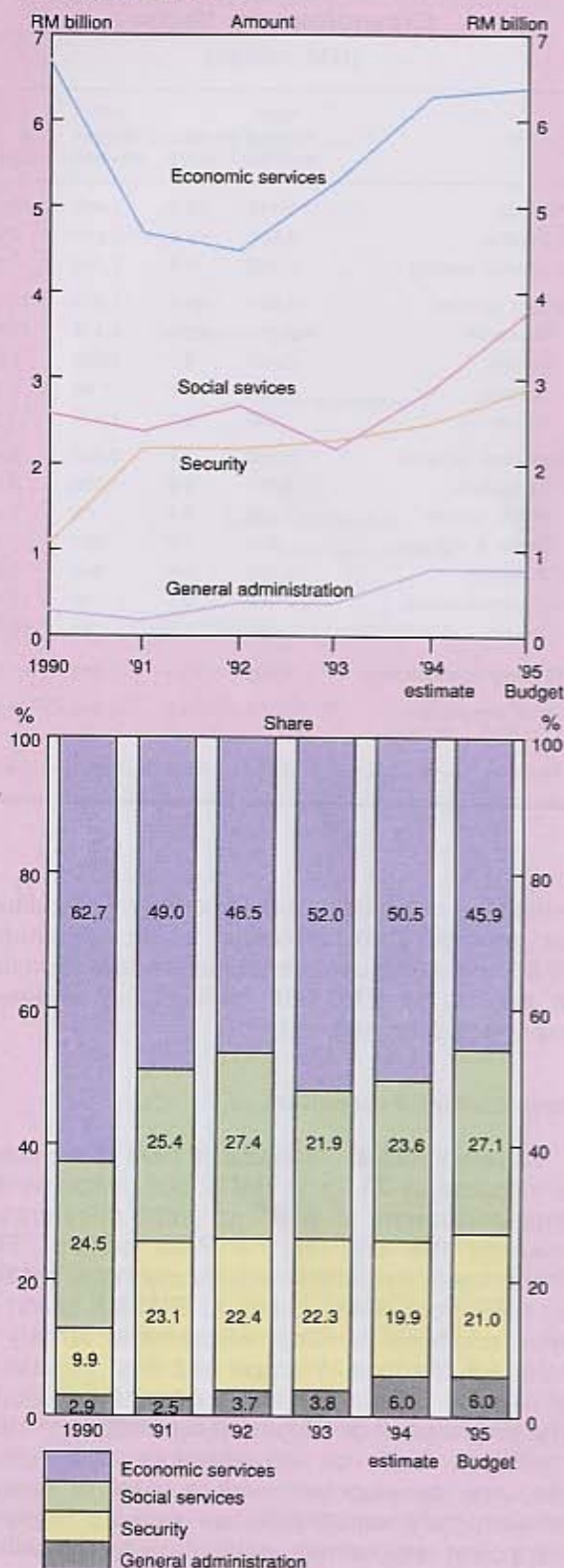
	1994 Revised estimate	% Share	1995 Budget allocation	% Share
Security	5,149	15.3	5,460	15.9
Defence	3,249	9.6	3,418	9.9
Internal security	1,900	5.6	2,042	5.9
Social services	11,501	34.1	11,514	33.5
Education	8,111	24.0	8,178	23.8
Health	2,043	6.1	2,180	6.3
Housing	285	0.8	86	0.3
Others	1,062	3.1	1,070	3.1
Economic services	3,312	9.8	2,892	8.4
Agriculture	1,217	3.6	1,159	3.4
Public utilities	128	0.4	55	0.2
Trade & industry	566	1.7	657	1.9
Transport	1,343	4.0	960	2.8
Communications	28	0.1	30	0.1
Others	30	0.1	31	0.1
General administration	3,686	10.9	3,863	11.2
Other expenditure	10,105	29.9	10,666	31.0
TOTAL	33,753	100.0	34,395	100.0

remaining is for the internal security. Expenditure for **general administration** which constitutes 10.9% of the total operating expenditure is expected to decline to RM3,686 million due to lower expenditure on refunds.

Development Expenditure

Development expenditure in 1994 is expected to increase by 23.5% to RM12,502 million as the implementation of 6MP projects accelerated towards the end of the Plan period. The Government has increased the ceiling allocation for 6MP from RM55 billion to RM58.5 billion to meet additional funding requirements largely to cater for changes in scope and cost escalation of existing projects as well as for new projects. The emphasis of development expenditure in 1994 continues to be on infrastructure and human resource development with a view to easing infrastructure constraints as well as meeting manpower requirement, particularly for the skilled and semi-skilled.

Chart 5.5
Federal Government Development
Expenditure by Sector



As shown in Chart 5.5, programmes under the economic services sector account for the largest expenditure (50.6%) followed by social services, including education and training, health, housing and other social services, accounting for another 23.6%. In addition, expenditure for the security sector is expected to account for 19.9%, while the remaining 6% is for general administration.

Within the **economic services** sector, expenditure for the transport sub-sector is expected to increase by 10.6% to account for the largest expenditure under economic services sector. The higher expenditure is in line with the continuing emphasis on the expansion and modernisation of the nation's transportation network with road and bridges constituting the bulk or 66.8% of the expenditure for transport. This includes the construction of Jalan Raya Simpang Pulai-Gua Musang-Kuala Berang, Jalan Raya Timur Barat-Butterworth, Johor Integrated Causeway Project and major roads in Sarawak and Sabah. In addition, a sum of RM400 million would be utilised for the double tracking and electrification of railways project between Kuala Lumpur to Port Kelang as well as Rawang to Seremban, aimed at improving the handling capacity for cargo and passenger traffic. A sum of RM177 million is expected to be spent for the Kuala Lumpur International Airport (KLIA) in Sepang, as part of RM934 million Government's

Table 5.7
Federal Government Development
Expenditure for Economic Services
(RM million)

	1994		1995	
	Revised estimate	% Share	Budget allocation	% Share
Agriculture and rural development	1,472	23.3	1,482	23.2
Public utilities	808	12.8	861	13.5
Trade and industry	1,035	16.4	1,008	15.8
Transport	2,963	46.9	2,989	46.8
Communications	8	0.1	14	0.2
Others	34	0.5	31	0.5
TOTAL	6,320	100.0	6,385	100.0

contribution to total project cost, estimated at between RM9 billion to RM10 billion. The balance will be raised through loans from private financial institutions by KLIA Berhad. About RM54 million of the Federal Government development expenditure would also be spent on the expansion and upgrading of other airports in Kuantan, Subang, Senai, Penang and Langkawi.

The Government continues to develop the agricultural sector as reflected in the higher expenditure for this sector of RM1,472 million. Of this, RM429 million or 29.1% would be spent for agriculture programmes mainly for integrated agricultural development projects (IADP). Expenditure for land development programmes is expected to account for another 22.2% for projects undertaken by various regional and land development agencies. Expenditure for drainage and irrigation programmes would amount to RM217 million mainly for flood mitigation and the prevention of coastal erosion. Other projects under agriculture and rural development include rubber replanting, livestock industries, fisheries, forestry and other related projects with a total expenditure of RM500 million or 40% of the expenditure under agriculture and rural development.

Programmes under trade and industry are envisaged to amount to RM1,035 million, especially for industrial development, tourism and industrial research. Industrial development programmes account for the largest share of expenditure which include direct contributions and loan to ministries, government agencies and institutions. The Government continues to support the development of small and medium-scale industries (SMIs) to further strengthen the industrial structure as well as to encourage domestic investment. About RM63 million is expected to be spent for the development of SMIs, mainly for the provision of sites and infrastructure. Expenditure for industrial research would double to RM257 million, mainly to agencies such as Forest Research Institute of Malaysia (FRIM), Nuclear Energy Unit, Malaysian Institute of Microelectronic System (MIMOS) and Standard and Industrial Research Institute of Malaysia (SIRIM) in line with the Government's emphasis on research and technology (R&D) development. As part of the effort to promote the services sector as well as to address the increasing services deficit, a sum of RM285 million is expected to be spent for project under tourism.

Table 5.8

**Federal Government Development
Expenditure for Agriculture and
Rural Development Programme
(RM million)**

	1994		1995	
	<i>Revised estimate</i>	<i>% Share</i>	<i>Budget allocation</i>	<i>% Share</i>
Agriculture	428.8	29.1	538.9	36.4
Land development	326.9	22.2	231.6	15.6
Drainage and irrigation	216.7	14.7	240.7	16.2
Rubber replanting	170.6	11.6	128.5	8.7
Fisheries	74.5	5.1	113.1	7.6
Livestock	34.5	2.3	36.3	2.5
Forestry	26.2	1.8	44.6	3.0
Others	194.1	13.2	148.5	10.0
TOTAL	1,472.3	100.0	1,482.2	100.0

A sum of RM808 million would be spent for utilities of which RM656 million of the expenditure is expected to be spent for water supply while another RM152 million for electricity, particularly for rural electrification programmes. With the implementation of these programmes, it is expected that 80% of the rural population will have access to potable water and 98% to electricity by end of 1994.

The development expenditure outlay for the **social services** sector is expected to increase by 32.8% with education expected to account for the largest share followed by health services. Expenditure for education would be increased by 32.7% in line with the emphasis for greater efficiency and effectiveness of the education system to equip Malaysians with appropriate knowledge and skills. The higher expenditure is to cater for the construction of 135 new schools, including vocational and technical schools, new branch campuses for MARA Institute of Technology (ITM)

Table 5.9

**Federal Government Development
Expenditure for Trade and
Industry Programme
(RM million)**

	1994		1995	
	<i>Revised estimate</i>	<i>% Share</i>	<i>Budget allocation</i>	<i>% Share</i>
Industrial development	400.5	38.7	576.2	57.2
Tourism	285.1	27.6	165.0	16.4
Industrial research	257.4	24.9	197.2	19.5
Industrial areas	56.4	5.4	54.3	5.4
Others	35.2	3.4	15.0	1.5
TOTAL	1,034.6	100.0	1,007.7	100.0

in Melaka and Pahang, the International Islamic University campus in Gombak and the new university in Sarawak as well as for upgrading of educational facilities. Expenditure for health would also increase reflecting the emphasis given to health services so as to improve the quality of life. About RM120 million is expected to be spent for the on-going construction of hospitals which include twelve nucleus hospitals scheduled to be completed in 1994. The construction and upgrading of rural clinics, polyclinics, health centres, training hostels and replacement of hospital equipment would utilise another RM178 million of the expenditure for the social services sector.

Expenditure for housing is expected to increase sharply from RM167 million in 1993 to RM392 million, reflecting the Government's concern to address housing problems of the armed forces and police personnel as well as the lower income groups, particularly in major urban centres. A sum of RM169 million would be utilised for the armed forces and Royal Police housing programmes while expenditure for low cost housing projects is expected to amount to RM71 million. This amount, however, does not include the Government's contribution to the low cost housing fund. Expenditure for other programmes under

Table 5.10

**Federal Government Development
Expenditure for Social Services
(RM million)**

	<i>1994 Revised estimate</i>	<i>% Share</i>	<i>1995 Budget allocation</i>	<i>% Share</i>
Education	1,561	52.9	2,043	54.2
Health	298	10.1	438	11.6
Housing	392	13.3	493	13.1
Others	698	23.7	795	21.1
TOTAL	2,949	100.0	3,769	100.0

the social services sector, such as for information and broadcasting, cultural, youth and sport programmes and other social services, is expected to account for 23.7% of the total expenditure for social services sector.

Expenditure for the **security sector** is expected to amount to RM2,484 million of which RM2,164 million is for the defence sub-sector. The amount is mainly to cater for purchases of military hardware to replace existing military equipment. A sum of RM320 million is expected to be spent for internal security, particularly for projects under Royal Police, which includes the construction of police head quarters, police stations, police force camps and purchase of aircraft.

Expenditure for **general administration** accounts for the smallest share in Federal Government development expenditure. This includes expenditure for departmental and foreign services such as purchase of office equipment, office renovation and construction of Government buildings. A sum of RM749 million is estimated to be expended for this sector.

Financing

The balanced budget achieved in 1994 does not necessitate the Government to raise borrowing to finance its expenditure. Nevertheless, some borrowings were undertaken in 1994 for purposes

of debt management as well as to create additional financial instruments, particularly for Islamic banking. With respect to debt management, the Government undertook the prepayment of the more expensive external loans by raising loans from cheaper domestic sources. In April 1994, the Government prepaid a market loan amounting to RM1,615 million through the issuance of Malaysian Government Securities (MGS), while further prepayments may be undertaken during the course of the year. With regard to the creation of additional financial instruments, the Government issued RM3,000 million of Government Investment Certificate (ICs) in July 1994 to cater for increasing demand for papers under Islamic Banking.

Total gross domestic borrowing raised as of July 1994 from the issuance of government papers, comprising MGS and ICs amounted to RM5,500 million. After taking into account their redemptions of RM3,749 million, total net domestic borrowing is expected to amount to RM1,751 million compared with RM375 million in 1993.

Gross external borrowing in 1994 will amount to RM900 million, mainly from the disbursement of existing project loans. With repayments of RM981 million, net project borrowing in 1994 is expected to record a smaller outflow of RM81 million. In addition, the Government undertook to refinance RM776 million and prepaid RM1,615 million of market loans. As a result, net external borrowing is expected to record a smaller outflow of RM2,073 million compared with RM3,135 million in 1993.

State Governments

The consolidated financial position of state governments in 1994 is expected to weaken with its current account surplus expected to decline by 53.3%, attributable mainly to lower revenue and higher operating expenditure. Revenue collection is expected to decline by 3.1% while the increase in operating expenditure is higher at 17.7%. Further, development expenditure is also expected to record a large increase of 21.0% contributing to a larger deficit of RM2,687 million in the overall balance of state governments. The overall deficit for 1994 is expected to be largely financed by Federal Government loans (RM213 million) and drawdown of state governments' assets.

The financial performance by individual states is mixed. Eleven states are expected to record deficit in their overall balance with two states, expected to be in surplus. The deficits range from RM3 million for Penang to RM856 million for Sabah, while Kedah and Pahang will be in surplus with RM27 million and RM26 million respectively.

The revenue of state governments from states' own source is expected to decline further to RM5,330 million in 1994 after declining by 0.8% in 1993. This source of revenue accounts for 75.2% of the consolidated state revenue. The decline is due to lower receipts from land based taxes. While higher revenue collections are expected in five states particularly Sabah, Sarawak, Terengganu, Pahang and Penang, the other states would record lower revenues.

The petroleum and forestry-based revenues continue to be the most significant resource-based revenue for the state governments, accounting for about 51.2% of the states' own revenue sources. Petroleum royalties received by Terengganu, Sabah and Sarawak are expected to decline by 5.2%, from RM672 million in 1993 to RM637 million in

Table 5.11
Consolidated State Governments'
Financial Position
(RM million)

	1993 ¹	% Change	1994 ²	% Change
Current account				
Revenue	6,979	1.0	6,762	-3.1
Operating expenditure	4,929	-2.7	5,804	17.7
Current account balance	2,050	11.2	958	-53.3
Development account				
Gross development expenditure	3,295	-7.2	3,941	19.6
Development fund	2,806	-10.5	3,183	13.4
Water supply fund	489	17.5	758	55.0
Loan recoveries	283	11.9	296	4.6
Net development expenditure	3,012	-8.7	3,645	21.0
Overall deficit	-962		-2,687	

¹ Estimated actual.

² Estimate.

1994. For Terengganu, petroleum royalty is expected to amount to RM423 million in 1994, accounting for 83.1% of the state's own revenue. For Sabah and Sarawak, petroleum royalties amount to RM61 million and RM153 million, accounting for 4.4% and 8.8% of the respective state's own revenue. Forestry-based revenue is expected to account for 39.2% of the total states' own revenue in 1994 (1993: 29.4%) with the collection expected to increase in 1994 to RM2,091 million, compared with RM1,636 million in 1993. Sabah and Sarawak account for 93.9% of total forestry-based revenue.

Receipts from Federal grants and reimbursements constitute 21.3% of the state governments' consolidated revenue. In 1994, grants from the Federal Government is expected to amount to RM1,378 million compared with RM1,302 million in 1993. The increase in the Federal Government grants is mainly for road maintenance grant which is expected to increase by 5.9% to RM419 million. Reimbursement from the Federal Government to the states is expected to decline from RM104 million in 1993 to RM54 million.

Total operating expenditure of state governments is expected to increase by 17.7% with the increase, especially in emoluments, maintenance and supplies recorded in almost all states, particularly Sabah, Sarawak and Selangor. Maintenance and supplies are expected to account for 27.2% of state governments' operating expenditure, followed by emoluments, accounting for another 22%.

The development expenditure of state governments is also expected to increase strongly by 21% to support the rapid pace of development and urbanisation in states. All states, except Kedah, are expected to record increases in their respective development expenditure, particularly Johor, Pahang, Selangor and Sabah. Of the state development expenditure, 13.2% is for economic sector, such as infrastructure, agriculture and rural development. This expenditure is expected to increase significantly by 11.8%, from RM431 million in 1993 to RM482 million in 1994. Capital expenditure for water supply is expected to increase significantly by 61% to meet the rising demand of industrial, commercial and household consumers.

Non-Financial Public Enterprises

The financial position of NFPEs is expected to improve further in 1994 with operating surplus increasing by 26.3% on account of their better performance, benefitting from the prevailing strong economic growth as well as the successful restructuring of many of these companies since the past few years. This has resulted in an increase in NFPEs' profits². Nevertheless, with the substantial increase in development expenditure, the consolidated overall account of the NFPEs is expected to record a large deficit of RM1,605 million compared with a small surplus of RM33 million in 1993.

As a result of the continued divestment of NFPEs by the Federal Government, the number of NFPEs that are monitored has been reduced to 41. The operating surplus of the 41 NFPEs is expected to remain strong as shown in Table 5.12. The surplus is mainly contributed by major NFPEs such as TNB, TMB, Petrolam Nasional Berhad (PETRONAS) and HICOM.

The development expenditure of the 41 NFPEs is estimated to increase by 46%, particularly to meet higher capital outlays to expand capacities in areas relating to utilities, transportation, manufacturing and commodities. TMB is investing RM4,138 million to further upgrade the standard of telecommunications, including the Malaysian Domestic Submarine Cable System to link Peninsular Malaysia with Sabah and Sarawak and to equip Labuan with a sophisticated telecommunications infrastructure to enhance its status as an international offshore financial centre. TNB will spend RM3,114 million to increase its power generation capacity and improve distribution and transmission network. In addition, PETRONAS is expected to spend about RM7,400 million for upstream and downstream activities, including the construction of the Second Malaysia Liquefied Natural Gas (MLNG2) plant and the acquisition of additional Liquefied Natural Gas (LNG) tankers. In addition, expenditure by other NFPEs to improve infrastructure, particularly by Keretapi Tanah Melayu Berhad (KTMB) and port authorities, is also expected to increase.

² Based on data from Central Information Collection Unit (CICU) on 702 NFPEs, 72.2% were making profits in 1992. The most profitable being those in the public utilities and finance.

Table 5.12

**Consolidated NFPEs Financial
Position¹**
(RM million)

	1993	% Change	1994	% Change
Revenue	44,343	5.3	46,605	5.1
Current expenditure	35,968	8.0	36,029	0.2
Retained income	8,375	-4.9	10,576	26.3
Capital expenditure	8,342	21.4	12,181	46.0
Overall balance	33		-1,605	

¹ Refers to 42 NFPEs in 1993 and 41 in 1994.

In 1994, the Government continues to undertake further divestment in its holdings of NFPEs. In February 1994, HICOM and Petronas Dagangan Berhad were listed on the main board of the Kuala Lumpur Stock Exchange (KLSE). In addition, the Government through the Central Bank divested 32% of its shareholding in Malaysia Airlines System Berhad (MAS), amounting to 224 million shares to Malaysian Helicopter Services Berhad and another 11.5%, amounting to 80.9 million shares to the Pension Trust Fund. The Central Bank also divested 220.1 million shares, representing 29.3% of its shareholding in Malaysian International Shipping Corporation to the Pension Trust Fund.

In terms of Government's holdings in privatised Government companies and corporatised Government agencies and departments, the number of companies and equity held by the Minister of Finance (Incorporated) (MOF Inc.) has increased. As at January 1994, MOF Inc. held shares in 37 companies, including those listed on the KLSE, with a par value of RM7,595 million and a market value of some RM72,000 million. However, to ensure that government investments in these companies are managed effectively, a holding company, Khazanah Holdings Berhad (Khazanah), which is a wholly-owned subsidiary of the MOF Inc. has been established in September 1994 with an authorised capital of RM500 million and a paid-up capital of RM100 million to hold and manage the Government's equity investments with a view to maximising returns from these investments.

National Debt

The national debt is expected to increase to 37.1% of GNP from 33.4% in 1993, following a surge in foreign borrowings by both the NFPEs and the private sector to meet their funding requirements. The recourse to foreign borrowings by NFPEs and private sector was undertaken in spite of excess liquidity in the domestic banking system. The situation arises mainly to take advantage of the attractive financing opportunities in foreign capital market.

Total net external borrowing is expected to increase substantially to RM12,531 million in 1994 (RM5,416 million in 1993). As shown in Table 5.13, all components of the national debt, except Federal Government's external debt, are expected to increase substantially. The share of the public sector debt to national debt is expected to decline marginally to 69.6% in 1994, as a result of a significant increase of 60.1% in NFPEs debt, although that of the Federal Government has declined by 10.9%. The private sector debt is also expected to increase by 27.2%, accounting for 30.4% of total national debt.

The external debt of NFPEs is expected to amount to RM27,268 million in 1994 (42.6% of national debt) due mainly to their continued large expansion and modernisation programmes, such as PETRONAS, TNB and MAS. Of these, 15% is guaranteed by Government. In addition the private sector debt is expected to increase by 27.2% to RM19,482 million in 1994, due to increased recourse to external borrowing by the private sector to take advantage of lower cost of financing in foreign capital market.

The total outstanding debt of the **Federal Government** is expected to decline marginally by 0.2% to RM95,685 million in 1994 on account of higher domestic borrowing, which is expected to increase by 2.5%. It accounted for a larger share of 82% of total Federal Government debt. Significant increase in ICs in 1994 accounts for the largest increase in the Federal domestic debt. By the end of 1994, outstanding ICs is expected to increase to RM4,800 million. On the other hand, outstanding MGS is expected to decline by 1.6%. However, it remains the largest debt holding, accounting for 82.8% of the total domestic debt outstanding. Other holdings of domestic debt comprises Treasury Bills (TBs) and loan of the HLF.

Table 5.13
External Debt

	1993			1994		
	RM Million	% Change	% Share	RM Million	% Change	% Share
Public sector	36,398	12.6	70.4	44,527	22.3	69.6
Federal Government	19,362	-7.5	37.5	17,259	-10.9	27.0
NFPEs	17,036	49.4	32.9	27,268	60.1	42.6
Guaranteed	8,443	7.9	16.3	9,600	13.7	15.0
Non-guaranteed	8,593	140.2	16.6	17,668	105.6	27.6
Private sector	15,314	46.4	29.6	19,482	27.2	30.4
NATIONAL DEBT	51,712	20.8	100.0	64,009	23.8	100.0

Chart 5.6
Federal Government Loans - Principal Repayments, Redemptions and Charges

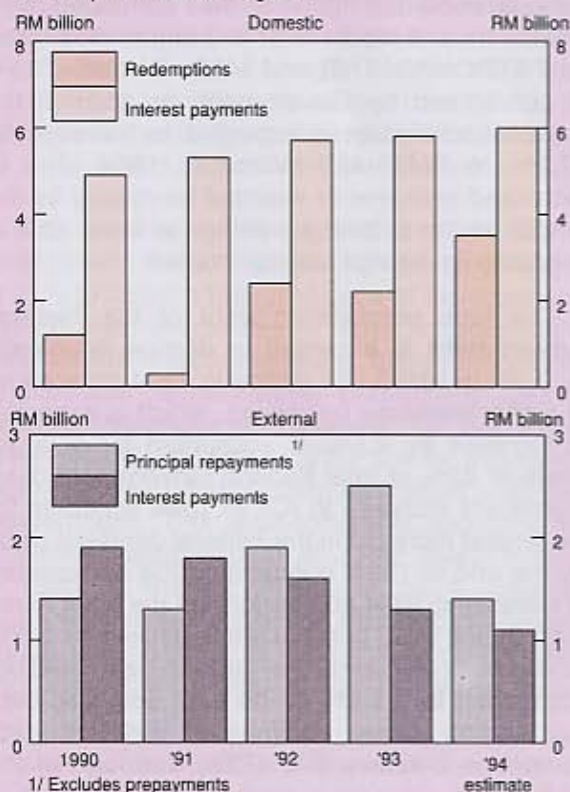
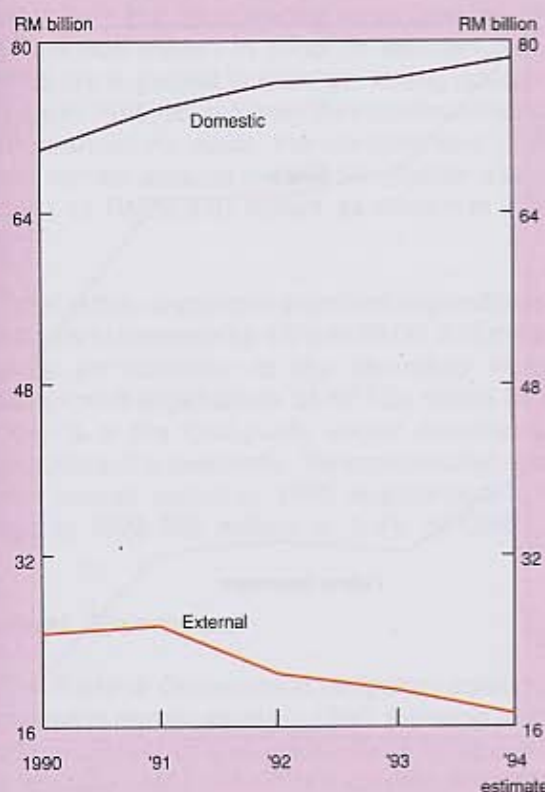


Table 5.14
Federal Government Debt
(RM million)

Debt Profile	1993	% Share	1994	% Share
Domestic debt	76,536	100.0	78,426	100.0
Treasury bills	4,320	5.6	4,320	5.5
Investment certificates	2,000	2.6	4,800	6.1
Government securities	66,018	86.3	64,969	82.8
2 - 3 years	—	—	—	—
4 - 5 years	3,500	—	3,661	—
6 - 10 years	13,336	—	13,589	—
11 - 15 years	12,634	—	12,873	—
16 - 21 years	36,548	—	34,846	—
Other loans ¹	4,198	5.5	4,337	5.5
External debt	19,362	100.0	17,259	100.0
Market loans	11,596	59.9	9,495	55.0
Project loans	7,766	40.1	7,764	45.0
Suppliers' credit	0	0.5	0	0.0
TOTAL	95,898		95,685	

¹ Mainly loans undertaken by the Treasury Housing Loans Fund.

Chart 5.7
Federal Government Debt



The favourable financial position of the Federal Government enables the Government to further prepay its external debt. In April 1994, the Government prepaid one loan, namely the 1985/2015 FRN US\$600 million amounting to RM1,615 million. On 17 August 1994, the Government raised a market loan totalling RM776 million at more favourable terms to refinance a 30 billion Yen Private Loan raised in 1986.

The net external borrowing of the Federal Government, as a whole, is expected to register a smaller outflow of RM2,073 million, compared with a net repayment of RM3,134 million in 1993. Hence, the outstanding external debt of the Federal Government, after taking into account foreign exchange revaluation, is expected to decline to RM17,259 million at the end of 1994, from RM19,362 million at end 1993.

The Government will continue to monitor market conditions for opportunities to reduce the overall costs of its loan portfolio. Although the average

remaining tenure of the loans is about 4.4 years, there are some long term and expensive loans in the Federal Government's loan portfolio which cannot be prepaid except on the final maturity date. In this respect, the Government will undertake to reduce the overall cost of the loan portfolio through the use of various derivative products, including options and swap arrangements.

The United States (US) dollar denominated debt is expected to continue to account for the largest proportion of external debt, amounting to a ringgit equivalent of RM7,759 million or 45% of the Federal external debt. However, it is significantly lower compared with RM10,031 million or 52% in 1993, mainly due to the prepayment of RM1,615 million of US dollar denominated external loans in 1994. In terms of yen denominated external debt, despite prepayments, its share increased to 41% (1993: 34%) as a result of the appreciation of yen. Other significant holdings are in deutschemark (4.0%), Swiss franc (5.8%), pound sterling (1.7%), French franc (1.6%) and Canadian dollar (0.1%).

Chart 5.8
Federal Government External Debt by Source

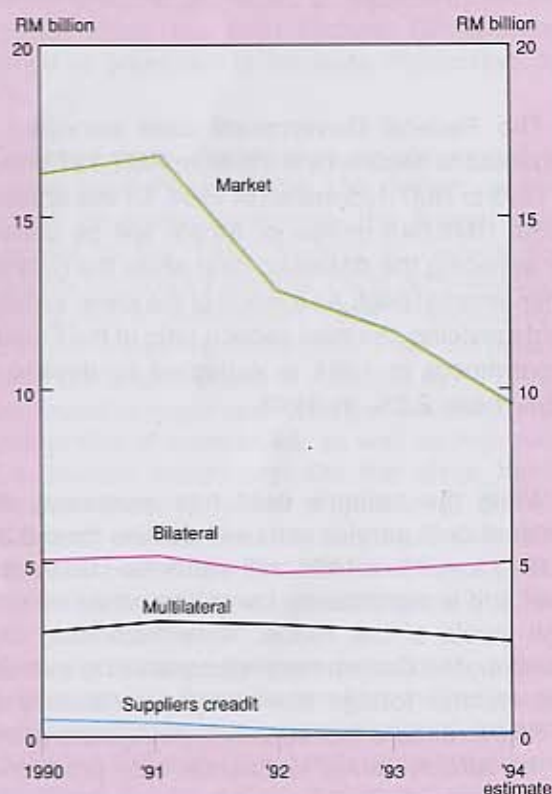
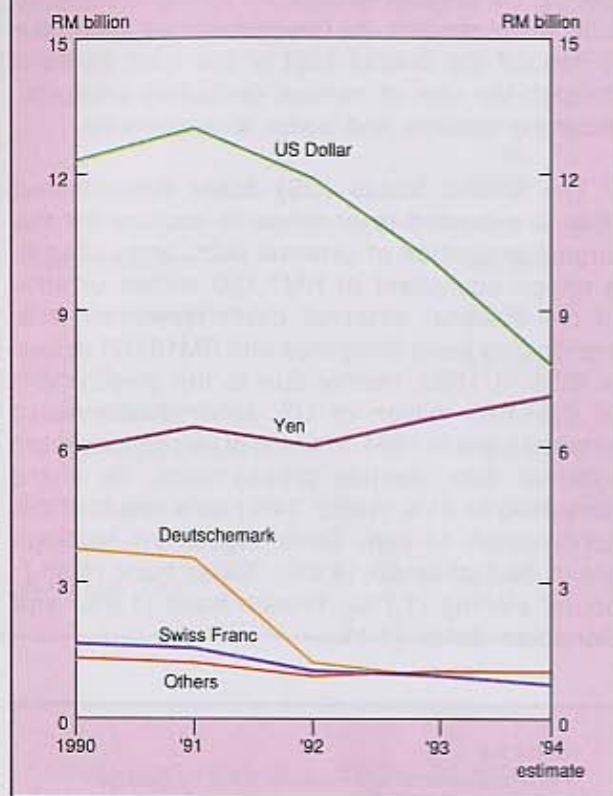


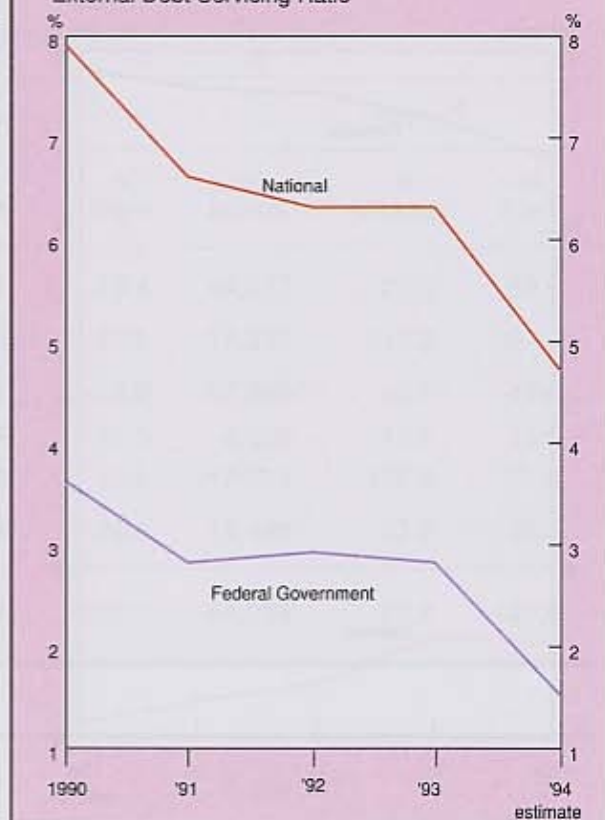
Chart 5.9
Federal Government External Debt by Currency



The Federal Government debt servicing is expected to decline by 0.2% from RM7,137 million in 1993 to RM7,125 million in 1994. Of this amount, about RM6,049 million or 84.9% will be utilised for servicing the domestic debt while the balance is for external debt. As a result of the lower external debt servicing, the debt service ratio of the Federal Government in 1994 is expected to decline to 1.5% from 2.8% in 1993.

While the nation's debt has increased, the national debt service ratio will decline from 6.3% in 1993 to 4.7% in 1994, still within the sustainable level and is significantly lower compared with the high levels of the 1980s. Notwithstanding this, however, the Government will continue to oversee and monitor foreign borrowings, particularly by NFPEs to ensure that such borrowings are raised on favourable terms to finance only productive activities.

Chart 5.10
External Debt Servicing Ratio



1995 Outlook

Overview

In 1995, the Government's fiscal policy will continue to focus on further consolidation of public sector finances and continued restraint on consumption spending, consistent with the anti-inflationary stance of the Government. At the same time, it will provide for higher investment expenditure to further improve infrastructure, maintenance of public services, promote human resource development as well as science and technology. The fiscal package will aim at reducing inflation, promoting savings and enhancing productivity, efficiency and competitiveness of the private sector through continuing tax reforms.

The consolidated public sector current account balance is anticipated to remain favourable as a result of improved revenue collection and continued

prudence in consumption spending. The general government revenue is estimated to increase by 2.5% while operating expenditure is projected to decline by 2.2%, thus leading to a higher surplus of RM16,638 million in 1995. In addition, major NFPEs are expected to maintain strong operating surplus in 1995, arising from their continued strong performance. As such, the consolidated public sector current account in 1995 will register a larger surplus of RM26,840 million as shown in Table 5.1.

Total public sector development expenditure is estimated to increase by 9.9% to RM30,372 million, mainly attributable to the increase in the development expenditure of NFPEs which make up 46.7% of the total public sector development expenditure. Consequently, the consolidated public sector overall deficit in 1995 is expected to be larger at RM3,532 million or 1.8% of GNP.

Federal Government

The Federal Government budgetary position is expected to remain strong in 1995, following further revenue increases and restraints in its operating expenditure. As a result, the current account is projected to record a surplus of RM13,246 million. Despite a higher development allocation in 1995, the Federal Government is expected to achieve yet another year of balanced budget in 1995. The Federal Government is expected to achieve an overall surplus for the third consecutive year in 1995, with the surplus expected to be at RM543 million.

The Federal Government revenue is estimated to increase moderately by 4.3% to RM47,641 million, particularly due to lower contribution from petroleum-related revenue following the softening of petroleum prices to US\$16.50 per barrel in 1994 (the base year for the 1995 tax), compared with US\$18.79 per barrel in 1993. Consequently, the petroleum income tax collection is projected to decline further by 6.4% to RM1,995 million in 1995.

The Federal Government operating allocation in 1995 is budgeted at RM34,395 million, or a marginal increase of 1.9%, attributable to lower allocation for emoluments and refunds of expenditure. Allocation for emoluments is expected to decline by 0.1% reflecting the continued effort

by the Government to rightsize the public sector. On the other hand, expenditure for supplies and services, particularly maintenance will remain significant given the Government's emphasis to further improve the public services and facilities.

Planned development allocation of RM13,903 million is to provide for the project implementation in the final year of the 6MP. The emphasis on development expenditure will continue to be on infrastructure, human resource development, housing as well as agriculture and rural development and defence. After taking into consideration loan recoveries from state governments and other government agencies, the net development expenditure in 1995 is estimated at RM12,703 million. Hence, the Federal Government is estimated to record an overall surplus of RM543 million or 0.3% of GNP.

Revenue

Tax revenue of the Federal Government is anticipated to increase by 9.4% in line with the anticipated strong performance of the economy, especially domestic demand in 1994 and 1995. However, increases in tax revenue are expected to be offset by the lower collection from non-tax revenue which is projected to decline by 11.7% in 1995. Thus, the total Federal Government revenue is projected to increase moderately by 4.3%.

Revenue from direct taxes is anticipated to increase by 8.9% to RM20,186 million. In line with the on-going tax-reform, the Government proposed in the 1994 Budget to reduce the corporate tax rate by another 2% to 30% effective from the year of assessment 1995. In spite of this reduction, however, collection from corporate income tax is anticipated to increase by 11% due to continued stronger economic performance, thus higher profits of companies, as well as improved tax collection machinery. On the other hand, petroleum income tax is projected to decline significantly due to lower petroleum price in 1994. As a result, collection from direct tax as a group is projected to register a slower increase of 8.9%.

Sustained strong aggregate demand is expected to further improve the collection from indirect taxes. Receipts from indirect taxes is estimated to increase by 9.9% in 1995, with higher collections anticipated from import duties, excise duties and sales tax.

Collection from import duties is projected to register a double-digit increase of 12.9% to RM6,014 million, following a significant increase in gross imports. Excise duties, which are imposed on goods produced by local manufacturers, is anticipated to record an increase of 11.2% due to buoyant manufacturing activities. Similarly, sales tax is also anticipated to record double-digit gain in line with strong growth in private spending.

Collection from non-tax revenue and non-revenue receipts is projected to decline by 11.7% in 1995. On the other hand, petroleum royalty is expected to be higher, increasing by 3.5% to RM739 million on account of a higher price of crude petroleum in 1995. In addition, collection from road tax is estimated to increase as sales of motor vehicles in 1995 are expected to remain strong.

Operating Allocation

The Federal Government allocation for operating expenses in 1995 will increase marginally by 1.9% to RM34,395 million. The allocation for **emoluments** will decline by 0.1% to RM12,470 million. Of this, RM10,825 million will be for payment of salary to Federal Government employees while another RM1,645 million to the staff of statutory bodies. The allocation for emoluments, however, will remain the largest component of operating allocation, accounting for 36.3% in 1995. The allocation for **debt service charges** will increase by 1.3% to RM7,231 million, accounting for 21.1% of the operating allocation. External debt servicing is projected to decline by 3.3% following several prepayments undertaken since 1988. On the other hand, the servicing of domestic debt is projected to increase by 2.2% as a result of the increase in the Federal domestic debt.

The allocation for **supplies and services** will be higher by 3.8%, amounting to RM5,241 million. The main components will be the maintenance, supplies of raw materials and professional services which, together account for 67% of the total allocation for supplies and services. Commitments on **pensions and gratuities** will increase slightly by 2.5% to RM2,413 million to cater for normal increase in the number of pensioners in 1995. The contribution to the Pension Trust Fund will remain at RM695 million.

Grants and transfers to state governments will increase slightly by 2% to RM1,406 million. This includes road maintenance grant, capitation grant, revenue growth grant, management costs for the common user departments and transfer to the State Reserve Fund. The increase in grants to state governments is mainly due to the higher grants for common user departments which is expected to increase by 9.6% to RM183 million to cater for the normal increase in operating costs for these departments. In the case of **subsidies**, the allocation will increase by 20.4% to RM660 million largely to meet the increase in subsidy on petroleum products and food subsistence programme. Petroleum products subsidy will increase from RM65 million in 1994 to RM94 million in 1995 to offset the rising operating cost of LPG manufacturers. The subsidy on food subsistence programme is given to school-going children at primary and secondary schools, especially in rural areas and residential schools as part of the programme for the hard-core poor. The allocation for this subsidy will be increased from RM43.2 million in 1994 to RM72.9 million due to the revision on rates of subsidy from 45 sen to 80 sen per student in Peninsular Malaysia and from 60 sen to 90 sen per student in Sabah and Sarawak. In addition, the number of days in the programme will also be increased from 130 days to 150 days a year.

The allocation for **other** operating expenditure, including grants to statutory bodies, scholarships and educational aid, assets acquisition, operating grants to primary and secondary schools and also refunds and write-offs, will be increased by 3.6%. Grants to statutory bodies will be increased by 11.3% to RM819 million mainly due to higher allocation for universities largely to meet the cost of maintenance, repair works and supplies of materials. Another RM380 million will be allocated to Malaysian Highway Authority (LLM) for debt servicing. The allocation for scholarships and educational aid will be higher by 13.5% to RM783 million to cater for increasing number of scholarships for students studying abroad and at local universities. At the same time, operating grants to primary and secondary schools will be increased by 16.7% to RM665 million in the light of increasing number of students. In addition, the allocation for assets acquisition will be increased to purchase office equipment, such as computer facilities, machinery as well as for renovation of buildings.

In terms of sectoral classification, the **social services** sector will remain the largest sector with an allocation of RM11,514 million or 33.5% of the total allocation, largely for education and health. The **security** sector with an allocation of RM5,460 million will be the second largest sector, accounting for 15.9% of the total allocation. General **administration and economic services** sectors will take up the remaining allocation, accounting for 11.2% and 8.4% respectively, of total operating allocation.

Development Allocation

The thrust of development allocation for 1995 continues to be focused on the strengthening of the productive capacity of the economy through infrastructure and human resource development as well as the eradication of poverty. Since 1995 will be the final year of the 6MP, development allocation for 1995 will be larger, at RM13,903 million. Almost all sectors will benefit from the higher allocation, particularly the social services and security sectors, with an allocation of RM3,769 million and RM2,916 million respectively.

The **economic services** sector will continue to remain the largest sector, accounting for 45.9% of the total development allocation in 1995. About 70% of the allocation for this sector will be utilised for infrastructure and agriculture and rural development projects. The allocation for transport sub-sector will amount to RM2,989 million or 46.8% of the allocation for the economic services sector, to further improve infrastructure facilities. The allocation for transport sub-sector comprises RM2,072 million for road and bridges, RM474 million for improvement of railway system, RM388 million for airports, RM43 million for ports and marine department and RM12 million for other programmes. Major projects include the construction of Middle Ring Road, Road from Simpang Pulai to Kuala Berang, the Johor Causeway Integrated Road Projects and Traffic Dispersal Schemes in Pulau Pinang, Kuala Lumpur and Petaling Jaya. The Government will continue to expand the rural road network for which a sum of RM254 million will be allocated. Works to improve the railway system will continue with an allocation of RM474 million, of which RM300 million will be used for the construction of double tracking projects from Rawang to Seremban and from Kuala Lumpur to Port Klang. In addition, as part of the efforts

to overcome traffic congestion in Kuala Lumpur, a sum of RM90 million will be allocated for the first phase of the Light Rail Transit (LRT) project from Jalan Ampang to Jalan Sultan Ismail via Jalan Tun Perak. Aside from road and railway projects, emphasis will also be given to the development of airports, of which a sum of RM388 million will be allocated for 1995. This includes upgrading and improving airport facilities in Langkawi, Labuan, Bintulu and Johor Bahru. The allocation for KLIA in Sepang will amount to another RM21 million in 1995, as part of the Government contribution to the project, which is mainly for land acquisition.

The allocation for agriculture and rural development will be increased to RM1,482 million. Of the total amount, 36.4% will be for agricultural programmes for integrated agriculture development projects, padi fertilizer subsidies and projects undertaken by agricultural agencies such as KADA and MADA. Other major programmes under agriculture and rural development are land development, drainage and irrigation and rubber replanting programmes.

A sum of RM1,008 million or 15.8% of the allocation for the economic services sector will be earmarked for programmes under trade and industry. Major projects under this sub-sector include industrial development, research as well as tourism. Of the total allocation, RM576 million or 57.1% will be allocated for industrial development programmes such as loans and grants to NFPEs and Government agencies. Higher allocation for industrial development programmes is to promote exports and investment, especially the development of SMIs. In 1995, the Government will spend about RM197 million for R&D to improve productivity and competitiveness of local industries. At the same time, the Government will continue to promote the tourism industry in order to make Malaysia a major tourist destination in the region. About RM165 million will be spent for tourism programmes, particularly for the development of infrastructure for tourism and beautification programmes throughout the country.

The allocation for the **social services** sector will account for the second largest sector, contributing 27.1% of the total development allocation. The Government will continue to give emphasis on education and training to cater for the growing manpower needs of the nation. The

allocation for education will amount to RM2,043 million, increasing by 30.9% over 1994 expenditure. The large increase will be for secondary education, universities as well as for the construction of teacher's quarters in rural areas. This includes an initial allocation of RM1 million to University Malaysia Sabah, mainly for preparatory works such as consultancy and surveyor fees. The allocation for health services will also be higher, increasing by 47% to RM438 million. This larger provision is mainly for the improvement and expansion of health facilities in Government hospitals. The allocation for housing will also be increased by 25.8% to RM493 million. Another RM795 million or 21.1% of the allocation for the social services sector will be for information and broadcasting, culture, youth and sport programmes as well as other social services.

The **security** sector will continue to receive a significant allocation, increasing by 17.4% to amount to RM2,916 million. The allocation includes the provision to implement defence programmes to replace ageing aircrafts as well as modernise and upgrade the capabilities of the Malaysian Armed Forces. Another RM359 million or 12.3% of the total allocation for the security sector will be for internal security, particularly for projects of the Royal Malaysian Police, including the construction of police stations, training centres and purchase of equipment.

The allocation for **general administration** will amount to RM833 million, of which RM817 million will be for the purchase of equipment, construction of office building and maintenance while another RM16 million will be for foreign affairs.