

5

Public Sector Financial Performance

1999 Performance

Overview

The 1999 Budget announced in October 1998 adopted counter cyclical measures to revitalise the domestic economy and minimise the severity of the economic downturn arising from the regional financial crisis. The fiscal stimulus package was aimed at promoting economic recovery, strengthening the nation's resilience and competitiveness as well as restructuring the financial sector. At the same time, programmes to protect the poor and vulnerable from the adverse effects of the crisis were given emphasis. Despite the expansion in budgetary operations, the Government continued to maintain tight fiscal prudence and discipline so as to ensure that the overall budgetary deficit is kept at a sustainable level. As such, the financial position of the Federal Government in 1999 was estimated to register a deficit of 6% of GNP. However, revenue performance turned out to be better than expected. As a result, the Federal Government overall deficit is currently estimated at 4.9% of GNP compared with 1.9% of GNP in 1998.

The financing of this deficit has been largely met from non-inflationary domestic sources, especially from the provident, pension and insurance funds, as well as from sufficient liquidity in the banking sector. In terms of recourse to external borrowing, the Government continues to ensure prudence so as to maintain external debt at a manageable level.

The consolidated revenue account of the general government (comprising Federal Government, state governments, local governments and statutory bodies) in 1999 is estimated to decline by 1.1% to RM68,600 million (1998: RM69,369 million) as

Table 5.1
Consolidated Public Sector
Financial Position
(RM million)

	1998 ¹	1999 ²	2000 ³
Current Account:			
General government:			
Revenue	69,369	68,600	72,489
Operating expenditure	50,250	56,076	60,639
Current account balance	19,119	12,524	11,850
Current surplus of NFPEs ⁴	22,511	19,624	21,731
Public sector current surplus	41,630	32,148	33,581
Development Account:			
Development expenditure	44,310	48,580	48,368
General government	17,132	25,204	25,604
NFPEs	27,178	23,376	22,764
Overall balance	(2,680)	(16,432)	(14,787)
% to GNP	-1.0	-5.8	-5.0

Note: ¹ estimated actual

² revised estimate

³ Budget estimate, excluding 2000 tax measures

⁴ excludes grant from Federal Government

most of the components of the general government are expected to record lower revenue receipts. However, the consolidated operating expenditure of the general government is expected to register

an increase of 11.6% to RM56,076 million (1998: RM50,250 million) due to high debt service charges following large borrowings undertaken in 1998 and 1999. Consequently, the current account of the general government will record a lower surplus of RM12,524 million (1998: RM19,119 million). On the other hand, the current account surplus of non-financial public enterprises (NFPEs) is expected to remain strong amounting to RM19,624 million given higher revenue collection compared with their operating expenditure. However, the consolidated current account of the public sector in 1999 is expected to record a lower surplus of RM32,148 million or 11.5% of GNP (1998: RM41,630 million or 15.5% of GNP).

Total development expenditure of the public sector is estimated to increase by 9.6% to RM48,580 million in 1999 (1998: RM44,310 million). Although the development expenditure of NFPEs will decline by 14% to RM23,376 million (1998: RM27,178 million) as major NFPEs are consolidating their position, there will however be significant increases in general government expenditure, especially from the Federal Government to support the economic recovery plan. As a result, the public sector financial position in 1999 is expected to record a higher deficit of RM16,432 million or 5.8% of GNP (1998: deficit of RM2,680 million or 1% of GNP).

Federal Government

In 1999, the Federal Government is expected to record a large fiscal deficit due to the expansionary programme to support economic recovery. Total revenue collection is estimated to remain stable at RM56,690 million, while operating expenditure is expected to increase by 9.7% to RM48,927 million or 4% higher than budget estimate of RM47,042 million. The increase in operating expenditure is attributable mainly to an increase in debt service charges from large borrowings in 1998 and 1999 and to higher emoluments. As a result, the current account is estimated to register a lower surplus of RM7,763 million or 2.8% of GNP (1998: RM12,125 million or 4.5% of GNP).

Gross development expenditure for 1999 was revised upwards by 44.1% to RM26,009 million compared with the budget estimate of RM18,053 million, an increase of 43.7% over the 1998 expenditure. This is for fiscal stimulus to support

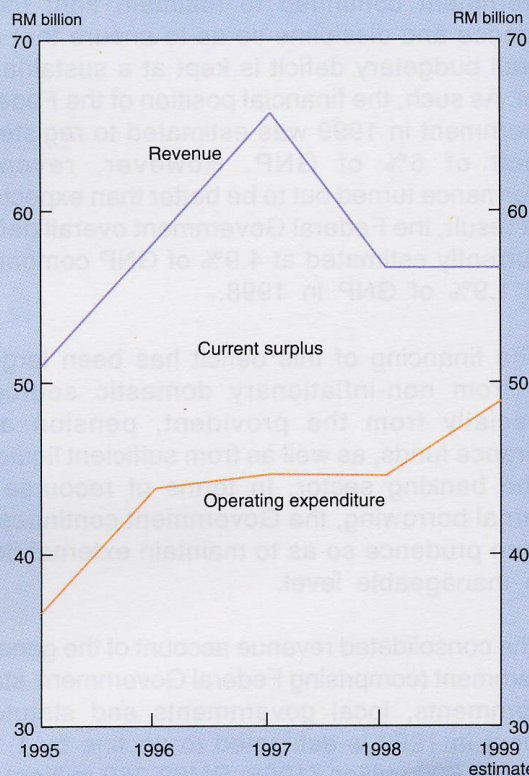
Table 5.2
Federal Government Financial Position
1998-2000
(RM million)

	1998	1999 ¹	2000 ²
Revenue	56,710	56,690	59,897
Operating expenditure	44,585	48,927	52,351
Current balance	12,125	7,763	7,546
Gross development expenditure of which:	18,103	26,009	24,674
Loan recoveries	975	1,000	1,000
Net development expenditure	17,128	21,508	20,515
Overall balance	(5,003)	(13,745)	(12,969)
% GNP	- 1.9	- 4.9	- 4.4

¹ revised estimate

² Budget estimate

Chart 5.1
Federal Government Finance -
Current Account



economic recovery. After taking into account estimated loan recoveries of RM1,000 million, the overall position of the Federal Government is estimated to record a deficit of RM13,745 million or 4.9% of GNP, higher than the deficit of RM5,003 million (1.9% of GNP) recorded in 1998.

The Government has taken several measures to expedite the implementation of development projects. New procedures were introduced to reduce unnecessary red tape so that allocations provided in the Budget were spent as scheduled. As at end of September, operating expenditure amounting to RM31,414 million or 64.2% of total allocation while development expenditure amounting to RM14,065 million or 61% of total allocation were spent. It is the Government's intention that the shortfall is kept to the minimum so that the economy will experience the full impact of the fiscal stimulus.

Revenue

As anticipated, the full impact of the economic crisis on revenue collection is being felt in 1999. Based on the performance of the first nine months however, the impact is less severe than previously expected. Federal Government revenue is expected

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

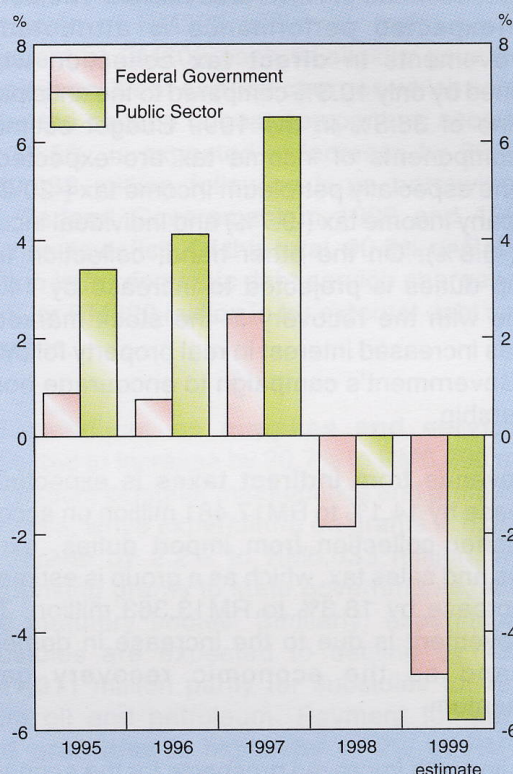


Table 5.3

Federal Government Revenue 1998–2000

	1998 ¹		1999 ²		2000 ³	
	RM Million	% Change	RM Million	% Change	RM Million	% Change
Total revenue	56,710	-13.7	56,690	-0.04	59,897	5.7
Total tax revenue	45,336	-15.5	44,391	-2.1	47,580	7.2
Direct taxes	30,016	-1.4	26,910	-10.3	29,096	8.1
Indirect taxes	15,320	-34.0	17,481	14.1	18,483	5.7
Total non-tax revenue	11,374	-6.0	12,299	8.1	12,318	0.2

¹ actual

² revised estimate

³ Budget estimate, excluding 2000 tax measures

to remain at about the same level as in 1998, at RM56,690 million (1998: RM56,710 million). Revenue, however, is 20.1% higher than the 1999 Budget estimate of RM47,205 million. The better-than-expected performance is attributed to improvements in **direct tax** collection which declined by only 10.3% compared to the anticipated decline of 36.3% in the 1999 Budget estimate. All components of income tax are expected to decline especially petroleum income tax (-20.2%), company income tax (-9.7%) and individual income tax (-8.8%). On the other hand, collection from stamp duties is projected to increase by 14.5% in line with the recovery in the stock market as well as increased interest in real property following the Government's campaign to encourage house ownership.

Revenue from **indirect taxes** is expected to increase by 14.1% to RM17,481 million on account of higher collection from import duties, excise duties and sales tax, which as a group is estimated to increase by 18.3% to RM13,363 million. This improvement is due to the increase in domestic demand as the economic recovery gains momentum.

In line with improved prospects for the economy, receipts from services tax are estimated to increase

slightly by 1% to RM1,462 million. However, export duties collection is expected to decline by 4% to RM598 million due to lower prices of crude oil in the early part of the year, as well as lower crude oil production.

Non-tax revenue, which comprises mainly receipts from investment income, licenses and permits, petroleum royalty and road tax is estimated to increase moderately by 8.1% to RM12,299 million compared with RM11,374 million in 1998. In particular, PETRONAS dividend which accounts for 33.3% of total non-tax revenue is estimated to increase by 32.3% to RM4,100 million. Dividend and interests including dividends from BNM are also expected to increase by 32.5% to RM2,362 million. On the other hand, collection from licenses and permits is projected to decline by 17.2%, whereas road tax is estimated to increase by 1.6%.

Operating Expenditure

Operating expenditure of the Federal Government is expected to increase by 9.7% to RM48,927 million in 1999 or 4% higher than the Budget estimate of RM47,042 million due mainly to an increase in debt service charges and higher emoluments, pensions and gratuities.

Table 5.4
Federal Government Direct Taxes

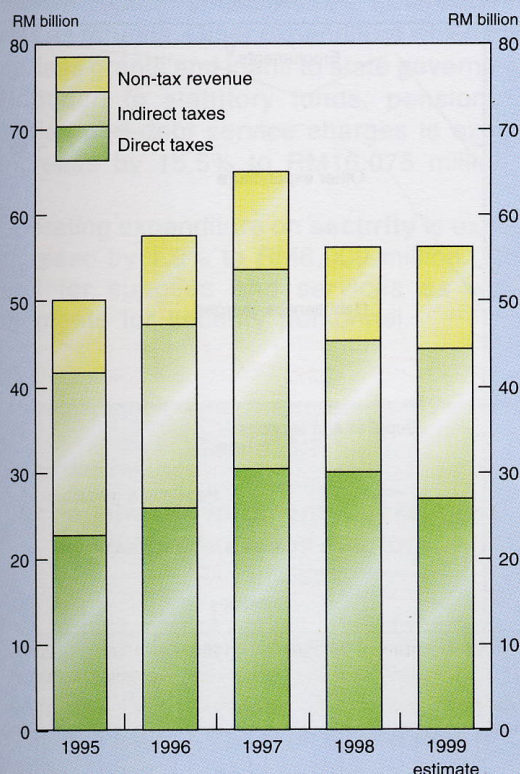
	1998 ¹		1999 ²		2000 ³	
	RM Million	% Change	RM Million	% Change	RM Million	% Change
Income Taxes	28,369	4.6	25,260	-11.0	27,231	7.8
Companies	17,294	3.6	15,615	-9.7	16,383	4.9
Individuals	6,900	7.3	6,294	-8.8	6,994	11.1
Petroleum	4,046	4.8	3,228	-20.2	3,724	15.4
Co-operative	129	-9.8	123	-4.7	130	5.7
Others	1,647	-50.2	1,650	0.2	1,865	13.0
Stamp duty	1,190	-56.1	1,362	14.5	1,440	5.7
Others	457	-23.4	288	-37.0	425	47.7
TOTAL	30,016	-1.4	26,910	-10.3	29,096	8.1

Note: ¹ actual

² revised estimate

³ Budget estimate, excluding 2000 tax measures

Chart 5.3
Major Components of Federal Government Revenue



Expenditure on **emoluments**, which accounted for 29.2% of total operating expenditure, is expected to increase by 2.2% to RM14,296 million (1998: RM13,984 million) mainly due to the additional allocation of RM325 million to make a special payment of RM600 each to eligible government employees. **Debt service charges** which continue to be the second largest component, accounting for 18.5%, is expected to increase by 30.4% to RM9,033 million following large borrowings by the Federal Government in 1998 and 1999 to finance its deficit. Of this total, 90.9% or RM8,213 million is for domestic debt service charges while 9.1% or RM820 million is for external debt service charges.

Expenditure on **supplies and services** is expected to increase by 20.7% to RM6,290 million on account of higher maintenance and professional services, while expenditure on grants is expected to decline by 2.2% to RM6,033 million, mainly comprising grants to state governments, schools and statutory bodies. Similarly, expenditure on subsidies are expected to decline by 12% to RM1,011 million partly for subsidies for rubber, palm oil and petroleum. Payment for **pension and gratuities** is higher by 11.2% at RM4,069 million due to additional payment to pensioners.

Table 5.5
Federal Government Indirect Taxes
1998–2000

	1998 ¹		1999 ²		2000 ³	
	RM Million	% Change	RM Million	% Change	RM Million	% Change
Export duties	623	-40.8	598	-4.0	623	4.2
Import duties	3,868	-40.7	4,578	18.4	4,653	1.6
Excise duties	3,586	-40.7	4,500	25.5	4,754	5.6
Sales tax	3,845	-37.6	4,285	11.4	4,622	7.9
Service tax	1,447	-1.9	1,462	1.0	1,656	13.3
Others	1,951	1.5	2,058	5.5	2,175	5.7
TOTAL	15,320	-33.9	17,481	14.1	18,484	5.7

¹ actual

² revised estimate

³ Budget estimate, excluding 2000 tax measures

In terms of sectoral classification, expenditure on the **social services** sector, which accounted for 33.6% of total operating expenditure remains the largest component (RM16,446 million), reflecting the Government's continuing emphasis on providing social services to the population especially the lower income group. Education and health continue to remain the dominant sub-sector recording a large increase of 6.9% to RM11,251 million and 8.9% to RM3,627 million, respectively. As a group, expenditure on the education and health sub-sector accounts for 30.4% of total operating expenditure, mainly for emoluments and maintenance of schools and hospitals.

Expenditure for the **economic services** sector is expected to increase sharply by 20.7% to RM4,931 million. The expenditure for the trade sub-sector is expected to increase significantly by 66.1% to RM2,124 million while that of transport sub-sector by 19.9% to RM1,247 million. As a group, expenditure on trade and industry and transport sub-sector accounts for 68.4% of the total expenditure of the economic services sector.

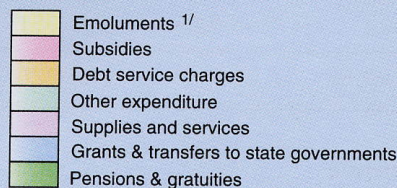
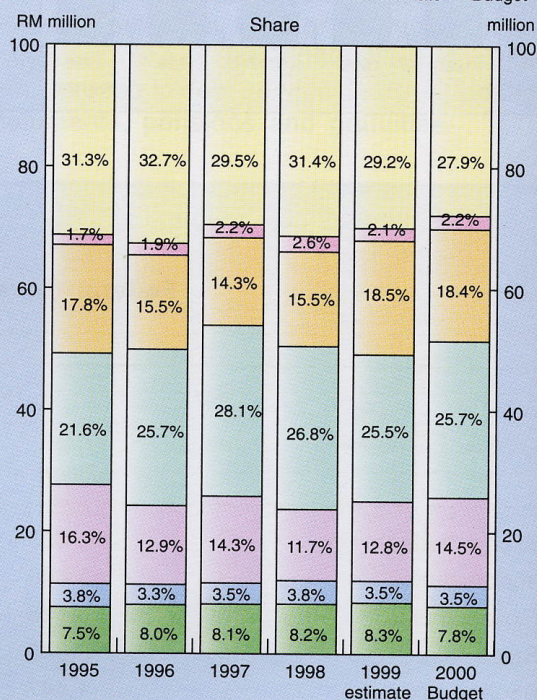
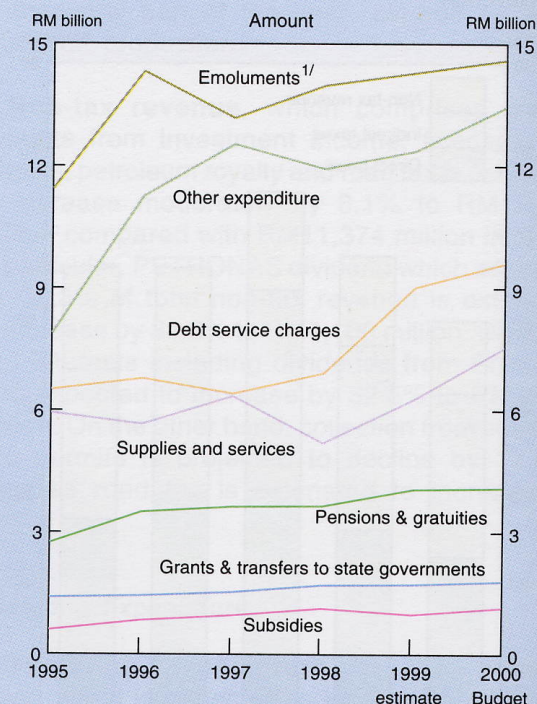
Table 5.6

Federal Government Operating Expenditure by Object (RM million)

	1999 Revised Estimate	% Share	2000 Budget Allocation	% Share
Emolument	14,296	29.2	14,608	27.9
Debt service charges	9,033	18.5	9,630	18.4
Grants to state governments	1,737	3.6	1,812	3.5
Pensions and gratuities	4,069	8.3	4,104	7.8
Supplies and services	6,290	12.8	7,564	14.5
Subsidies	1,011	2.1	1,171	2.2
Grants to statutory bodies ¹	3,632	7.4	4,109	7.9
Refunds	1,718	3.5	2,125	4.1
Others	7,141	14.6	7,228	15.3
TOTAL	48,927	100.0	52,351	100.0

¹ Includes emolument.

Chart 5.4
Federal Government Operating Expenditure



^{1/} Excludes emoluments for most statutory bodies

Expenditure on **general administration**, which constitutes 11.2% of total operating expenditure is expected to decline by 2.7% to RM5,467 million, mainly for departmental services, foreign services as well as refunds. Other expenditure which mainly comprises grants and loans to state governments, contribution to statutory funds, pensions and gratuities and debt service charges is expected to increase by 15.5% to RM16,075 million.

Operating expenditure on **security** is expected to increase by 1.9% to RM6,009 million. This is mainly for supplies and services as well as emoluments for security personnel.

Development Expenditure

Development expenditure will form the thrust of the Government's fiscal stimulus package in 1999. Allocation for development expenditure increased significantly by 38.1% to RM25,009 million over the 1998 expenditure and 38.5% higher than the Budget estimate of RM18,053 million. The largest increase is for the economic sector amounting to RM12,724 million or 37.7% of the increase in development expenditure.

Expenditure on the **economic services sector** is estimated to increase to RM12,724 million (1998: RM9,243 million), accounting for 50.8% of total development expenditure. A large proportion of the expenditure will be allocated to transportation especially for the construction of roads and bridges, as well as the light rail project. Expenditure on public utilities also remains large, increasing by 43.9%, to provide mainly for improved water and electricity supplies in the rural area. On the other hand, expenditure for the trade and industry sub-sector is expected to increase by 7.6% to RM3,473 million (1998: RM3,227 million).

Expenditure on **agriculture and rural development** is estimated to increase by 31.3% to RM1,260 million in order to increase food

Table 5.7

Federal Government Operating Expenditure by Sector (RM million)

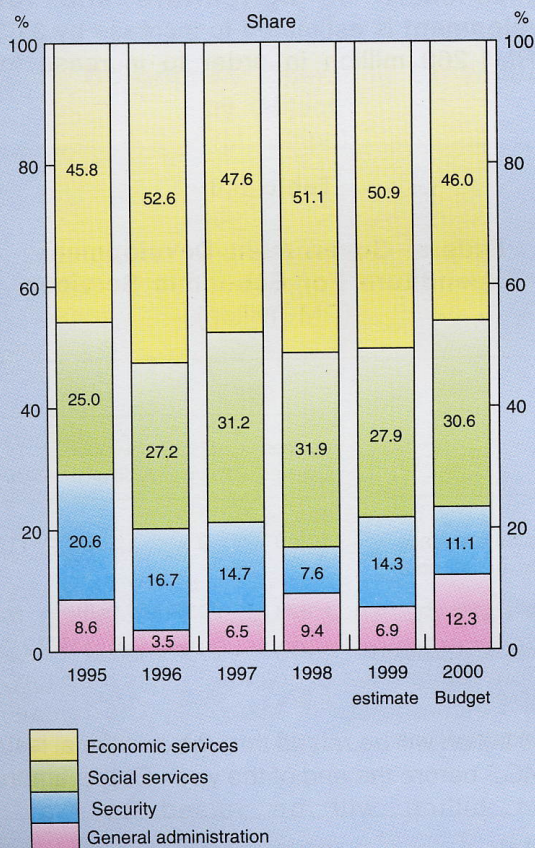
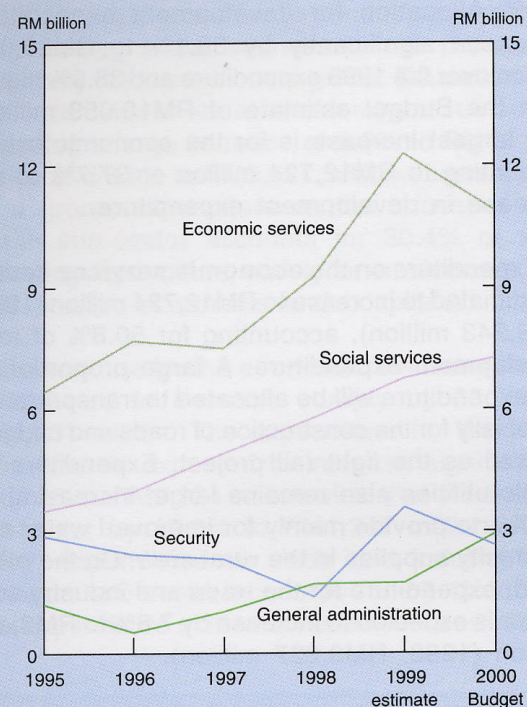
	1999 Revised Estimate	% Share	2000 Budget Allocation	% Share
Security	6,009	12.3	6,587	12.6
Defence	3,602	7.4	3,920	7.5
Internal security	2,406	4.9	2,667	5.1
Social Services	16,446	33.6	17,774	34.0
Education	11,251	23.0	11,937	22.8
Health	3,627	7.4	4,040	7.7
Housing	87	0.2	113	0.2
Others	1,481	3.0	1,684	3.2
Economic Services	4,931	10.0	4,266	8.1
Agriculture	1,238	2.5	1,243	2.4
Public utilities	193	0.4	35	0.1
Trade & industry	2,124	4.3	1,665	3.2
Transport	1,247	2.5	1,257	2.4
Communications	98	0.2	34	0.1
Others	31	0.1	32	0.1
General Administration	5,467	11.2	6,240	11.9
Other Expenditure	16,075	32.9	17,484	33.4
TOTAL	48,927	100.0	52,351	100.0

Table 5.8

Federal Government Development Expenditure For Economic Services (RM million)

	1999		2000	
	Revised Estimate	% Share	Budget Allocation	% Share
Agriculture and rural development	1,260	9.9	1,258	11.6
Public utilities	2,833	22.3	1,013	9.3
Trade and industry	3,473	27.3	3,762	34.6
Transport	5,079	39.9	4,643	42.7
Communications	18	0.1	21	0.2
Others	61	0.5	178	1.6
TOTAL	12,724	100.0	10,875	100.0

Chart 5.5
Federal Government Development Expenditure
by Sector



production, as well as to improve the standard of living in the rural area. Of this total, expenditure on land development and drainage and irrigation accounts for 37.1% or RM467 million. Other expenditure, mainly for integrated agriculture development programmes amounts to RM236 million or 18.7% of the total expenditure.

Expenditure on **social services sector** will increase sharply by 20.8% to RM6,988 million, compared with RM5,783 million in 1998 mainly for education and training amounting to RM3,996 million. This large allocation will be utilised for the construction and upgrading of primary and secondary schools, vocational schools and polytechnics as well as universities. Expenditure for housing is expected to increase by 11.1% to RM1,144 million, mainly to provide for on-going housing projects for the armed forces, police personnel, teachers and staff of the customs and excise department. To provide better health services, expenditure on the health sub-sector is expected to increase by 25.7% to RM900 million, for the construction of hospitals and upgrading of health services.

Expenditure on **defence and internal security** is expected to be higher by RM3,578 million (1998: RM1,380 million), attributed largely to the continuing modernisation programme for the armed forces

Table 5.9
Federal Government Development
Expenditure for Trade and
Industry Programme
(RM million)

	1999		2000	
	Revised Estimate	% Share	Budget Allocation	% Share
Industrial development	2,657	76.5	2,321	61.7
Tourism	102	2.9	237	6.3
Industrial research	695	20.0	1,174	31.2
Others	19	0.6	30	0.8
TOTAL	3,473	100.0	3,762	100.0

Table 5.10

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

	1999		2000	
	<i>Revised Estimate</i>	<i>% share</i>	<i>Budget Allocation</i>	<i>% share</i>
Agriculture	236	18.7	327	26.0
Land development	93	7.4	144	11.4
Drainage and irrigation	374	29.7	469	37.3
Rubber replanting	257	20.4	1	0.1
Fisheries	97	7.7	109	8.7
Livestock	42	3.3	49	3.9
Forestry	31	2.5	44	3.5
Others	130	10.3	115	9.1
TOTAL	1,260	100.0	1,258	100.0

Table 5.11

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

	1999		2000	
	<i>Revised Estimate</i>	<i>% share</i>	<i>Budget Allocation</i>	<i>% share</i>
Education	3,996	57.2	3,695	51.0
Health	900	12.9	908	12.5
Housing	1,144	16.4	1,145	15.8
Others	948	13.5	1,504	20.7
TOTAL	6,988	100.0	7,252	100.0

and police department. Of this total, expenditure for the defence sub-sector will amount to RM3,326 million (1998: RM1,017 million). Expenditure on internal security, mainly for the police will amount to RM252 million, largely for the purchase of equipment to upgrade services, as well as, for the construction of police stations.

Similarly, expenditure for **general administration** is expected to increase to RM1,719 million, compared with RM1,698 million in 1998, mainly for computerisation of Government administration, as well as for expenses to cater for Y2K compliance in the public sector.

Financing

As the overall financing requirement of the Federal Government is expected to be higher in 1999, the Government will ensure that its financing requirement is largely sourced from non-inflationary sources and without crowding out the private sector. The Federal Government deficit of RM12,480 million will be financed from accumulated cash balance brought forward amounting to RM7,396 million, and from domestic and external borrowings. To ensure prudent debt management, 30% of the funding requirement would be raised from external sources while the remaining 70% will be sourced from non-inflationary domestic sources. There is ample liquidity available in the banking system to meet financing needs of the Government. In addition, borrowing domestically would encourage and support the development of the domestic bond market. More importantly, domestic borrowing will limit the external exposure of the Federal Government.

The Government is expected to raise RM18,099 million from domestic sources, mainly through the issuance of Malaysian Government Securities (MGS). As at October 1999, about RM12,099 million has been raised, of which RM8 billion was from the issue of MGS, RM2 billion from Government Investment Issue (GIIs) and RM2,099 million from market syndicated loans from foreign banks incorporated in Malaysia. The remaining RM6 billion will be raised through additional issues of MGS before the end of the year. Of this amount, RM4 billion will be raised by way of private placement to the Employees Provident Fund (EPF). Thus, after taking into account principal

repayment of RM8,676 million, net domestic borrowing in 1999 is expected to be RM9,423 million.

In respect of external borrowing, the Federal Government is expected to raise RM804 million from the disbursement of new and existing project loans from the World Bank. Apart from multilateral agencies, the Government will receive RM292 million from bilateral agencies notably from the Overseas Economic Cooperation Fund (OECF) guaranteed by the JEXIM Bank of Japan. The Government also successfully raised RM3,750 million from the issuance of Global Bond in July 1999. In addition, under the Miyazawa Plan, the Government raised RM323 million through a syndication led by CitiBank (Tokyo). Therefore total Federal Government borrowing in 1999 will amount to RM5,169 million. After taking into account external loan repayment of RM2,009 million, the Federal Government's net external borrowing is estimated at RM3,160 million.

State Governments

The consolidated financial position of the 13 state governments is expected to record a large deficit in 1999. Consolidated revenue collection is estimated to be lower by 4.2% to RM8,228 million (1998: RM8,591 million) due to lower tax revenue collection. Total operating expenditure is estimated to decline by 3.5% to RM4,456 million (1998: RM4,617 million). Consequently, the current account position is estimated to record a surplus of RM3,732 million compared with RM3,974 million in 1998. State governments' gross development expenditure is also expected to decline by 8.2% to RM4,400 million as revenue performance is expected to remain weak. Concomitantly, the consolidated state governments' financial position will record a deficit of RM413 million or 0.2% of GNP (1998: -RM347 million or 0.1% of GNP).

Total consolidated state governments' revenue is estimated to decline by 4.2% to RM8,228 million (1998: RM8,591 million). **Own source revenue**, which accounts for 78% of the state governments' total revenue, is estimated to decline by 6.2% to RM6,421 million compared with RM6,838 million in 1998. This decline is mainly due to lower non-tax revenue collection, comprising licenses, permits, royalty, service fees, sale of goods, rental on government property, return on investment, as well as fines and compounds. Although the non-tax revenue collection is estimated to decline by 9.3% to RM4,525 million compared with RM4,989 million in 1998, its contribution remains significant at 70.5%.

Within non-tax revenue, collection from **resource-based industries** particularly royalties from forestry and petroleum (excluding tax on forestry and mining) remains the major contributor to the state governments' own source revenue and accounts for 30.8% of total own source revenue, amounting to RM1,979 million. Of this total, revenue from forestry, which accounts for 17.2% of total own source revenue, is estimated to increase by 2.1% to RM1,103 million compared with RM1,080 million in 1998, with Sarawak estimated to collect RM770 million and Sabah RM191 million. On the other hand, revenue from petroleum royalty which accounts for 15.2% of total own source revenue is estimated to decline by 11.2% to RM979 million compared with RM1,102 million in 1998, with Terengganu estimated to receive RM520 million, Sarawak RM359 million

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

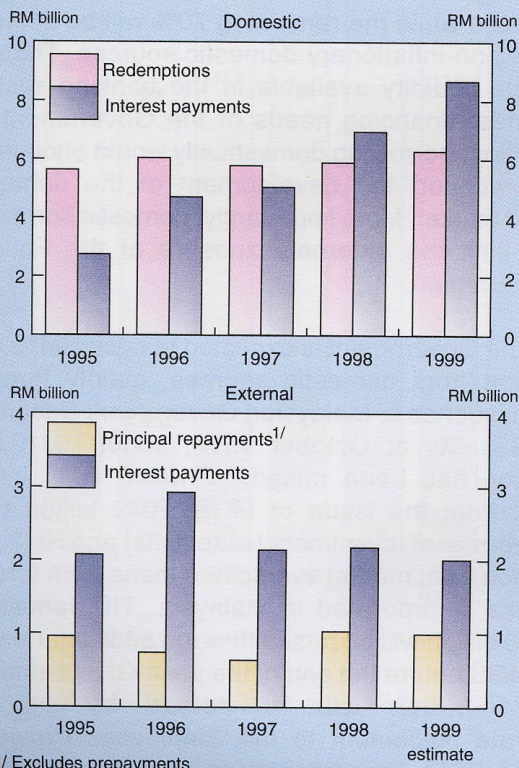


Table 5.12

**Consolidated State Governments'
Financial Position**
(RM million)

	1998 ¹	% Change	1999 ²	% Change
Current account				
Revenue	8,591	-13.8	8,228	-4.2
Operating expenditure	4,617	-2.1	4,456	-3.5
Development account				
Gross development expenditure	4,794	-3.6	4,400	-8.2
Development fund	4,025	-8.1	3,756	-6.7
Water supply fund	769	29.9	644	-16.3
Loan recoveries	473	-11.3	215	-54.5
Net development expenditure	4,321	-2.7	4,185	-3.1
Overall balance	-347		-413	

¹ Estimated actual.

² Estimate.

and Sabah RM100 million. The lower collection from petroleum royalty is largely due to lower crude petroleum prices, as well as production. **Non resource-based revenue** (comprising sale of goods and services, interest from investment, license and permits, fines and compounds and rental) is estimated to decline by 12.7% to RM2,509 million (1998: RM2,874 million) accounting for 39.1% of total state governments' own source revenue.

In contrast, total tax revenue collection (comprising direct tax and indirect tax) which accounts for 24.5% of total state governments' own source is estimated to increase by 8.8% to RM1,572 million. Direct taxes (comprising taxes on land, mining, drainage and irrigation and forestry) is estimated to increase by 11.8% to RM1,005 million and indirect tax (comprising entertainment and miscellaneous), by 3.8% to RM567 million.

Other source of state governments' revenue in the form of non-revenue receipts mainly comprising **grants and reimbursement** from the Federal Government is estimated to increase slightly by 3.1% to RM1,807 million (1998: RM1,753 million). Of this total, Federal Government **grants** (comprising constitutional and administrative grants) to the state governments amount to RM1,737 million, while Federal Government **reimbursement** (mainly for drainage and irrigation as well as agriculture projects) amounts to RM70 million. Constitutional grants which include road maintenance grants, capitation grants and revenue growth grants are estimated to increase by 3% to RM1,122 million.

Total operating expenditure of the state governments is estimated to decline by 3.5% to RM4,456 million in 1999. Expenditure on emoluments, which accounts for 36.9% of total operating expenditure, is estimated to increase significantly by 10.3% to RM1,645 million (1998: RM1,492 million). Supply and services remains the second largest expenditure, accounting for 34.9% or RM1,556 million. Asset acquisition is estimated to decline by 18.9% to RM398 million as state governments defer some projects. **Gross development expenditure** of state governments in 1999 is estimated to decline by 8.2% to RM4,400 million compared with RM4,794 million in 1998 due to weak revenue performance. Concomitantly, expenditure on public utilities is estimated to increase by 53.8% to RM1,141 million or 25.8% of total development expenditure. This is mainly for water supply amounting to RM644 million as most states require upgrading and improvement in water supply services. However, expenditure on agriculture and rural development, trade and industry as well as transportation is expected to decline by 3.9% to RM823 million, 7.3% to RM624 million and 12.2% to RM383 million, respectively. Expenditure on public housing programmes remain large at RM432 million (1998: RM237 million), reflecting the state governments' commitment to provide more affordable housing for the poor.

Non-Financial Public Enterprises

The overall performance of the 28 Non-Financial Public Enterprises (NFPEs) is expected to remain subdued with revenue estimated to decline by 17% to RM68,412 million in 1999 (1998: RM82,518 million). The poorer revenue performance

Table 5.13

Consolidated NFPEs Financial Position¹
1998 – 1999
(RM million)

	1998	% change	1999	% change
Revenue ²	82,518	18.2	68,412	-17.0
Current expenditure	58,739	28.7	46,750	-20.4
Retained income	23,779		21,662	
% of GNP	8.8		7.7	
Development expenditure	27,178	28.5	23,375	-14.0
Overall balance	-3,399		-1,713	
% of GNP	-1.3		-0.6	

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

² Includes grant from the Federal Government

is largely due to slower economic activities and lower petroleum and crude palm oil prices.

In tandem with the fall in revenue, **operating expenditure** is expected to decline by 20.4% to RM46,750 million in 1999 (1998: RM58,739 million), largely due to cost-cutting measures and substantially reduced debt servicing following easing of domestic interest rates. Given lower crude petroleum prices, PETRONAS import bills declined substantially thereby reducing the operating expenditure of the corporation.

Despite a difficult business environment, the **operating surplus** of NFPEs is estimated to remain at a moderate level amounting to RM21,662 million in 1999 compared with RM23,779 million in 1998, a decline of 8.9%. As in the past, the operating surplus is largely contributed by the larger NFPEs such as PETRONAS, Tenaga Nasional Berhad (TNB) and Telekom Malaysia Berhad (Telekom).

The overall **development expenditure** for 1999 is expected to decline by 14% to RM23,375 million, from RM27,178 million in 1998, due to economic uncertainties and the deferment or a scale-down of some projects. However, several major public enterprises are expected to continue undertaking capital investment, particularly on infrastructure and utility projects. PETRONAS will continue to invest in both upstream and downstream activities

either singly or in joint-ventures with multinational companies. Among these are new gas processing plants, central utilities facility projects, continued expansion and upgrading of University Technology PETRONAS and petrochemical plants. The capital expenditure of TNB was mainly for capacity expansion as well as to expand and upgrade transmission and distribution network. The bulk of the capital expenditure incurred by Telekom was for expansion and modernisation of telecommunication infrastructure and in particular, to develop a range of services and products for the Corporate Information Superhighway and the National Information Infrastructure.

The **overall financial position** of the 28 NFPEs is expected to record a deficit RM1,713 million or 0.6% of GNP in 1999 (1998: -RM3,399 million or 1.3% of GNP). The poorer performance is largely due lower revenue, which is expected to decline by 17% in 1999. The overall deficit would have been bigger if not for the prudent measures taken to contain operating expenditure, lower debt servicing due to lower interest rates and the more cautious stance adopted on capital expenditure.

National Debt

National debt is expected to decline by 0.2% to RM161,334 million (57.4% of GNP) at the end of 1999 (1998: RM161,715 million or 60.1% of GNP). Malaysia will therefore, remain in the category of a medium indebted country (level of debt between 48% and 80% of GNP). The decline is mainly due to higher repayment and lower borrowing by the private sector in 1999. Of total national debt, 82% or RM132,343 million (47.1% of GNP) is medium and long term debt (1998: RM129,190 million or 40% of GNP) and 18% or RM28,991 million is short-term debt (1998: RM30,014 million or 11.2% of GNP). Of the total of **medium and long term debt**, public sector debt will increase by 6.4% to RM72,495 million. Meanwhile, private sector debt is expected to decline by 1.9% to RM59,848 million compared with end 1998. Of the total public sector debt, 75% constitute debt of the non-financial public enterprises (NFPEs) while 25% represent debt of the Federal Government. **Short-term debt** (maturity period of less than one year) which comprises borrowing by the banking sector and private corporations is expected to decline by 3.4% to RM28,991 million (1998: RM32,525 million).

Table 5.14

National Debt

	1998 ¹			1999 ²		
	RM Million	% Change	Share	RM Million	% Change	Share
Medium and long term debt	129,190	1.3	79.9	132,343	2.4	82.0
Public sector	68,156	4.2	42.1	72,495	6.4	44.9
Federal Government	14,924	15.2	9.2	18,084	21.2	11.2
NFPEs	53,232	1.5	32.9	54,411	2.2	33.7
Guaranteed	9,531	35.2	5.9	10,378	8.9	6.4
Non-guaranteed	43,701	-3.8	27.0	44,033	0.8	27.3
Private sector	61,034	-1.7	37.7	59,848	-1.9	37.1
Short-term debt	32,525	-24.8	20.0	28,991	-3.4	18.0
TOTAL	161,715	-5.3	100.0	161,334	-0.2	100.0

¹ Estimated actual² Estimate

Total **gross external borrowing** in 1999 will amount to RM19,804 million and is mainly made up of large public sector borrowings. Gross borrowings by the public sector is expected to increase by 29.8% to RM11,304 million (1998: RM8,706 million). Of this total, external borrowings by NFPEs will amount to RM6,135 million. On the other hand, private sector gross external borrowing although expected to decline by 14.9% would remain large at RM8,500 million (1998: RM9,992 million). After taking into account repayments of RM15,644 million, the total net inflow would amount to RM4,160 million.

National debt servicing is projected to increase by 2.9% to RM21,775 million (1998: RM19,515 million) due to higher principal repayments by the private sector and the NFPEs. Of this total, RM15,644 million or 71.8% will go towards repayment of principal with the balance of RM6,131

or 28.2% representing interest charges. As a result, the **national debt service ratio** (total repayment and interest over export of goods and services) is estimated to decline to 6.2% compared with 6.6% in 1998. The lower **debt service ratio** is also attributed to improved performance of export of goods and services in 1999.

Federal Government Debt

Commensurate with the large Federal Government borrowings in 1999, **total Federal Government debt** is estimated to increase by 8.9% to RM112,339 million or 40% of GNP in 1999 (1998: 103,121 million or 38.3% of GNP). Of this total, **domestic debt** will account for 83.9% (RM94,255 million) and the remaining 16.1% (RM18,084 million) is external debt. The large

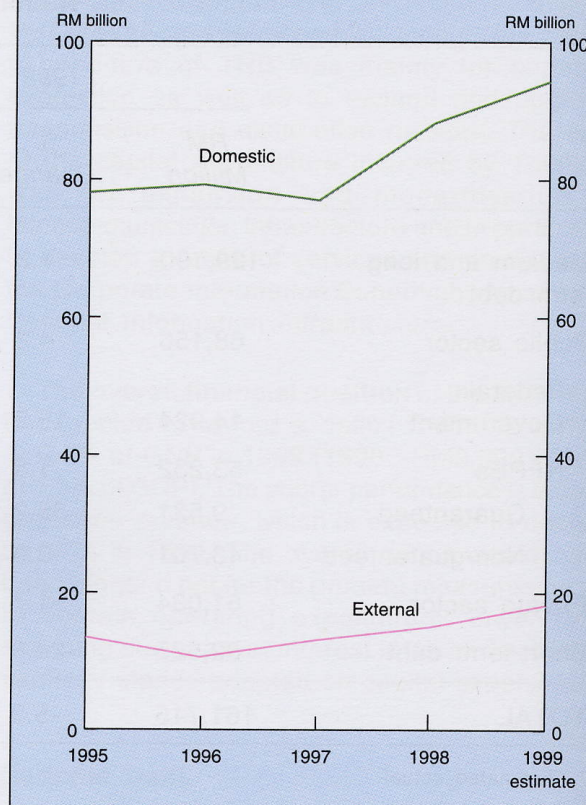
Table 5.15

Federal Government Debt (RM million)

Debt profile	1998	% Share	1999	% Share
Domestic debt	88,197	100.0	94,255	100.0
Treasury bills	4,320	4.9	4,320	4.6
Investment certificates	2,000	2.3	2,000	2.1
Government securities	75,012	85.1	82,336	87.4
2 - 3 years	2,000		4,000	
4 - 5 years	6,500		8,500	
6 - 10 years	15,086		13,686	
11 - 15 years	14,785		13,900	
16 - 21 years	36,641		35,776	
Other loans ¹	6,865	7.7	5,599	5.9
External debt	14,924	100.0	18,084	100.0
Market loans	7,692	51.5	10,522	58.2
Project loans	7,232	48.5	7,562	41.8
Suppliers' credit	-	-	-	-
TOTAL	103,121		112,339	

¹ Mainly syndicated loans from foreign banks incorporated in Malaysia and loans undertaken by the Treasury Housing Loans Fund.

Chart 5.7
Federal Government Debt



Federal Government **external debt** is estimated to increase by 21.2% to RM18,084 million or 6.4% of GNP (1998: RM14,924 million or 5.5% of GNP). Market loans will account for 58.2% (RM10,522 million) of total external debt and the balance of 41.8% (RM7,562 million) is project loans. The substantial increase in external debt will be on account of the large gross borrowings of RM5,169 million in 1999 mainly through the issuance of Global Bond as well as loans from bilateral and multilateral agencies.

In terms of currency composition, the biggest proportion of external debt is denominated in US dollars accounting for about 56% or RM10,159 million of total external debt in 1999. This is followed by debt denominated in yen, which account for about 37%, or a ringgit equivalent of RM6,646 million. The balance of the external debt is denominated in other currencies such as deutschemark and pound sterling.

increase in Federal Government domestic debt is attributable mainly to large issues of MGS (RM14,000 million) to finance the Government's fiscal stimulus package. MGS will therefore, remain the major component of domestic debt accounting for 87.4% (RM82,336 million) of total Federal Government domestic debt. The remaining 12.6% (RM11,919 million) constitutes Treasury Bills (TBs), Government Investment Issues (GIIs) and Treasury Housing Loans Fund, as well as syndicated loans.

Chart 5.8
Federal Government External Debt by Source

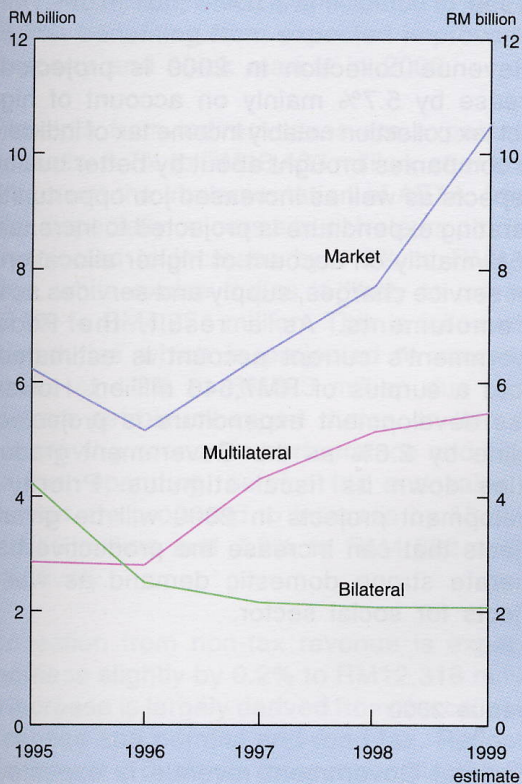
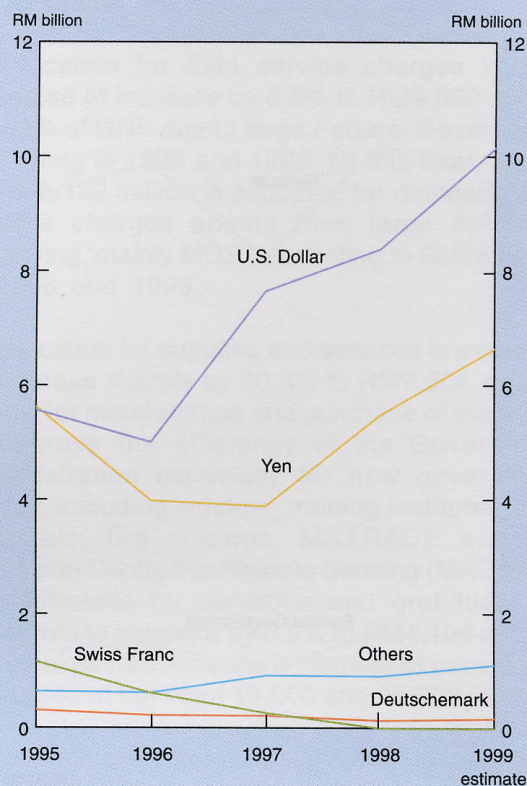


Chart 5.9
Federal Government External Debt by Currency



Total **debt servicing** (interest payment and repayment) of the Federal Government is estimated to increase by 22.8% to RM19,718 million compared with RM16,058 million in 1998. Of this total, repayment of the principal for domestic and external loans will amount to RM8,676 million and RM2,009 million, respectively. Interest payment will amount to RM9,033 million, of which RM8,213 million is for domestic debt and the remaining RM820 million will be for external debt. Although total external debt servicing has increased, the Federal Government's debt service ratio is estimated to decline from 1% in 1998 to 0.9% in 1999 due to improving performance in exports of goods and services.

2000 Outlook

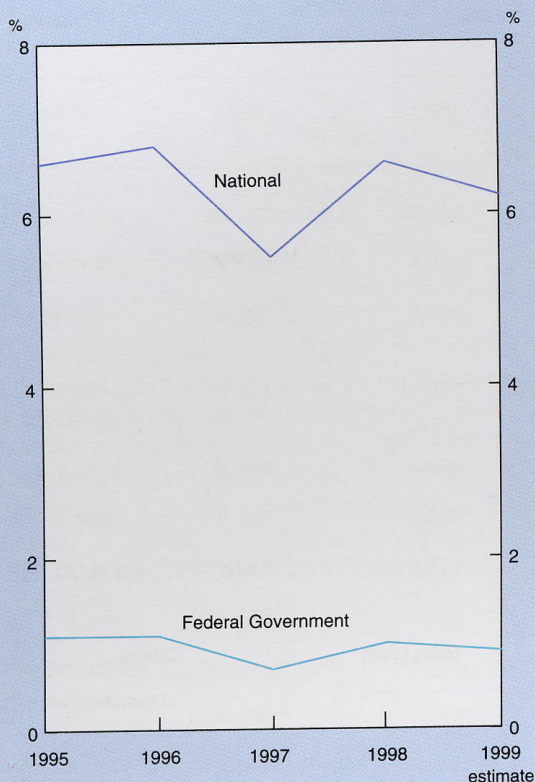
Overview

The thrust of fiscal policy in the year 2000 will continue to support domestic growth in the

economy. In this regard, the Government will continue to embark on stimulus programme. However, expenditure will be maintained at a level in line with available resources so as to ensure that the resultant deficit can be sustained in the medium and long term. In addition, the financing of the deficit will continue to rely on non-inflationary sources.

The consolidated revenue collection of the general government is projected to increase by 5.6% to RM72,489 million (1999: RM68,600 million), with a large proportion (81.9%) expected to be derived from the Federal Government revenue collection. Total operating expenditure of the general government is projected to record an increase of 9.4% to RM60,639 million (1999: RM56,076 million), mainly contributed by spending of the Federal Government and statutory bodies. As a result, the current account of the general government is projected to record a lower surplus of RM11,850 million compared with RM12,524 million in 1999. The current surplus of the NFPEs

Chart 5.10
External Debt Servicing Ratio



is projected to increase by 10.7% to RM21,731 million (1999: RM19,624 million) attributed to improved revenue prospects of major NFPE's (projected to increase by 5.6%) especially in the export and utility sectors. Thus, the consolidated current account position of the public sector is projected at RM33,581 million or 11.3% of GNP (1999: RM32,148 million or 11.4% of GNP). Development expenditure of the public sector however, is projected to decline by 0.4% to RM48,368 million (1999: RM48,580 million), attributed mainly to the decline in NFPEs development expenditure of 2.6%. Hence, the public sector will record a deficit of RM14,787 million or 5% of GNP in the year 2000 (1999: -RM16,432 million or 5.8% of GNP).

Federal Government

While the fiscal policy will continue to be expansionary in the year 2000, the practice of fiscal prudence will be maintained to ensure

sustainability of the Federal Government finance. As such for 2000, the Federal Government deficit is projected at 4.4% of GNP compared with 4.9% in 1999.

Revenue collection in 2000 is projected to increase by 5.7% mainly on account of higher direct tax collection notably income tax of individuals and companies brought about by better business prospects as well as increased job opportunities. Operating expenditure is projected to increase by 10.5% mainly on account of higher allocation for debt service charges, supply and services as well as emoluments. As a result, the Federal Government's current account is estimated to record a surplus of RM7,546 million. However, gross development expenditure is projected to decline by 2.6% as the Government gradually scales down its fiscal stimulus. Priority for development projects in 2000 will be given to projects that can increase the productive base, generate strong domestic demand as well as projects for social sector.

Revenue 2000

Federal Government revenue is expected to improve further in 2000 in line with the continuing economic recovery. With AFTA taking effect in 2000, the government is expected to forego RM170 million in potential revenue due to lower tariffs and excise duties. As such, Federal Government revenue projection is expected to record an increase of 5.7% to RM59,897 million.

Revenue from tax collection will remain the major contributor to the total Federal Government revenue in 2000, accounting for 79.4% or RM47,580 million. Non-tax revenue collection, which accounts for 20.5% of total Federal Government revenue, is projected to improve slightly by 0.2% to RM12,318 million.

Direct tax collection, which accounts for 61.1% of total tax revenue collection is expected to record a growth of 8.1% to RM29,096 million. Income tax collection will remain the major source of direct tax (93.6%) and is expected to increase by 7.8% to RM27,231 million. This is due to higher collection of corporate tax by 4.9% to RM16,383 million and individual income tax by 11.1% to RM6,994 million, as well as petroleum income tax by 15.4% to RM3,724 million. Other direct tax

collection, which accounts for 6.4% of total direct tax collection is expected to increase by 13% to RM1,865 million, mainly from higher stamp duties of RM1,440 million, which is anticipated to increase by 5.7%, benefiting from expected improvement in property and stock market in 2000.

Receipts from indirect taxes are expected to increase by 5.7% to RM18,483 million, after taking into account the implementation of AFTA. Import duties, especially on cars and petroleum products are projected to increase by 1.6% to RM4,653 million, while excise duties is likely to increase by 5.6% to RM4,754 million. This is followed by export duties which is projected to record an increase of 4.2% to RM623 million due to the gain from petroleum export duties. In line with the improving economic performance and higher consumer spending, service tax and sales tax collection are projected to increase by 13.3% to RM1,656 million and 7.9% to RM4,622 million, respectively.

Collection from non-tax revenue is expected to increase slightly by 0.2% to RM12,318 million. The increase is largely derived from the collection of licenses and permits and road tax. Reflecting improvement in business prospects, collection from licenses and permits is expected to increase by 5.7% to RM1,737 million. Road tax collection is expected to increase by 5.7% to RM1,903 million as sales of motor vehicles are expected to improve further. However, petroleum royalty is estimated to decline sharply by 11.7% to RM860 million following the anticipated lower petroleum price in the world market in 2000. Receipts from Petronas dividends is expected to amount to RM4,100 million, while receipt from interest and return on investment are at RM2,217 million.

Operating Budget

Total operating expenditure for 2000 is projected at RM52,351 million or 7% higher than 1999 expenditure. The expenditure is mainly for emoluments, debt service charges, pensions and gratuities and grants and transfers to state governments, which account for more than 60% of total operating expenditure. The allocation for emolument will remain the largest component of operating expenditure accounting for 27.9% or RM14,608 million, mainly to cater for annual salary increments as well as creation and upgrading of

critical posts in the public service especially teachers, medical personnel, engineers, security personnel as well as for time-based promotion for teachers.

Allocation for debt service charges is also expected to increase by 6.6% to RM9,630 million or 3.2% of GNP due to large Federal Government borrowing in 1998 and 1999. Of this total, 84.4% or RM8,132 million is allocated for domestic debt service charges arising from large domestic borrowing, mainly MGS, amounting to RM28 billion in 1998 and 1999.

Allocation for supplies and services is expected to increase sharply by 20.3% to RM7,564 million, mainly for maintenance and purchase of materials to improve the efficiency of the Government administration especially for new government offices, including schools, training institutes, new hospitals, fire stations, MATRADE and the Malaysian Centre For Remote Sensing (MACRES). Commitments on pensions and gratuities are estimated to increase by 0.9% to RM4,104 million, due to expected increase in number of pensioners estimated at between 18,000 and 20,000 in 2000.

In terms of sectoral classification, expenditure on social services, which mainly comprises education and health services, will account for 34% of total operating expenditure. Allocation for this sector is projected to increase by 8.1% to RM17,774 million in 2000. Reflecting the continuing emphasis on education, allocation for the education sub-sector will remain the largest recipient with an allocation of RM11,937 million or 67.2% of total allocation for social services. To further improve health services, allocation for this sub-sector is expected to increase by 11.4% to RM4,040 million.

Allocation for the economic services sector is projected to decline by 13.5% to RM4,266 million, accounting for 8.1% of total Federal Government operating expenditure in 2000. Of this total, allocation for trade and industry is the largest, increasing to RM1,665 million. However, in terms of growth it will decline by 21.6%. Meanwhile, for transport, it is expected to increase slightly by 0.8% or RM1,257 million. Expenditure on the security sector, which accounts for 12.6% of total operating expenditure, is projected to increase by 9.6% to RM6,587 million, especially for supply and services in line with the modernisation programme in the defence sub-sector.

Development Budget

Although development expenditure in 2000 is projected to decline by 5.3% to RM23,674 million nevertheless it will remain large. The largest proportion (46%) is for the economic sector, which is projected to decline by 14.5% to RM10,875 million. Of this total, RM3,762 million or 34.6% will be allocated for the trade and industry sub-sector. Allocation for the transportation sub-sector which is mainly for the construction and upgrading of roads and bridges in urban and rural areas as well as for ports and airports, is projected to decline by 8.6% to RM4,643 million. Agriculture and rural development will receive an allocation amounting to RM1,258 million, mainly to cater for land development, drainage and irrigation as well as for integrated agriculture development projects (IADP). Public utilities and communications are expected to receive an allocation of RM1,013 million and RM21 million, respectively.

Allocation for the social services sector is projected to increase by 3.8% to RM7,252 million. Of this, a total of RM3,695 million or 51% is allocated for the education sub-sector, mainly for construction of new schools as well for upgrading

industrial training institutes. Expenditure on the health sub-sector is projected to increase slightly by 0.9% to RM908 million especially for construction and upgrading of hospitals and other health facilities. Allocation for housing is expected to increase marginally by 0.1% to RM1,145 million for the construction of quarters for armed forces, police personnel, customs personnel as well as teachers.

Allocation for the security sector, on the other hand is projected to decline by 26.4% to RM2,634 million, a large proportion of which will be for the defence sub-sector amounting to RM2,122 million. Allocation for internal security is projected to increase by 103.2% to RM512 million. The increase will be mainly used by the Royal Police Department for the construction of new police stations and purchase of equipment. Allocation for the general administration sector will remain large, amounting to RM2,913 million. Computerisation of the government administration, the development of flagships under the Multimedia Super Corridor (MSC) and public utilities for new government administrative centre in Putrajaya will use the bulk of this allocation.