

5

Public Sector Financial Performance

1998 Performance

Overview

When the 1998 Budget was formulated in October last year, the fiscal stance was one of continued prudence and restraint aimed at reducing the nation's external account deficit. As such, the Government tightened its budgetary operations in the first quarter of 1998 by revising downward by as much as 10% across the board and 8% on selective basis of both operating and development expenditure to maintain a surplus budget. However, by the second quarter of 1998, the contraction in domestic economic activities necessitated the Government to undertake counter-cyclical measures to revitalise the domestic economy through a fiscal stimulus package.

While the Federal Government undertakes expansionary program, the other components of the public sector namely state governments, local governments, statutory authorities and Non-Financial Public Enterprises (NFPEs), consolidate their positions in the light of reduced earning capacity due to the slowdown in economic activities. On the development front, increases in expenditure are largely directed for development purposes, while increases in operating expenditure are largely for emoluments and tax refunds. As a result of the fiscal stimulus, the Federal Government reverts to deficit budgeting after five consecutive years of surplus budgeting. Consequently, the federal Government is expected to register an overall deficit of RM9,587 billion or 3.7% of GNP.

The consolidated revenue of the general government in 1998 is estimated to decline by 13.6% to RM70,299 million (1997: RM81,360

Table 5.1			
Consolidated Public Sector Financial Position (RM million)			
	1997 ¹	1998 ²	1999 ³
Current Account:			
General government:			
Revenue	81,360	70,299	61,845
Operating expenditure	51,983	54,497	54,596
Current account balance	29,377	15,802	7,250
Current surplus of NFPEs ⁴	25,713	26,094	27,250
Public sector current surplus	55,090	41,896	34,500
Development Account:			
Development expenditure	39,860	44,694	41,042
General government	19,092	22,238	20,659
NFPEs	20,768	22,456	20,383
Overall balance	15,230	(2,798)	(6,543)
% to GNP	5.8	-1.1	-2.5
Note: ¹ estimated actual			
² revised estimate			
³ Budget estimate, excluding 1999 tax measures			
⁴ exclude grant from Federal Government			

million), attributable mainly to lower revenue receipts by the Federal Government. However, consolidated operating expenditure of the general

government registers an increase of 4.8% to RM54,497 million (1997: RM51,983 million). Consequently, the current account of the general government records a slightly lower surplus of RM15,802 million (1997: RM29,377 million). With the current surplus of the NFPEs amounting to RM26,094 million, (1997: RM25,713 million) the consolidated current account of the public sector shows a lower surplus of RM41,896 million or 16.0% of GNP (1997: RM55,090 million or 21.0% of GNP).

Total development expenditure of the public sector is estimated to increase by 12.1% to RM44,694 million in 1998 (1997: RM39,860 million), mainly due to significant increases in development expenditure of the general government. On the other hand, that of the NFPEs is estimated to increase by only 8.1%. Hence, the public sector is envisaged to register a deficit of RM2,798 million or 1.1% of GNP in 1998 compared with a surplus of RM15,230 million or 5.8% of GNP in 1997.

Federal Government

Federal Government revenue in 1998 has been adversely affected by the unfavourable economic performance. Total revenue collection is estimated to decline by 16.3% to RM55,054 million or 17.5% lower than the Budget estimate of RM66,752 million. The decline is mainly in tax revenue collection. On the other hand, operating expenditure is expected to increase slightly by 4.2% to RM46,563 million or 8.9% higher than the Budget estimate of RM42,766 million, mainly due to increases in emoluments and tax refunds. The current account will consequently register a lower surplus of RM8,491 million or 3.2% of GNP (1997: RM21,071 million or 8.1% of GNP).

Following the counter-cyclical measures adopted by the Government to stimulate economic activities, gross development expenditure for 1998 has been revised upwards by 7.7% to RM19,378 million compared with the Budget estimate of RM17,991

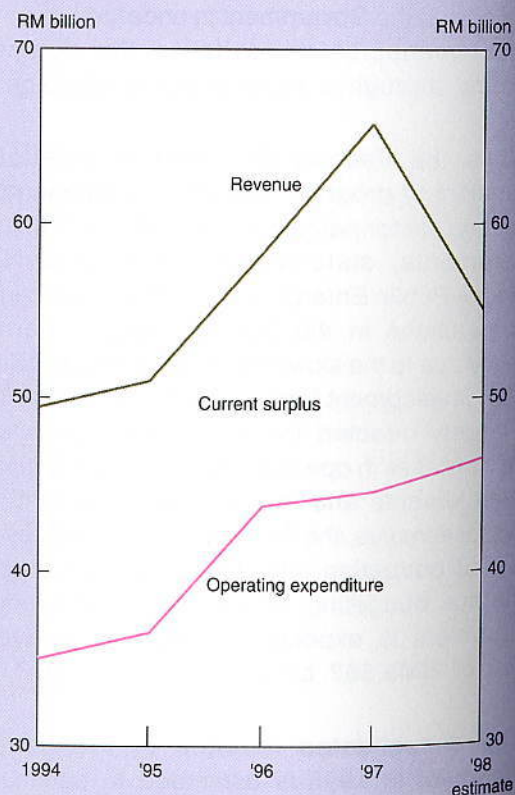
Table 5.2
Federal Government Financial Position
1997-1999
(RM million)

	1997	1998 ¹	1999 ²
Revenue	65,736	55,054	47,160
Operating expenditure	44,665	46,563	47,042
Current balance	21,071	8,491	118
Gross development expenditure	15,750	19,378	17,553
Loan recoveries	1,305	1,300	1,300
Net development expenditure	14,445	18,078	16,253
Overall balance	6,626	(9,587)	(16,135)

¹ revised estimate

² Budget estimate

Chart 5.1
Federal Government Finance - Current Account



million, or an increase of 23% over the 1997 expenditure. After taking into account loan recoveries of RM1,300 million, net development expenditure amounts to RM18,078 million. The decline in revenue coupled with higher expenditure have resulted in the overall position of the Federal Government to record a deficit of RM9,587 million or 3.7% of GNP compared with a surplus of RM6,626 million (2.5% of GNP) in 1997.

Revenue

Total Federal Government revenue is expected to decline by 16.3% to RM55,054 million or 17.5% lower than the Budget estimate of RM66,752 million. The decline is mainly in both direct and indirect taxes, notably corporate tax and stamp duties, as well as taxes on international trade and domestic production and sales which is expected to decrease by 19.5% to RM43,170 million (1997: RM53,628 million).

Revenue collection from **direct taxes**, which accounts for 50.6% of total Federal Government

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

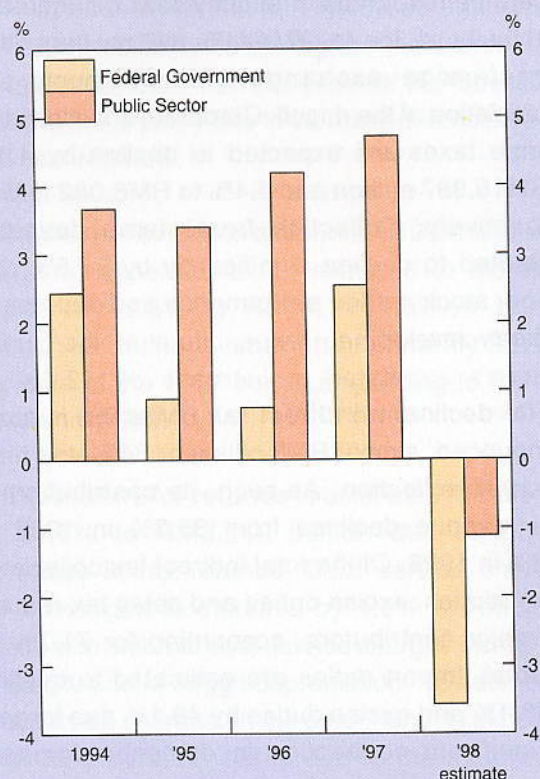


Table 5.3

Federal Government Revenue 1997-1999

	1997 ¹		1998 ²		1999 ³	
	RM million	% Change	RM million	% Change	RM million	% Change
Total revenue	65,736	12.8	55,054	-16.3	47,160	-14.3
Total tax revenue	53,628	13.5	43,170	-19.5	36,318	-15.9
Direct taxes	30,433	17.7	27,863	-8.4	20,099	-27.9
Indirect taxes	23,195	8.3	15,307	-34.0	16,219	6.0
Total non-tax Revenue	12,108	10.0	11,884	-1.9	10,842	-8.8

Note: ¹ actual

² revised estimate

³ Budget estimate, excluding 1999 tax measures

revenue, is estimated to decline by 8.4% to RM27,863 million in 1998. Collections from all sources of direct taxes are expected to decline except petroleum income tax which will increase slightly by 4.3% to RM4,028 million benefiting from foreign exchange gain following the depreciation of the ringgit. Corporate and individual income taxes are expected to decline by 4.1% to RM15,997 million and 5.4% to RM6,082 million respectively. Collection from stamp duties is estimated to decline significantly by 57.5% due to poor stock market performance and depressed property market.

The decline in **indirect tax** collection is more pronounced, almost RM8 billion or 34% less than the 1997 collection. As such, its contribution to total revenue declines from 35.3% in 1997 to 27.8% in 1998. Of the total indirect tax collection, import duties, excise duties and sales tax remain the major contributors, accounting for 71.7% of the total. Import duties are estimated to decline by 38.1% and excise duties by 48.1% due largely to significant contraction in domestic demand. Poor domestic demand especially on consumption

expenditure, also adversely affected sales tax collection, declining by 38.6%. Export duties on petroleum are also expected to decline by 40.7%, being adversely affected by declining petroleum prices from USD21.02 per barrel in 1997 to USD14.80 per barrel in 1998. Petroleum export accounts for 92.8% of export duties. As such, export duties as a whole will decline significantly by 37.8% to RM655 million. On the other hand, collection from services tax is estimated to decline only slightly by 1.4%.

Non-tax revenue, which mainly comprises licenses and permits and Petronas dividend is expected to decline by 0.3% to RM11,391 million. The marginal decline is largely on account of a significant increase in Petronas dividend. Receipts from licenses and permits are expected to decline by 11.3% while petroleum royalty by 1.3%. Dividend and interests are expected to record negative growth of 16.2%, attributable to lower return on investments arising from unfavourable business performance. On the other hand, dividend payment from Petronas is envisaged to increase by 32.3% to RM4,100 million (1997: RM3,100 million).

Table 5.4
Federal Government Direct Taxes

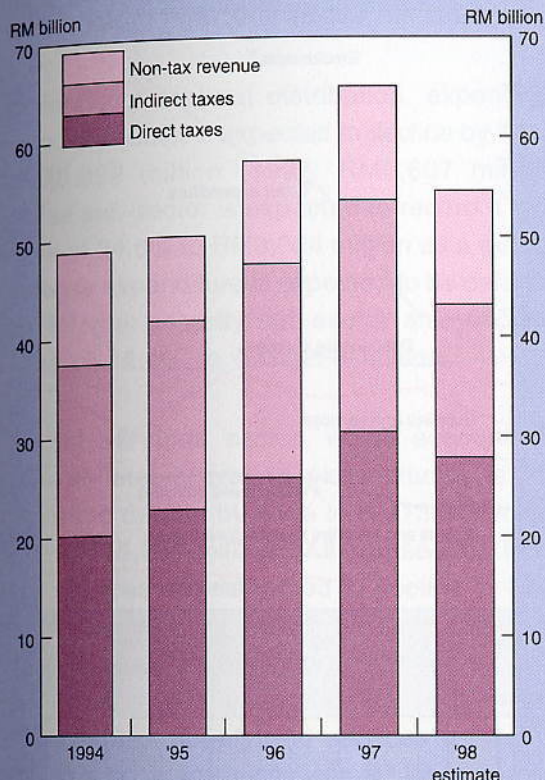
	1997 ¹		1998 ²		1999 ³	
	RM million	% Change	RM million	% Change	RM million	% Change
Income Taxes	27,122	19.7	26,236	-3.3	17,992	-31.4
Companies	16,688	17.8	15,997	-4.1	10,359	-35.2
Individuals	6,429	4.2	6,082	-5.4	4,798	-21.1
Petroleum	3,862	75.3	4,028	4.3	2,746	-31.8
Co-operative	143	0.1	129	-9.8	89	-31.0
Others	3,311	0.04	1,627	-50.9	2,107	29.5
Stamp duty	2,714	0.2	1,153	-57.5	1,628	41.2
Others	597	23.9	474	-20.6	479	1.1
TOTAL	30,433	17.7	27,863	-8.4	20,099	-27.9

Note: ¹ actual

² revised estimate

³ Budget estimate, excluding 1999 tax measures

Chart 5.3
Major Components of Federal Government Revenue



Operating Expenditure

Total operating expenditure in 1998 is estimated to increase by 4.2% to RM46,563 million or RM3,797 million (8.9%) higher than the 1998 Budget estimate. The increase in the operating expenditure is partly due to increase in emoluments and tax refunds.

Emoluments, which accounts for 30.6% of total operating expenditure is estimated to increase slightly by 8.3% to RM14,276 million (1997: RM13,181 million) attributable mainly to the payment of the 1997 bonus amounting to RM425 million in 1998.

Expenditure for **refunds** is estimated to increase by 64.5% to RM3,242 million due mainly to increases in tax refunds. Debt service charges are envisaged to increase by 1.5% to RM6,531 million with external debt service charges increasing by 35.5% due to ringgit depreciation. The domestic debt service charges on the other hand, is expected to decline by 2.1% partly due to the maturity of Malaysian Government Securities (MGS) and

Table 5.5
Federal Government Indirect Taxes
1997-1999

	1997 ¹		1998 ²		1999 ³	
	(RM million)	(% Change)	(RM million)	(% Change)	(RM million)	(% Change)
Export duties	1,053	1.2	655	-37.8	640	-2.3
Import duties	6,525	6.4	4,041	-38.1	4,152	2.8
Excise duties	6,054	4.6	3,143	-48.1	3,617	15.1
Sales tax	6,167	12.8	3,789	-38.6	4,094	8.1
Service tax	1,475	19.8	1,455	-1.4	1,470	1.0
Others	1,922	9.2	2,224	15.7	2,246	1.0
TOTAL	23,195	8.3	15,307	-34.0	16,219	6.0

Note: ¹ actual

² revised estimate

³ Budget estimate, excluding 1999 tax measures

Treasury bills (TBs) amounting to RM6,200 million and RM750 million in 1998, respectively. Grants and transfers to state governments which account for 3.4% of total operating expenditure, increase by 3.3% to RM1,592 million due to higher capitation grants and road maintenance grants to state governments. On the other hand, pension and gratuities decline by 0.5% to RM3,621 million compared with RM3,635 million in 1997, due to the Federal Government decision to pay only 10% of the total gratuities on retirement for those who opt to retire early with the balance payable on reaching the age of 55. Supplies and services are expected to decline by 25.5% to RM4,739 million.

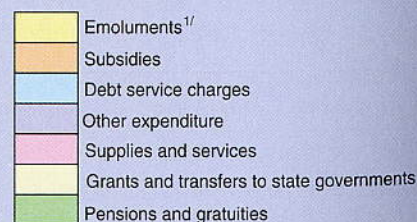
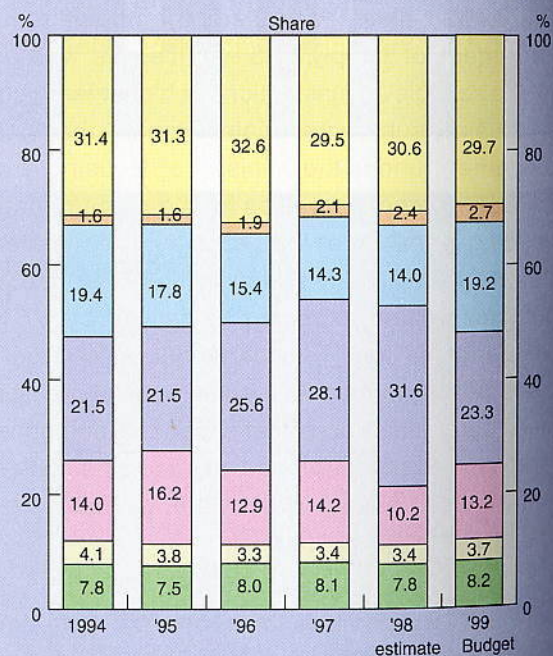
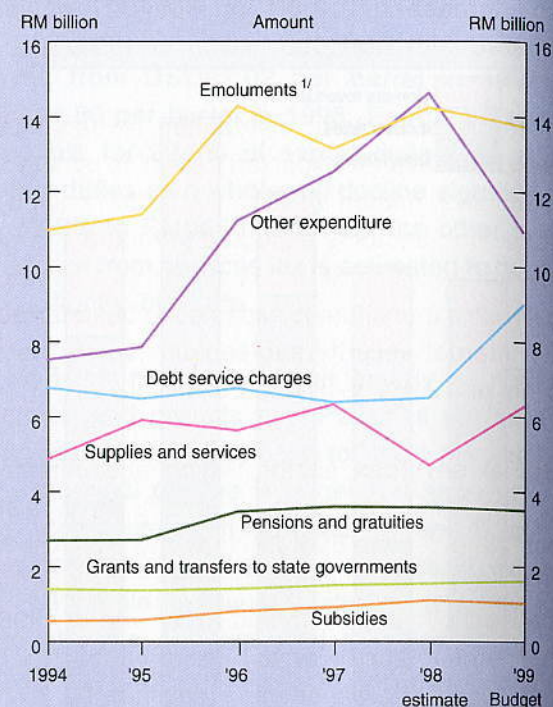
The provision of subsidies is expected to increase by 18.8% to RM1,138 million. Grants to statutory bodies decline by 13.5% to RM3,097

Table 5.6

Federal Government Operating Expenditure by Object (RM million)

	1998 Revised Estimate	% Share	1999 Budget Allocation	% Share
Emolument	14,276	30.6	13,971	29.7
Debt Service Charges	6,531	14.0	9,033	19.2
Grants to state governments	1,592	3.4	1,729	3.7
Pensions and gratuities	3,621	7.8	3,873	8.2
Supplies and services	4,739	10.2	6,189	13.2
Subsidies	1,138	2.4	1,260	2.7
Grants to Statutory bodies	3,097	6.7	3,280	7.0
Refunds	3,242	7.0	1,718	3.6
Others	8,327	17.9	5,989	12.7
TOTAL	46,563	100.0	47,042	100.0

Chart 5.4
Federal Government Operating Expenditure



^{1/} Excludes emoluments for most statutory bodies

million. Others expenditure which includes asset acquisition, scholarships, and grants to schools is to increase by 18.8% to RM8,327 million compared with RM7,008 million in 1997.

In terms of sectoral distribution, expenditure on **security** sector is expected to decline by 19.9% to RM5,292 million (1997: RM6,607 million). Defense sub-sector is expected to record a large decline of 24.6% to RM3,064 million as a number of defense expenditure is expected to be deferred, while internal security sub-sector also shows a decline of 12.4% to RM2,228 million.

Social services sector, which accounts for 29.7% of total operating expenditures is also expected to decline by 8.2% to RM13,817 million (1997: RM15,051 million). All sub-sectors in the social services are estimated to decline in 1998. Education sub-sector, which accounts for 20.3% of total operating expenditure declines by 8.7% to RM 9,462 million, particularly for emoluments, procurement of supply and services as well as grants to schools and institutions of higher learning. The housing sub-sector mainly for the housing management under the Ministry of Housing and Local Government as well as for the management of housing loans under the Treasury, is estimated to decline by 25.6% to RM90 million. The health sub-sector is also expected to decline by 5.5% to RM3,097 million. This expenditure is largely to cater for the payment of emoluments for medical officers, paramedics and other supporting personnel as well as for the purchase of medicine. Other social services are also estimated to decline by 9.6% to RM1,168 million.

Similarly, expenditure for **economic services** is estimated to decline by 16% to RM3,466 million compared with RM4,125 million in 1997. The transport sub-sector is expected to record a double-digit decline of 23.7% to RM1,052 million (1997: RM1,378 million) largely on account of deferment of several infrastructure projects. The agriculture sub-sector including rural development is also expected to decline by 18.6% to RM1,058 million

(1997: RM1,300 million) following the restructuring and closure of some statutory bodies under the Ministry of Rural Development. The trade and industry sub-sector is estimated to decline by 6.8% in 1998 to RM1,190 million (1997: RM1,277 million).

Table 5.7
Federal Government Operating
Expenditure by Sector
(RM million)

	1998 <i>Revised Estimate</i>	% <i>Share</i>	1999 <i>Budget Allocation</i>	% <i>Share</i>
Security	5,292	11.4	5,924	12.6
Defense	3,064	6.6	3,524	7.5
Internal security	2,228	4.8	2,400	5.1
Social Services	13,817	29.7	16,383	34.8
Education	9,462	20.3	11,208	23.8
Health	3,097	6.7	3,627	7.7
Housing	90	0.2	87	0.2
Others	1,168	2.5	1,461	3.1
Economic Services	3,466	7.4	4,077	8.7
Agriculture	1,058	2.3	1,164	2.5
Public utilities	104	0.2	25	0.1
Trade &				
industry	1,190	2.6	1,606	3.4
Transport	1,052	2.3	1,213	2.6
Communications	32	0.1	38	0.1
Others	30	0.1	31	0.1
General Administration	7,459	16.0	5,199	11.1
Other Expenditure	16,529	35.5	15,459	32.9
TOTAL	46,563	100.0	47,042	100.0

General administration sector, which accounts for 16% of total operating expenditure is estimated to increase by 25.8% to RM7,459 million compared with RM5,927 million in 1997. This covers expenditure for departmental expenses and tax refunds. On the other hand, **other expenditures** which comprises loan repayment, debt servicing, pensions and gratuities, grants to state governments and statutory bodies are expected to record an increase of 27.6% to RM15,259 million in 1998.

Development Expenditure

Total development expenditure in 1998 is estimated to increase by 23% to RM19,378 million or 7.7% higher than the Budget estimate of RM17,991 million. A large part of the increase, amounting to RM1,500 million, is to meet the initial funding requirement of Pengurusan Danaharta Nasional Bhd., a company set up to

purchase non-performing loans of the banking sector. Another RM1,000 million is for social safety net programme to reduce the impact of the economic crisis on the lower income group. In addition, RM653.4 million is allocated for Cyberview and RM476 million for educational programmes as well as agricultural and rural development programmes. In term of sectoral distribution, the expenditure on **economic services** is expected to record a large increase of 40.9% to RM10,568 million (1997: RM7,501 million) with the largest increase recorded by the trade and industry sub-sector (213.5%) and transport sub-sector (16.7%). Expenditure on public utilities comprising the provision of water and electricity supply is estimated to decline by 27.9% to RM1,079 million, while agriculture and rural development is to increase by 13.9% to RM1,259 million.

Expenditure for trade and industry sub-sector, accounting for 20.8% of total development expenditure is estimated to increase by 213.5% to RM4,029 million. Of this, RM3,368 million is for industrial development, especially for the development of the Multimedia Super Corridor

Table 5.8

Federal Government Development Expenditure For Economic Services (RM million)

	1998		1999	
	Revised Estimate	% share	Budget Allocation	% share
Agriculture and rural development	1,259	11.9	1,009	12.8
Public utilities	1,079	10.2	714	9.1
Trade and industry	4,029	38.1	1,488	18.8
Transport	4,177	39.5	4,600	58.3
Communications	5	0.1	18	0.2
Others	19	0.2	61	0.8
TOTAL	10,568	100.0	7,890	100.0

Table 5.9

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

	1998		1999	
	Revised Estimate	% Share	Budget Allocation	% Share
Industrial development	3,368	83.6	672	45.2
Tourism	110	2.7	102	6.8
Industrial research	496	12.3	695	46.7
Others	55	1.4	19	1.3
TOTAL	4,029	100.0	1,488	100.0

Chart 5.5
Federal Government Development Expenditure
by Sector

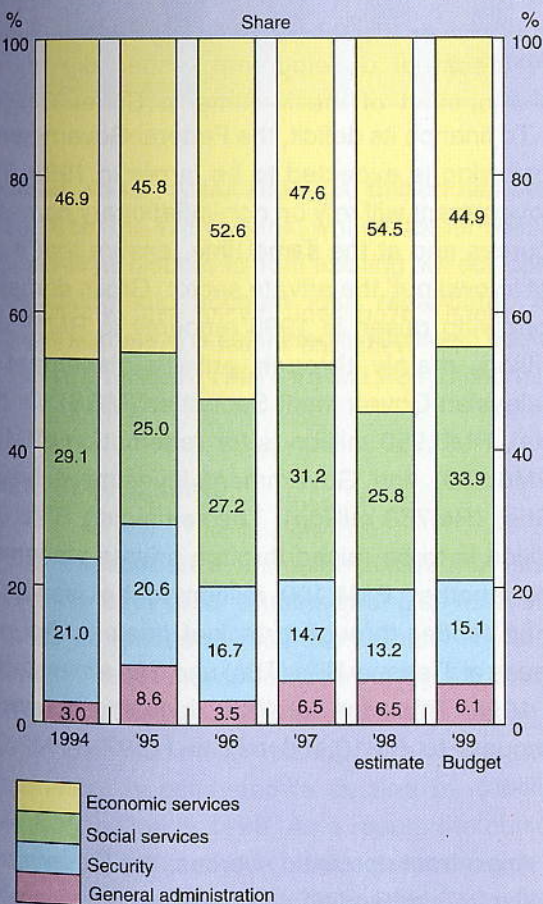
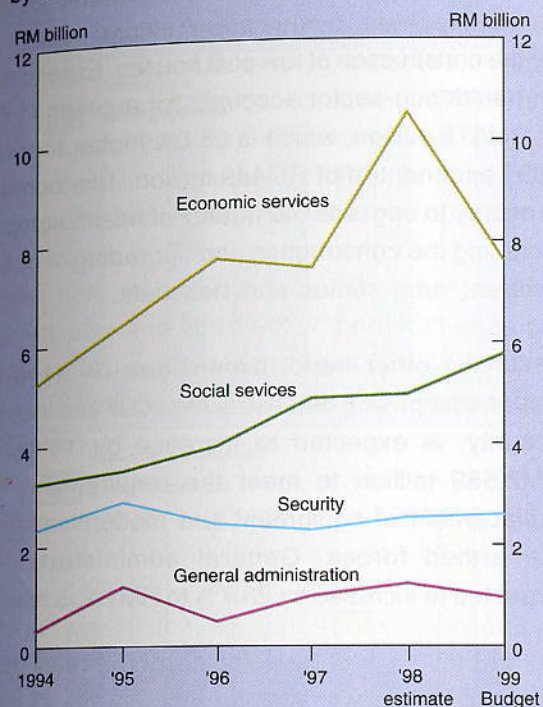


Table 5.10

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

	1998		1999	
	Revised Estimated	% share	Budget Allocation	% share
Agriculture	285	22.6	236	23.4
Land development	53	4.2	93	9.2
Drainage and irrigation	256	20.3	374	37.0
Rubber replanting	421	33.4	6	0.6
Fisheries	83	6.6	97	9.6
Livestock	33	2.6	42	4.2
Forestry	25	2.1	31	3.1
Others	103	8.2	130	12.9
TOTAL	1,259	100.0	1,009	100.0

(MSC) amounting to RM1,187 million. Research and development and information technology is allocated a sum of RM496 million.

The transport sub-sector, which accounts for 21.6% of total development expenditure is estimated to spend about RM4,177 million, mostly (78.2% or RM3,265 million) for roads and bridges. Expenditure on rail amounts to RM421 million, mainly to finance the Light-Rail-Transit (LRT) project, Rawang-Seremban Double-Track project, Pulau Indah-Port Klang Rail extension project and North Butterworth Container Terminal rail extension project. Expenditure for upgrading and development of airports amounts to RM388 million mainly for airports in Tawau, Labuan, Pulau Langkawi and Kuala Terengganu. Expenditure on ports amounts to RM103 million.

Agriculture and rural development programme, especially aimed at increasing food production as well as improving the standard of living in rural

areas will continue to be given emphasis. A sum of RM1,259 million or 6.5% of total development expenditure is expected to be spent in 1998 for this sub-sector. Expenditure on rubber replanting amounts to RM421 million or 33.4% of the total expenditure on agriculture and rural development. Expenditure on integrated agriculture programmes including commodity development, crop diversification, payment of subsidies and training of farmers amounts to RM285 million or 22.6% of the total expenditure on agriculture and rural development. Other expenditure in this sector includes land development, drainage and irrigation, livestock industries, fisheries and forestry which altogether accounts for 44% of the total expenditure on agriculture and rural development.

Development expenditure on **social services** sector is estimated to increase by 1.6% to RM4,996 million with education accounting for 53.3% or RM2,663 million of the total development expenditure on social services. The expenditure is largely for educational and training facilities under various agencies including the Ministry of Education, MARA and the Ministry of Human

Resources. Expenditure on housing sub-sector amounting to RM676 million is mainly to finance the construction of quarters for the arm forces, police, teachers, customs and excise as well as for the construction of low cost houses. Expenditure on health sub-sector accounts for another 11.5% or RM575 million, which is 28.0% higher than the 1997 expenditure of RM449 million. The increase is mainly to upgrade the quality of health services including the construction and upgrading of health centres, rural clinics and hospitals.

On the other hand, expenditure on **security** sector, comprising defense sub-sector and internal security, is expected to increase by 10.6% to RM2,559 million to meet the requirements for replacement of equipment and modernisation of the armed forces. General administration is expected to increase by 23.7% to RM1,255 million.

Financing

To finance its deficit, the Federal Government's borrowing is expected to be larger in 1998. The Government will rely on non-inflationary domestic sources and at the same time, ensure that it will not 'crowd out' the private sector. Gross domestic borrowing raised in 1998 amounts to RM17,050 million, mainly through private placement of Malaysian Government Securities (MGS). Of this total, RM6,950 million is for redemption of MGS (RM6,200) and Government Investment Issues (GIIs) (RM750 million). The remaining RM6,000 million is to be raised through private placement and another RM4,100 million to be issued by open tender through principal dealers. No new issues of Treasury Bills (TBs) and GIIs are expected in 1998. Thus, the total net domestic borrowing amounts to RM10,100 million (1997: -RM2,048 million).

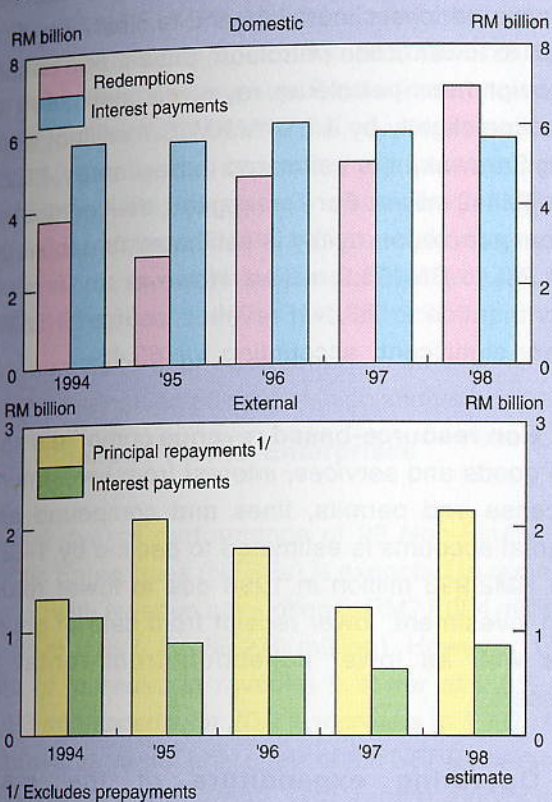
Apart from domestic sources, the Government is also raising additional borrowing from external

Table 5.11

Federal Government Development Expenditure For Social Services (RM million)

	1998		1999	
	<i>Revised Estimate</i>	<i>% share</i>	<i>Budget Allocation</i>	<i>% share</i>
Education	2,663	53.3	3,308	55.6
Health	575	11.5	900	15.1
Housing	676	13.5	790	13.3
Others	1,082	21.7	948	16.0
TOTAL	4,996	100.0	5,946	100.0

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



sources. So far, about RM1,200 million has been raised from the World Bank, while another RM500 million will be disbursed from existing project loans. After taking into account loan repayment, net external borrowing is estimated to record an outflow of RM467 million (1997: - RM1,681 million).

State Governments

The consolidated financial position of state governments in 1998 remains strong as its overall balance continues to record a surplus. Revenue collection is estimated to be lower by 4.5% from RM9,799 million in 1997 to RM9,356 million in 1998. On the other hand, total operating expenditure is estimated to decline by 4.3% to RM4,606 million in 1998. As a result, the current account surplus of the state governments is estimated to be lower by 4.7% to RM4,750 million

compared with RM4,986 million in 1997. Gross development expenditure is estimated to decline by 9.4% in 1998 to RM4,858 million. After taking into account loan recoveries of RM415 million, the consolidated state governments financial position is estimated to record a surplus of RM307 million or 0.1% of GNP (1997: RM105 million or 0.04% of GNP).

Revenue of the state governments in 1998 is estimated to decline by 4.5% to RM9,356 million compared with an increase of 2.9% in 1997. Of this total, state governments' **own source** of revenue, which accounts for 82.4% of total state governments revenue, is estimated to decline by

Table 5.12
Consolidated State Governments'
Financial Position
(RM million)

	1997 ¹	% Change	1998 ²	% Change
Current account				
Revenue	9,799	2.9	9,356	-4.5
Operating expenditure	4,813	-4.0	4,606	-4.3
Current account balance	4,986	10.5	4,750	-4.7
Development account				
Gross development expenditure	5,364	30.3	4,858	-9.4
Development fund	4,772	33.9	4,116	-13.7
Water supply fund	592	6.9	742	25.3
Loan recoveries	483	-9.4	415	-14.1
Net development expenditure	4,881	36.2	4,443	-9.0
Overall balance	105		307	

¹ Estimated actual.

² Estimate.

6.2 % to RM7,708 million (1997: RM8,221 million). The significant decline is for non-tax revenue, comprising licenses, permits, royalty, service fees, sale of goods, rental on government property, return on investment, fines and compound which is estimated to decline by 8.7% to RM5,482 million (1997: RM6,002 million). This accounts for 71.1% of total state governments' own source. However, total tax revenue collection which accounts for 22.2% of total state governments own source is estimated to increase by 6.5% to RM1,711 million (1997: RM1,607 million). Of this, direct tax comprising taxes on land, mining, drainage and irrigation as well as forestry, is estimated to increase by 3.9% to RM1,037 million and indirect tax which consists of entertainment and miscellaneous, is estimated to increase by 10.7% to RM674 million.

In 1998, state governments are also estimated to receive **grants** from the Federal Government amounting to RM1,592 million, as well as **reimbursement** of about RM56 million. Grants are made up of constitutional and administrative grants with the former accounting for 61.8% of the total. Constitutional grants such as road maintenance grant, capitation grant and revenue growth grant is estimated to increase by 3.3% to RM1,592 million (1997: RM1,541 million). The higher grant received from the Federal Government is mainly due to the higher capitation grant and road maintenance grants. Reimbursement from the Federal Government is expected to increase due to greater implementation of drainage and irrigation as well as agriculture projects in states.

Resource-based revenue notably from forestry and petroleum is estimated to decline by 0.9%. However, it remains the major contributor to state governments' own source of revenue amounting to RM2,573 million or 33.4%. Of this total, revenue from forestry which accounts for 22.1% of total own source of revenue is estimated to improve by 5.2% to RM1,701 million (1997: RM1,617 million) with Sabah estimated to collect RM560 million

and Sarawak RM980 million. Receipts from petroleum royalty by Sabah, Sarawak and Terengganu, the three beneficiary states, are estimated to decline by 10.9% to RM872 million due to lower crude petroleum prices. For Sabah, receipt from petroleum royalty is estimated to decline slightly by 4.8% to RM75.7 million, while for Sarawak, it is estimated to decline by 11.2% to RM342 million. For Terengganu, the contribution from petroleum royalty is estimated to decline by 11.9% to RM453.9 million. However, in terms of contribution to its own revenue source, it is still very significant, accounting for 65.4%.

Non resource-based revenue comprises sale of goods and services, interest from investment, license and permits, fines and compound and rental accounts is estimated to decline by 14.2% to RM2,993 million in 1998 due to lower return on investment, lower receipt from sale of goods as well as lower collection from rental of assets.

Operating expenditure of the state governments is estimated to increase by 4.3% to RM4,606 million. Expenditure on emoluments is estimated to increase by 1.5% to RM1,460 million in 1998 (1997: RM1,438 million) accounting for 31.7% of total operating expenditure. This increase is due mainly to the payment of the 1997 bonus in 1998. Expenditure on supply and services is estimated to decline by 15.0% to RM1,479 million, representing 32.1% of total operating expenditure. Acquisition of assets is estimated to decline by 12.5% to RM168 million in 1998 as state governments exercise prudence in expenditure following the economic slowdown. **Gross development expenditure** of state governments in 1998 is estimated to decline by 9.4% to RM4,858 million (1997: RM5,365 million) as state governments consolidate their position in the light of reduced earning capacity brought about by the economic slowdown. Of this total, expenditure on agriculture as well as trade and commerce sector declines by 38.8% to RM805 million and 35.3% to RM443 million, respectively. Expenditure on

public utilities and transportation declines by 3.3% to RM491 million and 13.4% to RM458 million, respectively. Expenditure on public housing amounts to RM270 million in line with state governments' policy to provide affordable houses for the lower income group. Expenditure on water supply amounts to RM742 million, an increase of 25.3%, mostly for upgrading of water supply services. After taking into consideration loan recoveries of about RM415 million, net development expenditure is estimated to decline by 9.0% to RM4,443 million (1997: RM4,881 million).

Non-Financial Public Enterprises

The overall performance of 28 Non-Financial Public Enterprises (NFPEs) is expected to remain strong with revenue amounting to RM71,084 million in 1998 (1997: RM69,270 million). However, the rate of increase in revenue is lower at 2.6% in 1998 compared with 20.7% increase in 1997. As in previous years, only a few of the NFPEs namely PETRONAS, MISC and TNB record significant increases in revenue performance. However, due to large increases in capital expenditure especially by PETRONAS and MISC, mainly to finance their capacity expansion, the overall balance of NFPEs is estimated to decline to RM4,138 million in 1998 compared with RM5,317 million in 1997.

The current expenditure of the NFPEs is estimated to increase to RM44,490 million in 1998 (1997: RM43,185 million), an increase of 3.0% compared to 16.6% increase in 1997. The operating expenditure of major NFPEs is expected to increase by 3.7% in 1998 due to higher costs for the purchase of fuel, coal and imported components as well as external debt servicing. However, the operating surplus of the NFPEs is estimated to remain at a high level of RM26,594 million in 1998 compared with RM26,085 million in 1997. The surplus is expected to be contributed by the larger NFPEs, mainly PETRONAS, MISC and STMB.

Table 5.13
Consolidated NFPEs Financial Position¹
1997 - 1998
(RM million)

	1997	% Change	1998	% Change
Revenue	69,270	20.7	71,084	2.6
Current expenditure	43,185	16.6	44,490	3.0
Current surplus	26,085		26,594	
(% of GNP)	10.0		10.1	
Capital expenditure	20,768	33.8	22,456	8.1
Overall balance	5,317		4,138	
(% of GNP)	2.0		1.6	

¹ Refers to 28 NFPEs from original 56 NFPEs. The other 28 NFPEs were sold to the private sector.

The overall development expenditure of NFPEs is estimated to increase by 8.1% in 1998 to RM22,456 million (1997: RM20,768 million). The overall capital expenditure of major NFPEs is also expected to increase mainly due to increases in capital expenditure by PETRONAS and MISC. PETRONAS will continue to expand capital investment in both the upstream and downstream activities in 1998. A substantial portion of this investment is overseas upstream oil and gas venture by PETRONAS Carigali Sdn. Bhd. In addition, PETRONAS has concluded a deal to buy a South African oil company, Engen Ltd. on 17th September 1998. In terms of domestic investment, projects planned for implementation include central utilities project in Kertih/Kuantan, the Institute Technology PETRONAS in Tronoh and PETRONAS Fertilizer plant in Gurun, Kedah. As for MISC, its capital expenditure is mainly directed at long-term fleet expansion programme through the acquisition of shipping companies and ships such as PETRONAS tankers, PNSL and Pacific Basin. However, due to economic uncertainty, some major NFPEs are expected to scale down or defer their capital expenditures. Tenaga Nasional Berhad and Sistem Telekom Malaysia Berhad for example, are expected to defer capital expenditures on non-priority projects.

National Debt

National debt is expected to decline in 1998 benefiting from lower exchange rate for the US dollar which has been fixed at RM1 = US\$0.2632 since September 1998 compared with RM1 = US\$0.2571 at the end of 1997. At the same time, net external borrowing is envisaged to record a net outflow of RM3,158 million. As such, national debt (excluding short-term debt) is estimated to decline by 0.8% to RM124,729 million or 47.6% of GNP (1997: RM125,673 million or 48.1% of GNP).

Federal Government's external debt, which accounts for only 9.6% of national debt, is estimated to decline by 7.9% to RM11,934 million. The external debt of NFPEs is estimated to increase marginally by 0.5% to RM52,724 million (1997: RM52,467 million). However, repayment of loans by NFPEs in 1998 is expected to be higher compared with 1997. As a result, the public sector external debt which accounts for 51.8% of national debt, is estimated to decline by 1.2% to RM64,658 million (1997: RM65,418 million).

Chart 5.7
Federal Government Debt

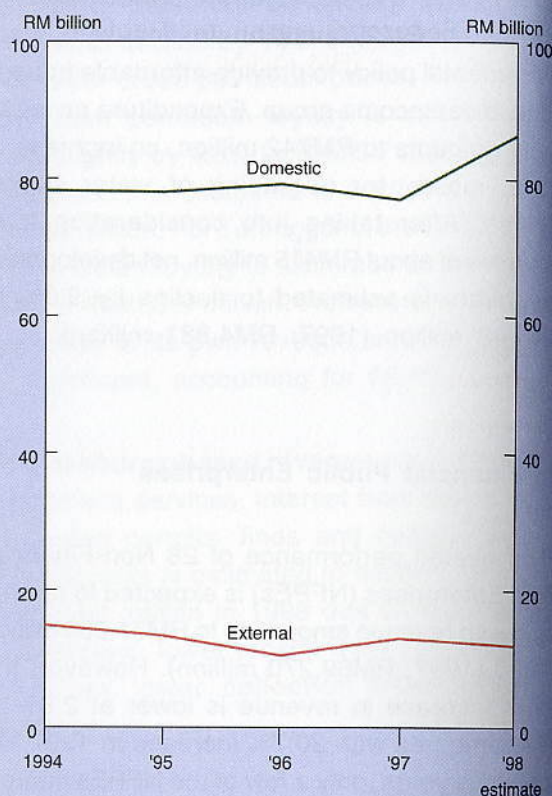


Table 5.14

National Debt

	1997 ¹			1998 ²		
	RM Million	% Change	Share	RM Million	% Change	Share
Public sector	65,419	64.8	52.1	64,658	-1.2	51.8
Federal Government	12,952	23.7	10.3	11,934	-7.9	9.5
NFPEs	52,467	79.4	41.8	52,724	0.5	42.3
Guaranteed	7,049	7.7	5.6	8,254	17.1	6.6
Non-guaranteed	45,418	100.2	36.1	44,470	-2.1	35.7
Private sector	60,254	18.0	47.9	60,071	-0.3	48.2
TOTAL	125,673	71.7	100.0	124,729	0.8	100.0

¹ Estimated actual

² Estimate

Table 5.15

Federal Government Debt
(RM million)

<i>Debt profile</i>	<i>1997</i>	<i>% Share</i>	<i>1998</i>	<i>% Share</i>
Domestic debt	76,968	100.0	86,478	100.0
Treasury bills	4,320	5.6	4,320	5.0
Investment certificates	2,750	3.6	2,750	3.2
Government securities	66,262	86.1	76,362	88.3
2 - 3 years	1,000			
4 - 5 years	5,600			
6 - 10 years	12,486			
11-15 years	12,585			
16 - 21 years	34,591			
Other loans ¹	3,636	4.7	3,046	3.5
External debt	12,952	100.0	11,934	100.0
Market loans	6,473	50.0	4,867	40.8
Project loans	6,479	50.0	7,067	59.2
Suppliers' credit	—		—	
TOTAL	89,920		98,412	

¹ Mainly loans undertaken by the Treasury Housing Loans Fund

Private sector debt, which accounts for 48.2% of the national debt, is estimated to decline by 0.3% to RM60,071 million in 1998 (1997: RM60,254 million), attributable to lower external borrowing by the private sector.

National debt servicing is estimated to increase by 56.6% to RM23,884 million (1997: RM15,250 million) largely due to large principal repayment by the private sector and the NFPEs in 1998. Of this, RM17,227 million or 72.1% is for repayment of principal and RM6,657 million or 27.9% for interest charges. Interest charges are expected

to be higher in 1998 following large debt outstanding in 1997. In addition, repayments are also expected to be larger as more loans come to maturity in 1998. As a result, the **national debt service ratio** is estimated to increase by 7.2% compared with 5.1% in 1997.

Federal Government Debt

Federal Government debt is estimated to increase by 9.4% to RM98,412 million or 37.5% of GNP in 1998 compared with RM89,920 million or 34.4% of GNP in 1997. Of this total, 87.9% is domestic debt and the balance, external debt. The large increase in the Federal Government debt is attributable mainly to large borrowing, especially from domestic sources to finance its fiscal stimulus package.

Chart 5.8
Federal Government External Debt by Source

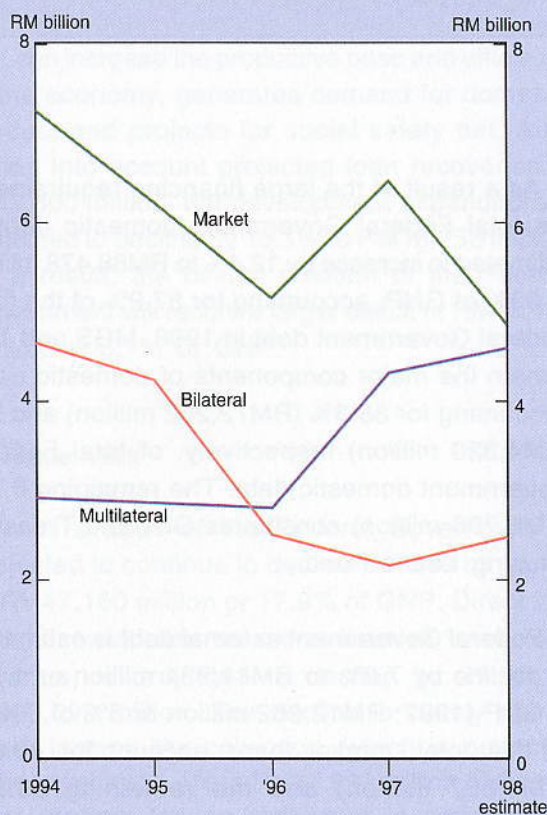


Chart 5.9
Federal Government External Debt by Currency

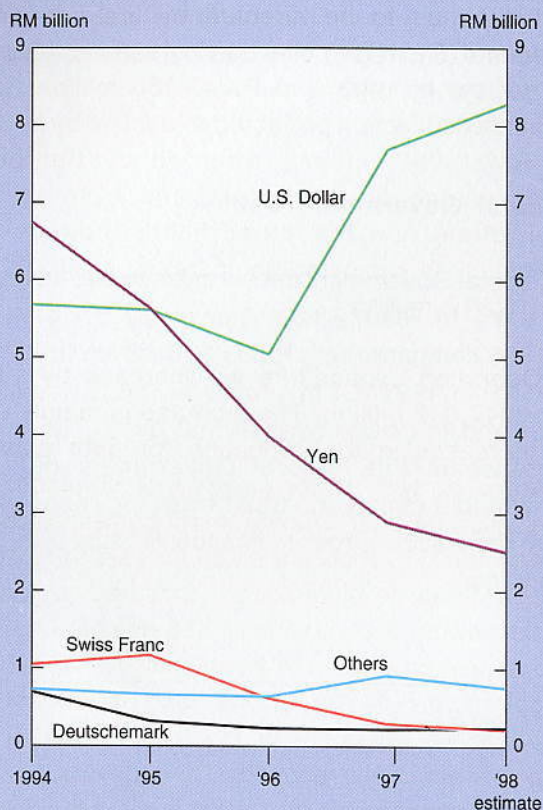
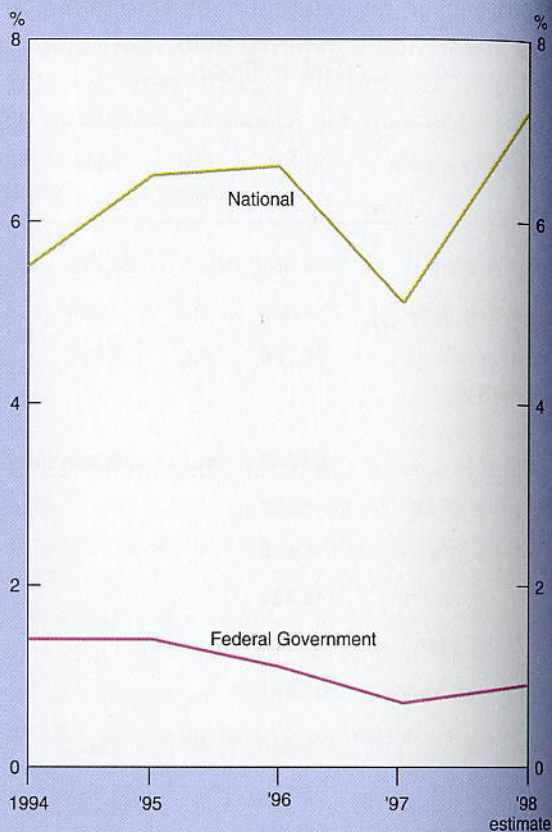


Chart 5.10
External Debt Servicing Ratio



As a result of the large financing requirement, the total Federal Government domestic debt is estimated to increase by 12.4% to RM86,478 million or 33% of GNP, accounting for 87.9% of the total Federal Government debt in 1998. MGS and TBs remain the major components of domestic debt, accounting for 88.3% (RM72,262 million) and 5% (RM4,320 million) respectively, of total Federal Government domestic debt. The remaining 6.7% (RM5,796 million) constitutes GILs and Treasury Housing Loans Fund.

Federal Government external debt is estimated to decline by 7.9% to RM11,934 million or 4.6% of GNP (1997: RM12,952 million or 5% of GNP). Of this total, market loans account for 40.8% (RM4,867 million) and the remaining 59.2% (RM7,067 million) for project loans. In terms of

currency composition, debt denominated in US dollar continue to account for the largest proportion of the Federal Government external debt, constituting about 69% or RM8,234 million. The yen denominated debt accounts for about 21% of the Federal Government external debt, amounting to a ringgit equivalent of RM2,506 million. The remaining Federal Government's external debt is denominated in other currencies including Swiss franc, deutschemark and pound sterling.

Total debt servicing of the Federal Government is estimated to increase by 21.3% to RM15,397 million compared with RM12,697 million in 1997. Of this total, principal repayment of domestic and external loans amount to RM6,950 million and RM2,152 million, respectively. Interest payment

amounts to RM6,531 million, of which RM5,667 million is for domestic debt and the remaining RM864 million for external debt. Due to the large increase in total external debt servicing, the Federal Government's debt service ratio is estimated to increase from 0.7% in 1997 to 0.9% in 1998.

1999 Outlook

Overview

Public sector financial position in 1999 is projected to remain weak, as the Federal Government continues with its fiscal stimulus to spearhead economic recovery. The consolidated revenue collection of the general government is projected to decline by 12.0% to RM61,845 million (1998: RM70,299 million). The largest decline is the Federal Government revenue as the full impact of the economic recession is being realised and translated into lower revenue collection. Total operating expenditure of the general government will record a small increase of 0.2% to RM54,596 million (1998: RM54,497 million), as the Federal Government and statutory bodies continue to maintain a tight control on their operating expenses. As result, the current account of the general government will record a lower surplus of RM7,250 million compared with RM15,802 million in 1998. Current surplus of the NFPEs is projected to increase by 4.4% to RM27,250 million (1998: RM26,094 million). Thus, the consolidated current account of the public sector in 1999 will decline to RM34,500 million or 13.1% of GNP (1998: RM41,896 million or 16% of GNP). Development expenditure of the public sector is projected to decline by 8.2% to RM41,042 million in 1999 (1998: RM44,694 million), with the decline attributable to both the general government and the NFPEs. Hence, the public sector will record a larger deficit of RM6,543 million or 2.5% of GNP (1998: - RM2,798 million or 1.1% of GNP).

Federal Government

Federal Government financial position in 1999 will continue to be affected by the economic downturn. Revenue collection in 1999 is projected to decline by 14.3% to RM47,160 million, with direct tax collection projected to decline by 27.9% to RM20,099 million, affected by the poor performance of companies and earnings of individuals. On the other hand, indirect tax collection is projected to increase by 6.0% to RM16,219 million.

Operating expenditure will increase by 1.0% to RM47,042 million. The increase is mainly due to increases in the allocation for debt service charges as well as for supply and services. As a result, the Federal Government current account is estimated to record a small surplus of RM118 million. Gross development expenditure is projected to decline by 9.4% to RM17,553 million. Most of the allocation is for the economic sector, which accounts for 44.9% of the total development expenditure, reflecting the Government's effort to expedite economic recovery. Towards this, priority for development projects in 1999 is given to projects that can increase the productive base and efficiency of the economy, generates demand for domestic product and projects for social safety net. After taking into account projected loan recoveries of RM1,300 million, net development expenditure is projected to decline by 10.1% to RM16,253 million. As a result, the overall position of the Federal Government will record a larger deficit of RM16,135 million or 6.1% of GNP.

Revenue 1999

The revenue of the Federal Government is projected to continue to decline in 1999 by 14.3% to RM47,160 million or 17.9% of GNP. Direct tax, which contributes to more than 40% of total revenue, is projected to decline by 27.9% to RM20,099 million. The decline is mainly due to lower income tax collection, which is projected to be lower by 31.4% to RM17,992 million. Revenue from income tax on individual is projected at

RM4,798 million, a decline of 21.1%, while corporate income tax is projected to decline by 35.2% to RM10,359 million. Petroleum income tax collection is also projected to decline by 31.8% to RM2,746 million, on account of lower petroleum price. Stamp duties collection, on the other hand is projected to show a positive growth of 41.2% to RM1,628 million.

Indirect tax is expected to benefit from increased economic activities as the nation's economic growth turns around from negative 4.8% in 1998 to 1% in 1999. Hence, collection is projected to increase by 6% to RM16,219 million. Export duties however, will decline further by 2.3% to RM640 million due to the decline in palm oil export and petroleum prices remaining low. Import duties collection will increase slightly by 2.8% to RM4,152 million, due to the expected increase in import of both consumption and investment goods. Similarly, receipts from domestic tax sources such as excise duties, sales tax and service tax are projected to record a growth of 9.5% to RM9,181 million, in tandem with higher domestic demand.

Non-tax revenue, which accounts for 21.9% of total revenue is projected to show a negative growth of 9.2% to RM10,345 million largely due to lower Petronas dividend of RM3,100 million compared with RM4,100 million in 1998. Collection from licenses and permits are expected to remain at the same level while interest and return on investment, will decline by 4.6%. Petroleum royalty is projected to decline by 3.2% to RM947 million while service fees are projected to increase by 1.1% to RM362 million.

Operating Budget

The operating budget in 1999 will continue to be tightly controlled, with the exception of essential expenditures such as debt service charges, as the Government focuses its effort on development expenditure to stimulate economic activities. Thus, operating budget for 1999 is projected to increase marginally by 1% to RM47,042 million. The increase is mainly in debt service charges, which is projected to increase by 38.3% to RM9,033 million. The increase is largely on account of larger borrowing

to finance fiscal stimulus. Expenditure on emolument is projected to decline by 2.1% to RM13,971 million due to higher allocation for wages and salary in 1998 following the upgrading of scheme of service to teachers and time based promotions.

Supplies and services will increase by 30.6% to RM6,189 million. Similarly, pension and gratuities are estimated to increase by 7.0% to RM3,873 million compared with RM3,621 million in 1998, while grants to statutory bodies are expected to increase by 5.9% to RM3,280 million, of which emoluments accounts for 65.2% or RM2,138 million.

On sectoral classification, total expenditure for all sectors is expected to increase in 1999. Expenditure on social services, which accounts for 34.8% of total operating expenditure, is expected to increase by 18.4% to RM16,363 million. Of this total, 68.5% or RM11,208 is allocated for education sub-sector, followed by health services for RM3,627 million. This reflects continuing emphasis on education and upgrading the quality of health services. Expenditure on economic services sector is also projected to increase by 17.6% to RM4,077 million, accounting for 8.7% of total operating expenditure of the Federal Government. Of this total, the transport as well as trade and industry sector will receive the largest allocation, increasing by 15.3% and 35.0%, respectively, to RM1,213 million and RM1,606 million, respectively. Expenditure on security sector, which represents 12.6% of total operating expenditure is projected to increase by 11.9% to RM5,924 million, especially for supply and services in line with modernisation programme in the defense sub-sector.

Development Budget

Development expenditure in 1999 will decline by 9.4% to RM17,553 million. The allocation for economic sector, which remains the largest proportion (43.7%), is projected to decline by 25.3% to RM7,890 million. Of this total, RM1,488 million or 18.8% will be allocated for trade and industry sub-sector. On the other hand, transportation sub-

allocation of this sector, mainly for upgrading of industrial training institutes to increase the quality of the work force. Expenditure on health sub-sector is projected to increase by 56.6% to RM900 million compared with RM575 million in 1998. The allocation for housing is expected to increase by 16.9% to RM790 million.

The allocation for security sector will increase by 3.6% to RM2,650 million with defense sub-sector expected to increase by 5.1% to RM2,398 million while internal security to decline by 9.1% to RM252 million. Allocation for general administration sector is projected to record a negative growth of 15.0% to RM1,067 million.