

5

Public Sector Financial Performance

2000 Performance

The thrust of fiscal policy since 1998 has been expansionary to stimulate economic activities as part of the Government's counter-cyclical measures to further strengthen the nation's economic recovery. Thus, the 2000 Budget presented in Parliament in October 1999, and retabled in February 2000, continued with the expansionary stance aimed at providing further

impetus to the economy. Although fiscal policy has been expansionary, the Government continues to adopt fiscal prudence and discipline in its financial management in order to ensure long-term sustainability. In this regard, the Government has always ensured that its current account remains in surplus while its overall deficit is kept at a sustainable level. The financing requirement has come mainly from non-inflationary domestic sources and without crowding out the private sector's access to domestic funding.

Table 5.1
Consolidated Public Sector
Financial Position

	RM million			% Change		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001
General Government						
Current Account						
Revenue	70,324	73,786	83,572	1.4	4.9	13.3
Operating expenditure	53,868	65,008	67,860	7.1	20.7	4.4
Current account balance	16,455	8,777	15,712	-13.9	-46.7	79.0
Current surplus of NFPEs ⁴	37,432	37,038	39,980	66.3	-1.1	7.9
Public sector current balance	53,887	45,815	55,692	29.4	-15.0	21.6
Development expenditure	48,778	54,911	60,846	10.1	12.6	10.8
General government	22,526	25,969	33,411	31.5	15.3	28.7
NFPEs	26,252	28,942	27,435	-3.4	10.2	-5.2
Overall balance	5,109	-9,096	-5,154			
% to GNP	1.8	-3.0	-1.6			

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

⁴ exclude grants from Federal Government.

The fiscal stimulus has contributed to the strong economic recovery as reflected in the higher contribution of public sector expenditure to the growth of Gross Domestic Product (GDP). In 1999, the public sector accounted for the bulk of the growth in GDP while that of the private sector was contractionary. In 2000, the contribution of the public sector is expected to remain large, although that of the private sector is expected to increase significantly, well surpassing that of the public sector.

Public Sector

The public sector comprises the general government (Federal Government, state governments, local governments and statutory bodies) and the Non-Financial Public Enterprises (NFPEs). Operating expenditure of the general government is estimated to increase by 20.7% to RM65,008 million, as shown in *Table 5.1*. The general government revenue, on the other hand, is expected to increase by 4.9% to RM73,786

million (1999: RM70,324 million). As a result, the current account surplus of the general government is estimated to decline to RM8,777 million (1999: RM16,455 million). The current surplus of the NFPEs in 2000 is also estimated to be lower by 1.1% to RM37,038 million on account of higher operating expenditure. With lower current surplus of the general government and NFPEs, the consolidated public sector current account surplus is expected to be lower at RM45,815 million (1999: RM53,887 million).

The development expenditure of the public sector is expected to further increase by 12.6% to RM54,911 million (1999: 10.1%, RM48,778 million). The increase is largely attributed to higher development expenditures of the general government by 15.3% and the NFPEs, which is expected to increase by 10.2%. Taking into account higher development expenditure, the public sector financial position is expected to register an overall deficit of RM9,096 million compared with a surplus of RM5,109 million in 1999.

Table 5.2

Federal Government Financial Position

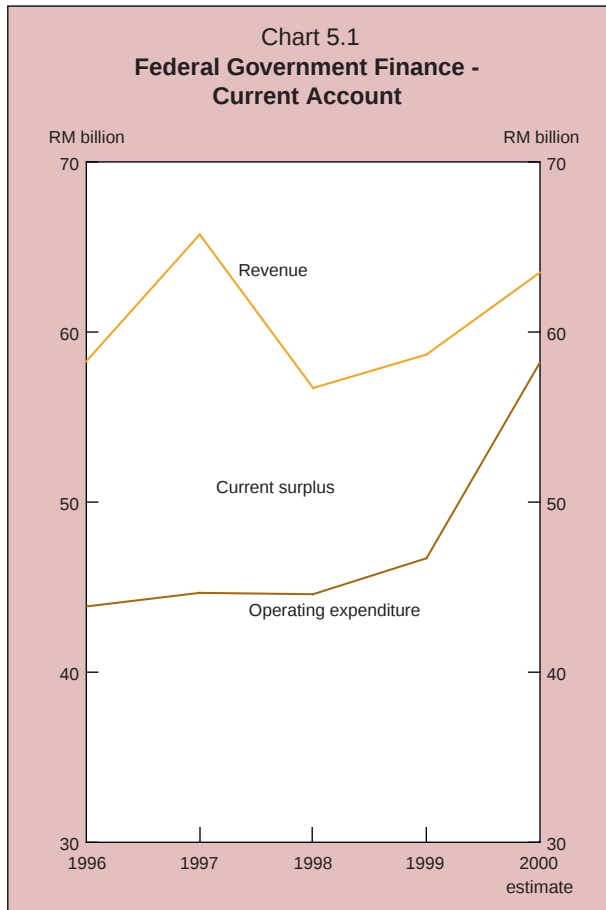
	RM million			% Change		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001
Revenue	58,677	63,500	69,610	3.5	8.2	9.6
Operating expenditure	46,699	58,206	60,710	4.7	24.6	4.3
Current balance	11,978	5,294	8,900	-1.2	-55.8	68.1
Gross development expenditure	22,614	25,286	26,836	24.9	11.8	6.1
Less loan recoveries	1,152	2,000	1,800	18.2	73.6	-10.0
Net development expenditure	21,462	23,286	25,036 ⁴	25.3	8.5	7.5
Overall balance	-9,484	-17,992	-16,136	—	—	—
% to GNP	-3.4	-5.9	-4.9			

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

⁴ excludes contingency fund of RM2,000 million.



Federal Government

In line with the fiscal stimulus, the total expenditure of the Federal Government is expected to increase at a higher rate of 20.5% compared with the 8.2% increase in revenue, as shown in *Table 5.2*. The higher expenditure is due to significant increases in both operating expenditure of 24.6% and development expenditure of 11.8%. Consequently, the overall deficit of the Federal Government is expected to widen to RM17,992 million or 5.9% of Gross National Product (GNP) in 2000 (1999: -RM9,484 million or 3.4% of GNP).

Revenue

The Federal Government revenue in 2000 is expected to increase at a higher rate of 8.2% compared with the Budget estimate of 2.1%, as shown in *Table 5.3*. The better than expected revenue outturn is largely on account of the strong momentum in economic recovery. As a result, tax revenue rebounded by 7.0% (1999: 0.02%) mainly from increases in individual and petroleum income taxes. In addition, the implementation of the current year assessment also contributed to higher revenue collection. Overall, **tax revenue** continues to account for the largest share, that is, 76.4% of the total revenue or 16% of GNP.

Table 5.3

Federal Government Revenue

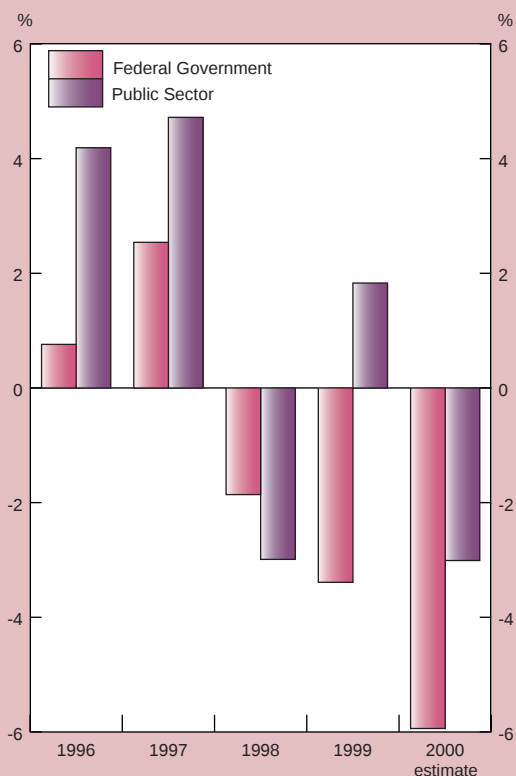
	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Tax revenue	45,347	48,510	53,683	0.0	7.0	10.7	77.3	76.4	77.1
Direct tax	27,247	29,808	33,802	-9.2	9.4	13.4	46.4	46.9	48.6
Indirect tax	18,100	18,702	19,881	18.1	3.3	6.3	30.8	29.5	28.6
Non-tax revenue	13,330	14,990	15,927	17.2	12.5	6.3	22.7	23.6	22.9
Total revenue	58,677	63,500	69,610	3.5	8.2	9.6	100.0	100.0	100.0

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

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



Revenue from **direct taxes** which account for 46.9% of the total revenue is expected to record a significant turnaround from a decline of 9.2% in 1999 to an increase of 9.4% to RM29,808 million. Major income taxes, mainly individual and petroleum, are estimated to record significant increases compared with negative growth in 1999, as shown in *Table 5.4*. As for corporate tax, the decline has decelerated largely on account of Government's efforts in resolving the problems in the banking and financial sector as well as work completed through the Corporate Debt Restructuring Committee (CDRC). In terms of rates of increase, petroleum income tax is expected to increase by 95.2% in 2000 (1999:-29.4%) due to higher petroleum prices while individual income taxes are expected to increase by 12.4%, after declining by 7% in 1999.

In contrast to direct taxes, **indirect taxes** as a whole are estimated to increase marginally by 3.3% (1999: 18.1%), as shown in *Table 5.5*. Higher petroleum prices and strong economic performance have contributed to higher revenue from petroleum export duty and sales and service taxes. However, the removal of import and excise duties on petrol and petroleum products, effective from 2000, in

Table 5.4

Federal Government Direct Taxes

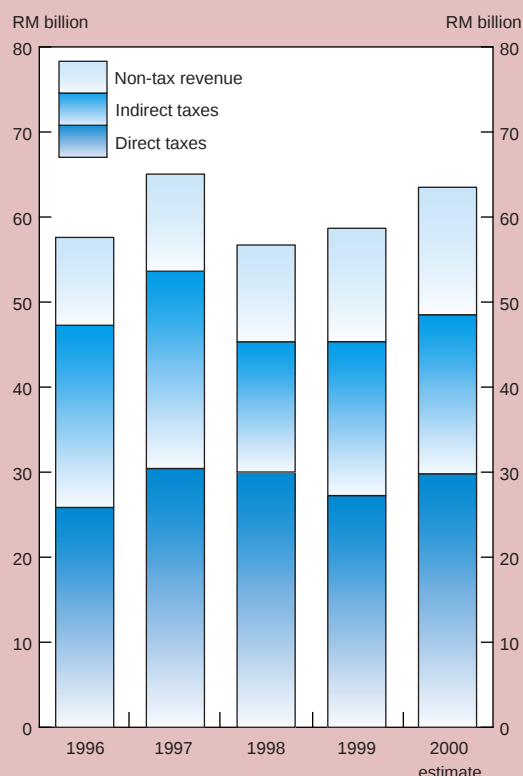
	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Income taxes	25,159	27,706	31,596	-11.3	10.1	14.0	92.3	92.9	93.5
Companies	15,742	14,767	16,250	-9.0	-6.2	10.0	57.8	49.5	48.1
Individuals	6,419	7,213	7,620	-7.0	12.4	5.6	23.6	24.2	22.5
Petroleum	2,856	5,575	7,567	-29.4	95.2	35.7	10.5	18.7	22.4
Co-operative	142	151	159	10.1	6.3	5.3	0.5	0.5	0.5
Others	2,088	2,102	2,206	26.8	0.7	4.9	7.7	7.1	6.5
Stamp duty	1,566	1,678	1,762	31.6	7.2	5.0	5.7	5.6	5.2
Others	522	424	444	14.2	-18.8	4.7	1.9	1.5	1.3
Total	27,247	29,808	33,802	-9.2	9.4	13.4	100.0	100.0	100.0

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

Chart 5.3
Major Components of Federal Government Revenue



line with Malaysia's commitment to the ASEAN Free Trade Area (AFTA) has offset these increases. Collection from export duties is estimated to increase significantly by 69.1% (1999: 7.5%) as duty on petroleum exports account for more than 90% of total export duties. Sales and service taxes are also estimated to increase significantly by 33.5% and 21.4%, respectively in line with increased consumption expenditure as well as greater reliance on consumption-based taxes. On the other hand, both excise and import duties are expected to decline significantly by 22.3% and 17%, respectively.

Non-tax revenue, which mainly comprises receipts from investment income, licences and permits as well as petroleum royalty, is estimated to increase by 12.5% to RM14,990 million, as shown in *Table 5.6*. Receipts from licences and permits are estimated to increase by 31.6% to RM6,070 million (1999: RM4,612 million), due to higher sales of motor vehicles, which account for more than 50% of the revenue from licences and permits. Collection from other non-tax sources, which includes non-revenue receipts and receipts from the Federal Territories, are estimated to increase by 6% to RM1,329 million (1999: RM1,254 million).

Table 5.5

Federal Government Indirect Taxes

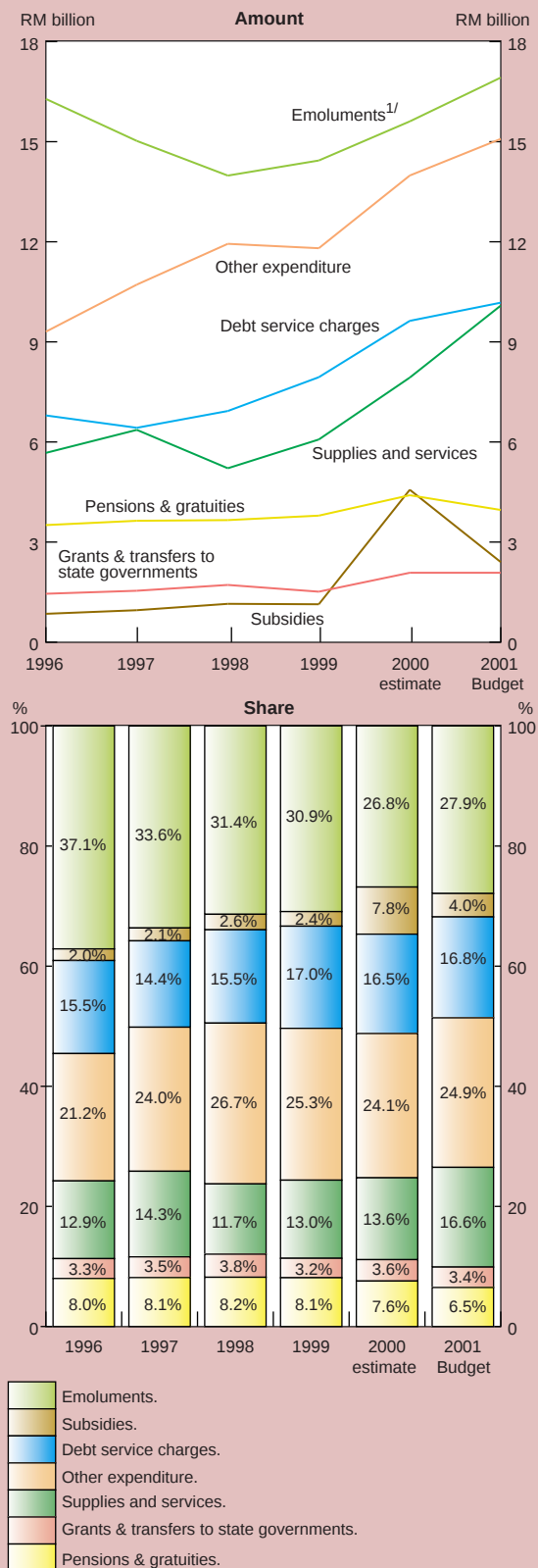
	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Export duties	670	1,133	1,203	7.5	69.1	6.2	3.7	6.1	6.1
Import duties	4,720	3,919	3,962	22.0	-17.0	1.1	26.1	21.0	19.9
Excise duties	4,723	3,671	3,947	31.7	-22.3	7.5	26.1	19.6	19.9
Sales tax	4,488	5,993	6,471	16.7	33.5	8.0	24.8	32.0	32.5
Service tax	1,459	1,771	2,042	0.8	21.4	15.3	8.1	9.5	10.3
Others	2,040	2,215	2,256	4.6	8.6	1.9	11.3	11.8	11.3
Total	18,100	18,702	19,881	18.1	3.3	6.3	100.0	100.0	100.0

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

Chart 5.4
Federal Government Operating Expenditure



Operating Allocation

Total operating expenditure will increase 24.6% to RM58,206 million in 2000 (1999: 4.7%, RM46,699 million), as shown in *Table 5.7*. This is mainly due to increased expenditure for subsidies, supplies and services, salary adjustments for the civil service as well as debt service charges. Expenditure on subsidies will increase by 302.1% to RM4,568 million (1999: -1.1%, RM1,136 million) mainly on account of large increases in subsidies for diesel, petrol and liquified petroleum gas (LPG). Similarly, expenditure on **emolument** will increase by 8.1% to RM15,608 million (1999: 3.2%, RM14,436 million), as a result of the 10% salary adjustment as well as the increase in housing allowances for selected categories of civil servants. A large proportion or 60% of the emolument is for the social sector, notably salaries for teachers and nurses.

Expenditure on **pensions and gratuities** will increase significantly by 16.1% to RM4,404 million (1999: 3.7%, RM3,792 million), also as a result of the salary adjustment for the civil service. Reflecting continued efforts to improve Government services, expenditure on **supplies and services** will record a double-digit increase of 30.6%. A large proportion of this is for the procurement of office supplies related to e-government flagship applications, repairs and maintenance as well as payments for professional services. In addition, **debt service charges**, that is, interest payments for domestic and external borrowings, will increase by 21.3% to RM9,630 million (1999: 14.6%, RM7,941 million). As most of the borrowings were from domestic sources, domestic interest payments constitute 84.4% of the total interest payments.

Development Allocation

Total development expenditure will increase 11.8% to RM25,286 million in 2000 (1999: RM22,614 million), as shown in *Table 5.8*. Priority is given to projects that generate economic activities with minimal leakages in terms of imports and those that can further support private investment. Thus, the bulk of the expenditure or 45.5% is allocated for the economic sector, particularly for the transport as well as the trade and industry sub-sectors.

Table 5.6

Federal Government Non-Tax Revenue

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Licences/permits	4,612	6,070	6,765	-5.1	31.6	11.4	34.6	40.5	42.5
Services/fees	457	487	474	9.6	6.6	-2.7	3.4	3.4	3.0
Investment Income	7,007	7,104	7,264	43.5	1.4	2.3	52.6	47.4	45.6
Others	1,254	1,329	1,424	3.1	6.0	7.1	9.4	8.9	8.9
Total	13,330	14,990	15,927	17.2	12.5	6.3	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.

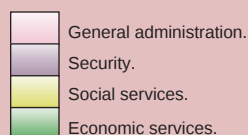
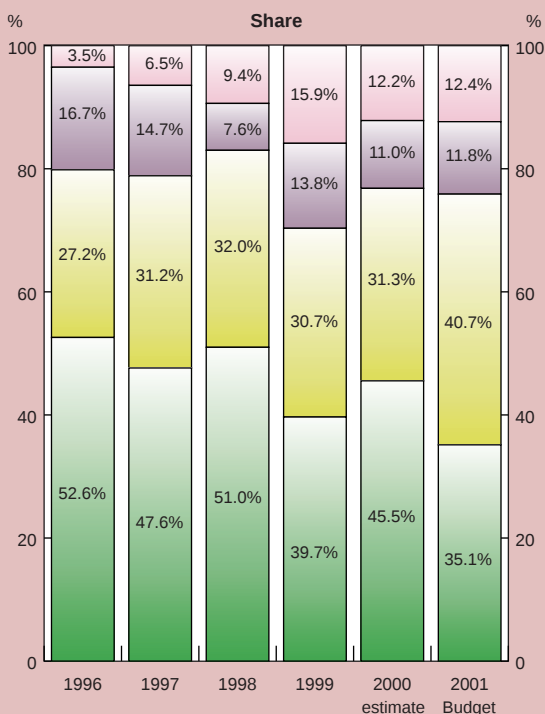
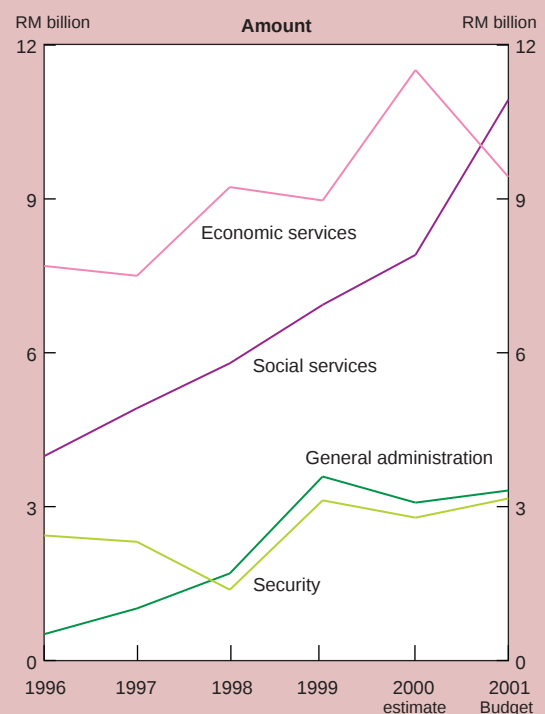
Table 5.7

Federal Government Operating Expenditure by Object

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Emolument	14,436	15,608	16,921	3.2	8.1	8.4	30.9	26.8	27.9
Debt service charges	7,941	9,630	10,175	14.6	21.3	5.7	17.0	16.5	16.8
Grants to state governments	1,513	2,080	2,080	-11.8	37.5	0.0	3.2	3.6	3.4
Pensions and gratuities	3,792	4,404	3,962	3.7	16.1	-10.0	8.1	7.6	6.5
Supplies and services	6,074	7,930	10,088	16.5	30.6	27.2	13.0	13.6	16.6
Subsidies	1,136	4,568	2,400	-1.1	302.1	-47.5	2.4	7.8	4.0
Grants to statutory bodies ⁴	4,911	4,143	5,053	26.3	-15.6	22.0	10.5	7.1	8.3
Refunds	1,718	2,125	1,857	-26.8	23.7	-12.6	3.7	3.7	3.1
Others	5,178	7,718	8,174	-9.2	49.1	5.9	11.1	13.3	13.5
Total	46,699	58,206	60,710	4.7	24.6	4.3	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.⁴ includes emolument.

Chart 5.5
Federal Government Development Expenditure
by Sector



However, expenditure on the social sector, notably for health and education, is also large, accounting for 31.3%, reflecting continued Government efforts to improve the social well-being of the people, particularly the lower income group.

Total expenditure on the **economic sector** is RM11,514 million, an increase of 28.4% as shown in *Table 5.9*. Within the economic sector, **transport** accounts for the largest share of 42.6%, amounting to RM4,908 million. Construction and upgrading of roads as well as bridges account for RM3,194 million while expenditure on railways, ports and airports amount to RM1,714 million. This is to further improve the national transport network. The **trade and industry** sub-sector also accounts for a large proportion of the development expenditure, amounting to RM3,977 million or 34.5% of the economic sector. The bulk of the expenditure goes towards the development of infrastructure facilities as well as research and development for the manufacturing sector, as shown in *Table 5.10*. Outlays for **agriculture and rural development** increased by 23.8% to RM1,347 million (1999: RM1,088 million), as shown in *Table 5.11*, reflecting the continued Government commitment to bring about balanced regional development.

Expenditure on the **social services** sector will increase by 14% to RM7,909 million (1999: RM6,936 million), as shown in *Table 5.12*. Of this, 49.4% is for education and skill training, including the construction of computer laboratories as well as scholarships for higher education. Expenditure on housing, which accounts for the second largest expenditure in the social sector, amounts to RM1,211 million. This is mainly for low-cost public housing projects for the lower income group as well as living quarters for the armed forces, police personnel and teachers in rural areas. Expenditure on health will increase to RM1,203 million (1999: RM836 million), mainly for the construction of rural health clinics and the upgrading of existing hospitals. This is to provide better health services, especially in the rural areas.

Expenditure for the security sector will decline by 10.8% to RM2,785 million (1999: RM3,122 million). The expenditure is mainly for the purchase of equipment as part of the modernisation programmes of the armed forces and the police.

Table 5.8

Federal Government Development Expenditure by Sector

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Security	3,122	2,785	3,158	126.4	-10.8	13.4	13.8	11.0	11.8
Social services	6,936	7,909	10,934	19.7	14.0	38.3	30.7	31.3	40.7
Economic services	8,969	11,514	9,429	-2.8	28.4	-18.1	39.7	45.5	35.1
General administration	3,587	3,078	3,315	111.3	-14.2	7.7	15.9	12.2	12.4
Total	22,614	25,286	26,836	24.9	11.8	6.1	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.

Table 5.9

**Federal Government Development Expenditure
for Economic Services**

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Agriculture and rural development	1,088	1,347	1,472	13.4	23.8	9.3	12.1	11.7	15.6
Public utilities	1,850	1,071	975	-6.0	-42.1	-8.9	20.6	9.3	10.3
Trade and industry	2,798	3,977	2,491	-13.3	42.1	-37.4	31.2	34.5	26.4
Transport	2,893	4,908	4,429	-5.2	69.7	-9.8	32.3	42.6	47.0
Communications	289	22	13	11,787.2	-92.4	-40.9	3.2	0.2	0.1
Others	51	189	49	121.7	270.6	-74.1	0.6	1.7	0.5
Total	8,969	11,514	9,429	-2.8	28.4	-18.0	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.

Table 5.10

**Federal Government Development Expenditure
for Trade and Industry Programme**

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Industrial development	24	38	1	-29.7	58.5	-98.4	0.8	0.9	0.0
Economic services	2,048	2,414	821	-16.2	17.9	-66.0	73.2	60.7	33.0
Tourism	301	251	502	137.0	-16.7	100.3	10.8	6.3	20.1
Industrial research	384	1,242	1,129	-31.3	223.1	-9.1	13.7	31.2	45.3
Others	41	32	38	-35.5	-22.4	18.3	1.5	0.8	1.5
Total	2,798	3,977	2,491	-13.3	42.1	-37.4	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.

Table 5.11

**Federal Government Development Expenditure
for Agriculture and Rural Development Programme**

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Agriculture	241	363	292	5.6	50.8	-19.7	22.1	27.0	19.8
Land development	99	153	134	122.1	54.5	-12.4	9.0	11.3	9.1
Drainage and irrigation	349	496	628	24.3	42.1	26.6	32.1	36.8	42.7
Rubber replanting	175	2	97	9.2	-99.1	5,892.4	16.1	0.1	6.6
Fishing	71	115	140	-18.0	61.3	21.8	6.6	8.5	9.5
Livestock	34	53	44	28.4	53.0	-16.5	3.2	3.9	3.0
Forestry	30	47	19	7.1	56.1	-60.5	2.8	3.5	1.3
Others	89	118	118	-14.4	32.8	0	8.2	8.8	8.0
Total	1,088	1,347	1,472	13.4	23.8	9.3	100.0	100.0	100.0

¹ actual.² revised estimate.³ Budget estimate, excluding 2001 tax measures.

Table 5.12

**Federal Government Development Expenditure
for Social Services**

	RM million			% Change			% Share		
	1999 ¹	2000 ²	2001 ³	1999	2000	2001	1999	2000	2001
Education	3,865	3,907	5,923	32.6	1.1	51.6	55.7	49.4	54.2
Health	836	1,203	1,220	16.7	43.9	1.5	12.1	15.2	11.2
Housing	1,081	1,211	1,706	3.9	12.0	40.9	15.6	15.3	15.6
Others	1,154	1,588	2,085	2.7	37.7	31.3	16.6	20.1	19.0
Total	6,936	7,909	10,934	19.7	14.0	38.3	100.0	100.0	100.0

¹ actual.

² revised estimate.

³ Budget estimate, excluding 2001 tax measures.

Financing

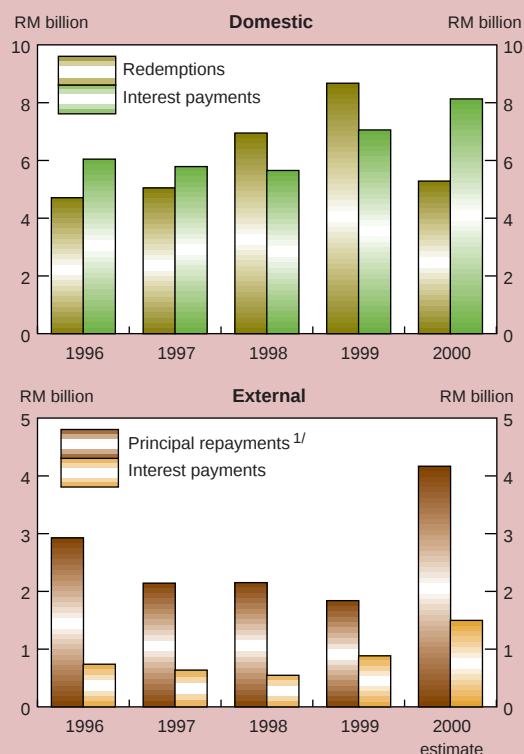
Taking advantage of the high level of liquidity in the economy, the Federal Government financed its deficit largely from non-inflationary domestic sources. This is to minimise the need to borrow from external sources and thereby reducing its exposure to foreign exchange and interest rate risks. Federal Government external borrowing is mainly from disbursement of existing loans from both bilateral and multilateral sources. In addition, the Government also refinanced some of its existing market loans. In this regard, the Government recently reopened its one billion US dollar global bond issue. Initially, the plan was to borrow US\$350 million. However, in view of overwhelming response in which the bond issue was over subscribed four times, the Government decided to borrow US\$500 million instead.

Gross borrowing of the Federal Government amounts to RM22,685 million, of which 77.1% is from domestic sources, through the issuance of Malaysian Government Securities (MGS) and Government Investment Issues (GIIs). The gross issue for these instruments are estimated at RM15,500 million and RM2,000 million,

respectively. Taking into account domestic loan repayment of RM5,286 million, net domestic borrowing is estimated at RM12,214 million. Apart from setting the yield curve for the domestic bond market, MGS is the main source of domestic borrowing of the Federal Government. The principal dealers of MGS are commercial banks, finance companies and discount houses. As at end of 1999, the Employees Provident Fund (EPF) remains the major holder of MGS, accounting for 66% of MGS issued. In the case of GII, it is an instrument to promote Islamic-based papers. The main subscribers are Bank Islam and other financial institutions with "Islamic Windows".

Total disbursement of existing external loans is estimated at RM1,955 million, mainly from the World Bank (RM582 million), Islamic Development Bank (RM38 million) and Asian Development Bank (RM20 million). The disbursement of loans under the Miyazawa Programme, largely from Japan Bank for International Cooperation (JBIC) amounts to RM712 million. Taking into account the refinancing exercise and the disbursement of existing loans as well as loan repayments, the net external borrowing for 2000 is estimated at RM1,017 million.

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



1/ Excludes prepayments.

State Governments

The consolidated financial position of the 13 state governments is expected to record a larger deficit in 2000. This is mainly due to significant increases in operating and development expenditures by 15.8% and 31.7%, respectively compared with revenue growth of 6.9%, as shown in *Table 5.13*. The current account surplus is estimated to decline by 2.4% to RM4,214 million (1999: RM4,317 million). After taking into account net development expenditure of RM5,661 million, the consolidated state government financial position is expected to record a deficit of RM1,447 million (1999: RM491 million).

Total consolidated state government revenue is estimated at RM9,536 million (1999: RM8,913 million) with the bulk of the contribution coming from states' own sources of revenue. **States' own sources of revenue**, which accounts for 79.5% of total revenue, is estimated to increase by 6.3% to RM7,585 million (1999: RM7,134 million). Tax revenue, which comprises largely land-based and

entertainment taxes, is estimated to increase by 15.9% to RM1,795 million (1999: RM1,550 million) contributing to 23.6% of states' own sources of revenue.

Non-tax revenue, comprising royalties from forestry and petroleum and income derived from sources such as sales of goods and services, dividends and interests from investments, fees from licences and permits, fines and compounds as well as rent, is expected to increase by 3.6% to RM5,790 million (1999: RM5,584 million). Non-tax revenue is expected to remain a major contributor, accounting for 76.3% of state governments' own sources of revenue.

Federal Government **grants and reimbursements** to state governments are expected to contribute 20.4% or RM1,951 million of total state government revenue. Of this, **grants** (comprising constitutional and administrative grants) to state governments amounts to RM1,832 million while Federal Government **reimbursements** (mainly for drainage and irrigation as well as agriculture projects) amount to RM119 million.

Table 5.13

Consolidated State Governments Financial Position

	RM million		% Change	
	1999 ¹	2000 ²	1999	2000
Current account				
Revenue	8,913	9,536	3.7	6.9
Operating expenditure	4,596	5,322	-0.5	15.8
Current surplus	4,317	4,214	11.1	-2.4
Development account				
Gross development expenditure	4,443	5,853	-7.3	31.7
Development fund	3,767	5,001	-6.4	32.7
Water supply	676	852	-12.1	26.2
Loan recoveries	616	192	-30.5	-68.8
Net development expenditure	3,826	5,661	-11.4	47.9
Overall balance	491	-1,447		

¹ actual.

² revised estimate.

Total **operating expenditure** of state governments will increase by 15.8% to RM5,322 million (1999: RM4,596 million). Supplies and services is the largest expenditure item, accounting for 34.4% or RM1,833 million in 2000. Expenditure on emolument will increase by 8.7% to RM1,661 million (1999: RM1,528 million), accounting for 31.2% of total operating expenditure.

Gross development expenditure of state governments will increase by 31.7% to RM5,853 million with a large proportion being used for infrastructure and the provision of low-cost housing for the poor. Expenditure on transport will increase by 51.2% to RM608 million while that of agriculture and rural development by 15.6% to RM883 million. Expenditure on public housing will increase by 62.2% to RM558 million (1999: RM399 million), reflecting state governments' commitment to provide more affordable housing for the poor. In order to provide better accessibility to the public, expenditure for water supply will increase by 46.3% to RM1,041 million, which accounts for 17.8% of total development expenditure.

Non-Financial Public Enterprises (NFPEs)

The consolidated financial position of 37 NFPEs¹ is expected to record a lower surplus of RM9,906 million in 2000 (1999: RM13,217 million), as shown in *Table 5.14*. Although the consolidated revenue is expected to increase, the higher operating and development expenditures have resulted in lower current and overall surpluses, amounting to RM38,848 million and RM9,906 million, respectively.

Total revenue of NFPEs is estimated to increase by 7.5% to RM101,039 million (1999: RM94,031). *Petroleum Nasional Berhad (PETRONAS)*, *Telekom Malaysia Berhad (TMB)* and *Tenaga Nasional Berhad (TNB)*, as a group, accounts for 84.8% of the total revenue of NFPEs. The continuing economic recovery as well as higher petroleum prices contributed to the increase in revenue.

Operating and development expenditures of NFPEs together amount to RM91,132 million (1999: RM80,813 million). Operating expenditure is expected to increase by 14% to RM62,190 million

	RM million		% Change	
	1999 ³	2000 ⁴	1999	2000
Revenue	94,031	101,039	28.8	7.5
Current expenditure	54,561	62,190	6.1	14.0
Retained income	39,470	38,848	82.8	-1.6
% of GNP	14.3	12.8	—	—
Development expenditure ²	26,252	28,942	6.4	10.2
Overall balance	13,217	9,906	488.8	-25.1
% of GNP	9.5	6.6	—	—

¹ refer to 37 NFPEs since 1998.
² include grant from the Federal Government.
³ actual.
⁴ estimate.

(1999: RM54,561 million) on account of higher debt service charges. Development expenditure is estimated to increase by 10.2% to RM28,942 million (1999: RM26,252 million), mainly due to the modernisation and expansion programmes of several NFPEs, particularly on infrastructure and utility projects. PETRONAS, TNB and TMB together, account for the bulk of the development expenditure amounting to RM23,636 million or 81.6% of the total.

PETRONAS continues to invest in both upstream and downstream activities, including the construction of several petrochemical projects at Kerteh and Gebeng, as well as the expansion and upgrading of the Universiti Teknologi Petronas in Tronoh. PETRONAS also continues to expand its overseas investments in both upstream and downstream activities. The capital expenditure of TNB was mainly for capacity expansion as well as to upgrade the transmission and distribution network to meet the increasing demand for electricity. A major project is the upgrading and expansion of Sultan Abdul Aziz Shah Power Plant in Kapar. Similarly, in line with the Government's policy to promote Information and Communications Technology (ICT), TMB continues to expand and modernise its telecommunications infrastructure

¹ The number of NFPEs was revised from 28 to 37 to better reflect the contribution of NFPEs as a group to the public sector.

as well as to upgrade its international and local networks. One of its major projects is TMNET POP (Point Of Present) expansion project which aims at increasing the capacity of TMB as an internet service provider (ISP) throughout Malaysia. Other major projects are submarine cable systems linking Malaysia with Europe, Middle East, India, East Asia and the United States.

National Debt

National debt comprises short-term (maturity less than one year), medium and long-term external debt of the public and private sectors. By the end of 2000, national debt is estimated to decline by 2.6% to RM156,641 million or 51.8% of GNP (1999: RM160,750 million or 57.5% of GNP), as shown in *Table 5.15*, due to a significant decline in short-term debt.

Of the total national debt, **medium and long-term debts** of the public and private sectors accounts for 87.4% or RM136,847 million (1999: RM136,634 million). Public sector debt, which comprises medium and long-term debts of the

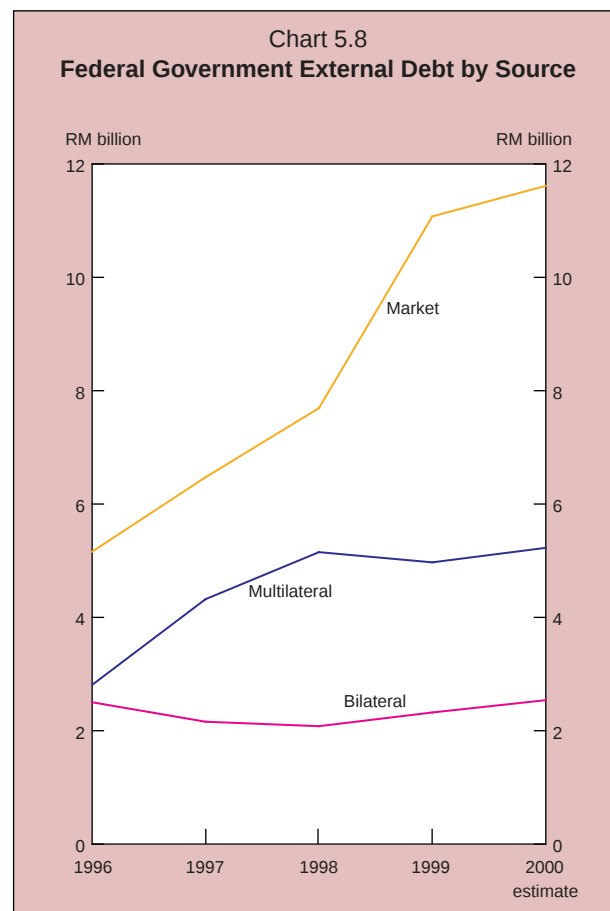
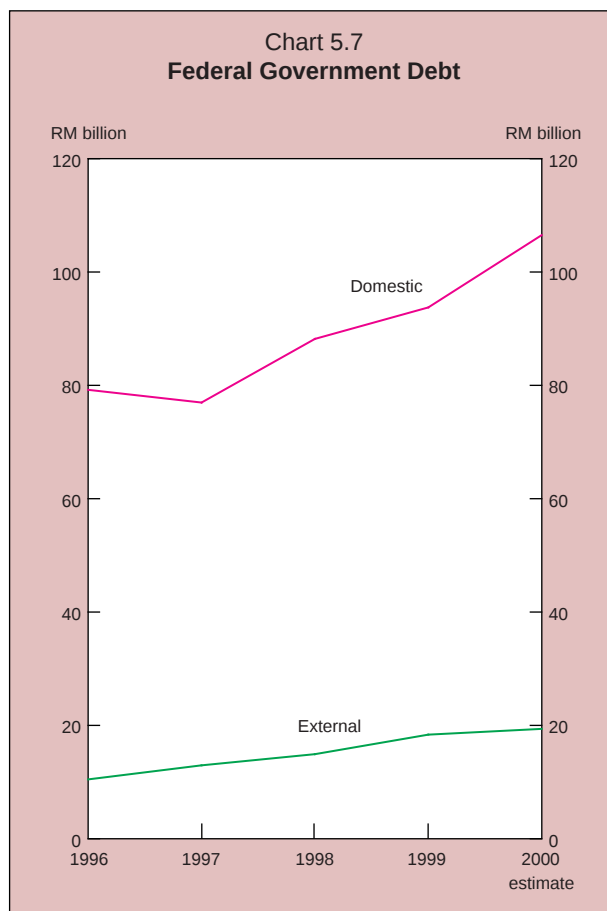
Federal Government and NFPEs, amounts to RM77,227 million, an increase of 0.3% from 1999 while those of the private sector remain at about the same level as in 1999. **Short-term debt**, which consists of borrowings by the banking sector and private corporations with maturity of less than one year, is expected to decline by 17.9% to RM19,794 million (1999: RM24,116 million). Higher external borrowing costs coupled with low domestic interest rates and ample liquidity have resulted in significant reductions in short-term borrowing by both commercial banks and the non-bank private sector. Short-term debt as a percentage of international reserves is expected to decline to 15.4% in 2000 (1999: 20.6%).

Total **debt servicing**, comprising principal repayments and interest payment, is projected to decline by 2.9% to RM18,958 million in 2000 (1999: RM19,515 million), mainly due to lower principal repayments by the private sector and the NFPEs. Principal repayment is estimated at RM13,113 million and interest charges at RM5,845 million. Due to lower debt servicing, the **debt service ratio**, which represents the ratio of debt servicing to exports of goods and services, is estimated to decline to 5.4% (1999: 5.9%).

Table 5.15

National Debt

	RM million		% Change		% Share	
	1999	2000	1999	2000	1999	2000
Medium and long term debt	136,634	136,847	5.8	0.2	85.0	87.4
Public sector	77,010	77,227	13.0	0.3	47.9	49.3
Federal Government	18,369	19,386	23.1	5.5	11.4	12.4
NFPEs	58,641	57,841	10.2	-1.4	36.5	36.9
Guaranteed	11,111	11,096	16.6	-0.1	6.9	7.1
Non-Guaranteed	47,530	46,745	8.8	-1.7	29.6	29.8
Private sector	59,624	59,620	-2.3	0.0	37.1	38.1
Short term debt	24,116	19,794	-25.1	-17.9	15.0	12.6
Total	160,750	156,641	-0.4	-2.6	100.0	100.0



Federal Government Debt

Total Federal Government debt, which comprises domestic and external debt of the Federal Government, is estimated to increase by 12.3% to RM125,895 million in 2000, equivalent to 41.6% of GNP (1999: RM112,119 million or 40.1% of GNP), as shown in *Table 5.16*. Of this total, domestic debt amounts to RM106,509 million, an increase of 13.6% (1999: RM93,750 million). The significant increase is largely due to larger issues of MGS which account for RM89,050 million or 83.6% of the total Federal Government domestic debt. The remaining 16.3% or RM17,459 million consists of Treasury Bills (TBs), Government Investment Issues (GIIs) and Treasury Housing Loans Fund as well as syndicated loans of locally incorporated foreign banks.

With Federal Government recourse to external borrowing being minimal in 2000, the increase in

external debt is estimated to be lower by 5.5% to RM19,386 million or 6.4% of GNP (1999: RM18,369 million or 6.6% of GNP). Market loans remain the largest component of external debt, accounting for 59.9% (RM11,614 million) while the remaining 41.1% or RM7,772 million is made up of project loans. Apart from meeting financing requirements, external borrowing has helped to maintain Malaysia's market presence, besides establishing a benchmark for corporate sector borrowing.

In terms of currency composition, US dollar is the main component of external debt, representing about 67% or RM12,000 million of the total. This is followed by debt denominated in yen, which accounts for about 20%, while the balance is in other currencies such as swiss francs, deutschemark and pound sterling. Malaysia's external debt denominated in yen is expected to increase with disbursements of loans under the New Miyazawa Initiative.

Table 5.16

Federal Government Debt

	RM million		% Change		% Share	
	1999	2000	1999	2000	1999	2000
Domestic debt	93,750	106,509	6.3	13.6	83.6	84.6
Treasury Bills	4,320	4,320	0.0	0.0	3.8	3.4
Investment Issues	2,000	4,000	0.0	100.0	1.8	3.2
Government Security	78,336	89,050	4.4	13.7	69.9	70.7
Other domestic loans	9,094	9,139	32.5	0.5	8.1	7.3
External debt	18,369	19,386	23.1	5.5	16.4	15.4
Market loans	11,075	11,614	44.0	4.9	9.9	9.2
Project loans	7,294	7,772	0.9	6.6	6.5	6.2
Total	112,119	125,895	8.7	12.3	100.0	100.0

Chart 5.9
Federal Government External Debt by Currency

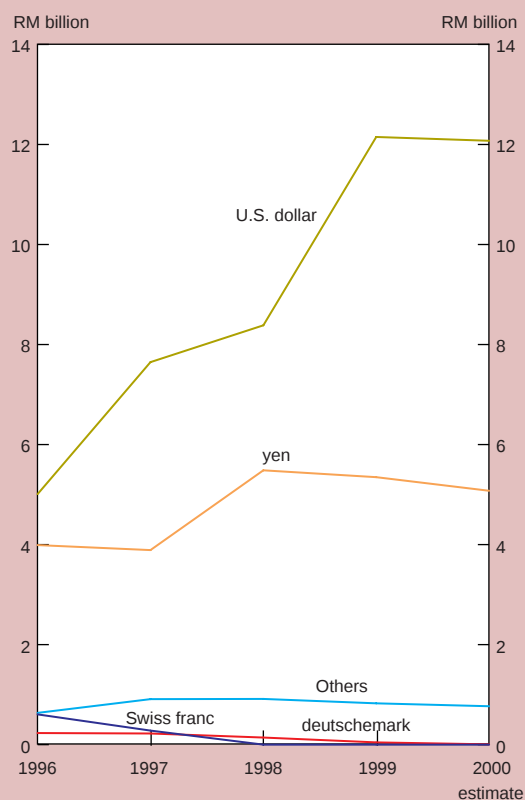
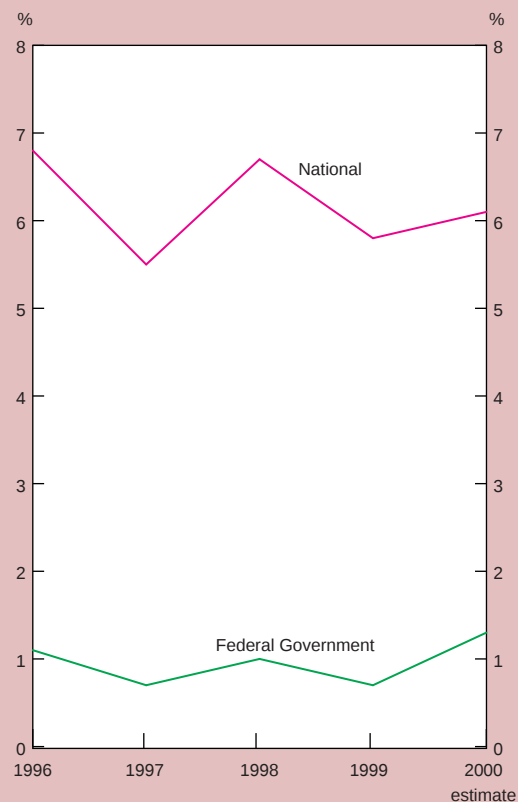


Chart 5.10
External Debt Servicing Ratio



The Federal Government **debt servicing** (interest payments and principal repayments) is estimated to increase by 3.4% to RM19,084 million (1999: RM18,457 million). Principal repayments amount to RM9,454 million with RM5,286 million or 55.7% being repayment of domestic loans. Interest payments amount to RM9,630 million of which RM8,132 million or 83.4% is for domestic loans. The increase in debt servicing is largely due to increased borrowings at higher costs following the financial crisis. However, in order to reduce the debt-servicing burden, the Government has explored refinancing and prepayment possibilities on existing loans. In this regard, in August 2000, the Government repriced a domestic syndicated loan amounting to US\$1.3 billion obtained in 1999. With the repricing, the interest rate was reduced from LIBOR (London Inter Bank Offered Rate) plus 290 basis points to LIBOR plus 52 basis points, resulting in a savings of RM34 million per year over a three-year period beginning July 2000.

2001 Outlook

Fiscal policy in 2001 will continue to place emphasis on sustaining growth. In this regard, the Government will continue to embark on fiscal stimulus programmes. However, expenditures will be set at a level in line with available resources so as to ensure that the resultant deficit is sustainable in the medium and long-term. In addition, the financing of the deficit will rely largely on non-inflationary domestic sources.

The consolidated revenue collection of the general government is projected to increase by 13.3% to RM83,572 million (2000: RM73,786 million), with the Federal Government accounting for the largest share. Total operating expenditure of the general government is projected to record an increase of 4.4% to RM67,860 million (2000: RM65,008 million), mainly contributed by the spending of the Federal Government and statutory bodies. As a result, the current account of the general government is projected to record a higher surplus of RM15,712 million (2000: RM8,777 million). The current surplus of NFPEs is projected to increase by 7.9% to RM39,980 million (2000: RM37,038 million), due to improved revenue prospects of major NFPEs, particularly in the export and utility sectors. Thus, the consolidated current account position of the

public sector is projected at RM55,692 million or 17% of GNP (2000: RM45,815 million or 15% of GNP). Development expenditure of the public sector will increase by 10.8% to RM60,846 million (2000: RM54,911 million), attributed mainly to the increase in general government development expenditure of 28.7%. The public sector will record a deficit of RM5,154 million or 1.6% of GNP in the year 2001 (2000: -RM9,096 million or 3.0% of GNP).

Federal Government

The Federal Government will continue to pursue an expansionary fiscal policy in 2001. However, with economic recovery, the stimulative role of the Federal Government will be gradually reduced. In this regard, the overall Federal Government deficit is expected to be smaller at RM16,136 million or 4.9% of GNP, due to better revenue prospects and smaller increases in expenditure.

Revenue

Revenue collection in 2001 is projected to increase by 9.6% on account of better business prospects and high crude oil prices which contribute to higher revenue from both direct and indirect taxes. Tax revenue is expected to increase by 10.7% to RM53,683 million and its contribution to total Federal Government revenue will continue to remain large at 77.1%. Direct taxes are expected to increase by 13.4% to RM33,802 million, of which petroleum income tax is projected to increase by 35.7%.

Indirect taxes are expected to increase by 6.3% to RM19,881 million. All components of indirect taxes are expected to increase, ranging from 1.1% for import duties to 15.3% for service tax.

Collection from **non-tax revenue** is expected to increase by 6.3% to RM15,927 million. Licences and permits, as a group, is expected to increase by 11.4% to RM6,765 million. Revenue from motor vehicle licences accounts for RM2,063 million, due to continued favourable demand for motor vehicles. Receipts from interests and returns on investments are expected to increase by 2.3% to RM7,264 million.

Operating Budget

Allocation for 2001 operating budget is higher by 4.3% to RM60,710 million. A large proportion of the expenditure is for emolument, debt service charges and supplies and services, which as a group, account for 61.3% of the total operating allocation. The increase in allocation for emolument is largely due to higher annual salary increments following the recent salary adjustment. In line with higher borrowings undertaken by the Government since 1998, allocation for **debt service charges** will increase by 5.7% to RM10,175 million, of which 85.7% or RM8,725 million will be for domestic debt service charges. Allocation for supplies and services will also increase by 27.2% to RM10,088 million. Pension and gratuities payments will amount to RM3,962 million or 6.5% of total operating expenditure.

Development Budget

Development allocation for 2001 will remain large at RM26,836 million in line with continued efforts to provide impetus to the economy. With the private sector expected to resume its role as a catalyst for growth, the allocation for the **economic sector** is lower by 18% to RM9,429 million. Transport and infrastructure will remain the largest component in this sector accounting for 57.3%. Major projects under transport are the construction and upgrading of roads such as the Primary Distributor Road in Putrajaya and Kuala Kangsar-Grik Road as well as rural roads. As for rail transportation, the major projects are the Rawang-Ipoh electric double-tracking project and rail extensions to North Butterworth Container Terminal (NBCT) and Tanjung Pelepas Port in Johore. Trade and industry will account for 26.4% of the economic sector, with the major allocation given for research and development. Agriculture and rural development which will account for 15.6% of the allocation will be used mainly for drainage and irrigation, agricultural extension services, fisheries as well as land development.

The allocation for the **social services sector** will increase significantly by 38.3% to RM10,934 million with the education sub-sector accounting for RM5,923 million or 54.2% of the total. This is in line with the Government's continued efforts to embark on the K-economy and to narrow the digital divide through education and human resource development. Major projects under education are the construction of an additional 604 primary and 512 secondary schools, 20 polytechnics, and 90 technical and vocational educational projects. In addition, tertiary education will also be given emphasis with RM906 million allocated for 12 public universities and RM1,300 million allocated for the National Higher Education Fund. The allocation for housing will increase by 40.9% to RM1,706 million, mainly for the construction of low-cost houses undertaken by both the Federal and state governments. Expenditure on the health sub-sector will increase by 1.5% to RM1,220 million due to several on-going projects as well as new projects that have been earmarked for implementation in 2001. Among these are rural health centres, new hospitals in Johore Baru, Sungai Petani and Alor Setar as well as projects relating to upgrading of hospitals in various states.

Allocation for the **security sector** will also increase by 13.4% to RM3,158 million, of which the bulk is for the defence sub-sector amounting to RM2,542 million. The major projects under this sector are the purchase of military equipment and vehicles and the construction of a naval base in Telok Sepang as well as scheduled payments for patrol vessels.

The allocation for **general administration** will remain large, amounting to RM3,315 million. The bulk of the allocation will be for the computerization of government administration, the development of flagship applications under the Multimedia Super Corridor projects and public utilities for the new Federal Government administrative centre in Putrajaya.